

Commentary

Blending the benefits of broker funds and platforms in a low-cost option

Smart thinking

John Martin
Viewpoint



Two strands of industry comment have drawn my interest in the last few weeks. They involve the re-emergence of broker funds and the question of whether platform users can justify higher charges.

The new breed of broker funds may use professional fund managers and wraps may provide administrative and relationship benefits but the key issue with both is whether any increased cost to the investor can be justified. It is extremely difficult to weigh up the increased cost against any advantages that the broker fund or wrap might provide. The current volatile market may provide the ideal environment to test whether investors in broker funds, or with assets on a platform, are more likely

than others to have better performance, achieve their investment goals or have their service expectations met.

Turning this debate on its head is the FSA's recent approval of the first fund to use Smartfund technology. So Smartfund is an authorised unit trust that is an adaptation of the separately managed account concept which has been hailed internationally as the next evolution of platforms. This structure delivers many of the benefits of broker funds and platforms but at a reduced cost to the investor. Targeted at advisers who want to establish their own fund and/or platform offering, Smartfund provides the legal and technology infrastructure to enable the creation of funds of funds, multi-manager funds, risk-based funds and personalised lifestyle funds. Advisers can appoint the fund manager of their choice, preserving and reinforcing the relationship between FFA and fund manager without changing the regulatory status of

either, while sophisticated online capabilities streamline administration of the funds and enable online valuations, reporting and rebalancing.

How can this be delivered for less cost to the investor? It is because Smartfund uses the latest in international platform technology to ensure that the underlying administrative processes are as efficient as possible.

Existing platforms work by linking investor and adviser into one administration platform with one custodian. However, the fund manager continues to administer assets on its own system with its own custodian, meaning there is an amount of duplication between fund manager and platform. This is a cost saving just waiting to happen. Smartfund's underlying SMA technology enables it to link the fund manager into the same platform used by the investor and adviser, eliminating duplication. The authorised unit trust structure delivers taxation benefits to the investor as each of the investment models is

rebalanced. The fund can be held inside Isas and Sipp's.

What does this mean for the client, the adviser and the fund manager?

- The client gets professional fund management, online reporting, the relationship benefits of a platform and the tax benefits of managing strategy inside a broker fund, plus they pay less.
- The adviser outsources fund management, streamlines administration and increases the value of their business and revenue stream through ownership of their own fund and platform offering.
- The fund manager continues doing what they are best at – developing and managing investment strategies and models.

Smartfund blends a professionally managed fund with the latest in platform technology. It also heralds the entry into a brave new world where technological advances are being used to deliver tangible benefits to investors and advisers.

John Martin is sales director at Praemium



Tim Eadon
The PFS's
view

Duty of care

Between September and December last year, the FSA visited 100 advisory firms,

mystery shopping 50 of them. This was part of its ongoing efforts to gauge firms' commitment to treating customers fairly and the overall quality of financial advice. The FSA has now released its preliminary findings.

The good news is that there has been excellent progress among firms in the quality and consistency of service but there is still a lot of work to be done.

The research indicates a significant proportion of firms were giving objective and clear advice and the vast majority were also offering and conducting regular reviews of customers. All very positive but the FSA also highlighted several areas of real concern. First, how firms use management information. It would appear that MI is not being used authentically to

behind in their sense of customer responsibility in these letters.

The problem letters identified offered little in the way of explanation of why a consumer would switch products. The FSA claims some are still using jargon and are still unclear about both charges associated with products and potential risk.

Finally, the issue of payment. Some of the mystery-shopped firms did not offer a fee-payment option and others were actively discharging customers from paying by fee.

We must take heart from the positives identified by the FSA but it is disappointing to know that many of these problems still abound. It may speak more to bedding in best practice rather than actual intent, but that hardly matters to the customer getting less than the service he or she deserves.

Building consumer trust and confidence is paramount. This is a major year for regulatory develop-

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Facts of life