momentum

Press release

Multiple Fund Platform usage set to grow but RDR will reshape; knowing which to use, and how, will be key

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Momentum Global Investment Management, the specialist asset manager, believes that fund platforms are set for high growth rates as retail investors and their advisors increasingly look to simplify processes and manage costs. RDR should be a big catalyst for fast tracking some of this growth, but at the same time RDR may also impact quite meaningfully on (reducing) margins. This will drive different types of alliances and relationships between platforms, fund managers and advisors, centered around client needs.

In a recent survey of wealth managers and independent wealth advisors undertaken in conjunction with Scorpio Partnership, Momentum Global Investment Management found that:

- **Platform-based AUM have grown significantly in UK, Ireland and Luxembourg**
- **Platforms provide an ease of management for retail investors and advisors**
- **Discounted fees and charges are common**
- **The ability to aggregate multiple clients under a single platform structure provides IFAs with a more efficient and consistent proposition**
- **"Open architecture" platforms offer clients and advisors a much wider investment choice across firms and products**
- **The FSA's Retail Distribution Review is likely to re-shape the Platform industry**
- **Platform profit margins are expected to become significantly pressurised**

Platforms, which are essentially internet-based services traditionally provided by wealth managers, private banks, life insurance companies and asset managers are used to view and administer investments. Their creation has revolutionised the wealth management industry over the last few years, and is set to do the same in the (retail) investment fund industry.

Commenting on the research findings, Ferdi van Heerden, CEO of Momentum GIM, said, “The functionality that platforms offer mean that retail investors, and their advisors, can manage assets from their home or office more efficiently and with greater flexibility. The current volatile market environment is changing the sentiment of retail investors and advisors towards investing, with much greater need for real time access to information and valuations, more transparency on fees and underlying exposures, and execution capabilities. Fund platforms are ideally suited to fill this gap. This is however not a new shift, as can be seen from the significant growth in assets under management invested via fund platforms in jurisdictions such as the United Kingdom, Ireland and Luxembourg over the last years. RDR and the economic climate will provide further impetus to this move over the next two-three years.”

There are three categories of platform in use today:

(1) Fund Supermarkets: These platforms are designed to service the retail market, both directly and via retail investment advisors. With access to transact a wide range of investment funds, it provides funds under one account and at wholesale prices.

(2) Fund Wraps: These are designed to go one step further and provide the retail market, with ‘off the shelf’ tax-efficient investment products i.e. ‘wrappers’. Including Individual Savings Accounts (ISAs), Self Invested Personal Pensions (SIPPs), Personal Equity Plans (PEPs) and Insurance Bonds, these platforms utilise a wide range of investment funds and in some cases individual stocks and shares as well. Akin to fund supermarkets, Fund Wraps also provide solutions under a single account and at wholesale prices.

(3) Discretionary Fund Manager Platforms (DFM): Providing a similar service to Fund Wrap platforms, these services are built around the provision of a discretionary asset management solution. A DFM platform will typically support advisors who offer a proprietary discretionary service to customers or provide access to their own discretionary asset management solution, using the administration platform and tax wrapper capability as selling points. These platform operators usually have a brokerage history or are discretionary asset management businesses looking for distribution.

In addition to the advantages that platforms were seen to hold for retail investors, there were also strong indications of their appeal to IFAs. This is particularly driven by their ability to aggregate multiple clients under a single platform structure and the fact that “open architecture” offers clients and advisors a much wider investment choice across firms and products, as well as transparency.

Mr van Heerden, said, “ “With the advent of RDR, and the realities of a changing economic and social environment, it is imperative that fund managers and advisors form new partnerships with each other and fund platforms, in order to deliver on the required investments outcomes of clients.”

“The key RDR-linked interventions such as the increased minimum qualifications required by financial advisors and wealth managers, the distinction between independent advice and restricted advice, the outright banning of advisory commission payments by investment managers and the full transparency requirements of all charges clearly necessitates new thinking.”

In conclusion, he added “Pre-RDR, the use of commissions and rebates were available for platforms and advisors to boost their revenue stream. The change in landscape now means advisors will be looking to investment managers and platforms to reduce fees to allow margins to be maintained. The value chain is bound to shrink for all participants and will force efficiencies in business models.”.

The Momentum Global Investment Management white paper which delves deeper into the key areas of the RDR, the resulting pressure on margins and the future considerations/developments of the advisor, the platform and the investment manager can be viewed at www.momentumgim.com*.*

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Notes to editors

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