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Three Trends in Advice

Your Route To Business and Client Success

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Introduction

The financial advice industry in Australia has changed profoundly since the 2009 Inquiry into Financial Products and Services by the Parliamentary Joint Committee on Corporations and Financial Services. This has led to the introduction of new legislation such as the Future of Financial Advice (FoFA), higher education standards for financial advisers imposed by the Financial Adviser Standards and Ethics Authority (FASEA) and the major Australian banks exiting the sector, causing a structural shift and increasing the number of independent or self-licensed advice groups.

Across the industry, a number of trends are playing out. Advisers need to stay abreast of these and determine how to respond. In our white paper, we explore each of these trends in more detail — and how Morningstar is investing to support advisers in this fluid environment.

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Trend 1

Our economy is shifting; sustainable investing is here to stay

Investors are becoming more conscious about **Environmental, Social and Governance (ESG)** matters, forcing advisers to take their preferences into account as part of the advice process. Sustainable investing will no doubt be more prevalent in the long-term, driven by investor awareness, and desire to align with the undebatable transition to an ESG-conscious economy that is underway. Most recently in Australia, there has been natural disasters – such as bushfires and drought and well-publicised corporate governance/operational deficiencies within large publicly listed companies. And of course the coronavirus (COVID-19) is shining a light on corporate governance as company balance sheets, employee engagement programmes and business continuity plans are tested to the limit. These events have brought ESG into focus for investors when seeking financial advice.

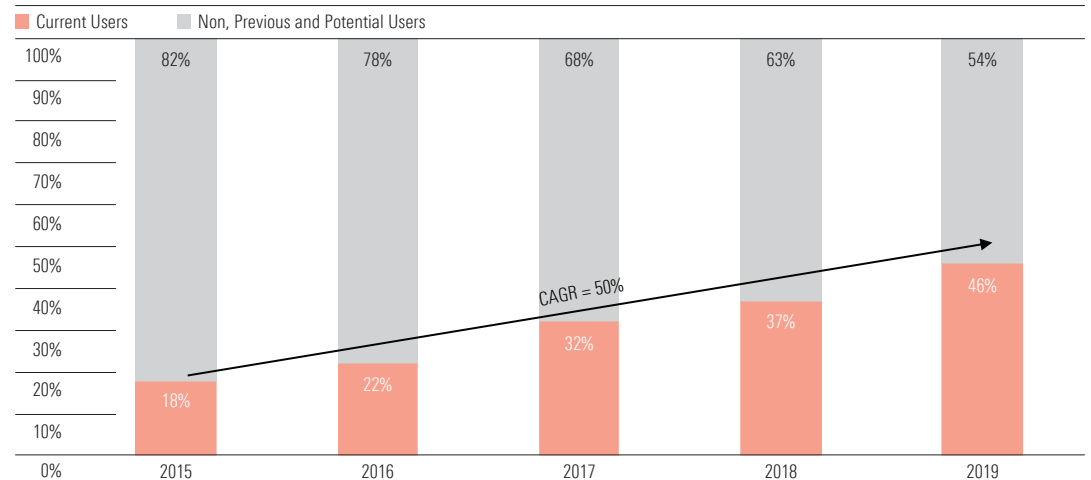**Growth in Sustainable Finance (US $bn)**

Sustainable ETF's and Mutual Funds ($AUM, US) ■ Green Bonds ■ Green/ESG linked loans
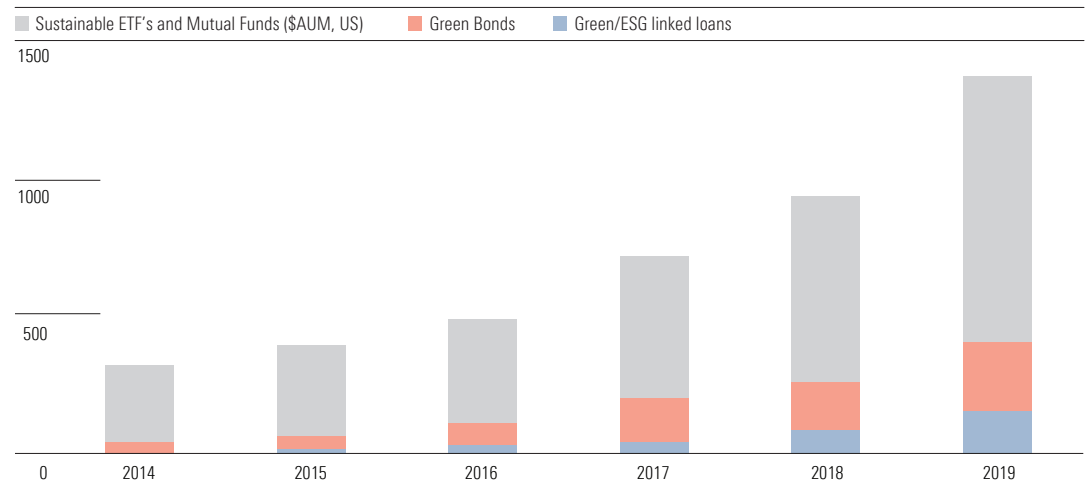
Trend 2

Advances in model portfolios & managed accounts are helping free up time for advisers to spend with clients and on their business

The adoption of technology to implement **model portfolios** more efficiently, including the proliferation of **managed accounts**, has grown dramatically since 2015 for self-licensed advisers and advice groups according to Investment Trends' Managed Account survey (March 2020). Investors benefit from increased oversight & governance around portfolio construction whilst having greater transparency and improved portfolio execution. Advisers and Licensees are gaining business efficiencies, reducing risk through more robust investment processes, and increasing oversight and compliance rigour that ultimately benefits the end client. This has the added benefit of allowing advisers to spend more time engaging with their clients. However, many advisers and Licensees are seeking more support from investment consultants in these areas to ensure they maximise the potential that technology and improvements in implementation can bring.

Independent advisers and self-licensed advice groups that have used managed accounts for their client investments

■ Current Users   ■ Non, Previous and Potential Users

	2015	2016	2017	2018	2019
Non, Previous and Potential Users	82%	78%	68%	63%	54%
Current Users	18%	22%	32%	37%	46%

CAGR = 50%

Source: Investment Trends "Managed Accounts Report" March 2020. Number of Respondents: 444

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Trend 3

Technology is a non-negotiable pillar of successful advice businesses

Until now, many institutionally-aligned advisers have been provided with technology by their Licensee and have had little choice in the financial planning software they use to run their practices. Advisers have often been restricted to legacy technology solutions that haven't evolved and are no longer fit for the modern advice business. In addition, many Licensees have been leveraging spreadsheets, documents and in-house built software packages to manage and report on APLs and model portfolios. These solutions can introduce risk and inefficiency into a business, at a time when regulatory compliance is in the spotlight. Advisers now need to ensure they **choose the right technology partner** that can support their business into the future. A question that all advice firms should be asking is "are my technology partners helping me run a more efficient business and how are they investing to support me into the future?".

What this means for you

Due to these factors, the roles and responsibilities of the modern financial adviser and license holder has evolved immensely – they must wear numerous hats. They are accountable for the day-to-day operations of their business – administering expenses and supervising staff, selecting and procuring technology solutions, conducting their own research, constructing and reviewing an approved product list (APL), making investment decisions, managing portfolios – all while maintaining relationships with clients.

How can advice firms ensure they have the governance, knowledge, and operational capabilities to keep on top of this change effectively?

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We believe many advice firms are yet to deploy best practices in APL monitoring & model portfolio reporting

Advisers are increasingly time poor due to rising compliance costs – resulting in less time for clients – at the same time as the compliance bar is being raised. Investing in proven software solutions is now a must, to assist with meeting current and future compliance standards, and removing manual work in the investment management/due diligence process, and in monitoring and reporting on model portfolios.

Modern software tools can provide Performance Reporting capabilities that automatically display investment data, calculate performance and risk metrics for a list of investments in an APL or portfolios – helping reduce reliance on manually-maintained Excel spreadsheets and minimise risk at the Licensee and adviser level.

Morningstar Direct is our flagship product that addresses these issues, helping to automate the manual work involved in monitoring investments in an APL, and managing & reporting on model portfolios.

The Performance Reporting module within Morningstar Direct automatically displays investment data, and calculates performance and risk metrics for a list of investments in an APL or portfolios. It is designed to eliminate the cumbersome and time-consuming work involved in constructing and managing an APL and can also be used for quick and easy peer group comparison.

The Portfolio Management module is an adviser's personal database for constructing and storing model portfolios. Presentation Studio, an advanced and flexible reporting tool, then empowers an adviser to tell the tailored story of their portfolios; optimise from a host of charts, graphs, and tables to showcase performance, risk, and diversification. Reports can be white-labelled, including colours, commentary, and logos. Saved templates can then be automatically generated on a regular basis to streamline for future client and investment committee use.

Investing in modern practice management & advice technology will alleviate pressure for advisers and Licensees in this new regulatory environment

Increasingly, Licensees are mandating financial planning software – and for good reason. Well-designed planning software can support business growth, business efficiencies, help deliver compliant advice and maximise time spent with clients. Consistent software across a Licensee's network helps them manage compliance obligations efficiently, which in turn can help keep costs down for advisers.

Technology is at the heart of the advice process more than ever before. Morningstar's easy-to-use award-winning financial planning software, **AdviserLogic**, combined with our renowned data, research and digital solutions, is designed to help facilitate compliant practices and help advisers work more efficiently with the goal of delivering improved outcomes for clients. The platform has been designed by advisers for advisers.

Advisers can significantly reduce the time it takes to produce a Statement of Advice (SoA), deliver it digitally, and engage clients with Morningstar's renowned client-friendly research reports. The software connects to our revenue management platform, PayLogic, to help Licensees manage revenue streams and produce Fee Disclosure Statements (FDS's) efficiently. It also incorporates data feeds from investment managers, platforms, brokers, banks, super funds, insurance providers and more, to reduce double-entry of data and provide a holistic picture of the client.

Financial Year	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028	2028/2029	2029/2030	2030/2031	2031/2032	2032/2033	2033/2034	2034/203
Age	50 / 45	51 / 46	52 / 47	53 / 48	54 / 49	55 / 50	56 / 51	57 / 52	58 / 53	59 / 54	60 / 55	61 / 56	62 / 57	63 / 58	64 / 59	65 / 60	66 / 61
Joseph Accumulator																	
Jo-Anne Accumulator																	
Joint - Joseph, Jo-Anne	22,844	46,169	70,000	94,352	120,285	146,713	173,664	201,168	229,260	257,971	287,337	317,472	348,382	380,109	412,697	412,697	335,32
Total Assets	**22,844**	**46,169**	**70,000**	**94,352**	**120,285**	**146,713**	**173,664**	**201,168**	**229,260**	**257,971**	**287,337**	**317,472**	**348,382**	**380,109**	**412,697**	**412,697**	**335,32**
Superannuation																	
Joseph Accumulator	0	6,654	13,507	20,566	27,837	35,326	43,040	50,984	59,168	67,597	76,278	85,221	94,431	103,918	113,689	0	
Jo-Anne Accumulator	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total Superannuation	**0**	**6,654**	**13,507**	**20,566**	**27,837**	**35,326**	**43,040**	**50,984**	**59,168**	**67,597**	**76,278**	**85,221**	**94,431**	**103,918**	**113,689**	**0**	
Pension Balance																	
Joseph Accumulator	6,622	6,787	6,957	7,131	7,309	7,492	7,679	7,871	8,068	8,269	8,476	8,688	8,905	9,128	9,356	30,956	
Jo-Anne Accumulator	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total Pension	**6,622**	**6,787**	**6,957**	**7,131**	**7,309**	**7,492**	**7,679**	**7,871**	**8,068**	**8,269**	**8,476**	**8,688**	**8,905**	**9,128**	**9,356**	**30,956**	
Annuity Balance																	

Advisers and Licensees need to adapt to shifting expectations of investors, by taking greater advantage of environmental, social and governance (ESG) data, information and thought leadership

The results of a recent survey conducted during a Morningstar ESG webinar in February 2020 for Australian advisers, showed that 3% of participants rated themselves as highly knowledgeable when it comes to ESG investing. The majority, 60%, rated themselves as only having a basic understanding in this area. Yet 100% of participants indicated that they currently monitor, or are considering monitoring, ESG risk in client portfolios. Based on this survey, advisers are clearly calling out for more insights and education around ESG, along with data, information and tools to ensure they can confidently address client preferences and questions.

How do you rate your current knowledge of ESG in investing?

n = 107
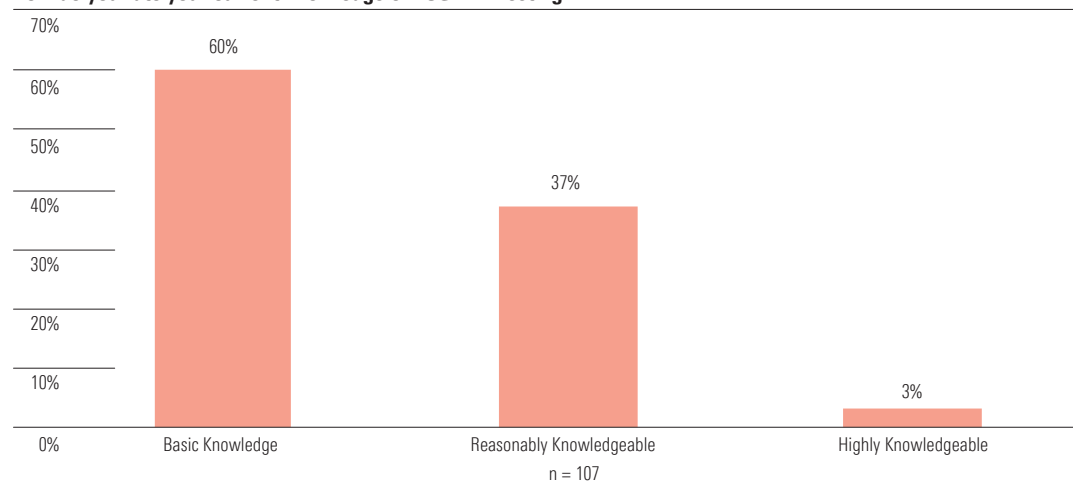
Source: Morningstar (February 2020).

Morningstar is investing in solutions which help advisers, portfolio managers, Licensees and other stakeholders to meet client preferences as it relates to sustainable investing.

Adviser Research Centre is our web-based platform designed for advisers to access fundamental data, research and portfolio analysis tools. The portal provides access to thought leadership, insights, curated ESG data and ESG ratings Australian managed funds and exchange traded funds (ETFs), allowing advisers to discover appropriate investments and substantiate investment advice.

Morningstar Direct brings together the best of our global data, research and ratings for qualitative and quantitative analysis. It makes it simple for advisers and portfolio managers to conduct holdings-based and returns-based analysis. Users can screen for investments based on a host of ESG-related data points and other criteria to find appropriate investments for clients for managed investments (funds, ETFs and LICs) and at a company (stock) level, including positive and negative screens – such as involvement in nuclear, arms, carbon, tobacco and more.

There is no denying that the global economy is moving towards a low carbon, more sustainable economy over the mid to long term. With Morningstar's support, advisers can help align client portfolios to their preferences and this new reality – while differentiating their business at the same time.

Seeking specialist support on model portfolios & managed accounts can free up time, reduce risk and deliver great client outcomes

Clients expect transparency around their investments. And advisers and Licensees want efficient and transparent ways to manage model portfolios, in addition to increasing governance and rigour around how portfolios are constructed, monitored and reported on. While managed accounts have been touted as one solution to this, technology solutions that support bulk rebalancing are available, and some solutions support digital client sign-off on Records of Advice.

As technology is advancing, so are the governance standards around model portfolio construction, with investment consultants supporting advice Licensees in delivering superior investment solutions to clients. Whether an advice firm is implementing managed accounts or using technology to support model portfolio implementation, there are several considerations in setting up and running successful investment programmes.

Morningstar's Research Advisory solution helps Licensees run managed accounts or model portfolios designed around the needs of their clients – in addition to APL advice if needed. Morningstar has extensive institutional-grade experience in portfolio construction and has married this with our independent research expertise. Our leading consultants support the entire portfolio value chain from inception, governance framework, strategic asset allocation, manager selection, and ongoing reporting and monitoring. This tailored solution allows Licensees to utilise the expertise and rigour of Morningstar's research team, instead of doing it on their own.

Model reporting is crucial for client engagement and transparency. Our team will develop tailored branded reports that can be used with clients. In an age where information needs to be accessible at our fingertips, clients expect the same when it comes to their investments. If done right, reporting solutions offer the opportunity for advisers and Licensees to improve client trust which can help take the relationship with clients to the next level.

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Summary

There are many emerging trends and the industry is undoubtedly undergoing significant change, causing a lot of pain for advisers and Licensees. Today's stringent regulatory environment, deciding which technology provider to partner with, investors shifting expectations, and the rise of models & managed accounts are just some of the factors. Yet change creates opportunity and the modern adviser is better placed than ever to deliver great outcomes to their clients. Advisers and Licensees who are actively considering these areas and their longer-term business plans, will no doubt shift the probability of success in their favour.

We are actively investing in technology to help advisers and Licensees tackle these issues.
Together we can **empower investor success.**

Contact us today

If you'd like to learn more about how we've been leveraging technology to build a bridge between advisers and clients, and to request a demonstration **02 9276 4445 / sales.au@morningstar.com**

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