Lipman Burgon's Paul Burgon: How My Firm Thrives Amid Turmoil

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By Ross Snel
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Scandals over sales practices rocked Australia's wealth management industry in recent years, sparking a national investigation and prompting the country's largest banks to exit the business. But that turmoil has benefited some advisors, including Paul Burgon, co-founder of a Sydney-based wealth management boutique, as wary investors have sought out independent, fee-based advice.

Burgon, who ranks 15th in *Barron's* fifth annual Top 100 Australian Financial Advisors, explains why the upheaval is beneficial for investors and the industry in the long run—and what U.S.-based advisors might learn from it amid debates about fiduciary standards of care in this country. He also says that a keen focus on client service, which helped Lipman Burgon & Partners to quadruple its assets since its founding, is behind the firm's decision to put an eventual lid on growth. And he stakes out the provocative position that government bonds should have no place in client portfolios.

Paul Burgon of Lipman Burgon & Partners
Kate Copeland

How did you get your start in wealth management? I joined Goldman Sachs in 2006. They had a joint venture in Australia called Goldman Sachs JBWere, and I joined their private wealth management team associate program in 2006. That was after coming from a career in HR consulting at Accenture. Goldman Sachs JBWere was a wonderful place to learn your trade, particularly going through the global financial crisis and having all the resources of Goldman Sachs at our disposal.

Tell us briefly why JBWere was a prominent partner for Goldman. JBWere is, if not the oldest, then one of the oldest stockbroking firms in Australia, and it was regarded as the most prestigious firm in the country.

What happened next? After about three and a half years, Goldman Sachs exited the JBWere business and sold it to National Australia Bank, which is one of the major big four banks. At that time, I left Goldman Sachs. I joined a boutique firm for a short period of time that ran a discretionary portfolio management service for high-net-worth clients, and then I joined Investec, a South African bank that was operating in Australia. Unfortunately with Investec, they weren't as successful in the Australian operations as they were in South Africa and London, and in 2011 they decided to exit the private wealth management part of that business. My business partner now, Robert Lipman, had started the private wealth advisory business of Investec around 20 years ago, and they approached Robert to see if he wanted to take that part of the business private. Robert asked me if I would join him, and then we completed a management buyout in 2011, creating Lipman Burgon & Partners.

How does your firm charge clients? We generally deal with clients who have significant assets to invest, and we've got a reasonable amount of investment capability internally at the firm. The fee model that we generally have is either based on assets under management or an agreed, fixed annual fee. Even when we were at Investec we always operated that way, which we felt was in the best interests of the clients.

Early on in your business, was that a relatively novel idea in Australia? There were some firms who were using that model, but the vast majority of what we would call retail advice was still very much along the commission and product model.

How has your firm evolved since its founding? When we left Investec, we started with around $400 million of client assets. *(All financial amounts are in Australian dollars, which are currently worth U.S. $0.77.—Eds.)* The idea has always been client service over growth, but the firm now is looking after about $1.6 billion, and we've grown from a very small staff of eight to 20. We continue to move into the management of larger family offices and not-for- profit portfolios while maintaining a highly selective and diverse client base of high-net- worth and ultrahigh-net-worth families.

Has emphasizing client service had an impact on your growth? We've made a conscious decision that we want to soft close the client book when we get to around $3 billion. We want to remain a specialist boutique. We think it's really important for the culture of the firm that we put the clients' interests first over growth, and I think there's a size where we can be very effective for clients whilst continuing to participate in the investment opportunities that larger firms may not have.

The Australian wealth management industry has undergone upheaval in the past few years. What happened? Due to the model of product commissions incentivizing advisors to sell products, there were a number of negative client outcomes. This led to a large number of complaints, particularly against the four major banks here. Going back to the early 2000s, they had made a conscious decision to move into wealth management, and I think the view was that they would be able to get their products directly to their clients and have this vertically integrated model. The poor outcomes that clients were receiving led to a Royal Commission, which is an independent inquiry of matters of public importance, into the financial services sector in Australia. The outcomes of that were handed down in 2019, and it was quite damning across the sector, particularly for the major banks. It led to three of the four to make—and I think the fourth is also considering—a complete exit from retail financial advice.

What did that mean for firms like yours? Businesses like Lipman Burgon & Partners that are independent boutiques have been beneficiaries as clients have come to understand the importance of advisors being correctly aligned toward clients, and not incentivized by product manufacturing.

It has also led to quite an exodus of advisors who were working at the major banks and did not want to be associated with what had occurred. We think the upheaval is to the great benefit of clients over the long term. There's also now a much more clear understanding that every piece of advice needs to be in the best interest of clients and, if there is a conflict, it needs to be clearly outlined. There is no longer an ability for product manufacturers to pay commissions to financial advisors that sell investments to retail clients.

Didn't Australia already have high standards for financial advisors before the Royal Commission? Yes, the best-interest standard did pre-empt the Royal Commission, but the Royal Commission also looked back at some of the behaviors that had occurred prior to those best-interest standards coming into place. It also looked at how the banks were managing complaints and how insurance advice was being given. There were examples of life insurance commissions still being charged after a client had passed away.

So there were these terrible stories, and this led to a large number of fines on the banks, and it also led to a lift in educational standards across the financial advice sector.

Is it now mandatory that financial advisors have a university degree? You have to have a minimum of a university degree or postgraduate qualification, and there are some new standards that have come through in terms of ethics and general capability. Older advisors have to sit at a couple of examinations to make sure that a minimum professional standard is met across the industry.

In the wake of all that change, do you have any continuing concerns? We have personally taken the view that it is better to train a lot of the advisors that we have in-house rather than to take on advisors who may have left some of those large banking institutions and are looking for new homes. Some of them are very capable individuals and look after their clients exceptionally well, but they've also grown up in a culture that emphasizes generating fees and funds under management rather than client service. We don't link staff salaries to the level of fees that they generate. We consider the client satisfaction surveys that we run each year, the contribution to the team, and also the contribution to the firm's culture.

What are other consequences of the increased oversight? One of them is an exodus of advisors from the industry. That does leave a gap; it means that many Australians who are not necessarily of substance in terms of their assets and are in need of quality financial advice are finding it very difficult to access.

We may see the banks participate in the financial planning sector again with retail financial advice, but I expect it would be under more of a robo-advice model where the investment portfolios are almost automated, which takes out any sort of advisor influence from a product perspective. Then they go back to focusing on things which are really important when you are building wealth, which is the financial planning aspects. If that occurs, I think that will be a good thing for the industry.

How are you investing clients' money right now? We build multi-asset portfolios for clients, and we adopt a core-satellite approach to allocating capital, whether that be domestic or international investments. We work with a client to find out if they have, say, a hundred dollars to invest in domestic equities, how much they would be happy with a market type of return, and how much they want to work a little bit harder. Then we'll divide between active and passive managers. We blend the equity portfolios with fixed income, and property, and other types of investments.

We have zero government bond exposure. We adopted a few years ago an approach to portfolio management, which is a complement to asset allocation, called the total portfolio approach (TPA). It's used by the Future Fund [Australia's sovereign wealth fund] and I think a few endowments and institutions globally. We consider a range of risk factors to portfolios, for example, growth, inflation risk, interest rate risk. We then blend these multi-asset portfolios—depending on the size of the client—with more specialist investment opportunities to try to further diversify these portfolios.

What sorts of opportunities? Over the last couple of years we've done some significant investments in private equity. We do some work in special situations, and last year we invested with Goldman Sachs' West Street Strategic Solutions Fund. From a U.S. perspective, a year ago we invested with Bain Capital's North American buyout fund, so we try to provide access to our high-net-worth clients and family offices with these unique opportunities, which we research in house.

Even given the current interest rate environment, no government bond exposure is unusual. One of the implications of TPA is that we don't feel that we have to allocate to buckets of asset classes, so if we decide that an asset class is uninvestable—which we currently feel that government bonds in the developed world are—the total portfolio approach allows us to reduce that exposure to zero. It is very hard to feel compelled to invest in an asset class that you are losing on in real terms. We feel it is more likely that interest rates are going to go higher and bond prices are going to fall, and therefore we don't feel much protection is on offer from government bonds. So there is no income, there is no protection, you are losing capital in real terms. We probably also extend that to investment- grade credit. The margins across investment-grade credit are so slim at the current time that it becomes quite challenging to try to invest in that sector.

What are you using instead for the traditional defensive part of portfolios? We've looked at some less liquid assets where we can pick up a liquidity premium—where the level of interest returned on a fixed-income component of an illiquid asset is less tied to base interest rates or government bond yields. An example would be the private debt market in Australia. The banks have pulled back from that sector and have become really focused on only lending to borrowers who have high levels of income to service the loans. So we have seen the private debt lenders in Australia grow significantly. You can get paid an extra one or two percent for giving up some liquidity.

We have some fixed-income products in portfolios, but what we are looking to do is take out any duration risks. We have one government bond strategy that we use, but they actually swap out duration risk, and it's more of an arbitrage-type strategy. It's run by a fund group called Ardea, and they are looking at relative value trades within government bonds globally.

With all of our clients we recommend that they hold three years worth of living expenditure in cash outside the portfolio because the actual portfolios are becoming more exposed to high levels of market risk as a result of there just being so little returns on offer in the fixed- income areas of the market at the current time.

It sounds like a demanding time at your firm and in the industry, but what do you like to do when you're not managing wealth? I have three children, so they certainly keep me busy, but I do try to exercise when I can. I've been trail running recently. I just did an ultratrail run in the Blue Mountains in Australia, so I'm enjoying that. That was 22K, and I'm stepping up to do a 50-kilometer run in November.

Thanks, Paul.
