



Topic: **"Robo advice + Disruption + block chain strategies and other disruption trends"**

sponsored by Onevue

Presenters:

Darlene DeRemer – Chairwoman ARK Investment Management & Managing Partner of
Grail Partners LLC

Toby Potter – Chairman IMAP

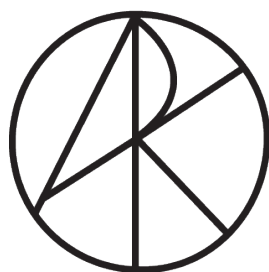
Dan Powell – OneVue Group

25th February 2016



Agenda 25TH Feb

- 10.45am Intro by Dan Powell OneVue Head of Platform Sales & Relationship management
- 10.55am Guest presenter Darlene DeRemer
- 11.35am Questions moderated by Dan
- 11.40am Close Toby Potter Chairman IMAP



ARK
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Trends and Disruptive Forces

Presentation February 2016

arkinvest.com.au



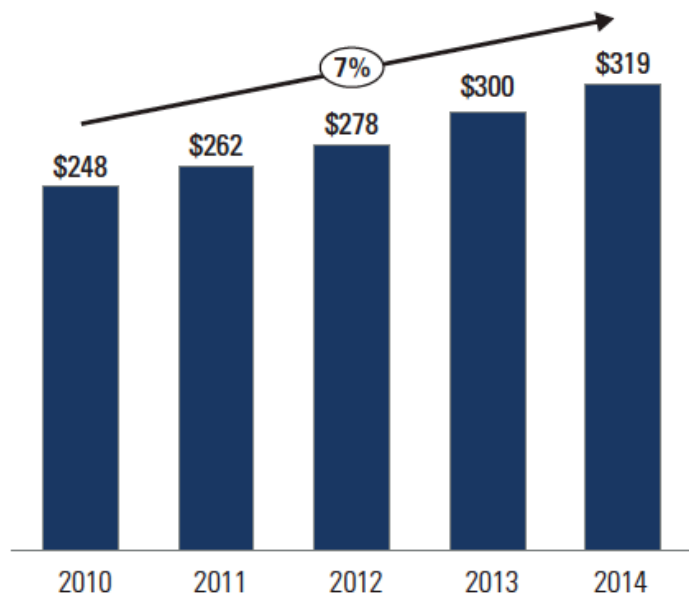
GLOBAL TRENDS

GLOBAL MARKET TRENDS

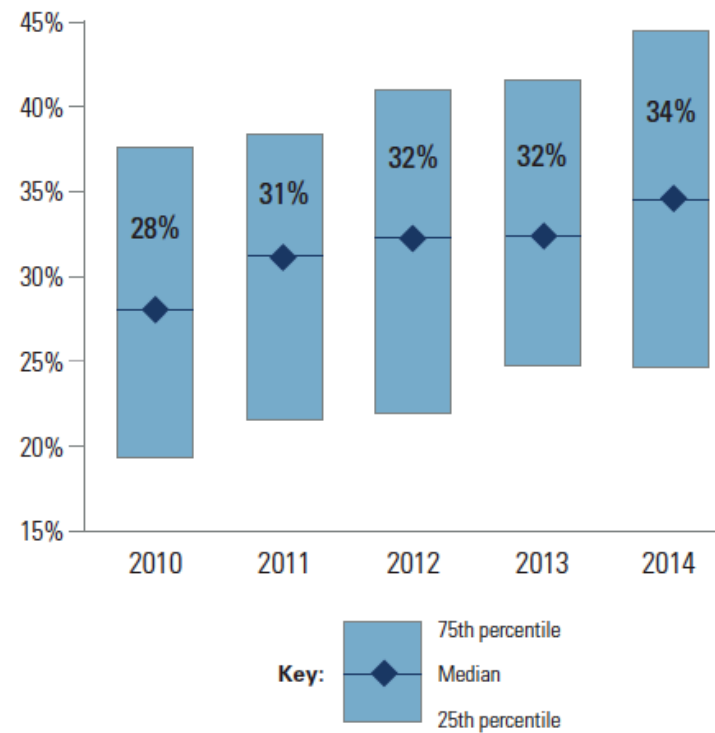


The asset management industry's economics remain highly attractive. Revenues and operating profit margins touched all-time highs.

Global Asset Management Industry Revenues (US\$Billions)



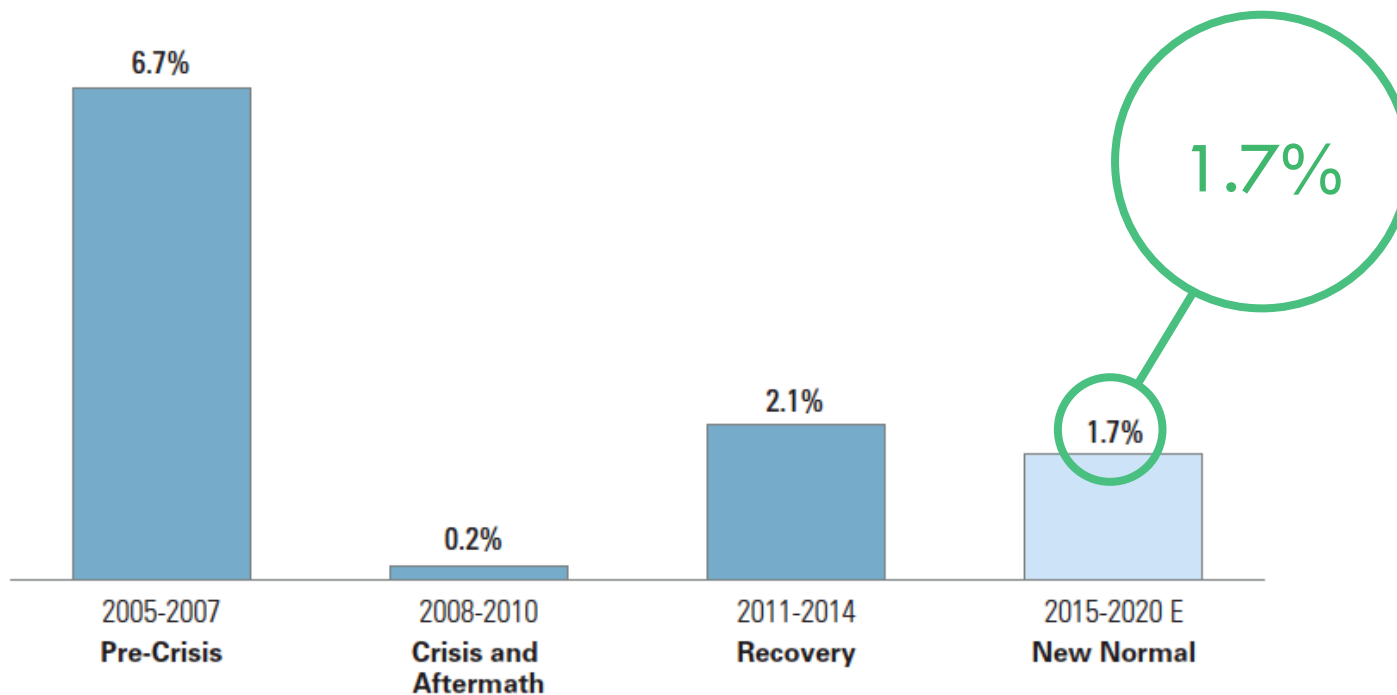
Global Asset Management Industry Operating Profit Margins





GLOBAL GROWTH – REACHING A NEW NORMAL

Global Asset Management Industry Annual Net New Flows Worldwide as % of Beginning of Period AUM



Source: Casey Quirk Global Demand Model



GLOBAL PENSION RETURNS FOR 2015

CANADA	AUSTRALIA	U.S.	JAPAN	U.K.
<p>RETURN</p> <p>6%</p> <p>INFLATION</p> <p>1.4%¹</p> <p>REAL RETURN</p> <p>4.6%</p>	<p>RETURN</p> <p>5.6%</p> <p>INFLATION</p> <p>1.5%²</p> <p>REAL RETURN</p> <p>4.1%</p>	<p>RETURN</p> <p>-.08%</p> <p>INFLATION</p> <p>0.5%¹</p> <p>REAL RETURN</p> <p>-0.6%</p>	<p>RETURN</p> <p><2%</p> <p>INFLATION</p> <p>0.3%¹</p> <p>REAL RETURN</p> <p><1.7%</p>	<p>RETURN</p> <p>0-2%</p> <p>INFLATION</p> <p>0.2%</p> <p>REAL RETURN</p> <p><1.8%</p>

[1] Data as of November [2] Data as of September

Source:





THE SHIFT TO MILLENNIALS

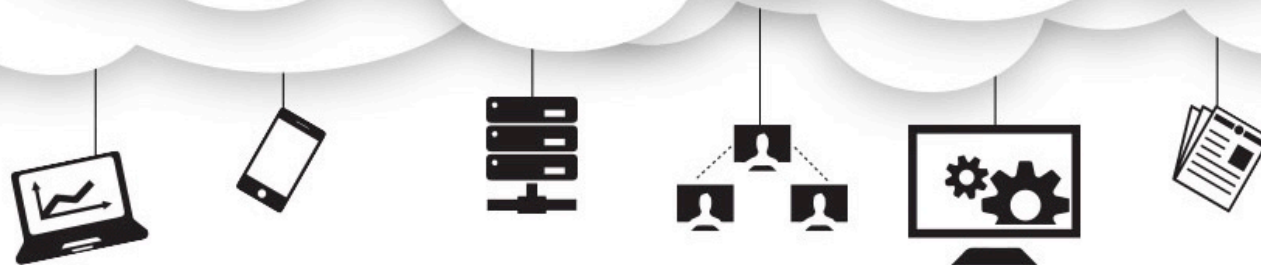
- While in 2014 baby boomers and the silent generation still held over 83% (\$34.5 trillion) of US household investable assets, a large wealth transfer to Gen X and Millennial is in the offing.
- Retiring baby boomer generation increasingly requires income solution.
- Those with at least 2 million in assets comprise only 3% of US households but 52% of total assets.
- Most household wealth is managed, with the majority of assets residing in retirement accounts.
- Growing interest in alternatives
 - Increased appeal for downside protection solutions to affluent sector



THE SHIFT TO TECHNOLOGY

- Relentless consumer adoption of digital platforms is the driving force of a fundamental technological change in the financial industry. (*Appendix A*)
- Cloud platforms and APIs are becoming mainstream. (*Appendix B*)
- Millennials are willing to use digital advisory services.

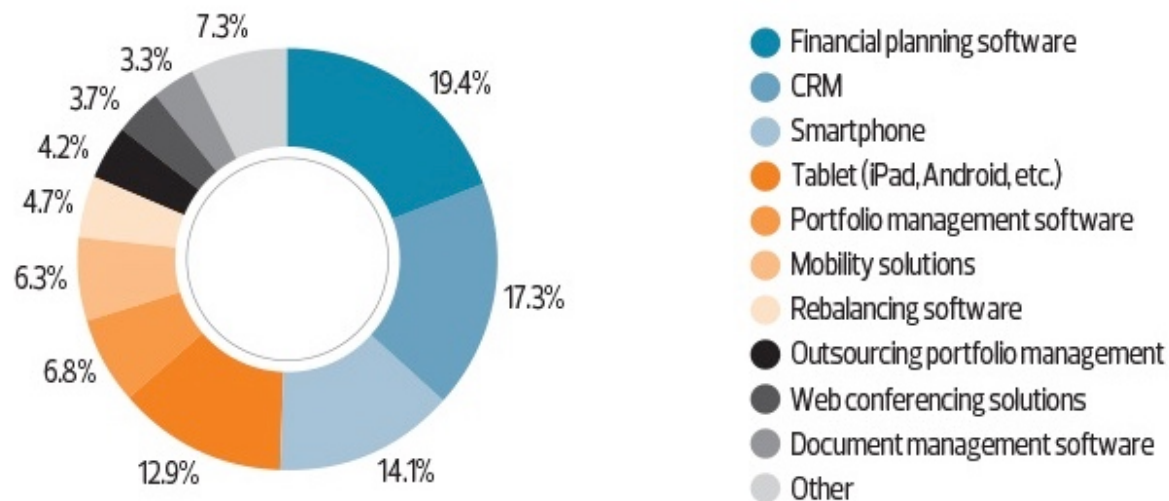
→ Wealth managers must adopt digital advice portals and platform, or risk missing out on practice growth opportunity.





- **New technologies and category entrants are increasing advisor focus on CRM as a means to remain competitive.**
- **58% of financial advisors cite CRM and cloud technologies as having the “greatest impact on business” in 2015**

Which single technology had the greatest impact on business in the past year?



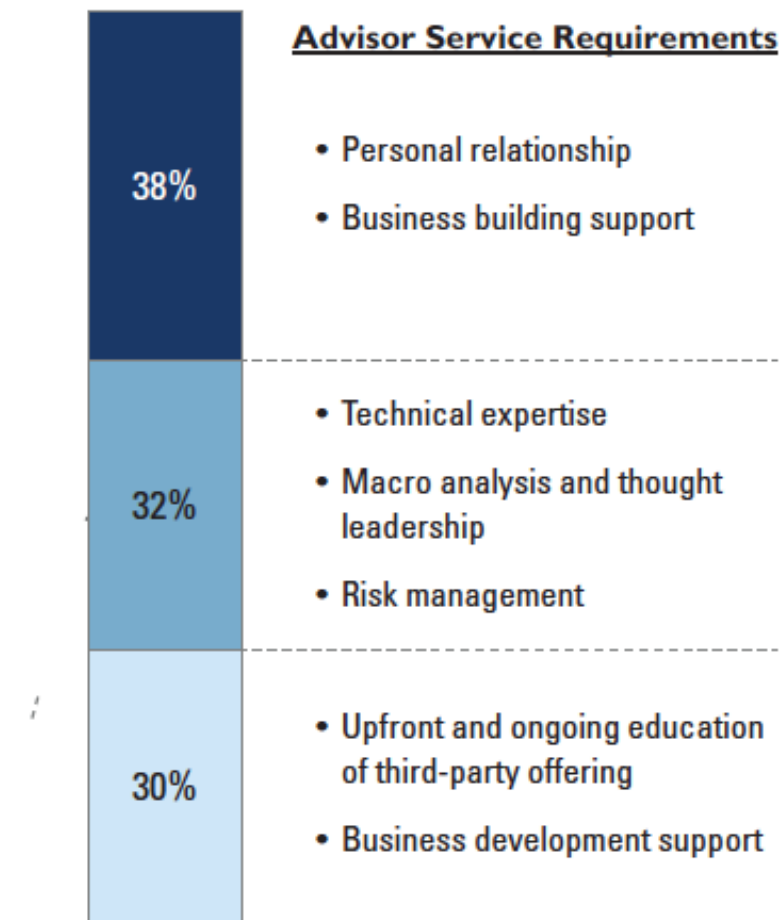


THE SHIFT IN FINANCIAL ADVISORY BUSINESS MODELS

- Ingoing transition from transactional to fee-based
- Advisors going independent
- Proliferation of advisor teams supported by dedicated investment solution analysts
- Advisors increasingly adopting outcome-based approach to product selection
- More complex products and education at point of sale
 - Increasingly consultative/collaborative sales process
(→ ARK Open Source Research and Research Eco-System)
 - Heightened regulatory scrutiny (→ ARK's Full Transparency Approach)
- Collaboration with Robo advisors as a self-directed channel in a bionic environment



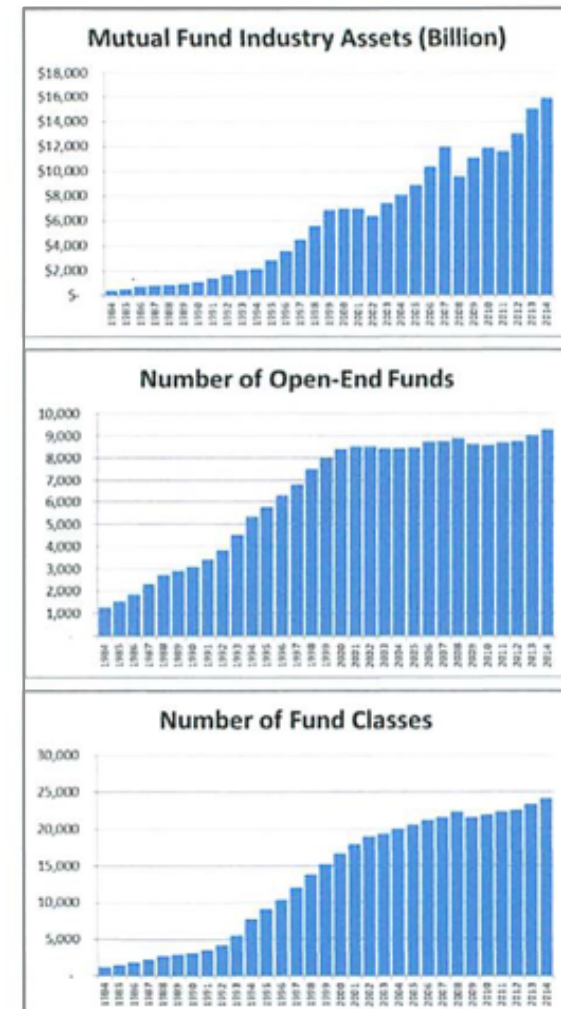
US Financial Advisor AUM by Declared Client Service Model, Today





MUTUAL FUND INDUSTRY TRENDS

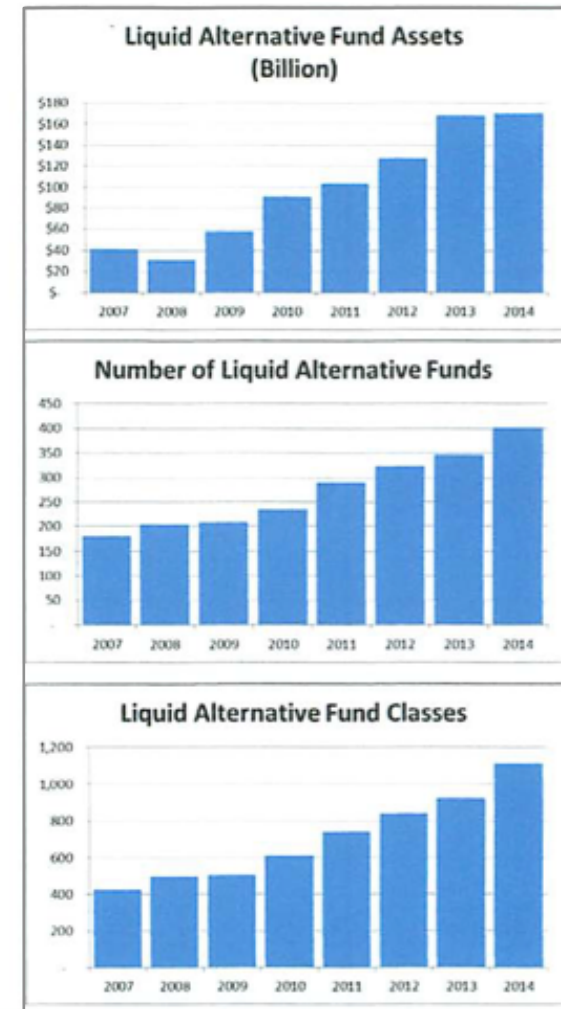
- **Investor Trends:** Continued strong adoption of mutual fund as an investment of choice for both retirement and non-retirement assets
- **Strategy Trends:**
 - Investment strategy migration to complex products, e.g. multi-strategy funds, multi sub-advisors, derivatives, bank loans, credit strategies, etc.
 - Significant migration of assets from actively managed funds to passive index and ETF index funds
 - Liquid alternatives trend continues, although at a slower pace. Many liquid alt funds closed in second half of 2015
- **Regulatory Trends:** Continued increase in regulatory requirements for fund sponsors
- **Concentration Trends:** Largest 25 fund complexes account for 74% of all industry assets, vs. 69% in 200, top 10 complexes account for 55% of all assets (per ICI). Significant scale required to maintain competitive.





MUTUAL FUND INDUSTRY TRENDS – Liquid Alternative Funds

- **Fund Launch Trend:** Liquid alternatives experienced strong growth after the 2007 financial crisis.
 - Strong rise in hedge fund manager expansion into registered products.
 - Strong rise in traditional manager adopting/launching alternative strategy funds as a complement to traditional product lines.
 - Slowing of liquid alternative mutual fund launches in second half of 2015.
- **Asset Trends:** Strong asset flows to multi-strategy and managed futures styles.
- **Performance Trends:** Investor expectation for non-correlated market protection disappointed during 2015 market volatility





MUTUAL FUND INDUSTRY TRENDS – ETF Funds

- **Investor Trends:** Continued popularity of ETFs for institutional investors to participate in, or hedge against, broad market movements.
- **Fund Launch Trends:** Product launches have increased the variety of ETF investment strategies including specific industries, commodities, and domestic sector equities such as natural resource.
- **Asset Trends:** ETF products gain significant asset flows as investors move from actively managed products into passive index ETF.
- **Product Development Trends:**
 - Eaton Vance NextShare non-transparent ETMF product gained SEC effectiveness in December 2015. First launch planned for Q2 2016
 - Precidian on-transparent ETF exemptive relief pending SEC effectiveness
 - ETF Sponsor Trend: The number of ETF sponsors continues to rise significantly
- **Product Fees:** Significant decreases in fund expense ratios for largest players. i.e. iShares cut fees on Core S&P (0.3%)



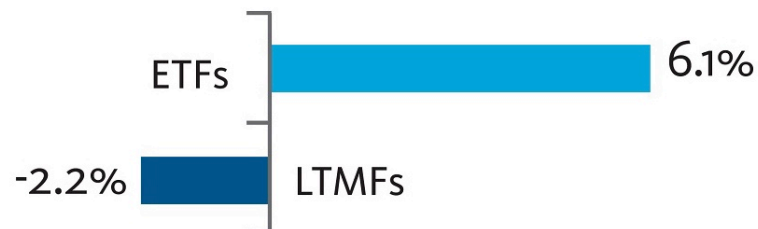


ETF ASSETS vs. MUTUAL FUNDS

Total exchange-traded fund (ETF) assets hit an all-time high of \$2.2 trillion in 2015

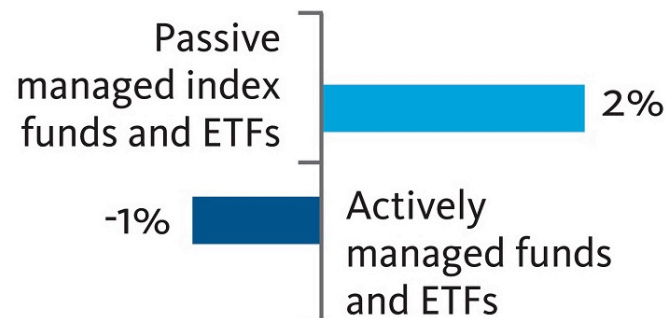
ETFs Grow, LTMFs Decline

Growth in AUM in All
Third-party Channels
Q4 '14 to Q4 '15



Passively Managed Investments Outpace Active

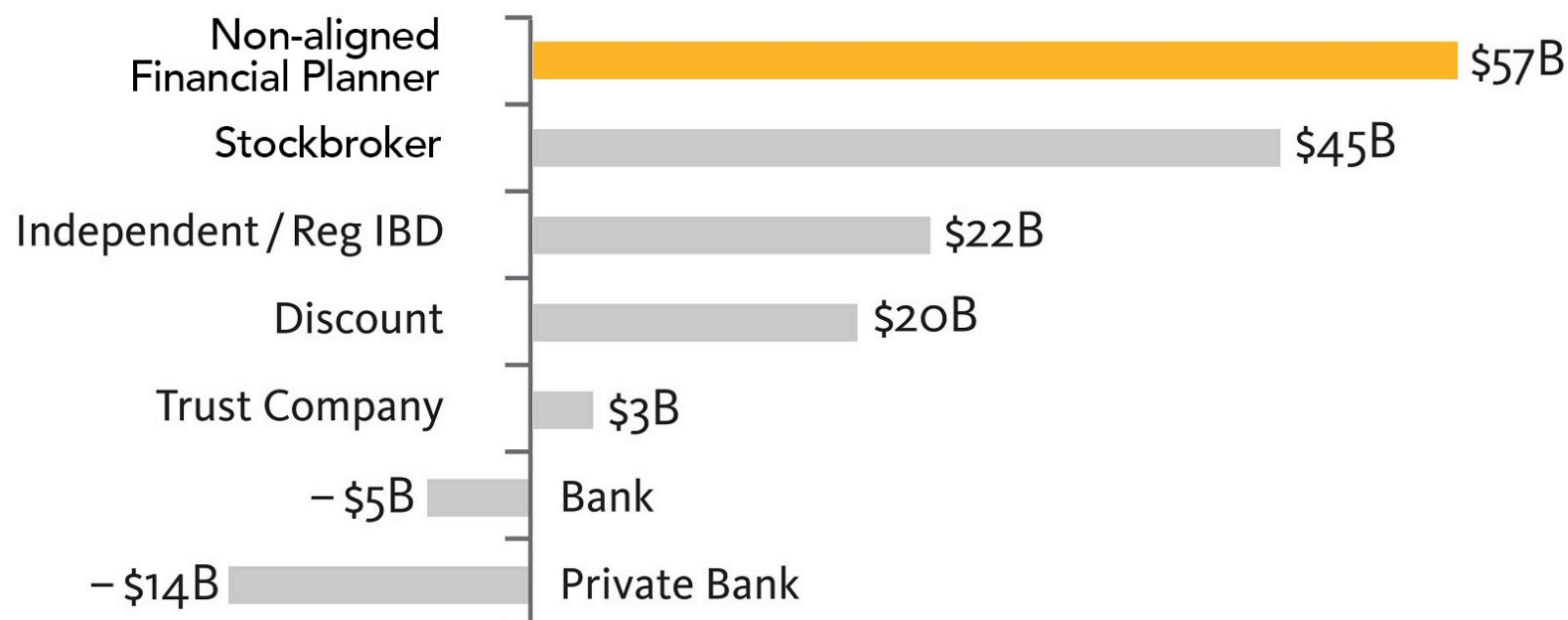
Growth by Asset Type
Q4 '14 to Q4 '15





ETF GROWTH REMAINS STRONG IN THE NON-ALIGNED FINANCIAL PLANNER CHANNEL

Growth in ETF Distribution Q4 '14 to Q4 '15



Source: Broadridge Financial Solutions, Inc. | December 2015

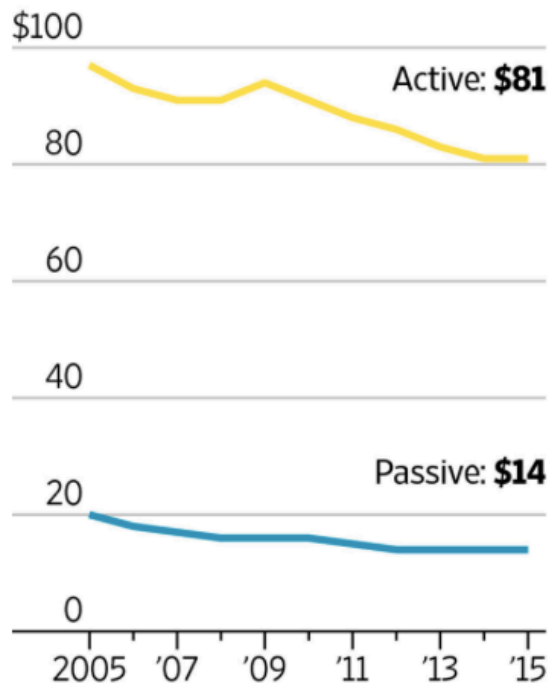
Terminology adjusted for Australia: RIA (Registered Investment Advisor) = Non-aligned Financial Planner | Wirehouse = Stockbroker



FUND FEES ARE TUMBLING – INVESTORS WIN

Gravity

Annual cost per \$10,000 invested at actively and passively managed U.S. stock funds



Source: Morningstar

THE WALL STREET JOURNAL.

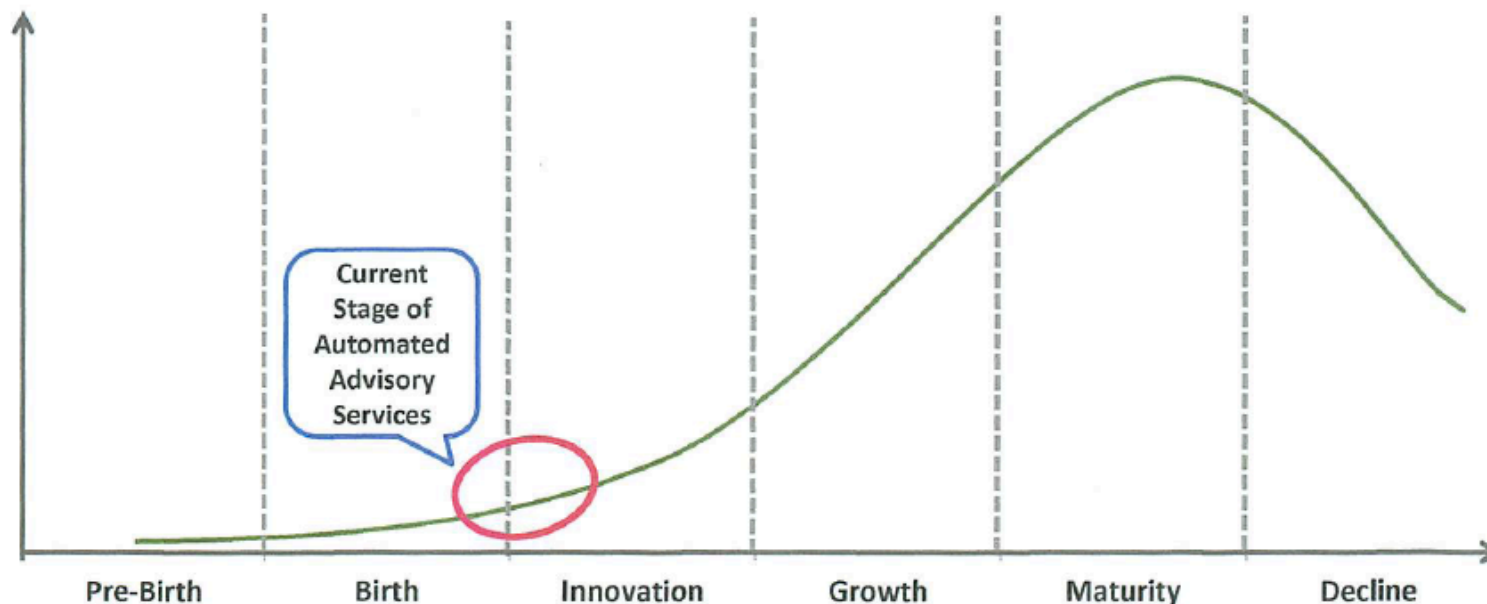
- In November BlackRock announced to cut annual expenses charged to investors in an exchange-traded fund by 50%
- By the end of the day, executives at rival Charles Schwab Corp. had matched the price cut.
- In December, Vanguard Group announced fee cuts of as much as 25% at dozens of its funds.
- Vanguard rolled out a new fund class (Total Stock Market Index and Total Bond Market Index) with operating expenses of 0.01%.





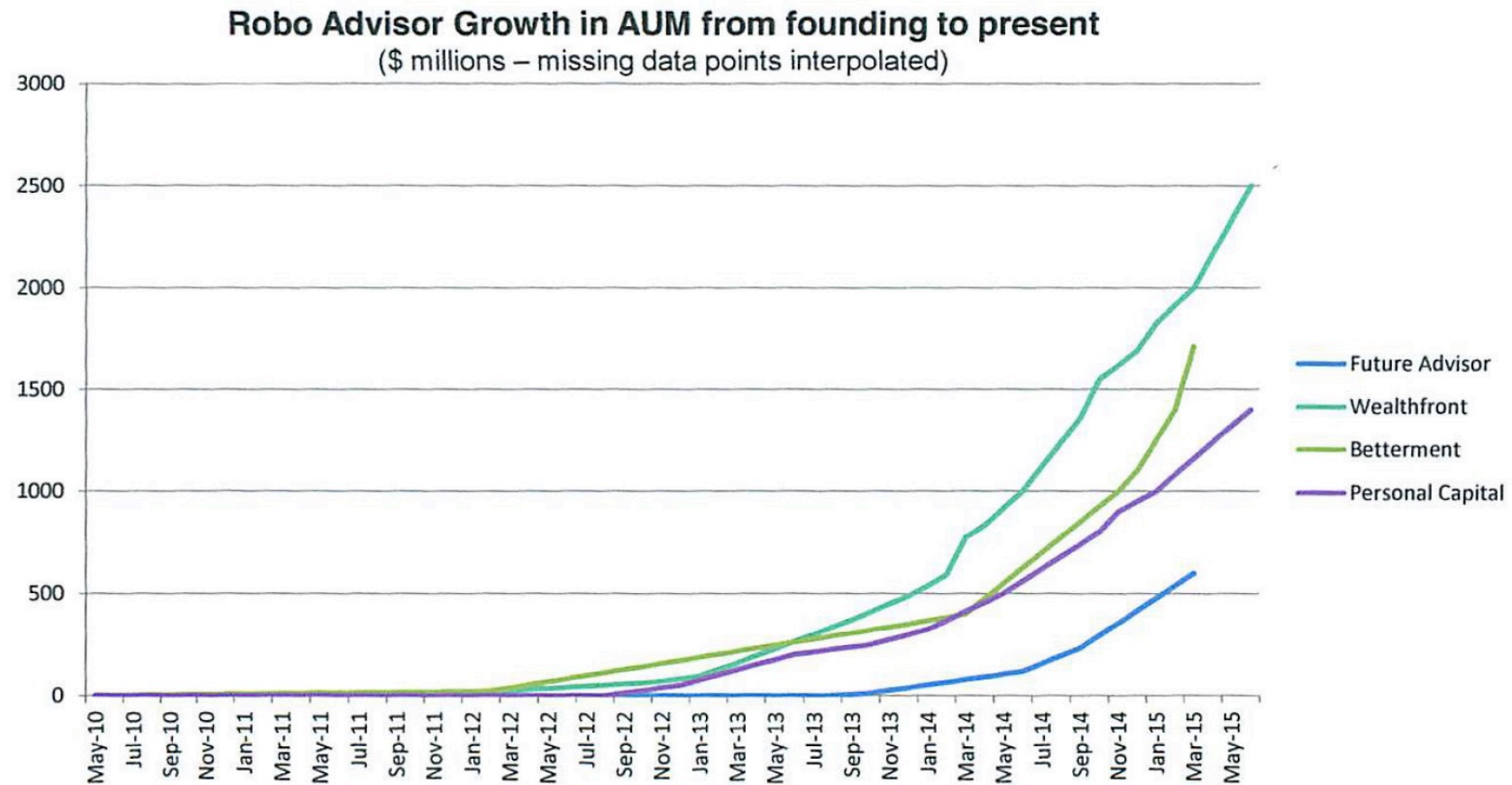
ROBO ADVISORS ON THE RISE

- Currently, only 20% of bank consumers are aware of robo advisors
- Half of those consumers expressed interest in the service
- “Robo Advice” is expected to grow to \$2 trillion in AUM by 2020





RAPID GROWTH FOR ROBO ADVISORS



Source: Company statements and Forms ADV

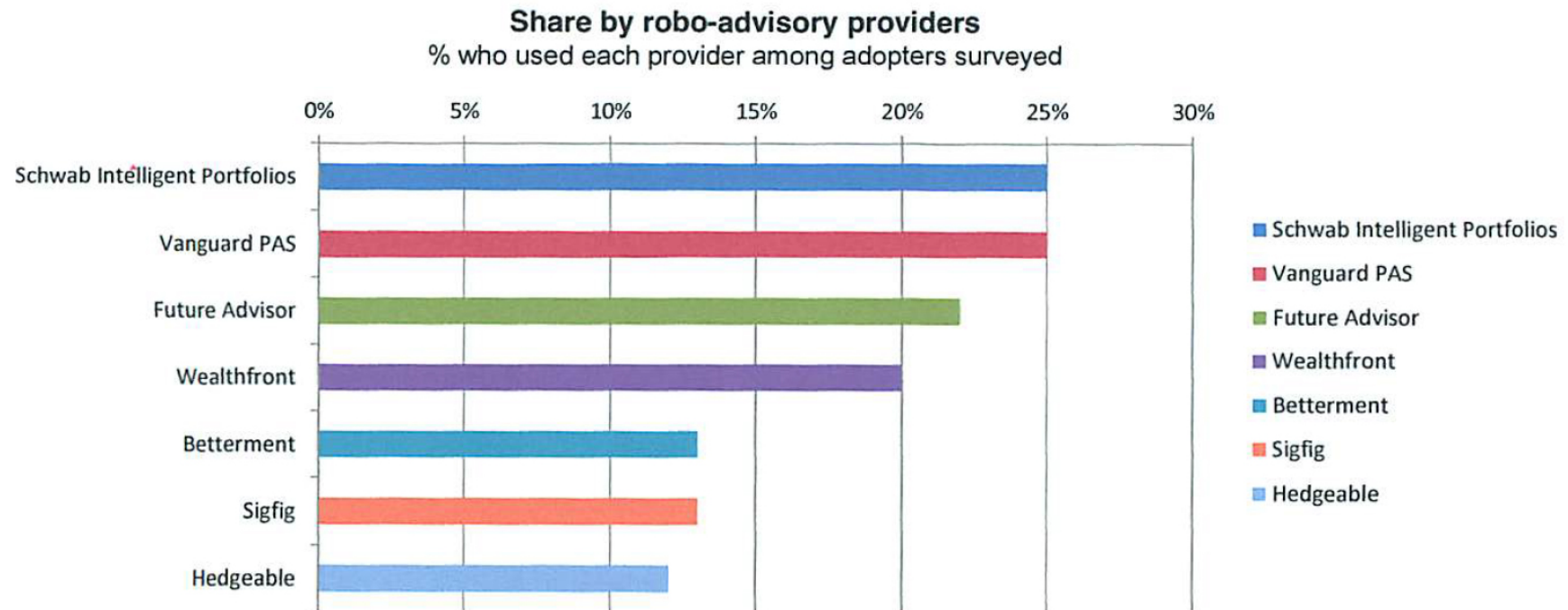


WHO IS USING ROBO ADVISORS?

- 30% of affluent investors use it, with another 22% considering it
- 65% of users of robos have assets with legacy brands such as Fidelity, Vanguard, and Schwab
- 30% use emerging brand such as Betterment and Personal Capital
- 52% of users are GenXers (31%) or Millennials (26%)
- 56% have investable assets over \$100,000



MARKET SHARE

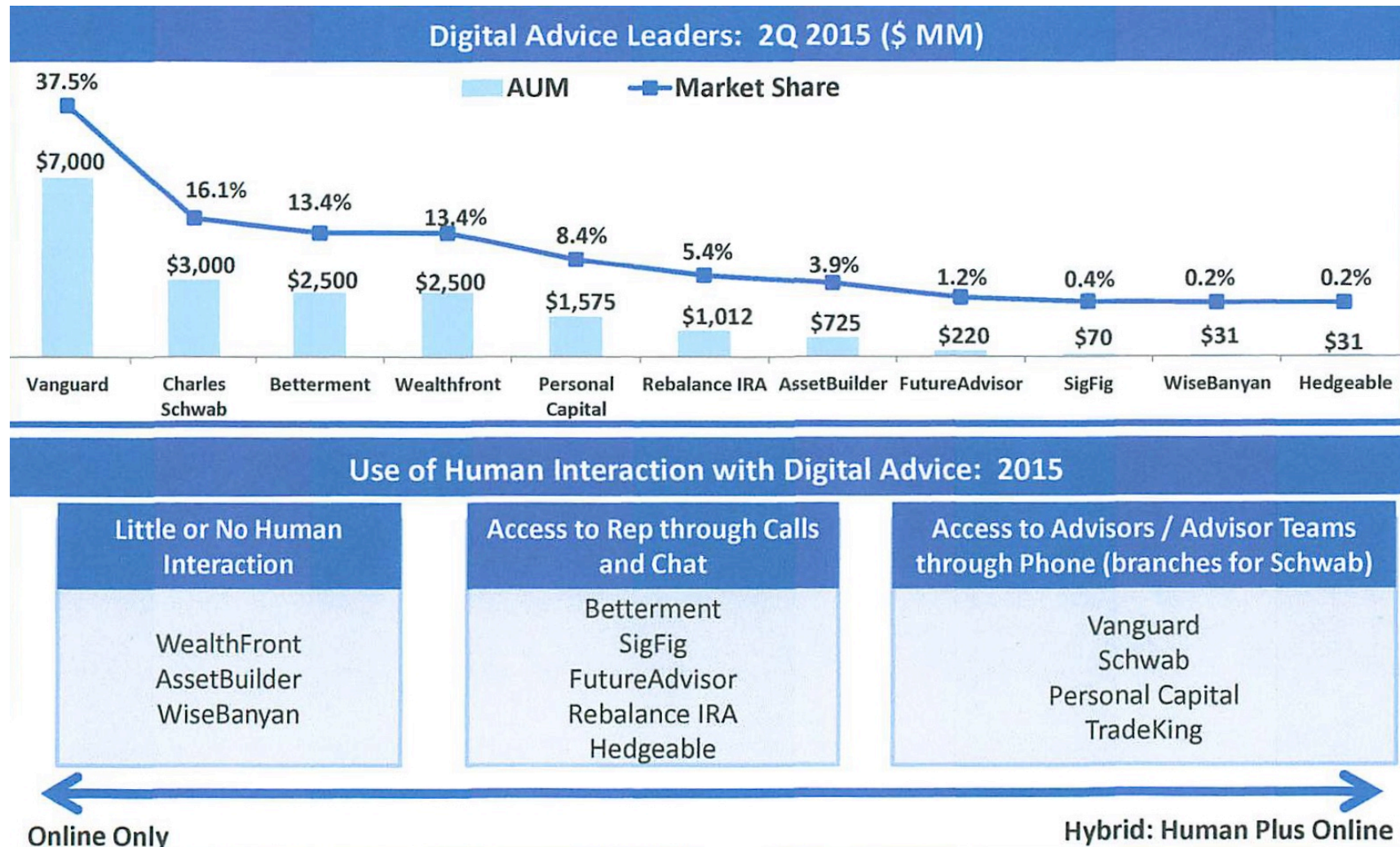


Suggests that **large, branded enterprises** are well positioned to capture share in the market – despite being late to enter

Source: A. T. Kearney, "Hype vs. Reality: The Coming Waves of 'Robo' Adoption, 2015



HOW ROBO ADVISORS COMPARE





HOW TO REACH CUSTOMERS? OR IS SOCIAL MEDIA THE BIGGEST THREAT?

- Modern robo advisors started to target individual investors with large and expensive media campaigns (i.e. Betterment)
- The big players, with an already existing customer base, follow a “if you can’t beat them, join them” strategy, acquiring robo technology or building their own (Schwab, BlackRock, LPL, Vanguard)
- Here comes SNAPCHAT: A Reuters article by Mike Kentz discussed the tech-startups possible entry into the space. While still speculations, social media platforms seem to well positioned to leverage their reach.

