Australian Financial Adviser Landscape 2022

This is an abridged version of the full report published in April 2022

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Advice matters

A letter from Vanguard's Head of Financial Adviser Services, Rachel White

After a tumultuous two years, advice practices are finally refocusing on growth.

But with rising business costs, evolving client expectations, and a new wave of regulatory change, it's clear the traditional challenges facing advice are still there.

To overcome these challenges, advisers need high-quality insights to help them benchmark and position for success. That's why Vanguard is a proud sponsor of the Adviser Landscape Report—the industry's most definitive guide to advice trends.

This year's Adviser Landscape Report makes one thing clear: Advice matters. As advisers navigate a myriad of business priorities—from greater efficiency to deeper client engagement—we want to support you in every way we can.

Vanguard is more than investments. When you partner with us, you get holistic support to help your practice get future ready. Our aim is to equip advisers with digital tools and on-the-ground expertise to save you time and extend your advice further.

Some of the digital tools Vanguard has recently developed include the Retirement Income Builder, Investment Philosophy Tool, and Client Value Proposition Tool. These tools are designed to help you engage more effectively with clients while communicating the full value of your advice.

At a practice level, the Vanguard Offer Team has been partnering with advisers to help with a range of portfolio, research and practice development issues. The Offer Team delivers personalised insights and a trusted, third-party perspective to help position your business for long-term success.

We're strong believers in the power of advice and the role it plays in building prosperity. Which is why we're constantly evolving our offering and looking for new ways to add to the advice value chain.

Because advice matters.

Rachel White
Head of Financial Adviser Services
Vanguard Australia

It’s an exciting time once again to be an adviser

A letter from Adviser Ratings’ Founder, Angus Woods

I think, as an industry, in fact a profession, you can look back on the last few years, and acknowledge the huge challenges you have overcome, to ensure you remained stoutly standing for the millions of Australians that are in demand for your services.

As Rachel attested, these challenges have not disappeared, but we are behind the worst of it when it comes to regulatory change. What the pandemic has highlighted is the demand for financial advice, and we only expect it to grow, especially considering testing market conditions in 2022-23. This report provides a snapshot of what your peers are doing to help set themselves up in the future, and to help you position yourselves for growth.

Thank you to Vanguard for once again supporting this year’s deep dive into the advice landscape. And importantly, thank you to all the advisers and licensees, who contributed to this temperature check on the market.

We have seen a growing number of advisers using the Adviser Ratings platform with more than 40,000 clients leaving reviews. In 2021, we invested in a whole new experience for advisers, we generated double the number of client leads through our own platform and affiliate platforms, and continued to champion the role advice plays across the wealth industry.

Every referral or existing client will check you out online, so, if you haven’t already, claim your profile, it’s free and ask your clients to review you.

2022 is shaping up as the year advisers finally get a chance to work on their practice or find a home, be it a licence or practice, that helps them grow. We will continue to advocate on your behalf and help the advice profession reach more consumers.

Because advice matters.

Angus Woods
Founder
Adviser Ratings

Chapter 1

The Australian Consumer

While Australians have largely emerged from COVID-19 lockdowns, many report that their finances have not recovered due to extended periods of uncertainty.

Along with personal finances, consumer confidence continues to be a drag on the economic recovery, despite strong equity and property markets in 2021.

2021 saw the number of advised Australians drop below two million, the first since we started tracking this metric four years ago. However, the demand for advice has soared since the onset of the pandemic, with 29% of unadvised Australians (or 5.6 million) looking to seek help from a financial adviser. The bearish start to 2022, with geopolitical tensions, rising inflation and tightening monetary policy, has only amplified this demand.

Pandemic recovery, almost.

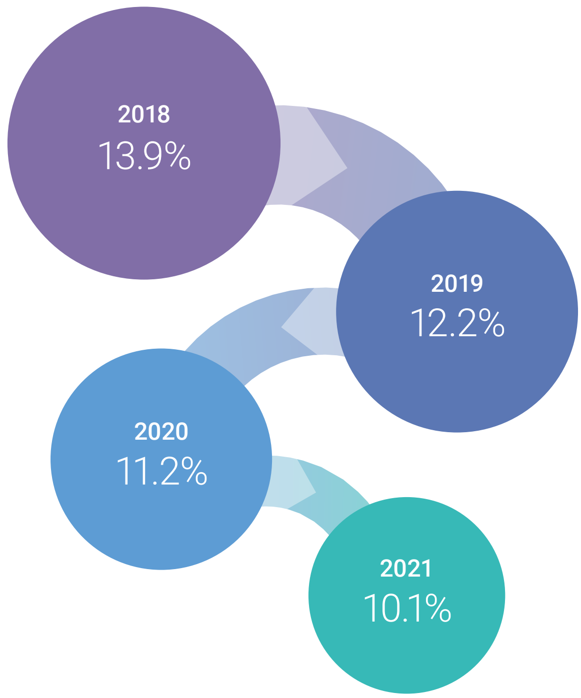
Towards the end of 2021, the restrictions were lifted, and life started to feel normal. It was a different story during the year. Amid COVID-19 lockdowns and temporary business closures, fewer Australians sought the assistance of financial advisers in 2021. In fact, we lost a 100,000 consumers seeking advice, going below two million advised Australians for the first time.

Surprisingly, the largest cohorts that opted out of advice werethe 35-44 and the 45-54 age brackets, reflecting:

- cost pressures and financial anxieties in these group, tending more towards families
- a willingness to replace advice with technology or online information services
- a heavier reliance on accountants, who exited the industry at a greater pace, following the education requirement thresholds
- general orphaning of clients as advisers stopped practising or decided some of their clients were too costly to service

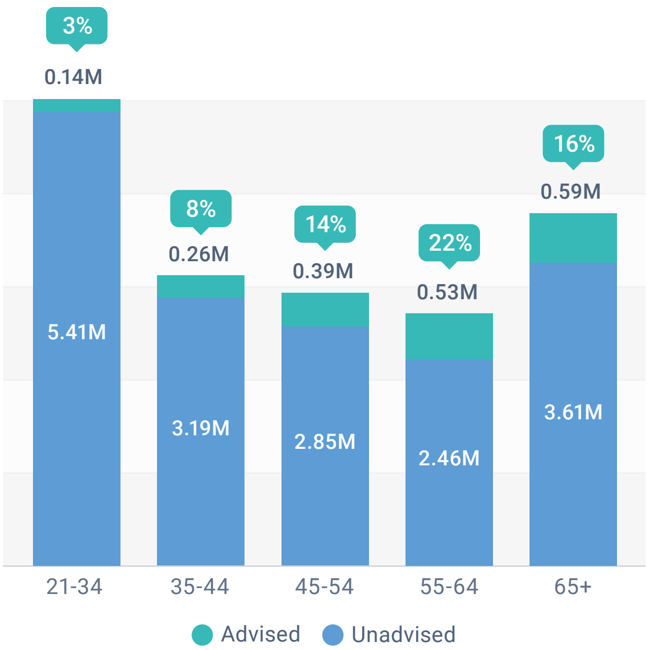
Despite the exit of both advisers and consumers, financial advisers still manage 44% of Australians' wealth.

Chart 1.0: Percentage of advised consumers (2018-2021)



Source: ARdata

Chart 1.1: Number of advised consumers by age group



Source: ARdata

With the number of advised Australians falling, the opportunities for consumers to get ahead financially kept appearing – the market property exploded, equity markets surged, and super balances ballooned. However, the beneficiaries were primarily the older group, more inclined to invest in multiple properties in their portfolio and generally have a higher exposure to asset classes, like shares.

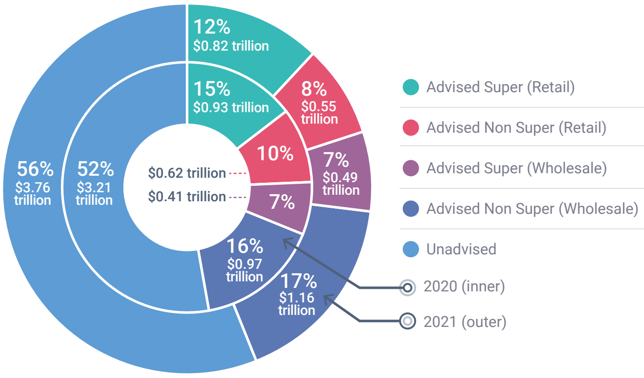
The sharemarket remained resilient throughout the 2021 calendar year (ASX 200 29 Jan 2021 of 6,607 v ASX 200 28 Jan 2022 of 6,988), but many Australians say their finances have not bounced back to pre-pandemic levels. Among pre-retirees, more than 30% of those indicate that the pandemic has rattled them financially and they have not recovered.

> *Many Australians say their finances have not bounced back to pre-pandemic levels. Among pre-retirees, more than 30% of those indicate that the pandemic has rattled them financially they and have not recovered*

Meanwhile, a third of retirees in the 65-74 age bracket still have not returned to their pre-pandemic position, which is worrying, given their reduced capacity to work or earn compound interest on their super.

It is no surprise that younger Australians took the biggest financial hit from the lockdowns, with many reliant on customer-facing industries that were forced to close during the Delta outbreak. However, these generations were the quickest to bounce back when face-to-face activities resumed, with 43% of affected participants under 35 reporting their finances have recovered. The battered hospitality and retail sectors are now facing staff shortages, with the Omicron wave taking many employees off rosters temporarily. All other things being equal, the government is hopeful this should put upward pressure on wages. Mindful still that the recession word is lurking given testing conditions to the start of 2022.

Chart 1.2: Professional advice penetration by market segmentation



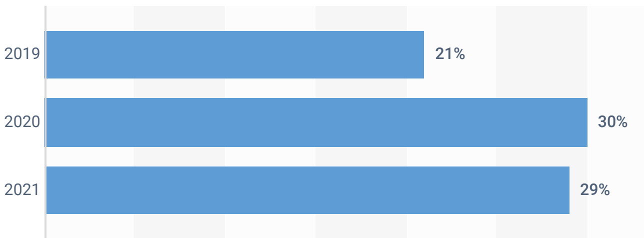
Source: ARdata

Demand for advice

As Australians grappled with mid-pandemic volatility, the demand for financial advice remained steady from 2020, with 29% of unadvised Australians looking to seek help from an adviser. What potentially may have been seen as an outlier given the financial fear in 2020 and the need to seek professional advice, 2021 gives rise to hope for an omnipresent demand for advice. Despite this demand, the intent is different from the reality when affordability is considered.

Increasingly, we're seeing financial advice fall out of reach of Australians because of falling adviser numbers and rising fees. Solving advice affordability needs to be a high priority, as demand for advice is rising but consumers are turning their backs and seeking more affordable, yet potentially unregulated solutions elsewhere.

Chart 1.3: Demand to see an adviser: 2019-2021



Source: ARdata

The advice industry has made significant inroads towards professionalisation, with many advisers now degree- and exam-qualified. While this has improved the perception of the industry, it does not address the affordability barrier.

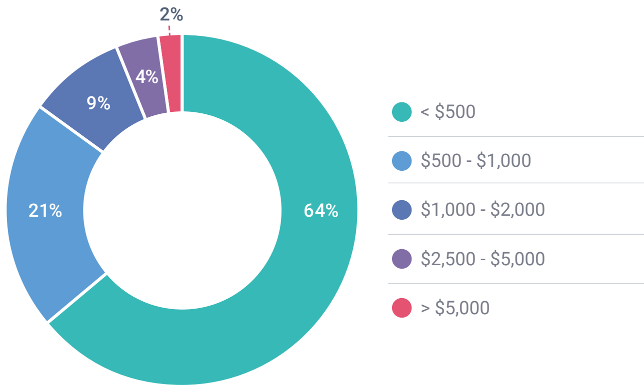
Indeed, one of the biggest challenges confronting legislators and regulators is matching consumers who seek advice with services they can afford. There is a growing gulf between Australians who say they need the services of an adviser and those with the capacity to pay. We expect the problem to get worse before it gets better, with a rapidly shrinking adviser workforce and ageing population. Our survey data shows that 60% of Australians probably do not have the capacity to pay for financial advice (whether they seek it or not), given they are living paycheque-to-paycheque. This correlates with data from the previous year's report.

> *60% of Australians probably do not have the capacity to pay for financial advice (whether they seek it or not), given they are living paycheque-to-paycheque. Sadly, most Australians who have stated they want advice, cannot afford to pay for it and that is consistent across all age groups*

Sadly, most Australians who have stated they want advice, cannot afford to pay for it and that is consistent across all age groups. Generally, younger Australians are the best equipped to pay for advice, given they are beginning their working life and often have fewer ongoing financial obligations. In contrast, 80% of Australians in the 45-54 age group say they need financial advice, but do not have the capacity to pay, which may be explained by the financial challenges of raising families, paying off home loans, and job instability in some sectors.

More than 80% of retirees in the 75-plus age bracket who want advice do not have the capacity to pay for it. Again, there is an urgent need to correct this, to ensure more Australians meet their retirement goals. The average fee has risen 40% in 3 years to $3,529. Only 6% of Australians seeking advice say they can afford to pay $2,500 or more.

Chart 1.4: Proportion of advice seeking consumers with capacity to afford it



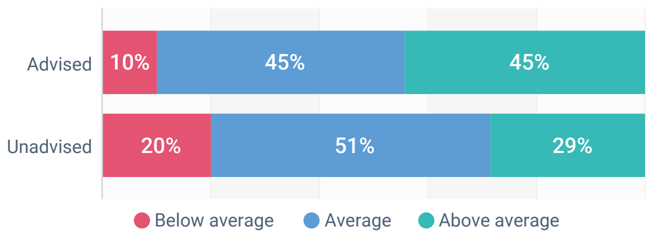
Source: ARdata. Includes only consumers who have answered that they want advice.

Despite depleted adviser numbers and affordability challenges, we continue to see the unsung benefits of advice, including how consumers with financial advisers compare when it comes to confidence and literacy.

For consumers, we are seeing the benefits of advice extend well beyond portfolio construction to general financial literacy and confidence in markets. Our recent research showed more than 45% of advised clients self-rated their financial literacy as "above average", compared with less than 30% of unadvised clients. Of course, there are potentially compounding factors that could help explain this, such as advised clients having higher salaries and the capacity to invest in financial education.

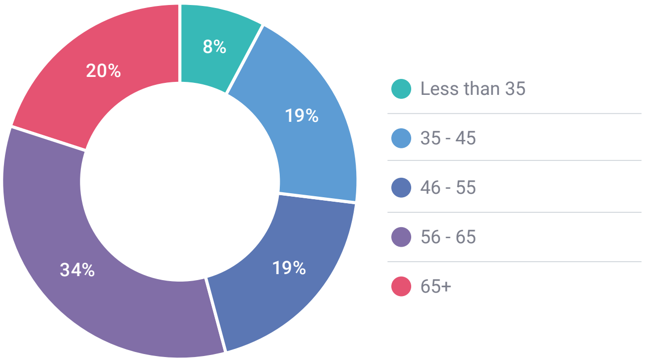
However, both advisers and clients report that greater attention is being paid to explaining strategies and financial options.

Chart 1.5: Consumers' self-rating of financial literacy: advised vs unadvised



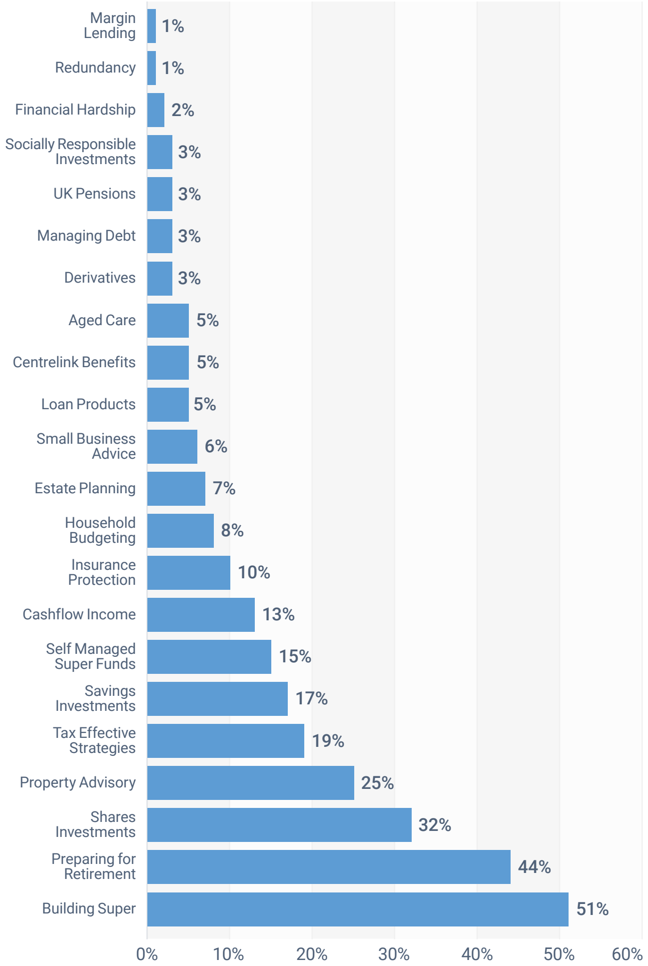
Source: ARdata

Chart 1.6: Age distribution of leads generated through the Adviser Rating platform



Source: ARdata

Chart 1.7: What consumers are looking for help with through the Adviser Ratings platform (2021)



Source: ARdata

Where there are gaps in the market, there will always be someone to fill that void. In our survey, this year 1 in 20 respondents indicated that they get all their financial advice from social media. ASIC firmly has their sights on this space, looking for any financial influencers or 'finfluencers' who are unqualified and might be giving financial advice.

For advisers, there may be an opportunity to capture those views by expanding their own social media presence. At the very least, the perception that social media is primarily a youth marketplace needs to be discarded. Increasingly, we will start to see advisers engaging with financial ideas presented on social media, whether it be to bust myths or to get ideas about how to influence clients or help clients formally engage with a qualified financial adviser.

Where consumers want to invest

Mum and dad investors are now spoilt for choice when it comes to ways to enter the market, which has changed how some Australians approach financial advice. We are now seeing some retail investors with very large portfolios choosing to self-invest with self-managed super funds (SMSFs) and lean on advisers for strategy and goals. Having said that, our survey shows most people with higher household incomes ($200,000-plus) still choose either an adviser or a professional investment manager to make their trades.

At Adviser Ratings, through our lead generation tools, we are seeing that more than half of the leads generated were over 55 years old, and almost 40% are between the age of 35 to 55. Noting in 2021 we generated almost double the leads for advisers on our platform from the prior year, showcasing the aforementioned demand. Pleasingly, younger Australians are willing to get a handle on their finances earlier with close to 1,000 leads coming from those under 35. Affluence in terms of high incomes or asset balances, however, are still the defining feature of the type of leads across all age groups, with lower value clients opting out of even speaking with an adviser.

Noting that leads can select 1 or more categories, over 50% are looking for help in 'Building Super' and over 40% are looking for 'Preparing for Retirement', which is no surprise given the age demographic analysed above. 32% of leads are looking for help with 'Share Investments'.

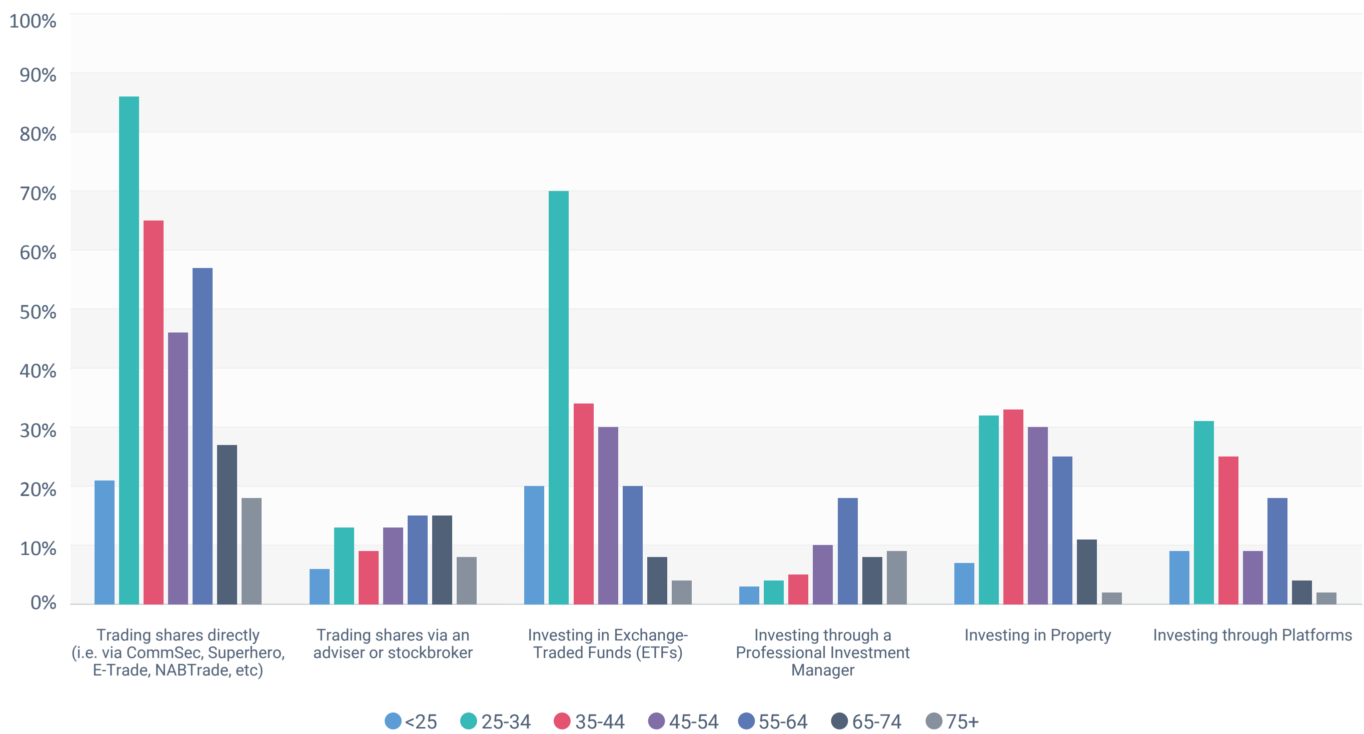
However, advisers would be remiss to ignore the preferences of young Australians and the 8% of leads generated in 2021 has been a trend northward for several years. This generation are set to become the beneficiaries of more than $224 billion a year by 2050. Productivity Commission data shows the children of boomers are showing a strong sway towards index-tracking options, which are favoured for their ease of access and lower brokerage.

Exchange-traded funds (ETFs) are also increasingly the vehicle of choice for low to middle income earners and surprisingly, those who rate their financial literacy as "above average".

Increasingly, younger Australians will start to put pressure on super funds to reconsider their traditional approach to banking their wealth. A 2021 survey from Superhero found that 75% of Millennials wanted their retirement savings invested in ETFs. While last year most Australian assets were still actively invested (87%, according to Morningstar in March 2021), that share will be reduced over time, especially as super funds pay more attention to ETFs and ESG investments. We explore this further in the investment section. Advisers will need to consider how to cater to the desires of the 'passive' generation, who are increasingly looking for a coaching-style relationship, Netwealth research has found.

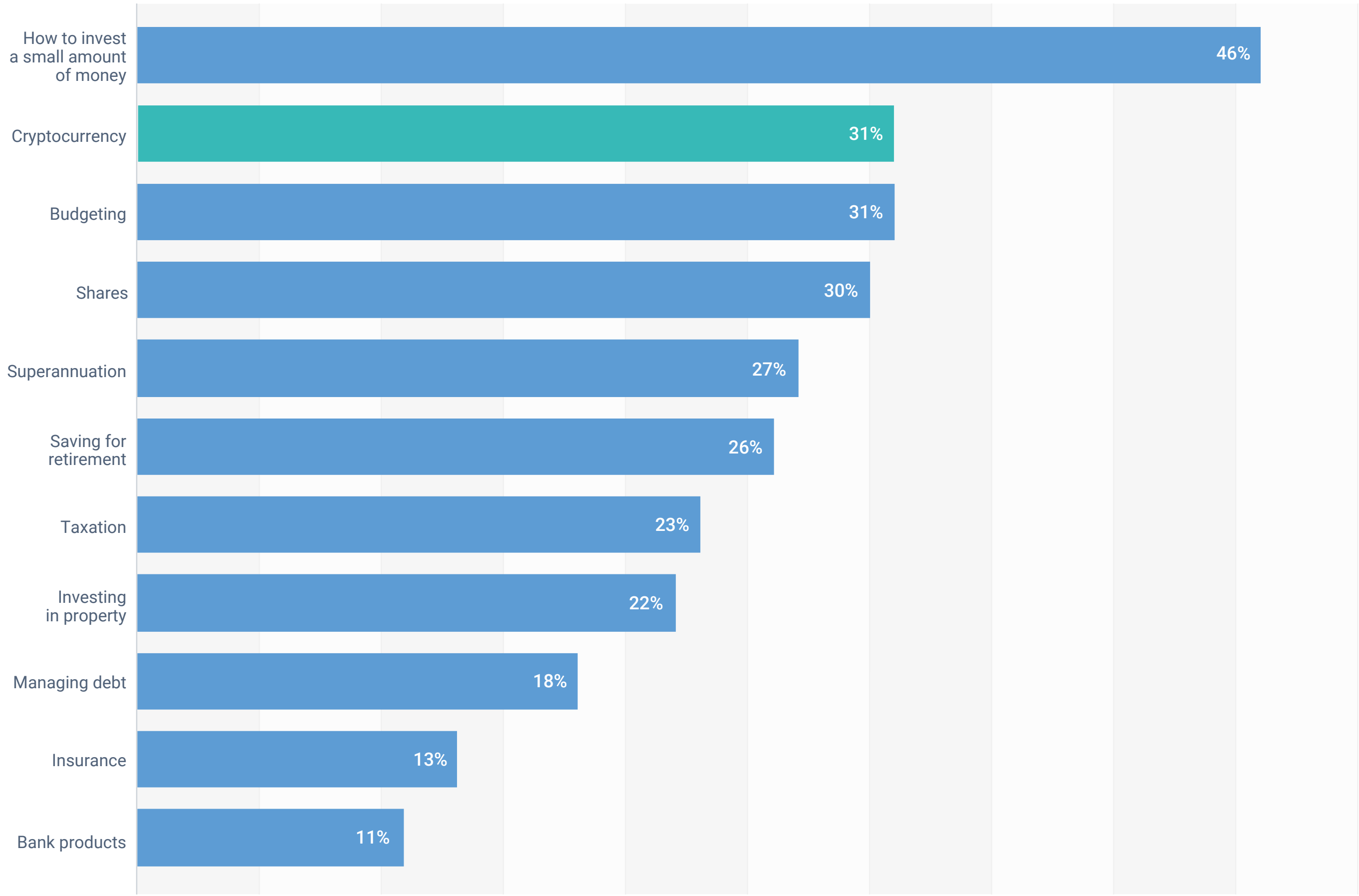
> *75% of Millennials wanted their retirement savings invested in ETFs. While last year most Australian assets were still actively invested (87%, according to Morningstar in March 2021), that share will be reduced over time, especially as super funds pay more attention to ETFs and ESG investments*

Chart 1.8: Investment mode preference, by age



Source: ARdata

Chart 1.9: Comparative interest in products/money solutions by consumers



Source: ARdata

Another trend to watch closely is the cryptocurrency rollercoaster, which captivated both investors and speculators in 2021. Of those consumers seeking investment or money advice, approximately a third either wanted to invest in or find out more about investing in this asset class.

> *Concerns about the lack of regulation, PI insurance, and consumer protection prevent many top licensees from adding cryptocurrency to their APLs, despite the fact 75% would be willing to*

However, advisers are still largely unable to penetrate the market. Concerns about the lack of regulation, PI insurance, and consumer protection prevent many top licensees from adding cryptocurrency to their APLs, despite the fact 75% would be willing to. While some headway is being made on the regulatory front, the industry will have to find a way to bring crypto to the attention of research houses and licensees to meet their clients' demand for more information on this virtual currency.

If advisers are required to remain on the sidelines, scams and consumer losses will continue to rise, as advisers may be able to at least act as gatekeepers in helping consumers navigate this new asset class. At the time of publication, this asset class has taken a considerable bruising, which only amplifies the need for an adviser to at least help consumers in this space.

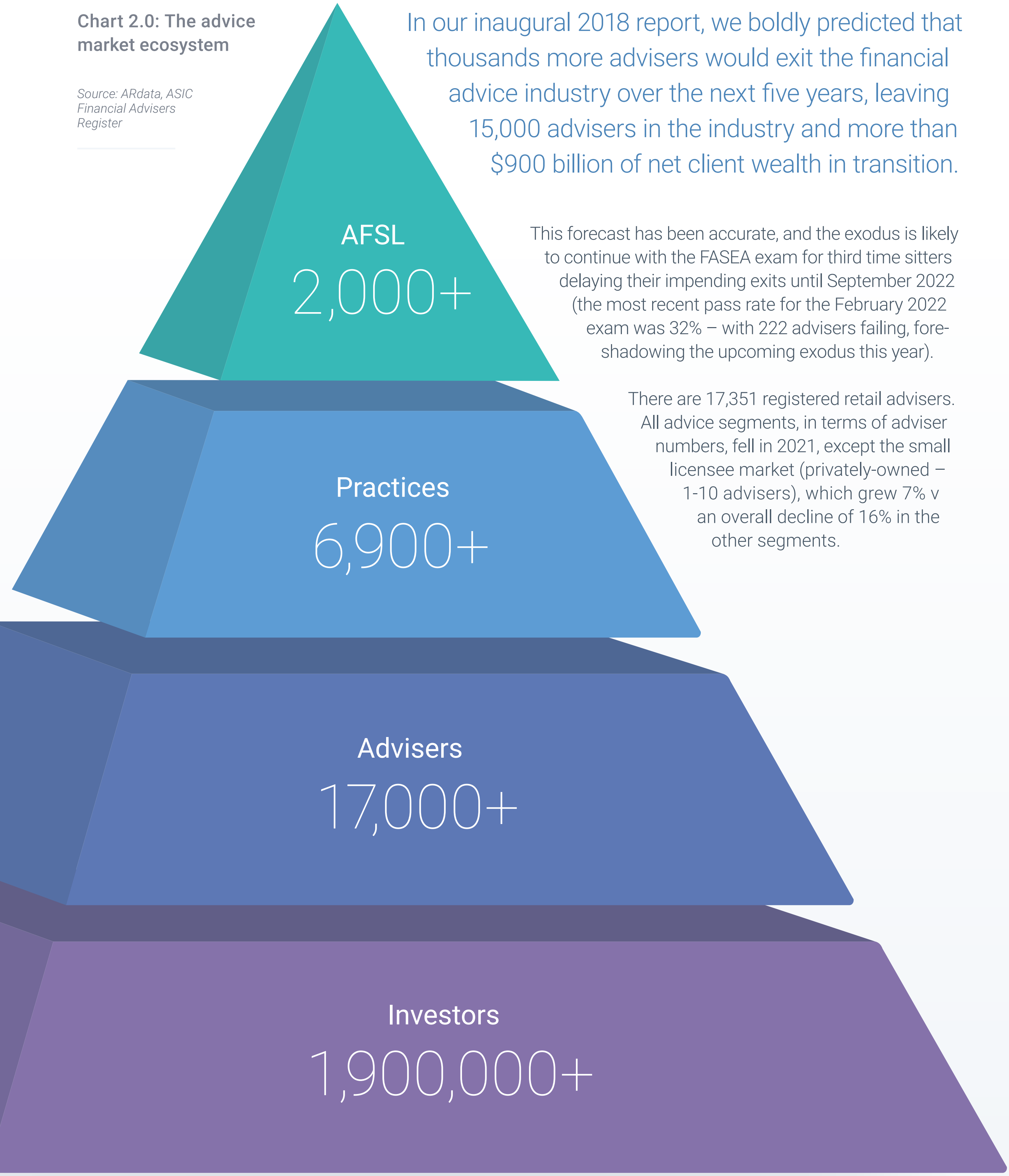
Chapter 2

The Australian Adviser

2

Chart 2.0: The advice market ecosystem

Source: ARdata, ASIC Financial Advisers Register



In our inaugural 2018 report, we boldly predicted that thousands more advisers would exit the financial advice industry over the next five years, leaving 15,000 advisers in the industry and more than $900 billion of net client wealth in transition.

This forecast has been accurate, and the exodus is likely to continue with the FASEA exam for third time sitters delaying their impending exits until September 2022 (the most recent pass rate for the February 2022 exam was 32% – with 222 advisers failing, fore-shadowing the upcoming exodus this year).

There are 17,351 registered retail advisers. All advice segments, in terms of adviser numbers, fell in 2021, except the small licensee market (privately-owned – 1-10 advisers), which grew 7% v an overall decline of 16% in the other segments.

Adviser movements

For the first time since Adviser Ratings started charting industry numbers, the adviser workforce has fallen below the 20,000 mark. More than 3,000 advisers departed (16% of the market) in 2021, which made it the second biggest year of exits since the industry began its professional evolution.

A combination of factors contributed to the attrition, including profitability pressures and COVID-19 lockdowns. However, the looming end-of-year exam deadline undoubtedly made the decision easier for some advisers who were debating their next move. An 11th-hour reprieve for advisers who have failed their exam twice, allowing them to re-sit the exam in 2022 has helped to keep the number of exits lower.

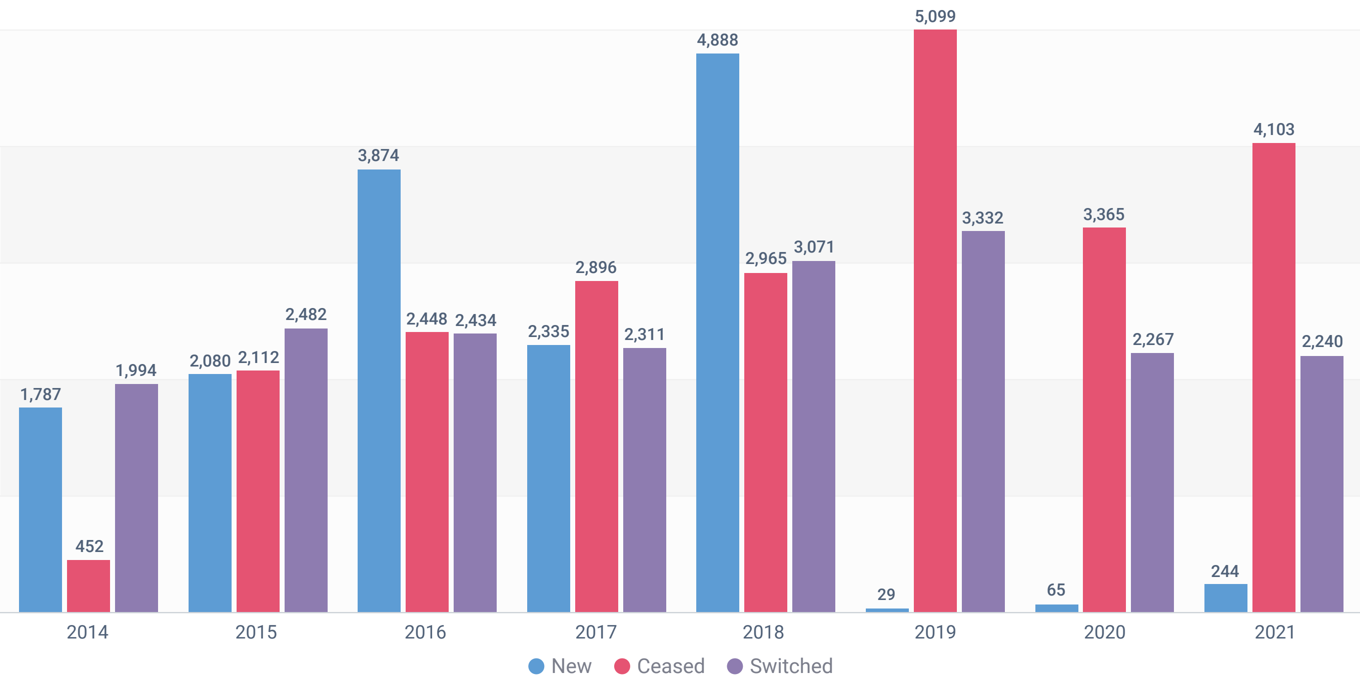
Throughout the year it was much quieter for licensee musical chairs with 2,240 advisers selecting new homes across the 12 months – almost 1,100 fewer than two years ago. In fact, we have not seen a slower year of licensee movement since 2014.

> *More than 3,000 advisers departed (16% of the market) in 2021, which made it the second biggest year of exits since the industry began its professional evolution*

Much of the immobility can be explained by several factors, including the COVID-19 lockdowns in Sydney and Melbourne and stabilisation in some segments of the licensee market. With cities reopened and licensees chasing quality advisers, we expect switching to regain momentum in 2022.

On a positive note, green shoots are appearing in new advisers entering the fray, albeit in small numbers, new adviser numbers were 3 times higher in 2021. However, this does little to restock the depleted numbers with every adviser entry (including returning advisers), six advisers are exiting the industry.

Chart 2.1: Adviser movement history



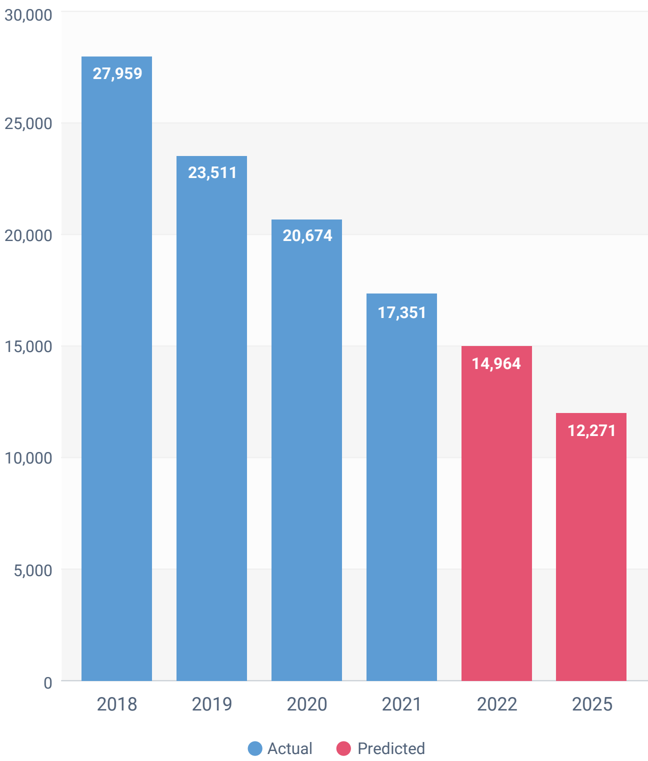
Source: ARdata

Adviser Ratings has not been shy about making bold predictions on the direction of adviser numbers. Based on several inputs, including attrition to date, as well as the impact of education mandates and patterns in the UK after the Retail Distribution Review (RDR), we have long said the universe would fall below 15,000.

> *We predict the industry will lose a further 2,387 advisers across the calendar year, which will take the universe below the 15,000 mark for the first time. We predict yearly adviser departures will then slow, before stabilising in 2026*

Our latest forecast suggests 2022 could be another devasting year for financial adviser numbers. We predict the industry will lose a further 2,387 advisers across the calendar year, which will take the universe below the 15,000 mark for the first time. We predict yearly adviser departures will then slow, before stabilising in 2026. This assumes no changes to current legislation identified in subsequent paragraphs.

Chart 2.2: Adviser numbers: then, now and our forecasts for the future



Source: ARdata

Re-visiting experience: The impact of mooted policy changes

In late 2021, Treasury asked for feedback on whether professional standards adequately recognise on-the-job adviser experience. It proposed changing the current benchmarks to allow people with 10 years' experience in the past 12 years to continue to practise, provided they have completed a tertiary-level ethics subject.

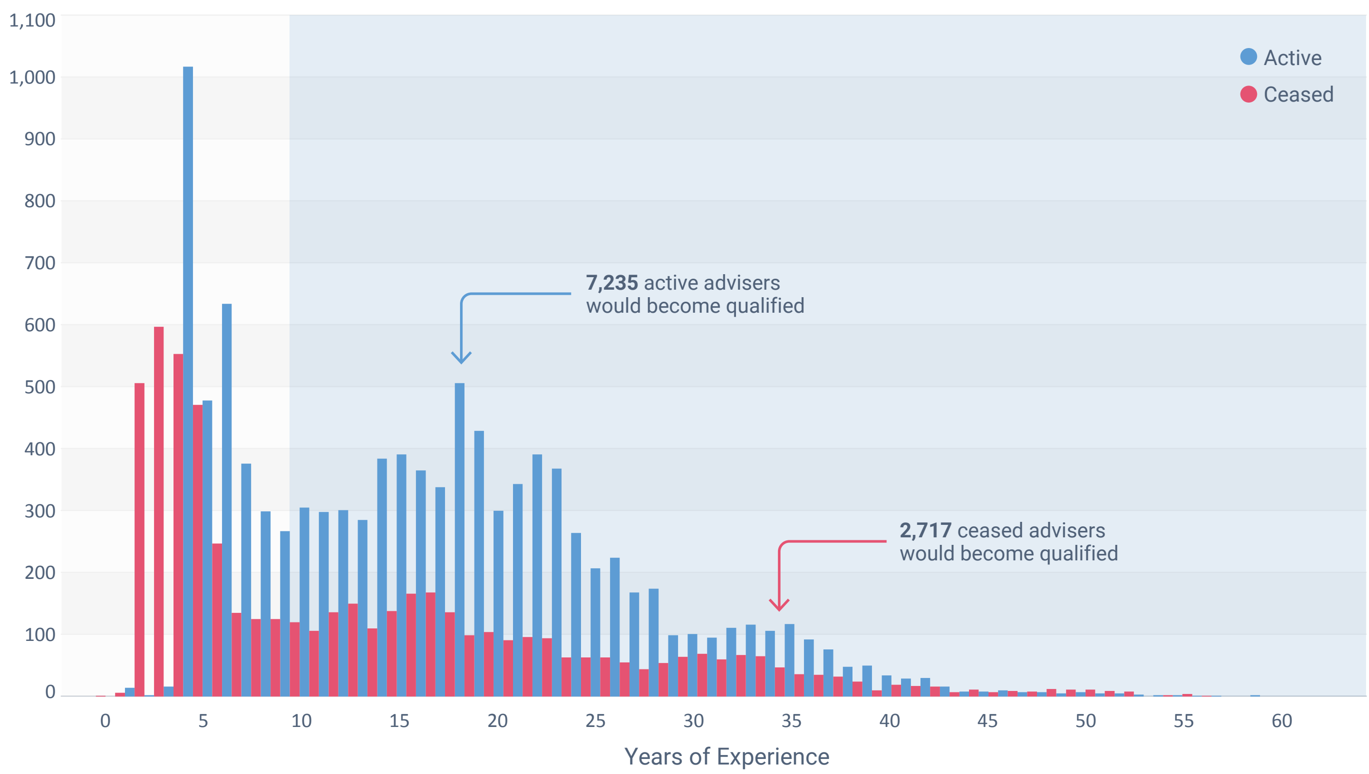
In light of this, we ran some hypothetical analysis on how adviser numbers could be affected if there was a policy change to take experience into account. Our figures show an additional 9,952 advisers would meet the standard to practise, including 2,717 advisers currently considered "ceased".

It is important to recognise that not all advisers who have left the industry would return if this standard changed. Similarly, there would be advisers who do not currently meet the education benchmark who would still choose to leave the industry. Nonetheless, we believe the experience reform may go some way to halt the mass exodus on the horizon and prevent adviser numbers from falling to a low of 12,271. Theoretically, we could actually see adviser numbers start to rise again. Given how much is at stake from a diminishing adviser workforce, we believe the proposal needs to be evaluated but not to the detriment of the ongoing professionalisation of the industry.

Before any adoption, we have only showcased the upside on "adviser numbers" without the wider impact to long term professionalism. In addition, many advisers have already set in train their exit strategy, so we do not expect the total upside indicated in the graph to play out. Additionally, many advisers have decided to exit due to the ongoing mental strain and compliance requirements that have burdened their operations.

The Quality of Advice review, to be delivered in December, has the potential for far wider ramifications to the advice model and adviser numbers than the proposed "experience" change.

Chart 2.3: Potential impact of experience recognition



Source: ARdata. The shaded area denotes advisers with more than 10 years' experience.

Client numbers

The COVID-19 pandemic and associated government packages has prompted a spike in one-off clients, with "piece-meal advice" on the radar as part of the Quality of Advice review. At the same time, advisers are serving a greater number of clients as their industry colleagues depart. Following a decline in the average number of clients per adviser from 2018 to 2020, 2021 was the year we saw an uptick as a rebalancing of higher value clients came across from existing advisers. Overall, average client numbers increased 6% from 83 to 88.

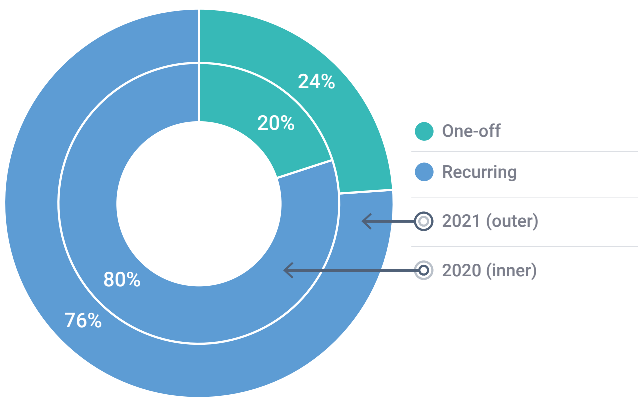
Chart 2.4: State breakdown of the average number of clients per adviser 2018-2021

Source: ARdata

> *2021 was the year we saw an uptick as a rebalancing of higher value clients came across from existing advisers. Overall, average client numbers increased 6% from 83 to 88*

Within these numbers, however, we are still seeing thousands of adviser-client breakups. In some cases, clients are replacing their adviser with their super fund's advice offering; in others, they are, in effect, being fired by their adviser (or orphaned). This has been an increasing year-on-year theme, as the rising cost base makes it untenable for advisers to continue to serve lower-value clients.

Chart 2.5: One-off versus client ratio (2020 v 2021)



Source: ARdata

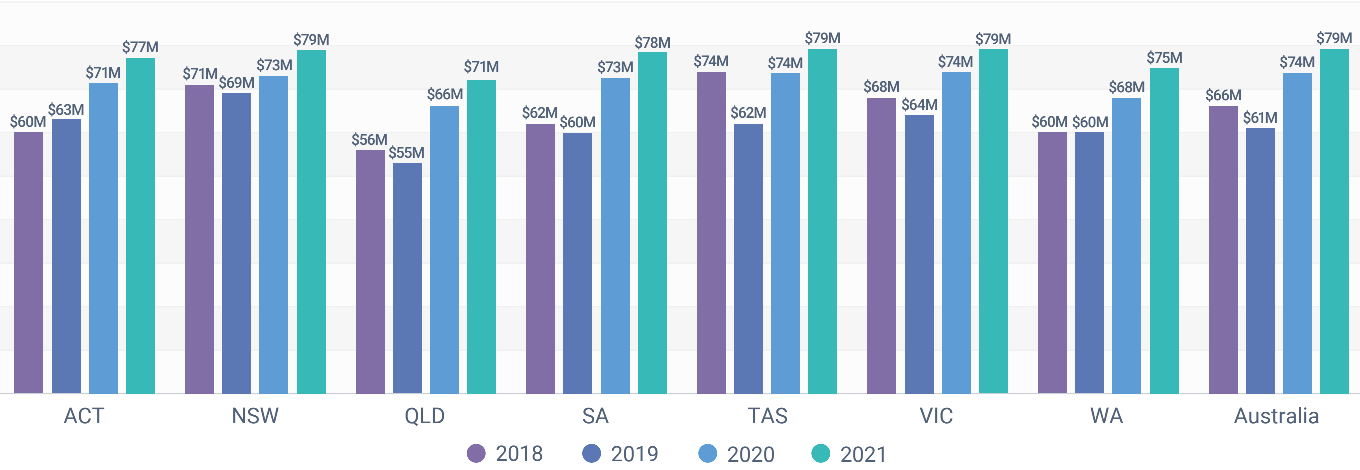
Adviser fees

Despite the increased demand, there has been a further drop in consumers using a financial adviser. Part of this drop can be explained by the shift to wholesale advice. Only 10.1% of consumers (1.9 million Australians) see a wealth adviser, down from 13.9%, four years ago. The median ongoing fee has increased by 41% in the same period, rising from $2,510 to $3,529.

Unfortunately, the rise in adviser fees is pricing out many Australians who want or need financial advice. As identified in Chart 1.4, the Adviser Ratings 2022 financial advice consumer survey found 65% of prospective clients would only pay $500 a year for advice – about an eighth of the median adviser fee. Legislators urgently need to step in and find a model to meet the advice demands of these Australians.

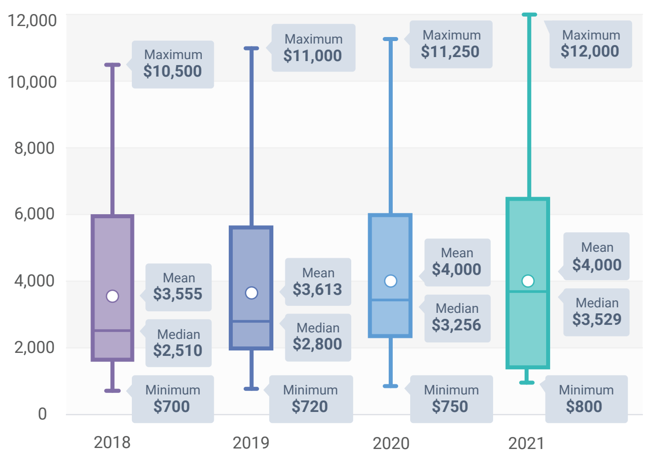
Comparatively, the average FUA per client has only increased 22% (FUA per practice has increased 20%), laying bare the stresses to run a profitable practice at the expense of Australians being able to access affordable advice.

Chart 2.6: State breakdown of average FUA per adviser (2018-2021)



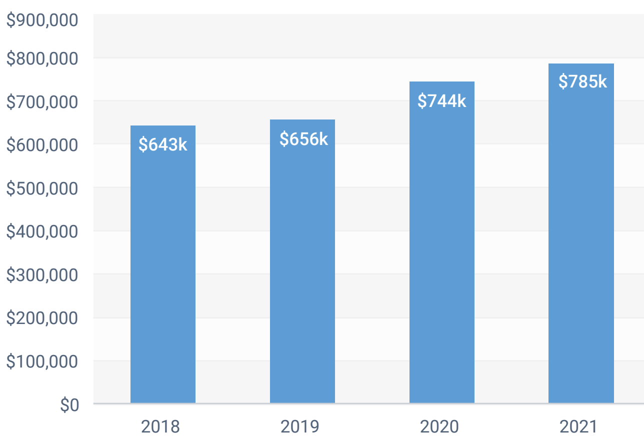
Source: ARdata

Chart 2.7: Average and median client fees (2018-2021)



Source: ARdata

Chart 2.8: Average FUA per client (2018-2021)



Source: ARdata

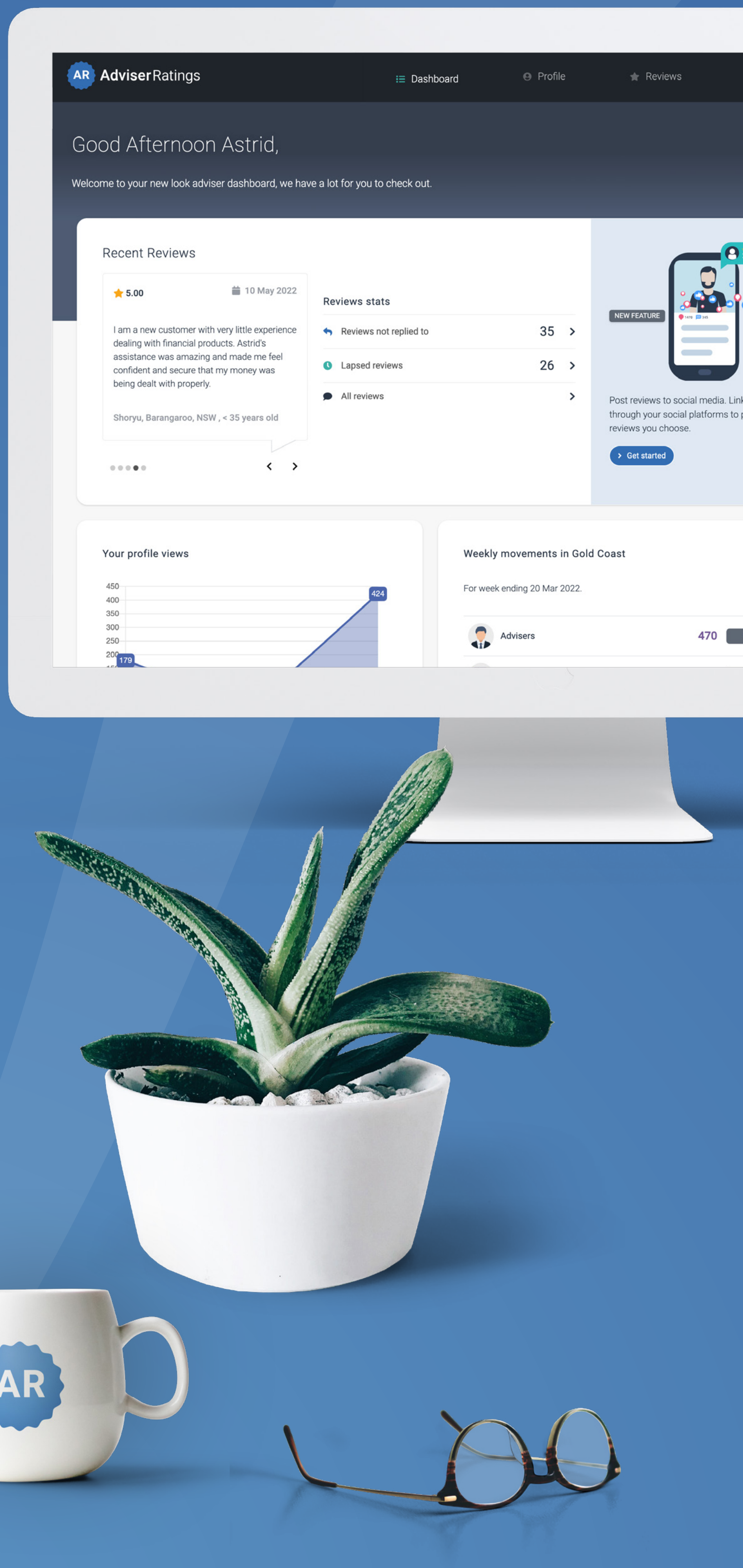
Join the Adviser Ratings Community

Free service for all registered Australian advisers

Adviser Ratings puts the world of financial advisers at the fingertips of consumers and there's never been a more exciting time for advisers to claim their profile. We've launched our newly renovated platform where consumers can more easily find and connect with an adviser that best suits their needs... It's yet another step in our plan to help Australian advisers boost their online presence and make advice more accessible to consumers.

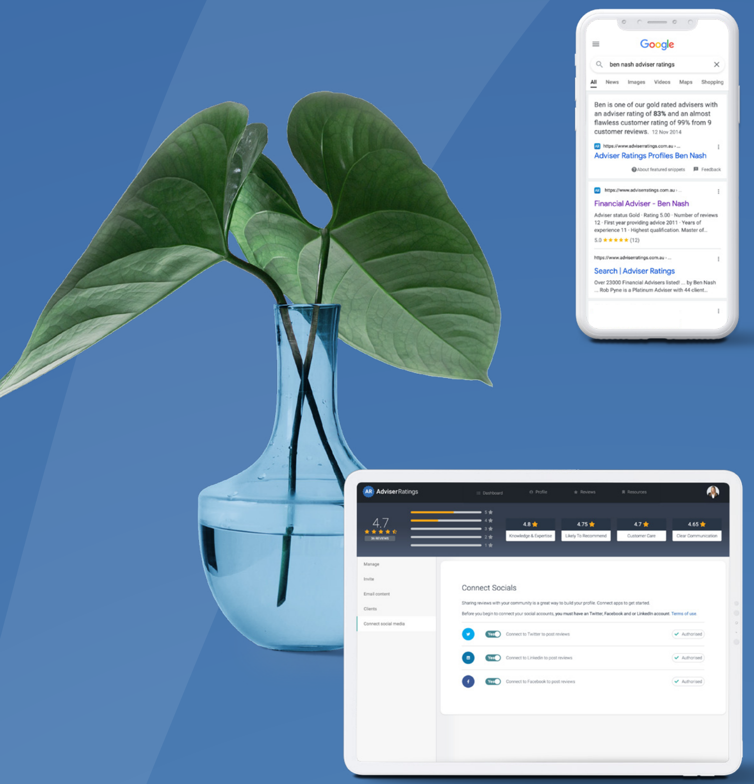
> *"Adviser Ratings is changing the face of Financial Planning. With honest and transparent client feedback, my profile allows me to resonate with the broader community much more successfully than ever before. I genuinely align with the vision of Adviser Ratings: making Financial Advice accessible to everyone. I have been grateful to contribute to their Ask an Adviser series articles which have been invaluable for my online platforms and social presence"*

– Noni Crawford,
Director & Adviser at Hello Wealth



New Adviser Portal

Your clever new dashboard provides you instant access and an overview of the interest your Adviser Ratings profile is generating for you, your review stats and profile views. Highlight your areas of specialisation, add info about yourself and your practice and even add your videos to attract more interest to your profile.



Google verified review platform

With over 90% of people now searching online for services like financial advice, our Google verified star rating system helps your profile rank highly on Google searches.

> *"Based solely on the influence of the Adviser Ratings Platform, our two newest clients searched google for advisers in their local area and found your site. They did their research using your site, got a virtual feel and felt confident enough to request appointments"*

– Ben Nielson, Managing Partner at Neilson & Co Wealth Management

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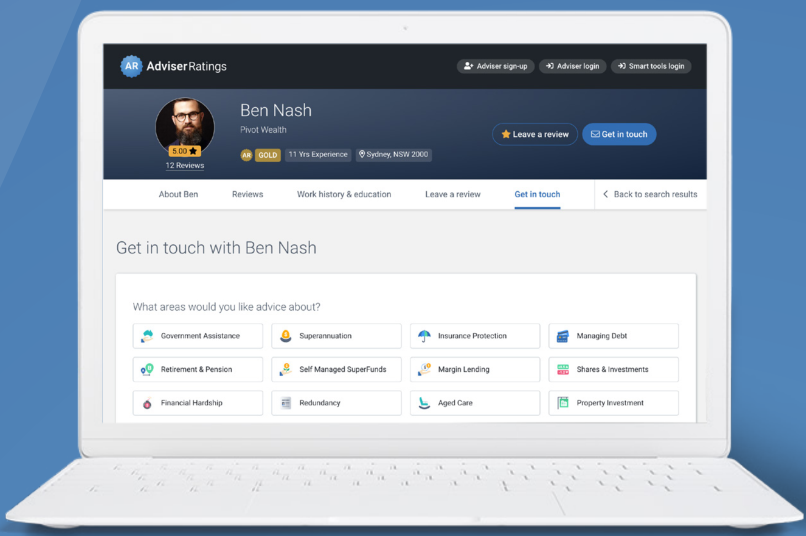

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– Matt Hale, Managing Director at Rising Tide

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Chapter 3

Advice Business Landscape

3

The advice business value chain has undergone significant change in the past year, as rising costs forced more licensees and practices to revise their value propositions.

It was also a year in which the ongoing fragmentation and miniaturisation of the licensee market led to more closures from the big end of town.

Practices faced many challenges in 2021, including rising costs, increased complexity, new client growth, and process inefficiencies – all on top of the challenges of COVID-19. Technology was an area of opportunity for many, particularly those focused on process efficiency, client experience improvements, and new business growth. Meanwhile, the gap between strong and weak practices expanded.

In this chapter, we revisit the business lessons for practices and licensees in 2021 and what it may mean for the future.

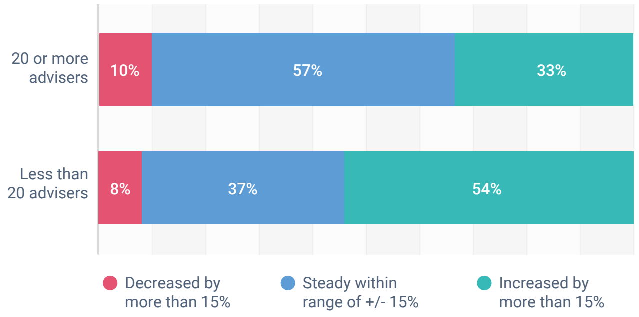
Licensee services

Perhaps unsurprisingly, larger and mid-tier licensees are increasingly looking at scale to manage costs and improve margins. With the loss of product subsidies in 2020, most are charging healthy fees per adviser to create a sustainable business model. They are also streamlining which services are "insourced" and which are "outsourced".

As a general rule, scalable, privately-owned licensees (100-plus advisers) have tended to grow faster than licensees in the mid-tier (50-100 advisers). However, when we look at licensees with fewer than 20 advisers, over half (54%) experienced revenue growth in excess of 15% over the past year. Whereas only a third of licensees with more than 20 advisers experienced similar revenue growth.

Smaller licensees, who typically have more targeted value propositions, are finding success within their niche or have begun to scale their offering in response to market realities. However, some of the growth also reflects the across-the-board increase in fees, as a reflection of rising operating costs.

Chart 3.0: Licensee revenue status



Source: ARdata

Mid to large licensees (with 20 or more advisers) have tended to gradually increase adviser fees over the years, and many were looking for acquisitions to achieve scale. This in part explains why their revenue was more likely to have remained steady (57% reported a change in revenue within a plus or minus 15% range), with acquisitions comes the delicate dance of adviser retention.

Overall, licensees were satisfied with their profitability over the past year but still working to improve margins and convert more of their headline growth. Among the larger, privately-owned practices (more than 100 advisers), one-quarter were not satisfied with their profitability while the remaining three quarters were satisfied but working to increase it.

Conversely, mid-sized privately-owned licensees (between 11 and 100 advisers) reported higher levels of satisfaction with their profitability, with 26% satisfied and the remaining 74% satisfied but looking to increase it. This implies that more of the smaller and mid-tier licensees have found their footing with respect to margins and fixed costs, although a large proportion are still trying to find the right gross margin to set them up for growth.

As licensee fees have steadily increased, some practices have been forced to rationalise the services they have sought while others have sought to achieve greater scale to counter these costs.

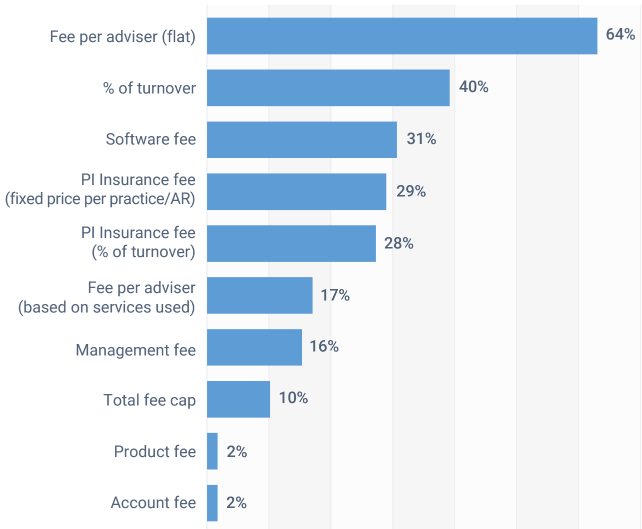
A large proportion (83%) of small practices with revenue of less than $250,000 per year were paying up to $50,000 in licensee costs. However, only 40% of those practices were paying less than $20,000 per adviser, illustrating the changes to overall licensee fees, which have risen over the past few years in line with costs. It is likely that licence fees below $20,000 provide a basic service, with specialists or sole practitioners generally looking at this option to reduce their overall overhead costs.

Licensee pricing has changed over time. In the past, most licensees charged a percentage of turnover. More and more are turning to fixed fee or hybrid (both fixed and variable) pricing to ensure that they have a flexible offering for the services they provide.

> *A large proportion (83%) of small practices with revenue of less than $250,000 per year were paying up to $50,000 in licensee costs. However, only 40% of those practices were paying less than $20,000 per adviser*

As the chart below shows, 64% of licensees are now charging a fixed fee, which illustrates the move away from percentage-based fees, while 31% are recovering the costs of software and over a quarter are charging Professional Indemnity (PI) insurance fees as either a fixed or percentage fee.

Chart 3.1: Licensee pricing model



Source: ARdata

Practice benchmarks

There are a range of external pressures on advice businesses, including regulatory developments, evolving client expectations and or higher educational standards – all which prompt changes to the way practices operate.

The last few years has seen a readjustment in the profession's value proposition, given the removal of investment trail commission and the decrease in life insurance commissions. This has rapidly forced most businesses to reduce fixed and variable costs while looking for further efficiency within their business model. These trends have been compounded by COVID-19 and sporadic restrictions on face-to-face meetings, which have made client interactions more difficult.

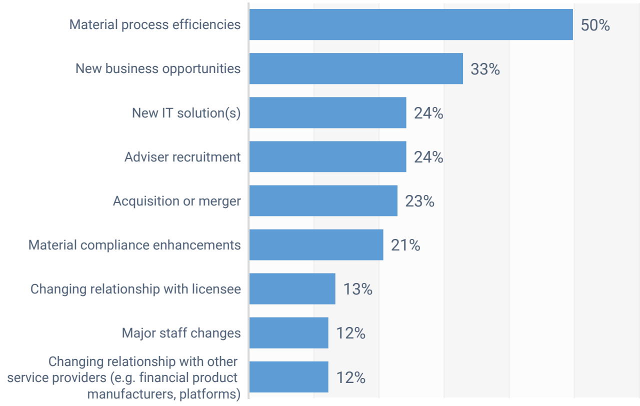
However, not all business change has been driven by external factors. Much of the change is due to the recognition of opportunities and a desire to position for success. When we look at the changes that businesses are looking to make over the coming year, we see a focus on efficiency and growth to enhance value.

Unsurprisingly, the biggest focus for practices in the coming year is creating change with respect to their efficiency. Half of respondents highlighted that they would like to make material improvements to their process efficiencies. One of the key aims for practices is being able to free up time for advisers to focus on high-value tasks by reducing the administrative burden.

The next key focus area is on new business opportunities. After a tumultuous two years due to the pandemic, advice businesses are again looking at growth opportunities as market conditions normalise. A third of respondents saw this as one of their biggest changes in the coming 12 months. At the time of publication, stress in the economic environment, may force practices to rebalance expectations on how deep they go on business reengineering aa they look to appease client's portfolio nerves.

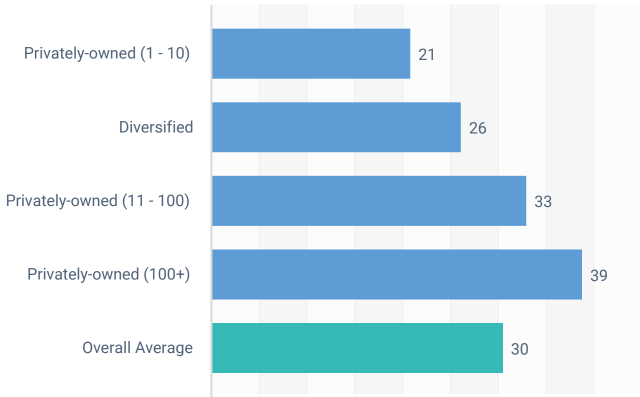
Related to the efficiency question is the intention to implement new IT solutions, which is a planned change for almost a quarter of practices. Technology remains a key business enabler for advisers, not just on the client engagement side but for routinising business processes and freeing up more adviser hours.

Chart 3.2: Changes practices are looking to make



Source: ARdata

Chart 3.3: Client growth



Source: ARdata

Mergers and acquisitions remain on the agenda for 23% of practices seeking greater scale and synergy. With the advice industry still undergoing a transition since the exit of the banks, there is still room for sole or 2 person advice firms to link up or join to create larger groups.

Surprisingly, only 21% of practices have highlighted material compliance enhancements as being a key change for them in the coming 12 months. With recent regulatory change, including the start of annual fee arrangements, this may indicate either that practices were largely well-equipped to manage the change or that some are exposing themselves to potential risk through inadequate investment. Given the recent crackdown by ASIC on RI Advice's lax cyber security, we now anticipate this to have a far greater focus.

Client onboarding responses by practice type indicate that advice businesses are, on average, maintaining healthy pipelines of new clients. The overall average for the industry was 30 new clients per practice over the past year, with privately owned-practices (with more than 100 advisers) adding 39 on average and smaller privately-owned practices (with between one and 10 advisers) adding 21 on average. This will be a trend to follow in the coming years as practices focus on selectively targeting their ideal client type and increasing their marketing strategies to onboard more new clients.

To gain a deeper understanding of the health of advice practices from a client growth perspective, we need to consider the change in client books and how practices are attracting and retaining clients.

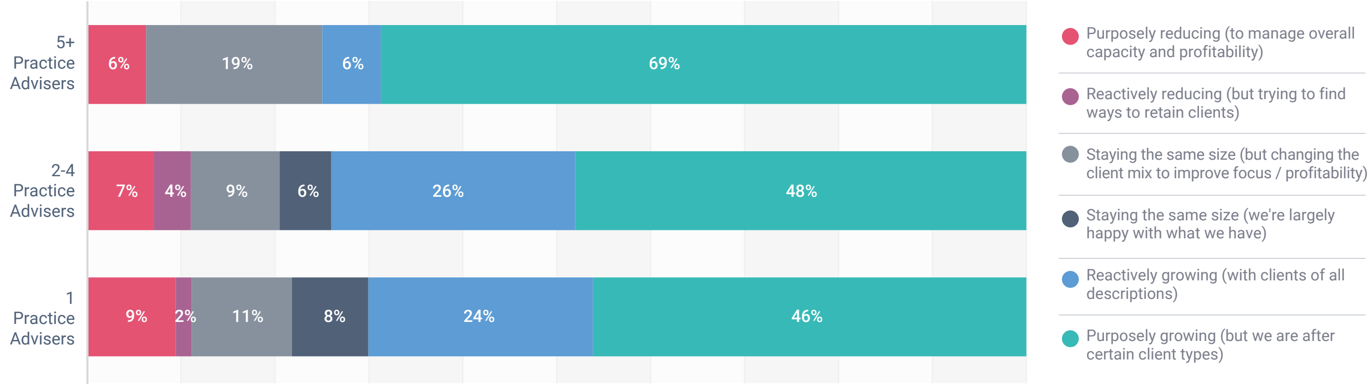
After two years of sluggish client growth, the 'new normal' is gradually becoming the baseline for business operations, prompting more practices to turn their attention to attracting and onboarding new clients. However, not all practices are in the same growth camp.

As the below chart shows, almost half of respondents are looking to grow, but the major change in the past few years is that they are more selective of the clients they are targeting. In some cases, this is a means of balancing out or diversifying their client book, in other cases a means of capturing more of a particular segment. Greater discernment among advice businesses in targeting specific segments has been driven, in part, by the cost of servicing clients, which has risen over the past few years in line with client fees.

In the other growth camp are the reactive growers – businesses accepting clients of all descriptions in order to add revenue, rather than focusing on target segments or preferred client types. As the chart shows, 23% of practices were growing reactively. However, part of this growth may be the result of active referral pipelines that generate new business without having a plan to capture any specific client segments.

Collectively, the client and profitability data shows that advisers, who have stayed in the market, are replacing those orphaned clients identified in section 1 with higher-value clients.

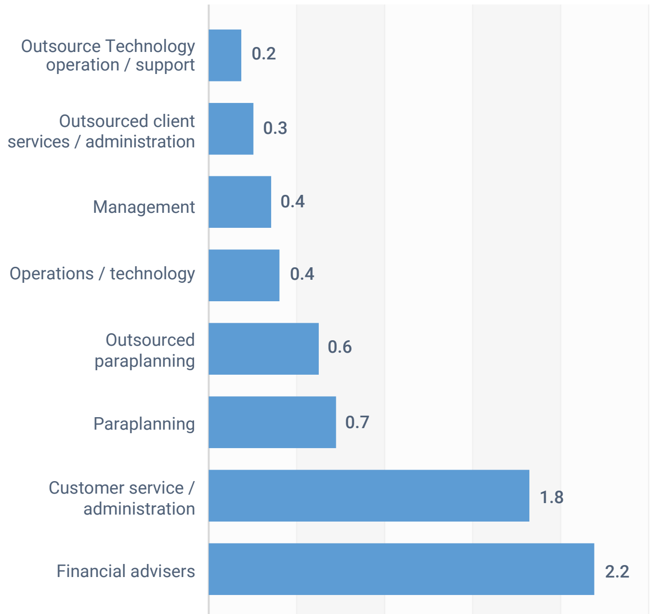
Chart 3.4: How practice client books are changing



Source: ARdata

Turning to staff now, along with advisers, advice businesses typically draw on other essential roles to cover administrative, operational, client support, and management roles. Operational and technology roles are often at the coalface of the industry's efforts to improve efficiency, which remains one of the key priorities for practices. Experienced support staff can help advisers reduce administrative touchpoints and provide a more streamlined service to clients.

Chart 3.5: Practice-staff ratio



Source: ARdata

Revenue and profitability

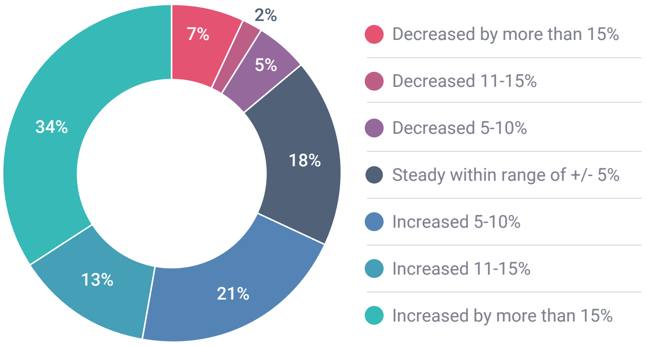
Prior to COVID-19, practices were already experiencing top-line revenue growth pressures from a number of directions. The practices able to maintain healthy top-line growth and profitability were the ones with strong engagement strategies and the capabilities to provide an excellent client experience.

Despite major consolidation, the dominant model is still the 1-2 adviser model, with revenue under $1million, particularly under $500,000. The majority of practices with up to $500,000 revenue have struggled with growth and profitability due to rising costs, compliance, and change management.

> *The vast majority of surveyed practices (78%) are currently turning over under $1 million in revenue, and 48% are turning over less than $500,000*

The vast majority of surveyed practices (78%) are currently turning over under $1 million in revenue, and 48% are turning over less than $500,000. This highlights the challenge of achieving scale in financial advice, which is why half of advice practices are making process efficiency a business priority while many are seeking potential merger and acquisition partner, pointing to further consolidation in coming years.

Chart 3.6: Practice revenue change



Source: ARdata

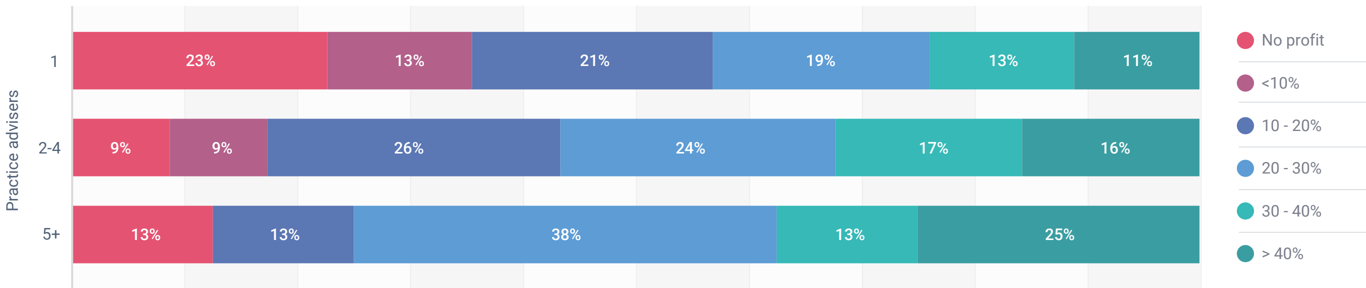
The most profitable practices – those achieving a margin of over 30% – had more than five advisers. This highlights how scale is impacting sustainable business models and why more practices are considering mergers or acquisitions to achieve operating scale.

Unsurprisingly, sole practitioners were less profitable in 2021, with 23% reporting no profit and only 24% achieving a healthy margin of 30% or greater. This segment has struggled with growth and profitability due to rising costs, compliance, and change management. Practices with 2-4 advisers fared marginally better, with only 9% reporting no profit and 33% achieving a margin greater than 30%.

If we look at profitability based on revenue, the least profitable practices were those with turnover less than $250,000. Among those practices with turnover less than $250,000, 58% achieved no profit at all, while 19% achieved profit of less than 10% of revenue.

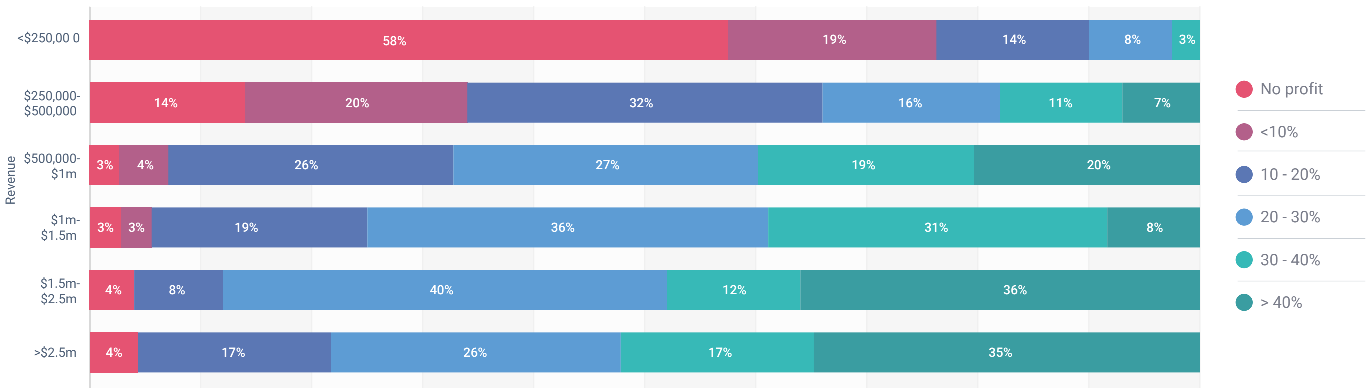
The most profitable practices were those with revenue over $1.5 million. This highlights that scale is proving to be the true source of margins, with larger businesses able to scale their operations, adopt new technology, and hire specialised staff to improve performance.

Chart 3.7: Profitability based on number of advisers



Source: ARdata

Chart 3.8: Profitability based on size of practice revenue



Source: ARdata

Investment preferences

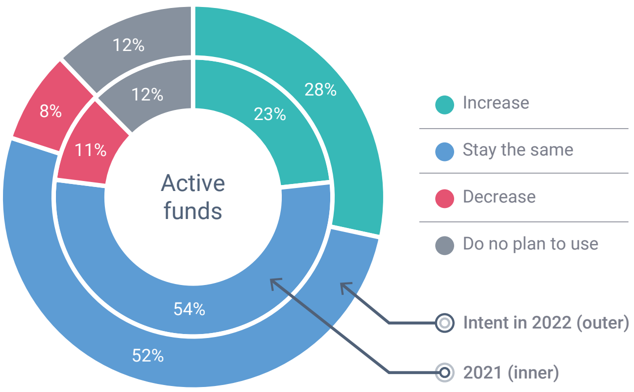
On the investment front, ESG interest from advisers continues to rise, with just over half of respondents indicating that they are intending to increase their use of strategies in this arena. This has increased from 39% the previous year, highlighting just how strong this trend is.

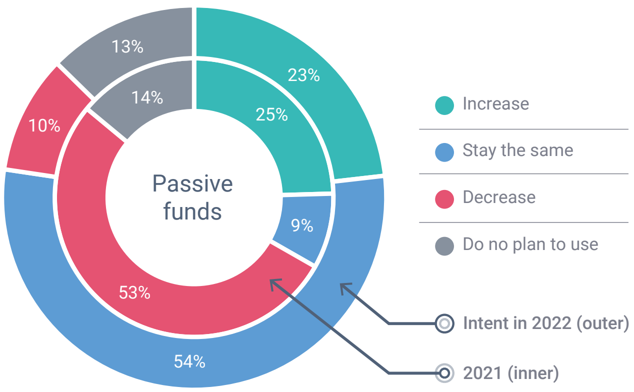
Growth of active funds is increasing slightly from already strong growth in 2021 with 28% of advisers indicating they are intending to grow their exposure to active funds in 2022. On the back of a decline in passive funds by advisers in 2021, advisers are taking stock in 2022 with 54% of advisers retaining this decreased exposure this year, suggesting they are now happy with the passive strategies in their clients' portfolios.

Chart 3.9: ESG

Source: ARdata

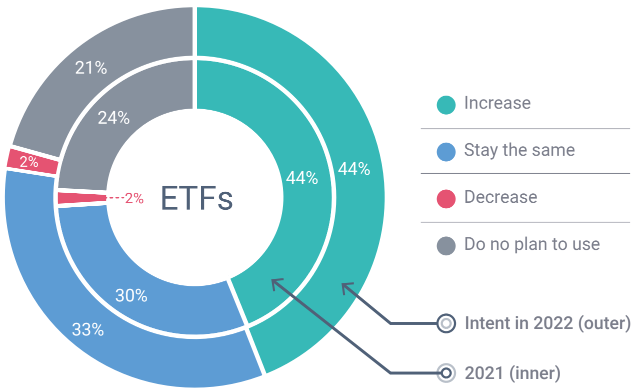
Chart 3.10: Active and passive funds

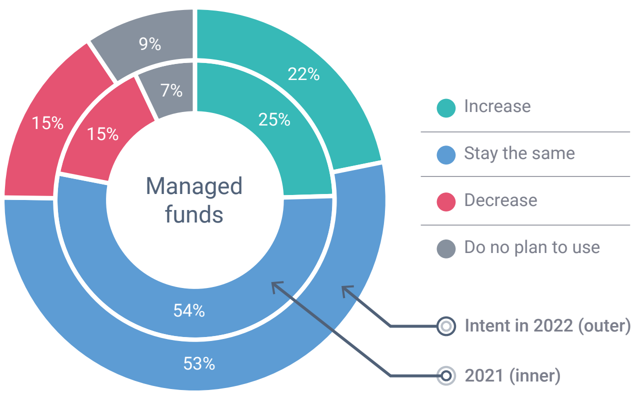




Source: ARdata

Chart 3.11: ETFs and managed funds





Source: ARdata


Business activity of company and subdivisions
Data and prognosis of activity

Chapter 4

Infographics

4

The average Australian adviser

AdviserRatings

Demographics

51 YEAR-OLD MALE FROM INNER MELBOURNE

$135,000 ANNUAL SALARY

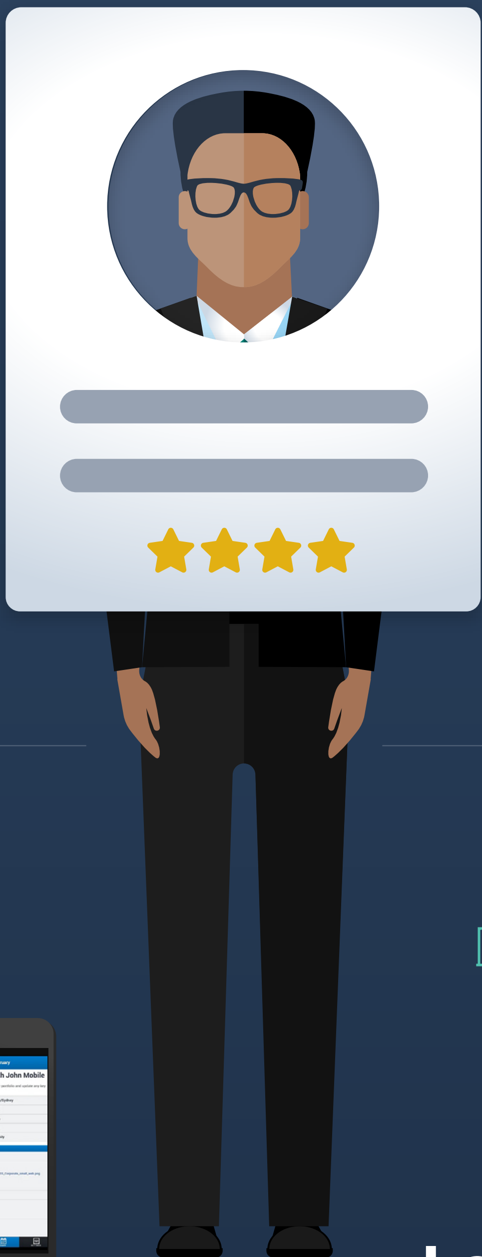
DEGREE QUALIFIED

Client Type

COUPLE

60 AVERAGE AGE

$4,000 ANNUAL FEE



My Practice

<10 ADVISERS

PRIVATELY-OWNED LICENSEE

$200M FUA PRACTICE SIZE

Client Base

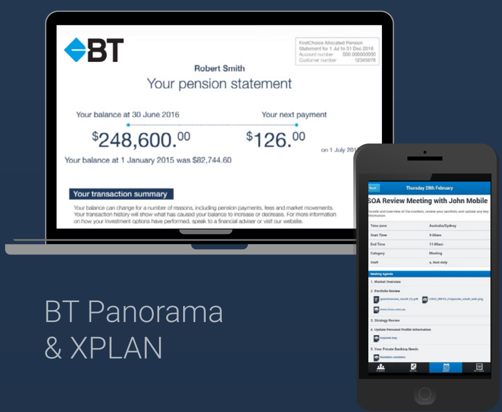
$79M FUA

27 ONE-OFF CLIENTS

88 RECURRING CLIENTS

INSURED BY TAL

Software & Platforms



BT Panorama & XPLAN

Research & Investment

I MOSTLY USE MODEL PORTFOLIOS AND LISTED INVESTMENTS

MORNINGSTAR® RESEARCH HOUSE

Lonsec INVESTMENT CONSULTANT

Source: ARdata

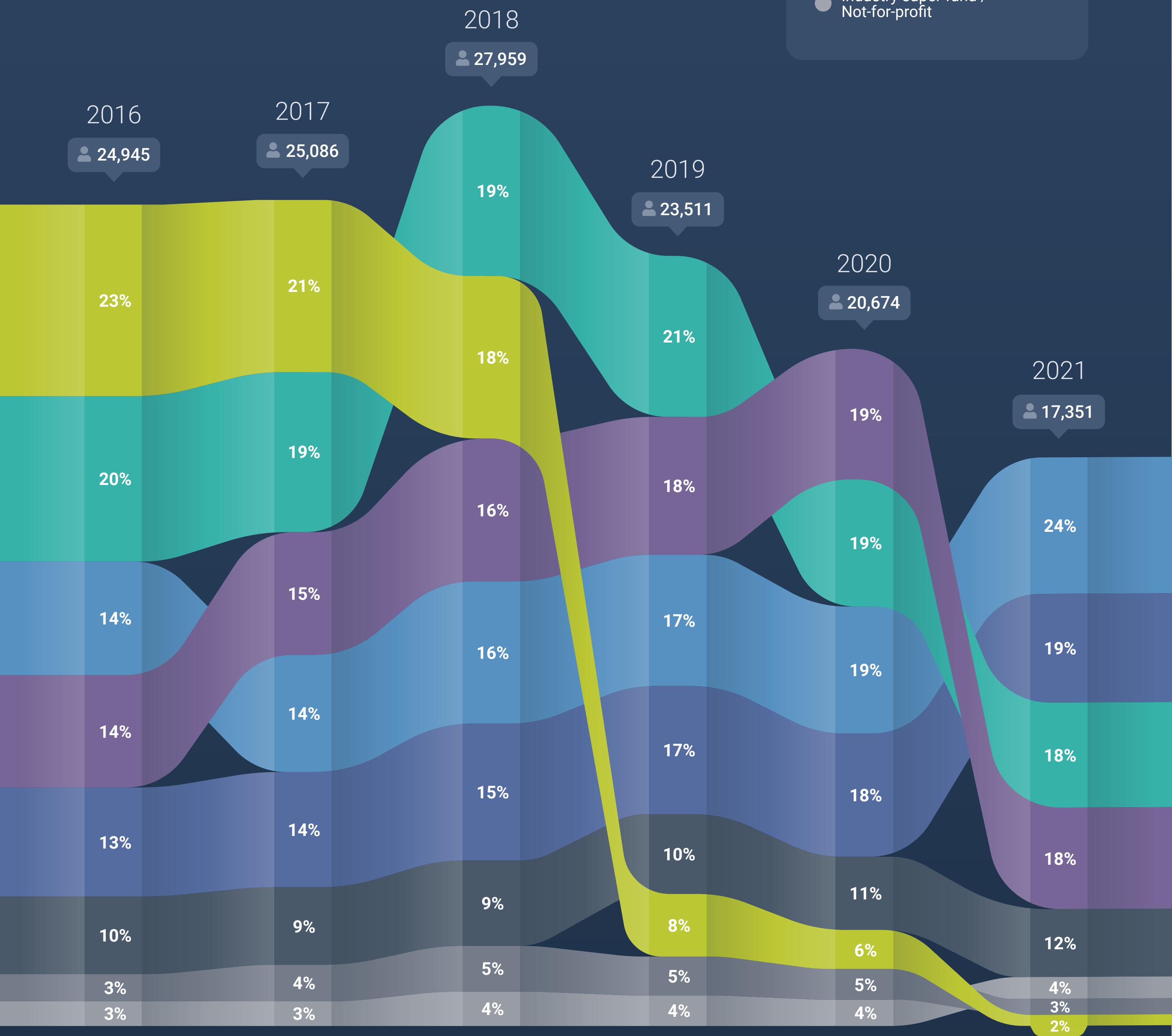
Adviser population by licensee ownership/ affiliation 2016-2021

In 2021 the population of registered retail advisers reached a new low of 17,351. In this same year the number of advisers fell across all advice segments, except the small licensee market (privately-owned – 1-10 advisers) which grew 7% v an overall decline of 16%. Of notable interest is the big shift away from large, institutional advice industry segments in favour of small privately-owned firms.

Source: ARdata, ASIC Financial Advisers Register.

Advice segments

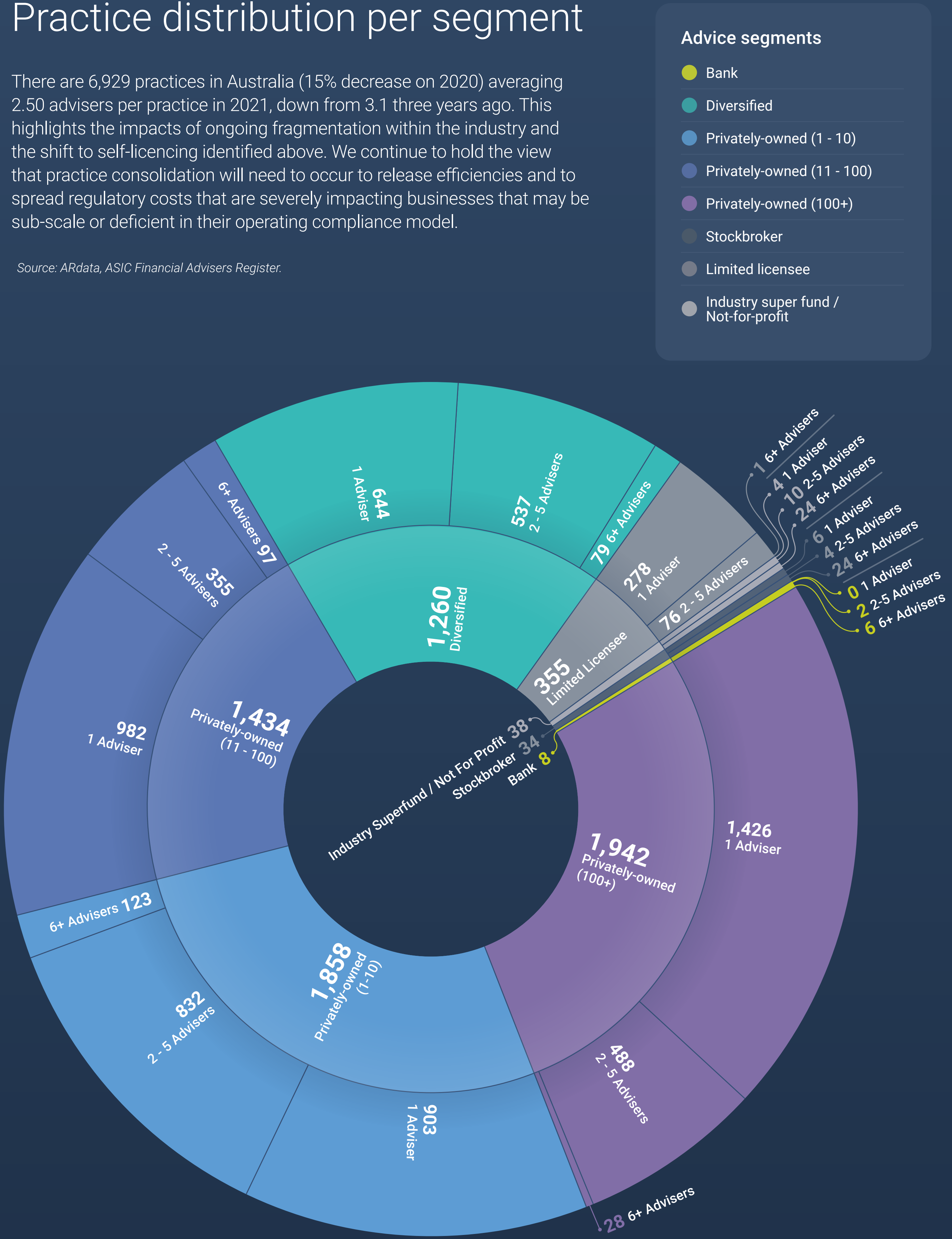
- Bank
- Diversified
- Privately-owned (1 - 10)
- Privately-owned (11 - 100)
- Privately-owned (100+)
- Stockbroker
- Limited licensee
- Industry super fund / Not-for-profit



Practice distribution per segment

There are 6,929 practices in Australia (15% decrease on 2020) averaging 2.50 advisers per practice in 2021, down from 3.1 three years ago. This highlights the impacts of ongoing fragmentation within the industry and the shift to self-licencing identified above. We continue to hold the view that practice consolidation will need to occur to release efficiencies and to spread regulatory costs that are severely impacting businesses that may be sub-scale or deficient in their operating compliance model.

Source: ARdata, ASIC Financial Advisers Register.



Chapter 5

Investment Landscape

5

The 2021 calendar year was incredible for investors. The COVID-19 rebound continued unabated and new trends emerged along the way, with all growth-oriented asset types/classes performing strongly.

However, by the end of the year, inflation started to rear its head, foreshadowing testing conditions in the first few months of 2022. As global responses to COVID-19, such as vaccines and mask mandates failed to offset emerging new variants, issues such as labour shortages and supply-chain disruptions took hold. This began to affect the prices of consumer goods, which we saw most notably in the food and energy sectors. In the US, the CPI rose 7% year on year (YoY) which was the largest increase in over 40 years.

With all of that in mind, this chapter analyses the winners and losers in 2021 across asset classes, sub-sectors and funds.

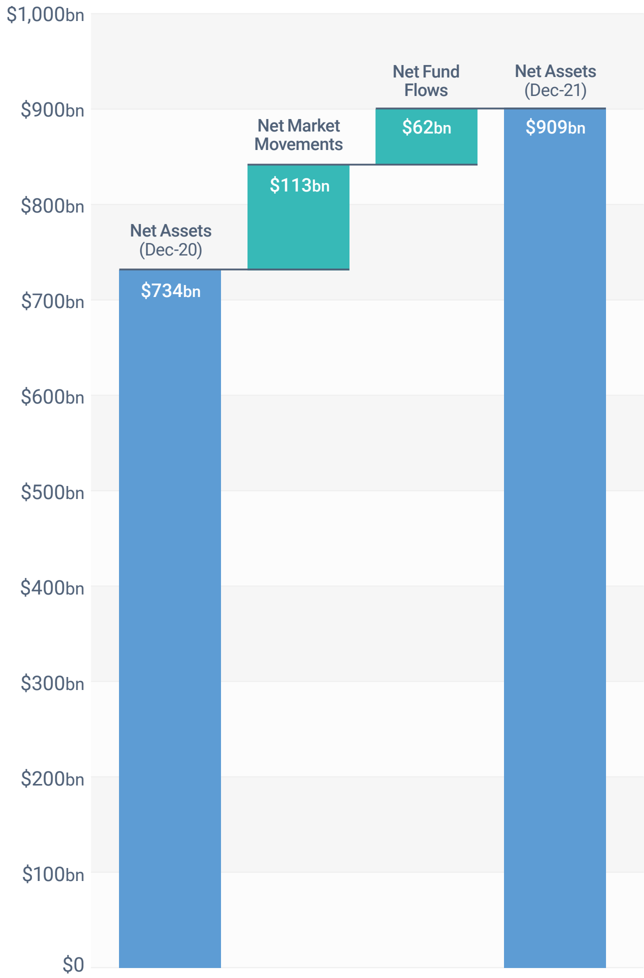
Industry addressable market and growth

What a year for fund managers. The market delivered and so did retail investors. For the year to December 2021, market growth (+$113bn, 15.4%) and net flows growth (+$62bn, 8.4%) were both positive. The industry's addressable pie therefore grew by nearly 24% (+$175bn) to circa $909bn. As of mid May 2022, markets are now down ~10% from their peak, which makes it easy to doubt the veracity of the previous year's market growth. But no, balanced and growth indices, which are a reasonable proxy for the composition of the market, were up 10% and 15%, respectively. Markets do have years like this and, it is probably only a 'one standard deviation' event.

> *New money absolutely pumped into the system - much of the money came in from non-super sources*

Far more surprising, though, were net flows from investors. Indeed, new money absolutely pumped into the system. A partial explanation, as always, will be ongoing compulsory contributions into adviser-built super. But clearly, much of the money also came in from non-super sources, primed by non-compulsory (discretionary) reasons. The best hypothesis to muster for this outcome is that a build-up of pandemic stimulus cash (and fear-driven savings), lingering in term deposit accounts, was finally lured into the pooled investments system by strongly rising equity markets. The net outflows from unitised cash funds is consistent with this idea. Regardless of the source and reason, net flows from investors were a huge plus, given the previous year's net flows were only $11.5bn (1.6% organic growth).

Chart 5.0: Industry FUM ($bn) 1-year net assets change (overall +$175bn)



Source: Morningstar, Milestream estimates and analysis. Data as at/for one year ended 31 December 2021. Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds and funds missing (or with erroneous) net assets and net flows data across the one year to December 2021. .

Where the money went in 2021

When it came to funds, passive again dominated the top 10 equity Australia large category, with four of the top five funds index trackers. In aggregate, passively managed funds accounted for nearly two-thirds of the total top 10 funds' net flows in this category.

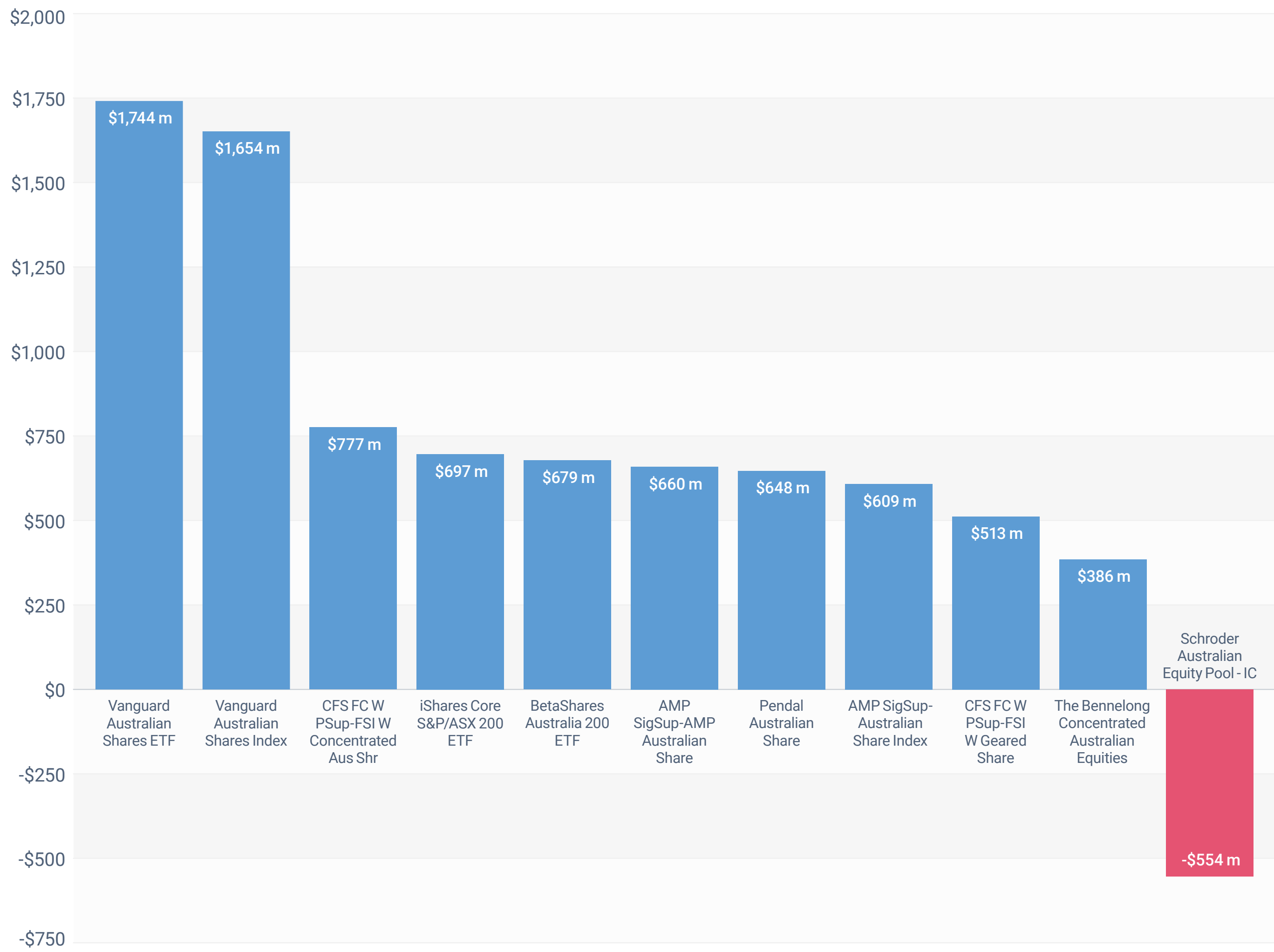
Perhaps more surprisingly, three of the top five funds were listed (ETFs).

Vanguard topped the list with its unlisted and listed versions of its Large Cap Australian Equity Fund, gathering a combined $3.4bn in 2021.

Meanwhile, the best of the active strategies was First Sentier Investors' Concentrated Australian Share Fund. Schroder's Australian Equity Fund was the worst performer. Despite being mildly growth biased in investment style, relative performance in the past three years has been modest.

> *Passive dominated the top 10 equity Australia large category – three of the top five funds were listed (ETFs)*

Chart 5.1: Equity Australia large top 10 funds (and bottom fund) by 1-year net flows



Source: Morningstar, Milestream estimates and analysis. Data as at/for one year ended 31 December 2021. Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, multi manager funds, "miscellaneous" funds and funds missing (or with erroneous) net assets and net flows data across the one year to December 2021. Organic growth includes net flows and excludes net market movements. "Large" combines Morningstar categories "Equity Australia Large Blend", "Equity Australia Large Growth", Equity Australian Large Value", and "Equity Australia Geared".

Turning to asset classes, everything bar cash achieved positive net flows. The main surprise was the very strong net flows performance of fixed interest (+$25bn). However, this was marked by much stronger flows into 'growthier' and higher yielding credit-based products, as opposed to more defensive and lower yielding bond-based products. Less surprising was to see the strong net flows into the remaining asset classes, which are either directly or indirectly linked to equity market performance. That said, it was still quite a turnaround for some asset classes.

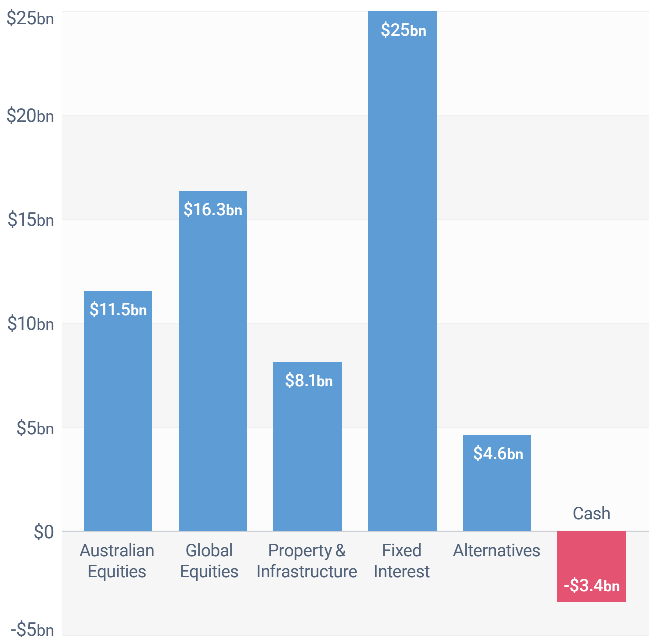
In 2020, global equities experienced net flows of $6.1bn but rebounded this year to a very healthy $16.3bn. Likewise, Australian equities experienced net flows of +$11.5bn in 2021 after having netted only $3.4bn in 2020, and property and infrastructure more than tripled its net flows to $8.1bn (from $2.4bn in 2020).

When we recalibrate organic growth ($) to organic growth rates (% change on base), we see a similar story, with a tilt to alternatives.

This is the second year in a row that alternatives experienced a strong organic growth rate (2020 16.7%). As alluded to above, cash experienced the biggest turnaround in organic growth rate (2021 -6.1% vs 2020 7.3%). More than ever, with rates near zero, cash serves as a "parking ground" for money. Year-to-year swings in net flows/growth rates are now almost exclusively representative of sentiment, as opposed to a hybrid of that reason and investment reasons.

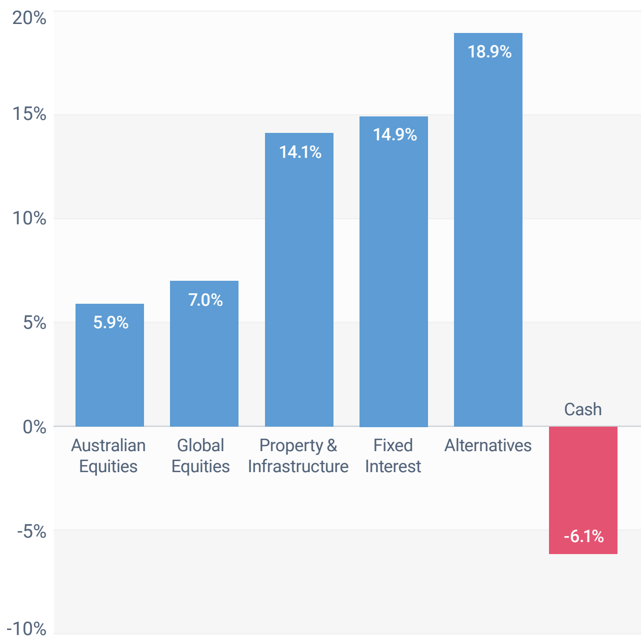
> *Within asset classes, everything bar cash achieved positive net flows. The main surprise was the very strong net flows performance of fixed interest (+$25bn) – marked by much stronger flows into 'growthier' and higher yielding credit-based products*

Chart 5.2: Industry net flows ($bn) 1-year (overall +$62bn)



Source: Morningstar, Milestream estimates and analysis. Data as at/for one year ended 31 December 2021. Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds and funds missing (or with erroneous) net assets and net flows data across the one year to December 2021.

Chart 5.3: Industry 1-year organic growth rates (overall +8.4%)



Source: Morningstar, Milestream estimates and analysis. Data as at/for one year ended 31 December 2021. Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds and funds missing (or with erroneous) net assets and net flows data across the one year to December 2021. Organic growth includes net flows and excludes net market movements.

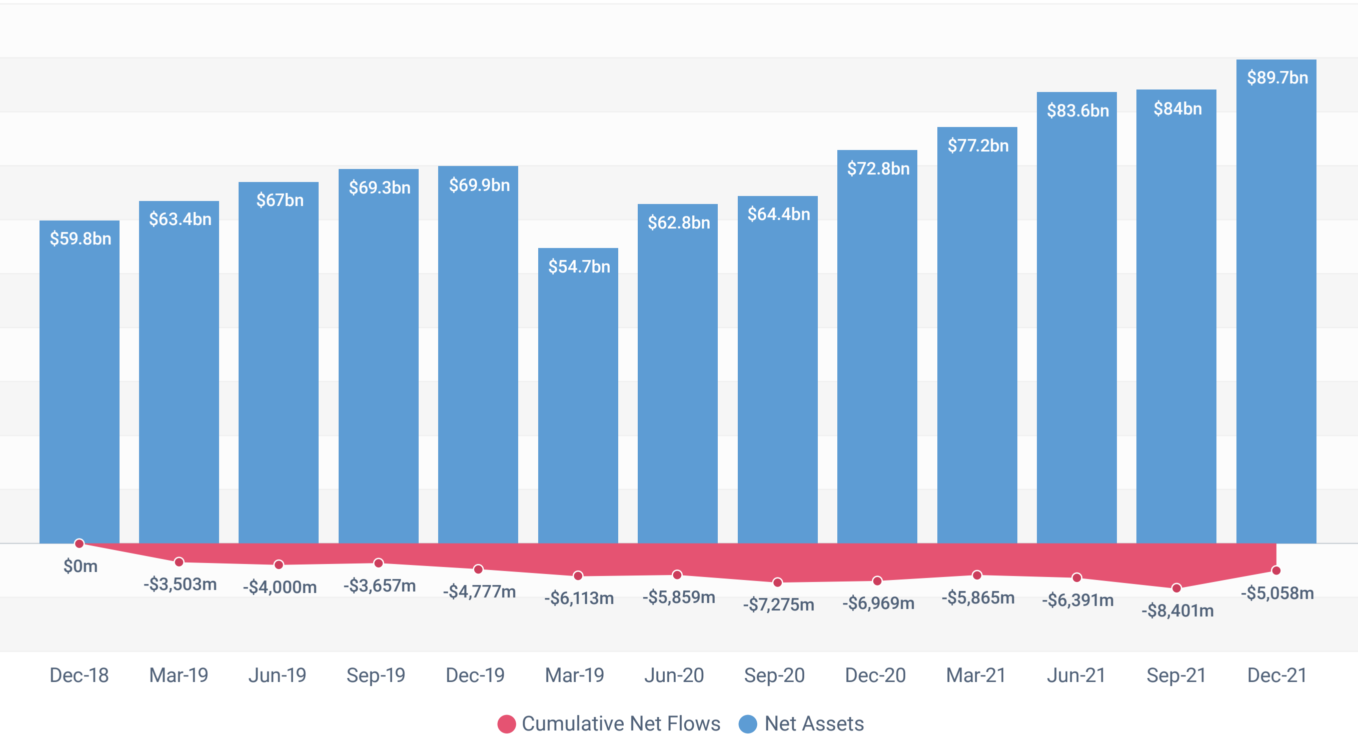
ESG

Once again, ESG was a major theme for 2021, attracting significant new flows. However, not all parts of the ESG universe benefited equally.

At circa $90bn, the covert ESG equity universe is now nearly three times that of the overt ESG equity universe (circa $33bn) – plenty more are doing ESG and staying quiet about it than doing ESG and megaphoning their credentials. But size, and that approach, did not beget growth. Consistent with our previous analysis of the 2020 year, in 2021 covert ESG equity strategies showed little sign of an acceleration in net flows. This placed them in stark contrast to overt ESG equity strategies, which experienced a clear ramping up of net flows growth in 2021. In fact, over three years, covert ESG equity strategies remain in a cumulative net flows deficit (net outflows) of circa -$5b.

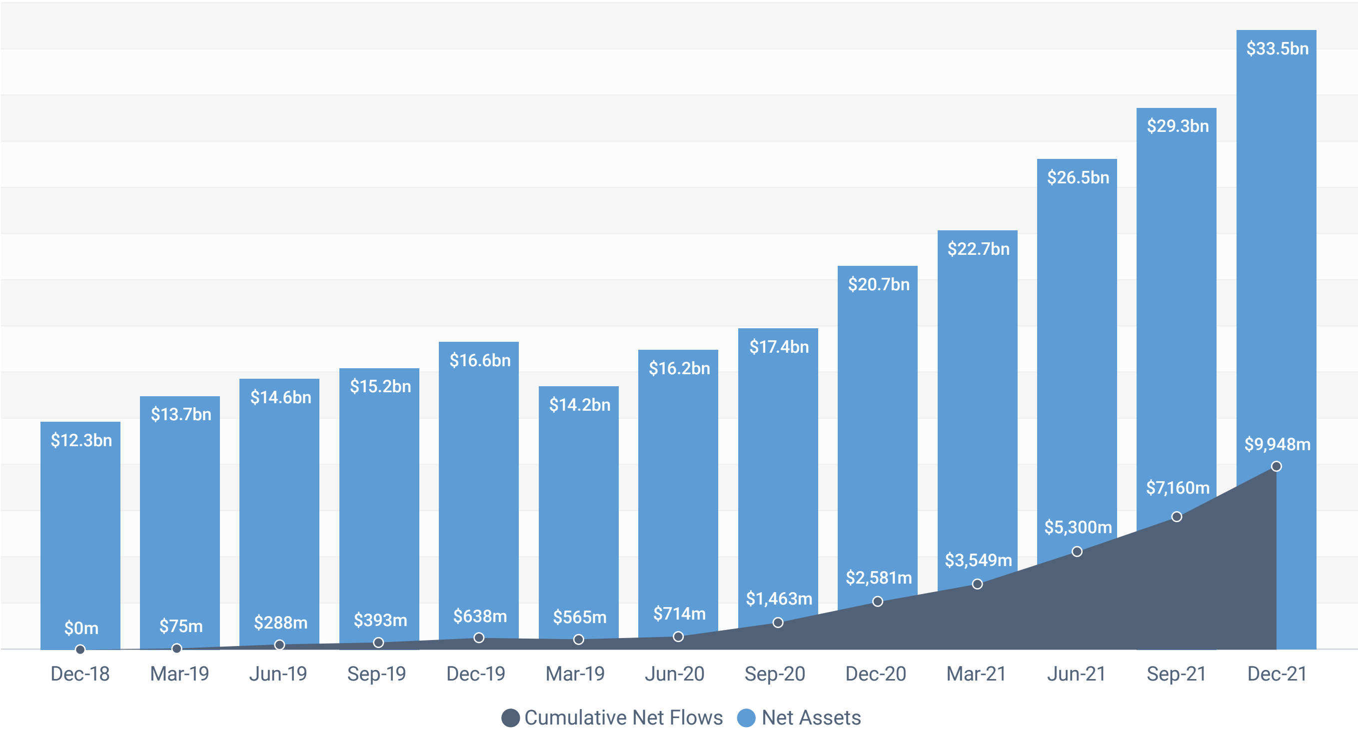
ESG was a major theme for 2021, attracting significant new flows. However, not all parts of the ESG universe benefited equally. At circa $90bn, the covert ESG equity universe is now nearly three times that of the overt ESG equity universe (circa $33bn) – plenty more are doing ESG and staying quiet about it

Chart 5.4: Covert ESG funds net flows ($m) and net assets ($bn)



Source: Morningstar, Lonsec, Milestream estimates and analysis. Data as at/for three years ended 31 December 2021 Notes: Data includes Morningstar classified Australian Equity and Global Equity Funds which conform with the Milestream criteria for/definition of "Covert ESG Funds". The definition of "Covert ESG Fund" is provided within the body of this report. Data excludes: Morningstar classified "obsolete" funds and funds missing (or with erroneous) net assets and net flows data across the three years to December 2021.

Chart 5.5: Overt ESG funds net flows ($m) and net assets ($bn)



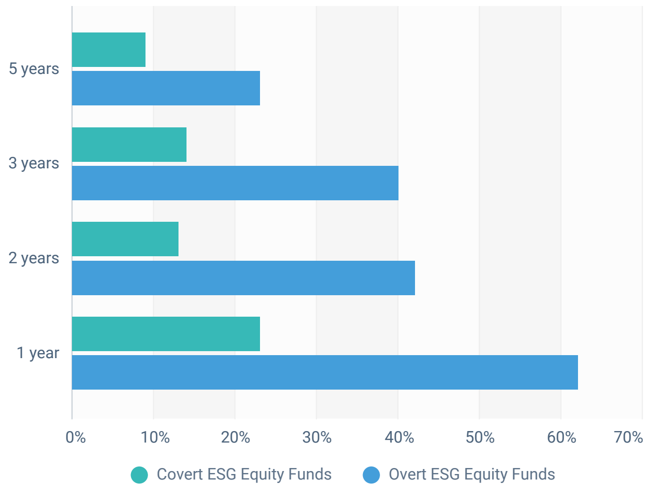
Source: Morningstar, Lonsec, Milestream estimates and analysis. Data as at/for three years ended 31 December 2021. Notes: Data includes Morningstar classified Australian Equity and Global Equity Funds which conform with the Milestream criteria for/definition of "Overt ESG Funds". The definition of "Overt ESG Fund" is provided within the body of this report. Data excludes: Morningstar classified "obsolete" funds and funds missing (or with erroneous) net assets and net flows data across the three years to December 2021.

In contrast, in 2021 overt ESG equity funds built further on their already strong 2020 net flows momentum. Over three years, their cumulative net flows amounted to circa +$10bn.

Our conclusion from the above analysis is that the rising ESG tide is (still) not lifting all ESG boats. In a fund marketing context, has it paid to be a quiet achiever in ESG (being ESG but not naming or positioning funds as such) to appear 'investment returns first' to neutralise performance trade-off concerns? The definitive answer continues to be no. In the past three years, it has clearly been a better marketing approach to be overt about your ESG credentials, and this trend strengthened last year.

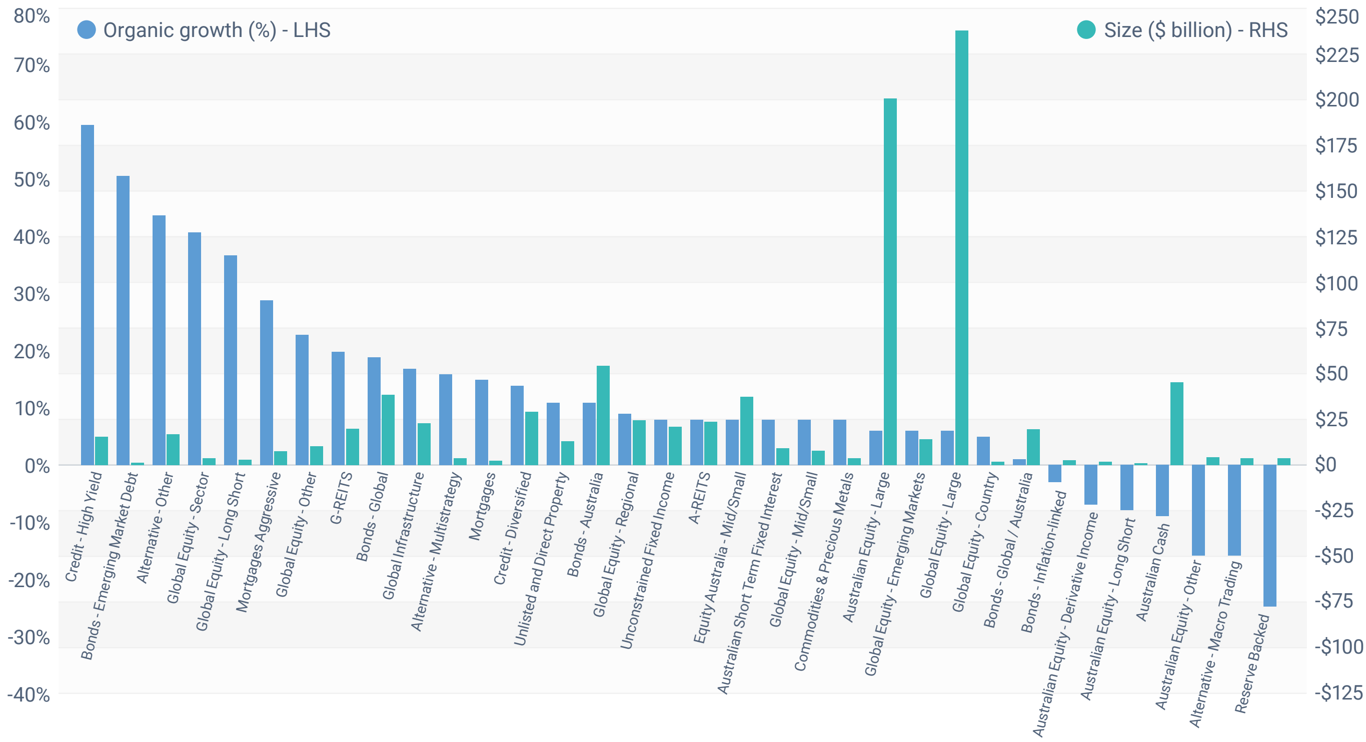
> *In a marketing context, it has clearly been a better approach to be overt about your ESG credentials rather than being a quiet achiever in ESG*

Chart 5.6: Covert vs Overt ESG funds CAGR (%) of net assets



Source: Morningstar, Lonsec, Milestream estimates and analysis. Data as at/for five years ended 31 December 2021. Notes: Data includes Morningstar classified Australian Equity and Global Equity Funds which conform with the Milestream criteria for / definition of "Covert ESG Funds" and "Overt ESG Funds". The definitions of "Covert ESG Fund" and "Overt ESG Fund" are provided within the body of this report. Data excludes: Morningstar classified "obsolete" funds and funds missing (or with erroneous) net assets and net flows data across the five years to December 2021. CAGR % stands for Compound Annual Growth Rate %.

Chart 5.7: Industry sub-sector 1-year organic growth rates (% – LHS) vs net assets ($bn – RHS)



Source: Morningstar, Milestream estimates and analysis. Data as at/for one year ended 31 December 2021. Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds and funds missing (or with erroneous) net assets and net flows data across the one year to December 2021. Organic growth includes net flows and excludes net market movements.

Where the money flowed: sub-sectors

Again, it was a case of feast or famine on a sub-sector level. It's worth keeping in mind that for a given sub-sector, there is a high probability that the organic growth rate changes materially from one year to the next.

The chart 5.7 displays asset class sub-sectors with organic growth rates (%) in green (on the left-hand axis) and sub-sector sizes ($bn) in blue (on the right-hand axis). The best informational value is derived through looking at both metrics together. If, for example, predominantly small sub-sectors have experienced the largest positive and negative growth rates, this can be indicative of shorter-term opportunistic/tactical allocation decisions.

Smaller and newer sub-sectors with large positive or negative growth rates could also be indicative of emerging trends taking off or being rejected as fads. Either way, they are small pots of money so are typically only meaningful to smaller and early-stage investment managers. In contrast, if larger and older sub-sectors (typically 'core' portfolio allocations) are experiencing outsized growth rates, then something big may be under way that is of relevance to all managers, regardless of size and stage of development.

These sub-sectors are not immune to investor short termism and flightiness, particularly when recent performance has been very poor or very strong, but their size and longevity are synonymous with maturity in a lifecycle sense. So big moves can mean big things, such as structural shifts in asset allocation or portfolio construction or shifts in investment management internalisation/DIYing behaviour.

> *It was a case of feast or famine on a sub-sector level – for a given sub-sector, there is a high probability that the organic growth rate changes materially from one year to the next*

Adviser's approach to investing

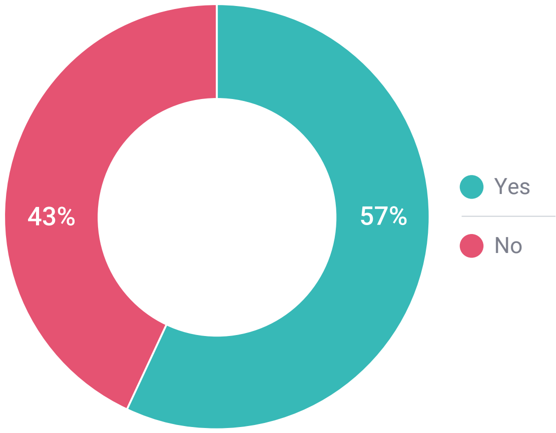
The survey result in Chart 5.8, based on a response rate of 21% of CEOs and Heads of Licensees at the top 300 licensees responding, highlights how prevalent licensees are now in building portfolios for their advisers. This is reflected in the size of the managed account pool, which has a CAGR of 21% in the last five years, sitting at $111bn in June 20211.

> *Building adviser portfolios is now prevalent amongst licensees – as reflected by the size of their managed account pools*

In Chart 5.9, we separately asked licensees and practices (both IFA practices and those within the top 300 licensees) their approaches to investing on a range of investment criteria. Looking at the results, the most interesting observations are:

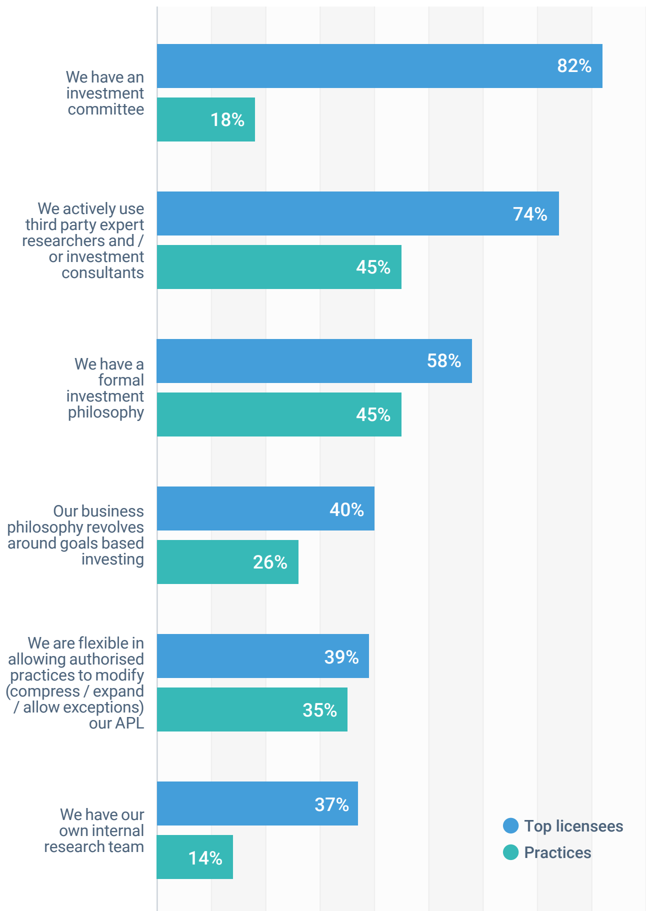
- Practice owners responded lower/less frequently on all questions, bar two. This potentially reflects the disconnect (and relative lack of communication and engagement) between licensees and practices when it comes to the investment-related functions most often arranged by, and provided "down" by, the licensee.
- The two responses given nearly equally "strongly" by practice owners as by licensees were: "we have a formal investment philosophy", and "we are flexible in allowing modification of our APL". These results no doubt reflect that an advice practice's investment philosophy is typically determined at the practice rather than licensee level, thus there is greater awareness and engagement with this aspect of the investment approach at the practice level.
- That investment committees within major licensees are mainstream, helping distinguish larger licensees from that of smaller ones, but is this benefit or service being utilised by practices within larger groups.
- The strong role of 3rd party researchers / investment consultants in investment decision-making irrespective of size of licensee or practice, to help curtail investment risks especially since the onset of DDO and TMD requirements.

Chart 5.8: Do you build your own asset allocation?



Source: ARdata

Chart 5.9: Licensee and practice approach to investing



Source: ARdata

Approved product lists

The chart below paints a picture of the key product types on an adviser's APL. The surge in managed account growth is reflected in the feedback by advisers, with now 42% of all advisers offering managed accounts or having managed accounts as a central part of their offering.

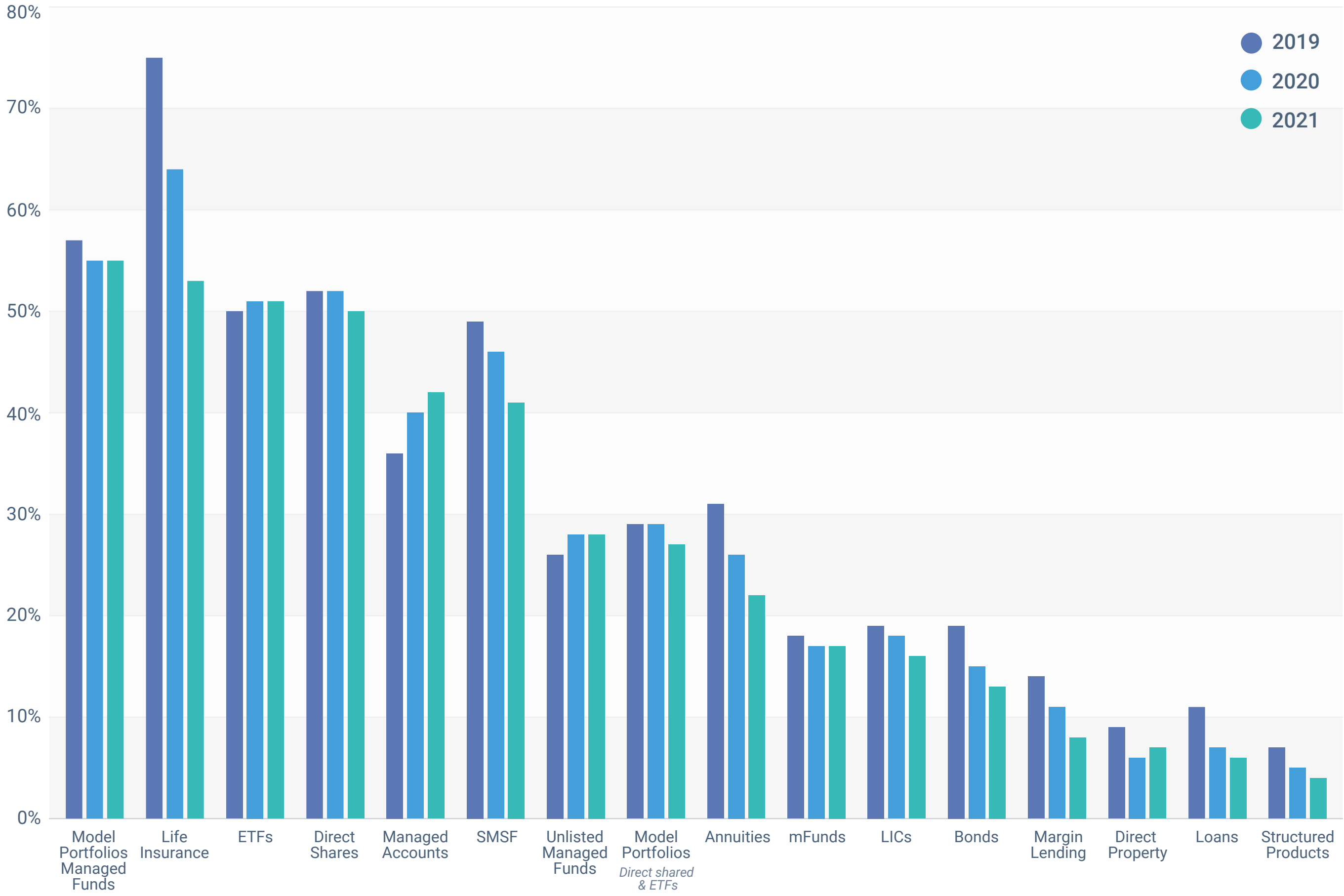
Interestingly, the dynamic in the results highlights the changing constitution of the adviser landscape. Fewer risk advisers (significant decrease in life insurance), fewer accountants (decrease in SMSFs and annuities) and fewer stockbrokers (decrease in structured products and LICs) in retail indicates the changing look of APLs. A changing denominator will naturally skew the percentages to the more holistic adviser, but the percentages and fund flows clearly show a shift in sentiment to this managed account space.

Naturally, the change in APL's has given continued rise to investment consultants.

The consensus once again in 2021 commented positively on the relatively high-touch services that these boutique investment consultants provide and less favourable towards larger institutional players.

> *Managed account growth has surged, with 42% of advisers having managed accounts as a central part of their offering. Meanwhile fewer risk advisers, fewer accountants and fewer stockbrokers in retail indicates the changing look of APLs*

Chart 5.10: Adviser's APL: Most prominent areas on your APL



Source: ARdata

Table 5.0: Services offered by investment consultants

Service	Activus Investment Advisors	Antipodean Capital Management	BMIS	CPG Research & Advisory	Drummond Capital Partners	Evergreen Consultants	Harbour Reach	Implemented Portfolios	Invest Sense	Lonsec	Mercer	Morningstar	Quilla Consulting	WP Invest	Zenith Investment Partners
Research	✓	✓	•	•	✓	•	✓	•	•	✓	✓	✓	•	•	✓
Consulting	✓	✓	✓	✓	✓	✓	✓	•	•	✓	✓	✓	✓	✓	✓
Portfolios	✓	✓	✓	✓	✓	✓	✓	✓	•	✓	✓	✓	✓	✓	✓
Multi Asset Portfolios *Non-Managed Accounts*	✓	✓	✓	✓	✓	•	✓	✓	•	✓	✓	✓	•	✓	✓
Single Asset Portfolios *Non-Managed Accounts*	✓	✓	•	•	•	•	✓	•	•	✓	✓	✓	•	•	•
Direct Equities	✓	✓	✓	•	✓	•	✓	✓	✓	✓	•	✓	✓	•	•
Managed Funds	✓	•	✓	•	✓	•	✓	•	•	•	✓	✓	✓	•	•
Managed Accounts	✓	•	✓	•	✓	✓	✓	✓	✓	✓	✓	✓	✓	•	✓

Other services provided by:

Activus Investment Advisors

- Investment Platform Tender Consulting Services
- APL Risk Reporting Services

Other services provided by:

Harbour Reach

- Asset Allocation
- Risk management
- Goals based and objective driven solutions

Other services provided by:

Mercer

- Superannuation strategy
- Regulatory reporting
- Operational risk assessment
- Sustainable investment design

Note: all content has been provided by the individual investment consultants.

Table 8.5: MDA platform offerings per investment consultants

MDA Platform	Activus Investment Advisors	BMIS	Drummond Capital Partners	Evergreen Consultants	Implemented Portfolios	Invest Sense	Lonsec	Mercer	Morningstar	Quilla Consulting	WP Invest
AMP	✓	✓	•	•	•	✓	✓	✓	✓	✓	•
Asgard	✓	•	•	•	•	•	•	•	✓	•	•
BT	✓	•	✓	•	✓	✓	✓	✓	✓	✓	✓
Colonial First State FirstChoice	✓	•	•	•	•	•	✓	•	✓	•	✓
Colonial First State FirstWrap	✓	•	•	•	•	•	✓	•	✓	•	✓
Fiducian Financial Services	•	•	•	✓	•	•	•	•	•	•	•
HUB24	✓	•	✓	✓	•	✓	✓	•	✓	✓	✓
IOOF	✓	•	•	•	•	•	•	•	✓	•	•
Macquarie	✓	•	✓	✓	•	✓	✓	✓	✓	✓	•
Mason Stevens	•	•	✓	✓	•	•	•	✓	•	✓	•
MLC Navigator	✓	•	•	•	•	•	✓	•	•	✓	•
MLC Wrap	✓	•	•	✓	•	•	✓	•	•	✓	•
netwealth	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
OnePath	•	•	•	•	•	•	•	•	✓	•	•
onevue	•	•	•	•	•	•	•	✓	•	✓	•
Powerwrap	•	•	•	✓	•	•	•	•	•	•	•
præmium	•	•	•	✓	•	✓	✓	•	✓	•	•
Wealth O2	•	•	•	✓	•	✓	•	•	✓	✓	•
Xplore Wealth	•	•	•	✓	•	•	•	•	✓	•	•
InteractiveBrokers	•	•	✓	•	•	•	•	•	•	•	•

Note: all content has been provided by the individual investment consultants.

Fortify your investment philosophy

Vanguard's Investment Philosophy Tool steps you through the development of a client-ready investment philosophy backed by real market evidence.

The 2022 Adviser Landscape Report highlights the importance of an iron-clad value proposition. That's where your investment philosophy plays a critical role.

Your investment philosophy informs everything from how you invest to how you communicate and sell your advice. It's an encapsulation of what you believe and how you plan to invest to give your clients the best chance of success.

By taking the time to carefully develop your investment philosophy, you can turn it into a cornerstone of your value proposition—something that can help guide your conversations and support your investment approach.

The challenge is, not everyone has the time. That's why Vanguard has developed the Investment Philosophy Tool. It steps you through the essential elements of a robust philosophy, from goal setting to governance.

And the best part is you can create a fully documented, client-ready philosophy you can start sharing immediately.

Give your clients a roadmap for investment success

The Investment Philosophy Tool covers each element of a robust investment philosophy, including:

Goals: How you work with your clients to determine and track their objectives.

Balance: The level of diversification that suits your clients' risk and return preferences.

Cost: How you balance fees and other investment costs with performance and outcomes.

Manager selection: Your framework for assessing investment managers.

Discipline: How you keep your clients focused on their long-term investment goals.

Governance: How you select and oversee the fund managers within your portfolio.

Support your philosophy with compelling market evidence

The Investment Philosophy Tool helps you systematise your own beliefs and approach to investing, backed by real-world market evidence to help you educate your clients and demonstrate value.

The tool's interface gives you full control over the layout of your investment philosophy document and even allows you to add your own logo, customise the colour palette, and insert design motifs.

By taking the time to carefully develop your investment philosophy, you can turn it into a cornerstone of your value proposition—something that can help guide your conversations and support your investment approach.

Speak to your Vanguard sales executive to find out more about **Vanguard's Investment Philosophy Tool.**

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Chapter 6

Digital & Technology

When it comes to technology, the theme for 2021 has been evolution, rather than disruption. Increasingly, advisers are seeking efficiencies in their practice to help them build profitability. Software providers came to the table with some development, but we didn't see the revolution we've been promised for some years now.

On the platform front, the power trio of Hub24, netwealth and Praemium continued to challenge long standing incumbents for both market share and new flows, while Mason Stevens joined the mix to claim a top net promoter score. Platforms are still very much in vogue, with off-platform solutions unable to interrupt advisers' affinity with them. Managed accounts have in effect now joined the platform party

Below we've rounded up some of the top trends from the past year in the software and platform space.

Technology usage

Chart 6.0: Practice CRM usage

Xplan	50%
AdviserLogic	14%
Other	12%
Midwinter	6%
Worksorted	5%
PlatformPlus	4%
Plutosoft	2%
Salesforce	2%
Internal	2%
Termenos	2%
Fin365	1%

Source: ARdata

With respect to CRMs and workflow management software, Xplan still has the largest market share however, we are seeing increased use of other providers such as AdviserLogic and Midwinter, Plutosoft, Salesforce, PlatformPlus (Infocus), Temenos, and Fin365.

CommPay (owned by IRESS) is the dominant revenue management solution, followed by Revex. Practices also use a range of accounting software, such as MYOB and Xero, and similar solutions to support the management of fee disclosures and integration with the annual fee agreement process.

Adviser sentiment of advice practice software solutions

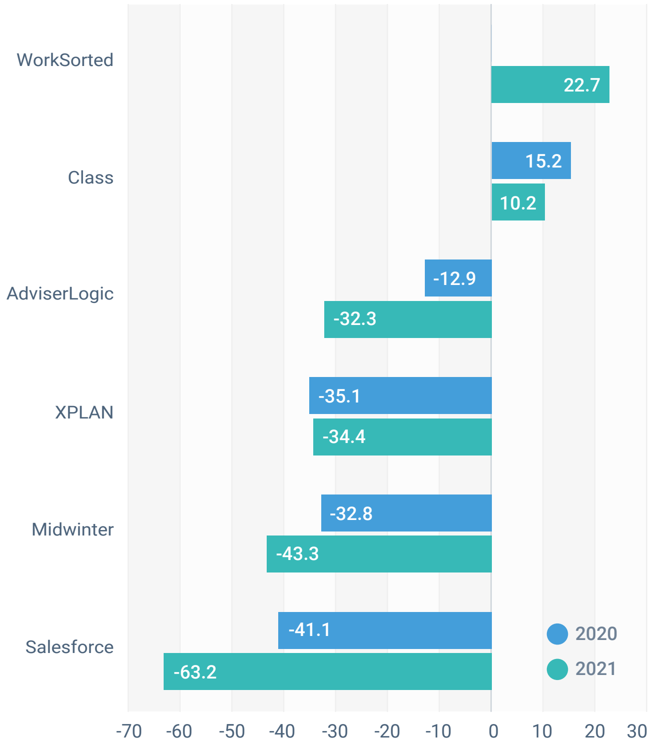
When evaluating sentiment towards software solutions, we decided to differentiate scores between those that have had time in market versus the relatively new solutions. Technology incumbents in a niche industry are often hard to dislodge, given the cost and return disadvantage for new players. Full end to end solutions are harder to come by with new solutions focusing more on components of the advice process or teaming up with new software players – either through open APIs or full integrations - in an attempt to make inroads against the incumbents.

Given the number of new players across the technology spectrum, a like for like comparison is difficult. Sentiment in the software space also naturally favours the new players, who are not held back by legacy backend issues or poor design, but that does not necessarily lead to widespread adoption. The counter, as mentioned above, is how to turn these solutions into scalable, profitable long-term plays in a small industry.

The chart below showcases the Net Promoter Score (NPS) of the incumbents, with Worksorted moving into this category given the penetration of their solution among advisers, particularly independents. Given the newness of their technology, the technology's high satisfaction levels against its peers is unsurprising.

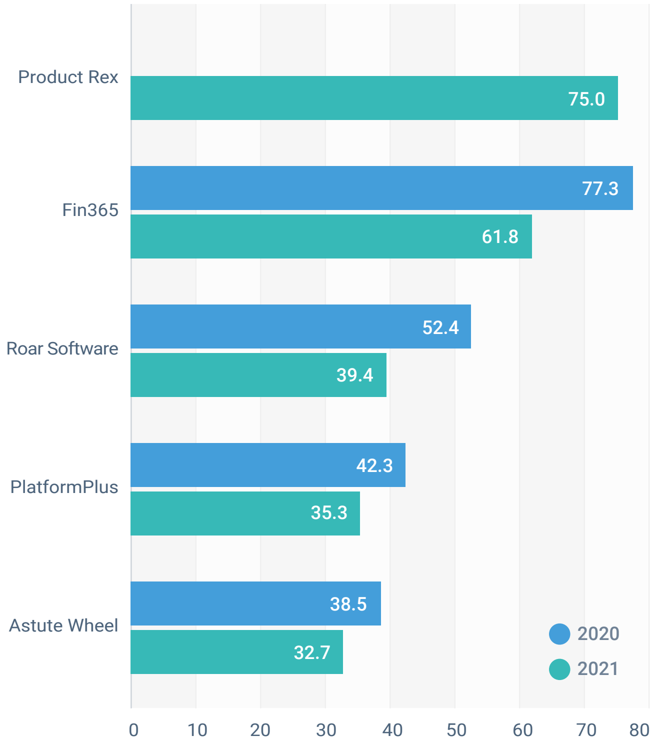
The newer software providers are more agile in their approach when satisfying advisers' requirements. The circular feedback approach and quick implementation is part and parcel for these providers. One provider worthy of particular mention is ProductRex, which has had relatively high penetration in its first year of operation. It currently operates a free investment and superannuation comparison solution and has received widespread praise for its client-centred design.

Chart 6.1: Net Promoter Score – incumbent / highly penetrated software



Source: ARdata
(2021 – n= 1,252 reviews)

Chart 6.2: Net Promoter Score – new software



Source: ARdata Note: PlatformPlus is offered by the Infocus licence
(2021 - n = 186 reviews)

Platforms in vogue

“Disruption is coming” was the key phrase among the platform community, and once COVID hit, it was more “much ado about nothing”. Disruption either in the form of new players, off platform solutions and the rise of managed accounts proved a furphy. On the latter, the platforms were quick to adapt to this new world and offer managed accounts themselves or managed account solutions of investment managers.

The platform play is so much in vogue that AMP decided to keep their prized asset, AMP North, within its portfolio, despite jettisoning its life division to Resolution Life, its global equities and fixed income business to Macquarie and its infrastructure debt arm to Ares Management.

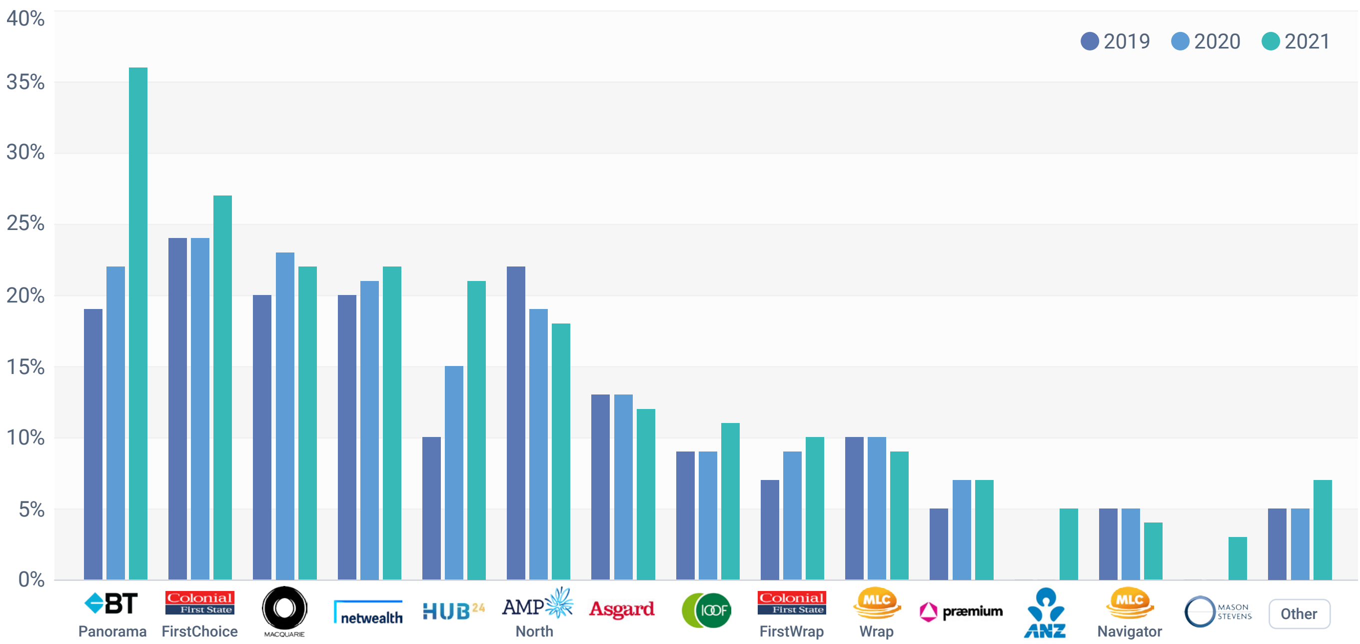
With BT Wrap migrating to the BT Panorama platform, its total funds under administration surged to over $100b. Asgard’s migration is currently underway, with the platform closed off to new clients, and existing clients being migrated from late 2021. This may be the last piece of the puzzle the market is waiting to see happen before the hammer falls on the Panorama business. Following KKR’s investment in CFS’s platform business, netwealth’s takeover attempt of Praemium and noise by Super funds for a wealth tech play, it seems there will be no shortage of suitors for Panorama. Who can blame them? Advisers do not intend on going anywhere with indication that they will be investing just as much of their clients’ new money as existing money onto platforms.

With an ever-present shopping cart for advisers, and a growing cart at that, platforms are well placed to provide the shelf space required.

Despite the headwinds of a declining number of advisers in 2021, platforms have felt the tailwinds of strong markets and advisers looking to platforms to further consolidate clients in one place, given operational pressures elsewhere.

The strength of the platform space is indicated by the increased response rate of advisers in the 2022 landscape survey (Chart 6.3) with advisers responding at a rate of 2.16 platforms per adviser (2,846 reviews from 1,318 advisers) versus 2.01 platforms per adviser in 2020 (3,061 reviews from 1,511 advisers).

Chart 6.3: Penetration of advisers by platform



Source: ARdata (2021 - n = 2,846 reviews)

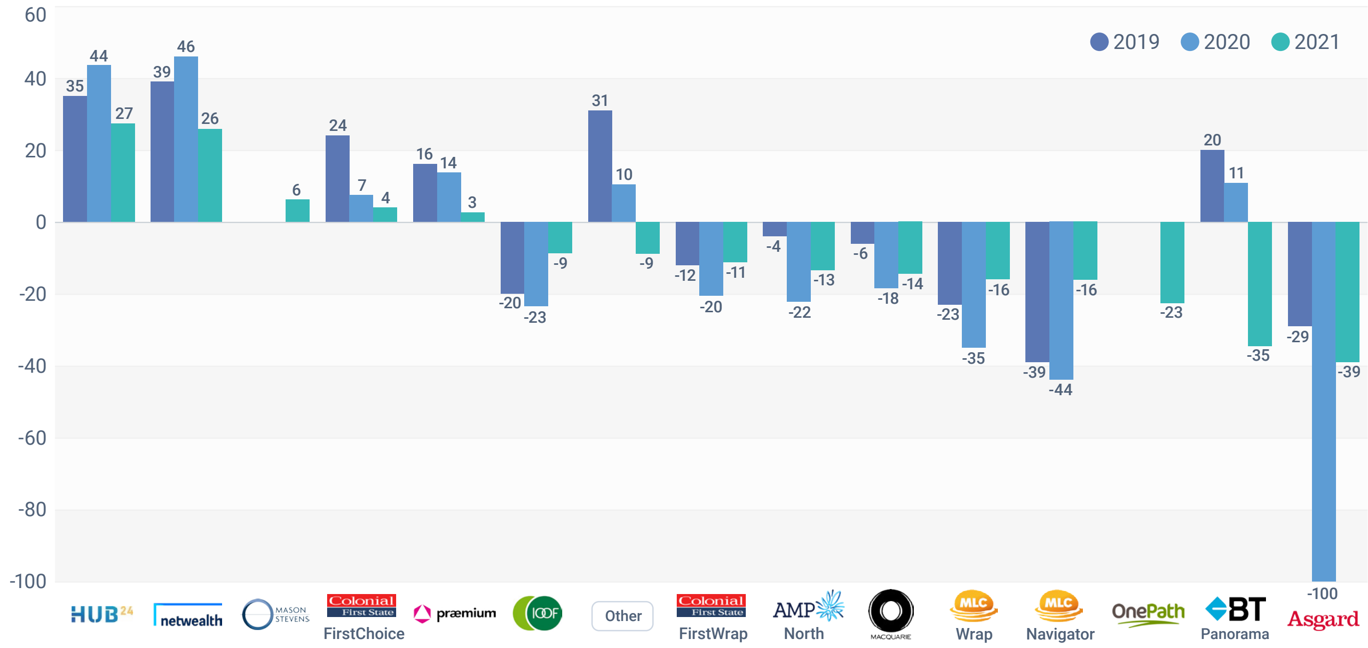
Table 6.0: Trailing 12 month (TTM) and market share risk of platforms

Rank at risk / Company	FUA share	TTM Net flows share	Advisers exit	NPS	Relative risk
1 MLC	8.5%	-5.2%	28%	-16	High
2 IOOF	12.3%	-6.8%	30%	-9	High
3 BT	17.7%	3.4%	23%	-35	High
4 Macquarie	11.7%	27.8%	20%	-14	Medium
5 AMP	14.6%	-15.4%	22%	-13	Medium
6 CFS	14.6%	-10.7%	26%	0	Medium
7 Others	9.4%	7.2%	23%	-9	Medium
8 Praemium	0.8%	11.9%	22%	3	Low
9 Netwealth	5.5%	44.8%	23%	26	Low
10 Hub24	4.9%	43.1%	23%	27	Low

Source: ARdata (Note: not all platforms have sufficient data to be included)

Chart 6.4 highlights the satisfaction scores in the platform space and once again we see netwealth and Hub24 leading the charge and these results are clear lead indicators of positive net flows. Newish platform provider, Mason Stevens, burst onto the scene in 2021, focusing on adviser support as they continue to build out their solution in an effort to win the hearts and minds (and flows!) of the changing and platform agnostic advice space.

Chart 6.4: Platform Net Promoter Score (NPS)



Source: ARdata Note: Bayesian statistical analysis applied in 2022 (2021 - n = 2,846 reviews)

Adviser Ratings

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