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### Making Sense of Platforms By Alan Kohler

Are investment platforms and wrap accounts instruments of the devil, provided by a cartel and designed to stealthily relieve you of your savings? Or are they loyal, diligent slaves, beavering away in the background to keep your investment affairs ship-shape?

Well, perhaps a bit of both. But whatever they are, they're certainly popular: 80% or more of new investment money these days goes through platforms, channelled there by financial planners.

And the other thing they are is complicated. I mean, it's all very well for the Financial Planning Association (FPA) and the Investment and Financial Services Association (IFSA) to tell you shop around for the advice and support, but there is such a wide variety of ways of charging you fees that comparisons are virtually impossible.

So to help *Eureka Report* subscribers sort through the maze of platforms and wraps, we turned to the independent research firm Plan for Life, owned and operated by Simon Solomon and his son Rael. To start what I hope will be a long and beneficial association, Simon and Rael have provided a list of the top 10 platforms for ordinary investing, and the top 10 for allocated pensions (ranked by funds under management).

The main thing that emerges from today's tables is that Macquarie Bank — which seems to be in absolutely everything these days — has retained its position at the top of the league table, stretching its lead over BT/Westpac, Asgard and the other big banks.

Macquarie seems to have done this through a combination of discounted fees and by putting a large number of funds on its platform: 497 managed funds at last count, plus any listed company you want (20% of its funds under management is in director equities).

The head of Macquarie's platform business, Neil Roderick, told me this week its success was due to better servicing financial advisers, thanks to the investment of 40% of the budget into research and development. Its standard administration fee for the platform is 0.67% on amounts up to \$50,000, and then 0.1% on anything above that. Roderick says the average fee on accounts of \$100,000 and more is about 0.35%. There is a transaction fee of \$20, but no up front or contribution fees

What this confirms, along with other discussions and correspondence I have had from members of the industry, is that there is some discounting going on among platform fees.

Financial advisers, under pressure with their own fees, are driving harder bargains with the platform providers, so that the most important part of Macquarie's success, it seems to me, is that it has been prepared to discount its administration fee.

In a letter to me this week, Neil Roderick wrote: "The wrap administration fee, itself, is the subject of robust negotiation between the adviser dealer groups and the provider and due to a combination of an increasingly competitive market and increasing business levels, has steadily decreased during the past five or six years to levels well below 1%.

"Advisers value their clients and are conscious of cost-effectiveness and we have found this to be a vital component to us in winning new business during the past few years, as has fee transparency and functionality that benefits both client and adviser."

Another platform provider, Kevin Wyld of Beacon Investment Management Services, says: "I have seen prices come down and services go up (in the past 18 years). In fact, in the past month we have reduced the price of our superannuation service by some 19% per annum. This is primarily due to market competition, which I can assure you is alive and well.

"I dispute that the main purpose of platforms is for "the investment industry to facilitate the extract of an average 2% in fees" (Kevin was responding a piece I had written in *The Age* and *The Sydney Morning Herald*). A good platform (most are good and some better than others) provides consolidation of reporting, the ability to invest in wholesale managed funds often not available to individual investors, and to provide annual consolidated taxation reports. These help an individual in the preparation of their tax return, and certainly lower the fees if they use a professional to do their taxation."

Then again, a chartered accountant wrote with a different point of view: "I have been telling my clients about this total waste of time and money that is platforms). It seems that some are still prepared to pay for simply being lazy. The truth is that these people simply shuffle papers and keep records which anyone, with a modest effort, could do themselves. I have told my clients that these people cannot do anything on their own: in other words all buys and sells have to be approved by the client so the point is, what are they really doing? Some clients see the point and do the paperwork themselves and have a portfolio review done on a regular basis paying fee for service. This is a lot cheaper than the flat management fee they pay for filing."

There's no doubt that platforms used to be no more than clip joints, facilitating the skimming of fees by a hungry queue of what Warren Buffett called "helpers" in this year's letter to Berkshire Hathaway shareholders, and not doing much else apart from "paper shuffling".

That is still largely the case — sometimes outrageously so — but it's also true that the business is changing. What we need is faster change, plus greater simplicity and transparency.

The most important thing when dealing with a financial adviser is to ensure that the various fees are "unbundled"

and made transparent for you. Many platforms still carry bundled products, in which the single fee is shared between the fund manager, the platform provider and the adviser; for example, a 2% all-up fee on a particular product might be 0.55% trailing commission to the adviser, 0.9% for the fund manager and 0.55% for the platform. What's more the adviser fee can be "dialed-up" — an amazing concept that allows the adviser to increase his or her fee.

"Fee for service" is growing rapidly now, especially since the FPA introduced new conflict -of-interest guidelines that require their members to separately negotiate an advice fee. That means that bundled financial products, where the various fees are all lumped together, should become things of the past, but clients should ensure it happens by pressing their advisers to negotiate their own fee.

The opposition to this idea is usually based on the proposition that clients will resist suddenly having to write out cheques for thousands of dollars when they have never had to before. But that doesn't wash because all platforms allow fees to be deducted from the client's account and sent to the adviser — whether it's a percentage, a fixed dollar amount or an hourly rate.

Today's table from Plan For Life is based on the unbundled model, and you'll see that the fees can vary widely. This, plus the more complete tables we hope to publish in the coming weeks, will for the first time provide the basis on which you can start to shop around among financial advisers.

Each adviser generally offers one platform and each platform contains a menu of funds and other investment options. The simplest way to shop around is to ask the adviser their own fee for advice (and if they try to say that it depends ... pin them down) and then to ask what platform they use.

Ask what the platform administration fee is and whether there is an up-front or contribution fee. If there is any kind of percentage up-front fee, in addition to the ongoing fees, walk out the door — or tell them you'll pay a reasonable fee for the development of your financial plan, but not, repeat not, a percentage of your money.

The other way in which platforms differentiate themselves is the number of investment options available. Whether it is useful to have lots of options is a vexed question — analogous, in my view, to food shopping. Do you want to go to a supermarket where everything is available on the shelves before your glazed eyes, or do you want to shop in a gourmet deli?

It depends. You go to a supermarket for lots of choice and cheaper prices; you go to the deli for better quality and better service, but you expect to pay more.

The two ends of the scale in platforms are probably Macquarie bank and Skandia, the Swedish financial services company recently taken over by Old Mutual of South Africa. Macquarie has nearly 500 managed funds and 2000 direct listed companies available, and cheap administration fees; Skandia has 90 options at present and is very selective about the funds added to its platform (and when a fund's performance falls behind, it gets booted off).

Skandia's fees are not actually excessive; MD Ross Laidlaw says they range from 0.3% to 0.8% for the platform.

Some people like shopping in a supermarket, some in a deli. The problem with the investment industry is that you often don't know what you are getting; there is very little clear labelling going on and not enough transparency of fees.

**TOP 10 INVESTMENT PLATFORMS - CAPITAL FLOWS**

	Administrator	ProductName	FUM Dec 2005	Inflows Dec 05	Outflows Dec 05	Net Funds Flow Dec 05	Earnings Dec 05
1	Macquarie Invest Mgmt	Portfolio Manager - Investment	12015.42	4551.06	1855.85	2695.21	1077.52
2	BT Funds Mgmt	Wrap Investment	11215.80	7050.56	5176.42	1874.14	537.42
3	MLC Investments	MasterKey Unit Trust	5619.30	832.83	1134.31	-301.48	828.98
4	ING Australia	OneAnswer Investment Trust	5420.27	1518.75	731.78	786.97	504.58
5	Navigator Aust	Navigator Personal Investment Funds	5044.98	912.48	703.07	209.41	482.15
6	Asgard	Investment Account	4740.71	626.87	667.89	-41.02	458.39
7	Colonial First State	FirstChoice Wholesale Invest's	4119.81	2236.66	994.55	1242.11	452.49
8	Perpetual Funds	WealthFocus Investments	3810.27	512.72	745.90	-233.18	422.62
9	Colonial First State	FirstChoice Investment	3578.94	1553.29	601.83	951.46	389.99
10	MLC Investments	MasterKey Custom Invest Serv	2630.77	678.42	364.15	314.27	239.48

FUM = Funds undermanagement # Units are expressed as millions

**TOP 10 INVESTMENT PLATFORMS - FEE STRUCTURES**

	Administrator	Product Name	Contrib Fee	Admin Fee p.a.	Mgmt Fee p.a.	Issue Date	Adviser Service Fee
1	Macquarie Invest Man.	Portfolio Manager - Investment	0.00%	0.67%	0.19–2.95%	22-Nov-04	As agreed with financial adviser.
2	BT Funds Management	Wrap Investment	5.00%	0.79%	0.00–5.00%	01-May-05	Up to 2.00%
3	MLC Investments	MasterKey Unit Trust	5.00%	0.00%	1.06–2.400%	20-Aug-04	As agreed with financial adviser.
4	ING Australia	OneAnswer Investment Trust	4.00%	0.00%	0.95–2.70%	19-Sep-05	Max of 2% p.a or \$10,000 p.a.
5	Navigator Australia Ltd	Navigator Personal Investment	4.00%	1.33%	0.50–3.41%	1/07/2005*	Up to 2.2%

6	Asgard	Investment Funds Account	5.00%	1.54%	0.00–3.19%	01-Mar-04	As agreed with financial adviser.
7	Colonial First State	FirstChoice W'sale Invests	0.00%	0.00%	0.30–2.96%	06-Mar-06	As agreed with financial adviser.
8	Perpetual Funds	WealthFocus Investments	4.50%	0.00%	1.05–2.75%	05-Dec-05	Up to 2% pa or \$20,000 max
9	Colonial First State	FirstChoice Investment	4.00%	0.00%	1.11–3.44%	06-Mar-06	As agreed with financial adviser.
10	MLC Investments	MasterKey Custom Investment	5.00%	1.12%	0.18–3.06%	01-Jul-05	Greater of 2% pa or \$2200

\* Navigator Personal Investment Surplus Issue date 15/08/05 \*\* ING Australia OneAnswer Investment Trust uncludes a \$48 Mem Tranche Fee

\*\*\* Asguard Invement Funds Account includes additional Trustee and Expense fees of 0.462% p.a.

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