Aligned Capital Partners Inc

Investing in Canada's Future

The Ask

Aligned Capital Partners Inc. (ACPI) is looking for a recommendation to help solve the growing advice gap that Canadians, particularly "Starter Investors" (those in the ~$25,000-50,000 net-worth range), experience relating to financial investment advice. Your task is to propose a recommendation to address this concern, including a detailed implementation plan (examining the impact for ACPI, its growing base of financial advisors, and their clients), and associated financial impact.

ACPI wanted to focus on Starter Investors because this group was often overlooked as a one who required investment advice. The Starter Investors group was therefore placed at a disadvantage, and this disadvantage would continue to grow as the years went on. ACPI saw this as a fundamental problem within the Canadian landscape and looked to you for solutions on how to address it.

When individuals were encouraged to begin managing their wealth at an early age, they were able to work towards achieving financial security and achieving important personal goals such as home ownership, supporting their children's education, and comfortable retirement. However, the Starter Investors group was not simply young investors. Elderly Canadians (and in fact, anyone who did not have large amounts to invest) were also often overlooked when it came to investment advice. (Further information about the ask is provided within the section titled **Desired Goals**)

Your team will have 20 minutes to deliver a presentation to ACPI's top management team and the jury panel consisting of business professionals. This will be followed by a 10-minute question and answer session to clarify any concerns or ask probing questions.

Company Information

Overview[2]

Aligned Capital Partners Inc. was a Canadian retail wealth management firm with more than 250 advisors in over 160 offices across Canada and serving the wealth management needs of over 50,000 clients and $10bn in assets under administration. Founded by a group of individuals who previously ran wealth management for large Canadian financial service companies, ACPI has been operating with the

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[1]This case was written by Sofy Carayannopoulos, Matthew Donovan, Rona He, Maggie Sutherland, and Sophie Ziomecki with the support of Jack Mastromattei

[2] https://www.alignedcapitalpartners.com

overarching aspiration to be a truly independent wealth management firm and an alternative to the big Canadian banks.

From a product perspective, ACPI did not manufacture any of their own investment products. This meant they had built an extensive network of investment management partners which could be leveraged. Furthermore, ACPI had, and continued to expand, a robust and innovative digital ecosystem called Aligned360[3] which was used by both their financial advisors and their clients (See Appendix G: Aligned360). As they thought about their ask, ACPI wondered if the Aligned360 platform could be further leveraged in support of their ultimate objectives.

Part of the Aligned360 platform was a robust client risk tolerance questionnaire (RTQ). It was designed to help determine an investor's appetite, tolerance and capacity for risk. From the ACPI Advisors perspective, this RTQ was tool for them to help them with Know Your Client (KYC) requirements and ultimately help prove how they determined the investors risk profile.

Client Information

Within the financial services industry, the typical management fee was approximately 1% of assets under management. This usually meant that high-net-worth clients who may generate $10,000/year or more in fees helped to subsidize lower-net-worth clients who may only bring in $250 in fees. In addition, however, this fee structure also contributed to the advice gap since advisors were more likely to focus their time and energy on clients with a larger asset base.

Larger wealth management firms such as big banks typically targeted clients with greater net worth as they were the highest value generating clients; they were more likely to need and pay for advisory services and purchase investment products. However, this resulted in individuals who were early on in their career (for example, someone who had just graduated from law school) being told to come back once they had acquired more wealth. ACPI wondered if this was a possible opportunity to further explore: how many Canadians who were lower-net-worth today had the potential to turn into higher-net-worth clients in the future, and how many of those individuals simply needed easier access to financial advice to be able to make that transition?

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[3] https://www.alignedcapitalpartners.com/platform-technology/

Demographic Stats of Current ACPI Clients

Age Group	% of Investors	% of Assets
Over 65	36.1	50.1
55 to 64	26.3	28.4
45 to 54	20.4	14.6
35 to 44	11.6	5.3
25 to 34	4.6	1.4
Under 25	1.0	0.2

Advisors[4,5]

Advisors were a key component of the wealth management process, and any proposed solution needed to consider the impact, if any, it would have on the advisor-client relationship. Financial advisors were responsible for much more than simply executing trades for clients, with the best advisors understanding and incorporating information such as their client's personal situation, goals, and risk tolerance to recommend the best investment mix. Advisors retained control over their own client base, while ACPI provided the best tools and systems to help them manage this relationship.

All ACPI accounts and assets were custodied at a large Canadian bank which had associated online systems for ACPI and its advisors to conduct business. One of those systems was a Client Portal so that investors could look up their account balances as well as retrieve their account documents such as statements, trade confirms, and tax slips. The website was basic in its functionality and the user experience was average. ACPI felt that this technology offering required a major upgrade and was working to add some of this functionality into their Aligned360 ecosystem. For now, you could consider the Aligned360 ecosystem primarily something used by the advisors, while the Client Portal offered by the associated bank was primarily used by the end investors.

One of the more difficult components of the wealth management business was managing the relationship with advisors. While the ACPI Head Office provided support to both advisors and their clients, it was important that advisors remained happy with their relationship with ACPI. For any new product launch, and certainly for your recommendation, it was critical that time be taken to educate and train the advisors as required. Furthermore, the advisors were very protective of the relationship they had with their clients, and any time ACPI launched a new product or service, it was important that the advisors did not think

[4] https://www.alignedcapitalpartners.com/platform-services/
[5] https://www.forbes.com/sites/forbesfinancecouncil/2020/07/01/13-things-to-discuss-with-your-financial-advisor-besides-your-retirement-date/

ACPI was trying to control what that advisor-client relationship looked like. It was critical that you consider the impact your recommendation would have on the advisor network and include some discussion about what steps may need to be taken to ensure you had buy-in from the advisors.

Technological Partners

ACPI maintained a strong relationship with Four Eyes Financial (FEF), their primary technical partner. FEF was a respected Canadian technology company that specialized in financial services systems and data management. One of the first technology projects that FEF completed for ACPI was the creation of a Data Lake within the Amazon Web Services (AWS) environment. ACPI considered this project to be a Digital Foundation for their firm and put them in a position to ultimately control their own data. In fact, since the implementation of that project in 2018, no new ACPI technology initiative was implemented unless it was able to connect to the Data Lake. Also, all technology initiatives were reviewed with Four Eyes for consideration and advice before the initiative was started.

In addition to strong technical knowledge and ability, Four Eyes also had incredible potential for growth and scaling. All their products had been built to scale as required, but Four Eyes also had the ability to bring on additional staff as needed to build or implement a new product or system. At the end of the day, ACPI was confident that Four Eyes could handle the technical component for any solution you might recommend.

Desired Goals

While ACPI had identified this issue of an advice gap for Canadians, they were certainly not the first organization to have done so. In fact, other companies in the industry and even the Investment Industry Regulatory Organization of Canada (IIROC) had found that the advice gap was widening in Canada[6,7]. The challenge, however, was that the revenue:time ratio with this segment had made it an unattractive space for companies to enter. Although there was revenue to be earned from these clients and advisors were interested in providing them with advice, the challenge was that compared to clients with a higher net-worth, the financial benefit for advisors simply was not as large. This caused advisors to either spend less time helping their lower-net-worth clients or simply not take them on in the first place.

Canadians had achieved some world class results with individual finances. While this was partly due to government programs, it was also because of the providers of quality financial advice. The principals of ACPI always had a desire to help investors achieve better outcomes and right now they believed this meant focusing on Starter Investors and ensuring they had access to relevant advice. Ultimately, these

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[6] https://www.iiroc.ca/documents/2020/62c7672e-bdba-4720-9f11-4fc6a983cf64_en.pdf
[7] https://www.iiroc.ca/industry/Enabling-the-Evolution-of-Advice-in-Canada/Pages/Foreword-Enabling-the-evolution-of-advice-in-Canada.aspx

were the individuals who likely needed this advice the most but were the least likely to receive it. The management team at ACPI viewed this as a public interest issue just as much as an opportunity to impact their own company's success, and as such were ready to invest resources in an area companies had typically avoided.

Research from the Ontario Securities Commission[8] found a high degree of dissatisfaction and low-quality advice provided primarily to investors with portfolios under $50,000. Contributing factors to this dissatisfaction and resultantly, low engagement, education, and investment comfortability were:

1. Inconsistent communication streams with their advisors (1-2 times a year)
2. Short duration of meetings (advisors typically spent less than 1 hour a year with the client)

Some additional findings detailed by the OSC report demonstrated:

1. 43% of advised investors agreed that their advisor had not provided them with educational advice about financial concepts
2. 31% of investors were unable to say their advisor had spoken to them about planning for financial goals such as retirement, education, or buying a home
3. Only a small minority reported they had received advice about budgeting or debt management (20%), tax and estate planning (28%), or planning for the future needs of their family (23%); all of which were deemed of high importance to young investors.

In a perfect world, many more companies would focus on this issue, and ACPI was certainly willing to collaborate with other firms if it meant the outcome could be improved. However, ACPI recognized that this was more than likely an initiative they would have to focus on alone (without collaborating with competitors) and was more than willing to do this. Their efforts did not need to result in a positive ROI either, as long as this wasn't a pure expense. ACPI was comfortable with outcomes such as this initiative acting as a loss leader, saving costs in other areas of the business, resulting in increased revenues at a later date, etc.

As a firm, ACPI wanted to continue growing their Assets under Administration (AUA). They believed, however, that they could double or even triple their AUA without doubling or tripling their number of advisors. The key to doing this was to provide the advisors with the tools, time, bandwidth, etc. required to take on more clients. ACPI believed that with the correct platform (and the correct capabilities and tools available on that platform), advisors could reduce the time required to be spent on each client. This barrier to ACPI's future growth was identical to the barrier currently experienced between advisors and the Starter Investor group; advisors wanted to take on these clients but, at this time, there simply was no way to do so while justifying the time investment required.

[8] https://www.osc.gov.on.ca/documents/en/Investors/iap_20190729_survey-findings-on-how-much-advice-investors-receive.pdf

Constraints

Timeline

ACPI was a very nimble organization which prided itself on being able to move quickly. Goals were not planned in terms of “end of this year” or “end of this quarter”, but rather “end of this month”. Identifying and executing solutions in this area was something that ACPI saw as being key to internal success as well as key to bringing value to individuals across Canada. ACPI would therefore like to launch your recommendation by mid-2021 and was confident they could acquire any additional resources needed to support this timeframe.

Resources

Both ACPI and FEF had demonstrated they had the ability to scale as required. From a technical standpoint, FEF had access to any tools or platforms required to implement this solution. Regarding people, both firms were also confident that they could hire additional staff as required, either in short- or long-term positions, as long as you could provide an overview of what these staffing requirements were.

Finally, regarding external or new knowledge, ACPI preferred partnerships over acquisitions. As mentioned earlier, ACPI had a very strong partner network and would much rather enter an ongoing relationship with a partner than acquire a new technology and have to support it in-house.

Budget

ACPI recognized that a solution in this area may require significant investment. Given their current financial profile, they were also confident that they could obtain the required funds to support this initiative, regardless of its proposed size. However, it was critical that any expenditure of money be properly justified to the company. Your recommendation does not need to directly recover the associated expenses, but at the same time should not simply be an additional expense for ACPI. As mentioned above, this initiative did not need to result in a positive ROI; provided there were measurable benefits and this was not simply a pure expense, it could be considered.

Appendices

A. Competitive Landscape

ACPI Major Competitors:

1. *Wellington Altus*
2. *Investment Planning Council (IPC) Securities*
3. *Manulife Securities*
4. *Assante Securities*
5. *Purpose Advisor Solutions*
6. *Top 6 Bank Securities Dealers, (RBC, TD, BNS, BMO, CIBC, NBF)*

The above list depicted major players in the Canadian Retail Wealth Management Industry. However, the Canadian Wealth Management industry was highly competitive with the presence of international players with multiple domestic players holding significant shares as well.

In 2017, over 65.6% of total assets under management (AUM) were managed by top-ten Canadian firms, five of which were bank-owned. Among other factors, business had been impacted by the scale of merger and acquisition activities.[9]

This activity within the industry suggested that there were fewer barriers to entry than there were barriers to achieving significant scale. These barriers included constraints on the shelf space of dealers and advisors; the absence of a unique selling point or competitive advantage for many fund products; difficulties for the firm to invest heavily in technology; and an inability to attract or, in some cases, to retain, innovative and experienced talent. Additional hurdles that may restrict new entrants included the dominant position of a small group of managers; pricing levels that prevent a reasonable break-even period; and current and possible additional industry regulatory changes that may impose costs on firms either unprepared or unable to bear them.

9 https://www.ific.ca/wp-content/uploads/2019/06/Strategic_Insight_Canadian_Investment_Funds_Industry_Recent_Developments_and_Outlook-2019.pdf/22469/

B. Recent Wealth Management Initiatives Undertaken by Competitors

Recent wealth management initiatives directed toward the low-mid income households included, but certainly were not limited to:

1. **TD MySpend**[10] (budget management) and **TD Advice Hub** recently launched were targeted toward post-secondary students navigating their income streams during COVID-19. Features included real-time expense tracking, goal setting, and the provision of personalized advice, tips and resources
2. **RBC Family Wealth Management**[11] provided comprehensive investment and financial planning resources tailored for low-mid income households. Features included: general financial planning, education planning, retirement planning among others through a digital platform

[10] https://www.narcity.com/feature/ca/this-website-is-offering-canadian-students-free-financial-advice-to-help-budget-save-and-spend-wisely
[11] https://ca.rbcwealthmanagement.com/documents/720599/720615/Family+Wealth+Management.pdf

C. Canadian Market[12]

The 2019 Canadian Financial Capabilities Survey revealed that Canadians faced significant financial pressures managing debt as well as their day-to-day finances. On average, Canadian household debt represented 177% of disposable income - up from 168% in 2018. The most common and substantial contributor being mortgage payments. Other common forms of debt included credit cards, vehicle loans/leases, personal loans, and student loans.

A growing share of Canadians were under financial stress - particularly a part of lower- and middle-income brackets entering the family considerations point of financial maturity. The survey also revealed that budgeting was perceived as crucial in managing day-to-day finances and keeping track of bill and debt payments.

Regarding financial planning, key insights revealed the following areas of high priority for Canadians:

1. Retirement planning
2. Planning for education
3. Short term financial goals (major purchases of homes/vehicles/vacations)
4. Emergency funds (only 6 of 10 Canadian households have emergency savings)
5. Estate planning, credit reports, financial frauds

Financial literacy was also a hot topic among those entering and well into their career progressions. In Canada, there were a myriad of avenues Canadians could pursue to seek advice on topics like retirement planning, tax, insurance, debt management and general financial knowledge. Canadians frequently received their financial advice from multiple sources. About half sought financial advice from a professional financial advisor or planner (49%), followed by banks (41%) and friends or family members (39%). Canadians also conducted Internet research (33%), read newspapers and magazines (15%), and got advice from radio or television programs (10%).

Overall, Canadians between the ages of 18 and 34 years were more likely to ask friends or family members (59%) or use the Internet (51%). In contrast, Canadians aged 65 and older were more likely to seek advice from a financial advisor or planner (51%) or a bank (41%). Those in this older age group were much less likely to look for financial advice on the Internet (13%).

[12] https://www.canada.ca/en/financial-consumer-agency/programs/research/canadian-financial-capability-survey-2019.html

D. Canadian Demographic Information[13]

Canadian Households and Wealth by Wealth Segment

Wealth Segment	2013		2022	
	# of Households	Total Wealth (millions of dollars)	# of Households	Total Wealth (millions of dollars)
Total	**15,420,577**	**3,409,548**	**17,438,606**	**5,460,389**
$0 – 100k	12,194,157	246,050	12,376,427	271,029
$100 – 250K	1,103,000	172,480	1,617,111	263,714
$250 – 500K	766,769	270,811	1,157,896	429,830
$500K – 1 million	703,066	510,307	1,140,276	893,557
$1 million +	653,585	2,209,900	1,146,896	3,602,260

Investor's Economics projected that the total number of households in Canada would increase to 17.4 million by 2022. Approximately 6.5% was made up of High Net Work (HNW) households with ownership of more than $1 million in investable assets. More substantially, 71% of households would manage less than $100k in investable assets by 2022 composed of low to medium income households.

Canadian Households and Wealth by Age

Age	2013		2022	
	# of Households	Total Wealth (millions of dollars)	# of HNW Households	Total HNW Wealth (millions of dollars)
Total	**15,420,577**	**3,409,548**	**653,585**	**2,209,900**
0 – 24	867,481	21,065	2,344	3,725
25 – 34	2,215,397	125,910	25,436	61,072
35 – 44	2,649,253	368,139	73,748	247,865
45 – 54	3,180,615	781,677	145,311	558,365
55 – 64	2,770,559	902,365	164,192	622,430
65+	3,737,271	1,210,391	242,553	716,443

Investor's Economics categorized Canadian Households into 6 distinct age brackets. This segmentation helped to demonstrate wealth distribution and concentration across different life stages of the average Canadian.

[13] https://www.csi.ca/student/en_ca/designations/pdf/defining-wealth-management-2015.pdf

E. Robo-advisors[14]

Robo-advisors were digital platforms that provided automated, algorithm-driven financial planning services with little to no human supervision. A typical robo-advisor collected information from clients about their financial situation and future goals through an online survey and then used the data to offer advice and automatically invest client assets. The best robo-advisors offered easy account setup, robust goal planning, account services, portfolio management, and security features, attentive customer service, comprehensive education, and low fees.

Today, most robo-advisors used passive indexing strategies that were optimized using some variant of modern portfolio theory. Some robo-advisors also offered optimized portfolios for socially responsible investing (SRI), Hallal investing, or tactical strategies that mimicked hedge funds.

> *Modern portfolio theory (MPT)[15] was a theory on how risk-averse investors could construct portfolios to maximize expected return based on a given level of market risk.*

"Efficiency was an advantage of robo-advisors; for example, without one if a client wanted to execute a trade, he/she would have to call or physically meet a financial advisor, explain their needs, fill out the paperwork, and wait. Now, all of that could be done with the click of a few buttons in the comfort of one's home. On the other hand, using a robo-advisor would limit the options that you could make as an individual investor. You couldn't choose which mutual funds or ETFs you are invested in, and you couldn't purchase individual stocks or bonds in your account."

According to the research aggregator Statista, Canadian robo-advisors would hold an estimated US$8.1 billion in assets under management in 2020, which, it predicted, would rise to US$16.6 billion by 2023 (a 26.7% CAGR). As time went on, these companies would also get more sophisticated in their offerings. Some robo-advisors now offered chequing accounts while others let you pick stocks, purchase insurance, or offered real-life financial advice.[16]

One final note, however, was that robo-advisors were not perfect. Investors who dealt with advisors were more likely to have a financial plan and stick to it, to act more rationally in turbulent times since they had someone (their advisor) to talk through the situations with, and ultimately saved more over the long term as they remained somewhat accountable to the advisor they are working with. Despite these imperfections, research predicted that none of these obstacles were insurmountable. As technology continued to improve, certainly its impact on the advisor-investor relationship could improve as well.[17]

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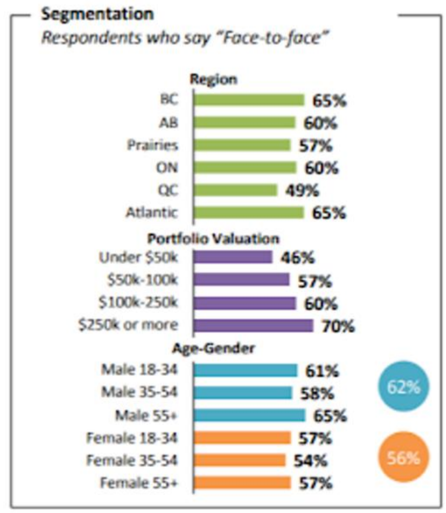
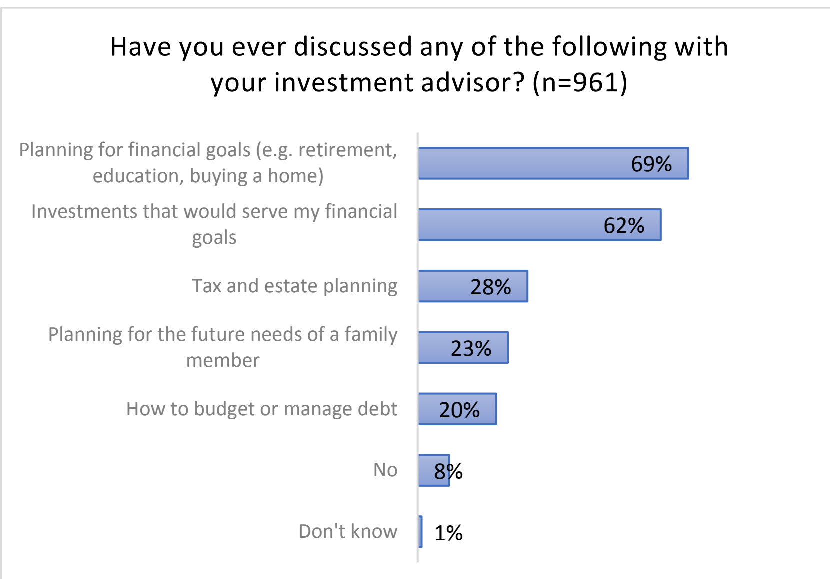
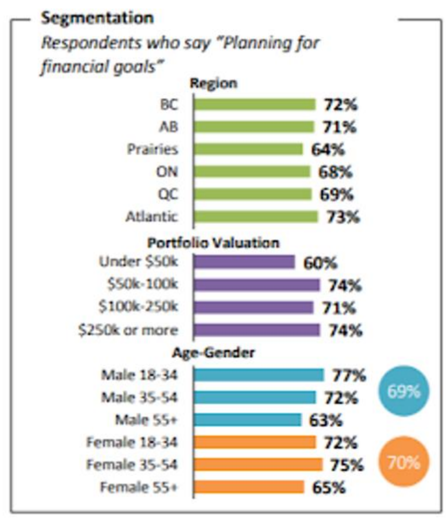
[14] https://www.investopedia.com/terms/r/roboadvisor-roboadviser.asp
[15] https://www.investopedia.com/terms/m/modernportfoliotheory.asp
[16] https://www.moneysense.ca/save/investing/best-robo-advisors-in-canada/
[17] https://www.ivey.uwo.ca/cmsmedia/3779954/financial-advice-in-canada-a-way-forward-web-3.pdf

F. Additional Financial Advisor Statistics[18]





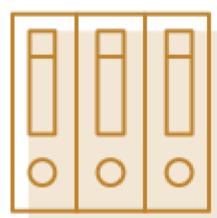


[18] https://www.osc.gov.on.ca/documents/en/Investors/iap_20190729_survey-findings-on-how-much-advice-investors-receive.pdf

G. Aligned360

Aligned360 encompassed the entire digital ecosystem which ACPI offered to their advisors and clients. This platform contained a premier suite of advisor resources, tools, and service offerings. ACPI constantly evolved the offerings within the ecosystem to adapt and stay ahead of the ever-changing industry landscape.

Four high-level areas of the Aligned360 ecosystem were:

 **A360 / Onboarding** provides our advisors with cutting-edge electronic onboarding technology. Fully digital, advisors never have to worry about missing a form or signature again. Clients can also provide electronic signatures to advisors without ever leaving the comfort of their home.	 **A360 / Vault** provides a secure and intuitive medium to communicate and transmit files between advisors and Head Office. This unique and innovative tool is available to clients should advisors choose to extend this dynamic offering.
 **A360 / Cyber IT** offers a full suite of hardware and software solutions. Through our partnership with industry-leading providers, these solutions reduce and eliminate the need for internal IT services, while providing advisors with an effective cyber-security solution.	 **A360 / Advisor Resources** is a database for advisors to access user guides, bulletins and other relevant supporting documents. By searching through our Advisor Resources, advisors can address incoming client inquiries in a timely manner.

Some of the specific tools within the Aligned360 ecosystem were:

Inquiry Case Management

Streamlined communication with head office compliance teams, advisor services, financial operations. See the activity timeline, correspondence logs, and easily add docs to show my work

Document Vault

Integrate, push, and pull documents to clients and advisors. View advisor commission reports and access onboarding documents

Portfolio Builder

Add or remove assets and dynamically see the impact to the overall portfolio before making a trade.

KYC Discovery Tools

Automate annual Know Your Client (KYC) processes, engage clients with continuous digital discovery

User Access Management

Advisor teams have the ability to reset end User IDs, assign roles, and enable & disable end User access

Third Party Integrations

Third Party API integration done right, strengthens your existing platform and enables new feature releases quickly and painlessly. Office 365, DocuSign, Financial Planning, Quote Media, and more.