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in association with EIA and EIRIS

blue&green tomorrow


# The Voice of the Adviser 2012

## A survey on the market for and marketing of independent financial advice

*"In giving advice, seek to help, not please, your friend."*

Solon (638 BC – 558 BC)
Athenian statesman, lawmaker, and poet

## Copyright & Disclaimer

# Contents

# Blue & Green Tomorrow

*Essential intelligence on sustainable investing and living*

Blue & Green Tomorrow wants to support innovative businesses that balance the needs of the planet, its people and our prosperity.

We aim to provide our readers with the knowledge they need to make informed choices without prejudice, scaremongering or greenwash.

*We want the world to be as blue and green tomorrow as It was yesterday.*

We believe that everyone can play a part and that anyone can make a difference. Not by going back through misplaced nostalgia to some bygone age, but by striding out to a bright new future in which we take advantage of the new approaches that can improve our quality of life, the food we eat, the air we breathe, the water we drink and the land we live on.

*Life is for living without costing the earth.*

Sponsor

# Ecclesiastical

Since March 1988, Ecclesiastical Investment Management Limited has been at the forefront of socially responsible investing.

Head of Investments Sue Round launched one of the UK's first retail ethical investment funds – the Amity UK Fund – over 25 years ago and we now offer a full range of socially responsible Amity screened Funds to give your clients the opportunity to diversify across asset classes and regions.

We were delighted recently to receive the Moneyfacts Award for Best Ethical Investment Provider 2012. This is the fourth consecutive year we have won this award, which is voted for by the IFA community.

We were also very pleased the Amity UK Fund was voted Best Ethical Fund at the Investment Week Climate Change and Ethical Investment Awards 2012, which is a great achievement in its 25th Anniversary year.

Sponsor

# Matrix Solutions

Matrix is an independently-owned business intelligence consultancy with over 25 years' experience in the financial sector. We are widely regarded as the leading data owner for financial intermediary and private investor intelligence, thanks to the fact that our marketing databases are the most comprehensive, insightful and up-to-date in the UK. In recent years we've expanded our offering into CRM implementation and performance benchmarking services (Financial-Clarity) for the whole of the UK financial sector. As of the start of 2013 we now collect sales transaction information for over 90% of the nation's Asset Management groups and over 50% of the Life & Pension companies. The aggregated dataset is then accessed in a secure online client environment, allowing individual firms to conduct their own trend and market analysis to help them develop the most commercially-viable sales and distribution strategies for their own business model.

Our clients appreciate Matrix's passion for generating insight from a huge variety of data sources and our relentless quest to deliver the most efficient revenue-building solution for their particular business. We are a consulting partner for SalesForce.com, we have co-branded products with the Council of Mortgage Lenders and we surpass the most stringent of data management requirements to ensure the confidentiality of all our client data.

We are always interested in meeting new clients, especially those who would like to create a genuine difference to the role that data and business intelligence plays in their day-to-day operational strategy. If you would like to read any of our case studies or would like to trial any of our databases & performance benchmarking tools, then please visit us at www.matrixsolutions.co.uk.

We look forward to helping you grow your business into 2013 and beyond.

MatrixSolutions
Inside intelligence

Join us on the observation deck...

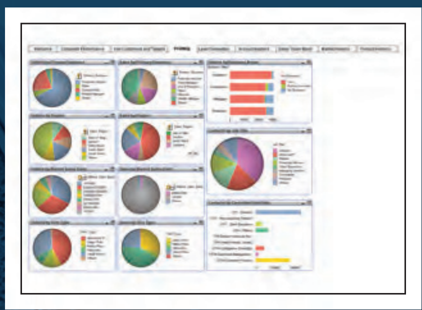
# Financial-Clarity. Total Intelligence.

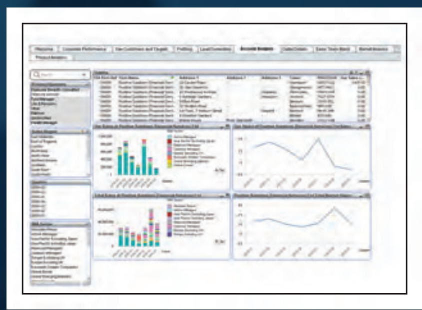
## Financial-Clarity is...

- The UK's leading Benchmarking and Business Intelligence tool for the Financial Industry.
- Populated with transaction data at individual outlet level for over 90% of the Fund Management Industry, and an ever increasing share of the Life & Pension sector.
- Powered by up-to-the-minute secure online dashboards which provide insight into the sales and distribution structures of our clients' businesses – empowering them to adopt the most profitable strategies in their sector.

## Key features of the Financial-Clarity dashboards:

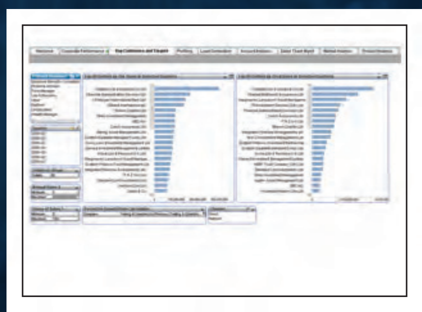
- Account Analysis
- Key Customers
- Sales Team Performance
- Profiling and Lead Generation
- Corporate Performance
- Market Analysis
- Product Analysis





## Financial-Clarity can also be accessed through:

- Comprehensive statistical analysis packages (Matrix FastStats)
- Custom data feeds (Single Intermediary Views)
- CRM plug-in applications for integration with Salesforce.com



## Contact us now for a clearer market view.

Phone: 0800 074 0574    Email: info@financial-clarity.com    Website: www.financial-clarity.com

Visit Us: 55 New Oxford Street, London, WC1A 1BS

In association with

## Ethical Investment Association

The Ethical Investment Association (EIA) is an association of financial advisers from around the UK, dedicated to the promotion of green and ethical investment.

Members are committed to increasing access to green and ethical investment advice for individuals, businesses and charities, and to increasing and improving their own professional knowledge.

## EIRIS

EIRIS is a leading global provider of research into corporate environmental, social and governance performance.

An independent, not-for-profit organisation, we work to help our clients develop the market in ways that benefit investors, asset managers and the wider world.

Our mission is to empower responsible investors with independent assessments of companies and advice on integrating them with investment decisions.

Our sector-based research teams provide in-depth coverage of around 3,000 companies globally, covering over 100 different environment, social and governance issues. We have over 100 institutional clients including pension and retail fund managers, banks, private client brokers, charities and religious institutions across Europe, the US and Asia.

We bring 30 years of responsible investment experience, and combine understanding of ESG issues with knowledge of corporate practice and experience of practical solutions.

EIRIS also publishes a range of printed and online resources to help consumers, charities and financial advisers to invest responsibly. These include www.YourEthicalMoney.org and www.CharitySRI.org

# FOREWORD

For the last three years, Blue & Green Tomorrow has been researching the market for financial advice.

The first two years focused on those advisers who specialise in ethical investment, but, recognising the growing appetite for such advice among an ever-widening investor base, we have since broadened the research to include all financial advisers.

This gives us a fascinating snapshot of the state of the advice market in 2012, in the period immediately before the introduction of the Retail Distribution Review (RDR).

Whatever the frustrations with regulatory change, increasing bureaucracy and client understanding, the mood in the camp remains positive. The majority of IFAs say that more clients asked for more advice in 2012 than in 2011 and expect to see more clients still in 2013. That said, the number of IFAs expecting a decrease in client numbers in 2013 has increased significantly post RDR.

The RDR is generally seen as benefitting firms through its greater transparency, particularly where they already operate a fee structure. It is strongly viewed as a disbenefit for clients. This strong downside is mainly owing to the pricing of less affluent clients out of the advice market. While 48% of IFAs say they have no minimum portfolio size, the fees (roughly 3% of a £25,000 portfolio according to research by Aviva and unbiased.co.uk) themselves will price those with sub-£30,000 assets out of the market.

Optimism for the economy in 2013 has improved from the last survey at the end of 2011 (which itself had seen a significant decline in confidence from 2010), with over half of respondents seeing a worsening in conditions over the next 12 months. This year's respondents are far more optimistic, with twice as many people seeing growth over decline. Nearly half of IFAS see no change over the coming year.

Word of mouth/recommendation remains the most commonly used form of client acquisition, with unbiased.co.uk coming a distant second (38%). Year on year there has been significant growth in the use of firms' own email lists (from 14% to 28%) and online marketing (from 14% to 22%).

## Test fast, fail fast, adjust fast

2013 will be an interesting year for IFAs, with a significantly different regulatory and charging environment. Gillian Cardy told FT Adviser at the end of 2012:

- 2013 will see planned business propositions actually implemented, and the management advice ‘test fast, fail fast, adjust fast’ could come to mean a great deal to many advisers as they continue to refine their propositions.
- For those who have been independent advisers for many years there will be little in 2013 to intimidate.

While our survey shows growth for direct and tied propositions, there will be plenty of clients seeking independent and professional financial advice, planning and management.

# EXECUTIVE SUMMARY

## THE MARKET FOR ADVICE

- Three-fifths of IFAs report an increase in their client numbers over the last 12 months – less than one in seven have seen a decrease.
- The main competitors for advice are the media, those not getting any advice and online advice sites.
- Growth is being seen in clients' use of direct purchase, platforms and restricted/tied advice.
- Two-thirds will be offering Centralised Investment Propositions (CIPs) with just under half of these including them in their fees.
- Half of IFAs report a greater requirement for advice from clients.
- Half of IFAs report requests for ethical advice as stable, with slightly more seeing a decline rather than a growth.
- A quarter of IFAs say they never get requests for ethical investment advice – just less than three-quarters do.

## TYPES OF ETHICAL ADVICE

- The vast majority of IFAs report that only a minority of their clients ask about ethical investment.
- The average allocation to ethical funds of those clients who ask about ethical investment is two-fifths.
- Ethical investors are most keen to avoid funds investing in the arms trade, tobacco, human rights abuses, the exploitation of animals for cosmetics, and pornography/violent material.
- Ethical investors are most keen to invest in renewable energy, fair trade, non-energy cleantech, recycling, and sustainable agriculture and fishing.
- Friends Provident, Aberdeen, Jupiter, Ecclesiastical and Aviva are the top five providers.
    - Amongst EIA members the top five providers are Ecclesiastical, Kames/Aegon, Jupiter, F&C and Aberdeen.

## RETAIL DISTRIBUTION REVIEW

- The strong balance of opinion (1.7:1) is that the RDR will harm clients, mainly owing to less affluent clients (those with less than £30k investible assets) being priced out of the advice market.
- The small balance of opinion (1.2:1) is that the RDR will benefit firms with greater transparency, clarity and trust between advisers and the advised.
- The biggest impact of the RDR is seen to be significantly fewer advisers, a larger advice gap and higher costs.
- Over half of IFAs expect an increase in their client numbers over the next 12 months, meaning that just over a quarter expect to see a decline.

## WINNING NEW CLIENTS

- The most important pieces of information needed to win a new client are their goals/objectives, their attitude to risk, details of their wealth and income, and their age.
- The average spend on winning new clients is 7.5% of turnover with four-fifths spending less than 10% and just under 4% spending over 20%.
- Of IFAs, 48% have no minimum portfolio size, and a fifth have a minimum of £100k.
- Nine-tenths of clients see between 1 and 10 prospects to secure a new client.
- The most powerful form of marketing remains word of mouth/recommendation. Trailing behind in the next three positions are unbiased.co.uk, firms' own email lists and online marketing.

## THE ECONOMY

- The largest group see the economic outlook as staying the same over the next 12 months. Of those who think there will be a change, the strong balance of opinion (2:1) is that the economy will improve.
- The largest group see the Coalition's economic plans as making no difference over the next 12 months. Of those who think they are making a difference, the strong balance of opinion (2.8:1) is that they are improving the economic outlook.
- Labour (1997–2010) is held responsible for the current economic crisis by over half of IFAs.
- Just half of IFAs would vote Conservative at the next election. The second largest party is UKIP, supported by just over a tenth. Of the rest, 17% did not know or would not say, and 7% would not vote.



## ABOUT YOU

- Every region in the UK was represented, with the South East, the North West, the South West and London making up over half of respondents.
- A third of IFAs were solo advisers, another third came from smaller firms of between 2 and 4 advisers, and 1 in 10 came from firms with 20 or more advisers.
- IFAs are busy people handling on average 120 clients each.  Well over a third look after more than this.

# THE YEAR THAT WAS 2012

The Queen's Diamond Jubilee (6 February) and the London Olympics (27 July–12 August) – Jubilympics (Siobhan Sharpe, Twenty Twelve) – dominated the leap year that was 2012.

Despite the celebratory feeling, the financial crisis and indecision in the Eurozone continued and the UK slowly emerged from a double dip recession, only then to be faced with the risk of a triple dip and losing the coveted triple-A rating.

Continued uncertainty in the Middle East over the Arab Spring, Israel/Palestine and Iran continued to cause headaches for policy-makers in Washington, London and Brussels.

President Obama narrowly (50.6%:47.8%) secured a second term over republican challenger Mitt Romney, after a three-day electioneering interruption caused by Hurricane Sandy. The threat of spending cuts and tax rises from the fiscal cliff – Cliffpocalypsemageddonacaust (Jon Stewart, The Daily Show) – was top of his in-tray, with a deadlocked and partisan Congress. A fiscal 'slope' may be a more accurate description as the tax rises and spending cuts kick in over time, buying the President and Congress valuable time in the early weeks of 2013 to avoid the US tipping into recession again.

The Coalition continued with austerity/efficiency plan A, with the government being dubbed an omnishambles following the April Budget (Malcolm Tucker, The Thick of It) by Ed Miliband at PMQs.

Public sector net borrowing (the 'deficit', or how much more central government is spending versus what is being taken in revenues), while falling slowly, remains stubbornly high as tax receipts flat-line and social benefit payments rise. The 2012 deficit turnout will be the fourth highest since 1979, with only 2009–2011 being higher. In turn, this means that the national debt (the accumulated government debt from multiple deficits) continues to rise year on year, and will do so until 2018, at least. Our only years of surplus since 1979 have been 1988–1989 (Chancellor of the Exchequer, John Major) and 1999–2001 (Chancellor of the Exchequer, Gordon Brown).

Chancellor George Osborne was booed at the Olympics in a rare show of anger amid the overall celebratory mood. The Conservatives and the LibDems struggled to increase their electoral support, sitting in the low 30s and 10s for voting intention respectively, while Labour sat in the 40s.

While unlikely with fixed-term Parliaments, were an election held tomorrow under a uniform national swing, Labour would secure a 112 majority with 381 seats, the Conservatives would be the second largest party with 219 seats (losing 93 seats) and the LibDems would be reduced to just 24 seats (losing 33 seats). The main caveat is that Labour has not yet spelt out any detailed or coherent economic policy.

Should the economy see signs of stability or growth in the coming months and years, then it remains possible for the Coalition partners to secure an electoral dividend (although governing parties tend not to increase their share of the vote in subsequent terms). The most likely result for a May 2015 election is another hung Parliament, with Labour as the largest party, or a narrow Labour victory.

That said, even the most passionate small-government advocate would argue that the core function of government is external defence, internal law and the stability of currency, taxation and expenditure. Our foreign policy looks enfeebled in Europe, the US and Asia. The Conservative party is at war with the police. And plan A is working far more slowly than first suggested. On those core functions, this is a poor show.

In the meantime, the FTSE 100 rose from just under 5,600 in January to over 5,900 in December after a low of 5,260 in June, and well below the October 2007 peak of 6,722 or the previous December 1999 peak of 6,930. The BBC Global 30 rose from 5,800 in January to over 6,200 after a low of 5,714 in May.

In January, both the National Association of Pensions Funds and the National Employment Savings Trust expressed concern over Solvency-II capital requirements. This was just the start of a turbulent year for advisers.

The FSA issued a total of £311.6m in fines against 50 firms in 2012, up from just £66.1m in 2011.

March saw the ONS report that stocks and shares ISAs (£15.837bn) had overtaken pensions (£14.28bn) as the primary savings vehicle for the first time in a decade. FSA Chief Executive Hector Sants also announced he was leaving in June. Originally tipped for the top slot at the new Prudential Regulatory Authority, he subsequently joined Barclays and gained a knighthood in the New Year's honours.

In April, AIFA and Zurich presented research that showed the concern that two-fifths of advisers have concerning open-ended liability. Meanwhile, Fidelity launched its unbundled pricing model for advisers, closely followed by Skandia.

May saw the IFA Centre lobbying MPs over regularity levies framed in the Financial Services Bill. June saw Honister Capital go into administration. The Chief Executive of the £46.3m The Money Advice Service (TMAS) also resigned as Parliament criticised the service, along with the soon to-be-defunct FSA, for being too expensive and not fulfilling their objectives.

Around 30,000 people per week use TMAS but in December it announced that it was reducing its costs by £2.5m while delivering 50,000 more debt advice sessions.

July saw the Libor scandal break at Barclays, leading to criticism of the British Bankers Association and the FSA in a Parliamentary report in August.

In September, the FSA revealed that the amount paid out for missold PPI from January 2011 had risen to £5.4bn. Sixteen firms accounted for 92% of all PPI complaints. It was also announced that the 157-year-old Skandia brand was to be replaced by the parent group branding of Old Mutual Wealth.

October saw a scathing 10-page review of self-invested personal pensions operators, which suggested that SIPP providers will need to scrutinise products more closely and proposed a new capital regime for SIPPs in December, increasing minimum capital from £5k to £20k.

The first phase of auto enrolment also arrived in October 2012, with individual employers' duties being introduced gradually over the following five years. The law requires all employers to enrol their workers into a qualifying workplace scheme if they are not already in one. At present, many workers fail to take up valuable pension benefits because they do not make an application to join their employer's scheme. Automatic enrolment is meant to overcome this.

In another rebrand, the Association of Independent (adj. Free from outside control; not depending on another's authority) Financial Advisers (AIFA) approved a decision to become the Association of Professional (adj. Of, relating to, or connected with a profession) Financial Advisers (APFA).

In addition, in the third of our bonfires of the CEO, Fay Goddard of the Personal Finance Society announced plans to step down.

The Libor rate-fixing fallout struck again in December, with UBS being fined £160m. Meanwhile in a festive mood, members of professional bodies were told to brace themselves for fee increases as the pre-RDR qualifications rush kicks in.

On 21 December, the EU Gender Directive came into effect. It relates to the equal treatment of men and women. In particular, it prohibits the consideration of gender when calculating the cost of insurance premiums. The new rules mean that women now pay more for vehicle cover and life insurance, and men less. However, men now receive smaller pensions, as previously their lower life expectancy meant better annuity rates.

On 31 December, the RDR was implemented, overseen by the FSA.

The FSA has a priority of making retail markets for financial products and services work more effectively, and so helps retail consumers to get a fair deal. Over several years, the FSA has developed work to raise levels of confidence and capability among consumers. Since 2004, this work is described as a national strategy on building financial capability in the UK. This programme is comparable to financial education and literacy strategies in other OECD countries, including the United States.

On 16 June 2010, the Chancellor of the Exchequer, George Osborne, announced plans to abolish the FSA and to separate its responsibilities among a number of new agencies and the Bank of England. The Financial Conduct Authority will be responsible for policing the City and the banking system. A new Prudential Regulatory Authority will carry out the prudential regulation of financial firms, including banks, investment banks, building societies and insurance companies.

All other responsibilities will be assumed by the Bank of England, which will establish a Financial Policy Committee.

The full transition to the new system will have happened by early 2013.

The Financial Capability division of the FSA broke away from the organisation in 2010, and is now known as The Money Advice Service.

In June 2006, the FSA created its Retail Distribution Review (RDR) programme, which they maintain will enhance consumer confidence in the retail investment market. The RDR targeted full implementation for 31 December 2012.

The RDR is expected to have a significant impact on the way in which financial services are delivered to retail investors in the UK. The primary delivery mechanism of financial services to retail customers is via approximately 30,000 independent financial advisers (IFAs) who are authorised and regulated by the FSA. They are expected to endure the brunt of the force of the RDR.

The key elements of the RDR are:

- Independent advice is truly independent and reflects investors' needs.

- People can clearly identify and understand the service they are being offered.

- Commission bias is removed from the system and product providers do not influence recommendations made by advisers.

- Investors know up front how much advice is going to cost and how they will pay for it.

- All investment advisers will be qualified to a new, higher level, regarded as equivalent to the first year of a degree.

The combination of these factors is expected to reduce significantly the profitability of many IFA practices. In anticipation of the new regulatory environment being enforced, the industry landscape is undergoing significant change, despite the fact that many in the industry are considered to be poorly prepared for the changes coming into effect.

The most significant identifiable trends are:

- Consolidators buying up small firms of IFAs because of the higher qualifications threshold and downward pressures on profitability resulting from RDR - E&Y estimate that the number of registered individuals will fall from 30,000 to 20,000 within the next 5 years.

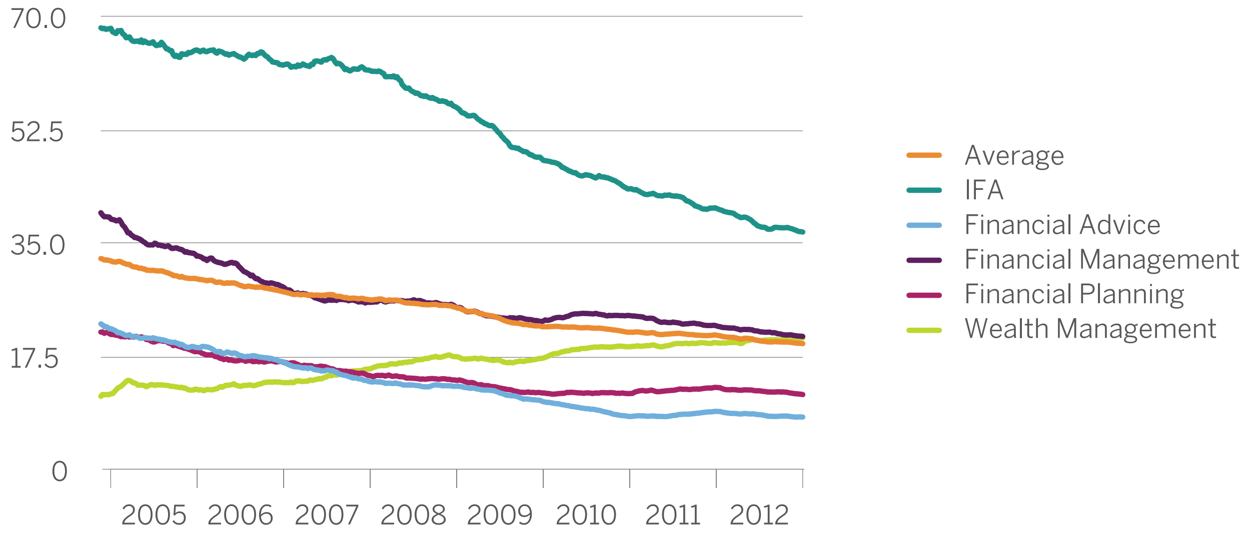
- IFAs are embracing the concept of wrap account/ incumbent fund supermarkets and life assurance companies are in response launching their own wrap platforms.

- IFAs are rapidly moving from the traditional investment solutions for clients: that is, recommending a portfolio of largely equity-oriented collective investment schemes (unit trusts and OEICs) and being paid initial and annual renewal commission by the fund provider to an outsourcing model; or recommending that clients appoint a discretionary fund manager to manage the client's portfolio(s) and charging the client an annual oversight fee. A 2011 Defaqto survey found that 89% of IFAs are considering outsourcing to discretionary managers as a result of the RDR.

- Several new entrants are making major in-roads into this market at the expense of the incumbent retail-oriented funds groups such as Schroders, Gartmore, Fidelity Investments etc. The larger discretionary fund managers are finding it difficult to adapt their business models to cope with these changes, given that the small average portfolio size is better suited to multi-manager (portfolio of funds) solutions, via wrap platforms, when these fund managers tend to prefer to retain custody and investing in direct equities

# Online market conditions

Using Google Trends it is possible to get a sense of the overall demand for advice for the last eight years, and it makes grim reading.




Overall, searches for the above terms have fallen by 40% since 2004. 'IFA' has suffered a 46% drop, 'financial advice' a 64% drop, 'financial management' a 48% drop and 'financial planning' a 45% drop. The only riser in the field is 'wealth management', which has seen a 79% rise in search traffic since 2004.

# Growing your business with ethical investment in 2013

If last year is anything to go by, 2013 also looks set to be a strong year for green and ethical investment. Increasing your knowledge of such investments will enable you to forge closer relationships with your clients and to take advantage of this growing market.

*Mark Robertson is Head of Communications at EIRIS and Editor of YourEthicalMoney.org.*

Surveys undertaken by EIRIS and others continue to confirm public enthusiasm for ethical investment. In 2012 a YouGov poll for National Ethical Investment Week found that 55% of UK adults with investments want their bank or financial adviser to tell them more about 'impact investments', i.e. investments that produce both a financial and a social or environmental benefit. This increasing interest from clients – both existing and potential – presents a real business opportunity for the adviser profession.

Sustainability megatrends also continue to make the case for long-term, sustainable investment. There is a growing need to 'do more with less' in the context of population growth, climate change and resource availability, particularly with regard to pollution, and the consumption of energy and water resources.

Sustainability issues are becoming financial issues with the potential to affect shareholder value – especially in the longer term. Financial advisers should also be aware that social, economic and environmental trends are now recognised as investment themes with the potential for excellent future performance. The greater your knowledge of all of these areas of investment, the more attractive your image will be to your clients.

**Adding value to your business**

The deadline for full implementation of the Retail Distribution Review (RDR) has passed. With increased focus on transparency around charges and stiff competition, it's becoming ever more important for advisers to justify their fees and to demonstrate added value.

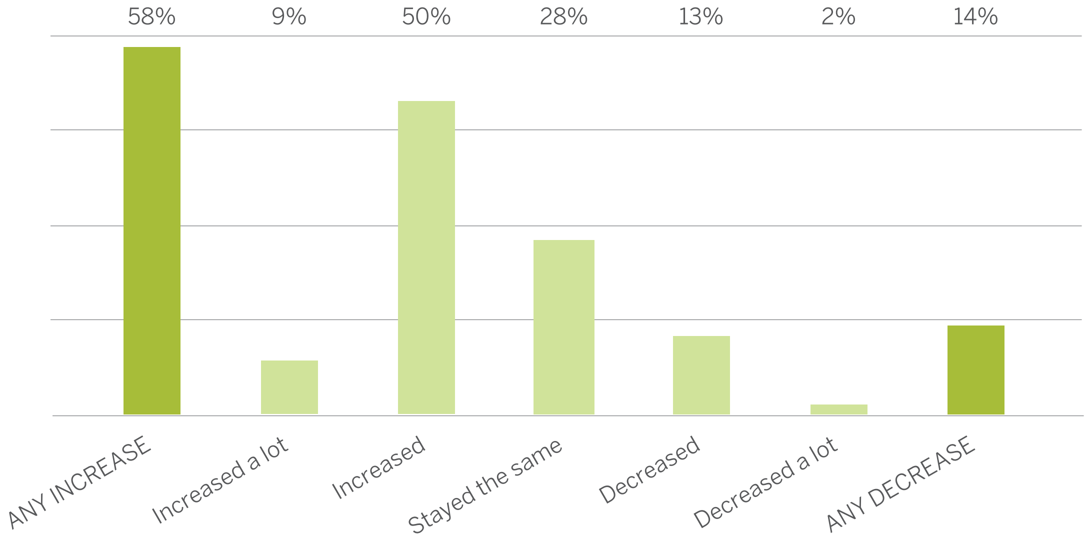
Including ethical and green investment funds among the products that you offer to clients can help you to enhance your professional profile and to expand your business, providing a unique selling point with which to differentiate yourself from those who do not offer ethical investment advice. Your clients may have a range of motivations in considering green and ethical investment, including purely financial motivations. Asking about ethical priorities and concerns as part of the fact-finding process will enable you to gain a broader understanding of your clients' needs and to build a closer relationship with them.

Over the last 30 years, millions of investors across the world have supported ethical investment by investing in funds that have driven improvements in corporate behaviour and that have acted as a catalyst for change in financial institutions by championing the advantages of long-term, sustainable investment. Ethical investment offers real opportunities for advisers to tap into a dynamic, growing market and to build better client relationships in 2013.

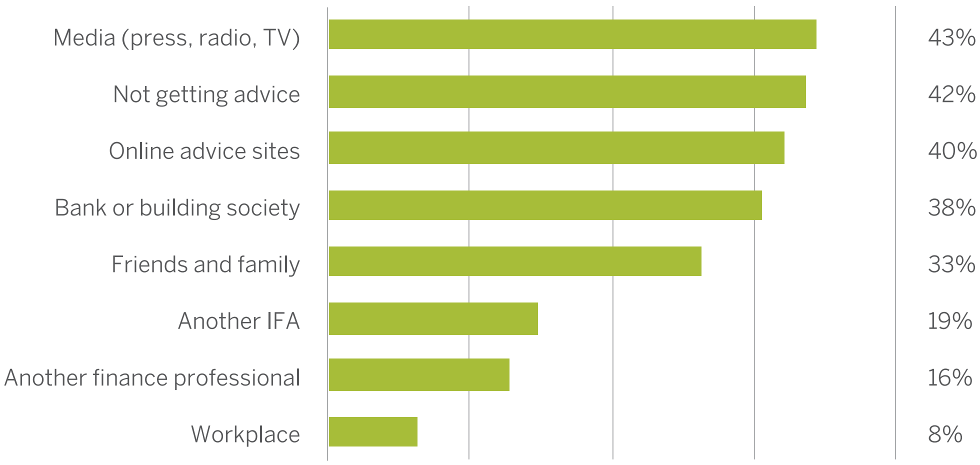
# THE MARKET FOR ADVICE

- Three-fifths of IFAs report an increase in their client numbers over the last 12 months – less than one in seven have seen a decrease.
- The main competitors for advice are the media, those not getting any advice and online advice sites.
- Growth is being seen in clients' use of direct purchase, platforms and restricted/tied advice.
- Two-thirds will be offering CIPs with just under half of these including them in their fees.
- Half of IFAs report a greater requirement for advice from clients.
- Half of IFAs report requests for ethical advice as stable, with slightly more seeing a decline rather than a growth.
- A quarter of IFAs say they never get requests for ethical investment advice – just less than three-quarters do.

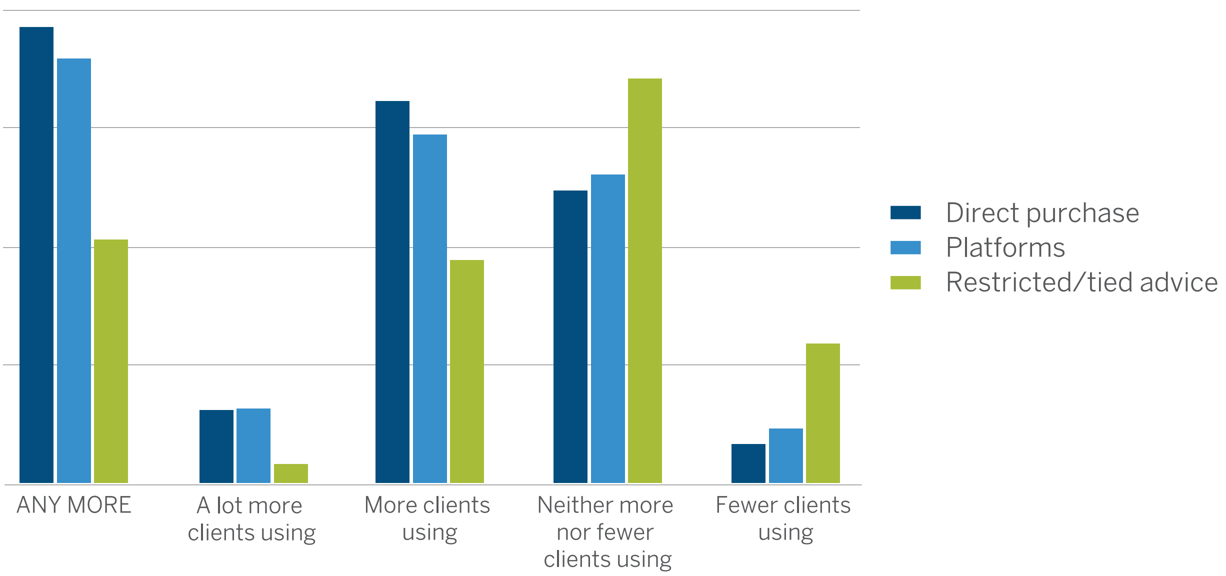
**Q2. In the last 12 months, has the number of clients you work with increased, stayed the same or declined?**



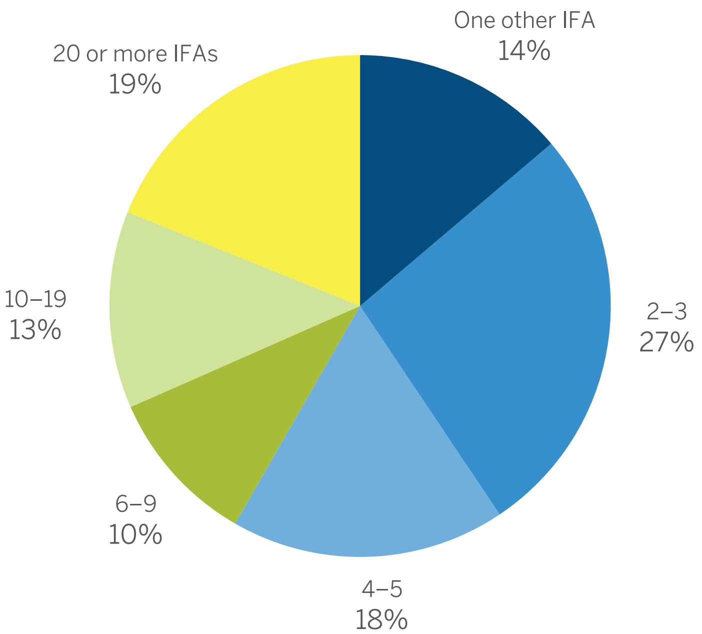

**Q3. Where else do you believe your clients are getting advice from? (Please tick all that apply.)**



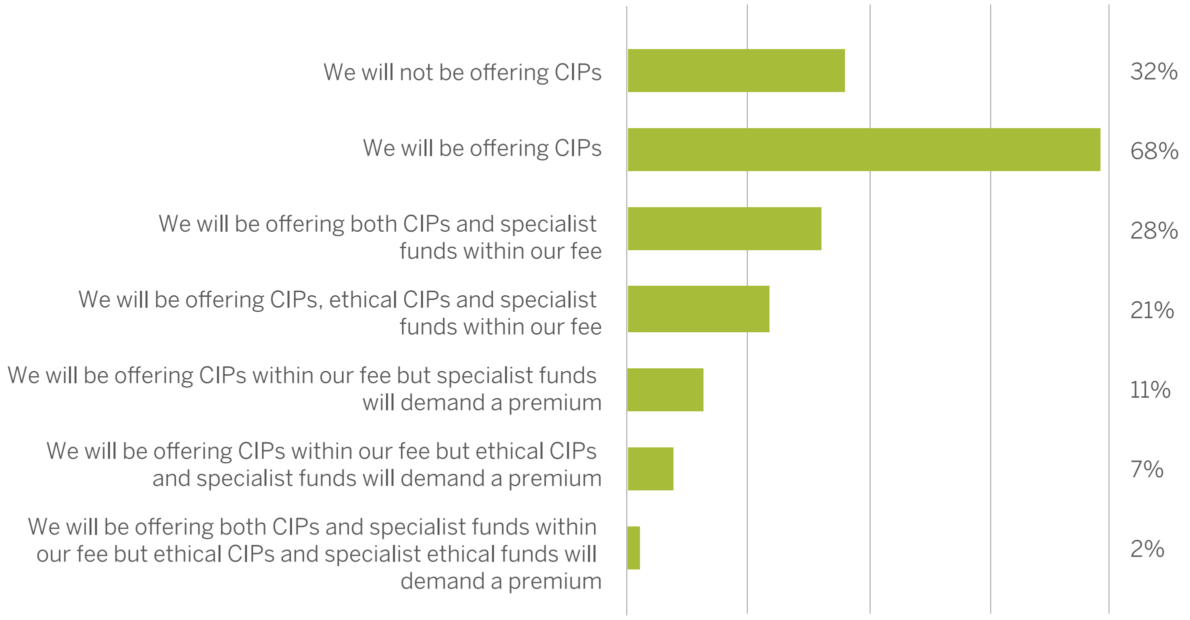
**Q4. Do you see more or less advised clients turning to any of the following over the next 12 months?**



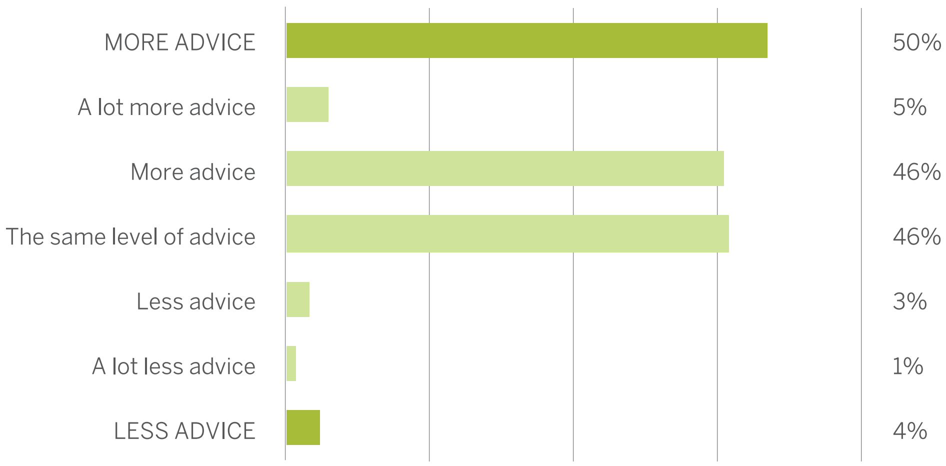

**Q5. In your own area, how many other IFAs do you estimate you compete with for clients?**



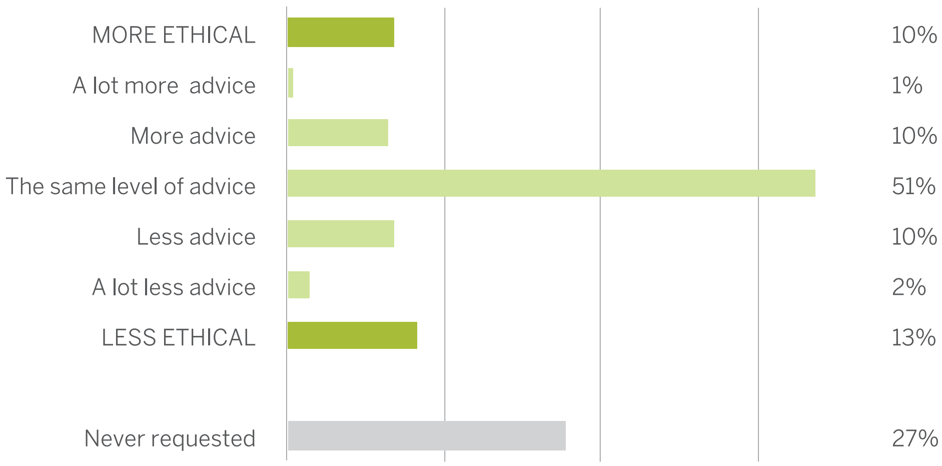
### Q6. Which of the following statements MOST closely reflects your position on centralised investment propositions (CIPs) and specialist funds?




### Q7. On average, in the last 12 months are your clients requiring more or less advice/management/planning from you?



**Q8. On average, in the last 12 months are your clients seeking more or less specific ETHICAL advice/ management/planning from you? (i.e. They express an interest in exploring ethical, impact, responsible, green or sustainable investment options.)**



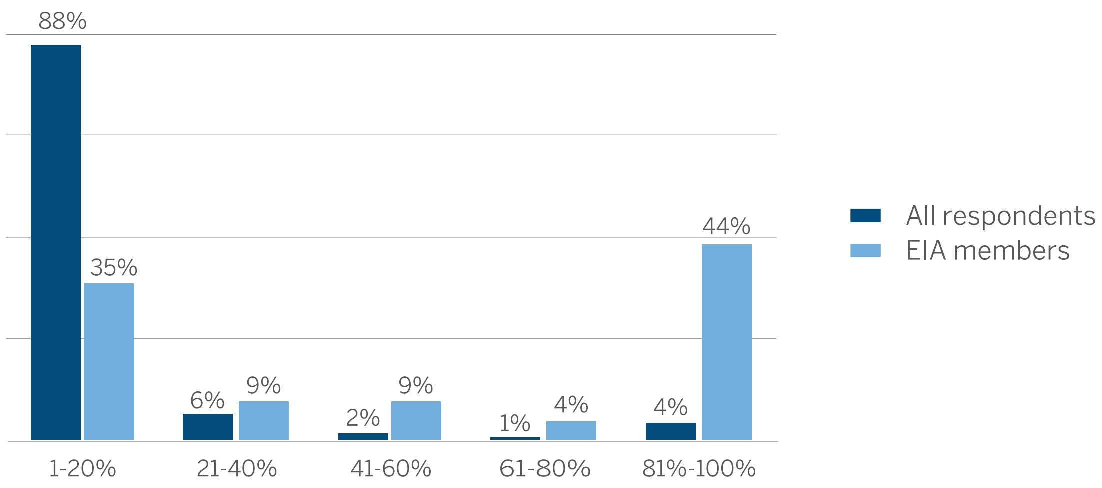

Just over one in four never have requested advice for ethical options. The vast majority (73%) have.

# TYPES OF ETHICAL ADVICE

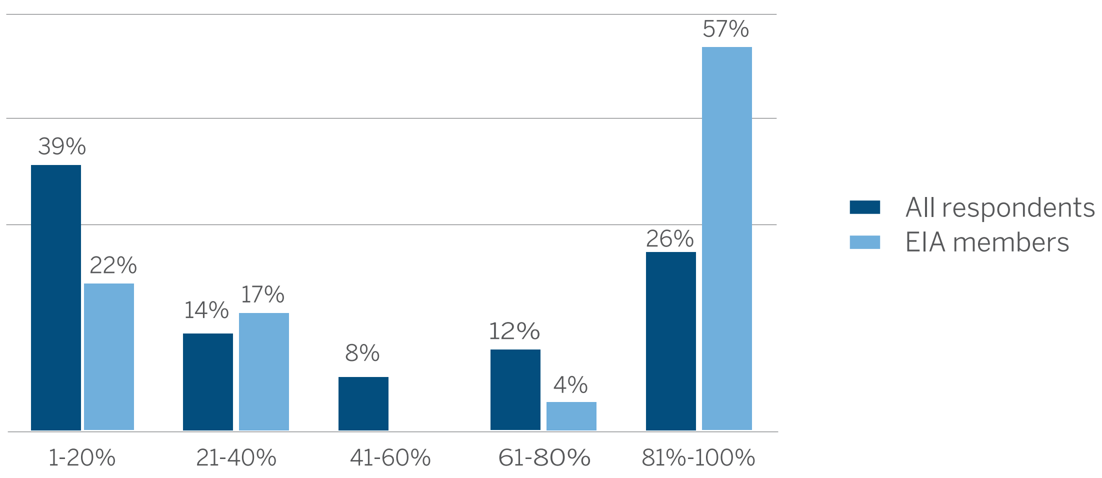
(Those who said any ethical advice was requested)

- The vast majority of IFAs report that only a minority of their clients ask about ethical investment.
- The average allocation to ethical funds of those clients who ask about ethical investment is two-fifths.
- Ethical investors are most keen to avoid funds investing in the arms trade, tobacco, human rights abuses, the exploitation of animals for cosmetics, and pornography/violent material.
- Ethical investors are most keen to invest in renewable energy, fair trade, non-energy cleantech, recycling, and sustainable agriculture and fishing.
- Friends Provident, Aberdeen, Jupiter, Ecclesiastical and Aviva are the top five providers.
    - Amongst EIA members the top five providers are Ecclesiastical, Kames/Aegon, Jupiter, F&C and Aberdeen.

**Q9. On average, what percentage of your clients asks for ethical, responsible or sustainable investment advice?**

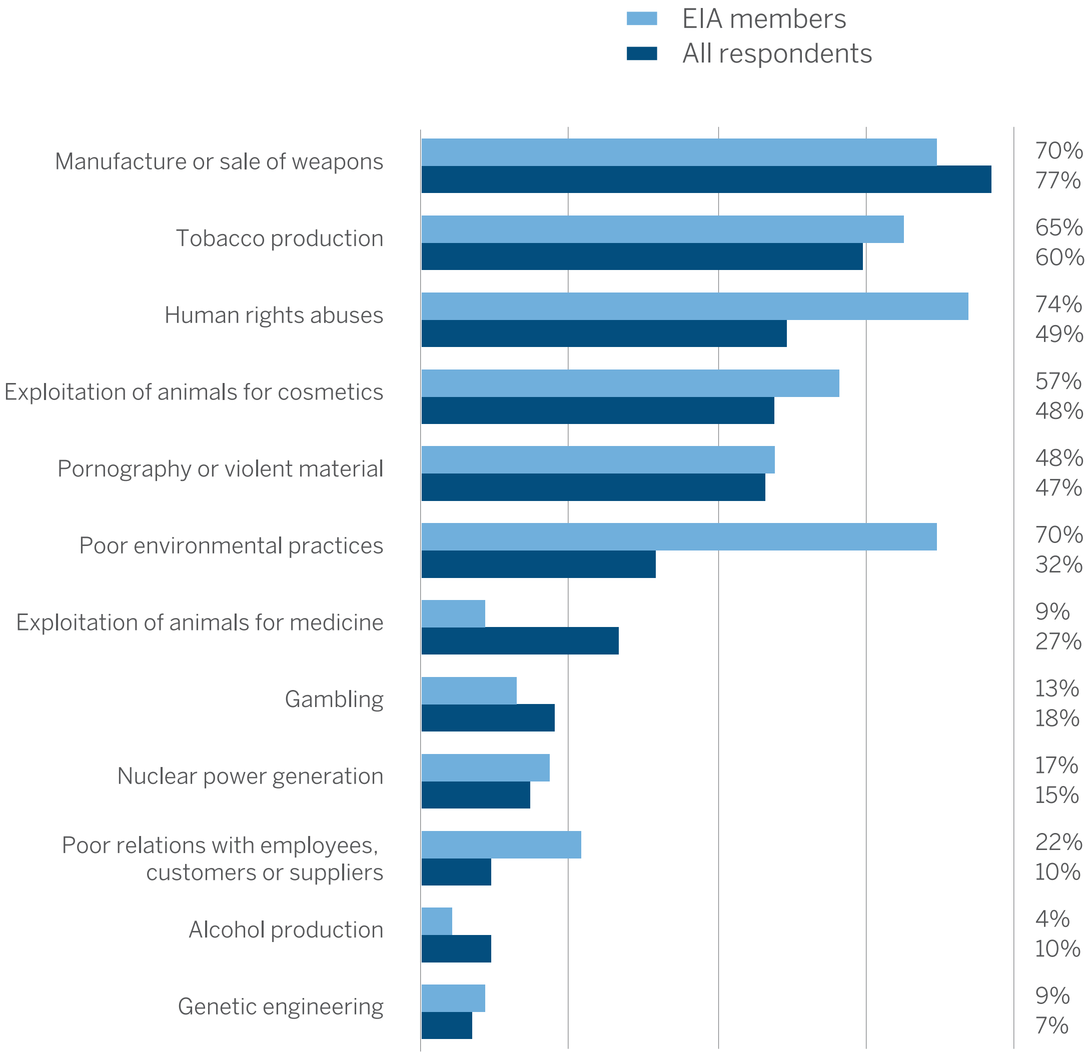



**Q10. Of those who ask for ethical advice, on average what percentage of their portfolio do they put in ethical funds?**

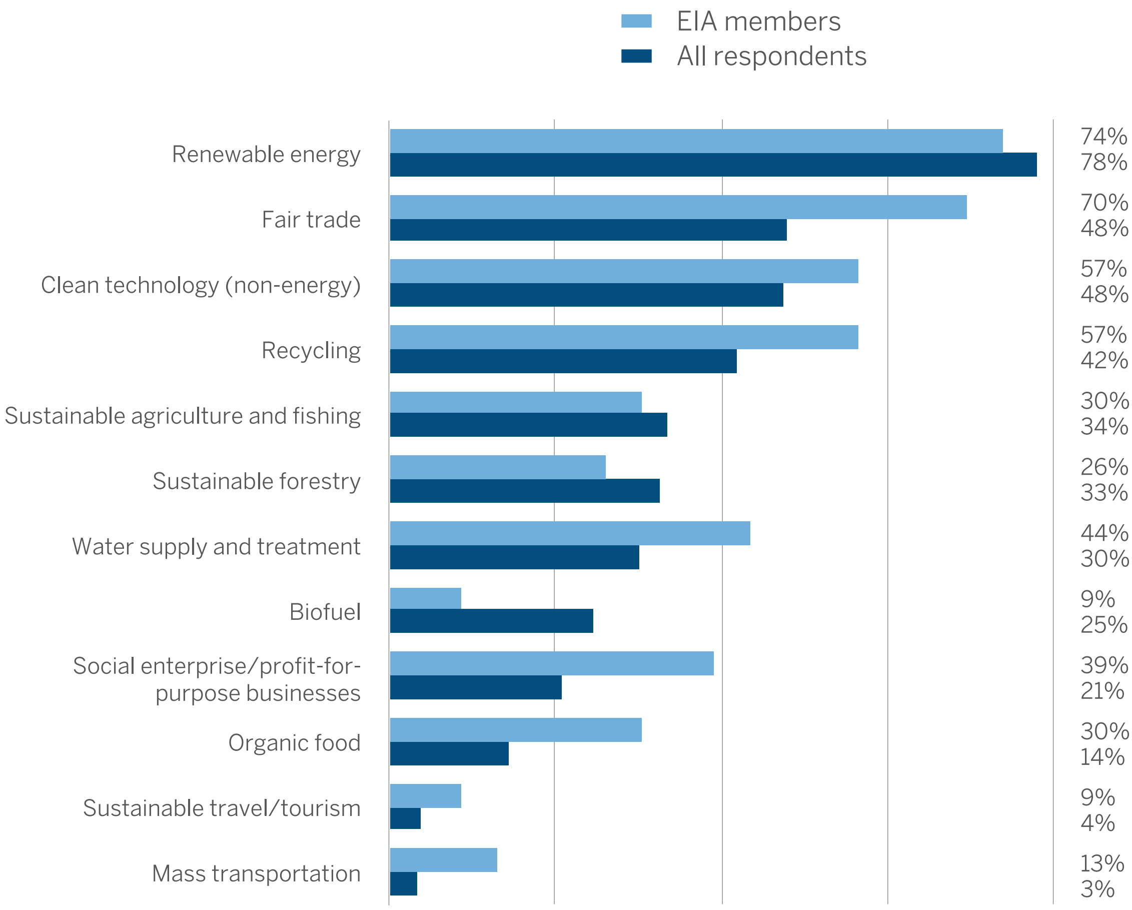



Using this data, it is possible to calculate that the average percentage of portfolios being put into ethical funds by those who ask about ethical advice is 39%. Amongst EIA members it is 56%.

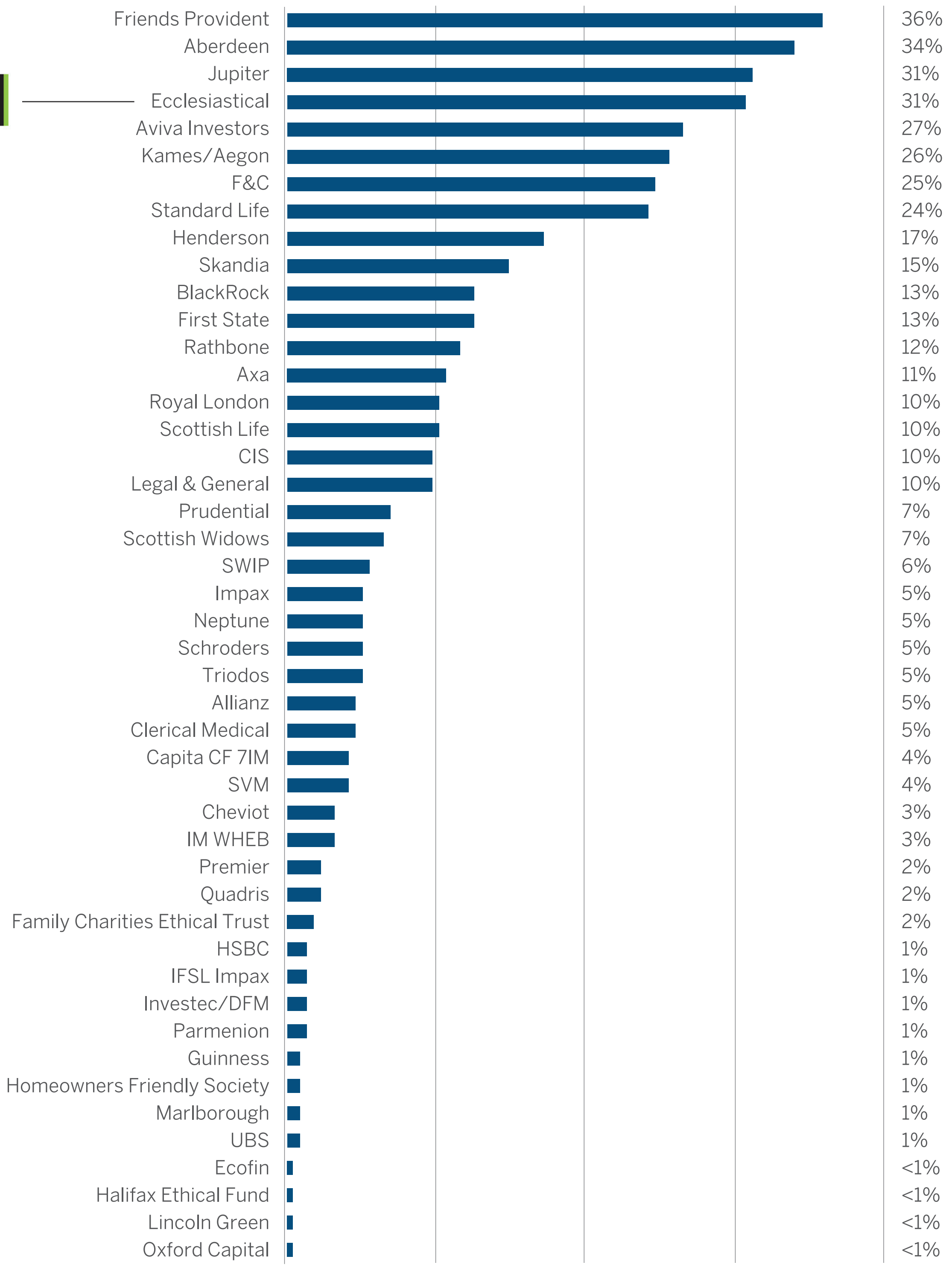
**Q11. What sectors are your clients MOST KEEN TO AVOID investing in? (Please tick the five that apply the most.)**



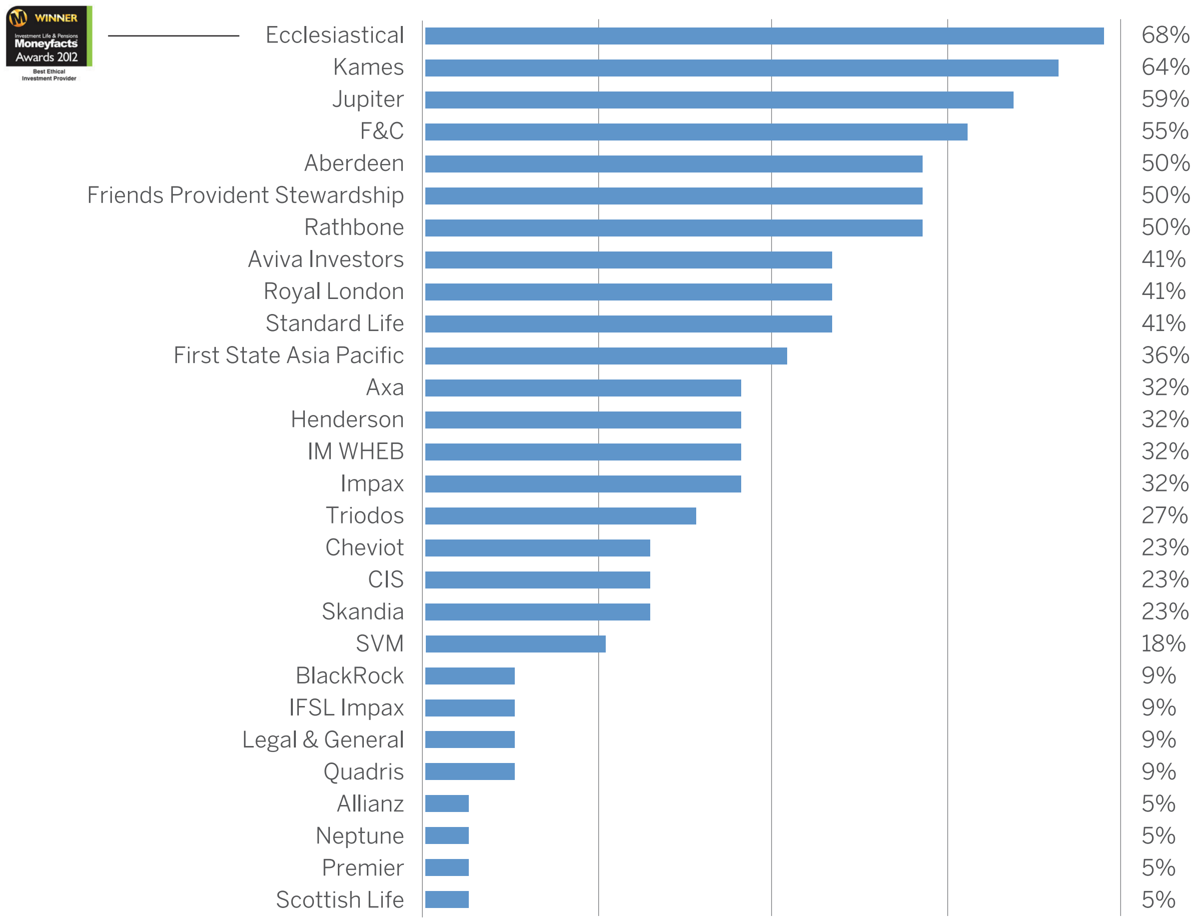
**Q12. What ethical sectors are your clients MOST KEEN to invest in? (Please tick the five that apply the most.)**



**Q13. Which of these ethical fund providers do you use most often? (Please tick all that apply.)**

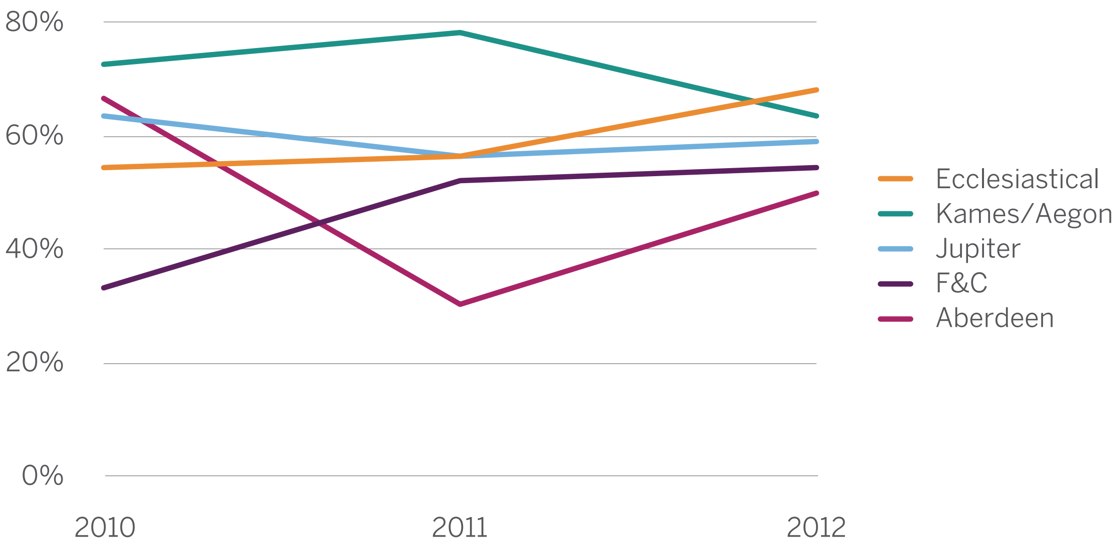


**Q13. Which of these ethical fund providers do you use most often? EIA MEMBERS ONLY**



**Q13. Which of these ethical fund providers do you use most often? EIA MEMBERS ONLY**

The top five amongst ethical investment specialists



# Sue Round and Ecclesiastical: pioneers in ethical investment

Ecclesiastical Investment Management is one of the UK's oldest ethical fund managers, and a sponsor of 2012's National Ethical Investment Week. Blue & Green Tomorrow spoke with Sue Round, manager of the Amity UK Fund.

*Sue Round, manager of the Amity UK Fund, Ecclesiastical*

Sue Round is an ethical investment stalwart. Having joined Ecclesiastical Insurance Group in 1984, she's managed the Amity UK Fund for almost a quarter of a century – making her one of the longest-serving fund managers in the business, and the fund one of the most established funds available to investors.

Financial advisers often pick out Round's fund as one of the best performers in the ethical market, and it's no wonder – her vast experience in the industry has been integral to its continued good returns, making Ecclesiastical one of the front-runners in UK ethical investment.

She chatted to Blue & Green Tomorrow.

**Tell us a little about your role at Ecclesiastical.**

My title is Director of Group Investments for Ecclesiastical Insurance Group and our retail operation. We launched the first of our range of Amity Funds in 1998. The Amity Funds are a specialist range of funds that operates both negative and positive screening criteria.

**Are the screenings weighted equally?**

It's easy to have exclusions, and exclusions are very stressed, so it is not as if you have to do anything other than avoid the areas that you state you will avoid, such as alcohol and tobacco. The flip side of that is the positive side, where we look into companies that meet some of our key criteria, our nine pillars. Sometimes this means that your positive screens actually result in companies being excluded because they don't meet a sufficient number of our pillars of positive criteria.

The reality is that positive screening is a much more dynamic tool, and really it is the thing that we think adds value to investments.

**What would you say is the main objective behind your screening process?**

The whole idea about investing with a positive screen is to give investors the best of both worlds. So, using an integrated approach to investment means that you weigh up social, environmental and governance issues within your financial stream. It's not just looking at numbers; it's asking about a company's culture and what they're doing to benefit the environment or support human rights, for example.

Over the long term, if you incorporate these things into your financial screening, you will end up with a company that is much more rounded. It's a much more holistic approach than making mere financials your benchmark.

**What kind of companies make up the fund?**

The fund has invested in a mixture of predominantly UK companies, and we have quite a large exposure, about 40%, of what I would call medium-sized companies and some smaller companies. Some have market capitalisations ranging from £50m up to £1 billion or so.

I don't like highly-rated companies that don't pay out much in dividends. We are, as a house, very keen on long-term investment varieties. We tend to look for values when we buy, and we tend typically to hold our holdings for an average length of about 7 to 10 years. That is extremely high compared with the industry average, which is probably a year or less. So our turnover is very low – typically less than 20%.

What I am trying to illustrate here is that our approach is very much a sustainable one, in that we don't believe in moving in and out of companies quickly for a fast buck. We believe in investing for the long term and choosing companies that we can grow with rather than just taking a short-term outlook.

**Ecclesiastical offers a number of non-screened funds such as the Higher Income Fund, which is not marketed as sustainable or ethical. How does the company ensure that sustainability is taken seriously in this instance?**

We have four screened funds and two non-screened funds; and at the moment we haven't got any definitive plans to change those. But it is not something that we are avoiding. We operate the same approach to negative screening as to positive screening.

We look at investments from the point of view of their advantages, in particular the corporate governance elements. The same person runs both the Higher Income Fund and a screened fund, so they are not operating in entirely different universes.

We are aware that having two funds that aren't screened may look strange, but we are totally committed to this area, which we have been in for over 25 years. It is part of our roots, as many of our original direct investors came from a clergy background, and the funds were designed to meet that demand.

We believe that you can have good long-term returns using these kinds of criteria.

**On a more personal note, what inspired you to specialise in sustainable and socially responsible practices as opposed to investment more generally?**

I don't think you can divorce the two. I was very keen, when we launched the first fund in 1988, to accommodate the views of our customers, who actually wanted a fund of this nature. At the time, back in the '80s, there was probably one other fund operating, but they were using just negative screening and I felt certainly that that was not the way forward, and that we ought to be looking at companies that were doing something very positive, be it through their product, their stature, their culture, their structures or the way that they treated their staff.

So we started with the view that it wasn't just about neutral or negative screening, but very much about looking for the positive aspects of a company. I was very pleased that we were the first to use such an approach; and over the years other people have followed because it makes sense to include these sorts of measures as part of your investment approach.

**You're one of the longest-serving fund managers. What would you say has been the highlight of your career at Ecclesiastical?**

Obviously having good performance is excellent. Three or four years ago, we decided that we wanted to get a much more external focus on our funds and really start to make them more widely known.

We re-launched our whole proposition around the fact that we were ethical, responsible investors. I think that when we made that change, it was hugely satisfying for me personally because it is something that I have wanted to do for a very long time.

People have become so much more aware in the last few years of the importance of taking these matters on board. Twenty-five years ago, companies didn't understand the terminology. The whole evolution of sustainable investment has seen it become much more mainstream. And that has been picked up now by institutions who have, on the whole, become much more involved in the whole arena.

We are certainly not on our own any more, although there have been some quite high-profile peer withdrawals from the sector. But, like I say, some of these people were Johnny-come-latelies who simply jumped on the bandwagon. For us, it really is in our DNA; as we have been committed from the beginning. We are not going to walk away from this. Some companies see it as just another niche area, which is fine if they make those decisions; it just makes us more proud in a sense.

www.ecclesiastical.com

# About Ownership Day – 12th March 2013

Ownership Day is a new day in the calendar that will raise consumer awareness about active ownership strategies and show the financial benefits of active ownership.

This UKSIF initiative is about demand for professional skills rather than encouraging “activism” on specific issues by asset owners or beneficiaries. It will encourage individuals to demand and value timely and transparent reporting by ownership professionals rather than to call for their own preferred interventions at particular companies.

## On Ownership Day, we will:

- call on private and institutional asset owners to ask their financial advisers and asset managers what is being done to protect the long-term value of their assets using professional ownership. We will also encourage beneficiaries to ask institutional asset owners.
- support leading asset owners and asset managers to highlight examples of good practice.
- show that active ownership is about sound financial management and can create more sustainable value than casino-style trading.

UKSIF
UK Sustainable Investment
and Finance Association

# RETAIL DISTRIBUTION REVIEW

- The strong balance of opinion (1.7:1) is that the RDR will harm clients, mainly owing to less affluent clients (those with less than £30k investible assets) being priced out of the advice market.
- The small balance of opinion (1.2:1) is that the RDR will benefit firms with greater transparency, clarity and trust between advisers and the advised.
- The biggest impact of the RDR is seen to be significantly fewer advisers, a larger advice gap and higher costs.
- Over half of IFAs expect an increase in their client numbers over the next 12 months, meaning that just over a quarter expect to see a decline.

# Were You Ready?

## More to the point, how were you actually meant to know whether you were ready for the changes and challenges of the RDR?

*David Young, Marketing Director, Matrix Solutions*

Sadly, there wasn't any kind of congratulatory courtesy call from 'up on high' to inform you that you'd done all that you needed to do. Wouldn't it have been convenient if there had been a loud 'compliance klaxon' perched above your desk, which emitted its aural accolade across the office as soon as you'd met all the criteria? Or how about one of those triumphant reveilles, like the ones Mike O'Leary is so proud of trumpeting forth each time one of his penny-pinching flights lands on time? Hmm, maybe not.

The changes introduced by the government's recent Retail Distribution Review will have such a seismic impact on the structure of the financial advice sector that very few financial services organisations that distribute their products and services to the intermediary channel are willing to stand up and be counted as pioneers of a coherent or effective post-RDR business development strategy. Fewer of them can confidently say that they know – even now – what they need to be doing, and they can't be sure that what they've done is right.

Perhaps this is owing to a lack of precedent for a deep-rooted operational restructure within any other comparable UK industry (although the legislative changes in the UK travel industry in 2007 bear, perhaps, more than a passing resemblance. It's well worth reading this illuminating white paper from Amadeus about the effects of these changes in the 'travel agencies' section of their website, www.amadeus.com).

As a result, few financial services professionals appear to be willing to put a stake in the ground and say that they even know what factors they should be addressing. Are all of the companies that sell their products to intermediaries simply hurtling inexorably towards the same black hole as the advice industry itself, without any knowledge of what the landscape will look like as the 'cosmic' dust settles? A troubling question indeed.

Yes, we all know our basic facts; and, at the risk of sounding like the dutiful child recounting their 12 times tables in front of the class, the FSA guidelines state that the RDR: "was set up with the aim to improve clarity for people who are looking to invest, raise the professional standards of advisers and reduce the conflict of interest which is found in remuneration for adviser services".

The RDR aims to ensure that:

- Consumers are offered a transparent and fair charging system for the advice they receive.
- Consumers are clear about the services they receive; and consumers receive advice from highly respected professionals.

To achieve this we have published new rules that will require:

- advisory firms to explicitly disclose and separately charge clients for their services;
- advisory firms to clearly describe their services as either independent or restricted; and
- individual advisers to adhere to consistent professional standards, including a code of ethics.

However, the uncertainty lies not in the codes or the mandatories, which were actually surprisingly clearly expounded, but in the way that IFAs are likely to react to this Brave New World.

Sure, some nearly retirement-aged, under-qualified IFAs have taken this as a convenient opportunity to ceremoniously throw in the towel and attack the local golf course in passionate search of a single-figure handicap. And yes, we can all subscribe with a squeaky-clean conscience to the notion that unsavoury advisers who simply recommended the products with the fattest kickbacks have now been eradicated in one fell swoop.

Indeed, no sentient being could argue with the notion that mandatory CPD logs demanding a pretty hefty 35 hours of professional training will only raise the bar of professionalism in the industry. A fact that will inevitably improve the standards of service we all receive.

However, what few people seem to be willing to stand up and shout about are niggling things like:

- What's the likely impact of high street IFAs handing their books of legacy clients to the discretionary fund managers?
- Will the future product mix change?
- Which advisers are using passives and ETFs and which advisers are sticking to active funds?
- Through which channels is L&P business being transacted the most?

It's the subtle changes to these levers that have driven the advice industry since time immemorial that will start to change the shape of the industry beyond all recognition.

The act of untangling all of this uncertainty is precisely where Matrix Solutions can help. We spend all day, every day building the industry's leading market intelligence tools for the financial intermediary sector. We've been curating the Matrix Financial Intermediary Database for the best part of 30 years, and in some respects it's never been more relevant than right now in January 2013. In fact, perhaps Matrix has always been subconsciously hurtling towards this massive industry schism, ready to be on hand and offer a guiding light to our confused and bewildered clients. This is our moment, and we intend to acquit ourselves with aplomb.

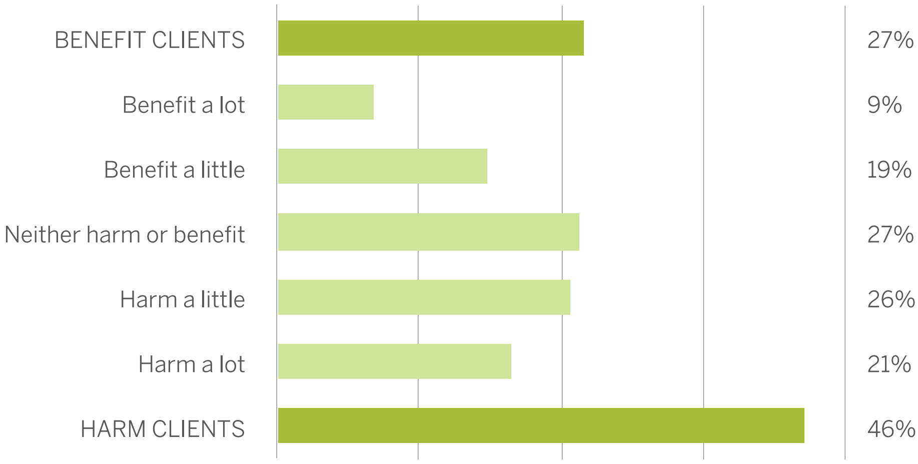
The huge legacy of intelligence contained in our database will help nervous financial services clients to navigate their way through the stormy waters ahead. Whether it's using any of the 150 fields of information we collect about IFAs to start to segment them in new ways after the RDR, or whether it's a way to look at who is already setting their fee levels and qualification requirements in such a way that shows they are well positioned for the new model, then we can provide the intelligence any financial services company may need.

Similarly, since 2009 we have been developing the leading performance benchmarking and PSD aggregator, Financial-Clarity. It contains transaction data for over 90% of the fund management industry and for well over 50% of the L&P industry, and we have recently unveiled iPad-enabled geo-mapping tools to help sales people on the move to access real-time data about the closest, most commercially attractive intermediary firms to their current location.

Everybody knows that nobody could really predict what was going to happen with the arrival of the RDR and it probably won't be completely clear what has happened for some months to come. But that doesn't excuse inactivity or lethargy. Far from it. As Erasmus contended in Adagia, his seminal work of the 1500s: "In the land of the blind, the one-eyed man is king." And that's precisely the point. The one-eyed man is asking the right questions and has access to the sort of information that will help him to decode what's going on around him as it happens, right now.

Financial-Clarity and our Financial Intermediary Database are the sources of intelligence that will help to provide the answers to the searching questions we've touched on above. We'll be furnishing our clients with the answers as they become apparent, and it will be they who lead the charge in adopting the most effective sales and marketing strategies and dominating the new business tables in 2013.

**Q15. Do you think the RDR will benefit or harm the interests of your CLIENTS?**



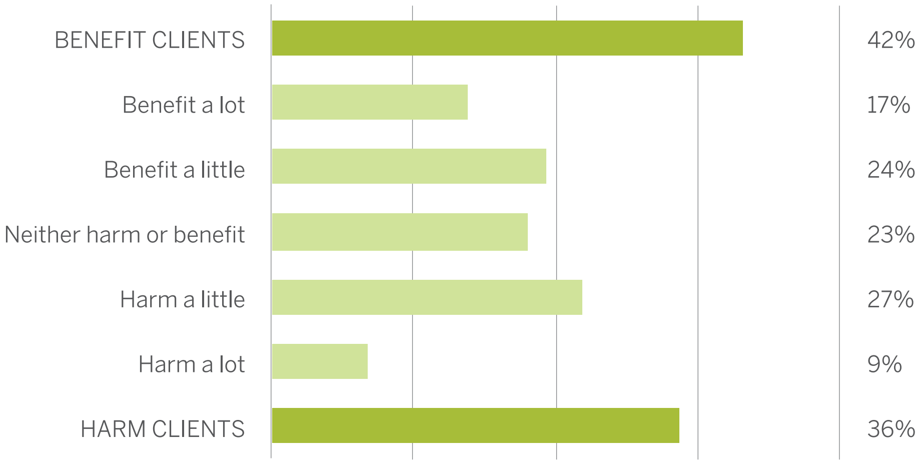

Those who see benefit to clients:

- Transparency, clarity and disclosure will lead to greater trust between advisers and clients.

Those who see harm to clients:

- Many less affluent clients will be priced out of the advice market and there will be fewer advisers – forcing clients into non-advised channels.

**Q16. Do you think the RDR will benefit or harm the interests of your FIRM?**



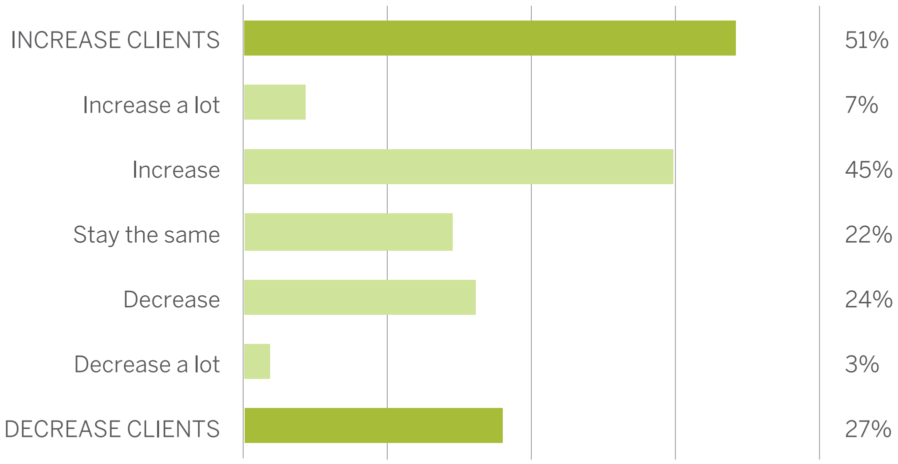

Those who see a lot of benefit to firms:

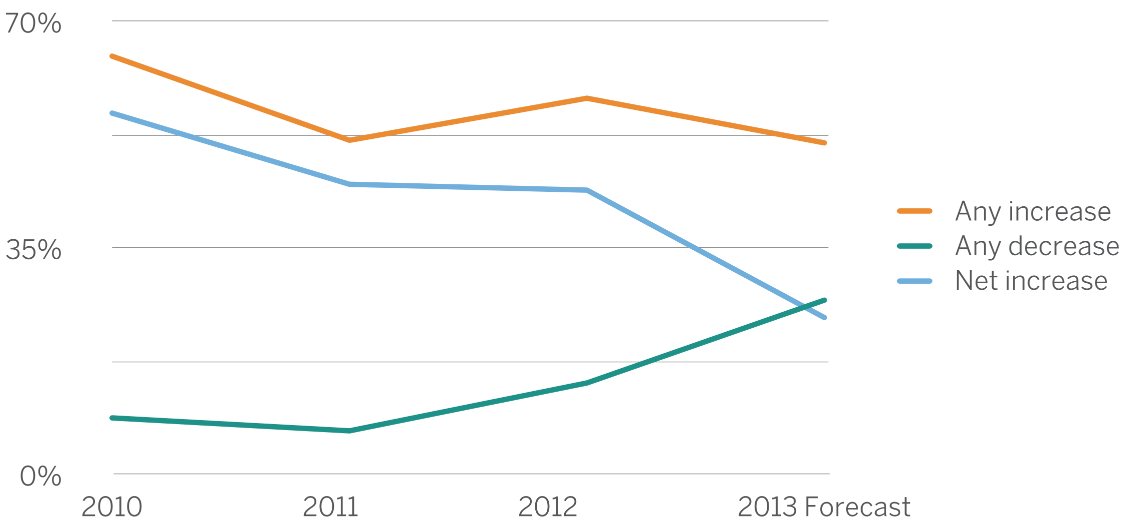
- It will help those firms already operating a fee-based model.
- The new system will clean up the profession.

Those who see a lot of harm to firms:

- It is seen as bureaucratic and a costly waste of time.
- The RDR will drive some firms out of business.

**Q17. In the next 12 months, do you expect the number of clients you work with to increase, stay the same or decline?**



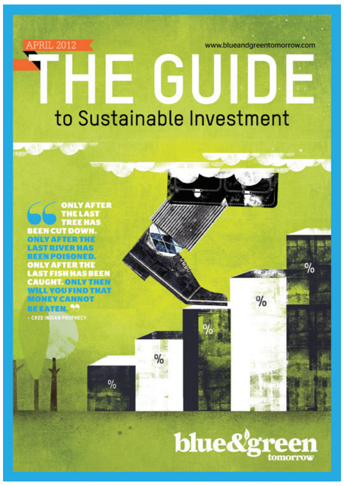



**Q18. What do you believe the biggest single impact of the RDR will be?**


Fewer advisers charging more for advice will mean that many go without the advice they need. Of the population, 81% have less than £30,000 to invest, which makes the figures below unaffordable for the majority.

The Daily Telegraph published research by Standard Life and unbiased.co.uk in September 2012. This will be the topic of our next survey in May 2013.

Standard Life and unbiased.co.uk surveyed more than 150 firms. Early indications are that an initial financial review will cost almost £500, with the hourly fee for subsequent consultations averaging £150. Advisers have said they will charge £750 for advice on investing a £25,000 lump sum [3%], £500 to recommend a mortgage, £600 to arrange a pension or long-term care annuity and £1,000 to advise on an equity release scheme. Many firms will also charge monthly retainers of upwards of £30 to give regular updates on your investments, which means fees of £360 just to buy investments through an advisory firm. [Source: Daily Telegraph, 22 September 2012]




## April 2012 –

The Guide to Sustainable Investment 2012 endeavours to take you on a journey of discovery - embarking at ethical origins, travelling through the green and growing fields of sustainable and socially responsible investment and disembarking at a new, enlightened destination.


## October 2012 –

The Guide to Sustainable Investment 2012 (NEIW edition)

The second Guide to Sustainable Investment was written and published especially to coincide with National Ethical Investment Week (NEIW) 2012.

Now into its fifth year, the event serves as a focal point for proponents of this enlightened investment sector, and we're genuinely delighted to have had a chance to do our bit in making a difference.


## COMING SOON
## March 2013 –

The Guide to Sustainable Investment 2013 will be published to coincide with the end of the financial year and ISA season.

blue&green tomorrow

Essential intelligence on sustainable investing and living

# WINNING NEW CLIENTS

- The most important pieces of information needed to win a new client are their goals/objectives, their attitude to risk, details of their wealth and income, and their age.

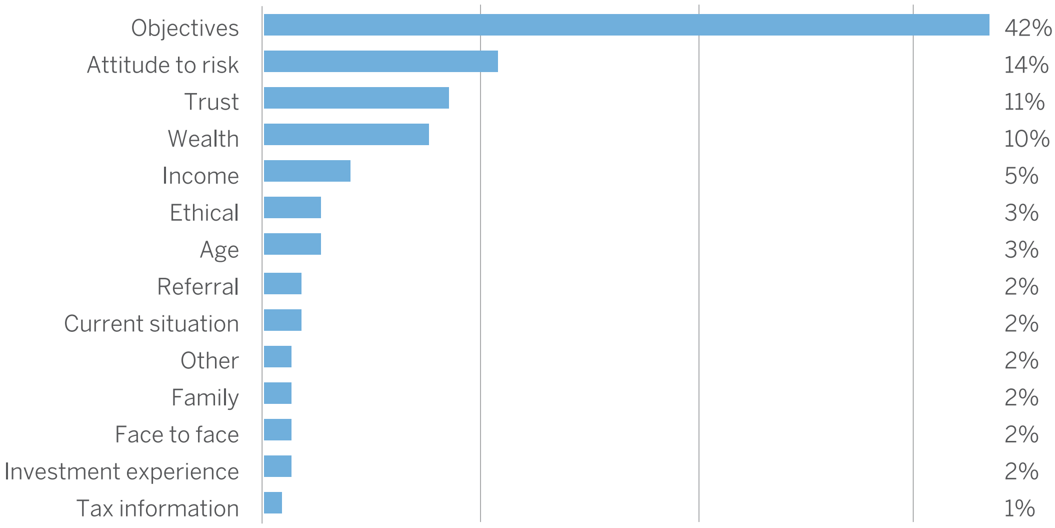
- The average spend on winning new clients is 7.5% of turnover with four-fifths spending less than 10% and just under 4% spending over 20%.

- Of IFAs, 48% have no minimum portfolio size, and a fifth have a minimum of £100k.

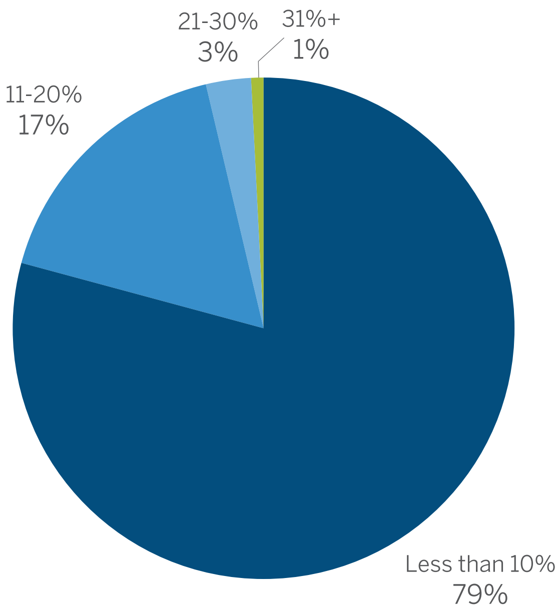
- Nine-tenths of clients see between 1 and 10 prospects to secure a new client.

- The most powerful form of marketing remains word of mouth/recommendation. Trailing behind in the next three positions are unbiased.co.uk, firms' own email lists and online marketing.

**Q19. What is the single most important piece of information, other than their name and contact details, that you need from a prospective client to win their business?**

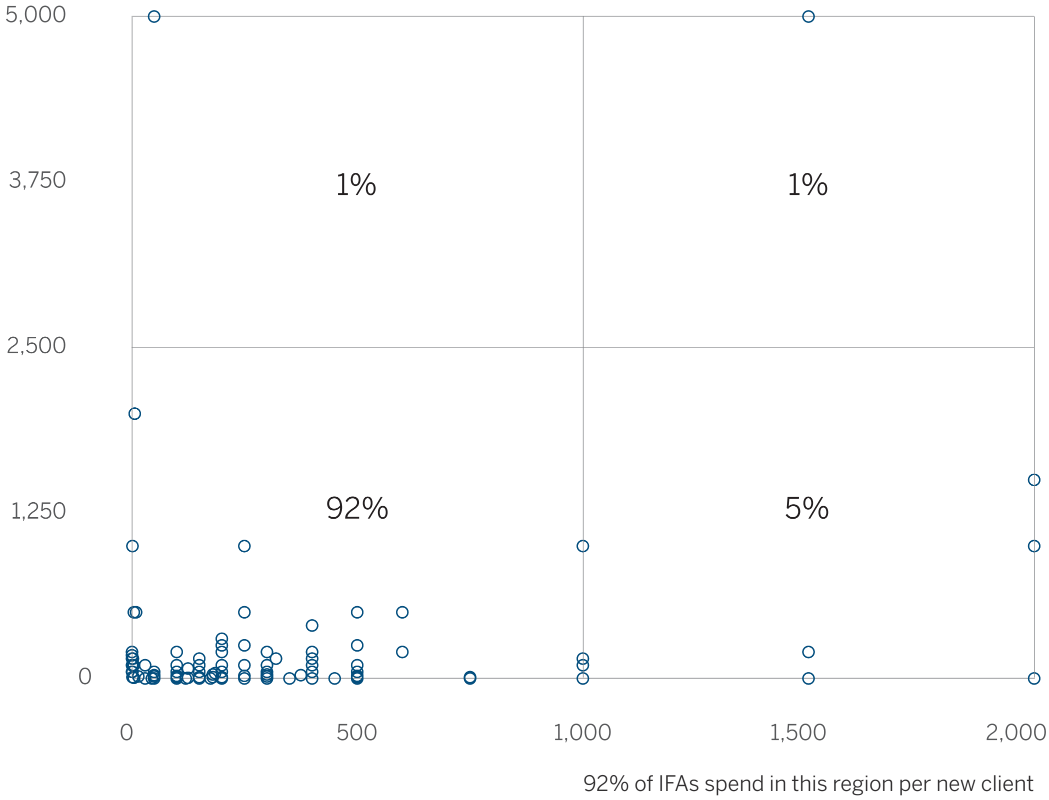



**Q20. What percentage of your firm's income do you spend per annum on new client generation/marketing?**

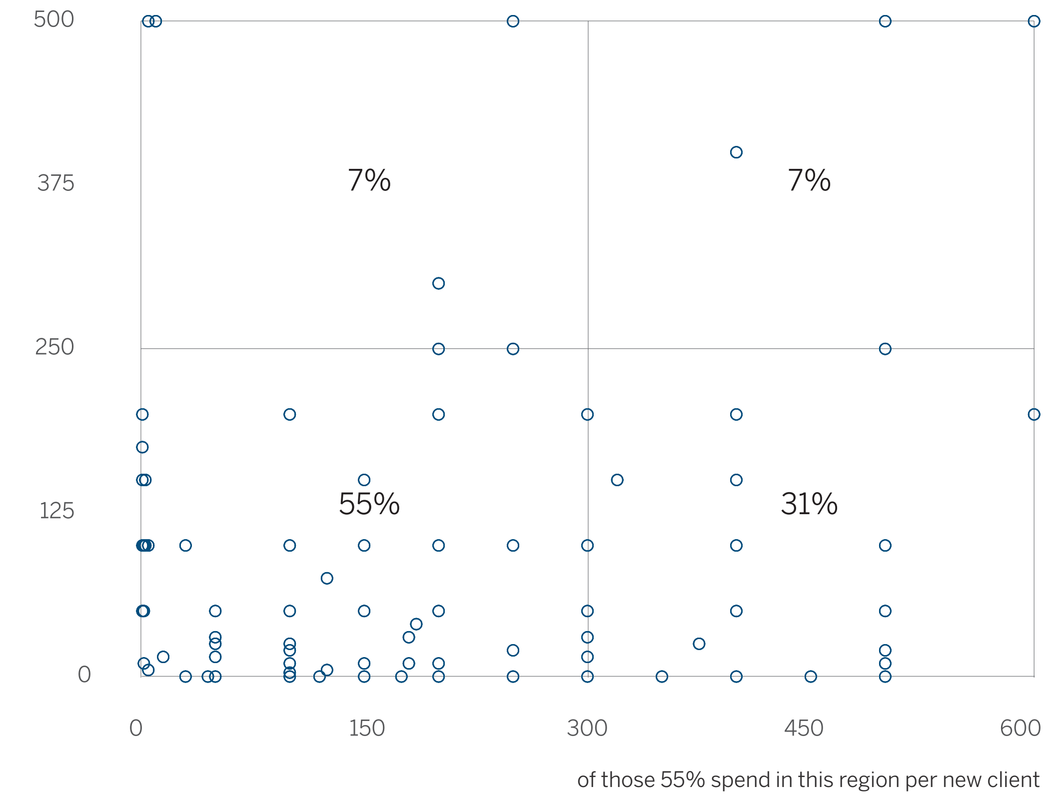


**Q21. On average how much money (£s) would you invest to acquire a single new client? (e.g. How would you value your time in a free consultation and advertising/marketing spend?)**

Percentages show the share of responses per quadrant, (when these fall on a boundary they are counted in the quadrant shown of the higher value).

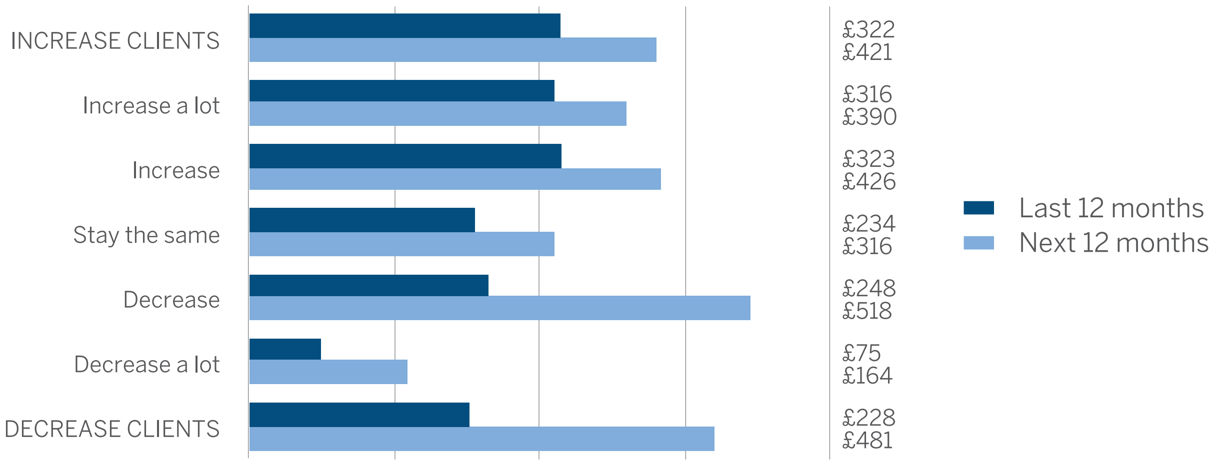



Removing 18 outliers

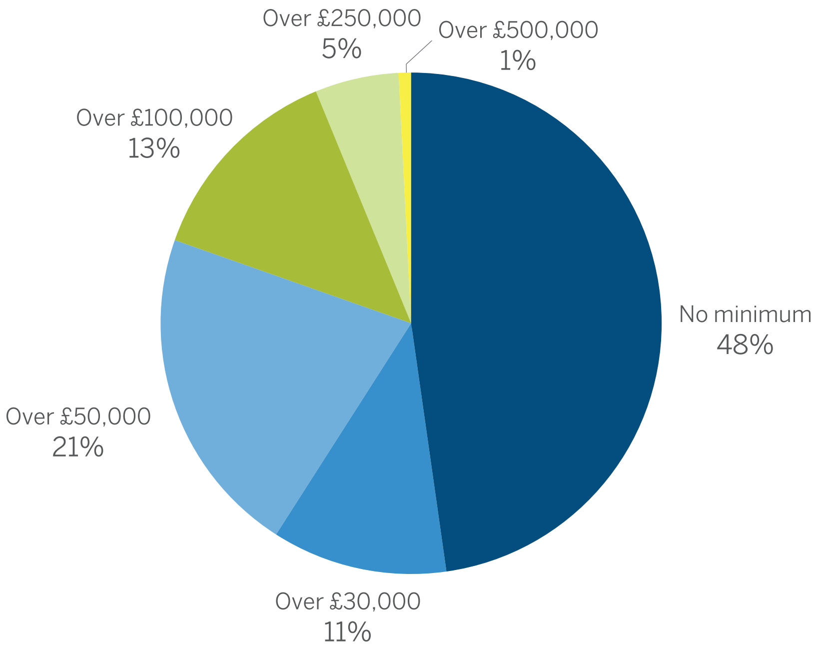


**Q21. On average how much money (£s) would you invest to acquire a single new client? (e.g. How would you value your time in a free consultation and advertising/ marketing spend?)**

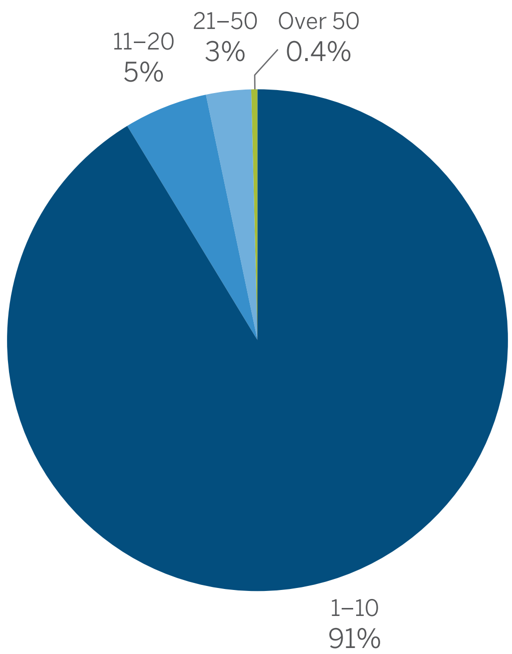
This is a cross tabulation of the average spend by those who saw an increase, stability or decrease in clients in 2012 and expect to see an increase, stability or decrease in 2013.



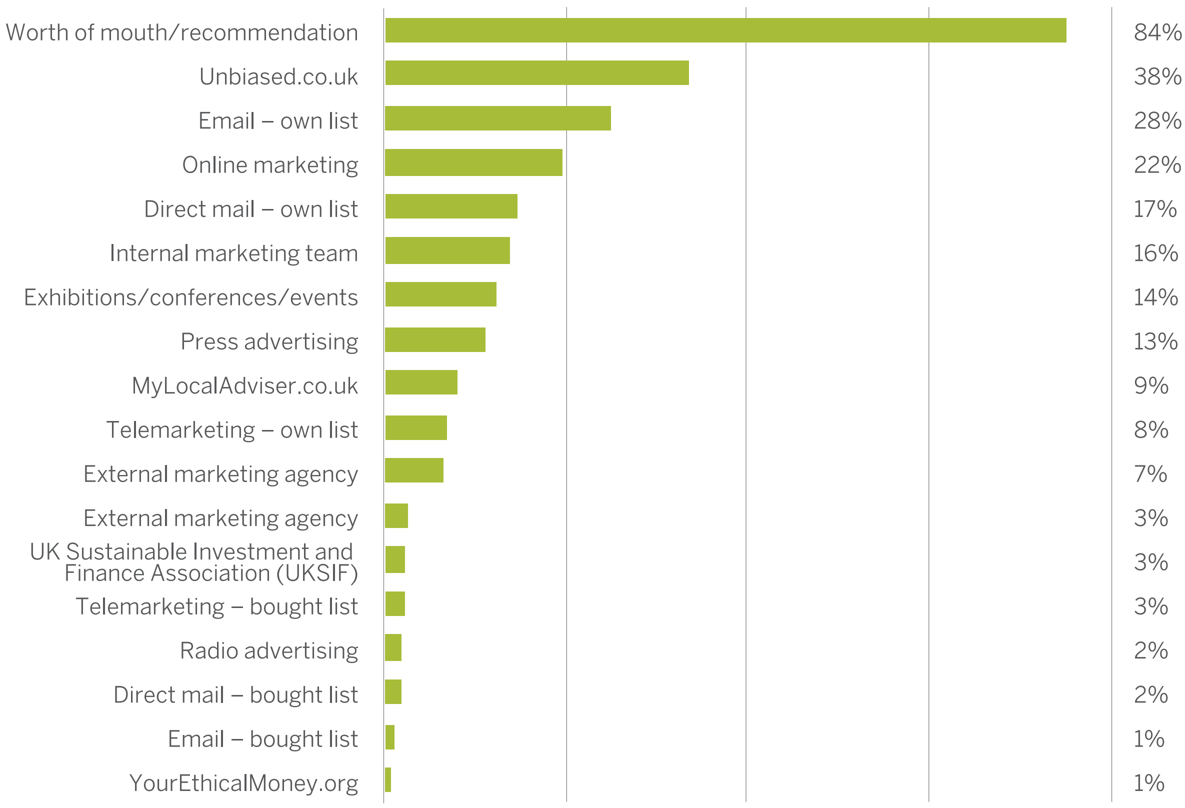

**Q22. What is the minimum portfolio size you look at to take on a client?**



**Q23. On average how many prospects would you need to have a conversation with (by phone or face to face) to win one new client?**




**Q24. What methods do you mainly use to generate new clients? (Please tick the five methods you use most.)**



# THE ECONOMY

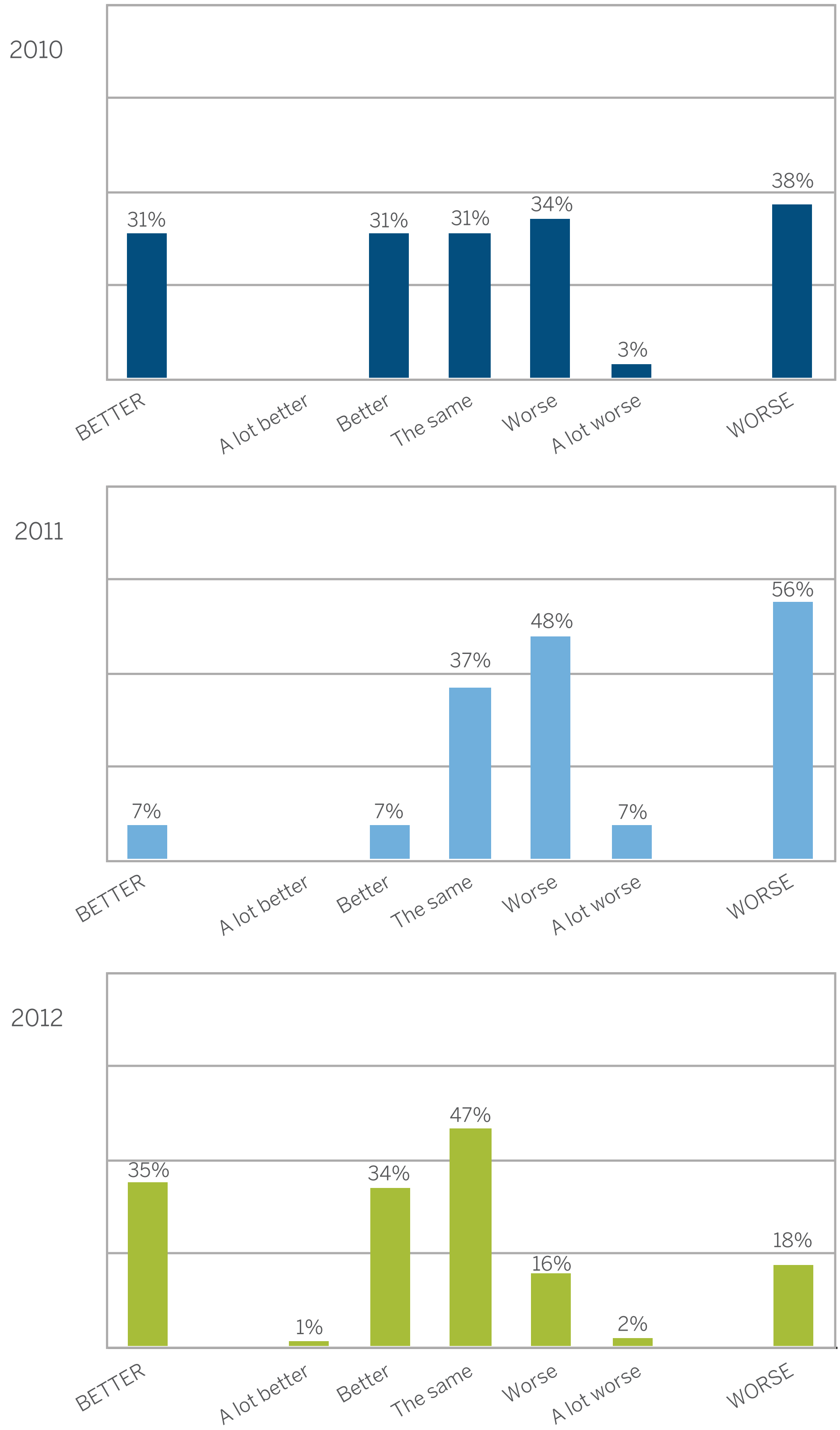
- The largest group see the economic outlook as staying the same over the next 12 months. Of those who think there will be a change, the strong balance of opinion (2:1) is that the economy will improve.

- The largest group see the Coalition's economic plans as making no difference over the next 12 months. Of those who think they are making a difference, the strong balance of opinion (2.8:1) is that they are improving the economic outlook.

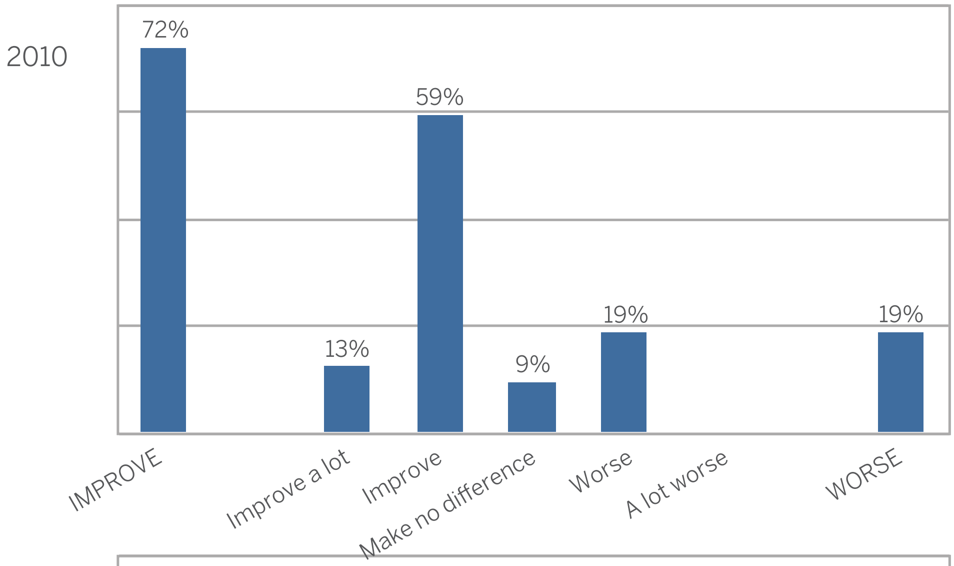
- Labour (1997–2010) is held responsible for the current economic crisis by over half of IFAs.

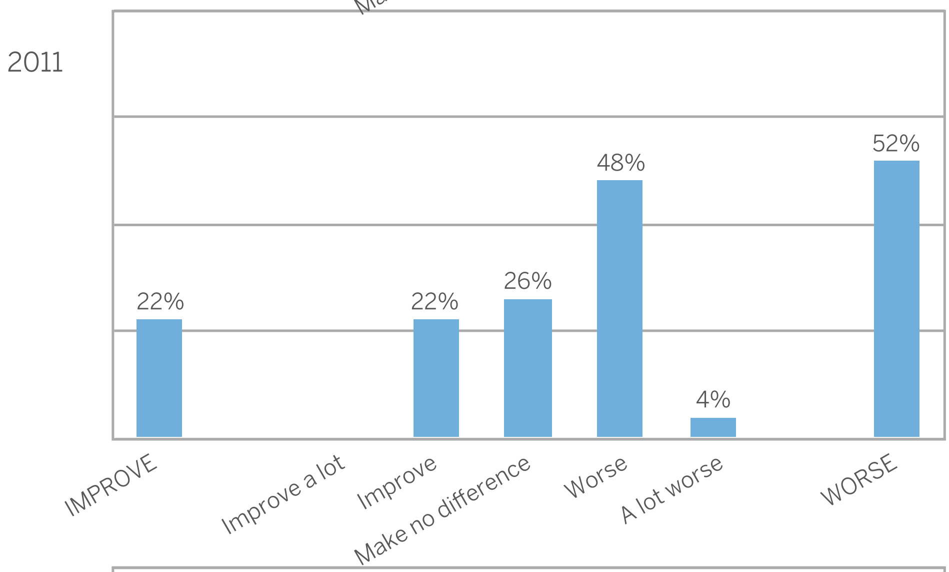
- Just half of IFAs would vote Conservative at the next election. The second largest party is UKIP, supported by just over a tenth. Of the rest, 17% did not know or would not say, and 7% would not vote.

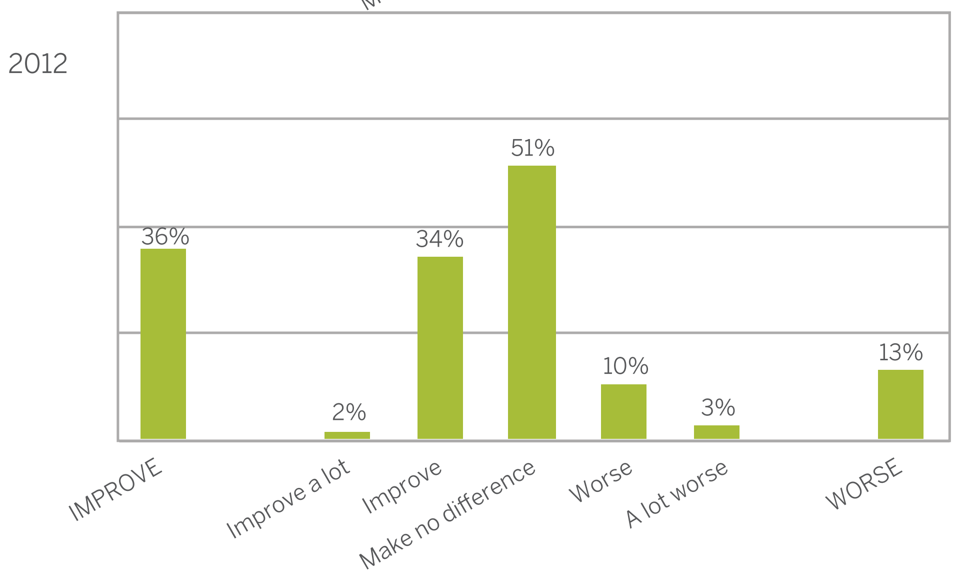
**Q25. Do you expect overall economic conditions in the UK to be better or worse 12 months from now?**



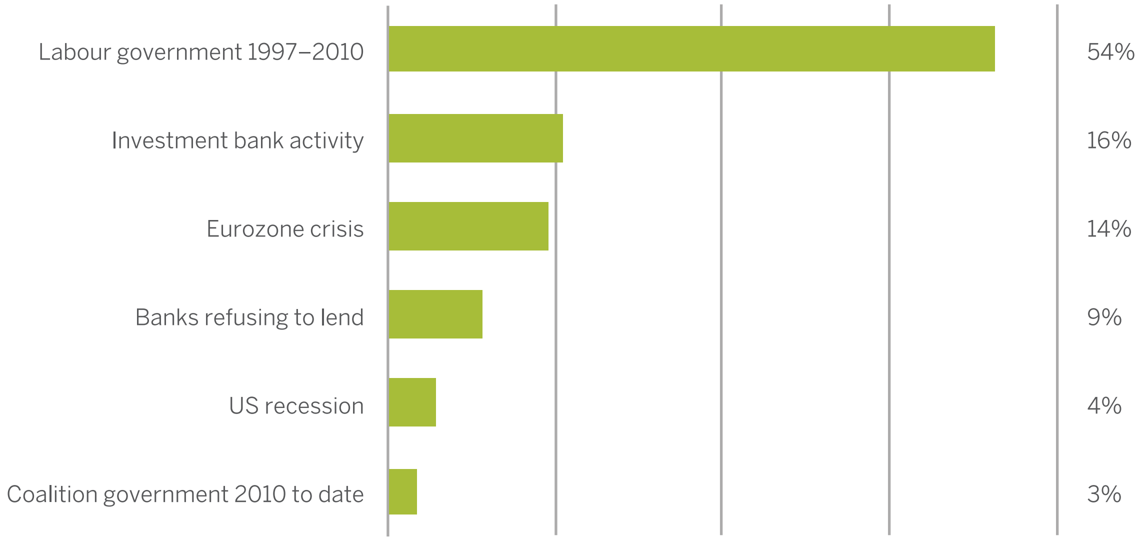
**Q26. Do you believe the Coalition government's economic plans will improve or worsen the economic outlook over the next 12 months?**



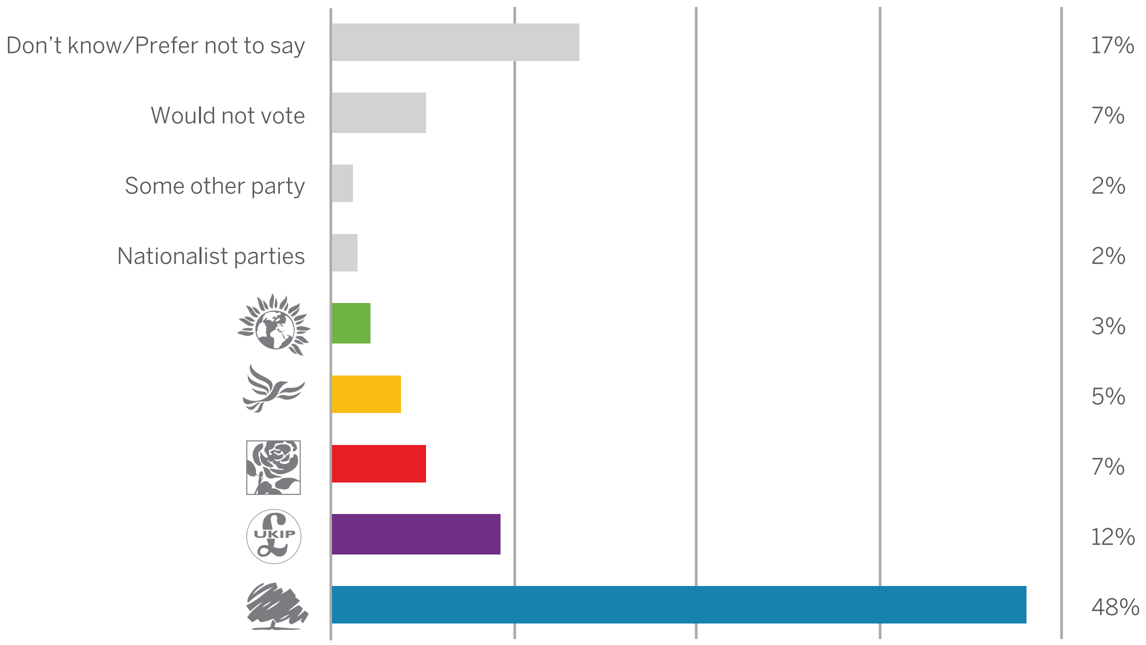



**Q27. Whom do you hold most responsible for the current economic crisis?**




**Q28. A recent survey by Capital Spreads showed support for political parties among 200 leading fund managers – it recorded 62% support for the Conservatives. We'd like to compare the voting intention of IFAs with those fund managers. If there were a general election tomorrow, which party would you vote for?**



# Write for us....

Whether anonymously, under a pseudonym, or with your name published loud and clear.

Journalism is changing rapidly through a digital and social media revolution. It is no longer the preserve of press barons and elite groups; journalism is now democratic and everyone has a voice.

And though that means there's a lot of noise and rubbish out there, there's a lot of great stuff, too.

The role of media has changed. We still write stories every day about the amazing people and organisations that make a positive difference to the world in which we live, but we also promote and publish the most relevant blogs, tweets and articles from our readers.

We want to report on the diverse voices of our audience and beyond—regular people writing as travellers, investors and consumers.

So, if you blog, tweet or write about sustainability we want to hear from you. You don't need to be an experienced or aspiring writer or worry about article length, spelling or grammar—we'll tidy that up for you.

We can't publish everything, but if it's likely to resonate with our readers or challenge them in some way, you'll fly to the top of our list.

Join us today by emailing editor@blueandgreentomorrow.com with your thoughts and contributions.

blue&green tomorrow

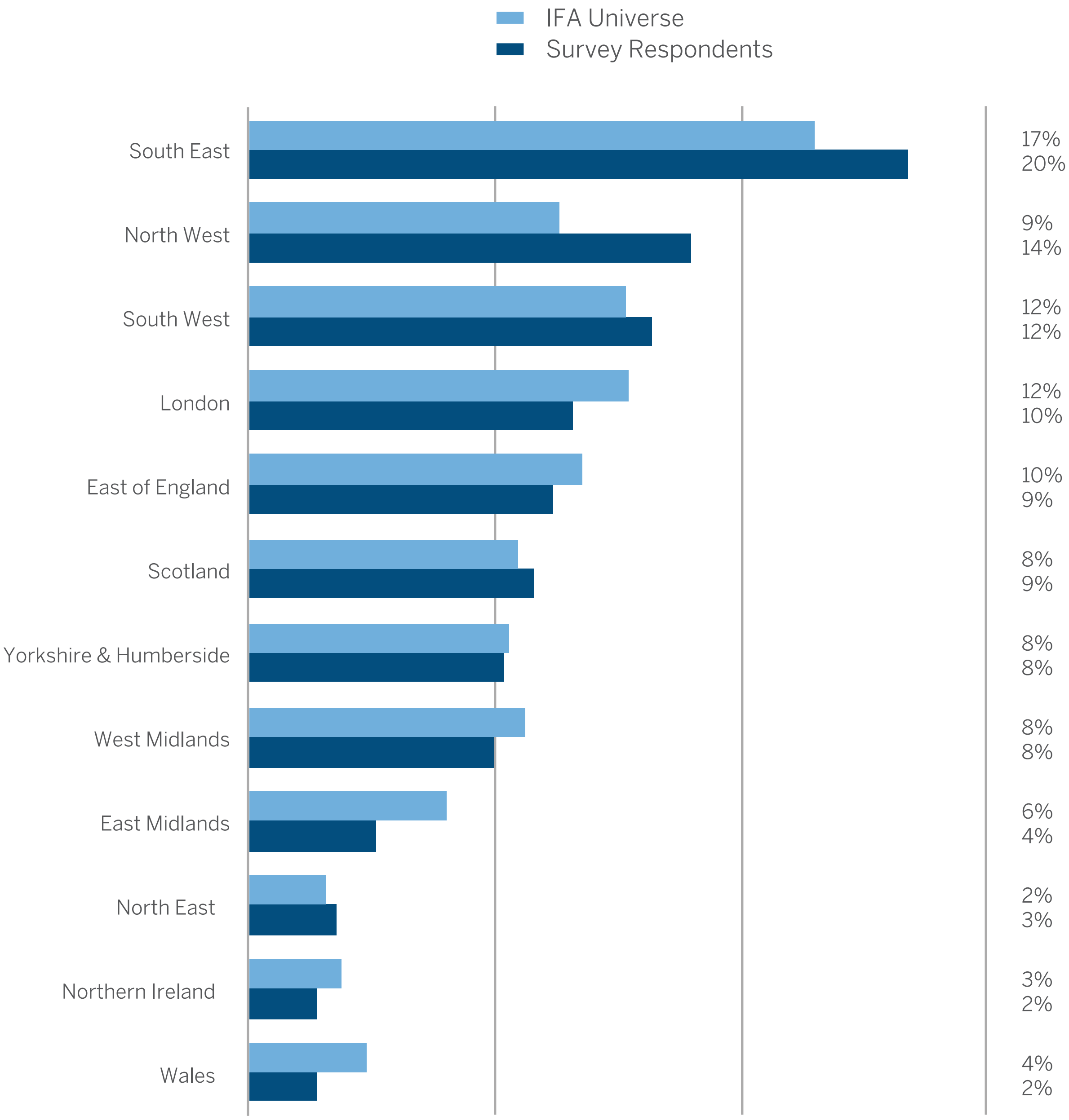
Essential intelligence on sustainable investing and living

# ABOUT YOU

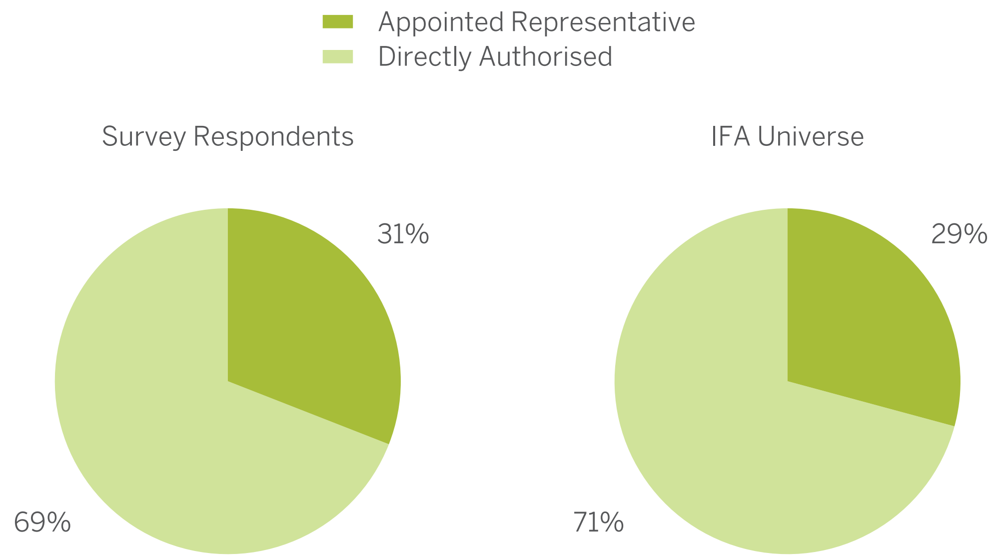


- Every region in the UK was represented, with the South East, the North West, the South West and London making up over half of respondents.
- A third of IFAs were directly authorised advisers, another third came from smaller firms of between 2 and 4 advisers, and 1 in 10 came from firms with 20 or more advisers.
- IFAs are busy people handling on average 120 clients each. Well over a third look after more than this.

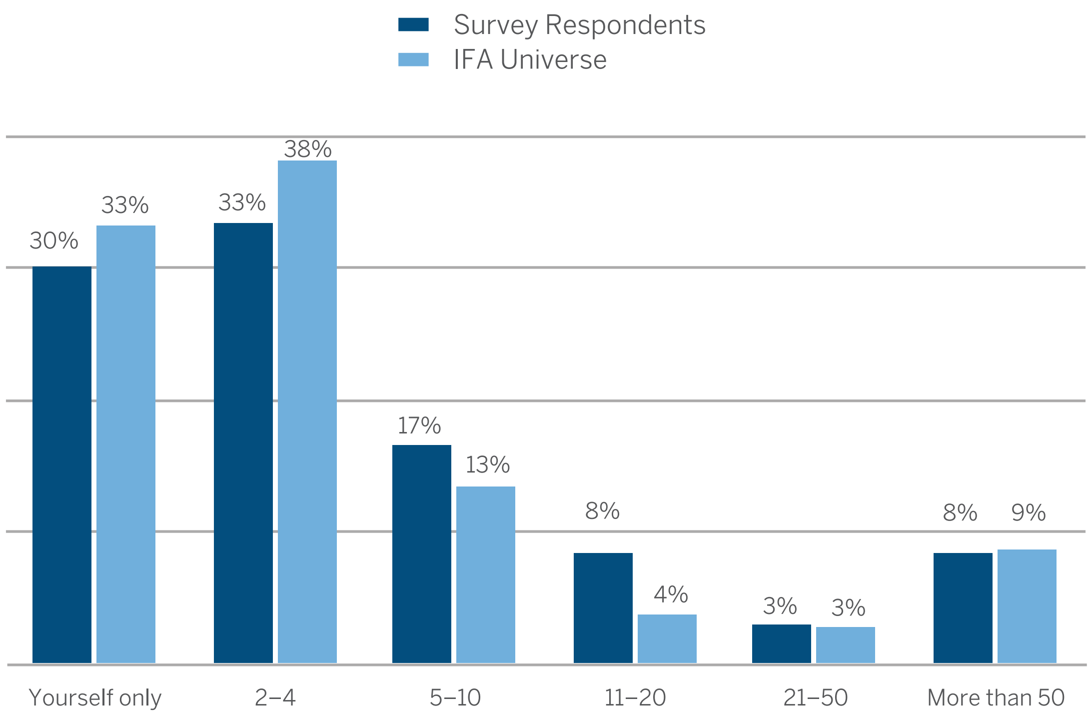
**Q29. Which region of the UK contains the majority of your firm's client base?**



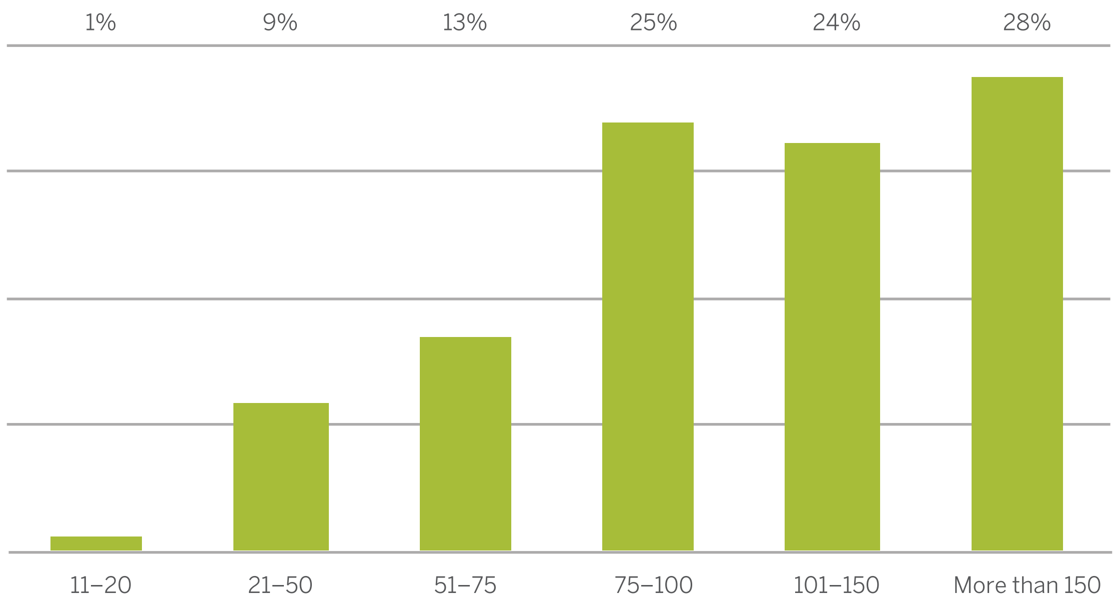
**Q30. Are you part of a network?**




**Q31. How many advisers are there in your company?**



**Q32. On average how many clients is each financial adviser managing?**



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# METHODOLOGY

The research was conducted between 29 November and 28 December. Of the 379 IFAs who started the survey, 333 completed it, making this one of the largest surveys of IFAs in the UK.

The survey consisted of 35 questions and the sample was self-selecting.

With a target audience of 12,999 IFAs, we secured a 2.6% response rate, which is a statistically significant sample.

To secure a 95% confidence level with a 5% margin of error we needed to secure over 300 responses. The figures in our charts are therefore correct for the whole population of IFAs +/- 5%. For example, with a question answered by 50% of our sample, 19 out of 20 times, the true answer – the answer you would find if every single person in the target population answered the question – can be assumed to be in the range of 45% to 55%.