The Future of Advice

Helping advisers create improved client outcomes

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Agenda

01 **Advice Landscape**
Importance of the adviser

02 **UK Adviser Survey 2018 – Key Findings**

03 **The areas advisers add value superior to a DIY outcome**

04 **Behavioral Coaching – Key to unlocking client's success**

05 **Q&A**

06 **Further Support**

Vanguard Adviser’s Alpha

What is the adviser's alpha concept?

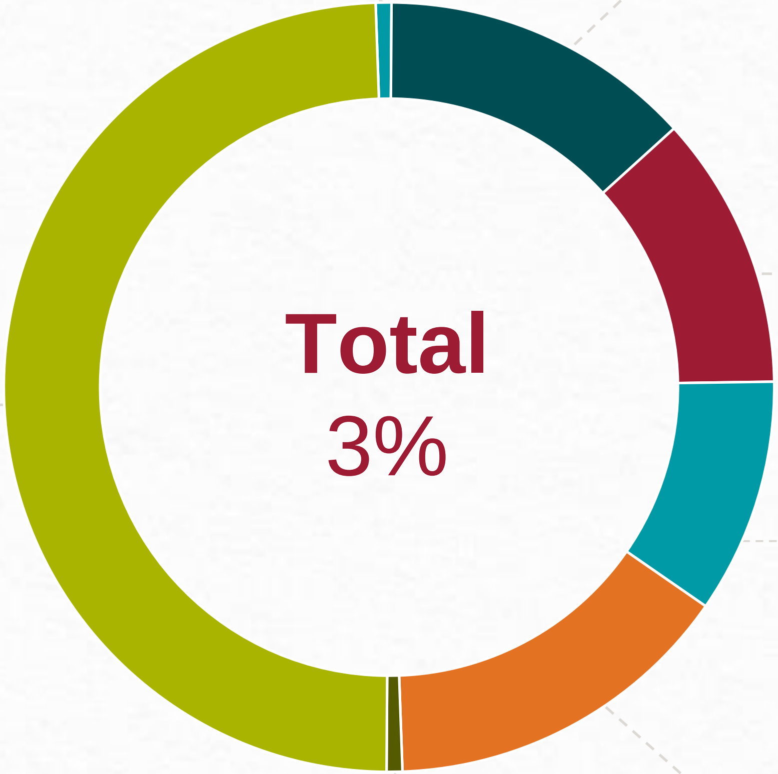
- ✓ Success not solely on outperforming a cost-free policy portfolio

- ✓ A service-centric model
- ✓ Reframes the benchmark for the value of advice

Adviser’s Alpha framework

Diversification
>0 bps*

Cost-effective implementation
0.55-0.59 bps



Rebalancing
0.51 bps

Behavioural coaching
150 bps

Asset location
0-21 bps

Total return investing
>0 bps*

Spending strategy
0-21 bps

Source: [ ]

“The adviser’s job is to help their clients **avoid making costly mistakes**”

John C Bogle

The Advantage of Advice

The benefits of combining Trust + Satisfaction

Demand for advice is rising...

£521bn

£64bn

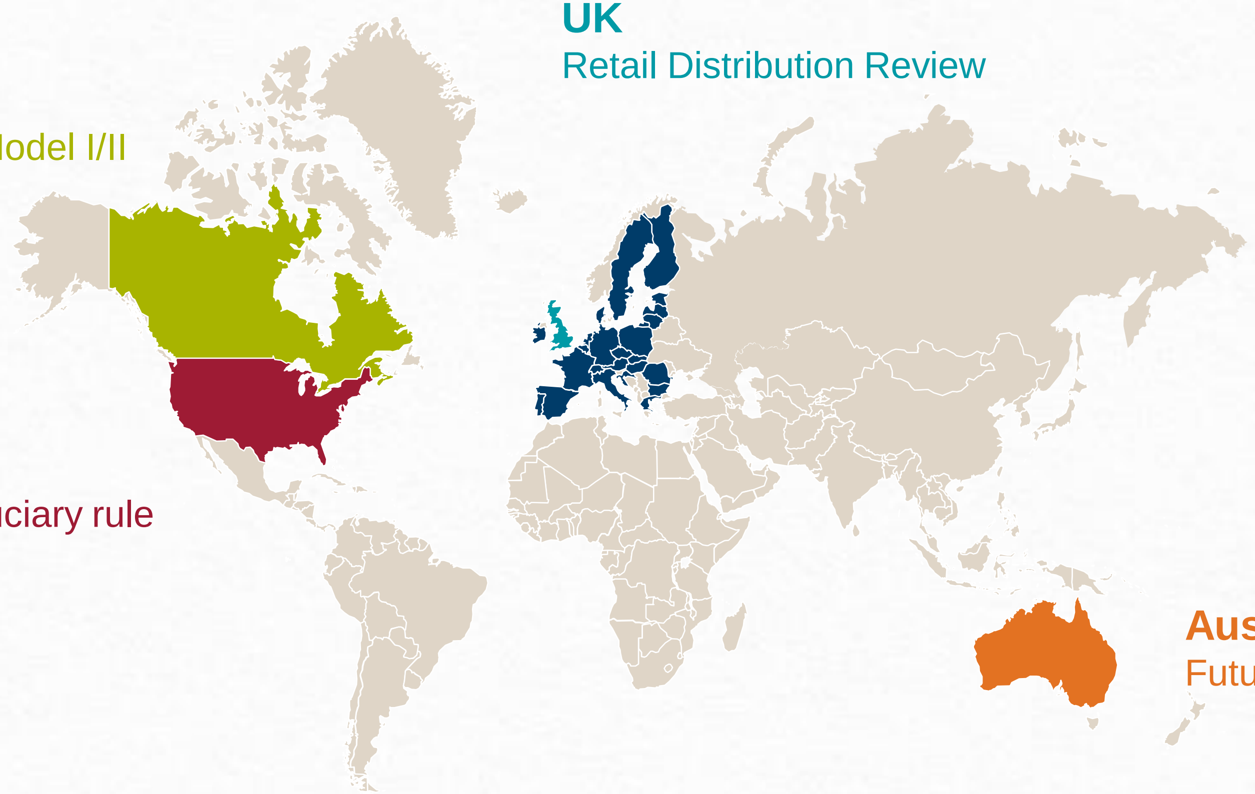
UK 2008 - 2018

Assets under advice

Sources: FCA, Platforum

Regulatory environment – global, not local, considerations

Emphasis on **transparency and disclosure**	Genie is out of the bottle: **“great awakening”** of investors	**Global** phenomenon

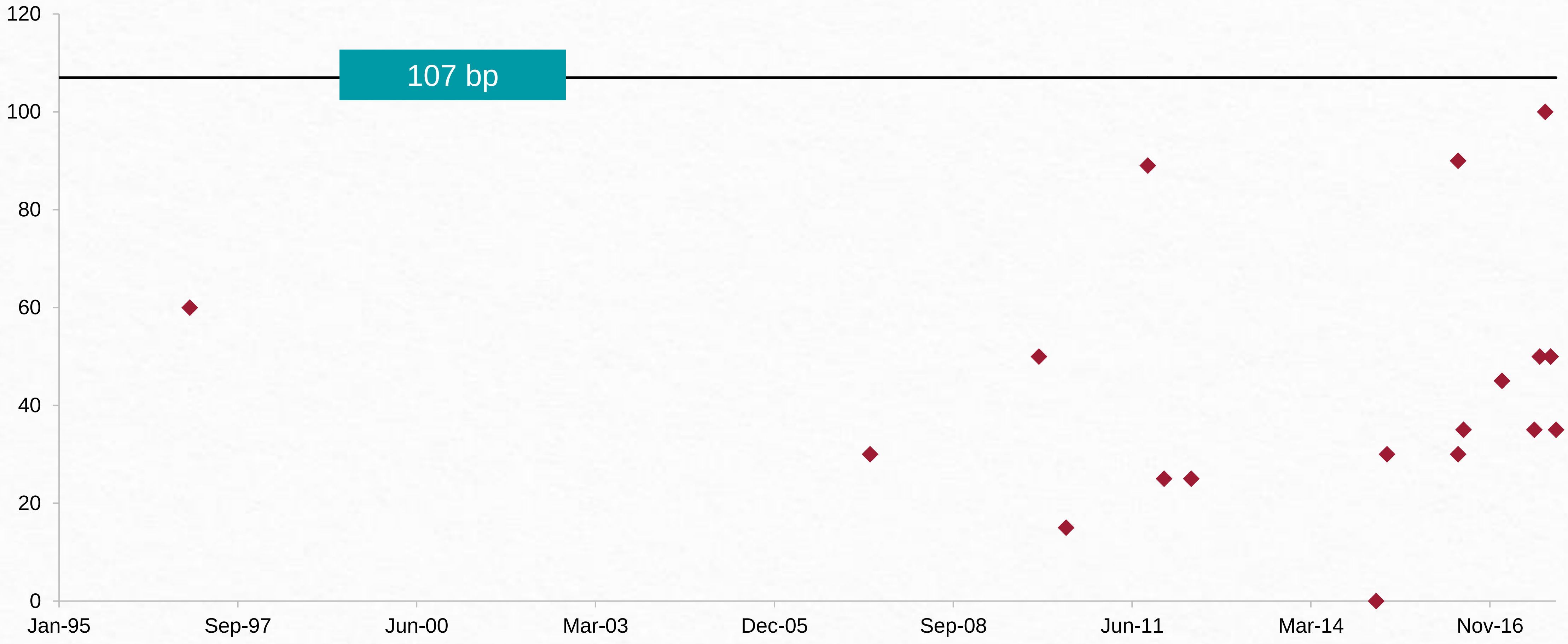


But the landscape is evolving...

	Manufacturing Fund	Administration Platform	Distribution Advice	
2010				bps
2020				bps

Source: Vanguard

The march of tech-enabled advice



Note: Vanguard calculated the asset-weighted average advisory fee to be 107 bp, based on data from Cerulli. Data runs to 31 December 2017.
Source: Vanguard calculations using data from Cerulli and the advice firms' websites.

The four principles of success... **don’t** change

Goals

Balance

Cost

Discipline

The four principles of success... **don’t** change

Setting goals
Prioritising goals
Relationship with money
Intergenerational planning

Goals

Balance

Cost

Discipline

The four principles of success... **don’t** change

Setting goals
Prioritising goals
Relationship with money
Intergenerational planning

Goals

Balance

Portfolio management
Risk profiling
Reporting
Spending strategies

Cost

Discipline

The four principles of success... **don’t** change

Setting goals
Prioritising goals
Relationship with money
Intergenerational planning

Goals

Balance

Portfolio management
Risk profiling
Reporting
Spending strategies

Tax efficiency
Fund recommendations

Cost

Discipline

The four principles of success... **don’t** change

Setting goals
Prioritising goals
Relationship with money
Intergenerational planning

Goals

Balance

Portfolio management
Risk profiling
Reporting
Spending strategies

Tax efficiency
Fund recommendations

Cost

Discipline

Behavioural coaching
Peace of mind
Budgeting
Financial confidence
Financial knowledge

The delivery will change…

Goals

Balance

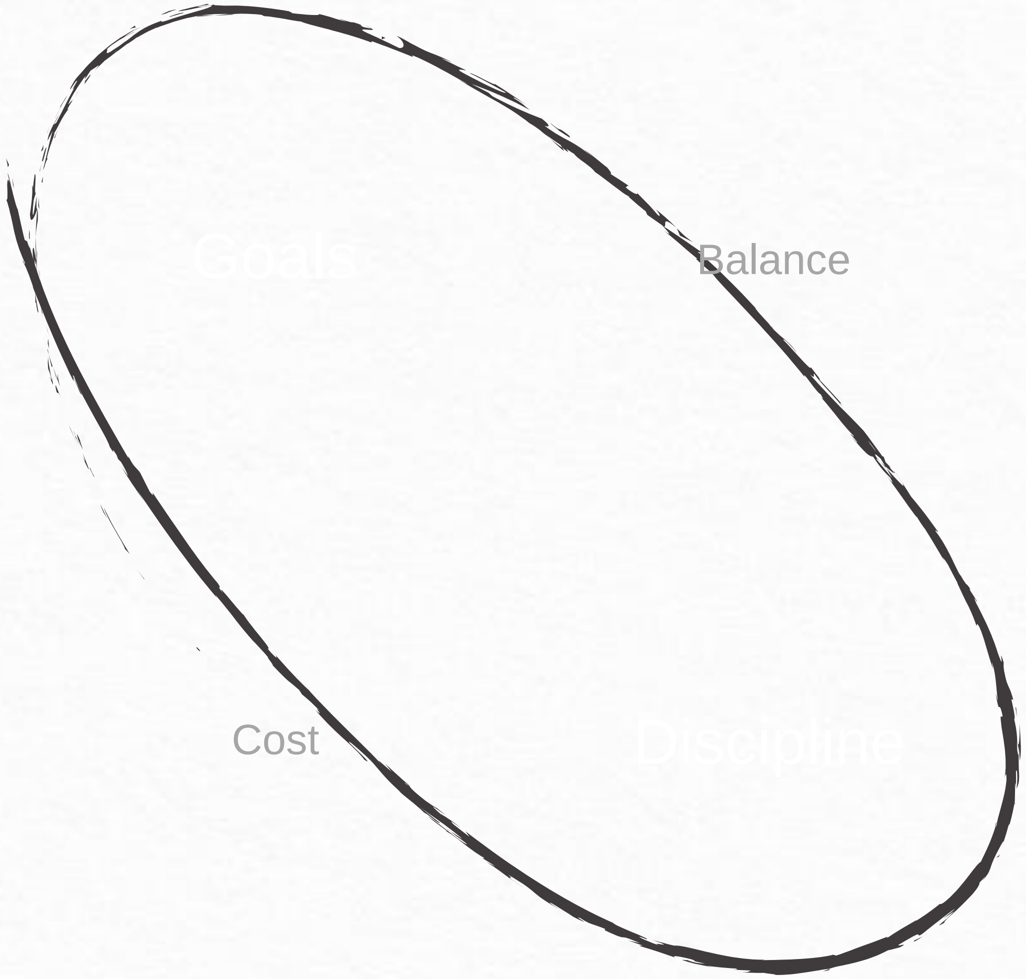
Cost

Discipline

Algorithm

The adviser-client relationship remains key…

Human



Evolution of the adviser

How can the adviser-client relationship be optimised?

The Vanguard 2018 UK Adviser-Client Survey set out to understand how **relationships can drive better outcomes** for advisers and their clients.

How many advisers & clients did we talk to?

300

Advisers

1,000

Advised clients

50

Multi-faceted questions

230k

Individual data-points

Who were they?

Advisers

100% FCA-licensed firms

14% Financial planners

73% Financial advisers

95% Advised on investments

Advised clients

Median age: **54**

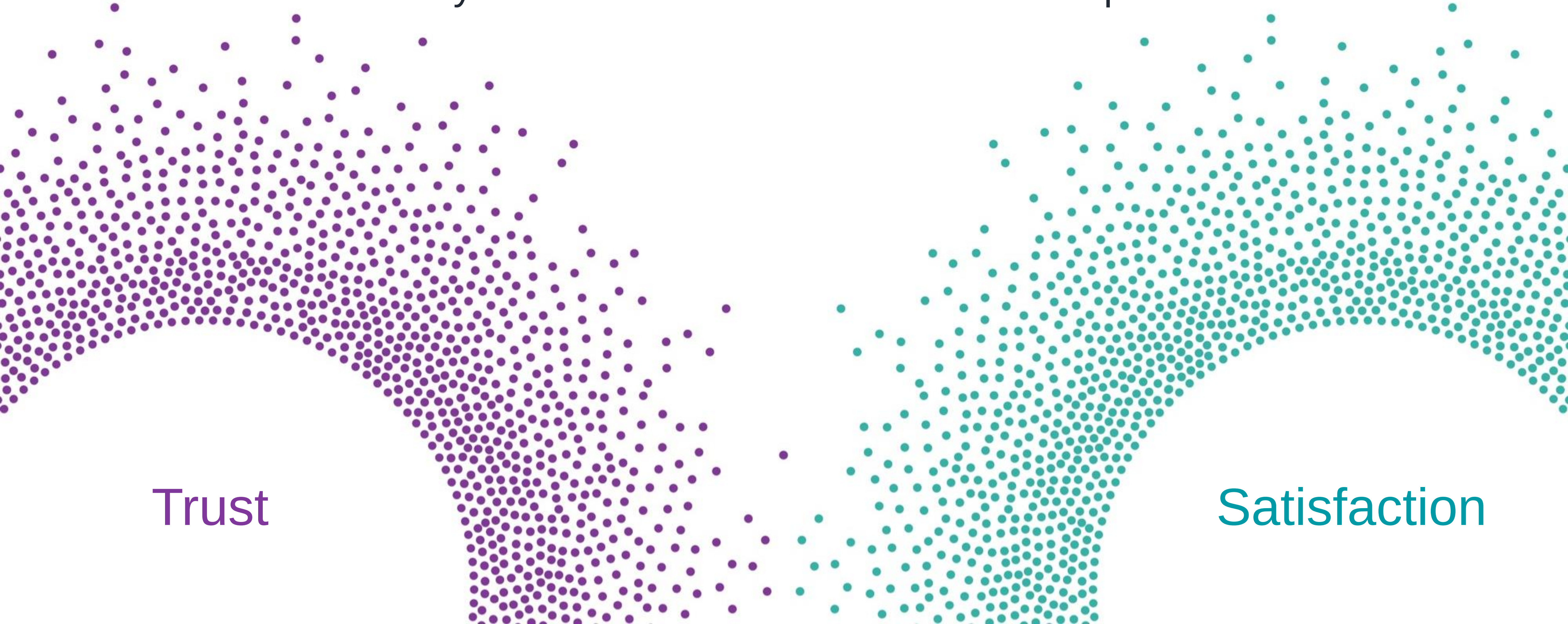
Average tenure with adviser: **4 years**

75% Portfolios of shares and bonds

80% Clients who invest over £10k pa

What did we discover?

The **interplay between trust and satisfaction** is key to effective adviser-client relationships.



Why does it matter?

	All assets with adviser	Very unlikely to switch	Unprompted referral	Comfortable sharing personal information
High trust + high satisfaction	58%	61%	55%	71%
High trust + medium satisfaction	31%	23%	41%	59%
Medium trust + medium satisfaction	21%	9%	32%	46%

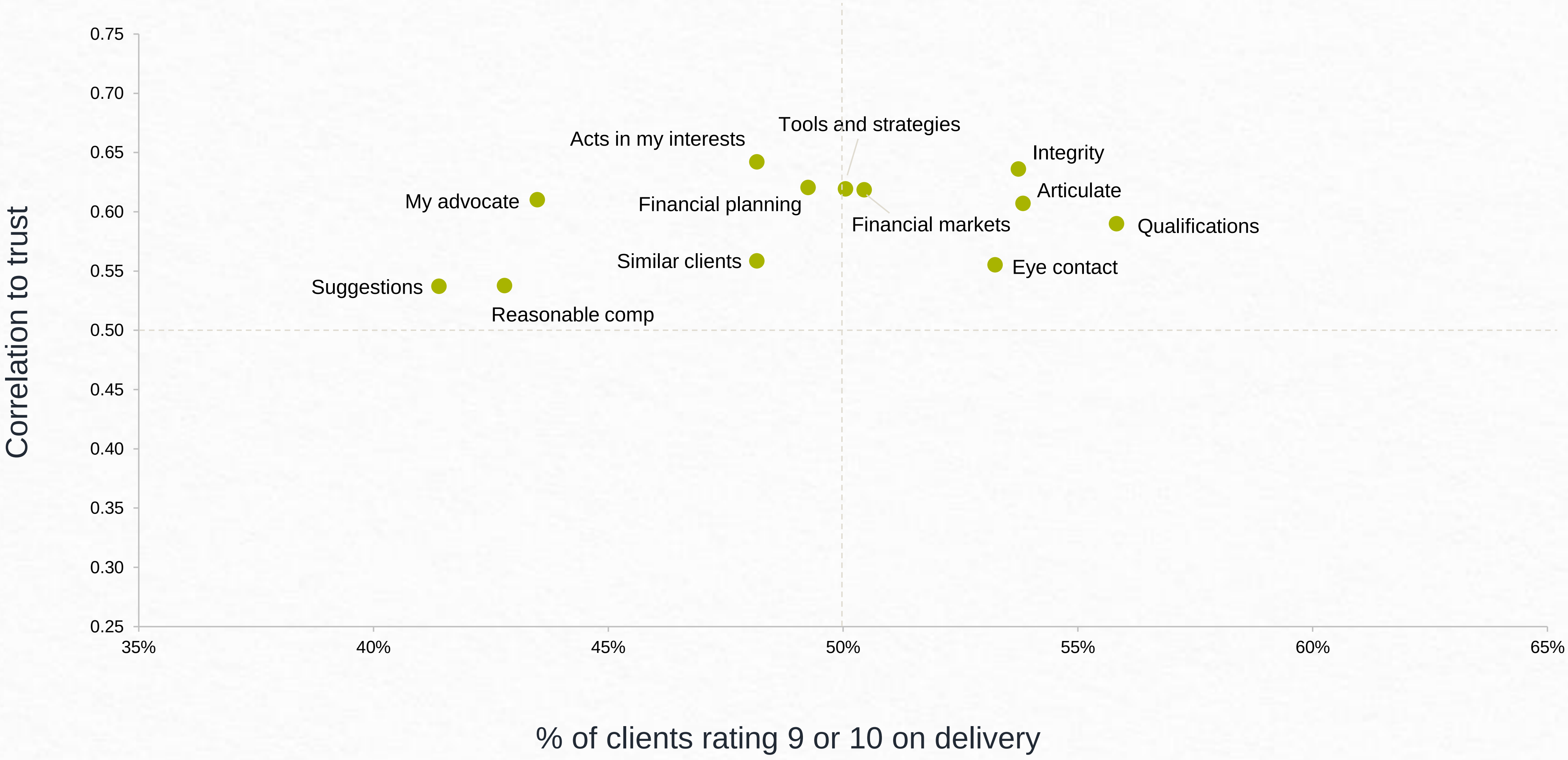
Source: Vanguard 2018 UK Adviser-Client Survey.

What attributes drive trust?

Attribute	Correlation to Trust
Shows awareness of trends in the financial markets	0.68
Demonstrates knowledge of investment tools and strategies	0.67
Knows how to conceive, execute and reassess a financial plan	0.63
Is articulate, a good communicator	0.61
Is able to make suggestions on the spot	0.60
Has clients with similar requirements/experiences to my own	0.59
Has relevant financial industry qualifications	0.59
Is compensated in a reasonable manner	0.58
Maintains eye contact when speaking with me	0.57
Will act in my best interests at all times	0.55
Has integrity; acts morally	0.50
Is my advocate, pursuing my goals (almost) as if they were his/her own	0.50

Source: Vanguard 2018 UK Adviser-Client Survey.

How are clients feeling trust?



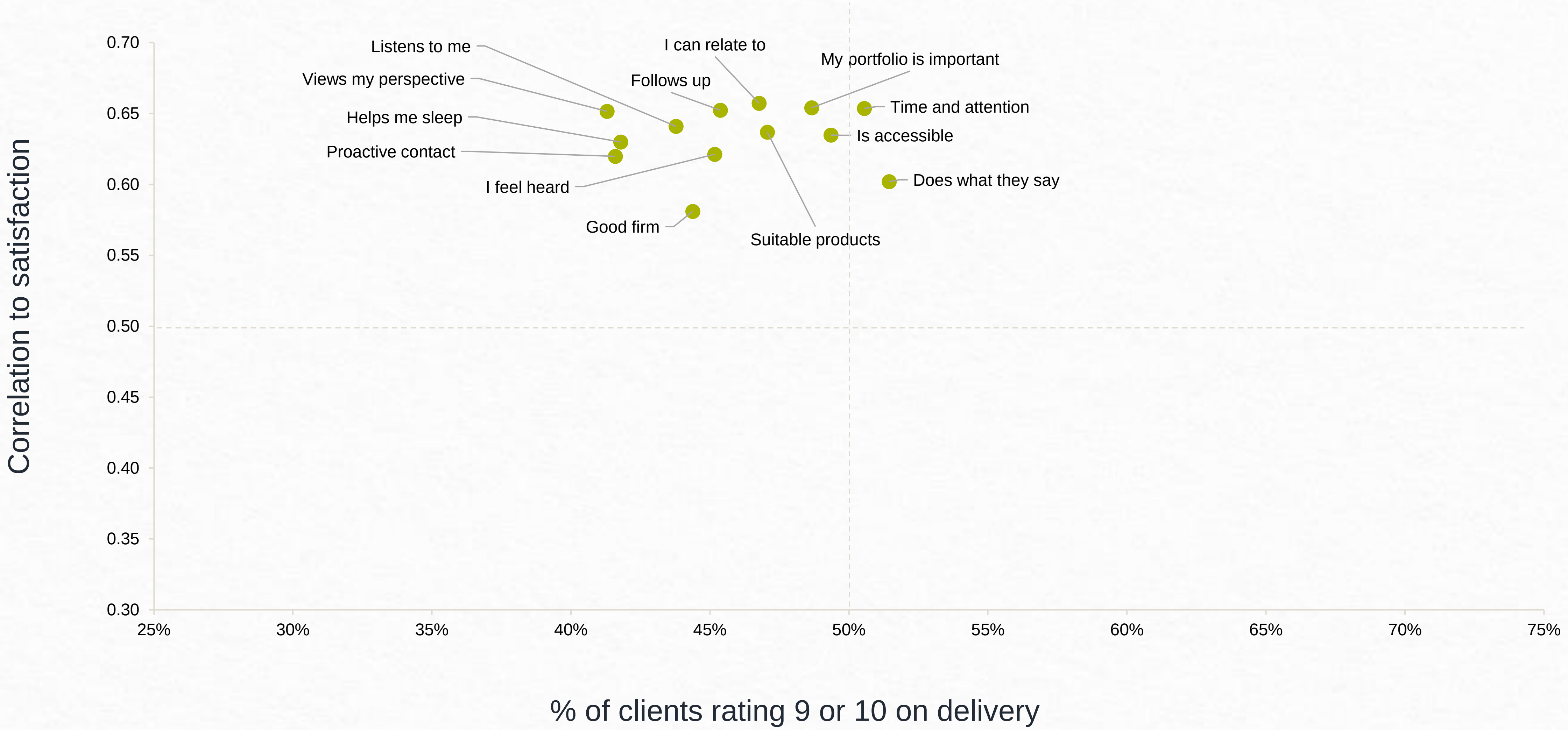
Source: Vanguard 2018 UK Adviser-Client Survey.

What attributes drive satisfaction?

Attribute	Correlation to satisfaction
Follows up when expected and without prompting	0.71
Is someone I can relate to or make a connection with	0.64
Does what he/she says he/she will	0.64
Proactively contacts me regarding my investments/portfolio	0.63
Listens to me closely (probing, following up) to truly understand me as a person	0.63
Is able to view the world from my perspective	0.61
Makes me feel that my portfolio is important, regardless of its size	0.6
Ensures that I feel ‘heard’	0.59
Gives me time and attention without making me feel rushed	0.57
Offers me products or solutions that are in tune with my financial goals/risk tolerance	0.56
Provides me with a sense of relief/allows me to sleep better at night	0.55
Is accessible	0.53
Works for a firm whose brand values/reputation I want to be associated with	0.47

Source: Vanguard 2018 UK Adviser-Client Survey.

How are clients feeling satisfaction?

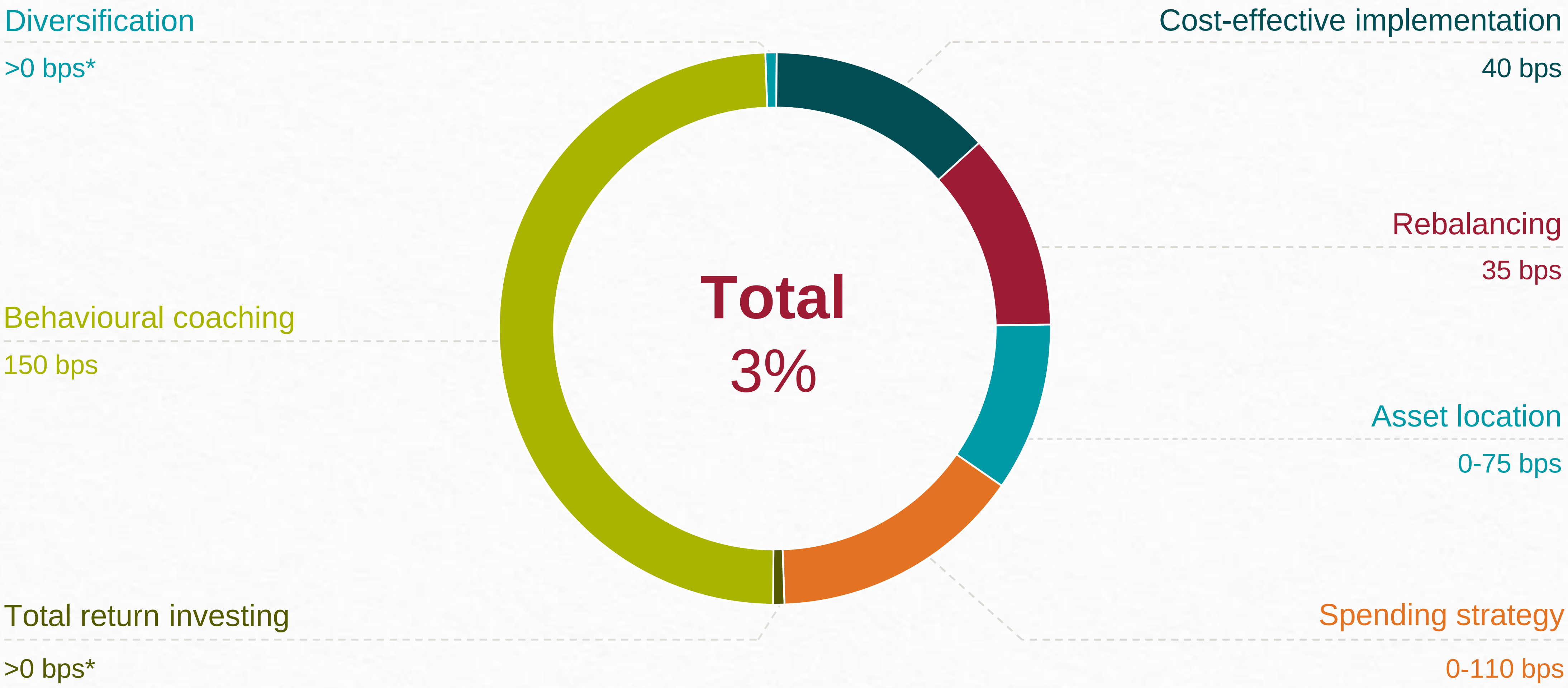


Source: Vanguard 2018 UK Adviser-Client Survey.

The Advantage of Advice

Putting a value on your value – quantifying the value of your advice

Adviser's Alpha framework



Source: Vanguard.

Caveats

Each client is **different**

Not an exhaustive list of tools

About 3% net per annum

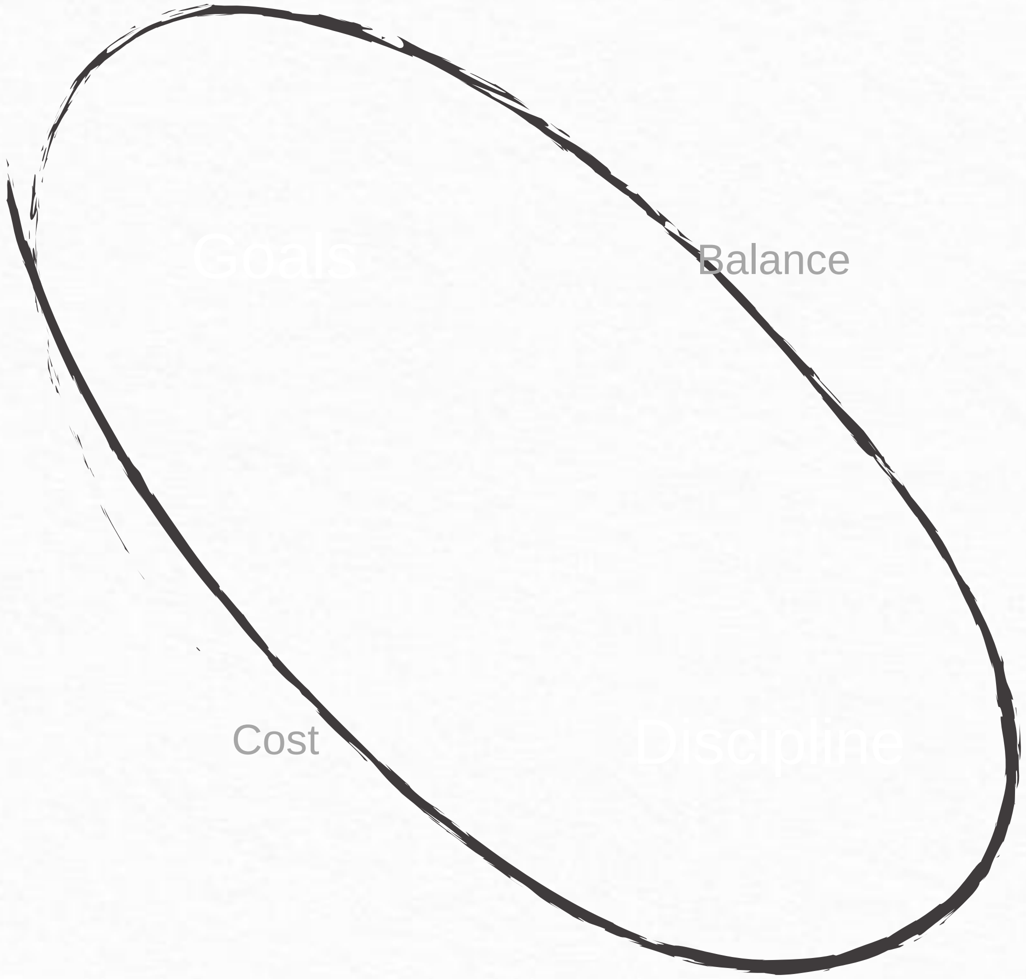
actual value based on **each client's unique circumstances**

Difficult to value the **emotional benefits**

Source: Vanguard.

The adviser-client relationship remains key…

Human

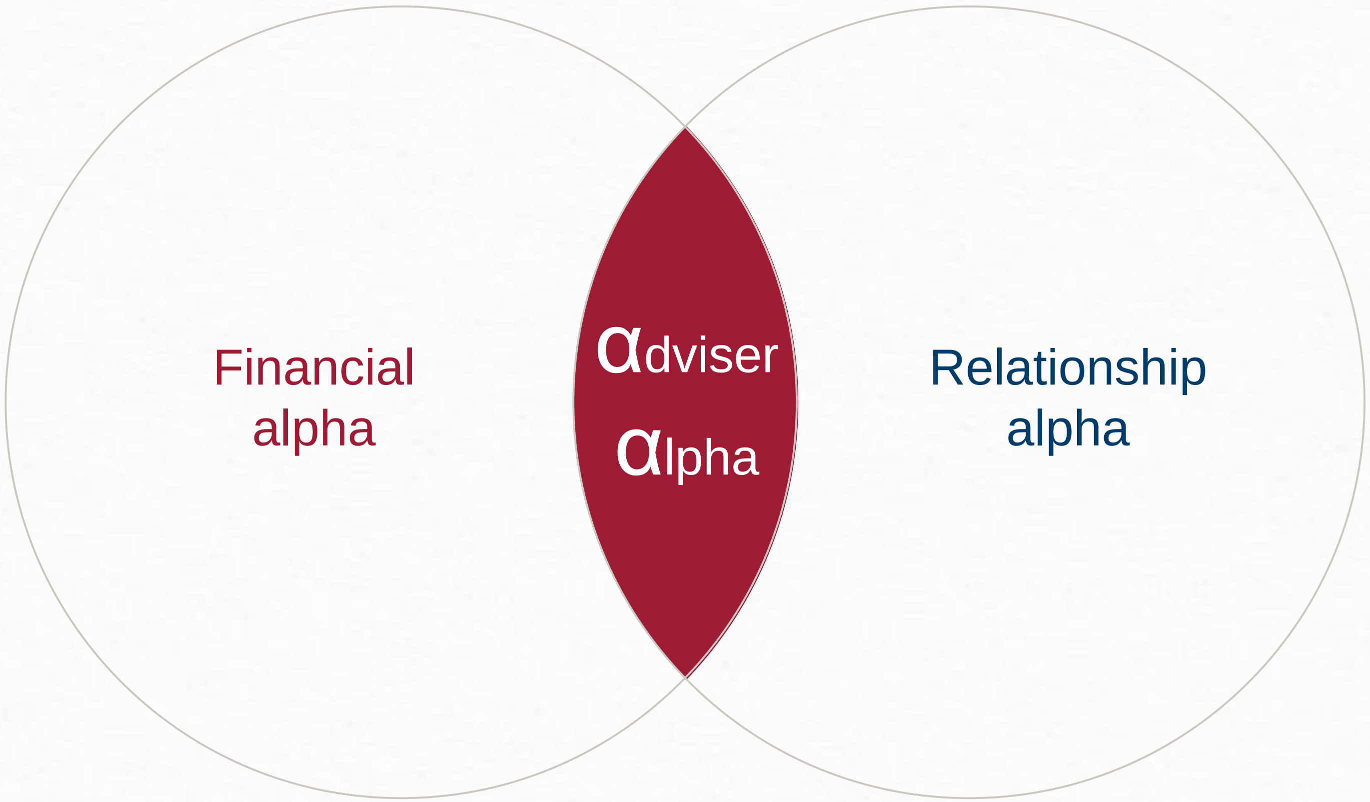


Vanguard Adviser’s Alpha

What is the **adviser's alpha** concept?

1. A **service-centric** model
2. **Adviser's alpha:** reframes the benchmark for the value of advice
3. Success **not solely on outperforming** a cost-free policy portfolio

The opportunity for advisers



Adviser Alpha value components

Vanguard's Adviser's Alpha strategy modules	Module number	Value-add relative to "average" client experience (in basis points of return)
Suitable asset allocation using broadly diversified funds/ETFs	I	> 0* bps
Rebalancing	II	0 - 51 bps
Cost-effective implementation (expense ratios)	III	55 - 59 bps
Behavioural coaching	IV	150 bps
Tax allowances and asset location	V	0 - 21 bps
Spending strategy (withdrawal order)	VI	0 - 21 bps
Total-return versus income investing	VII	> 0* bps
Potential value added		**“About 3% in *net* returns”**

Source: Vanguard

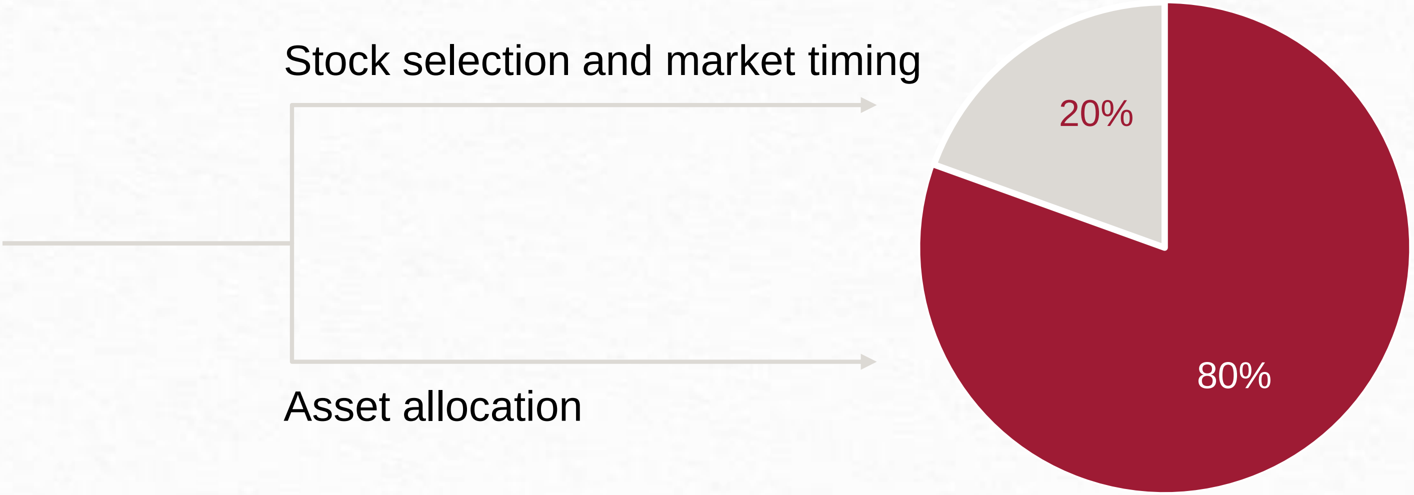
Notes: “About 3%” means 3 percentage points of additional net return over an unspecified period of time. * denotes that return value-add for modules I and VII was deemed significant, but too unique for each investor to quantify. For “Potential value added,” we did not sum the values because there can be interactions between the strategies. Bps = basis points.

Asset allocation

Investment outcomes are largely determined by the long-term mixture of assets in a portfolio

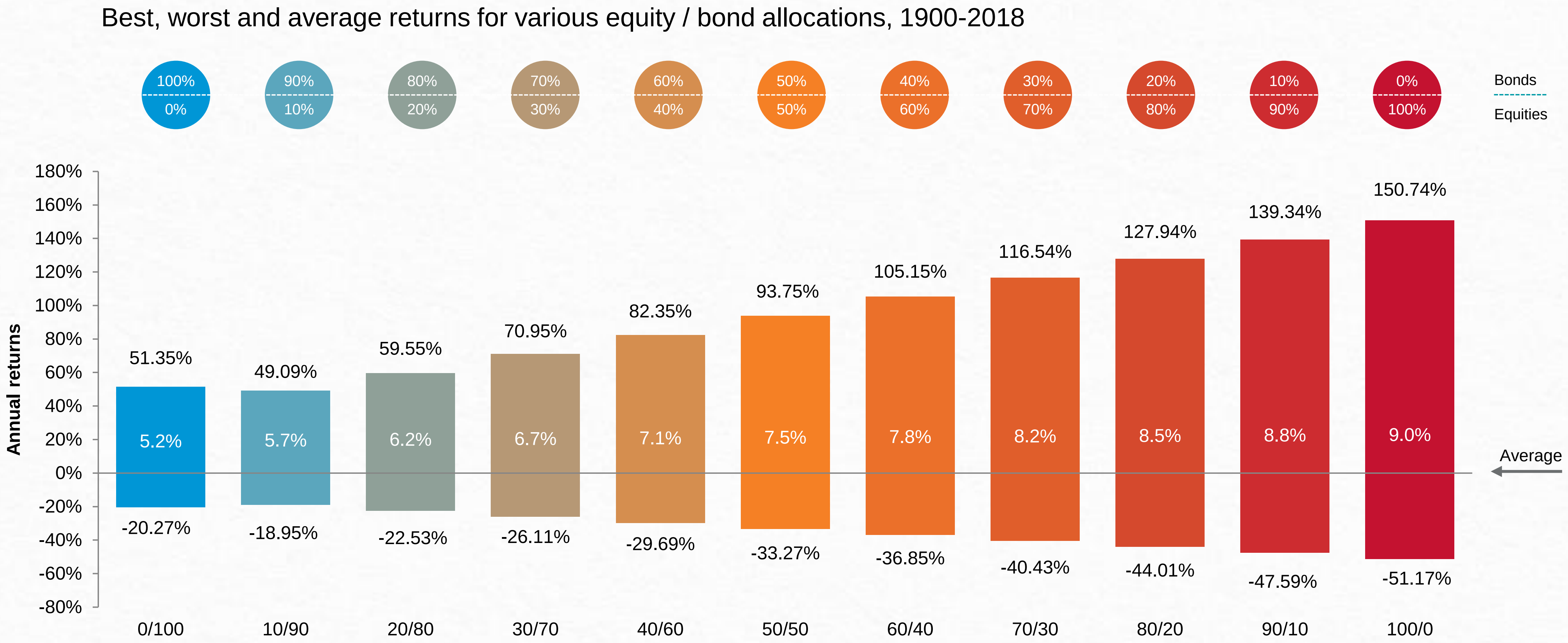
Adviser Alpha value
>0 bps

Percentage of a portfolio's movements over time explained by …



Source: Vanguard calculations using data from Morningstar.
Note: Past performance is not a reliable indicator of future results. Calculations are based on monthly returns for 743 UK balanced funds from January 1990 through September 2015.
For details on the methodology, see the Vanguard research paper The global case for strategic asset allocation and an examination of home bias (Scott et al., 2017).

The mixture of assets defines the spectrum of returns



Source: Vanguard, based on Barclays UK Equity Gilt study, Thomson Reuters, FTSE, MSCI, Citigroup, Bloomberg Barclays and Macrobond.

Notes: Past performance is not a reliable indicator of future results. Reflects the maximum and minimum calendar year returns, along with the average annualised return, from 1900-2018, for various stock and bond allocations, rebalanced annually. From 1900 through 1984, stocks are represented by the Barclays Equity Gilt Study from 1900 to 1964, Thomson Reuter Datastream UK Market Index Jan.1965 – Dec.1969; MSCI UK Jan.1970 - Dec.1985; Thereafter, stocks are represented by MSCI All Country World Index. Bonds are UK as represented by Barclays Equity Gilt Study 1900-1976; FTSE UK Government Index Jan.1977-Dec 1984, Citigroup World Global Bond Index from 1985 through 1989, Barclays Global Aggregate Index thereafter. Returns are in GBP, with income reinvested, through 2018.

Delivering a smoother performance experience

Key index returns (%), ranked by performance

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
23.6	20.3	17.8	28.3	19.6	8.8	35.4	21.1	0.8	25.7
21.3	16.7	15.5	25.2	18.8	5.5	34.1	17.2	0.5	21.6
19.1	6.5	12.8	21.0	14.6	5.4	29.6	16.9	0.1	20.2
16.7	5.8	12.3	20.8	12.5	4.0	25.5	13.8	-0.4	19.2
14.5	2.1	12.0	13.6	11.3	2.5	25.4	13.1	-2.2	15.5
12.7	1.2	11.2	11.1	9.4	1.4	21.2	11.3	-3.1	15.2
8.9	-3.5	10.7	1.6	7.9	1.0	18.3	8.7	-3.4	13.7
8.7	-6.6	9.3	0.6	7.9	0.7	16.8	4.9	-7.6	9.3
7.5	-12.6	5.9	0.0	2.8	0.5	12.3	2.5	-8.0	7.6
5.8	-14.7	2.9	-4.2	1.2	-1.1	10.7	2.0	-9.1	6.9
4.8	-18.4	0.6	-5.3	-1.4	-10.3	3.7	1.9	-9.5	6.3

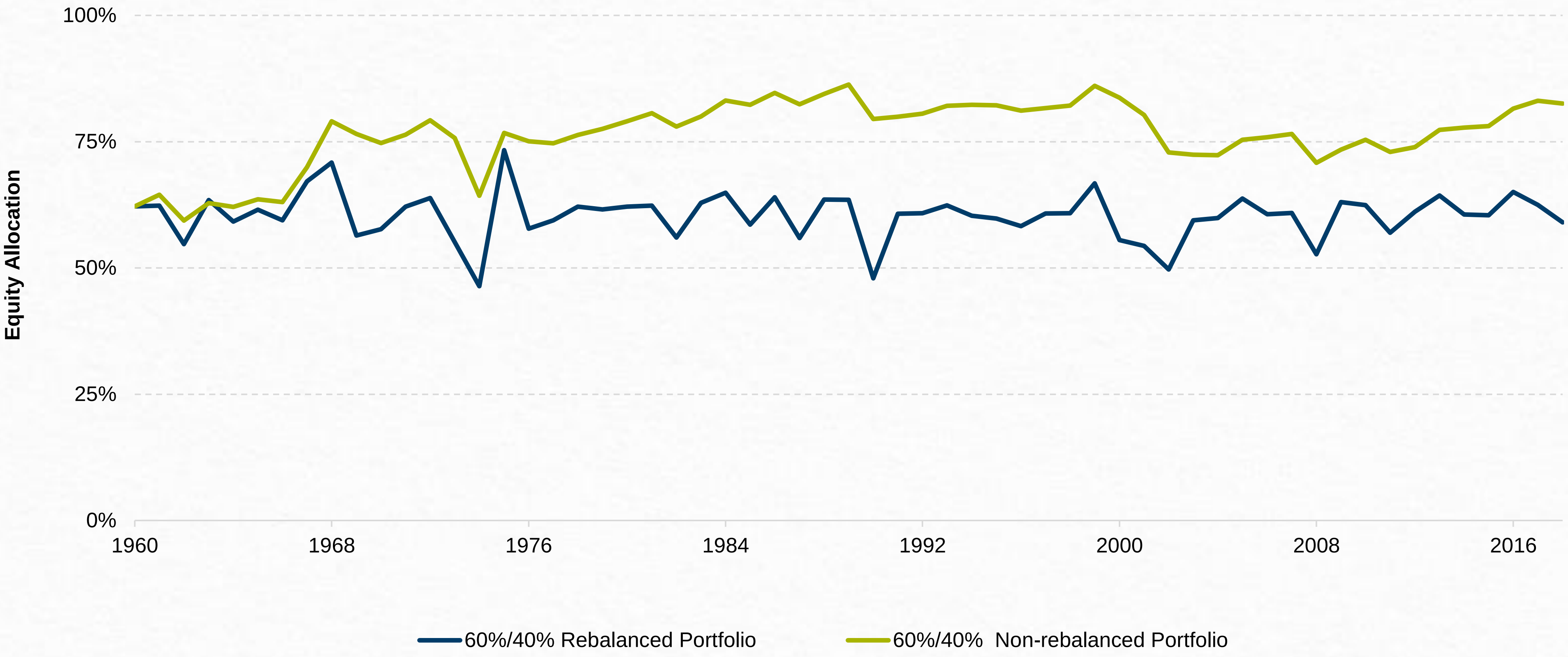
Global equities
North American equities (US/Canada)
Emerging market equities
Developed Asia equities
European ex UK equities
UK equities
UK government bonds (gilts)
UK index-linked gilts
UK investment grade corporate bonds
Hedged global bonds
Vanguard LifeStrategy 60% Equity Fund

Past performance is not a reliable indicator of future results.
Source: Vanguard calculations, using data from Barclays Capital and Thompson Reuters Datastream. UK equity is defined as the FTSE All Share Index, European ex-UK equity as the FTSE All World Europe ex-UK Index, developed Asia equity as the FTSE All World Developed Asia Pacific Index, North America equity as the FTSE World North America Index, emerging market equity as the FTSE Emerging Index, global equity as the FTSE All World Index, UK government bonds as Bloomberg Barclays Sterling Gilt Index, UK index-linked gilts as Bloomberg Barclays Global Inflation-Linked UK Index, hedged global bonds as Bloomberg Barclays Global Aggregate Index (hedged in GBP), UK investment grade corporate bonds as Bloomberg Barclays Sterling Corporate Index. Returns are denominated in GBP and include reinvested dividends and interest.

LifeStrategy 60% Equity Fund performance shown is cumulative and includes the reinvestment of all dividends and any capital gains distributions. The performance data does not take account of the commissions and costs incurred in the issue and redemption of shares. Basis of fund performance NAV to NAV. Please be advised that the performance of the LifeStrategy 60% Equity Fund from 1/1/2008 to 23/06/2011 is simulated. Simulated performance figures do not represent actual fund activity, and may not take account of relevant economic and market factors impacting actual fund performance. Simulated and actual past performance is not a reliable indicator of future results.

Rebalancing

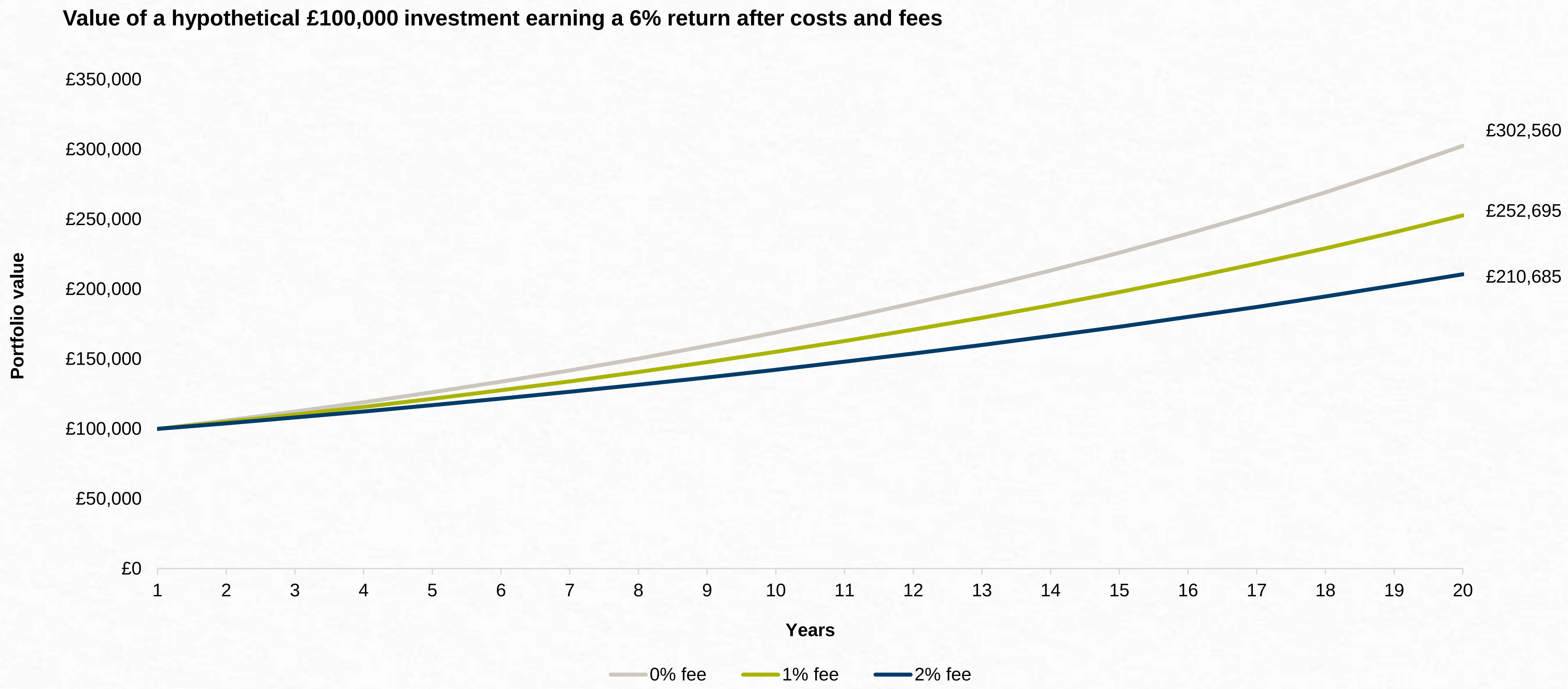
Equity allocation of 60%/40% equity/bond portfolio rebalanced annually and non-rebalanced, 1960-2018



Source: Vanguard, based on Barclays UK Equity Gilt study, Thomson Reuters Datastream, FTSE, MSCI, Citigroup, Bloomberg Barclays and Factset.
Notes: Past performance is not a reliable indicator of future results. Equities are represented by the Barclays Equity Gilt Study from 1960 to 1964, the Thomson Reuters Datastream UK Market Index from Jan.1965 – Dec.1969; the MSCI UK from Jan.1970 – Dec.1985; thereafter, equities are represented by the MSCI All Country World Index. Bonds are represented by the Barclays Equity Gilt Study from 1960 – 1976; the FTSE UK Government Index from Jan.1977 – Dec 1984, the Citigroup World Global Bond Index from 1985 to 1989 and the Bloomberg Barclays Global Aggregate Index thereafter. Returns are in sterling, with income reinvested, to 31 December 2018.

Cost effective implementation

Costs, like interest, compound over time



Source: Vanguard

Notes: For illustrative purposes only. Shows the returns of a hypothetical £100,000 investment earning a 6% return after costs and fees of 0%, 1%, and 2% per year, respectively, over 20 years. Not representative of any actual investment.

Expense ratios

Adviser Alpha value
55-59 bps

Asset-weighted expense ratios versus "low-cost" investing

Equity/bond mix:	100%/0%	80%/20%	60%/40%	50%/50%	40%/60%	20%/80%	0%/100%
Asset-weighted expense ratio (AWER)	0.80	0.81	0.81	0.81	0.81	0.81	0.82
Quartile 1 AWER (Q1)	0.25	0.25	0.24	0.24	0.24	0.23	0.23
Cost-effective implementation (AWER vs. Q1)	0.55	0.56	0.57	0.57	0.57	0.58	0.59

Sources: Vanguard calculations, based on data from Morningstar, Inc., as at 31 December 2018.
Notes: Fund universe includes funds available for sale in the UK, from the following Morningstar categories: UK equity – flex cap, large-cap blend, large-cap growth, large-cap value, mid-cap, small-cap; Europe equity – Europe OE: flex-cap, large-cap blend, large-cap growth, large-cap value, mid-cap, small-cap; Euro zone equity – flex-cap, large-cap, mid-cap, small-cap; Global – flex-cap, large-cap blend, large-cap growth, large-cap value, mid-cap, small-cap; US equity – flex-cap, large-cap blend, large-cap growth, large-cap value, mid-cap, small-cap; Emerging markets equity – emerging markets; Europe bond – EUR diversified; US bond – USD diversified; Global bond – global un-hedged bond; UK bonds – UK diversified, UK government.

Behavioural coaching

Behavioral coaching can add **percentage points** - rather than basis points – of value to the relationship

Adviser Alpha value
150 bps

Investors commonly receive **much lower returns** from the funds in which they invest

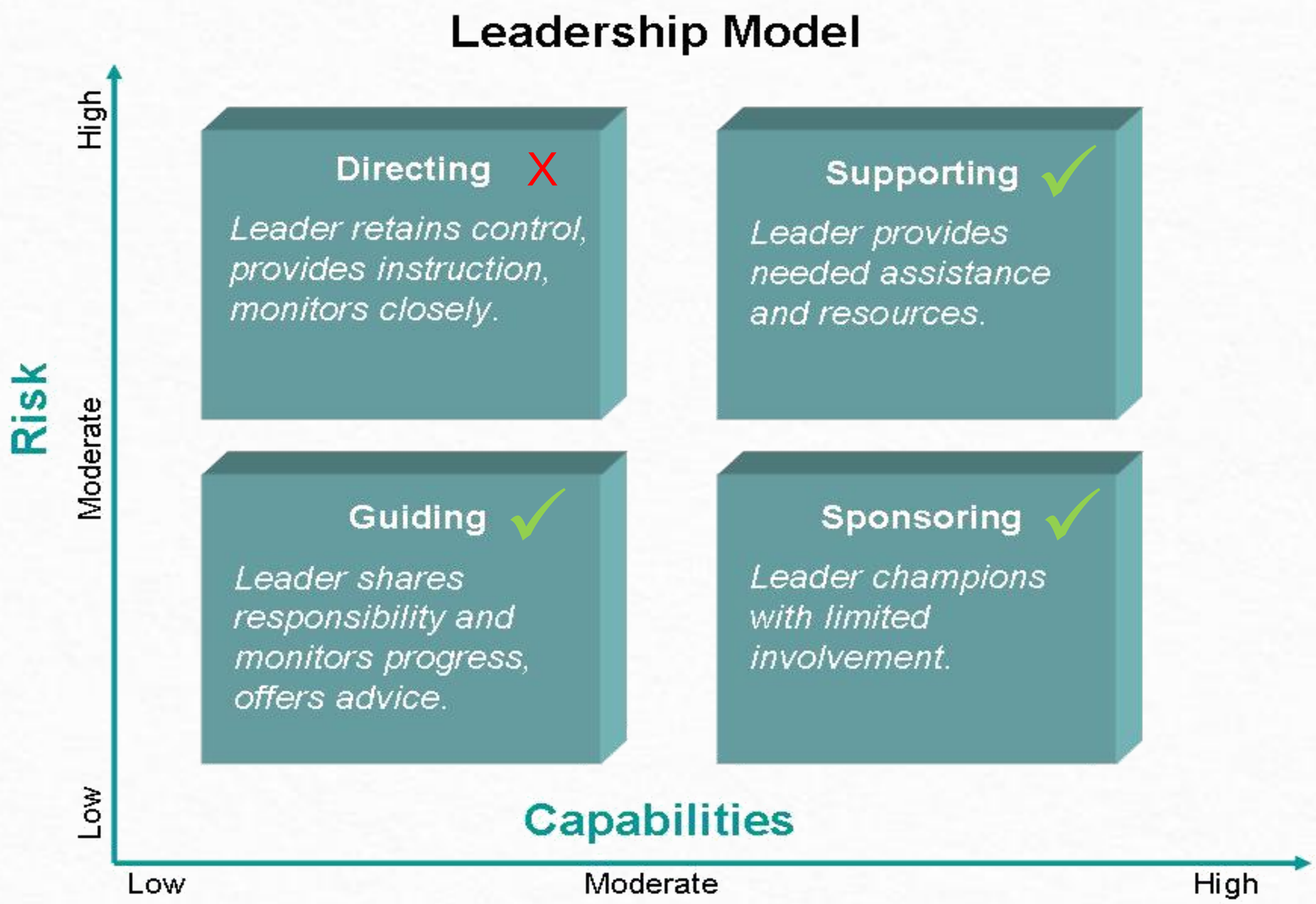
This drag is significantly **more pronounced for more concentrated or narrow funds**

This drag is much **lower for broad index funds**

Defining coaching: A leadership style

Coaching is a **leadership style** that helps **unlock people’s potential** to maximise their performance

Defining coaching: When not to use it?



Defining client coaching: When to use it?

When a client…

- **asks for advice**, observations, feedback, support
- faces an **extremely challenging task**
- has **poor past experience** of financial services e.g. bank/previous adviser/been sold a product which is inconsistent with goals or does not meet their expectations
- demonstrates a **negative attitude**
- states a **need to improve** their understanding of life
- gets stuck and is **not able to make a decision** / e.g. investment decisions
- **needs clarity** in financial planning

Any more examples from your experiences?

What are behavioural biases?

There are two types:

Cognitive

Biases based on errors of perception, memory, judgment or reasoning.

- Based on errors of logic
- Therefore, relatively easier to correct

How broad is the subject?

Wikipedia lists 91 cognitive biases

Ambiguity effect	Contrast effect	Hindsight bias	Negativity effect	Reactive devaluation
Anchoring	Curse of knowledge	Hostile media effect	Negativity bias	Recency illusion
Attentional bias	Decoy effect	Hot-hand fallacy	Neglect of probability	Restraint bias
Availability heurist	Denomination effect	Hyperbolic discounting	Normalcy bias	Rhyme as reason effect
Availability cascade	Distinction bias	Identifiable victim effect	Not invested here	Risk compensation
Backfire effect	Duration neglect	IKEA effect	Observer- expectancy bias	Selective perception
Bandwagon effect	Empathy gap	Illusion of control	Omission bias	Semmelweis reflext
Base rate fallacy	Endowment effect	Illusion of validity	Optimism bias	Social comparison bias
Belief bias	Essentialism	Illusory correlation	Ostrich effect	Social desirability bias
Bias blind spot	Exaggerated expectation	Impact bias	Outcome bias	Status quo bias
Cheerleader effect	Experimenter's bias	Information bias	Post-purchase rationalisation	Stereotyping
Choice-supportive bias	Focusing effect	Insensitivity to sample size	Overconfidence effect	Subadditivity effect
Clustering illusion	Forer / Barnum effect	Irrational escalation	Pareidolia	Subjective validation
Confirmation bias	Framing effect	Less-is-better effect	Pessimism bias	Survivorship bias
Congruence bias	Frequency illusion	Loss aversion	Planning fallacy	Time-saving bias
Conjunction fallacy	Functional fixedness	Mere exposure effect	Pro-innovation bias	Unit bias
Conservatism or regression bias	Gambler's fallacy	Money illusion	Pseudocertainty effect	Well travelled road effect
Conservatism (Bayesian)	Hard-easy effect	Moral credential effect	Reactance	Zero-risk bias
				Zero-sum heuristic

We don’t have time to cover all of these

What are behavioural biases?

There are two types:

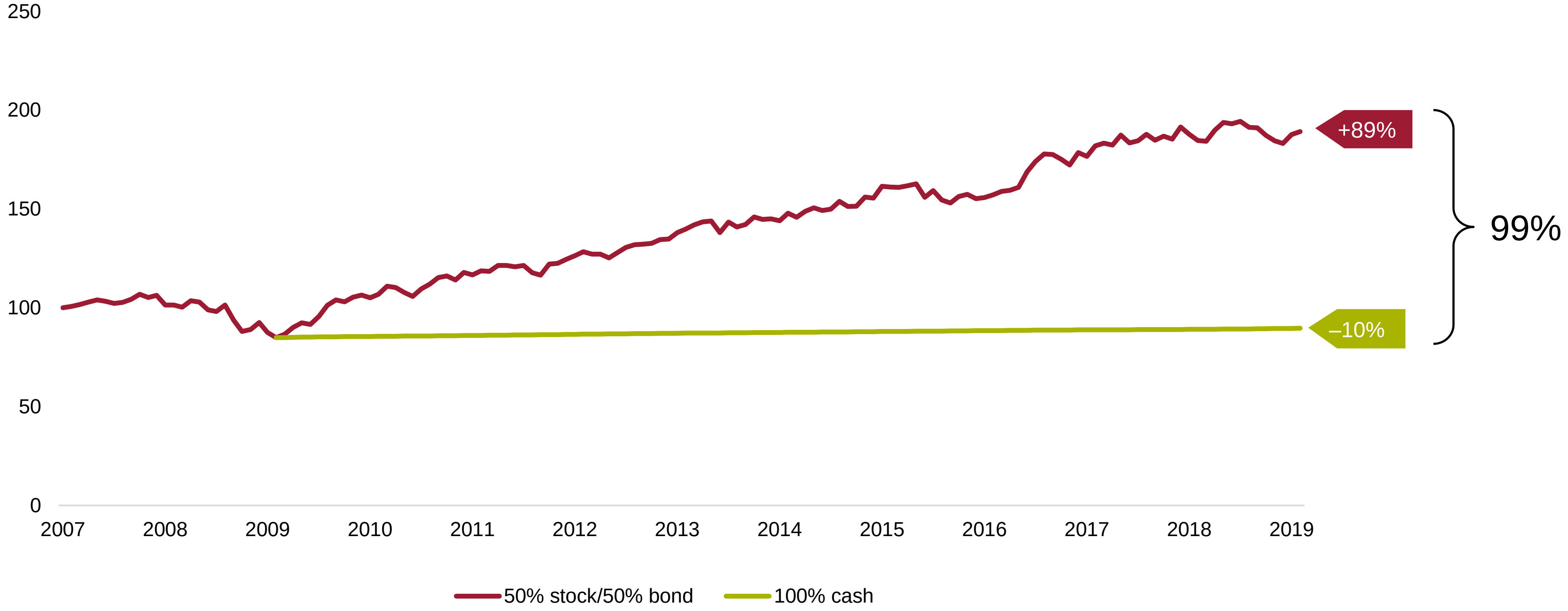
Emotional

The tendency to believe things that give us a good feeling and disbelieve things that make us feel uncomfortable.

- Based on emotional factors
- As a result, more difficult to change

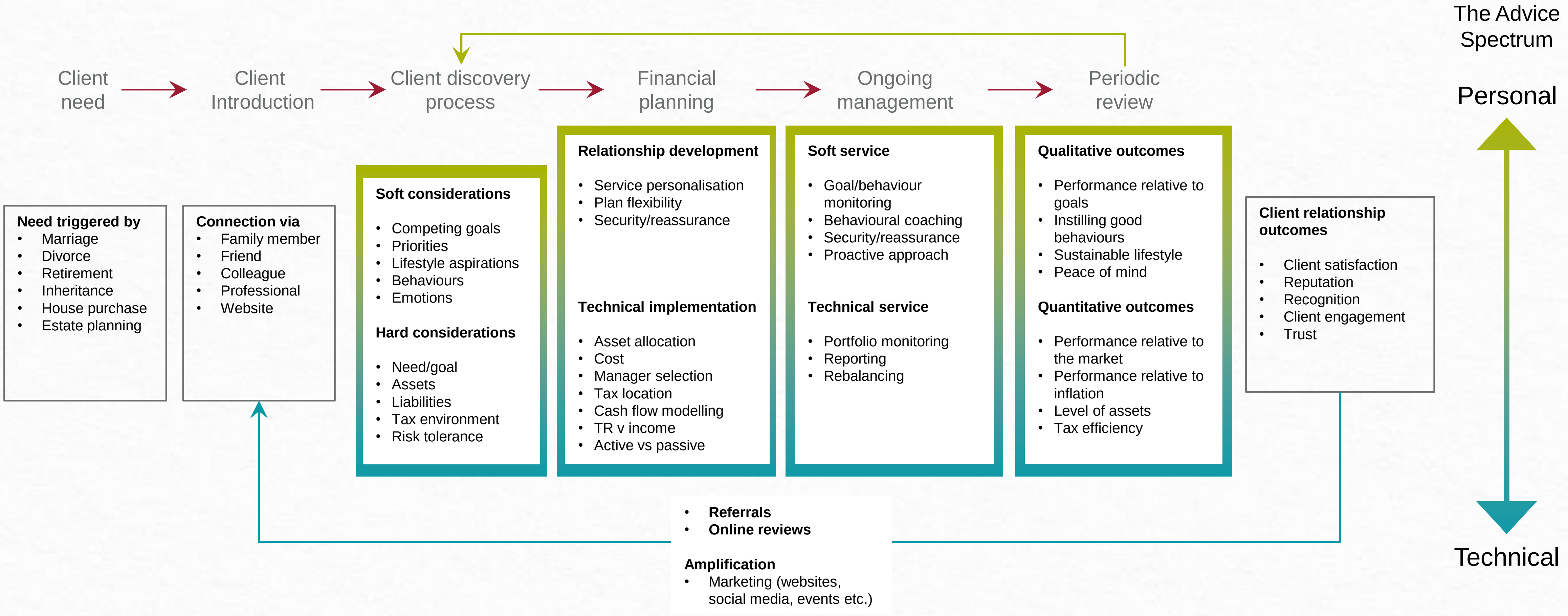
4. Behavioural coaching: The importance of discipline

Value of a hypothetical £100 invested at the beginning of 2007



Past performance is not a reliable indicator of future results.
Source: 50% stock/50% bond portfolio represented by 50% FTSE 100 Index and 50% Bloomberg Barclays Sterling Aggregate Bond Index (rebalanced monthly). 100% cash represented by ICE LIBOR 1-month GBP. Data provided by Morningstar, Inc. and Vanguard calculations. Data as of December 31, 2018. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Map of client-adviser journey



Good for clients. Good for your business.

Clients who think that their adviser adds significant value are:

- ✓ More confident they will reach their goals
- ✓ More loyal
- ✓ More profitable
- ✓ More likely to provide referrals

Conclusion

1

Working with an advisor can **add “about 3%” in net returns** by following the Vanguard Adviser’s Alpha framework

2

While the value of this wealth creation is certainly real, it **does not show up on any client statement**

3

The Vanguard Adviser’s Alpha framework is not only good for your clients but **also good for your practice**

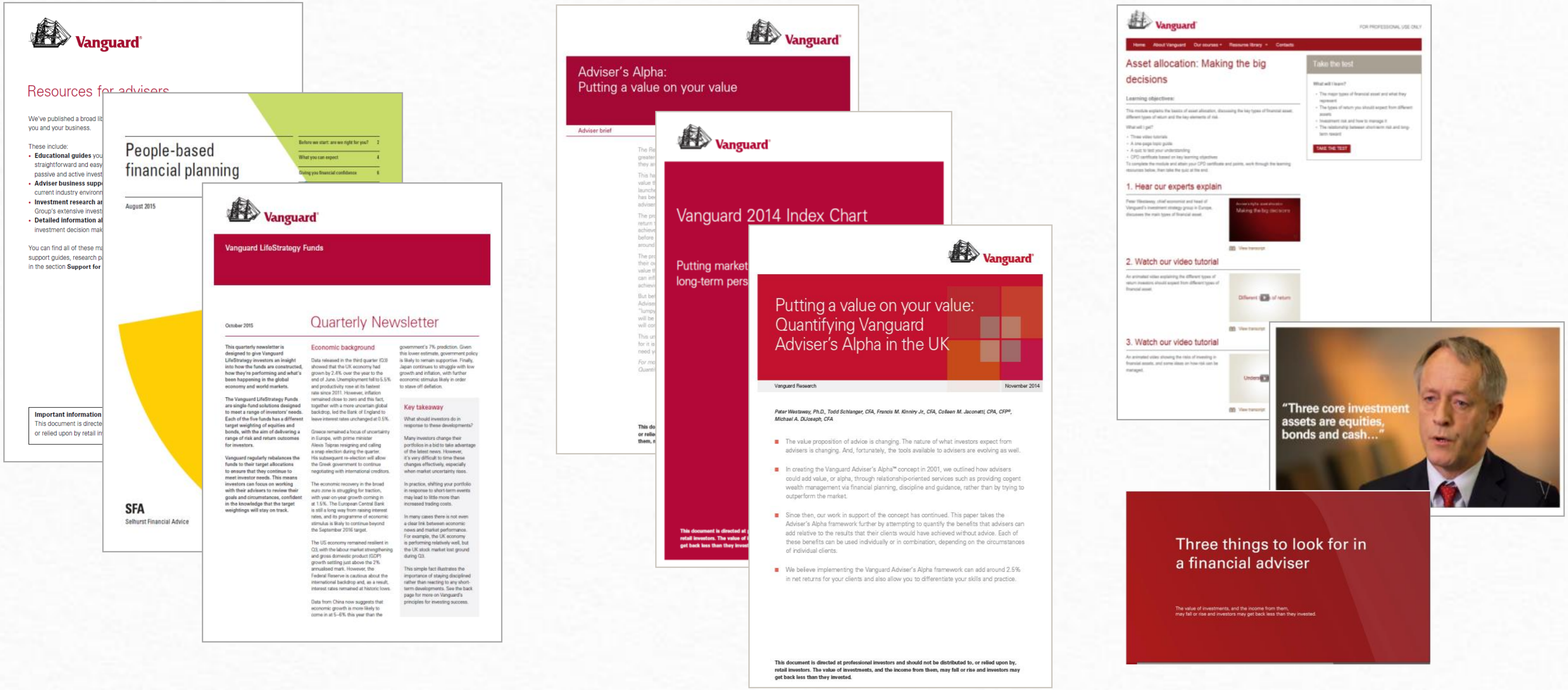
Supporting advice through research

A Crucial Decision

https://vimeo.com/showcase/6002725/video/337318557

Password: LeoVan01

Committed to advice | Committed to advisers



Question Time…..

Q&A

Investment risk information

The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

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