



EXECUTIVE BRIEF

The Portfolio Your Private Banker Won't Build

Why the Gap Is Structural, Not Cyclical

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Executive Summary

Most UHNW portfolio construction is optimised for the wrong objective. The private bank model, built around managed volatility, relative return benchmarks, and layered product structures, is designed to retain client AUM rather than compound client wealth.

A portfolio built around absolute return discipline, direct ownership of alternatives, and explicit tail protection produces materially better long-run outcomes. The difference is not explained by greater risk-taking. It is explained by structural fee drag, misaligned crisis behaviour, and the systematic underperformance of fund-accessed alternatives versus direct equivalents.

A 25-year stylised backtest makes the gap concrete. The same AUD 500M starting capital produces AUD 5.8B with this approach, AUD 2.2B with a 60/40 framework, and AUD 1.4B with a typical private bank model. The AUD 4.4B gap is the predictable arithmetic of direct ownership, zero structural fee drag, and explicit protection when markets break.

The Problem with Relative Return Thinking

The private bank model is built around a benchmark. Every allocation decision is made relative to an index. Every performance conversation is framed as outperformance or underperformance. The client ends up knowing how they performed relative to other wealthy people who also lost money in 2008.

Relative return framing protects the adviser. If the benchmark falls 25% and the portfolio falls 22%, the adviser can claim success. The client has lost 22% of their capital. Absolute return thinking asks a different question: did the portfolio grow, compound, and protect capital when markets broke?

*Relative return: did we beat the benchmark? Protects the adviser. Does not protect the client.
Absolute return: did the capital grow and compound? Holds the adviser accountable.*

The Portfolio Construction Thesis

Direct ownership of alternatives

45% of the portfolio in private credit and private equity, sourced and held directly. Private credit accessed directly at 15–18% yield with senior secured positions produces materially different economics than the same asset class accessed through a fund charging 150bps management fee and 20% carry. The fund version of a 15% gross yield deal delivers 8–9% net after the fee stack. Direct ownership captures the full return.

Growth-oriented liquid allocation

30% in global equities with a growth bias, plus listed Australian equities. This is the compounding engine on the liquid side, held with conviction because the tail hedge provides the crisis protection that bonds were supposed to provide.

Explicit tail protection

3% of AUM per year as an annual premium budget for tail hedges. This is not a static capital allocation. It is a pre-funded mechanism for converting dislocation into cash at the moment of maximum opportunity, and it is what allows the portfolio to hold an aggressive equity book without permanent impairment risk.

The Fee Drag Argument

The private bank underperformance is not primarily a function of bad investment decisions. It is the predictable result of a fee structure that compounds against the investor every year.

Fee component	Approximate annual drag
Adviser / relationship fee	~0.75% pa
Fund management fee on alternatives	~0.65% pa
Platform / wrap costs	~0.30% pa
Cash drag	~0.25% pa
Total structural drag	~1.95% pa

On a AUD 500M portfolio, nearly 2% per year in structural drag is approximately AUD 10M annually before a single bad decision is made. The alternatives sleeve alone involves three layers of fee extraction: adviser fee, fund manager fee, and carry on gains. Direct ownership eliminates two of those three layers entirely.

Crisis Resilience: Why Protection Changes Everything

In 2008, diversification failed because correlations converged to one under stress. In 2022, bonds and equities fell simultaneously for the first time in 40 years. Every investor holding long-duration government bonds as their crisis hedge discovered those bonds were duration risk in a different wrapper.

Crisis	60/40	Private bank	This portfolio (with hedge)
Dot-com 2000-02	-14%	-19%	+13%
GFC 2008	-22%	-28%	-10%
COVID 2020	+14%	+7%	-4%
Rates shock 2022	-16%	-19%	-5%

A 40% drawdown requires a 67% gain to recover. A portfolio that limits its worst drawdown to -12% rather than -28% does not just avoid the pain of the crisis. It avoids the compounding penalty of recovery and starts reinvesting from a higher base.

The In-House Team: What It Actually Costs

Four senior professionals at market rates costs approximately AUD 4M per year. On a AUD 500M base that is 80 basis points. The critical insight is that this cost is fixed in nominal terms while the portfolio compounds, so the drag rate collapses automatically over time.

The nominal cost over 25 years is AUD 100M. The true economic impact on terminal value is approximately AUD 412M once opportunity cost is included. Even so, the team model ends at AUD 5.4B: still AUD 4B ahead of the private bank model. You can fund a world-class investment team for 25 years and still end up AUD 4B ahead of the private bank outcome. The team does not cost you money. The private bank does.

Closing Perspective

The portfolio a private bank builds for you is not designed to maximise your wealth. It is designed to manage your relationship with the bank, minimise redemption risk, and generate recurring fee revenue across a product stack the bank controls.

The portfolio described in this brief has no product to sell. No fund to fill. No fee stack to maintain. The return comes from direct ownership of assets, disciplined compounding, and explicit protection when markets break.

In this stylised analysis, AUD 4.4B is effectively the cost of the traditional relationship model.

About This Brief

This Executive Brief is a companion to the Para Bellum Advisors practitioner paper: The Portfolio Your Private Banker Won't Build – A Framework for Absolute Return Construction with Direct Ownership.

Available at www.parabellumadvisors.com/insights/

About Para Bellum Advisors

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The firm focuses on hedge framework design, overlay mechanics, collateral efficiency, and portfolio resilience across FX, rates, credit, equity, and volatility exposures. Its work is practitioner-led, drawing on three decades of experience across trading, structuring, and portfolio management in APAC and globally.

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