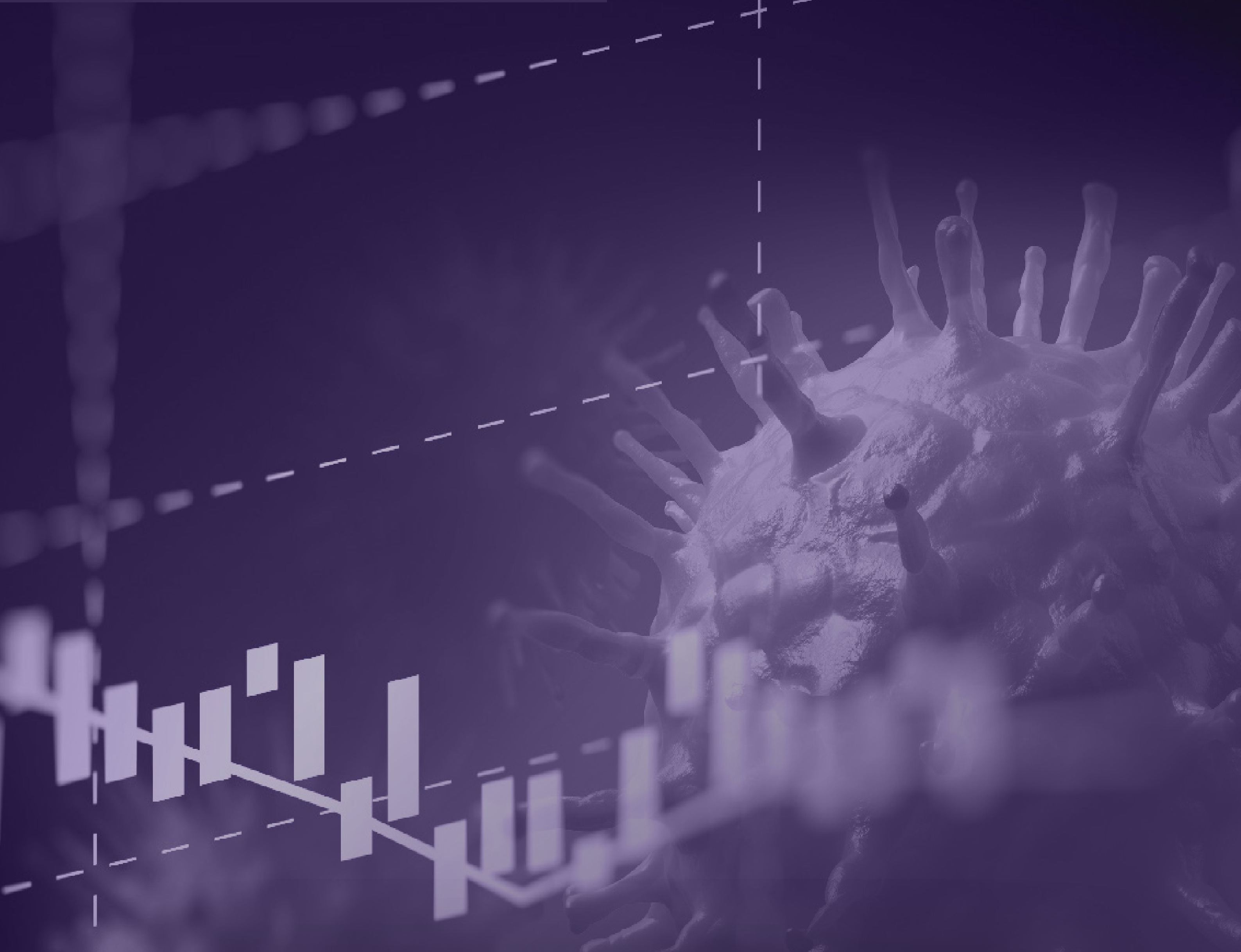
Adviser Home
DEVELOPMENT PLATFORM



Investment Advice 2020

Adviser Home Insight Report

Overview

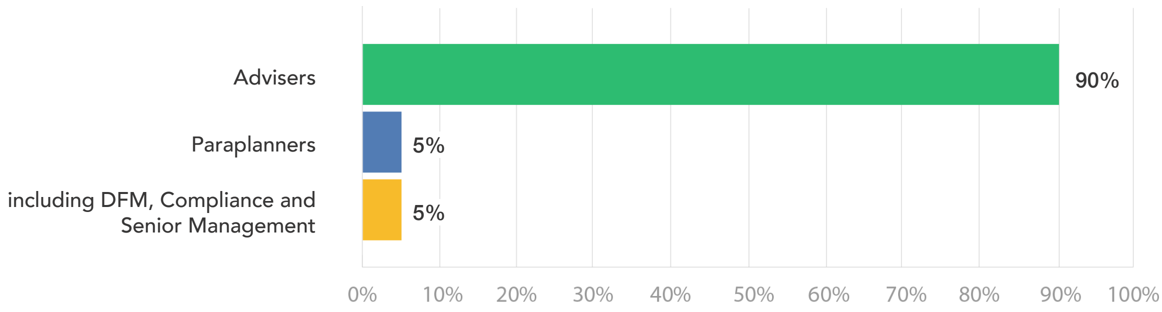
This research was carried out with UK financial advisers. It covers adviser's investment proposition, attitude and use of various different investment vehicles, use of external support companies and approach to client charging. We also look at advisers' views on next trends and we include an appendix focused on investment advice since the market falls and impact of ***COVID -19***.

For our research method we used formal multiple choice questions supplemented by a qualitative element inviting advisers to comment.

Adviser summary

- The average respondent is at **61%** along the line from Investment Adviser v Financial Planner
- The average respondent is **44%** along the line towards investment outsourcing
- For risk profiling and fund information advisers mostly use FE, Defaqto, Morningstar and Dynamic Planner
- Advisers vary markedly as to their use of different types of solution – in house fund selection, models, multi asset and DFM but most use most solutions for different client needs
- Investment outcomes are assessed mainly against the client's financial plan and benchmarks from fund providers
- Over **90%** of advisers use both active and passive funds with a broad spread in terms of degree of use of each
- **73%** of advisers see client cost as the main reason to support passive funds
- **81%** of advisers see ESG as a growing consideration, but only **40%** cover it in their fact finds
- **63%** use alternatives like EIS, VCT and BPR either sometimes or often
- Only **33%** of advisers use Investment Trusts and only **3%** use them "often"
- **60%** use asset based fees to charge for their services and **22%** use such fees in combination with fixed costs
- What do clients value – investment service or financial planning – average adviser is at **62%** along the continuum
- The biggest trend advisers see is towards greater emphasis on sustainable investments/ESG

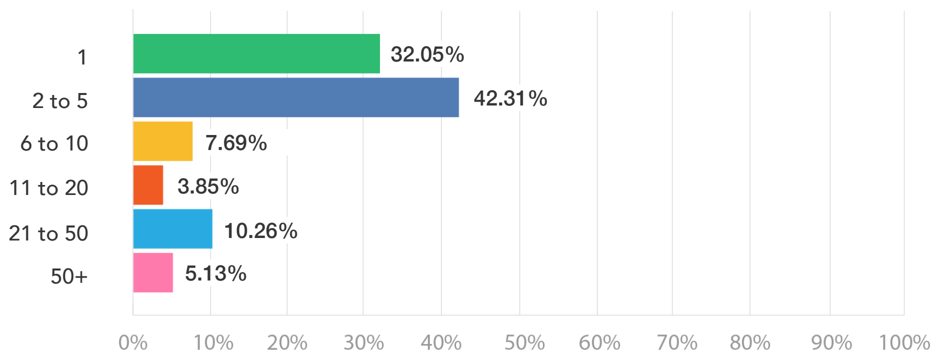
Who took part?



Authorisation

65% directly authorised, the balance authorise through network membership.

Size of firm



Advisers taking part in the research represented a broad spread of firm size with 2-5 advisers group accounting for the largest proportion.

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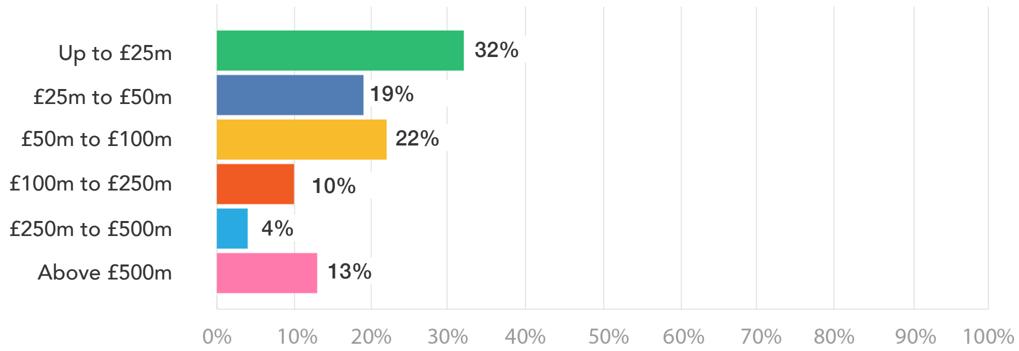
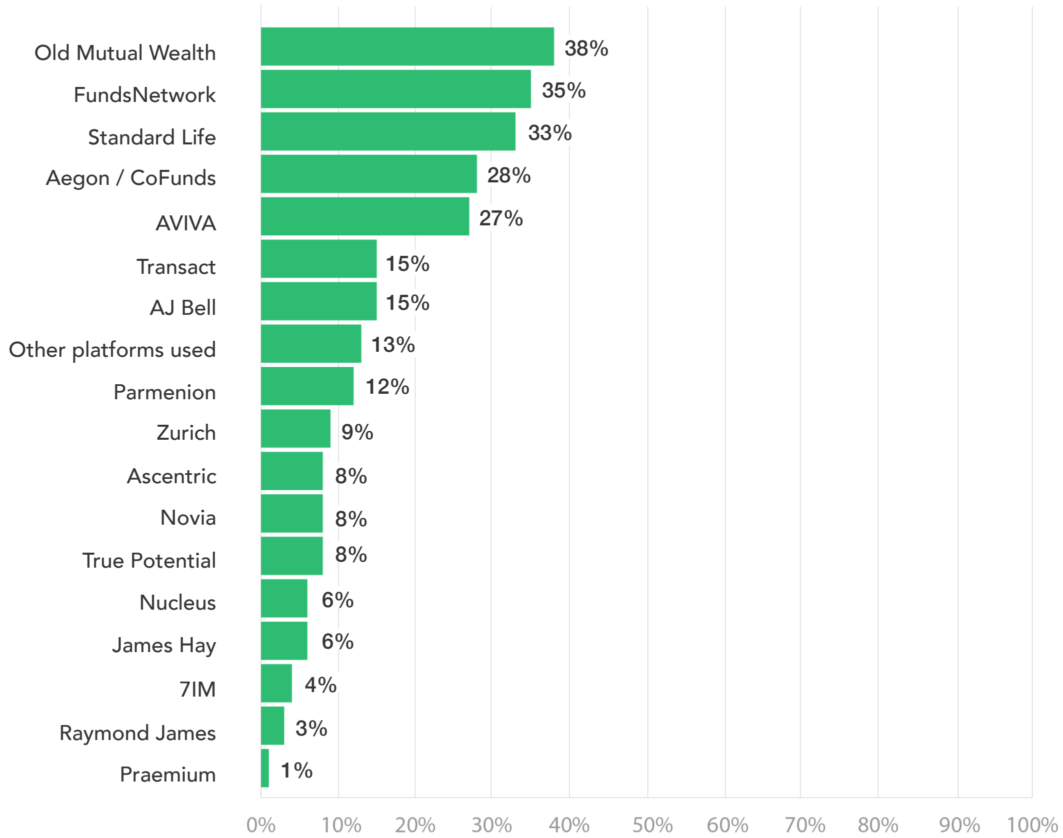
Assets under advice



This represents a very broad spread with **51%** of firms advising on assets up to £50m and **13%** with AUA of over £500m.

Platforms used mostly



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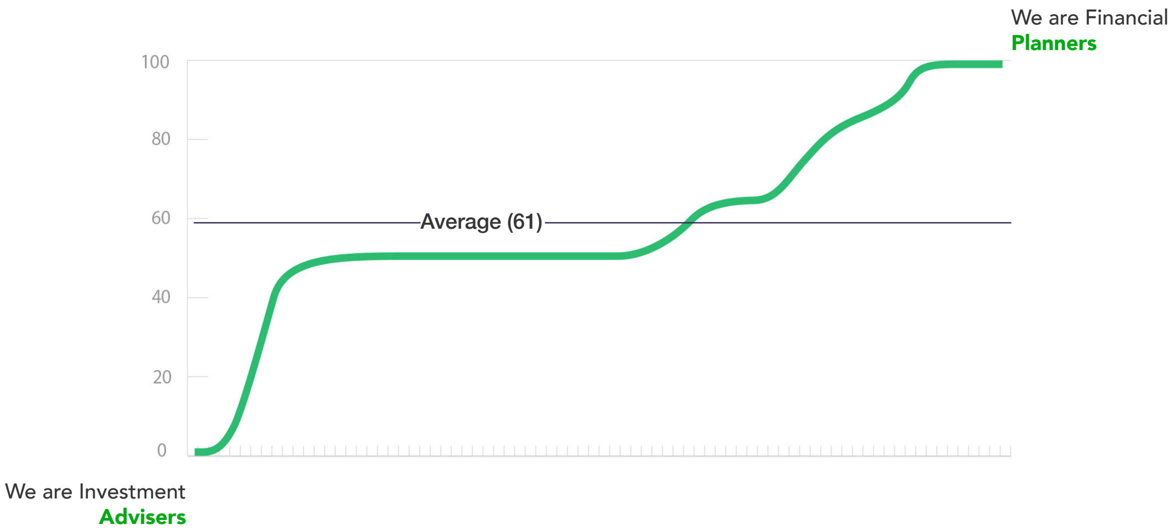
We asked advisers to name other platforms they use mostly and the following gained a mention:
Elevate | Fusion Wealth | Royal London | St James's Place | SEI | Wealthtime

With one respondent indicating they don't use any platform.

How do advisers see themselves?

We asked respondents to place themselves along a continuum from *We are investment advisers* to *We are financial planners*. The results below show a broad spread with the "average" respondent tending more strongly to the "financial planner" self-designation. However, it's a broad spread and whilst comparatively few place themselves firmly in the investment adviser camp there are large numbers in the 50:50 position. In other words, whilst the financial plan is the main service offered, the investment component is hugely important.



Outsourcing – a matter of degree

Here we asked respondents to place themselves along a continuum from *"We offer investment services"* through to *"We outsource investments as much as we can"*.

As we see below the average investment outsourcing response is **44%**, but with significant variation between respondents. We feel this is an important analysis. Commentators might talk about advisers outsourcing investments but what's important also is the position for individual adviser firms. The adviser market is richly varied – it isn't a single market with a common approach.

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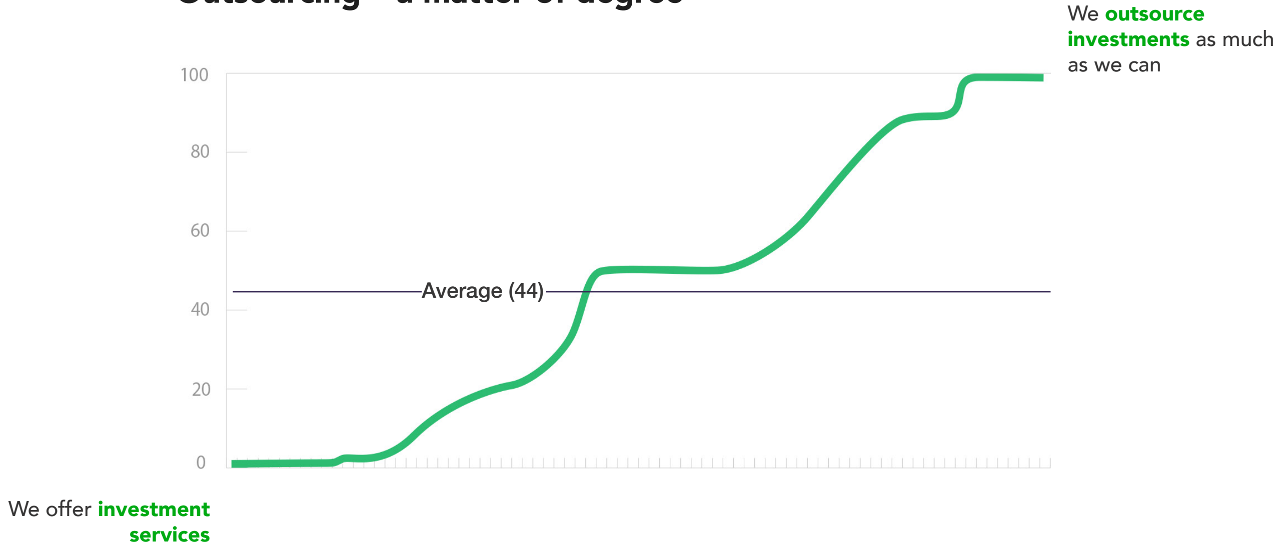
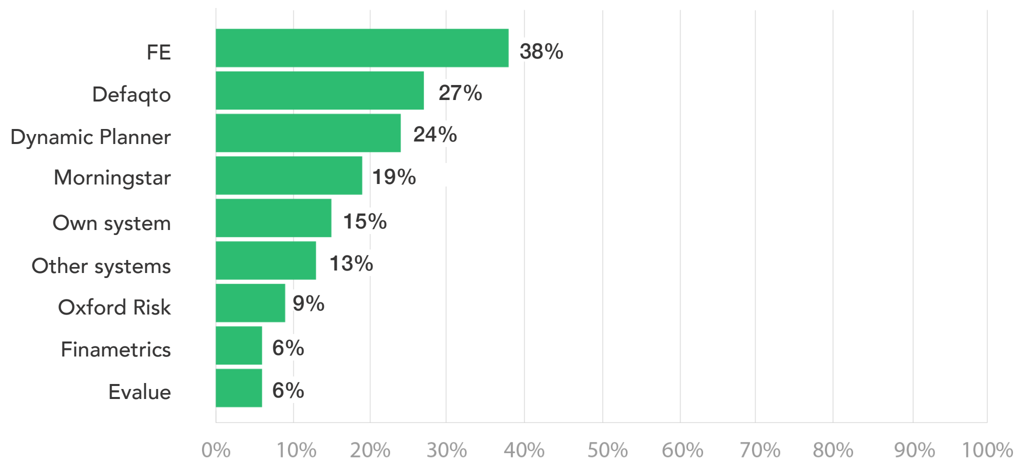
Outsourcing – a matter of degree

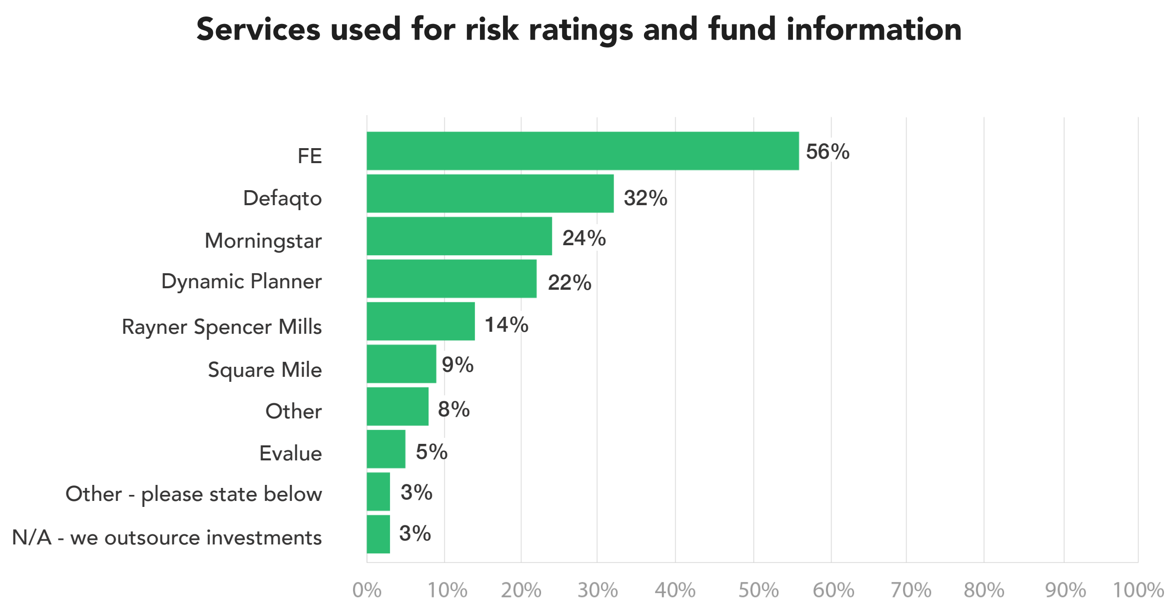


Services to help with risk profiling clients



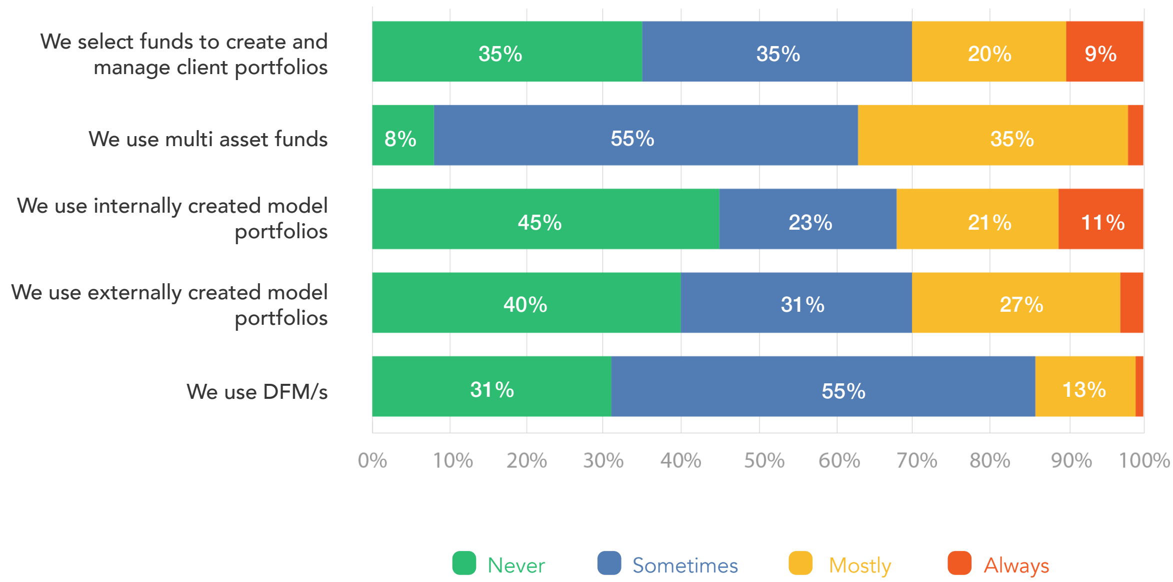
Advisers use a variety of suppliers to assist them in their client risk profiling. As the chart shows the most commonly used are FE, Defaqto, Morningstar and Dynamic Planner. We asked respondents if they used other services and we had an interesting comment from one respondent who used "*a decent conversation*" with clients. The FCA has criticised an unquestioning use of tools and advisers will typically seek to establish risk attitude through fact find discovery. The following providers were also mentioned:

True potential | Centra | Willis Towers Watson | Square Mile | O&M | Quilters



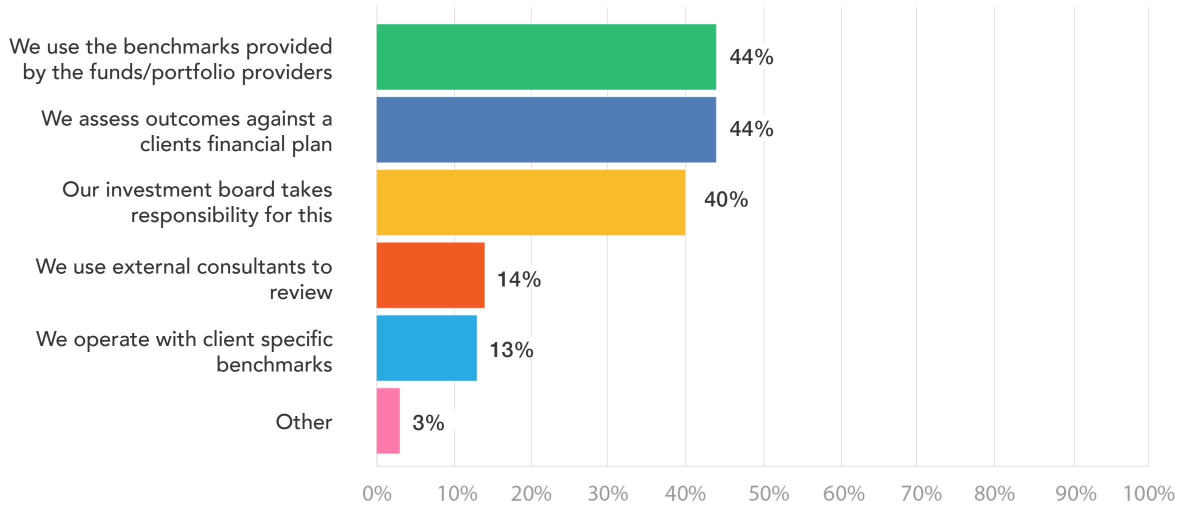
Again the most used services here are those from FE, Defacto, Morningstar and Dynamic Planner with Rayner Spencer Mills also showing well. We also asked if respondents used other firms and the following gained a mention: Centra I Citywire I O&M. Here Trustnet was also referenced though of course this is an FE service.

How do advisers describe their approach to investment services?



When we see reports on advisers use of different types of investment service – Multi Asset, Models, DFMs etc. we tend to see a black and white analysis. Instead we show here that advisers in general take a much more nuanced approach. They may mostly follow one approach, but also use others as the client's needs require. For example, **around 65%** of advisers select funds themselves at least some of the time – but **less than 10%** do so all of the time.

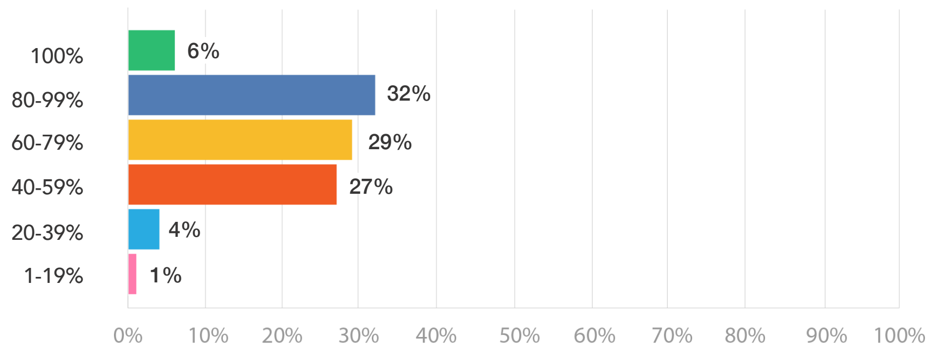
How do advisers assess the quality and outcomes from their investments?



The responses here indicate that advisers are most likely to assess investment outcomes against each client's financial plan but advisers are equally likely to rely on benchmarks provided by the fund or external provider. Only **13%** deploy client specific benchmarks. This all relates to the question of value and the extent to which value is determined by the client's objectives in working with an adviser. A robust financial plan will have significant embedded flexibility as to investment outcomes along the course of the plan. In principle therefore it is quite possible for a client's own outcome to be below market levels yet within the parameters required by the financial plan.

Advisers report that they review their investment proposition every year (**95%**) whilst just **5%** do so every three years. A number carry out more frequent reviews with quarterly most often mentioned from advisers commenting on this area. A number note that the Network carries out a review and this is most often quarterly.

The Active v Passive Question



We asked advisers what proportion of client funds goes into active management (over the last 12 months) and the chart below shows the spread of answers. The vast majority – **90%** have between and 99% and 40% in active funds.

Only **around 5%** of advisers have less than 30% in active and **only 6%** have 100%.

Adviser Comments

In their comments advisers stressed that passive vehicles are offered within the context of active allocation:

> *This may include actively managed multi-index funds, e.g. HSBC Global Strategy or L&G Multi Index.*

> *When we use passives it is usually through funds that have active asset allocation like LGIM Multi Index and BMO MAPs.*

It's not a matter for generalisation:

> *We use active managers but it depends if clients see value in it and if I think they can gain from it such as decumulation.*

> *Every client is different so no "broad brush" approach.*

> *The amount of new business allocated to active and passive can vary hugely from year to year as we take on very little new business cases each year and will deal with each client on their merits and in accordance to their wishes. As a business we have no preference to active or passive management in house or DFM we allocate entirely according to clients wishes in this respect."*

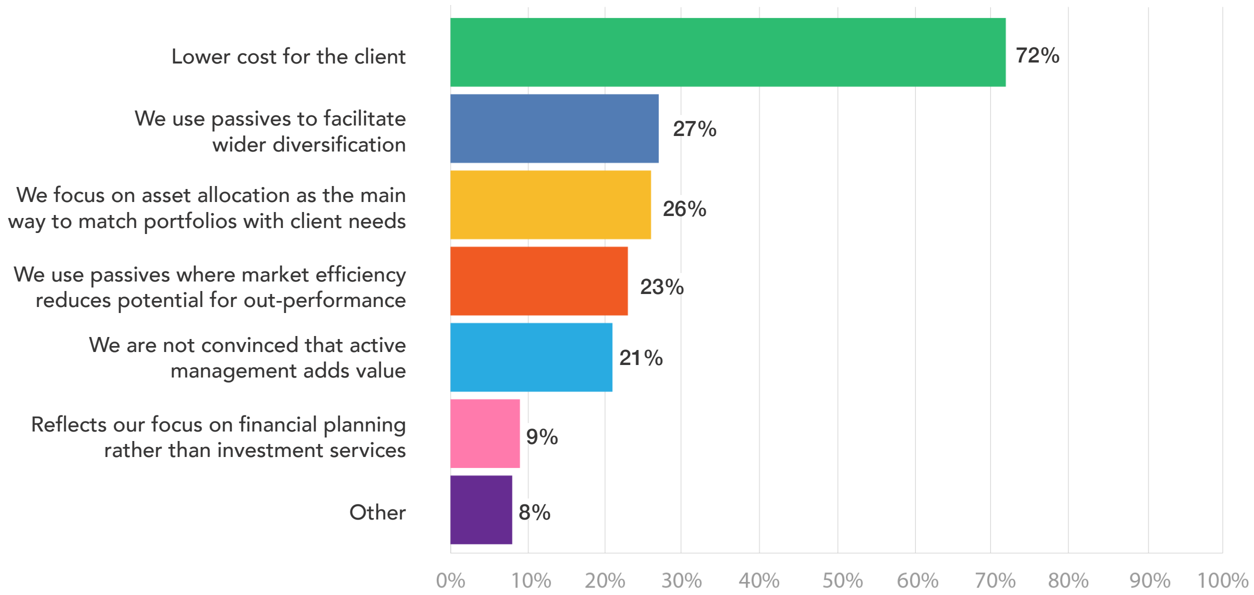
Using actives in volatile markets:

> *We still believe that good active managers are worth paying for and, particularly in volatile markets, can offer downside protection in a portfolio that passives can't.*

Risk driven approach:

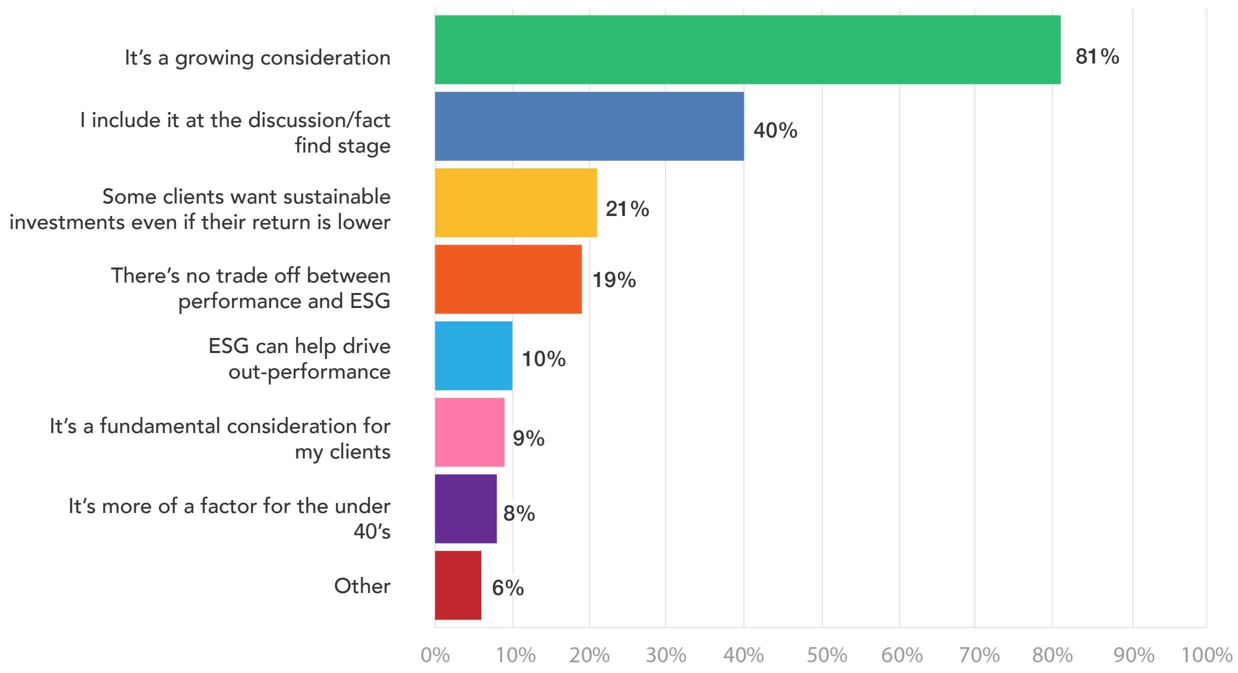
> *We use risk related funds only, no individual picking and choosing.*

What drives advisers to use Passives?



Where advisers use Passives then cost to client is the paramount reason with **72%** citing this. Other reasons – lack of conviction as to the merits of active management, focus on asset allocation etc. are all well supported but cost is the overwhelming factor in favour of passive funds.

Adviser use of ESG/sustainable investments



The largest number of advisers (**81%**) say that this is a growing consideration, but not a fundamental one for clients (**9%**). However only **40%** include it in the fact find/ suitability discussion. We think this proportion will rise rapidly. Overall only **8%** see it as a young person or millenial's issue.

Adviser Comments

> *It's growing but there is some work to do. Clarity on what 'ethical' should really be called and consistency across industry would help consumers/advisers. More and more pension funds are stating that this must be the investment strategy going forward too. What impact does this have on 'other' funds and markets in general - we await to see. Many press articles are mentioning an ESG bubble - that remains to be seen though*

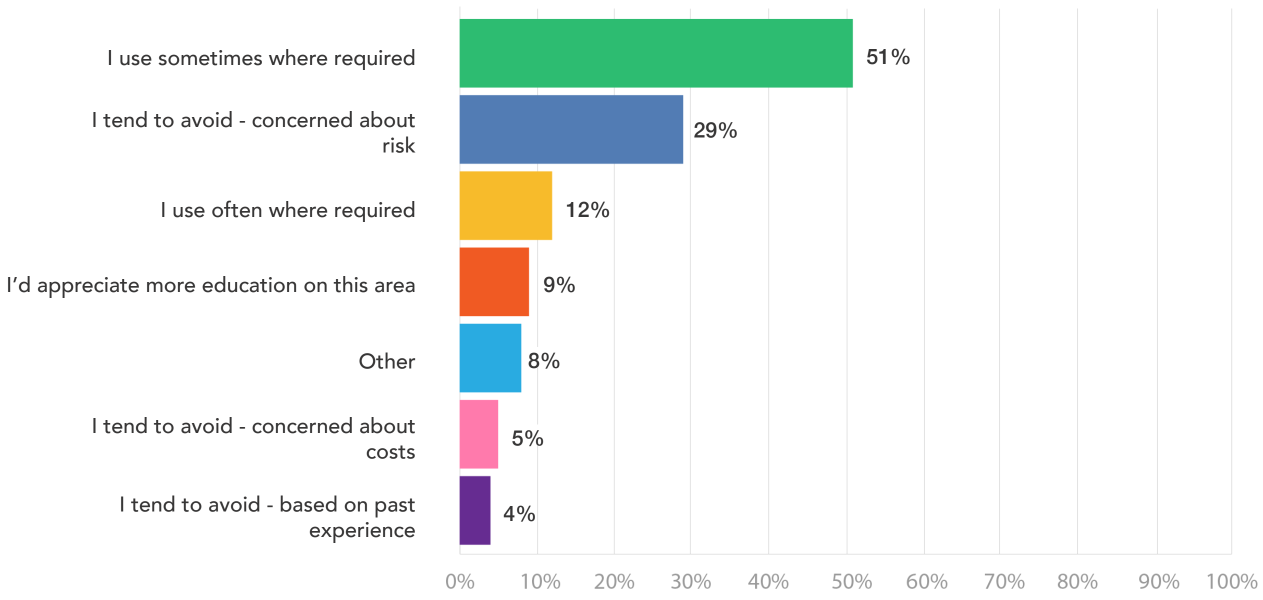
> *Clearly this will matter more and more over the next few years and we believe a focus on 'S' and 'G' is required to bring it up to the level of consciousness currently applicable only to 'E'.*

> *We are in the throes of a client survey based upon our research paper in this area. Typically appeals to younger clients but we are positioning to appeal across the board.*

> *No meaningful demand for it.*

> *We ask all clients some have elected for some ESG but most are happy to incorporate it if we would select the funds on their merit from the entire fund universe. Several DFM clients have full ESG portfolios.*

Advisers' use of alternatives like EIS, VCT and BPR



The majority of respondents (**63%**) use these vehicles either sometimes or often. Of the potential concerns risk appears to be the most prominent with **29%** of advisers citing this factor. There is some demand for further educational content in this area.

Adviser Comments

> *Another growing area in the years to come.*

> *Rarely use, but must consider for the HNW clients and where suitability can be demonstrated - I will look to improve knowledge in this area during 2020.*

> *We tend to avoid because we and more importantly our clients feel the risks are not worth the tax savings, we will however use them where this is not the case.*

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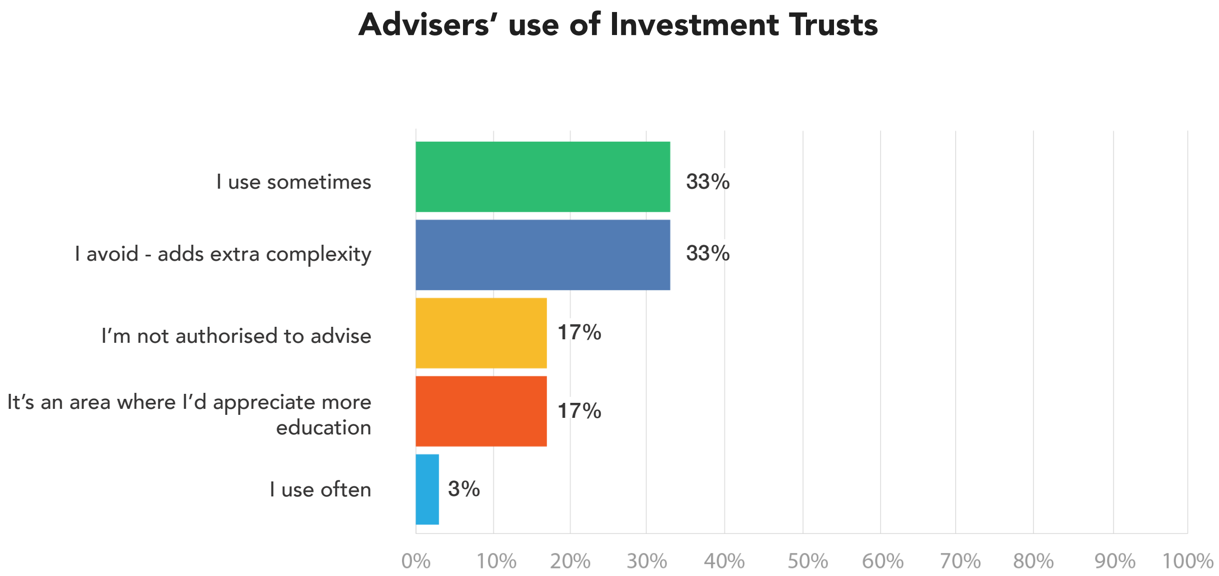
> *Decision by investment committee / leave it to the experts to whom we outsource.*

> *We have no appetite for them.*



Whilst **33%** record that they sometimes use Investment Trusts only **3%** do so often whilst **33%** say they avoid because of extra complexity. It may be that current levels of discounts will attract more advisers into this area and indeed **17%** of advisers say they would appreciate more education in this area.

Adviser Comments

A matter for outsourcing:

> *Decision by investment committee.*

> *Sometimes a reason to use specific DFMs.*

> *Would generally leave to a DFM.*

Continue

> *We only use through outsourced solutions (DFMs).*

> *Leave it to the experts to whom we outsource.*

> *Leave decision to fund manager.*

Under consideration:

> *We are actively considering how best to fit them into our portfolios.*

> *We don't really use but we don't avoid as a business but feel that they could add value. It does depend on liquidity and platform availability though.*

Yes in certain circumstances:

> *We like to buy assets when discounts appear, particularly to pick up extra income yield.*

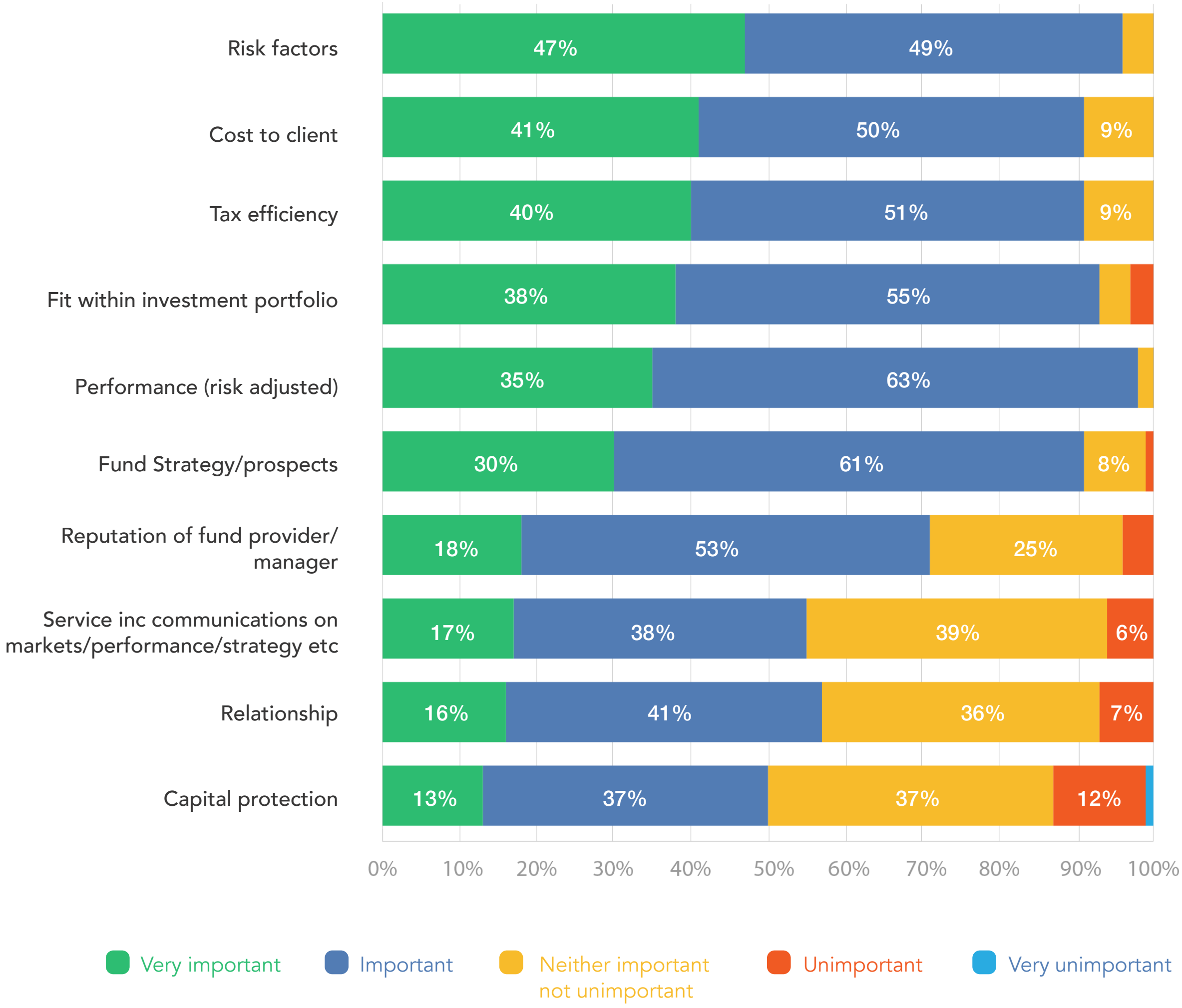
> *If we would use a fund and the equivalent IT is trading at a discount or significantly below its long term premium we will consider using the IT but will often revert to the UT once gains have been made and the fund is back to its normal premium range.*

No requirement:

> *They are an unnecessary option as sufficient choice and performance exists in the open ended market without the added complexity of being an equity in itself, gearing, liquidity etc.*

> *We discuss with clients but they do not wish to add extra risk onto their Investment strategies.*

How do advisers select investments – which factors are the most important?



It is clear from these results that many factors are of real importance to advisers when selecting investments. A ranked preference would be misleading and from the chart we can see that Risk Factors, Fit with portfolio, Performance and Cost are clearly of outstanding importance.

Interesting that "softer" issues like service, relationship and reputation are rated lower. In practice an assessment of performance is partly a reflection of a view on reputation. Furthermore, relationship with a fund manager is partly a reflection of a set of views held by the adviser which will certainly be influenced by performance, for example. Whilst service levels are not in themselves a reason to support a fund manager, unacceptably low levels of service, however measured, will, if not remedied, result in a fall in support.

Adviser Comments

The question structure was designed to capture most essential input, so only a few extra comments were offered:

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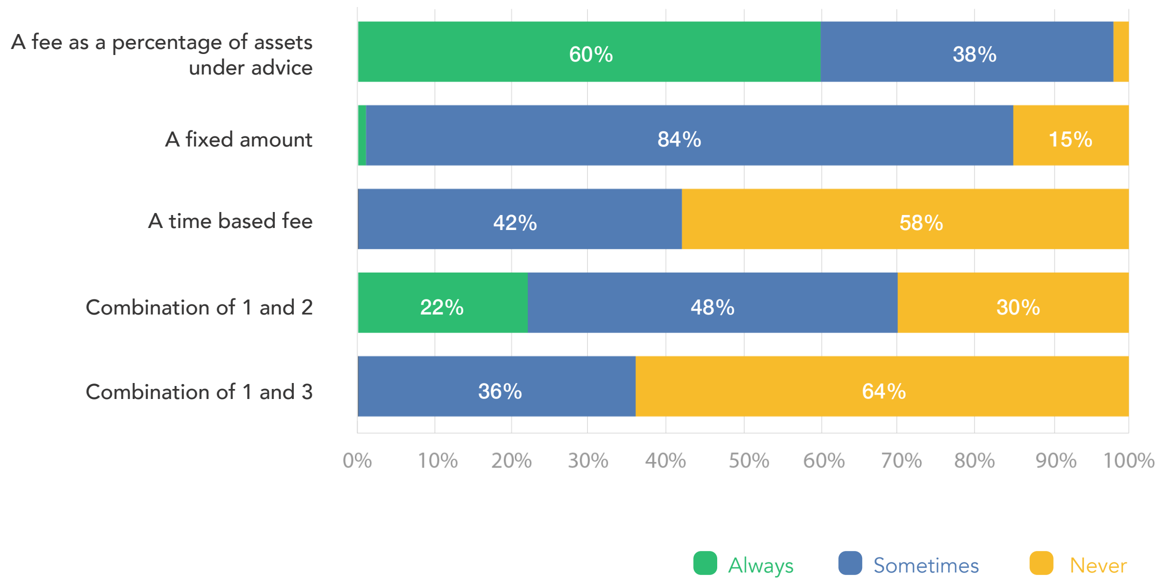
> Clear fund objectives and a commitment to meet them!

> We look for direct access to fund manager.

> We do offer some capital protected options.

How do advisers charge when they offer investment services?



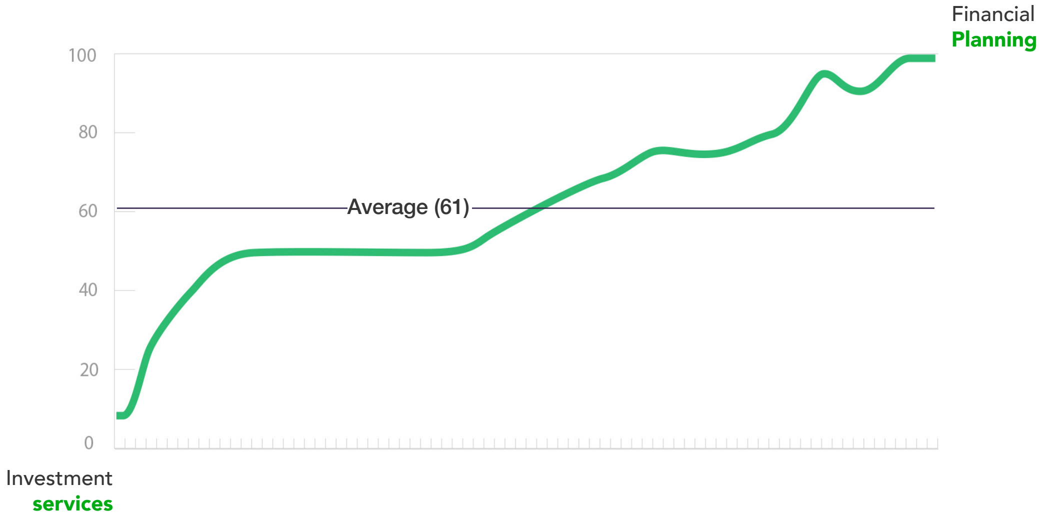
From the chart we see that 60% of advisers charge a fee based on assets under advice in all cases. 22% always charge a combination of asset based fee and a fixed amount. In most cases this will be to reflect initial set up costs. Clearly there is some flexibility here and if you look at the "sometimes" results you see that most options are used some of the time, in particular a fixed charge which is sometimes used by 84% of advisers. On the other hand a time based fee is never used by 58% of advisers and almost no advisers always use either fixed or time based fees. So, there is some movement away from fund or asset based charging but it remains the most common basis for most advisers.

It is possible that with falls in asset values the appeal of fixed charging might be reassessed and one adviser commented:

> *The majority are charged as a % of assets but our fees allow us to charge on an hourly basis if this provides a higher figure. We will agree a fixed charge with clients that prefer to go this way but this charge is generally inflation linked.*

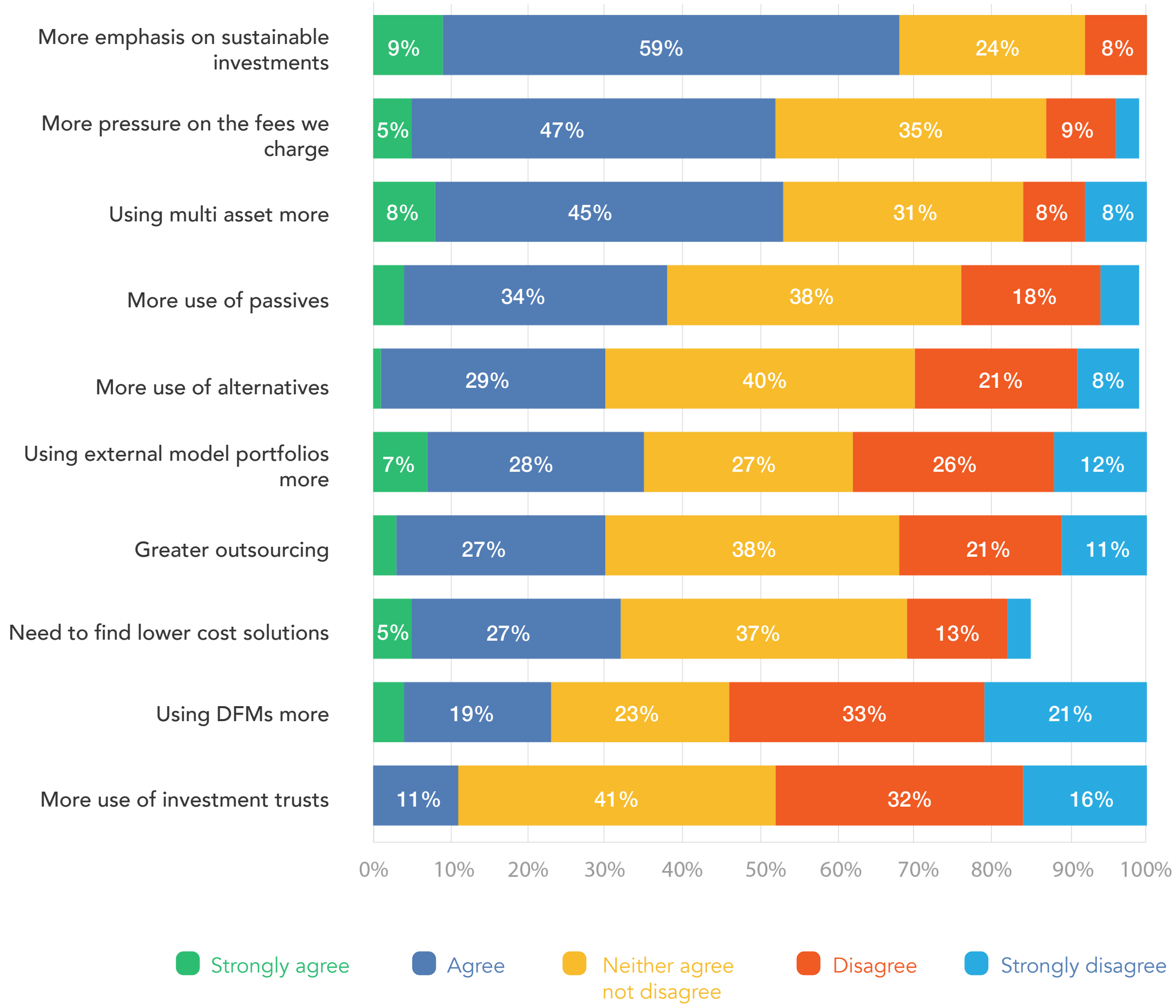
How do clients value the importance of investment service versus financial planning?

The balance of value between investments and financial planning.



What do client value? From this research it suggests the answer is they put a lot of store by the financial plan with only around **10%** of advisers effectively suggesting that their clients see more value in their investment services than in the financial plan. There are a number of factors at play here – the financial plan is the "whole thing" and to that extent might be presumed to have more value. They are though, interdependent – and around **40%** of advisers give more or less equal billing to investment and planning. The perceived value clients place on investments versus planning will also to some extent be a reflection of the way in which advisers and clients relate. The conversation is more about the client's life, family, work, concerns and objectives – all of which will be reflected in a financial plan. The investment services are solutions about which the client inevitably has less to say. It would be exceptional for a client to have a lot to say about the case for multi asset versus models. We note that around 10% of advisers place almost all the perceived value in the planning. These advisers would be those who do not see themselves as investment advisers - indeed they may be committed outsourcers. The only cautionary word we would have here is to say that clients may become more engaged with investments where outcomes vary significantly and where the plan shows itself to be vulnerable to investment returns.

What do advisers believe to be the biggest trends in investments?



Almost **70%** of advisers expect to see a greater emphasis on sustainable investments. Some commentators have suggested that with market falls the emphasis will revert to simple returns focus but it seems more likely that with apparent immediate gains for the environment post general "lock down" there will be more concerted efforts to find ways to sustain such gains which would suggest renewed focus on sustainable investments.

Over 55% expect to use multi asset solutions and **53%** expect to see greater pressure on adviser fees and **47%** expect to have to find lower cost solutions. However for the other dimensions - use of DFMs, Alternatives etc. there is a real spread of view with similar numbers expecting greater use as not.

ADVISER BUSINESS TODAY
Adviser Home Insight Brief

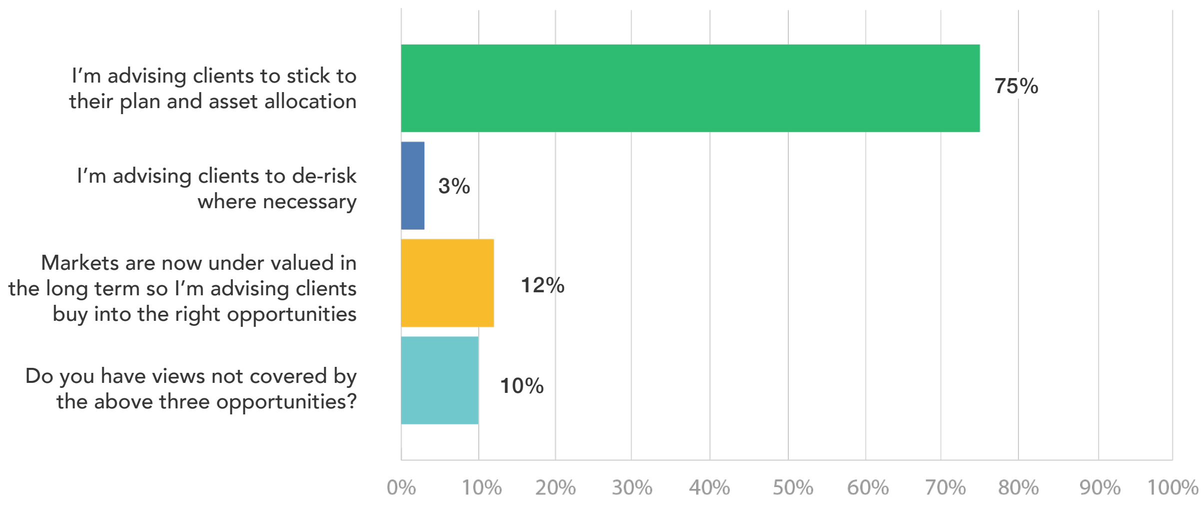
We asked advisers to give us their views on the impact of ***COVID-19*** *on their business and on how the change in market conditions was influencing their advice to clients. The research combined responses to multiple choice questions with the facility to offer free form comment.*

The result, with a good sample of ***144 advisers*** *participating, gives valuable insight into the UK advice market in these challenging times.*

Advisers are often rightly praised for their ability to adapt to changing circumstances and overall this research suggests the sector will rise to this latest challenge.

The demand for advice

What advice are you giving in current market conditions?



It is clear from this response that a large majority of advisers (**75%**) are advising clients to stick to their financial plan and hence to their current asset allocation. So depending on the re-balancing arrangements in place clients will effectively be buying into equities at current reduced prices.

Continue

Only 3% of advisers are suggesting their clients de-risk at this time whilst **12%** are prompting clients to buy into the right opportunities. The comments below make it clear that this is a client by client matter.

Adviser Comments

> *With encouragement to look to the longer term potential where clients are able to and take advantage of the low market entry point for new cash.*

> *We had begun to de-risk clients anyway on the basis that the 10+ year bull market had to come to an end at some point.*

> *Equity markets were hilariously expensive beforehand. A recession was inevitable.*

> *Waiting until the trajectory of new cases starts to fall so that a little 'normality' can apply.*

> *We are concerned about the number of businesses that will fail / default.*

> *Depending on the client - mostly to stick, but invest new money.*

> *I'm advising existing clients to stick to their plan and asset allocation & that for clients holding cash that markets are now under valued in the long term so I'm advising these clients to buy into the right opportunities.*

> *Combination of the above, depending on time-frames, income requirements etc.*

> *Hopefully we will see the re-emergence of true price discovery.*

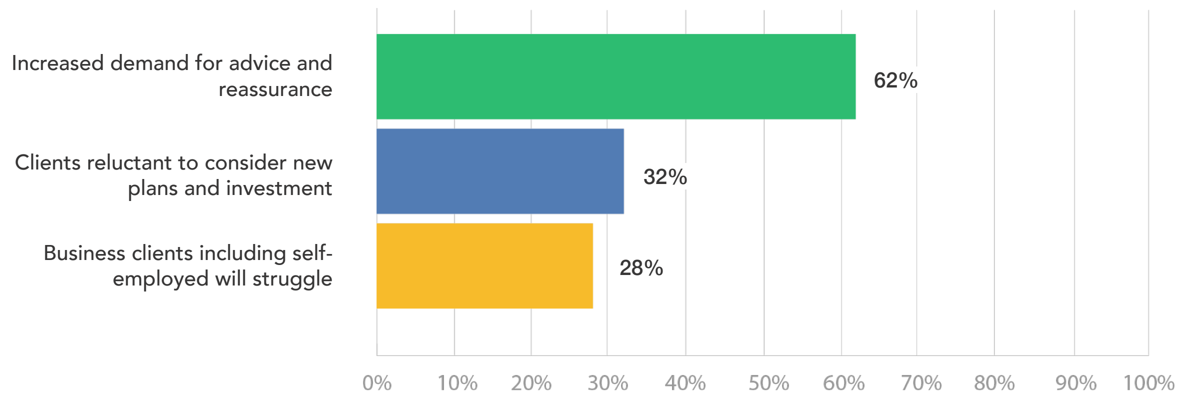
> *Only advising clients to de-risk/cash out if they are planning any sort of withdrawal in the near future.*

> *I am advising clients to maintain their current strategies but take advantage of the undervalued stocks if they have surplus funds.*

Continue

It's a combination - where people are in low-risk, then I may be offering clients the chance to get hold of some money; equity-based, telling them to hold firm; some have money they want to invest, knowing that whilst it might fall further, they are at least buying-in at a low level.

What do you see as the impact on the demand for your service?



From a business perspective there is good news here for advisers as **62%** report that there is increased demand for their services and for client reassurance. This does not however suggest that clients are ready to invest further nevertheless on **32%** of advisers suggest that clients are reluctant to invest or start new plans. **28%** of advisers think that business clients including the self-employed will struggle. More depth to these responses are given below.

Adviser Comments

Most of my clients are retired and have been advised for over 20 years, only completing Reviews, so not looking for new business.

Many emails and phone calls - not many people are panicking yet.

This is a time where you strengthen client relationship and a structured long term financial plan stands up to the test.

Continue

We are in uncertain times and so it will be hard to tell what will happen in the foreseeable future.

Theory says protection should rise and also new investment, but I imagine most clients will want to hold onto cash based on their personal circumstances with work etc.

My clients are all in a CIP and the massive majority are letting things run their course.

Need to offer the flexibility to offer a different type of financial advice.

Many clients have reached out due to unprecedented levels of market press, combined with so many people being stuck at home watching the news!

Almost business as usual. Clients understand the risks with investing and most have been through 2008.

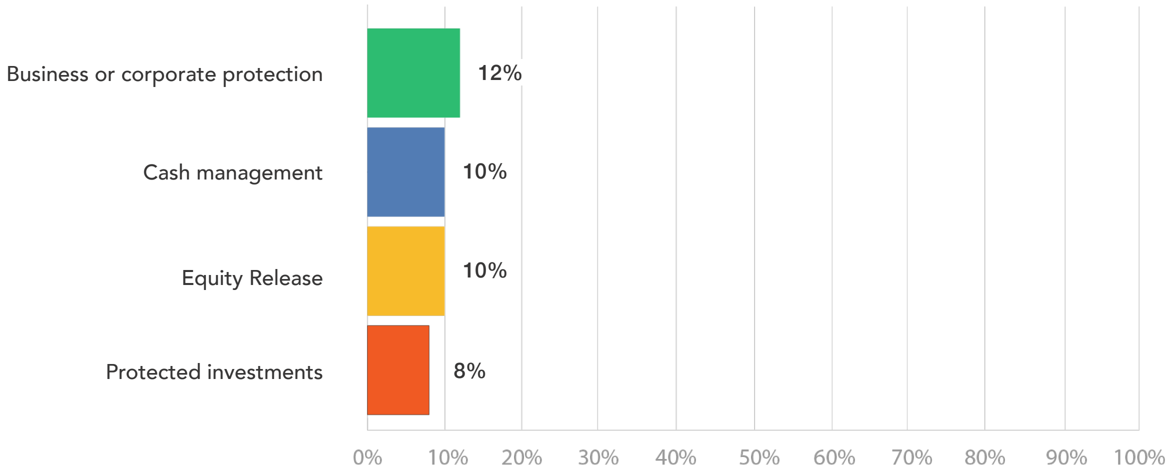
Combination of many factors although undoubtedly longer term growth opportunities are available given historic short term market.

Many clients have asked to reduce/cease regular premiums due to uncertainty over income.

Every client is just so different. Some have seen this as an opportunity to take more risk and invest, others are nervous but most just want some contact. I have sent emails to keep all up to date but also called all clients and it is very much welcomed and helps put their mind at rest, although no one has a crystal ball.

We are proactively issuing updates to clients to provide reassurance - as a result we have seen no increase in concern from clients.

Which areas are you considering developing or giving more emphasis to?



Most advisers are not at the moment focused on moving into new areas for their practice. But the figures show some support Business or corporate protection, Cash management, Protected Investments and Equity Release.

Adviser Comments

> *More demand expected for cash flow planning.*

> *Lifestyle financial planning.*

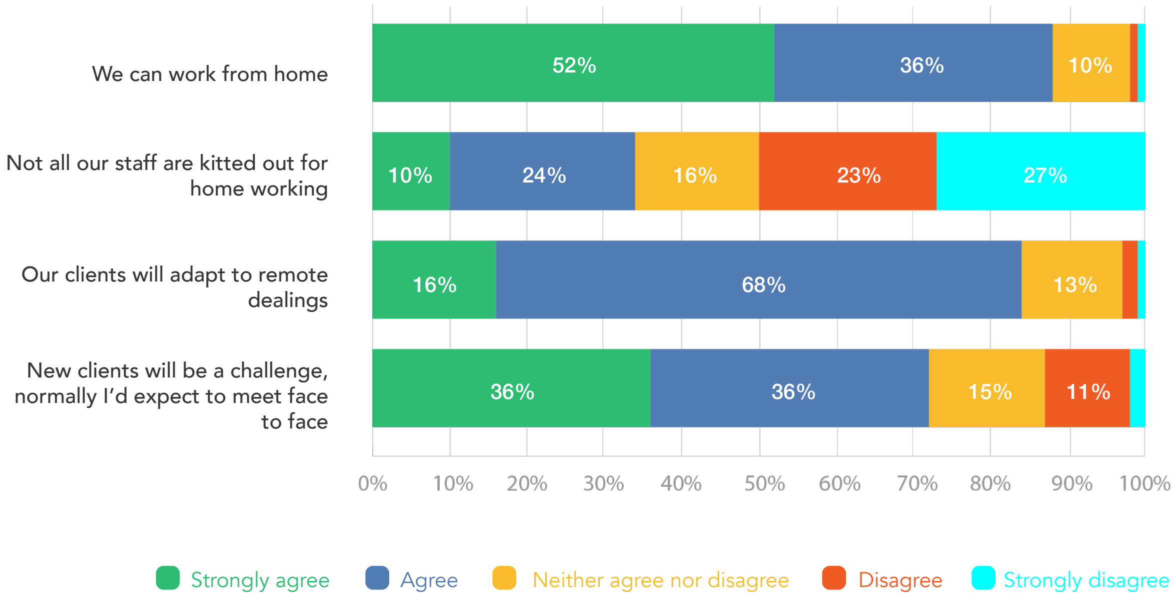
> *We will push protection when things start to get back to normal.*

> *Family protection - personal protection to cover families.*

> *IHT planning as clients getting older.*

> *At the moment we are just re-assuring clients especially those who need to make a withdrawal.*

In terms of your day to day dealings with clients



The overwhelming majority of advisers can work from home (**88%**), but some acknowledge that some staff are not currently provided with the technology to do so. The comments below show that in some cases advisers will need to adopt new working practices and investment in the right technology.

In another confident note, most (**84%**) feel that clients will adapt to new ways of working with their adviser. The issue is around new clients who would typically expect to be seen face to face. We suggest here that as businesses and individuals experience life more remotely than before they will gradually migrate to new conditions so that even new clients will be on-boarded without any face to face contact.

It has to be said that the advice profession is less dramatically affected than many others. The work of advice can be done so long as the technology is in place and clients can have their plans set up and managed on line.

Adviser Comments

> *It's the same for everybody but you get the feeling it's a re-setting of the clock for many – things aren't easily going to return to 'normal'.*

> *There will be some resistance initially, but I think people will come to expect "virtual" meetings or remote support.*

Continue

> Everyone is very understanding of the situation. I can on-board new clients, using video for "face to face".

> The situation has led to more people embracing technology where in past they fought against it There's definitely opportunities especially as calls can be recorded.

> It's difficult to assess properly at the moment because we are still in the early days of the effect of the virus in the UK. We could have several more months of self-isolating and social distancing and we will only really know the real impact when we are nearer to the end of the current outbreak.

> I do think there is still a large group of people when the topics are complex, they want to meet face to face. They are not always the older people - I think it is more about the complexity.

> I have taken on two new potential clients this week, both of whom perfectly understand the situation we face and are content.

> Client contact is dependent on past service, those used to remote meetings will see no change, those who have a long term face to face service will initially find transition difficult along with the advisers!

> Most advisers can work from home but more difficult for admin staff. If we move to enforced home-working it will be difficult for us to trade.

> All advisers can work from home and we have online processes, manuals etc. to enable a smooth working processes so it is more about the support staff but if someone doesn't need to come in to the office or have a face to face meeting then we are encouraging everyone to be sensible and try and mitigate any risk to themselves, families and clients.

> We are rapidly ensuring that all our staff can work from home which will pay dividends in the future beyond this current disruption.

Contact

If you have any comments or questions on this please contact **Brendan Llewellyn**

brendan@adviserhome.com

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