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PERSPECTIVES FROM FRANKLIN TEMPLETON

Pricing and products: A client-led approach

Manuel Damianakis
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A bottom-up approach to investment management could be the best way for financial advisers and their clients to benefit from the right investment products at the right price.

Investment management has traditionally been a top-down business. Investment managers have designed and built a wide range of investment products to suit different investor preferences and risk appetites.

When it comes to identifying what the end investor desires, financial advisers are a great source of knowledge. By working closely with planning practices, Franklin Templeton is better able to bring products to market that cater specifically to the needs of Australian investors. This bottom-up approach ensures that investor needs are captured in the product design process.

The same goes for pricing. We recently made significant fee reductions across a range of funds after an extensive pricing review. There were three major factors that influenced our decision to lower fees:

1. The growth of managed accounts and centralised portfolio decision making by licensees

As I wrote last month, we are observing a significant shift towards licensees building centralised investment offerings for their clients. We are often selected by consultants and licensees for inclusion in these portfolios. Given the larger scale investments of these groups, we would at times incorporate a discount via a rebate to investors. Rebating fees is often a very cumbersome process and involves more work for fund managers, platforms, licensees and investment consultants. We wanted to reduce this complexity and increase transparency as much as possible. Our new fee structure and the introduction of several managed account share classes will assist this.

2. Moving away from volume-based platform shelf space fees and volume-based licensee partnership programs

These are due to be completely phased out by the end of this year as the FOFA grandfathering provisions will no longer be in place. We have already observed most participants moving ahead of this deadline. The removal of these product-based payments has created some cost savings which we are able to pass directly onto investors.

3. Franklin Templeton's financial strength and scale

We know there is significant competition in the Australian market. We have been here for over thirty years and are committed to continuing to grow our Australian business. The best interest duty reinforces the need for an investment manager's products to stack up on merit. We are confident that our funds do and welcome the opportunity to compete for your recommendations. At a time when several fund managers have closed their doors or are up for sale, we want to let our investors know that we are here for the long haul.

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It is not our intention to be the cheapest manager in the market. There are lots of low-cost ways to access most asset classes in both managed fund and ETF forms. We are committed to active management and delivering better investment outcomes. To do this you need to attract and retain quality talent. A race to the bottom on fees is not a race we want to participate in.

Like you, we are dedicated to delivering exceptional asset management and investment solutions for our clients. While delivering lower fees to your clients is a direct value add, we continue to invest in other areas to support advice practices and investors, for example through our Franklin Templeton Academy Online that offers a range of courses for every facet of your business. We know from your feedback that ongoing education is important and we will continue to invest in providing this to our financial advice partners.

Perhaps I can sum up in the words of Benjamin Franklin, after whom our firm is named, “An investment in knowledge always pays the best interest.”

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