

Various letters sent by Robin Keyte that have been published in the financial press.

LETTERS TO “FINANCIAL ADVISER”

20 October 2005 – Financial Adviser

I was interested to read the comments of IFA Ian Howell of Capital Tower in Norwich. It is always encouraging to hear IFAs waking up to the area of SRI and realising that when asked, many of their clients do indeed want to invest in line with their personal values, so a big well done to him and his firm.

However, there is much more to SRI than meets the eye and his comments that "an investor would heighten their investment risk if they restrict their investment to one particular area" indicates Mr Howell may not yet be aware of the full range of asset classes available through SRI.

Very briefly, there are a number of banks operating along ethical guidelines that offer interest bearing deposit accounts, so cash investors can invest ethically.

There are a number of ethically screened corporate bond funds varying from investment grade to 'strategic bond' (i.e. significant exposure to non-investment grade).

There are commercial property funds run along ethical guidelines.

And finally, as most advisers will know, there are a wide range of equity funds run along ethical guidelines, including UK Growth, UK Income and overseas equities.

So, SRI can be responsibly used for all risk classes of investor. I would encourage any financial adviser wanting to find out more about SRI to read the excellent 4 page overview prepared by the UK Social Investment Forum which can be found at:

<http://www.uksif.org/R/Z/Z/rr/home/main/index.shtml>

Furthermore, for financial advisers who are serious about making SRI a part of their business, I would strongly encourage them to get in touch with the Ethical Investment Association (EIA), a not-for-profit membership organisation designed to train and support financial advisers working in this area.

www.ethicalinvestmnet.org.uk

Robin Keyte

21 July 2005 – Financial Adviser

Am I right in thinking that the purpose of FSA Consultation Paper 05/08 is to invite opinions on whether the provisions in RU64 that supposedly 'restrict' the sales of pensions should be relaxed?

Perhaps I am missing something? Let me put a scenario to you to illustrate my point.

A financial adviser does his product research and finds a pension plan that on NIL commission terms has charges lower than the stakeholder limit, but on FULL commission terms (and generous commissions too) has charges higher than the stakeholder limit.

Received wisdom in financial services at present is that the financial adviser cannot sell that pension to a client as the higher charges mean that it is not 'at least as good as stakeholder'.

My point is, it can be 'at least as good as stakeholder' if it is arranged on NIL commission terms and the client pays for the advice with a fee. The fact that the plan ends up with charges higher than stakeholder is because the client chooses to build the cost of advice into the product charges.

This could be very ably explained and demonstrated in a Suitability Letter, where one of the 'reasons why' stated that the reason for the charges being higher than stakeholder was purely down to the cost of the advice. What could be simpler than that? Where is the restriction to sales?

And yet industry bodies and commentators blame RU64 for the low levels of sales in pensions. I cannot believe that I am the only person who has twigged that RU64 need not be a barrier to selling pensions with charges higher than stakeholder. Perhaps it is something else then. Perhaps under RU64, the above scenario places too great an emphasis on the cost of the advice. Perhaps there is a concern that once clients become more aware of the cost, more will question or reject it.

If that is the case, perhaps this matter is more about a low level of industry wide self-esteem than regulatory updates or consultation papers. If so, what we need is the financial services industry equivalent of Trinny & Susannah!

Robin Keyte

3 February 2005 – Financial Adviser

I was interested to read the letter from Mark Wilkins this week. In it he says that if Citisolutions fails in the UK market "it will become crystal clear to everyone that all future new ideas for the distribution of financial products are doomed to failure."

I disagree. However, for new ideas to be successful, I think they need to offer better value to customers.

Looking at things in a very simplistic way, consider the various parties in each financial services transaction (i.e. client, intermediary, owner of intermediary, product provider, owner of product provider), and look at the relationship of mutual benefit between the parties.

In most cases (except for say stakeholder pensions), informed observers might feel the client does not get a reasonable share of the relationship of mutual benefit at present.

So, how can this be changed?

Looking at a tied agent mutual model, there would be no intermediary and the client would own the product provider. The relationship of mutual benefit is more likely to favour the client here.

Unfortunately, the little matter of mismanagement of With Profits has put a spanner in the works here. But, in principal, a mutual tied agent operation with only unit-linked investment options could be attractive. In short, new distribution ideas with more of a customer focus have every chance of succeeding on a sustainable basis.

Robin Keyte

21 October 2004 – Financial Adviser

I refer to John Clark's letter in your 21 October edition. His comments are thought provoking, and I think he may well be right when he refers to "certain similarities with regard to the demise of the direct sales force rising like an ogre with the IFA industry".

My concerns in this respect are:

- the ability of many IFAs to stick their heads in the ground and put their trust in blind faith that they will somehow always be able to win through
- that some consumers and institutions might actually regard Tesco as a preferable distribution route.

What does that say about how the IFA sector is perceived right now?

Robin Keyte

30 July 2004 – Financial Adviser

I am often interested to read your Mystery Shopper and noted the financial adviser with the worst result of 9/20 (Central Financial Services) was the only one to specifically mention the option of paying off some of the shopper's mortgage.

Given that typical mortgage interest rates are running at between 5% and 6%, any investment of the £30,000 elsewhere would have to generate a net return after tax and charges of at least 6% per annum. The gross return required might be around 8% per annum, requiring a fairly high risk strategy to achieve, which is not what someone recently made redundant would normally want.

Whilst I recognise that the adviser was marked down for not also mentioning the likely need for an instant access cash deposit vehicle, and for other general points such as insincerity in telephone manner, overuse of stock phrases etc, I do nevertheless feel the mark of 9/20 was unfairly low, certainly given Lloyds TSB Private Banking offered no advice whatsoever and got 10/20.

Robin Keyte

20 November 2003 – Financial Adviser

I have just read Terry O'Halloran's letter in your 20 November issue responding to my earlier letter. I agree that protection is an extremely important part of financial planning, and have never made any comment to the contrary.

However, I fundamentally do not agree with the approach of selling protection to a client on the basis that you will terminate your relationship with the client if they do not take it out.

The primary reason for any advisory client to take out a protection policy must be because they understand the need for the protection cover. The failure of advisory clients to understand this indicates that there might be a breakdown in communication between the adviser and the client.

If you improve your client communication skills, your client's will probably value their relationship with you even more than at present, and who knows, you might even benefit from a sustainable increase in your turnover as a result.

Robin Keyte

2 October 2003 – Financial Adviser

I am always interested to read Gill Cardy's column and often agree with many of her comments. However, there are a couple of issues I want to raise with regard to her most recent column titled "Play it straight: fees or commission".

Most fee based advisers give clients the choice of:

- settling fees out of commission
- paying a fee, and arranging transactions on nil commission

However, the settling fees out of commission route does offer several permutations (not mentioned by Ms Cardy) which in my view should always be discussed with clients, such as:

- rebating excess commission back into the policy
- holding the excess commissions on account
- paying excess commission to the client
- paying excess commission to the client's accountant or solicitor (or other third party to whom the client owes fees)

The key here is to ensure the client understands he/she is in a position of choice, and is able to make a rational and informed decision as to how much money should be paid out, and to whom.

The one obvious caveat here is the issue of indemnified commissions. Generally it is not good business practice to pay away excess indemnified commissions, in case a clawback arises later, which you then have to recover from the client by way of a fee invoice.

Turning to the point of holding excess commissions on account, as long as all parties are aware of what is going on, and the client remains in a position of choice, and regular statements of account are issued showing clearly timecosts versus commissions / fees received, then I think this approach is perfectly acceptable.

In practice, some of our more mature clients have elected for excess commissions to be kept on account and used to pay for fee based financial planning work for their children (and sometimes grandchildren).

In my view, keeping excess commissions on account clearly has its uses. However, I would again emphasise the importance that the client remains in a position of choice and all parties are aware of what is going on, and regular statements of account are issued.

Robin Keyte

2 October 2003 – Financial Adviser

I was interested to read Greg Pogonowski's letter in your 2 Oct edition defending Caroline Banks, following Nic Ciccutti's column in your 18 Sep edition. In particular, the issue of debate appears to be the requirement for clients of Ms Banks to have a certain minimum level of protection cover, otherwise she will not retain them as clients.

This reminds me of an old sales trick that some Pearl representatives (and doubtless other tied agents) used to use. They told their clients they will not even consider advising them unless they agree to take out a minimum level of cover.

Commercially I can see it could be a good way of getting in commission income, and ensuring your clients generate a basic minimum amount of revenue.

But is this truly the right way (and a sustainable way) to conduct a client relationship? Surely you would want clients to accept recommendations for protection cover because you have clearly explained to them the need for it, and have ensured that they understand that, NOT because you threaten to terminate your relationship with the client if they do not take out the cover.

Should we really be 'strong-arming' our clients into protection policies. I do not think so, but I suppose it depends upon your perception of your clients and how you should treat them. Do you entice them with a carrot or beat them with a stick. I prefer the former.

Robin Keyte

24 September 2003 – Financial Adviser

I refer to Dr Nash's letter in your 18 September 2003 edition, querying Harry Katz's earlier comments on equity release products.

Whilst I sympathise with the circumstances Dr Nash's client finds himself in, I do think trading down should be considered more seriously as an alternative option to taking out an equity release product. The glib comments "should I advise him to move downmarket and line the pockets of an estate agent, pay stamp duty and other associated costs" does not justify the removal of trading down as an option.

Indeed, it would probably be a helpful exercise to Dr Nash's client if those costs were quantified, and compared to the costs associated with the equity release product, over say 1, 5 and 10 years.

Whilst there may be a growing demand for equity release products at the present time, it is my view (and evidently the view of a number of other advisers) that in their current form, they offer clients poor value for money. I can only hope that one or more product providers will take the market by the scruff of the neck by innovating a new product offering better value.

Robin Keyte

23 May 2003 – Financial Adviser

I was very interested to note the proposed executive pay deals for GlaxoSmithKline (GSK) were rejected by shareholders at the company's annual general meeting. Indeed, this shareholder revolt made headline news and caused much satisfaction for many investors and the public in general.

In this respect, I wonder how many advisers are aware that Friends Provident / ISIS and Norwich Union / Morley elected to vote against the fat cat pay deals, using the voting rights associated with most, if not every holding of GSK shares across all of their investment funds, including their mainstream investment funds as well as their ethical / socially responsible investment funds.

This creates a very interesting situation, of which we should make clients aware. The next time you recommend a mainstream investment to a client (i.e. not an ethical / socially responsible investment fund), do you propose an asset manager that supports unreasonable fat cat pay deals, or one that does not?

I would be willing to bet that over 50% of the advisory clients in the UK would prefer an asset manager that DOES NOT support unreasonable fat cat pay deals. At the very least, we should raise this issue with our clients.

If the client is against fat cat pay deals, then in order to meet their objectives / requirements, a recommendation should be made in favour of Friends Provident / ISIS or Norwich Union / Morley, or any other product provider that takes such a stance.

Robin Keyte

1 May 2003 – Financial Adviser

I was interested to read Ian Bell's letter on Prudential in your 1 May edition. Whilst I agree with most of his points, I am not sure I follow the reasoning that Prudential might be financially unstable.

If you ever come across a Prudential Executive Pension Plan from the early 1990s, you will find the plan has hefty transfer values. If you try to negotiate terms to reduce these, for instance, by transferring to a modern, lower charging Prudential plan, you will probably be told there is no way the terms will be reduced.

As a very general comment, Prudential's stubborn approach is different to that of many other insurers, who might be more sympathetic with the IFA. Indeed, in the past, one wonders where the other insurers find the money to enhance terms (With Profit free assets, With Profit inherited estate etc?). Doubtless it is the same place they find stakeholder commissions, and that now there is very much less money than before.

Whilst most IFAs would not appreciate Prudential's approach, it does appear to indicate that Prudential places more emphasis on prudence than perhaps some other insurers, albeit at a risk of disenchanting the IFA sector. Ironically, the conclusion that might be drawn is that whilst Prudential may not be the most supportive of the IFA sector, they are probably a safer place to invest money than many other insurers. Some evidence of this is their credit rating. Whilst it has dropped to AA, it still represents much financial strength in such difficult times.

Despite the way it sounds, it was not my intention to write a letter in support of Prudential.

The issue I wanted to raise relates to the substantial and welcome support provided to the IFA sector by many other insurers. Given the general downward pressure on product charges, the poor economic situation and the low investment markets, for how long do insurers (& IFAs) believe this can be sustained based on existing product terms and commission levels?

Robin Keyte

27 March 2003 – Financial Adviser

I was interested to read the letter published on 27 March 2003 on the subject of the high failure rate for the G60 exam. I have passed a number of exams, including the G60, and have heard mixed responses from candidates to the CII study texts.

However, the CII texts are not the only ones available. I know of at least one other firm (BPP publishing) that provides study texts, which I personally have found very effective.

It would be interesting to know the ratio of passes / failures for candidates using the CII and BPP texts. Strong competition would certainly be a good motive for CII to review and improve their study texts.

However, I also think that as candidates, we have a duty to ourselves to source what we believe are the most effective study texts. After all, it would not take much research to reveal that the CII is not the only provider of study texts.

In this respect, to complain that examination failure is purely due to a poor study text might be regarded by some as simply whingeing. Do not forget, this is the matter of OUR OWN personal development, so we should take full responsibility for it.

Robin Keyte

13 March 2003 – Financial Adviser

I was very interested to read the reported comments of Robin Bone, an investment analyst with the David Aaron partnership, on the subject of ethical pension investments. Apparently, Mr Bone has never recommended an ethical pension fund in his seven years of advising clients.

Without knowing how many clients Mr Bone has advised over the last seven years on pension related matters, it is difficult to draw much of a conclusion from this comment. However, I feel the underlying sentiment is symptomatic of the IFA sector in general. In this respect, the following comments are not at all intended to be directed at Mr Bone, but are just a broad observation of the IFA sector.

The impression I get is that most IFAs regard ethical investments as a niche area that is not suitable for the majority, if not all of their clients. That is fine, as IFAs, like everyone else, are certainly entitled to their own opinions.

However, we must be very careful not to force our own opinions onto our clients.

The 'know your client' principle sits at the heart of the financial advisory process. At the very least, when factfinding, we should ask clients the one simple question: "do you want any ethical considerations to be taken into account in any investment advice?" If the question is not asked, then we are failing in our duty to the client under the 'know your client' principle.

If the client says YES, then we need to enquire further as to precisely what their ethical concerns are, so that a match can be made with a suitable ethical fund. Again, if we do not enquire further, then we are failing in our duty to the client under the 'know your client' principle.

Also, a suitable ethical fund does not have to be an equity fund. There are ethical managed and bond funds available, so it is possible to cater for many different levels of investment risk.

Hopefully, over time, more and more IFAs will begin to realise that ethical investment is just another part of mainstream investment advice, rather than some specialist niche.

Robin Keyte

13 December 2002 – Financial Adviser

Whilst the source of Equitable Life's woes is behaviour that could be described as far from exemplary, I cannot help but note that the organisations that are repeatedly attacking the beleaguered insurer might not exactly be whiter than white either.

What are the possible motives for such behaviour?

With regard to Equitable Life pensions, the acquisition of new pension transfer, income drawdown or annuity business. The related commissions are very attractive.

What would happen if Equitable Life went bust?

It seems the Financial Services Compensation Scheme would arrange the transfer of policies to another provider that was willing to accept those policies at that time. There does not appear to be a precedent for this at present, but presumably an application to the courts would be required before the transfer of policies to a new provider goes ahead.

At this stage, any policyholder / group of policyholders might be able to raise objections or queries.

One might therefore imagine that any affinity group acting on behalf of a large number of Equitable Life policyholders could raise objections and request that the funds in respect of their affinity scheme members are transferred into an arrangement that they have already negotiated. The related commissions here could be very substantial indeed, and depending on the number of affinity scheme members, and the size of their funds, might well run into 7 figures.

Could it really be that certain organisations are making a concerted effort to force Equitable Life under, in the hope that they would get a significant proportion of the bulk transfer business that would arise via the FSCS. It takes a lot of imagination to even dream that this might happen. But if it did, would it be the biggest churn in history?

Robin Keyte

25 October 2002 – Financial Adviser

I read Gill Cardy's column with interest in your edition dated 24 October 2002. In particular, one sentence on IFA earnings rang a chord with me, and I quote: "It is my clients who let me earn what I earn, not product providers, or the government, because I offer a service clients want at a price they are prepared to pay."

It seems to me that at the present time, most IFAs are heavily dependent upon product providers for their income (i.e. commission) and also for compliance / sales support (i.e. sample reason why letters, training seminars etc).

However, if you imagine the scenario whereby the majority of IFAs have higher levels of qualifications (i.e. AFPC and above), and most important of all, offer an ongoing service of genuine value and benefit to clients, it is probably true to say that most clients would be prepared to pay a fee, in the same way that they would for an accountant.

Most IFAs would therefore no longer be dependent on product providers for their income (as is clearly the case for Ms Cardy).

Furthermore, as IFAs would have a higher level of technical knowledge, and also a higher level of competence (though the two do not always go together), there would be less of a need to rely on product providers for compliance / sales support.

In this hypothetical model, the reliance of IFAs on product providers would more or less be broken.

For those IFAs who think this is "pie in the sky", it may well be, but consider this, there would be massive benefits that would follow in the form of reduced regulation, and very probably, an associated reduction in Professional Indemnity Insurance premiums.

If this, or something similar to this, is the "vision thang" that Nic Cicutti was writing about, what I want to know is, given the demographics of our industry, how on earth are we going to get there?

Robin Keyte

15 October 2002 – Financial Adviser

Nic Cicutti's column in your 10 October 2002 edition was as thought-provoking as ever. He has echoed a common theme that IFAs must develop from "semi-skilled salesmen" into "true professionals". To do this, he suggests that a "vision thang" is required, to encourage IFAs to strive for self-improvement and achieve this goal of professionalism in 10 years, or maybe 20 years time.

All of this is very good, and no doubt clients and regulators would thoroughly approve. The one huge stumbling block is that the majority of financial advisers are probably less than 10 years from retirement.

What incentive is there for them to put in large amounts of effort over the next 5 to 10 years (i.e. personal development, AFPC exams etc), to reach that pinnacle of professionalism, and then retire? Given the current climate, they are far more likely to be focussing on building their retirement funds.

Whilst this demographic hurdle exists, it is difficult to see how the industry can develop into a profession. However, I would be very interested to hear Mr Cicutti's views on this.

Robin Keyte

LETTERS TO “MONEY MARKETING”

28 September 2006 – Money Marketing

The wrap round table discussions in your 21 September 2006 edition have been thought provoking.

As attractive and flashy as wrap services might appear to be, how do they match up with client demands?

Might it be the case that for 95% of clients, a wrap will far exceed their demands (how many clients regularly check their portfolio over the internet)?

If most clients do not actually need or want all the extra bells and whistles, then whose benefit are they for, and are they worth the extra cost?

Any advisers with a well established client bank and regular stream of renewal commissions may well find that when they do their sums, it is cheaper to do without a wrap service and instead employ a dedicated administrator on a standard salary package.

Wrap service charges are not yet low enough to be attractive for that category of adviser.

Of course for the one man band with a fairly small portfolio of clients I can see a wrap service can be essential.

However I am far from persuaded that they are yet of real value to many others.

Regards,

Robin Keyte

9 March 2006 – Money Marketing

I refer to the article in your 2 March edition reporting the differences of opinion between ABI and Which?.

This may sound odd coming from an IFA but I am entirely in support of Mick McAteer and Which? on these issues.

The culture in financial services that has been developed by product providers remains one of commission based sales despite the best efforts of depolarisation, offering the fee option has done little to change this.

In my view, product providers continue to nurture an overly strong relationship of mutual benefit with intermediaries, at the cost of consumers.

Product providers encourage intermediary aspirations to generate high levels of earnings and become successful and wealthy. Those aspirations are fed and supported by commissions and technical support and servicing etc

As a consequence, intermediaries place too much emphasis on turnover generation and not enough emphasis on the best interest of their customers.

So, thank goodness for Mick and his colleagues at Which? who help to redress the balance and remind product providers and intermediaries that they should be thinking more about their customers.

My plea to intermediaries, positive aspirations are good to have, but not if they lead to your customers being disadvantaged.

Strike a balance between achieving your aspirations and looking after your customers' best interests, and you might find you start treating customers fairly.

Robin Keyte

14 July 2005 – Money Marketing

Nicola York's article in your 14 July edition on Newham property prices has interestingly scratched the surface of what is probably a far more interesting story for Money Marketing.

Newham has a very high number of owner occupiers on benefits, which means that many people who own their own home in Newham do not have the income to maintain it. These same people have poor levels of financial literacy and capability.

The logical response from financial services is 'equity release', however given the above there is a very real risk that these people will be vulnerable to the misselling of equity release. Hence there is a view held in Newham that retail equity release products do not actually meet the specific needs of many of the people in Newham (i.e. there is substantial unmet demand).

As a result the London Rebuilding Society (www.londonrebuilding.com/ an east end Community Development Finance Institution) is developing a more socially responsible approach to equity release, where the CDFI acts as provider and is in partnership with the homeowner.

This is radically different to the normal approach of setting out to profit from the sale of a product to a homeowner. What is more, CDFIs do not have shareholders, so the relationship of mutual benefit with customers is much more even.

Given that the product design process is coming from this place, the way the product is shaping up looks to be very innovative and far more fair to customers.

I would suggest that Nicola York, or any other interested colleagues that wish to pursue this story, get in touch with Warren Garrett (020 7682 1666) at the London Rebuilding Society, who will be happy to converse with them.

Robin Keyte

7 August 2003 – Money Marketing

The letter titled "Lemming firms are leaping off the 1% cliff" from "non-churning IFA" in your 7 August edition struck a chord with me. I expect that most of your readers will know of at least one adviser that has been churning in the 1% world.

Presumably most product providers have been funding such behaviour from their With Profit reserves, which must now be all but depleted. Why insurers have indulged some advisers in this way is difficult to fathom? It is an extremely expensive way of increasing market share. However, what is certain is that after 3 years of losses in the share markets, this approach has become unsustainable (that is if it wasn't already unsustainable before).

It is a great shame. Although many financial advisers complain that they do not do very well out of it, the 1% world does represent incredibly good value for most investors.

I sincerely hope that product providers will take positive action on this, and revoke the Terms of Business that they hold with firms / individuals that have a consistent record of churning.

With the development of the FSA Business Ethics Forum, it may well be that in years to come, an advisory firm that practices poor business ethics will have trouble getting Terms of Business with most product providers. It would certainly be one way of cleaning up the industry.

Robin Keyte

LETTER TO “PROFESSIONAL PENSIONS”

27 August 2003 – Professional Pensions

Your edition of 21 August 2003 had a good article about SRI on page 12. The article provided evidence that adopting a SRI approach need not mean losing out on investment performance. Indeed, it is becoming more and more apparent that SRI funds in general perform just like most other funds.

However, one thing struck me as being very odd, which was the comment of Mercer global head of research Bill Muysken; "SRI managers can end up almost anywhere. Now and again, one will be at the top and another will be at the bottom. And if you look at this table, there is one near the bottom."

Surely non-SRI managers also end up "almost anywhere". The observation that some SRI funds do well, and some do badly, also rings true for non-SRI funds. The implication is that Mr Muysken has a preconceived view of what a SRI fund is, and that it is substantially different to a non-SRI fund. This I believe is wrong.

Every active fund manager applies a number of different criteria in their stock-picking process (i.e. earnings per share, dividend cover, interest cover, current ratio, quick ratio etc). SRI funds just add one or two more layers of criteria to the above. As far as I am concerned, the sooner investment professionals get over their misconceptions surrounding SRI funds, the better.

Robin Keyte

LETTERS TO “INVESTMENT ADVISER”

22 September 2003 - Investment Adviser

I refer to Mark Dampier's column in your 22 September 2003 edition, looking at the ISIS European Prime and European funds. Despite the column being around 500 words long, Mr Dampier has made no reference to Responsible Engagement Overlay (REO).

Let me make it clear that I have a great deal of respect for Mr Dampier, who is without doubt one of the best informed and most widely read investment professionals in the UK today. That said, I do feel it was remiss of him not to make any comment (positive or negative) on REO, and I endeavour to inform your readers more fully on the matter.

In my view, REO is another reason why many investors should invest in the ISIS European fund, instead of using Fidelity, Gartmore etc. REO uses the voting rights on shares held in most ISIS and Friends Provident funds to encourage higher standards of Corporate Social Responsibility in companies. In particular, areas of interest include corporate governance & voting, corporate social responsibility & governance, human rights, labour standards, management & reporting, forestry, climate change, bribery & corruption.

A simple example of REO in action is the shareholder revolt against the proposed fat cat pay deals at GlaxoSmithKline. If you ask your clients about this sort of thing, you will be surprised at how interested they will be.

By comparison, most fund managers take no such stance with the voting rights on the (often substantial) holdings of shares in their funds. In my view, this is not best practice and is akin to fund managers falling asleep on the job. If nothing else, REO, and similar initiatives run by other fund managers, can act as a form of regulation on companies. Such regulation could go a long way to preventing future Enron type scandals in the future.

Let us be clear, REO does NOT affect the stock picking process. Companies are NOT 'screened out' because they are involved with pornography or other vices. REO is simply the usage of shareholder voting rights on the holdings in the fund.

It is my view, and I believe the view of most investors, that REO supports the case for investing in ISIS European instead of the European funds of many other investment managers.

Robin Keyte

14 April 2003 - Investment Adviser

I thank Mr Milton for taking the trouble to respond to my letter in writing. I endorse the comments in the last paragraph of his letter completely, and am glad that we have some common ground (as well as a liking for whisky).

However, I think it is a great shame that he is stumbling over the connotations that he derives from the word ethical. Perhaps he might find the term "socially responsible investment" more palatable. Indeed, there is some debate at present over whether socially responsible investment should be used (instead of ethical investment) to describe this sector.

Whatever the outcome of the debate, these are just words. The single most important thing remains our clients' views and fulfilling the 'know your client' requirements. I believe all advisers should ask their clients whether they want ethical considerations to be taken into account in any investment advice.

Once that is done, advisers are perfectly entitled to advise their clients to steer clear of ethical / socially responsible investment funds, if they feel that is the best advice, I have no problem with that at all.

However, I do have a problem with cutting that loop out of the advice process (i.e. not even asking the ethical / socially responsible investment question in the factfind), as it presumes the adviser knows best for the client, without even fully knowing the client.

Regards,

Robin Keyte

12 March 2003 - Investment Adviser

Let me begin by saying how good I think it is that Investment Adviser recognises the importance of publishing the views expressed on this topic by both Jeremy Newbegin and Philip Milton.

A couple of points come to mind regarding Philip Milton's letter.

He uses the term 'deselective' to describe ethical funds, on the basis that they exclude shares in certain companies. Surely, using this logic, any fund that is not a tracker, or 'closet tracker', is deselective.

Every active fund manager applies a number of different criteria in their stock-picking process (i.e. earnings per share, dividend cover, interest cover, current ratio, quick ratio etc). Ethical investment is simply just the addition of one or two more layers of criteria to the above.

Philip Milton also gives us the benefit of his own view on the matter. However, we must be very careful not to foist our own views on our clients, as it is our clients views, towards ethical investment or whatever else, that we should always place first.

This is a fundamental principle of our regulator's requirement to 'Know your client'. Surely, at the very least, every self-respecting 'professional' adviser should ask their clients when factfinding whether they want ethical considerations to be taken into account in any investment advice.

Robin Keyte

LETTER TO “MONEY MANAGEMENT”

22 May 2002 – Money Management

Janet Walford
Money Management Magazine
Maple House
149 Tottenham Court Road
London W1T 7LB

Dear Janet,

I was interested to read the letter sent in by Robert Bracher titled “no, no, no, no, NO”, and other letters also on this topic.

It is encouraging to see there are advisers out there able to think for themselves and draw their own sensible conclusions.

However, I am concerned that the CP121 proposals for an Authorised Financial Adviser (AFA) might be a bit of a red herring, thrown in with the other proposals just to appease existing financial advisers.

My concern is rooted in the conundrum of low charging products paying unsustainably high commissions, often on an indemnity basis.

It is not just stakeholder pensions that are subject to a 1% charge cap, personal pensions, executive pensions and all sorts of other pensions are freely available within the 1% charge. Indeed, with regard to investments, the 1% world appears to be spreading further than just CAT marked ISAs as well.