2023

Australian Financial Advice Landscape

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AR

Adviser Ratings

Contents

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admin@adviserratings.com.au

AR data

Service providers and licensees can find additional information at:
ardata.com.au

Adviser Ratings

Advisers and consumers can engage with us online at:
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Executive summary

The Australian Consumer

Consumers' demand for financial advice is on the rise, as Australians grapple with the triple threat of interest rates, inflation and volatile markets. Retirement planning and ways of topping up super are among the most sought-after areas of advice.

Key findings

- Adviser Ratings has had a record number of consumer leads in the last 12 months, indicating the high and growing demand for financial advice. In line with many practices' business propositions, most consumers were looking for advice on how to build super and plan for retirement.
- Despite the demand, only 10 percent of Australians saw a retail adviser last year. More advisers have moved into servicing "sophisticated only" clients, creating a potential consumer protection gap, which the Quality of Advice review has recommended to address by wholesale clients consenting to be treated as such.
- Both affordability and access continue to be key challenges, with most Australians unable to pay more than $500 for advice.
- Notwithstanding, a greater portion of unadvised consumers have said they are willing to spend up to $5,000 to see an adviser, reflected in higher client numbers per adviser.

The Australian Adviser

With fewer than 16,000 advisers left in Australia, the focus has shifted to how Government reform will affect the profession of the future. In the meantime, advisers are spending more time with "one-off" clients and will face increasing pressure to lift their funds-under-advice (FUA) per client in 2023.

Key findings

- By the end of 2022, adviser numbers had fallen to just over 15,800.
- Licensee switching was at its lowest level in eight years, with most advisers now privately-licensed. The banks have exited wealth, while the limited licensee market is also on the brink of extinction.
- While most advisers now plan to stay in the industry, more than a fifth still have reservations. For many in this camp, their decision will hinge on reform outcomes.
- Almost a quarter of clients are still presenting with "one-off" requests.
- The median advice fee jumped a further five percent to $3,710, while the average increased to $4,250. Most practices say they'll lift fees further in 2023.

The Advice Business Landscape

Advice businesses have become more efficient and motivated to pursue new clients in the past year. Many have also lifted their revenue and profits, but vulnerabilities around succession planning have continued.

Key findings

- Improving material process efficiencies is still the top priority for almost half of advice businesses.
- However, most practices say they are now on top of compliance, with a sharp year-on-year fall in the number of businesses seeking help in this area.
- More than one-in-three practices say they'll actively pursue new business in 2023, with most clear about the type of clients they'd like to recruit.
- Practices have invested more in advisers: The adviser-to-staff ratio has increased significantly, as businesses slightly reduced their spending on outsourced paraplanning.
- Around two-thirds of young businesses (<5 years old) don't have an up-to-date succession plan, compared to a third of more established businesses (>5 years old).
- Business revenue improved in 2022, with most practices lifting their revenue margin by five to 15 percent.
- Profitability is still a challenge for boutiques, with one-in-four solo practices reporting no profit. Almost two-thirds of larger businesses increased their profits by 20 percent or more.
- As markets challenge mum-and-dad investors, advisers are slightly changing how they invest. Managed accounts (off-the-shelf), managed funds (custom) and ESG look set to be the big winners.

Platforms and business technology

Advisers are still awaiting the long-promised platform revolution, which means the gap between newer customer-focused offerings and legacy products continues to widen. The software space has seen several recent entrants, but only a couple are wooing practices.

Key findings

- Market darlings Hub24 and Netwealth continue to be the frontrunners in terms of adviser sentiment, with most platforms achieving a negative NPS.
- Customer support and client reporting have been noted as particular areas of weakness for legacy products.
- BT Panorama still has the highest penetration, with CFS FirstChoice and Hub24 on its tail.
- XPLAN is still the main software solution for most practices, despite its consistently negative NPS.
- Newer player ProductRex is winning the hearts and minds of advisers with its simple interface, sole purpose solution and superior customer service.

Investment

After a strong 2021, the industry's funds under management (FUM) plummeted to Dec 2022, with cash the only asset class to record growth.

Key findings

- Turbulent markets shed almost $75bn off the industry's FUM in the year to December 2022 - an 8.3 per cent reduction.
- Net flows fall as badly, with a jump in cash allocations. Only cash experienced positive net flows across the year, with a reallocation from property, alternatives and surprisingly, fixed income.
- There's been a quicker-than expected backlash against overt ESG solutions. Both greenwashing and the weaponisation of ESG by politicians are two of the biggest risks to this sector.
- Lonsec is the darling among research houses with its users rating it top of a small bunch of competitors.

Advice positively positioned for the future

A letter from Adviser Ratings' Founder, Angus Woods

When I look through the data for this year's Landscape Report, it's clear the time advisers have spent investing in their businesses has paid off. Practices are more profitable than ever, thanks to the nous of those who continue to serve in the profession. After adapting to compliance and cost pressures, today's advisers have reaped the rewards with robust practice health.

We're now continuing to see businesses adapt to the market's changing conditions, with many finding ways to become more efficient and serve more clients. As advisers, you're adopting new technologies, planning for the future and finding ways to both survive and thrive in this new environment. Our Landscape Report illustrates this. We've gone deep inside the advice industry and examined how you're managing your businesses, how you're investing, what you're doing to protect your practice and where you see new opportunities. The insights should help you to prepare not just for the next 12 months, but for the decade ahead.

The demand for your services and expertise will continue to grow in the coming years, as Australia's population ages. Through our research, I can see you're setting up your businesses for this. This report will also give you a glimpse at what your industry peers are doing to prepare themselves for growth.

Thank you to Lonsec and Praemium, who supported thousands of surveys and hundreds of hours of analysis on this report. Thank you also to the advisers, licensees and consumers who contributed their valuable insights. It's allowed us to shine a light on the profession's strengths and vulnerabilities.

Adviser Ratings has seen a record number of leads in the past 12 months, which means your services as advisers are in high demand. Please continue to claim your profile and ask your clients to review you. It's free!

We will continue to advocate for you, as advisers, as you navigate challenges around cost, compliance and demand. While the next 12 months will continue to test practices, there are signs the worst of it may be behind us. We still expect to see thousands of advisers leave, but we've also seen the strongest intention yet that most of the current workforce is here to stay.

- We're with you, because advice matters.

Angus Woods
Founder
Adviser Ratings

Streamlining the complex

præmium

A letter from Praemium's Chief Distribution Officer, Martin Morris

Praemium was established in 2001 with the mission to simplify and streamline the complex and time-consuming process of wealth management. Recognising the potential for technology to revolutionise the market, Praemium set out to develop a next-generation platform that delivers an exceptional experience for advisers and their clients.

Through collaboration with wealth management professionals, Praemium has crafted its platform to offer maximum flexibility to tailor solutions that meet the needs of clients both large and small, across custody and non-custody solutions, to provide a unified view of a client's total wealth portfolio on a single platform.

Today, Praemium's platform administers and reports on over $230 billion in FUA for some of Australia's largest and most reputable institutions, private wealth firms and advice practices.

For over 22 years Praemium has remained committed to its goal - providing the best technology and product solutions that enable advisers to deliver great outcomes for their clients.

Martin Morris

Chief Distribution Officer
Praemium

It is both a transformative and exciting time to be in advice

Lonsec

A letter from Lonsec's CEO, Michael Wright

At Lonsec, we are deeply passionate about the incredible value of advice and about supporting advisers as they navigate through this rapidly changing landscape, continue to grow their businesses, and help their clients achieve their best lives.

We're excited to be positioned at the nexus of the industry, providing advisers with a full suite of investment products research, cutting edge technology and efficient investment solutions to help you and your clients make better investment decisions.

Across our different brands we partner with industry participants to research and rate over 2,000 managed investments and listed securities and over 500 superannuation products, as well as provide portfolio consulting, a diverse range of managed accounts and data and analytics.

Our award-winning investment research portal - iRate® gives advisers access to Lonsec's unparalleled breadth and depth of qualitative research - all within the one application.

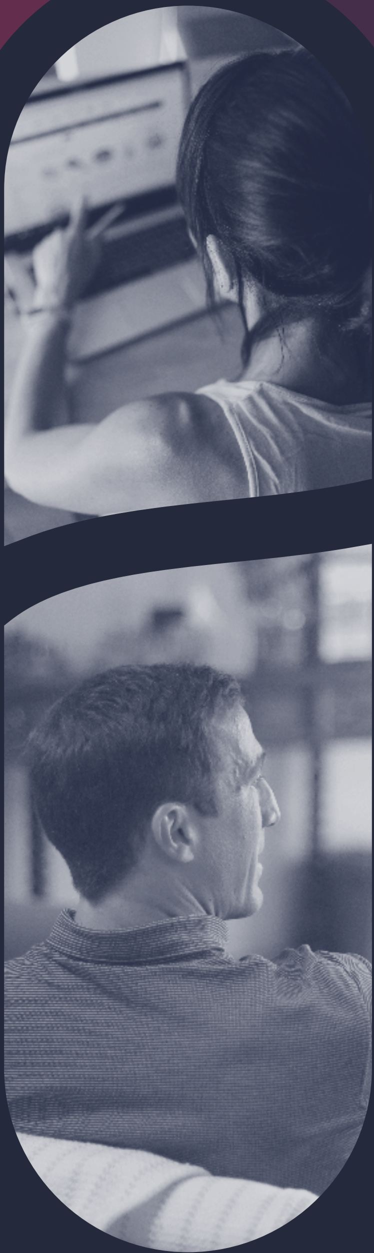
We truly understand the value of practical, actionable insights which is why we are proud to be sponsoring this year's Adviser Ratings Landscape Report.

The transformation of the financial services sector and the advice profession has not been without its challenges, and it is our mission to continue to be a trusted partner to all our clients, arming you with the tools you need to deliver exceptional services and to future proof your businesses.

We thank for this ongoing partnership and look forward to continuing to evolve our services as we continue to grow and lead with the ever-changing financial advice landscape.

Michael Wright

CEO, Lonsec



The Australian Consumer

1.0

As Australians contended with surging interest rates, inflation and volatile investment markets, there was a surge in demand for advice as seen in the growth of enquiries going to advisers.*

In fact, for the first time, the percentage of retail advised Australians has remained stable year-over-year (YoY). Whilst adviser numbers have fallen, there has been a growth in clients per adviser in 2022 (refer Chapter 2) on the back of increased business efficiencies.

Whilst those with retail advice has flatlined, the shift into wholesale or sophisticated advice remains a growth area.

The recommendations of the Quality of Advice review for advisers to seek consent as a sophistocated investor should provide some element of consumer protection over this opaque part of the consumer landscape.

Most advisers will tell you their client base is heavily occupied by pre-retirees and retirees and our data reflected that too. Last year, less than a tenth of the client market was aged below 40. There's still a huge opportunity for advisers to tap into the younger cohorts, who will benefit from the biggest intergenerational wealth transfer in history.

**Note: As measured by leads through Adviser Ratings website and its affiliated white label sites, ASX, Colonial First State and AustralianSuper*

CHART 1.1

Percentage of retail advised consumers: 2018-2022

Source: ARdata

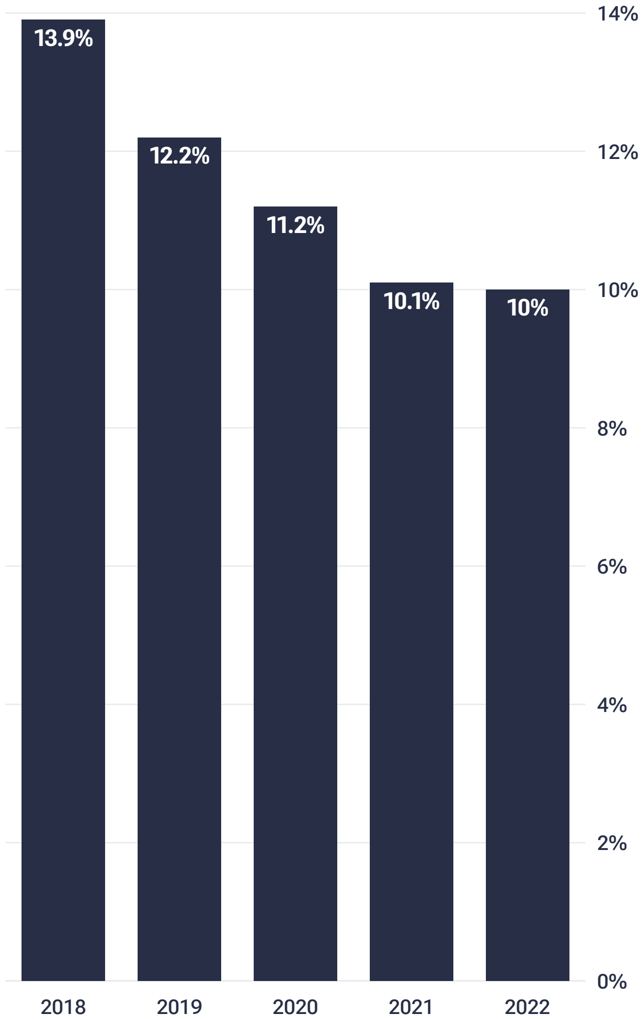
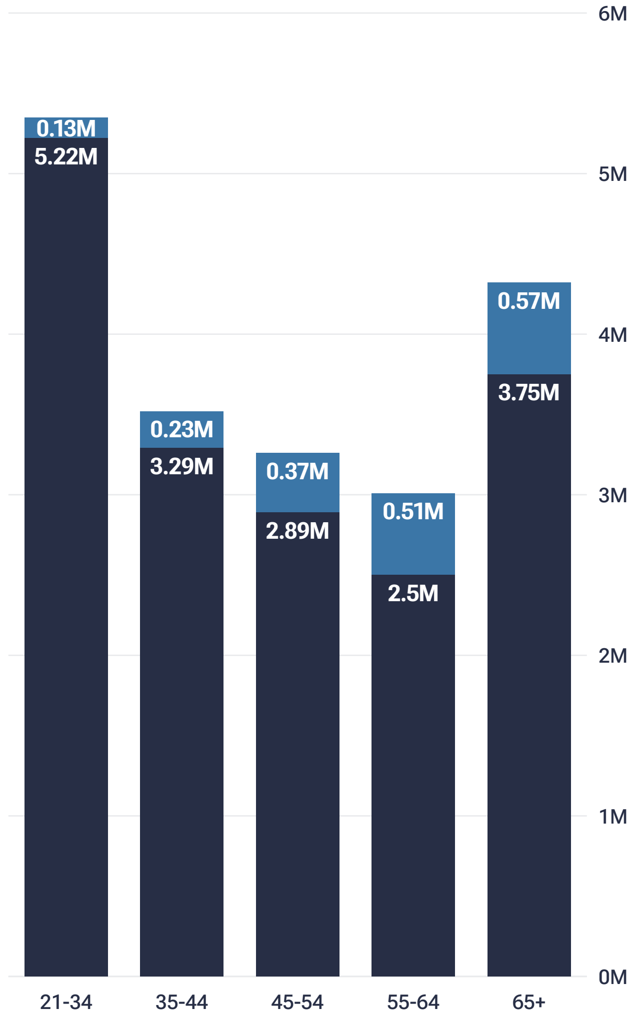


CHART 1.2

Number of retail advised and unadvised consumers, by age bracket

Source: ARdata



The demand for advice

Consumers' ravenous demand for financial advice has continued to grow, but new factors are now driving the surge. In 2020 and 2021, Australians were grappling with government-led support packages, like JobKeeper, and trying to return their finances to their pre-pandemic positions. This drove a sharp increase in demand for adviser assistance.

Now, we're seeing a new spike, which has been driven by Australians' fears about their super and investments. It's unsurprising, given average super returns fell more than four per cent last year, according to Lonsec. Leads from the Adviser Ratings platform indicate market performance is on the mind of many Australians and we expect that trend to continue.

While most consumers still say they can't afford to pay more than $500 for advice, we've pleasingly seen a sharp rise in the volume of Australians who have the capacity to pay up to $5,000 for advice. The challenge continues to be on the supply side, as we explain in more detail in Chapter 2. The Quality of Advice Review did explore other ways of Australians accessing more scoped advice, including the use of technology and super funds. However, for Australians who need more comprehensive advice, the adviser supply challenges still need urgent attention.

Consumer financial literacy levels stayed stable for advised Australians, but unadvised Australians rated their knowledge of money matters higher this year. As other independent studies have tracked, this is partly attributed to self-education, as consumers try to manage the multitude of market changes we've seen in the past 12 months.

CHART 1.3

Consumer capacity to pay for advice: 2021 vs. 2022

Source: ARdata. Inner circle = 2021; outer circle = 2022.

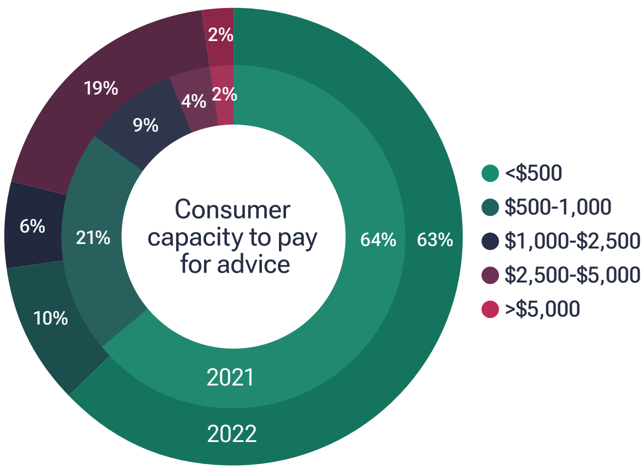
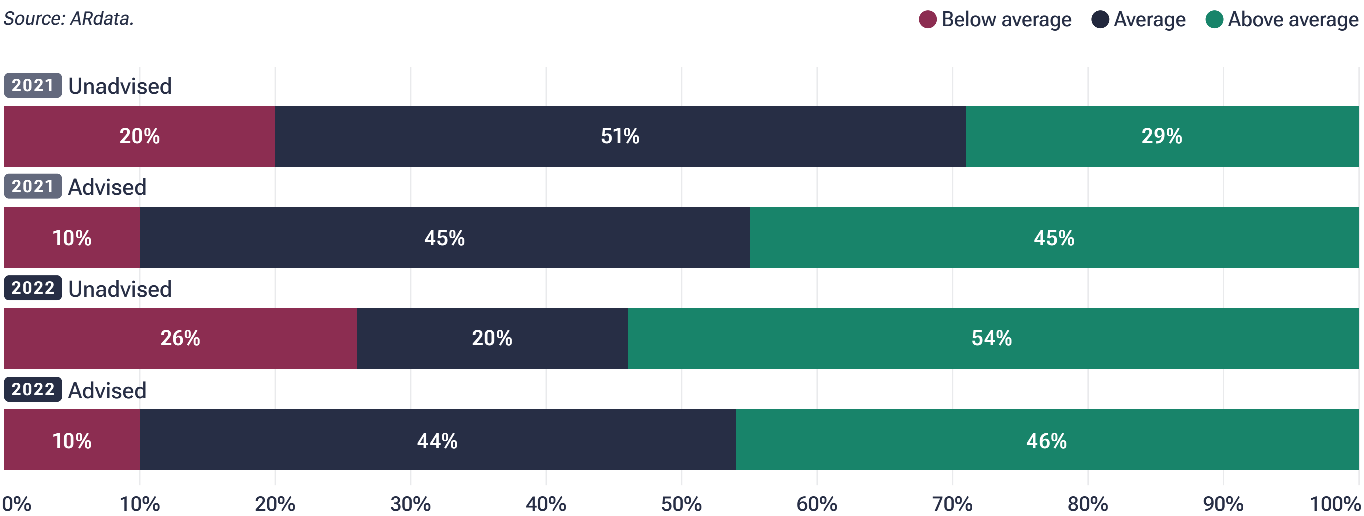


CHART 1.4

Consumer-rated financial literacy: 2021 vs. 2022

Source: ARdata.



The demand for advice is particularly evident through the 50% increase in leads through the Adviser Ratings websites (and its affiliates), as well as externally validated sources like Google Trends.

Demand has been driven by:

1. The orphaning of “unprofitable clients” over the last several years by advisers.
2. A rebasing of advice fees as the supply equation lags the demand equation, with clients looking elsehwere.
3. The complex market dynamics in 2022, with a confluence of geo-political, investment, mental health and micro and macro economic conditions playing out.

This has continued to play out on a broader scale in 2023 as growing concerns around a recession looms amidst stubborn inflation.

Whilst the concern on investments remains the domain of those with enough capital to seek advice per the demographics of leads in Chart 1.5, the type of advice being sought by consumers is becoming more general in nature.

As evidenced by Chart 1.6, fewer consumers are seeking specialist expertise. This supports the notion of unadvised consumers coming back into the market with more money to spend on advice and the slight increase in financial literacy of consumers over the course of the pandemic.

CHART 1.5

Age distribution of leads generated through Adviser Ratings platform: 2021 vs. 2022

Source: ARdata. Inner circle = 2021; outer circle = 2022.

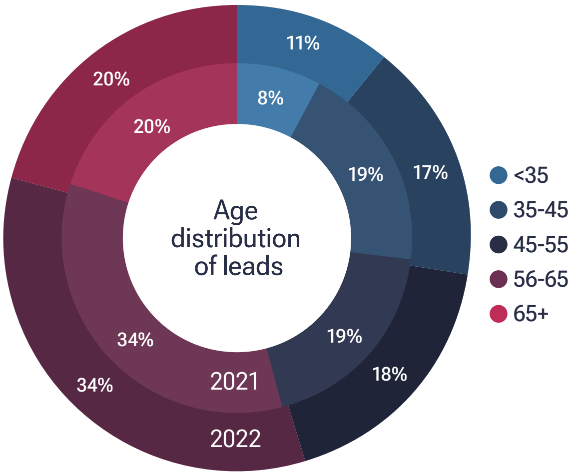


CHART 1.6

What consumers are seeking help with through Adviser Ratings: 2021 vs. 2022

Source: ARdata

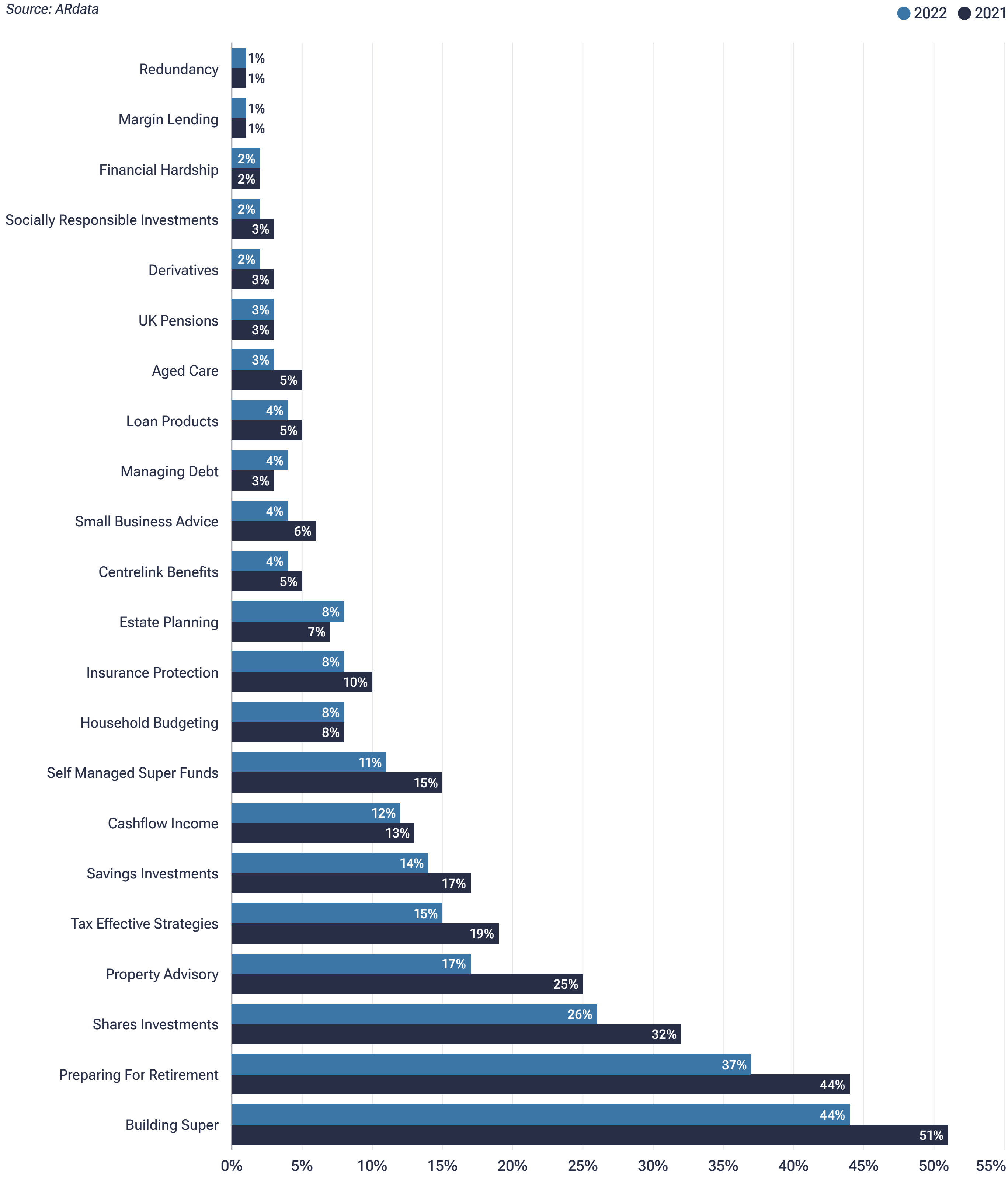
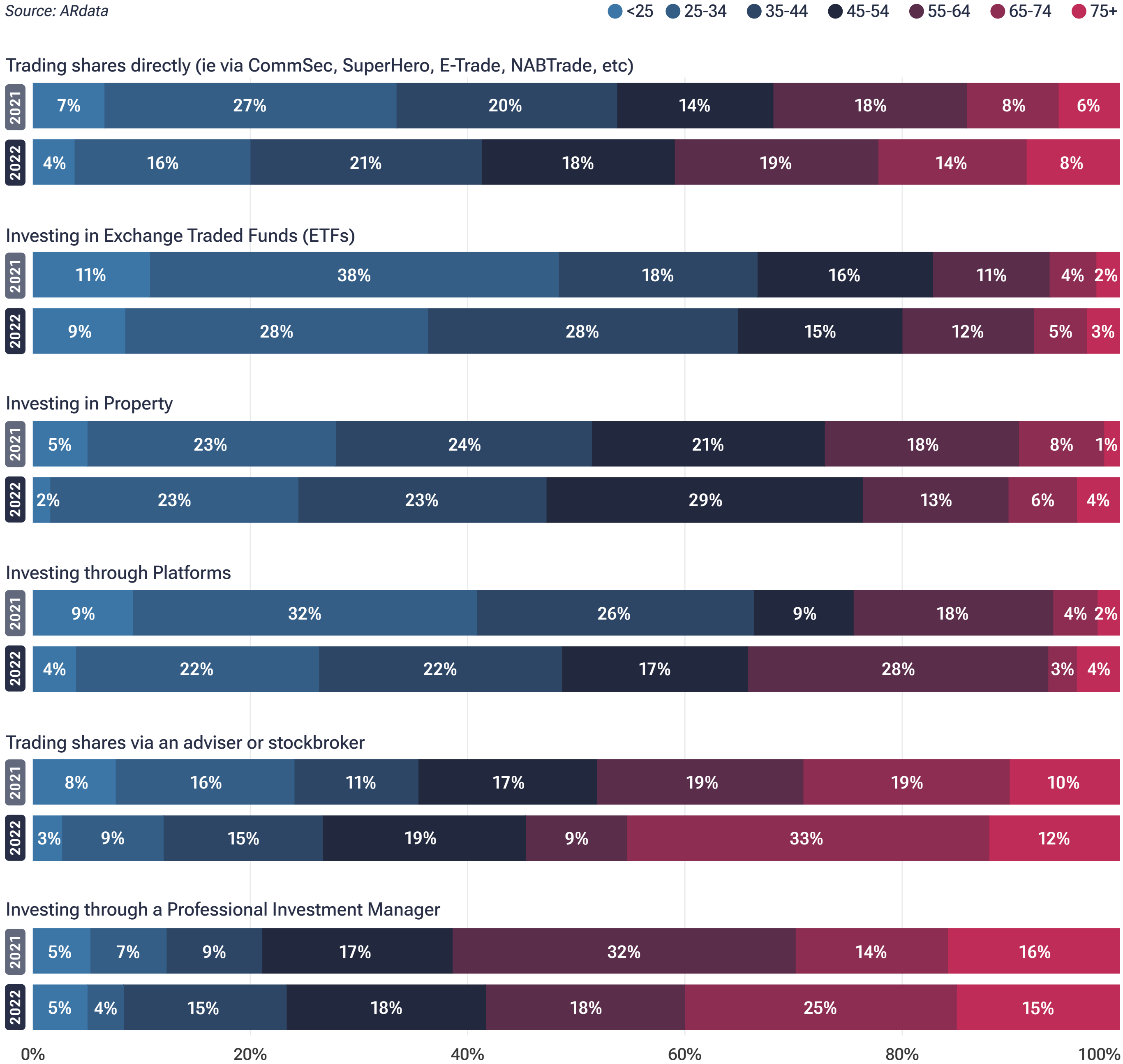


CHART 1.7

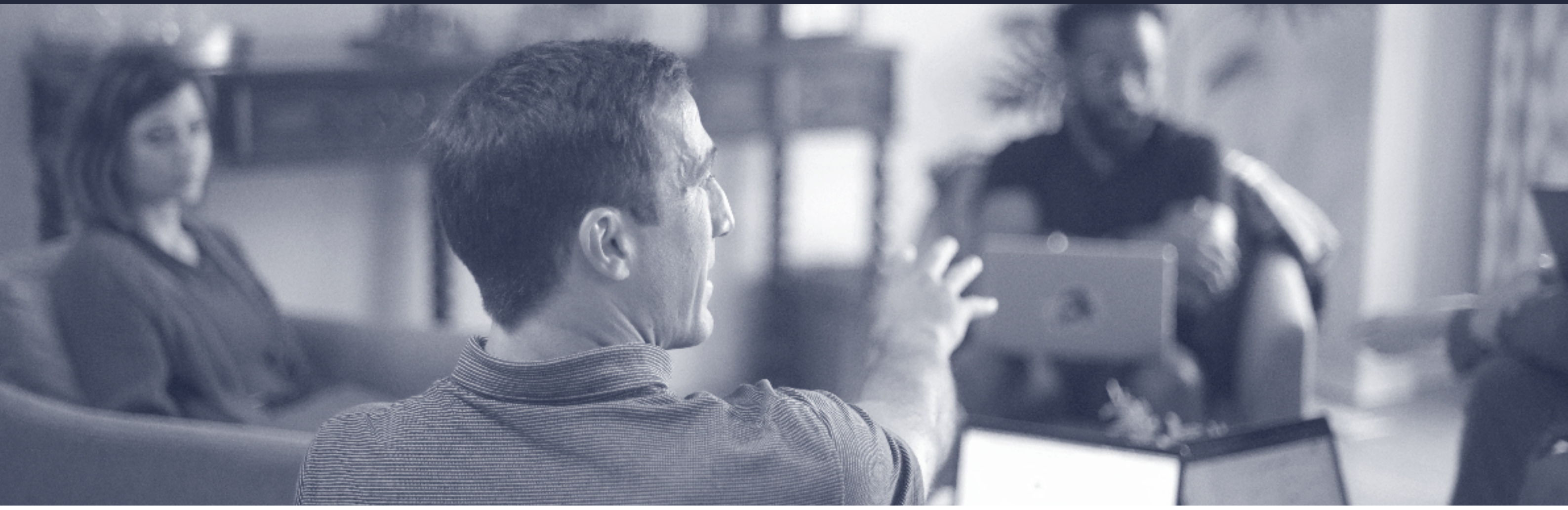
Investment mode preference, by age

Source: ARdata



To further support the growth in enquiries through Adviser Ratings, our general consumer survey shows a sharp rise of consumers' desire (who currently remain on the sidelines) to invest through an adviser, stockbroker or investment manager.

Once again, ways of investing small amounts of money was something a quarter of consumers wanted to learn more about. However, we've seen a sharp year-over-year drop in the desire to learn about cryptocurrency. The latter comes as the digital currency largely lost favour with investors in 2022.



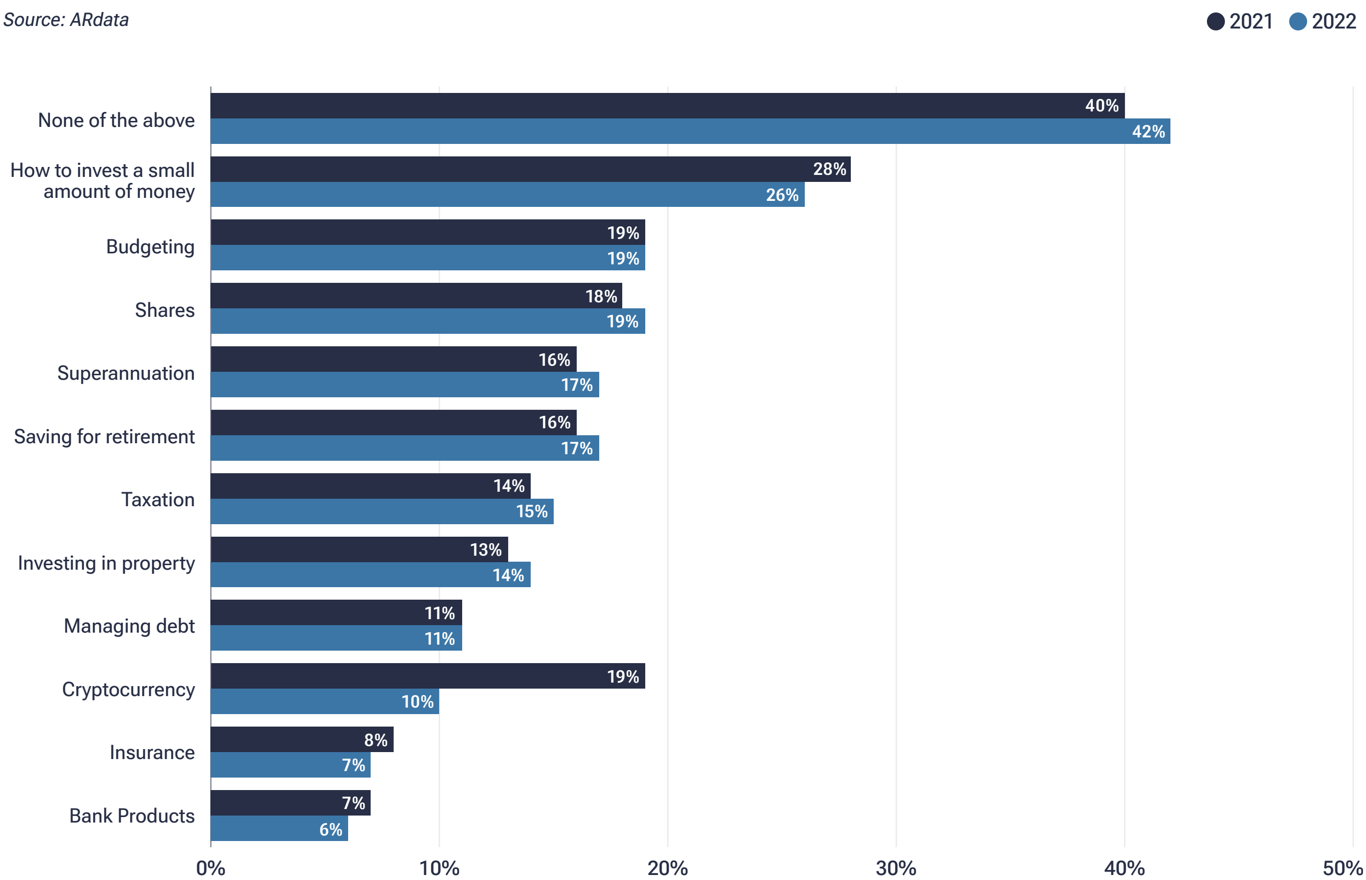
One way investors reacted to the global market instability was to move their money out of risky assets, which for example, led to Bitcoin dropping more than 60 per cent of its value across the year. Like investors, some 'finfluencers' were also spooked last year after stern warnings from the Australian Securities and Investments Commission last year to unlicensed financial influencers. To add to all of that, there was also a rise in crypto-related scams last year, Scamwatch data shows.

As at time of publication, crypto fears have abated somewhat with investors dipping their toe back into this highly volatile space.

CHART 1.8

Consumer interest in product/money solutions: 2021 vs. 2022

Source: ARdata



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The Australian Adviser

2.0

It's no secret the advice market has rapidly contracted in the past few years, but in 2022, we saw the number of advisers fall below 16,000 for the first time. Adviser Ratings has long predicted the workforce would fall even further if legislators and regulators don't step in to stem the bleed.

Thankfully, there are a few signs the exit rate is finally slowing down. Last year, we saw a third of the exits we had seen a year earlier, with advisers who had been delaying their departure calling time when the final FASEA exam deadline arrived. We also saw the highest number of entrants in four years, but there's still much room for improvement there.

CHART 2.0

The advice market ecosystem

Source: ARdata

CHART 2.1

Adviser movement history: 2014-2022

Source: ARdata

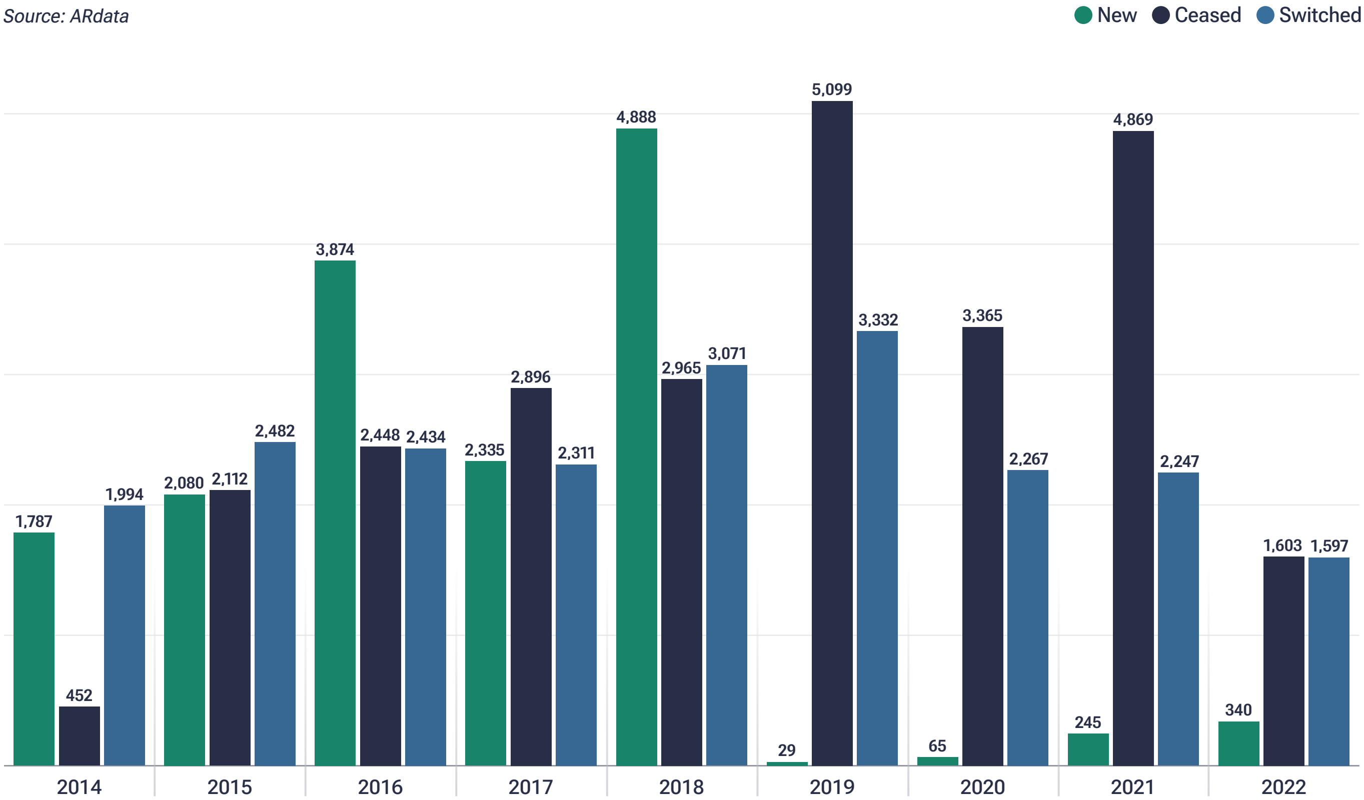


CHART 2.2

Adviser numbers: then and now

Source: ARdata

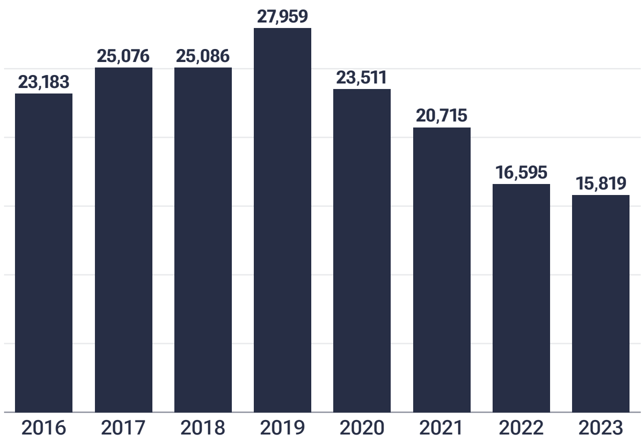
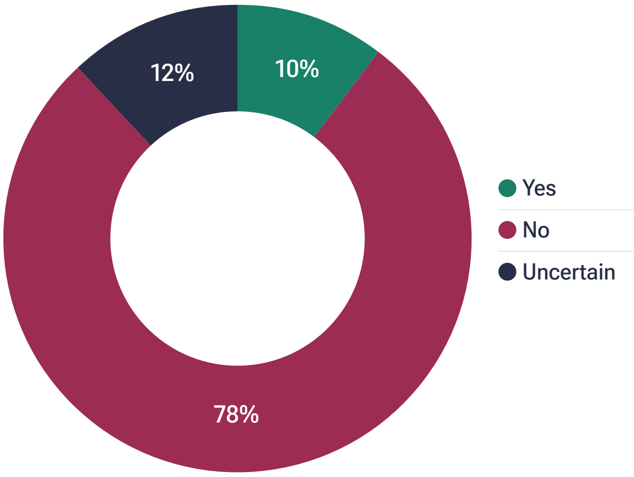


CHART 2.3

Advisers' intention to leave the industry

Source: ARdata



Most advisers tell us they're committed to continuing in the industry (Chart 2.3). Those who are still on the fence are largely awaiting further word on how education and training standards will change. As it stands, advisers have until the start of 2026 - just under three years – to complete their approved degree or bridging units. However, the Government made an election promise to recognise advisers who had a clean record, 10 years experience and had passed the exam. A consultation process is now open (until 3 May) on its draft bill in line with these promises.

There are currently more than 3,000 advisers on the Financial Adviser Register who may benefit from any relaxation in the legislation. The pathway to any draft bill being legislated remains unclear at time of publication. There has been ample debate on whether this counters the path to professionalism, given more than 12,000 advisers are now qualified under the current arrangement.

Nevertheless, advisers say the Quality of Advice Report recommendations have brought a level of renewed optimism. Advisers have told us they particularly support retiring the Statement of Advice (SoA) and simplifying fee disclosures. At the time of writing, we're awaiting a further round of consultation from Treasury.

However, the Assistant Treasurer and Financial Services Minister Stephen Jones has given some hints about his thinking and direction: At a Conexus Financial roadshow in March, he labelled the SoA changes a "no brainer". He also, however, conceded the legislation would be unlikely to move this year. Mr Jones promised clarity to advisers by the end of the 2023 calendar year. Again, this won't be the most welcome news for advisers who are buckling under the current compliance load.

Client numbers

Several years of industry departures have resulted in the profession's remaining advisers taking on a higher volume of clients. We've seen that play out again in 2022, with the average adviser now serving 91 clients – eight more than they saw in 2020. Similarly, advisers are still taking on more "one-off" clients (Chart 2.4) than they were a couple of years ago. Sometimes, these clients are seeking piecemeal advice, while other times they're testing the waters.

The higher client load means advisers have to become more efficient in their operations. Often, this means turning to technology or outsourcing to reduce their administration burden and allow them to spend more time with clients face-to-face.

For many advisers though, the reality of a higher client load is simply more hours in the office. Of course, this comes at the cost of time with family and leisure. Eighteen months ago, we reported on a study from Dr Adam Fraser, Deakin University and AIA, which showed three-quarters of advisers were facing burnout. Since that study was published, the workforce has lost an additional 5,000 advisers. It means those who remain in the industry are fielding constant inquiries and referrals, but usually having to say no to new business.

At Adviser Ratings, we've had a record number of leads from consumers wanting advice, but unfortunately, advisers simply cannot take on any more clients. We'll explore these themes more in the next chapter.

CHART 2.4

One-off vs. recurring client ratio: 2020-2022

Source: ARdata. Outer circle = 2022; middle = 2021; inner circle = 2020.

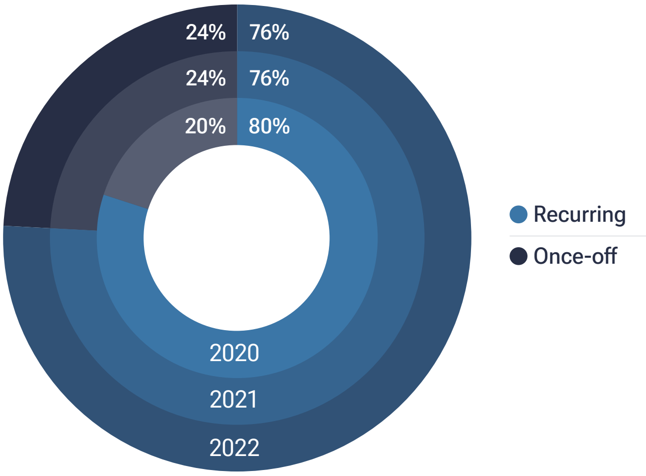


CHART 2.5

State breakdown of the average number of clients per adviser: 2018-2022

Source: ARdata

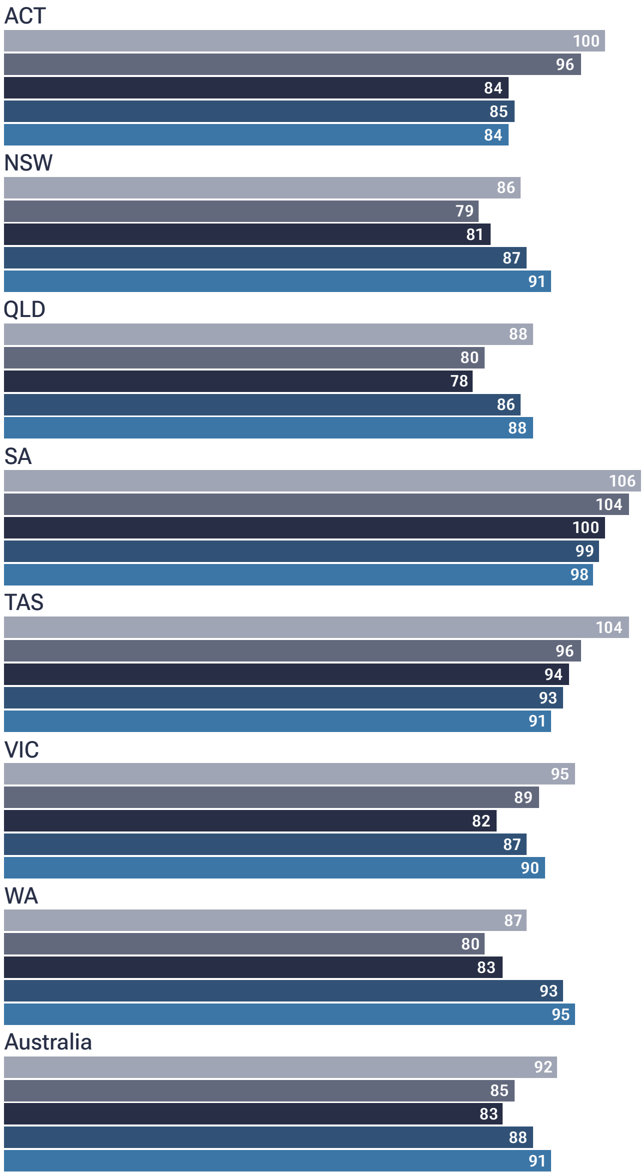
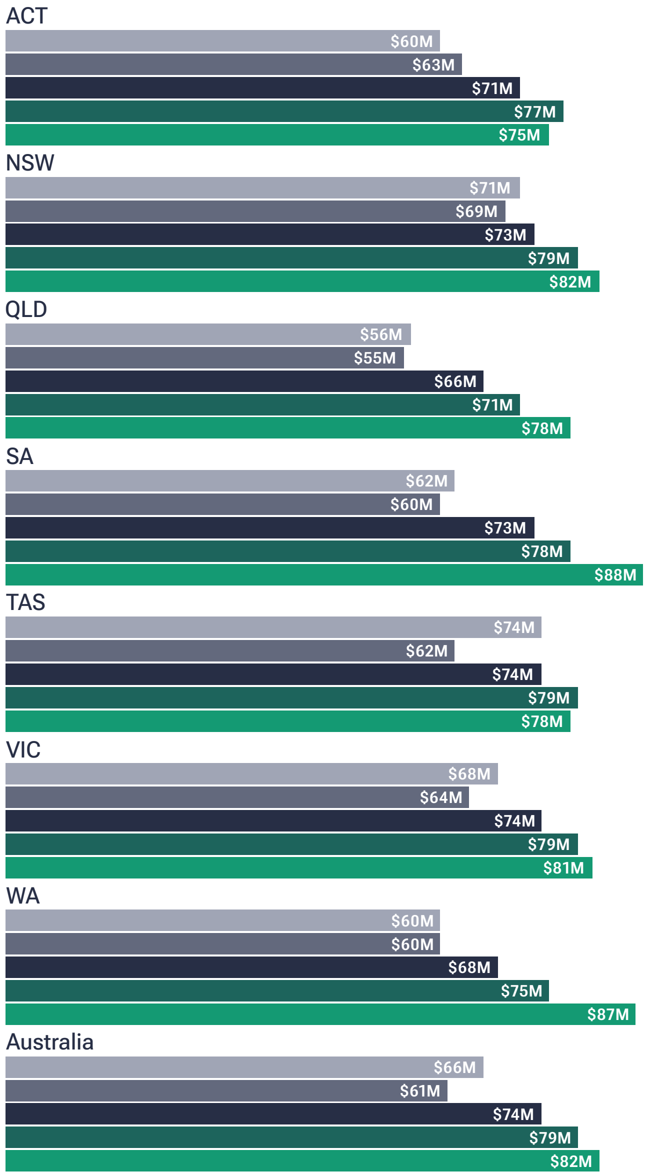


CHART 2.6

State breakdown of average FUA per adviser: 2018-2022

Source: ARdata



Adviser fees

Despite soaring inflation, adviser fees haven't surged at the rate we've seen previously. The median advice fee went up five per cent in 2022 to $3,710, while the average has risen to $4,250. Most advisers we surveyed told us they plan to lift fees further in 2023, as the CPI ripple effect well and truly kicks in and wage pressure continues.

For some businesses, pressing pause on significant fee increases resulted from efficiency gains in the practice. One example of this is investing in new technology that allows advisers to issue compliant advice more quickly, which in turn gives practices the chance to service more clients without substantially raising fees.

Again, the slower pace of fee rises is likely to be a transient theme. We expect most businesses won't be able to withstand the lag effect of inflation and higher interest rates. Despite practices becoming more profitable in 2022, businesses are likely to experience some profitability pressures in 2023, especially if business lending rates increase. FUA per client dropped 7.5 per cent last year on the back of equity markets, however, as at time of publication, the equity markets has since recovered all or most of these losses. Pleasingly, as highlighted in Chapter 5, most investors remained invested through the cycle, albeit shifting into defensive assets.

While some signs point to further fee increases, many Australians who want advice say they couldn't pay the median fee advisers are charging. This situation is obviously under review, but it demands urgent action. We expect the situation to worsen as households face higher costs and increasingly have to make tougher choices about where they put their money. The Quality of Advice Review suggested super funds could step in and provide simple advice to people who cannot afford – or don't want or need – more comprehensive advice.

CHART 2.8

Average FUA per client: 2018-2022

Source: ARdata

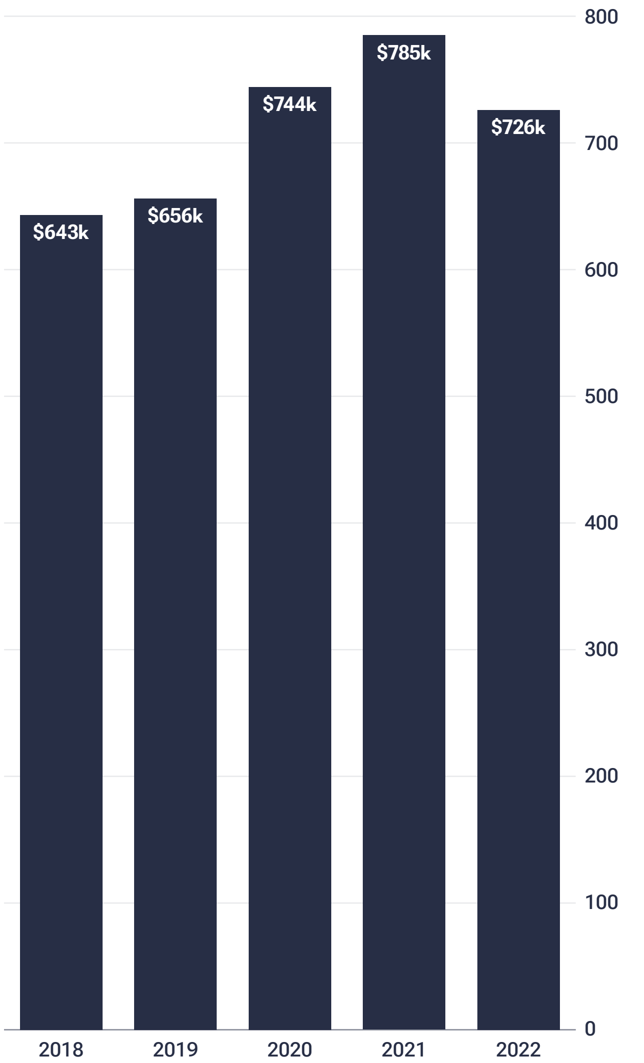
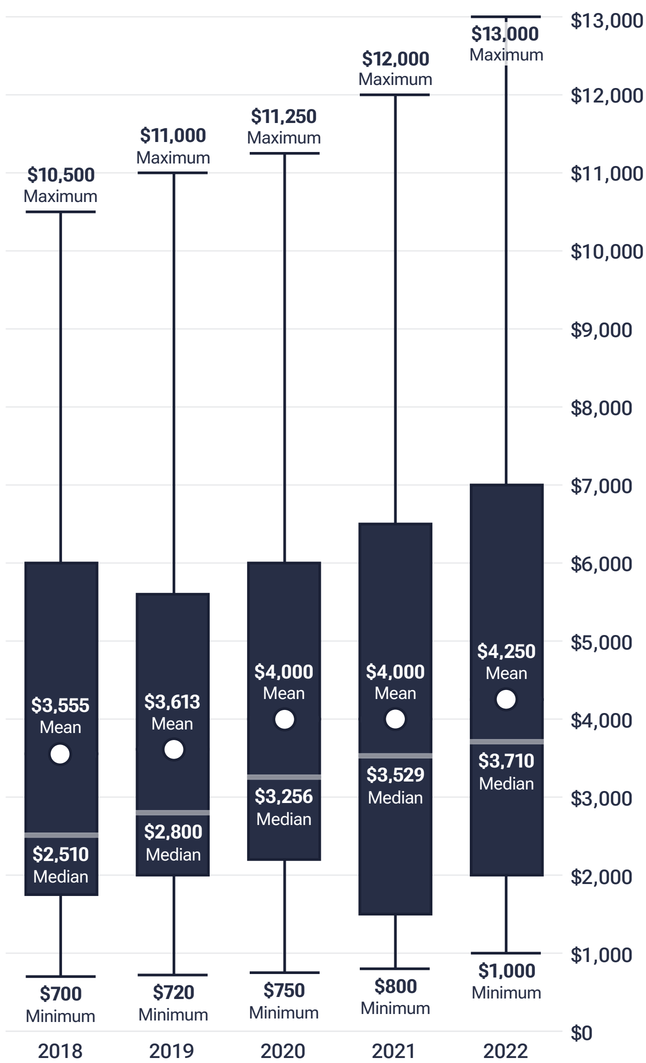


CHART 2.7

Average and median client fees: 2018-2022

Source: ARdata



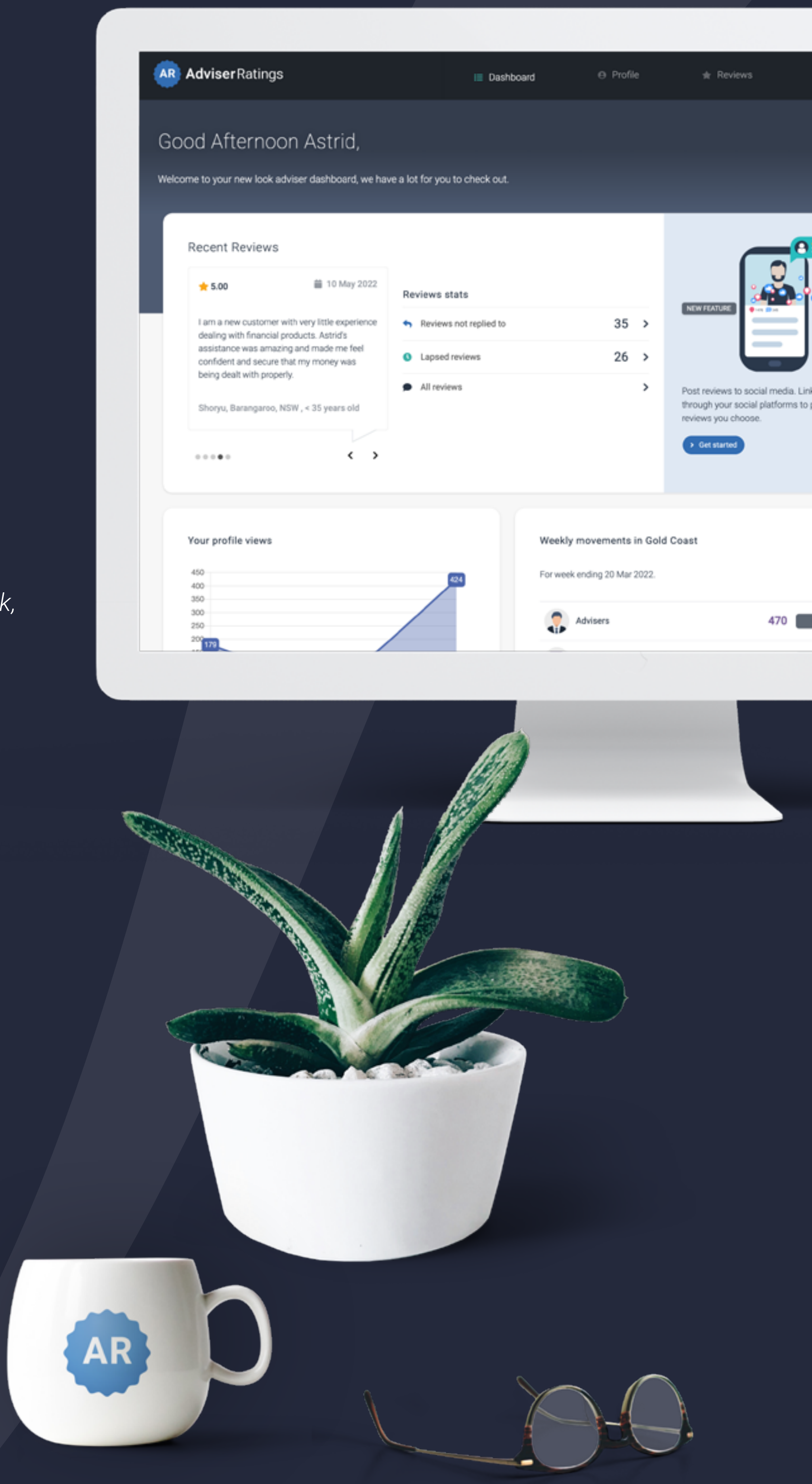
Join the Adviser Ratings Community

Free service for all registered Australian advisers

Adviser Ratings puts the world of financial advisers at the fingertips of consumers and there's never been a more exciting time for advisers to claim their profile. We've launched our newly renovated platform where consumers can more easily find and connect with an adviser that best suits their needs... It's yet another step in our plan to help Australian advisers boost their online presence and make advice more accessible to consumers.

> *"Adviser Ratings is changing the face of Financial Planning. With honest and transparent client feedback, my profile allows me to resonate with the broader community much more successfully than ever before. I genuinely align with the vision of Adviser Ratings: making Financial Advice accessible to everyone. I have been grateful to contribute to their Ask an Adviser series articles which have been invaluable for my online platforms and social presence"*

– Noni Crawford,
Director & Adviser at Hello Wealth

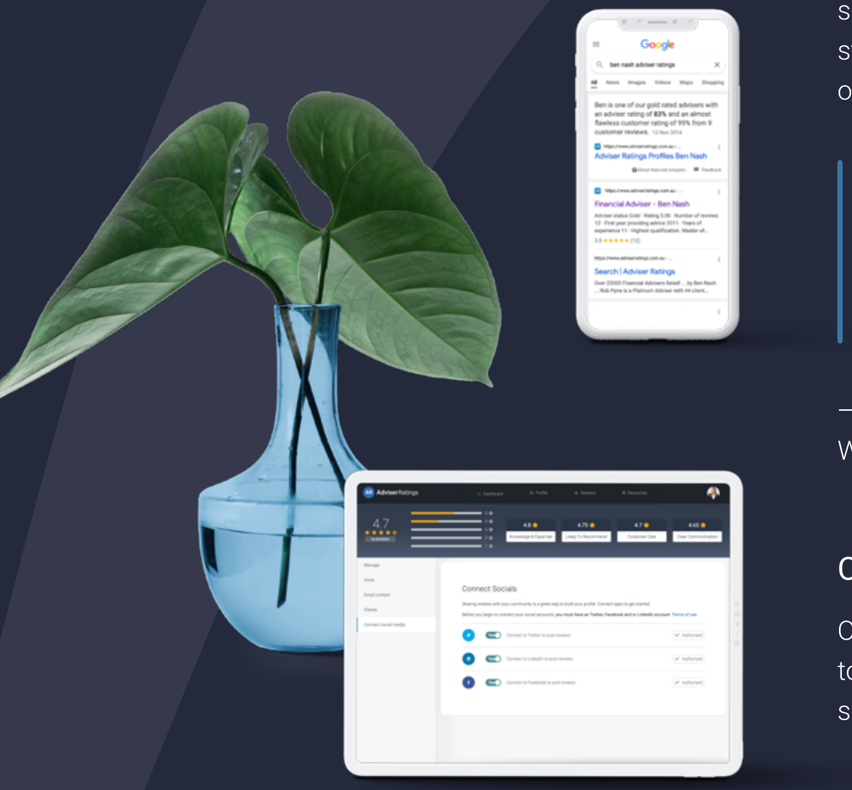


New Adviser Portal

Your clever new dashboard provides you instant access and an overview of the interest your Adviser Ratings profile is generating for you, your review stats and profile views. Highlight your areas of specialisation, add info about yourself and your practice and even add your videos to attract more interest to your profile.

Google verified review platform

With over 90% of people now searching online for services like financial advice, our Google verified star rating system helps your profile rank highly on Google searches.



> *"Based solely on the influence of the Adviser Ratings Platform, our two newest clients searched Google for advisers in their local area and found your site. They did their research using your site, got a virtual feel and felt confident enough to request appointments"*

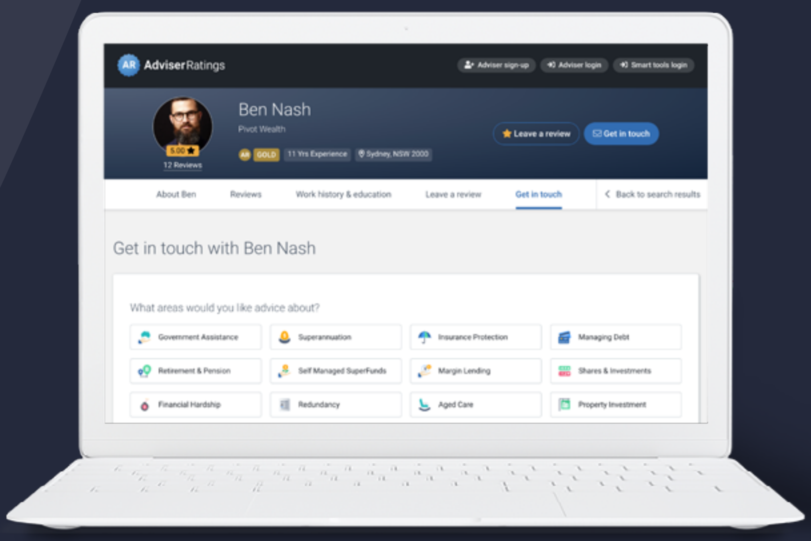
– Ben Nielson, Managing Partner at Neilson & Co Wealth Management

Connect Your Social Media Pages

Our exciting new social integration tool allows you to post your best reviews directly to your connected social media pages, amplifying your review online.

Thousands of leads generated annually

Consumers can use the contact form on your profile and you'll receive detailed information about your potential new client lead. Most existing referrals will want to know you have a profile...as will your existing clients



> *"Adviser Ratings provides a platform for two things that are important to Rising Tide; prospective clients can get real-world feedback & social proof from existing clients alongside a way for our advisers to show their expertise through the ask an adviser series"*

– Matt Hale, Managing Director at Rising Tide

Claim your profile now
portal.adviserratings.com.au/claim/join

AR
Adviser Ratings

3.0 The Advice Business Landscape

For several years, advice businesses have been treading a delicate line between trying to scale back inefficiencies, while meeting increasingly complex compliance obligations. This tension has continued, with businesses reacting by focusing their attention on improving processes and investing in technology that allows them to produce compliant advice more quickly.

With COVID-19-related instability largely behind us, more practices have hit accelerate when it comes to pursuing new business opportunities. More recently, businesses have become more deliberate and targeted when it comes to the types of clients they want to zero in on. Undoubtedly, this is driven by cost and profitability pressures. We've seen this trend play out particularly among more established business (Chart 3.3).

Indeed, for businesses that have been around for several years, fewer are taking the reactive approach to client recruitment or retention we've seen in the past. Given the dwindling pool of advisers, practices increasingly have the luxury to choose the types of clients they'd like to add or keep on their books.

As we've seen previously, that will come at the cost of lower value clients, who are still being orphaned by practices who need to maintain their profitability. In some cases, the demand vacuum from lower value clients could be filled by scaled advice offerings, super funds or digital platforms.

CHART 3.1

Changes practices are looking to make

Source: ARdata

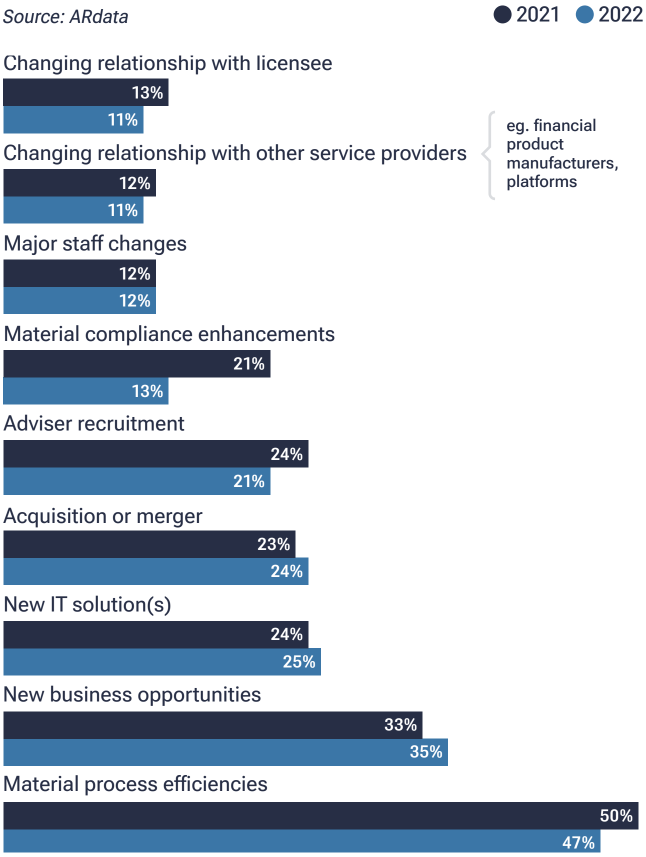


CHART 3.2

Client growth: 2021 vs. 2022

Source: ARdata. Note: graph shows the average number of new clients onboarded by practices (within the different licensee sized groups)

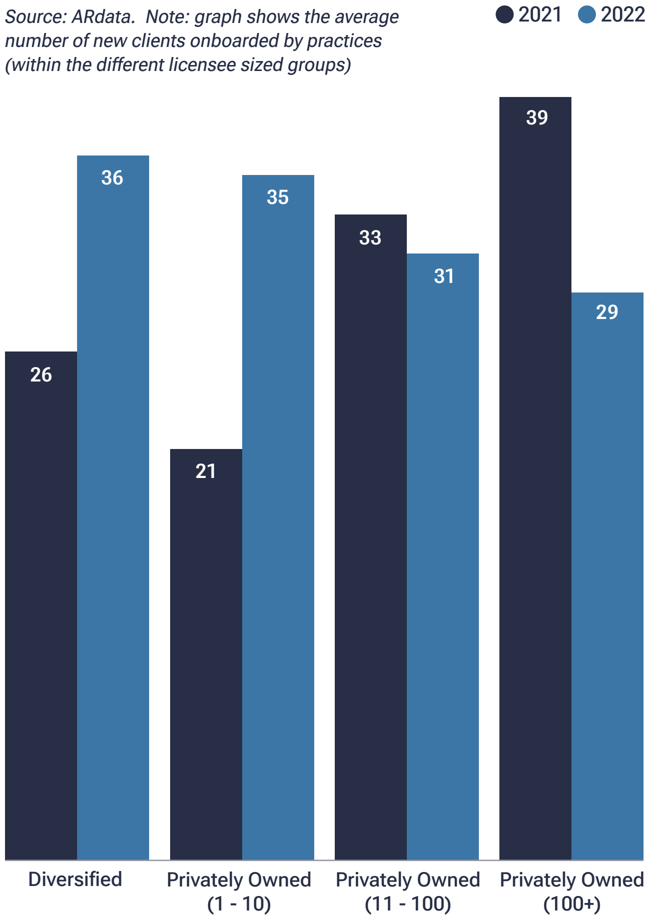
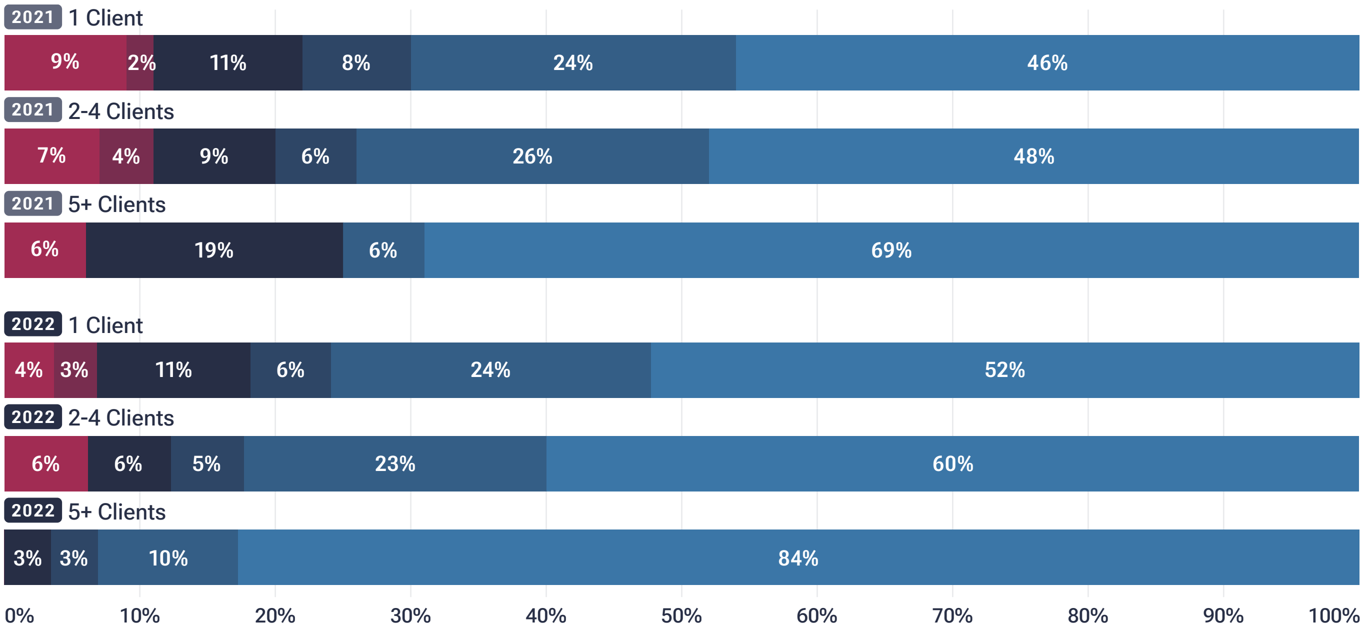


CHART 3.3

How practice client books are changing

Source: ARdata



- **Purposely reducing** (to manage overall capacity and profitability)
- **Reactively reducing** (but trying to find ways to retain clients)
- **Staying the same size** (but changing the client mix to improve focus / profitability)
- **Staying the same size** (we're largely happy with what we have)
- **Reactively growing** (with clients of all descriptions)
- **Purposely growing** (but we are after certain client types)

As practices look to recruit certain client types, we've also seen a heavier investment in advisers. The adviser-to-staff ratio has lifted considerably.

Businesses have also invested more in customer service, with outsourced paraplanning and technology the only areas we've seen marginal cutbacks.

CHART 3.4

Practice-to-staff ratio

Source: ARdata

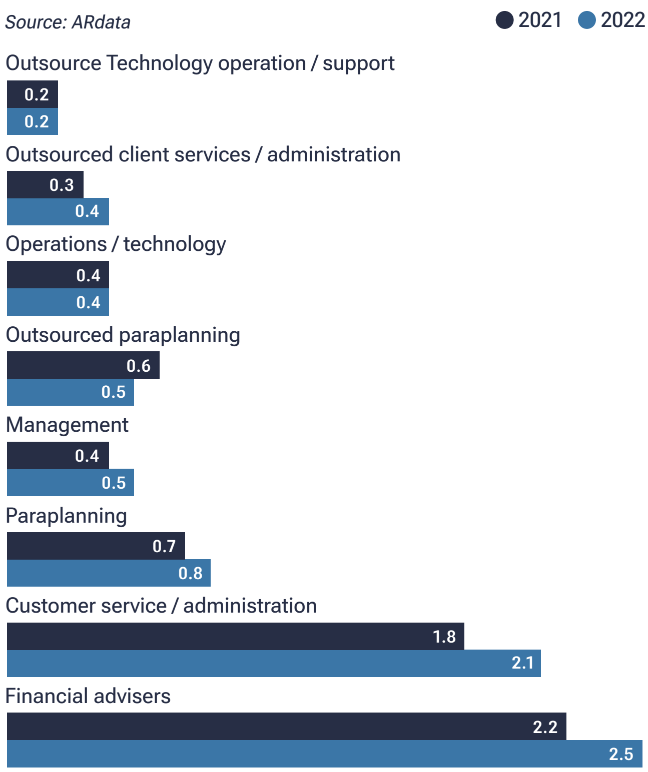
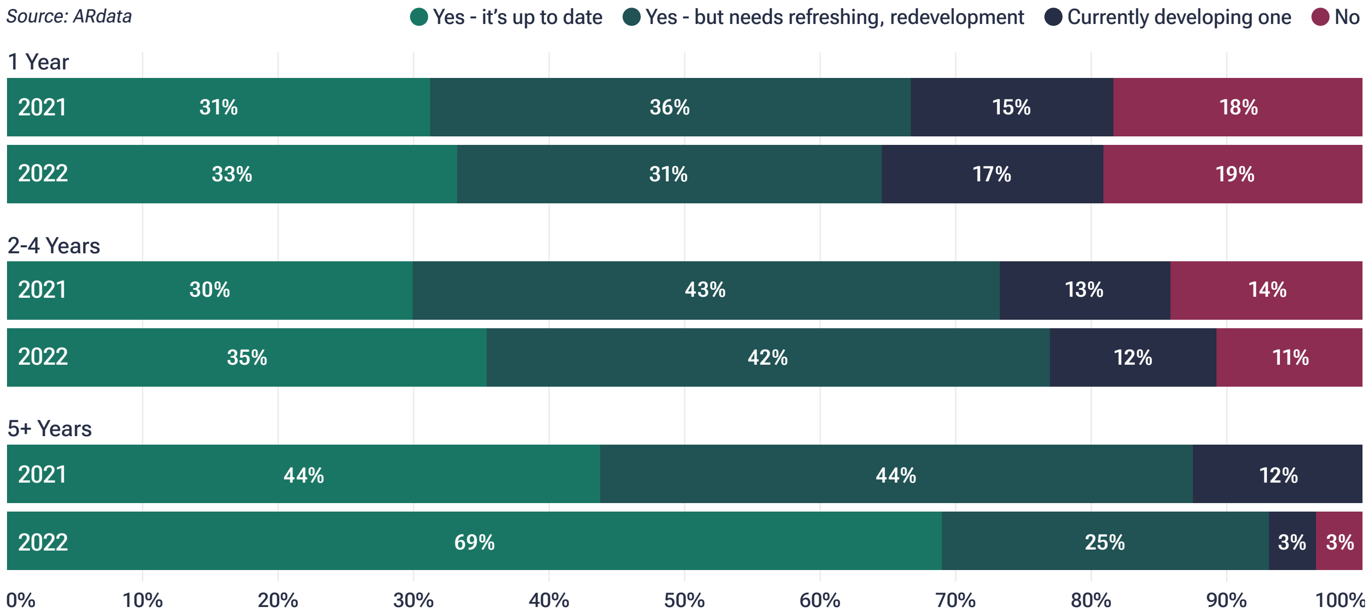


CHART 3.5

Succession planning: 2021 vs. 2022

Source: ARdata



For more established businesses, succession planning has become a bigger priority. As Chart 3.5 shows, we've seen a leap in the volume of 5-year-plus practices with succession plans firmly in place. Only a small minority in this camp haven't developed a plan for who will take over their business in the future.

> *We've seen a leap in the volume of 5-year-plus practices with succession plans firmly in place.*

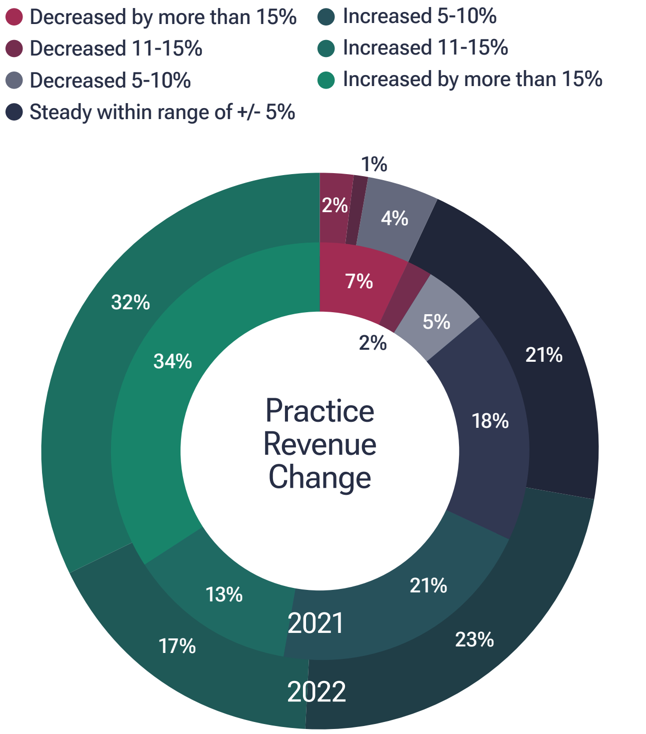
Practice revenue and profitability

Revenue and profitability challenges have plagued practices of all sizes for several years, but boutiques have traditionally fared worse. Again, balancing rising costs and the compliance load with more efficient service hasn't been easy for many, particularly with COVID-19 lurking in the background. In the past 12 months, we saw a slight improvement in revenue growth, with more businesses increasing their margins by five to 15 per cent. One-in-three practices increased their revenue by more than 15 per cent.

CHART 3.6

Practice revenue change

Source: ARdata. Inner circle = 2021; outer circle = 2022.



Unsurprisingly, businesses with more than five advisers were more likely to achieve profit margins above 30 per cent. At the other end of the spectrum, almost a quarter of solo operators had no profit at all.

Practices bringing in between $1.5 and $2.5 million in revenue were in the sweet spot for profitability growth, with more than half exceeding 30 per cent. Meanwhile, more than half of businesses with revenue below $500,000 achieved narrow profit or none at all. We've consistently seen a relationship between scale and profitability, with larger businesses in a better position to invest in business efficiencies and technology to grow their profit margins.

CHART 3.7

Profitability based on number of advisers

Source: ARdata

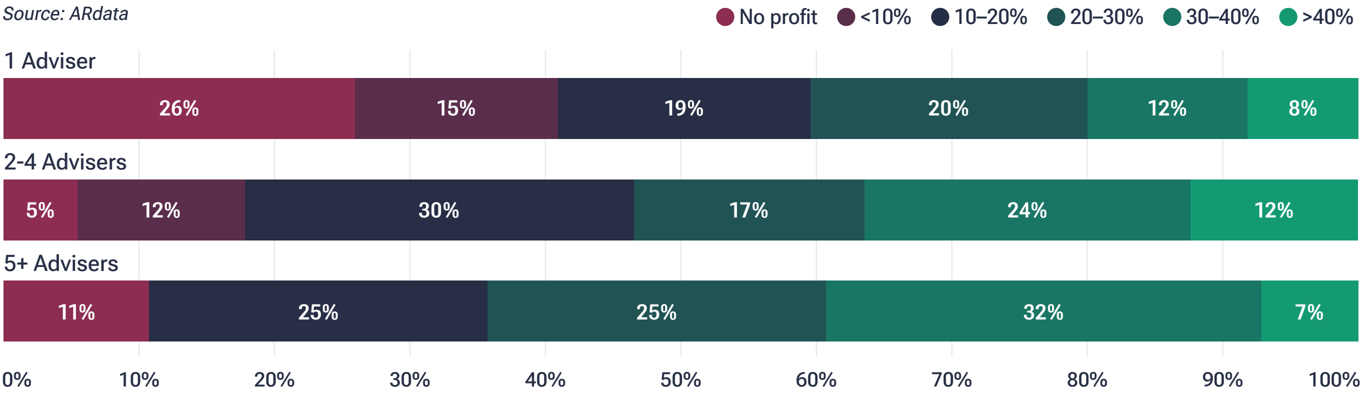
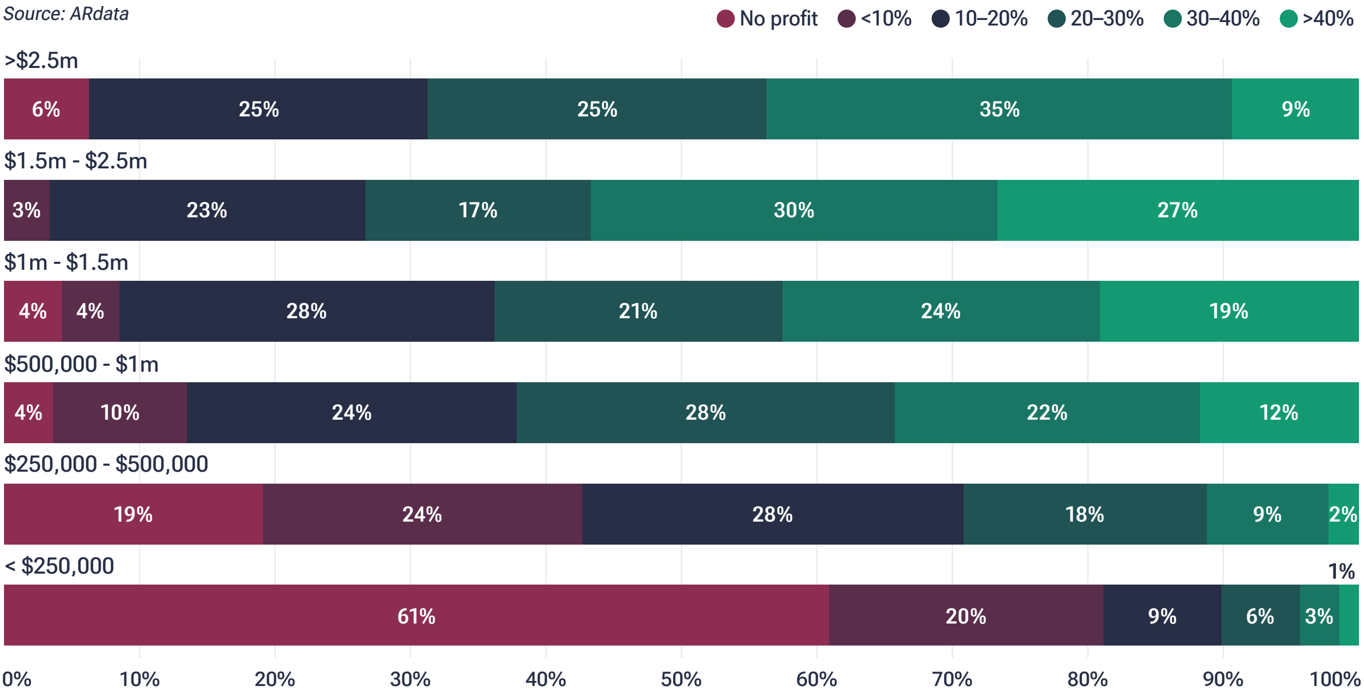


CHART 3.8

Profitability based on size of practice revenue

Source: ARdata



How advisers are investing

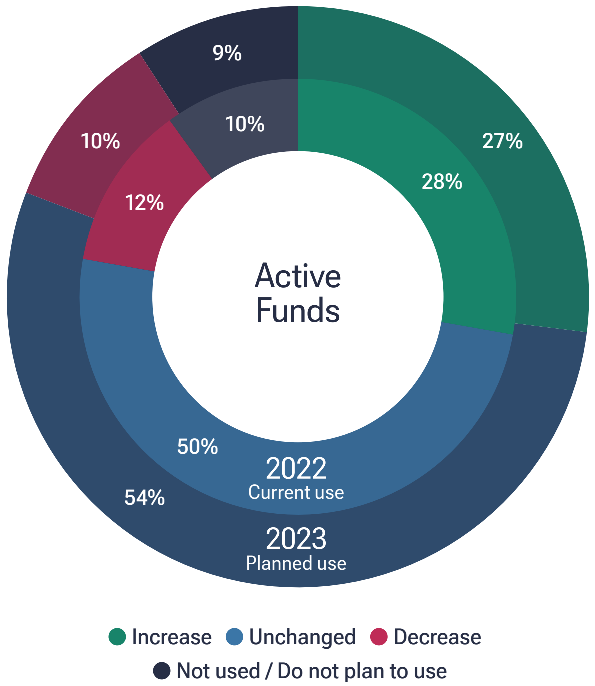
As markets continue to test investors (see Chapter 5), many professionals are planning to ride the volatility with an eclectic mix of investment vehicles. The appetite for active funds has grown in light of the conditions, with more than a quarter planning to use them more in the future. There's also a greater intention to use custom managed funds. Passive investment, particularly ETFs, remains a constant in advisers' recommendations and is expected to in 2023.

ESG has been a major theme for several years now and that looks set to continue, with more than a third of advisers planning to put more client money towards social and environmentally-conscious vehicles. However, LICs and other listed investments (as indicated by high profile outflows in 2022), are firmly off the radar for most advisers, with only a small minority planning to use them in the next year.

CHART 3.9

Active and passive funds: Current and planned use

Source: ARdata. Inner circle = current use. Outer circle = planned use.



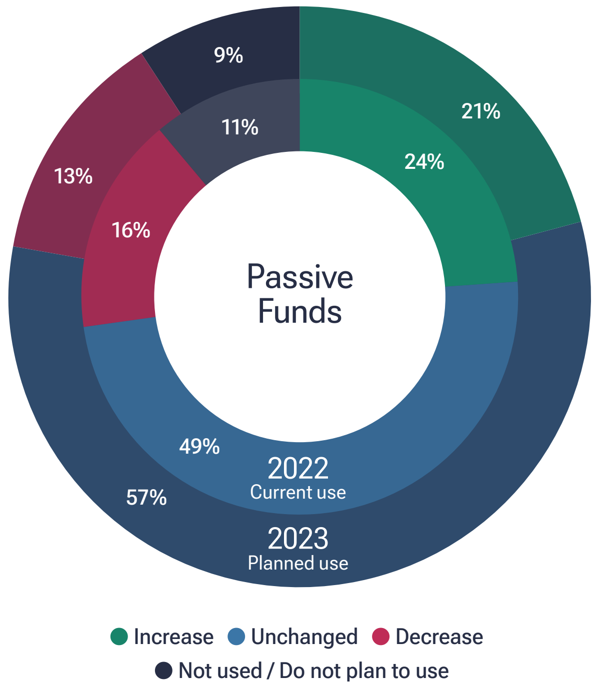


CHART 3.10

ETFs, managed funds and managed accounts: Current and planned use

Source: ARdata. Inner circle = current use. Outer circle = planned use.

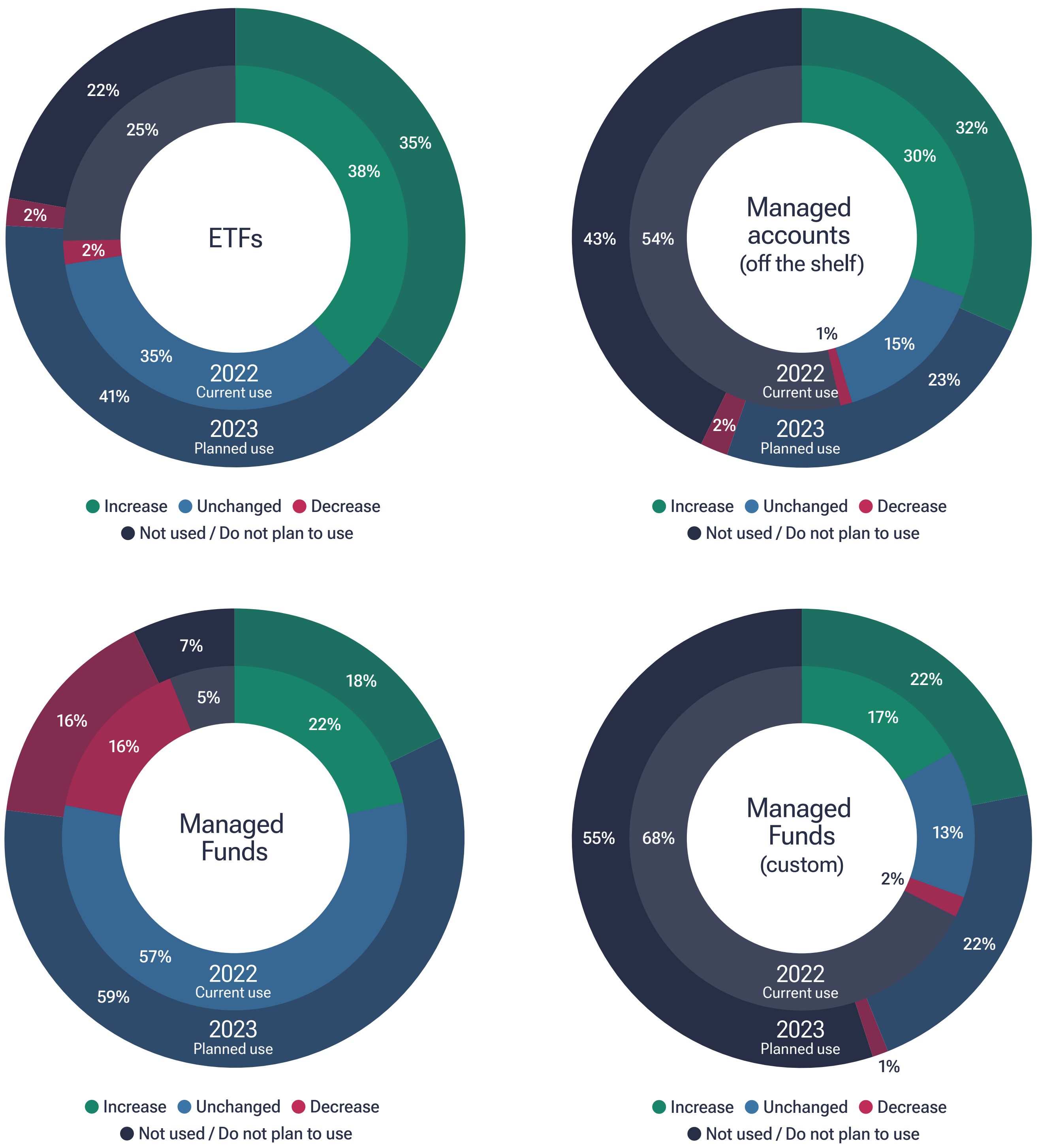
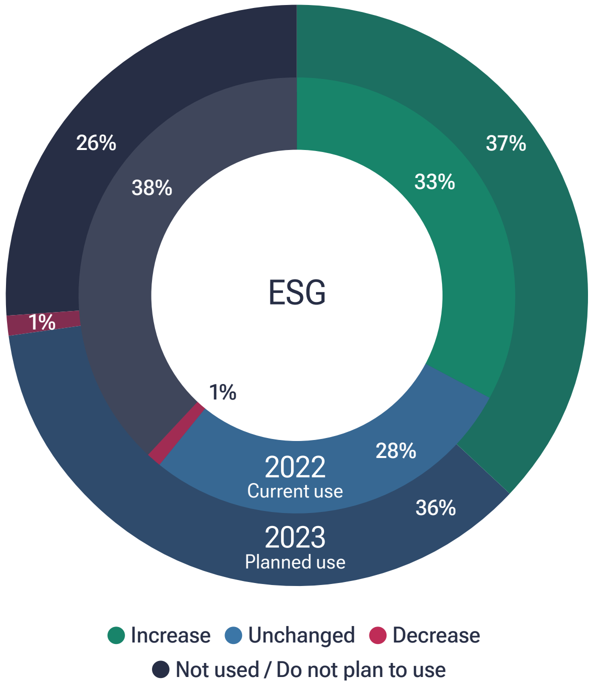


CHART 3.11

ESG: Current and planned use

Source: ARdata. Inner circle = current use. Outer circle = planned use.



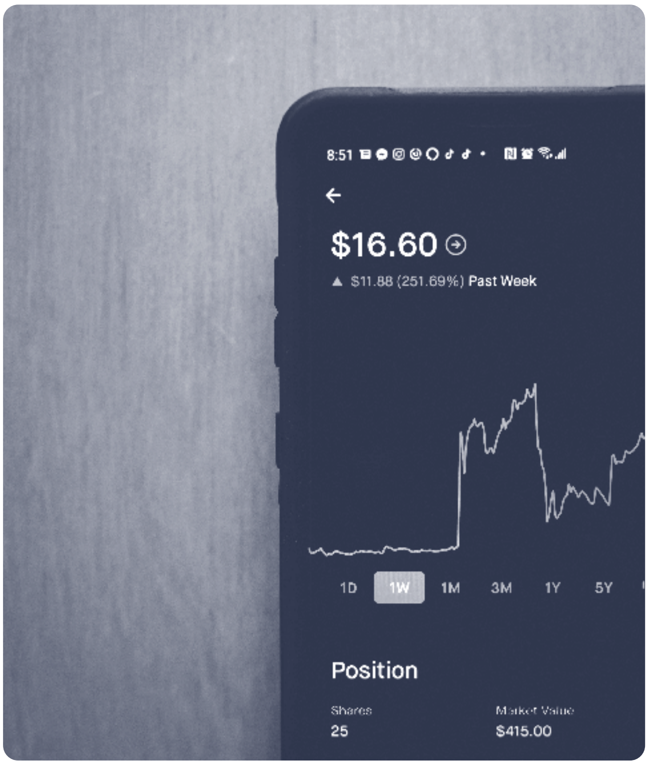
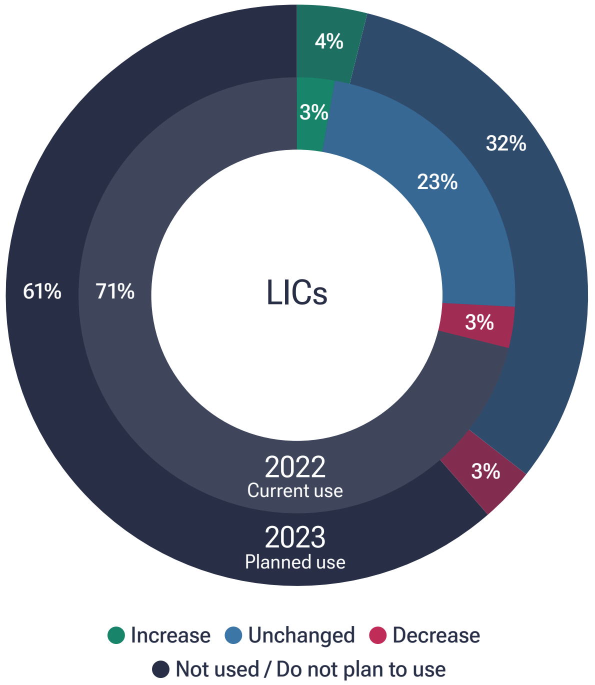
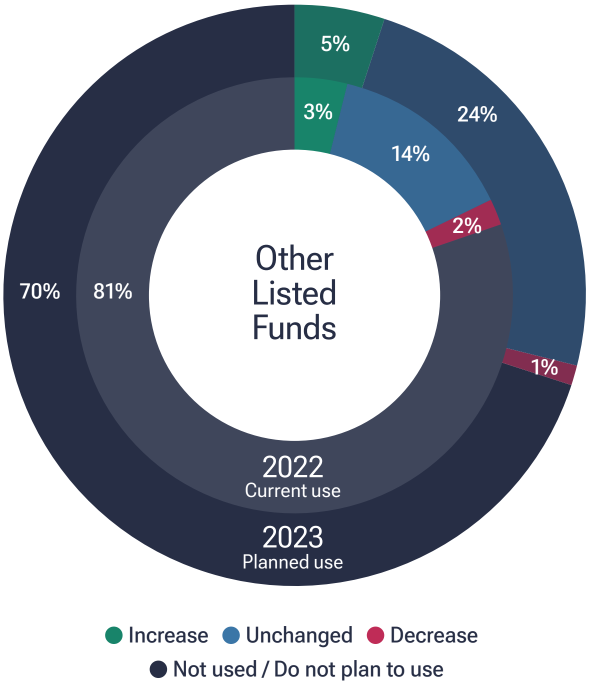


CHART 3.12

LICs and other listed funds: Current and planned use

Source: ARdata. Inner circle = current use. Outer circle = planned use.





Advice technology

With the Quality of Advice Review emphasising the use of digital tools to enhance the client experience, and with a plethora of options on display at an adviser's disposal, increased options and usage will become more pronounced.

Advice platforms and software has a significant impact of the role of advisers, enhancing their efficiency, reach and effectiveness. By leveraging technology, advisers can:

Save time	Automated processes, especially around compliance obligations and data analysis, help advisers streamline their work, freeing up more time for client engagement and relationship-building.
Access to more data	Advanced platforms can gather and analyse large amounts of data, enabling advisers to make informed decisions and provide tailored advice.
Improve client engagement	Digital platforms facilitate more interactive and personalised communication with clients, leading to stronger relationships and better client satisfaction.
Widen reach	Online tools allow advisers to engage with clients remotely, broadening their client base and enabling them to help more people.
Enhance expertise	Access to vast knowledge resources and constantly updated information empowers advisers to stay current with industry trends, helping guide the whole advice process.
Collaboration and networking	Platforms and software can connect advisers with their peers and other professionals, fostering collaboration and exchange of ideas.
Encourage continuous learning	Many advice platforms now offer educational resources and tools, promoting continuous professional development (CPD).
Reduce errors	Automated processes and algorithms help minimise human error and improve the overall quality of advice.
Portfolio creation	With the growth in Managed discretionary accounts (MDAs) and Separately managed accounts (SMAs), alongside investment consultants, portfolios can be more tailored to clients and shared with their peers.

Platforms

Investment platforms play a major aspect in the life of most advisers. The role of platforms has become an essential tool for most advisers, with more and more investment flow moving “on platform” as platforms have continued to evolve with the changing landscape, especially as it relates to advisers building their own product in the form of MDAs or custom managed funds.

Hub24 saw it take a leap forward in 2022 on the back of continuous improvement, with advisers mentioning functionality as key a leap forward for the platform, especially with improvements to advice fee consents.

> *“Great support and well resourced to assist when needed. They seem to be investing in the right areas for improvement along the way also (adviser review presentation tools for example).”*
> ***– Hub24 review, Practice Principal, Inner Brisbance, $100M under advice***

BT Panorama is starting to move on from the BT Wrap migration, as is Insignia as it consolidates its multiple platforms. This was recognised by advisers in the survey conducted to end of Jan 2023.

CFS brings out its long awaited Edge platform in May, which should prompt even greater improvements across the highly competitive sectors. Continued investment in this space is a win for advisers and clients, as efficiencies and practice profitability remain in focus for 2023.

> *“Praemium offers an excellent platform with digital onboarding and a very good investment list. The non custodial offering is a great option.”*
> ***– Praemium review, Practice Principal, Gold Coast, $50M under advice***

Software

More than 30 software solutions were reviewed by more than 1,300 advisers, with 16 of these solutions achieving statistically relevant data. Whilst software solutions are comparably different, they all play their own role in delivering efficiencies for their users.

The standout software tool for 2022, capitalising on 2021, was ProductRex. The software solution is a dedicated system to handle all of advisers' superannuation and investment product recommendations. Its users commented on the ease of use of the platform, the agility and continuous enhancements, not to mention the fact it is free.

> *"Brilliant piece of software with improvements being released continuously. Now use this as the portfolio rebalance tool."*
> ***– ProductRex review, Practice Principal, North Melbourne, $200M under advice***

As highlighted in Chart 3.13, generally the newer providers earn favour from advisers, unencumbered by legacy technology and the ability for newer solutions to be built far more cost effectively with those savings passed onto advisers and advisers' clients.

> *"Worksorted is simple to use and excellent as a CRM, issuing letters and basic ROA's, tracking and recording all client interactions, sending emails/ texts, jobs & revenue & issuing and managing FDS/Opt In documents."*
> ***– Worksorted review, Practice Principal, Adelaide, $100M under advice***

CHART 3.13

Platform satisfaction (net promoter) scores 2019 - 2022

Source: ARdata Note: Bayesian statistical analysis applied across all years (n = 3,210 reviews, Sample period = Nov 22 - Jan 23)

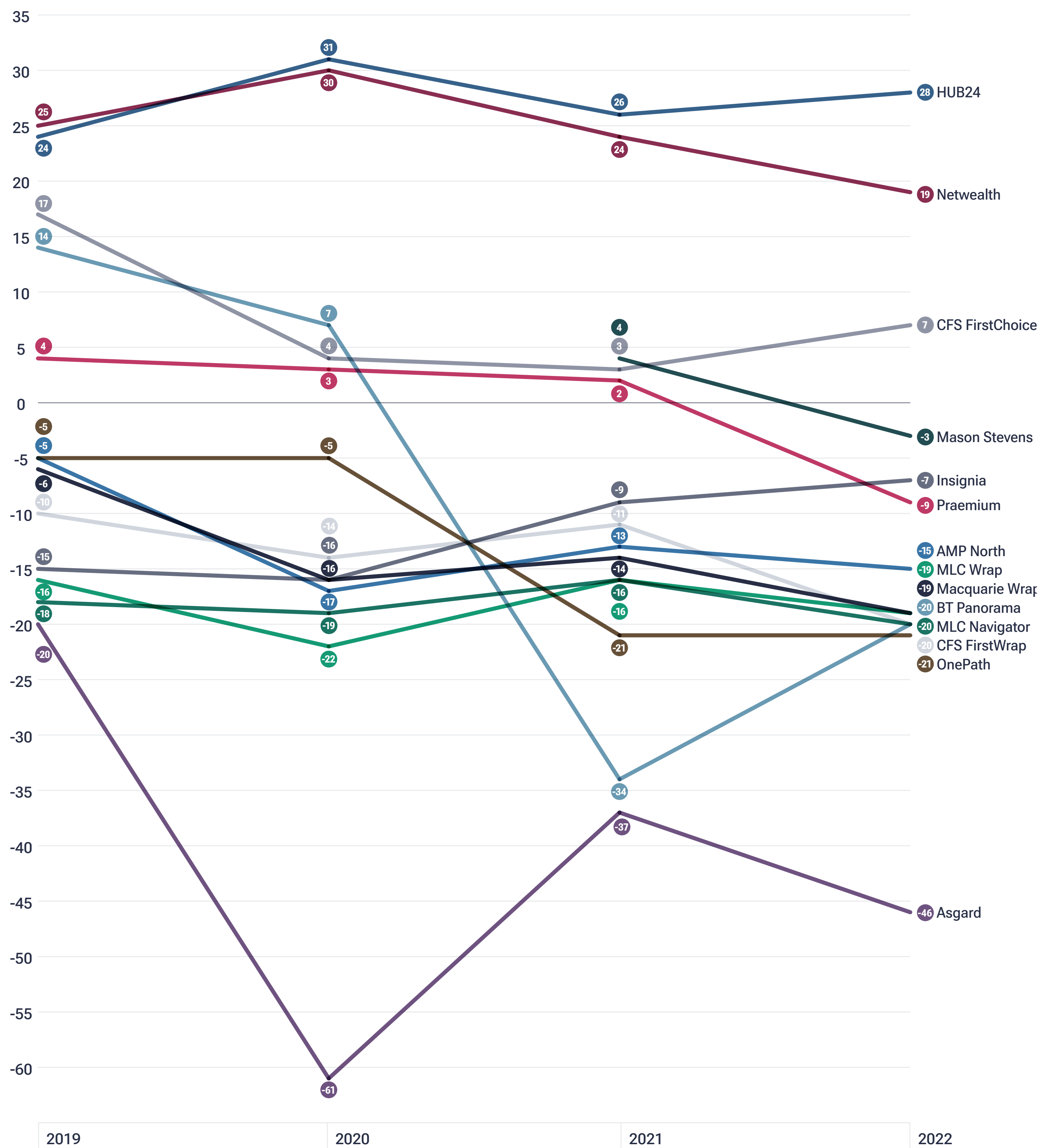


CHART 3.14

Software satisfaction scores v response rates (relative size of users)

Source: ARdata. Notes: Ball sizes are reflective of response rates (general usage), only software solutions with statistically relevant response rates and scores have been included. The results have been subject to bayesian and random forest regression techniques.

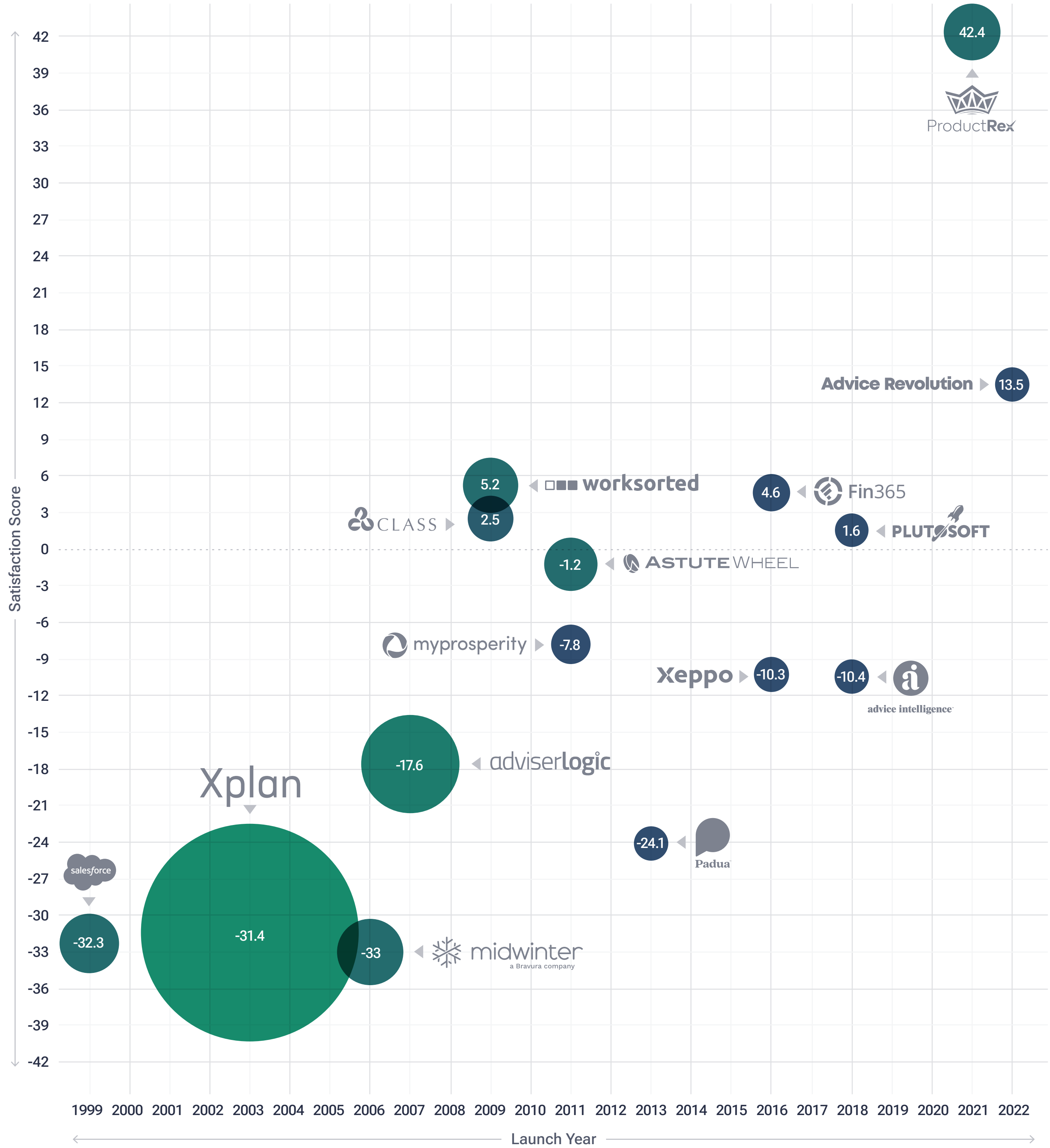
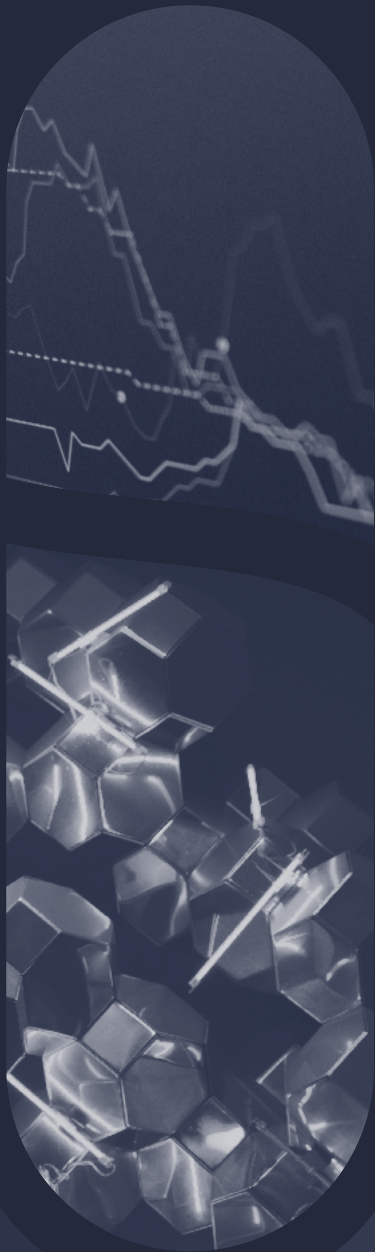


CHART 3.15

Hervey Ball analysis 2022

Source: ARdata Notes: Hervey Ball Analysis has been applied only on software solutions with statistically relevant response rates and scores have been included. The results have been subject to bayesian and random forest regression techniques.

Software	Adviser Support	Client Experience	Value for Money	Functionality	Comprehensiveness of its modules	Accuracy of data feeds
Advice Intelligence	◕	◑	◑	◑	◑	◑
Advice Revolution	●	◕	◕	●	●	◕
AdviserLogic	◕	◔	◑	◑	◑	◑
Astute Wheel	◕	◕	◕	◑	◑	○
Class	◕	◕	◑	●	◕	●
Fin365	◕	◕	◕	◕	◕	◕
Midwinter	◔	◔	◔	◔	◔	○
myprosperity	◕	◕	◔	◑	◔	◑
Padua	◑	◔	◔	◑	◔	◔
Plutosoft	◕	◑	◑	◑	◕	◑
Product Rex	●	●	●	●	●	●
Salesforce	◔	◑	◔	◔	◔	◑
WorkSorted	◕	◕	◕	◕	◑	◑
Xeppo	◑	◕	◔	◑	◑	◑
XPLAN	○	○	○	◑	◑	◑



Key Insights & Infographics

4.0

The Average Australian Adviser

THE ADVISER

49
Adviser's Age

$145k
Adviser's Annual Salary

Model Portfolios & Listed Investments
Adviser's Preferred Investment Methods

Degree Qualified
Adviser's Educational Qualification Level

TYPICAL CLIENT

56
Client's Age

$4,250
Client's Avg. Annual Fee

Building Super & Retirement
Most Common Reasons for Seeking Advice

Above Average
Client's Level of Financial Literacy

ADVISER'S PRACTICE

1-10
Practice Size (advisers)

$500-$1m
Practice Yearly Revenue

Privately Owned
Practice Type

50%+ Practice Advisers
Meet educational requirements

FUA

$82m
Adviser's Total Funds Under Advice

$205m
Practice's Total Funds Under Advice

CLIENT NUMBERS

28
Once-off Clients

91
Recurring Clients

119
Client Base Avg. Size

VENDORS

Xplan
Software

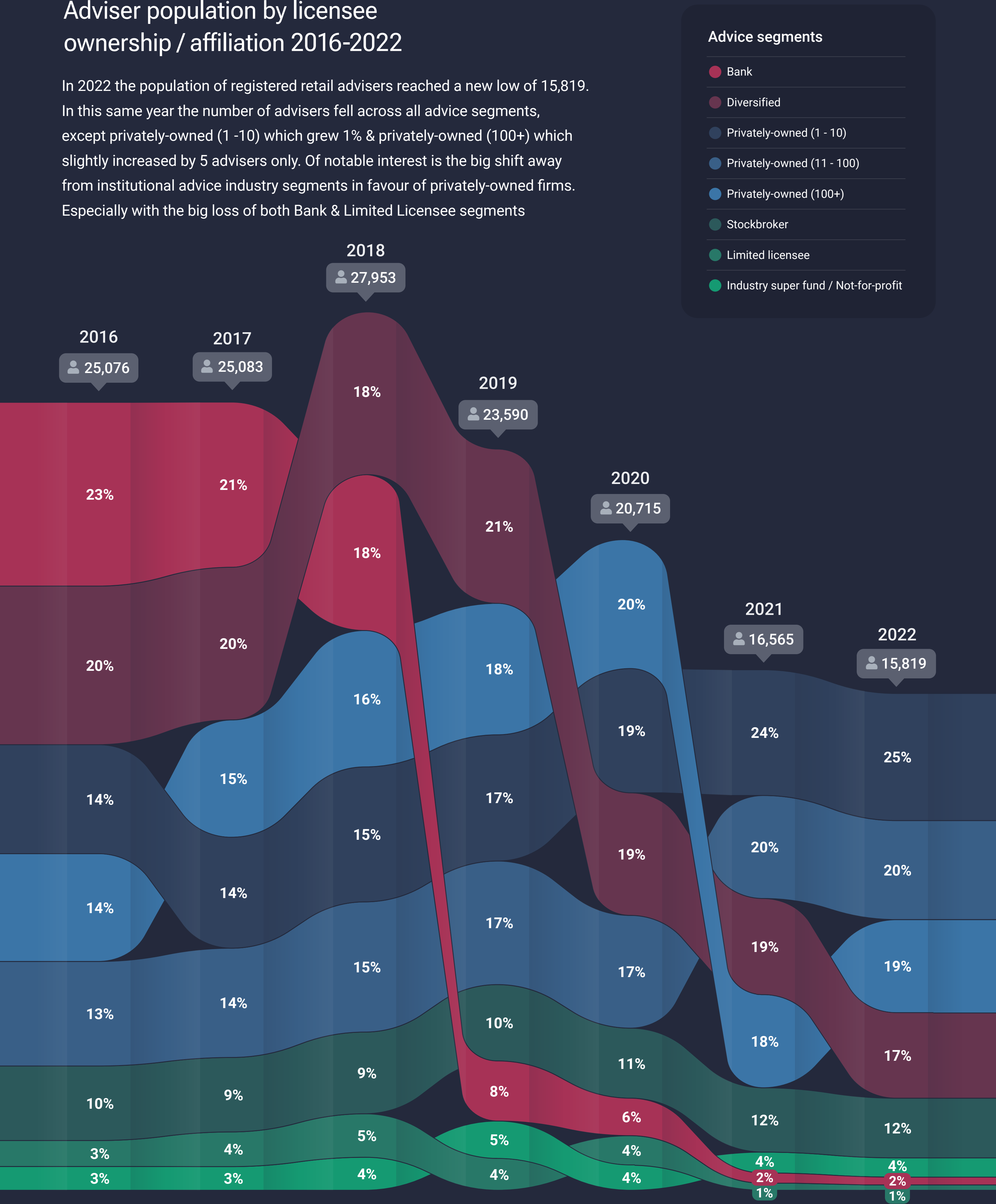
BT Panorama
Platform

TAL
Insurance Provider

MORNINGSTAR
Research House (most used)

Adviser population by licensee ownership / affiliation 2016-2022

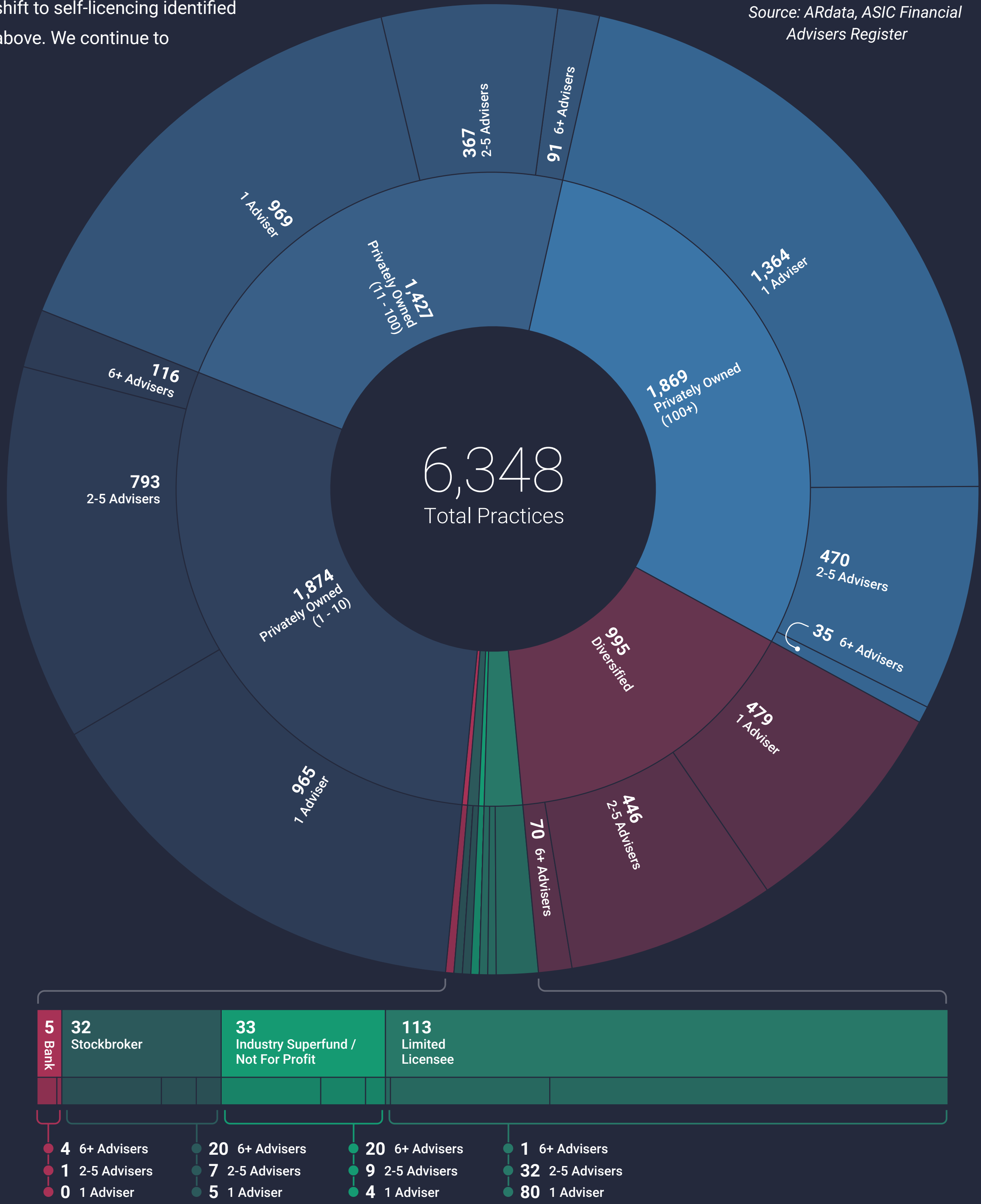
In 2022 the population of registered retail advisers reached a new low of 15,819. In this same year the number of advisers fell across all advice segments, except privately-owned (1 -10) which grew 1% & privately-owned (100+) which slightly increased by 5 advisers only. Of notable interest is the big shift away from institutional advice industry segments in favour of privately-owned firms. Especially with the big loss of both Bank & Limited Licensee segments



Practice distribution per segment

There are 6,348 practices in Australia (8% decrease on 2021) averaging 2.50 advisers per practice in 2022, down from 3.1 four years ago. This highlights the impacts of ongoing fragmentation within the industry and the shift to self-licencing identified above. We continue to hold the view that practice consolidation will need to occur to release efficiencies and to spread regulatory costs that are severely impacting businesses that may be sub-scale or deficient in their operating compliance model.

Source: ARdata, ASIC Financial Advisers Register



Investment Landscape

5.0

> *What a difference a year makes.
> Last year, fund managers bathed in the glow of strong markets and strong investor inflows. Twelve months later, they've experienced not quite an annus horribilus, but pretty close.*

For the year to December 2022, turbulent markets sliced $75bn off the industry's addressable pie (a reduction of -8.3 per cent), meaning by year's end it had shrunk from $899bn to $824bn (pre-organic growth effects).

The only positive, if it can be called one, was that net flows didn't entirely follow suit. While they declined materially from 2021 (+$62bn), they just avoided going into the red (+$2bn), representing a miserly organic growth rate of 0.2 per cent. This meant the year-end final addressable market was $826bn.

A part explanation for net flows not being worse, as always, will be ongoing compulsory contributions into adviser-built super. But, most of the answer likely lies in the 10 per cent bump in cash.

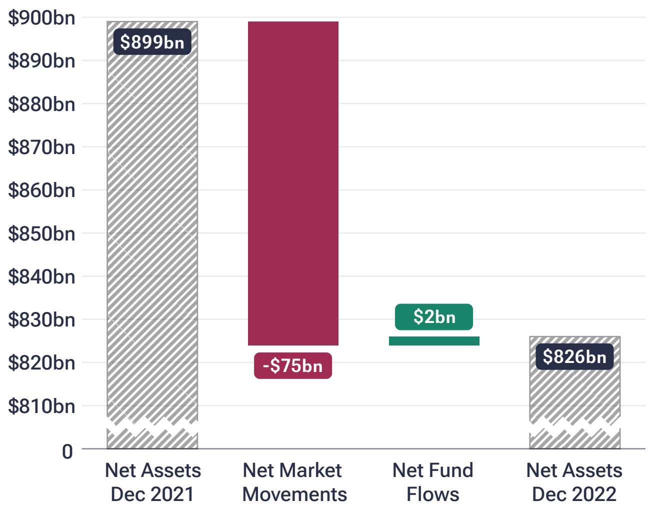
When markets spook investors they either hold their nerve and stay invested or deploy one of two parachutes. The more dramatic action is pulling the redemption cord on growth assets and then leaving the pooled investment system altogether (placing funds into bank TDs).

The lesser action is to redeem from growth assets, but stay within the investment ecosystem and reallocate to defensive assets, either pooled cash funds or lower risk fixed interest funds. The latter approach is what the following chart seems to indicate – that yes, money left the system but a lot stayed within and went defensive.

CHART 5.1

Industry FUM ($bn) 1 year net assets change, Dec 2021-Dec 2022

Source: Morningstar, Milestream estimates and analysis. Data as at / for one year ended 31st December 2022. Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds, "unclassified" funds, and funds with missing (or with erroneous) Net Assets and Net Flows data across the 1 year to December 2022.



Where the money went in 2022

Asset classes

Through the calendar year, only cash experienced strong positive net flows and therefore, achieved strong positive organic growth. Fixed interest gained a modest $1.7bn and global equities were virtually flat at $0.7bn. The performance of cash, as noted earlier, was likely driven by switching out of growth assets into defensive assets, however interest rate rises no doubt played a role too. For many years retail investors have been paid close to nothing for any allocation made to cash, making it more parking lot than asset class.

Unusually, in 2022, fixed interest markets (bond markets in particular) also had a bad year (down 10 – 12 per cent), as did property (A-REIT's were down 20 per cent and G-REIT's were down 26 per cent).

So, where did 2022's dash to cash come from? It was property, alternatives, and fixed interest. Within fixed interest, bonds in particular were on the nose, with practically all forms of non-bond fixed interest ("alternative income") gaining ground, and all categories of bonds (bar one) going backwards.

Between 2021 and 2022 organic growth (net flows) at the total system level contracted by 8.2 per cent (from +8.4 per cent to +0.2 per cent). What was the organic growth rate change like at the individual asset class level? Which asset classes did relatively better than the system as a whole, even if they were unimpressive in an absolute sense?

CHART 5.2

Industry net flows ($bn) 1 Year, Dec 2021-Dec 2022

Source: Morningstar, Milestream estimates and analysis. Data as at / for one year ended 31st December 2022. Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds, "unclassified" funds, and funds with missing (or with erroneous) Net Assets and Net Flows data across the 1 year to December 2022.

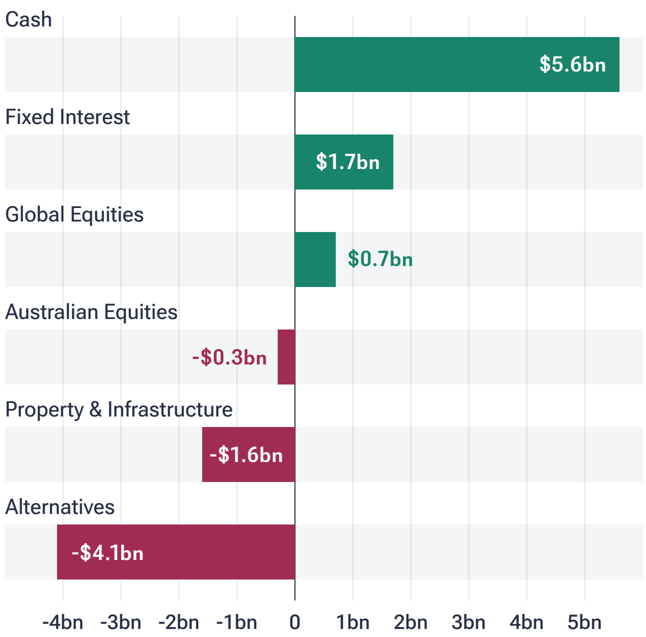


CHART 5.3

Industry 1 Year organic growth rates, Dec 2021-Dec 2022

Source: Morningstar, Milestream estimates and analysis. Data as at / for one year ended 31st December 2022. Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds, "unclassified" funds, and funds with missing (or with erroneous) Net Assets and Net Flows data across the 1 year to December 2022.

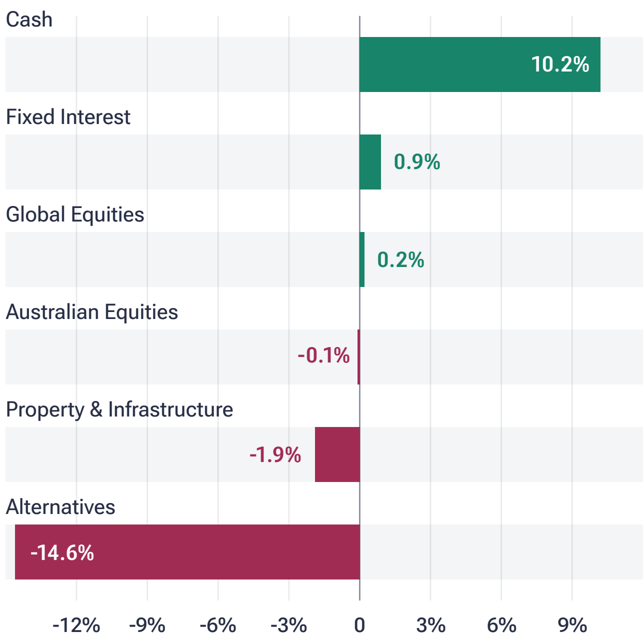
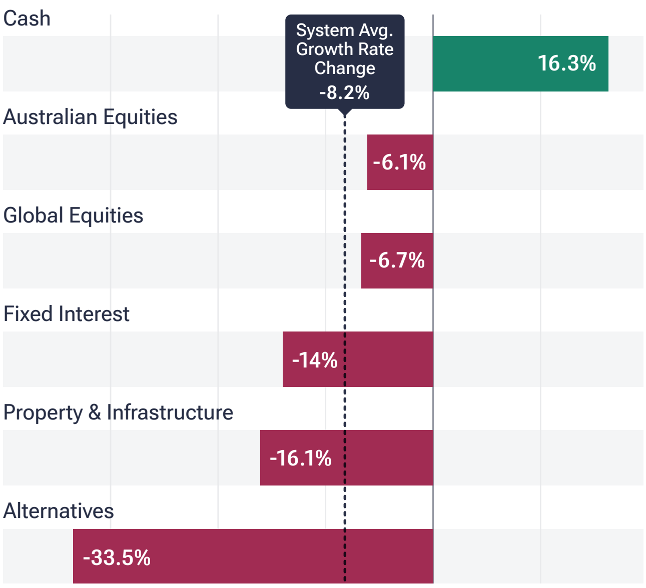


CHART 5.4

Asset class change in organic growth rates (2022 minus 2021 growth rates)

Source: Morningstar, Milestream estimates and analysis. Data as at / for one year ended 31st December 2022. Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds, "unclassified" funds, and funds with missing (or with erroneous) Net Assets and Net Flows data across the 1 year to December 2022.



Equities are the winner here, with organic growth rates contracting less than the system average, which is impressive considering it was a period when equity markets fell. Global equities showed the greater resilience of the two equities asset classes, given their weaker market performance (compared to Australian equities) should have led to a greater relative change in flows.

Again, the biggest loser was fixed interest (despite alternatives appearing to be so on the graph above). This again is due to the Ardea effect – when we reallocate this manager's colossal net outflows from alternatives to fixed interest the negative change in the growth rate of fixed interest between 2021 and 2022 becomes the largest of the asset classes.

Sectors / Sub-sectors

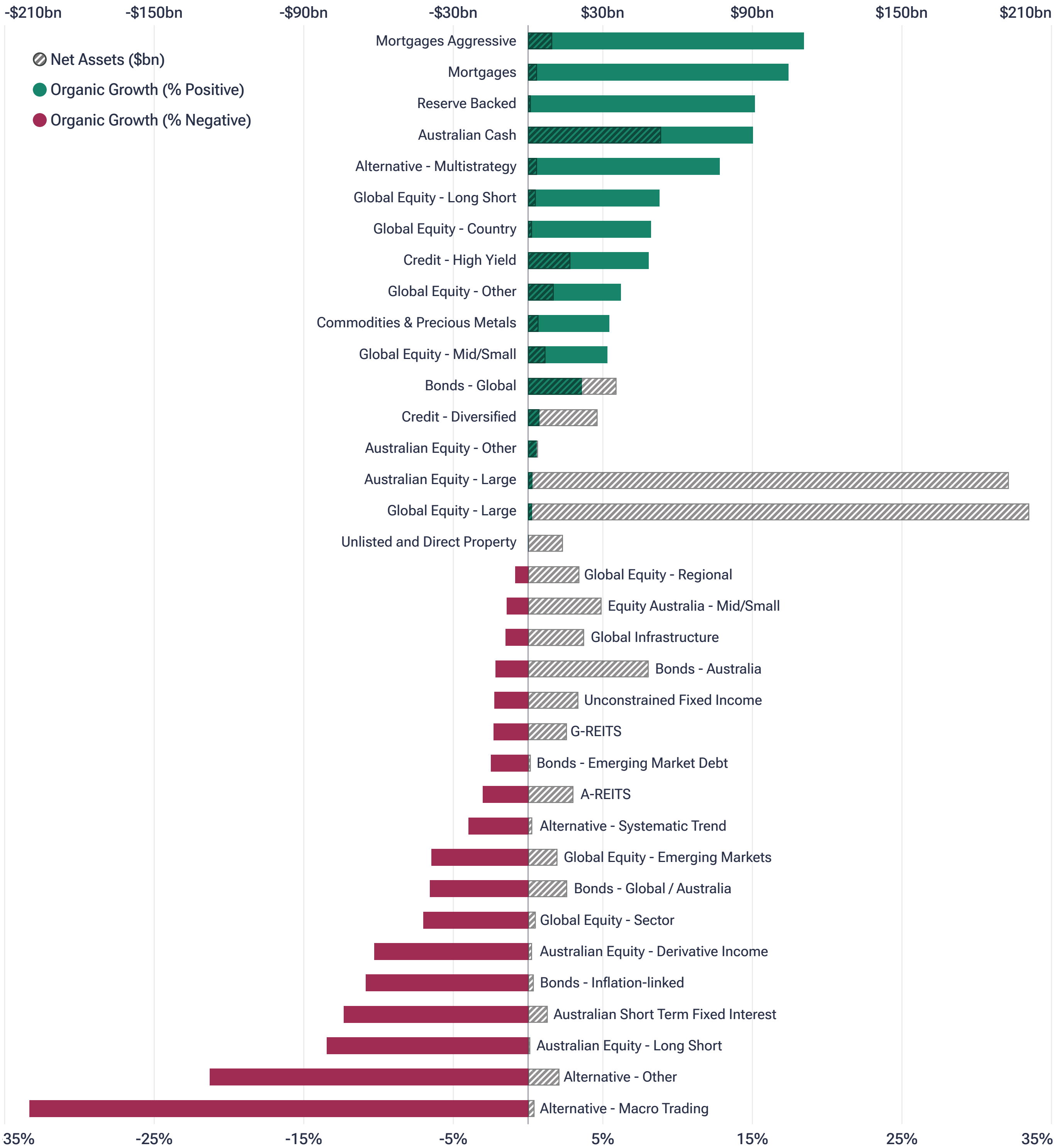
Sub-sector	Net Assets	Organic Growth
In 2022, only two "large"[1] sub-sectors experienced meaningful* growth (+ve or -ve). These were:		
Australian Cash *(excludes Short Term Fixed Interest)*	$53bn	15%
Bonds - Global	$35bn	4%
Amongst the "medium"[2] sized sub-sectors meaningful* growth (+ve or -ve) was observed in:		
Mortgages *("Standard" + Aggressive)*	$13bn	18%
High Yield Credit	$17bn	8%
Global Equity - Other	$10bn	6%
A-REITS	$18bn	-3%
Global Equity Emerging Markets	$12bn	-6%
Bonds - Global / Australia	$16bn	-7%
Alternative - Other	$13bn	-21%
Amongst the remaining long tail of smaller "niche"[3] sub-sectors the top 3 by size experiencing meaningful* organic growth (+ve or -ve) were:		
Global Equity – Mid/Small	$7bn	5%
Commodities & Precious Metals	$4bn	5%
Australian Short-Term Fixed Interest	$8bn	-12%

*1) "Large" sub-sectors are defined as those with > $20bn in net assets. 2) "medium" sub-sectors as those with > $10bn but < $20bn. 3) "niche" sub-sectors as those with <$10bn net assets). *"Meaningful" organic growth is defined as >= +/- 3% (net flows / Net assets -1 year). Excludes Cash sub-sector.*

CHART 5.5

Industry sub-sector 1 year organic growth rates (%) vs. net assets ($bn), Dec 2021-Dec 2022

Source: Morningstar, Milestream estimates and analysis. Data as at / for one year ended 31st December 2022. Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds, "unclassified" funds, and funds with missing (or with erroneous) Net Assets and Net Flows data across the 1 year to December 2022.



Intra asset class movements

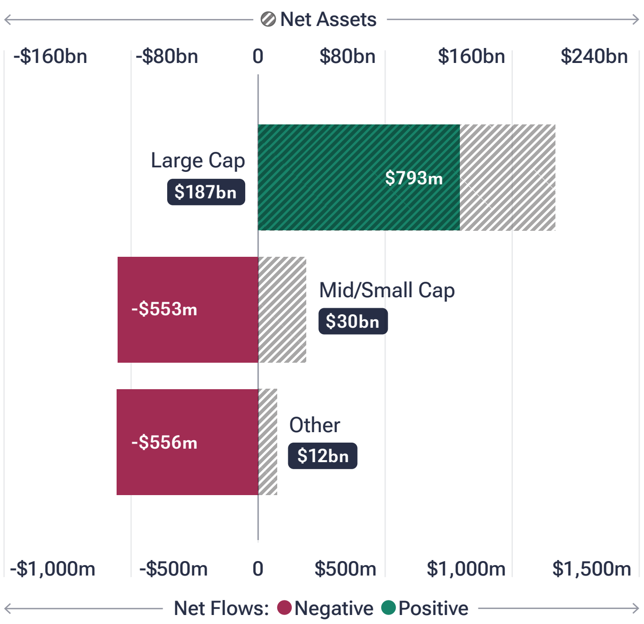
The next key question is which (intra-asset class) sub-sectors look the most attractive? The analysis below must be considered with caution: 1 year's data is informative, but multiple years should be considered before extrapolating a trend worth backing.

At $187bn, Australian large caps represent 82 per cent of the sector's addressable market ($229bn). So, it's a hugely important sector, not only because of its size, but because of the composition of its participants. The vast bulk of Australian "boutique" managers manage Australian equities only, and of these many if not most have a large cap capability. So, any year that results in net inflows should be a year to celebrate.

CHART 5.6

Australian equities by segment: Net assets ($bn), 1 year net flows ($1m)

Source: Morningstar, Milestream estimates and analysis. Data as at / for one year ended 31st December 2022. Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds and funds missing (or with erroneous) Net Assets and Net Flows data across the 1 year to December 2022. "Large Cap" combines Morningstar categories "Equity - Australia Large Blend", "Equity - Australia Large Growth", and "Equity - Australia Large Value". "Mid/Small Cap" combines Morningstar categories Equity - Australia Mid/Small Blend", "Equity - Australia Mid/Small Growth", and "Equity - Australia Mid/Small Value". "Other" combines Morningstar categories Equity - Australia Derivative Income", "Equity - Australia Geared", "Equity - Australia Long/Short", and "Equity - Australia Other".

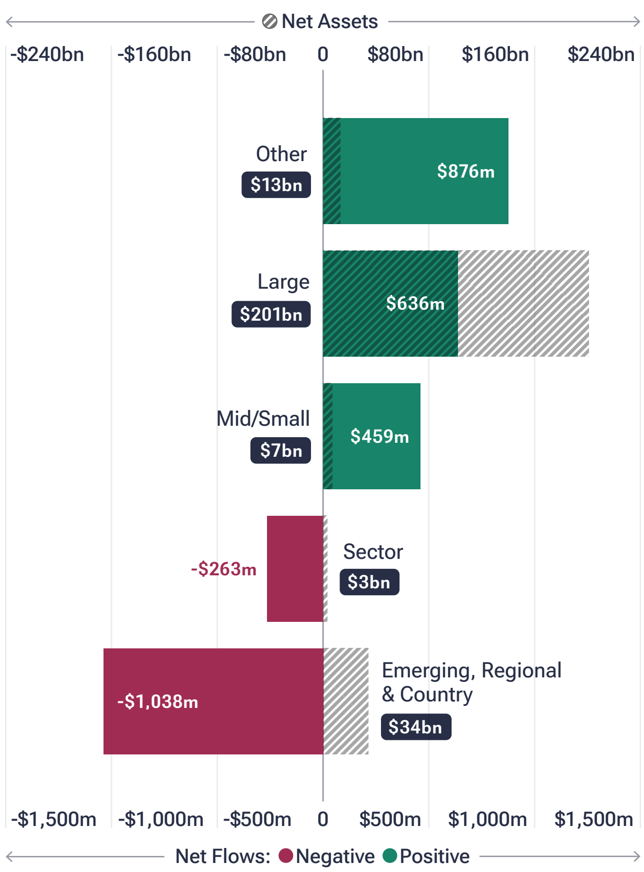


At $201bn, large cap global equity funds represent 78 per cent of the sector's addressable market ($258bn), with emerging/regional & sector funds the next biggest at 13 per cent ($34bn). As was the case in Australian equities, global equities large cap funds were also in modest net inflow in 2022. It was a slightly better picture for active managers though with passive funds "only" securing 79 per cent ($5bn of $6.4bn) of the net flows attributable to the top 10 funds.

CHART 5.7

Global equities by segment: Net assets ($bn), 1 year net flows

Source: Morningstar, Milestream estimates and analysis. Data as at / for one year ended 31st December 2022. Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds and funds missing (or with erroneous) Net Assets and Net Flows data across the 1 year to December 2022. "Large Cap" combines Morningstar categories "Equity - World Currency Hedged", "Equity - World Large Blend", "Equity - World Large Growth", and "Equity - World Large Value". "Mid/Small Cap" reflects Morningstar category "Equity - World Mid/Small Blend". "Emerging, Regional & Country" combines Morningstar categories of "Equity Asia Pacific w/o Japan", "Equity Emerging Markets", "Equity Europe", "Equity Greater China", "Equity Japan", and "Equity North America". "Sector" combines Morningstar categories of " Equity Global Resources" and "Equity Technology". "Other" combines Morningstar categories "Equity - World Long/Short", and "Equity - World Other".



Of the active funds, Ironbark Royal London and GQG did well, supported by strong research house ratings and model portfolio inclusions. The surprise active manager was Apostle Dundas who secured $604m in net flows.

At a combined $51bn diversified / global bonds just nudged out Australian bonds to be the biggest sector within the asset class ($51bn to $48bn).

> *Ironbark Royal London and GQG did well, supported by strong research house ratings – the surprise active manager was Apostle Dundas who secured $604m in net flows.*

Of most interest in the above segment sizing however is that the remaining sectors combined (unconstrained fixed interest, credit, mortgages, and other) are nearly as big as the bond sectors combined ($83m).

CHART 5.8

Fixed interest by segment: Net assets ($bn), 1 year net flows ($m)

Source: Morningstar, Milestream estimates and analysis. Data as at / for one year ended 31st December 2022. Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds and funds missing (or with erroneous) Net Assets and Net Flows data across the 1 year to December 2022. "Diversified / Global Fixed Interest" combines Morningstar categories "Bonds - Global / Australia" and "Bonds - Global". Australian Fixed Interests reflects Morningstar category of "Bonds Australia". Unconstrained Fixed Interest" reflects Morningstar category "Unconstrained Fixed Income". "Credit" combines Morningstar categories "Diversified Credit" and "High Yield Credit". "Mortgages" combines Morningstar categories of "Mortgages" and "Mortgages Aggressive". "Other" combines Morningstar categories "Bonds - Emerging Market Debt", "Bonds - Inflation Linked", and "Reserve Backed".

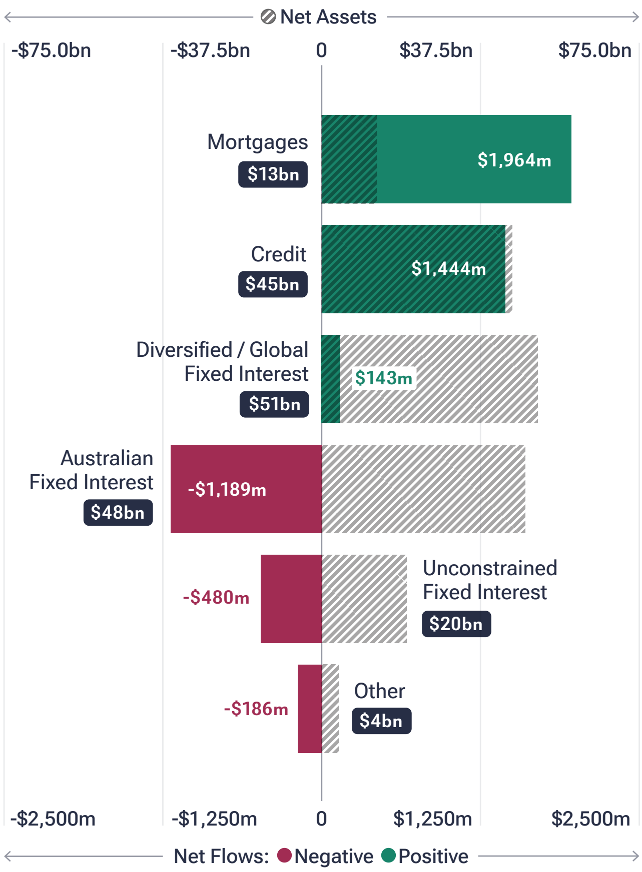
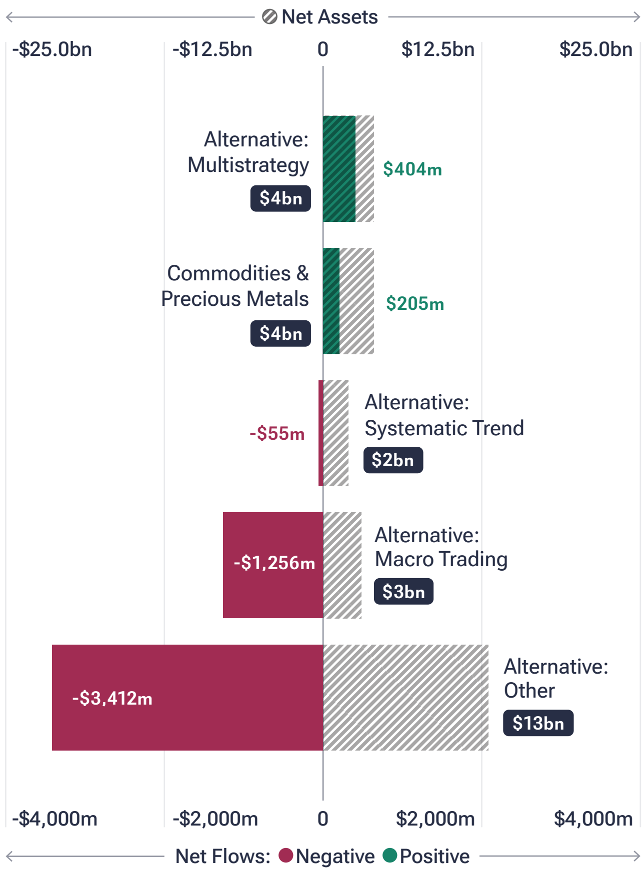


CHART 5.9

Alternatives by segment: Net assets ($bn), 1 year net flows ($m)

Source: Morningstar, Milestream estimates and analysis. Data as at / for one year ended 31st December 2022.Notes: Data excludes: Morningstar classified "obsolete" funds, "multi sector" funds, "miscellaneous" funds and funds missing (or with erroneous) Net Assets and Net Flows data across the 1 year to December 2022. All labels reflect the equivalent Morningstar categories.



Product launches: 2022

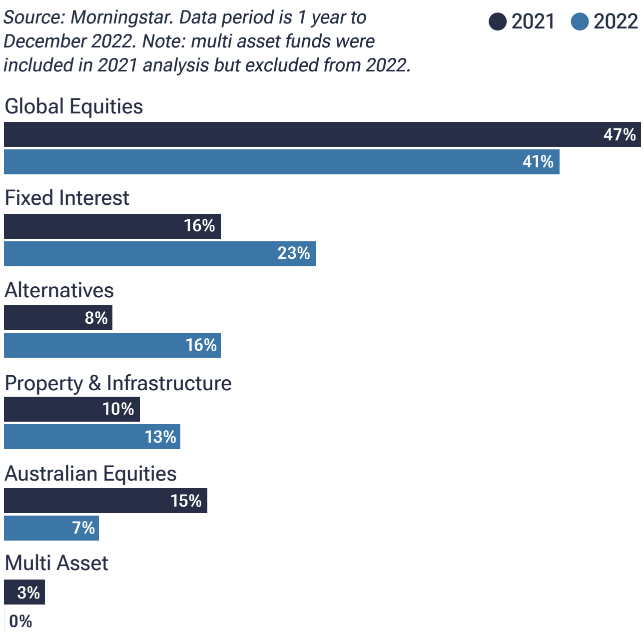
The results for 2022, both stand-alone and compared to 2021 were as follows:

Asset class	Results for 2022	Product launchers' / distribution heads' verdict on the asset class:
Australian Equities	7 per cent of recent product launches versus 22 per cent* of a hybrid multi-asset Balanced/Growth fund. This represents a halving from last year (15 per cent)	Bearish in 2021, trending to strongly bearish in 2022
Global Equities	41 per cent of recent product launches versus 25 per cent* of a hybrid multi-asset Balanced/Growth fund. This represents a mild decline from last year (47 per cent)	Strongly Bullish in 2021, remaining Strongly Bullish in 2022
Property & Infrastructure	13 per cent of recent product launches* versus 12%* of a hybrid multi-asset Balanced/Growth fund. This represents a mild increase from last year (10 per cent)	Neutral in 2021 trending to slightly Bullish in 2022
Fixed Interest	23 per cent of recent product launches* versus 23 per cent* of a hybrid multi-asset Balanced/Growth fund. This represents a strong increase from last year (16 per cent).	Slightly Bearish in 2021 reversing to Neutral in 2022
Alternatives	16 per cent of recent product launches* versus 19 per cent* of a hybrid multi-asset Balanced/Growth fund. This represents a strong increase from last year (8 per cent)	Bearish in 2021 reversing to Neutral in 2022

CHART 5.10

2022 vs. 2021 product launches by asset class (n=140, 140)

Source: Morningstar. Data period is 1 year to December 2022. Note: multi asset funds were included in 2021 analysis but excluded from 2022.



The comparison suggests that in aggregate, and from a business perspective, those who launched products in 2022:

- Remain strongly optimistic about global equities
- Are even more pessimistic about Australian equities
- Have become mildly interested in property and infrastructure
- have ceased being negative about fixed interest and alternatives.

> *Global equities represent 41% of recent of recent product launches*

**Recent product launch asset allocation has been rebalanced after excluding "Multi-Asset" and "Other". Asset allocation of a multi-asset hybrid Balanced/ Fund taken as the midpoint of Lonsec's Strategic Asset Allocation for its Balanced and Growth portfolios after excluding Cash and rebalancing the remaining asset classes.*

Has an ESG backlash begun?

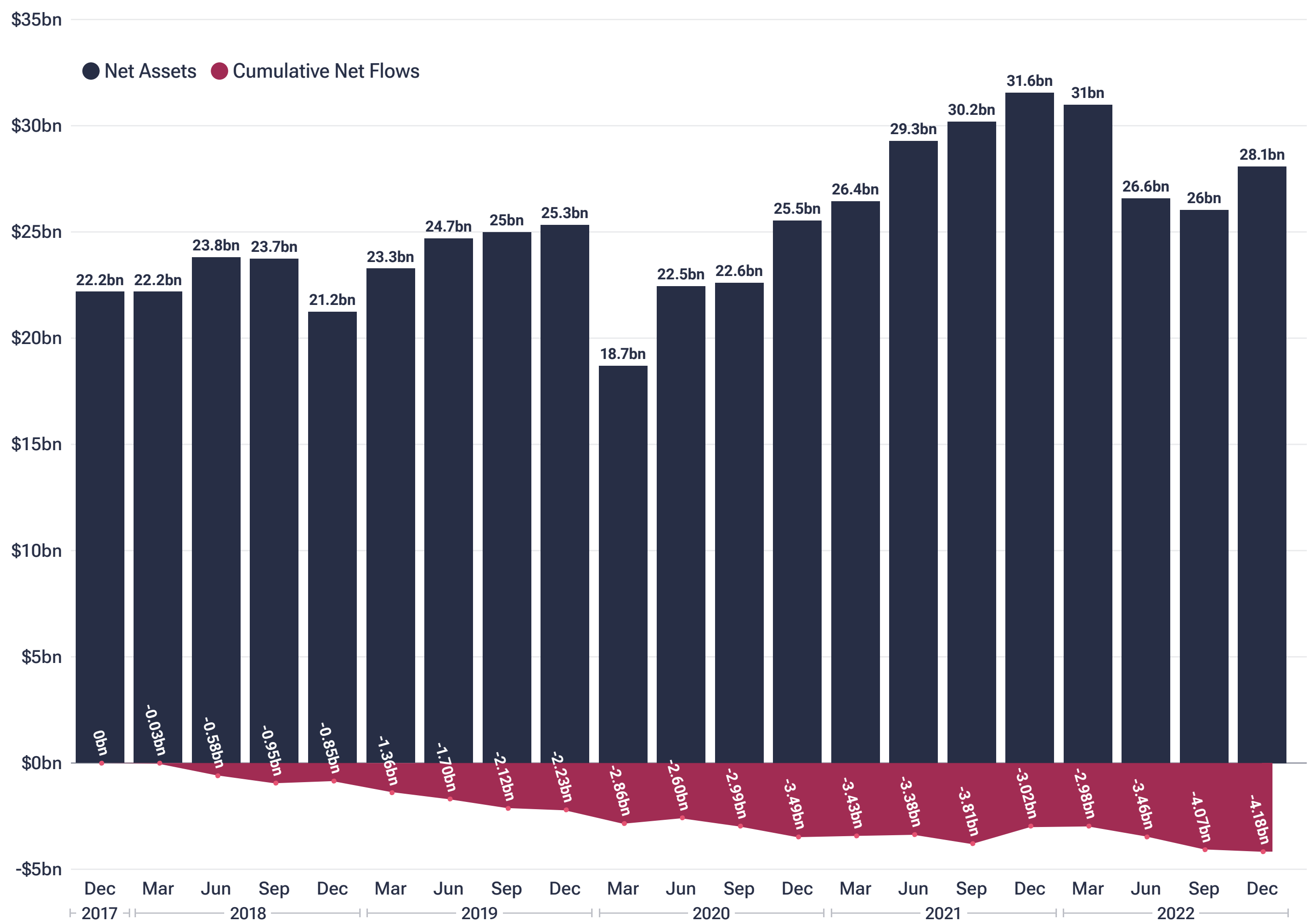
Last year, we delineated Australian ESG funds into "Overt" (those named and marketed on the basis of ESG) and "Covert" (those with strong externally validated ESG credentials but which are NOT named and marketed as ESG funds). Our analysis last year had a clear conclusion: "the rising ESG tide is (still) not lifting all ESG boats. In the past 3 years it has clearly been a better marketing approach to be "Overt" about your ESG credentials, and this trend strengthened last year".

The sooner-than-expected appearance of an apparent ESG backlash, along with emerging evidence of corporate green hushing and retail investors buying overtly "anti-ESG" investment products, leads us to now question the trajectory of that Overt ESG investing trend.

CHART 5.11

Covert ESG equity funds net assets & cumulative net flows ($m)

Source: Morningstar, Lonsec, Milestream estimates and analysis. Data as at / for 5 years ended 31st December 2022. Notes: Data includes Morningstar classified Australian Equity and Global Equity Funds which conform with the Milestream criteria for / definition of Covert ESG Funds. The definition of Covert funds are within the body of this report. Classification methodology: Covert ESG fund names and / or manager marketing collateral does NOT contain ESG phrases and acronyms (they therefore do NOT meet the definition of Overt ESG funds) however, they still receive a Lonsec ESG Biometric rating of "High" (5/5), and / or a "Yes" from Morningstar for being an "ESG Fund Overall" or a Sustainable Investment – Overall". Note, the size of the "Covert" ESG market (Net Assets) has reduced significantly from that indicated last year. This is due to a) tightening the basis for inclusion as "Covert" (2022 included only those with a Lonsec ESG BIO metric rating of "High", whereas in 2021 we also included funds with a "Mod/High" ESG BIO metric rating), and b) reclassification by Morningstar of a significant number of large funds from being ESG / Sustainable funds to not being ESG / Sustainable funds.

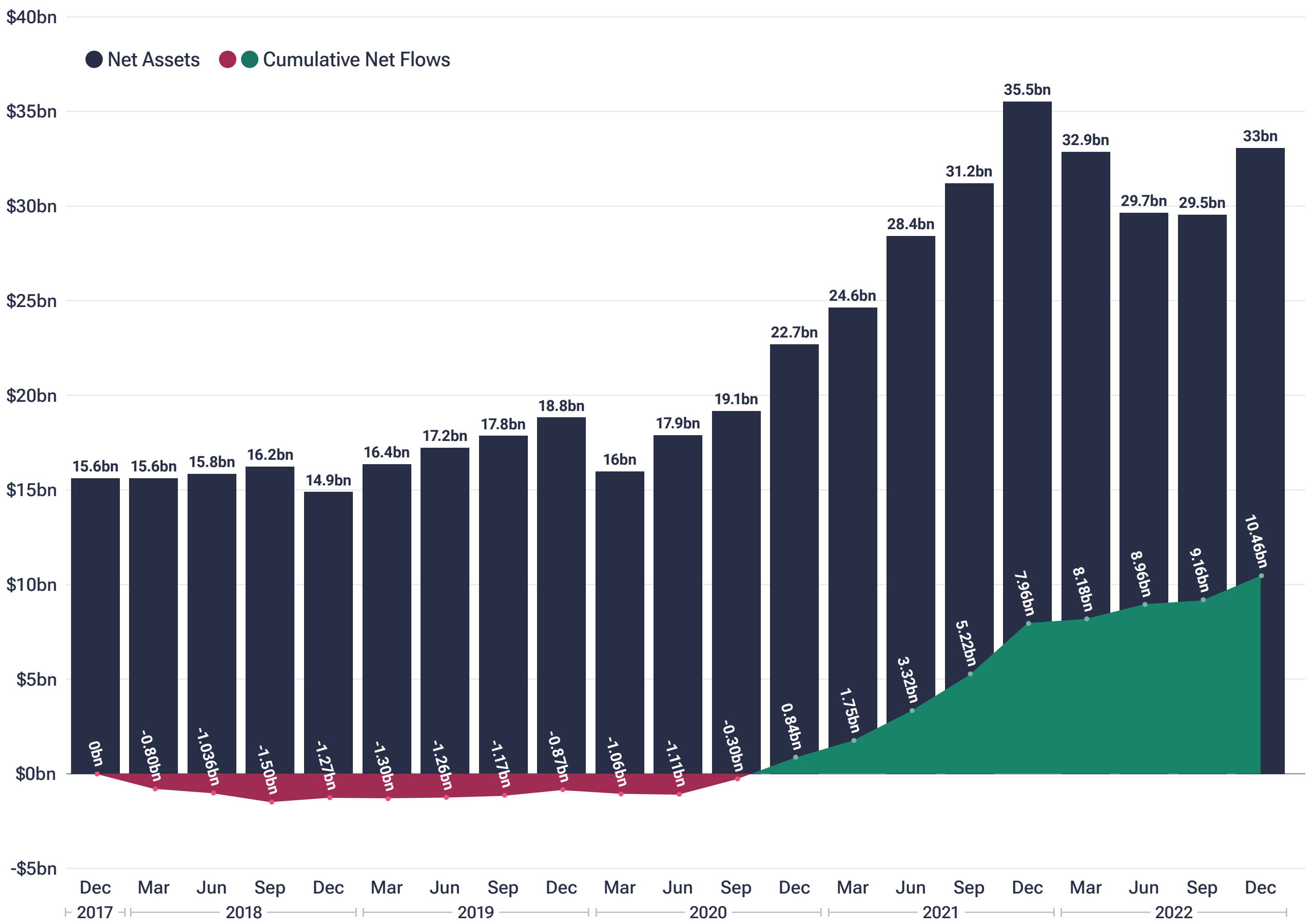


In 2021, the biggest risk for fund managers who were considering launching a new ESG product was being caught out for greenwashing (by regulators, clients, or both). This remains the largest risk but has now been joined by another sizable one – that ESG investing in Australia will become weaponized by politicians. Should this come to be, we believe the (currently) less favourable marketing approach for ESG funds (to be “Covertly” ESG) will become the more favourable. Being “Overtly ESG” could potentially attract the wrong sort of attention, and that would make being under the ESG radar rather than above it the more appealing option.

CHART 5.12

Overt ESG equity funds net assets & cumulative net flows ($m)

Source: Morningstar, Lonsec, Milestream estimates and analysis. Data as at / for 5 years ended 31st December 2022. Notes: Data includes Morningstar classified Australian Equity and Global Equity Funds which conform with the Milestream criteria for / definition of Overt ESG Funds. The definition of Overt funds are within the body of this report. Classification methodology: Overt ESG funds are those with names and / or manager marketing collateral that contain ESG phrases and acronyms. ESG related fund naming phrases and acronyms include “Ethical”, “Responsible”, “Sustainable”, “ESG”, “Stewardship”, “Impact”, “Exclusions”, “Environmental”, “Social”, “Gender”, “Governance”, “Waste”, “Water”, “Clean”, “Climate”, “Carbon”, “Advocacy”, “Green”, “Better Future”, “Values”, “Net Zero”, “SRI” and “RI”.



Investment consultants on the rise

With the rise of managed accounts and custom portfolio constructions, there has been an explosion in professional investment managers. These managers now play a vital role in the decision making across licensees and practices.

With managed accounts making up close to 50% (Source: ARdata 2023) of advisers' new clients portfolio constructs, these professional managers are now major gatekeepers for asset managers and other product manufacturers looking to access financial advisers.

This year, we received reviews on more than 40 consultants, ranging from sole investment specialists to smaller boutiques to larger traditional research firms. There are 5 key factors of consideration for practices and licensees in choosing the right consultant (Chart 5.13).

The strength of the investment professionals in the sector is indicative of high scores and generally positive reviews across the board, giving advisers and licensees ample choice. Generally speaking, the two key factors advisers place particular emphasis on is around the competence of key personnel and the quality of the consulting that is delivered. The boutique and sole operators tend to have decades of experience across the spectrum of operators.

CHART 5.13

Aggregated scores across 40+ investment consultants

Source: ARdata

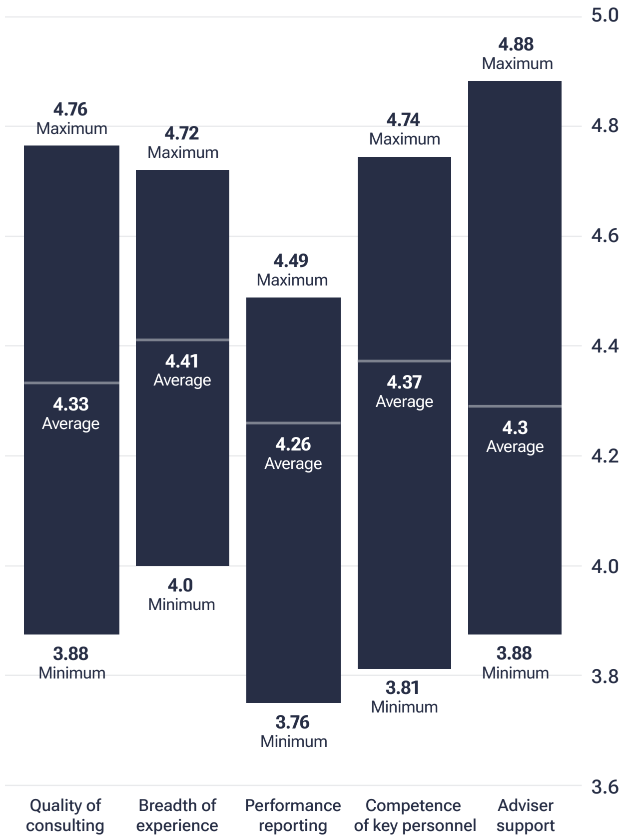


FIGURE 5.14

List of boutique to large investment consultants reviewed by financial advisers

Activus Investment Advisors	Context Capital Consulting	farrelly's	Lonsec	Quilla
Aequitas Investment Partners	CPG Research & Advisory Pty Ltd	Frontier Advisors	Mercer	ResearchIP
antipodean capital	Delta Research and Advisory	Harbour Reach	Milliman	SQM Research
assureinvest	dfs	Innova Asset Management	Morningstar	Waterways Capital
Atchison	Drummond Capital Partners		Philo Capital Advisers	WP Invest Investment Consultant
AZ Sestante Azimut Group	evergreen	invest sense	Principia Investment Consultants	Zenith Investment Partners
Brad Matthews Investment Strategies	Evidentia Group	JANA Depth with Difference	procapital	

Research houses - the duopoly

Investment consultants usually work hand in glove with research houses, either with in house expertise or with larger external research houses. The research groups remain a key gatekeeper in the industry. With the Quality of Advice Review attempting to make advice more accessible, we expect the demand for research by digital solutions will provide more reach and commercial opportunities for research houses.

Morningstar and Lonsec (and its SuperRatings brand) dominate the research landscape, with FE FundInfo's Chant West and Zenith Investment Partner brands the other key players in the advice landscape. With the infrastructure support provided by FE FundInfo, these two minority firms are starting to encroach on the satisfaction levels of the current duopoly.

Lonsec's increased reach in the last 24 months has not had any adverse impact on the satisfaction levels of its clients. In fact, Lonsec's investment and focus on the advice community as Australia's largest based operator is being rewarded and has seen it find a strong foundational platform from which to grow.

> *"We recently undertook due diligence for our researcher for a new AFSL and selected Lonsec for their breadth and the ability to select which modules we took on. We are utilising their SMA's as our belief in their research capability is strong and we feel they are well placed to make the investment decisions."*
> ***– Lonsec review, Practice Principal, Sydney, $100M under advice***

CHART 5.15

Research house satisfaction rates

Source: ARdata, Bayesian statistical techniques have been applied to all years (2019 – 2022)

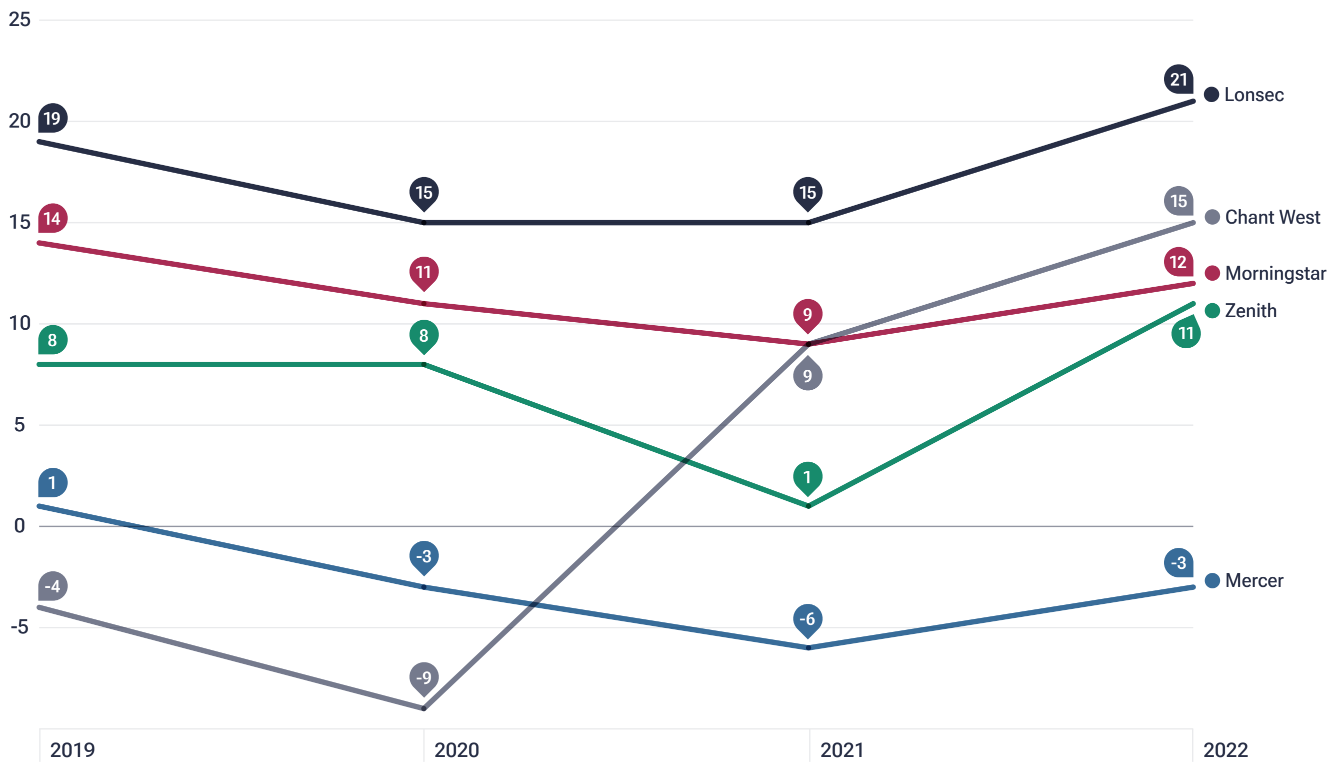
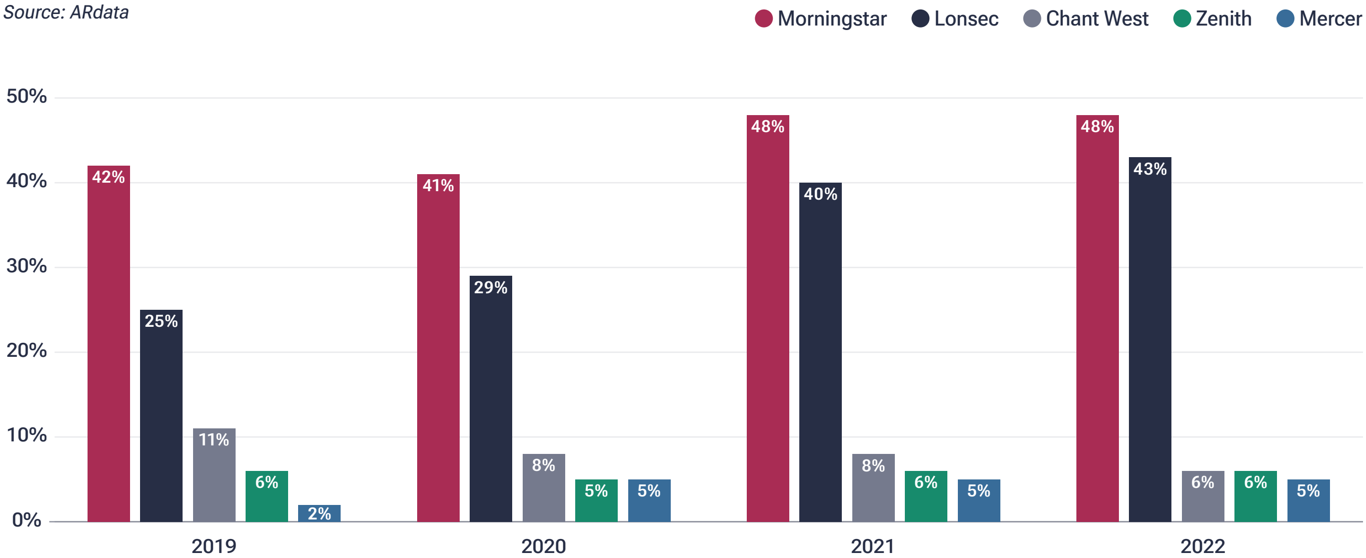
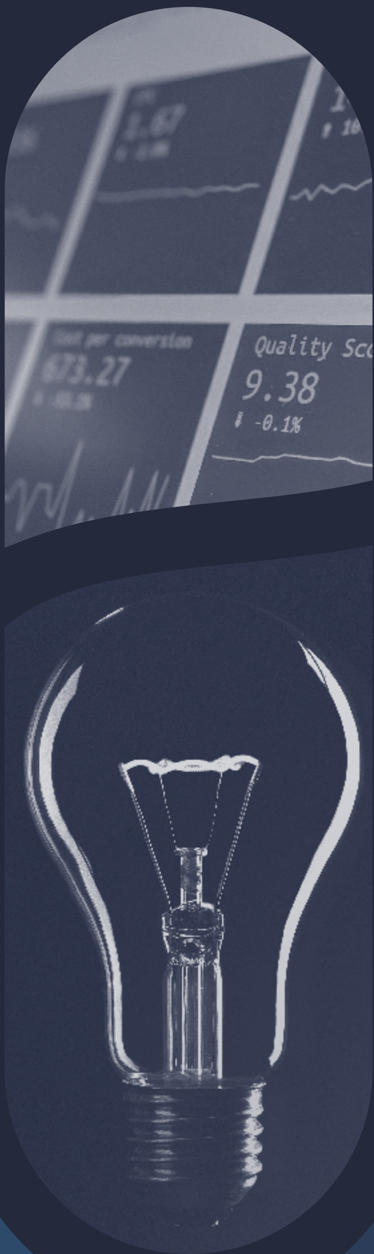


CHART 5.16

Annual landscape survey adviser usage based on response rates

Source: ARdata





About Us & Our Methodology

6.0

Our methodology

The 2023 Financial Advice Landscape report is the most comprehensive snapshot of the Australian financial advice industry. The report incorporates Adviser Ratings proprietary data, survey information, 3rd party Adviser Ratings partner data, Government and Regulator data and publicly available data.

The report gathered data from primary Adviser Ratings sources, including surveys and Adviser Ratings' product and platform data, including its core Nightingale service.

This was supported by secondary sources or commentary. Key secondary sources included, but not limited to, included Australian Bureau of Statistics 2021 Census Data (and estimates over Census), ASIC Financial Advisers Register, Morningstar data, Lonsec data and Milestream data.

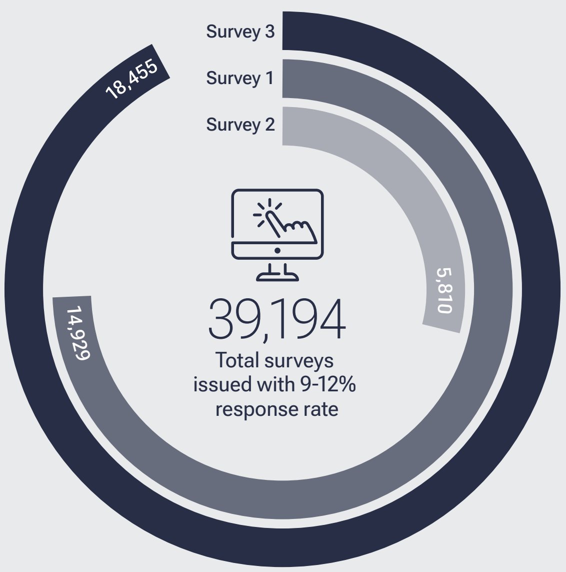
Data preparation

Where required, data cleansing or removal of data was applied to get a true representative set of data. For the sentiment analysis of vendors, only vendors with a sufficient volume of responses and adequate diversity across licensees were presented.

Different statistical methods and techniques are used to improve accuracy and validity, including but not limited to techniques such as winsorisation, Random Forest regression and Bayesian statistical analysis.

CHART 6.1

2022-2023 Surveys Issued



- Survey 3: Consumer Survey
- Survey 1: Financial Advice Landscape 2022-2023 survey
- Survey 2: Advice Practice Business Survey

Survey data

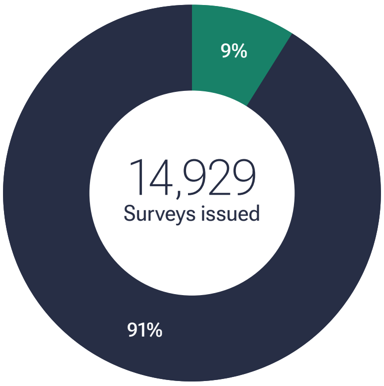
SURVEY 1

Financial Advice Landscape 2022-2023 Survey

Audience: All registered financial advisers and practice owners.

Objective: To understand more about client mix, fees, commitment to industry, attitudes towards education and product choices, and sentiment towards service providers

Survey Period:	Nov 22 – Jan 23
Surveys Issued:	14,929
Valid Responses:	1,388
Response Rate:	9%



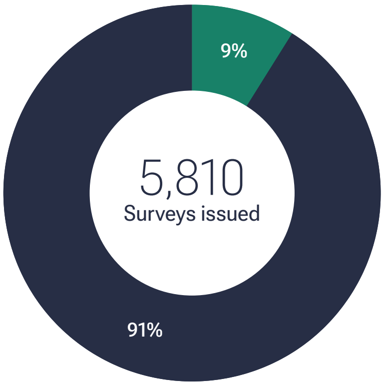
SURVEY 2

Advice Practice Business Survey

Audience: Owners or directors of advice practices

Objective: To understand what practice owners are focused on, how their businesses are structured, financial settings, and challenges and opportunities.

Survey Period:	Dec 22 – Jan 23
Surveys Issued:	5,810
Valid Responses:	515
Response Rate:	9%



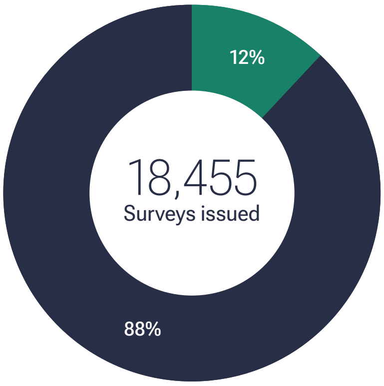
SURVEY 3

Consumer Survey

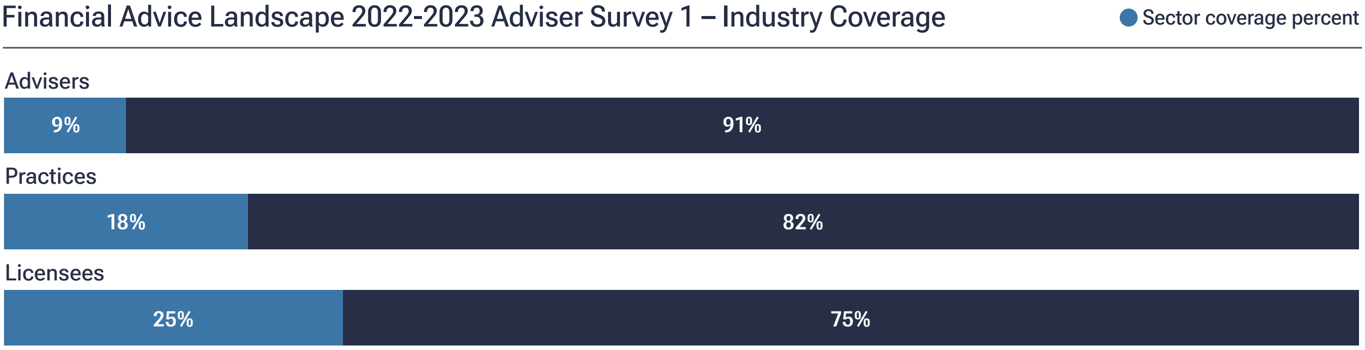
Audience: Consumers as part of Adviser Ratings' research database

Objective: To determine financial health and attitudes towards investing, advice, technology, and receiving professional help with their finances.

Survey Period:	Jan 23
Surveys Issued:	18,455
Valid Responses:	2,129
Response Rate:	12%



Financial Advice Landscape 2022-2023 Adviser Survey 1 – Industry Coverage



About Adviser Ratings

Adviser Ratings launched in October 2014, in the wake of the Future of Financial Advice re-forms (FOFA), the Financial System Inquiry (FSI) and financial planning scandals of the time. Adviser Ratings' vision is to improve the penetration of advice amongst Australian consumers. There are more than 15,000 financial advisers on its independent platform, enabling consumers to browse and search for an advice solution suited to their needs, rated and reviewed by other consumers.

ARdata is a data and insights company built on Australia's first financial adviser ratings platform. We help our clients make data-driven business decisions in engaging their ideal audience by supplying leading industry insights, data services and research. Our clients are key players in the wealth management industry including advisers, advice practices, advice licensees, super funds, life insurers, fund managers, investment platforms and software providers.

In 2022, Adviser Ratings acquired Beddoes Institute. Building on top of the ARdata brand and data capabilities, the Beddoes products focus on data, insights and growth opportunities for the life insurance industry, as well as deep practice benchmarking for the adviser and licensee segment through client experience and practice surveys.

Combined the three offerings provide a unique value chain and data proposition for the wealth ecosystem.

Adviser Ratings 2023 Landscape

3 additional reports are separately available for purchase

REPORT 1

Life Insurance Benchmark Study 2023

REPORT 2

Platform Benchmark Study 2023

REPORT 3

Investment and Fund Flows Landscape 2023

Our products and services

Nightingale	Nightingale is our CRM solution that provides a rich data source for the latest information on advisers, practices and licensees in the Australian market. Data and accompanying insights can be served to clients in various forms, including flat file, SFTP or API secured and hosted by Amazon Web Services.
Life Insurance Barometer	An industry led and supported data sharing proposition that allows participating life insurers deep actionable insights into the retail advice market, advisers writing risk and where the opportunities reside. Under the remit of ARdata, considerable investment is being undertaken in this Beddoes product to provide unique actionable data and link system growth to its consumer proposition to benefit the overall retail life industry.
Life Experience Study	A combined ARdata and Beddoes annual study tracking key behavioural data, quantitative and qualitative on key metrics for retail life insurers.
Client Experience Survey	A survey driven platform for advisers and licensees to track client feedback across a wide variety of metrics and benchmarked against their peers.
Most Trusted! Adviser™	The Most Trusted! Adviser™ is a key academic driven designation awarded to advisers who hit minimum benchmarks from the Client Experience Survey.
Data Audit	Data Audit is our data intelligence and cleansing solution. Our technology allows us to dedupe and cleanse multiple files and update against our time-stamped master list. This service draws on our proprietary databases to perform audits and analytics on client databases and information systems for growth or compliance purposes.
Fund flow reporting	An outsourced solution for fund managers for preparation of monthly reporting on financial adviser applications and redemptions through the fund manager's products held on platform or through direct investment off-platform.
CRM management	Provision of expert Salesforce & MS Dynamics support to install, configure, add fields, build dashboards, and upload / download data including monthly fund flow reporting and Nightingale data. Can be provided as a full outsourced solution or to complement / support existing internal resources.
Insights consulting	A partnered solution to empower our clients to make data driven decisions based on data, trends and statistical analysis. We augment existing adviser profiles with scoring mechanisms to address quality and flight risks and future-proof compliance and distribution models.
Find an Adviser	Find an Adviser is Adviser Ratings' white label "Find an Adviser" platform – the design, hosting and data can be served in various forms depending on client's needs.
Research	Market research services comprise the annual Financial Advice Landscape report (sub reports available by subscription) and the complimentary quarterly Musical Chairs report (available for sponsorship). Other data-driven monthly reports on the advice and wealth sector are available on request.
Advertising	Service providers can promote their brand, capability and provide access to unique offerings to advisers through Adviser Ratings various channels including our weekly adviser newsletter, weekly adviser movements video, dedicated solus eDMs, market research and our adviser dashboard.

Adviser Ratings