FOR PROFESSIONAL ADVISERS ONLY

QUILTER CHEVIOT INVESTMENT SERVICES VIA A FINANCIAL ADVISER

AGENT AS CLIENT - EXPLAINING FEES

FINANCIAL ADVISER RELIANCE OR THE CLIENT

We are now starting to see the real impacts of MiFID II. There have been a number of pieces highlighting the unintended consequences of the legislation, with the latest coming from the PFS Society and consultancy firm Diminimis. Entitled 'Agent as Client (What You Need to Know)', it's a weighty tome that is nevertheless well worth reading in full. If you don't, the authors have helpfully provided an executive summary on page 36. As shown below:

	Adviser/DIM - Operating Frameworks	
Summary of Issues	**Agent as Client**	**Reliance on Others**
Are you the Financial Adviser, operating on an advisory basis?	No	Yes
Who is "on the hook" if there is a client complaint about the investments?	Adviser for the suitability of the mandate and the investment management to the mandate	Adviser for the suitability of the mandate DIM for the investment management to the mandate
Does the Financial Adviser need to monitor the discretionary manager's individual investment decisions?	Yes	No
What controls and oversight should I have in place?	Sufficient to meet the terms of the agreements I have with my client and the DIM	Enough to make sure the DIM remains fit for purpose
Can the client bring a case with FOS against the DIM?	No	Yes
Do the Financial Adviser's T&Cs with a client need to specifically address a number of issues to allow me to operate under this framework?	Yes	No
Does the end client need to sign the DIM's mandate to give them discretion?	No	Yes

Source: https://www.thepfs.org/media/10122157/agent-as-client-what-you-need-to-know.pdf

OPERATING FRAMEWORK AT QUILTER CHEVIOT

The table below summarises the operating framework where a financial adviser is involved with the provision of the service. At Quilter Cheviot, ordinarily the distribution and service provided will determine if there is a 'reliance on others' or an 'agent as client' model.

Quilter Cheviot doesn't offer its Discretionary Portfolio Service (DPS) on an 'agent as client' basis. For our Discretionary Portfolio Service 'reliance on others' is limited to helping with providing KYC information with Quilter Cheviot retaining the responsibility for assessing the suitability of both the selected mandate and underlying investments.

Our Managed Portfolio Service (MPS) in our nominee is available under the 'reliance on others' model. For our Managed Portfolio Service via a Third Party Platform, as we have no knowledge of, or interaction with, the end client, we operate under an agent as client model; meaning that we treat the adviser as our client from a regulatory perspective.

To help advisers understand the position they and their clients may be in when using (or considering the use of) any of the Quilter Cheviot investment services, we have sought to provide responses to questions which we are frequently asked.

	Quilter Cheviot DPS Service	**Quilter Cheviot MPS in QC Nominee service**	**Quilter Cheviot MPS on Third Party Platform service**
Description of Service	Bespoke portfolios in QC Nominee	Model portfolios in QC Nominee	Model portfolios accessed via third party platforms
Operating framework for Quilter Cheviot Service	Reliance on Others. Ordinarily would include help with providing KYC information	Reliance on Others. Ordinarily the Adviser will make the selection of the investment strategy	Service provided to the adviser firm, who is the client of Quilter Cheviot
Summary of issues			
Who is "on the hook" if there is a client complaint about the investments?	QC take responsibility for ensuring both the mandate and the investments are suitable	Adviser determines the suitability for the investment strategy. QC relies on the Adviser to make this assessment. QC is responsible that the investments meet the strategy	Adviser is responsible for both the suitability of the investment mandate **and** for ensuring investment is properly carried out according to that mandate
Does the Adviser need to monitor the discretionary manager's individual investment decisions?	Adviser does not have to monitor individual investment decisions made by QC	Adviser does not have to monitor individual investment decisions made by QC	Adviser should monitor the individual investment decisions made by QC
What controls and oversight should the adviser have in place?	Adviser has to ensure QC remains a suitable provider of DIM services to their clients	Adviser has to ensure QC remains a suitable provider of DIM services to their clients	Adviser must show oversight of the investment mandates
Can the client bring a case with FOS against the DIM?	If a client raises a complaint against QC and, in their eyes, a satisfactory resolution has not been reached, the client can take the case to the FOS	If a client raises a complaint against QC and, in their eyes, a satisfactory resolution has not been reached, the client can take the case to the FOS	The client cannot bring a case against QC via the FOS and is more likely to rely on their contract with the adviser to pursue remedy via the FOS
Do the Adviser's T&Cs with a client need to specifically address a number of issues to allow me to operate under this framework?	You can rely on your standard advisory arrangement T&C's	You can rely on your standard advisory arrangement T&C's	The adviser terms and conditions must specifically cover the points
Does the end client need to sign the DIM's mandate to give them discretion?	End client signs a client agreement with QC	End client signs a client agreement with QC	End client signs an agreement with the intermediary only

EXPLAINING FEES TO YOUR CLIENT

If you recommend the services of a discretionary fund manager (DFM) to your client, you will need to explain to your client why they are being charged on-going fees.

Our research shows that clients are willing to pay a reasonable amount for services when they add value. We provide a clear and transparent charging structure for our proposition. In the recent 2017 Defaqto DFM Rating, we ranked top quartile in the 'Charging Structure' section. This score contributed to the overall Five Star rating for our Discretionary Portfolio Service (DPS).

This shows that the partnership between financial adviser and DFM can work well for clients.

Here are three steps you can take to help your client understand your ongoing adviser charge on a discretionary managed portfolio.

HERE IS A USEFUL GUIDE TO ASSIST YOU.

1 BE CLEAR FROM THE START

You will need to discuss, document and agree the cost of using a DFM with your client at the outset. This includes explaining the direct DFM charges, as well as your adviser charge. In line with European guidance, you may wish to break down costs in a table format, detailing the DFM annual management fees and charges, and the costs and charges of products. Consider showing some comparisons with other options, including fund of funds offerings.

2 Regular updates

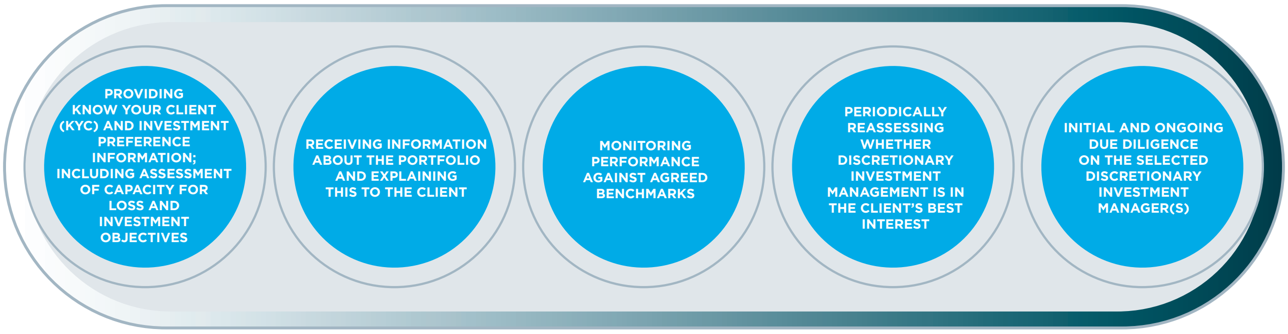
Provide regular statements with your reviews which include breaking down the DFM fee and all third-party investment costs. The actual costs incurred in the DFM portfolio will be shown on our client reporting. This transparent approach will help your client understand the value of the service they receive.

3 Monetary terms

The Financial Conduct Authority (FCA) requires that advisory fees are shown in both percentage and monetary terms. Percentages may confuse some clients who may think fees are lower than they really are.

WHAT SERVICES WARRANT AN ONGOING ADVISER CHARGE?

The FCA has clearly listed some of the services that warrant an ongoing adviser charge:



We work closely with you to get a full understanding of your clients' needs and have developed some questions that will enable you to have a comprehensive discussion about our service with your client. This includes a full explanation of both the costs and the value of our service.

The questions may include:

- Which investment option is appropriate for my clients: bespoke/tailored DFM, DFM managed model portfolios, multi-manager fund or single strategy fund?
- When selecting a DFM, have you considered their reputation, location, investment philosophy and processes, and whether they have in-house financial advisers?
- Do you and your client have direct access to the investment manager or is the investment service provided via a relationship management team?
- What other services does the DFM provide? How much will they help with reporting, account opening and the ongoing monitoring of you clients' investments, over and above the minimum requirements?

The table below shows where the responsibility lies between the discretionary investment manager and the financial adviser for each of the primary types of discretionary managed solutions that can be provided by a DFM.

Responsibilities	Discretionary Portfolio Service	Managed Portfolio Service	Portfolios on third party platforms
Investment management	Investment Manager	Investment Manager	Investment Manager
Suitability of investments to meet mandate	Investment Manager	Investment Manager	Investment Manager
Investment factsheets	N/A	Investment Manager	Investment Manager
Transactions	Investment Manager	Investment Manager	Third Party
Custody	Investment Manager	Investment Manager	Third Party
Provision of valuations, statements and performance reports	Investment Manager	Investment Manager	Third Party
Anti-money laundering checking	Investment Manager	Investment Manager	Financial Adviser
Know Your Client (KYC)	Investment Manager	Financial Adviser	Financial Adviser
Provision of KYC information and investment preferences	Financial Adviser	Financial Adviser	Financial Adviser
Receives information on portfolio	Financial Adviser	Financial Adviser	Financial Adviser
Monitors investment performance	Financial Adviser	Financial Adviser	Financial Adviser
Periodically reassesses use of DFM	Financial Adviser	Financial Adviser	Financial Adviser

Key Investment Manager Financial Adviser Third Party

INTRODUCER OR AGENT?

A further issue to consider is the nature of the relationship between you the financial adviser and the DFM. The financial adviser can act as introducer or agent.

For our Discretionary Service we work with financial advisers on an introducer basis.

WHEN AN ADVISER ACTS AS AN INTRODUCER:

- The financial adviser refers the client to a DFM for the provision of an investment service that supports the financial plan drawn up by the adviser;
- The client signs an investment agreement with the DFM;
- With the help of the financial adviser, the DFM builds up the Know Your Client information together with any individual requirements, tax considerations and assessment of capacity for loss to reach a recommended portfolio for that client;
- The DFM is responsible for the suitability of the investment mandate, investment selections and the suitability of transactions;
- The DFM may rely on the financial adviser for information to keep the DFM updated with any changes in the client's investment objectives, time scales for investment, attitude to risk and financial situation;
- The client benefits from the specialist services of both the financial adviser and the DFM.

As the client has entered into a contract with the DFM, there is no added requirement for the financial adviser to oversee the specific investments or have oversight of custody arrangements; these are delegated to the DFM. The adviser remains responsible for carrying out initial and ongoing due diligence, so as to be able to justify their choice of DFM provider.

WHEN AN ADVISER ACTS AS THEIR CLIENT'S AGENT UNDER MIFID II:

- The DFM may not require the financial adviser to disclose full Know Your Client information;
- The adviser agrees the terms with the DFM on behalf of the client;
- The adviser must take responsibility to ensure their client receives notification of a 10% fall in portfolio valuation by close of business the same day; and
- The adviser must provide the investor protection measures as required under MiFID II, including quarterly reporting, cost and charges and suitability.

There are additional responsibilities that come with being an agent for financial advisers. In practice, this means ensuring the portfolio matches their client's aims and capacity for loss. When acting as the agent of the client, the financial adviser retains a duty of care to ensure the investment portfolio meets the required client outcomes whilst not being able to influence the investments that are selected by the discretionary manager.

Often, in these circumstances, a risk-rated portfolio or one designed to meet a set strategy (e.g. income or growth) is used. The financial adviser is limited to recommending a generic investment solution which may not fit with the client's holistic financial planning needs.

Portfolios managed to a set mandate have limitations, for example:

- An individual's tax is not considered;
- The timing and planning of withdrawals, in line with client needs and market timing, can be difficult in pre-set portfolio structures; and
- The investments can be limited to collectives.

In addition, the financial adviser takes full responsibility to ensure the DFM model used continues to meet the risk categories and client objectives.

This can increase the compliance burden, increase business risk and maybe impact the regulatory permissions of a firm.

This arrangement uses the expertise and service of the investment manager but none of the efficiencies that a division of responsibility can yield. Instead of reducing the workload of a financial adviser, it can add to it.

> *We provide a clear and transparent charging structure for our proposition, free from excessive administration fees.*

If you have any questions or concerns about this or any other aspects of our services for advisers please get in touch with your local Quilter Cheviot Regional Development Manager who will be happy to meet with you to discuss things in more detail.

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Investors should remember that the value of investments, and the income from them, can go down as well as up and that past performance is no guarantee of future returns. You may not recover what you invest.