



**Vanguard**

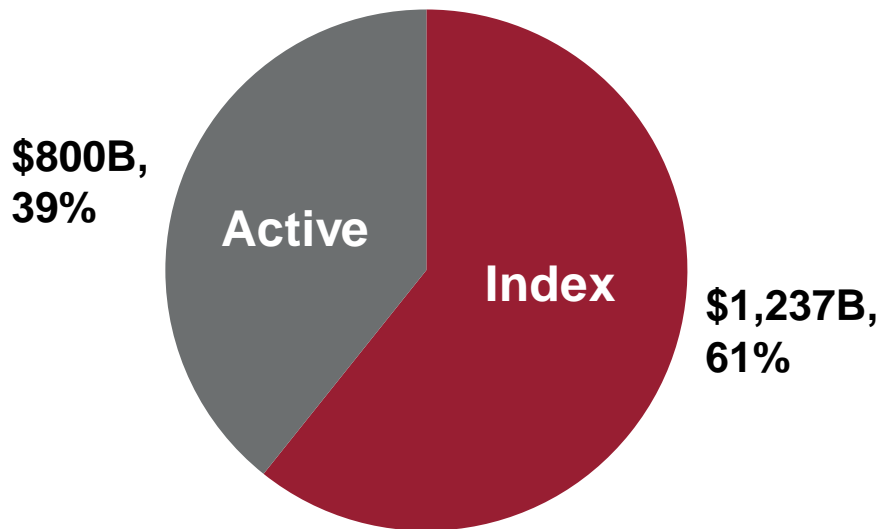
## The Adviser as Alpha

Nick Blake  
Head of Retail  
Vanguard Asset Management

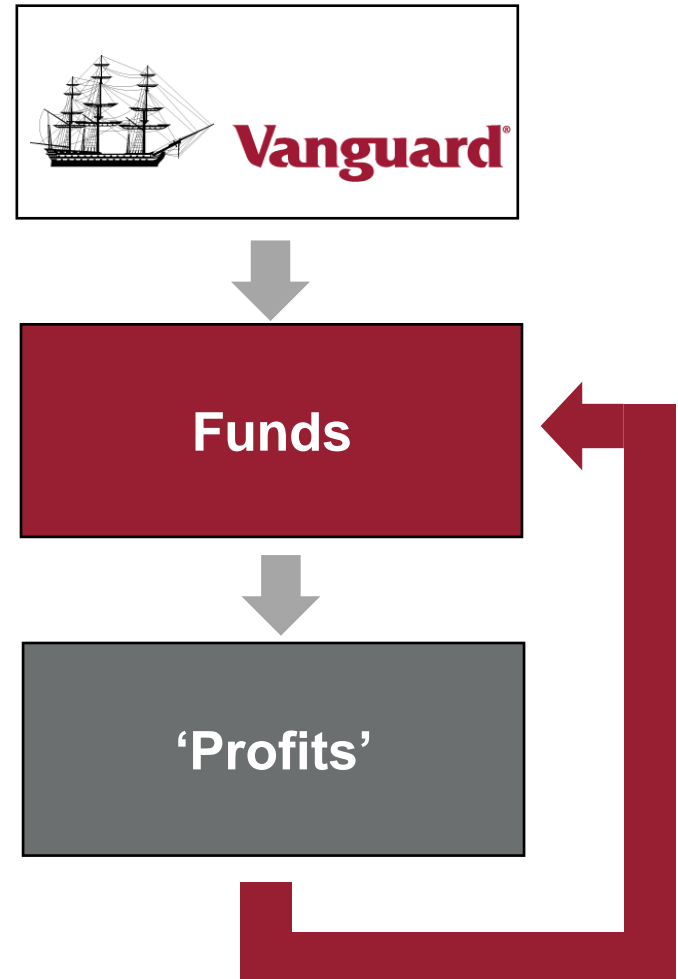
# The Vanguard Group

- The Vanguard Group launched in 1975
- \$2.0 trillion in assets under management
- More than 10,000 institutional clients
- 20 million customers in 80 countries
- Offices in 13 locations and 12,500 employees

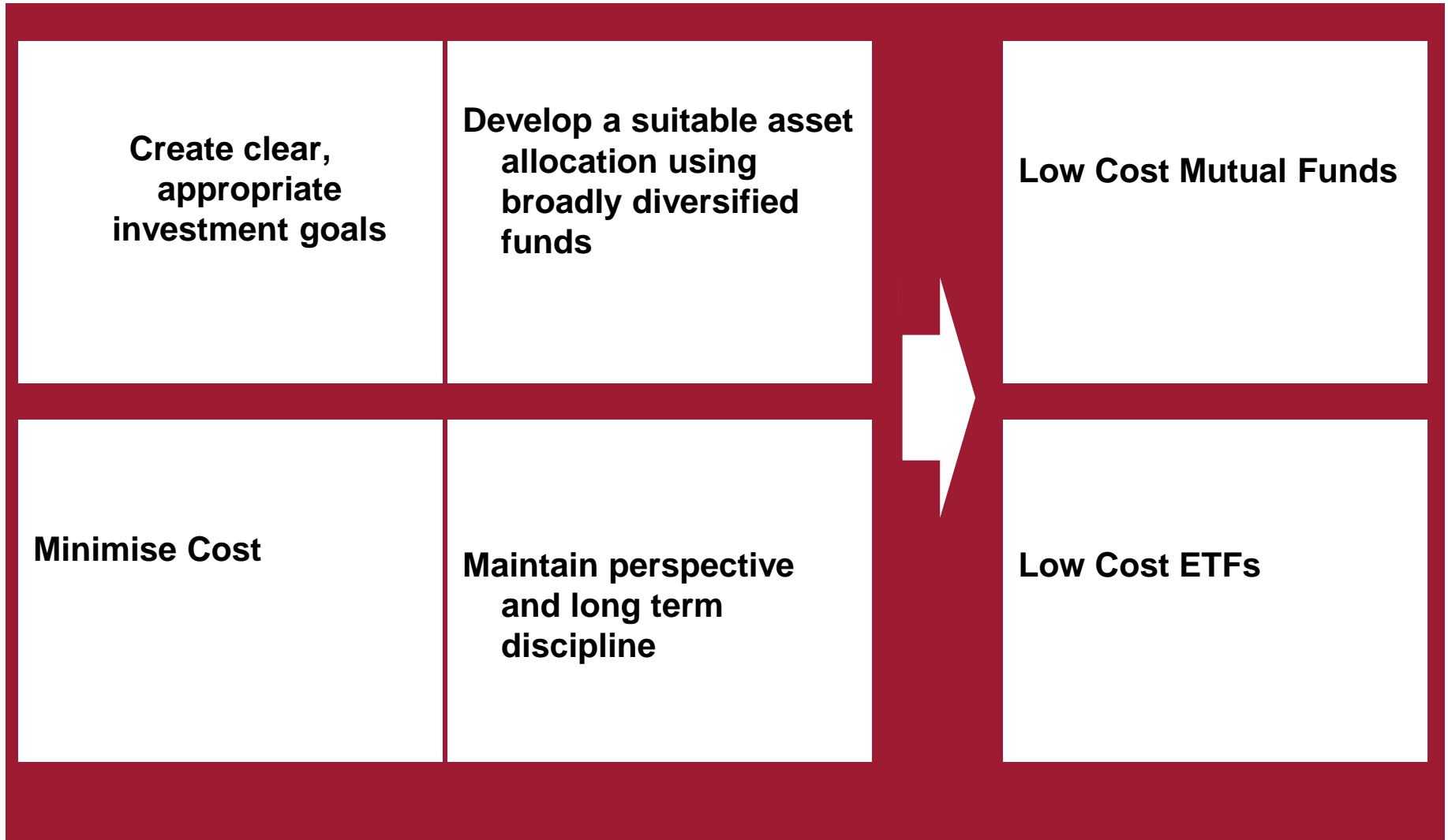
Vanguard Assets under Management (\$B)



A “mutual” mutual fund company



# Vanguard's Principles for Investing Success



# Discussion Points

- 1 What's the problem we are trying to solve?**
- 2 What's the secret to creating a fun, safe, valuable business?**
- 3 "As promised....."**
- 4 Meet my friend John**

# What's the problem ? The birth of RDR

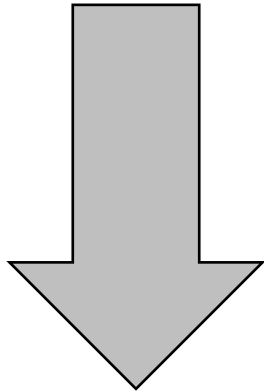
- **“Is the present business model bust?”**
- **Callum McCarthy, FSA Chairman – Gleneagles September 2006**
- **“Incentives matter. They change behaviour”**
- **“Product and Provider bias is clear”**
- **“ Key question – who is the client of the provider? The investor or the distributor?”**

# What's been the Regulatory response?

Disclosure

Regulate  
Product

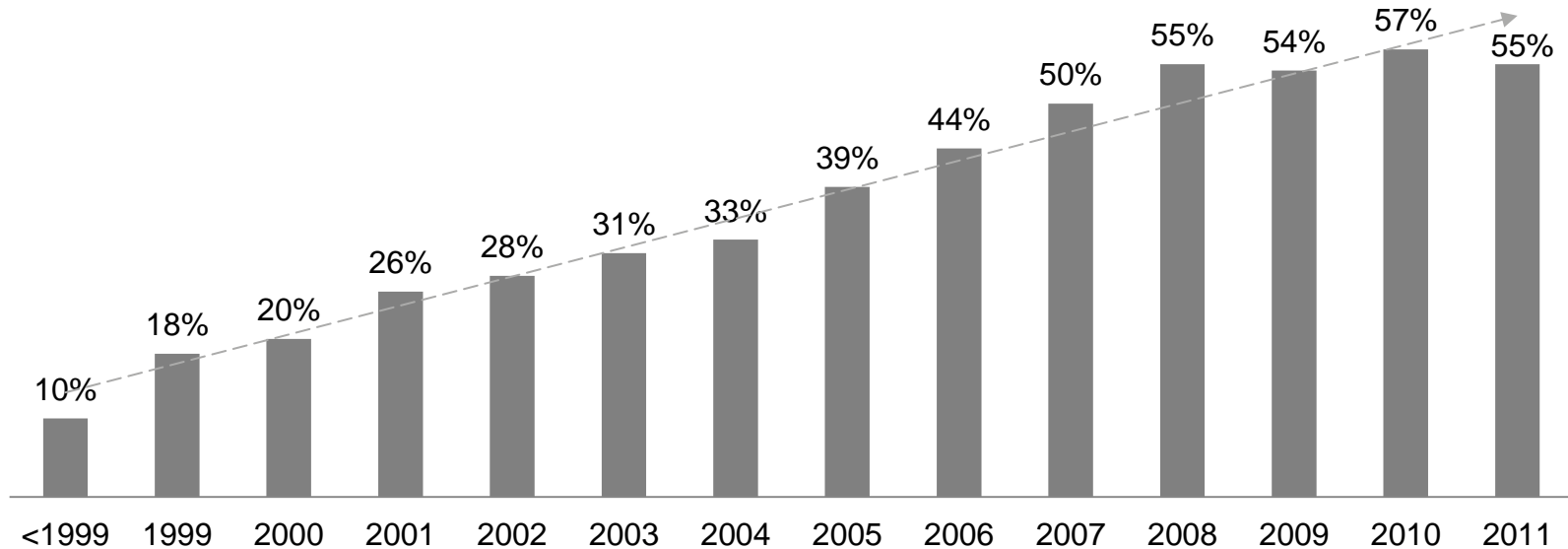
Regulate  
Advice



**U.S**

# Where the (r)evolution started

## Percentage of fee-based compensation in the US



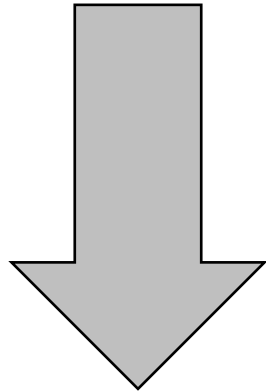
Source: Illustration by The Vanguard Group, Inc. using data as at 31 December 2011 from Financial Research Corporation, Securities Industry and Financial Markets Association, and Cerulli.

# What's been the Regulatory response?

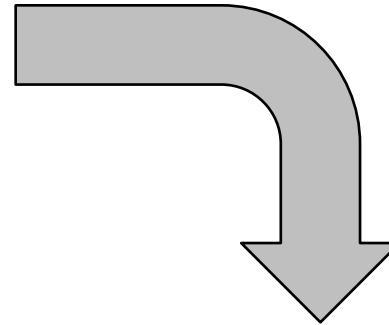
Disclosure

Regulate  
Product

Regulate  
Advice



**U.S**



**UK and  
Australia**



# UK and Australian Regulations

- **Australia**
  - **Future Of Financial Advice** – due for implementation July 2013
- **UK**
  - **Retail Distribution Review** – due to implement 1<sup>st</sup> Jan 2013

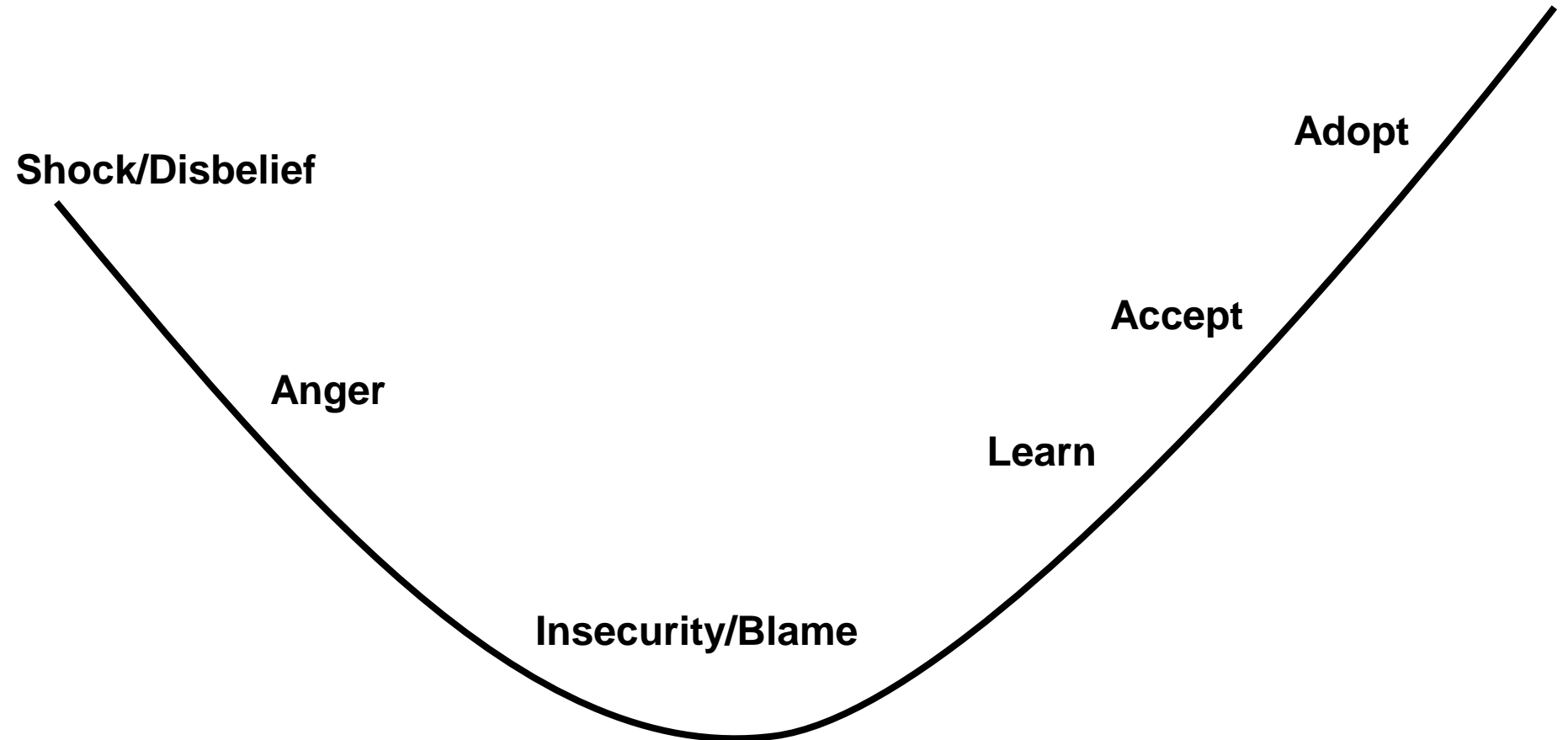
## **Core Principles**

**Improving professional standards**

**Clarity of fiduciary duty**

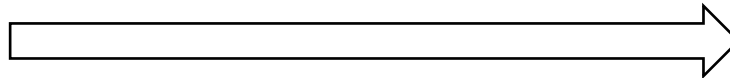
**Removing the opportunity for bias**

# RDR Adviser and Provider Change Curve

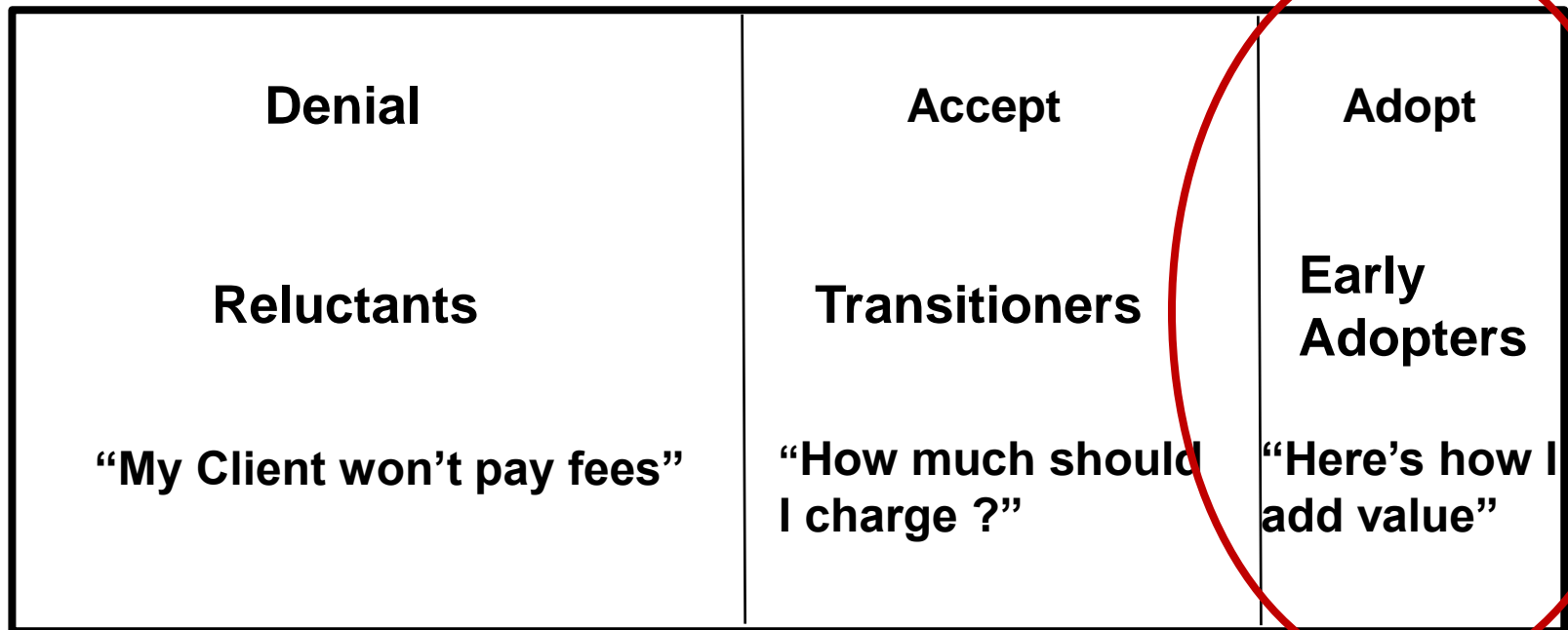


# RDR Responses - Advisers

**Commission based**



**“fee” based**



# Opportunity and challenges.....

- **Why was the Chrysler Voyager important?**
  - **Wall of wealth – a generation of final salary schemes and social security**
  - **Wealth not health will become the issue**
  - **Savvy and demanding boomers**
  
- **Don't forget the X and Y's**
  - **My son's wasted education**



**There's never been a greater need for advice**

# The challenge facing advisers

**If only it were that easy.....**

- **Competing in an increasingly qualified market**
  - how different will you be?
- **Competing against new channels**
  - Most Googled man in Britain?
  - Three biggest databases?
  - Biggest footfall?
- **Demonstrating value that your client is prepared to pay for time and time again.**
  - What if UK goes down Australian route?
- **Managing risk in your business.**
- **Making sure you build value in your business.**

# So.....

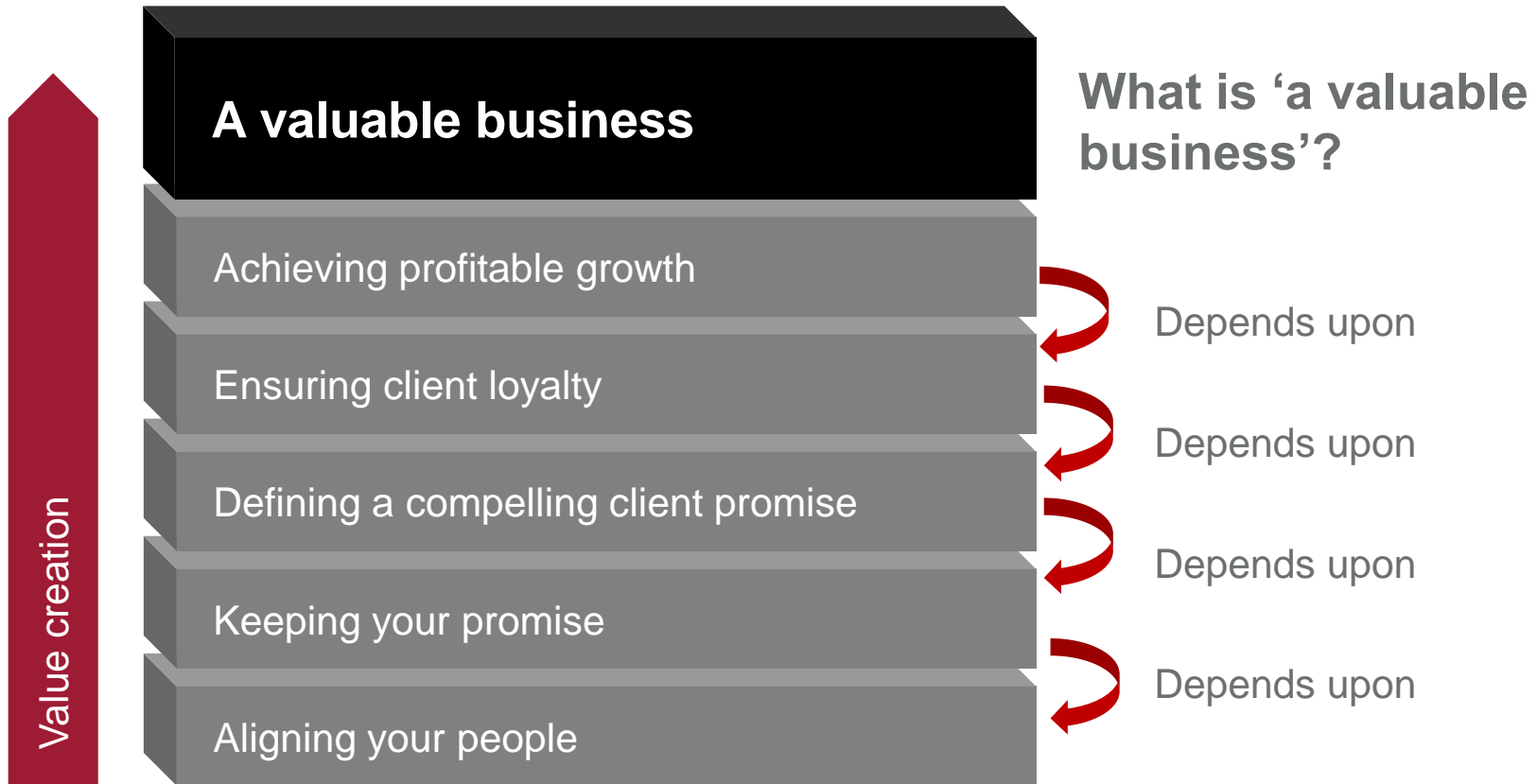
Question:

Why are some financial planning practices having fun, making money and delighting their clients... when many aren't?

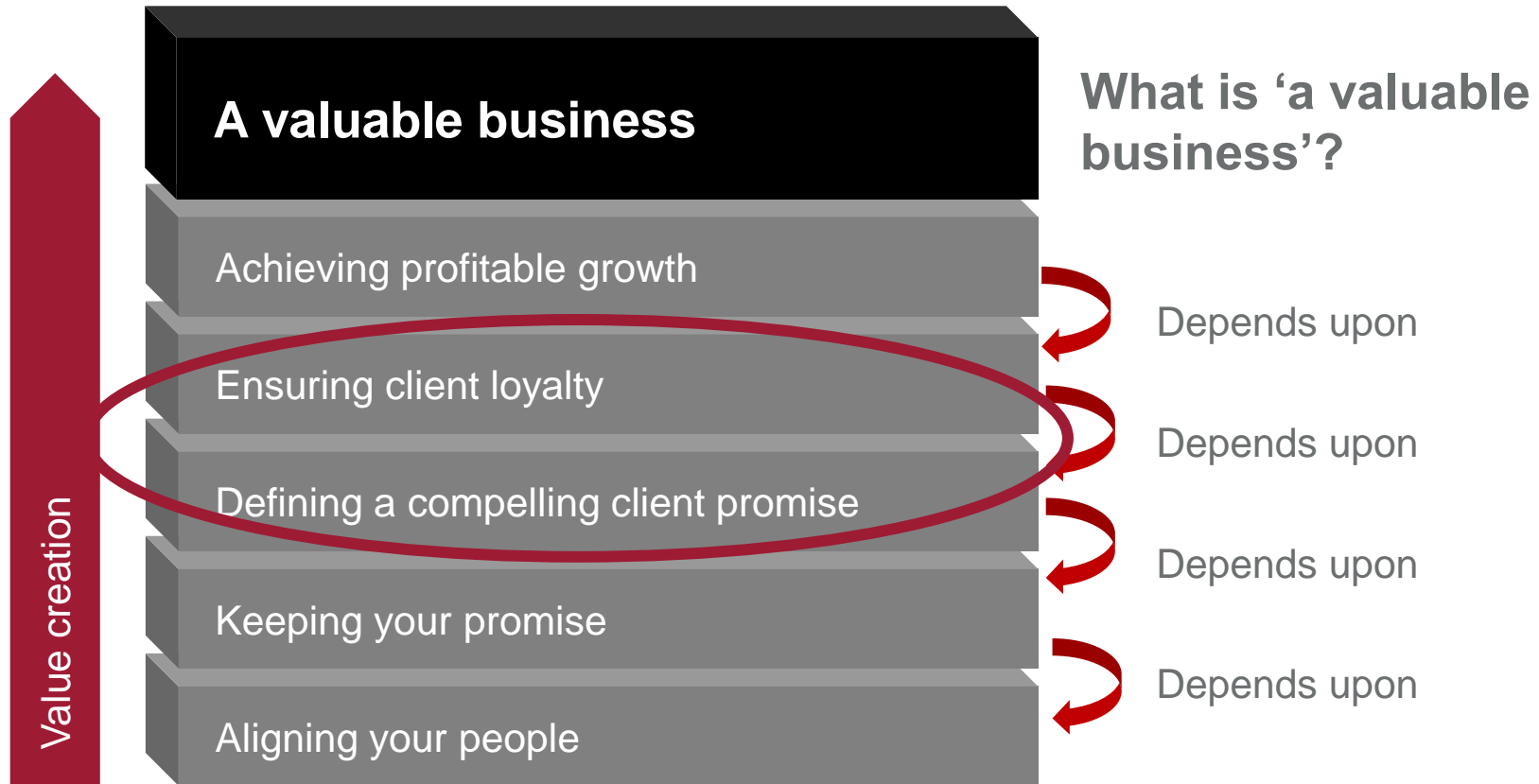
Answer:

They understand the five steps to creating a valuable business...

# Successful businesses understand the five steps to creating a fun, valuable business:



# Successful businesses understand the five steps to creating a fun, valuable business:





Why would a client  
happily pay your fees for  
many years to come?

What have you  
promised your clients?

# Client promises are changing.

**Client  
promise**

**I'll get you the best  
product**

**I'll beat the market  
for you**

**I'll be your financial  
counsellor**

**1990's**

**2000's**

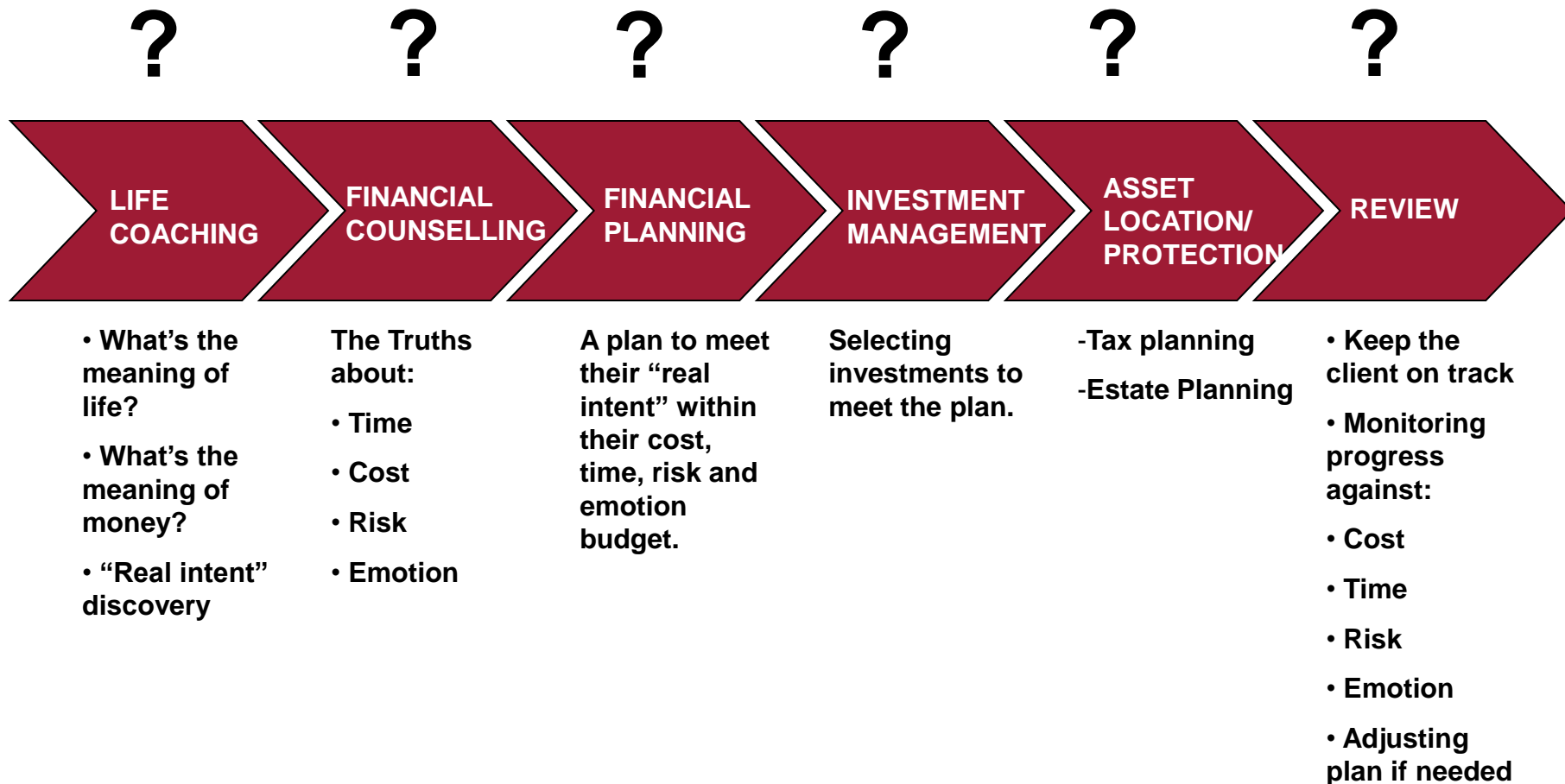
**2010**

**The internet  
is here!**

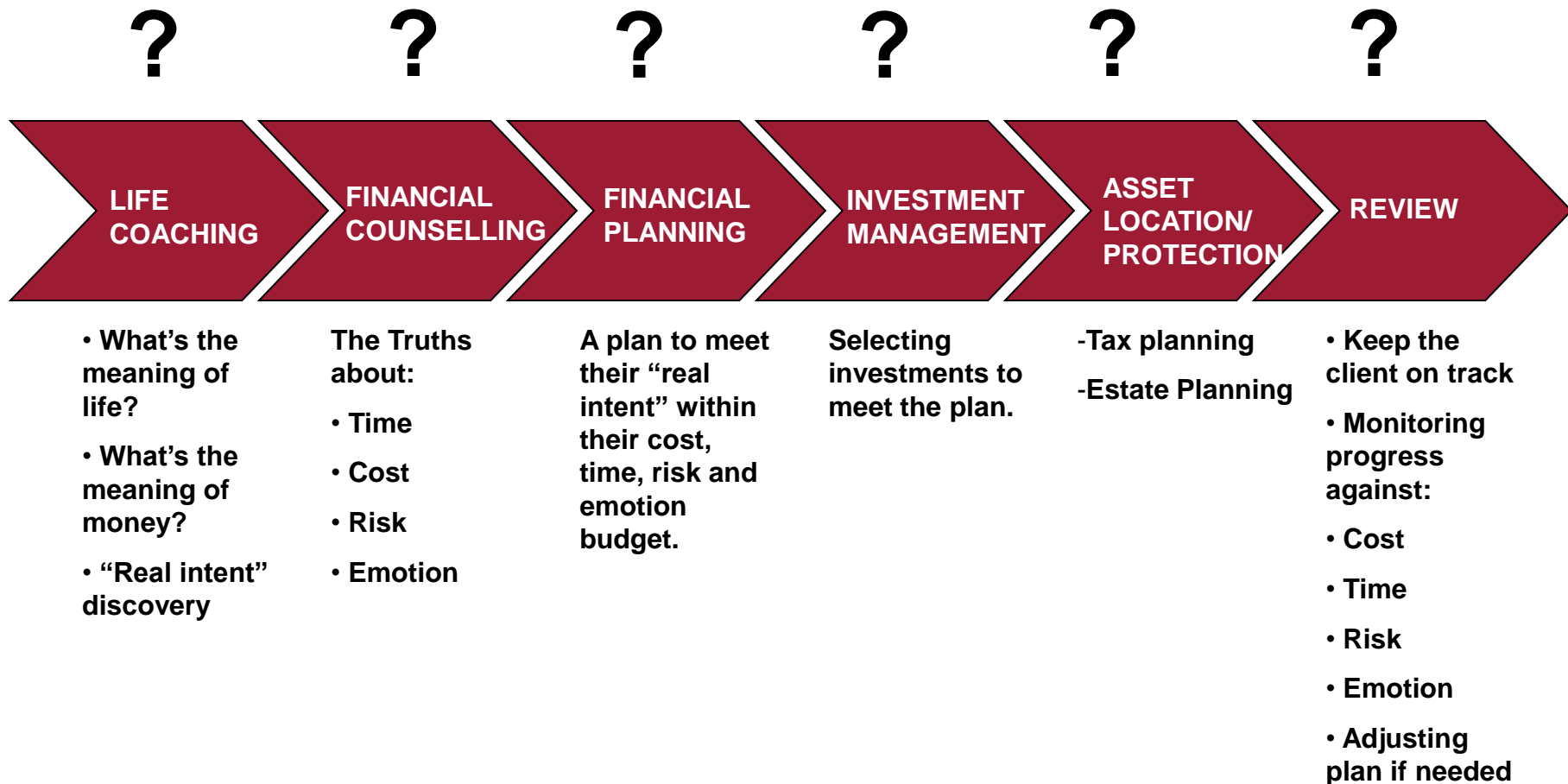
**Really?**

**Thank you!**

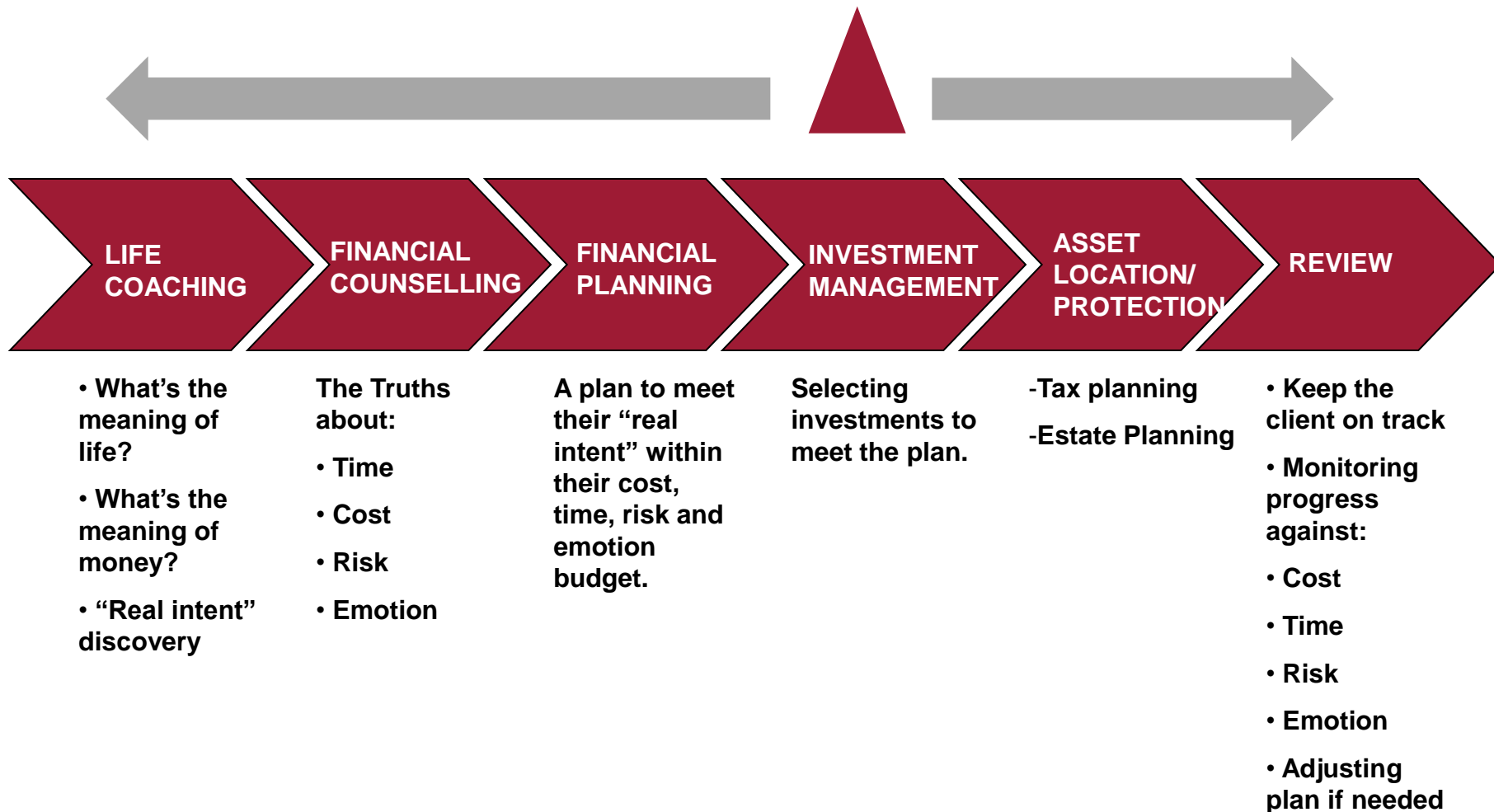
# How much time in each role?



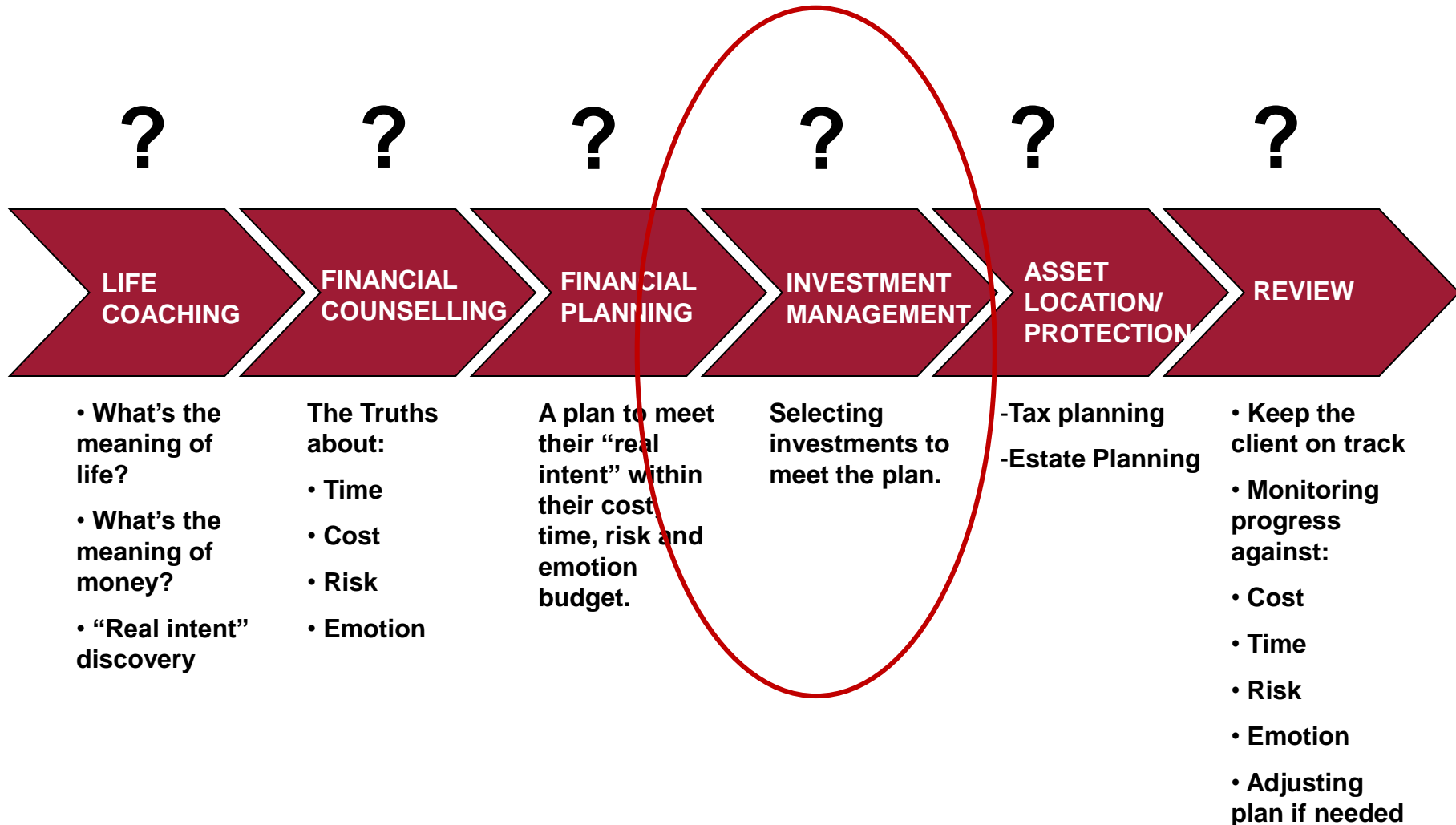
# How in control of the outcome are you in each role?



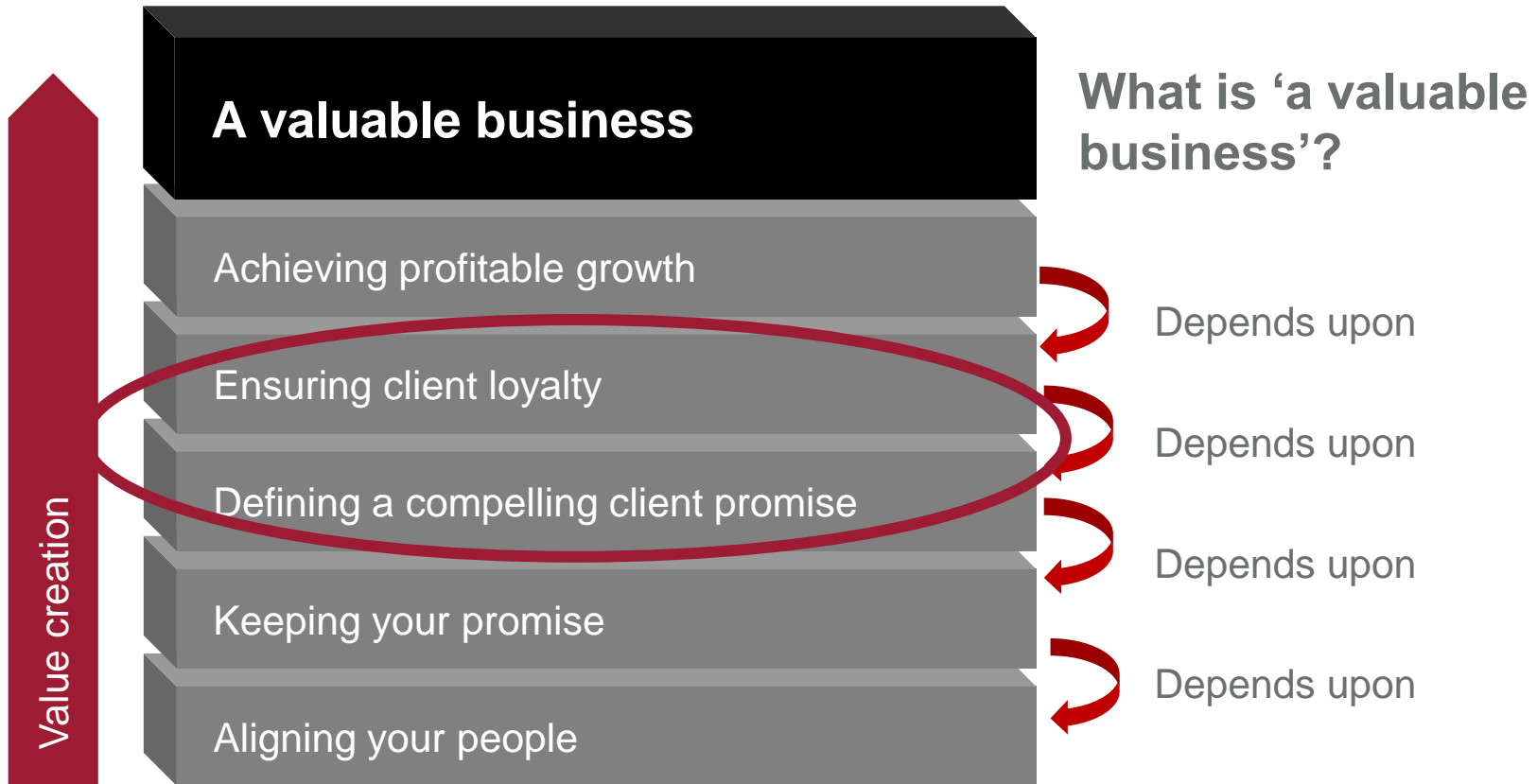
# Advisers are increasing their added value range



# How in control of the outcome are you in each role?

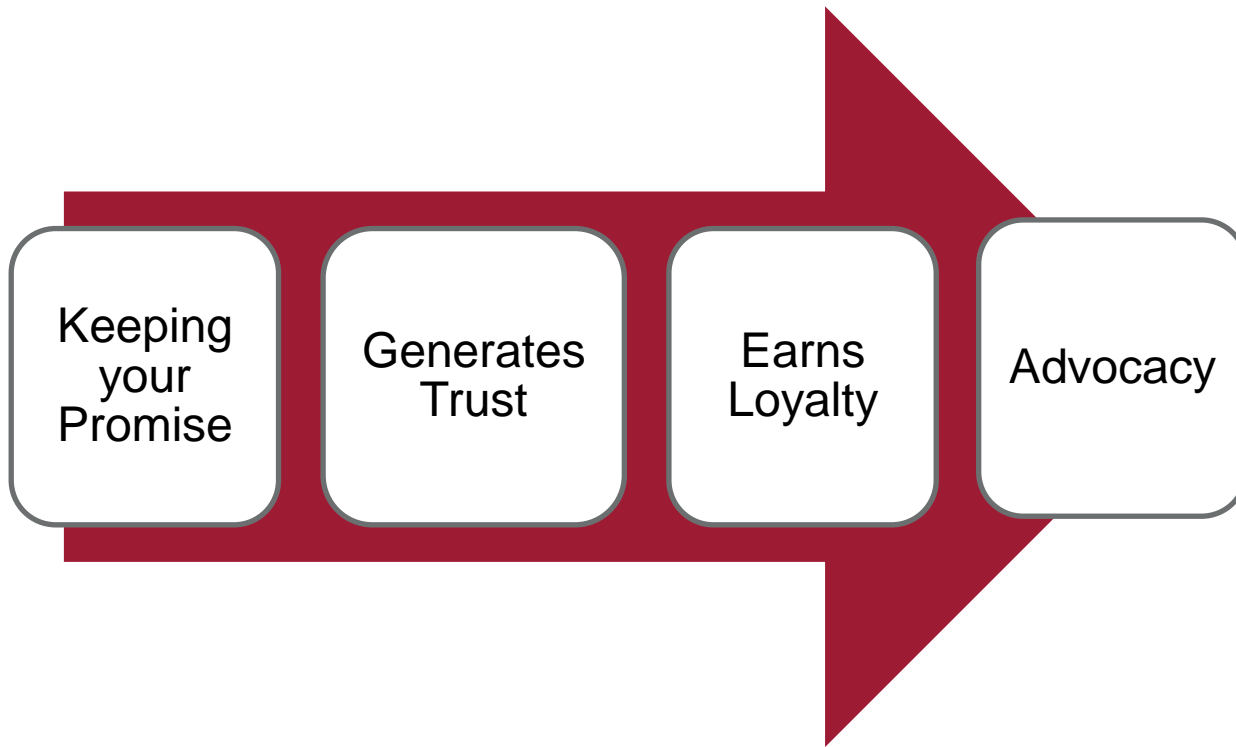


# Successful businesses understand the five steps to creating a fun, valuable business:



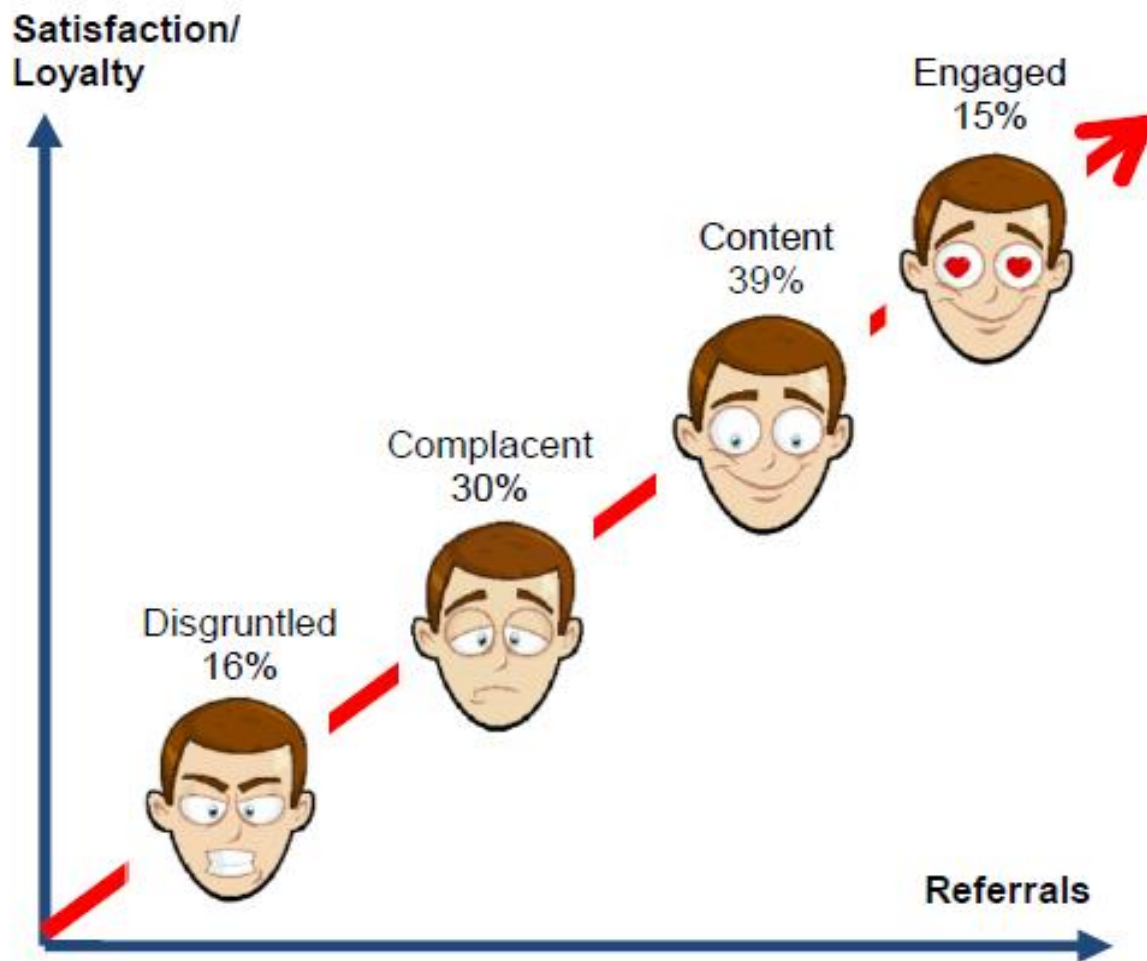


# Loyalty comes from keeping your promise



So only make promises you can keep

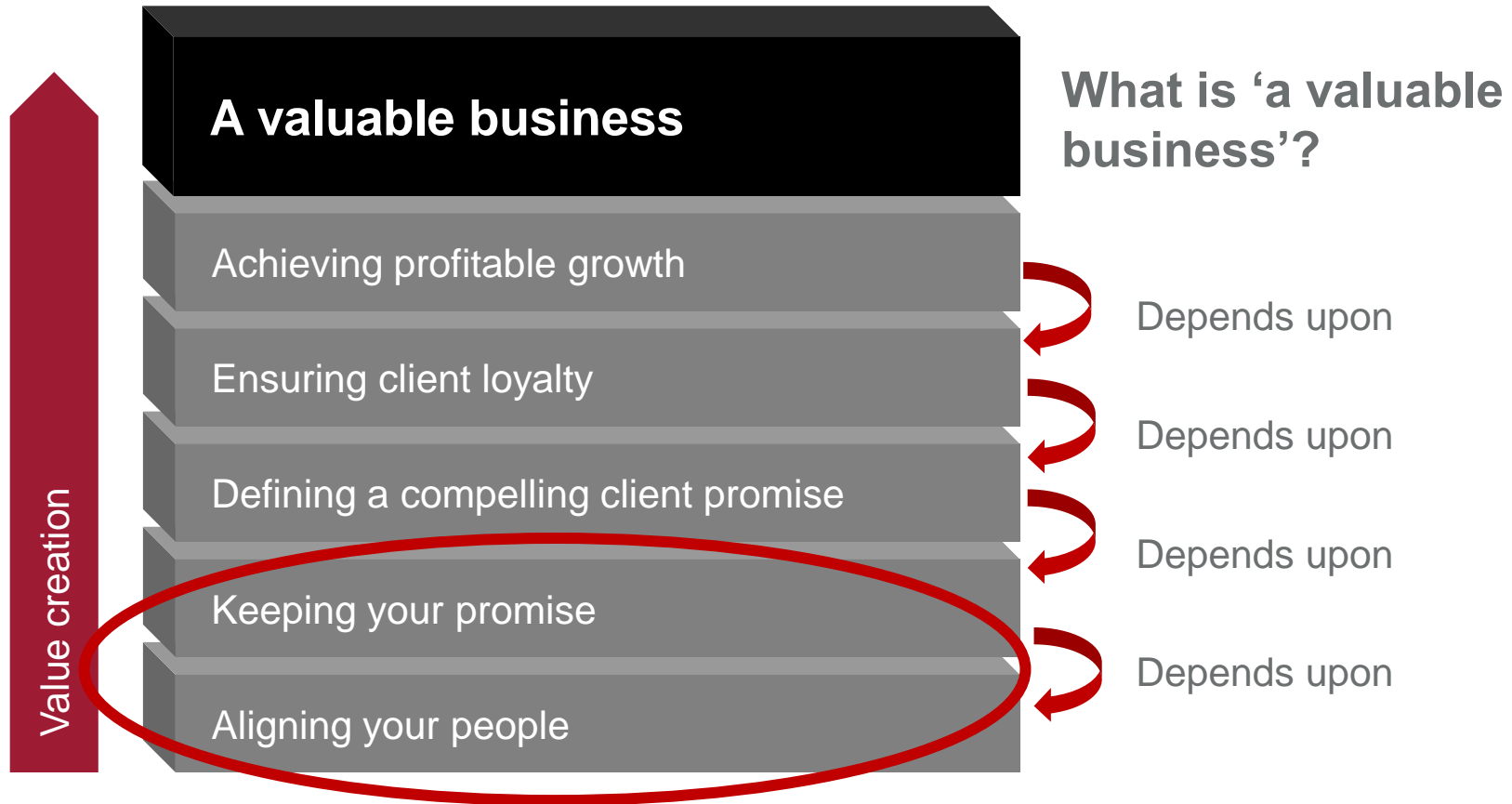
# The Economics of Loyalty 2011 Research



Source: Adviser Impact, *Economics of Loyalty*, 2011

**“As promised.....”**

# Successful businesses understand the five steps to creating a fun, valuable business:



Let's look at an example .....

**Who's been on holiday in the past year?**

# Meet John – ace pilot



# What does John do?

Well first, what doesn't John do?

- Show you his pilot's licence
- Show you his log book
- Explain Newton's Laws of Motion or Bernoulli's Principle
- Fight the controls
- Loop the loop

Why not?

# What does John the pilot actually do....

- **He understands where his passengers want to go**
- **He appreciates they are more interested in the destination than the journey**
- **He's primarily there for comfort and safety**
- **He spends his time on C.C.R.M (crew and customer relationship management)**
  - **Managing the crew – everybody understands their part in the process**
  - **Managing the customer experience – get on with their lives**
  - **Managing the customer expectations – particularly on E.T.A.**
  - **Managing the economics – fuel burn**



# Why doesn't John "fly the plane"?

## Because it's on autopilot!

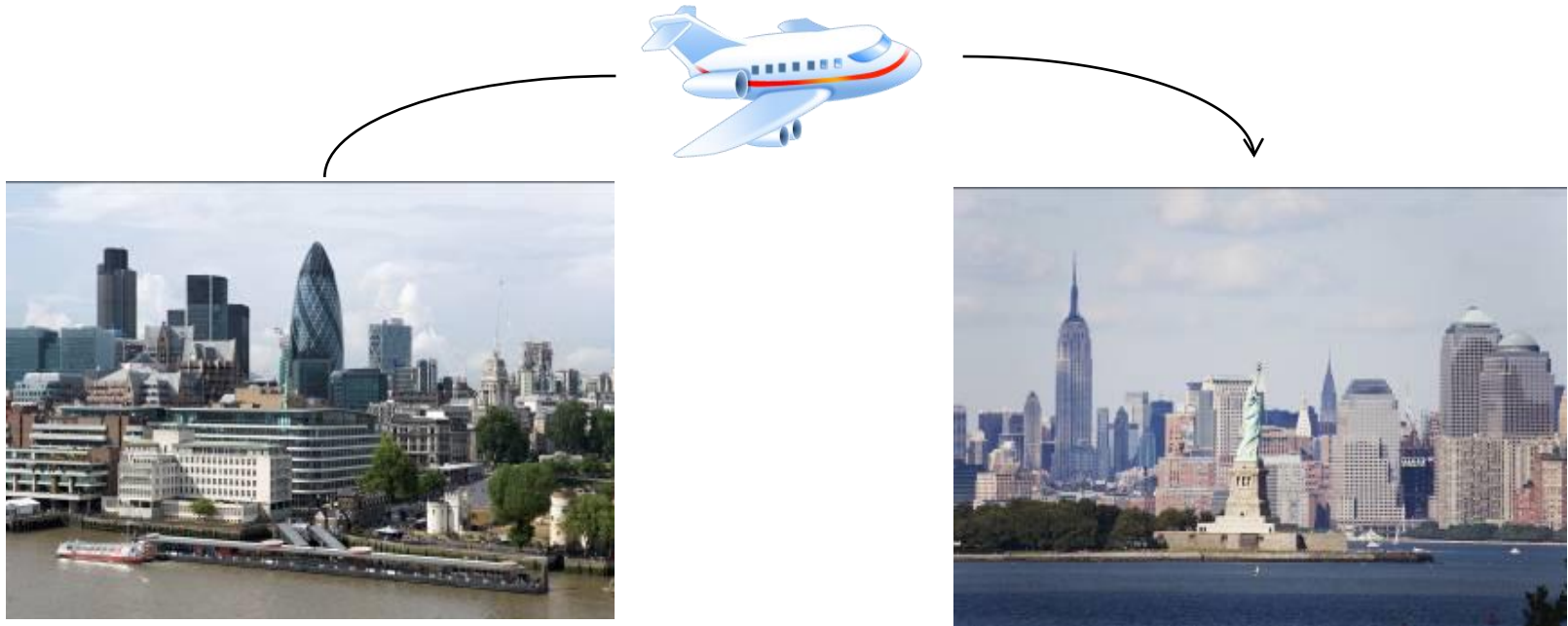
- The whole process is not open for debate
- High frequency tasks have been automated
- John engages as the important moments
  - Departure – he knows where you want to go
  - “In flight review” – honest E.T.A.
  - Arrival – how do your clients feel getting off your plane?

But never forget....experience counts

*Chesley Sullenberger III*

Who would your clients want at the controls in a crisis?

# How many ways are there to fly from Heathrow to New York?



# So why are some businesses having fun, making money and delighting their clients?

## **Because**

- **Their “compelling proposition” is based on the client’s destination, not the firm’s capabilities**
- **The proposition is anchored around a client promise they know they can keep.**
- **They’ve put the business on autopilot – automating the high frequency tasks that must work every time.**
- **They’ve removed variation where it introduces risk and inefficiency.**
- **They have highly aligned staff who understand their critical part in the process... and are rewarded for doing that and nothing else.**

**“It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one most adaptable to change.”**

**- Charles Darwin**



**Vanguard**<sup>®</sup>

Thanks for listening!



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