

TISA – Best Intentions & Unintended Consequences
Distribution, Platforms, RDR & Asset Managers
9th June 2009

Threadneedle Investments Key Facts

- In excess of £60bn FUM
- 4th largest Retail funds distributor in the UK
- Part of the Ameriprise Group
- Historically UK centric expanding into Europe & Asia
- Part of the Distribution Group
- Focus on Platforms

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Background – RDR & Platforms

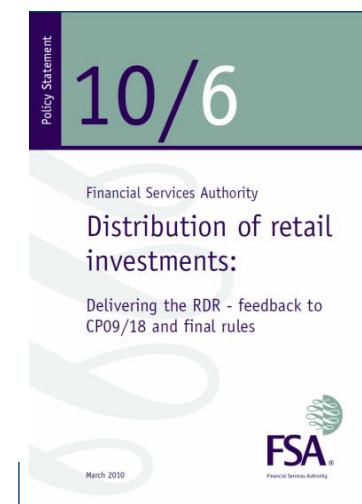
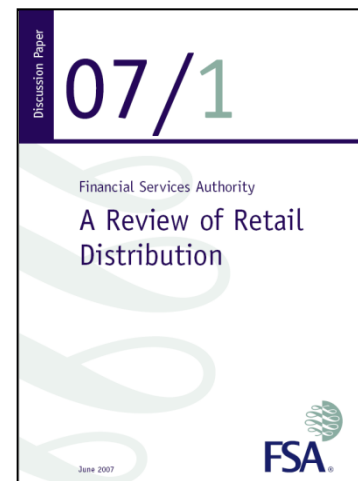
RDR – slight shift of objectives

Original objectives:

- To deliver fairer outcomes for consumers
- To modernise the industry
- To give consumers more confidence and trust in the industry
- To encourage more people to save for their retirement

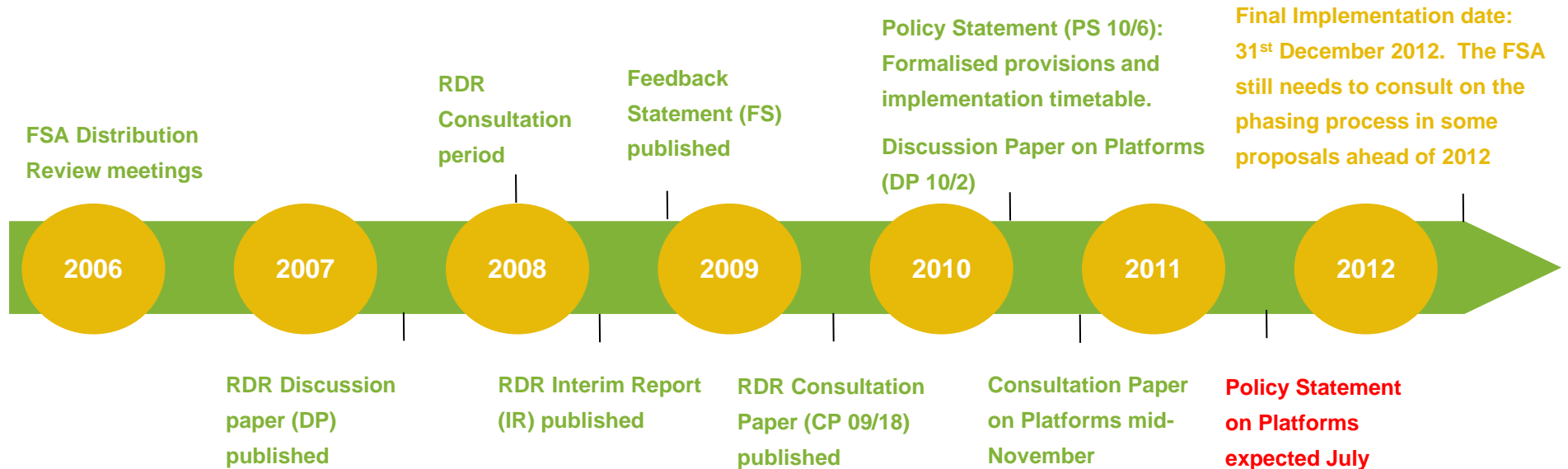
and now...

- Improve the clarity with which firms describe their services to consumers
- Address the potential for adviser remuneration to distort consumer outcomes
- Increase the professional standards of advisers



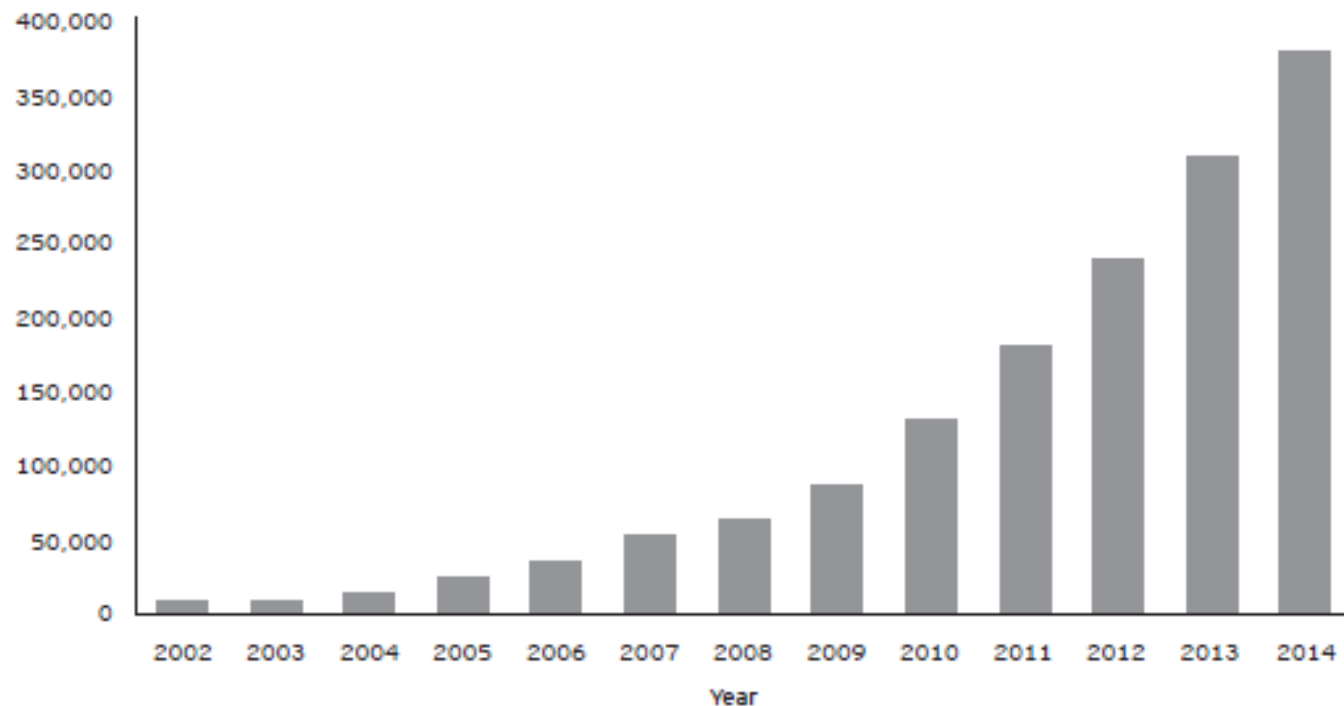
- **Consumer clarity about advice for Investment, Life & Pensions**
 - Independent
 - Restricted
 - Simplified
- **Remove remuneration bias**
 - Advisor and client agree charges
 - Commission from product providers to advisers banned
 - Providers can however facilitate payments to advisers on behalf of clients
- **Increasing professional standards**
 - All Independent or Restricted advisers must be qualified at QCF level 4
 - No grandfathering
 - Increased CPD requirements and Code of Ethics

Proposed Timeline



And meanwhile ...

- Distribution Platforms have grown significantly both in number
 - Circa 28 at time of writing
- In assets from < £10 bn in 2002 to circa £150 bn in 2011
- Now a crucial part of the Distribution Landscape



Source: Ernst & Young analysis and insight, 2011

- Policy statement on Platforms now delayed to Q3 – 2011
- Unresolved issue around Cash rebates to Platforms
- Time to implementation rapidly diminishing
- A large number of organisations still adopting a watching brief until things are finalised

What are some of the potential impacts of RDR ?

■ In the Distribution space

- Adviser numbers to shrink
- Potential for an Advice gap for less affluent clients, perception is that many will be unable/unwilling to pay directly for advice
- Re-emergence of 'tied' sales forces
- Emergence of Execution Only propositions (Plug the Advice Gap??)

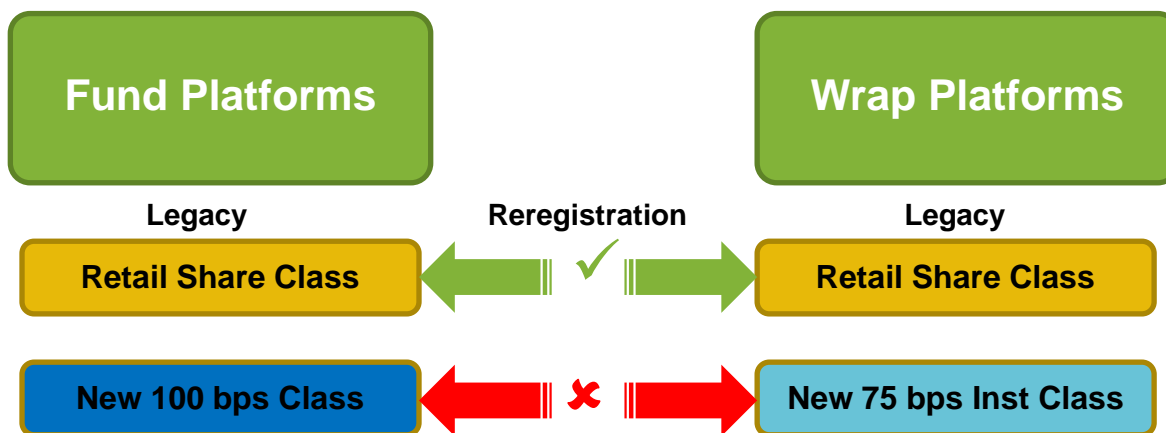
■ Some potential impacts for Asset Managers

- Likely proliferation of share classes
- Most are considering the launch of a Platform friendly 100 bps share class
- The lack of a decision surrounding Cash Rebates to platforms has resulted in a watching brief being adopted by many
- The Direct 'Legacy' books and Orphaned Clients questions remain

Share Classes – Unintended Consequences

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- Common wisdom has been that to facilitate Adviser charges, Asset Managers would launch a share class without a provision for paying the Adviser, nominally 100 bps for a standard Equity fund
- If the Cash Rebate ban is retained, little appetite from Wrap platforms to undertake the processing and reconciliations that would result, thus demand for a clean Institutional style share class nominally 75 bps
- Potential situation where Asset Managers would have at least three separate share classes distributed via Platforms
- This would negate a lot of the work that has been undertaken to streamline and automate the re-registration process between platforms
- Work with HMRC to establish rules for share class transfers



- Most AM's have a Direct book of business i.e not connected to an Intermediary
 - Some much more significant than others
- Given focus of most AM's over last 10 years on Institutional and Intermediary channels, often poorly served and not actively supported
- Many will be in standard Retail share classes with AM retaining full AMC
- RDR Impact moral and commercial dilemma
 - New Clients in a cheaper (100bps) class
 - Leave well alone
 - Potentially adverse press
 - Predated upon by other Propositions and even AM's
- Solutions
 - Sell book?
 - Move to new share class and take hit on Revenue
 - Launch own Proposition

- It is mooted that ...
- Large number of Advisers will leave the Industry
 - Some industry commentators are forecasting that up to 30% of advisers will no longer remain in the industry
 - Others that this is grossly exaggerated
 - Almost certain that there will be less advice available to the lower end consumer
- Opportunity for others?
 - Re-emergence of the tied sales force
 - Banks
 - Life Companies
 - Wealth Managers will move to take up some of the slack
 - What happens to the Orphaned Clients
 - Execution Only and Guided Advice Propositions come to the fore

- Research by Oxera commissioned by the FSA
 - 23% of advisory firms would leave the market
 - A number of Clients who currently seek advice would become XO customers
 - They predict that the XO to increase, “in particular Large providers expect the XO channel to become more important”
- Currently only one Proposition has demonstrated real growth
- There has not been a scale new XO proposition brought to the market for 10 years

The Elephant in the room?

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- It has been suggested that the 'internet' will be responsible for more Advisers leaving the market than any Regulatory factor
- Rate of change in Technology
 - Moores Law (Computing power doubles every 18 months)
 - Fibre law bandwidth doubles every 12 months
- Financial services as a whole yet to really embrace this change
- In most other aspects of Life it has become totally prevalent
- Will we see a new style of Platform which is driven by the Customer and where Advisers are invited to partake?
- Are there new entrants going to come into the space?
 - Google
 - Apple
 - Facebook??



- Timetable is tight and time is running out ...
- Some of the potential outcomes appear at odds with original objectives