LGT Vestra Snapshot

25 July 2018

Last week the FCA published its Investment Platforms Market Study Interim Report and given the importance of platforms to our MPS business, we read the report with interest. We thought it would be useful for us to summarise some of the more important points.

Generally speaking the FCA found a mixed picture in that while some parts of the platforms were providing a positive outcome for consumers, there were other aspects that could be improved.

On the positive side the FCA found that customer satisfaction is currently high and that the new MiFID II reporting on fund cost has encouraged greater transparency with regards to costs and charges.

However, on the negative side, the main issues that the FCA highlighted specifically to the advisor platforms were the following:

i) Switching between platforms is overly onerous and prevents clients and advisers from doing so, often leading to a worse outcome for the consumer. The FCA is also looking at potentially banning platform exit fees.

ii) The risks and expected returns of model portfolios setup by platforms with similar risk labels are unclear. For example, there are frequently large variances in returns / risk and also in the underlying asset mix between portfolios with the same label (i.e. "Cautious" or "Balanced"). The FCA also highlighted that within the model portfolio space, higher management fees can result in lower risk-adjusted net returns on average.

iii) So-called orphan clients who were previously advised but no longer have any relationship with a financial adviser face higher charges and a lower level service. The FCA is looking at ways to address this and is urging the platforms to reconsider the costs / charges and level of service that these particular clients receive.

The FCA is also studying whether certain platforms are employing commercial practices that reduce the extent of fund discounts either on their own platform or on competitor platforms.

Point two above is the one that relates most directly to us as a DFM running model portfolios. Although the names of our MPS are subjective they are only descriptions that we use to summarise our three targets (return, volatility and maximum loss) which are totally objective. We are confident that, by using fixed and tangible targets and by publishing those targets on our literature, we are being clear and transparent.

With regards to costs, the annual management charge of our MPS is very competitive at 0.25% plus VAT.

The report can be found here: https://www.fca.org.uk/publications/market-studies/ms17-1-investment-platforms-market-study

*Past performance is not a reliable guide to the future. The value of investments, and the income from them, can go down as well as up and you may not get back what you invest. The value of tax reliefs depend upon individual circumstances and tax rules may change. The FCA does not regulate tax advice. This communication is for general information only and is not intended to be individual advice or construed as an offer, invitation, solicitation or recommendation to buy or sell any specific investment or participate in any investment (or other) strategy. No action must be taken, or refrained from, based on its contents alone. Accordingly, no responsibility can be assumed for any loss occasioned in connection with the content hereof and any such action or inaction. Professional advice is necessary for every individual case.***