



Chartered Financial Advisers

**WRAP PLATFORM SELECTION
DUE DILIGENCE**

1 JULY 2010

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INTRODUCTION

This due diligence report details the approach taken by Estate Capital Financial Management Ltd to reaching a decision as to the most appropriate wrap offering for our clients. The aim of this document is to provide a detailed record of the process by which a platform selection has been made. Our decision to move towards a wrap platform offering has been initiated by impending changes to our industry through the Retail Distribution Review (RDR) which will take effect on 1 January 2013. The RDR aims to deliver raised standards of professionalism to inspire consumer confidence and build trust.

In accordance with the RDR as an *Independent* Financial Practice, we will be required to:

- Set out our charges for the services we offer, as we will no longer be able to receive commissions payments from providers;
- Have charging structures based on the level of service we provide, as opposed to the particular provider or product we recommend;
- Disclose all charges to consumers up front;
- Ongoing charges will only be levied where an on-going service has been agreed with our clients;
- We aim to improve clarity for our customers about the different types of advice services on offer and the costs they can expect to pay for these services.

Whilst we already meet the majority of the RDR criteria, including the disclosure of all charges to our clients and providing regular financial reviews to all clients on request, we have taken this opportunity to review the delivery of our service to our clients. We feel that by taking full advantage of the technological advancements available now, we can enhance our service and so we have undertaken an extensive review of Wrap Platforms, which will enable us to deliver our enhanced service to clients.

1.0 INITIAL MARKET REVIEW

Wrap Platforms are internet-based services used by financial advisers and clients alike to administer and review investments. They tend to offer a range of tools which allow advisers to analyse a clients overall portfolio or individual products within that portfolio, as well as arranging transactions. Generally platforms also arrange custody for clients assets.

FSA guidance refers to both wrap platforms (hereinafter wraps) and fund supermarkets which are similar, but while fund supermarkets tend to offer a wide range of unit trusts and OEIC's (Open Ended Investment Companies), wraps offer greater access to other investments, such as directly held shares and fixed interest securities. Wraps also support a transparent remuneration structure, allowing clients and their financial advisers to agree suitable payment for providing advice as opposed to commission driven remuneration where clients are not always aware of the charging structure behind the adviser payment.

Our discussions focused on the requirements for the business, having consulted FSA guidance that has been issued over time, in particular reference to DP07/01, DP07/02 and 0702, DP10 /02 and PS 10/06. Key points of this guidance have been used as the basis of our preliminary research, our review process and our final decision:

Management and Control

We recognise the need to make changes to our business operations in order to adopt and use platforms successfully. We must identify the business areas affected: assess the potential impact upon them and manage the change.

Segmenting clients

We recognise the need to ensure that the chosen platforms are appropriate for our clients, whatever their situation.

Developing new service propositions

We appreciate that adopting a platform may mean providing a new type of service, such as regular investment reviews.

Assessing and adopting new systems and processes

This is likely to have implications for training and managing staff, both during the transition and afterwards.

Managing changes of income and expenditure

Adopting a new form of adviser remuneration through a platform, which is consistent with our business plan.

Conflicts of Interest

Platforms can create conflicts of interest between the platform provider and our firm, a firm and its advisers, advisers and their clients. We recognized that these need to be managed appropriately.

It is essential that any desire to make an administrative cost saving should not lead to our clients being recommended to use a platform when it would not be in their best interests.

Training and Competency

Using platforms can have training and competence implications. We had to ensure that we had trained our staff proficiently, ensuring that each member of staff remains competent to handle ongoing system and practice changes.

Technology

Some platforms offer the facility to identify all clients with a particular holding (or fund) and the ability to conduct a “bulk-switch” of individual holdings within each wrapper.

Since Estate Capital publishes its own portfolios and reviews these on a six monthly basis, the capability of a platform to ensure our clients benefit from our portfolio reviews and amendments will be an important feature within our platform of preference, and therefore the ability to cope with this process needed to be considered.

Specifically in relation to Platforms we must consider:

- **The platform provider (for example their reputation and financial standing);**
- **Terms and conditions of using the platform;**
- **Charges – including actual costs, charging structure, and transparency of charges;**
- **Range of funds, tax wrappers and other products available;**
- **Range of asset classes;**
- **Functionality (such as the ability to switch or re-register off platform or record legacy assets);**
- **Accessibility;**
- **Additional tools (such as risk profiling and asset allocation tools);**
- **Support services (such as help facilities and training).**

The suitability of any platform will depend upon client’s circumstances and requirements, irrespective of any strategic decision to use a platform. We must still consider whether a platform is suitable and meets each client’s needs before recommending it. This includes recommending that existing clients move onto our platform of choice. Finally we acknowledge that developments in the market could mean that our chosen platform provider(s) may not remain the most appropriate option for our business or clients and that a periodic review may be required.

2.0 ESTATE CAPITAL FINANCIAL MANAGEMENT PROFILE

Estate Capital Financial Management Ltd was established in 2003 and we are based in Swansea.

Christopher Davies is the Investment Adviser at Estate Capital Financial Management. He is the Director of the Company, and an accredited Chartered Financial Planner. Chris has been advising clients on investments for over 22 years and is responsible for the research and selection of the Estate Capital Investment Portfolios.

We have established a client bank with funds under management in excess of £41 million. At present, we are actively using Skandia as our main platform proposition but feel that alternative solutions are needed to ensure that we can continue to meet client needs in the future, in line with regulatory requirements in 2013.

A true wrap proposition has been developing within the UK financial services industry since 2006 but it is only in 2010 that Estate Capital feels confident to make a decision having undertaken this review after obtaining clear guidance from the Financial Services Authority and looking at the industry in general. We are confident that this delay has helped us to reach decisions that are in the best interests of our clients and also suitable for our business.

Estate Capital will maintain independent research tools (Capita Synaptic Systems) for those clients where a wrap account is not the most suitable option or required.

PRIMARY DRIVERS FOR THE BUSINESS ARE:

- the best wrap/ platform offering to meet our client bank;
- the best wrap/platform to increase funds under management in a manageable process;
- to offer an improved service to all clients who wish to benefit, regardless of their financial situation;
- to offer a transparent pricing and charging structure; and
- enable us to meet RDR requirements in 2013.

SUITABILITY CONSIDERATIONS

- The suitability of any platform will depend upon client circumstances and requirements, irrespective of any strategic decision to use a platform;
- We must still consider whether a platform is suitable and meets each client's needs before recommending it;

- This includes recommending that existing clients move onto our platform of choice;
- Finally we acknowledge that developments in the market could mean that our chosen platform provider(s) may not remain the most appropriate option for our business or clients and that a periodic review may be required.

We are also keen to use a fully functional wrap proposition that enables us to provide customer focused outcomes:

- Simplifying reporting for clients, such as regular consolidated tax reporting;
- Online service and access for clients to obtain an instant valuation of their investments at any time;
- Providing clients a clearer picture of their entire portfolio and the ability to make changes quickly to meet changing circumstances;
- Whole of market approach through direct charging funds and investment vehicles are not excluded from selection simply because of their own charging structure enabling choice from the whole market rather than a restricted panel;
- Accurate tailoring of portfolios – to meet risk levels and future needs:
- Transparency of charging – whereby all charges are itemised so that the client knows exactly what they are paying for and who they are paying it to;
- Increased confidence of all our clients in receiving impartial ongoing service;
- Peace of mind – knowing that assets are ring-fenced and provided for via the Financial Services Compensation Scheme, irrespective of choice;
- The ability to move away from a wrap, with no penalty.

OUR STARTING POINT

When we introduced the Estate Capital Investment Proposition we also introduced client service standards and classification. This led to us developing four service levels, clearly defined through level of assets under advice and ongoing service propositions:

1. **Wealth Management Service** – clients with funds in excess of £500,000
2. **Financial Planning Service** – client with funds in excess of £100,000
3. **Financial Advice Service** – aimed at clients with funds in excess of £25,000
4. **Product Advice Service** – aimed at those seeking “one-off” product advice and requiring no ongoing service level.

The client segmentation evidences the differing client levels and accordingly the needs of these clients. We believe that on this basis, we need to consider a number of platform/wrap offerings to meet the needs of our clients.

Recruitment

We have recruited new staff specifically to assist with the administration of our chosen platforms. We have introduced new processes that enable us to monitor our client's investments and through bulk switching ensure that they continue to meet our client's requirements, attitudes to investment risk and prevailing market conditions. Our ongoing servicing commitments are incorporated into our procedures.

3.0 WHICH WRAP PLATFORM:

Our initial research has identified fifteen providers offering Adviser Platforms (*source: Synaptic Research 2010*). We have considered each, in turn, based on:

- The platform provider (including their reputation and financial standing);
- Terms and conditions of using the platform;
- Charges – including actual costs, charging structure, and transparency of charges;
- Range of funds, tax wrappers and other products available;
- Range of asset classes;
- Functionality (for example, the ability to switch or re-register off platform or record legacy assets):
- Accessibility:
- Additional tools (for example, risk profiling and asset allocation tools); and
- Support services (for example, help facilities and training).
- Platform Overall Rating (scored on 1 – 5 basis) where the chosen platform(s) benchmark to be achieved is greater than 3

Company	Comments	Platform Overall Rating
Ascentric	Independently owned but not currently offering all tax wrappers needed to support our client base	Greater than 3
Avalon Investment Services	Felt to be too small and new in the wrap platform market	Equal to 5

Aviva UK Wrap	Low overall rating and weak proposition but included for cost comparison purposes	Greater than 2
AXA Elevate	Strong contender in the 'life company' platform provider category offering functionality and strong business support. Offers composite and explicit charging structure.	Greater than 3
Cofunds	Fund supermarket as opposed to full wrap. Skandia as a fund supermarket is already used for existing clients so discounted but included for cost comparison.	Greater than 3
Fidelity FundsNetwork	Fund supermarket as opposed to full wrap. Skandia as a fund supermarket is already used for existing clients so discounted as not offering full wrap proposition.	Greater than 3
James Hay	Weak position in market. Costs requested for comparison only.	Greater than 2
Macquarie	Relatively new to UK market and concerns over long term future.	Greater than 3
Novia	Good platform but more suited to HNW clients and therefore too expensive to suit a sufficient proportion of clients to be worthwhile. Included in cost comparison only.	Greater than 4
Nucleus	Nucleus are a smaller, more niche player who offer access to their proposition through IFA investment.	Greater than 4
Raymond James Investment Services	Good platform with a focus on HNW requiring discretionary asset management services. Not appropriate for broader client base.	Greater than 3
Seven Investment Management	This organisation seeks to do business with larger firms than Estate Capital.	Greater than 3
Skandia Investment Solutions	Skandia is sufficiently capitalised to support the running costs of their platform and its continual development. Current fund supermarket of choice awaiting full wrap proposition	Greater than 3
Standard Life Assurance	Another life company platform provider category but with complex charging structure.	Greater than 4
Transact	Popular with IFA's but charging structure makes them too expensive. Include within cost comparison.	Greater than 4

PLATFORUM

This is an independent research company specifically established to provide guidance for firms who are looking to establish a platform/wrap proposition. The Platform works with platform providers, product providers, asset managers and distributors to provide help and advice with research, product development, marketing and strategy. Its Director Holly Mackay has been working with fund distribution platforms for over 11 years. She started her career in the Australian financial services industry. On returning to the UK in 2003 she worked for Abbey and appointed the UK Director for Santander's Allfunds Bank in 2005. Platform was founded in February 2007 providing research and events to the financial services sector. (Source: www.theplatform.com 2010).

4.0 RESEARCH CRITERIA

Having satisfied ourselves of the business proposition of each platform provider we then looked at the charges. Estate Capital compiles our own portfolios and the comparison of actual charges was an important factor in our research process together with the availability of a wide ranging fund choice. We have undertaken a cost comparison against our Balanced Portfolio selecting the companies which we felt were worthy of inclusion and represented a fair analysis within the market.

Balanced Growth Portfolio	Skandia	Nucleus	James Hay	Co Funds	Novia	Aviva	Transact	Elevate
	WAE *	WAE *	WAE *	WAE *	WAE *	WAE *	WAE *	WAE *
Black Rock UK Special Situations	0.06%	0.05%	0.05%	0.06%	0.05%	0.05%	0.05%	0.05%
First State Asia Pacific Leaders	0.09%	0.07%	0.09%	0.09%	0.09%	0.07%	0.07%	0.07%
First State Global Property Securities	0.14%	0.13%	N/A	0.14%	0.13%	0.13%	0.12%	0.12%
First State Greater China Growth	0.04%	0.03%	0.03%	0.04%	0.03%	0.04%	0.03%	0.03%
Henderson Strategic Bond	0.06%	0.04%	0.04%	0.05%	0.04%	0.05%	0.05%	0.04%
Invesco Perpetual Corporate Bond	0.06%	0.05%	0.05%	0.07%	0.05%	0.05%	0.05%	0.05%
Invesco Perpetual Monthly Income Plus	0.06%	0.05%	0.05%	0.06%	0.05%	0.05%	0.05%	0.05%
JP Morgan Natural Resources	0.09%	0.07%	0.07%	0.09%	0.07%	0.07%	0.07%	0.07%
Jupiter European	0.05%	0.04%	0.05%	0.05%	0.04%	0.05%	0.05%	0.04%
Jupiter Financial Opportunities	0.04%	0.03%	0.04%	0.04%	0.03%	0.03%	0.04%	0.03%

Legal & General All Stock Index linked Gilt Index	0.01%	0.01%	0.08%	0.01%	0.01%	0.01%	0.01%	0.00%
M&G Recovery	0.08%	0.06%	0.06%	0.08%	0.06%	0.06%	0.08%	0.06%
Neptune Russia and Greater Russia	0.05%	0.04%	0.04%	0.05%	0.04%	0.06%	0.05%	0.04%
Old Mutual Global Strategic Bond	0.03%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
Schroder US Mid Cap	0.05%	0.04%	0.04%	0.05%	0.04%	0.04%	0.04%	0.04%
Standard Life Global Absolute Return Strategies	0.07%	0.05%	0.05%	0.07%	0.07%	0.05%	0.07%	0.05%
Threadneedle American	0.05%	0.04%	0.04%	0.05%	0.04%	0.03%	0.04%	0.04%
Threadneedle Emerging Market Bond	0.06%	0.04%	0.04%	0.05%	0.04%	0.04%	0.04%	0.04%
Threadneedle Latin America	0.05%	0.04%	0.04%	0.05%	0.04%	0.04%	0.04%	0.04%
Total Weighted Average Expenses	1.12%	0.90%	0.96%	1.10%	0.93%	0.94%	0.95%	0.89%

*WAE – Weighted Average Expenses

Alternatives where funds are not available:

Schroder Global Property Securities			0.09%					
M&G Index Linked Bond								0.02%

(Source of information: fund expenses information literature provided by each wrap platform) Full details appended to report

4.1 FUNCTIONALITY RESEARCH

Functionality	AXA Elevate	Nucleus	Skandia
Asset Allocation Tools	✓	✗	✓
Bulk switching	✓	✗	✓
CGT Reporting	✓	✓	✗
Document library – fact sheets & KFD's	✓	✓	✓
Fund Analysis Tool	✓	✓	✓
Hold legacy Assets	✓	✓	✗

Online quote facility	✓	✓	✓
Rebalancing	✓	✓	✓
Risk Profiling	✓	✗	✓
DFM	✓	✓	✓
Illustrations	✓	✓	✓
Showing TER	✓	✓	✓
Showing Adviser Charges	✓	✓	✓
Showing Switching	✗	✓	✗
Showing Wrapper Charge	✓	✓	✓

PLATFORUM OVERALL RATING TABLE

Criteria	AXA Elevate	Nucleus	Skandia
Business Development Managers	4	4	3
Quality of client services	4	4	3
Ease of doing business	3	4	3
Quality of reports	3	3	3
General web usability	3	4	3
Usefulness of online tools	3	3	3
Choice of fund wrappers	3	4	3
Technical support	4	3	3
Value for fees charged	3	4	3
General opinion and rating	3	4	3

5.0 PROVIDER PRESENTATION MEETINGS

Meetings were arranged with the main contenders and subsequent discussions were held in order to ensure that our platforms of choice were established on competitive terms in view of the potential levels of business we could expect and our existing funds under management to date. The summary of our conclusions are:

5.1 NUCLEUS

It is a condition of membership to subscribe £15,000 of capital investment into Nucleus Financial Ltd in order to access the wrap. The attractions of Nucleus are IFA involvement, competitive and transparent charging, functionality and the advantages to client in benefiting from economies of scale in the future. Culturally, this organisation provides a good fit with our business and has clear ambition for a client focused service.

There is a possible consideration of conflict of interest from capital investment. The FSA are clearly happy with IFA owned wrap platforms as they offer good value to clients so long as the relationship is disclosed to clients.

5.2 AXA ELEVATE

AXA provides good general support to the IFA. The range of improvements to be expected from the platform in the future includes a new efficient model portfolio capability and links with Discretionary Fund Managers. AXA able to cater for all clients and offer competitive pricing. AXA has a good account opening procedure which is integrated so only one wet signature is needed for account opening and thereafter. This platform provides a useful alternative to those clients who prefer the backing of a large financial institution (household name) when investing.

5.3 SKANDIA

Currently a fund-supermarket offering, but one that is embedded within our current investment proposition. We benefit from good business support and functionality which achieves the majority of our requirements. Skandia may not be functionally competitive compared to Nucleus at the present time but will review their full wrap proposition when launched in the summer 2011.

5.4 OVERALL DECISION

There was value in considering all three providers as they each bring an element suited to the business when considering both existing clients and our aims for the future. Preference will be given to Nucleus and Skandia.

AXA Elevate is considered as an alternative but will not be the main wrap proposition – Estate Capital has agreed competitive terms based on no business expectations for 18 months but recognized the benefits of their offshore proposition as being something which may be suitable for the firm's client base.