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Executive summary

- Gatekeepers have huge influence over fund flows, but the research and selection process is largely unregulated, and until the advent of this gatekeeper study, their relative success was shrouded in mystery. This study adds clarity and transparency to the process.
- Assets continue to pour into retail investments. Weak annuity rates and elevated transfer values are fuelling the migration of capital from defined benefit (DB) to personal pension arrangements, where access to that capital is relatively unconstrained.
- The fund management industry and in particular active management and ancillary services, is being increasingly challenged as to the value for money it delivers to investors. The Asset Management Market Study now underpins that challenge.
- A challenge to active management's ability to deliver returns in excess of passive alternatives, also questions the efficacy of fund research. The attempt to identify consistently exceptional returns, if there are none, is pointless. The issue of fund research and investment consultancy being outside the regulator's remit, which we raised last year, is now very much on the regulator's agenda.
- How much gatekeepers control is difficult to state with certainty since they are understandably reluctant to share information on flows. Based on Fundscape's proprietary platform data, we estimate that the various types of gatekeepers (funds of funds, preferential fund deals, shortlists, model portfolios etc) account for circa 70% of all fund flows and in adverse market conditions, even higher.
- Forty-eight fund selectors from four different categories were analysed: D2C buy-lists, adviser buy-lists, ratings agencies and DFM lists. In future editions, we will be expanding our universe of fund lists.
- Gatekeepers were analysed over one, three, five and 10 years. ISA Ltd's Growth portfolio and Bestinvest's Best of Breed were by far the most consistent performers. Bestinvest Best of Breed is first or second across all time periods. ISA Ltd's growth portfolio was first and second for one- and three-year returns and second and third for five- and 10-year returns.
- Using a combination of seven weighted factors (the Fundscape Factors) the gatekeepers were analysed and ranked. On this assessment, the leading three gatekeepers were Bestinvest Best of Breed, Investment Adviser 100 Club and HL Wealth150+.

- Gatekeeper recommendations amount to 32% of the IA universe (1,161 funds). Only 448 funds from the FCA-authorized universe of 5,189 are in the lists.
- The fund group with the most appearances on gatekeeper lists was Fidelity. Its 68 funds were featured a total of 243 times. Schroders was second with 233 appearances, followed by Old Mutual with 162.
- The fund with the most appearances was the First State Asia Pacific Leaders fund with 29 appearances in the 48 lists (up from 27 last time). It was followed by Woodford Equity Income, Fundsmith Equity, Jupiter European and Schroder Tokyo all on 23 picks.
- Using the characteristics identified as important for fund selection in combination with Data Envelopment Analysis (DEA), we produced the Fundscape Frontier Funds list, a list of 99 funds that meet all our criteria and could be featured on gatekeepers' lists.
- There are ten selection factors that fund managers should strive to achieve to improve their selection chances (pg 106). Performance is of course a must and funds should have consistent alpha in the three years before as well as the current year if they want to get selected.
- It may be exceptionally difficult to grow assets to the required £200m minimum, achieve positive net sales and a balanced SPB ratio, but encouraging the sustainable growth of assets is one of the keys to long-term success.
- We expect the AMMS, CP17/18 and the imminent platform market study to have a significant impact on the retail investment industry. We expect legacy, pre-RDR trail payments to be transitioned via a sunset clause, although some managers may terminate payments more quickly.
- We believe the focus on transparency will widen to include relative performances of model portfolios. Fund research will be subject to deeper scrutiny regarding its processes and especially the ex-post performance of its selections. This may require regulatory supervision to ensure that process and performance is communicated adequately.