

Investment Views

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The Boomerang That Misses the Mark

Last month, we examined the persistent structural challenges facing active equity managers: despite premium fees and unending faith in their strategies, the majority fail to beat cheaper passive benchmarks over meaningful time horizons. Higher fees for lower returns does not sound like the greatest business model, a major reason why Bentley Reid's portfolios tend to hold around 70% in passive instruments compared to an industry average of 30%*.

* Source: Research in Finance

Active managers would no doubt turn the question around and query whether wealth managers do any better. It is a natural, instinctive reaction, but one that largely misses the point. Comparing an investment manager to a wealth manager is a fundamental category error, bracketing a single-function specialist with a broad-spectrum architect despite quite different mandates.

The Functional Specialist vs. The Lead Architect

To understand the overlapping but distinct relationship between the two disciplines, consider an analogy from construction. An investment manager acts as a specialized contractor - a structural engineer or a steel specialist. They are hired to perform a single, precise task, such as managing a large-cap global equity portfolio or running a credit fund. They do not design the building, assess whether the site is prone to flooding, or evaluate if the structure suits the owner's long-term lifestyle. They simply optimize the single component assigned to them.

A wealth manager, on the other hand, acts as the chief architect or, to use a term that is gaining in popularity, the "integrator." Before a single asset is bought or sold, they analyse the entire landscape: total net worth, illiquid business holdings, real estate, tax residencies, debt obligations, family dynamics and their ultimate objectives. Only after drafting this master blueprint do they select which active specialists - or passive building blocks - to employ.

When clients hire an investment manager directly without an overarching wealth architecture, they end up with a collection of disjointed financial components rather than a coherent structure. They are putting their money with people who optimize for their individual mandates in isolation, leaving critical gaps in tax efficiency, liquidity, and holistic risk management.

An active equity manager, for instance, operates within a narrow, highly restricted box: selecting securities within one asset class, usually tied to a single benchmark. Even bulge-bracket investment managers focus heavily on product life cycles - frequently launching new funds

and closing underperforming ones, driven more by recent performance and sophisticated marketing departments than by a client-led long-term strategy.

A well-run wealth management firm operates on an entirely different plane. They do not manage standalone investment products that come and go. Rather, they architect complete family balance sheets, multi-generational liabilities, and real-world outcomes.

Unconstrained Allocation

Nor are wealth managers restricted by the same rigid categorizations. Active managers are confined to specific "style boxes" - value, growth, small cap, or momentum, for example. When macroeconomic regimes shift and a particular approach falls out of favour, an active equity manager is trapped. Bound by their mandate, they must remain invested within their category, effectively forcing them to "fail within the rules." A value manager cannot pivot into technology when growth dominates, nor can they reallocate into debt markets or alternatives when public equity valuations become stretched. Not to mention, an equity manager faces an inherent commercial conflict: they are unlikely to suggest that equities appear fully valued and that capital might be better allocated elsewhere.

Wealth managers, on the other hand, operate with structural agnosticism. Unbound by a single asset class, factor, or style, we maintain complete independence. When equities look fairly priced, our flexibility means that rather than attempting to time market tops, we can direct clients from a pure growth mandate toward a broader multi-asset approach. This trims exposure in areas where forward returns may be compressed, directing capital toward non-correlated diversifiers such as infrastructure, gold, trend-following strategies, or equity dispersion funds.

In an environment where market leadership continually evolves, our independence ensures capital allocation does not remain static. In this way, clients can participate in ongoing market strength while ensuring their overall portfolio remains resilient, balanced, and aligned with their long-term family goals.

Low-Cost Architecture & Behavioural Alpha

In today's world, truly progressive wealth management requires radical transparency and low-cost execution. Public equity and fixed-income exposures can often be captured using low-fee, highly efficient passive index instruments or sometimes factor strategies. Capital allocated to high conviction themes and alternatives can, when appropriate, accept higher fees based on increased confidence that long-term returns will exceed the passive options, or perhaps on the basis that risk is more diversified – many passive indices, for instance, have large concentrations in single sub-sectors or a handful of companies. Allocating passively may sound simple but in practice, as with everything else, it is not that easy.

Thus, evaluating a wealth manager purely on whether their portfolio beats a multi-asset benchmark during a speculative market rally misidentifies the manager's primary role. An active equity manager's *raison d'être* is to generate relative alpha. A wealth manager's objective is total balance sheet preservation, risk-adjusted liability matching, and friction minimization.

Finally, studies consistently show that the largest contributor to long-term wealth returns is not stock selection; it is

behavioural and structural alpha. Preventing a family from panic-selling at the trough of a market correction delivers far more absolute value than a stock-picker beating an index by 50 basis points. Similarly, optimizing tax location across jurisdictions, structuring business exits to minimize capital gains, and executing smooth estate transfers to the next generation routinely generates percentage-point returns that never appear on a standard investment performance report, yet potentially increase the family's net purchasing power more than anything else.

Conclusion

The fundamental distinction between the two branches of the industry comes down to scope, objectivity, and accountability. Of course, wealth managers are not immune to structural and behavioural flaws. But by anchoring our success to clients' after-tax, real-world outcomes we shift the relationship from one that sells financial products and regularly fails to achieve the desired outcome to one that cultivates authentic trust and provides enduring stewardship across the inter-generational balance sheet.



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