

Platforms

It will be worthwhile for the reader to spend a moment understanding **what we mean by three key terms**. In June 2007, the financial services regulator, the FSA, published a consultation paper entitled "Platforms: The Role of Wraps and Fund Supermarkets".

This paper addresses all of the key issues surrounding platforms, so we will use **the general thrust of its definitions** for these three key terms, although in a much shortened fashion.

- **Platforms are online services**, used by investment advisers to view and administer investment portfolios. As well as providing facilities for investments to be bought and sold, platforms are used to aggregate, and arrange custody for, an investor's assets.

A platform is therefore simply **a mechanism for providing a service**.

- **Wrap accounts** are platforms that offer **a range of assets types**.

The FSA paper lists Nucleus, Seven Investment Management and Transact as examples of Wrap providers.

- **Fund Supermarkets** are platforms that offer a narrower focus of asset types. The FSA paper admits, however, that it is not clear whether this is a significant distinction, as **many firms that started as fund supermarkets have expanded, or plan to expand, their product ranges**.

The FSA paper lists Abbey, Cofunds, FundsNetwork, FundZone (Standard Life) as examples of fund supermarket providers.

New model adviser

It is important to note how **the advent of platforms is changing the provision of financial advice**. The following is a quote from an article which was published as a response to the FSA paper on platforms.

"Platforms are about aggregation and ongoing management of investments, and it goes without saying that adviser remuneration should reflect this. Somewhere between then [ie 5 years ago] and now the somewhat evangelical term 'new model adviser' became fashionable.

The proposition was a single platform model to create business with standard processes, maximising efficiency, offering an enhanced investment and planning service to the customer.

Remuneration would be based on an initial financial plan followed by regular review, so 3 per cent initial commission/fee followed by 1 per cent to 2 per cent a year soon became the benchmark."

*A platform built for all by Clive Waller and Phil Billingham
Financial Adviser 30.08.2007*

Wrap accounts

We have seen, therefore, that Wrap accounts are **administrative platforms that consolidate the valuation of savings and investment products** belonging to a particular individual.

Wraps allow investors and their advisers to view **the total value of ALL their investments** across the board by:

- **Tax vehicle** – for example life assurance bond, pension fund, ISA, PEP, unit trust or direct investment.
- **Asset class** – for example, UK equities, overseas equities, gilts, bonds, property or cash.
- Underlying **funds** and securities.

Wrap providers generally charge **fees based on the value of the funds held** within the wraps. The fees may be in addition to the fees charged by the providers of the products held within the wrap.

The **underlying product provider may reduce the standard fees** to reduce the double charging, and in many cases wrap providers encourage clients to hold funds and other products that are bought at lower than normal retail prices than would be payable outside the wrap environment.

Advantages of wraps

The main advantages of wraps are:

- It is **easier for your investment adviser to see and advise on asset allocation**, as well as the balance of the tax vehicles being used. Of course, if it is easier for your investment adviser, **it is beneficial for you because he or she can do a better job** of advising you on your investments.
- The wrap may open up the possibility of **buying funds on a wholesale basis**. In other words there could be a reduction in the standard charges normally included in the retail funds.
- Your **investment adviser's administration costs are less** and this is likely to translate into less charges to you.
- **Tax reporting** of income and assets **should be easier**.

A wrap service

A wrap service is therefore an empty shell **within which any permitted investment product** can be placed and administered.

There are **three key components** to any wrap service:

- **the assets** – which include unit trusts, Oeics (Open Ended Investment Companies), life assurance funds, pension funds, direct shareholdings and cash.
- **the tax wrappers** – which include ISAs, life assurance bonds (onshore and offshore) and pensions.
- **the administration 'platform'** – this binds the first two components together, holding all assets in a nominee name and taking care of all of the regulatory and corporate tax reporting associated with your portfolio

The wrap not only provides an extremely wide fund choice, but will do so in a way that means that we, as your advisers, will always be able to see the accurate value of your investments at any time.



The Nucleus wrap

Arch Financial Planning Limited was **an early user of investment platforms** as it could see the benefits for its clients in terms of **consolidation, convenience, choice, control and cost**. For the last **six years we have used various platforms** including the Cofunds Fund Supermarket on which **we have placed over £12 million of client assets**.

Building on this experience of other platforms and our most recent research, Arch Financial Planning Limited has **joined with a selected number of firms and has entered the Nucleus Wrap** as it feels that this offers outstanding value for our clients going forward.

In order to use the Nucleus Wrap clients are required to invest **a minimum of £20,000 into the service**, although such an investment does not have to be made at the outset.

➡ **Nucleus Financial Services Limited** is the provider of the Nucleus wrap.

The **majority shareholding of Nucleus is in the hands of a number of independent financial adviser (IFA) firms** and the founding IFA shareholders have been instrumental in specifying, developing and delivering the new service on behalf of their clients. The future direction of the wrap will also be determined by the participating IFAs with their clients' financial futures in mind.

The Nucleus wrap should allow us to work with you to manage your investments in an efficient and transparent manner.

➡ In order to be able to use the Nucleus wrap for its clients, **Arch Financial Planning Limited** has been required to **purchase a small shareholding in Nucleus**. See the separate heading 'Platform Ownership'.

➡ **Sanlam is the main institutional investor** in Nucleus with a 42.5% shareholding. Sanlam is a leading financial services group in South Africa. Established in 1918, the Group demutualised in 1998 and Sanlam Limited then listed on the JSE Limited in Johannesburg and the Namibian Stock Exchange.

Sanlam is a pioneer in transformation and has a comprehensive strategy to ensure meaningful and broad-based participation across South Africa. The Group is actively involved in programmes which focus on the areas of education, HIV/Aids, economic development and social development and contributes 1% of its net operating profit to these.

Sanlam has the equivalent of **£25 billion of assets under management** and administration (as at 31 December 2005) and has about 10,900 employees. It is about the size of the Royal London Insurance Company; about three times the size of Liverpool Victoria but a quarter the size of Standard Life.

➡ Administration of your assets is undertaken online through the Nucleus wrap platform, built around **a robust tried and tested software system** used by more than 90 companies all over the world.

You can have confidence that its design will ensure the smooth running, control and reporting of your investments.

➡ Nucleus Financial Services provides access to a general account for directly-held investments and the **Scottish Friendly Group** provides the tax wrappers for an ISA, a PEP, a personal pension and a protected rights pension to hold contracted-out payments. Scottish Friendly is also the third party administrator for the Nucleus wrap.

Scottish Friendly has roots stretching back to 1862 and now operates as a financial services group dedicated to the efficient provision of a wide range of financial products and services. It accounts for over 380,000 policyholders and has assets under management of over £600 million as at December 2006.

Both Nucleus Financial Services Limited and Scottish Friendly Assurance **are regulated by the Financial Services Authority** and, as such, are responsible for ensuring that clients' money is properly audited and reconciled on a regular basis.

➡ To provide additional security, **assets held in a nominee name on clients' behalf** are monitored through a 'custody' service provided by independent third parties.

A custodian provides an additional source of reconciliation, but most importantly, holds any certificates associated with the assets.

Although most collective funds such as unit trusts or OEICs (Open ended Investment Companies) no longer provide physical certificates on purchase, Nucleus has ensured that **Pershing Securities Limited, a subsidiary of the Bank of New York** and a world renowned expert in this area, will hold and audit those assets that do.

The **Royal Bank of Scotland** provides the cash account facilities and provides a competitive return of just 10 points below the Bank Rate set by the Bank of England.

➡ **Scottish Friendly Insurance Services Limited** is the administrator of the Nucleus Pension Accounts.

➡ The Nucleus Wrap provides a **choice of over 2,000 funds from around 60 fund managers**. For the Nucleus Appropriate Personal Pension, holding 'protected rights' money, the choice is limited to 57 funds from 19 fund managers.

➡ The total cost you will pay has three components, each of which is shown explicitly, so you will always know exactly how much you are paying:

- ❑ a **Nucleus charge of 0.35% each year** to cover the costs of administration and tax wrappers (there are other costs associated with some of the more specialised wrappers).
- ❑ our **commission/fees**. No longer do we simply receive the commission that is built into the product design and decided by the product provider. We shall **agree with you in advance the payment for our services**, both initial and ongoing. This can either be paid by cheque (a fee), or you will see this clearly identified as a deduction (commission) in the accounts for your Nucleus Wrap.
- ❑ the **cost of the assets, funds or accounts you access**, which will always be clearly illustrated. Nucleus is able to secure discounts to normal initial and annual management charges for unit trusts and other collective funds because it delivers economies from buying and selling funds in significant volume.

In many instances, the net result is that you will be paying the same or lower level of charge, but critically expressed in a more open and transparent way.

You will always know the cost of the assets in your account and you will be able to track these costs through the online service and regular statements.

- ➡ There are **no early redemption penalties** under the contract should you need to encash all or part of your investments or move them to another wrap.
- ➡ You will receive **6-monthly paper statements from Nucleus** and in addition you will be provided with your own username and password for their client website so that **you can see the value of your investment or pension fund at any time.**

Existing investments

If you have existing investments in ISAs, unit trusts, life assurance bonds or personal pension plans, we would like to offer you the opportunity **to have those investments, where appropriate, transferred to the Nucleus Wrap.**

Some investments are more straightforward to transfer than others but we will be happy to review your existing investments and pensions and explain whether they are suitable for transfer and what is involved.

If a transfer is appropriate **you simply complete some basic documentation** and Nucleus will do the rest.

There are two types of 'transfer'. **Re-registration** and an actual **fund transfer** of the fund to the same or a different fund manager.

Re-registration

A large number of funds **can simply be re-registered to the Nucleus Wrap.** In this case there is **no need to sell and repurchase your fund holding.**

Re-registration is preferred, if available, because **your investment is never out of the market.**

Fund transfer

Some funds cannot be re-registered to Nucleus and in such cases we will offer you the alternative of a fund transfer. In such cases your ISA still **retains its tax efficient status.**

You may be able to **transfer to the same fund, or to one or more other funds** within Nucleus.

Where your **existing fund has not performed well,** we will recommend an alternative.

A potential risk

It is important to note that where a transfer is involved, your money will be **out of the markets for a period that will normally be five to ten working days.**

This could pose two potential risks as follows:

- ➡ Being out of the market for five or more working days may not have any noticeable effect when markets are flat, but **it is possible that markets will move ahead strongly** during the time that you are out of the market.

You would need to reconcile yourself, therefore, to the possibility of **missing out on growth in your investment during this period.**

Of course, it is **just as likely that markets could fall back** during the period that you are out of the market and then you would have gained by your absence from the markets at that time. In such a situation it is unlikely that you will feel that to be a problem!

- ➡ The period that you are out of the market may coincide with an interest or dividend payment.

Depending on the particular payment procedures of the investment houses concerned, **you may suffer the loss of an interest or dividend payment for the relevant period.**

This potential problem can usually be overcome by taking care not to use the fund transfer method close to the stated interest or dividend payment dates.

You should note that the above notes and times are applicable to simple individual fund transfers.

Transferring from an existing life assurance bond will normally take at least ten working days and transferring from **one or more personal pension plans can take several weeks** and sometimes longer.

Please note that neither Arch Financial Planning Limited, nor Nucleus Wrap, can be held responsible for any loss you incur, including any loss of interest or dividend, for being out of the market during such a transaction.

Is the Nucleus wrap for all?

As a Wrap is a mechanism for providing a service for investments, there are areas of our advice, most notably **the use of protection products such as life assurance and health insurance,** that will still be transacted outside of Nucleus.

There will also be customers who do not have sufficient investment and pension assets (minimum £20,000) to make use of the Nucleus Wrap.

We hope always to be able to offer some form of transactional service to such individuals but, it is debateable, given the increasing regulatory burden, whether we will, in future, be able to accommodate them as clients and provide any form of ongoing advice.

For the reasons given **we intend to use the Nucleus Wrap for all suitable new clients** and over time offer **all existing suitable clients** the opportunity to move their investments and pensions onto Nucleus.

The following is a further quote from the *Financial Adviser* article which was published as a response to the FSA paper on platforms.

"A recent IFP [Institute of Financial Planning] conference was told that part of the rationale for using wraps and platforms is that it reduces administration costs.

The logical next step is that a client who is not on such a platform costs more to deal with and so should be charged higher fees. After all [as a result of the FSA Treating Customers Fairly principles] you should no longer cross-subsidise clients."

A platform built for all by Clive Waller and Phil Billingham
Financial Adviser 30.08.2007

Platform Ownership

The following is a final quote from the *Financial Adviser* article which was published as a response to the FSA paper on platforms.

"As the market has matured, we have seen much ambiguity. We now see platforms wholly owned by advisers; by fund managers and insurers; life companies; and those where a majority of the share holding is put aside for adviser users.

The reality is that ownership impacts in various ways. FundsNetwork allow re-registration of tax-wrapped assets off their platform for Fidelity funds only. The only investment bond on Cofunds currently is that of their 25% shareholder, L&G. The investor opting for Standard's own funds in his SIPP typically pays less than if he opts for externals. The issue is whether the customer is disadvantaged.

The two platforms offering advisers a share in ownership, Ascentric and Nucleus, offer high levels of transparency and open architecture.

It is likely that most advisers signing up to these platforms care more about maintaining independence by adviser ownership than making a few quid at the end of the day."

A platform built for all by Clive Waller and Phil Billingham
Financial Adviser 30.08.2007

Clive Waller is a partner for CWC Research
Phil Billingham is a director for Perception Support

Risk factors

- Please note that this guide is simply designed as an introduction for you to the Nucleus Wrap Service. It cannot cover every possible aspect of using Nucleus and is not meant to be exhaustive.
- This guide is not meant to be seen as giving advice or promoting any particular product.
- These notes are intended as a guide only and do not replace the key features document and full product details that accompany each investment or pension recommendation. The key features document, in particular, provides you with details of any risks and potential disadvantages associated with the contract recommended.
- The information provided is based on our understanding of Nucleus charges and administrative procedures that apply currently. Whilst we believe our understanding to be correct in these areas, we cannot be responsible for the effects of any future changes to their charges or procedures.
- An investment into an ISA, PEP, unit trust, OEIC, life assurance bond, self invested personal pension, or other collective investment scheme is intended as a medium to long-term investment.
- It is important that you are aware that the value of units in a unit-linked investment such as an ISA, PEP, unit trust, OEIC, life assurance bond, self invested personal pension, or other collective investment scheme, as well as any income which they generate, can fall as well as rise.
- If you surrender the contract you may get back less than you have invested. Most of the fund charges are taken in the early years of investment. Therefore, if you withdraw during this time you are more likely to get back less than you have invested.

- An investment into a self invested personal pension is intended as a long-term investment. Under the new pension rules it is not possible to access the funds prior to the age of 55, unless you take the benefits prior to 2010 in which case they can be taken from age 50.
- Where past performance is mentioned please note that the past is not necessarily a guide to future performance.
- Levels of taxation and tax relief are subject to change. The value of any tax relief will depend on your own circumstances.
- Charges on the underlying funds may be increased by the Fund managers in the future.

Further information

For further background information on Nucleus you should visit their public website www.nucleusfinancial.com

Please note that **this information does not constitute personal advice** and should not be treated as a substitute for specific advice based on your circumstances. If you are in any doubt as to whether using the Nucleus Wrap is suitable for you, then **you should discuss the matter with a suitably qualified independent financial adviser** such as ourselves.

For personal advice

If you would like to discuss an investment or pension, using the Nucleus Wrap, please ask your usual Arch adviser or contact us via one of the following:

Tel: **0845 3700 661**
Email: enquiries@arch-fp.co.uk
Online: www.arch-fp.co.uk

AUTHORISED AND REGULATED BY THE FINANCIAL SERVICES AUTHORITY

guides\nucleus 04.08