Episode 5 - At the Kitchen Table with Paul Heath

This podcast is a way to share stories from families we support and our family advisor partners. These stories share a common theme – a critique of the idea that to be wealthy is not just about how much money you have but how you put your family's resources to use for future generations.

I partner with Koda Capital to deliver leadership and inter-generational wealth for families and have worked with the Koda CEO Paul Heath for over 10 year. In this episode I sat down with Paul to talk about the value of independent financial advise and how the industry will transform over the next 10 years. I particularly enjoyed hearing how families have created stewardship. The successes and the failures.

Paul has a significant amount of experience and the lessons he shares from these families are really insightful. Listen to the episode below:

Episode Transcript

Tiffany: I'm here with Paul Heath, CEO of Koda Capital. It's a great pleasure to be with you, Paul, and I think our history dates back over 10 years, when I first arrived in the country and we were partners in crime at Goldman Sachs JBWere as it was then, so it's a real delight to see what you've created and built here at Koda. Would love to hear more, particularly on the back of this great achievement, the AFR Smart Investor Best Private Wealth Manager. Talk to me a bit about Koda's value proposition. It's structured around independence. Why is independence so important for families, and what are they looking to engage with a wealth advisor for?

Paul: Tiffany, let me start by saying what a pleasure it is to be here, having this conversation with you, because yes, we go back a long way. In fact, I'm a little embarrassed, because it shows how we've aged over the years. Let's call it gains in wisdom in the time we've gone together. We're really proud of what we've done at Koda Capital.

What my observation would be over time in my experience with the markets, which dates back to the mid-nineties, is that wealth management has gone through a period of consolidation, where firms have acquired wealth managers. They've got bigger and bigger, and it's become a lot more about product manufacture and distribution than the genuine giving of advice. There are lots of benefits for product manufacture and distribution, particularly being able to deliver a reasonable product at a scalable price point for the vast majority of Australians in this country.

Having grown up servicing high net worth families, and the individuals attached to those, I actually knew that wasn't what they wanted. The idea behind Koda is could you create an independent wealth management firm that just gives advice, and gives the sort of advice that particularly families are looking for. The really good thing about the AFR Smart Investor Award, we were so proud of that. For an organisation that is two years old to be named the best private wealth manager in the country, the term I use is it's actually pretty cool.

It validates to us that we're on the right path, and we're delivering a service that clients need, and that's what we think the award represents. You asked why independence was important.

Good wealth advice involves two things. The first thing is it involves competence. The advisor or the advisory firm actually has to be good at doing the job they're tasked to do, and in many ways - investing the money. So they have to be very competent at that piece of work.

The second and equally important part of good wealth advice is the relationship needs to be one that's built on mutual trust, because you need to be able to have the conversations that flesh out the concerns, flesh out the aspirations, flesh out the issues. In the case of good wealth advice, often the value for that advice might not materialise for years. It's a combination of competence, and confidence, and trust.

Many of the big private wealth firms that aspire to service the family market will demonstrate their competence, the number of advisors, the number of analysts they have, the number of clients they look after. By being in a position where you have conflicts of interest, your own products, your own platform, inevitably it causes a little shadow of doubt to creep into the trust side of that equation, especially when things aren't going well.

If you can say we have no conflicts of interest, therefore, we're always going to give advice in the best interests of the clients, that's why independence becomes important, because independence allows you to do both sides of that equation. The competence and the confidence in the service offered.

We think that we've done that quite well at Koda. While Koda is a young firm, it's populated by deeply experienced people who have a long track record of displaying competence in the way that they advise their clients, and we've created a structure and a culture that should give our clients confidence that they can trust that we're acting in their best interest at all time. That's the idea behind it, and the Smart Investor Best Private Wealth Manager Award really validated what we're trying to do, so we're very pleased with that outcome.

Tiffany: Okay, and you and I agreed to this some time ago, that independence is so important, put the clients' interests first, show them their options, always let them choose.

Education for me is at the core of everything, so make them feel educated, and they'll make better choices for themselves. Let's look ahead 10 years, because I feel like philanthropy, 10 years ago, this was a new conversation, and now it's so prolific. Take me 10 years in time. What trends are you expecting to see both around this model of independence and with families?

Paul: The big and obvious trend is the fabled intergenerational wealth transfer piece. The Baby Boomers handing over to the next generation, and that's playing out globally, and it's no exception here in Australia.

What does that really mean for wealth advice? If you think about the next generation that are going to be the recipients of this money, there's a bunch of things about them that we know today are going to be different. Aside from anything else, 50% of them are female in an industry that's dominated by males, and the conversation we think is probably going to be a different sort of conversation between a principally male-to-male conversation and perhaps a male-to-female, or female-to-female conversation. That's a really basic and obvious one, but that generation that are going to be the decision makers and the recipients of this money, there are some subtle differences, too.

The first one is, they probably conduct a significantly greater portion of their life online. They shop online. They book travel online. They probably engage with a larger group of people online, and as wealth advisors, how do we think about how that changes the relationship with the advisors, so that becomes important. The other issue that I think is there as well is that I think the next generation are probably going to be a little bit more socially-minded. They're probably going to want to leave their mark on the World in a different way than the way their parents did, and a good wealth advisor needs to speak to all of those issues. It's not just about investing the money and getting a good investment return. It's about helping that next generation, and it could be, as you pointed out, there could be an educational component that sits around that. There could be engaging with them in a different and perhaps more modern way, but it's probably also going to be recognising that their hopes and their aspirations, the purpose of the wealth, what they hope to achieve with that over their lifetime, is quite likely to be different than what their parents were.

I know some of those things are quite abstract, but all the research would tell us that that's what they want to have a conversation about. That's what trust has been built around, and so if you feed that back into trust and confidence, and then feed that back into competence and capability, the wealth firm of the next 10 years needs to deal into these issues, and be able to demonstrate capability and be able to support families in coming to terms with what being wealthy actually means.

Tiffany: Yeah. I love this idea. In Momentum, we talk about this notion of redefining what it means to be wealthy, moving away from this conventional wisdom about financial capital toward human and intellectual capital. Our focus, as you know, is bringing families back together around the kitchen table, getting conversation started to equip that next generation to lead successfully. This word steward is so important. From your experience, Paul, advising families, what have the good families done well to create that stewardship?

Paul: Yeah, so we’ve seen both good and bad, and we'll probably talk a little bit about some examples when it doesn't work because I've seen those. Where it works at its best, is that in many ways the families can create a sort of corporate environment around what they do. What do I mean by that?

The families that do this best, they have a clear vision of what it is they want to achieve together, and they have a clear vision for the freedoms they want to create for individuals members of the families to be who they want to be individually. That becomes really important.

First, let's talk about the clarity of what they want to do collectively. The really good families do that via a discussion, and a discovery, and a tweaking, and they bring a disparate set of voices into a collective. In many cases, that's sometimes driven by a patriarch or a matriarch, but the best ones give everyone a voice. Everybody's hopes, and aspirations, and what they want to achieve as a family get built into a common view of what they're going to do, and then they create the structures to ensure that that collective responsibility. Everyone's clear on what their role is. People know who's accountable. There's a regular mechanism to check in on how we're doing, and they've got trust and confidence in what's happening.

They've also got the space for the individual family members to pursue individual interests as well. It's that balance between loose and tight, everyone having a voice, but certain individuals taking responsibility. As you know, if you’re going do that in the corporate world, you just don't write it up on the wall, and off we go. It involves a great deal of conversations. It involves a great deal of collective checking in. It involves people stepping up and learning new skills, and taking responsibility, and the best families do that really well.

They all have different forums. Some of them will do it very informally, but you can see this common narrative that runs through their collective vision. Others will do it more formally, through mechanisms like a family council, but it is abundantly clear that they have invested the time and the effort to come to agreement on what they will do collectively, while still creating the space for individuals to work at an individual level.

The other observation I'd give you Tif, is that very often families just need a little bit of help in doing that, in the same way that there's an army of specialists who provide executive coaching to corporate executives to help create that environment. Our experience, and why we think this is a really important part of wealth offering, is that often, an outsider or someone who can just play a bit of a neutral role can be the little bit of oil, or the little bit of momentum, that can help shepherd that process through to this collective vision, which I think is probably the starting point for a successful family, thinking about their wealth as a family.

Tiffany: In an ideal case, you get ahead of those conversations before there's a crisis, a loss in the family, a life event that triggers a liquidity event. I got into this because one of my clients said his worst nightmare was that the money would divide the family.

Paul: Yeah.

Tiffany: Talk to me about examples, either where you've seen it gone wrong, or where conflict has emerged because the wealth has divided the family. This is what you do for a living every day, so what can we try to learn from that, and any observations you have?

Paul: Here's the really good news in all of this, right! These movies have all been done before.

Families are families, and they're complicated, and difficult, and there are generations you can track back to see how this happens. Where I've seen this go badly wrong is if you think about what was right, it's so easy to point to what becomes wrong.

If there's not a collective view of where you're going, if there's not clear accountability and methodologies to work out whether it's working or not, trust begins to erode. When trust begins to erode, a couple of things emerge inevitably. The first one is that family members begin to compete for control. My agenda is really important, and if I don't get my share of this, my agenda is going to be missed out, because my agenda might not be represented properly in the collective vision, whatever the case might be.

Family members begin to compete for control of the money and in that environment it's not just that trust doesn't exist, but an absence. It's the opposite of trust. Doubt starts to creep in. People look over each other's shoulders and second-guess decisions that are being taken, because you don't get the benefit of the doubt into that environment. People begin to compete. Trust diminishes, and ultimately, the answer is a structural answer. Let's split the money up, because the only solution ultimately you can get to in that environment is to divide everything up and let people go their own ways. I can tell you that it never is a simple division by four. Inevitably legal costs become involved, opportunity costs become involved. The friction of breaking things up is powerful, but probably more importantly also, relationships get broken with that. The money divides, but the relationships that divide.

If you sit down and talk to the people within families who have made money over the years, and what it is they most want, they want to know that the money isn't going to break up the relationships that exist within the family. It's their core concern, and so where this goes wrong, and the bigger the pool of money, the more that there is at stake, is it's quite the opposite of what's right.

You end up with competing interests, a lack of trust, which inevitably results in the breaking down of family relationships. Of all of those things, it's the breaking down of the family relationships, in my experience, that hurts the patriarch or the matriarch the most. It's also the one that's the most difficult to repair, at least over the short term. That's happened in very high profile public ways. You can see that. I can tell you that it happens so often in very low profile ways, you've never heard about, but it happens regularly.

We point to the costs of getting it wrong as the catalyst for the reason why it's worth making the effort to have a go at getting it right, and that goes all the way back to the very foundations. We've got an opportunity here. Let's put ourselves on the right foundations to avoid those opportunities being missed, and more so, the damage that it's caused when it goes off the route.

Tiffany: Koda Capital is very unique. You're one of the few wealth advisory firms who's including this as a core offering, to think about how families think about intergenerational wealth, and the leadership that's required to make sure that's done well, and stewarded well. On a personal note, what do you think is the value of good family leadership?

Paul: I think there's a whole bunch of things, and I'm going to break that into a combination of head and heart.

If I think with my head, the reality is, if you want to be relevant to tomorrow's wealthy Australians, we know that this is important to them. You can't just rock up and say, "Hey, we're gonna manage your money, in isolation." That's being a money manager.

We're going to be wealth advisors. We're going to be holistic, and I know that's a term that's used broadly. Often it's used when people talk about holistic advice, they're talking about share of wallet. That's not what we mean. We say we're going to sit down and say, "What are the things that we know are important to this client's segment?" I can tell you what they are. They want to know that they're structured well, and they're not leaking money inefficiently into the tax system, so the structures are right.

They want to know that the money is invested wisely, and what we mean by investing wisely is very often these are pools of money that might expand through two or three generations, and that's a very different way of investing than money that might be just for this generation that are approaching their seventies or their eighties. People would say, "You need to wind down your risk."

We would say something a little bit different to that. Very often, they're finding ways to give back to the community, either through their own personal philanthropy, or supporting charities, with expertise. Last, they want to know their kids are going to be okay, and that the money's going to help them lead a more purposeful and valuable life, rather than destroying it. That's what the Koda Value Proposition offers. When we mean holistic, we mean all of those things.

When I think with my head, if you can't create relevance for your clients in that environment, you're not going to have a business that's sustainable for the next

10 or 15 years. It might work today, but it's not going to work into the future, so there's a very pure business motive for us in putting expertise into this business that allows us to service the needs of those clients.

The other side of it is I think about my heart. At Koda, we want to be really proud of what we've created, and I think about my own family. I think about the families that I have worked with over the years, and everybody faces their own personal issues around the way that they would want their families to be, and the mark that they want to leave on the World, and their hopes and aspirations for their children. I'm no different, and I have all of those sort of things.

There's a part of it as well Tif, that's actually relevant for me and my family, but I know from the number of people I've spoken about that this is the way that you can make a difference over time. For me at Koda, families and helping support families is both a core business practise, but it's a core purpose for what we want to do as an organisation, if we really want to be the best independent private wealth management business in the country.

Tiffany: I think that's a great place to end. Paul, thank you for your time today. Looking forward to continuing to work with you on this topic.

Paul: As am I, Tiffany. Thank you so much for your time.