



CASH ON PLATFORMS

King or Joker?

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INTRODUCTION

At times when market turbulence can typically send the more cautious (or even the more prudent?) to cash, the rate paid on cash held on-platform can be an important factor of net returns.

The Platform recently presented at an IFP day and were asked by an IFA about the different cash rates on platforms. He had several clients who as a tactical, or short-term, asset allocation have significant cash assets and so this is a key factor for him and indeed all wrap customers. He was concerned that his clients may incurring higher costs, albeit indirectly, than was immediately obvious. We thought that this was an important question and one worth looking into.

Over the past month, The Platform has spoken to IFAs, consultants and platforms to build a picture of how cash is managed by platforms.

The Platform provides independent research into the platform market. Our views are totally unbiased and represent our views only unless otherwise represented.

This particular report is not funded or paid for by any third-party. This report is intended to provide an introductory overview but does not dive deeper into the full, sometimes murky complexities of this issue. Please contact us for further information or clarification of any points.

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With thanks to:

Stan Kirk, serial developer of wrap platforms and related services since 1998, for comments

All platforms named in this report for participating

If you are conducting research into UK retail distribution or platforms then please contact The Platform on 0207 449 9080 to see if we can help. We work with IFA firms, asset managers, platform providers and product providers who want a better understanding of the platform market.

EXECUTIVE SUMMARY

- This report focuses on those platforms (listed overleaf) which deliver a service to IFAs and their customers.
- Several of the platforms we talked to suggest that a range of up to 20% - 25% of assets are currently held in cash. The platforms holding the most assets in cash are, in the main, those platforms for whom SIPP is an important element of the proposition.
- The traditional fund supermarket platforms which still hold a high proportion of assets in ISAs and unwrapped report much lower cash levels. As they enhance their pension offers, these levels are likely to rise.
- Cash is held for two primary reasons on platforms – that held in a transactional account and that which is an asset allocation decision. Some platforms offer different vehicles depending on purpose.
- Security has become a paramount consideration. Several platforms split the cash amongst a number of banks, arguably providing greater client security.
- The difference in cash rates paid by the main platforms is wide.
- Discretionary investment platforms do not seemingly offer very competitive rates on transactional accounts but this is largely mitigated by the fact the cash tends to be an asset allocation decision and does not therefore languish in the low rate transactional cash account but a more efficient cash vehicle.
- Other than the discretionaries, the platform currently paying the least competitive rates on transactional cash is curiously enough part of a bank – James Hay.
- The platform paying the best rate today is Standard Life.
- Fidelity is the most competitive of the former 'supermarket' models with a current special rate but also a preferential rate for those clients with more than £15,000 in cash.
- Some platforms exclude cash assets from their platform administration fee. Those who don't and make a margin on cash are arguably double-dipping.
- We would expect different cash rates depending on platform charging models. The biggest potential for opacity and confusion about cash is paradoxically, with fee-based platforms.
- To elaborate, those platforms which have evolved from fund supermarkets currently live by mutual fund rebate, which means that they tend to provide cash at base rate less 40bps. No double-dipping and a clear 'fee' for holding cash.
- Some of the fee-based platforms retain bps from the interest and also charge an administration fee on these assets. Based on levels of cash of up to 25%, each 10bps retained on interest by a platform can boost the published administration fee by 2.5bps.
- This approach will arguably not be clear in any reduction in yield price illustration methodologies, thought to be currently favoured by the FSA

PLATFORM CASH ACCOUNTS

The following table provides information on the cash rates paid by platforms.¹ Explanatory detail can be read in the following sections.

Platform	Interest Rate on Cash Account (as at June 2009)	Calculation	Platform fee levied on cash
Ascentric	0.25% - 1%	Tiered rates	No
AXA	Explicit charging model ² : 0.5%	Base rate paid	Yes
	Composite charging model : 0%	Base rate less 50bps	No
Cofunds	0.10%	Base rate less 40bps	No (n/a)
FundsNetwork	0.7% ³	Base rate paid plus 20bps	No (n/a)
James Hay	0.00001%	Base less 15/16ths of 1%	No
Macquarie	Floating rate - effectively base	Floating rate paid by 2 banks	Yes
Novia	0.25%	Base less 25bps	Yes
Nucleus	1.25%	Base plus 75bps	Yes
Parmenion	0%	Base less 50bps	Yes
Praemium	Interest rate determined by overnight money market	Fluctuating	Yes
Raymond James	0%	Base less 100-300 bps	Yes
SEI	Interest rate determined by the cash agent – still to be selected	N/A	N/A
7IM	0%	Base less 75bps	No
Skandia	0.10%	Base less 40 bps	No (n/a)
Standard Life	0 - 1.65%	Tiered rates typically up to base	No
Transact	0.72%	Fluctuates	Yes

1 Source: The Platform's platform analysis tool www.theplatform.com/pat and directly from the platforms.

2 Explicit charging model is what is traditionally known as fee-based ie where a platform fee is paid and any fund rebates are paid back to the client account

3 Current special offer paying 20bps above base rate due to expire on 31st July 2009. See notes below for further details – usual calculation is base less 40bps.

INDIVIDUAL PLATFORM APPROACHES

AXA

AXA offer their IFAs a number of different charging models – one is a composite model, the other is explicit.

Composite refers to a model where the platform makes all their money by way of fund manager rebates and not by an explicit portfolio management charge. In this model AXA clearly also retain any revenue generated by cash but do not levy a portfolio administration fee.

Explicit refers to a model where they pass on all rebates and levy a tiered transaction fee from 30 – 65bps for the platform. In this model they pay 50bps (base rate) on cash held but the cash then has a portfolio administration charge applied.

Ascentric

The Ascentric marketing team were keen to confirm that they do not charge the ongoing platform fee on cash, unlike some of their peers. The platform uses HSBC as the main deposit taking bank then puts out to a further 7 to create a floating rate that changes all the time.

“We do make a margin, but because the floating rate changes we can't be explicit about how much in bpts terms - by way of a comparison on current call and 3-month rates we make approx 40-45bps across all channels . Every day it can change. We openly share this way of working and we don't take twice like some. That's the main issue.” We were unable to confirm a specific rate with Ascentric which was a little confusing - their rate chart is provided below, but this is gross of any margin.

Ascentric cash rates as at June 2009⁴

Cash Balance	Rate Applied
£0 - 49,999	0.25%
£50,000 - 149,999	0.50%
£150,000 – 249,999	0.75%
£250,000+	1.00%

As we go to press, Ascentric have just announced that they will be making fixed deposits available starting at a minimum 12 month term for investments of £50k or above. The platform has Cater Allen available today, with AIB and Scottish Widows coming in the next few weeks, and claims that it will be adding new relationships throughout the year based on adviser demand.

These deposits will offer a full rebate to client where available based on Ascentric's corporate purchasing power which they say may give better terms than some IFAs going direct – this will be offset against the platform charge of 0.25%.

⁴ Source: Ascentric's entry on The Platform's Platform Analysis Tool, www.theplatform.com/pat

Cofunds

The Cofunds Cash Account was introduced in early 2008 to enable investors to hold cash on the Cofunds platform. This was a self-professed step in the platform's evolution from fund supermarket to a broader wrap-style offering.

The current interest paid on the Cofunds Cash Account is 0.4% below the Bank of England base rate and monies are held with the Royal Bank of Scotland.

However, Cofunds claim that they are not experiencing high levels of cash sitting in the transactional cash account provided on the platform. "On average less than 0.5% of a client's portfolio is left in cash". In an ISA on average less than 1.5% is held within the cash reserve within the ISA wrapper. Within SIPP's the experience is a little different with around 10% held in cash but Cofunds claim this is due to deposits of tax free cash and draw down balances.

The platform has a number of cash funds available which advisers can use for the cash element of a client's portfolio and is in the process of developing other cash investment options such as fixed term deposits to be made available on the platform.

FundsNetwork

Funds Network's Cash Manager Account is guaranteed to pay a rate of interest set at 0.4% below the current Bank of England base rate, though accounts that have more than £15,000 invested will receive an additional 0.2% interest on the total amount invested.

FundsNetwork also run an 'ISA Cash Park', a facility that allows clients to hold their stocks and shares ISA subscription in cash temporarily until they are ready to invest. Again the rate of interest is set at 0.4% below the Bank of England base rate.

At the time of writing FundsNetwork are running a special offer on Cash Account and ISA Cash Park whereby they pay interest at 20bps above BoE base rate on all balances. This offer is due to expire on July 31st.

For both of these services FundsNetwork partner with the Royal Bank of Scotland.

James Hay

For a banking institution, even with base rates as low as they are, the James Hay cash rate is relatively uncompetitive at the moment. The marketing team confirmed that they pay 15/16ths of 1% under BOE base rate. As the terms and conditions don't allow them to pay 0% that is why the current rate is an underwhelming 0.00001%.

What the group does offer is a 1 year term fixed deposit. This account provides investors with a fixed rate of interest on savings of over £50,000 and the rate quoted at the outset is then fixed for the duration of the deposit. The rate is currently an AER of 3 - 3.75% less a 1% initial fee. Such a high hurdle means that this rate won't be available for many clients who will be forced into the transactional account.

The following fixed term deposit rates are an indication only and can change during the day:

James Hay 1 year fixed deposit rates as at 09 June 2009⁵

Balance Gross	% pa	AER %
£50,000+	3	3
£250,000+	3.5	3.5
£500,000+	3.5	3.5
£1,000,000+	3.75	3.75
£3,000,000+	3.75	3.75

Macquarie

Macquarie hold transactional cash with 2 high street banks. The wrap passes the floating rate – effectively base rate - back to the customer and takes no cut of this.

The standard portfolio administration fee is levied on cash assets held in the transaction account.

Novia

Novia's standard Cash Facility rate is 0.25% gross below Bank of England base rate (i.e. currently 0.25% gross pa). This is paid net of tax unless the client has a product wrapper that uses their gross nominee structure e.g. through their SIPP, Offshore Bond, Gross GIA - then they can pay it gross. When interest rates are low there is little difference between gross and net payments, however as rates rise this becomes beneficial.

Novia claim not to take any deductions from the interest rates they pay but they do levy the full portfolio administration fee on cash.

The platform has added a new cash deposit from Investec Bank to their platform separate from the transactional cash facility with an interest rate of 0.5% above BoE base rate for a fixed 6 month period.

Nucleus

Nucleus' cash rate is currently Base + 0.75% on standard cash with the option to obtain 1.5% (2% for pension accounts) through the platform. The ability to offer a high level of interest, Nucleus claims, comes from negotiating the best possible rates on client money accounts with the banks they use and what they offer is passed on to their clients. There are no fixed term deposits involved with these rates.

Without access to sensitive company information it is hard for The Platform to fully assess why some platforms achieve a much more competitive rate from their bank than others (without taking any platform administration fees into account).

Nucleus includes cash assets in the full platform administration fee, yet even so the cash rates remain very competitive.

Parmenion

Parmenion's cash account currently pays 0.5% below the BoE base rate.

⁵ Source: James Hay marketing team

However they suggest that as a discretionary investment management platform, they do not explicitly look to offer high interest earning cash deposit facilities. Parmenion claim that a very small cash balance would usually be held in all portfolios by the discretionary managers to meet fees and commissions and provide solvency for trading purposes. It seems clear that discretionary asset management propositions do not face the same issues as other platforms where cash can sometimes inadvertently build up in a low-rate transactional account.

Managed Cash is a widely used asset class within many of the portfolio structures and within the Parmenion managed cash model one or more money market funds can be held at any particular time. The current yield on the managed cash asset class is 1.3%.

Praemium

Praemium facilitate the holding of client cash in a pooled account with the interest paid being the overnight rate. This rate has fluctuated over the last few months between 0.25% and 0.5%.

Discretionary fund managers that use the Praemium platform tend to invest cash into fixed interest products where the interest rate will vary – again we see this distinction between transactional cash accounts and cash as an asset class held in a different vehicle. As the Praemium platform is effectively supporting model portfolios – as with the discretionary asset managers – the treatment of cash is not such an important issue as far as the transactional cash account is concerned because large balances will not typically build up here.

The platform charges a fee on total assets including cash.

Raymond James

Unsurprisingly, Raymond James has a similar outlook to Parmenion and Praemium.

For cash awaiting investment, the custodian's rates apply. The majority of their assets are held with Pershing Securities Limited where the following rates apply⁶:

Cash Balance	Rate Applied
£0 - 10,000	BoE base rate -3%
£10,000 - 50,000	BoE base rate -2%
£50,000+	BoE base rate -1%

“With the base rate at the current low of 0.5% there is no nominal rate of interest paid. Clients are not subject to negative interest.”

For strategic cash advisers are able to purchase money market funds of their choice. The adviser can select any money market fund that can be traded and the selection of the fund appropriate for the client is the adviser's responsibility.

⁶ Source: Raymond James' entry on The Platform's Platform Analysis Tool-publicly available from July 2009. www.theplatform.com/pat

SEI

SEI are still in development phase on this but will outsource their cash management responsibility to a third party. The interest rates offered are therefore dependent on the third party.

SEI are currently in the process of selecting a preferred cash agent.

Seven Investment Management

7IM outsource their cash management to Pershing. The Pershing interest rate is payable on cash held at a rate of Base Rate minus 0.75%, currently this is 0%.

For the purpose of the wrap fee, cash is excluded. IFAs have the option to charge trail either on assets only or on cash and assets.

The group also currently provide money market funds, and most IFAs on the platform use the Henderson Cash Fund or Goldman Sachs Sterling Liquid Reserves Fund. According to 7IM, the former currently yields about 2.8% to the client and the latter about 0.6%.

Skandia

Mirroring Fidelity and Cofunds' approach, Skandia aim to offer an interest level on the cash account that tracks at 0.4% below the Bank of England base rate.

Currently cash is held across two banks with 67% in NatWest and the remaining 33% in Alliance and Leicester.

Standard Life

Standard Life pay tiered up to base rate and have not yet passed on all the base rate cuts ie the more favourable rates we have not seen for some time remain. They currently have a fixed base rate of 1.65% for balances over £100,000 which is clearly high compared to other platforms.

Data provided as at 8 June 2009⁷

Cash Balance	Rate Applied
£0 - 20	0%
£20.1 -5,000	1.15%
£5,001 - £25,000	1.40%
£25,001.01 - 100,000	1.55%
£100,000+	1.65%

Standard Life transactional cash accounts have no platform fees applied . Operational cash held in ISA and SIPP has no wrapper charge levied. There is a charge levied for any links to third-party deposit-taking institutions but Standard Life wrap charge no administration fees on transactional cash and also currently pay higher rates than their peers.

⁷ Source: Standard Life marketing team

At any given time there are fixed-term deposits available through Standard Life Bank and no administration fees are charged on these.

Transact

Transact seem to typically pay slightly higher than base and the average interest rate earned during May was 0.72%. The entire proceeds earned on bank deposits are paid to clients. The banks are not publicly named but are four major UK high street banks.

The portfolio annual charge on new cash starts at 45bps (as opposed to 60bps on other assets) and tapers down.

The platform has a switch cash fee of 60bps – all switches obviously result in cash if only for a few minutes when the sale proceeds arrive and the fee is taken on repurchase. So there is an initial charge everytime a new security is bought from cash. Although such a cash fee is not common, it is arguably no different from any platform charging a transaction fee.

“THE WORD ON THE STREET”

Here we pull together some comments from IFAs, consultants and industry participants. These are individual views but ones which we found to be representative of a broader consensus rather than just representing any one individual.

“I think that platforms that offer open architecture should really do so and allow investors a choice of accounts – similarly they advertise open architecture but fail to allow investment in National Savings Products – why limit this way?”

“Pershing’s cash rates are **** and always have been. You didn’t hear that from me.”

“It has always been a bit of a mystery to me why average cash balances on wrap platforms are typically and consistently 25% or more. I gather the SIPP experience is the same.”

“The return on cash will affect the ‘uplift’ experience. This is the amount of additional cash and assets which clients volunteer to add to wrap after they have experience of the service. For devoted New Model Adviser and wrap fans this can be significant – I would expect up to 30% for the right propositions.”

“With regards to James Hay, It was always a bone of contention with myself and other IFAs that the interest rate attributed to the account was less than was available to retail customers at branches. Could it be that the Wrap Provider is making a turn on the cash account in addition to the Wrap Charge?”

“I feel that Transact and Ascentric seem to have the right approaches given the limitations and of course security of capital is also an issue these days –Transact for instance lodge funds between four high street banks for security rather than chasing a rate and this also has merit.”

“If you’re going to get anything wrong as an administrator, it’s cash. It’s quite complex to handle so I see absolute no issue with platforms charging the portfolio administration fee on this.”

ISSUES RAISED BY THIS REVIEW

- Can those platforms charging a portfolio administration fee justify levying this on cash held in portfolio accounts?

One platform interviewed raises the valid point that administering cash can actually be one of the hardest jobs to do and so, yes, the full administration fee is warranted. Other parties suggest that a lower tiered fee for cash balances should be applied.

- Furthermore, if a portfolio administration fee is charged on cash, then surely full base rate at least should be passed on to the client?

Imagine the furore if fee-based platforms paid performance less 50bps on funds.

- This issue doesn't just stop with the platforms - can IFAs justify charging full commission on cash?
- Furthermore, platforms are portfolio administration vehicles and not (in the main) banks. As such some responsibility must fall on IFAs for recognising that platform transactional cash accounts are not optimum vehicles for large sums of cash to be held for any significant time.

GUIDELINE QUESTIONS FOR IFAS TO ASK PLATFORMS ABOUT CASH

At The Platform, we are frequently asked by IFAs to help them with the platform selection process or to help them prepare for the 'beauty parades'. As a practical take-out from our research, we suggest that the following questions should be asked in relation to cash on platform.

- What is the current rate?
- What is the calculation methodology for the rate?
- Are the full platform fees levied on the cash?
- What is the tax position – is tax paid before or after platform charges?
- Where is the cash held? How secure is this?
- What alternate cash vehicles are there and what are the minimum hurdles for these?

CONCLUSION

One of the more interesting elements of reviewing cash is not the data on rates paid itself, but the light it shines on the whole basis of platform charging.

Understandably the platforms which rely of fund manager rebates for income tend to offer less attractive rates on cash (although Fidelity are a current exception with a special and timely promotion). However, with a dash of irony, these models which can sometimes be denounced as opaque are actually clearer on the cash rates than many of their supposedly more transparent rivals. Let us elaborate. A model relying on manager rebates has no option for ‘double dipping’ and charging a portfolio administration fee as well as retaining rebates on mutual funds, basis points on cash and transaction revenue on listed security trades. So to that end, are these sometimes derided opaque models actually easier to understand – even dare we say it more transparent?

Platform charging is by nature complex and no one platform will have the same model as anyone else. Neither is it necessarily a case of “Four legs good, two legs bad” or “Portfolio admin fee good, rebate bad.”

The above point is perhaps laboured to a degree for the purposes of illustration but it does, we think, raise an important point as the FSA and users assess platform charges. **Platform charging is by nature complex and no one platform will have the same model as anyone else. Neither is it necessarily a case of “Four legs good, two legs bad” or “Portfolio admin fee good, rebate bad.”**

The cash example reminds us that ultimately clarity is more important than transparency and what is important is that IFAs and customers understand what they are being charged and that this is fair. Any experienced platform marketer will know that there are multiple ways in which they can generate revenue and

we know of very few platforms in the UK which are truly transparent in the sense that they charge one single administration fee based on assets and levy no additional charges or retain absolutely no additional revenue.

Industry expert Stan Kirk makes the following point about high cash balances being held on platforms: **“All providers know this and some take advantage of it through taking an undeclared ‘turn’ on cash balances, effectively a hidden charge and quite a significant one at that.** Moreover one which would not be found by the FSA’s favourite method of cost comparison, the RIY difference.” By way of illustration if one takes an illustrative 40bps ‘turn’ on cash and cash represents 25% of platform assets, then that platform is effectively boosting its portfolio administration fee by 10bps.

In today’s environment, the low rates paid minus the platform charges and adviser commissions will result in a deeply negative rate. **We may need to see a rethink from advisers about holding**

We may need to see a rethink from advisers about holding large amounts of cash for long periods and incurring capital shrinkage because the interest rate is simply not enough to pay for the platform and associated fees.

large amounts of cash for long periods and incurring capital shrinkage because the interest rate is simply not enough to pay for the platform and associated fees.

The key issue that emerged almost as a tangent is the sheer complexity of the pricing of just one small element of a platform and how hard – we would almost go as far as to say impossible – it is for IFAs to get a clear and comparative idea of what a platform's cost is. (We think it important to add that this previous point is just about price. Value is clearly then a whole other topic. Not every platform offers the same service and it is entirely appropriate that every service has a different fee.)

Cash is just one illustration of the above-mentioned complexities. Transaction fees and switching charges are also a potential 'hidden cost' when excluded from the headline administration fee. Different models will favour different types of practices and the whole platform selection process is really 'horses for courses'. Clients who transact frequently and periodically hold large amounts of cash will be better suited to one type of platform than another.

It is The Platform's view that best practice – for those operating a fee-model – is for a platform to pass on the full interest received from the bank and to levy a single portfolio administration fee on this. Other models do not aid clarity and seem counter-productive. The platform industry needs to work as a group to improve IFA understanding and confidence – understanding what a service costs is key to this confidence.

The platform industry has been arguably a little smug for the last few years, happy in our positioning as the Saints to the life companies' Dragons – champions of a brighter future. We must be careful that commercial realities, squabbles and battles for lower headline administration fees do not push us down the same path of opacity and lack of clarity which has wounded the dragon, some would say fatally.

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- Conducting bespoke research with IFAs on behalf of a life company
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“...an abundance of industry knowledge.”
“a great report, exactly what I was hoping for...”
“An excellent independent perspective on the opportunity...”

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