ADVISED PLATFORM REPORT 2019

THE BRINK

FinalytiQ

CONTENTS

INTRO: THE GREAT MIGRATION SPECTACLE

The Great Wildebeest Migration is one of the largest wildlife spectacles on earth.

Each year, some 1.7 million wildebeests, 260,000 zebras, 470,000 gazelles and impalas migrate across the golden plains of the Serengeti in northern Tanzania.

Their 500-mile journey begins in January at the Ngorongoro Conservation Area and loops in a clockwise direction through the Serengeti National Park, before heading north towards the Masai Mara reserve in Kenya, where they arrive in late July/August. The migration starts moving south again in early November, usually arriving in December, with plenty of time for calving in February.

The epic migration is a popular safari attraction for thousands of tourists who travel from around the world to witness the spectacle. Sadly, about a quarter of a million wildebeest die from hunger, thirst and exhaustion during the journey.

The Great Platform Migration may have been much less of a spectacle, but the causality is not insignificant.   What began like the wildebeest migration across platform land a few years ago, has become a journey of injured beasts who have managed to limp to the other side, battered and bruised, but somehow, still alive.

We'd like to think that the worst is over, but alas we're sad to say that there's still some pain to come. Spare a thought for some 5,000 advisers on the Quilter Platforms who are being taken through a seven-point checklist in preparation for their Serengeti journey to FNZ.

Even at Ascentric, Fidelity, Aviva Platform and Aegon's Cofunds, where the heavy-lifting has supposedly been done, providers and indeed advisers are left picking up the pieces. The good news is that the worse is probably behind them and they can focus on delivering a much better service to advisers and clients in the coming months. We can only hope.

Other than technology upgrades, surely 2019 has been a relatively calm period in platform land so far?

Ah, no. Hold on...then we had the hungry hippo that's FNZ go on a spending spree. After acquiring European platform ebase and JHC, it gate-crashed the bidding war for GBST, beating Bravura and US based SS&C technology to clinch the deal. Oh, and it took a minority stake in Embark platform. These deals put FNZ in a dominant position within the UK advised platform market. This raises some concerns over underlying platform tech providers if they own around two-thirds of that market. The question remains of course, what does FNZ do with all these different technologies? For now, it offers them diversification into different revenue generating areas.

Zurich platform is up for sale. We hinted at this in our previous report after it sold its workplace business to Scottish Widows back in 2017. And surprise, surprise, Widows is reported to be in pole position to buy the advised platform as well. Aegon's also in the mix, but quite frankly, the idea that they'd want to buy another platform not long after their experience with the Cofunds migration is bonkers. Maybe they want to prove to the world that they can implement a successful migration. Some goals, in our opinion, are quite frankly not worth pursuing.

And around the merry go round we go again. Life company enters platform market. Promises advisers heaven and earth. Fails to deliver on it. Piles on losses. Destroys shareholder value. Sells to another lifeco. We've seen that move before with L&G, AXA and now Zurich.

METHOD IN THE MADNESS

This guide provides in-depth insight and analysis of the financial performance of 21 advised platforms over the last five years. The platforms covered in this report together account for more than 95% of the total AUA in the adviser market. We examine key metrics to give a clearer picture of the financial health of platforms – AUA, revenue, pre-tax profits/losses, yield on assets and profit and loss (P&L) account reserves over the last five years.

The guide focuses on the financial performance of platform businesses, not their parents'. We've trawled through who-knows-how-many annual accounts and hundreds of data points to get a good picture of the financial health of the platform sector.

We put platforms in peer groups to get an understanding of whose cost base is out of control, and we look at P&L account reserves to see who has a hole in their books. And yes, the infamous FinalytiQ Financial Performance Rating is back! We rated the platforms, and we provide a summary of the financial health of each business.

Most platforms have a year-end date of 31 December. We've compiled data for years ending 2014, 2015, 2016, 2017 and 2018. But there are some exceptions, and we had to compromise. Where a company's year-end is before 30 March, we use accounts filed the following year. Of course, this means that results for some platforms extend over a slightly different period, due to factors like changing account year end. That can't be helped.

WHO IS THIS REPORT FOR?

The guide is aimed at three categories of people:

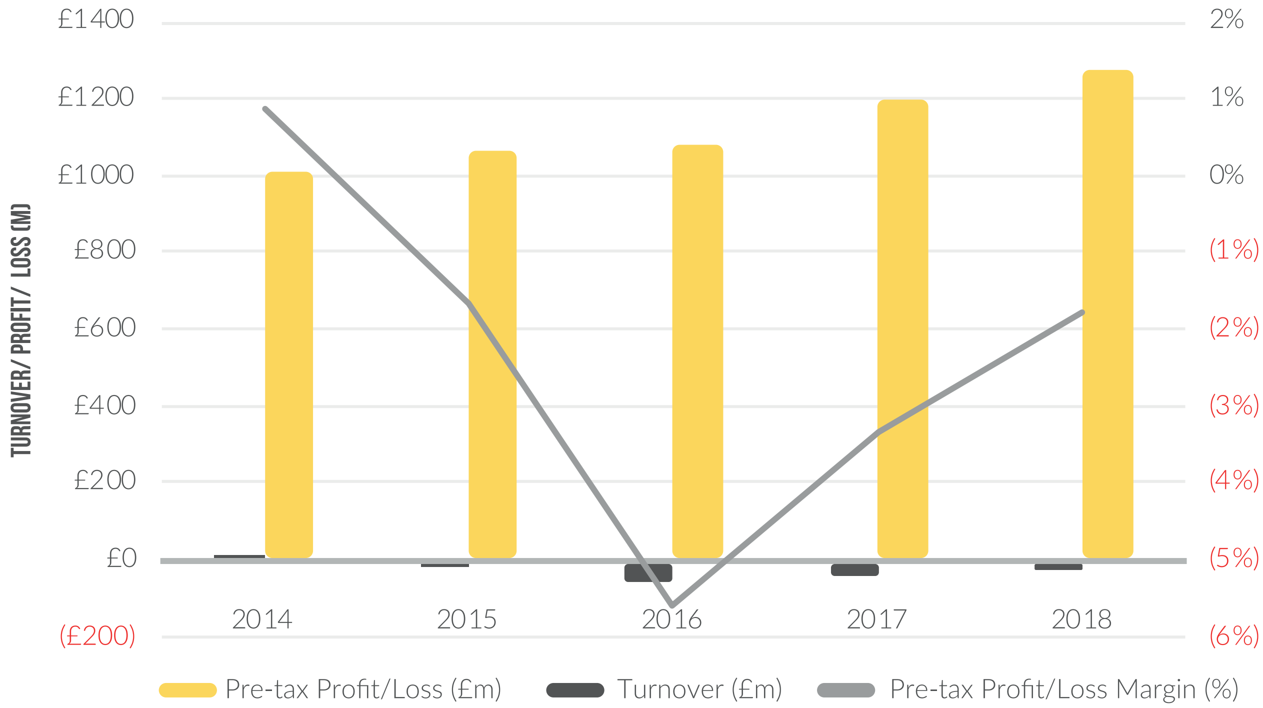
- **Advisers:** the report is designed to form a key part of adviser platform due-diligence. There is a clear regulatory and professional obligation on advisers to consider the long-term viability of platforms in the selection process. This guide provides unparalleled data and insight to help advisers assess the long-term viability of their platform partners.

- For platforms, this report offers market insight based on robust facts and figures to support business planning and validate strategy. Those who bought the guide last year told us that it's a great way to keep tabs on their competitors. Of course, those doing well see this as an independent validation of their strategy. As you might expect, they shout about it to their advisers and even shareholders. For those who aren't doing so well, we hope it will spark a meaningful, if challenging dialogue between the platform and adviser businesses.

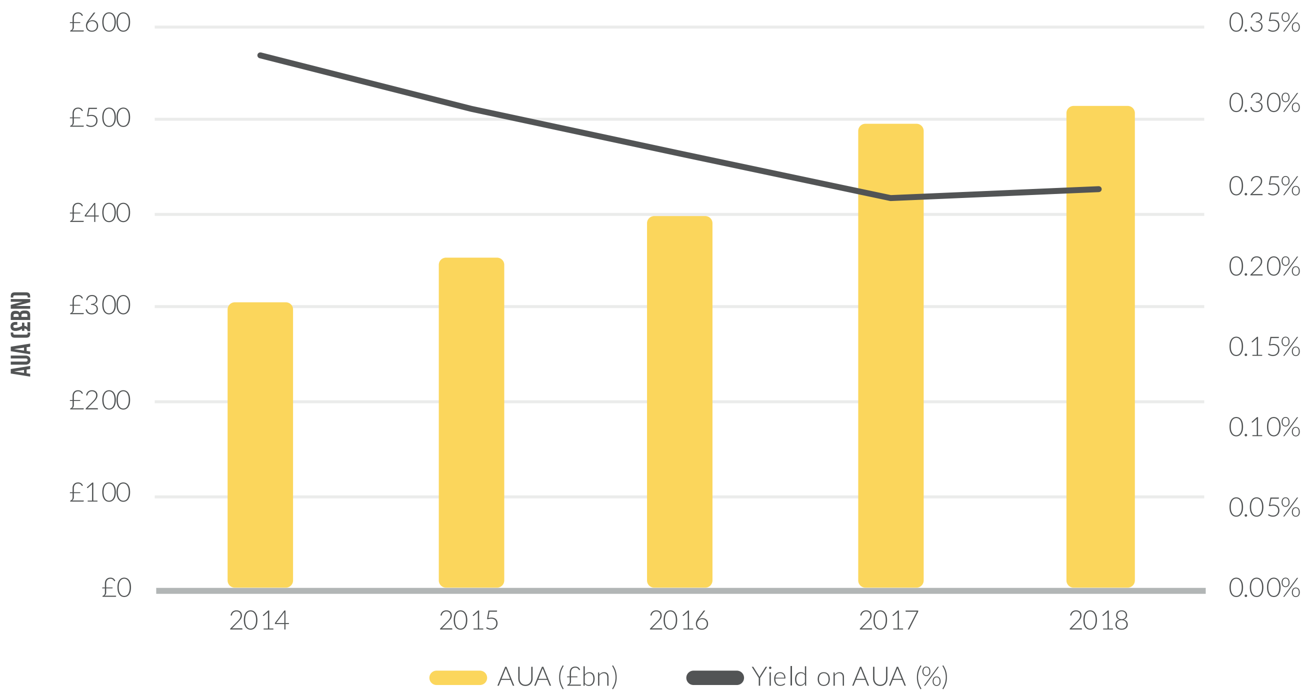
- Platform technology providers, asset managers, discretionary investment managers and consultants will benefit immensely from understanding the direction of travel in the industry, and the potential strengths and weaknesses of their key partners.

MARKET OVERVIEW: BRINGING HOME THE BACON

Our advised platform sector reported a cumulative pre-tax loss of £22.58m on a turnover of £1.27bn in the year ending 2018. This compares to £40m in pre-tax losses on a £1.20bn revenue for the year ending 2017. We expect losses to continue to reduce as the outstanding re-platforming projects draw to a close.



Having enjoyed low but double-digit growth over previous years, the increase in AUA from 2017 to 2018 was a mere 4%. With revenue growing by 6% over the same period, yield on revenue remains relatively flat at 0.25%. This is hardly surprising given that there has been little re-pricing by platforms in the past year.



KEY MARKET TRENDS

IN THIS SECTION OF THE REPORT, WE DIVE INTO SOME OF THE KEY ISSUES WE'VE SEEN IN THE ADVISED PLATFORM MARKET OVER THE PAST YEAR, AND THEIR LIKELY IMPLICATIONS GOING FORWARD.

PLATFORM MARKET STUDY

2019 saw the final release of the FCA's Investment Platform Market Study. The key point from this was that generally the market was operating well but with room for improvement, particularly in making it easier for advisers/consumers to switch platforms. Key areas identified as making it easier to switch are:

- Making in-specie transfer of funds easier by asking the ceding platform to convert the relevant funds to a share class to match that of the receiving scheme. This would avoid CGT becoming a preventative issue.
- Receiving scheme, automatically switching to a discounted share class. It's a good thing to keep costs as low as possible for the end client.
- Consultation on banning or capping exit fees. This is mostly relevant for D2C platforms. We can't think of any advised platform with exit fees. So, what's good for advised clients is surely good for D2C clients.

Ultimately, an adviser shouldn't stay with a platform that no longer meets their clients' and business's needs. The main reason we see for advisers not switching, is due to CGT and other associated costs, as well as the time the whole process can take. It's a mini version of re-platforming only what's at stake here is not just more grey hair, but the potential loss of it.

ABOUT US

FinalytiQ are a vibrant, insanely brilliant research firm working with financial planners, providers and asset managers. We support advisory firms with high-quality research that helps advisers to create robust investment propositions and deliver superior client outcomes in a compelling way. Our market analysis helps providers identify their distinct advantages (and weaknesses) and build propositions that are fit for purpose.

ABRAHAM OKUSANYA #THEBOSS

Abraham is founder of investment and retirement research firm, FinalytiQ and creator of Timelineapp.co, the next-gen retirement income software for illustrating sustainable withdrawal strategies. He has authored several industry papers and delivered talks to the FCA, CII, PFS and several conferences around the world.

KARTHICA UNDERWOOD #RIGHTHANDWOMAN

After a very short stint at the Office for National Statistics – the obvious place to go after a degree in Statistics and Management Studies – Karthica started her career in financial planning. She holds the Chartered Financial Planner designation and has previously worked as an IFA before moving back into a research role. Karthica overseas operations and research and anything else #theboss throws her way.

DANIEL RAWLINSON #INVESTMENTGENIUS

Daniel holds a degree in Management with Finance MSc from the School of Management, University of Bath and an undergraduate degree in Economics BSc from the University of York. After a spell working in the public sector primarily within technical and finance-based roles and while obtaining the IMC, IOC and passing both levels of the CAIA and CFA Level 1 (deep breath), he decided to change direction and found a home at FinalytiQ.

JAMES GILLESPIE #THEYOUNGGENUIS

James holds a BSc in Economics from Le Moyne College, New York, and was the 2019 winner of the Wall Street Journal Student Achievement Award – for outstanding academic achievement in Economics with a focus on Investment Management. He left his hometown of Edinburgh to spend the last four years on a football (soccer) scholarship in the U.S.A. – he tends to spend most of his life either talking about, watching or playing football and is also currently studying towards his IMC and CFA level 1.

ADVISED PLATFORM REPORT 2019

THE BRINK

FinalytiQ