

Schroders 2021 UK Financial Adviser Pulse Survey Adviser Report



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Welcome

Much has changed since we conducted our last UK Financial Adviser Survey in November 2020 around the time that the news of an effective vaccine against Covid-19 was first announced.

Whilst the pandemic has remained a dominant feature in all of our lives, and there have been plenty of setbacks to negotiate, prospects of a return to a world closer to what we all once considered normal have increased with every jab that has gone into an arm.

Our UK Financial Adviser Pulse Survey aims to provide insight into how this shifting landscape has impacted financial advisers and their clients.

The survey was completed by 161 advisers in May 2021. They shared their views on a wide variety of topics with us, from the outlook for economies and markets to outsourcing and the most helpful forms of communication.

Encouragingly, there is a more positive tone in the survey results, with both advisers and their clients more optimistic than they were in November on prospects for growth.

We hope that you find this information useful as you plan strategically for the period ahead.



Doug Abbott
Head of UK Intermediary



Gillian Hepburn
Intermediary Solutions Director

How are clients feeling about investing?

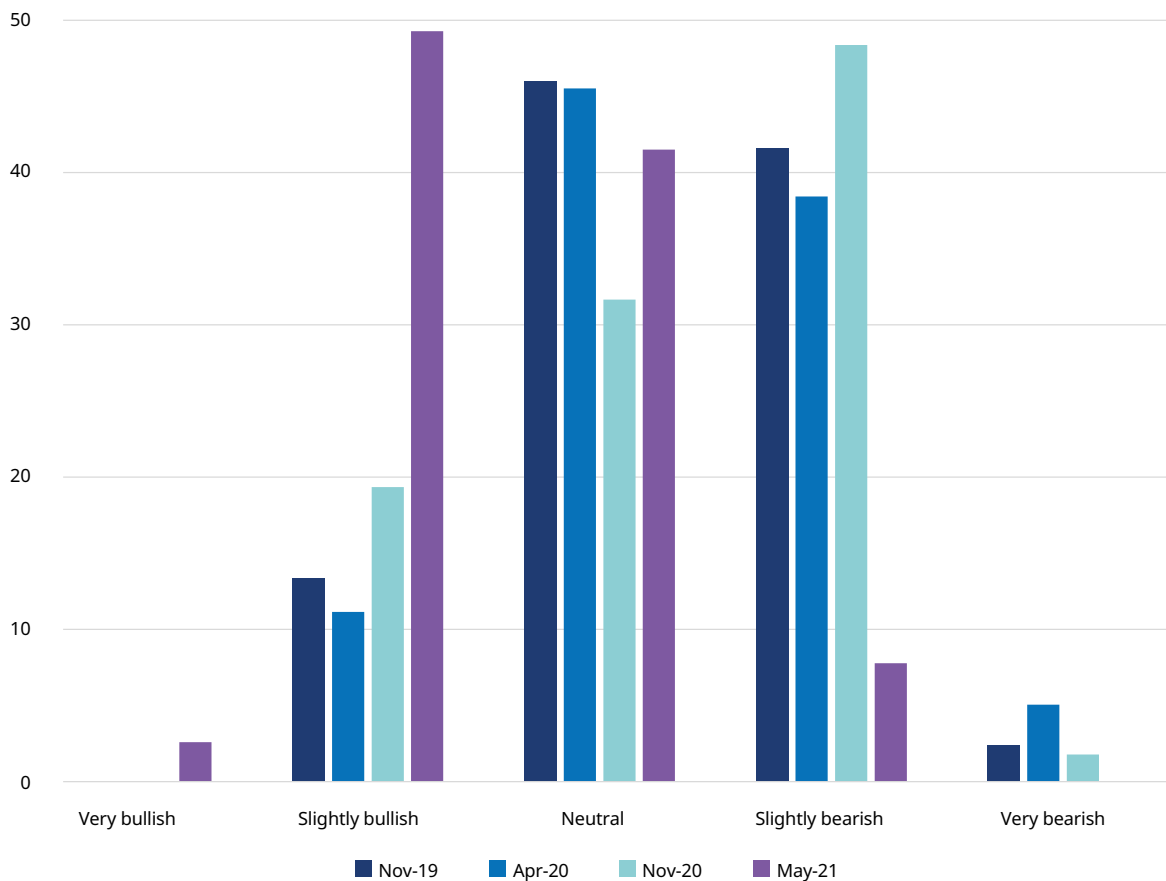
Advisers report that their clients, on the whole, have become significantly more positive about the investment outlook than they were throughout 2020, and, indeed, before the pandemic began in November 2019.

Thanks in large part to the vaccination drive across the developed world, confidence that there is 'light at the end of the tunnel' of the pandemic has grown among investors, with an expectation that conditions will be favourable for growth as economies are able to reopen further.

Sentiment is bullish among over 50% of advisers' clients, a significant increase from 19% in November 2020, and only 8% are bearish in comparison to 50% in November 2020.



Figure 1: How would you describe the sentiment amongst most of your clients? (%)



Advisers' short-term market expectations

The last six months have seen the value style of investing stage a comeback following a prolonged period where it has underperformed growth. Since Pfizer's successful vaccine announcement at the beginning of November 2020, some previously unloved sectors of the market have rallied quite strongly. These include the likes of banks, energy, automotive and advertising dependent businesses.

So could this prove to be another 'false dawn' for the value style? Our survey suggests not, with 62% of advisers expecting value to be a favoured style among equity investors over the next twelve months, compared to 45% for growth.

53% of advisers also expect quality to be favoured by investors, so there could be increased interest in strategies that combine a value tilt with a focus on the quality of their underlying stocks.

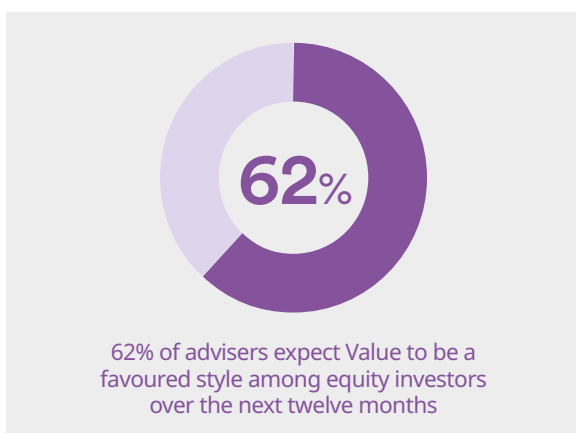
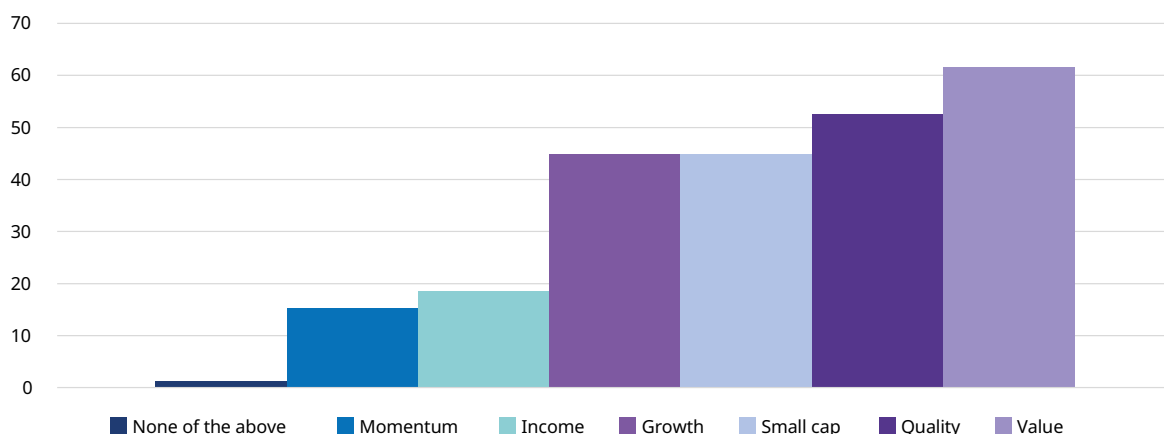


Figure 2: Which of these factors would you expect to be favoured by equity investors? (%)



Longer-term market trends – what advisers expect

The positive sentiment on growth among advisers' clients is reflected among advisers themselves when considering likely trends over the next five years.

75% of advisers expect the global growth rate to be higher, up from 47% in November 2020. Only 5% expect the growth rate to be lower. In this survey, for the first time, we also asked advisers for their views on prospects for the UK economy, and here an even greater proportion, 81%, expect growth to be higher which would be positive news for 'Great Britain plc'.

Given the focus on inflation in much of the recent economic commentary, it's no surprise that inflation expectations have also increased significantly, with 80% of advisers now anticipating an acceleration in price growth for goods and services, compared to 47% in November 2020. Unsurprisingly, the proportion of advisers who expect to see interest rates move higher has also risen, from 16% in November, to 49%. Both of these provide significant opportunities for advisers to engage with clients and discuss their financial plans.

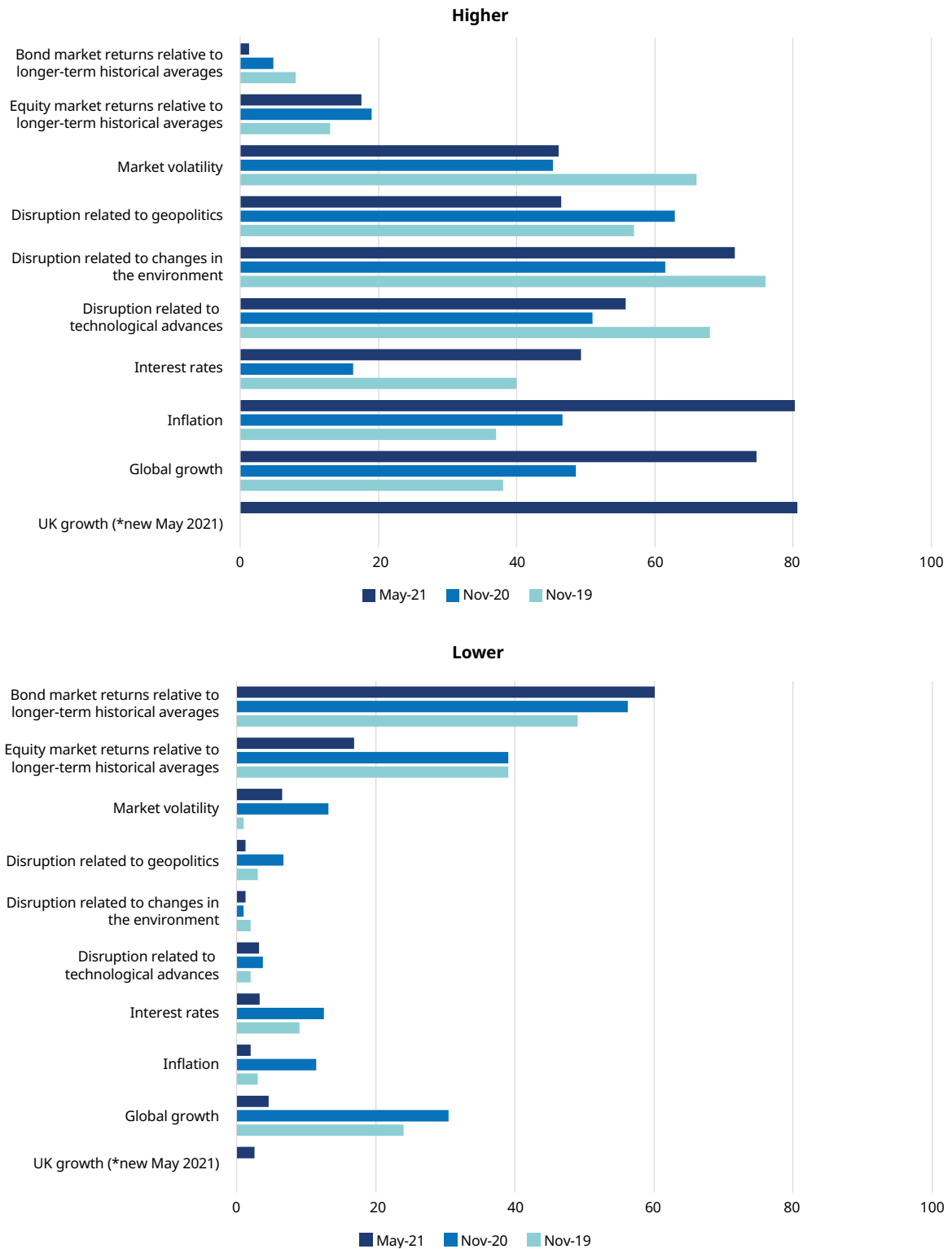
Advisers expect disruption to remain a major market theme. This relates to changes in the environment in particular, where 72% expect disruption will increase. Later in this report we discuss how attitudes to sustainable investing are changing.

There has been a slight drop in the percentage of advisers expecting higher disruption relating to geopolitics. This may be a sign that populism is no longer viewed so much as in the ascendancy, following the end of the Trump era.

Sentiment on bonds has continued to decline further, with 60% of advisers expecting that returns from the asset class will be lower than historical averages. Sentiment on equity markets is more balanced, with 65% of investors expecting returns to remain at around historical levels, 18% expecting higher returns and 17% expecting lower returns.



Figure 3: How would you expect the following to trend over the next 5 years? (%)





Advisers' key expectations

75%

expect the global growth rate to be higher

49%

expect to see interest rates move higher

81%

expect UK growth rate to be higher

72%

expect disruption will increase

Covid-19: the inescapable truths faced by investors

In our view, investors will need to be more agile than ever as Covid-19 reinforces many of the trends driving the world economy prior to the outbreak.

Before Covid-19, we argued in a paper entitled *The Inescapable Truths*, that demographics and trends in productivity pointed to an outlook for the world economy of subdued growth and low inflation, against a backdrop of disruption from populist politics, technology and climate change. politics, technology and climate change.

Such a prospect meant that real interest rates should remain low, and investors would have to navigate an environment of considerable change, where stock market index returns alone were unlikely to excite.

The virus is likely to reinforce the trends that were driving activity before the outbreak struck, by challenging the growth path, creating greater pressure on government finances and increasing inequality as technology becomes ever more pervasive.

Government intervention and the threat of populism will grow and investors will need to be more agile than ever to achieve their objectives.

Clients' Covid related financial concerns

The number one financial concern of advisers' clients relating to the pandemic remains capital loss, with the impact on their retirement plans coming in second place.

For the first time, we asked about the impact of rising taxation in the survey and this came in as the third biggest concern among advisers' clients. This is probably no surprise given the ongoing debate around the cost of the furlough scheme and increased government borrowing, which at the time of the survey even had a mention in the Queen's Speech.

With some people now struggling with mortgage and other debt repayments, and with the end of the furlough scheme in sight, it is interesting to see that the ability to service debt is much less of a concern, at least among advisers' clients,

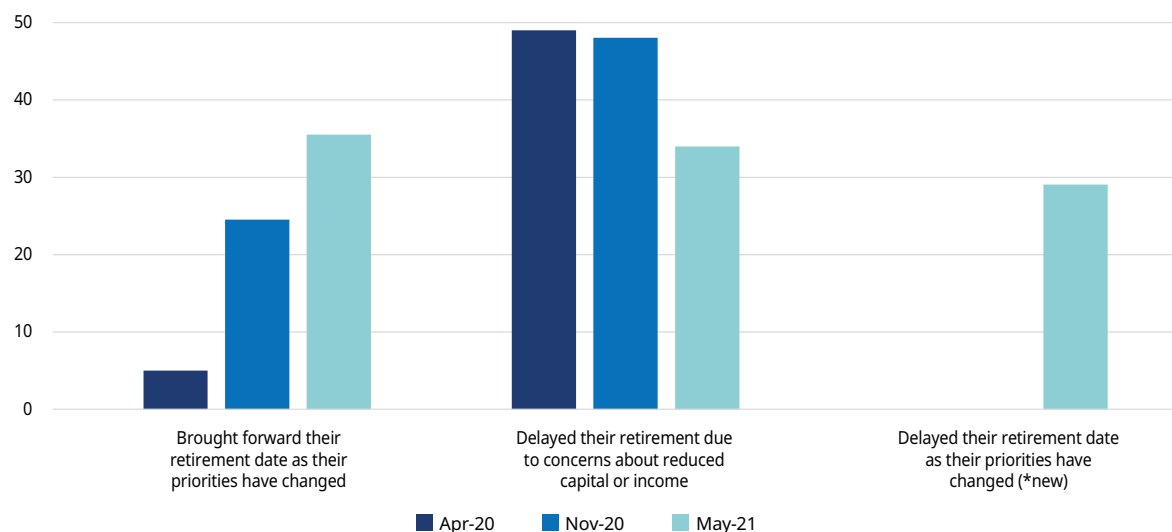
36% of advisers report that they have clients who have brought forward their retirement date as their priorities have changed as a result of the pandemic, while 29% report that they have clients who have delayed their retirement for the same reason. The events of the past year appear to have led more people to reassess their lives and priorities, with only 5% of advisers reporting that they had clients who had brought forward their retirement date in our survey in April 2020.

The proportion of advisers reporting that they have clients who have delayed their retirement due to concerns about reduced capital or income has fallen from 48% in November 2020 to 34%. This seems likely to be, at least in part, a reflection of the continuing recovery in markets in recent months.

Top three adviser concerns



Figure 4: Changes to retirement plans due to the pandemic – occurrence within advisers' client bases (%)





Outsourcing trends

Our survey suggest that the trend towards increased use of outsourcing investment solutions by advisers has continued through the period of the pandemic, albeit at a relatively modest pace. 20% of advisers report that they have made more use of outsourced solutions over the past year, with 11% reporting much higher use.

Advisers have many different reasons for deciding to outsource portfolio management but the two factors rated 'important' or 'very important' by most are 'access to investment expertise and resources' and 'more time to spend with clients'. This is unsurprising in light of the extremely challenging market conditions created by the pandemic and the increased amount of time that advisers have had to devote to servicing their clients' needs.

Our conversations with advisers also indicate that many of the factors are inter-related. As an example, the increasing burden from regulation such as MiFID II reporting on charges and portfolio depreciation can be linked to operational effectiveness. For some advisers, access to investment expertise and resources is very much related to the requirement to offer a sustainable solution and integrate sustainability into their processes. Many are still on a journey with this and therefore feel more comfortable with using an investment partner for their sustainability offering to clients.

Figure 5: How has your use of outsourced portfolio management changed in the last year? (%)

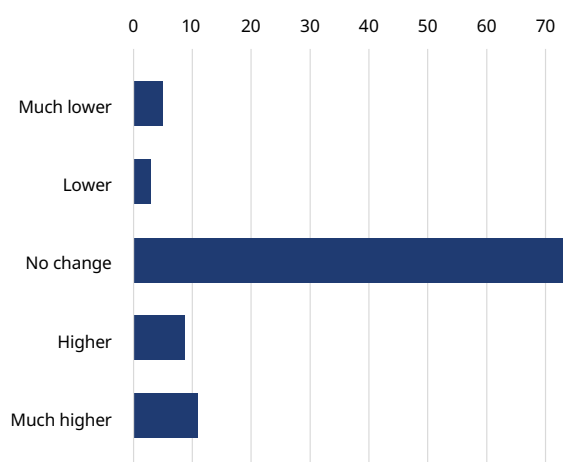
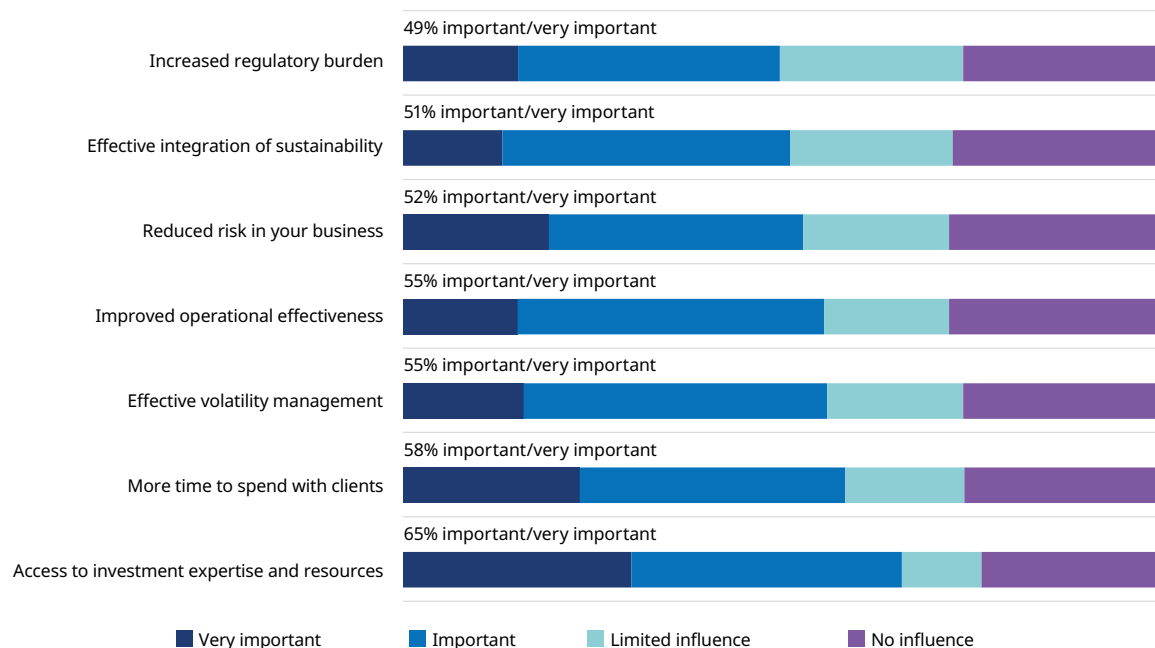


Figure 6: How would you rate the following in reaching a decision to outsource portfolio management?



It's important that an investment partner can offer a range of styles to ensure client outcomes can be met.

The factors rated most important when selecting a model portfolio service (MPS) and a multi-asset fund solution are very similar.

Performance is ranked the most important factor by over 50% of advisers in both cases. This is followed by cost, which is also ranked second by the largest percentage of advisers.

Investment process is the third most important factor overall, but is ranked in first place by only 14% of advisers for an MPS solution and 13% for a multi-asset fund solution.

We continue to see activity in the market on MPS costs. Most providers have now removed VAT from their management charge and passive or blended solutions are becoming more prevalent. It's important that an investment partner can offer a range of styles to ensure client outcomes can be met. Equally important is that both multi-asset funds and model portfolios are available, as factors such as taxation need to be taken into account when selecting the appropriate solution for a client.

However, as the adviser is in control of the client relationship, it is also crucial to select a partner who can continue to deliver a high quality service through regular adviser and client reporting, portfolio updates and access to the investment experts.

Figure 7: Rank the importance of the following 6 factors in selecting a model portfolio service solution for your clients from 1 (most important) to 6 (least important)

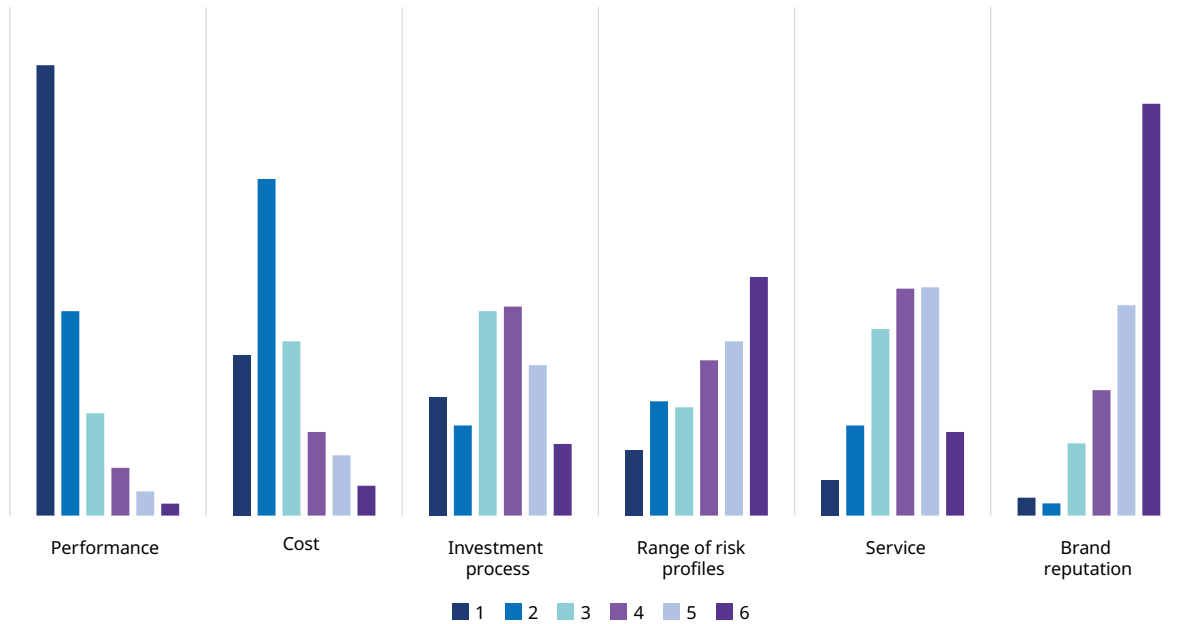
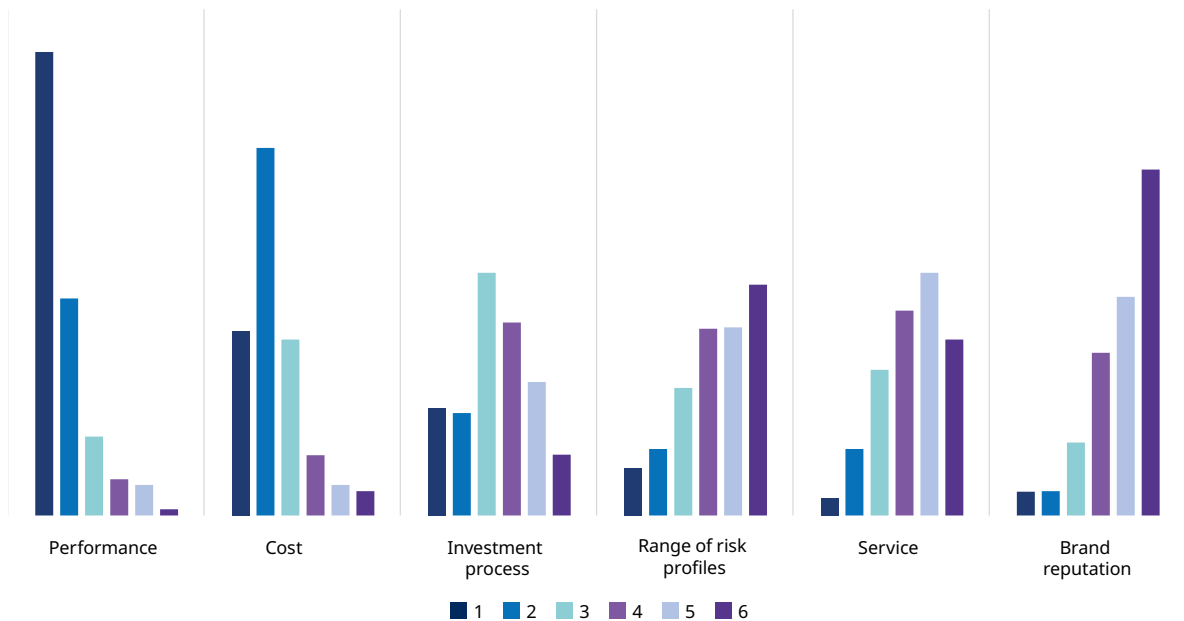


Figure 8: Rank the importance of the following 6 factors in selecting a multi-asset fund solution for your clients from 1 (most important) to 6 (least important)



Changing attitudes to sustainable investing

The pandemic appears to have had a marked impact on how advisers view sustainable investing.

69% of advisers say the crisis will increase the attention they pay to the environmental, social and governance risks associated with investments.

84% of advisers agree that the coronavirus crisis reinforces the importance of stewardship and using an asset manager who actively engages with company management. The issue of stewardship has been more in the spotlight over the past year with Boohoo and Deliveroo both facing criticism for their policies on the treatment of staff, for example. Whilst the environment typically garners the most attention among the ESG factors from investors, they are increasingly waking up to the potential impact of social and governance factors as well.

The issue of whether the pandemic has changed client attitudes to sustainable investing continues to divide opinion, with fewer advisers sitting on the fence than in previous surveys.

46% of advisers believe that the pandemic has changed attitudes, falling back from 52% in November. However, 41% believe that it has not, up from 28% in November.

Perhaps the key point here is around how the discussions are framed with clients. As one adviser recently commented to us 'no-one is queuing to buy an ESG product but if I ask if they would like their investment to contribute towards cleaner energy, reducing poverty, addressing climate change, addressing human rights, modern slavery etc. and still achieve investment returns then why would they say no?'

84% of advisers agree that the coronavirus crisis reinforces the importance of stewardship and using an asset manager who actively engages with company management.

Figure 9: The coronavirus crisis will increase the attention I pay to the environmental, social and governance risks associated with investments (%)

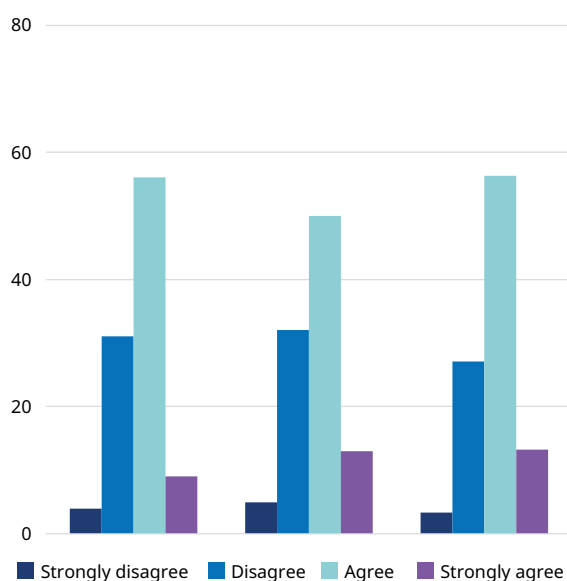
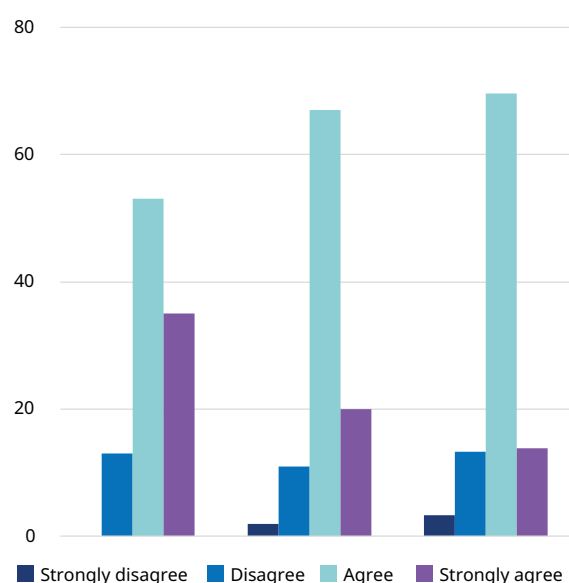


Figure 10: The coronavirus crisis reinforces the importance of stewardship and using an asset manager who actively engages with company management (%)



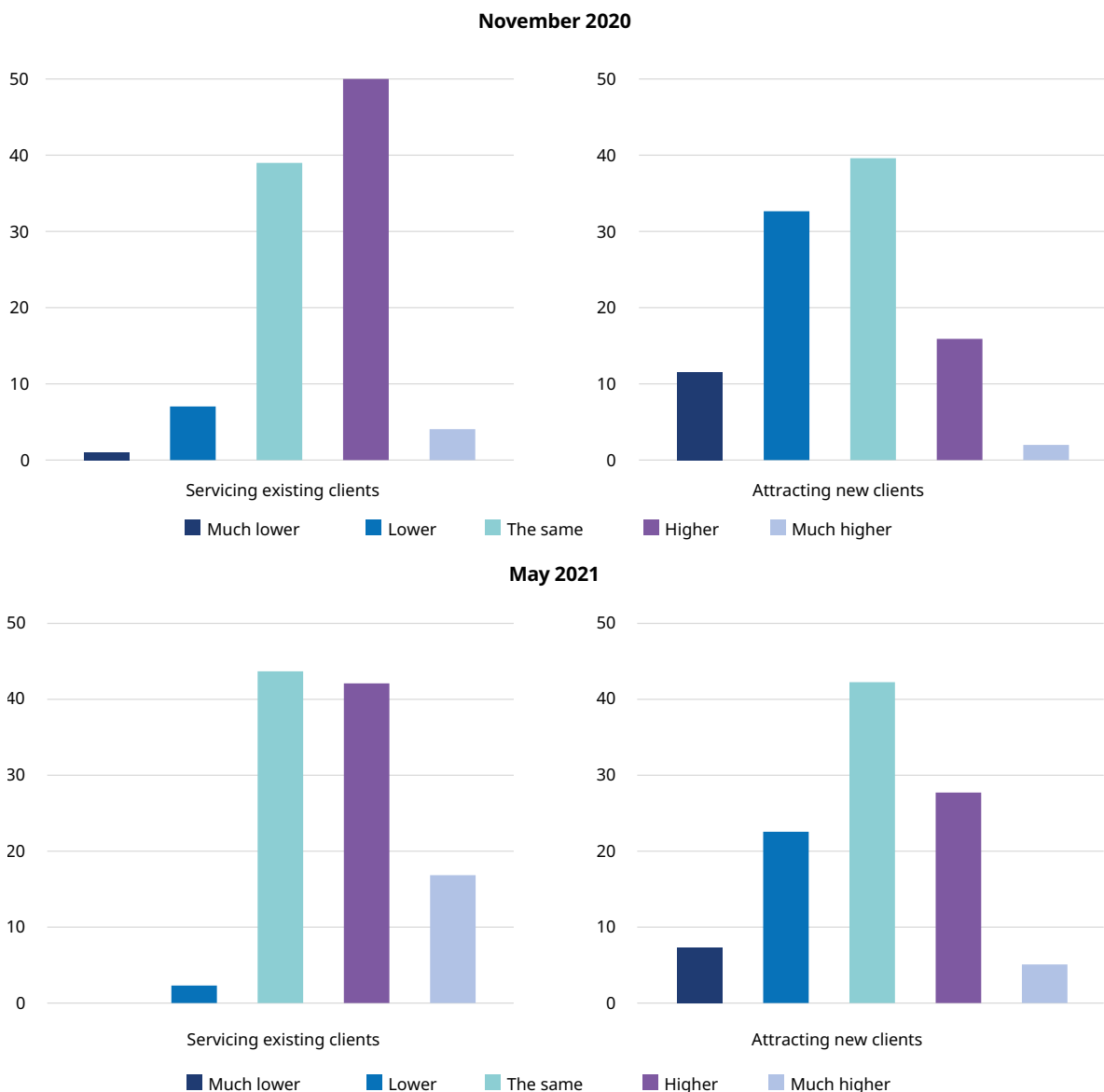
Existing clients or prospects—where are advisers spending their time?

Advisers have had to devote more of their time to servicing the needs of their existing clients during the pandemic. This has come at the expense of the time they are able to spend attracting new clients.

Encouragingly, the survey indicates that there are signs that advisers are now having to spend a little less time servicing their existing clients, freeing up more time to spend on generating new business.

While the numerous lockdowns have undoubtedly been a challenge, with many advisers reporting that it is more difficult to sign up new clients without a 'face to face' meeting, most advisers have adapted successfully to this new way of working.

Figure 11: How has your level of activity relating to servicing clients and attracting new clients changed as a result of Covid 19? (%)



How has the pandemic changed thinking on client meetings?

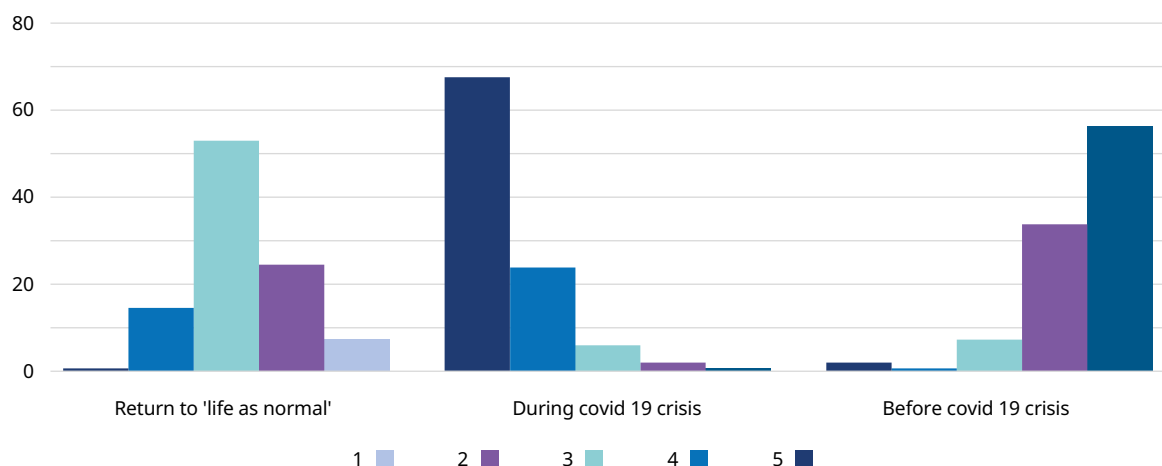
It comes as no surprise that client meetings swung from predominantly face to face to predominantly virtual during the Covid-19 crisis.

In a return to 'life as normal' 52% of advisers expect a hybrid of virtual and face to face meetings. Only 15% of advisers expect that most of their meetings will be virtual.

It's perhaps surprising to note that only 7% of advisers anticipate that all of their meetings will return to face to face only. Pre Covid, 56% of advisers conducted all their meetings face to face.

This suggests that many advisers view the experiment in technology based communication enforced by the pandemic as a success and this will have a permanent impact on how they conduct their business.

Figure 12: On a scale of 1 (all face to face) to 5 (all virtual), how did you conduct client meetings before Covid, how do you conduct them now and how do you expect to conduct them if there is a return to 'life as normal' (%)



How has the pandemic changed thinking on industry events?



Following the move en masse by asset managers to virtual events enforced by the pandemic, advisers overall are keen to see a return to in person events.

86% of advisers say they will return to attending in person events and conferences when government guidelines permit. This reflects not only the value that advisers place on the content of events but also the networking element and opportunity to share best practice. However, 51% say that they will be more selective about which of these they attend. As an industry, we need to take note of this and ensure that the content delivered at events adds real value to an adviser's business.

View of 'in person' events



86%

will return to attending in person events



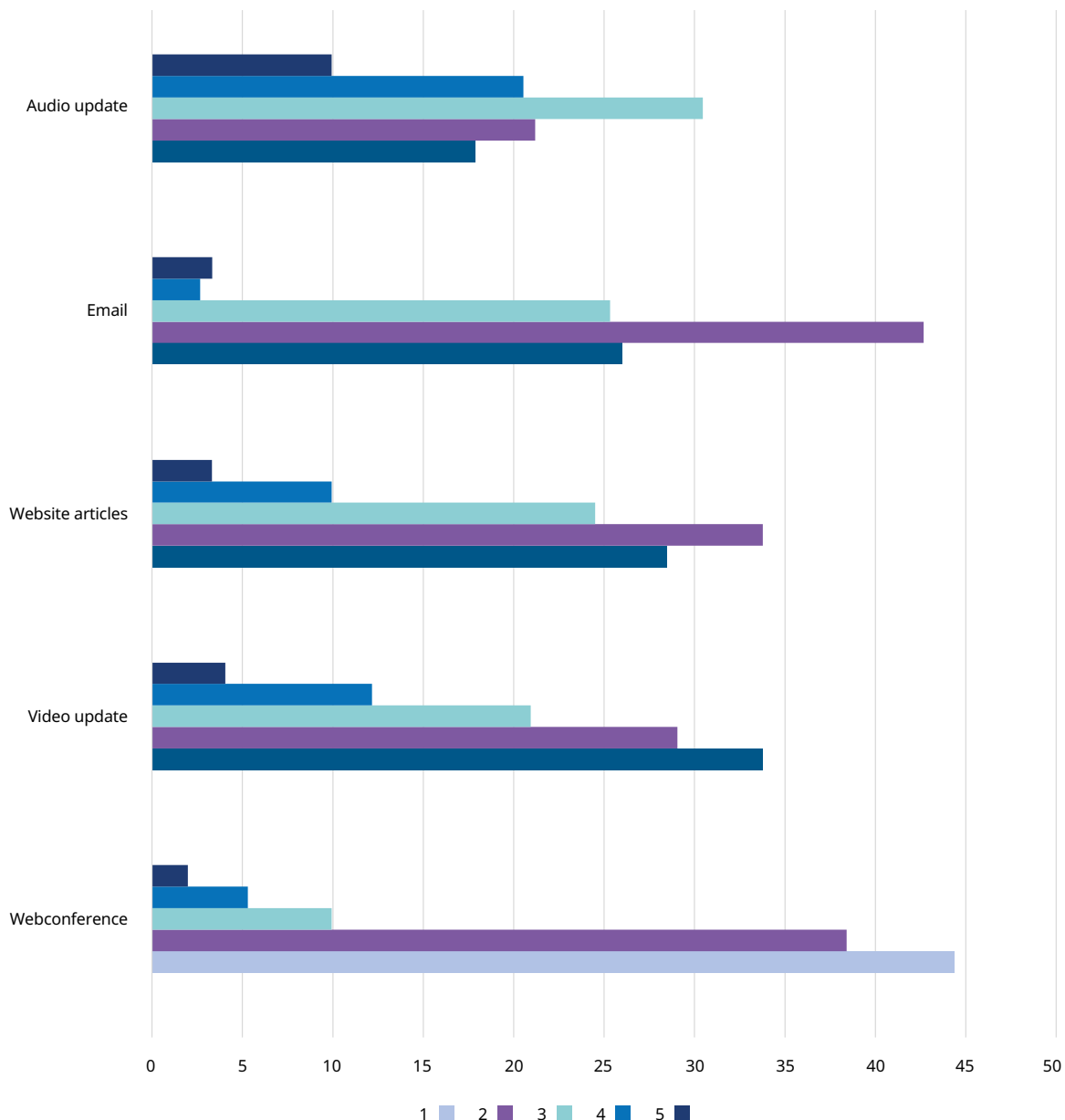
51%

will be more selective about which they attend

Communications from asset managers – what is most valued?

In the absence of face-to-face contact, advisers have placed a high value on still being able to see asset managers as well as hear from them. Webinars and video updates were rated the most helpful forms of communication over the past year by the greatest number of advisers.

Figure 13: On a scale of 1 (very helpful) to 5 (not at all helpful), how helpful have you found the following communications from asset managers over the past year? (%)



The key takeaways

Having ridden the lockdown rollercoaster in 2020 and early 2021, it's great to see signs of increased optimism among advisers and their clients. While we are in no sense back to 'normal' yet, the effectiveness of the mass vaccination programme is allowing economies to open up again, and the longer-term outlook certainly appears brighter.

Clients are now significantly more bullish than bearish overall and advisers have become more confident about economic growth prospects, particularly in the UK. It's unsurprising that there are concerns around rising inflation and interest rates; for many clients holding excess cash as a result of an increase in the savings ratio, these are areas to watch.

Disruption is clearly here to stay as a major theme within markets. It's interesting to note that concerns about disruption due to geopolitics have decreased but the message on the environment and the challenges of climate change we face are landing. Events of the last year have also focused attention on the 's' and the 'g' of ESG as social and governance factors influencing investment decisions in areas such as inequality, supply chain management and treatment of staff have come under the spotlight.

It is now more important than ever to be able to show clients how ESG risks are being managed and the level of stewardship and active engagement that is being applied to their underlying investments. It is also important to be able to effectively communicate the positive impact of investing in sustainable solutions.

As we head towards 2022, we expect the trends towards outsourcing and working with an investment partner to continue. Advisers continue to look for solutions that offer a broad choice of strategies and investment styles at a keen price, supported by high quality service and communication.

The way in which we communicate will continue to evolve as we move towards a more hybrid way of working. Whilst the enforced move to tech-based communication has been successful, there is still a desire to meet face to face.

While it seems unlikely that we will return to life exactly as we knew it pre-Covid anytime soon, the survey indicates that advisers and their clients share our fundamental belief in the ingenuity and adaptability of humankind and that there is always opportunity out there!

Advisers continue to look for solutions that offer a broad choice of strategies and investment styles at a keen price, supported by high quality service and communication.





Get in touch

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