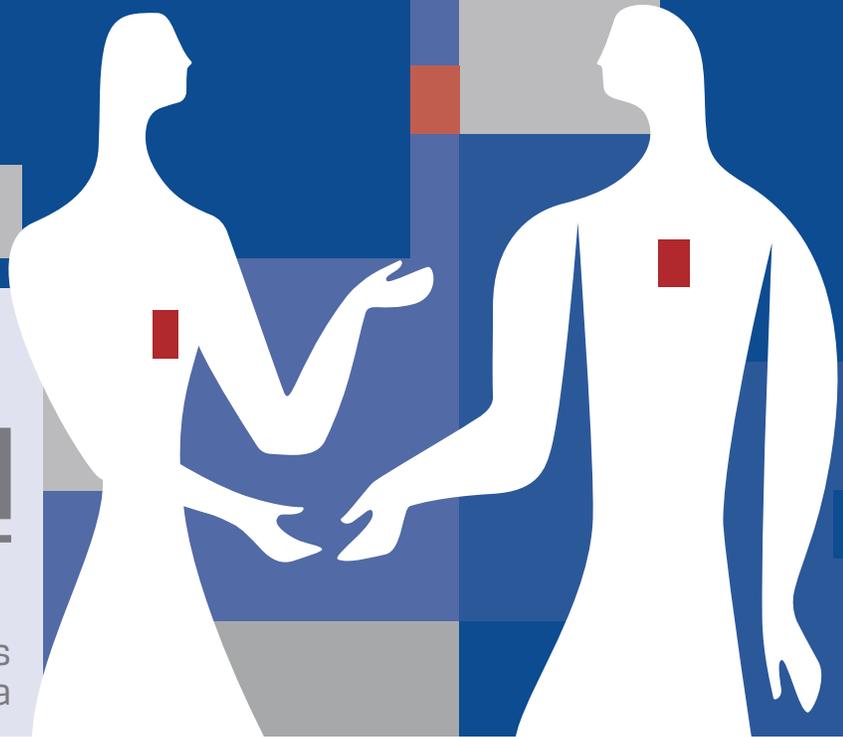


THE NEXT GENERATION OF TRUST

Investor Trust in Financial Services
in North America



Trust is essential in the world of finance, where well-functioning markets are necessary to create value, and in investment services, where experts work to safeguard and grow the financial wealth of their clients. In this, the third CFA Institute investor trust study, we look at the trends in investor trust and provide recommendations for investment practitioners on how to improve trust with clients. We find that the nature of trust is changing because of a new generation of investors and a new generation of investing tools. This report outlines how individual investors in North America compare to those globally.



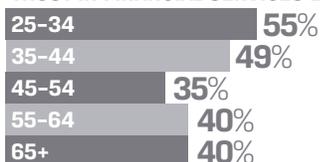
In North America, Personal Relationships Drive Success in Financial Services



Investors that "completely trust or trust" the financial services sector

Trust in financial services is stronger in the US and Canada than many other markets. This is despite the fact that the average investor in these markets is older, and younger investors tend to be more trusting of the financial services industry.

TRUST IN FINANCIAL SERVICES BY AGE



Investors in North America also value personal relationships more than a firm's brand or their use of technology.

62% of US investors and 66% of Canadian investors work with a financial adviser compared with 54% of investors globally.

Investment advice in North America focuses on retirement

Due to the aging populations in both the US and Canada it is not surprising that their primary investment goals and concerns are retirement related.

PRIMARY INVESTMENT GOAL FOR INVESTORS IN NORTH AMERICA



Similar to Australia and the UK, no other investment goal is a close second.



Trust and the Client Life Cycle

Trust continues to be an important factor throughout the client life cycle

Trust continues to be an important factor throughout the client life cycle. In the five years we have been conducting this study, trust has consistently been the greatest determinant in selecting a financial adviser by an almost 2:1 margin over investment performance.

MOST IMPORTANT ATTRIBUTE FOR INVESTORS FROM NORTH AMERICA WHEN HIRING AN INVESTMENT FIRM

Trusted to act in my best interest



Ability to achieve high returns



Recommended by someone I trust



Commitment to ethical conduct



When selecting an adviser, US and Canadian investors put more emphasis on personal trustworthiness and ethical conduct than an adviser's ability to produce returns.

Why investors switch firms

US and Canadian investors are most likely to switch firms due to underperformance and lack of communication, similar to the average of investors globally.

REASONS INVESTORS FROM THE US AND CANADA LEAVE THEIR INVESTMENT FIRM

Lack of communication/responsiveness



Underperformance



Data/Confidentiality breach



Navigating Uncertainty

Canadian investors are less fearful of a financial crisis than US and global investors

Trust is tested in times of crisis, and advisers should be aware of whether their clients fear a crisis and market volatility.

INVESTORS WHO EXPECT A FINANCIAL CRISIS IN THE NEXT THREE YEARS



Many investors from both countries believe that their advisers are well prepared to handle a crisis.

63% of US investors, 55% of Canadian investors, and 55% of investors globally believe their advisers are well or very well prepared to handle the next crisis.

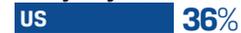
After national or global politics, US and Canadian investors differ on the possible causes of the next financial crisis.

POSSIBLE SOURCES OF NEXT FINANCIAL CRISIS

National/Global politics



A major cyberattack/hacking



Terrorist attack



Governments defaulting on debt



National/Global politics



Housing bubble / Mortgage crisis



Consumer credit



A major cyberattack/hacking



PRIMARY INVESTMENT CONCERNS

A market crash impacting my retirement savings



Running out of money in retirement



Paying high fees



My financial adviser making recommendations that result in losses



When asked about their primary source of investment advice, most chose *My primary financial adviser* followed by *Online research* and then *Friends and family*.

MOST TRUSTED INVESTMENT ADVICE

My primary financial adviser



Online research



Friends and family



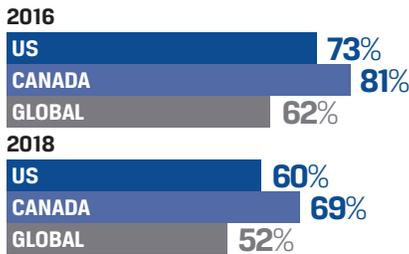
Compared with other markets, North American investors are generally more satisfied with levels of transparency. Overall, 70% of US investors and 63% of Canadian investors think their financial adviser is transparent, though this drops to 63% and 60%, respectively, in regard to fee transparency. Respectively, only 57% and 56% think their adviser is transparent about conflicts of interest, though this is higher than the global average of 48%.



Technology Increases Trust

Technology is a game changer for financial services firms, and the best firms differentiate themselves through effective use of technology

Although the US and Canada still favor human advisers, technology is becoming more important, and change is happening quickly.



Investors who say in three years it will be more important to have a person to help navigate what is best for them than technology tools to execute their own strategy

The good news for advisers is that the use of technology by investment firms can increase trust. In the US, 37% of investors say they trust their adviser more because of the use of technology, and the same is true of 23% of Canadian investors. Tech does not detract from trust, but it is also not a substitute.

US and Canadian investors are very skeptical about robo-advisers.



Investors in the US and Canada who "distrust or completely distrust" the robo-adviser industry

THE BUILDING BLOCKS OF TRUST

The CFA Institute Trust Equation outlines the building blocks of trust. Trust is tied to value and together they are a function of credibility and professionalism.



Credibility, which provides confidence that the investment professional or organization is qualified to provide the required service, encompasses experience, reputation, and credentials, and is closely linked to brand. Trust in the industry requires that regulators and the public view it as bringing value to society.

CREDENTIALS



Investors that believe it is important for investment professionals to have credentials from respected industry organizations

TRACK RECORD



Investors that believe it is important that investment professionals generate returns similar to or better than a target benchmark



Investors that believe it is important that fees reflect the value they get from the relationship

BRAND



Investors who prefer "People I can count on" over a "Brand I can trust"

VOLUNTARY CODE OF CONDUCT



Investors who would trust an adviser more if his or her firm adhered to a voluntary code of conduct

Professionalism is harder to quantify, but includes the trust-building elements of competency and values such as empathy, transparency, honesty, and alignment of interests.

COMPETENCY



Investors that would be more trusting of investment firms that promote continuing professional development

VALUES



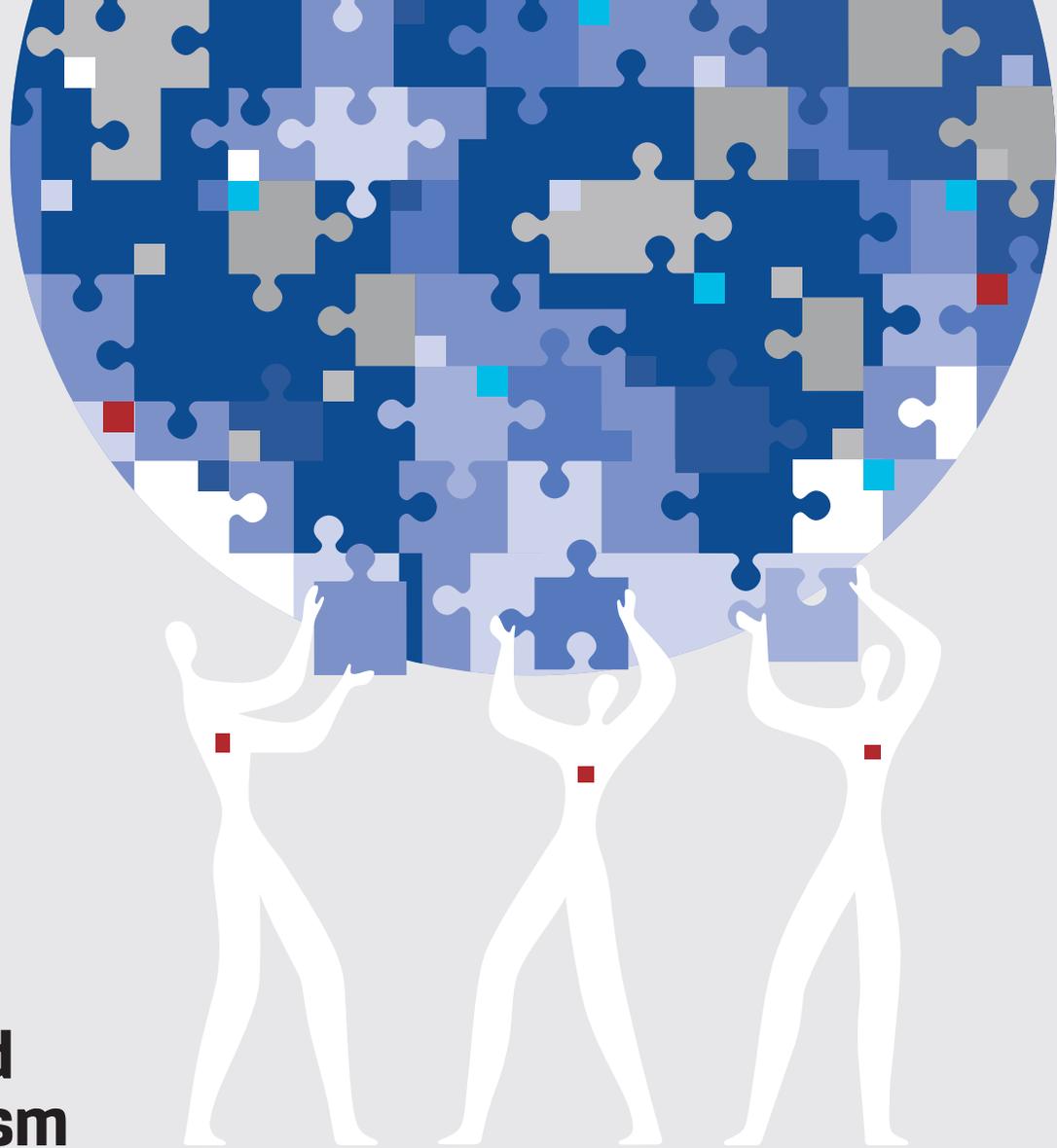
Investors that believe their adviser always puts its clients' interests first

40%

of US and Canadian investors say the top attribute in selecting an adviser is someone trusted to act in their best interest



Investors believe ethical conduct is the most important factor in choosing an adviser



8 Steps to Increasing Credibility and Professionalism

Credibility

- 1 Maintain strong brand identity and follow through on brand promises
- 2 Employ professionals with credentials from respected industry organizations
- 3 Stay focused on building a long-term track record to demonstrate competence and deliver value for money
- 4 Adopt a code of conduct to reinforce your firm's commitment to ethics

Professionalism

- 5 Improve transparency and clarity regarding fees, security, and conflicts of interest
- 6 Use clear language to demonstrate that client concerns come first
- 7 Showcase your ongoing professional development to improve investment knowledge
- 8 Demonstrate your dedication to the values that clients hold dear

To learn more, visit nextgentrust.cfainstitute.org

METHODOLOGY In 2017, CFA Institute and Greenwich Associates conducted a global survey of 3,127 retail investors and 829 institutional investors, including 500 retail investors and 150 institutional investors from the US and 501 retail investors and 36 institutional investors from Canada. The study focused on retail investors who were 25 years or older with investible assets of at least US\$100,000 and institutional investors with at least US\$50 million in assets under management, from public and private pension funds, endowments and foundations, insurance companies, and sovereign wealth funds. This summary only includes views from retail investors.



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