Adviser Home
DEVELOPMENT PLATFORM

AN ADVISER GUIDE

MODEL PORTFOLIO SERVICES (MPS)

In association with

Invesco

Schroders

Invesco Model Portfolio Service

Introducing the **Invesco Model Portfolio Service**, our advisory MPS designed to make outsourcing effortless and cost-effective, whilst keeping you in full control of your clients' portfolios.

Key features

Risk targeted

Nine models for growth and three for income, rated by the major risk-rating agencies

Available on leading platforms

Use the models on Aviva, Fidelity, 7iM, Novia, Transact and Standard Life

No MPS management charges*

Your clients simply pay the underlying fund OCFs, the relevant platform charge and your advice fee

Proven expertise

Benefit from the investment expertise of the Invesco Investment Solutions team

Reduce admin with intelliflo and Transact integrations

Take advantage of platform and back-office system integrations for an even smoother experience

*Adviser firms pay a max monthly fee of £70 + VAT for unlimited access to the models.

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For more information about this advisory MPS, please visit our dedicated website or get in touch.

IVZMPS@invesco.com

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01491 417600

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Schroder Investment Solutions

Delivering appropriate client outcomes is at the heart of everything we do. We believe that this can be achieved by combining your strengths and ours through **Schroder Investment Solutions**.

Schroder Investment Solutions offers active, blended, strategic index, tactical and sustainable investment approaches so you can support the different ways in which your clients wish to invest. Our multi-asset funds and model portfolios are mapped to a selection of risk profiling tools including Defaqto, Dynamic Planner and Finametrica and are available on a wide range of platforms.

We aim to provide investment solutions that offer value at every level. Our fees and charges are competitive, with an Ongoing Charge Figure (OCF) from just 0.29% and a model portfolio fee of 0.15% (no VAT). As advisers remain in complete control of the client relationship, we also offer a comprehensive support service. This includes digital factsheets, monthly and quarterly reports (including a dedicated Impact report for our sustainable portfolios), webinars and a full suite of adviser and client facing material.

We have supported financial advisers for over a decade to help deliver the outcomes their clients are seeking and manage over **£4 billion** (as at 30 June 2021) across our range of solutions.

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CPD

30 minutes of unstructured CPD.

Learning Objectives. By reading this document you will be able to:

1. Gain an understanding of the types of model portfolio service (MPS) and the options available to advisers when outsourcing investment responsibilities to a third-party provider

2. Explain the benefits of using an MPS and how it can improve outcomes for clients

3. Be aware of the alternatives to using MPS in client portfolios

4. Understand how MPS are constructed, and the ongoing service provided by third-party providers

5. Appreciate the factors that need to be considered by advisers when outsourcing investment management to a third-party investment provider

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Section 1
THE BACKGROUND

Effectively managing investments is both a challenging and time-consuming task, particularly under the increasing and ever changing regulatory requirements. As a result, an area of huge growth in the last decade has been that of independent financial advisers deciding to outsource, or delegate, their investment responsibilities to a third-party provider.

To put this into numbers, according to research from Invesco, almost **three out of four** IFA firms now use model portfolios as part of their investment proposition. Additionally, according to research recently conducted by Schroders, some **20%** of IFAs plan to increase more of their investments to outsourced model portfolio services (MPS) in the future.

So, what is an MPS and why are they rising in popularity? A middle ground between the simplicity offered by a multi-asset fund and the high-end bespoke portfolios provided by the large wealth managers, an MPS is effectively a professional portfolio management service offered by a host of discretionary, third-party and investment managers.

The problem, like most things in the fund management industry, is grasping the terminology. To some an MPS is a model portfolio service, to others it is managed portfolio service. Then there are advisory MPSs and discretionary MPSs.

Dan Kemp, global chief investment officer at Morningstar Investment Management, says many advisers still run what he would call 'model portfolios'. This is whereby a fund or discretionary manager would hand an adviser a model detailing them to put a certain percentage of assets in different funds, which they then execute on a fund platform.

> “ This was huge in the early part of the century, but its popularity is starting to wane now. What we have to be clear about is the distinction between model portfolios which tend to be advisory from the provider to the adviser, and then managed portfolios where providers have the discretion to run and manage the portfolios.

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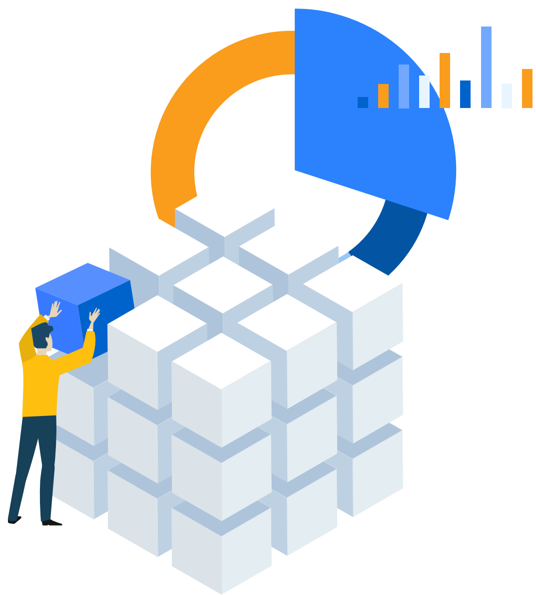
For **Adam Smith**, COO at Fairstone Group a national independent advisory firm, the aspect advisers need to focus on is that an MPS is a service and not a financial product like multi-asset funds.

> “ Advisers have always had the option of going to a bespoke manager and they will do a phenomenal job, but you have to pay a lot for it and most managers will not take on clients unless they have at least £0.5m of business. This is what has given rise to the MPS. The demand was always there, but the supply was not as we did not have the functionality or technology to do it.

Smith says the rise of the fund platforms has provided the ability for multiple investment managers to offer professional portfolio management services and this is what has driven their popularity. Indeed according to Invesco research, some **£48bn** of MPS money now sits on platforms.

With such a huge rise in popularity and with more providers entering the market all the time, this guide will break down the benefits of using an MPS, the different types available, how they are run and what to look for when selecting a possible investment partner.



Section 2

WHY CHOOSE AN MPS?

Before getting down to the nitty gritty of which model - or managed - portfolio service is right for you, the first question is just why would you hand over investment responsibility to someone else?

For **Kemp** the move to managed portfolios is not just a UK issue, it is a global phenomenon.

> “ All independent advisers face similar challenges, which is that with increasing compliance costs and compliance time, and the increasing complexity of financial markets, just how do they spend enough time with their clients to give them that high quality, ongoing advice?

He adds:

> “ We do not think that this challenge is diminishing and what we find with those advisers who have selected Morningstar as their partner for investment management, is they have a lot more time to focus with their clients and that is really the core of any managed portfolio proposition.

Gillian Hepburn, Head of UK Intermediary Solutions at Schroders, personally dislikes the word "outsourced" when it comes to MPSs. This is because it gives over the idea an adviser is abdicating responsibility, which she argues they are definitely not.

Gillian Hepburn

Head of UK Intermediary Solutions

Schroders

> “ The adviser still has to pick the right partner, and then from the solutions they have on offer ensure they have the right proposition for their end client to meet the right outcomes.

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So why go down the MPS route? Hepburn says she is seeing no flatlining in demand for advisers wanting to use MPSs and for her, in addition to the elements of time saving, there are two key reasons.

Gillian Hepburn

Head of UK Intermediary Solutions

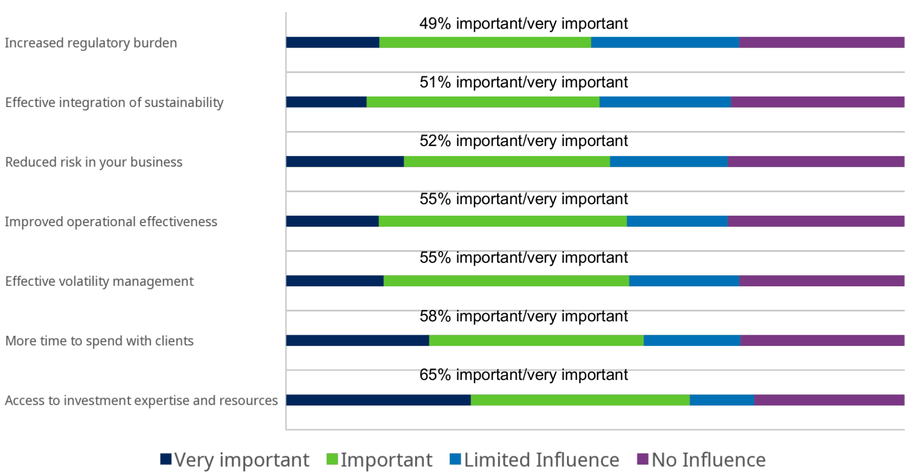
Schroders

> The first is a result of the very serious volatility we saw in the stock markets last year. Many advisers told us that having to manage through this with their clients, when they did not necessarily have the investment expertise that investment partners like ourselves have, was particularly difficult.

The second area Hepburn identifies where Schroders has seen an increase towards working with a partner, comes down to the much in-demand sustainability and ESG issues.

> Many advisers are saying there is increased interest from clients who don't want their money doing any harm but instead want it to contribute positively to both people and the planet. However they are also telling us that they simply do not have the research capabilities in their business that our teams at Schroders have. So this has been an interesting shift in terms of why we are seeing an increase in the desire to work with partners.

How would you rate the following in reaching a decision to outsource portfolio management?



Source: Schroders Adviser Pulse Survey May 2021.

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Better client outcomes

For **Ben Gutteridge**, director of MPS at Invesco, the immediate focus for an adviser should be that an MPS will simply provide a better outcome for their clients.

Ben Gutteridge

Director of MPS

Invesco

> Always look to the client first. It is our strong belief that we are doing things in a particularly prudent, thoughtful and ambitious way that can deliver enhanced outcomes for clients, while trying to avoid some of the mistakes that have been seen in the past.

While Gutteridge says the overall motivation of an MPS is to give clients a better chance of meeting their financial objectives, he adds above and beyond this is the supposed efficiency gains that are generated by partnering with MPS providers.

> It takes a lot of time to design and execute an investment proposition. Whether this is asset allocation, fund research, fund selection and portfolio construction and then hitting risk targets and monitoring these.

> To give clients the best chance of success, any risk-managed investment strategy (or MPS) will require both a depth of resource and time to support it. If an adviser can outsource this, they will win back time to focus on financial planning, relationship building and business development.

Like Hepburn, Gutteridge says choosing to go down the MPS route in no way means that an adviser is washing their hands of the investment responsibility. This is because they will still have to monitor and scrutinise their MPS provider. However, net-net, he argues an MPS is a tremendous time saver, provides efficient gains and hopefully enhances the client's investment experience.

Section 3

THE OTHER OPTION - MODELS vs. MULTI ASSET

If you have made the decision you want to pass the investment management side of your business to a specialist provider, there are a number of options to choose from.

In addition to the advisory and discretionary MPS services, an adviser could also choose to go down the route of investing in multi-asset or fund of funds. Gutteridge says each of the structures and fund types available to advisers will have relative advantages and disadvantages, depending on the client type.

Ben Gutteridge

Director of MPS

Invesco

> “ A fund of funds or multi asset structure has arguably more efficient capital gains tax (CGT) elements to it, in that you only crystallise gains when you exit the fund. Whereas an MPS has ongoing CGT events as you trade funds within it.
>
> This is where financial advisers further showcase their value, by choosing the right vehicle to help ensure clients do not overpay on tax.

So, for Gutteridge there is space for all types of structures, but he notes that for a number of reasons, MPSs are becoming the increasingly popular option. At the same time, he notes MPSs are coming in with competitive management fees, which is good news for the end client.

When it comes to picking an MPS solution over a multi asset fund, Smith at Fairstone notes the issue many advisers have with the latter is that, given they are investing in just one collective investment vehicle, it simply does not feel very diverse.

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> With a multi asset fund there is very much the sense you are placing all your eggs in one basket. Although many multi-asset providers have done some great work in terms of how their funds can be opened up and be made to feel more like a portfolio, at the end of the day all the client sees is one valuation.

He adds:

> Clients want portfolios because of the diversification benefits they bring. And if they feel good about their investments, they are more likely to stick with it. And ultimately that is one of the most important things about investment returns: staying invested.

Rise of the platforms

In the past, Hepburn notes the model portfolio market was the preserve of the discretionary fund managers. She says these wealth managers saw it as an access point to deliver their investment philosophy and process in a more packaged way, so that clients who did not need a full bespoke service could access it in a different way.

Gillian Hepburn

Head of UK Intermediary Solutions

Schroders

> This is how MPSs all started about 10-15 years ago. This was coupled with the continued improvements in platform technology that supported the model portfolio solutions. Up until that point, platform technology only really supported advisory models.

Continue

Gillian Hepburn

Head of UK Intermediary Solutions

Schroders

> "The first step of model portfolio functionality enabled an adviser to build a model and deploy it across a range of clients who required the same outcomes for the same risk profile. However, what it didn't enable them to do was rebalance all of their clients at the same time. The issues of time, costs and risks to their business meant many advisers thought there had to be a better way of doing it and this is another reason we saw discretionary players get into the MPS space.

However today, as the number of providers grows and grows, the MPS space is not just the preserve of the discretionary wealth managers. In recent years groups like FE and Morningstar have launched their own solutions, while traditional investment managers like Schroders and Invesco have recently launched their own services. In the next section, we will look at how these services are run and what advisers should be considering when it comes to selecting an MPS provider.

Section 4
PUTTING AN MPS TOGETHER

Given the growth in demand for MPSs there are many choices of investment providers for advisers to choose from. Each will claim their own unique selling points, so what are the options on offer and how are they built?

Launched in September 2019, the Invesco Advisory MPS is a relatively recent entrant to the MPS space in the UK. Gutteridge says one of its key differentiators is that it is one of the few services that supports advisory clients rather than discretionary.

Ben Gutteridge

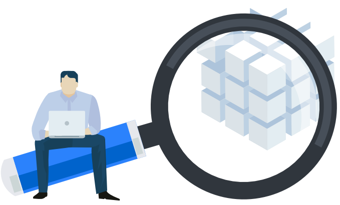
Director of MPS

Invesco

> “ Financial advisers have always been, and will continue to be, laser focused on suitability. It is crucial, therefore, that MPS providers strive to keep portfolios within specified risk targets, to enable financial advisers to confidently map clients to the appropriate model.

The Invesco Advisory MPS has 12 model portfolios available. Nine of these adopt a growth/total return focus and three are more focused on the provision of income. The nine total return options move through risk categories 2-10, and the income options sit within risk categories 4-6.

> “ When tackling asset allocation we do not allow a designated benchmark to determine where the bulk of client assets should reside. Instead, it is our Capital Market Assumptions (CMAs), which highlight the relative appeal between asset classes, that drive our decision making process.



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Ben Gutteridge

Director of MPS

Invesco

> "Whilst CMAs are a crucial element of our investment process, there are several more inputs into the final asset allocation decisions, such as fundamental investment analysis and peer group recognition. Humility is also a constant throughout our approach. We constantly remind ourselves that an MPS can be the single vehicle through which a client is striving to reach their financial goals. It is not the home for overconfidence in one's investment beliefs and pronounced geographical, style and factor risks must be avoided.

Getting the right mix

However, Gutteridge notes that it is not as simple as placing more money into the best looking asset classes, on top of this Invesco run an optimisation process to ensure each of the portfolios are not breaching the risk targets they have set.

Whilst being big believers in the benefits of active management, a look under the bonnet of the funds within each of 12 Invesco Advisory MPS portfolios shows a mix of active and passive funds.

Ben Gutteridge

Director of MPS

Invesco

> "Though a big believer in active management, conviction levels vary across regions and asset classes, leaving plenty of scope for the inclusion of passive instruments. The classic example is the US, where there's really only a handful of active managers we are willing to consider. To achieve our desired weighting in the region, therefore, risk-reward analysis favours the addition of passive funds. These strategic choices are made all the easier by the highly competitive pricing levels of passive providers.

While the Invesco Advisory MPS blends both active and passive funds, there are other solutions which offer one or the other. In May this year, after merging its Fusion Wealth and Cazenove Capital MPS ranges - Schroders launched a new MPS suite - under the Schroder Investment Solutions banner - which includes the Schroder Active, Strategic Index and Sustainable portfolios.

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Gillian Hepburn

Head of UK Intermediary Solutions

Schroders

> “ What we are trying to deliver is almost something for everyone. Before joining Schroders I spent a lot of time working with advisers on selecting centralised investment propositions (CIP) and what I found to be key was not just the proposition but the range of solutions within it.
>
> Across our three ranges, we run nine models in the active and strategic index portfolios, which run from risk bands 2-10, and in the sustainable portfolios we have six models running from risk bands 3-8.

For Hepburn, this is very important for advisers who want to use Schroders as part of their CIP and have assessed their PROD requirements to see what they need. As a quick recap, PROD is the FCA’s ”Product Intervention and Product Governance Sourcebook”, which includes the requirement to ensure product suitability and meeting the needs and risk profile of the investor.

Mikkel Bates, regulatory manager at FE fundinfo, explains:

> “ Having experts who do nothing but identify funds, based on things like the risk profile, and then monitor them for things like style drift, takes that responsibility away from advisers.

> “ Also, given the amount they manage, MPS managers usually have better access to the underlying fund managers and get to understand the investment process better and they will be aware earlier of any news, such as change of fund manager. All this adds to the advantages MPS can give advisers.

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Service with a smile

In addition to getting access to specialist investment teams, it is not just about building great portfolios for advisers, it is the service that comes with them that is important.

Ben Gutteridge

Director of MPS

Invesco

> “ Informing advisers not only how performance is faring, but how we plan to address both our successful and unsuccessful decisions, is hugely important for a deeper understanding of our investment approach.

> “ Sharing information is not enough, however. Of greater importance is delivering this information in an accessible and digestible fashion. Our focus on doing just this allows advisers to have a highly engaged conversation with clients.

While most MPS providers will provide advisers with monthly and quarterly updates of what is going in within the portfolios, Hepburn says a USP for its proposition is the provision of digital factsheets for all its it model portfolios.

Gillian Hepburn

Head of UK Intermediary Solutions

Schroders

> “ Most providers that work in the MPS space have to manually produce factsheets, but we produce digital factsheets for advisers. These are interactive. For example, advisers can look at performance over different time periods. For us, it’s about being on the front foot and thinking about what additional services we can provide.

Section 5
THE CHECK LIST

Given that MPS providers typically look after the whole of an adviser's portfolio, Kemp at Morningstar says that selecting one is very different to picking a single find.

> “ You are really selecting an investment partner who is going to become a core part of your investment proposition as an adviser. So selecting an investment partner is a much longer term decision, because your reputation is going to be linked to that of the investment manager.

So what are the key things advisers should think about when it comes to selecting a provider? Here's a checklist of the main points to consider:

1 Size and resources

With there being few barriers to entry for portfolio managers to set up an MPS service, Kemp says advisers should think about going with a firm with the resources to ensure they will be around for years to come.

> “ At the same time if an adviser is entrusting their assets to the whole of a portfolio, they need to make sure the provider has the investment resources to cover all of the asset classes required. Having the resources to support the investment offering and provide the service you are looking for is also very important.

Continue

2 Breadth of offerings

For Kemp, selecting an investment provider that has a broad range of propositions an adviser can use for a large number of their clients is key to the operational efficiency and consistency of the message they want to portray.

So does the provider have a full suite of portfolios, does it have active and passive solutions, or does it blend the two? Does it have a dedicated sustainable model portfolio, and if so, what are the credentials to manage this? Smith at Fairstone says:

> "Ultimately, when you pick an MPS provider you are taking a punt that they will deliver to the mandate and the benchmark they have set. This is something we have worked very hard on at Fairstone. We have our own core model portfolios but we don't think this is right for every client and therefore adviser. So we also set up what we call our Partner Ranges, which are dual branded, sub-advisory mandates with a number of wealth and investment managers across the active, passive and specialist spectrums.

He adds:

> "We spend a lot of time educating advisers as to why a client might prefer, and need, each proposition we run and one question all advisers should ask themselves is do they have something different? This is because many end up defaulting to something [because of past experience or performance], but what has happened in the past is irrelevant about what will happen in the future.

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3 Cost

While cost should never be the only factor when it comes to deciding which service to use, getting value for money for clients is always an important consideration. Kemp says:

> “ If you go with a provider that has large resources, those resources do have to be paid for. However make sure you are getting the best deal you possibly can because for your clients every basis point saved in costs is added to the return generated and improves the outcome they receive.

In terms of charging structures, the Invesco Advisory MPS charges a low cost flat fee of £1 per client (namely the adviser) per month, capped at £70 per firm (excluding VAT). The Schroder Investment Solutions MPS meanwhile carries an annual management charge of 15 basis points (no VAT), which Hepburn argues is competitive in the MPS space.

4 Tax

Another factor to consider when selecting an MPS provider is how both VAT and CGT will be treated. In the past many MPS providers charged the end client VAT, but this practice has now largely gone away, with the majority of providers removing VAT. However it is still worth checking if a potential provider does charge VAT and then asses if you think it still provides value for money.

In terms of CGT, Smith at Fairstone notes the higher turnover in MPS portfolios could potentially create problems for clients with CGT issues.

> “ As a result, one of the things advisers should be thinking about is whether this is appropriate for the client and if that client is sitting on significant unwrapped investments, it might not be.

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5 DFM structure

Smith says another factor advisers need to consider is just how the DFM is set up and managed. He notes there are two dominant types of set up; Agent as Client and Reliance on Others. Under the Agent as Client model, the DFM would treat the adviser as a professional client per se, rather than the end investor.

> “ This means the MPS provider has no relationship with the end client. As a result, if something goes wrong, it will not be the DFM who is at fault, it will be the adviser. This is a risk advisers need to think about.

While the working practice of how services are delivered using the Reliance on Others model is very similar to Agent as Client, the main difference is both the adviser and the DFM have a legal and regulatory duty of care to the end client. As such it is in the interest of both parties, not just the adviser, to ensure the solution provided to the client is suitable.

The end result is that if you as an adviser have discharged your duties correctly, but the DFM has not managed the portfolio in accordance with the agreed mandates, the client will have recourse to the FOS against the DFM.

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6 Risk Targeting vs Risk Rating

When it comes to assessing an end client's attitude to risk, the majority of advisers will run through the usual questionnaire, set a risk level for their objective and then find an investment solution that matches it. Smith says that when it comes to picking an MPS, advisers need to be aware that MPS providers use different techniques when it comes to managing their mandates to certain risk parameters. Some adopt what is known as risk targeting measures and others use risk ratings.

> "If we look at risk ratings, the MPS provider will be groups like Defaqto and Distribution Technology to risk rate their portfolios. So a client who is risk-rated five may be recommended an MPS risk of five. However, this risk may drift within the portfolio based on market events and within a year's time it may no longer be aligned with the client's risk level and if this creates a loss they may well be challenged by that client.

Risk Targeting, says Smith, provides parameters in which the manager will operate, ensuring that both the adviser and client know that if they start a period at risk level five, it will remain five throughout the period.

7 Conflicts of interest

Smith says the last question advisers should ask themselves when selecting an MPS provider, is does that provider invest in their own funds within the model portfolios?

> "This is a trend that has come through quite recently. So the adviser needs to make sure the provider is investing in their own funds for the right reason, assess if there are any potential conflicts of interest in doing so, and are they reducing the costs for the end client?

Section 6

Summary

Handing over the investment selection to an MPS is a big decision. Given all the pressures of time, regulation and expertise, it's one an increasing number of advisers have made over the last number of years, and the rewards can prove significant.

However as this guide has illustrated there are a number of factors to consider when it comes to both choosing an MPS and the investment partner who will manage it. So like fund selection before, do your research, but this time in the knowledge that once you have found the solution that fits your business the best, it should prove the ultimate long-term investment.

Guide author
Adam Lewis

Adam is a freelance journalist and content editor at Last Word Media, with over 20 years of experience in financial journalism. Prior to going freelance in 2015, Adam was the editor of Fund Strategy for three years and worked on the same title as deputy editor there seven years. Prior to this he was reporter at Investment Week.

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