CFA Institute Calls for Universal Disclosure of Fees and Performance Across Investment Industry; Investor Trust Will Follow, Study Finds

84% of Investors Surveyed Say Trust in Advisers Driven Mostly by Full Disclosure of Fees, Yet only 48% Satisfied with Disclosure

New York, 28 March, 2018 – In a new global survey on the importance of trust in the investment management industry, CFA Institute provides a roadmap for how the investment industry can increase its credibility and allay investor concerns. By adhering to the core tenets of professionalism – putting clients first, being transparent about fees and performance, demonstrating expertise – advisers will earn the trust of their clients.

CFA Institute, the global association of investment professionals, commissioned the survey to help advisers understand the pivotal role that professionalism plays in building trust in client relationships and in the industry overall. As investor expectations continue to rise, the survey finds that the trust equation of credibility and professionalism will acquire even more importance.

The 12-market survey, *The Next Generation of Trust: A Global Survey on the State of Investor Trust*, reveals a significant gap between what more than 3,000 retail investors expect from their financial advisers and how satisfied they are with the relationship. Retail investors believe that financial advisers fall short of meeting expectations the most in the areas of transparency and performance. Investors surveyed say that their trust in advisers is driven by priorities of full disclosure of fees (84% importance), disclosure and management of conflicts of interest (80%), and generating returns better than a benchmark (78%), yet respectively, only 48%, 43%, and 44% of participants say that advisers deliver satisfactorily on these.

Among the more than 800 institutional investors surveyed, the factors that were considered to be most important ranked similarly to retail investors. However, the gap between institutional investors' expectations of and satisfaction with those priorities is much narrower, with less than a 10 percentage point shortfall. Overall, institutional investors surveyed are more satisfied.

"We are pleased that investor trust has increased since 2016. We attribute this to rising levels of professionalism in our industry. CFA charterholders are growing in number around the world and are carrying the message forward: as fiduciaries, as stewards of our clients' money, we must act in their best interests at all times," said Paul Smith, CFA, president and CEO of CFA Institute. "But, there is work still to be done," he added. "Higher trust comes with higher expectations, and we are not there yet until we can consistently prove our value to clients by providing solutions, not simply products. We need universal disclosure of fees and performance to drive home this message."

One example championed by CFA Institute is the Global Investment Performance Standards (GIPS), a set of industry-wide principles that guide investment firms on how to calculate and report their investment results to prospective clients.

The survey findings also uncover characteristics of investor trust in specific scenarios:

Determinants of trust and satisfaction change through the client life cycle.

- Retail investors' trust in an adviser is a significant factor in their decision to hire an adviser, but performance must live up to their expectations if they are to remain in the relationship. While twice as many retail investors place an emphasis on trust over performance in their decisions to hire financial advisers, the survey found that underperformance (57%) and lack of communication or responsiveness (51%) are the reasons they leave a relationship.
- Among institutional investors, the two most important attributes when hiring an asset manager are trust to act in the client's best interest and ability to achieve high returns. This group ranks ability to achieve high returns (24% say it is their top priority) much higher than retail investors do (17%) when choosing to hire an asset manager.

For investors, technology and humans are not interchangeable – so far.

- Investors rely on humans for advice and see technology as a better tool for execution, while the combination of the two can help to build trust. While 72% of investors say they are more likely to trust advice from a human adviser over a robo-adviser, 48% say that in three years it will be more important for them to have technological tools to execute their own strategy rather than a person. Also notable is that interest in technology has increased since 2016 in every market surveyed and among every age group.
- While 40% of investors say that the increased use of technology has also increased their trust in their financial advisers, they are nervous about how vulnerable their data may be to security breaches. For institutional investors, it is the most important factor in building trust with an investment firm: 82% say that having reliable security measures to protect their data is even more important than performance and disclosures.

Standards and professionalism cultivate trust.

- Approximately two-thirds of retail investors and institutional investors (64% and 70% respectively) say it increases their trust when told their investment firm adheres to a voluntary code of conduct for the industry.
- About three-quarters of retail investors and institutional investors say it is important that the firm they work with employs investment professionals with credentials from respected industry organizations.

"These findings provide a roadmap for how our industry can increase its credibility and address investor concerns," said Rebecca Fender, CFA, head of the Future of Finance initiative at CFA Institute, a long-term global effort to shape a trustworthy, forward-thinking investment profession that better serves society. "Trust hinges on professionalism. Advisers need to demonstrate a strong commitment to ethics, expertise, and transparency to win their clients, and create real value for the fees they charge. If one third of investors don't think their adviser puts their interests first, this is a challenge to our industry to do all we can to earn that trust."

Methodology
In collaboration with CFA Institute, Greenwich Associates gathered responses from 3,127 retail investors and 829 institutional investors from Australia, Brazil, Canada, China, France, Germany, Hong Kong, India, Singapore, United Arab Emirates, United Kingdom and United States. The survey was fielded in November and December 2017. Retail investors surveyed were 25 years or older with investible assets of at least US$100,000. Institutional investors surveyed were those responsible for investment decisions at entities with at least $50 million in assets under management, from public and private pension funds, endowments and foundations, insurance companies and sovereign wealth funds. The margin of error for retail investors is +/- 1.9%; the margin of error for institutional investors is +/- 2.1%.

About CFA Institute
CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow. There are more than 150,000 CFA® charterholders worldwide in 165+ countries and regions. CFA Institute has eight offices worldwide and there are 151 local member societies. For more information, visit www.cfainstitute.org or follow us on Twitter at @CFAInstitute and on Facebook.com/CFAInstitute.

###