Quilter

Suitable for professional clients.

Delivering good client outcomes

As Andy Miller explains, thanks to the changing regulatory backdrop, managing client portfolios and delivering good client outcomes is increasingly demanding extensive research resources.

There are a number of things to consider when creating an efficient investment process and constructing your client portfolios. In today's Consumer Duty world, the acid test is being able to demonstrate that, at every stage of the investment process, your business is striving to deliver the very best possible outcomes for your clients. However, evidencing that your clients are front and centre of your investment decision-making is a lot more nuanced than it might first appear.

A patchwork of returns

You can see some of the challenges involved when you look at the investment quilt below. This ranks the performance of key global asset classes over the last decade. As you can see, it's highly complex and reinforces the difficulty of picking investment winners as we move through different stages of the investment cycle. There is no guarantee that the investment that is top one year will perform well the next.

2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018	2018 - 2019	2019 - 2020	2020 - 2021	2021 - 2022	2022 - 2023	2023 - 2024
China equities	UK property	China equities	China equities	US equities	US equities	China equities	US equities	Europe ex UK equities	US equities
US equities	Global bonds	Emerging markets equities	Emerging markets equities	Global equities	Global equities	Asia Pacific ex Japan equities	UK equities	UK equities	Japan equities
Japan equities	US equities	Asia Pacific ex Japan equities	Asia Pacific ex Japan equities	UK property	Global bonds	Emerging markets equities	Global equities	Global equities	Global equities
Asia Pacific ex Japan equities	Cash	US equities	Europe ex UK equities	Global bonds	China equities	US equities	Europe ex UK equities	Cash	Europe ex UK equities
Global equities	Japan equities	Global equities	Japan equities	UK equities	Europe ex UK equities	Global equities	UK property	US equities	Cash
Emerging markets equities	Global equities	Japan equities	Global equities	Cash	Japan equities	Japan equities	Cash	Japan equities	Global bonds
UK property	Europe ex UK equities	Europe ex UK equities	UK property	Europe ex UK equities	Asia Pacific ex Japan equities	Europe ex UK equities	Japan equities	Asia Pacific ex Japan equities	Emerging markets equities
Global bonds	UK equities	UK equities	US equities	Asia Pacific ex Japan equities	Emerging markets equities	UK equities	Global bonds	Emerging markets equities	Asia Pacific ex Japan equities
Europe ex UK equities	Asia Pacific ex Japan equities	Global bonds	UK equities	Emerging markets equities	Cash	Cash	Emerging markets equities	China equities	UK equities
UK equities	Emerging markets equities	Cash	Global bonds	Japan equities	UK property	Global bonds	Asia Pacific ex Japan equities	Global bonds	UK property
Cash	China equities	UK property	Cash	China equities	UK equities	UK property	China equities	UK property	China equities

Source: Quilter Investors as at 29 February 2024. Total return, percentage growth in pounds sterling. Discrete annual returns over the period 1 March 2014 to 29 February 2024. Global bonds is represented by the Bloomberg Global Aggregate Index; UK equities is represented by the MSCI United Kingdom All Cap; UK property is represented by the IA UK Direct Property sector average; Global equities is represented by the MSCI All Country World Index; China equities is represented by the MSCI China Index; Emerging markets equities is represented by the MSCI EM (Emerging Markets) Index; Europe ex UK equities is represented by the MSCI Europe Ex UK Index; Japan equities is represented by the MSCI Japan Index; US equities is represented by the MSCI North America Index; Asia Pacific ex Japan equities is represented by the MSCI AC Asia Pacific Ex Japan Index; and Cash is represented by the Bank of England Base Rate. The information provided is for illustrative purposes only and doesn't represent the past performance of any particular investment. It is not possible to invest directly into an index.

> *For many advice firms, this level of forensic investment analysis, continuous monitoring, and ongoing governance simply isn't possible due to the financial and time costs involved.*
>
> Andy Miller, Lead Investment Director, Quilter

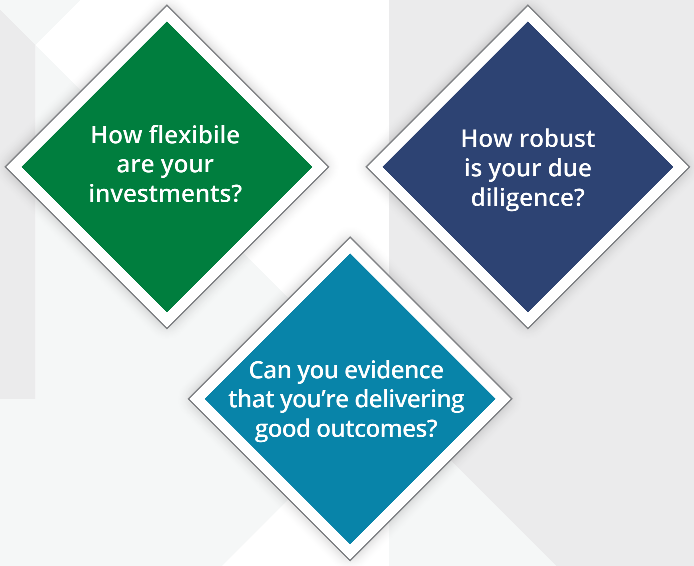
20:20 hindsight

At the start of 2020 and the first global lockdowns, we were in a very volatile and disinflationary environment. Indeed, some of the market drawdowns of the period were the steepest since the global financial crisis. That same year saw global equities rebound to deliver robust returns alongside global bonds, while alternatives and inflation-hedging assets trailed.

We saw high levels of fund switching in 2020, with a shift from diversified multi-asset portfolios into global equity and global bond funds. We also saw many in-house portfolios cut their UK exposure to boost their US weightings and reduce alternatives to increase global bond exposure. These moves were mostly driven by short-term performance swings.

However, such moves presented their own short-term performance issues over the coming months. And, by the time we reached 2022, those inflation-hedging assets that had trailed in 2020, were coming into their own.

In hindsight, the smart thing might have been to stay diversified, trust in the investment process, ignore the market noise, and engage with your clients around all the positive reasons for staying invested. Hindsight, as the saying goes, is a wonderful thing.



Lifting the lid

It's not just about picking the right asset class. The risks of poor client outcomes arise from picking the wrong fund in a portfolio are all too real.

A fund may look like the right choice, but many things can potentially go wrong under the bonnet of an investment, which is why robust due diligence is required.

This is about being able to identify 'red flags' both pre and post-investment and being able to evidence robust due diligence and governance of the process at every stage.

Investment due diligence goes much further than just performance analysis. It amounts to forensically dissecting the various segments of your client portfolios and having the resources in place to regularly review and adjust exposures on an ongoing basis.

This includes evidencing the processes that underpin how you select and monitor funds and their managers. It also includes demonstrating your firm's governance arrangements and providing full transparency around any portfolio changes.

Most importantly, it requires you to be able to lift the bonnet on your portfolios at any time, to demonstrate an understanding of how each component part is managed, and how you identify and manage any potential red flags that might arise.

Avoiding foreseeable harm to your clients

We've seen numerous illustrations in recent times of how a style change by an underlying manager can result in a broad range of outcomes and, in some cases, foreseeable harm to investors. To stay on top of this potential risk, you need the expertise and resources to monitor every fund in your portfolios to ensure that a change of style or approach by a manager doesn't result in a poor outcome for your clients.

If you don't have these capabilities, you are at a material disadvantage. Thanks to the regulatory backdrop, it's only a matter of time advisers without such research and analysis capabilities find themselves inadvertently liable to causing foreseeable harm. Ultimately, avoiding foreseeable harm to your clients isn't about predicting the future, it's about anticipating what could happen, and having the right procedures in place to act effectively, if things go wrong.

For many advice firms, this level of forensic investment analysis, continuous monitoring, and ongoing governance simply isn't possible due to the financial and time costs involved.

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