CHARLES STANLEY

Focusing on you

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A guide to Managed Portfolio Services: How an MPS solution can benefit your business

Contents

A word from our Chief Executive

Thank you for considering Charles Stanley as your Managed Portfolio Service provider. I hope you find our guide to Managed Portfolio Services beneficial and informative.

Our focus on clients has been consistent since the foundation of Charles Stanley in 1792, a heritage that has helped to make us one of the UK's leading Wealth Management firms.

We understand the challenges that face financial advisers in a continually changing world, with plenty of political and economic surprises as well as significant regulatory changes. In this environment, you may not have had time to give discretionary fund management (DFM) the serious attention it deserves. But I strongly believe that choosing DFM could save you time and help you focus on what you do best: managing client relationships.

We are committed to providing you with the highest standard of investment support, and superior quality investment solutions for your clients.

This document is designed to provide you with a clear and transparent approach to selecting an appropriate Managed Portfolio Service. If you have any queries or further questions, then please get in touch with your contact at Charles Stanley.

Paul Abberley
Chief Executive

The effects of MiFID II

The newly-introduced MiFID II regulation may encourage advisers to switch to a Managed Portfolio Service.

MiFID II's ban on retention of product rebates by discretionary portfolio managers extends a ban already in place in the UK for financial advisers. We understand this regulation very well, and in our conversations with advisers it is often quoted as a reason they moved to a Managed Portfolio Service.

"The regulatory burden continues to grow and we don't have the time or resources to manage client portfolios as well as a bigger, specialist firm can. That is why we chose to outsource this important function"

Why use a Managed Portfolio Service?

As an adviser, your time is extremely valuable. And post-RDR, advisers in the UK are under considerably more pressure than ever before.

With so many demands on their time, advisers frequently struggle to balance their clients' service needs with the time-consuming work required to run a practice. As a result, advisers are deciding to recommend providers of Managed Portfolio Services.

This can seem like a daunting decision. Traditionally, running your own portfolios has been done in-house. This included responsibilities such as:

- Setting an appropriate asset allocation
- Building a portfolio and providing ongoing risk management
- Analysing that portfolio
- Maintaining that portfolio, across all clients

Working with a single portfolio management service simplifies your investment process, while eliminating the complexity that comes from using different methodologies.

Because we understand the challenges facing advisers, we have pulled the most important information into a guide, to help you select the most appropriate Managed Portfolio Solution for your practice.

The industry view

Uniquely in the UK, advisers control a vast majority of retail fund distribution. The competition to attract advised assets has been increasing in intensity since the removal of any commission bias following the RDR. And in response to this, discretionary fund managers have launched Managed Portfolio Services through advised and direct platforms.

At a recent Platforum Investment Strategy Forum, advisers and providers were asked why they have been experiencing a wave of outsourcing and whether they might see greater numbers of advisers taking on discretionary permissions themselves. Although the results found “no obvious pattern as to where IFAs use models or insourced solutions”, in conversations with advisers and discretionary fund managers one rationale came up time and again: de-risking.

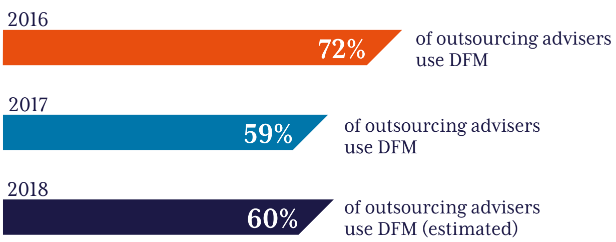
The last official research Defaqto did on this was in late 2014 via a full adviser survey, and the results suggested 45% of advisers outsourced, with approximately 72% of these using DFMs. The caveat is what you consider “outsourcing part of all of the investment process” to actually mean. By and large, this would be talking about advisers that use multi-asset funds, FM (bespoke and/or MPs) or governed solutions from third parties and distributors.

Estimates of the proportion of advisers that outsource:

The percentage of advisers that outsource to DFM

Of the advisers that outsource, recent surveys suggest that approximately **59%** use a DFM. The remainder use funds or a combination of distributor-based asset allocations and/or fund selection with fully advised clients.

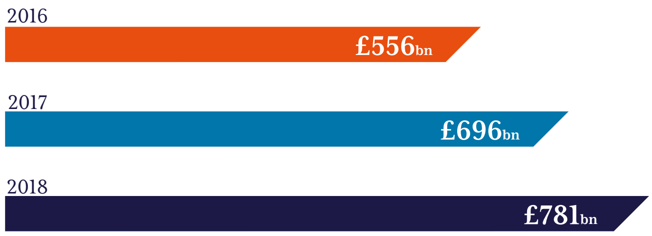
The use of DFM has followed the trend of:



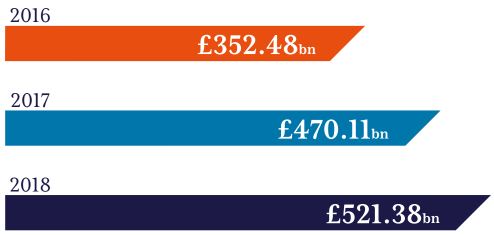
The definition of DFM, for some advisers, has been confused with distributors that have in-house models managed on a discretionary basis. National adviser groups such as Tatton and Fairstone Marketstar provide discretionary models for their member firms, and it may be that some advisers do not see this as outsourcing to a DFM.

The overall size of the platform market

Based on the Defaqto platform database, which features adviser and D2C platforms, there were the following volumes of assets on UK wrap platforms at 31 March in each respective year:



In terms of adviser platforms at 31 March in each year:



Defaqto expects the growth of assets on platforms to continue at 12.5% to 18% per annum, but also the number of platforms in its database to grow. With the advent of asset manager platforms, more D2C platforms, including robo-advice platforms, this suggests adviser platforms reaching **£690bn by 2020 and all platforms topping £1trn by 2020.**

(Platform definition and assets under administration sourced from Defaqto Matrix at 18 June 2018.)

The amount of MPS managed on-platform

At the end of 2017 there was £21.83bn platform MPS AUM reported by DFMs via the FUM in each individual portfolio hosted on-platform. There was £20.33bn in direct custody MPS and a further £12bn in funds managed by DFMs and offered with a discretionary service overlay.

The caveat here is that in Defaqto’s research (based on Defaqto Matrix data at 1 March 2018) it considers FUM in Old Mutual MPS, Standard Life Wealth MPS, Parmenion MPS and Novia Copia MPS services as being direct custody, as the MPS provider (DFM) defaults the custody to its own brand platform. The effect of this is to increase the direct MPS AUM by approximately £10bn.

Some may consider these assets as being platform-hosted MPS, and it is certainly the platform MPS peer group that these propositions compete with.

In terms of DFM business flows, from advisers non-related to the DFM firm (ie excluding in-house BDMs) the following volumes are estimated using the metrics in Defaqto Matrix at 1 March 2018:

Date (at 31 Dec)	Bespoke (£bn)	MPS Direct (£bn)	MPS Platform (£bn)	Funds from DFMs (£bn)
2016	£149.48	£17.65	£16.75	£9.49
2017	£166.14	£20.33	£21.83	£12.40

Source (Defaqto Matrix 2018)

The Total Amount in MPS at 1 June (based on Portfolio FUMs at 31 March 2018) was **£44.95bn** (source Defaqto Matrix 1 June 2018).

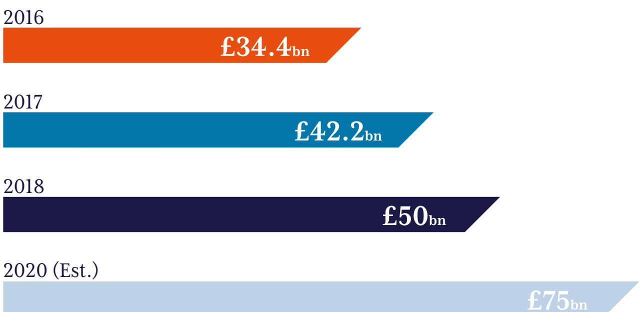
The percentage of advisers that understand the need for diversification of providers

Approximately 10% of advisers choosing an MPS portfolio for their clients will recommend more than one suitable model from different DFMs.

Approximately **60%** of advisers using Defaqto research software will use a DFM panel, either via their own creation, or via a network or nationally approved DFM panel. This is typical for bespoke. Panels usually offer a choice of four to 12 DFM propositions from different providers.

There is plenty of anecdotal evidence suggesting that advisers understand the danger of giving all their outsourced investments to a single DFM, both in terms of exposure to the individual DFM, and to ensure that clients can choose from DFMs that may have different skillsets and specialisms (eg ethical, US clients, IHT, income, passive managers).

Total in MPS: at 31 Dec in respective year:



These figures also include some distributor manufactured models that are marketed as discretionary MPS.

Percentage of advisers that consider outsourcing in the coming one to two years

While this is almost impossible to answer with any accuracy, Defaqto is aware that firms supporting adviser compliance are uneasy about any advisory portfolio activity, and want to encourage the transition to multi-asset funds, or fully outsourced investment solutions.

The effects of MIFID II on adviser business so far

There is no doubt that advisers will seek third-party support in their CIP. Defaqto suspects that the use of platforms will continue to grow, as will the use of DFMs/MPS propositions. MIFID II accelerates the need for third-party support. What needs to be remembered is that the competition for MPS/DFM and platforms is increasing and will continue to do so.

Other notes from research

The average investment case, via Defaqto, for DFM propositions is increasing:

- MPS direct average case size at 1 January 2018: £216,000
- MPS platform average case size at 1 January 2018: £150,000
- Bespoke DFM average case size at 1 January 2018: £412,000

There is definitely a sense that MPS and bespoke DFM are being positioned for certain types of customer with a certain level of investable assets:

The general averages for advisers using Defaqto Engage are:

- £1,000 to £10,000: transactional client
- £10,000 to £100,000: multi-asset fund
- £100,000 to £200,000: platform MPS
- £200,000 to £350,000: direct MPS (quasi bespoke, ie model investment solution), bespoke service level (ie access to managers, legacy assets), omission of certain asset genres (ie model without property)
- £350,000 and above: businesses in excess of £350,000 could use an MPS; the key will be individual segmentation

Why an adviser should consider a Managed Portfolio Service

Having never used a Managed Portfolio Service previously, trusting the investment process to an external firm may seem daunting and at odds with the traditional view of an adviser's role. While recommending discretionary fund management may not suit every practice, it can offer substantial benefits to advisers and their clients.

The benefits of a Managed Portfolio Service

Use your skills more effectively

As a financial adviser, you are looking after all aspects of your clients' financial needs: from retirement planning, to tax-efficiency, to ensuring their children are properly looked after - whether at school or through an inheritance. This means that the performance of specific investments is only a part of the service you offer.

Working with a DFM provider means you can make a distinction between long-term financial planning and the day-to-day management of assets.

This distinction means your clients are less likely to evaluate your services based solely on short-term investment performance, and more likely to judge you on the holistic service you provide to maximise their wealth.

Gain more hours in the day

Every portfolio comes with regulatory, monitoring and reporting responsibilities. By delegating investment decision-making responsibilities to a trusted partner, you will be able to focus more time on the longer-term issues that are important for your clients' financial health.

Many advisers tell us that building relationships with clients is the most rewarding aspect of their industry, but building and maintaining a portfolio can be a time-consuming and complex process which reduces the time they have to focus on those relationships. A discretionary fund manager can give you more time to focus on really getting to know your client, so you can deliver the tailor-made, bespoke solution that they need.

Benefit from the knowledge of an experienced investment manager

Financial markets are extremely complex and ever-changing. Working with a discretionary fund management provider, whose sole job is ensuring a portfolio is managed efficiently and effectively and action is taken in a timely manner, can benefit your clients over the longer term.

The broadly upward-trend of markets in the past few years has been kind to us, but there may be more difficult questions to answer when markets become more changeable and volatile. By effectively outsourcing your investment needs to us, this de-risks your business and makes you truly independent when reviewing investment outcomes.

Increase your client base and grow your business

To build and manage a portfolio takes time. Most practices and networks have in-house specialists who can take on some of this burden. But is this team able to give your individual clients the attention they really deserve?

Recommending a discretionary fund manager allows you to overcome these capacity constraints, while keeping expenses under control.

You can concentrate on growing your business, safe in the knowledge that your investment management provider is equipped to move quickly when the market changes.

Common misconceptions

It's expensive

The key consideration should be value, not price. The benefits of discretionary management in mitigating risk and capitalising on investment opportunities are key to delivering positive returns. A quality provider can offer more in terms of specialisation, active investment management and ancillary services that could benefit a client long term.

In addition to this, collective buying power and a focus on direct securities also reduce the underlying costs to your clients.

Minimum investment amounts are too high

Sadly some Managed Portfolios have unusually high minimum entry points. At Charles Stanley we believe in democratising access to these portfolios and are therefore happy to confirm that our minimum requirement is £1,000, platform dependent.

An MPS solution is often less transparent

At Charles Stanley, we take transparency very seriously and provide all the necessary investment research information for you to make an informed decision. Carrying out detailed due diligence when selecting the most appropriate provider, will keep your business compliant and give you the best chance to build a long-term relationship that benefits you, and your clients.

You will steal my client

We will deal exclusively with you, the intermediary. We will not and do not have contact with your client because the relationship sits with you. We want you as our trusted partner, so that we can build a successful and sustainable business together.

Once a client's portfolio moves to a wealth manager, it's impossible to leave

The portfolio can easily be transferred from one provider to another, usually at no cost to you or the client. Since the platform is the source, all movements are controlled by you.

Finding the right provider

Along with FCA permissions and recent client disputes, your due diligence on any Managed Portfolio Service provider should explore issues including its financial stability and strength, its longevity in the market, the amount of assets it has under management, and the split between model portfolios, bespoke portfolios and funds.

You'll want to know what their investment pedigree is, what credentials and qualifications their key personnel have, and evidence of past success. The resources at their disposal are also crucial, not just in terms of people, but also technology and infrastructure. These are the basic indicators of capability and the firm's ability to take on more business and manage it effectively.

Some of the main issues to consider when choosing a worthy Managed Portfolio Service:

- Financial strength of the provider?
- Minimum investment levels required?
- Does it fit in with your firm's style/ethos?
- Does it offer your clients value for money?
- The research capacity of the firm?
- Historic performance/track record?
- Transparency/fee structure?
- Defaqto 5-star rated?
- Appropriate risk profiles that fit your business?
- Investment approach - active or passive?
- Key personnel - depth, breadth and stability?
- Service & support?
- Communication - monthly factsheets/quarterly reports?
- Ongoing due diligence?

This due diligence process doesn't end once you have selected a provider. It is your responsibility to ensure this service continues to be suitable for the client and worthy of the trust - and money - the client holds with you.

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The importance of Risk Profiling

Whilst risk profiling is a shared responsibility, it is absolutely integral to the overall investment process. The FCA expects advisers to follow good practice when determining a client's attitude to risk and, consequently, their investment selection.

Financial Advisers often use a range of different tools to help determine the risk profile of their clients. As a result, it can sometimes be difficult to compare the output of different systems with the risk profiles used by the Managed Portfolio Service provider.

That's why we have partnered with three of the main risk profiling firms – Dynamic Planner (DT), Defaqto and FinaMetrica – to make the process as easy as possible.

These three firms have considered the portfolios offered under the Charles Stanley MPS and have applied their own risk ratings to them. We offer portfolios covering the range of risk ratings shown below:

Risk Bands	2	3	4	5	6	7	8
Dynamic Planner (DT)		Y	Y	Y	Y	Y	Y
Defaqto	Y	Y	Y	Y	Y	Y	Y
FinaMetrica	24 - 98%						

Why Charles Stanley?

Our Managed Portfolios are a discretionary fund management service designed to meet a diverse range of client needs, including income, growth and wealth preservation.

They are available through popular adviser platforms, have low or no minimum investment levels and offer a competitive fee structure. Advisers receive high-quality ongoing support including regular performance and market updates.

Our UK-based investment teams use a rigorous portfolio construction process built on over 30 years of asset-allocation experience. They draw on Charles Stanley's fund research and data services to identify high-quality funds that are best suited to implementing their strategies.

Our Managed Portfolio Services can help enhance your investment offerings, strengthen client relationships and streamline your business. Together, we bring your clients the best of both worlds: a plan you've tailored to their goals, that has all the advantages of professional portfolio management.

Contact us

For more information about Charles Stanley services for professional advisers, please contact our Intermediaries Sales team.

020 7149 6416

focusingonyou@charles-stanley.co.uk

www.charles-stanley.co.uk/professional-advisor-services

The value of investments, and the income derived from them, can fall as well as rise. Investors may get back less than invested. Past performance is not a reliable guide to future returns.

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