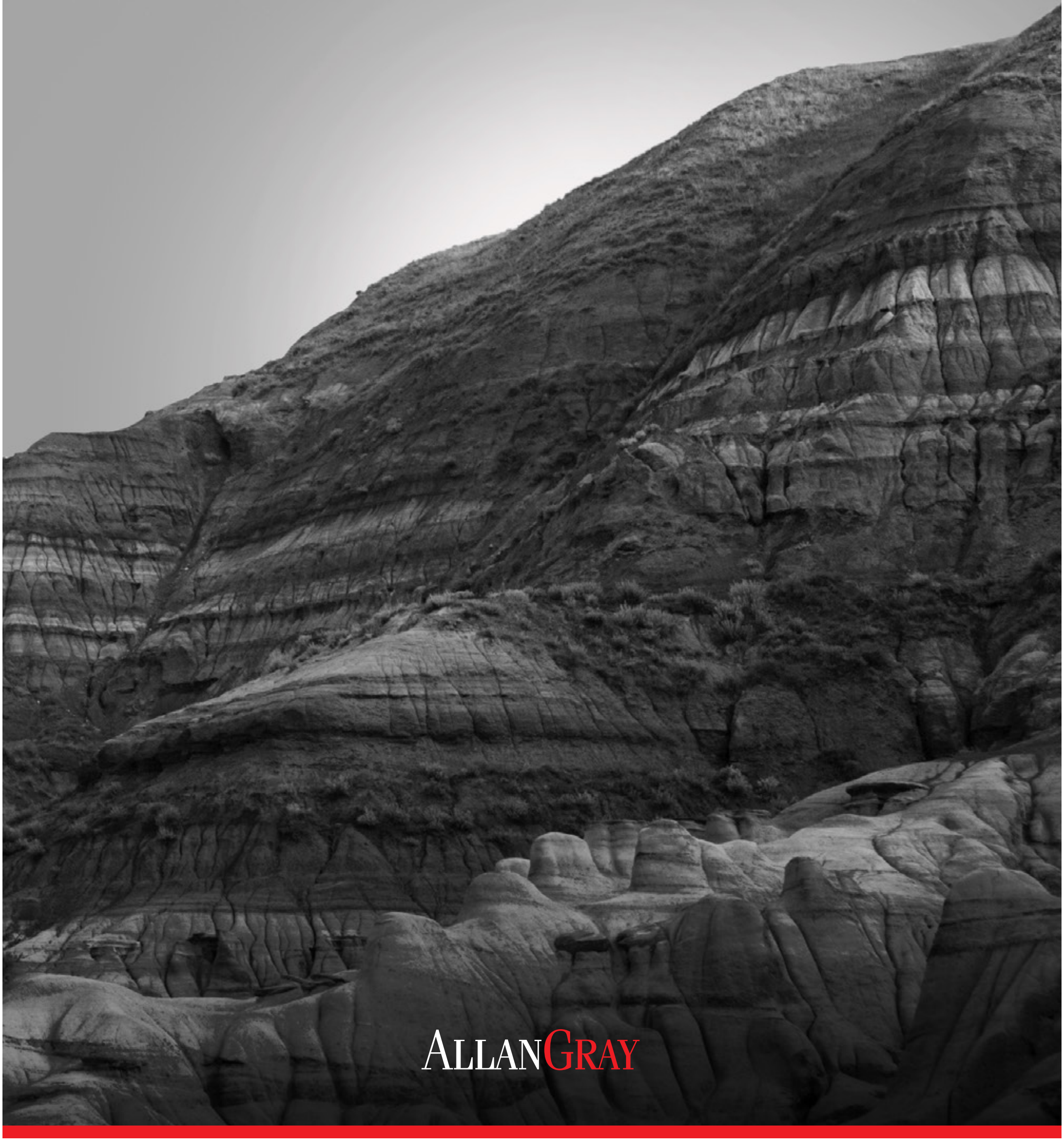
ALLAN GRAY

GLOBAL ADVICE LANDSCAPE

NOVEMBER 2020



CONTENTS

THANK YOU FOR ATTENDING OUR **GLOBAL ADVICE LANDSCAPE WEBINAR**

With the constantly evolving regulatory and investment environment, there is clearly no shortage of opportunities and challenges. We hope that the insights shared gave you a good perspective of trends shaping the advice industry and will help you position your business for the future. In the words of David Haintz, from Global Adviser Alpha: "Implementation is critical."

To assist with the detail, we have asked each of the participants to put together a summary of their key messages, which we have collated in this booklet.

Please refer any specific questions to the relevant presenter.

We look forward to hosting you at our next event.

Kind regards
Carl Lategan (Head of IFA distribution) and
Tyrone Brand (Distribution development specialist)

TRENDS IMPACTING THE ADVICE LANDSCAPE

Shifts in the advice landscape across the world have been catapulted into the fore by the COVID-19 pandemic. Ongoing regulatory developments, volatile market conditions, technology advancements, fee scrutiny and questions around the benefits of advice mean that today's advisers need to continue to work hard to futureproof their businesses.

This was one of the key takeouts at the recently held Allan Gray Global Advice Landscape webinar. Featuring speakers from markets in Australia, the UK and South Africa, the event gave advisers a global take on what is changing and what is staying the same, and how this may impact their long-term sustainability.

All speakers agreed that regulatory changes across the various markets have changed, and continued to change, the landscape for advisers. However, while the changes in the UK and Australia happened at pace, in South Africa the pace has been more evolutionary than revolutionary.

Tamryn Lamb, head of retail distribution at Allan Gray, noted that there have been a number of key regulatory changes or updates in South Africa since 2014.

"The Financial Sector Conduct Authority continues to emphasise the valuable role that financial advisers play and has stated that regulation continues to be drafted with the aim of supporting advice and making sure it is available, sustainable, fair and properly priced. The devil, however, will be in the detail of how it is implemented," she notes.

"In our view, it is important that the key principles which have been critical to the success of the South African investment and advice industry over the past two decades are upheld. At its core, this means focusing on measures that can result in good client outcomes such as transparency, and clear disclosure of fees (particularly where conflicts of interest can exist) and encouraging an environment of fair and healthy competition amongst differing advice, investment management and administration business models. In our view, key factors such as independence, open architecture and choice have helped improve the overall competitiveness of the industry over time, and we believe this should continue to thrive."

Another trend is that the value proposition of advice continues to evolve.

"Advisers have gradually evolved from simply offering product solutions and investment returns to putting the client's life at the centre of the conversation. Today advisers are akin to a financial or life coach."

The UK adopted a big bang approach to RDR, compared to South Africa's more evolutionary approach. This has changed the distribution landscape in the UK, with banks exiting wealth management and IFAs very much controlling the value chain. This has had a number of consequences, according to Marcel Bradshaw from Orbis in the UK.

Advisers have gradually evolved from simply offering product solutions and investment returns to putting the client's life at the centre of the conversation.

KEY TAKEAWAYS

"There has been a reduction in the number of financial advisers in the UK, from 33 000 in 2012 to 26 000 today; perhaps because of an inability or willingness to change and adapt to the evolving landscape," he notes.

The same trend can be seen in Australia, with regulatory changes forcing a mass exodus of both investors and advisers.

"In a recent survey from Wealth Insights Australia, one-third of advisers reported that they would leave the industry within the next year or two. This is a frightening reality and shows the impact of the last 10 years on the advice market in Australia," said JD de Lange, chief operating officer of Allan Gray Australia.

Factors contributing to the situation in Australia include the ever-increasing compliance burden, a loss of commissions or rebates, a drop in practice valuations and the stress of meeting new educational requirements.

"We last saw adviser sentiment this low in 2010 following the global financial crash," said de Lange. "This makes it very hard to grow the industry and encourage new entrants to join, as advisers feel under constant threat."

He added that there are about 10% fewer advice clients than five years ago, which has created fee pressure for advisers. The other side of the coin is that advice has become extremely expensive even by Australian terms. "In an asset base fee world, the discussions were more investment focused and price was a function of assets under management. Today an advice plan needs a structuring fee and an ongoing management fee both based on the value proposition offered by the adviser. A new proposal costs AUD3600 or more to deliver, while the annual fee could easily be more than double that making it obvious that the adviser needs to have a very clear and quantifiable value proposition," he explains, adding that the quality of advice given today is of a much higher quality than ever before and that client needs are better served than ever. This should be very positive for the advice industry in the long term."

David Haintz from Global Adviser Alpha based in Australia said that advisers need to change their perspective.

"Advisers are giving away what they should be charging for, and charging for things they should be giving away."

He added that advisers should be shifting from a product-led offering to an advice-led model.

"The traditional role of the adviser is shifting from a price taker, whereby he gets paid in commission, to a price maker, which is more focused around the value that is being delivered to the client through service."

Jon Mackintosh from Encore SA used the analogy of a journey by aeroplane, where the destination represents the client's goal, such as retirement.

"Advisers are acting like travel agents, selling clients a ticket to a seat on the aeroplane, when in fact, we should be thinking of ourselves as pilots, being with our clients throughout their journey, and safely leading them to their goal, or destination."

Advisers are acting like travel agents, selling clients a ticket to a seat on the aeroplane, when in fact, we should be thinking of ourselves as pilots, being with our clients throughout their journey, and safely leading them to their goal, or destination.

But the problem with the advice-led model is that advisers struggle to come up with a feasible, transparent fee structure.

“Advisers should be seeing themselves as selling a 30-year relationship, and then have a scalable fee model that reflects this,” Haintz notes.

Continuing with the aeroplane analogy, Mackintosh explained that advisers should aim to keep clients for a lifetime, and fees should therefore be structured according to their needs.

“Whether you are flying business or economy class, you expect to pay the appropriate fee. If you have a client who wants constant check-ins and reports, they should be prepared to pay business class rates, and the same applies to clients who fly economy class.”

He adds that advisers should start by having an honest conversation with their client to determine where they want to sit in the journey to their destination, and then align the fee.

“We need to deliver what clients are looking for, not what is in our kit bag,” concluded Haintz.

Advisers should be seeing themselves as selling a 30-year relationship, and then have a scalable fee model that reflects this.

CRAIG GRADIDGE

INCREASING REGULATORY BURDEN; THREAT OR OPPORTUNITY?

A recurring theme of the Allan Gray Global Advice Landscape conference was the real impact of the changing regulatory environment on the financial planning sector. Craig Gradidge, co-founder of Gradidge-Mahura Investments, shares the independent adviser's perspective.

A quick poll of attendees at Allan Gray's recent Global Advice Landscape webinar showed that the increased regulatory burden is the most important challenge facing advisers, with almost one-third of advisers indicating that this is their key challenge. Transitioning to a fee-based practice was a distant second, with under a fifth of attendees choosing this as the key challenge.

The increased regulatory burden presents advisers with both a challenge and an opportunity. The advice process is significantly longer, with the additional requirements by the various authorities. This can result in lower productivity and revenue, and higher expenses for most advice practices. This was confirmed by several advisers choosing margin squeeze as a key challenge that they are currently facing.

In our practice at Gradidge-Mahura Investments we have had to build up capacity in the para-planning function as this is where much of the regulatory requirements are addressed. The high cost of employing para-planners requires significant financial commitment from a practice. However, it can free up the adviser to maintain focus on clients.

The Australian experience stands out in terms of the potential impact of regulation on the industry. Over 30% of advisers in Australia have indicated that they would consider exiting the industry due to the increased regulatory burden. As a result, adviser confidence is at its lowest level since the GFC.

However, the exit of many advisers from the industry presents the remaining advisers in Australia with an opportunity to increase revenue. It costs an Australian client around AUD3 600 for a financial plan. It can cost up to AUD12 000 per annum for ongoing advice. Those planning practices that have survived and adapted to the changing regulatory environment are reporting higher revenues and profitability. This trend is expected to continue in a less competitive adviser environment.

Shifting regulations have also contributed significantly to a restructure of the industry in the UK. South Africa has followed the regulatory frameworks adopted in the UK and Australia in the past – but changes have been more evolutionary than revolutionary.

The issues facing advisers are not mutually exclusive, but for advisers to survive the significant challenges currently facing them, it requires that they take control and determine the kinds of businesses they want to build. Those who get it right could find themselves in a similar position to grow their revenue and margins as the industry shrinks. However, clients will demand more professionalism and clearer value for their money as they see exactly what it costs to get good advice.

There are lots of different tools you can use as an adviser to reframe the challenges as opportunities, including a greater utilisation of passive options (as has been seen in other markets). These are outlined by David Haintz and Jon Mackintosh in their summaries on pages 13 and 15.

TAMRYN LAMB

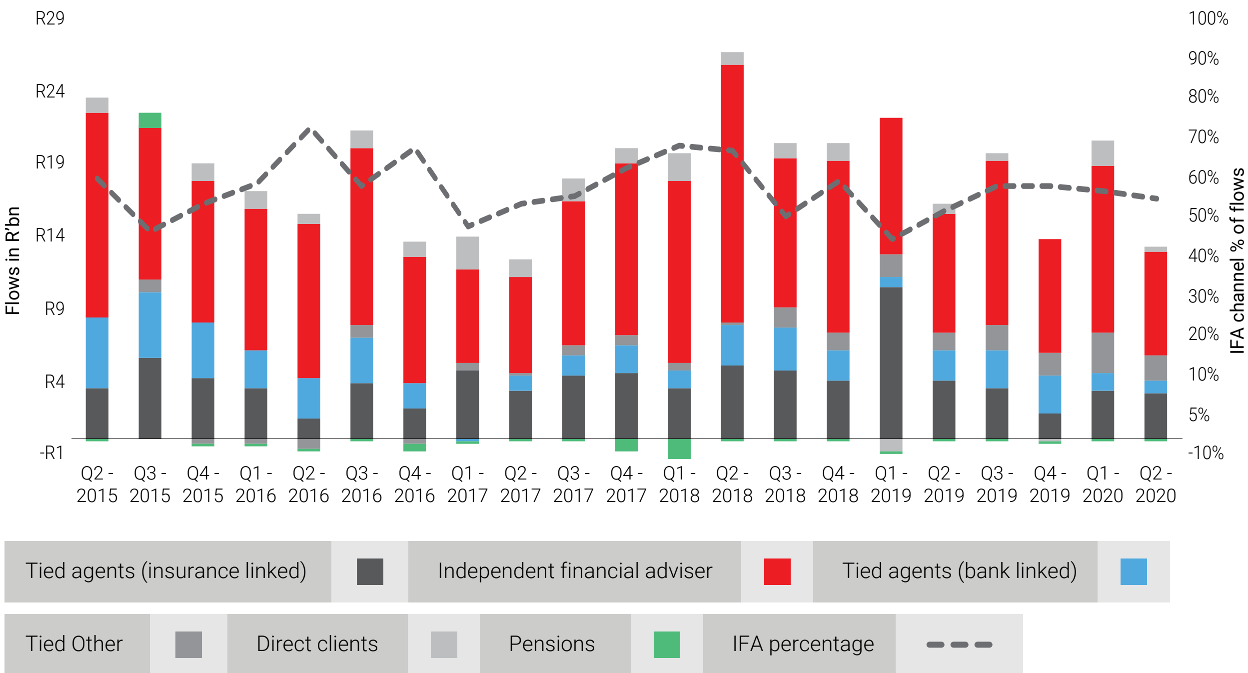
SA: TRENDS SHAPING THE LOCAL ADVICE LANDSCAPE

Events of the last six months have underscored the importance of good, independent financial advice and running a sustainable, resilient advice practice. Tamryn Lamb discusses the trends that have shaped the South African landscape over the last few years, some of which have been accelerated by COVID-19.

Understanding the context

Set against a tough period for equities, and low absolute returns, we have seen only small overall growth in the South African asset management industry in real terms. Overall, however, flows from independent financial advisers continue to be robust, ranging between 50%-70% of the overall number, as shown in **Graph 1**.

Graph 1: Share of industry flows by independent advisers remains robust



Source: ASISA, as at the end of Q2-2020

Against this backdrop of low equity returns, and in a search for yield, investors have gravitated to money market, short-term fixed income and multi-asset income funds. This is not the first cycle in which we have seen investors shun equities on the back of disappointing returns, however this has been extreme, with flows into these categories accounting for the overwhelming majority of new money over the past few years. Indeed, since 2015, the multi-asset income fund category has doubled, with well over half of those flows – close to R100bn – being seen in the last 18 months to two years. We have not yet seen a reversal in these trends, but we would express caution about the potential liquidity risks in various underlying asset classes should this unwind.

Trends impacting SA advice

There are a number of trends impacting the way independent financial advisers are running their businesses in South Africa. Some of these have accelerated over the past year, like investing offshore and embracing technology; others have steadily persisted. These are discussed below:

1. **Ongoing structural shift towards offshore investing**
   Investors are increasingly looking to invest offshore. We continue to encourage investors to diversify offshore primarily to gain access to other opportunities and to hedge against single country and single currency risk. However, we would also note that South Africans frequently race offshore at the wrong time and for the wrong reasons. We tend to panic in response to negative local news flow and invest on the wrong side of a volatile currency. As an industry, our goal should be to continue to remove the cyclicality in how clients invest offshore and view it as the important structural asset class that it is.

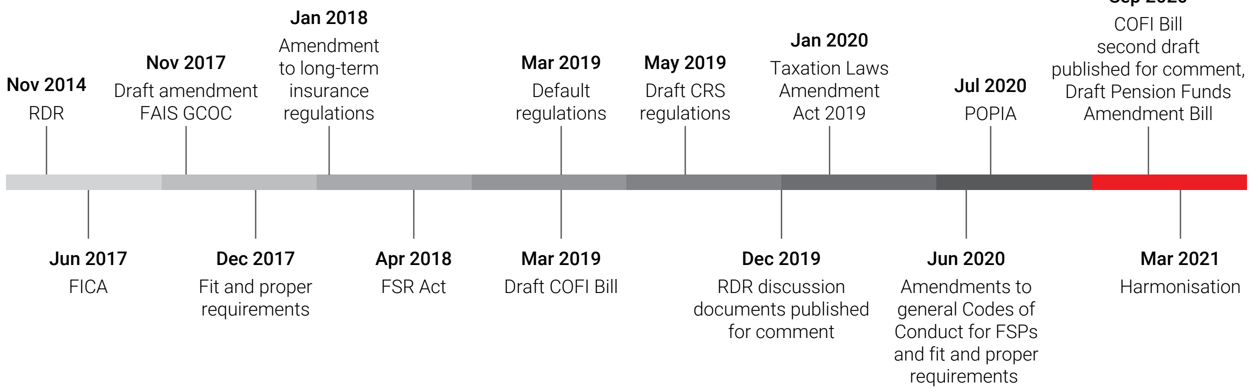
2. **Technology as an enabler**
   There is a growing willingness to embrace technology, and advisers are increasingly acknowledging the role technology plays in enabling the advice process. More and more advisers prefer to spend time on coaching and direct engagement with clients, letting technology drive the administrative and low value-adding tasks.

   In response to the emerging need for different technologies, interesting trends are emerging with an increasing number of local providers focusing on solving specific problems that exist in advice businesses. This is a big departure from old, monolithic software providers that aimed to offer one-size-fits-all solutions. It feels easier today, than in previous years, to take a building-block approach, choosing the right service providers for the right problems.

   When it comes to technology, it can be hard to keep track of the big, slow-moving trends and even harder to identify how they might impact your practice. Some of the things to think about include access to and aggregation of data, technologies that can lower your cost of service, unexpected competitors (e.g. small start-ups using investments as a gateway to other products), and cybersecurity.

3. **Regulatory developments**
   Over the past few years there have been a spate of regulatory changes, including the ongoing rollout of the Retail Distribution Review (RDR), a continued raising of the fit and proper requirements for advisers and, more recently, some related pieces of regulation on the harmonisation of the treatment and rules across retirement products. Key developments are summarised below.

Timeline of regulatory developments: Treating customers fairly



The Financial Sector Conduct Authority continues to emphasise the valuable role that financial advisers play and has stated that the regulation that is being drafted is aimed at supporting advice and making sure it is available, sustainable, fair and properly priced. The devil will, of course, be in the detail of how it is implemented.

4. **Changes in investment decision-making processes**
   We have seen a growth in the number of advisers who are outsourcing their investment decision making to parties such as discretionary fund managers. However, advisers selecting their own funds continue to account for the majority of assets on the Allan Gray Investment Platform.

5. **Value proposition continually evolving, but certain challenges remain**
   The advice industry continues to evolve from being product led towards making the client's life the centre of the conversation. Clients want to engage on money decisions like buying a house, having children, and legacy discussions: essentially, they are looking for life coaching. That said, while the advice proposition continues to develop and improve, some key business issues persist for independent advisers. One of these is succession planning - an important area for us, as an industry, to solve.
   If this is something you are currently grappling with, consider signing up to receive our four-part succession planning series.

While change is a constant that we all have to get used to, our long-term principles and business direction at Allan Gray remain the same.

Our long-term principles

While change is a constant that we all have to get used to, our long-term principles and business direction at Allan Gray remain the same. We are as committed as ever to offering superior investment products to meet the needs of your clients, providing a platform offering that is easy to use and built around your advice process, and we continue to actively promote the benefits of independent financial advice and invest in initiatives that will help you retain your independence.

JD DE LANGE

AUSTRALIA: ADVICE INDUSTRY UNDER PRESSURE

Australia remains one of the most attractive markets globally, especially for investment advice, with nearly AUD3 trillion in retirement savings alone. Given this opportunity, it begs the question: Why is the advice industry in Australia under so much pressure? JD de Lange explores five key themes impacting the adviser landscape in Australia.

The consistent change driven mostly by regulation, but amplified by lower interest rates, lower returns and fee pressure, has had an adverse effect on the advice industry over the last decade. Clients have lost confidence and the industry has been affected negatively.

The current state of advice can be summarised in five challenges for advisers.

Challenge 1 – Adviser exodus

Because of the pressures named above, combined with new educational requirements and the drop in practice valuations, one-third of advisers have indicated that they would consider leaving the industry in the next 12 to 24 months. As a result, adviser confidence is at its lowest level since the global financial crisis (GFC). This lack of confidence not only affects current participants, but also keeps new entrants away.

The consistent change driven mostly by regulation, but amplified by lower interest rates, lower returns and fee pressure, has had an adverse effect on the advice industry over the last decade.

Challenge 2 – Investor exodus

The average adviser is looking after 10% fewer clients than merely a year ago. Of the clients leaving advisers, only about 23% move to other advisers. Clients have been attracted by low cost offers from industry funds but have also exited the advice industry as a result of the continued negative publicity and the increasing cost of advice. As a result, a number of clients are trying to go at it themselves, leading to a boom in low/no cost equity trading platforms. Most advisers expect this attrition to continue for at least the foreseeable future.

Challenge 3 – Continued fee pressure

As practices have had to move from asset-based fees to fixed fees there has been sudden pressure on the level of fees being charged. This has had an immediate adverse effect on smaller clients for whom the cost of advice has become unaffordable. Nearly 70% of all practices now only charge fixed fees, and 7% charge asset-based fees only. To make advice affordable, advisers have looked towards active asset managers to drop their fees and have also invested heavily in passive style products and ETFs. Advisers are also looking towards fintech providers, as well as incumbent platforms, to reduce the costs of producing plans and giving advice. In addition, advisers have actively tried to increase their revenue through products like "Manage Accounts", which allow the adviser to charge fees for portfolio management. This fee pressure is also resulting in platforms lowering their fees. The large incumbent platforms have all repriced over the last 18 months.

Today, an advice plan needs a structuring fee and an ongoing management fee – both based on the value proposition offered by the adviser.

Challenge 4 – Consistent change
There are few things that create as much uncertainty and lack of action as consistent change. With the advice industry in consistent flux, nearly 2 000 advisers have exited the industry over the last two years. This has been driven mainly by the large banks exiting the wealth management industry. There are still some regulations to come through, including the reduction of commissions charged on life insurance products, which could have a material negative impact on the revenue of a large number of practices.

The uncertainty has however created some new opportunities. In the space of a few years we have seen a number of independent asset consultants set up shop to design and manage portfolios for dealer groups. "Independent" dealer groups were also beneficiaries of new advisers, as a result of the exodus out of wealth management by the banks.

Challenge 5 – The focus on holistic advice
The challenge here is that in the transition to provide holistic advice, advisers and dealer groups have had to do a lot of work on their value propositions as their whole revenue model has changed. In an asset-base fee world, the discussions were more investment-focused and price was a function of assets under management. Today, an advice plan needs a structuring fee and an ongoing management fee – both based on the value proposition offered by the adviser. A new proposal can cost AUD3 600 or more to deliver, while the annual fee could easily be more than double that, making it obvious that the adviser needs to a very clear and quantifiable value proposition.

In summary, I would venture to say the quality of advice given today is of a much higher quality than ever before and that client needs are better served than ever. This should be very positive for the advice industry in the long term.

As they say, no pain no gain!

MARCEL BRADSHAW

UK: ADVISERS THRIVING IN A POST-RDR WORLD

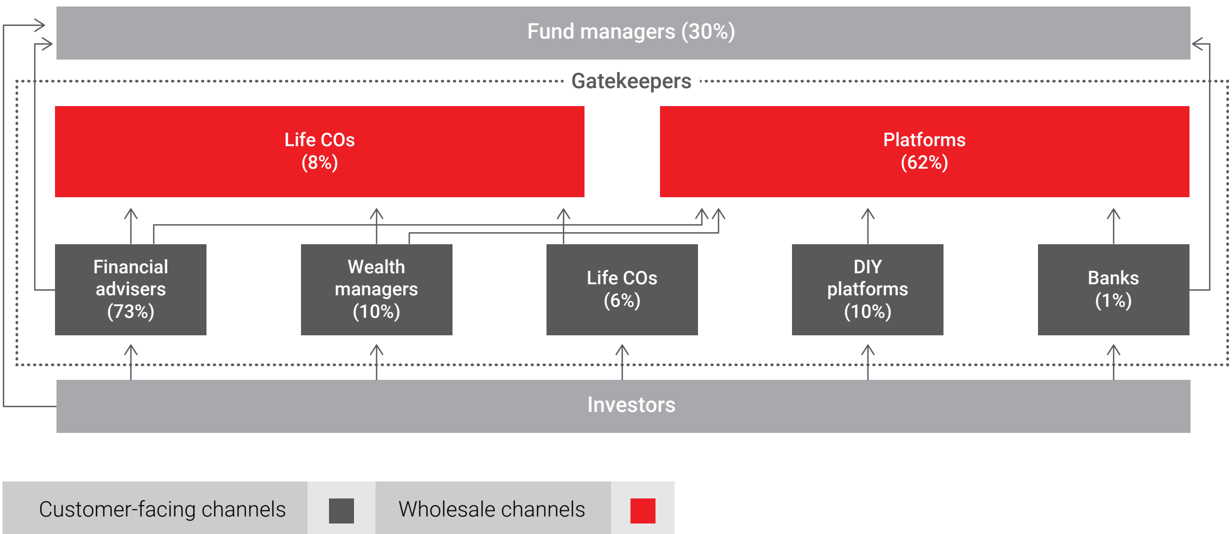
It has been nearly 10 years since the dawn of the Retail Distribution Review (RDR) in the UK. There was talk at the time of the imminent death of the independent financial adviser (IFA). Marcel Bradshaw, head of Retail Distribution at Orbis UK, discusses how the IFA's advice landscape has changed and how they have adapted and thrived in this new environment. He also explores the challenges on the horizon and the latest investment solution trends.

The UK adopted a big bang approach to RDR, compared to South Africa's more evolutionary approach. This has changed the distribution landscape in the UK, with banks exiting wealth management and IFAs very much controlling the value chain, as shown in **Graph 1**. This has had a number of consequences:

Industry consolidation

Firstly, there has been a reduction in the number of advisers from 33 000 to 26 000 today. Secondly, consolidation has been a key driver, with small- and medium-sized advice firms being acquired by national advice firms or joining advice networks. Networks initially started as a way to assist with compliance, but now they play a bigger role in offering investment solutions and other tools to their members to make it simpler to do business and to ease the regulatory burden. Today, 44% of all advisers work for 38 firms. The preferred business model is one of vertical integration led by insurance companies and private equity money.

Graph 1: The UK fund distribution landscape



Source: Fundscape/Financial-Clarity

Routes to the market have also changed. Around 60% of flows into the industry are via platforms, with over 70% coming via financial advisers. Driven by suitability regulations, gatekeepers, like fund rating and risk profile companies, have entered the value chain and influence 70% of new flows.

Portfolio construction outsourced

On the solutions front, 47% of firms outsource investment selection; multi-asset funds and external model portfolios are the preferred route for smaller firms. Larger firms create their own model portfolios and get their discretionary licence to manage these. Fully tailored propositions by advisers are increasingly rare.

Key differences between the SA and UK advice markets

The UK has a lower equity culture, with property being a big investment class. There is also very much a star manager culture. Environment, social and governance (ESG) factors are growing in importance and passive investing makes up 30% of the market. The average fund charges 80 basis points and most are very anti performance fees. It is becoming more difficult to set up as a small advice firm because of capital requirements and regulations. The cost of servicing clients is high, making it only worthwhile to service clients who bring more than GBP100 000 to the table.

Advisers have had to re-evaluate their value proposition in the wake of RDR and transition from being reliant on insurance and asset management companies before RDR, to being in control of the value chain. The future looks bright for IFAs in the UK if they are willing to adapt to the new world.

> The UK adopted a big bang approach to RDR, compared to South Africa's more evolutionary approach.

DAVID HAINTZ

FINANCIAL ADVICE: A GLOBAL PERSPECTIVE

A new type of adviser is emerging: one no longer narrowly focused on distributing financial products, but succeeding through holistic long-term planning, client-focused innovation and giving attention to every little detail. Those who make this transition are thriving, not merely surviving. David Haintz, from Global Adviser Alpha, discusses what the trends are, how to demonstrate to clients the value you bring, and how to stay ahead of the pack.

After advising for 26 years, the last six years I have been advising advisers globally, with a focus on Australia of course, but also Singapore, Hong Kong, UAE, New Zealand, and the US. I am not an expert in all markets – and certainly not the Southern Africa market, but I touched on some broad global trends. For you, it is about global knowledge and local consideration and execution.

My advice to you is to be aware of the trends; try to keep just ahead of the market, but not too far ahead. Think about how to use some of those trends to your advantage.

Firstly, the five mega trends from my book *The Life First Advisor* include:

- Ageing clientele
- The growing importance of women as clients
- The ongoing regulatory changes
- New compensation structures
- Online disruption

We then addressed the trends in the following areas, being:

1. Disruption
2. Independence
3. Pricing (and fees)
4. Value proposition
5. Investment trends
6. Margins and the value chain
7. Valuations
8. Demand for advice

Key points for each trend are summarised below.

1. **Disruption**
   Of course, tech is a disruptor, but only because of the poor client experience (CX). It is all about the CX. We must improve our CX or we leave ourselves wide open. This is the experience our clients are now used to in other areas like online and mobile banking, online shopping, etc. Our clients and prospects have enhanced expectations of CX. So, whilst Apple and Amazon are not direct competitors (yet?), we need to up our CX game.

2. **Independence**
   There is a huge global trend towards independence. In the US they call it a "lift out" strategy – to lift out advisers from the big banks, brokerage firms and wire houses. There are a number of consolidators/ private equity firms helping to fund this. In the EY 2019 Global Wealth Research, they stated:

   - Growth of independent advisers to surge over the next three years by 73%
   - Independent advisory firms to surge by 93%
   - And what we have seen in Australia over the last three years was around 80% of advisers being owned or controlled by bank-owned dealer groups moving closer to 30%. Why? Consumer demand for transparency and trust, and a harsh view on vertical integration and product alignment.

3. **Pricing (and fees)**
   Where is the industry broadly and where is it heading?

   In simple terms there are three broad phases:
   - Phase 1 – Product-led and product-paid (price taker – commissions)
   - Phase 2 – Advice-led and product-paid (price taker – commissions… then an important pivot to price maker – explicit fees)
   - Phase 3 – Advice-led and advice-paid (price maker – explicit fees)

   In my view, we will only be regarded as a profession when we are at phase 3.

   There is no right or wrong; a range of unique factors cause all markets to be at different points, for example, Asia remains very product and commission focused (so phase 1), as would New Zealand.
   In Australia, the average up-front advice fee is AUD3 000, and ongoing advice fee is AUD3 600.

   Interestingly, in Australia, a significant portion of advisers still charge primarily by a percentage of assets under management, but there are clear signs of change (around 70% would still be AUM based, but this is decreasing quickly).

   In the US, 73% of advisory firms rely primarily on AUM fees – this would have been at least 80% five years ago, and 90% before that. 14% of advisory firms do not charge AUM fees at all, and just 37% of advisory firms are charging only AUM fees.

> To move "above the line" you must have a robust, evidence-based investment philosophy to anchor your business around, otherwise you will not gain a capacity release to work on other key aspects of the practice.

4. **Value proposition**
   "Cost is only an issue in the absence of value."
   The key to a successful practice is revenue per client. Revenue per client is driven by value. Move the proposition more "above the line" and use these words as a guide:

   "Know me, know my family, understand me, help me, simplify me, de-clutter me, reduce my anxiety."

5. **Investment trends**
   There is a huge trend towards lower cost, more passive funds and ETFs: Morningstar says 2% of funds globally in 2000, but closer to 48% in 2020. A big trend.

   To move "above the line" you must have a robust, evidence-based investment philosophy to anchor your business around, otherwise you will not gain a capacity release to work on other key aspects of the practice.

6. **Margins and the value chain**
   Of the three stakeholders in the value chain, asset management and platform prices continue to fall. Advice – especially where advisers are price makers – is maintaining or increasing margins. But the key is value.

7. **Valuations**
   With increasing revenue per client on the back of enhance value, this leads to greater recurring revenue. This allows well-managed firms to have greater profitability. Enterprise values can be enhanced significantly when this is achieved: smaller practices at circa 3x recurring revenue, and larger businesses at circa 5-7x EBIT. This is indicative, as of course, all markets are different.

8. **Demand for advice**
   Where the proposition delivers on what consumers are looking for, significant demand is there for real financial advice.

JON MACKINTOSH

SURVIVING THE EXTRAORDINARY

COVID-19 has changed the relationship between advisers and clients. Fear and risk have moved from traditional selling tools to becoming very real motivators in clients' lives. Jon Mackintosh discusses how to embrace, the "extraordinary", which could change your role dramatically and give you much more power in the financial services sector.

The last eight months have seen a dramatic change in the way we think of ourselves as advice businesses. Many of us have realised we have a much greater capacity for change and implementation than we previously believed possible. Our relationships with our clients, institutions and our staff have been put through a very testing time. Over the same period though, many of us have realised that our value within these relationships is much higher than we previously would have estimated.

Through interactions and conversations built around immediate and real financial concern, the advice industry is seeing first hand that many of our clients see financial advice as much broader, (and perhaps more valuable), than the financial services products central to our financial plans. Advisers and clients are seeing that the value in relationships is about understanding and advising on far more than "needs". If we are able to maintain our ability for change and not forget it, there is the possibility for a shift in power within the industry away from institutions and toward advisers, with advice businesses becoming the industry's core product.

Up to now, most of us have been quite poor at defining our service. It is far easier to say "I'm in investment" or "insurance" or "retirement", then it is to try to explain what our business actually does for a client. It has been much easier to concentrate on the financial planning process at the beginning, than to concentrate on building a process and methods to work properly, valuably and profitably with clients over many years.

My view of what advice businesses (should) do is quite simple. They make people's lives happier. They respect the fact that managing money properly has more impact on people's happiness and choices than almost anything else. And that means far more than insurance and investments. It means cashflow, budgets, spending habits, debt and much more. It doesn't matter how much or how little wealth people have - managing it properly increases their opportunities, life outcomes and happiness. If that's going to be the case, the advice business's job is to manage the journey and to make sure the client gets to their destination in the best position possible. Let me use an analogy of an airline.

Advisers and clients are seeing that the value in relationships is about understanding and advising on far more than "needs".

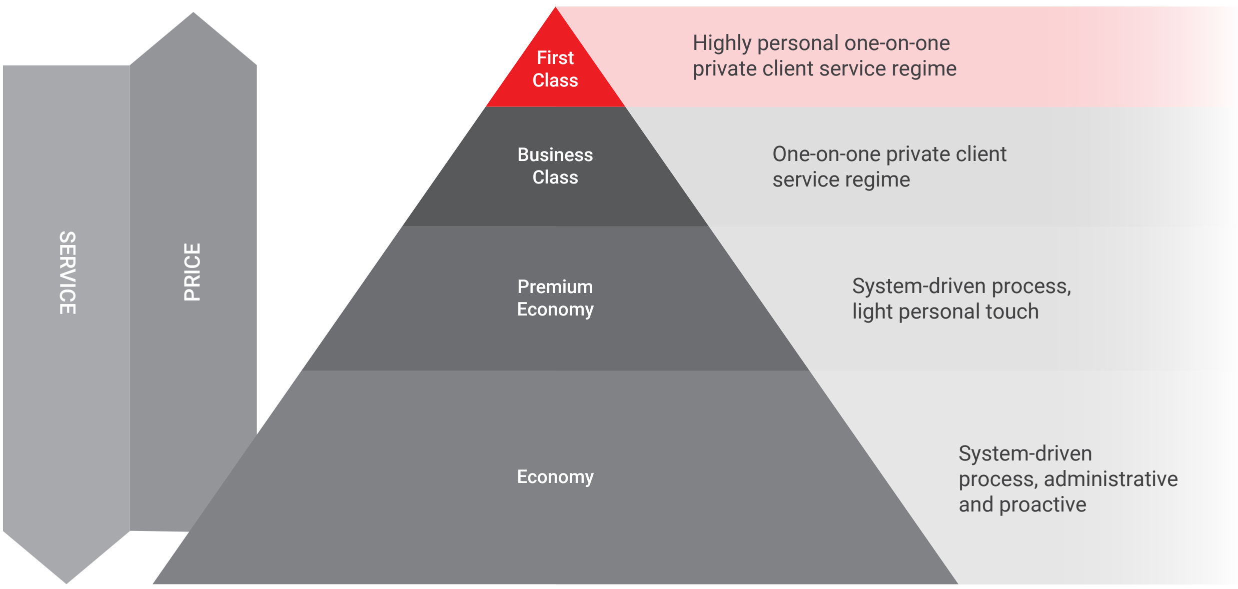
The initial financial plan by which we have defined our industry is just a ticket to board the plane toward financial betterment (which is what clients really want). At the moment, the plane has one of many corporate, institutional brands (you know who I mean!). The financial plan we produce essentially makes us travel agents, putting clients on journeys with different airlines. As long as we keep focusing on financial plans as our key product, this will be the case.

My advice is to start a revolution. To take over the airline. To put your brand on it and to take control of your clients' journeys. You're not supposed to be a travel agent; you're a pilot and your business is the cabin crew. Product providers aren't supposed to be the airline, they're the mechanics and engineers in the background – important, to be sure, but not the reason a client chooses their class of travel.

If you want the airline, it's all about the experience on board. Everybody flying from Cape Town to Paris will arrive in Paris, but the experience will be very different in first class to economy. Your ongoing service offering will define you as a business, and have your various clients much clearer on the value they are receiving. Different passengers will want different levels of service on their trip, but the more personal and the more exclusive, the more costly it will be. Some will want the best, others will prefer less service for lower fees. Both are fine. What you have to realise is that you can't run your airline charging economy class prices for first class seats. Remember the VALUE you are offering is all about the destination. Your PRICING is all about the what and how of getting there and those are specifically defined by a client's choice of class to travel.

At the end of the day, you need to accept that you administer people's financial lives and act as their financial conscience. You are the client advocate who ensures outcomes in a complex and daunting world. But you do have to realise where your value actually is.

It's not being a travel agent, is it captain?



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