

Advisory Distributors – Tuesday 29 November 2016

The Berkeley Hotel, Wilton Place, London SW1X 7RL

SCENE SETTER RESEARCH FINDINGS

In the run up to A Meeting of Minds Advisory Distributors, we asked you to answer some questions – our goal being to capture your thinking at a moment in time. The following are your aggregated responses. We hope you find this snapshot interesting as well as reassuring – in other words your peers are experiencing the same challenges and excitements as you are!

Due to the demands we are making on you all in connection with the Financial Adviser marketplace, this is a pared down Scene Setter.

To give the data some more meaning, we have introduced data from previous iterations. We hope the trending is helpful.

1. We started by asking our participants – “What do you consider to be the biggest issue facing your business and/or industry? 2
2. The SWOT Analysis – we asked our audience to provide a quick summary of their perceived strengths, weaknesses, opportunities and threats (ALL BULLETED RESPONSES ARE DIRECT QUOTES):..... 2
3. Imagine you were granted a private audience with The Chancellor, what would you suggest he add to the brexit wish list? 4
4. Each six months, we ask your peer group how they feel about the year ahead? There is nothing particularly scientific about the exercise but the results are remarkably consistent which would indicate some sort of validity. 5
5. We then asked respondents to prioritise the eight most important value drivers when pricing up an adviser business: 5
6. We then asked respondents for a sense of how they see the numbers stacking up – over the past year and the year ahead. We have drawn a comparison with sentiment expressed at the two Meetings held last year plus the Meeting held this June..... 6
7. We asked about their percentage use of in-house products versus externally sourced:..... 12
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9. We asked about their offering and the split between discretionary, advisory, execution only and other: . 14
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14. We asked them how much of their business was pensions: 17
15. And finally – what is the split of that pension business between corporate and private: 17

I. WE STARTED BY ASKING OUR PARTICIPANTS – “WHAT DO YOU CONSIDER TO BE THE BIGGEST ISSUE FACING YOUR BUSINESS AND/OR INDUSTRY?”

One of you kindly summarised:

“Increasing regulation, rise of digital technologies, margin pressure, lack of consumer engagement with their finances and reducing savings rates.”

Or put another way:

Increasing regulation:

“Brexit; MIFID II; continuing FSCS & FOS uncertainty.”

“Regulation and the fact that the Ombudsman and the Regulator don't agree.”

“Regulation: its costs, and its constraints on business model development.”

Rise of digital technologies:

“Technological advancements and the willingness of customers to engage with tech, or otherwise, for a profession burdened by risk management and litigation risk.”

“The inability of the industry to keep pace with technological advances.” We are trying we really are!

Margin pressure:

“Costs in a world of potentially low returns.”

“Fair pricing.”

Reducing savings rates:

“Fall in bond yields.”

“Lack of consumer engagement with their finances and reducing savings rates.”

Where will they come from?

“I started off as a tea boy at Friends Prov where I learnt my trade. Others have started at banks, direct sales and even door to door sales guys, none of these routes now exist, so my concern is who is bringing in and training the new blood in the industry?”

“Finding quality advisers with the right skill sets.”

And here is a really big positive!

To paraphrase Bill Clinton: “It's the volume of the opportunity, stupid!”

2. THE SWOT ANALYSIS – WE ASKED OUR AUDIENCE TO PROVIDE A QUICK SUMMARY OF THEIR PERCEIVED STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (ALL BULLETED RESPONSES ARE DIRECT QUOTES):

A. Strengths:

In the summer you said: **people, proposition, reputation, resilience, intellectual capital and size**

People are still the key ...

“Our high quality advisory workforce and depth of expertise and their total commitment to the customer.”

backed up by ...

- Brand
- Commitment to advice. Good adviser behaviours in place.
- Lean organisation
- Low cost base.
- Investment proposition.
- Market specialisation through concentration on five key sectors.
- Strong and focused leadership and management.
- Range of routes to customer acquisition

Little bit concerned by:

“Small, nimble, talented people” – slightly sizist!

B. Weaknesses:

It's the size thing again!

- Achieving growth without damaging the ethos
- Scale.
- Small! lack of investment from parent. Lacks depth of talent.

Process:

- Infrastructure
- Internal organisation
- Lack of integration across constituent parts of the business

Frustrations:

- Making a decent return
- Speed at which we respond to market change.
- The finite nature of lead opportunities.
- Slow deployment of technology.
- Our over-commitment to customer service and the high costs attached to that.

Lack of focus:

- No clear USPs.
- Lack of effective creative marketing.
- Who are we? National or network.

C. Opportunities:

The obvious:

- Banks still not looking after the reasonably wealthy.
- The pension wave.

The visionary:

- Create an outstanding consumer focused solution that both engages and creates desire to achieve a better financial future.
- Market moves over to restricted model with greater acceptance by advisers of straightforward low cost and low risk investment solutions.

In-house moves:

- Building our partnerships business.
- Extending business model to traditional Network or National.

Opportunities offered by technology:

- Driving efficiency into our successful business model through greater technology adoption and process reviews aligned to greater, but more efficient, customer engagement to drive revenues.
- Big data utilisation.
- Technology applied across the business.
- The opportunity presented by technology.
- Use of technology to deliver an enhanced client experience.

D. Threats

The need to get moving:

- Old habits die hard. Others may move on the opportunities at a quicker pace if we are not on our metal.
- Organisations which adapt to being a vertical integrated business quicker than us

The macro economic environment of low inflation and low returns.

- Political risk.
- Pressure on advice charges in a low return environment.
- Adviser retention and recruitment.
- Continued negative consumer portrayal of advice leading to people looking at DIY solutions and growth in D2C market.
- Restricted is still poorly defined and seen as inferior to being independent and remains unattractive to partners.
- Data aggregators.
- External pricing pressures on revenue lines.

The Regulator...

- Lack of control from the FCA on new entrants coming to market - i.e. poor PR around FS again.
- FCA creates too many hurdles to allow innovation.
- Regulation - especially when you have four regulators to please.

3. IMAGINE YOU WERE GRANTED A PRIVATE AUDIENCE WITH THE CHANCELLOR, WHAT WOULD YOU SUGGEST HE ADD TO THE BREXIT WISH LIST?

The trusting: *“Other than seeking assurance they will “get on with it”. I think they will have it covered.”*

The not so trusting: *“Be careful what you wish for.”* And *“Ensure there is a plan!”*

The bog off: *“Remove any European influence over UK financial services.”*

- If it is this hard to get out, might others be motivated to move sooner.
- Clear communications - certainty.
- Control inflation.

- Don't gold plate MIFID II post Brexit.
- Passporting.
- Retain close connection for integration of financial services across Europe.

4. EACH SIX MONTHS, WE ASK YOUR PEER GROUP HOW THEY FEEL ABOUT THE YEAR AHEAD? THERE IS NOTHING PARTICULARLY SCIENTIFIC ABOUT THE EXERCISE BUT THE RESULTS ARE REMARKABLY CONSISTENT WHICH WOULD INDICATE SOME SORT OF VALIDITY.

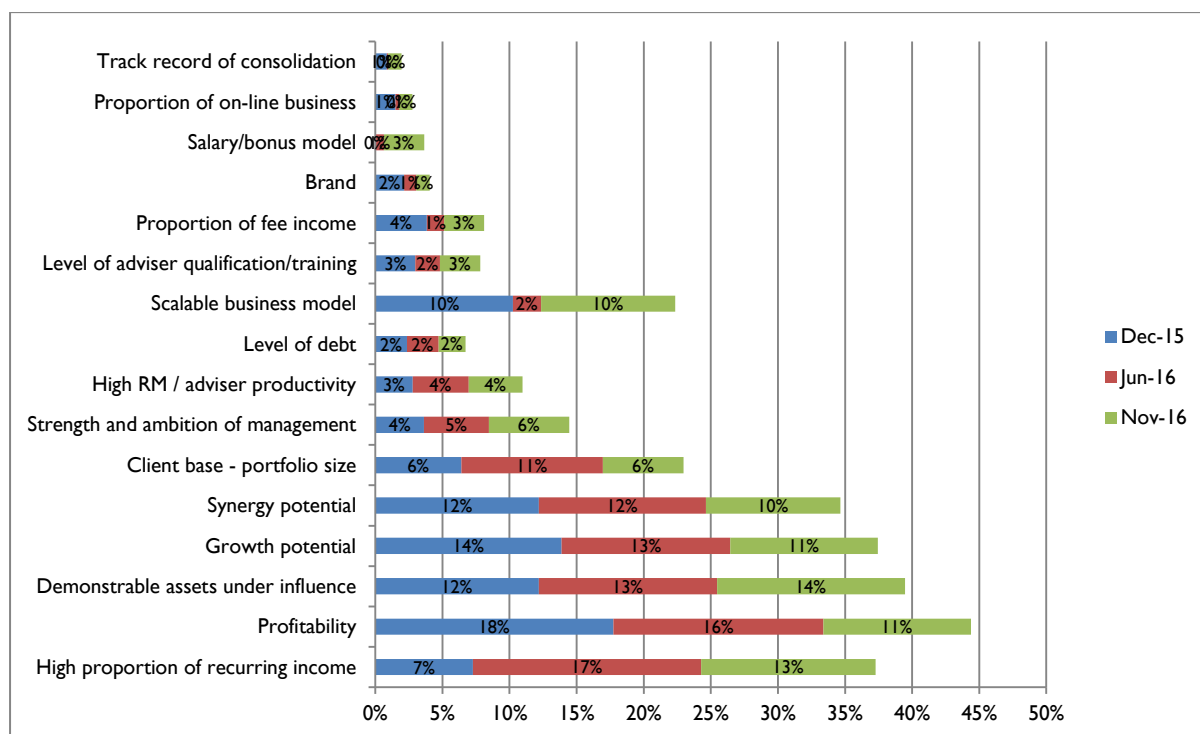
We also ask this question of the Winning Advisers (these are the owner managers of firms which typically have £200M FUM and on average 6 advisers. The trend is relentlessly downwards.

Winning Advisers North	Apr-15	8.35
Advisory Distributors	Jun-15	8.17
Winning Advisers South	Oct-15	8.00
Advisory Distributors	Dec-15	8.00
Winning Advisers North	Apr-16	8.17
Advisory Distributors	Jun-16	7.73
Winning Advisers South	Oct-16	7.90
Advisory Distributors	Nov-16	7.59

5. WE THEN ASKED RESPONDENTS TO PRIORITISE THE EIGHT MOST IMPORTANT VALUE DRIVERS WHEN PRICING UP AN ADVISER BUSINESS:

We have weighted the responses and compared this November's responses with the last two sets received.

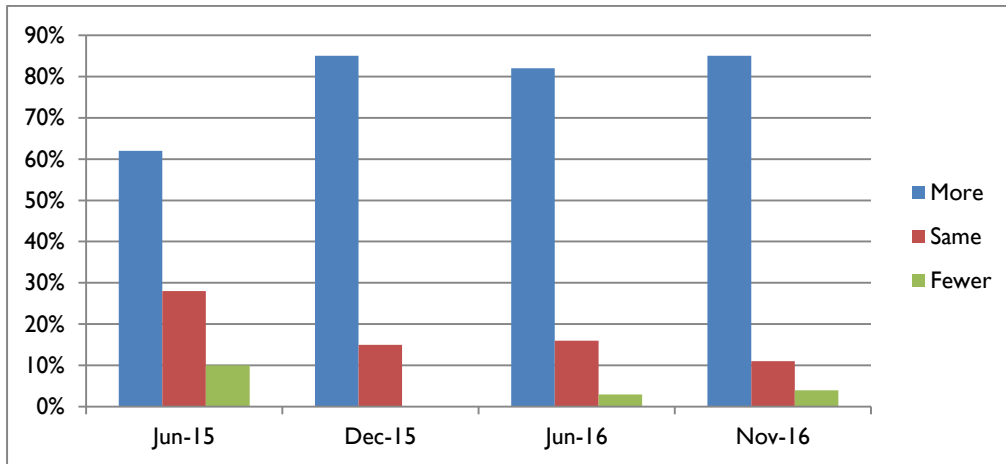
Demonstrable assets under management is the most highly rated value driver this time, followed by a high proportion of recurring revenue, profitability, growth potential and synergy potential. These are followed by scalability.



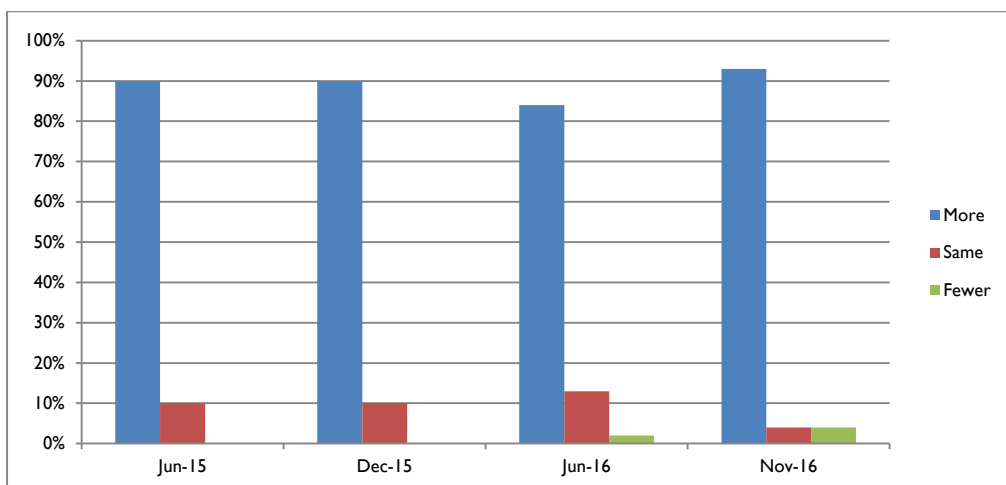
6. WE THEN ASKED RESPONDENTS FOR A SENSE OF HOW THEY SEE THE NUMBERS STACKING UP – OVER THE PAST YEAR AND THE YEAR AHEAD. WE HAVE DRAWN A COMPARISON WITH SENTIMENT EXPRESSED AT THE TWO MEETINGS HELD LAST YEAR PLUS THE MEETING HELD THIS JUNE.

You are all a bit like Oliver – MORE MORE MORE!!

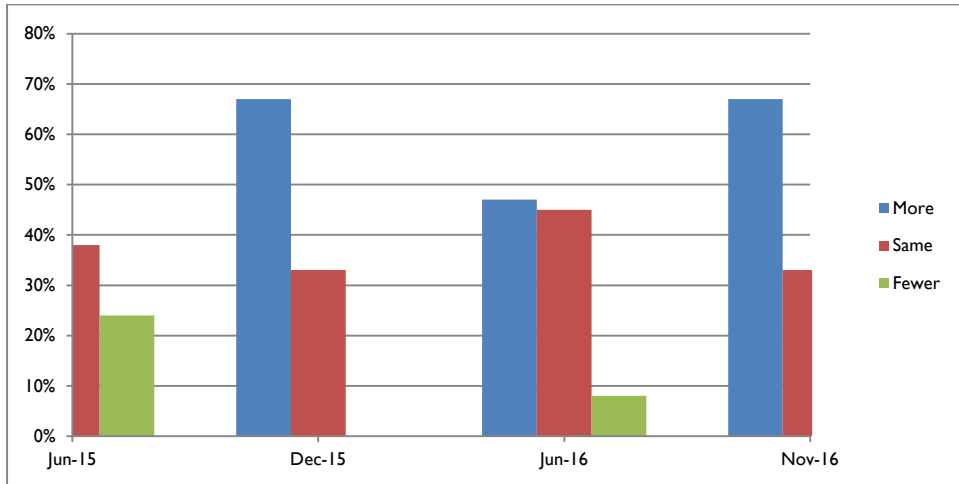
In terms of clients: looking at the past year (what happened?)



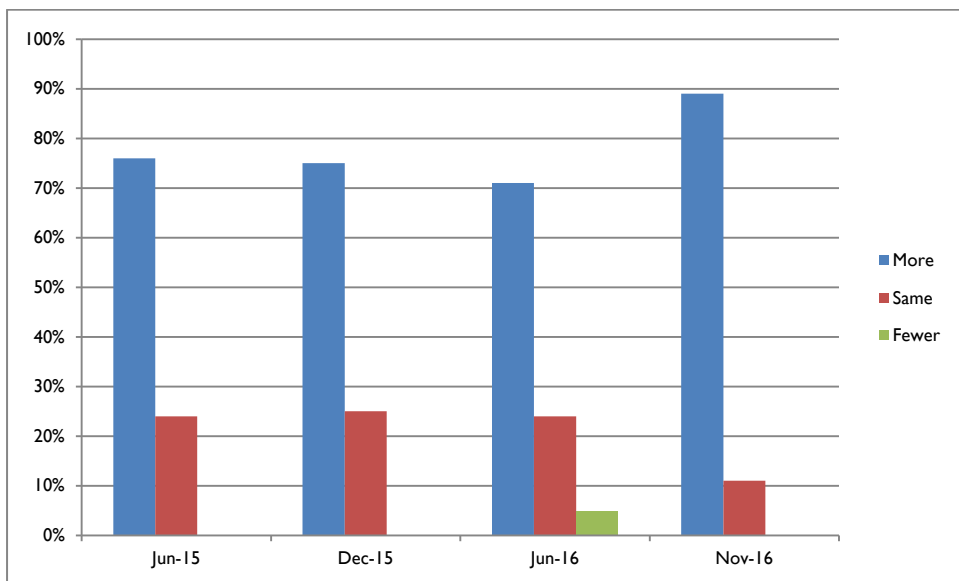
In terms of clients: looking at the year ahead (what do you think will happen?)



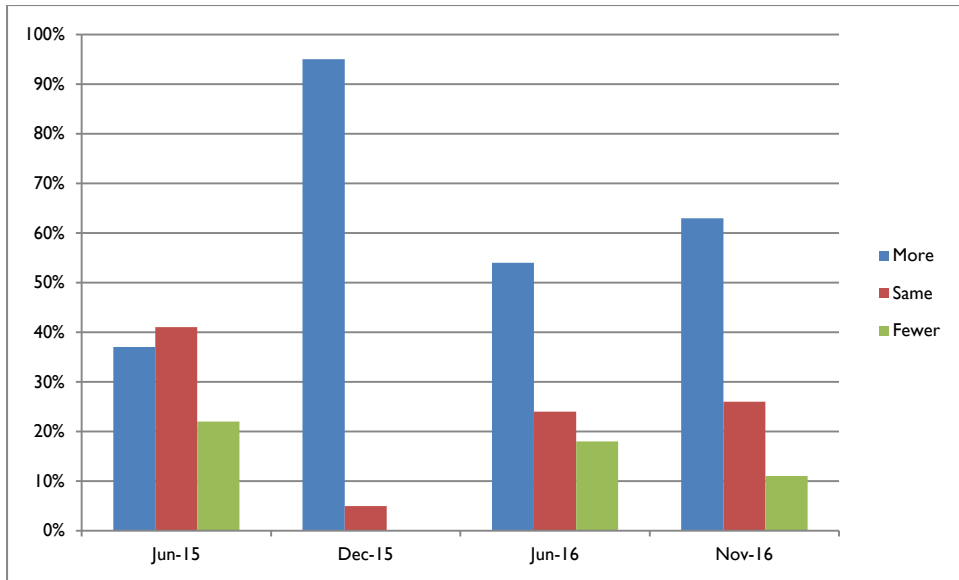
In terms of headcount - client facing: past year



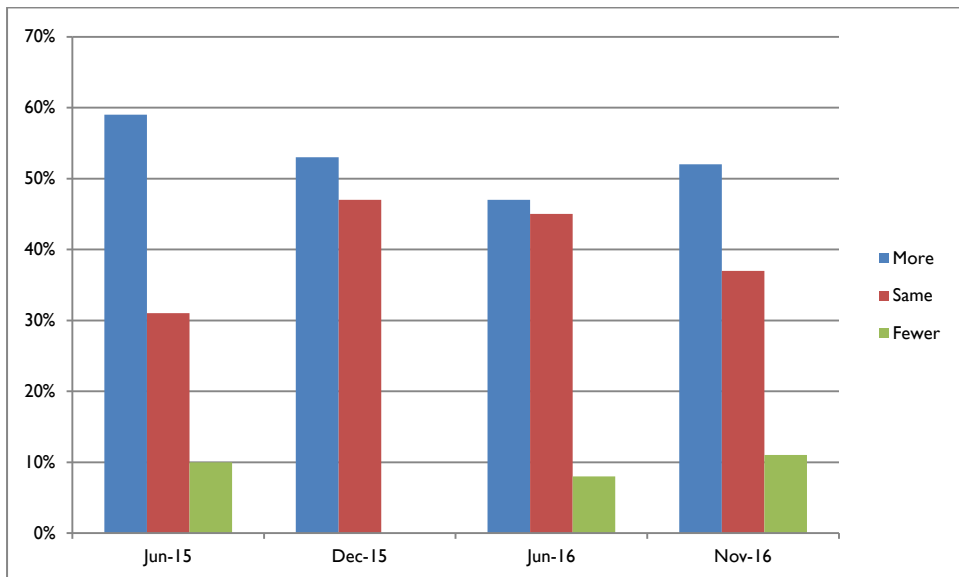
In terms of headcount - client facing: year ahead



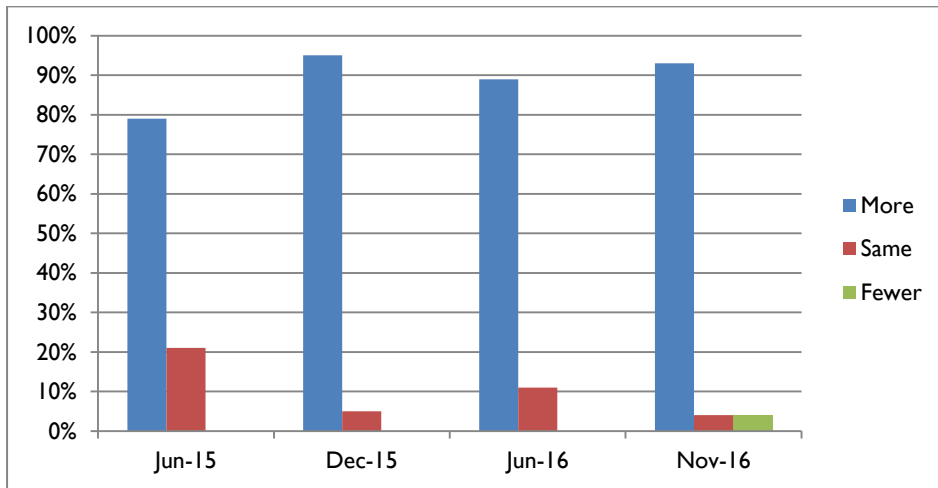
In terms of headcount: back office: past year



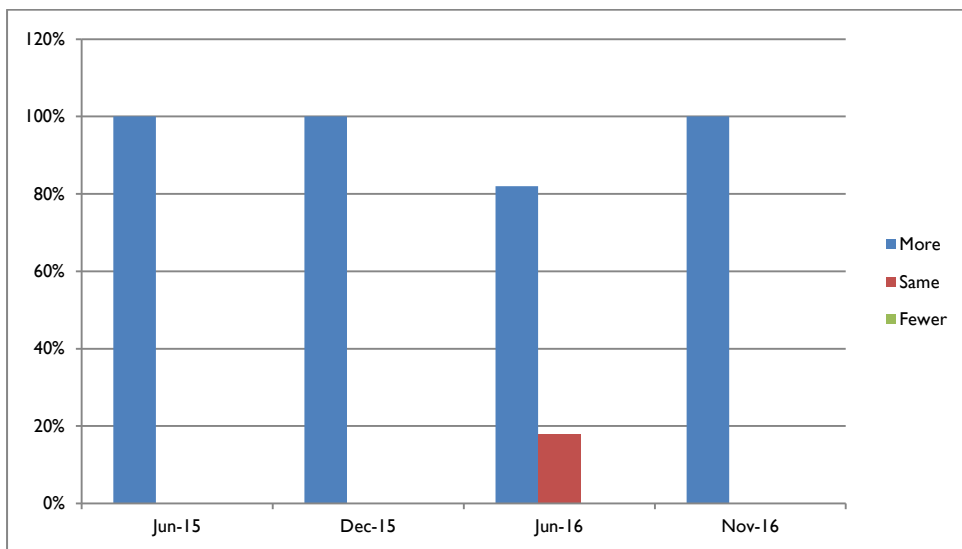
In terms of headcount: back office: year ahead



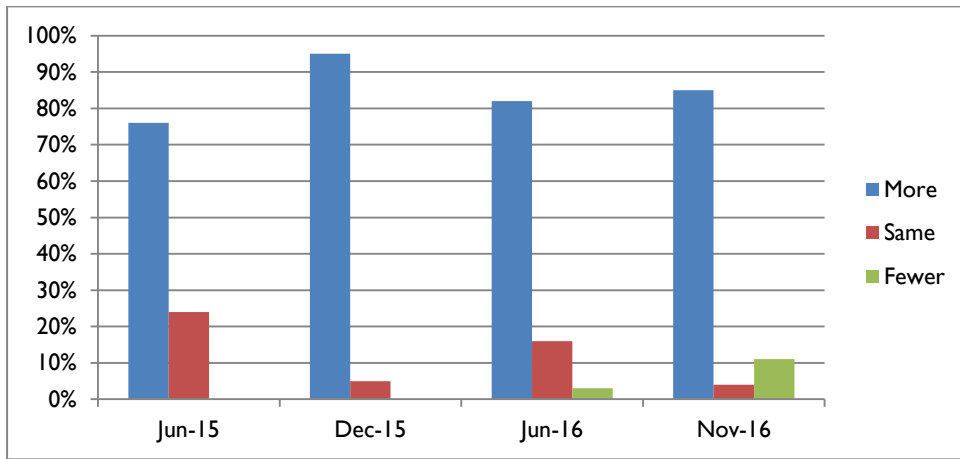
In terms of assets under management: past year



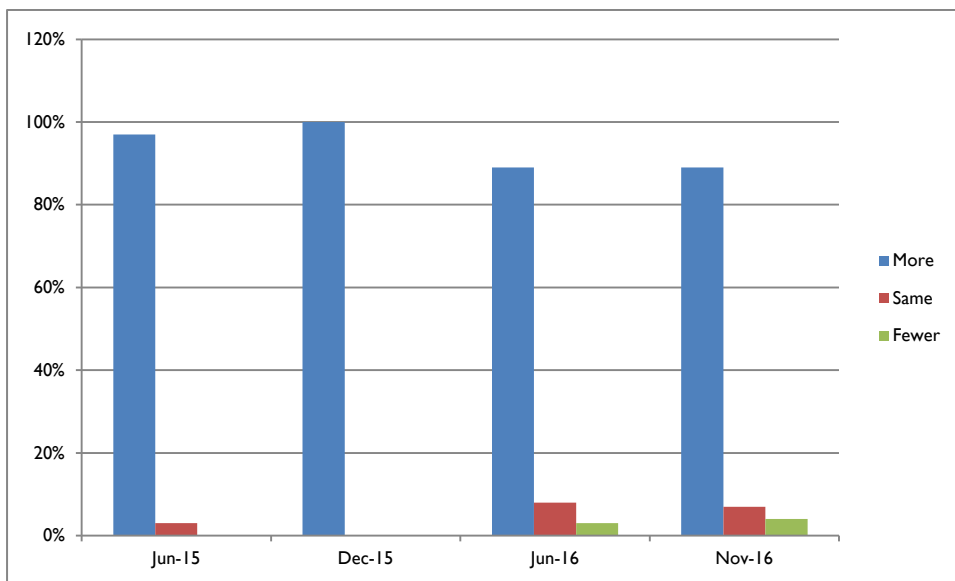
In terms of assets under management: year ahead



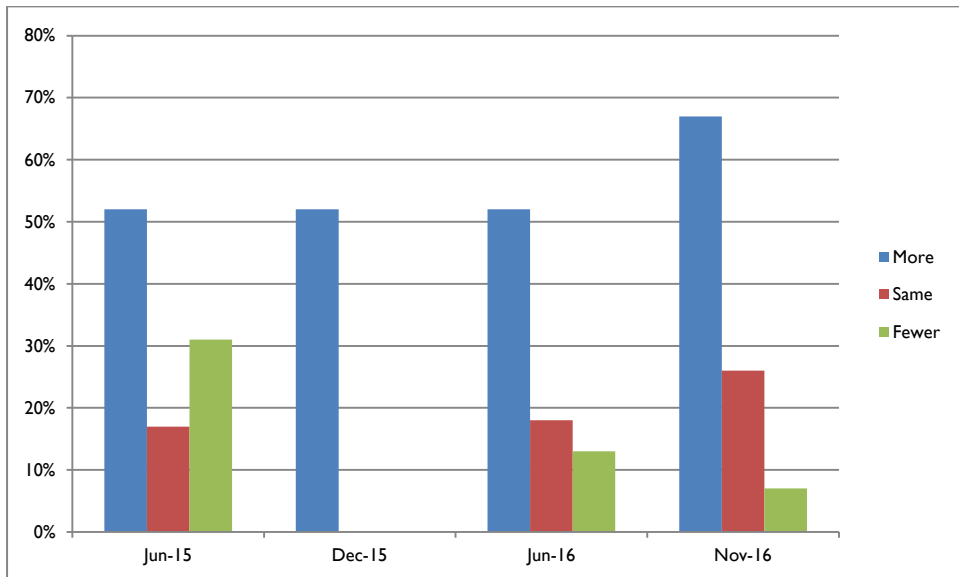
In terms of revenues: past year



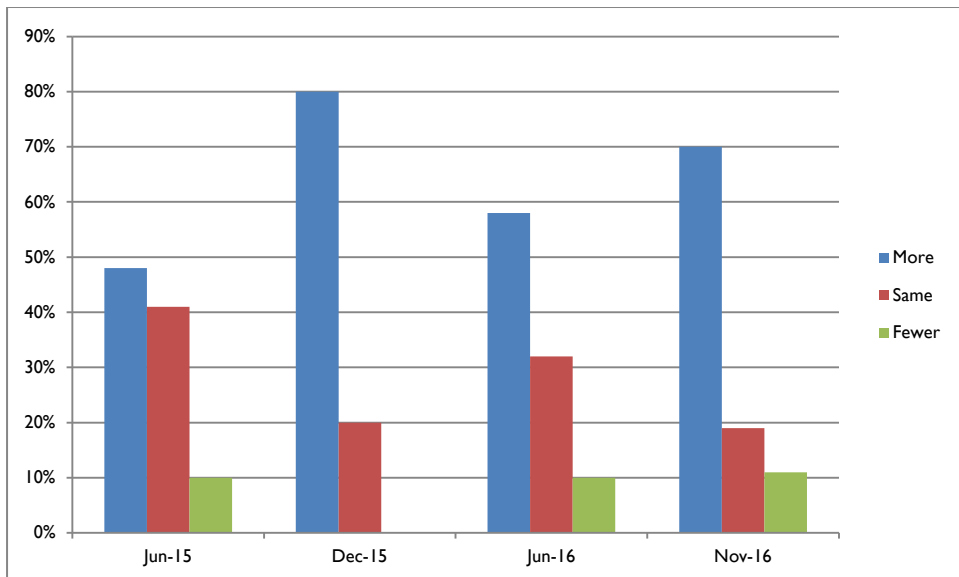
In terms of revenues: year ahead



In terms of costs: past year

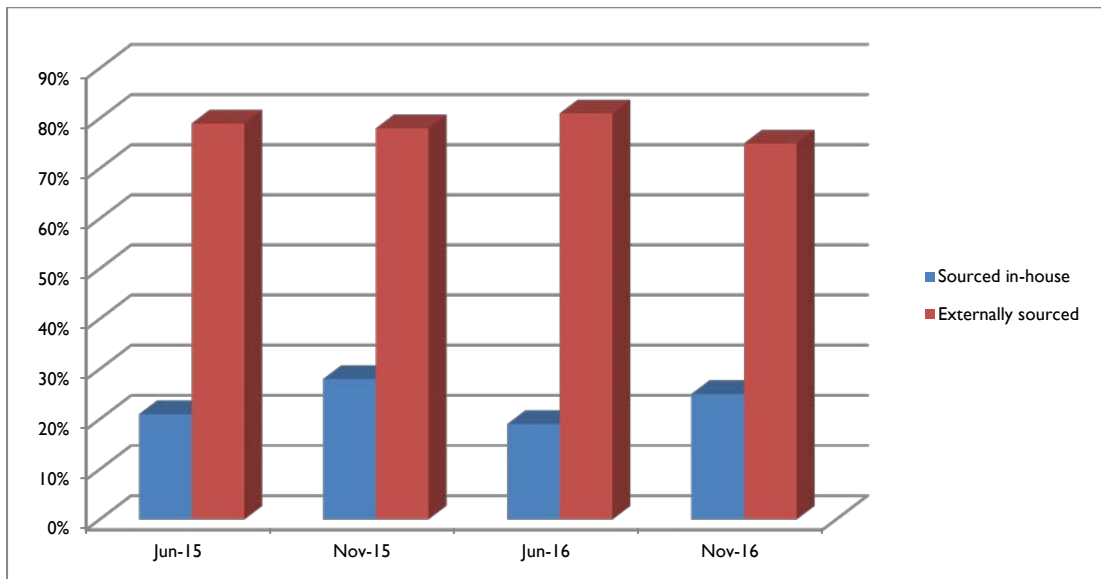


In terms of costs: year ahead

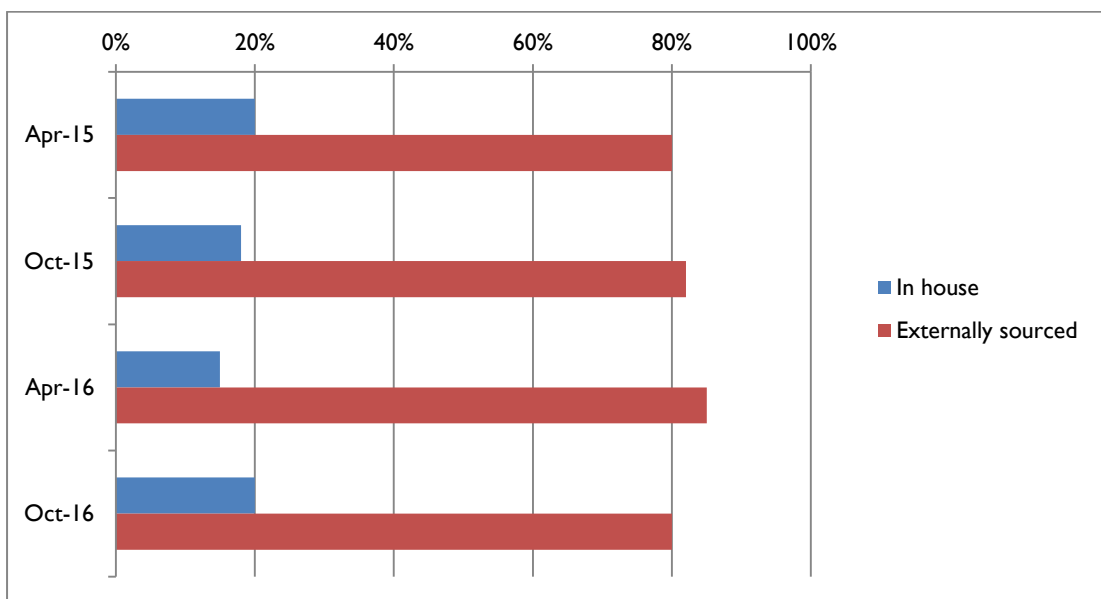


7. WE ASKED ABOUT THEIR PERCENTAGE USE OF IN-HOUSE PRODUCTS VERSUS EXTERNALLY SOURCED:

A bit bouncy!

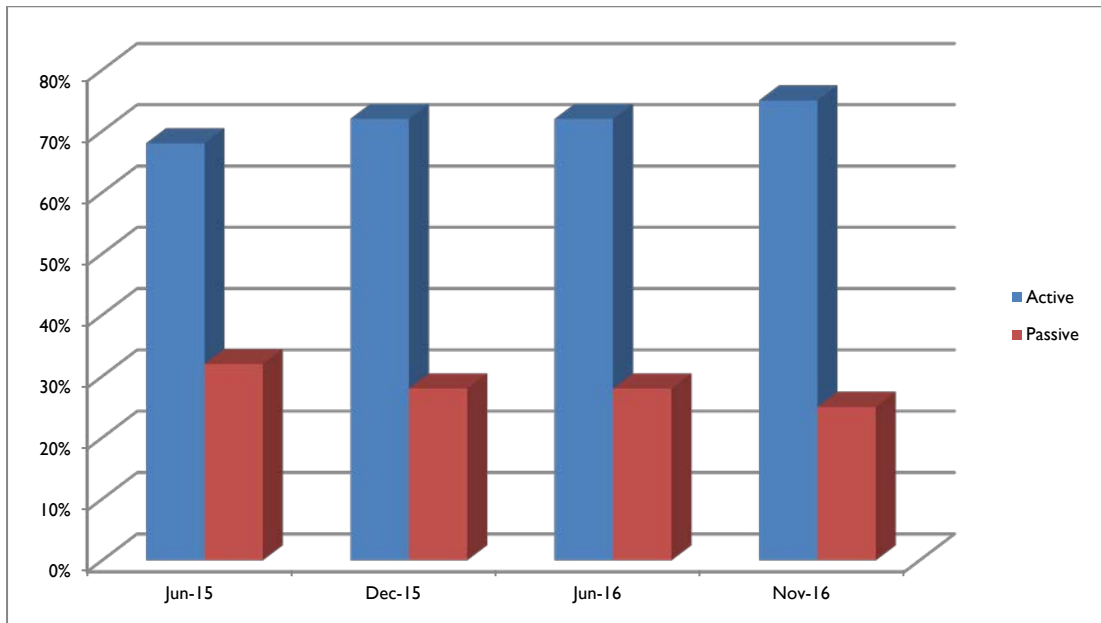


Compared with the data from the Winning Advisers' community: Also bouncy

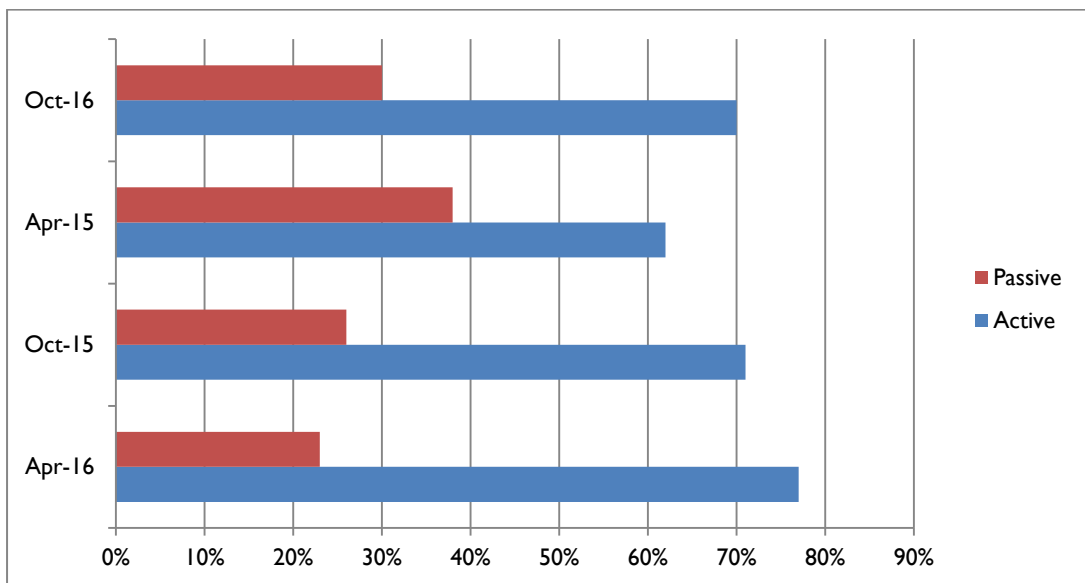


8. WE ASKED ABOUT THEIR PERCENTAGE USE OF ACTIVE VERSUS PASSIVE:

The direction of travel is clearly away from passive.

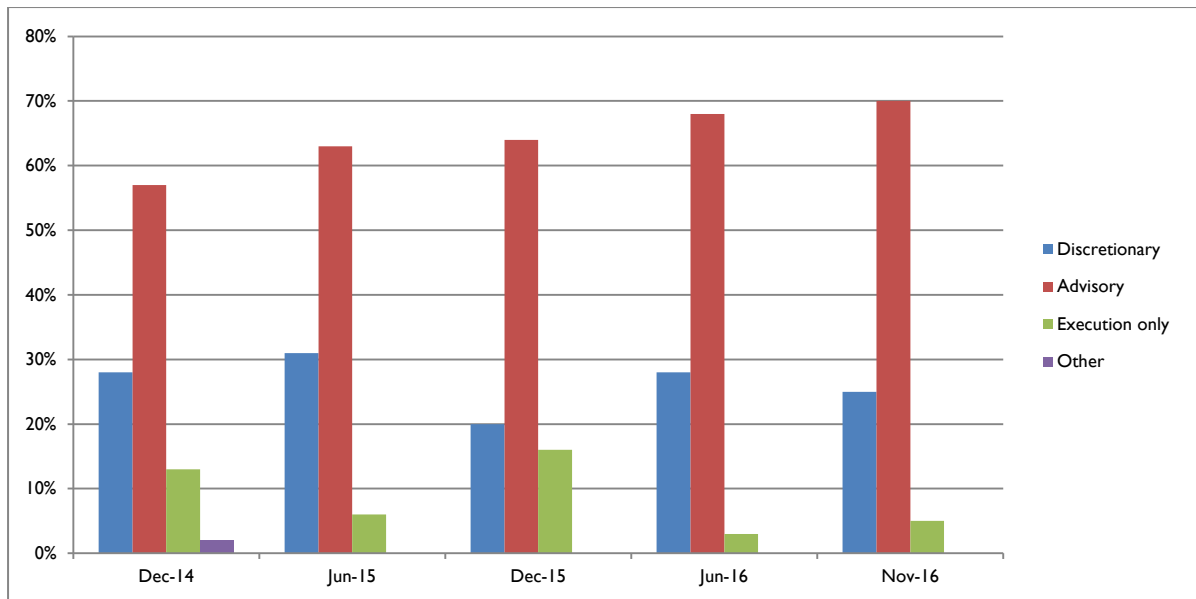


And to support that, we thought you might like to see the trend reflected in the Winning Adviser data collected earlier this year.

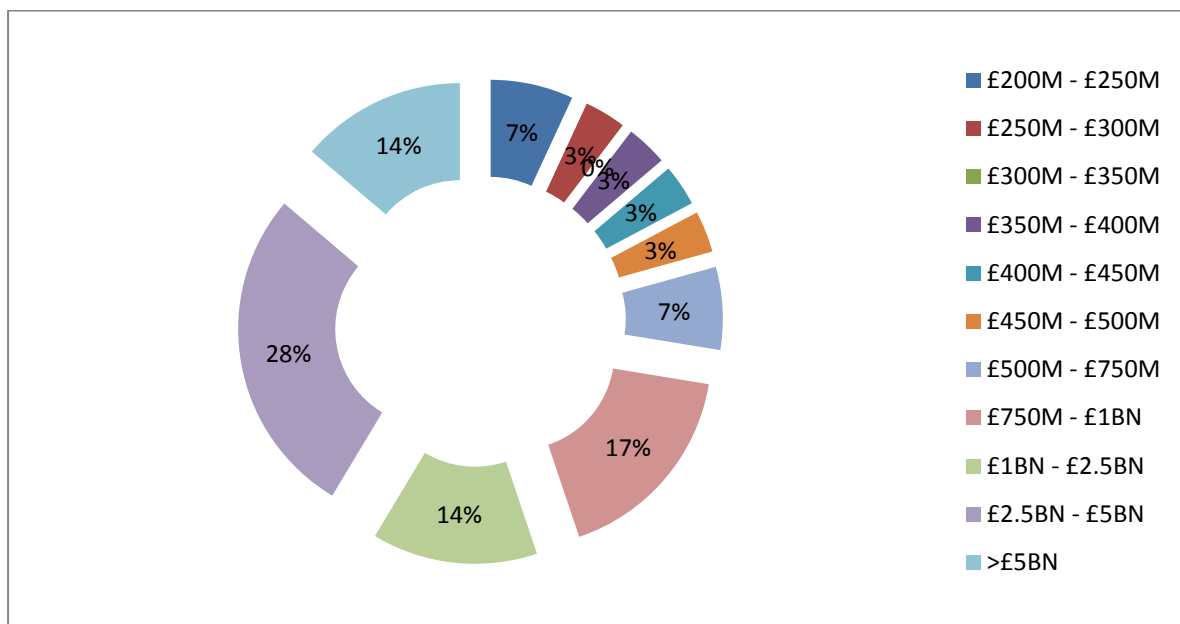


9. WE ASKED ABOUT THEIR OFFERING AND THE SPLIT BETWEEN DISCRETIONARY, ADVISORY, EXECUTION ONLY AND OTHER:

Not surprisingly, advisory is growing – albeit slightly.



10. FUNDS UNDER MANAGEMENT:



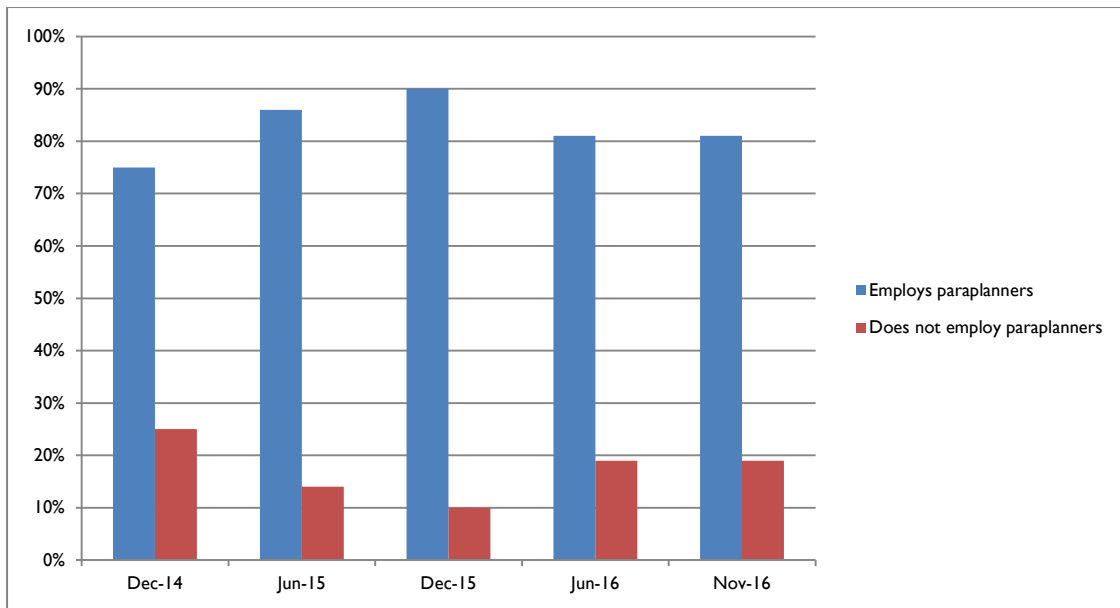
The average company at A Meeting of Minds Advisory Distributors has £2.7BN Funds Under Influence.

11. THE COMBINED INFLUENCE OF THIS GROUP OVER THE WORLD OF FINANCIAL ADVICE:

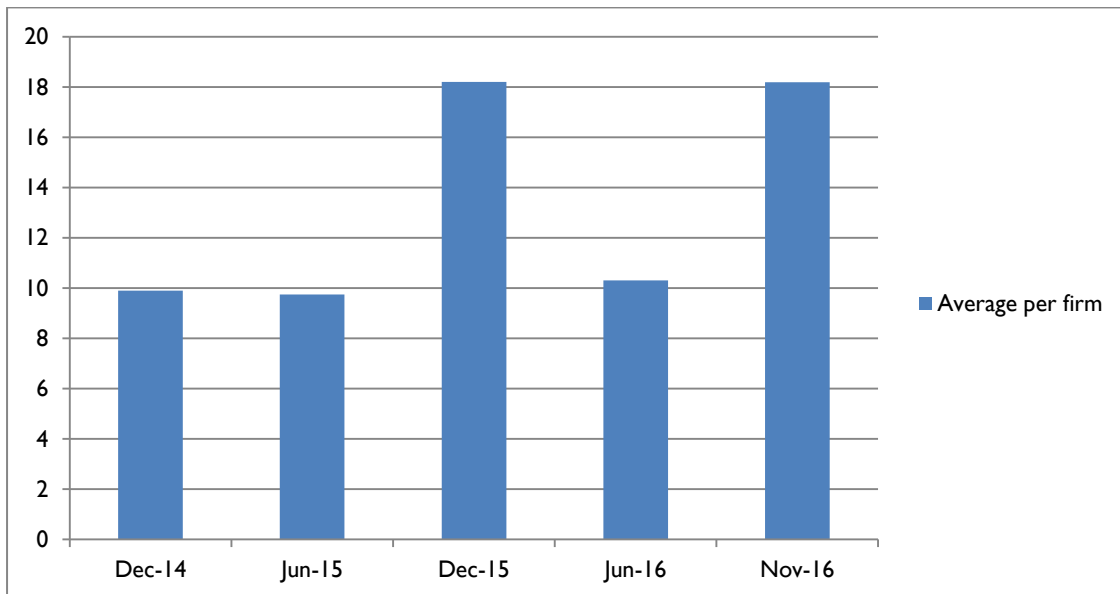
We came up with a number of 17,681 ! Let's say 70% of the industry influenced by the august body present at A Meeting of Minds Advisory Distributors!

12. WE ASKED HOW MANY FIRMS EMPLOY PARAPLANNERS AND IF YES – HOW MANY?

No change on the summer...



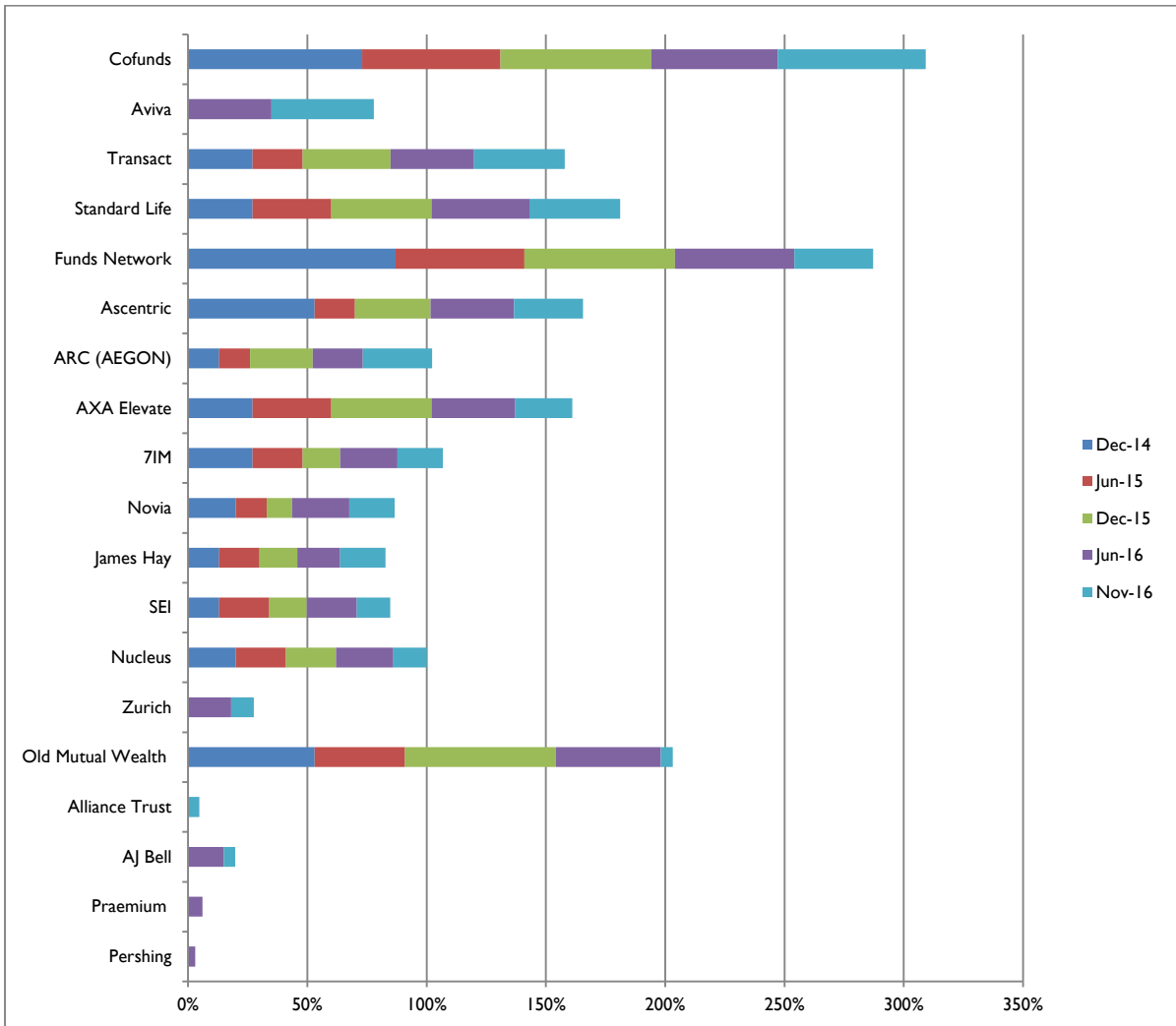
And in terms of how many Paraplanners per firm – the average is:



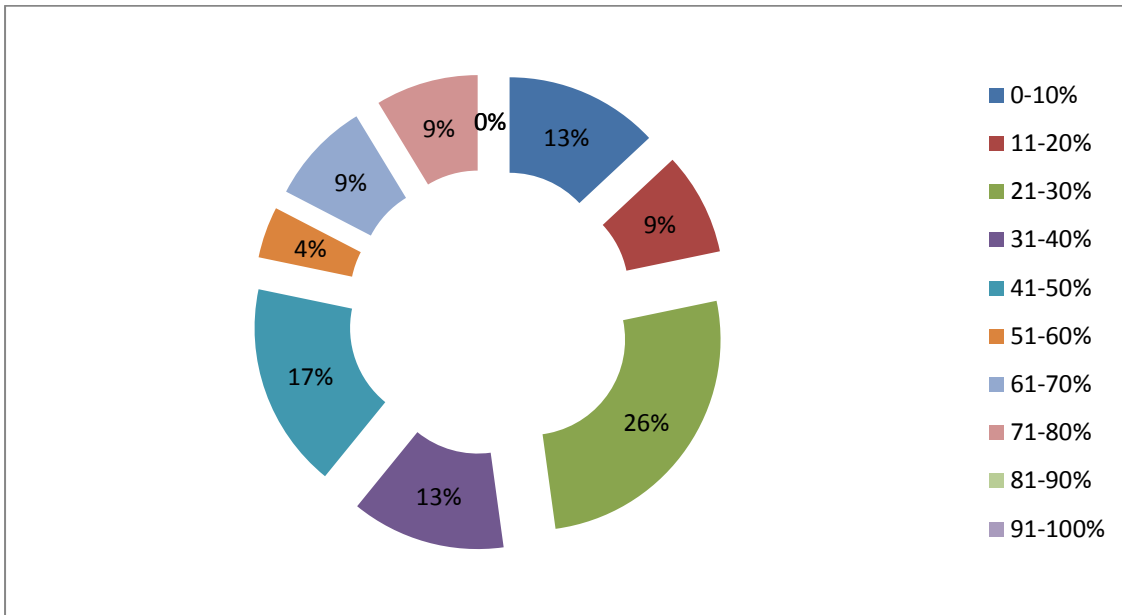
13. ALL ABOUT PLATFORMS:

Maybe there is too much information in this graph, the idea is to show you in a broad brush way how the platforms are doing in terms of looking after the needs of this cohort.

Cofunds still in the lead, closely followed by FundsNetwork then Standard Life and Transact. Ascentric and AXA Elevate in there too. Old Mutual experiencing a bit of a blip – suspect that is down to the sample.

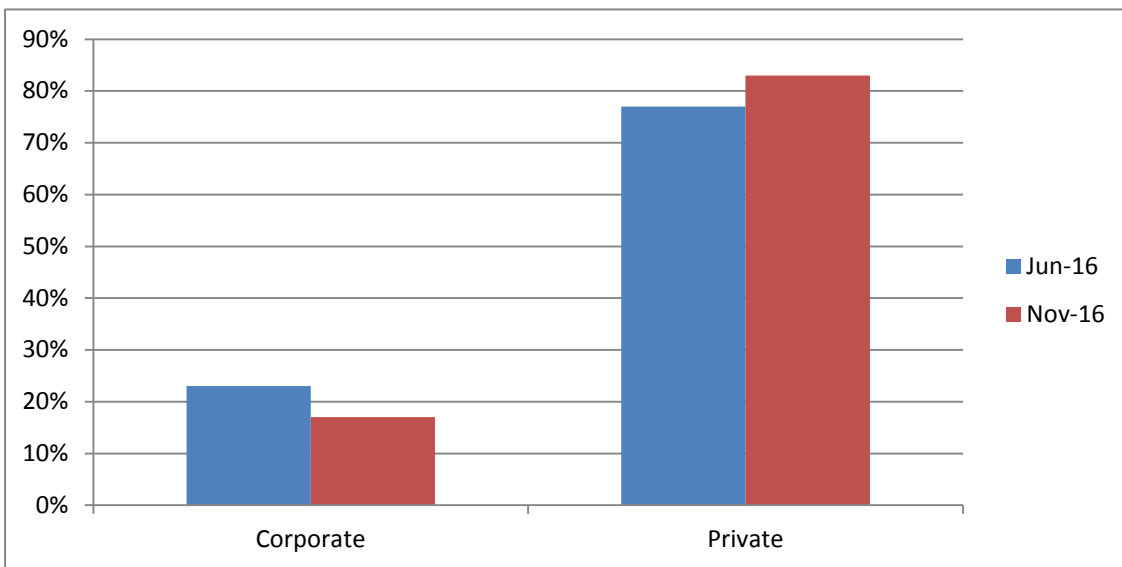


14. WE ASKED THEM HOW MUCH OF THEIR BUSINESS WAS PENSIONS:



15. AND FINALLY – WHAT IS THE SPLIT OF THAT PENSION BUSINESS BETWEEN CORPORATE AND PRIVATE:

Looks like we are really taking advantage of workplace pensions then...



We very much hope you have found this profile of your industry of interest and broadly in line with what you would expect. If you have any questions about any aspect of the research do please call Owen James at 01483 861334 and speak to Evie Owen or James Goad.

Thank you.