Schroders

UK Financial Adviser Survey

Adviser Pulse Report

May 2022

Contents

Introduction

Our UK Financial Adviser Survey series aims to deliver a range of insights that can help advisers with their planning. It covers a wide variety of issues from the current challenges facing financial advisers, to the way their strategic thinking is developing and the direction of travel for the industry.

This report sets out the key findings from the May 2022 Adviser Pulse Report. We hope that you find it informative and useful.

How are clients feeling about investing?

Sentiment

There has been a large swing in sentiment in a bearish direction among advisers' clients since our November 2021 survey.

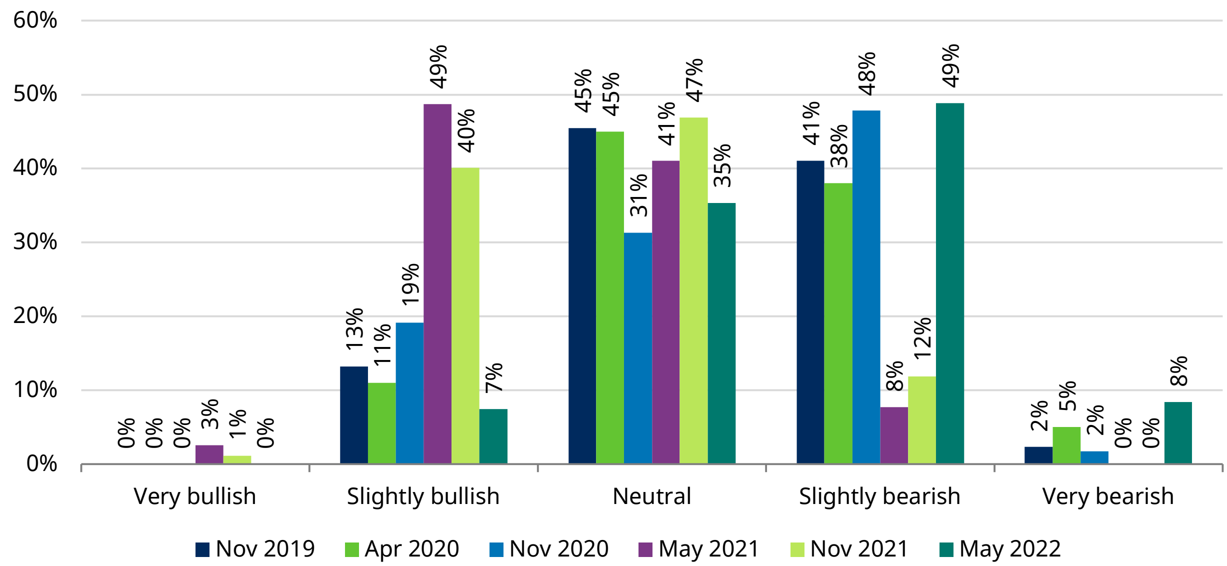
57% of clients are now bearish, compared to 12% in November, and correspondingly only 7% are bullish, compared to 41% in November. Overall there is now a greater degree of pessimism about market prospects than there was during the height of the Covid crisis in 2020.

It is little wonder that sentiment has shifted in a bearish direction. The investment environment has evolved significantly since our last survey: for much of the world, outside China, Covid 19 is now much less of a concern, however Russia's invasion of Ukraine has been a catalyst for negative developments on a number of fronts.

Inflation is running hot across major economies, fuelled by soaring energy prices and further disruption to global supply chains, consumer and business confidence has taken a severe knock, and there are growing fears that a recession in the US and elsewhere may now be unavoidable as central banks tighten the monetary policy screws to try to get back ahead of the curve.

Markets have moved to reflect a deteriorating stagflationary outlook, and with equities and fixed income simultaneously under pressure, the options for investors looking to protect themselves from losses are limited.

How would you describe the sentiment among most of your clients?

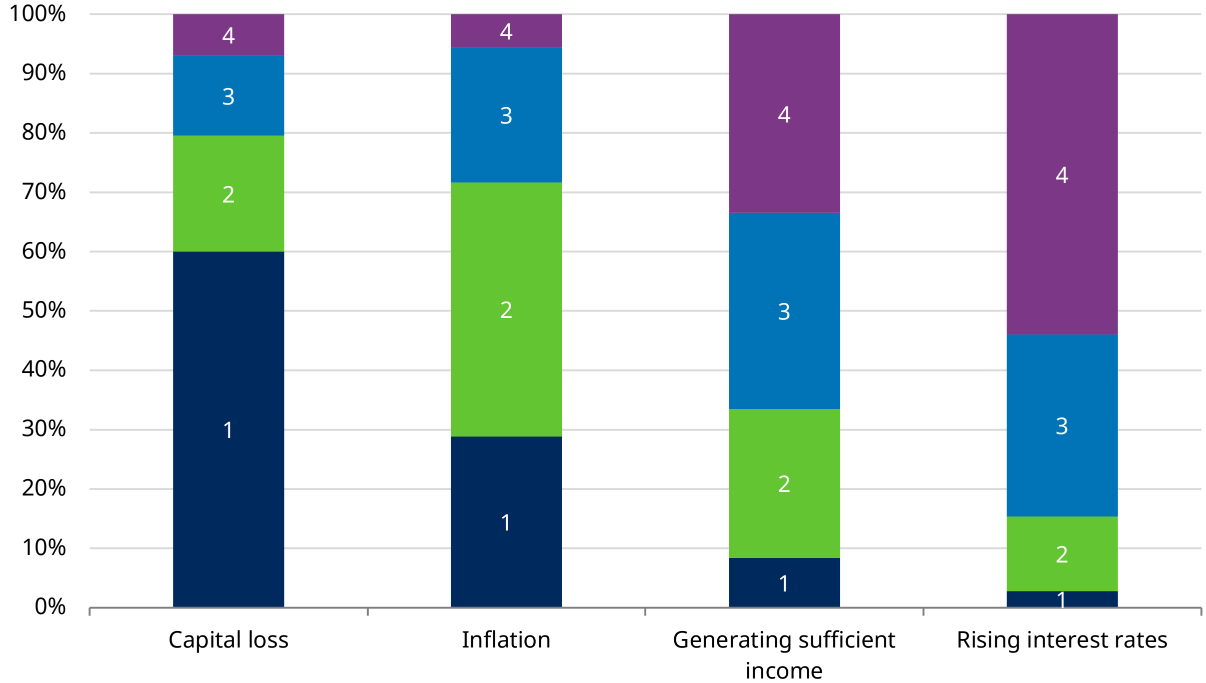


Client concerns

60% of advisers ranked capital loss as the issue that their clients are currently most concerned about from a list also including inflation, generating sufficient income and rising interest rates.

It is at times like this, when there is heightened uncertainty and markets have been selling off, that clear messaging and regular communication with clients becomes particularly important. This can discourage clients from reaching rash selling decisions and help to ensure that they remain with strategies that are designed to achieve their long-term objectives.

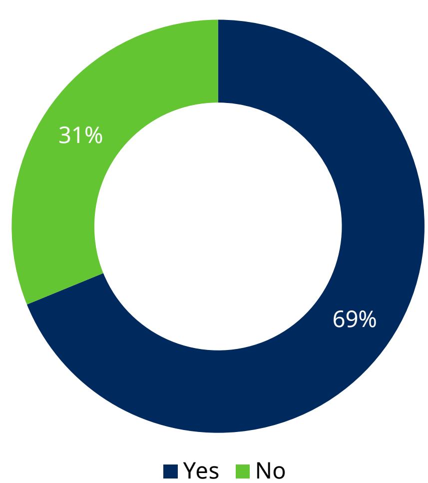
Rank the importance of the following factors you think clients are most concerned about in the current environment.



Cost of living crisis

69% of advisers expect that some of their clients will have to adjust their investment plans as a result of the cost of living crisis. For many people putting less money into investments, or selling investments to help meet the rising cost of living is understandable but has the potential to have an outsize impact on long-term returns as clients may miss out on the effect of compounding.

Do you expect that some clients will have to adjust their investment plans as a result of the cost of living crisis?



Market trends

Advisers have become more pessimistic about medium term market prospects.

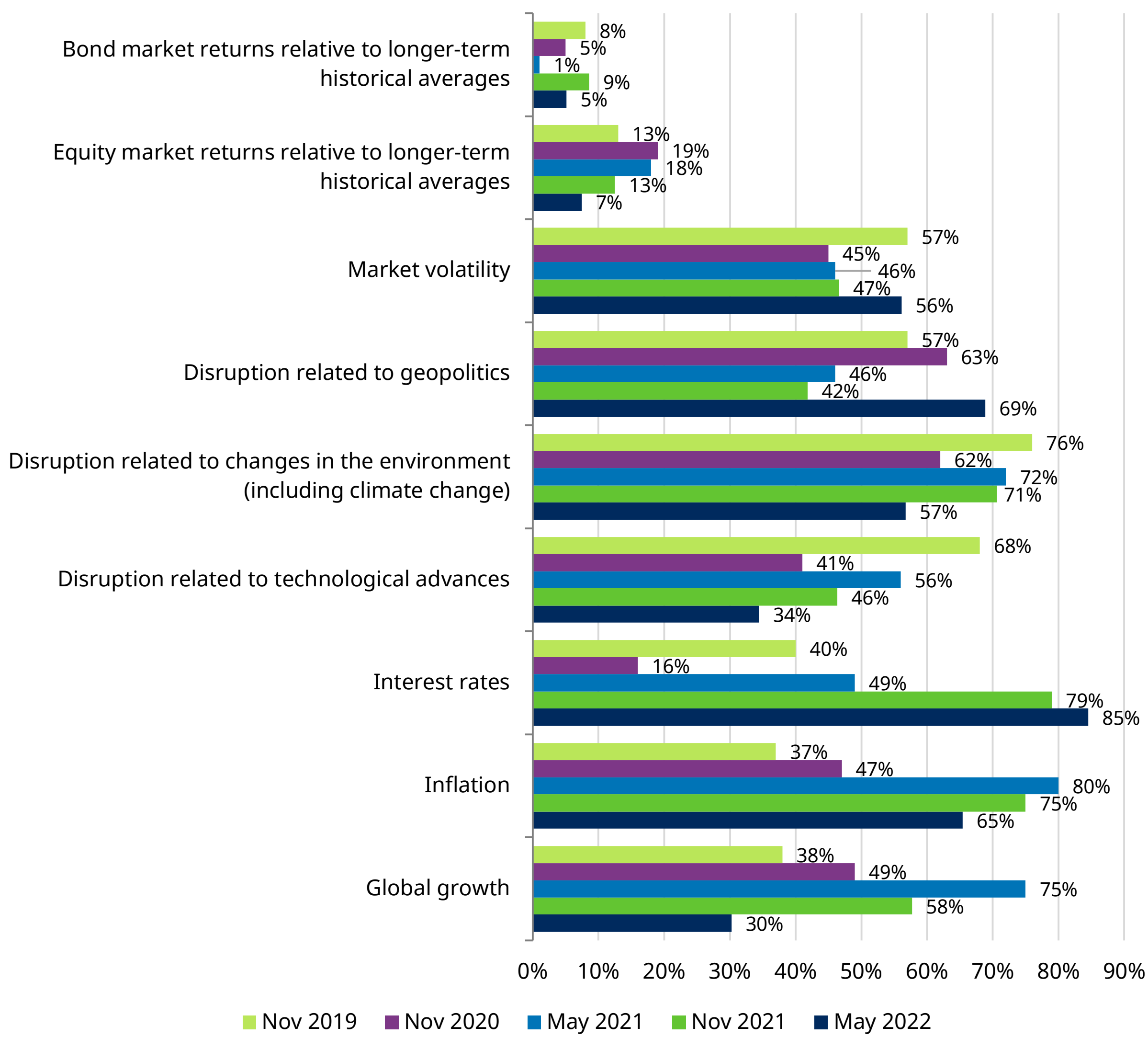
41% of advisers expect equity returns to be lower than historical averages over the next five years, compared to 20% in November. Only 7% of advisers now expect equity returns to be higher than historical averages over this period. Sentiment on fixed income is more negative with 62% of advisers expecting bond returns to be lower than historical averages over the next five years compared to 5% who expect them to be higher.

Growth expectations have also fallen, while 85% of advisers expect interest rates to trend higher. However, interestingly, despite the current sky high inflation rate, the percentage of advisers expecting inflation to trend higher has actually fallen over the past year from 80% to 65%, perhaps reflecting concerns that we may be heading for a recession.

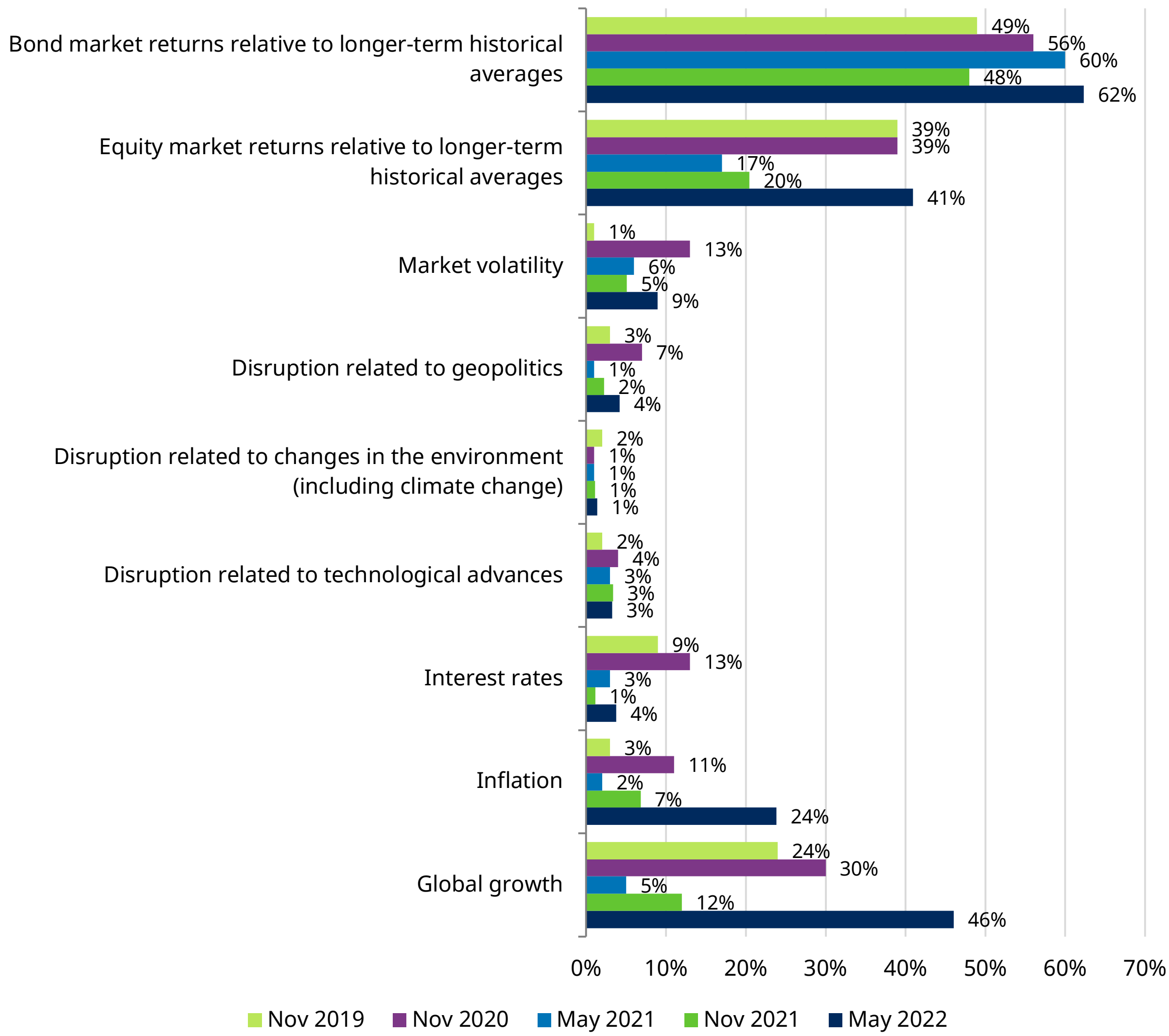
Unsurprisingly, in the wake of Russia's invasion of Ukraine, the percentage of advisers expecting greater disruption relating to geopolitics has jumped. This now stands at 69%, its highest level since this question was added to the survey in 2019. There has been a corresponding fall in the percentage of advisers expecting greater disruption related to changes in the environment, which perhaps suggests a reduced focus on sustainability concerns against a background of war.

How would you expect the following to trend over the next 5 years?

Higher



Lower



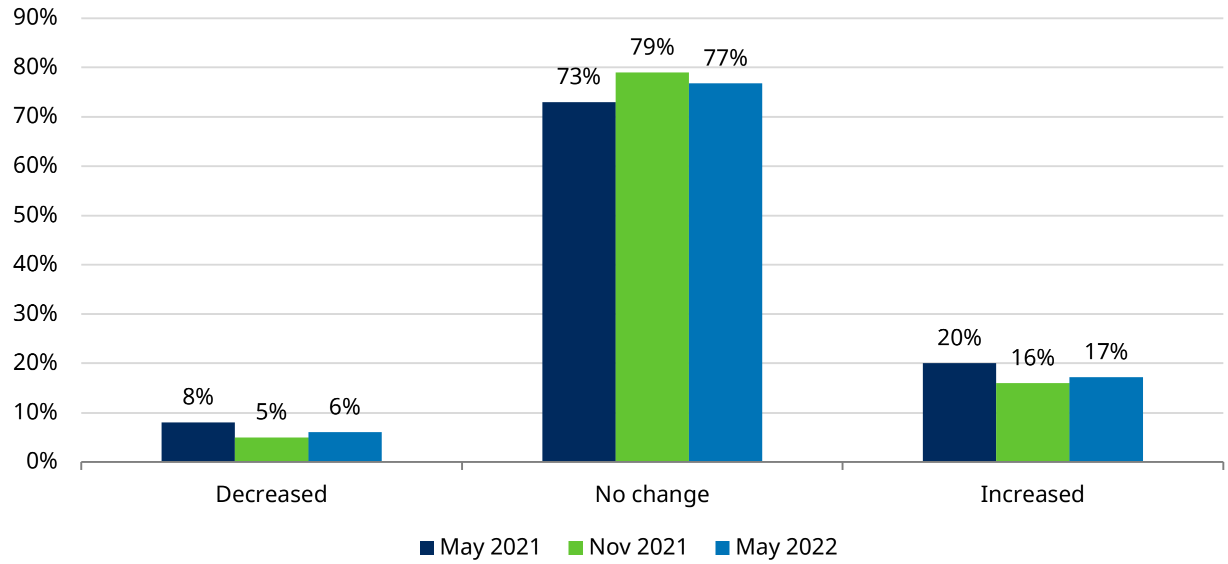
Bond market returns relative to longer-term historical averages
49%
56%
60%
48%
62%
Equity market returns relative to longer-term historical averages
39%
39%
17%
20%
41%
Market volatility
1%
13%
6%
5%
9%
Disruption related to geopolitics
3%
7%
1%
2%
4%
Disruption related to changes in the environment (including climate change)
2%
1%
1%
1%
1%
Disruption related to technological advances
2%
4%
3%
3%
3%
Interest rates
9%
13%
3%
1%
4%
Inflation
3%
11%
2%
7%
24%
Global growth
24%
30%
5%
12%
46%
0%
10%
20%
30%
40%
50%
60%
70%
Nov 2019
Nov 2020
May 2021
Nov 2021
May 2022

Outsourcing trends

17% of advisers have increased their use of outsourced solutions over the past year, continuing the trend towards greater use of third party portfolio management.

This is born out by our own experience. A growing number of advisers have been choosing to work in partnership with us and using Schroder Investment Solutions, our range of model portfolios and multi-asset funds.

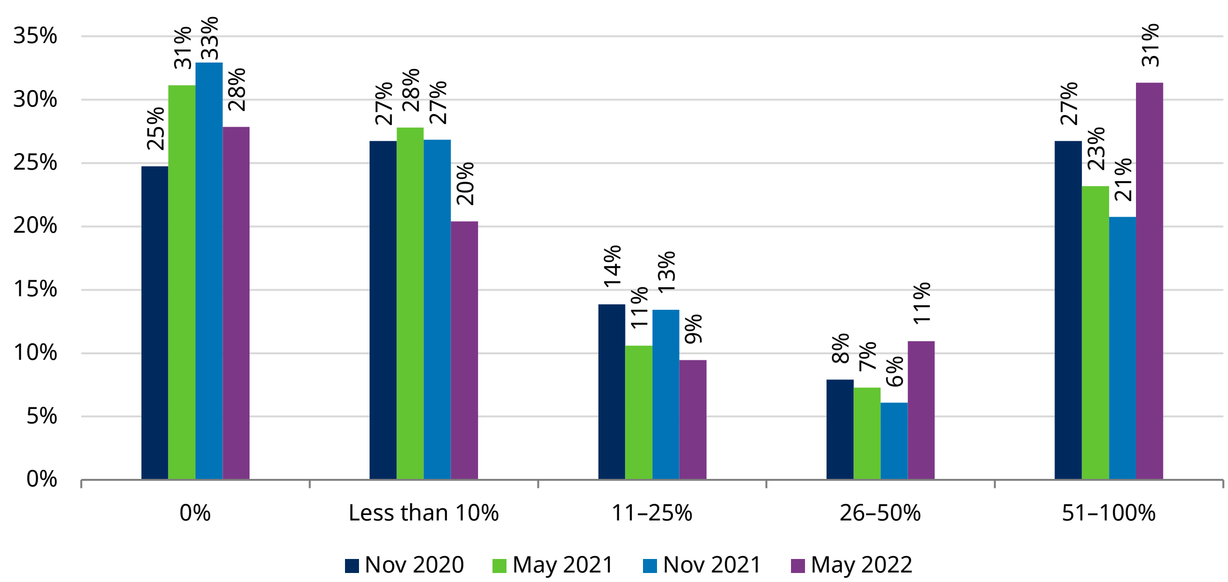
How has your use of outsourced portfolio management changed in the last year?



What is of more interest is that there has been a jump in the number of advisers reporting that they outsource more that 50% of client assets from 21% to 31%.

42% of advisers also report that they outsource over 25% of their client's assets compared to 27% in November 2021.

What percentage of your clients' assets are managed externally through outsourcing portfolio management?



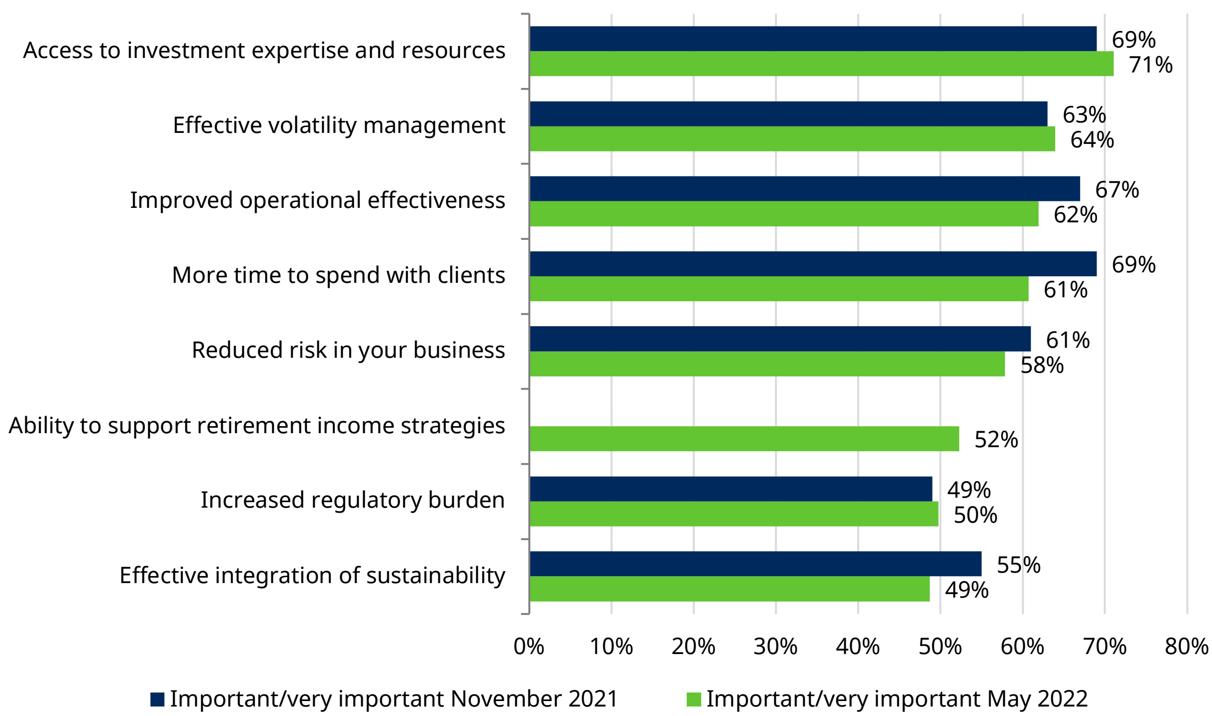
Reasons for outsourcing

Advisers indicate that investment related factors are of greatest importance when reaching a decision to outsource portfolio management. 'Access to investment expertise and resources' is out in front by some margin, followed by 'effective volatility management'. This is perhaps of no surprise given concerns expressed around market sentiment.

'Spending more time with clients' and 'improved operational' effectiveness are also rated important or very important by over 60% of advisers. It is interesting to observe that 'effective volatility management' has replaced 'more time to spend with clients' in second place, perhaps reflecting the value that advisers place on active portfolio management at a time when market uncertainty is elevated.

Our conversations with advisers indicate that many of the factors influencing a decision to outsource 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.

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



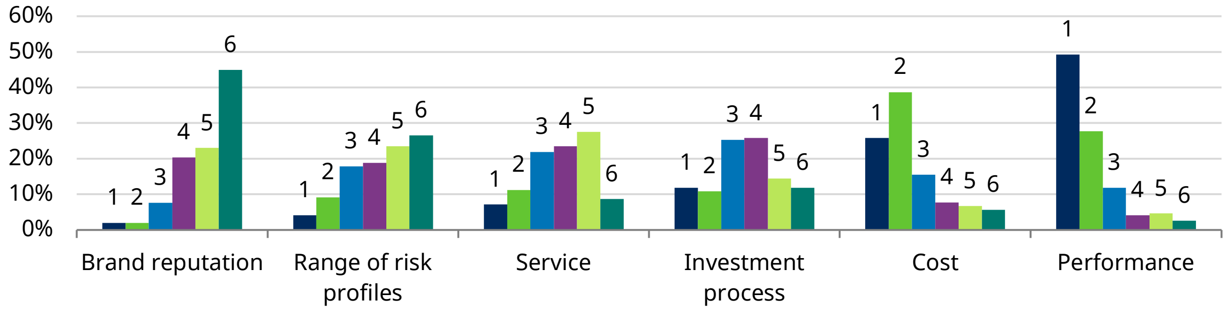
Selecting an outsourced solution

Performance remains the governing factor for most advisers in selecting an MPS or multi-asset solution with over 75% ranking it 1 or 2 on a scale from 1 (most important) to 6 (least important). This is followed in importance by cost and investment process.

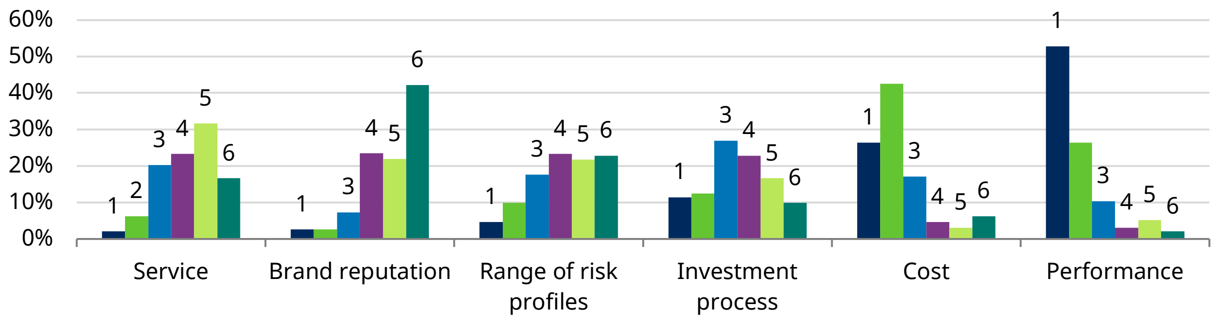
Service is increasingly becoming an important factor. For our Schroder Investment Solutions business, this comprises many factors including regular monthly communications about markets, how the portfolios are faring and any changes the investment team are implementing. Quarterly updates are also supported by a webinar and comprehensive reporting for use with clients.

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).

Model Portfolio Service (MPS)



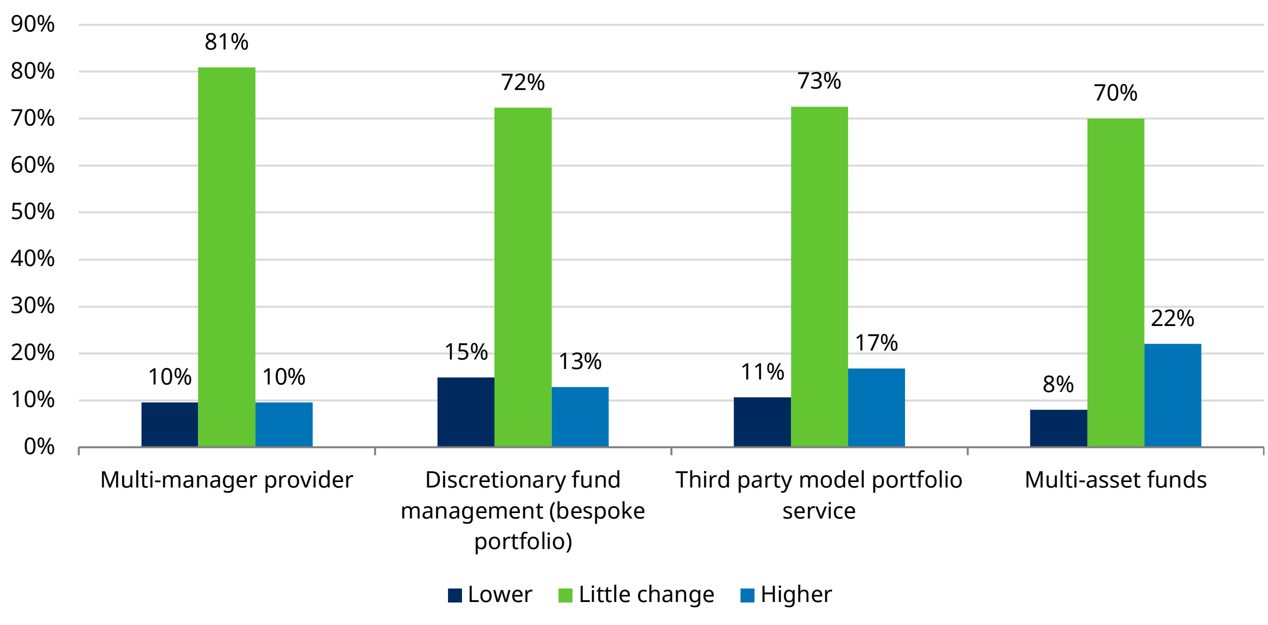
Multi-Asset Fund



How is advisers' use of outsourced solutions changing?

Overall, advisers expect to increase their allocation to multi-asset funds and third party MPS solutions over the next year, with no change, on balance, to their use of multi-manager providers and a slight decrease in their use of discretionary asset managers.

If you outsource portfolio management, how do you expect your allocation to the following services to change in the next 12 months?



Sustainability

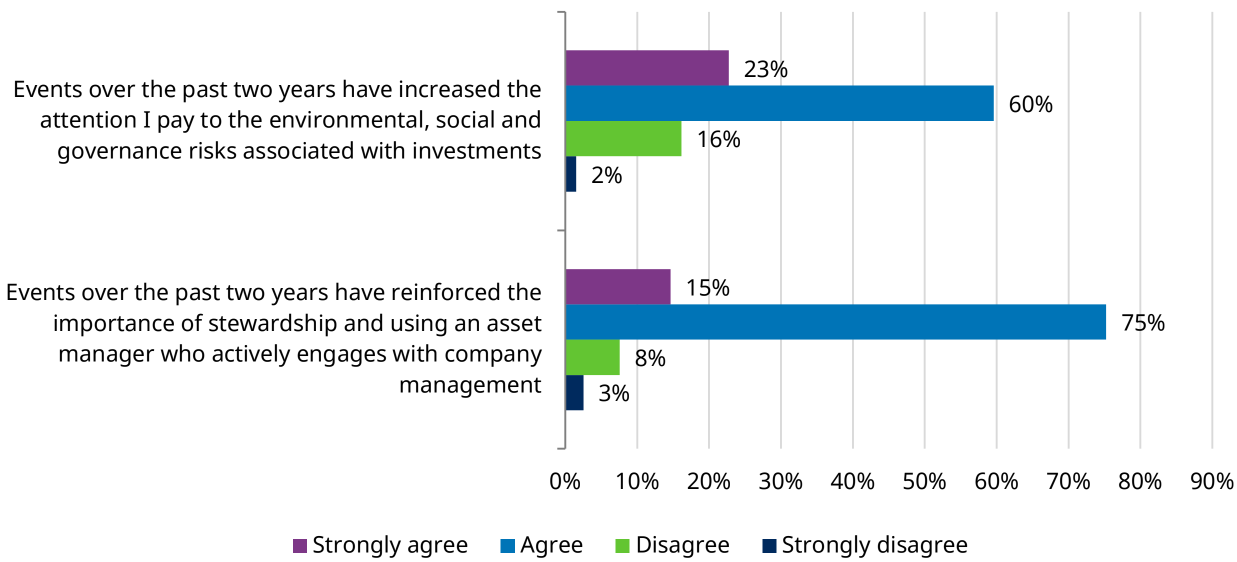
Our survey suggests that sustainability considerations have well and truly entered the mainstream with advisers over the past couple of years. The Covid 19 crisis and Russia's invasion of Ukraine are both likely to have had an impact on the growing importance placed on incorporating a sustainability angle in investment decision making, alongside mounting evidence of the impact of climate change.

90% of advisers agree that events over the past two years have reinforced the importance of stewardship and using an asset manager who actively engages with company management.

83% of advisers agree that events over the past two years have increased the attention I pay to the environmental, social and governance risks associated with investments.

As a provider of sustainable investment solutions, it's important that our reporting not only covers financial data and sustainability measures but also information on engagements and the positive impact of those.

To what extent do you agree with the following statements:



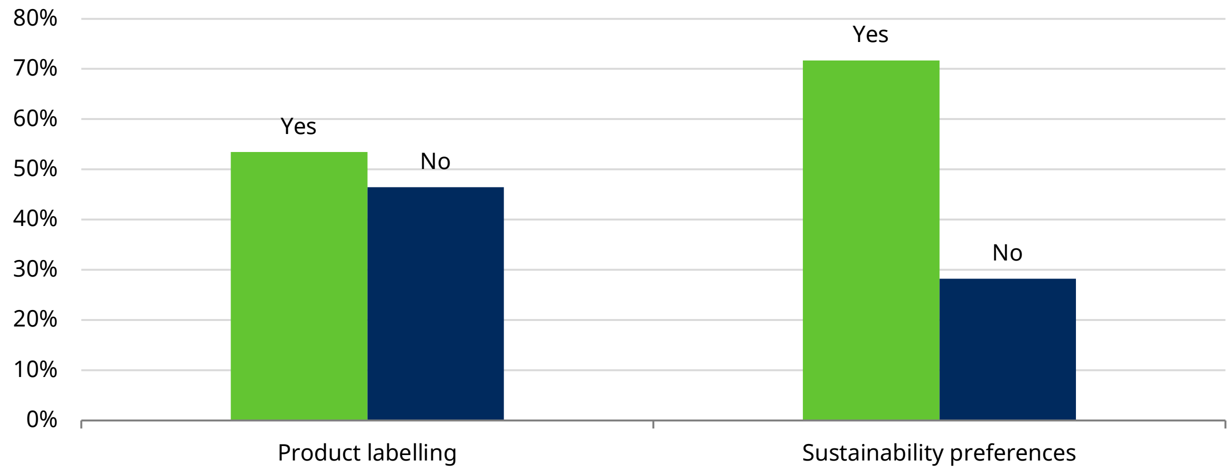
Regulatory landscape – sustainability and consumer duty

Advisers continue to face a wave of regulatory changes. On the ESG related front, 72% of advisers have been making preparations for the coming requirement to consider and note their clients' sustainability preferences and 54% have been preparing for changes in sustainability related requirements on product labelling.

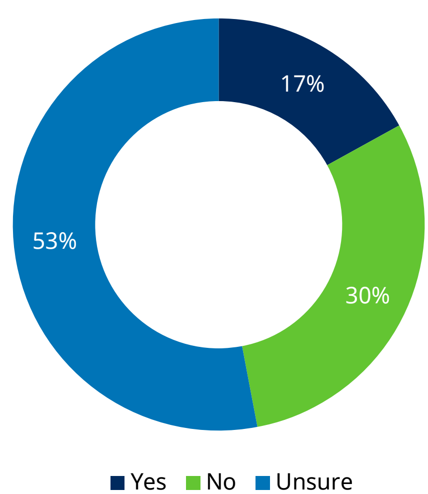
We will be holding a series of webinars to help advisers understand these changes during the remainder of 2022. We have also produced a Guide to Net-Zero for advisers and a client facing guide covering the 'A-Z of Sustainability Terms, which are available on our website or from the Schroders sales team.

A new consumer duty for financial services is set to be introduced by April 2023. In the FCA's own words, this aims to ensure companies 'put themselves in customers' shoes' when communicating and designing products. With the final details of the regulation not yet made public, it is perhaps not surprising that 53% of advisers indicate that they are unsure about the impact will be on their business. While 30% of advisers expect that it will not have a negative impact on their business, 17% expect that it will.

Is your business preparing for these anticipated changes in regulation relating to ESG?



Are you concerned about the impact of the FCA's proposed Consumer Duty regulations on your business?

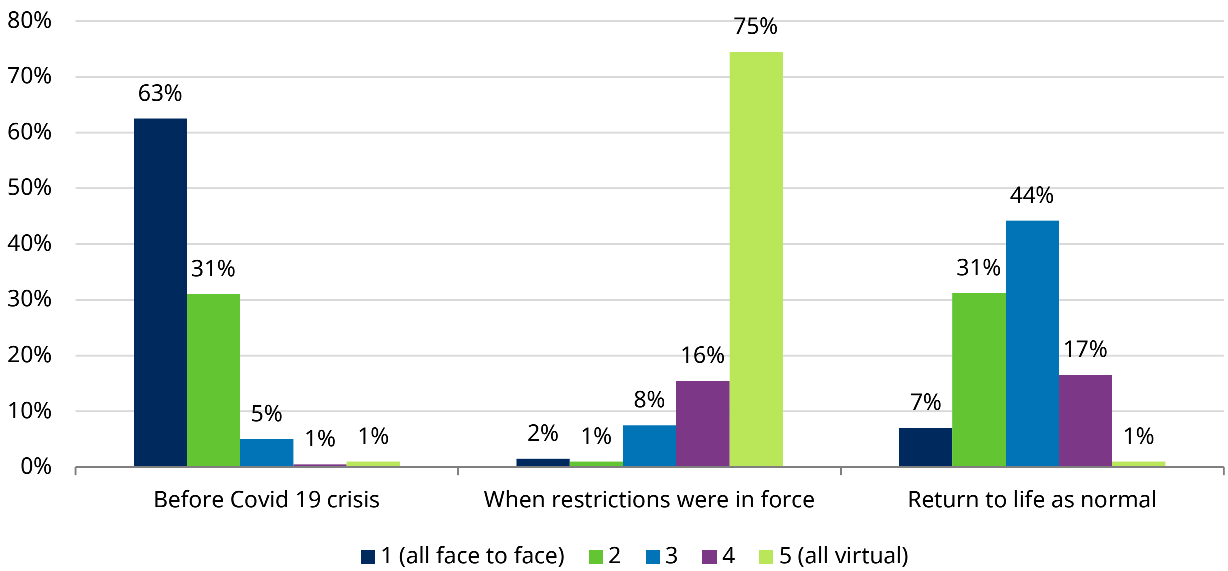


Client engagement

The Covid 19 crisis may now have faded into the background but it has had a lasting impact on the way that advisers engage with their clients. Before Covid, 63% of advisers held all of their client meetings face-to-face, as life returns to normal only 7% expect to return to doing so. However, only 1% expect that all their meetings will be virtual in the future, with most expecting to use a combination of face-to-face and online meetings, with a skew towards more face-to-face interaction.

Perhaps it is too early to tell how this might change over time but it's highly unlikely that we will return to pre-Covid levels of face to face contact.

On a scale of 1 (all face to face) to 5 (all virtual), how did you conduct client meetings before Covid, how did you conduct them when restrictions were in force, and how do you expect to conduct them as life returns to normal?



Wealth transfer

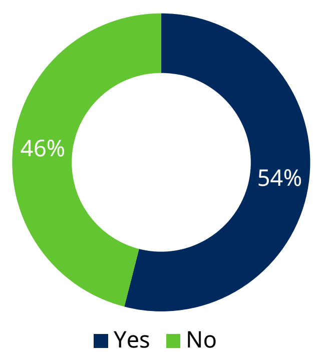
We asked for the first time whether advisers are concerned about losing assets as a result of wealth transfers between generations and it was really interesting to note that a majority of advisers (54%) are.

Clearly for many wealth transfer is now posing a challenge despite nearly 80% of advisers indicating that it provides a significant opportunity in our previous surveys. Perhaps we should be reframing this important issue as 'the great wealth retention challenge'.

Despite this, and an increased industry focus on the risks and opportunities posed by intergenerational wealth transfer, there has been almost no change in the very low percentage of advisers with a differentiated strategy for younger investors.

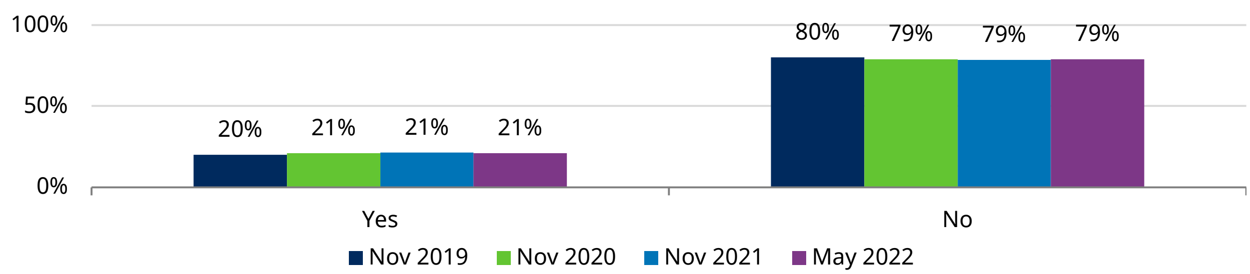
We have also discussed the baby boomer generation where the first point of transfer is often to a wife or female partner. When this happens around 70% of surviving partners leave the adviser. Unfortunately the number of advisers who have a strategy for addressing this still remains low at only 11%. We are always happy to discuss this with advisers and consider strategies for retention based on our research.

Are you concerned that your business could lose assets as wealth transfers between generations?

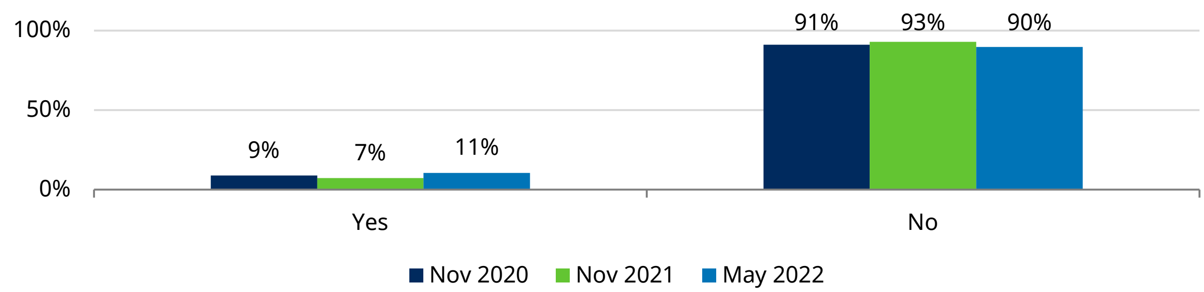


Do you have a differentiated sales and marketing strategy for:

Younger investors



Retaining, attracting and advising women – particularly divorced or widowed



Key takeaways

These are my key takeaways from this year's survey.

Given the current market environment, the results of this latest survey are perhaps unsurprising but it's important for us to stay close to advisers and understand how we can support them and their clients particularly during times of uncertainty and volatility.

This is particularly important for those advisers who chose to outsource some or all of their centralised investment proposition. As a provider of investment solutions, we understand that the adviser is in the driving seat when it comes to ongoing conversations with clients and we have a responsibility to support these with appropriate information.

ESG and sustainable investing continues to gather pace but the focus now seems to be shifting towards engagement and 'holding managers to account'. It's not enough to give information on the number of engagements we undertake as a business but we also need to demonstrate the positive impact of these.

Wealth transfer or indeed wealth retention continues to be a challenge for advisers and it was very interesting to note the concern expressed by some around the potential loss of assets. This also could be at a time where advisers are considering exit strategies and therefore trying to maximise the value of their business, often linked directly to assets under management.

We continue to explore this topic with advisers focusing both on strategies for engaging the next generation but also this cohort of widows which is emerging. It is predicted that 65% of the wealth in the UK will be in the hands of women by 2025 predominantly as a result of wealth transfer and with only 11% of advisers having a strategy for advising women, the assumption that 70% of widows will change adviser feels likely.

Gillian Hepburn
Head of Intermediary Solutions

Get in touch

Schroders have a range of support and practical guides available, including:

- A practical guide to sustainable investing
- A-Z of sustainability terms for investors (client-facing)
- Net Zero: a guide for financial advisers
- A practical guide to intergenerational wealth transfer
- Taking the reins: female clients and the transfer of wealth

To find out more about these topics and our investment solutions, just contact your usual Schroders representative, call our Business Development Desk on 0207 658 3894 or visit www.schroders.com/investment-solutions.

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