

momentum

scorpiopartnership
what wealth needs next



An assessment of the shifting landscape
of independent wealth management

June 2011

CONFIDENTIAL
PARTICIPANT REPORT

Commissioned by Momentum Global Investment Management

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An executive presentation by Momentum and Scorpio Partnership of the full 85 page research findings is available on request



Research summary

Scorpio Partnership undertook in-depth research among 40 wealth managers and independent wealth advisors all focused on HNW client business across the UK, Singapore and Hong Kong.

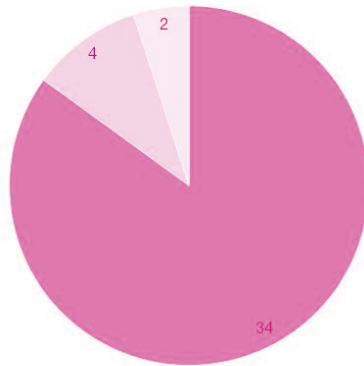
The research was aimed at understanding how wealth managers and independent advisors are engaging the asset management community in order to enhance their proposition to end investors

Specifically, the research addressed:

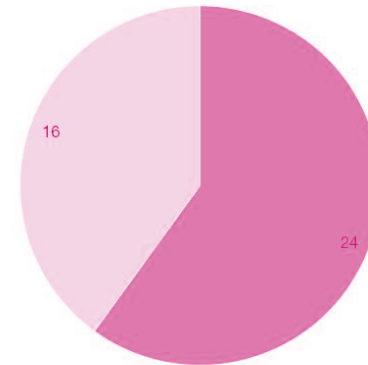
1. The industry initiatives to grow assets under management and retain HNW business
2. The preferences in relation to asset classes, investment structures and jurisdictions
3. The 3rd party asset managers' selection process and trends

An assessment of the attitudes of wealth advisors in relation to investment management solutions and outsourcing

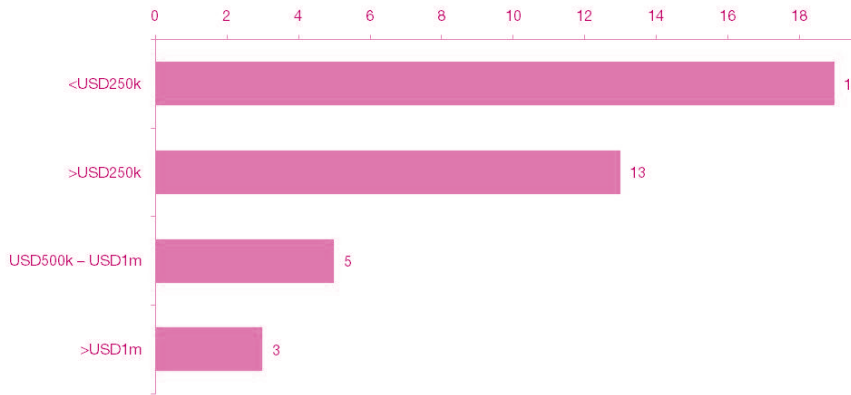
Distribution



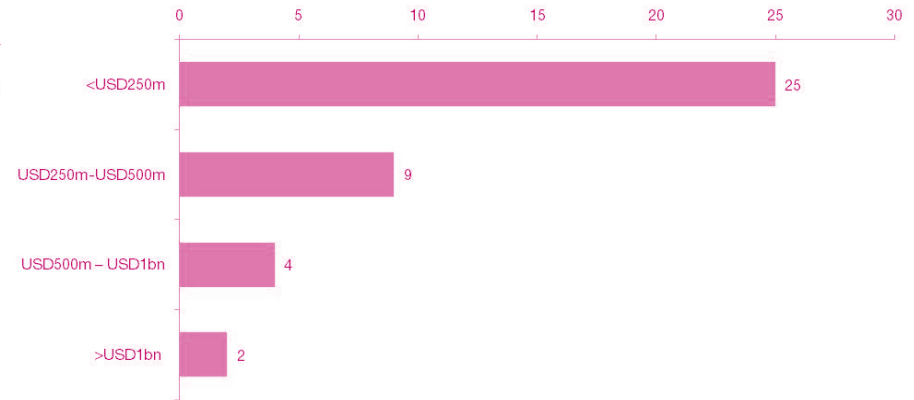
■ UK ■ Singapore ■ Hong Kong



■ Wealth Manager ■ IFA



■ Minimum investment level



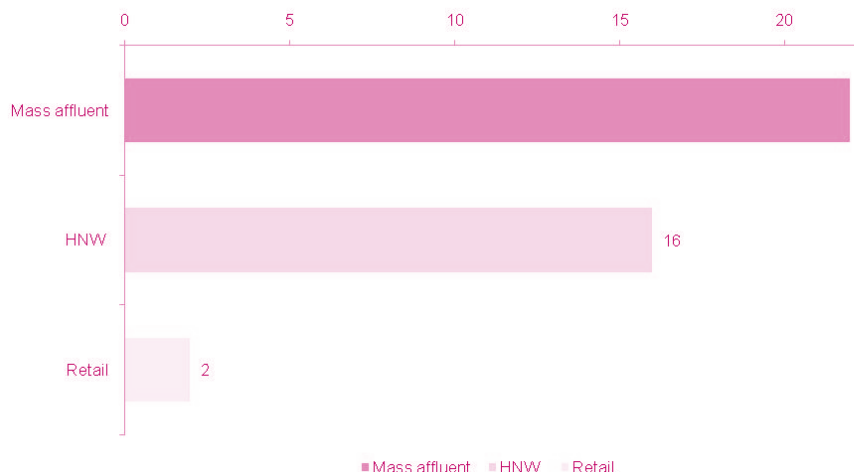
■ Assets under management

Profile

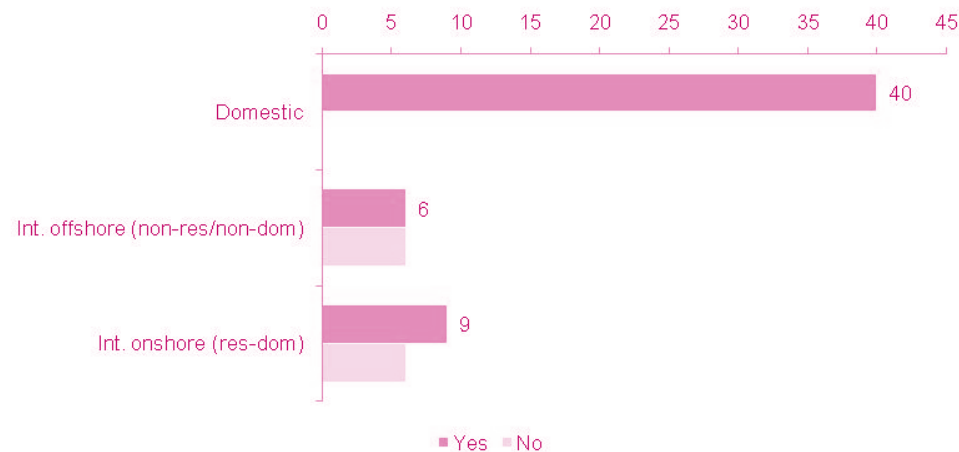
The majority of firms are currently focused on serving the mass affluent and HNW segment with a domestic footprint

- This is closely followed by those that serve HNW clients
- Only 2 of the firms interviewed serve the retail market but these were actively exploring how to move up the wealth ladder
- Despite shifting their focus to the mass affluent market many firms still retain a legacy client bank and have yet to strategically address how to serve this client segment

Client profile



Domicile/status of your client base



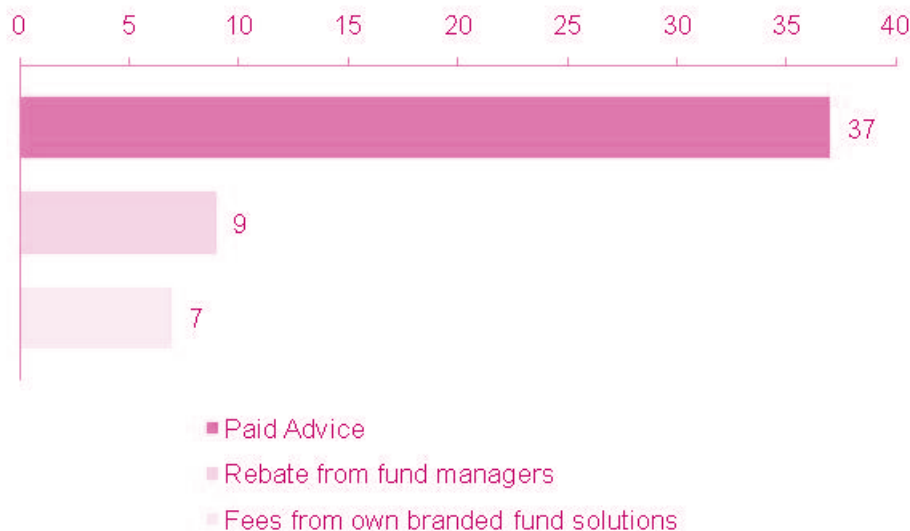
8 KEY FINDINGS

1. Preparations for 2012

Nearly all the respondents have either already, or are in the process of converting to a fee based model in anticipation of the RDR and they are positive about this change

- The majority though had taken the decision to move to a fee based service independently of the RDR and have positioned the shift as a sign of their alignment with client interests
- The transition is seen as a vital shift in their business and one that will require changes in their use of 3rd party providers that is likely to benefit them in the long run

What is your historic fee model?



Four likely pressures on value of the wealth model

1. An industry drive to move to fully disclosed (comparable) fees
 - Pressure to abolish initial commissions and move to fee-based advice to highlight product independence
2. Treating customers fairly and principle based regulation
 - Principle based regulation will involve a shift in culture and behavior
3. Professional standards will be increased at a quasi-licensed level
 - Commission-based IFAs with limited qualifications to face more competition from banks
 - Highly qualified, fee-based advisory firms to see increased regulatory support and market recognition
 - The costs of upskilling will be a drain on many models
4. The rise (and cost) of technology influencing processes
 - Independent firms that can (and must) differentiate through quality of advice will be able to achieve scale

The issue for the business models in wealth today is less about the range of products but more about the economic composition of these products for a broad enough client base

“I don't see how any firm that doesn't shift to a fee based service will survive the RDR. Furthermore, the business model shift to an ad valorem fee aligns our interests much more closely with (our client's) interests.”



2. There is a marked shift to outcomes based investing

Business issue	Principal conclusion	Research headline
Investment philosophy	Industry advisors are shifting their preference to total wealth (including asset and liability planning) investment mandate	The majority of respondents identified a re-adjustment linking product objectives to client lifetime investment goals as their key investment selection criteria.

- There is a clear recognition at most wealth managers in this market segment that it is in the mutual interest of the client and themselves to develop lifelong cashflow planning solutions
- Consequently, goals-based portfolio management solutions are gaining traction among the wealth advisor community
- Product providers that can deliver target-dated investment models are expected to grow in popularity

“In a financial plan we take into account the future cash flow needs and match that against any liabilities the client may have. That way we ensure that when it does come to doing the investment planning we are not working to some model set by a manager but that is not aligned to what a client hopes to achieve in the long run”

3. Multiple platform usage is now a corporate dilemma

Business issue	Principal conclusion	Research headline
Use of platforms	The majority of advisers access investment services via platforms but are unsettled by the offerings to date.	78% of respondents currently use one or more platforms to administer investments, with the remainder using a combination of software and direct access to DFM platforms.

- The recognition, however, is that using multiple platforms is cumbersome but few wealth advisors could identify one platform to suit all their business needs in this target segment – the overriding factors in platform selection are the functionality (in relation to product and service delivery) and transparency of the charging structures
- Most pointed to the history that advisors at their firms still managed their books of business independently but more than half of the businesses were seeking to change this pattern to a centrally aligned advice model to enable scalable growth
- However, the faster growing wealth advisors point to a more coordinated approach to platforms and the selection of investment solutions as a key feature to their success

“In platform selection we look for as wide a product range as possible and steer clear of platforms that are populated with a provider’s own funds [like some of the life platforms have historically done]”



4. The financials are forcing a re-focus of proposition

Business issue	Principal conclusion	Research headline
Economics	Increased margin compression is having a dramatic impact on attitudes to outsourcing requirements	Average adviser fees are rapidly approaching 100bps (1%) on assets under management, down from the industry norm of 150bps (1.5%) a couple of years ago, and expected to reach 75bps in a couple of years.

- Despite a broader trend toward centralising the access to asset management, there is a recognition that to maintain margins there will need to be pro-active outsourcing in the fields of manager selection and asset allocation
- Participants in the study remarked consistently that their future business focus will need to be on client handling and not on technical elements of investment selection, management or monitoring
- There is a question mark still about the independence of investment research and asset models developed by the platform providers

“It is all about being able to provide a cost effective discretionary option to our clients that matches their needs and also allows us to diversify our revenue stream and move away from the use of only model portfolios on a platform. Outsourcing has allowed us to focus on the client side of the business and scale up”

5. Passive investments are growing aggressively

Business issue	Principal conclusion	Research headline
Passive vs. Active	Passive investment strategies are rapidly being seen as the core of the wealth advisor offering	Over 50% of wealth advisors have introduced passive investment solutions into their client portfolios within the past 3 years

- For clients in the mass affluent and lower HNW segment it was perceived that the lower cost of passive investments was the primary benefit
- While the use of passives to gain exposure to alternatives (commodities, property etc.) is not widespread but is expected to become more commonplace as part of a low cost hedging strategy
- This market trend places a greater question mark over the future of discretionary fund managers

“For smaller clients it often makes sense to build the core of the portfolio using passive investments. For instance we have used ETFs when we are trying to get low cost exposure to a particular market or as a hedging strategy”



6. Tax-advantaged structures are the ultimate option

Business issue	Principal conclusion	Research headlines
Investment vehicles	Offshore bonds, SIPPs, insurance linked investments and QROPS are central to the product suite.	<ul style="list-style-type: none"> •63% of UK respondents targeting HNWs prefer SIPPs , with a further 35% across all markets using offshore bonds. •In Singapore and Hong Kong advisers reported hundreds of QROPS cases with average case sizes in excess of USD300,000.

- For the UK, the investment vehicle structure is important due to the need for a fund to be able to be included in a range of wrappers
- Funds that cannot be used in ISAs, SIPPs and other tax wrappers tend to be overlooked in favour of those that can, while the growth rate for QROPS in Singapore was described as exponential
- Accordingly, in the UK unit trusts or OEIE structures domiciled in the UK or Dublin are preferred for ISAs and SIPPs with UCITS funds domiciled in Luxembourg or Dublin being used in SIPPs, offshore bonds, and wraps

“We think QROPs will be a massive growth area. Data that we have access to shows that last year one firm alone handled 750 cases with an average case size of USD225,000. Given they charged a fixed fee just for the set up of GBP995 they made roughly 3/4 of a million just out of set up fees”

7. Advisors are demanding a partnership role in investing

Business issue	Principal conclusion	Research headlines
Differentiators	Wealth advisers want to be much more included in the investment management process to add to their own client value proposition	Over 65% of advisers indicated that in the future they will select discretionary fund managers that are able to work in partnership with them to shape the investment proposition, and are conscious of the need to align the investment proposition to the client's overall financial plan

- Advisers commented that in the future the market will look radically different with the advisers setting the investment mandates rather than the product providers
- In the future advisers will seek to set manager mandate boundaries to ensure that the expected risk profile of a portfolio isn't radically altered by the manager without the advisor being notified and agreeing
- For any outsourced discretionary service, including bespoke portfolios, advisers will expect the provider to be able to deliver detailed reporting including an indication of the performance of the portfolios in relation to the clients' financial goals and timelines

“The education I receive from our manager allows me to provide a better service as I have a better understanding of the product suite and how it can be used in my clients' portfolios”

8. The industry trend is to be upgrading toward HNW

Business issue	Principal conclusion	Research headline
Segmentation	Advisers are actively looking to upgrade the client segmentation with a relatively simple view it will earn more	<ul style="list-style-type: none"> •55% of respondents are actively targeting the mass affluent space with a further 40% targeting HNW clients and most appear to be losing interest in client relationships below a quart of a million pounds

- For the majority of firms building “wealth business models” the cost to serve does not justify clients below GBP250,000
- Much of the reluctance to retain this client bank is based on the advisers strategic mistake of using advisory model to serve these clients and this has created a large number of administrative problems with advisers incapable of scaling this proposition
- Firms base this on an assumed average of 1% earned per client per annum, with an expectation that this may be reduced to 75bps in the future

“Most IFAs just take on anyone and many aren't willing to get rid of clients even after they change their business model and segmentation strategy, even if those clients no longer meet their new criteria. It seems they think that these clients will one day win the lottery or magically come into a large amount of money through an inheritance”

About Momentum Global Investment Management Limited

Momentum GIM:

- A specialist global investment manager;
- Focused on delivering bespoke investment solutions to institutions and wealth managers;
- Investment solutions are managed on a multi asset, best of (manager) breed basis, using active and passive instruments;
- Asset allocation and portfolio construction / modelling is a key focus as the key element in value creation.
- Incorporated in the UK and FSA regulated for more than 10 years.

Momentum Group: the parent company of which Momentum GIM is a wholly owned subsidiary

- A leading life insurance and investment group, employing more than 10,000 people;
- Well known for its product innovation, outstanding service delivery, and commitment to independent financial advise;
- Listed on the Johannesburg Stock Exchange, as MMI Holdings, with a market capitalisation of circa GBP2.5 billion;
- Recipient of many awards, including recently: Excellence in Client Service (UK), Top Performing Hedge Fund of Funds (Europe), Financial Intermediaries Association of Southern Africa (“FIA”) Investment Product Supplier of the year (three years n a row), World Finance Insurance Company of the Year (South Africa), and a number of Raging Bull awards in South Africa for top investment performance

Clients and Assets under Management:

- MMI’s investment businesses manage assets totalling more than GBP 20 billion, with a staff exceeding 600;
- Within MMI, Momentum GIM is responsible for managing the global assets of the Group and its clients;
- Clients domiciled in the UK, Europe, the Channel Islands, Africa and the Middle and Far East;
- Global assets managed by Momentum GIM exceed GBP 2 billion.

About Scorpio Partnership

Scorpio Partnership is an insight-led global strategy consulting firm.

- Partner-owned and completely independent.
- 12+ years experience in international wealth management business insight and strategy.
- 12 in-house consultants and analysts plus six external practice area experts.

Specialists in international wealth management.

- 300+ projects completed for global wealth management businesses, suppliers, UHNWs and regulators.
- 7,000+ interview engagements with HNW, UHNW and billionaire consumers of wealth services.
- 14,000+ interview engagements with professional management, staff and intermediaries for assignments.

Our clients include:

- Top-quartile international private banks, wealth managers and family offices;
- Service and technology suppliers to the international wealth management industry;
- Single and multi-family offices together with HNW/UHNW individuals.

Our accolades include:

- Leading consultancy to the global wealth industry 2006-08 (*Wealth Briefing*, 2006 -2008).
- Shortlisted for Agency of the Year 2010 for Financial Services Forum UK



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