### Federal Reserve Bank of Boston Meeting Minutes

То:	Basel II ANPR Public File	Date:	July 16, 2004
From:	Patrick deFontnouvelle and Victoria Garrity	Subject:	Mellon Private Wealth Management

**Attendees:** Representative from Mellon Financial Corporation: Sarah Allen, Manager, Business Planning, Private Wealth Management. Federal Reserve Bank of Boston representatives: Linda Barriga, Patrick deFontnouvelle, Victoria Garrity and Ricki Sears.

**Purpose:** To obtain information on competition in the asset management business in connection with a study to assess the competitive impact of the Basel II Operational Risk capital charge.

**Perspective:** Mellon Financial Corporation (Mellon) is a financial holding company with total assets of \$34 billion. Headquartered in Pittsburgh, Pennsylvania, Mellon provides institutional asset management, mutual funds, private wealth management, asset servicing, human resources services and treasury services for institutions, corporations and high net worth individuals. Mellon has approximately \$3.6 trillion in assets under management, administration or custody, including more than \$675 billion under management.

### Items Discussed:

# (7) Background on the Private Wealth Management (PWM) Business

Mellon's asset management business is divided into three segments: retail mutual funds (Dreyfus), institutional asset management, and HNW. Mellon's HNW business (Mellon Private Wealth Management) targets clients with at least one million dollars in assets. They operate in 13 states through 60 offices.

What distinguishes HNW from other asset management businesses is often the deep and direct relationship with the buyer and the types of products offered. The primary difference between HNW and institutional asset management's client buying behavior is that institutional clients conduct a search for and assess potential providers with the intent to buy whereas HNW clients may not actively conduct a wealth manager search. As the needs of wealthy individuals change or wealth base grows, HNW clients may move to a new provider that offers more broad capabilities, but they may also choose to remain with a firm with which a relationship has already been established.

In addition to investment management, Mellon's HNW business (Private Wealth Management) includes such services as wealth planning and financial management. HNW services are typically provided through separately managed accounts and HNW providers typically offer proprietary funds, including hedge funds.

### (2) Competition

The HNW market is becoming increasingly competitive with small registered investment advisors, brokers, and accounting and tax firms entering as competitors. Financial planners

are also emerging as competitors. Other more traditional competitors in this business are regional and national banks as well as other investment management firms.

Scale and brand awareness are currently important and increasingly becoming more important in the marketplace. Of primary importance is the relationship between the client and provider; as a result, investment performance while important, is not always the relationship key. Pricing is also an important factor and can be very competitive. Pricing is typically a fee based on the amount of assets under management. A competitor may underprice services to win a deal and later adjust pricing.

The size of the HNW provider is not directly correlated with the asset size of the client. Those clients with a large amount of assets do not necessarily seek larger HNW providers.

The best understanding of the competitive marketplace comes from clients. Boston Consulting Group has general information on trends in the industry, but does not publish information on specific providers. Other sources include VIP Forum, Phoenix, Ernst & Young, and Merrill Lynch.

There are both competitive advantages and disadvantages to being structured as a bank in the HNW business. A disadvantage is that a client may not like working with a bank as a client may view an investment advisor as more on the cutting edge. An advantage is the breadth of capabilities that a bank can provide.

## (3) Geographic Considerations

In this business there is typically a need for geographic closeness as the interaction with clients is face-to-face. There are some firms in this business with an international scope, but those would likely have offices internationally. Mellon focuses on U.S. clients in HNW business.