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ETF model portfolios - evolution or revolution?

In response to an ever more rigorous regulatory context and greater demand for value and transparency from clients, many advice businesses are seeking technology partners and solutions to keep them competitive and profitable.

The financial advice landscape will always be changing. But in recent times, we've seen change happening at a faster pace, thanks to sweeping reforms from regulators.

With new compliance requirements from authorities like ASIC, there's a growing responsibility for advice businesses to act as a fiduciary in client transactions. This standard of conduct demands more transparency and accountability - in terms of record-keeping, communication with clients, and how fees are determined. It all adds up to a significant transformation in how businesses address the needs of clients, and the regulator.

While this transformation may be seen as a difficult obstacle by some, many advice firms are applying solutions that can pave the way for efficiency and growth, as well as meeting these new expectations. Using model portfolios as a key component of their service offering allows financial advisers to deliver transparency and performance for investors, as well as better outcomes for client relationships.

The shifting landscape of financial advice

It's not only Australia that's been experiencing the regulatory revolution we've seen with the Future of Financial Advice (FoFA) findings and legislation that's followed. With changes triggered by the Retail Distribution Review (RDR) in the UK and new Department of Labor rules for financial advisers in the USA, the move towards greater accountability and fee transparency has been a global one.

It's a shift that puts two-way pressure on advice businesses. The first is from the administrative load needed to ensure a well-defined, documented and legally defensible portfolio construction process is followed for every client. The paperwork from records of advice alone can place a massive burden on wealth management businesses, not to mention investment research and reporting.

In addition to meeting compliance demands, advisers must also rethink how they charge for their services and the scope of what they deliver. In the context of regulatory reforms, the 'fee for service' approach is changing what clients value most from the advice process. It's no longer about favouring one active portfolio manager over another. Instead, clients are seeking to understand more about asset allocation and risk and return. With the fast pace of our technology-driven, information rich world, clients also look for speed, efficiency and empowerment from their adviser.

The technology advantage

With the pressure on resources coming from clients and the regulator, businesses are eager for solutions that will allow them to focus on value to investors without any compromise on compliance. In using model portfolios built from ETFs they're discovering a tool they can use to shift their focus from product selection to portfolio construction and offer clients a well-documented, robust investment approach with less administration.

ETF model portfolios are a purpose-built technology, designed to enable advice firms to offer a low-cost, and institutional grade investment experience to clients. It also aligns with the outcomes of the regulator, as businesses can deliver a fee-based service with greater transparency. With much of the compliance and investment research burden outsourced to the ETF provider, businesses can be much more efficient in their asset allocation and portfolio management across a range of client risk profiles.

Recognising the need for solutions that can deliver these advantages to financial advisers, BlackRock has developed its own range of model portfolios. Not only do these portfolios offer a cost-effective path to seeking outperformance, they also provide a documented, consistent and compliance-focused investment process for every client.

In this edition, I spoke to Josh Persky, portfolio strategist at BlackRock Investment Management in Australia. We did not discuss a particular investment strategy or his market outlook but rather, how the latest investment technology can help financial advisers tackle a more demanding regulatory environment.

The answer lies in understanding the creation of model portfolios that didn't exist a decade ago but are available today. This includes ETF model portfolios that are multi-asset and actively managed - all for an management fee of less than 40 basis points.

In this article, Persky explains how financial advisers can remain competitive and agile in the face of tightening regulation through ETF model portfolios.

Michelle Baltazar

Michelle Baltazar
Director of Media & Publishing

Building capacity for growth with model portfolios

The cost savings a business might enjoy in changing to a model portfolio strategy include less time spent on market research and investment management. Independent research suggests advice firms using ETF model portfolios can save up to 12 hours per week in investment related activities alone¹. This is a clear demonstration of how the model portfolio approach reduces the burden of investment management on advice businesses, and the compliance risks that go with it.

With far less need for Records of Advice paperwork compared with an active management approach to individual client accounts, advice businesses can redirect even more of their time and effort into current client relationships and winning new business.

Not only is this technology giving advisers the efficiency it takes to build scale, it's also allowing them to build their value proposition around quality of service to clients. With BlackRock as an ETF model portfolio partner, advisers can rely on their portfolio construction practice framework to maximise risk adjusted returns and ensure due diligence and accountability for every client and transaction. **FS**

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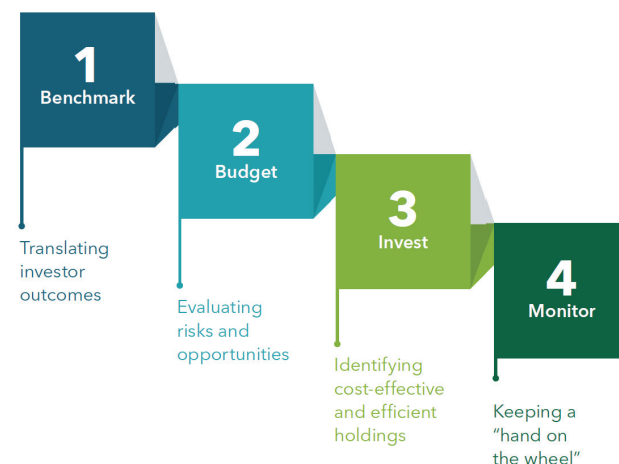
The quote

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Watch the video
on www.fsitv.com

Figure 1. ETF Model Portfolios: A Simple Framework



For illustrative purposes only.

¹ Source: Investment Trends 2018 Managed Accounts Report.