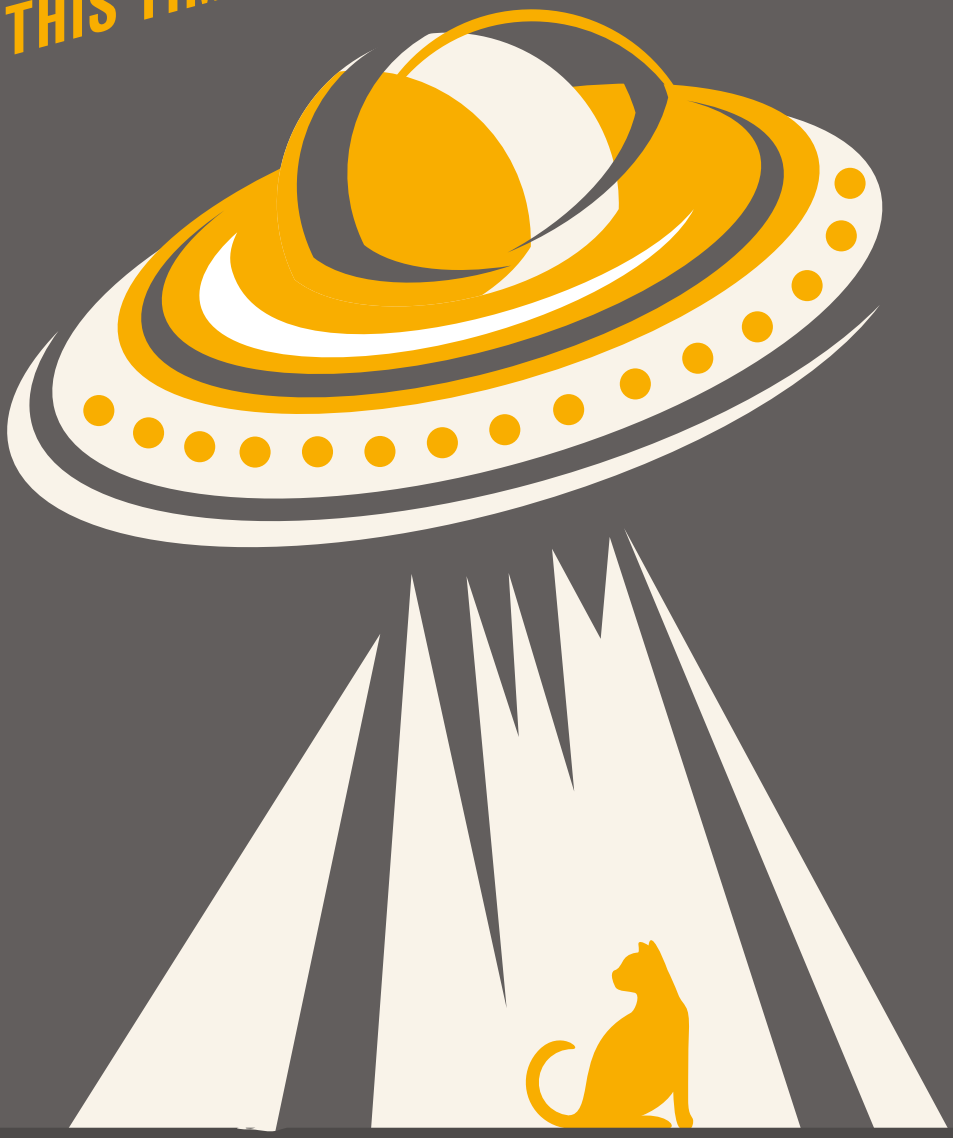
# CIP CONSTRUCTION: THE SEQUEL

## THIS TIME, IT'S ALL ABOUT THE CLIENT



A MARKET INSIGHT REPORT FROM:

# BEFORE WE GET STARTED (AGAIN)

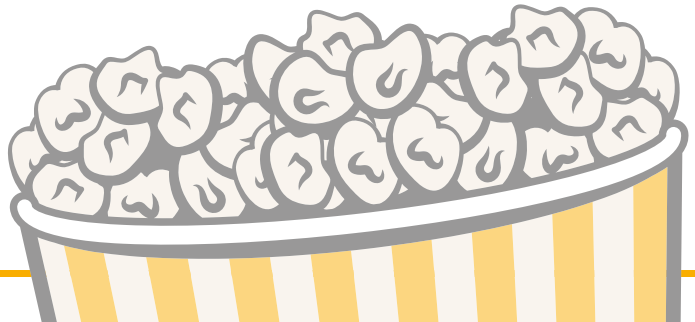
This paper was commissioned by Tatton Investment Management. It examines how advisers construct centralised investment propositions (CIPs) for delivery on platforms and how that can and does impact the investor and their experience of the process.

If you're familiar with the lang cat you'll know that we produce these analyses from time to time, where the topic is pertinent, interesting and we have something to add. In this case we were keen to tackle CIPs from the point of view of the people whose money it is.

While this is a sponsored analysis – Tatton is paying the bill and we're grateful for that – it is not an advert and you won't find any material relating to Tatton's proposition over any others.

A sponsored paper always comes with ground rules. First, while Tatton had access to the paper as it developed, it didn't get to check or challenge the content, especially our views on the shape of the market. Second, we made sure the paper did not discuss the relative merits of one platform or CIP over another. This is neither the time nor the place for that.

Lastly, we believe that organisations hire us for work such as this because of our independence and for the honest, direct and sometimes difficult opinions that come with it. The views we express are our own and Tatton had no editorial control or influence. The paper is based on a combination of our experience in the market, our own research and views from the advisers we regularly speak to. The day we let ourselves be compromised is the day it all falls apart for us.



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# A NOTE ON RESEARCH

Throughout this analysis, we will make use of and references to our research publications:

- *Fixed That For You: State of the Platform Nation*, our 2018/19 guide to the advised platform market.
- *State of the Adviser Nation*, our inaugural study of adviser sentiment.
- *The Platform Market Scorecard*, our quarterly analysis of the advised platform market.

Please contact us if you'd like to purchase any of these publications.

# INTRODUCTION

Hello and welcome to this paper by the lang cat on how adviser firms are constructing their CIPs. If this all sounds a little familiar, well, there's a good reason for that. This analysis builds on another paper we produced in conjunction with Tatton in late 2017. This is, if you like, the sequel. Because who doesn't love a good sequel? Always just as full of originality, plot and action as the first one. Or something like that.

Anyway, first time around[1] we got up close and personal with the CIP landscape, specifically the pros and cons of the three main approaches favoured by adviser firms. In case you missed it, here's a quick recap:

**In-house CIP:** created by the adviser firm and run on either an advisory or discretionary (with in-house permissions) basis. While in-house CIPs come in a variety of flavours, the overarching theme is that the firm takes responsibility for what's in them.

**Multi-asset/multi-manager (MA/MM):** effectively outsources asset allocation and fund/stock selection to a fund manager, normally by using a single multi-asset or multi-manager fund.

**Outsourced discretionary fund manager (DFM) model portfolio services (MPS):** full outsourcing, where the adviser gives the DFM responsibility for managing the portfolio in which clients are invested, either using model portfolios or via a bespoke mandate.

Whichever CIP approach an adviser firm may favour, there's no getting away from the fact that this is a fiercely competitive market, with a range of models from which investors can choose. There's everything from the vertically integrated to restricted firms to the adviser simply acting as an introducer for the DFM.

This creates an opportunity for adviser firms as they have the potential to offer everything the client needs within the process – that, at least in part, is where the value-add lies. But – plot twist alert – this only applies where everything connects and at least creates the illusion of working in harmony.

Now, the point of a sequel is to further the story, develop new plots or bring in new characters – not just churn out more of the same[2]. With that in mind, the focus of this paper is those generally uncredited artistes, investors. We're mixing things up by looking at the CIP experience from the perspective of the people whose money it is.

There's an argument that investors don't want to know all the detail – that's what they pay advisers and wealth managers for. It's a fair point. But we find it hard to argue against investors wanting to:

- know what they're being charged, by whom and for what;
- use that information to make some kind of value for money assessment; and
- be clear on what happens should they make changes (or have change thrust upon them).

We'll tackle these points as investors might, with our take on an industry response and a few feline suggestions around how things could work better.

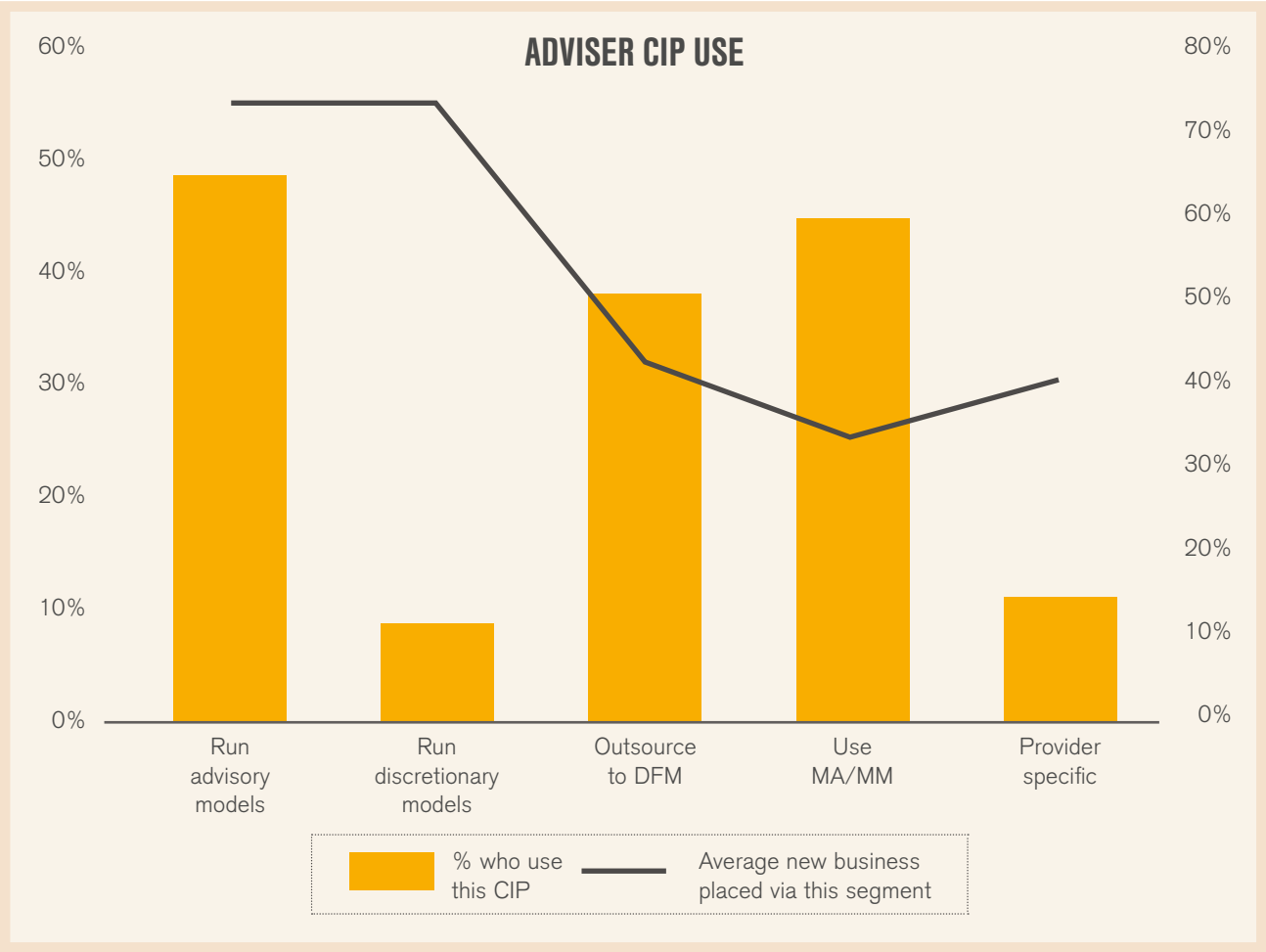
1. *You Have Reached Your Destination*, which you can download for free https://www.langcatfinancial.co.uk/product/final-destination/
2. Yes, but it's a theme. Let's just go with it for now.

# SETTING THE SCENE

Before we get into all that, let's take a look at how advisers are placing investment business on behalf of their clients. Our most recent adviser research[3] found that 86% are using a CIP.

Digging a little deeper revealed that:

- Around 50% of advisers using a CIP run their own advisory models.
- Where they do so, about 70% of new business flows into those models.
- Only about 10% of firms we spoke to have discretionary permissions – roughly in line with the market.
- Only 8% of directly authorised firms have discretionary permissions, but the inclusion of authorised DFM representatives would send that number a fair bit further north.




3. We surveyed 235 adviser firms across October/November 2018.

Funds are very firmly the vehicle of choice for firms running advisory models – 83% of portfolios are fund-based, with exchange traded funds (ETFs) and investment trusts (ITs) trailing behind at 9% and 5% respectively. If we look to construction, 70% of firms use an in-house investment committee or other such intellectual property (IP). On the other hand, asset allocation decisions (as opposed to fund picking) are more likely to be outsourced.

Outsourcing is a popular option, be that to a DFM, MA/MM fund or model portfolio. Whatever shape it takes, our research identified methodology and costs as the two most important selection criteria. Service is third for those using a DFM, with past performance taking the bronze for provider-specific CIP and MA/MM outsourcing decision making.

# EVEN THE REGULATOR LOVES A SEQUEL

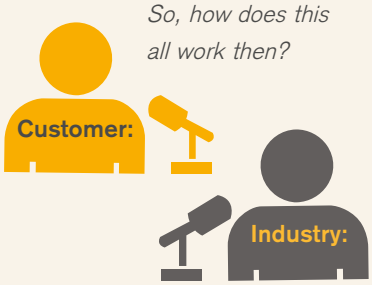
The roll-out of MiFID II (the second Markets in Financial Instruments Directive) at the start of 2018 brought with it the introduction of PROD (the Product Intervention and Product Governance Sourcebook[4]). PROD requires advisers to segment their client base and use that segmentation to identify appropriate target markets for the products they recommend. While this naturally comes at the start of the advice and investment process, investor experience and outcomes (both expected and actual) are a critical factor.

MiFID II has also increased the focus on value for money, with a strict approach to anything that could even be vaguely considered an inducement, and the requirements for robust segmentation and targeting of products and services. Value for money may be subjective, but it's how the investor will judge their experience, the outcome and those that played a part in it.

Let's see how that's working out.

4. And possibly the best regulatory acronym ever.

# CUSTOMER EXPERIENCE




*That depends on what you mean by 'this'. Oh, you were serious? Well, it all comes down to where your money is held and what your adviser decided to do with it. These days, it's really about how different bits of technology behind the scenes talk to each other.*


*Your adviser will tell you about all that, but you can find out for yourself too. That may involve a mix of client reports, performance reporting against benchmarks and some other software that your adviser might also use.*


*Well, the answer to that lies in which type of CIP they use.*

## SEEING, FEELING AND KNOWING

Much of the process that shapes the client experience is unseen by the one person it most affects – the investor. From the tools that support portfolio construction to the processes that underpin the day-to-day management and investment reporting, clients are not usually completely aware of how it all welds together. And understandably so.

In the vast majority cases it doesn't matter so much *how* it works, as long as it *really does work*. "Am I likely to achieve my financial goals?" is a far more likely question than "How does that bit of technology talk to that other bit?" or "Why does that stuff have a different logo?".

For example, how many clients in a DFM MPS do you think will know that both the adviser and the DFM will be logging in and transacting on their account? How many fingers do you have?

Even where integration of different partners and processes is (polite) less than seamless, the join between the different components isn't generally visible. It's the adviser service experience and the outcome that's relevant, as well as the regular peace-of-mind aspects such as rebalancing and reporting. Again, it doesn't need to *be* seamless, it just has to feel that way.

Many aspects of the investment process are unseen, but their influence can be critical. The custody of assets is an abstract concept from the investor's perspective and probably not something they'll give much thought to. Yet, even if we were not seemingly on the cusp of a potentially sharp downturn[5], investors want to know that their assets are being held in a safe, secure place.

5. We don't have a crystal ball, mind.

## SHOW ME THE MONEY (BUT WITH AN APPROPRIATE LEVEL OF DETAIL)

The performance of an investment is fundamental to client experience. It's one of the few tangibles investors can hold on to and it's how they will measure whether they have achieved their goals – and by extension, whether they have gained value from the good offices of the adviser firm.

However, getting to that point can be far from straightforward. Where clients are invested in DFM and advisory models, meaningful like-for-like comparisons can be all but impossible. Historical performance comparisons are especially difficult, thanks to the impact of rebalances and/or changes to the portfolio composition. The outcome is that investors are left to rely either on shiny literature or the platform's capacity to generate meaningful and engaging performance reporting.

Single fund solutions are, by definition, simpler. However, the fact is that the industry as a whole performs poorly when it comes to client-facing investment reporting. There is the odd exception here and there, but no single CIP segment comes out looking any better than the others.

Platforms, for their part, could and should be better at this. Our research found, to put it mildly, a huge degree of variability in the quality of customer reporting. Different firms will take different approaches and that's perfectly reasonable. But we found a significant number of providers unable to illustrate time-weighted returns or money-weighted returns and that choose to not offer goal-based architecture at all. None of that feels reasonable to us.

Advisers are starting to feel the same way, with many of the firms we speak to removing the platform from the equation completely and using toolkits such as Voyant or Cashcalc for the required heavy lifting.

Transactional reporting, particularly in the model portfolio space, is also in need of attention. We've seen far too many examples of client-facing reports where each rebalance (in and out) is disclosed line by line and quarter by quarter. The customer who needs this is yet to be born. This is a perfect example of where disclosure doesn't meet real life. How is the client expected to use this? How does it help them? Let's not kid ourselves that lots of information always equates with good and useful information. There is much to be done here.

## WHERE DOES MY ADVISER FEATURE IN ALL THIS?

This gets to the heart of the 'value for money' issue, which is very close to the top of the Financial Conduct Authority's (FCA's) agenda right now. The adviser firm is the client's point of contact – it's the face of the whole process – but it's not necessarily where all the magic happens.

Many firms struggle to articulate their value-add[6], particularly where they're not doing the dirty work of selecting and managing investments. In reality, firms positioning themselves as hands-on with investment management are few and far between. So where does value lie?

## VALUE IS AS VALUE DOES

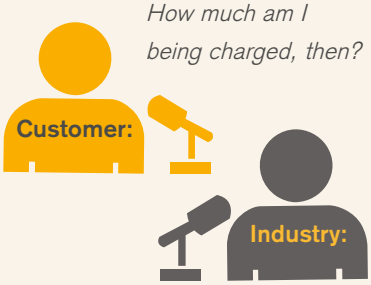
Ideally, client perception of how a firm justifies its fees would be dictated less by outcomes. But for large numbers of clients, investment performance matters, and that can't be overlooked. Most advisory firms understand that if investing was genuinely easy then clients wouldn't bother coming to them. And they'd be right, too.

The most obvious way in which an adviser adds value is by giving advice[7], but client permissions for advisory models confound that and confuse the picture for investors. By entering an advice relationship most customers are actively seeking to defer major decisions to an informed expert. Where an adviser firm is running its own models, it will very likely position itself as an investment expert. If the firm then seeks permission for, say, a proactive rebalance, it creates a touchpoint for the client.

We're up to speed with the regulatory requirements here, but, from a client perspective, we'd we wondering why the investment expert we're paying to make decisions has to ask permission to carry out a fairly routine transaction. We reckon that's one in the win column for discretionary processes or indeed MA/MM funds that sit in the background and do their thing.

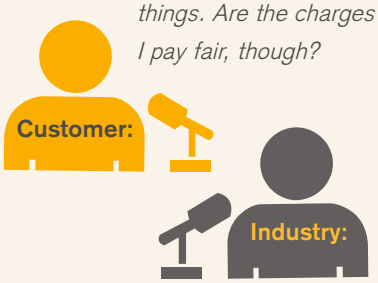
6. Sorry.
7. We know, but we're going somewhere with it.

# COSTS AND CHARGES



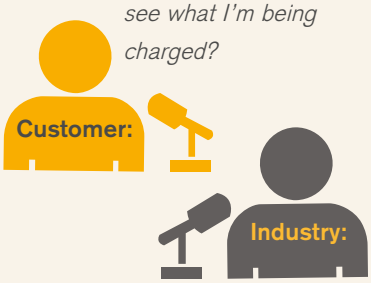

*How much am I being charged, then?*

*It depends on the product or platform your adviser has recommended, how that product or platform charges for its services, the investment proposition you end up in and what's inside that proposition.*




*That's a big list of things. Are the charges I pay fair, though?*

*Well that's a tricky question, isn't it? Value for money is entirely experiential and therefore is entirely up to you – the investor. But you have precisely zero chance of making an informed comparison without someone to help you put all the bits together.*




*Riiight. Can I at least see what I'm being charged?*

*Well, that's complicated too. Bit of a theme developing here, huh?*

Someone has to break down the component parts of customer costs and see what they have to say for themselves. It's our paper so it looks like we're centre stage. Time to suit up.

# FIRST UP: THE PLATFORM

In some ways, platform costs are the most prominent in this process. The platform itself is tangible; it helps the adviser to package up the investment element – which is another step removed and so less visible – and present cost and performance reporting to the investor. Platform costs are generally both accessible and easy to understand (with a few notable exceptions). But they are not a key differentiator. Which is as it should be.

| | £100k | £150k | £250k | £500k | £1m |
|---|---|---|---|---|---|
| The Aegon Platform | 0.29% | 0.28% | 0.27% | 0.25% | 0.23% |
| Aegon Retirement Choices (ARC) | 0.54% | 0.51% | 0.49% | 0.24% | 0.12% |
| AJ Bell Investcentre | 0.56% | 0.44% | 0.25% | 0.22% | 0.21% |
| Alliance Trust Savings (IFO Option) | 0.92% | 0.61% | 0.37% | 0.18% | 0.09% |
| Ascentric | 0.30% | 0.30% | 0.30% | 0.30% | 0.30% |
| Aviva Platform | 0.31% | 0.30% | 0.30% | 0.26% | 0.20% |
| Elevate | 0.36% | 0.36% | 0.36% | 0.36% | 0.30% |
| Embark | 0.20% | 0.20% | 0.20% | 0.19% | 0.18% |
| FundsNetwork | 0.30% | 0.28% | 0.27% | 0.26% | 0.25% |
| Hubwise | 0.26% | 0.24% | 0.22% | 0.20% | 0.10% |
| James Hay MiPlan | 0.43% | 0.37% | 0.25% | 0.23% | 0.19% |
| Novia | 0.50% | 0.50% | 0.50% | 0.45% | 0.35% |
| Nucleus | 0.35% | 0.35% | 0.35% | 0.35% | 0.26% |
| Old Mutual Wealth | 0.39% | 0.36% | 0.33% | 0.32% | 0.28% |
| Parmenion | 0.30% | 0.30% | 0.30% | 0.25% | 0.20% |
| Seven IM | 0.30% | 0.30% | 0.30% | 0.30% | 0.27% |
| Standard Life Wrap (CORE) | 0.42% | 0.41% | 0.39% | 0.36% | 0.29% |
| Transact | 0.38% | 0.35% | 0.33% | 0.31% | 0.26% |
| True Potential | 0.40% | 0.40% | 0.40% | 0.40% | 0.40% |
| Zurich Intermediary Platform | 0.42% | 0.38% | 0.35% | 0.30% | 0.20% |

Looking at the core market sizes in this table[8] (between £100k and £250k) we can see that the majority of providers are separated by only a few basis points. We've made this argument many, many times before, but we've yet to see any evidence of price acting as a determinant of new business flow.

There is the odd outlier in our table, but it's unlikely that these would be realised in practice. Between PROD, segmentation requirements, special deals and multi-platform adoption, we don't see a scenario where, for example, a £20k investment finds its way to Alliance Trust Savings.

So that's the platform picture. Let's move on to our three CIP models and see how things look there.

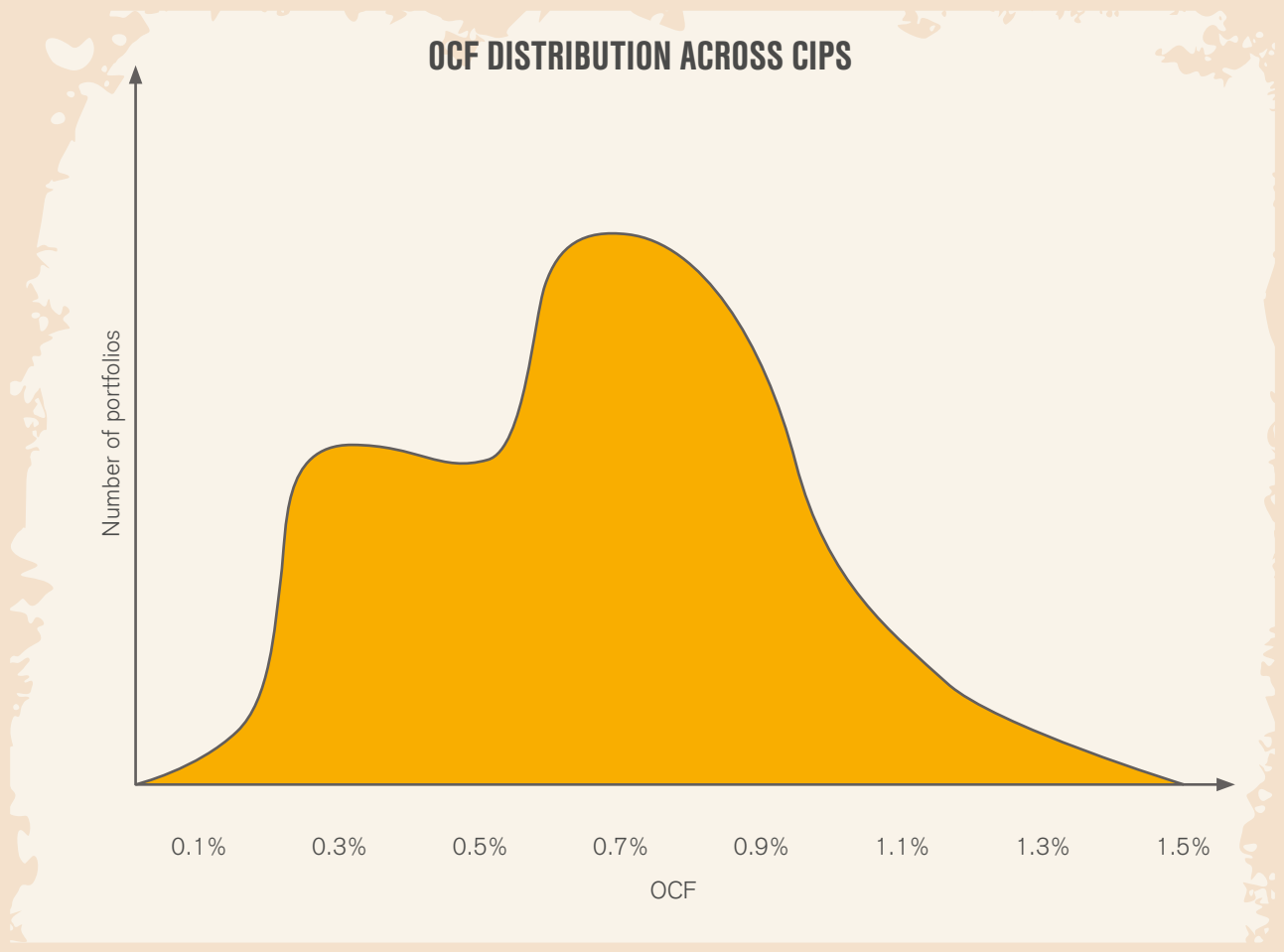
8. We're looking at core platform costs plus any main wrapper-specific admin charges. Portfolios are comprised of an industry mean-average of 50%/25%/25% in a pension/ISA/GIA.

# IN-HOUSE CIP

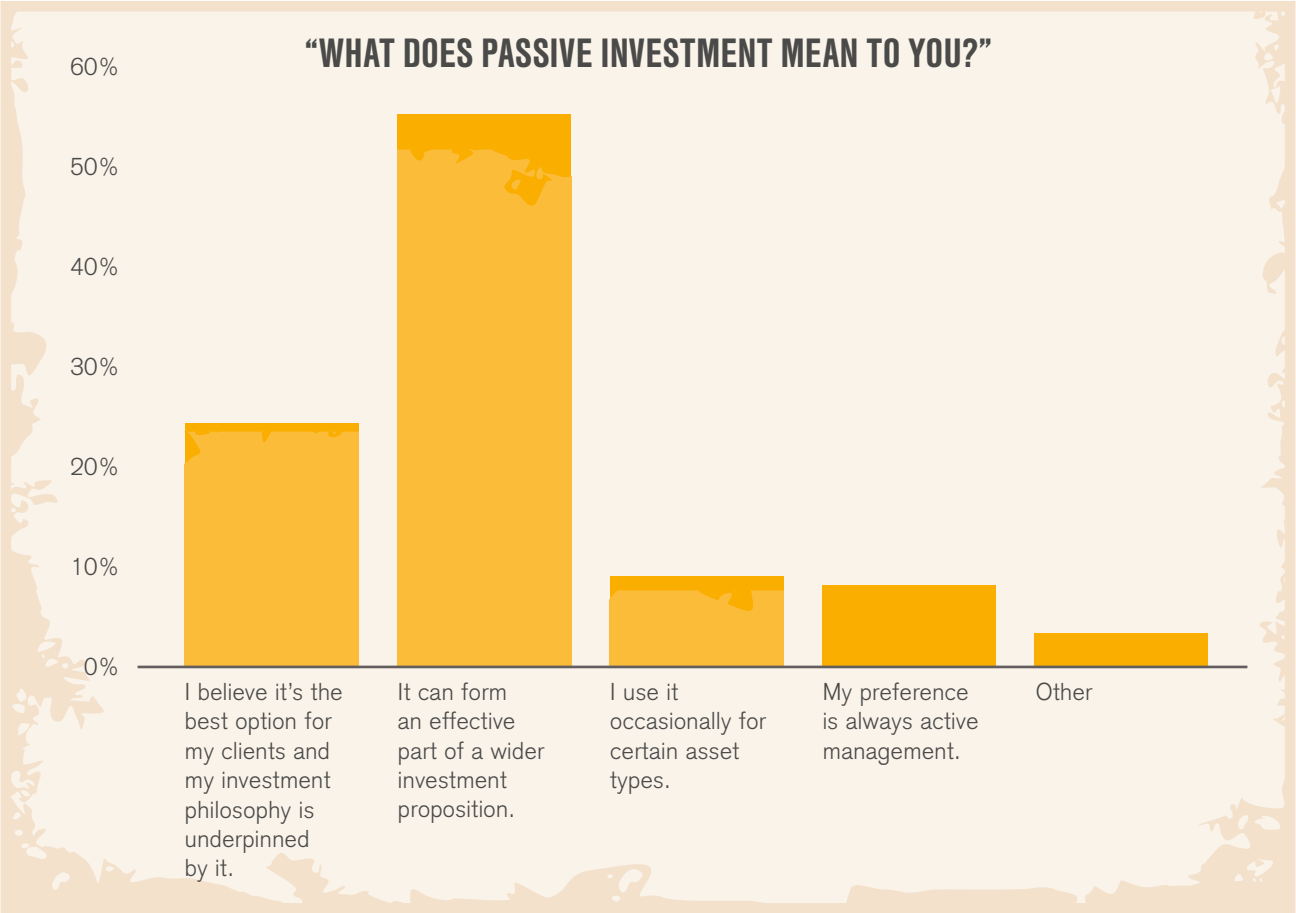
The construction of an in-house CIP is, by definition, a bespoke affair. Which means that us doing a whole-of-market comparison – on either an advisory or discretionary basis – is effectively mission impossible, but without all the running.

But we lang cats are a hardy bunch and not that easily deterred. What we do know from a combination of our previous research exercises with advisers, our work on platform due diligence and anecdotal evidence from the platforms themselves is that:

- Many advisers seek to compress customer total cost of ownership (TCO) by running models that have a high concentration of passives, whether that be exclusively or a core-satellite model.
- We see a chunk of portfolios clustered around the 0.3% – 0.5% mark.
- The mode distribution of portfolios sits around 0.6% – 0.8%...
- ...with a long tail of #valuehunters still running models with ongoing charges figures (OCFs) north of 1%.




Ultimately, from a customer perspective, the core determinant of cost will depend on the adviser firm's house view of passive management. Around 25% of the advisers who responded to our State of the Adviser Nation research confirmed that their investment philosophy is underpinned by passive management, with around 55% saying that it can form an effective part of the investment proposition.


"WHAT DOES PASSIVE INVESTMENT MEAN TO YOU?"
60%
50%
40%
30%
20%
10%
0%
I believe it's the best option for my clients and my investment philosophy is underpinned by it.
It can form an effective part of a wider investment proposition.
I use it occasionally for certain asset types.
My preference is always active management.
Other

# MULTI-ASSET/MULTI-MANAGER FUNDS

| PROVIDER | RANGE | MID-RISK ACTIVE OCF | MID-RISK PASSIVE OCF |
|---|---|---|---|
| **Aberdeen Standard Investments** | A range of 25 funds: five risk ranges and five different management styles. We illustrate MyFolio Managed and MyFolio Market here. | 0.87% | 0.36% |
| **Architas** | A range of active, passive and blended risk-rated funds. | 1.33% | 0.64% |
| **Aviva Investors** | Five risk-rated multi-asset funds. | 0.57% | |
| **Fidelity** | The PathFinder range of funds. Allocator (passive), Multi-asset (active, in-house) and Multi-asset Open (active, Fidelity and others). | 1.15% | 0.25% |
| **Quilter Investors** | The Cirilium range of active and passive risk-rated funds. | 1.24% | 0.60% |
| **Seven IM** | A range of four actively managed multi-manager funds and six passively managed (the AAP range). | 1.36% | 0.65% |
| **Tatton Investment Management** | A range of three funds that blend active and passive management. | 0.54% | |
| **Vanguard** | The LifeStrategy range of five passive funds. | | 0.22% |

Asset management costs tend to be much higher than core platform charges but that, as you can see from our table, can be mitigated by using passive funds.

We're seeing this across the market, but primarily among firms positioning themselves as specialist behavioural financial planners. In these cases, single-fund passive options are usurping the traditional asset management model, with ongoing advice fees forming the largest slice of the charge pie[9].

9. Worst pie ever.

# OUTSOURCED DFM MPS

| | | | ACTIVE MID-RISK PORTFOLIO | | PASSIVE MID-RISK PORTFOLIO | |
|---|---|---|---|---|---|---|
| PROVIDER | RANGE | DFM CHARGE (INC VAT) | PORTFOLIO OCF | TCO | PORTFOLIO OCF | TCO |
| **Aberdeen Standard Capital** | Two ranges (Conventional and Target Return) each with five risk-rated portfolios. | 0.30% | 0.52% | 0.82% | | |
| **Brewin Dolphin** | A range of five risk models, each with active and passive portfolios. | 0.36% for active, 0.24% for passive | 0.51% | 0.87% | 0.19% | 0.43% |
| **Brooks Macdonald** | A range of 10 portfolios, each with their own risk profile and objective. Some are passive. | 0.36% | 0.61% | 0.97% | 0.22% | 0.58% |
| **Charles Stanley** | Three ranges (Dynamic Passive, Multi-manager Income and Multi-manager Total Return) each with five risk-rated portfolios. | 0.36% for active, 0.25% for passive | 0.60% | 0.96% | 0.14% | 0.39% |
| **Momentum** | Seven risk-graded managed portfolios and three income portfolios. | 0.30% | 0.73% | 1.03% | | |
| **Tatton Investment Management** | A range of seven distinct management styles, each of which contains up to six risk-rated portfolios. | 0.15% | 0.61% | 0.76% | 0.16% | 0.31% |

There are a few elements at play here, so let's take them in turn:

**The neverending-active-versus-passive story:** that choice is a core determinant of both the OCF and TCO.

**DFM access cost:** your view on this one will inevitably be influenced by your take on the value derived. At the most basic level it's an additional cost. But, it's an additional cost which should potentially create savings for the business through lower research costs, not having to run the investment specialism and so forth. Value, as someone who knows about these things might say, is in the eye of the firm controlling their own cost base and their clients' fees.

**Adviser charging:** we're yet to see any tangible evidence of particular patterns of adviser charging across CIP segments. On the face of it, and all other things being equal, one might reasonably expect a firm that fully outsources its investment proposition to have a lower cost base than one which does all the heavy lifting itself.

## THESE ARE ALL VERY INTERESTING NUMBERS, BUT WHAT DOES IT ACTUALLY MEAN?

Quite. Time to direct proceedings firmly back to the customer. Which leads us to…

## ...THE AWKWARD VALUE FOR MONEY QUESTION

Based on the extent of information available, how (and how consistently) it's presented and the disparities across approaches and providers, clients can't possibly make a fully-informed value for money judgement. Nor should we endeavour to make one on their behalf. Value for money is deeply personal and wholly subjective. If a customer is meeting their financial goals and is broadly happy with the various servicing points that they experience then, one could argue, that is all that matters.

There's a nugget of truth in there, but the abstract nature of the sector and the component parts – each with their own layers of cost and complexity – stand resolutely in the way of any vaguely informed judgement. The customer may be happy, but they may also be wildly over-charged and perfectly able to secure a comparable service at a meaningfully lower price.

For example, a certain very obvious and extremely well-oiled vertically integrated firm has incredible retention levels and great satisfaction scores. It also charges well in excess of what many of us consider reasonable. The customers in this instance are clearly happy, so who are we to say what's right[10]?

10. It's us. We're right.

## GETTING UNDER THE BONNET: MiFID II KEEPS IT REAL

The implementation of MiFID II (and PROD) has proved less akin to a movie premier-type event, and more like working through a substantial box-set on Netflix. It's an ongoing and lengthy process, with firms still working out exactly how to meet enhanced suitability requirements, the 10% portfolio drop rule and new demands on disclosure, to name a few.

Platforms are now issuing the first round of ex-post disclosures to every client, be they advised and/or direct. These statements will detail the full charges paid to the adviser, platform, DFM, asset manager and anyone else involved over the previous twelve months. We've speculated for some time what would happen once customers are exposed to the total cost of investing in pounds and pence. 'One percent' of something might not sound like very much, but we reckon that clear sight of written confirmation that their investment is a few grand lighter at the end of the year will change some perspectives on that point.

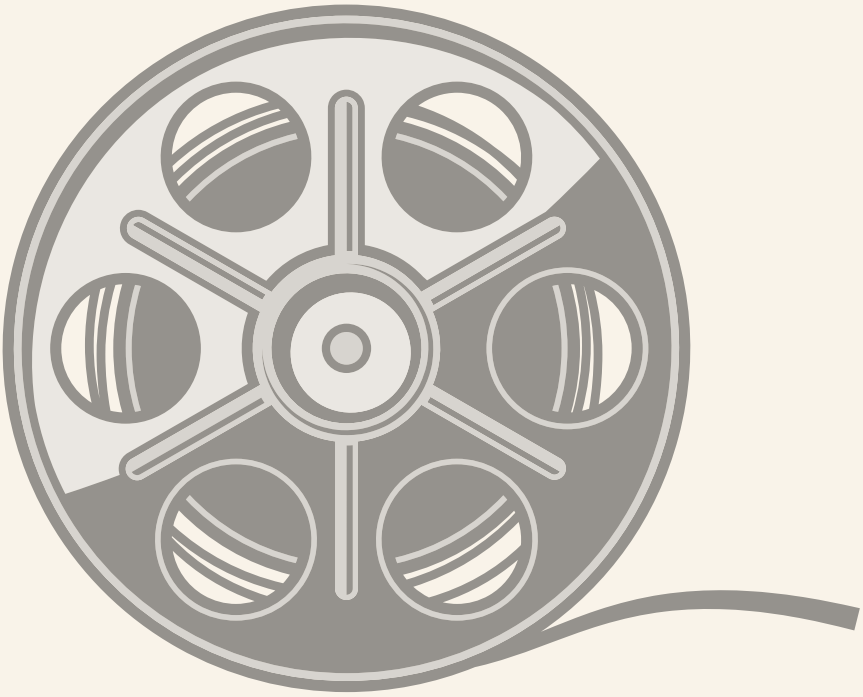
There are, of course, many adviser firms that already disclose this information. They have a strong relationship with their clients who, in turn, are aware of the costs incurred at each step and happy in that knowledge. But there are also many that don't. And that's where it's all about to get real.

## FREEDOM IS OCCASSIONALY OVERRATED

That's just the beginning of the complexity. The ex-post regulation isn't prescriptive, leaving platforms free[11] to interpret the rules and set their own agenda as to how to comply with them.

Most platforms have been kind enough to share the detail of this with us. If you're interested in this kind of thing, you can download the full summary of who's doing what from our website[12].

We're just looking at one simple point of differentiation here: which products are in scope for ex-post reporting.



11. And not the good, Andy-Dufresne-at-the-end-of-Shawshank kind of free.
12. It may be shameless marketing, but it's free, and useful. We should really charge for this stuff.

| SCOPE | WHICH PRODUCTS ARE INCLUDED IN THE REPORT? |
|---|---|
| Aegon (ARC & TAP) | All platform products are covered, however only non-insured investments are in scope i.e. insured investments **won't** be part of the disclosure. |
| AJ Bell | All Funds & Shares Service accounts, including SIPP, ISA, LISA and GIA (general investment account). |
| Alliance Trust Savings | All products. |
| Ascentric | All products (wrappers) held within the client's portfolios are included. |
| Aviva Platform | ISA Portfolio and Investment Portfolio. |
| Embark | JISA, ISA, SIPP and GIA. |
| Fundsnetwork | ISA, JISA and investment account (GIA). |
| James Hay | GIA, ISA and offshore bond. |
| Nucleus | All products. |
| Old Mutual Wealth | ISA and our Collective Investment Account (CIA). |
| Parmenion | All products. |
| Raymond James | Everything held on client accounts except for product accounts such as offshore portfolio bonds. |
| Seven IM | All products where the investment is in 7IM custody. |
| Standard Life Elevate | ISA, GIA and PIA (Pension SIPP). |
| Standard Life Wrap | Stocks & Shares ISA and Personal Portfolio. |
| Transact | All wrappers and products/funds. |
| Zurich Intermediary Platform | Stocks & Shares ISA, Investment Account and Retirement Account. |

Even on this one point there is a good deal of variance between platforms. While only non-insured products are in scope, according to the letter of the regulation, a good number of platforms are working to the spirit instead and applying it to all products.

At a more granular level, we're starting to see real discrepancies between the level of detail disclosed in ex-post and ex-ante investment charges. This will definitely be a theme over the next year and one to keep your eye on. We're about to find out what happens when investors realise that what they *do* know about what they're paying for their investments isn't actually the whole story

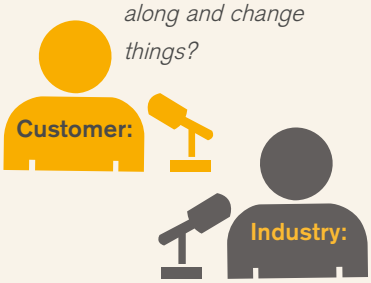
# DISTURBANCE AND CHANGE


*What happens if I change my adviser?*

*Shhh…they might be reading this! Oh, this is fictitious, isn't it? Sorry. There's very little chance that your new adviser firm will have the same set of processes as the old one. Nowt wrong with that mind, but you should know that it will very likely mean different investments and products.*


*What happens if my adviser changes something? How often does that happen?*

*Depends on whether they're tinkering around the edges – rebalancing, say, or switching elements of an existing model – or making a more fundamental change like moving platform.*




*What else might come along and change things?*

*How long have you got?*

## CHANGING ADVISER

Stating that an investor moving adviser firm will mean swapping out their CIP isn't going to rate highly as a spoiler. Of course it depends on whether the new firm has a CIP but, recapping on that 86% we mentioned earlier, it's much more likely than not.

While the investor may be making an active decision in their choice of adviser, the CIP is just as much of a product and the client has virtually no control here. The chances of the client's existing investment strategy surviving a move sit somewhere between 'slim' and 'none'.

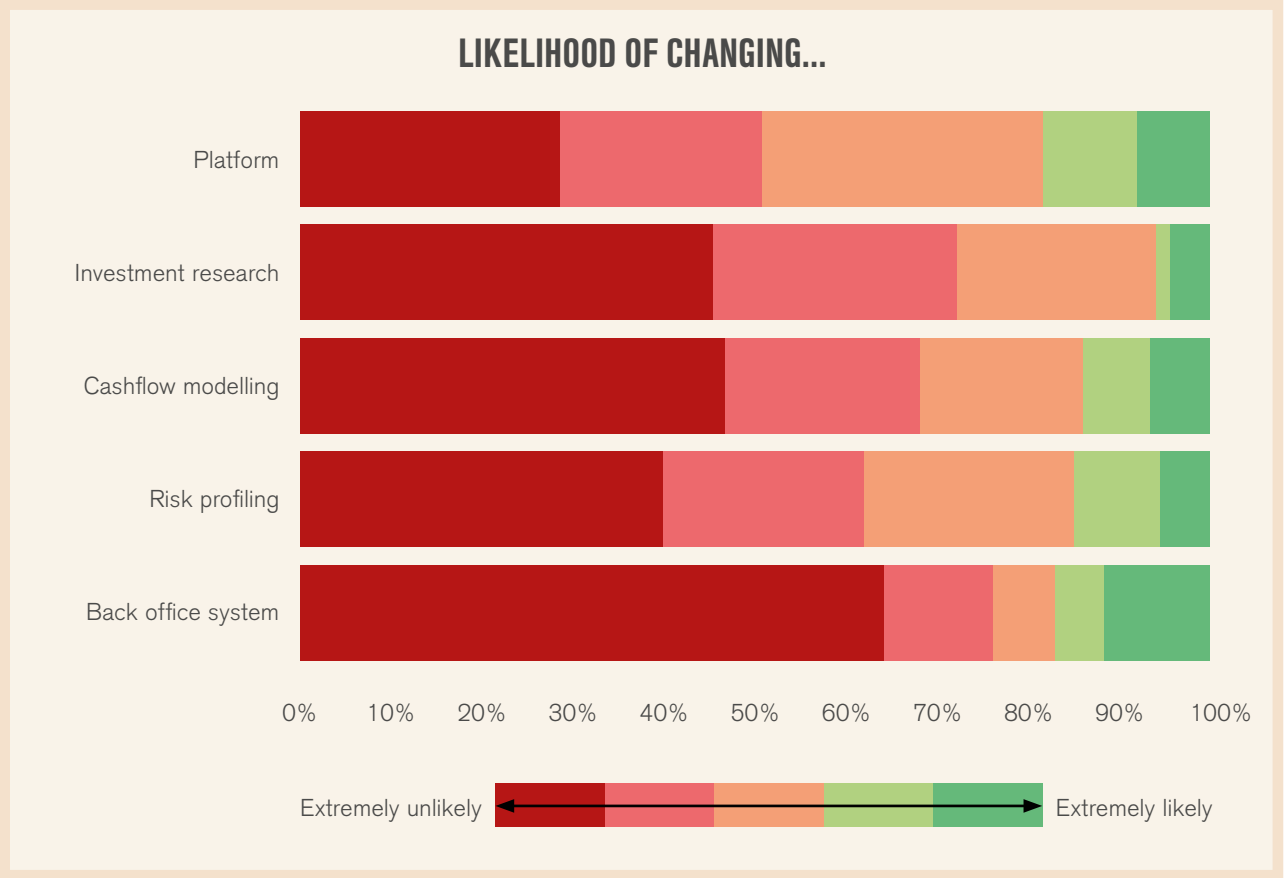
This doesn't have to be a bad thing: clients move for different reasons and one will be dissatisfaction with some aspect of their previous service. But clients don't always choose to move. Firms are sold and advisers retire; neither of which triggers a fundamental shift in a client's investment needs, but will result in a new header on their annual statement.

At this point it starts to feel more like change to benefit the firm and less like anything to benefit the client. Good disclosure for a clear understanding of the reasons behind such a move, changes to the CIP and the targeted client benefits is essential here.

# ADVISER CHANGING

This is a much less likely scenario.

We know from our work with adviser firms of all sizes that core parts of the adviser ecosystem remain relatively constant over time. This was confirmed by our latest round of adviser research, which questioned how likely advisers were to make changes to their toolkit in the near future. No more than 10% of advisers were 'extremely likely' to change any element any time soon.




If tooling and hardware are core to the running of the adviser firm, then CIPs are even more fundamental to the client proposition; we'd argue that they come second only to the advice process itself. The investment offering is what brings the advice to life, sees it through to the client's goals and is at the heart of how advice firms define themselves. The lack of appetite for substantial changes to the toolkit makes us confident that advisers are not going to be inviting changes to their CIP without very good reason.

# WHAT'S THAT COMING OVER THE HILL?

The financial services regulation story arc has been complex and occasionally disturbing over recent years. With firms still grappling with the implementation of MiFID II and PROD in particular, it will be comforting to note that the regulatory burden of the near future looks rather more manageable.

## THE CURRENT PIPELINE

- The final report of the Investment Platforms Market Study (IPMS).
- The FCA's next Assessing Suitability Review.
- An assessment of both the Retail Distribution Review (RDR) and Financial Advice Market Review (FAMR).
- Finalising the remedies of the Asset Management Market Study (AMMS).

We're going to need a bigger pipe.

The regulatory themes will be similar across all CIP segments, although the relative burden and impact of the many and various acronyms will vary. And then there's the potential regulatory fallout from other external events, not least political (Brexit, whatever form it eventually takes) and technological advances such as the evolution of Blockchain.

We know from our work with advisers just how badly they're feeling the pain of constant regulatory change. Headlines from our recent adviser study include that:

**40%** of advisers stated that regulatory support from providers is either critical or important to their business.

When given a range of potential threats to their business, regulation was considered the greatest in more than **50%** of cases, making it by far the most common first choice.

When offered a magic wand to change one thing about financial services, **35%** of advisers opted for rules and regulation as their top choice.

When asked to describe financial services **IN THREE WORDS** regulation was the most common theme. Or, more accurately, over-regulation.

# CONCLUSIONS: THE LANG CAT WILL RETURN?

And so to the final act of our sequel. Time for the big set-piece to leave you on the edge of your seat, begging for more and ready for the third part of the trilogy. Or, we could stop flogging this metaphor and round things off in a vaguely coherent manner[13].

We hear you. Our time spent poking around CIP construction leaves us thinking that the following points will play a part in the near-to-mid future of the sector.

## FINANCIAL PLANNING TO THE LEFT, INVESTMENT MANAGEMENT TO THE RIGHT

The more we study the CIP market the more we question the ongoing sustainability and scalability of firms running advisory models. Taking in aggregate platform functionality quirks, the ongoing direction of regulatory travel and the challenges around PROD and segmentation, we're becoming ever more sceptical about this practice lasting the distance in anything other than the smallest of firms.

Running advisory models requires an ecosystem with rock-solid processes and watertight systems and controls. The latter being all the easier when platform functionality separates, even in an algorithmic sense, the investment management and platform administration functions.

Far too many firms have different people or offices running different instances of the same model, creating a butterfly effect of version control admin that can't end up anywhere good. It can be beneficial to take a step back and acknowledge that if you were building the sector from scratch, certain elements wouldn't get a golden ticket. We reckon this is one.

13. "The latter please", said everyone reading.

# TOMORROW IS ANOTHER DAY

Every so often new technology comes along that takes established practices, products and beliefs round the back for a good shoeing. Things we'd like to see include:

- The ability to overlay individual customer requirements on top of an industrialised, commoditised process such as risk-based model portfolios. This could be game changing[14] for the way advisers and DFMs run models.
- Industrialising the processes around established safe withdrawal rate theory to sustain the process throughout the client's life. Over 75% of respondents to our adviser research told us that, by and large, they maintain the same investment choice for clients. We understand this, but we worry about the implications of a potential capacity crunch as more and more people hit retirement and for longer periods. Robo processes to date have targeted Penniless Millennial Accumulators[15] but it could be that the real money lies in and at retirement.
- Distributed ledger technology/Blockchain could punch a hole in established practices in areas such as onboarding, transferring and client profiling. Although we're deeply, deeply suspicious of anyone who claims to fully grasp the potential impact of Blockchain at this moment in time. Or maybe it's just us.

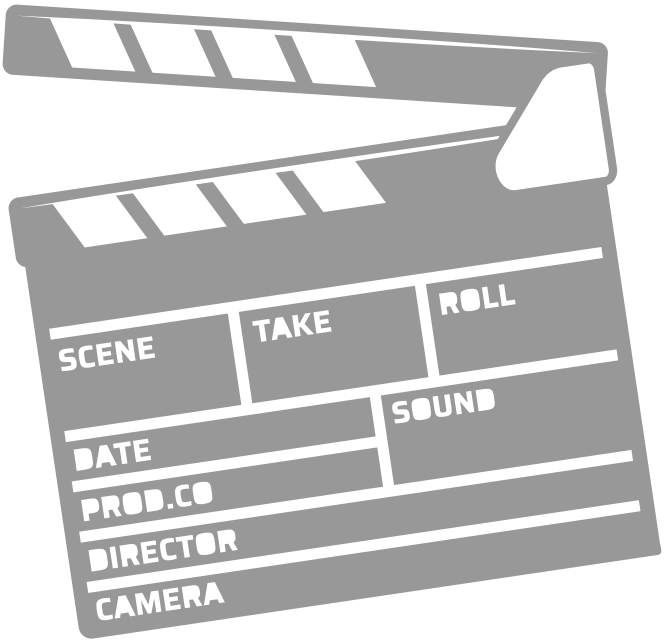
# THAT CHART IS UPSIDE DOWN, SURELY[16]?

While we have many fine attributes (modesty topping the list) we don't claim to be able to predict the future. However, warnings about market timing notwithstanding, the potential for an impending market downturn is causing us some discomfort. Insert your own joke about stereotypical doom-mongering Scots here.

The fact is that not one discretionary or model portfolio has been through a full market cycle, and only a minority of multi-asset funds have track records going back that far. The average fund manager has been in place for just seven years, leaving a vast number who haven't navigated a full cycle.

So, what happens when the next big downturn does hit? What happens if downside protection doesn't quite pan out the way we'd hoped? What if the outcomes of 'balanced' or 'risk-level 5' portfolios diverge from what was expected? Will we see a return to guaranteed/hybrid products to mitigate these effects? Why do consultancies ask so many rhetorical questions?

Remember those ex-ante disclosures we talked about earlier? How happy will customers be with continuing to pay their sizeable percentage-based fee when the most important percentage of all (to them) has a wee minus sign at the front?




14. Sorry.
15. Not a real Experian segment. Yet.
16. No, it's not. And don't call me Shirley.

# KNOW YOUR VALUE

While the AMMS lacked bite and we're yet to see any tangible implications from the ongoing IPMS, it's clear that the conversation around value for money isn't going away any time soon.

The various CIP factions have, by and large, been shielded from any meaningful change to date, but that could be about to change. While we're a long way from calling trends, the lang cat view is that:

- Platform pricing has plateaued for now. We went on record a few years back predicting ongoing savings of around 1bp in aggregate year-on-year. We stand by that.
- We'll see costs of actively managed funds and large-scale MA/MM ranges head south, albeit reluctantly, through a combination of natural competition and ongoing challenges around where the value lies. The toxic Virgin FTSE All-share tracker fund taking a hit is a good start.
- DFM access costs (the charge taken by DFMs to access their MPS ranges) will come under ongoing pressure. Our sponsor[17] will be shielded from much of this, as its 0.15% charge is at the modest end of the spectrum. However, charges around 0.5% + VAT and upwards will look increasingly unpalatable for what is, at least in part, a commoditised, industrialised process.

A long, long time ago in a galaxy far, far away (ok, it was page 4) we mentioned how competition in this market is fierce and that the onus is on advisers to demonstrate how they add value for the client. What we're not doing is questioning whether advisers add value for clients. That would be ludicrous. But MiFID II is about to make things all kinds of real and we reckon it's timely to get out there on the front foot. Some advisers we know are great at this.

# THIS IS WHERE WE CAME IN...

The credits are rolling, phones are being checked and it's time for us to wrap this sequel up. Everyone likes those extra sneaky bits at the end of the movie, so we'll leave you with our take on what everything we've talked about here means for the customer.

- Value for money is the point at which everything converges. It's how the customer will (consciously or not) judge the process and everyone involved. As things stand it's also, in any real sense, impossible for an investor to make an informed value judgement. If you're doing a good job and providing value for money, you want to make it easy for your customers to know that. Yes?
- Advisers work in challenging circumstances and, by and large, do an amazing job for their clients. We don't envy them and we understand why they're feeling the regulatory pinch. That said, there is room for improvement, not least in how effectively advisers articulate and demonstrate how they add value to the proceedings.
- We must be careful to not let perfect be the enemy of good. It's the job of us awkward, pointy consultancy types to poke around and ask difficult questions, but there is a lot of good in how investment propositions are constructed and managed. As an industry we shouldn't get hung up on striving for perfection, but we should always strive to do better where that will benefit the investor. And when it comes to administration, costs and processes there is much to be done.

17. SPONSOR KLAXON!

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