Financial Services

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Moelis swells ranks of boutique bankers

James Chessell

Wall Street investment bank Moelis & Company has marked the establishment of its Sydney office by vowing to build a sizeable Australian business in a move that will compound the fierce competition for banking talent that has characterised the local industry in the wake of the credit crisis.

Moelis & Co confirmed yesterday it had lured five property bankers from JPMorgan, including Chris Wyke and Julian Biggins, to form its first Australian office and increase its coverage of the Asia-Pacific region.

Chief executive Ken Moelis told *The Australian Financial Review* the credit crisis had created an ideal opportunity to poach quality staff.

''The five people are the beginnings of what I hope will be a fairly significant presence in Australia,''

KEY POINTS

- Moelis & Co has recruited five bankers from JPMorgan to set up shop in Sydney.
- It aims for a significant presence.
- Smaller firms are in favour, it says.

Mr Moelis said. ''We want to expand with great people – I'd like to grow [the Australian business] as fast and as prudently as possible.''

Mr Moelis said ''really talented bankers'' were not usually looking to change jobs because of the potential damage it could do to client relationships, which he likens to Fabergé Eggs – ''the less often you move them the better''.

However, he said the risk-taking practices of some large financial institutions in the lead-up to the financial crisis has caused many investment bankers to reconsider their careers at larger firms.

''In this environment a substantial amount of people have had to rethink. They've woken up and asked, 'Is the place I'm working at the optimal place for me to represent my client?' It's not just a product of the pressure on monetary pay but also a question about values.''

Mr Moelis does not like the term boutique, but his firm joins a long list of smaller investment banks such as Perella Weinberg Partners that have sought to promote themselves as an independent alternative to Wall Street giants like Morgan Stanley and Goldman Sachs.

The former president of UBS Investment Bank, Mr Moelis set up his own firm in July 2007. It now employees 240 people in six offices around the world. Moelis & Co made the list of top-10 American firms for announced mergers and acquisitions in 2008 after working on deals such as Belgian brewer InBev's $US60 billion purchase of Anheuser-Busch.

''Investment banking is partnering up with a chief executive or board of a company [and] thinking in a strategic way about what's coming next,'' Mr Moelis said. ''It doesn't include having to sell product to support 300,000 employees. I'd like our clients to be thinking about us as people.''

There are several successful boutique investment banks such as Caliburn Partnership and Gresham Advisory already competing with the major firms in Australia, creating a perception that the local market is ''overbroked''.

However, Mr Moelis, who visited Sydney this week, said there would always be work for advisers that executed deals for their clients.

Defections were rare in the months immediately after the credit crisis but local investment banks such as Bank of America Merrill Lynch, which poached UBS's property team earlier this month, and Goldman Sachs JBWere have been hiring staff in recent months.

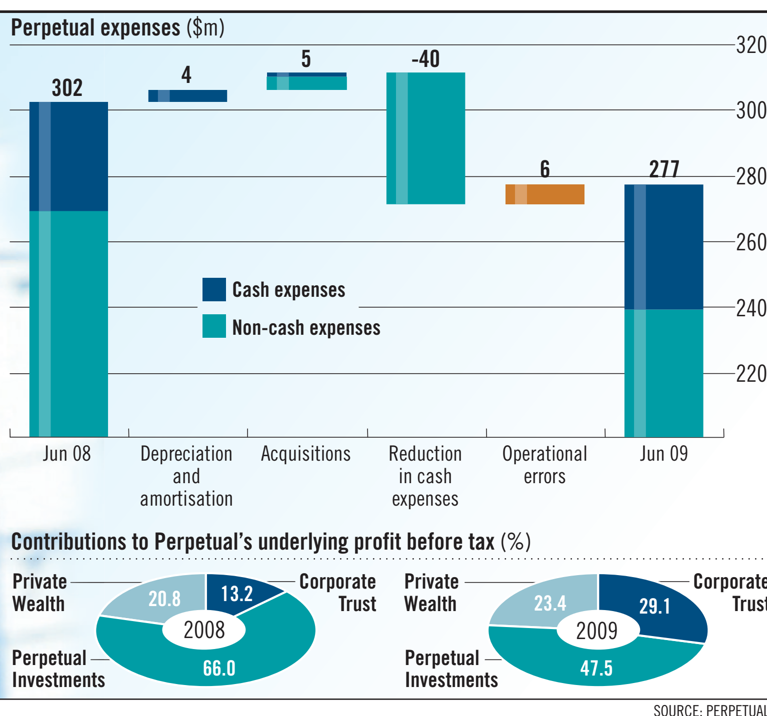
Mr Moelis said his firm, which is privately owned by a small group of investors and staff, would continue to look for new people in a prudent fashion.

''One of the reasons I am in Sydney and plan to be back here in the near future is we are late in the bonus cycle. It gets very expensive to hire this late in the year.

''There is a moment in mid-June or July where many bankers decide to grin and bear it till the end of the year.

Deverall in the detail

David Deverall
Perpetual CEO



SOURCE: PERPETUAL

Perpetual profits down 71pc

Duncan Hughes

Perpetual's plans for acquisitions, bigger marketing budgets and increased competition from rival fund managers as stockmarkets come out of the worst conditions in decades may make it difficult for the wealth management group to keep a lid on costs, analysts warned yesterday.

But an upbeat chief executive David Deverall claimed the asset manager's balance sheet was comfortably positioned for any pick-up with plenty of cash, low gearing ratios and ''enormous'' interest cover.

Mr Deverall yesterday announced annual net profit had fallen by 71 per cent because of one-off losses and falling funds under management as investors fled equities to the safety of cash and fixed income products.

Consolidated net profit fell 71 per cent to $37.7 million for the year ending June 30, compared with $128.8 million in the previous comparable period.

Underlying profit fell 51 per cent to $65.7 million, broadly in line with the guidance provided by the company in May.

PERPETUAL

Full year	2009	2008
Sales ($m)	482.5	613.2
Pretax ($m)	59.1	187.9
Net ($m)	37.7	128.8
EPS	96.0¢	329.6¢
Final div*	60.0¢ ff	141.0¢ ff
Shares (last)	$36.17	(+ $1.37)
*Payable	Sep 30	

''While we remain cautious about the market outlook, we are comfortable that Perpetual's enhanced competitive position makes it well-positioned for market recovery and to capture future market share,'' Mr Deverall said.

Growth over the next 12 months would come from improved equity markets boosting assets under management through increasing values and new mandates; acquisitions and organic growth in private wealth; and the boost to its corporate trust business division from mortgage processing that would partially offset the securitisation slump, he said.

Its share price rose $1.37 to close at $36.17.

Despite an improved second half for inflows, funds under management for Perpetual Investments, which accounted for about 47.5 per cent of underlying profits before tax, fell 14 per cent to $26.2 billion. The average funds under management were down 28 per cent. Underlying profit for the sector was $59 million, a decline of 60 per cent largely driven by lower revenues.

Funds under advice in the private wealth operation, which represents more than 23 per cent of underlying profit, dropped more than 10 per cent to $6.8 billion causing underlying profit before tax to fall 37 per cent to about $29 million.

Funds under administration in corporate trust, which accounts for 29 per cent of profits, increased by about 8 per cent to $241 billion, raising underlying profit by 22 per cent to $36 million.

Credit Suisse analyst Arjan van Veen warned current revenues were at second half of 2004 levels, meaning costs, which have continued to increase, would have to be kept under control to take full advantage of any sustained market rise.

A final fully franked dividend of 60¢ will be paid on September 30, taking the year's total to 100¢ per share.

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Advisers bolder but not braver, yet

Comment
Duncan Hughes

Perpetual chief executive David Deverall's cautious optimism about investor sentiment could offer some long-awaited good news for a sector beseiged by falling revenues, rising costs and regulatory uncertainty.

Financial advisers, who have not had a lot to be cheerful about for some months, are beginning to feel increasingly positive about the market outlook, which could translate into more buy recommendations to their customers, according to the asset manager's in-house research.

There's also growing competition for top-end advisers that typically have clients with more than $1 million to manage in addition to their homes, from specialist fund houses through to conglomerates, such as AMP.

Perpetual, which has long flagged its willingness to offer the right price for a business that suits its profile and culture, yesterday repeated that cultivating that sector remains a high-priority growth target.

For Perpetual, which generates more than 50 per cent of revenues from funds under management in mainly Australian stocks, a 1 per cent movement in the ASX All Ordinaries Index changes annualised revenue by about $1.2 million to $1.7 million.

The All Ords slide from 6854 in November 2007 to a trough of 3111 in March this year has passed straight through to its bottom line and yesterday's announcement of a full year halving in operating profits.

The sector's funds under management plunged from a quarterly peak inflow of about $33 billion in 2007 to five consecutive months of outflows, with more than $18 billion of outflows in the past two quarters alone.

Unlike other major wealth managers, such as AMP and AXA Asia Pacific, Perpetual does not have a suite of commission-generating wealth protection products to offer financial advisers seeking to offset their clients' aversion to equities. It has also been de-risking its balance sheet by moving out of expensive products that deliver guaranteed returns to investors.

Net institutional inflows for Perpetual, which is the least profitable source of funds, were about $1 billion, of which about $100 million was placed into global equities and the remainder cash and fixed interest.

This was more than offset by a fall in investments from financial advisers, which are the largest source of new funds under management, as mortgage funds, diversified and Australian equities all posted outflows.

According to Deverall, advisers for the past two years have been feeling ''numb'' and their clients ''terrified'' about investing in the markets as nest-eggs were devastated by the global meltdown.

Advisers for the past two years have been feeling numb and their clients terrified about investing in the markets.

The pick-up in the markets during the past three to six months has also heralded a gradual turnaround in sentiment, still well-short of where it was two years ago but a strong improvement from the start of the year. The number who believe that conditions are ''bad'' or ''very bad'' has dropped from about half to 25 per cent, which is half-way back to where they were at the peak of the markets two years ago.

While it's not time to call for champagne, it's a step in the right direction for a sector that has been reeling from rock-bottom investor sentiment and uncertainty about what the federal government's expected shake-up will mean for commissions.

It's particularly significant for the high-disposable income sector of the market that Perpetual is targeting, which represent some 17 per cent of investors but about 70 per cent of the nation's wealth.

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