How to create bespoke private label Managed Accounts with process and rigour

Glen Holder
Resonant Asset Management

Resonant Asset Management

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Resonant Asset Management

- Resonant is a specialist SMA manager based in Perth and Sydney, with a 5-year track record of creating tailored managed account mandates for wealth advisory firms

- Resonant is the culmination of the goal to bring institutional grade direct markets expertise and portfolio construction tools to the multi-asset Managed Accounts space.

Why tailored Managed Accounts?

Enables firms and their clients to benefit from the efficiency gains and professional management of Managed Accounts while…

- Catering to the specific needs of your client base – best interest duties

- Maintaining and enhancing the firm's value proposition – not another "me too" product
  - Differentiator
  - Reflects firm's ethos
  - Provides track record to market
  - Product belongs to the firm – can replace manager if needed

Why tailored Managed Accounts?

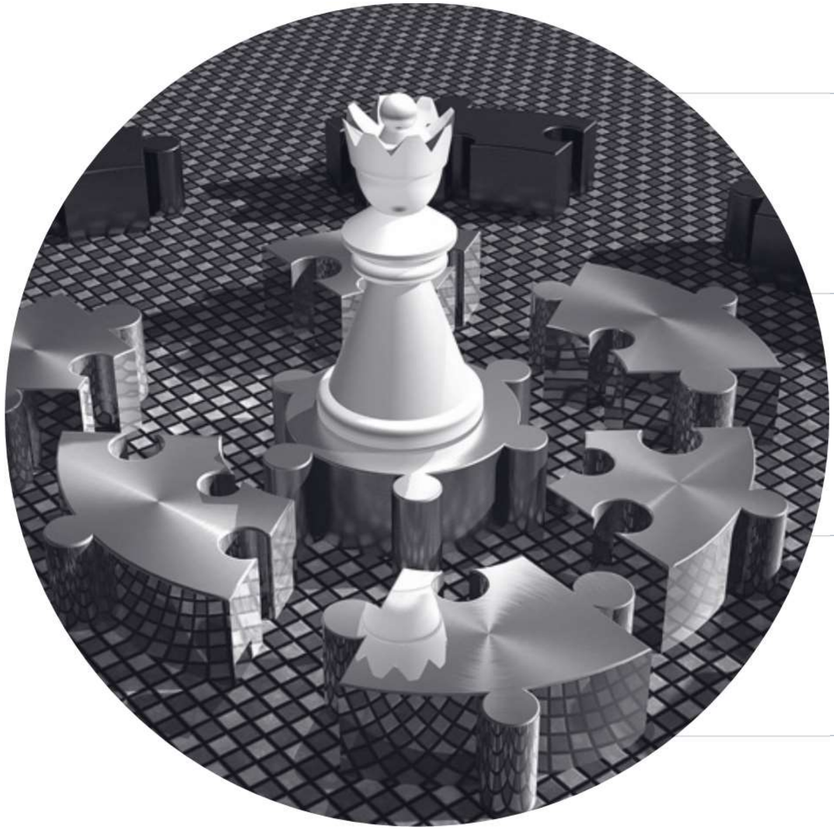
RESONANT
ASSET MANAGEMENT

Enables firms and their clients to benefit from the efficiency gains and professional management of Managed Accounts while…

- Allowing your firm to take full advantage of all the benefits managed accounts can bring to client portfolios:
    - Enchanced active management
    - Increased transparency
    - Increased efficiency
    - Scope for improved risk management that comes with discretionary structure

RESONANT
ASSET MANAGEMENT

Building a successful Private Label Mandate



Deciding on what's important: What portfolio characteristics are important to your clients and your firm's value proposition.

Ensuring the mandate is built with process and rigour: Developing a robust investment process that accommodates your firm's desired tailored mandate attributes, but also leverages professional investment management tools and capability.

Setting up a smooth transition: Ensuring the transition runs smoothly for both advisers and clients. A key component is being able to easily demonstrate the transition is in client's best interests.

High Level of ongoing Support: Working with a consultant that is happy to provide a high level of ongoing support, ensuring the benefits to the private label mandate are maximised.

Deciding on what's important

- It's important to identify what is important to your clients and your firm's offering, eg:
  - Risk/Asset allocations
  - Fee budget (Active vs Passive allocations)
  - Turnover
  - Degree of ongoing input from firm
  - Yield etc

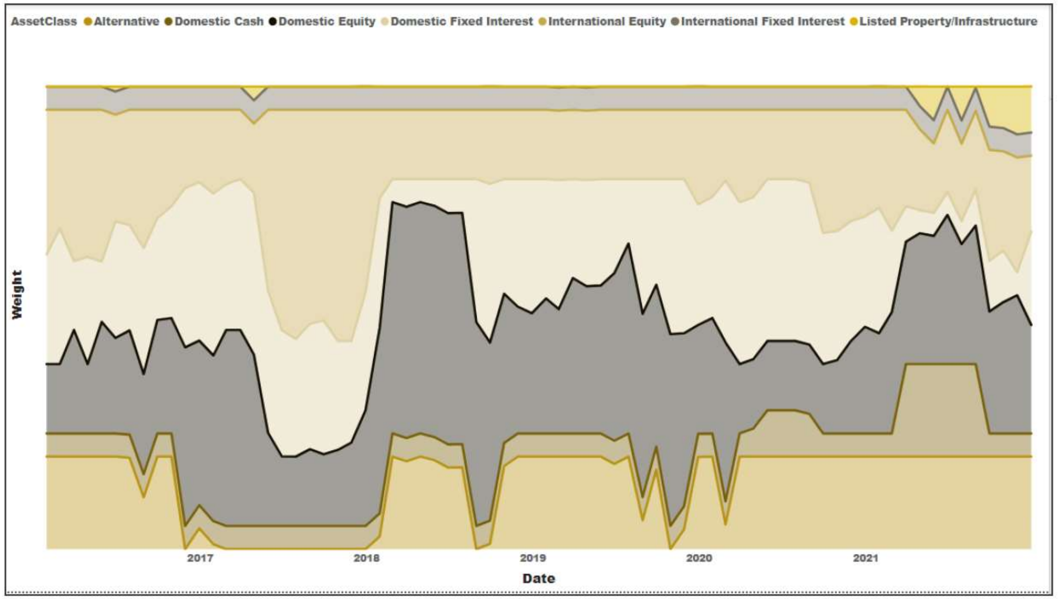
- There are trade-off's. But a good asset consultant can help guide you with these decisions…

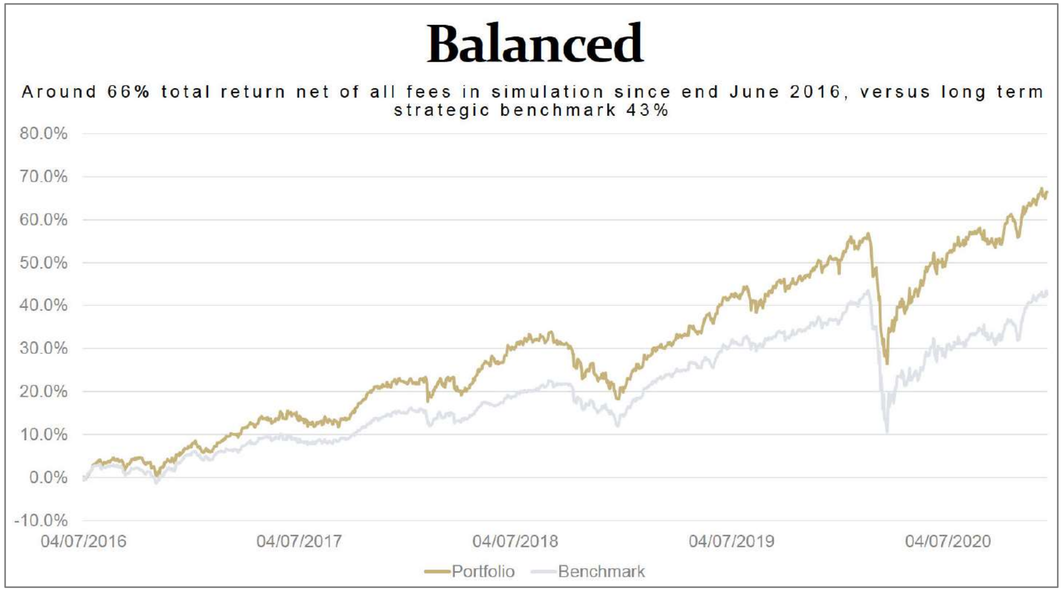
Ensuring the mandate is built with process and rigour

- Important to build out a robust and repeatable process, and ensuring your consultant has the requisite capability:
  - Can your consultant tailor without compromising their core process?
  - Can they accommodate all your requirements – eg direct equities.
- Tailoring mandates requires extra capability:
  - Mean-variance optimisation subject to "constraints"
  - Backtesting based on desired parameters.

Ensuring the mandate is built with process and rigour

- Point-in-time backtesting can demonstrate how the portfolios would react through time (changes and performance):

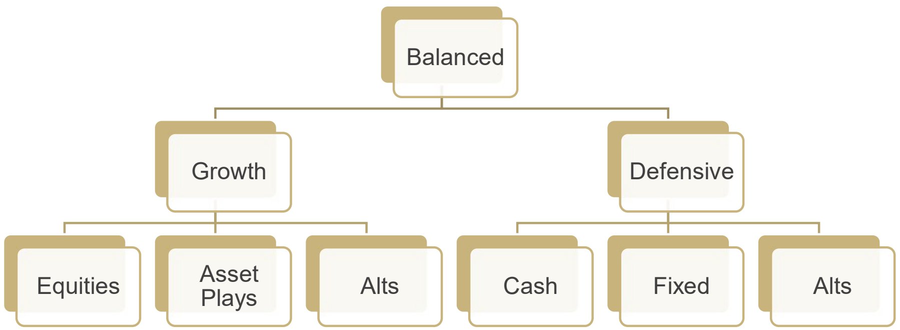




Ensuring the mandate is built with process and rigour

Traditional Consultant Approach

- Categorise assets as growth or defensive
- Fill the asset classes with funds in each target
- Typically a "rule of thumb" approach when it comes to asset/exposure allocation



Total Portfolio Approach (TPA)

- Calculate exposures of overall portfolio
- Weight holdings based on aggregate exposures of portfolio – both for risk management AND positioning for outperformance.
- All exposures rigorously analysed using institutional grade systems and processes
- What if interest rates go further?
- What if China melts down?

Setting up a smooth transition

- Setting up a project plan is key.
- Make starting portfolios similar to current holdings – minimise turnover/CGT
- Have to be able to demonstrate how the models are in client best interests:
  - Manager rebates can help with cost
  - But a strong case for the other benefits of Managed Accounts should also be made
- Create marketing/collateral which demonstrates advantages for use with clients

High Level of ongoing Support

Engage with a consultant who is prepared to provide high levels of ongoing support:

- Ongoing Adviser Education
- Ongoing portfolio commentary and market research
- Portfolio performance benchmarking

High Level of ongoing Support

Eg a tailored branded portal and risk reports specific to the private label mandate:

QUESTIONS?

RESONANT

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Do Managed Accounts Work?

Jason Komadina, MLC Asset Management
Brett Sanders, Philo Capital Advisers
Rob da Silva, SQM Research
Moderated by Toby Potter, IMAP

ASSET MANAGEMENT

MLC Managed Account Strategies

Presented by
Jason Komadina
Director, Managed Accounts
MLC Asset Management

Important information

This information is current as at 01 June 2021

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MLC - A history of investment innovation

Customer focussed and evolving

MLC introduces Australia's first multi-manager, multi-asset portfolios diversified across 9 managers and 4 asset classes

Introduced global bonds and inflation-linked bonds to MLC Horizon portfolios

Unlisted investments expanded to include global private equity

Launched MLC Inflation Plus Assertive

Introduced MLC Low Correlation Strategy (LCS)

Investment Futures Framework (proprietary scenarios approach) introduced for Horizon

Launched MLC Index Plus portfolios

Established in house investment risk and portfolio analysis function

Established in house derivatives capabilities

Established Tailored Australian Equities Portfolio

Launched MLC Multi Asset SMA's

1985 — **TODAY**

Not exhaustive

Our approach

How we manage portfolios

Our philosophy

We manage uncertainty about the future by **considering many possible market environments**

We are **risk managers**, not risk avoiders

We are responsible for **all aspects of our portfolios**

We will **never be complacent**

Diversification

By investing across a broad range of strategies, managers and markets, investment risk may be diversified.

Actively managed asset allocation

We actively manage asset allocation as it can be one of the most significant drivers of overall portfolio returns.

Deep research

We seek to understand the range of paths investment markets could take to allow us to manage our portfolios to provide more robust outcomes.

Focus on risk and returns

Our approach gives us the flexibility to adjust the portfolios' asset allocations to deliver better returns and reduce risk for your clients.

MLC ASSET MANAGEMENT

Portfolios that are ready for many futures

Our Investment Futures Framework

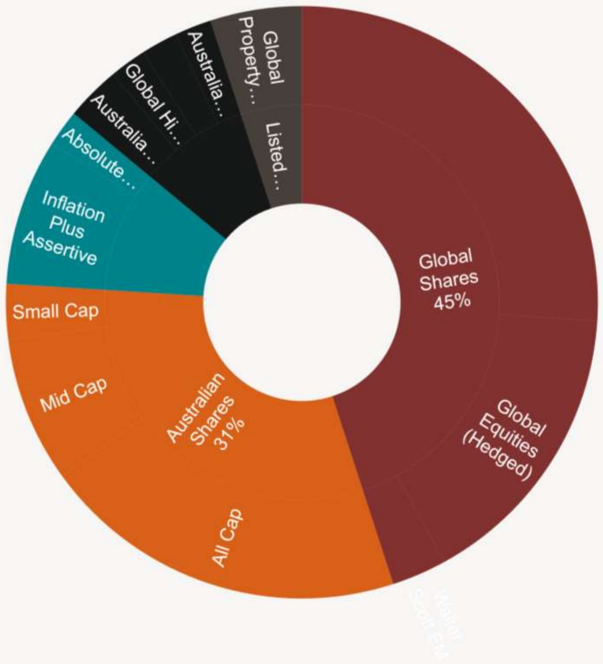
The future is uncertain	Behavioural biases affect market behaviour	To have insight into the future we must anticipate change
Many possible futures exist	Investors extrapolate the past **leading to unreliable forecasts**	Imagine a **significantly different future**

MLC Premium Model Portfolios

Fully active and extensively diversified portfolios

Active asset allocation + Active sector investments + Direct equities & managed funds

MLC Premium Moderate Model Portfolio



Indicative portfolio holdings

Asset class	MLC Premium Moderate Model Portfolio*	%
Australian Shares	CSL Ltd	2.13
	BHP Group Ltd	1.42
	Commonwealth Bank of Australia	1.33
	Westpac Banking Corp	1.02
	Telstra Corp Ltd	0.95
	Woolworths Group Ltd	0.91
	Macquarie Group Ltd	0.75
	Goodman Group	0.74
	Northern Star Resources Ltd	0.74
	QBE Insurance Group Ltd	0.72
	James Hardie industries-CDI	0.68
	Tabcorp Holdings Ltd	0.68
	Atlas Arteria	0.65
	Aristocrat Leisure Ltd	0.65
	Worley Ltd	0.60
	Treasury Wine Estates Ltd	0.56
	Nine Entertainment Co Holding	0.52
	Qantas Airways Ltd	0.50
	Santos Ltd	0.49
	Iluka Resources Ltd	0.48
	Vocus Group Ltd	0.39
	Afterpay Ltd	0.39
	Virgin Money UK PLC – CDI	0.36
	Star Entertainment Group Ltd	0.33
	Fairview Equity Partners Emerging Companies Fund	2.00
	Antares Ex-20 Australian Equities Fund	6.00
Global Shares	Intermede Global Equities Fund	12.00
	Polaris Global Equity Fund	8.00
	Arrowstreet Global Equity Fund (Hedged)	14.00
	Walter Scott Emerging Markets Fund	2.00
Global Property Securities	Resolution Capital Global Property Securities Fund	4.00
Fixed Income	Antares Income Fund	9.00
	UBS Australian Bond Fund	3.00
	PIMCO Global Bond Fund	5.00
	Bentham Syndicated Loan Fund	3.00
Alternatives and other	MLC Wholesale Inflation Plus - Assertive Portfolio	10.00
	Ardea Real Outcome Fund	3.00
Cash	Cash Account	2.00

*For illustrative purposes. Refer to monthly report for latest holdings.

How to access to alternatives focused on real returns*

Reducing fluctuations and helping deliver real returns

Focus on **managing downside risk**

Aims to **generate real returns** over different time frames

Deliver **diversification** to mainstream asset classes

Confidence to **invest flexibly**, with less asset allocation constraints to buy when assets are cheap and stay defensive when they are expensive

* MLC Wholesale Inflation Plus portfolios are utilised in the alternatives asset class.

Do Managed Accounts Work?

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Do managed accounts "work"?

What does "work" potentially mean?

- Better investor outcomes through more timely implementation of changes
- More equitable treatment of investors
- Reduce structural conflicts in advice & portfolio management processes
- Less dispersion of returns as between investors
- More efficient / profitable practices
- Less operating risk
- Better quality of working life for advice firm personnel
- Better service experience for investors

Do managed accounts "work"? YES!!

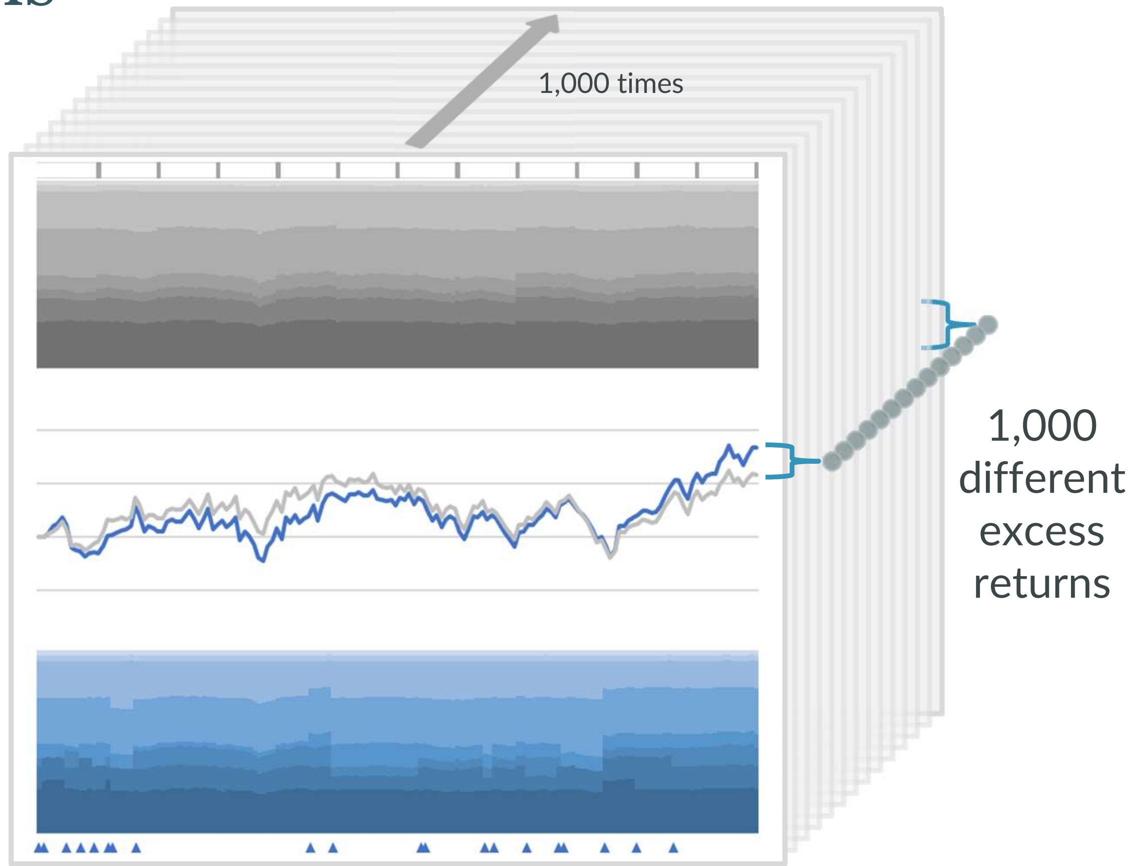
What does "work" potentially mean?

- Better investor outcomes through more timely implementation of changes ✓
- More equitable treatment of investors ✓
- Less dispersion of returns as between investors ✓
- More efficient / profitable practices ✓
- Less operating risk for advice firms ✓
- Better quality of working life for advice firm personnel ✓
- Better service experience for investors ✓

These benefits arise from the *structural advantages* of managed accounts

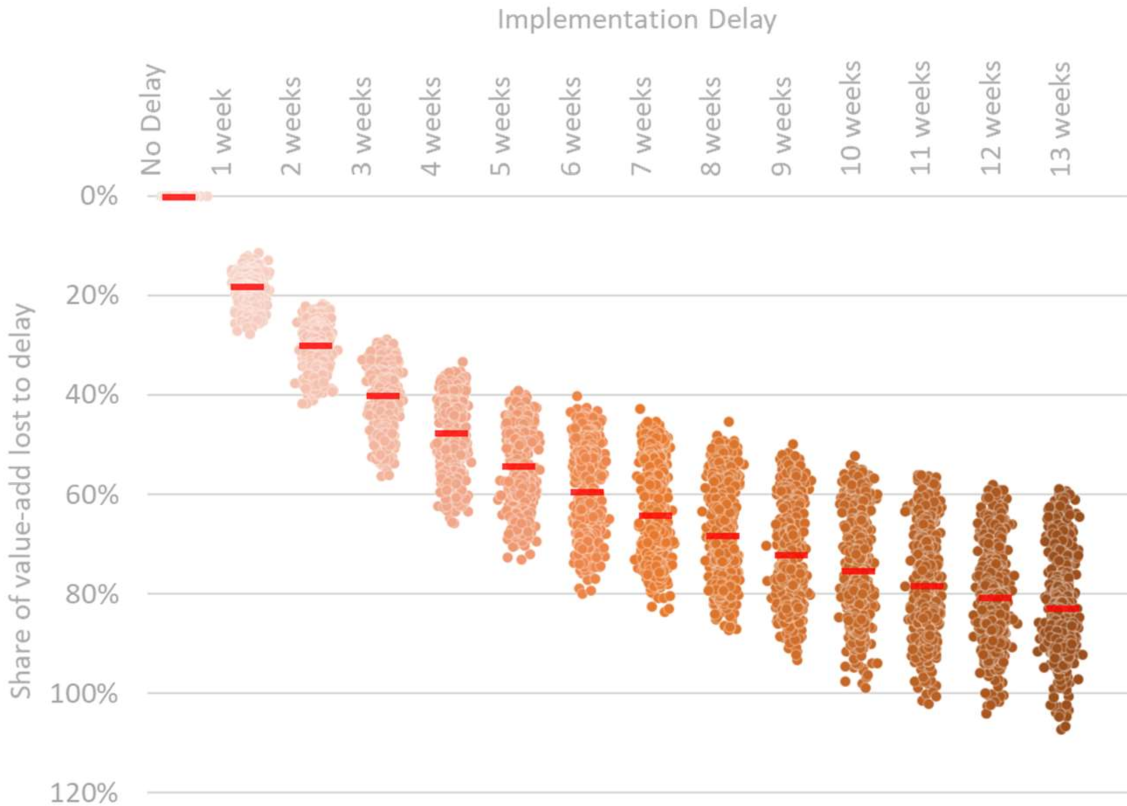
Better outcomes analysis

- Compared the performance
  - Static AA (rebalanced quarterly) vs Dynamic AA (six changes p.a. in 5% increments)
  - 834 rolling 3 year periods (20 years) using actual market data
  - 1,000 iterations for each 3 year period
  - 56% of DAA changes add value
  - Random variation in *timing* of DAA changes in each iteration
  - Random variation in order of successful DAA changes

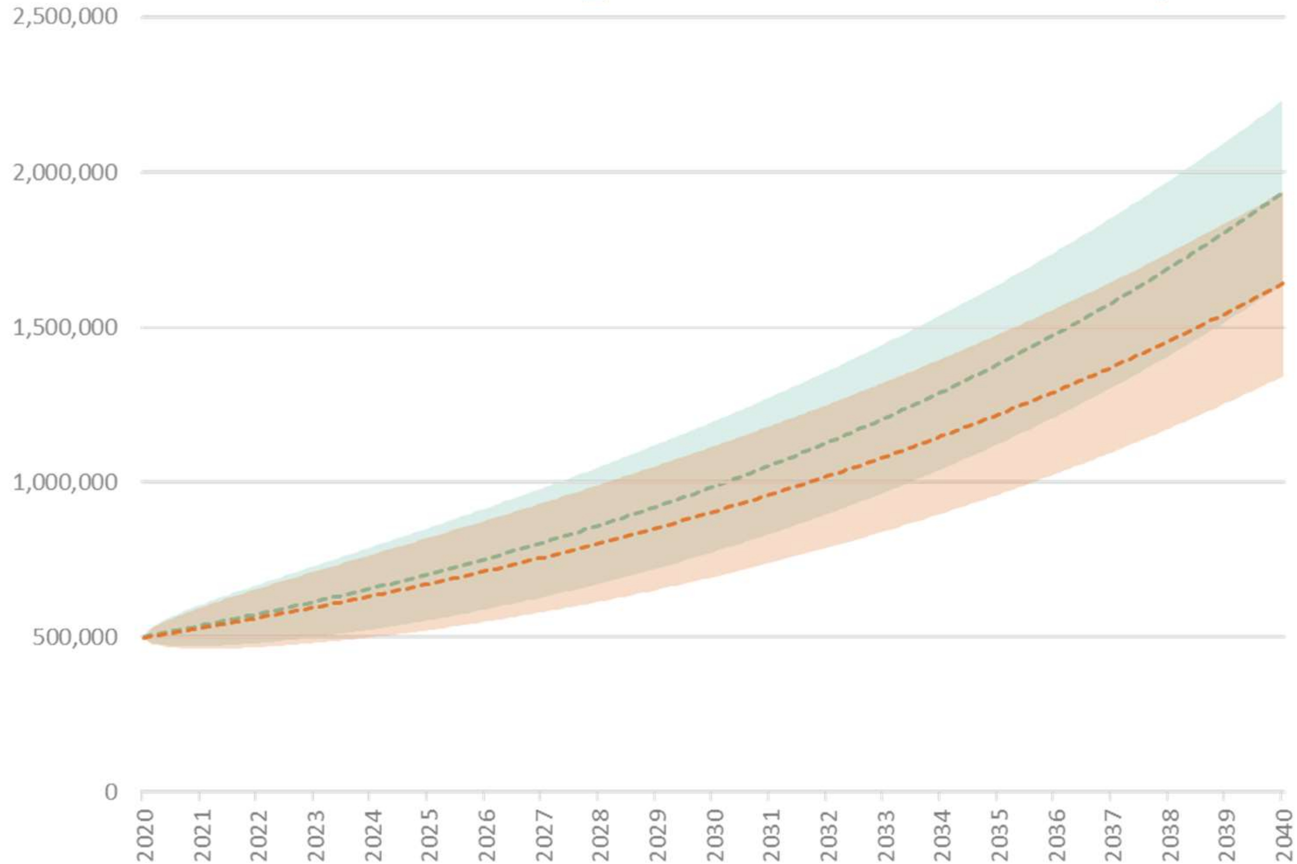


Share of excess return lost to delay

- 50% excess return lost with 4-weeks of delay
- 80% excess return lost with 13-weeks of delay



For a $500k ‘Balanced’ portfolio over 20 years…



~$1.93 million

~$1.64 million

$295k lost to delay

Some managed accounts work better than others!

Philo MDAs v SMAs

- Experienced by investor as a professional service, not a product
- Flexibility for advice practices
  - Ability to have more model portfolios – both now and over time
  - Service changes do not require a PDS variation
  - Run same MDA service over more than one platform (future)
- MDA provider, asset consultant, platform, advice AFSL are separate specialist roles

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Do Managed Accounts Work?

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IMAP Portfolio Management Conference

July 2022 - Perth

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Managed Account v. Managed Fund

- Helicopter view – 2 critical functions/elements to both:
  1. **Investment Management**
  2. **Business/Operations Management**
- The first is virtually identical – it's the second where the main differences lie
- The portfolio is the product – Managed Account, Managed Fund, ETF, LIC etc. are delivery mechanisms
- Key delivery features : implementation (speed, accuracy, consistency), transparency (trade details, holdings details), reporting (frequency, detail, depth), customization to investor circumstances (e.g. tax)
- Opinions will differ, but the 80/20 rule probably applies – 80% of the value is in the product, 20% is in the delivery. But its an important 20%!

Key Evaluation Tasks

- **Form an opinion concerning the investment competence & quality of the Investment Manager, measured in terms of their ability to deliver the risk and return objectives outlined in the PDS (or other offer document)**
- Evaluate management capabilities (executive and investment functions), and organisation stability. Business goals and strategic plans
- Review the ownership and governance structure of the Manager
- Review competence and governance of RE & service providers
- Benchmark investment performance and risk metrics against industry peers and market indexes

Fundamentals of Fund Manager Competence

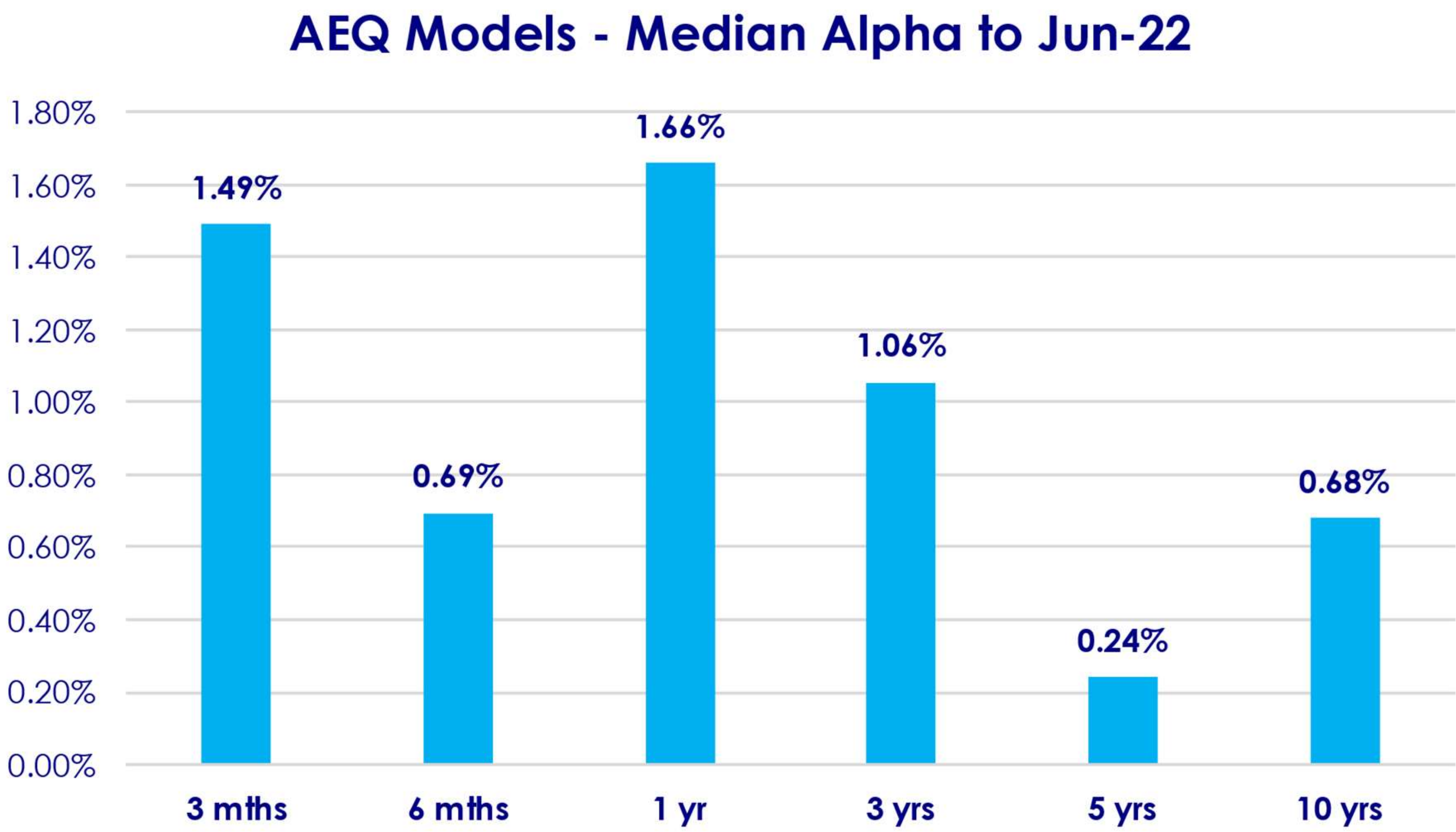
- Business profile – corporate health, balance sheet, P&L, resources, prospects
- Product strategies and marketing capabilities
- Executive Management / Oversight of the management firm
- Corporate Governance / Compliance / Risk management
- Investment team
- Investment process
- Investment liquidity and portfolio turnover
- Performance, investment style, market conditions and outlook
- Management fees, charges and other expenses

Scorecard

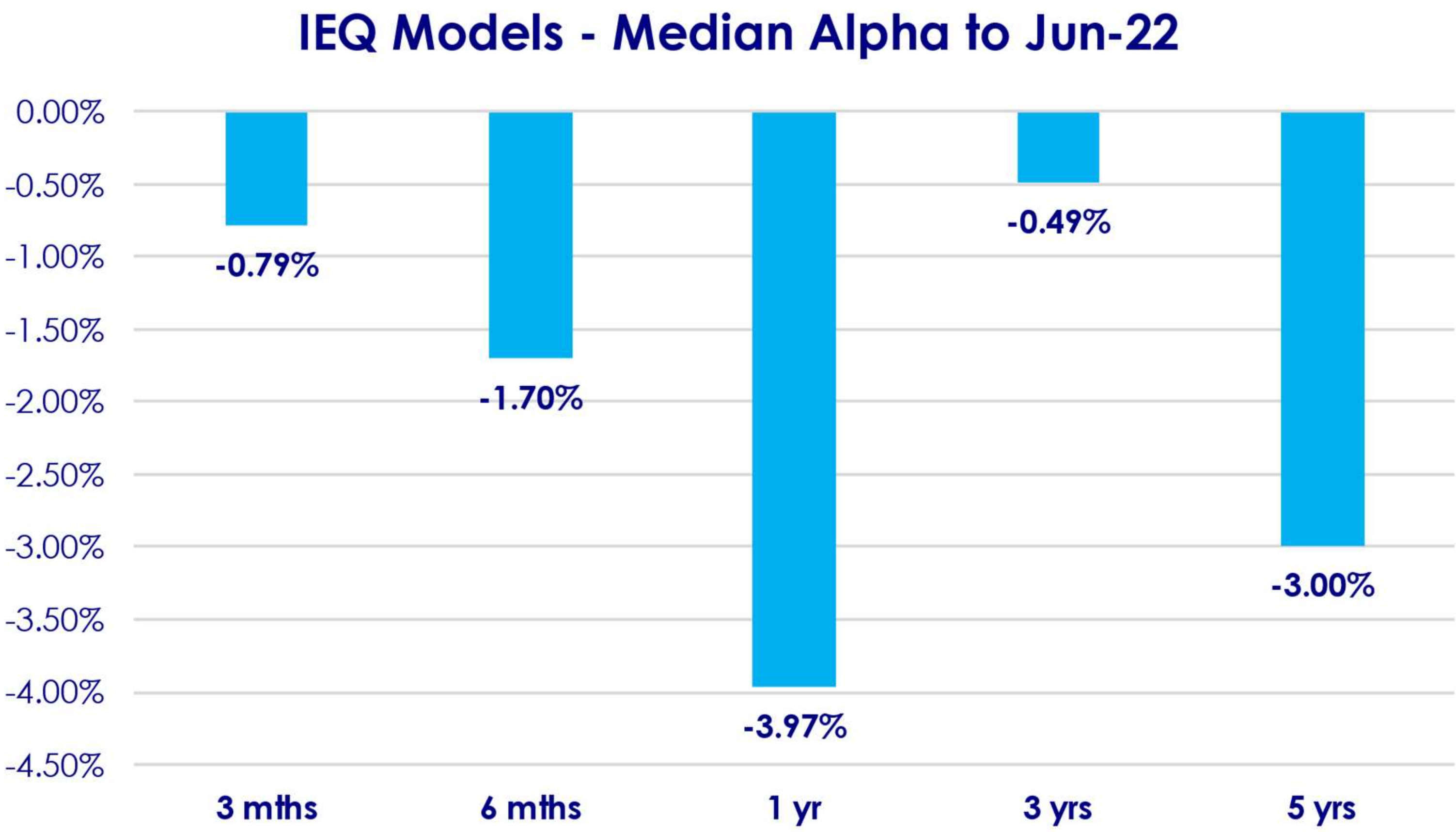
- Qualitative and quantitative factors are scored on a 37-point checklist
- Varying weights attached to each factor, reflecting its relative importance
- Zero to five-star score is applied to each checkpoint, in increments of 0.25
- The weighted average score is the central case for the final rating

Category	Weight %
Governance/Business	20
People	25
Product Features	15
Risk and Return	10
Philosophy / Process	20
Portfolio Construction	10

Performance



Performance



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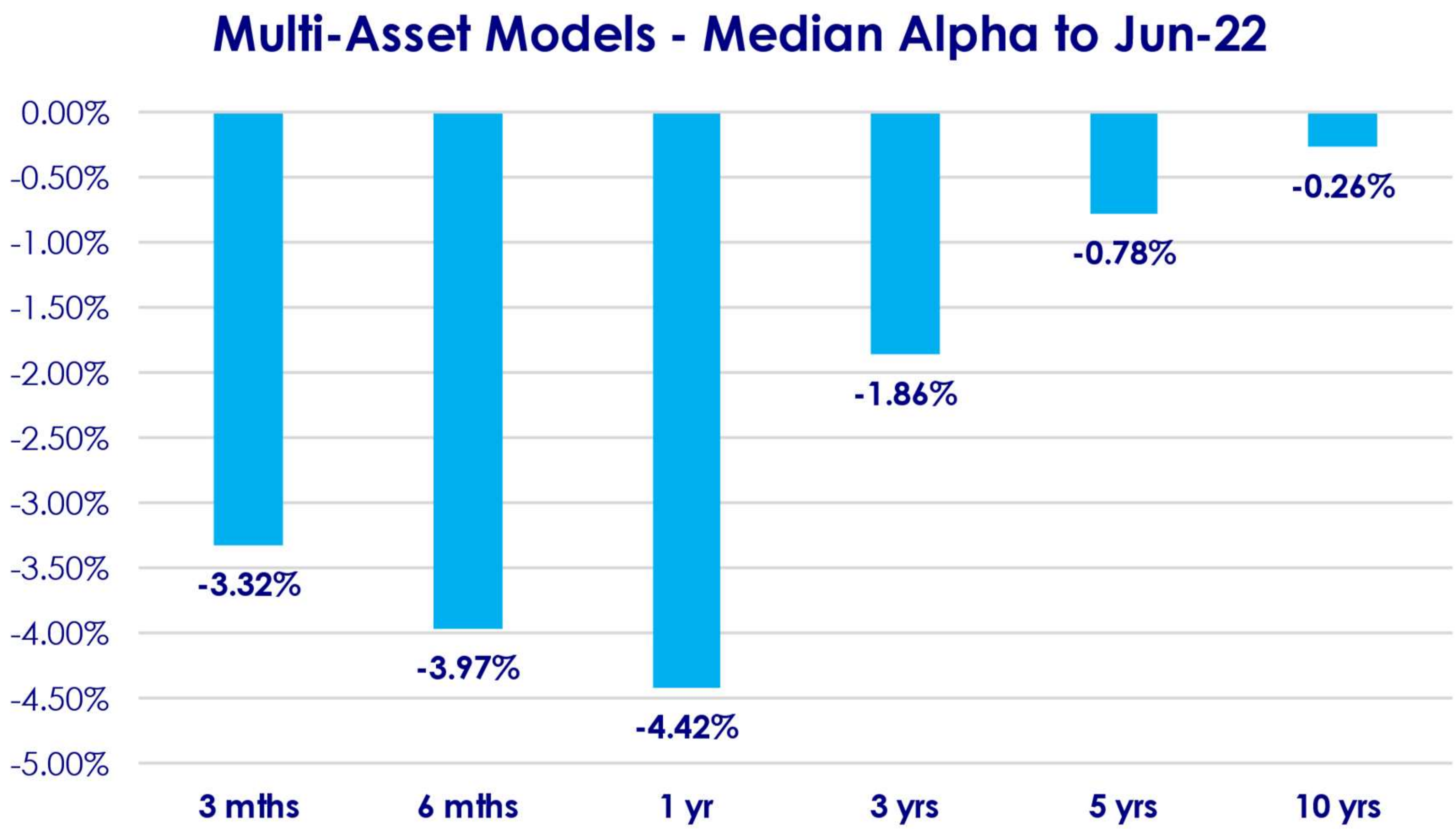

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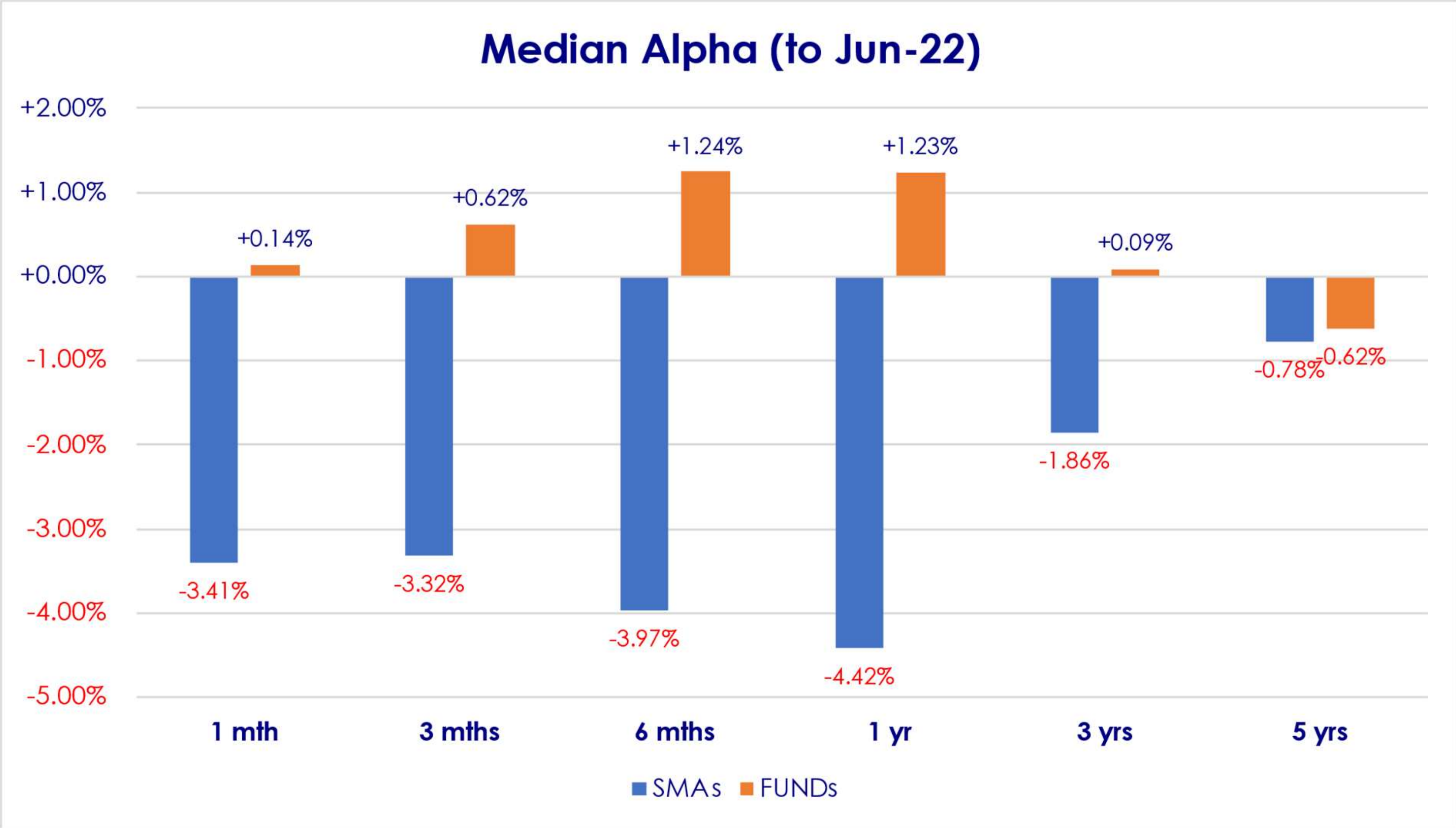

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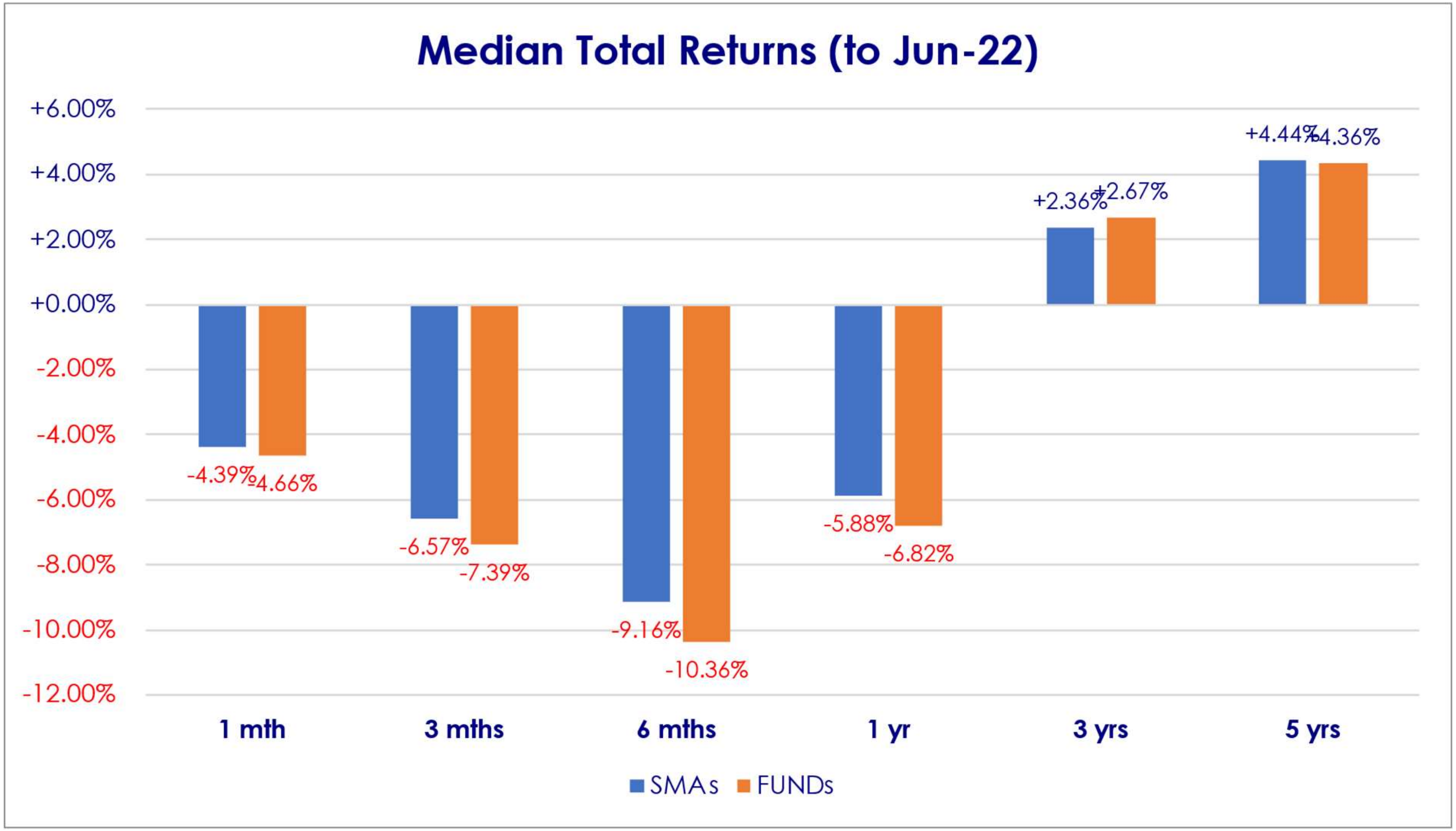

Performance

Median Total Returns (to Jun-22)

	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs
SMAs	-4.39%	-6.57%	-9.16%	-5.88%	+2.36%	+4.44%
FUNDs	-4.66%	-7.39%	-10.36%	-6.82%	+2.67%	+4.36%
Difference	**+0.27%**	**+0.82%**	**+1.20%**	**+0.94%**	**-0.31%**	**+0.08%**

Median Alpha (to Jun-22)

	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs
SMAs	-3.41%	-3.32%	-3.97%	-4.42%	-1.86%	-0.78%
FUNDs	+0.14%	+0.62%	+1.24%	+1.23%	+0.09%	-0.62%
Difference	**-3.54%**	**-3.94%**	**-5.21%**	**-5.65%**	**-1.95%**	**-0.16%**

Sample Size

	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs
SMAs	130	130	120	111	86	52
FUNDs	174	174	174	174	174	157

Q : Why the Differences in Alpha?

A: Its all about the benchmark

SQM Research

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Where we are looking for Growth in the year ahead Session 2

Chris West

Context Capital Consulting

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WHERE WE ARE LOOKING FOR GROWTH

Chris West

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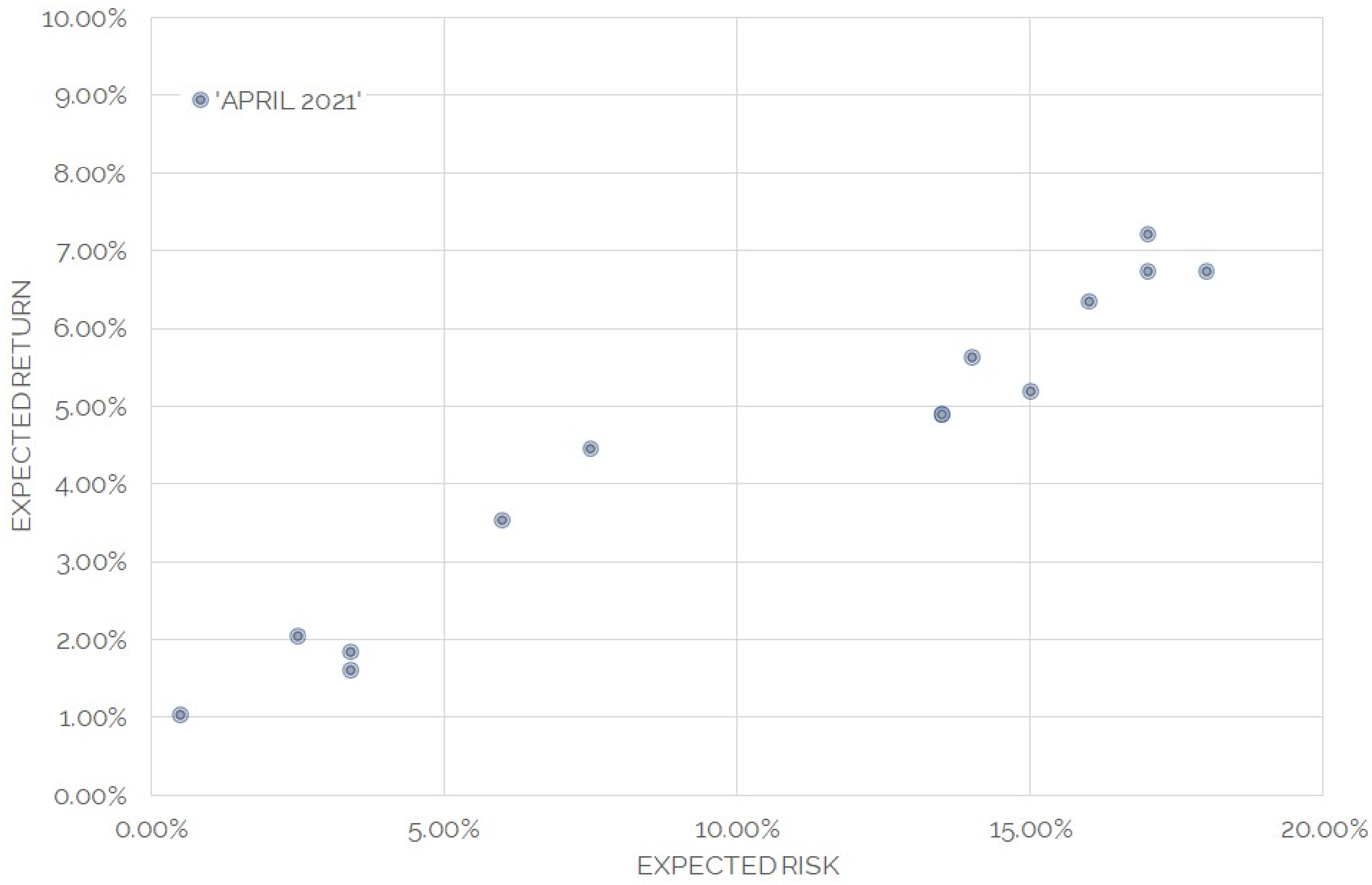

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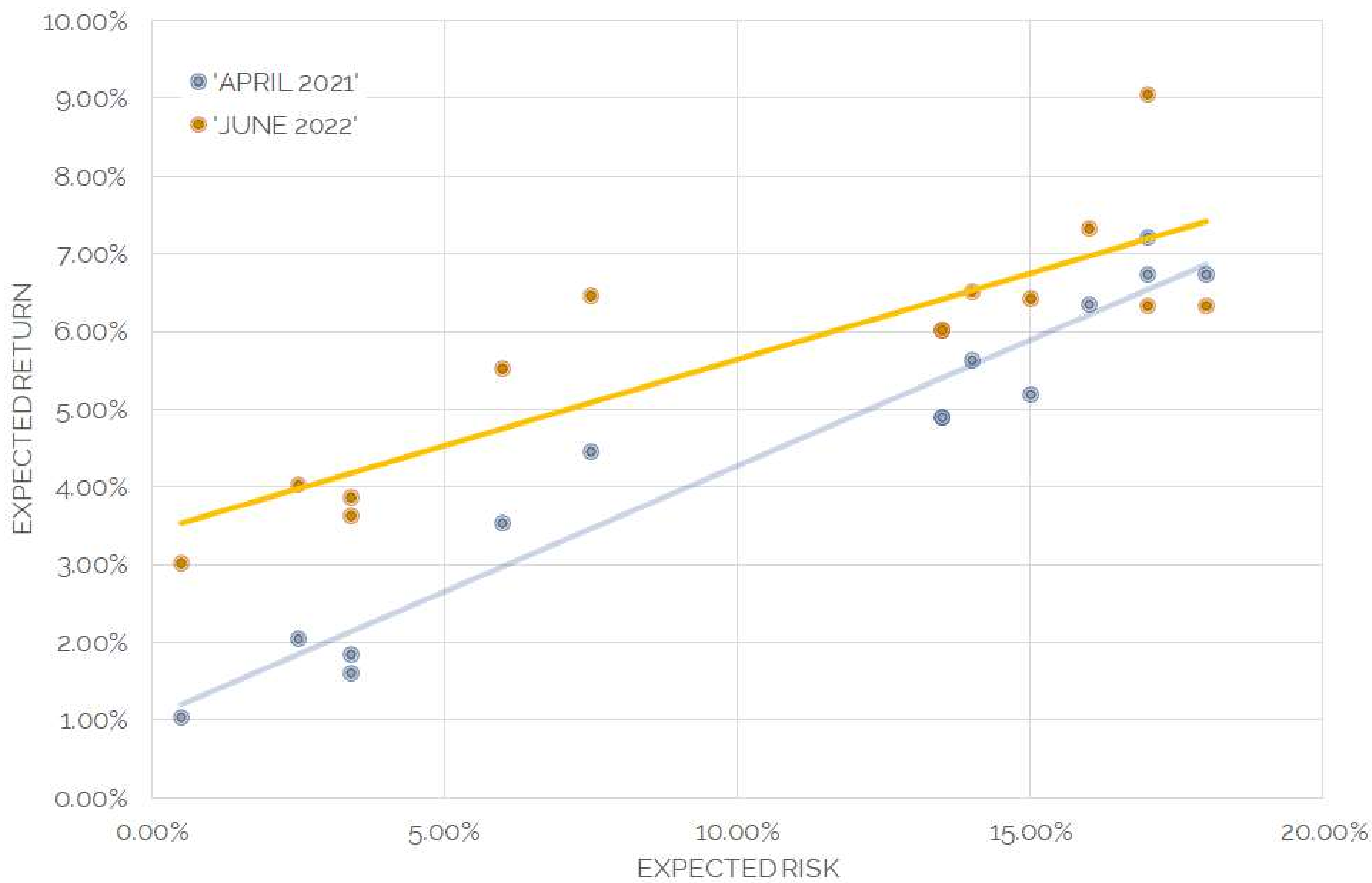
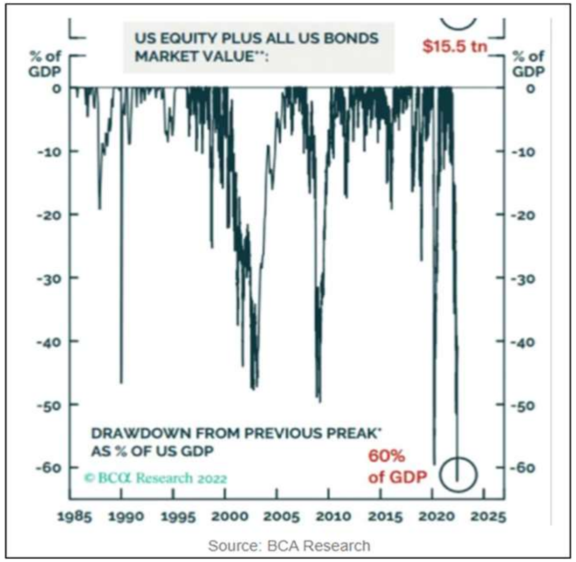
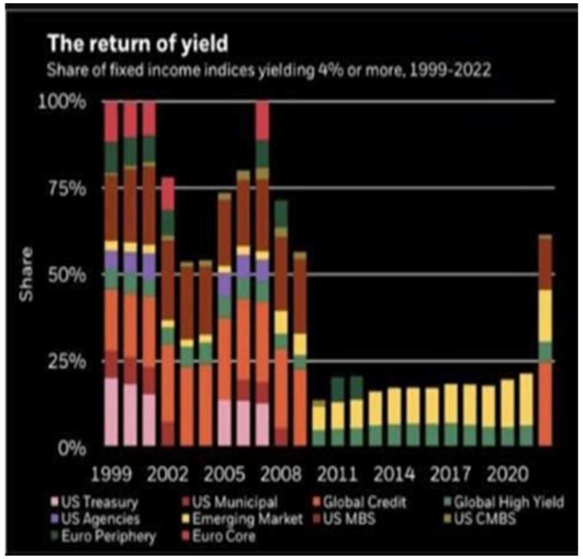
To a much more interesting *nominal* investment environment



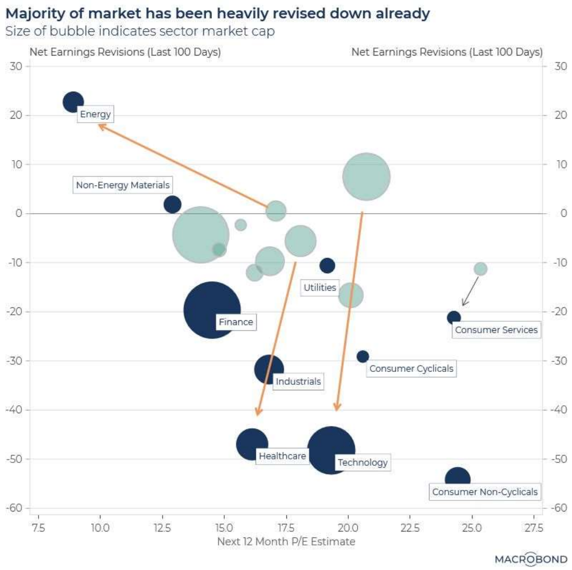
BCA Research



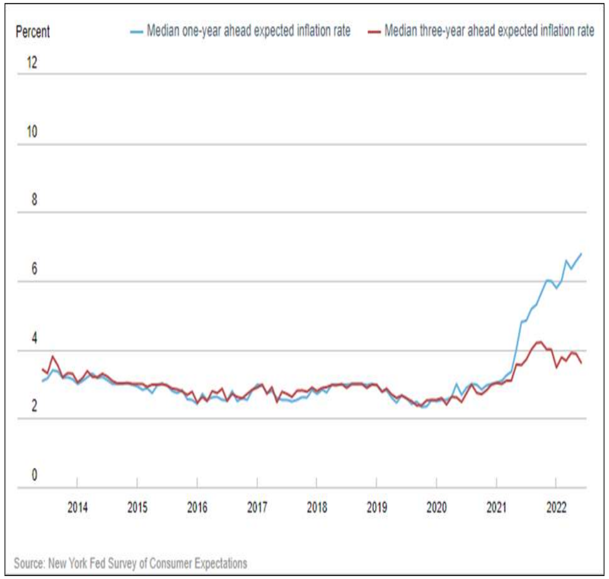
Blackrock



Macrobond



NY Fed Reserve



Context Capital Consulting

THE BORING INVESTOR

- ✓ Commonly used ‘quality’ growth companies are a lot more reasonably priced, even if the pricing is still ‘full’.
- ✓ A high volatility environment works well for highly concentrated differentiated strategies combined in a managed account.
- ✓ Equity like returns look possible in sub-IG credit.
- ✓ Whilst the traditional 60/40 can still be improved on, less complexity is needed to achieve objectives than in 2021.

Quality Growth Companies	Regular Rebalancing of Volatile Assets
Traditional Return Seeking Credit	Normalising Portfolio Construction

Context Capital Consulting

THE BOLD INVESTOR

- ✓ Some sectors are highly leveraged to rising interest rates (European bank earnings ~+25% / 1% rise).
- ✓ Is it more likely to generate alpha in market with lots of participants like large cap global equities or in nascent markets without wide adoption?
- ✓ Certain structural market features e.g Keiretsu in Japan with high, often 100% + cash and potential triggers create unique opportunities.
- ✓ USD strength is a significant challenge for EM hard currency borrowers. Could be a falling knife, but opportunities opening up.

European Financials	Active allocations to nascent asset classes e.g. Carbon Credits
Japanese Activist Strategies	Blended Emerging Market Debt

Context Capital Consulting

WHERE TO BE CAREFUL

- ✓ Private markets valuation lags are real and difficult to manage no matter how well the manager aims to provide unitholder equity.
- ✓ How well do you understand the beta of nascent asset classes?
- ✓ Trend following strategies in particular have performed well in 2022. Carefully consider the role and alternatives program structure before changing tack after recent performance.
- ✓ A volatile market may seem appealing for tactical moves but what is the attribution of your tactical allocations net of the high transaction costs on platforms and tax implications?

Open ended private markets vehicles without robust valuation approaches	Passive allocations to nascent asset class beta
Chasing CTA performance	Tactical Asset Allocation and transaction costs

Context Capital Consulting

LOOKING FOR GROWTH

- Quality growth
- Rebalancing
- Credit
- Portfolio normalisation

- Niche opportunities
- Active management in nascent markets
- Dislocations

- Private markets
- Passive allocations to nascent markets
- Performance chasing


Context
Capital
Consulting
HAPPY
SEARCHING

LUNCH

BetaShares Exchange Traded Funds

First Sentier Investors

Franklin Templeton

Milliman

MLC Asset Management

Philo Capital Advisers

Resonant Asset Management

SQM Research