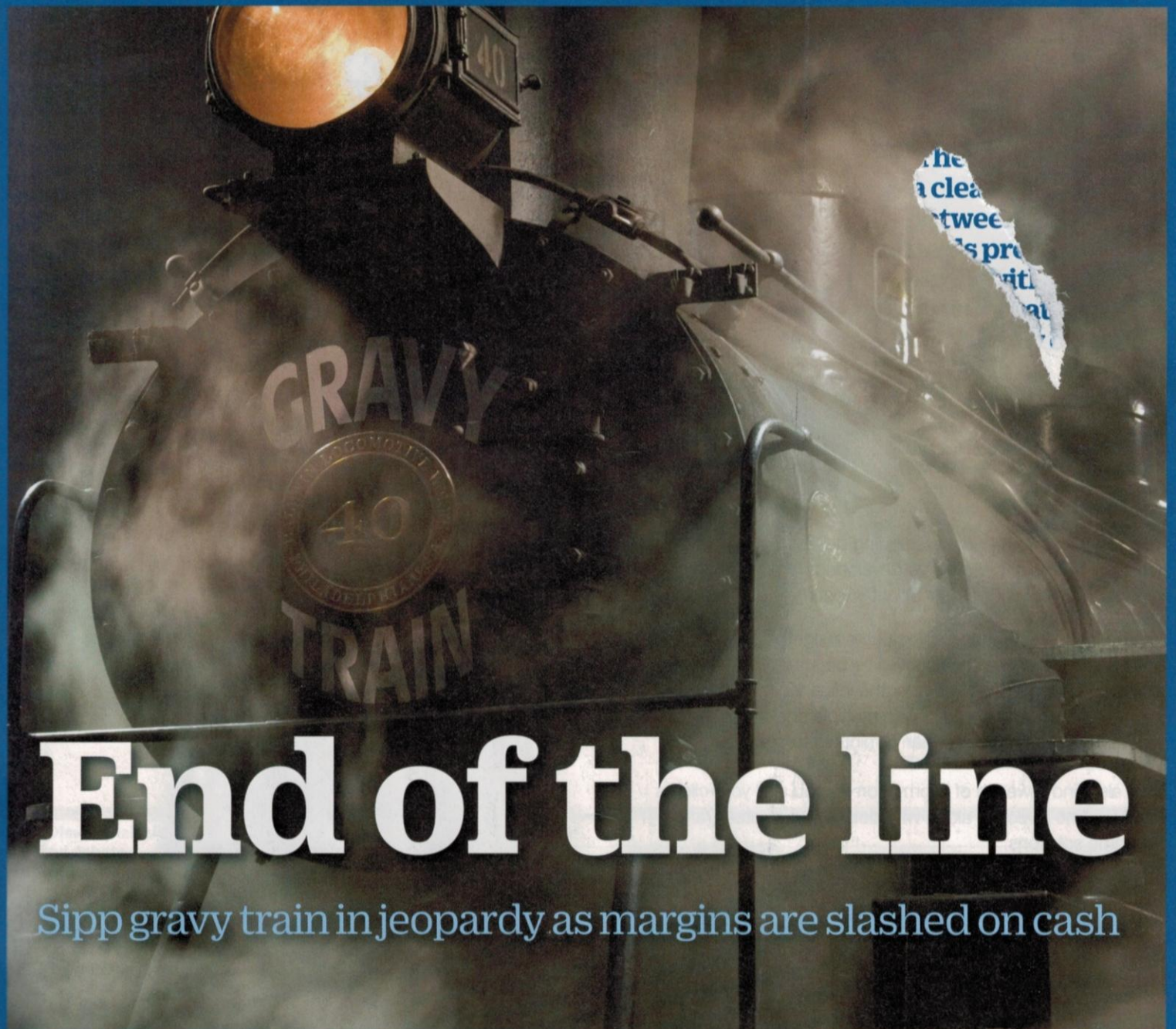


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ANALYSIS

Can robots really take over from face-to-face advisers?

As big fund groups try to plug the post-RDR advice gap, robo-advice is the direction they are looking

VALENTINA ROMEO

The robo-advice market looks set to explode in the UK, with investment giants BlackRock and Hargreaves Lansdown among the firms developing low-cost offerings to plug the post-RDR advice gap.

However, it remains unclear exactly how the growing market for technology-driven solutions will interact with traditional face-to-face advice.

Will robo-advice complement advisers' existing propositions, or does it pose a threat to the industry? And can automated investment tools adequately respond to investors' changing needs and risk profiles?

Talking point

The idea of robo-advice is centred on the use of algorithms to design investment portfolios based on questions clients answer online.

This should, in theory, allow firms to deliver advice to more people at a significantly lower unit cost.

According to Boston researcher Aite Group, the value of assets managed in this way will more than triple to \$60bn (£39bn) in 2015 from about \$16bn at the start of 2014.

Platforum head of direct Jeremy Fawcett says robo-advice is "the talking point" at the moment, transcending both advised and DIY investing.

He describes two schools of thought emerging on robo-advice: those who argue it will replace traditional advice, and those who believe it will complement it.

Fawcett says: "You've got people moving in different directions. You have Nutmeg as an attractive, consumer-facing firm and then you have big brands like Investec and Brewin Dolphin also pushing into the robo-advice space."

In its preliminary results to the year ending 30 June, published this month, Hargreaves revealed it is hoping to develop its automated advice proposition further.

Following the launch of its Port folio+ multi-manager service in June, Hargreaves said it will cons-



DEALS AND LAUNCHES IN THE ROBO-ADVICE SPACE

Sep-15	Aberdeen Asset Management buys Parmenion Capital Partners, including its simplified automated advice tool
Sep-15	BlackRock acquires digital wealth management firm FutureAdvisor
May-15	Vanguard launches Personal Advisor Services
Feb-15	Fidelity Investments (US) acquires wealth planning software provider eMoney Advisor
Oct-14	Fidelity teams up with robo-firm Betterment

ider "further expanding our stable of simple online investing tools, sometimes referred to as 'robo-advice'."

Hargreaves Lansdown head of financial planning Danny Cox says: "What we are looking to do is help people make decisions about their investments. We don't see it as a replacement for people making their own decision on a non-advised basis.

"We are looking at how we can use other similar technology-based processes to help people with their decisions but whether that is going to be advice in the true sense of the word or not, I don't know."

A proper advice process means to identify the full context of the client's circumstances. It is difficult for a set of algorithms to give a real holistic picture

BlackRock also entered the robo-advice space this month following the acquisition of US digital wealth management firm FutureAdvisor.

FutureAdvisor will operate as a standalone business unit within BlackRock, but instead of targeting individual investors, it will allow banks, insurers, brokers and advice firms to white-label the service.

BlackRock says "over time" it expects to expand the platform to clients globally, including in the UK.

"The digital advice space is one we've been watching for a long time," says BlackRock director of corporate communications Jessica Greaney.

"As demand for digital wealth management grows, the combined offering of BlackRock and Future Advisor will accelerate our B2B financial adviser partner firms' abilities to serve the mass affluent in a convenient and scalable way."

The US is leading the robo-advice

COMMENT



MARK DAMPIER

Diverse approach

Mark Barnett of Invesco Perpetual is in high demand. As a manager of three open-ended funds, four investment trusts, and a number of other mandates, he is a busy man. Following Neil Woodford's departure, Barnett took over management of Invesco Perpetual's flagship income funds. Some may have viewed this as a poisoned chalice.

However, with 23 years' experience in the industry and strong performance in his own right, Barnett is not a man to be intimidated. I recently caught up with him at Invesco Perpetual's Henley office.

Not one to let the grass grow under his feet, he has spent the past 18 months reshaping the Invesco Perpetual Income and High Income funds to suit his own style of investment. Many managers hang onto a predecessor's portfolio far too long. This often causes great problems in the future so I am glad to see Barnett has made these funds his own.

The funds were historically concentrated around the top 10 holdings. Barnett has increased diversification within the funds by reducing this concentration from between 55 per cent and 60 per cent to around 40 per cent.

The pharmaceutical sector, a large portion of the funds under Woodford, witnessed the biggest reductions. The fund's position in GlaxoSmithKline was sold and

AstraZeneca was reduced from around 10 per cent to nearer 4.5 per cent. As exposure to healthcare was reduced, the manager increased the proportion invested in financial companies. Legal & General is a new addition to the portfolio and he has added to Provident Financial.

The funds have very little exposure to banks but Barnett has been eyeing potential dividends from the sector. Banks have reduced risk, hold significantly more capital, and are more tightly



Barnett:
Mainly focuses on firms with sustainable dividends

regulated than they were prior to the financial crisis. Provided capital requirements are not increased further many banks, particularly Royal Bank of Scotland, will soon be in a position to return surplus cash to shareholders, according to the manager.

Elsewhere, Barnett has initiated a position in BP. He believes the oil giant has transformed itself since the Deepwater Horizon disaster. Ironically, this costly event gave the company a headstart in cutting costs. It forced them to recognise their suppliers made large profits from the booming oil price while taking on little of the risk.

They have since negotiated better fee structures which means they are now in an excellent position for the future, in the manager's view. The recent collapse in the oil price negatively affected BP's share price and it now yields 7.25 per cent. While many analysts are cautious on its sustainability, Barnett is confident the firm's cost reductions will allow the dividend to be maintained.

Like his predecessor, Barnett mainly focuses on firms with sustainable dividends. He is cautious on his outlook for the UK economy and expects many companies will be forced to cut dividends by the end of 2016. He therefore seeks companies with lower yields which he believes are able to grow dividends over time.

This includes companies such as AA, which does not currently pay a dividend, and Card Factory which yields 1.82 per cent. This is a sensible approach and is where the Investment Association pathology on dividends is flawed (both funds were removed from the IA UK Equity Income sector as they had failed to meet the yield requirement of 110 per cent of that produced by the FTSE All Share Index).

Anyone can generate a portfolio of companies with high dividend yields. However, Barnett's focus on firms with strong balance sheets, resilient earnings and the ability to increase dividend payments is much more likely to provide superior returns over the long term. *Mark Dampier is head of research at Hargreaves Lansdown*

march, with Vanguard unveiling its Personal Advisor Services proposition targeting retirees in May. Last year, Fidelity also partnered robo-advice firm Betterment in creating model portfolios.

Limits

Parmenion Capital Markets corporate communication manager Nicola Robinson says the firm's automated advice tool Interact will never become a robo-advice service. Parmenion was recently acquired by Aberdeen Asset Management.

She says: "We always deal with a client through an adviser as it is potentially dangerous not having an adviser there."

Others argue the existing robo-advice offerings remain limited, par-

ticularly when it comes to tax and estate planning.

Tilney Bestinvest managing director Jason Hollands says: "A proper advice process means to identify the full context of the client's circumstances. It is difficult for a set of algorithms to give a real holistic picture of one's risks and preferences. This is not where we want to go."

Tilney Bestinvest currently offers ready-made portfolios for non-advised clients.

Infancy

Although they have the potential to fill the UK's advice gap, experts say the robo-advice sector remains in its infancy.

Yellowtail Financial Planning managing director Dennis Hall says Vanguard's US robo-advice offering,

which charges investors just 0.3 per cent annually, could shake up the UK market.

He says: "Vanguard offers its automated advice solution at an incredibly low rate. If they come over to the UK and do something similar we'll see some real price compression in the execution-only space."

Jonathan Davies Wealth Management managing director Jonathan Davies adds: "Robo-advisers seem fine when the investment philosophy is simple.

"The problem is what happens when investment conditions radically change.

"From a private investor point of view, robo-advisers will do well for certain periods of the investment cycle, but not on a long-term investment strategy

We are looking to help people make decisions about their investments. We don't see it as a replacement for people making their own decision on a non-advised basis