



# **WE HAVE TRUST ISSUES**

## **BARRIERS TO USING INVESTMENT COMPANIES ON PLATFORMS**



A MARKET INSIGHT REPORT FROM:  
**the lang cat**

JUNE 2018

# BEFORE WE GET GOING

This paper was commissioned by The Association of Investment Companies (the AIC). It looks at some of the barriers – both real and perceived – to using investment companies on platforms. And importantly, how advisers are getting around these barriers.

What there's no getting around is the fact that this is a sponsored analysis. Those of you familiar with the lang cat will know that we carry out these analyses every now and again, when we think the topic is pertinent, interesting and we have something to add. This particular paper is a bit of a departure, however, as it's sponsored by an industry body rather than a commercial entity with a corporate mission and sales managers to feed.

That all said, our ground rules still apply. First, we let the AIC check we got the facts right when referring to some of the characteristics of investment companies. But it didn't get to check or challenge any other data or facts, especially those concerning our view of the shape of the market.

Second, this isn't a view from the lang cat on the relative merits of investment companies over other investment options. That's a conversation for another day, where individual circumstances and investor suitability trump all.

Lastly, we believe that organisations hire us for work such as this because of our independence and for the honest, direct and sometimes plain awkward opinions that come with it. The views we express here are our own and the AIC had zero editorial control or influence on the analysis. The paper is based on a combination of our experience in the market, our own research and views from the advisers we regularly speak to. The day we let ourselves be compromised is the day it all falls apart for us.

Trust that, or don't – but it is the truth.





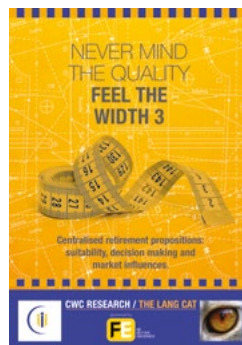
# CONTENTS

THE SHAPE OF THINGS	4
OUR RESEARCH	6
THE BARRIERS	8
CONCLUSIONS	16

## A NOTE ON RESEARCH

Throughout this report, you'll see references to 'our research' and various statistics. All these are taken from three lang cat publications:

- *The Great Mid-Life Crisis: State of the Platform Nation*, which is our 2017/18 guide to advised platforms. It was published in October 2017.
- *The Platform Market Scorecard*, our quarterly look at the retail advised platform market.
- *Never Mind The Quality, Feel The Width 3*, which is a joint annual study with CWC Research into the adviser outsourced investment market. NMTQFTW3 (as we call it to fool the unwary) was also released in October 2017. It surveyed hundreds of portfolios and about 80 adviser firms. The fund and DFM data inside it were provided courtesy of FE and are used with thanks.



Reports are available for purchase from [www.langcatfinancial.co.uk](http://www.langcatfinancial.co.uk) and all good book shops. But mainly the website.

# THE SHAPE OF THINGS

**On the face of it, news that advisers sold almost £1 billion of investment companies in 2017 was something for the sector to celebrate<sup>1</sup>.**

The £990m figure represented a 46% jump in adviser purchases over the 12 months, a spike in demand that reflected a marked improvement in adviser perceptions and use of investment companies.

To put the impressive figure in context, however, intermediaries accounted for a pretty sizeable chunk of the £63bn net sales of open-ended funds over the same period<sup>2</sup>.

So, we could infer that some advisers are slowly being weaned off their addiction to open-ended funds, but there's still a long way to go for investment companies when it comes to platform and adviser traction.

Why is this? Well, that's what we're here to find out. We've had a look at the barriers to investment trust usage on platforms and sorted out the perceived from the real, using a combination of adviser research and data analysis to tell us where we're at and to get a sense of what the market might look like in future.

It was hoped that adviser usage of investment companies would increase dramatically with 2012's retail distribution review (RDR). The RDR appeared to create a more level playing field by banning the commission that open-ended vehicles paid on intermediary sales. The increased emphasis on suitability post-RDR has played in favour of investment companies too. If an investment company is the best option for a client, the non-availability of investment companies on a platform is no longer an acceptable excuse for not buying.

Other developments have undermined the impact of the RDR, however. Investment companies previously enjoyed a clear cost advantage over their open-ended counterparts, but that has largely been eroded by the clean share classes introduced in response to the RDR and new platform pricing rules that followed two years later.

The RDR has also had the unintended consequence of helping enable the shift towards vertical integration. With a growing number of providers involved in advice, product manufacture and investment, large chunks of assets are going straight into in-house propositions.

So the evolution of the advice business model since the RDR has left us in a place where platforms are a means to fulfil an adviser's service proposition, as opposed to opening up an open architecture investment framework – not a favourable state of affairs for the closed-ended sector. If the RDR helped investment companies by sharpening the focus on suitability, vertical integration is a model in which suitability, transparency and consumer interest arguably take a back seat, reversing some of the more positive effects of the RDR and associated legislation.

Yet, investment companies have inbuilt advantages, especially when it comes to long-term investors. Their ability to gear allows them to take advantage of opportunities when markets are on the rise, while their closed-ended status gives managers greater control over the money they can invest than that enjoyed by managers of open-ended funds (in which inflows and outflows must

1. <https://www.theaic.co.uk/aic/news/press-releases/2017-a-record-year-with-adviser-purchases-of-investment-companies-close-to->  
2. <https://www.theinvestmentassociation.org/media-centre/press-releases/2018/net-sales-hit-a-record-breaking-%C2%A363-billion-in-2017.html>

**YOU HAVE YOUR ISSUES, WE HAVE OURS...**

**When we refer to ‘investment companies’ in this paper, we mean the usual suspects of the genre: investment trusts, venture capital trusts (VCTs) and offshore investment companies.**

be managed). The potential to buy at a discount can also add value, while the ability to hold back up to 15% of earned dividends each year in a revenue reserve allows investment companies to provide a sustainable income.

But despite this, and in the face of evidence that investment companies typically outperform open-ended products over the long term, many advisers still avoid them. There is a perception among some advisers that investment trust structures are too complex, while there is also the problem of availability on platforms.

This lack of availability was tied to the fact that investment companies did not feature on those platforms traditionally known as the ‘fund supermarkets’, such as Skandia/Old Mutual and Fidelity FundsNetwork<sup>3</sup>.

While there has been some positive movement as those platforms have evolved, this lack of coverage is still a live issue. There are plans and promises of greater investment company presence, but it will be a long time before we see evidence of an authentic cultural shift.

That’s one clue as to why investment trust usage on platforms is growing at a slower rate than investment trust usage more generally. Our research shows that the typical underlying asset split of adviser platforms remains unchanged over the past few years. We’ll look at this in more detail later on, but again there are several factors here. For

instance, advisers in favour of using investment companies may be using DFMs that don’t offer them, with a similar restraint operating in relation to certain adviser networks.

We’ll also look at the issue of reporting and rebalancing on platforms and why this can be problematic in terms of investment trust holdings. In many ways, investment companies aren’t entirely suitable for platforms – often they incur high trading charges, don’t sit nicely inside model portfolios, and the trading experience can be quite different to funds.

Given that most money going from advisers to platforms is through model portfolios, that factor in particular merits scrutiny. But to what extent are these issues a barrier? We’ll get to that shortly.

It’s not an environment in which investment companies can simply play the role of helpless victims, however. As our research shows, there are issues that the closed-ended sector can address if it wants a bigger slice of the platform pie.

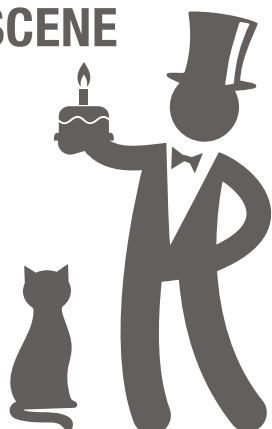
The lang cat previously worked with the AIC to produce research highlighting the range of platforms that cater for investment companies and identifying the most cost-effective for holding them.

This research builds on that work by providing a unique insight into the barriers to greater investment trust usage on platforms – and how those obstacles can be overcome.

3. If they had done, the name ‘fund supermarket’ probably wouldn’t have worked quite so well.

# OUR RESEARCH

## SETTING THE SCENE



**2018=**  
**150**  
**YEARS**

OF INVESTMENT COMPANIES

THERE ARE  
**398**

INVESTMENT COMPANIES WITH A TOTAL OF

**£178bn**  
IN ASSETS

## PRICING IS A FACTOR



ONLY

**3**

ADVISER PLATFORMS CAP THEIR CUSTODY CHARGES

AND THERE IS ONLY

**1**

FIXED FEE PLATFORM...

...WHEREAS

INVESTMENT COMPANY CUSTODY

FOR OVER

**15**

MAINSTREAM D2C PLATFORMS

IS EITHER FIXED FEE,

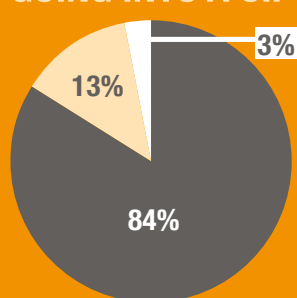
HAS A LOW CAP

OR CARRIES

NO CHARGES AT ALL

## THE SCALE OF THE CHALLENGE

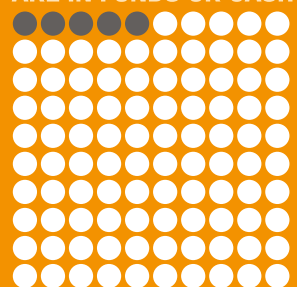
PERCENTAGE OF NEW BUSINESS GOING INTO A CIP



■ 80% ■ 60% ■ 40%

**95%**

OF ASSETS ON ADVISED PLATFORMS ARE IN FUNDS OR CASH



THE **7** ADVISED PLATFORMS ACCOUNT FOR

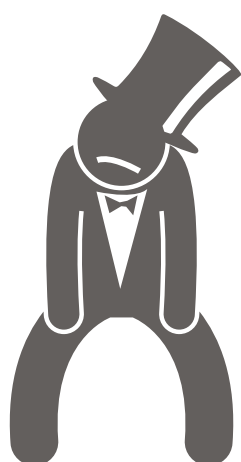
**75%**

OF SECTOR AUA

OF THIS, **45%**

OF ASSETS ARE ON PLATFORMS WHERE THERE IS

**NO,** OR VERY LIMITED, ACCESS TO INVESTMENT COMPANIES



BUT  
THERE  
IS GOOD  
NEWS



ADVISERS  
SOLD ALMOST

**£1bn**  
(£990m)

OF INVESTMENT  
COMPANIES IN  
2017. THAT'S UP

**46%** ON  
2016

**4**

INVESTMENT  
COMPANIES HAVE  
INCREASED THEIR  
DIVIDENDS  
FOR OVER

**50**

CONSECUTIVE YEARS

**10**  
FOR OVER  
**40**  
YEARS

**21**  
FOR OVER  
**20**  
YEARS

PRICE IS  
A FACTOR  
HERE TOO



## AVERAGE PLATFORM PRICE FOR £50k INVESTMENT IN...

100% IC in a model portfolio – advised  
business (includes DFM fee)

0.75%

100% funds in a model  
portfolio – advised  
business

0.38%

100% in IC  
– D2C

0.24%

100% in funds  
– D2C

0.31%

100% in IC – advised  
business

0.42%

100% in funds  
– advised business

0.37%

WHAT DO  
ADVISERS  
THINK?



## DO YOU FIND ANY OF THE FOLLOWING TO BE A BARRIER TO USING INVESTMENT COMPANIES (SELECT ALL THAT APPLY)

50%	Ease of use compared to mutual funds (e.g. selection tools being more aligned to fund usage)
39%	Your view of ICs from a client suitability perspective
36%	Availability on my chosen platform(s)/product(s)
33%	Liquidity issues
24%	The cost of trading on platform(s)/product(s)
20%	Other

# THE BARRIERS

## **BARRIER ONE: AN INHERENT MARKET BIAS AGAINST INVESTMENT COMPANIES**

We offered advisers a list of six potential barriers to using investment companies and asked them to select any that apply. Half said they lacked the ease-of-use factor that funds have (with selection tools cited as an example of something being more aligned to fund usage). The next biggest barrier was the suitability of investment companies from a client perspective, followed by availability on platforms. Large numbers of advisers also cited liquidity and the cost of trading investment companies on platforms as barriers to using them.

**“Access can be a real issue. The firm I worked at previously used two platforms. One didn't have great functionality for investment trusts and the other didn't hold them at all.”**

Of those reasons, most represent some form of market bias, whether it's platform availability or the perception that systems and tools are more geared towards funds.

This bias comes in several forms.

While the old commission bias was removed by the RDR, there is now a structural bias towards open-ended funds in the DFM multi-asset portfolios that advisers increasingly rely on. Just a third of the advisers surveyed use investment companies as part of their investment proposition. Of those who do use them, just over a fifth employ them within model portfolios, just over 40% on an ad hoc basis and the remainder use them in both contexts.

Using investment companies in model portfolios alongside funds can be made complicated by reporting and rebalancing needs. As one adviser noted, the biggest problem is that “unless you

use them for the majority and rebalance all on the same day, it can become expensive or impossible to rebalance”.

Then there's the influence of networks, several of which prefer advisers not to use investment companies. This can be due to network-provided risk profiling tools that categorise the majority of investment companies as ‘high risk’ or ‘adventurous’. The AIC has said it is working with providers of risk profiling tools, but there remains a general preference among networks for unit trusts and OEICs. As one adviser told us, investment companies are “not widely liked by my network... so not easy to recommend”, while another simply informed us that “they are not a permitted asset within my network”.

The march towards vertical integration represents another structural issue for investment companies to overcome. The lang cat's research on the subject suggests that a large proportion of advisers within these businesses are shifting the bulk of their flows into their vertically integrated investment propositions, the majority of which don't include investment companies.

Similarly, availability on platforms remains a stubborn obstacle to greater usage. Investment company availability remains conspicuous by its absence on two of the largest adviser platforms – Old Mutual Wealth and the assets on the new Aegon MEGAPLATFORM that were previously attributable to Cofunds – and limited on Fidelity FundsNetwork.

**“The industry is just tilted towards funds. Look at risk-profiling, marketing material, functionality, costs etc. It all favours funds.”**



**AUA (£bn)**

**Flows (£bn)**

LIMITED OR NO ACCESS TO INVESTMENT COMPANIES

INTEGRATED DEALING DESK

Q1 2018 ADVISED AUA

OTHER AUA

ADVISED GROSS FLOW Q1 2018

ADVISED NET FLOW Q1 2018

mainstream providers such as Aviva and Santander) where access is limited to open-ended funds only.

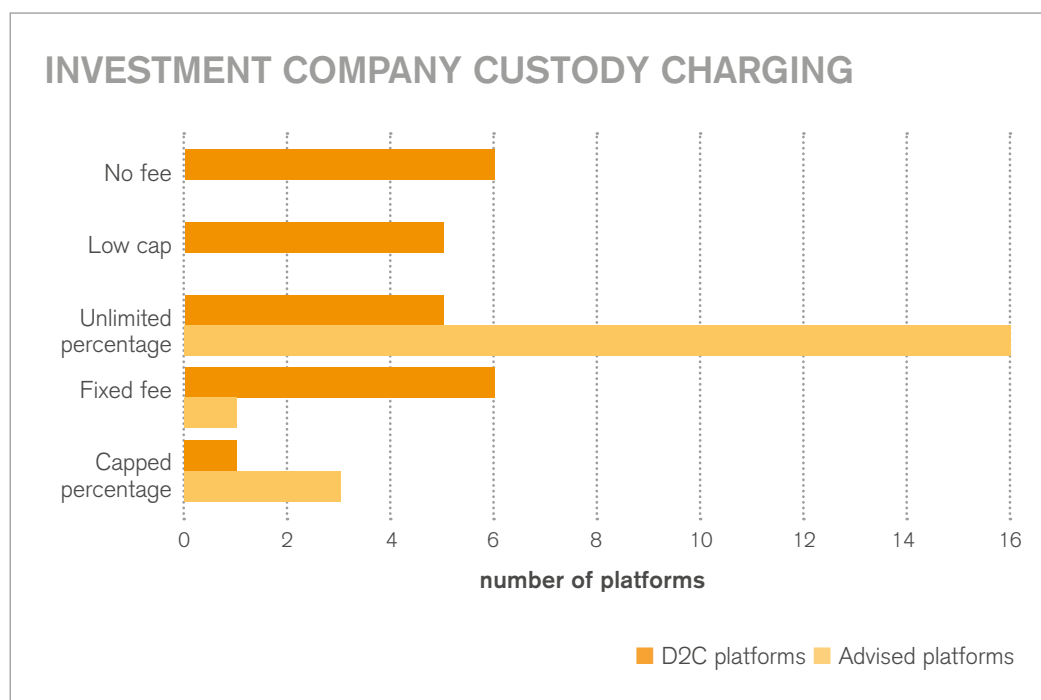
## BARRIER TWO: THE COSTS OF TRADING INVESTMENT COMPANIES ON SOME PLATFORMS CAN BE PROHIBITIVE

In the autumn of 2017, the AIC commissioned the lang cat to create a database of charging information for on-platform investing in investment companies. This database is now well established on the AIC website, complete with tonnes (we think anyway) of helpful information, and we

reckon you could do worse than head on over there and take a look.

Shameless plug out of the way, we'll refrain from repeating that information here. Instead, let's look at a few key points we noticed during the course of researching and compiling the database.

### 1. Ongoing charges for investment companies are fundamentally different for direct-to-customer platforms and advised platforms



Here we outline the main charging shapes that apply to the platforms we looked at across the advised and D2C markets. Most of the terms are self-explanatory, but for the avoidance of doubt:

- We're looking at ongoing platform and product costs only here, not trading. That'll come later.
- No fee = no ongoing fee. Simple.
- Low cap = a percentage-based charge, capped at a moderate amount (e.g. AJ Bell Youinvest caps investment company charges at £30 for GIA/ISA).
- Unlimited percentage = less fun than it sounds. There is a percentage-based charge with no limit.
- Fixed fee = a pound-based charge for the product that doesn't vary with pot size.

- Capped percentage = as per low cap but at a much higher level (e.g. Aegon Retirement Choices caps its charges once the funds reach £250k).

Once we segment the market like this, two distinct patterns emerge. Firstly, there's considerable variation in D2C platform charging models. And secondly, this contrasts with the advised platform market where providers are, by and large, hooked on the drug of unlimited percentage-based charging. There are exceptions to every rule, however, and in this case it's fixed fee renegades Alliance Trust Savings and those platforms which cap their charges: Aegon, AJ Bell Investcentre<sup>4</sup> and Hubwise.

If we take this a stage further and model various pricing scenarios, it soon becomes clear that...

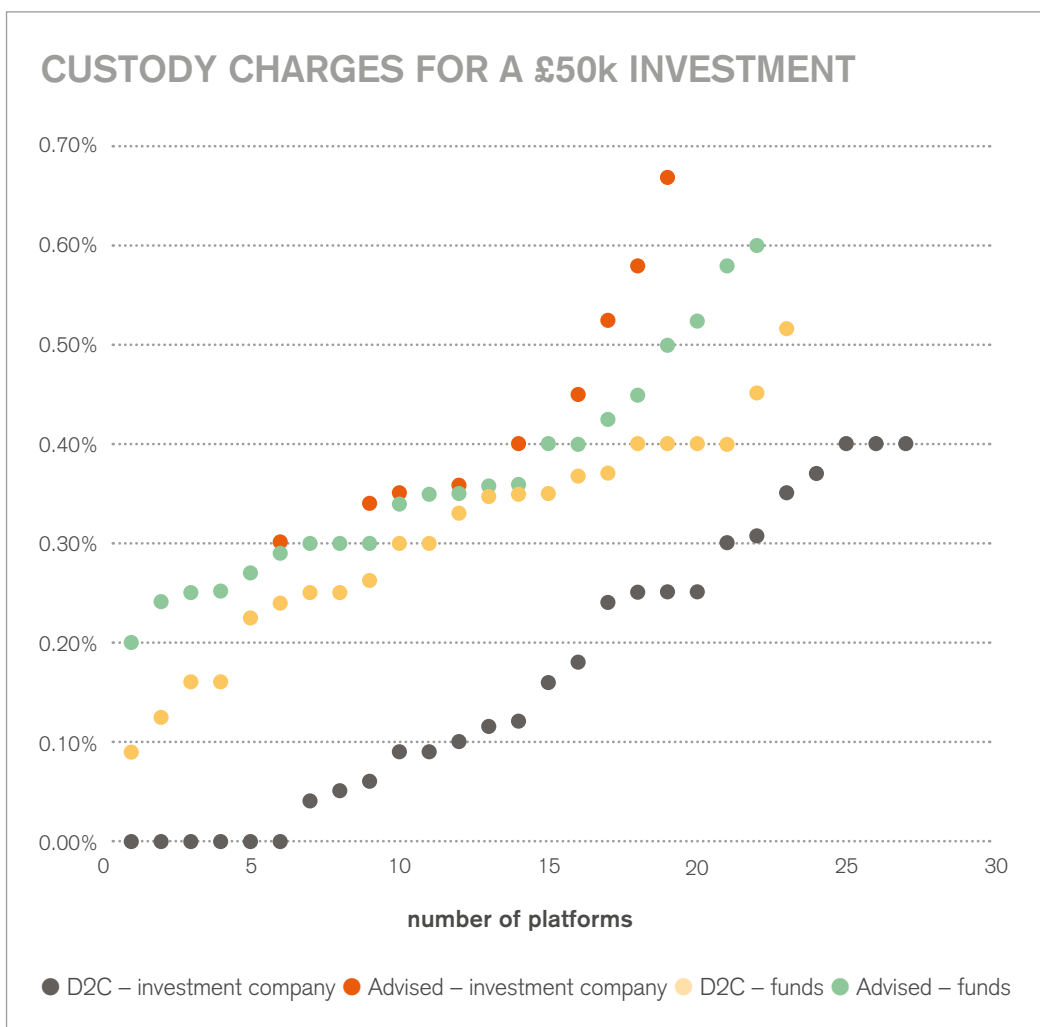
**"If you want to recommend investment trusts and use platforms then you need to look at the costs. We use Seven IM and Transact. Seven IM doesn't have any extra costs and Transact aggregating helps. It's not just about pure cost either, it's difficult for us if the charging structure is complicated. We've got to justify it to clients."**

4. The AJ Bell charge cap kicks in at £2 million so it came very close to being categorised as one of the unlimited gang, given that this will only benefit a handful of very rich folk.

## 2. ...It's generally more expensive to hold investment companies on an advised platform than it is to go direct

This chart looks at one example, plotting ongoing charges for a £50k investment either wholly in

funds or investment companies with the cost of an additional four ad-hoc trades on top.



We can clearly see that one segment sticks out on its own – trading investment companies on D2C platforms. The pricing variation that we talked about earlier is making its presence felt.

We've talked exclusively about ongoing custody costs so far but something else we concluded was that...



### ... 3. Trading costs can act as a barrier to using investment companies on platforms

Again, we would urge those interested to check out the AIC website for a comprehensive breakdown, but our headlines are:

- Ad-hoc trades on D2C platforms cluster around the £5 to £10 level, albeit a few mainstream providers nudge above this (Hargreaves Lansdown at £11.95, Charles Stanley Direct at £11.50 and Halifax Share Dealing at £12.50).
- Those who deal frequently (typically placing 10 or more trades in a month) can get a few quid off trading charges with a handful of providers.
- The advised platform market is a different ball game altogether, with clear polarisation at play. A handful of platforms are asset-neutral, by which we mean that ‘sexier<sup>5</sup>’ investments are treated exactly the same (in charging terms) as their mainstream, open-ended pals. Examples of this are Ascentric and Seven IM, with no additional trading charges at all, and Alliance Trust Savings, where the charging model is the same irrespective of fund/non-fund investment.
- The flip side of this is that there are several adviser platforms where investment company trading charges can be eye-watering. For example Aegon charges £15 a go, Aviva has a £25 minimum and True Potential has a £14 minimum.

- We need to be careful not to make too much of a big deal (pun very much intended) of ad-hoc trading charges on adviser platforms, in the knowledge that the majority of adviser business is carried out on a model portfolio basis. Many platforms reduce trading charges for rebalancing (AJ Bell, Hubwise and Standard Life Wrap reduce to a round pound), but there are many that don't.

Cost was a recurring theme in our face-to-face and telephone-based adviser research. Many advisers we spoke to stated explicitly that their platform choice was driven by a need to rationalise and simplify the charges that their clients would incur. And for that reason, it's no surprise that investment company usage is higher on those platforms which take an asset-neutral (or close to asset-neutral) approach, such as Alliance Trust Savings, AJ Bell, Ascentric and Seven IM. If you haven't already spotted it, those are all platforms with in-house dealing desks.

We're not surprised by these findings. Considering that the majority of adviser-led business is carried out on a model portfolio basis, there are many platforms where the cost of incorporating anything other than open-ended funds is prohibitive.

**“We run model portfolios in our firm. On the platforms we use, the cost of rebalancing is just too high so it simply doesn't enter the conversation right now.”**

5. We're very sorry.

## BARRIER THREE: LINGERING MISCONCEPTIONS ABOUT INVESTMENT COMPANIES AMONG ADVISERS

Or are advisers right to be wary? Our research suggests that knowledge about investment companies remains sketchy among financial advisers, deterring many from using them. In particular, there remains a perception among advisers that investment companies are too complex.

Other studies reinforce this: 57% of advisers are discouraged from recommending investment

companies because of a lack of knowledge and 36% because of perceived complexity, according to a survey published earlier this year by Cicero Research<sup>6</sup>.

But to what extent is the perception of complexity based on misconceptions? Or are advisers right to consider investment companies as complex?

Here we assess some of the comments we've had from advisers.

### Adviser:

The industry could help by identifying which companies have exposure to gearing.

### True or false?

It appears to be a misconception. According to the AIC, this already happens. A brief search of the AIC website reveals a 'charges and gearing' page for every vehicle, including current gearing, net cash, historic gearing and the gearing range<sup>7</sup>. The main table in the 'find and compare investment companies' section includes a gearing column, while the AIC site also carries up-to-date external analyst research showing the highest gearing investment companies<sup>8</sup>.

"I don't recommend investment trusts for clients with a low-to-medium risk profile because of the potential gearing issue. It's too much of a risk for me."

### Adviser:

Issues around lack of full correlation of price with value of assets as well as liquidity.

### True or false?

This is a valid concern. There are two issues here – a lack of liquidity, and a lack of correlation between price and value. The latter refers to the fact that because investment trust shares are traded on an exchange, the price is based on supply and demand and not on the net asset value, hence the existence of premiums and discounts. In contrast, the price of a fund directly reflects its net asset value.

The liquidity point is also about their status as traded shares. However the extent to which this is a problem varies considerably between different companies – the bigger, better performing companies typically have high trading volumes and little difficulty meeting liquidity levels. It's worth noting as well that investment trust boards can take steps to boost liquidity when demand rises or falls.

6. <https://www.moneymarketing.co.uk/issues/22-february-2018/phil-wickenden-investment-trusts-get-bad-press-worth-look/>

7. <https://www.theaic.co.uk/companydata/BWOAV/gearing> – this is an example.

8. <https://www.theaic.co.uk/aic/news/citywire-news/crash-checklist-the-highest-geared-investment-trusts>

“Investment company providers need to get better at marketing their products. If we ask for information for a fund range, we’re inundated. The same support material doesn’t seem to be there for investment companies.”

#### Adviser:

They require more understanding from the client as to how investment companies work, so normally it would require clients to understand and be comfortable with individual shares.

#### True or false?

Clients would ideally be able to understand how investment companies work. But this is the same for all products. Do advisers generally think that their clients have a solid grasp of all the investment products they are exposed to? Or should it be accepted that as long as the adviser understands it properly, that’s what matters?

#### Adviser:

Financial Services Compensation Scheme (FSCS) cover.

#### True or false?

This is likely a reference to the fact that investment companies are (like ETFs) considered shares in a company, which means they are not covered by the FSCS if they are held directly. However, where IC shares are held through an authorised platform or saving scheme, the FSCS does protect against the failure of that platform or saving scheme.

#### Adviser:

We use multi-asset solutions for our clients and by their nature investment companies tend to be equity-based investments.

#### True or false?

Equities are the dominant asset class in the closed-ended sector, but there are fixed-income and property-focused companies too. What is more accurate to say is that there are relatively few genuine closed-ended multi-asset vehicles. However the AIC’s flexible investment sector houses more than 20 investment companies with policies that allow them to invest across multiple asset classes.

In summary, many of the negative perceptions of investment companies are grounded in some degree of truth. At the same time, those perceptions can reflect a lack of knowledge or perhaps an inherent bias against the sector. The problem facing the closed-ended industry is that whether or not the perceptions some advisers have about investment companies are accurate, they are there to be addressed. It was noted by advisers that it “can be hard to get information from marketing departments, completely different in this sense to open-ended funds – can’t get rid of them” and that there needs to be “greater support from fund group sales/marketing teams to be able to support the sales of closed-ended funds”.

Our evidence appears to suggest the closed-ended industry has an opportunity to strengthen knowledge of the sector and build bridges with intermediaries.

# CONCLUSIONS

## REASONS TO BE CHEERFUL

### 1. Perceptions can change

Barriers are only really a problem when they're immovable or insurmountable. Several of those preventing greater usage of investment trusts on platforms and by advisers can either be moved or overcome.

For instance, certain adviser misconceptions – such as the impression that it's hard to find out which trusts have exposure to gearing – shouldn't be too difficult to conquer. A common complaint is that investment companies aren't sufficiently proactive in getting information in front of advisers, particularly when compared with the bombardment of material from the open-ended sector. This is already a work in progress, but it needs to step up a gear.

### 2. Platforms can change

There's also light at the end of the tunnel when it comes to availability on platforms. This has improved, albeit with most services heavily weighted towards funds and relatively few investment trusts found in best-buy lists or ready-made portfolios. But hope comes in two guises.

Firstly, two of the largest platforms in the advised sector (Old Mutual Wealth and the new Aegon/Cofunds MEGAPLATFORM) are on record as wishing to widen out investment choice once their respective migration exercises are complete.

Secondly, as we've explored in our research, many platforms do indeed operate as effectively asset-neutral (including Hubwise, the most recent new entrant) and we've found clear evidence in

our discussions with advisers for this paper that many are choosing those platforms for specifically this reason.

### 3. Priorities can change

Regulatory developments promise to tilt the balance back in favour of closed-ended vehicles a little too. The emphasis on value for money in the Financial Conduct Authority (FCA)'s asset management market study and the new suitability guidelines in the form of the product intervention and product governance sourcebook (PROD, which was updated with the implementation of MiFID II) have served to sharpen the focus on the needs of the end client. The PROD rules in particular mean that advisers need to better understand their client bank and build their investment propositions with that in mind. If client needs are truly at the heart of the business, we should expect investment trusts to be part of the conversation.

The FCA's asset management market study shone a light on several areas in which investment trusts can claim to be ahead of the game. For example, the FCA's measures to encourage more independent governance in the open-ended sector still leave it some way behind the closed-end sector where independent boards are well established.

Our work on cost shows that if you're (a) determined to move outside of open-ended funds and (b) willing to put cost as a main factor in a selection/due diligence exercise, many platforms accommodate investment companies without price being a barrier.



## REASONS TO BE FEARFUL

Fearful might be over-egging it, as we're generally optimistic sorts, but we've touched on a number of issues in this paper that make us a little uneasy about the future.

### 1. The vertical challenge

One such issue is the looming cloud that is vertical integration (VI) and its impact on the shape of investment propositions. The sheer scale of VI and the pace at which it is enveloping the market presents a potentially formidable barrier to wider use of investment trusts.

More than half the main providers, platforms, consolidators and advice groups are integrated with at least three of the four elements of the value chain – advice, platform/product, investment solution and underlying funds. In other words, we're back in a place where distribution, products, services and investment increasingly flow from the same sources. This keeps us up at night.

The RDR gave with one hand – by removing commission – but took with the other by squeezing margins and forcing firms to review their business model.

This is now a market in which advisers are shifting huge numbers of clients into multi-asset funds and model portfolios (directly or through DFMs). It's not the open architecture market that investment trusts arguably need in order to thrive. And while the FCA will have something to say about it once it has completed its review of the investment platforms market, we don't see that changing any time soon.

### 2. Advisers have a point

The cost of using investment companies on platforms came up time and again in our adviser research. And with good reason, as our data show. Holding investment companies on advised platforms is typically more expensive than going

direct, and in some cases the cost of using anything other than open-ended funds in itself justifies advisers steering clear of investment companies, particularly when their focus is on simplifying charges.

The exceptions will be the platforms where trading costs are low (which are those with in-house dealing desks, such as AJ Bell, Seven IM and Transact). Some of the advisers we spoke to will only use investment companies on those platforms, which consequently have above-average closed-ended usage levels. It's difficult to see that pattern shifting without an unlikely structural overhaul on the part of platforms and/or investment companies.

### 3. Platform availability is just the beginning

There are positive vibes in the platform market when it comes to investment choice, as we've noted. Yet our declaration that change is on the way comes with a familiar caveat. Those providers still not offering investment companies may be serious in their pledge to plug that gap, but they've been saying it for a while. Actions speak louder than words, and we haven't seen much action yet. Even if that change does arrive sooner rather than later, just offering access won't be enough. The quality of access is important. In other words, there's a big difference between simply ticking the investment companies box and providing the functionality that's needed for them to be used effectively and efficiently. Several platforms don't allow for real-time or contingent trading (the exceptions, again, being the offerings with dealing desks), while there are disparities between different platforms in the quality of reporting and aggregation functionality (among others). Platforms will remain problematic for investment companies for some time to come.

## THE THINGS WE DON'T YET KNOW

### 1. The regulator's plans

Regulation may finally punch certain aspects of the industry squarely in the mouth. The investment platforms market study and asset management market review – both of which positioned value for money as a centre of gravity – may force real change, particularly among certain areas of the market where it's unclear whether customer interests are really the driving force behind proposition developments. \*Looks menacingly at the VI market.\*

### 2. Advances in tech

We always over-estimate what tech will do for us in a year or two but grossly underestimate what will happen in ten. What if a new aggregation/trading concept is just around the corner? What if open-APIs really changed the rulebook? What if something existed that transcended product providers and aggregated at industry level? What if...what if? What if consultancies stop asking rhetorical questions?

### 3. The future of financial planning

Financial planning in its purest form appears to be gaining traction. But what does this mean for the investment component of the advice process? Will passives continue to rise to US-levels? The ongoing shift towards passives poses a clear threat to the future growth of investment trusts, with evidence already that investors are turning away from active investment houses in favour of passive products perceived as being lower cost and lower risk. Baillie Gifford, the UK's biggest investment trust provider<sup>9</sup>, revealed earlier this year that the high number of pension scheme clients leaving for passive funds contributed to a net outflow of pension fund assets of more than £9bn between 2015 and 2017<sup>10</sup>. The question of how to address this trend will be key for the closed-ended market in the coming months and years. We anticipate more investment trusts being marketed as multi-asset vehicles, but how will perceptions change?

9. <https://www.ftadviser.com/investments/2018/05/23/baillie-gifford-overtakes-jp-morgan-to-take-trust-top-spot/>

10. <https://www.ft.com/content/10f49fd2-067f-11e8-9650-9c0ad2d7c5b5>



**do what you love**

**[www.langcatfinancial.com](http://www.langcatfinancial.com)**