# ADVICE IN ACTION 2022
## IMAP ADVISER CONFERENCE

**21st June 2022**
#ADVICEINACTION

# Upcoming IMAP Events

18th/20th/22nd July

Advice Technology Webinar Series

28th July

Perth Portfolio Management Conference

24th August

Managed Account Awards Ceremony

6th September &18th October

Independent Thought Conference Sydney & Melbourne

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Institute of Managed Account Professionals


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**Quality of Advice Review**
**What is Quality Advice?**

Articulate and Clarify the Client's Goals

Increase the Probability of Success

Timeliness

Accommodate Client Constraints – e.g. ESG

Cost / Value

Risk Appropriateness

Continued Delivery through Time

IMAP
Institute of Managed Account Professionals

# **ADVICE IN ACTION 2022**
# IMAP ADVISER CONFERENCE

Mike Pope – Conference MC

**21st June 2022**
#ADVICEINACTION

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ASSET MANAGEMENT

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# SCAN FOR EVENT MATERIAL

# Selection and implementation of Managed Account programs – transitioning to Managed Accounts

Shailesh Jane, Zenith

John Burton, Lonsec

Zenith
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# How to successfully transition to managed accounts

June 2022

# Disclaimer

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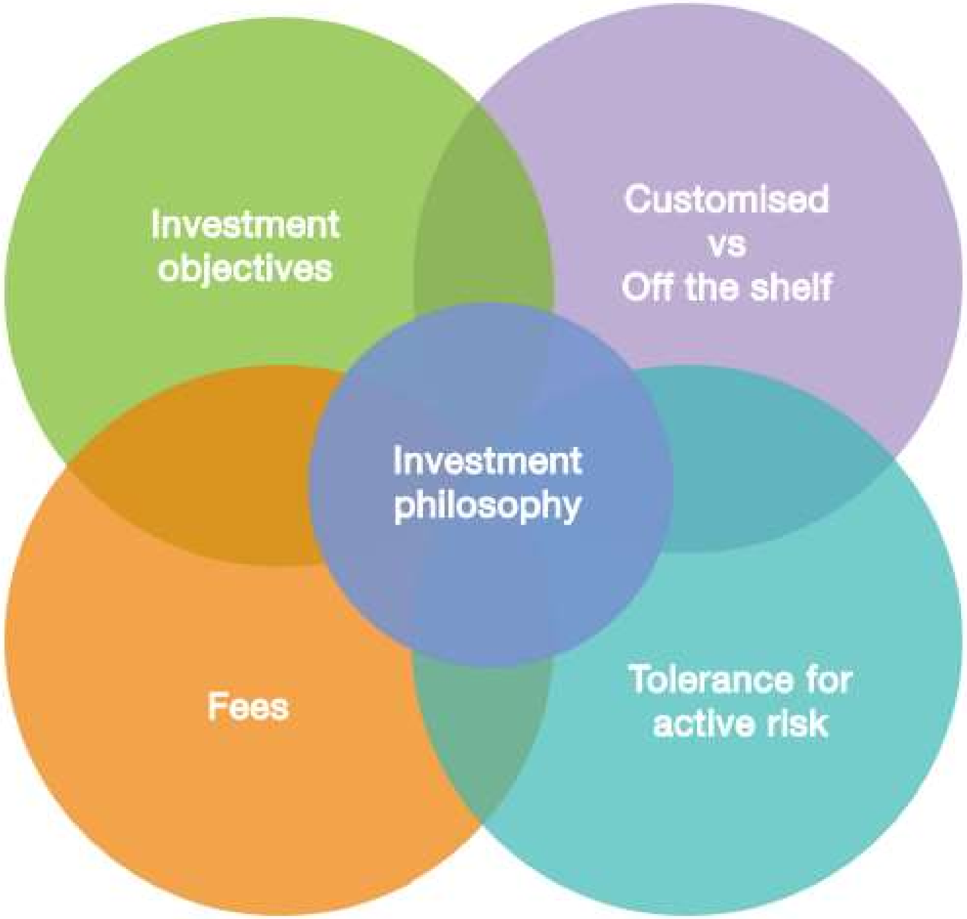
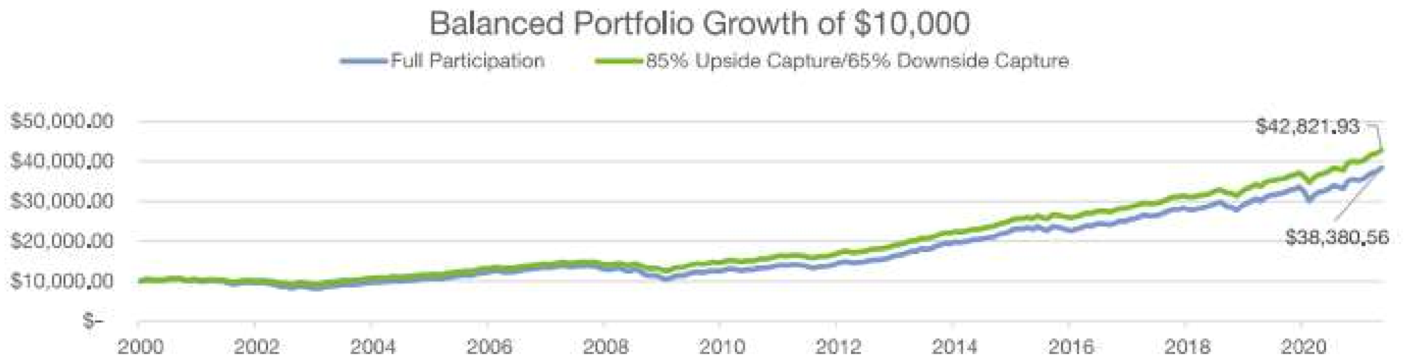
# Investment considerations



# Investment philosophy

## Guides and governs the way portfolios are managed

It is our belief that generating more consistent absolute returns over appropriate time horizons is central to generating long-term growth of investor wealth.




## Underpinned by fundamental beliefs

- Markets are inefficient and present opportunities to outperform
- Diversification leads to higher confidence of meeting objectives
- Research is key, adds value and permits evolution over time

# Investment objectives

### What is the purpose of the portfolios?

- Capital growth
- Income
- ESG/Responsible Investing focus

### Set the objective

- Cash or CPI plus
- Outperform a benchmark
- Income target

### Measuring success

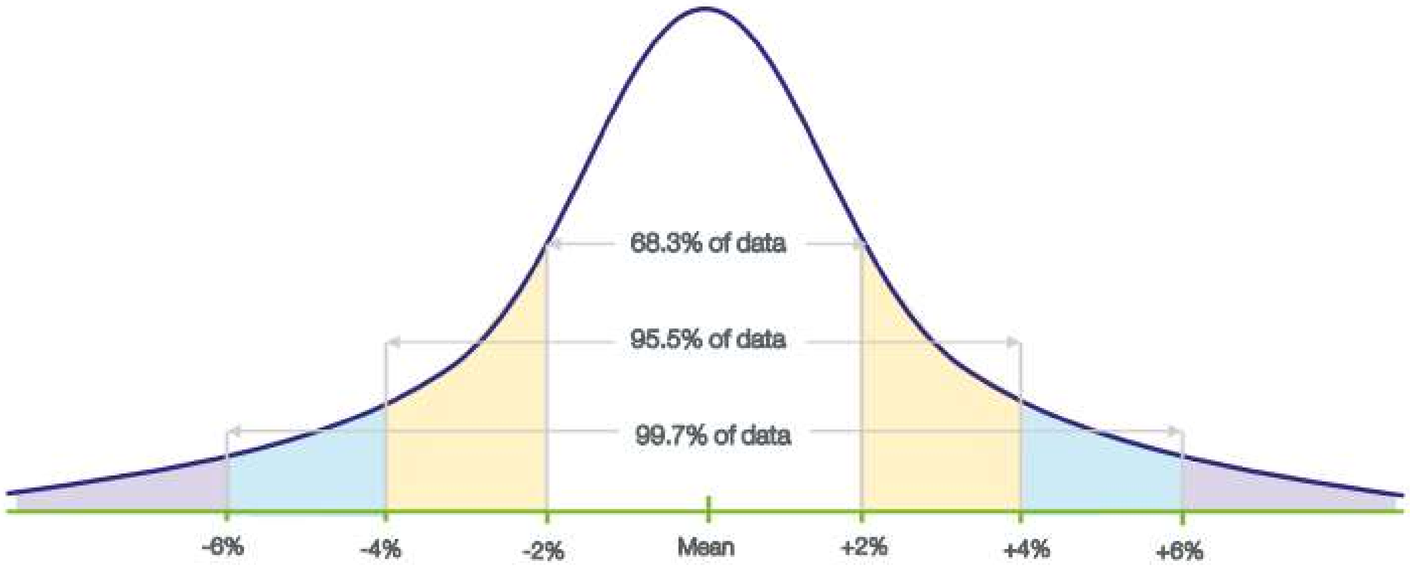
- Your objective should determine how you measure success.
  - You can't serve multiple masters
- What is your benchmark? What's relevant for a Multi-Asset portfolio?

# Tolerance for active risk

Often overlooked or mixed up with other characteristics but important for staying invested.

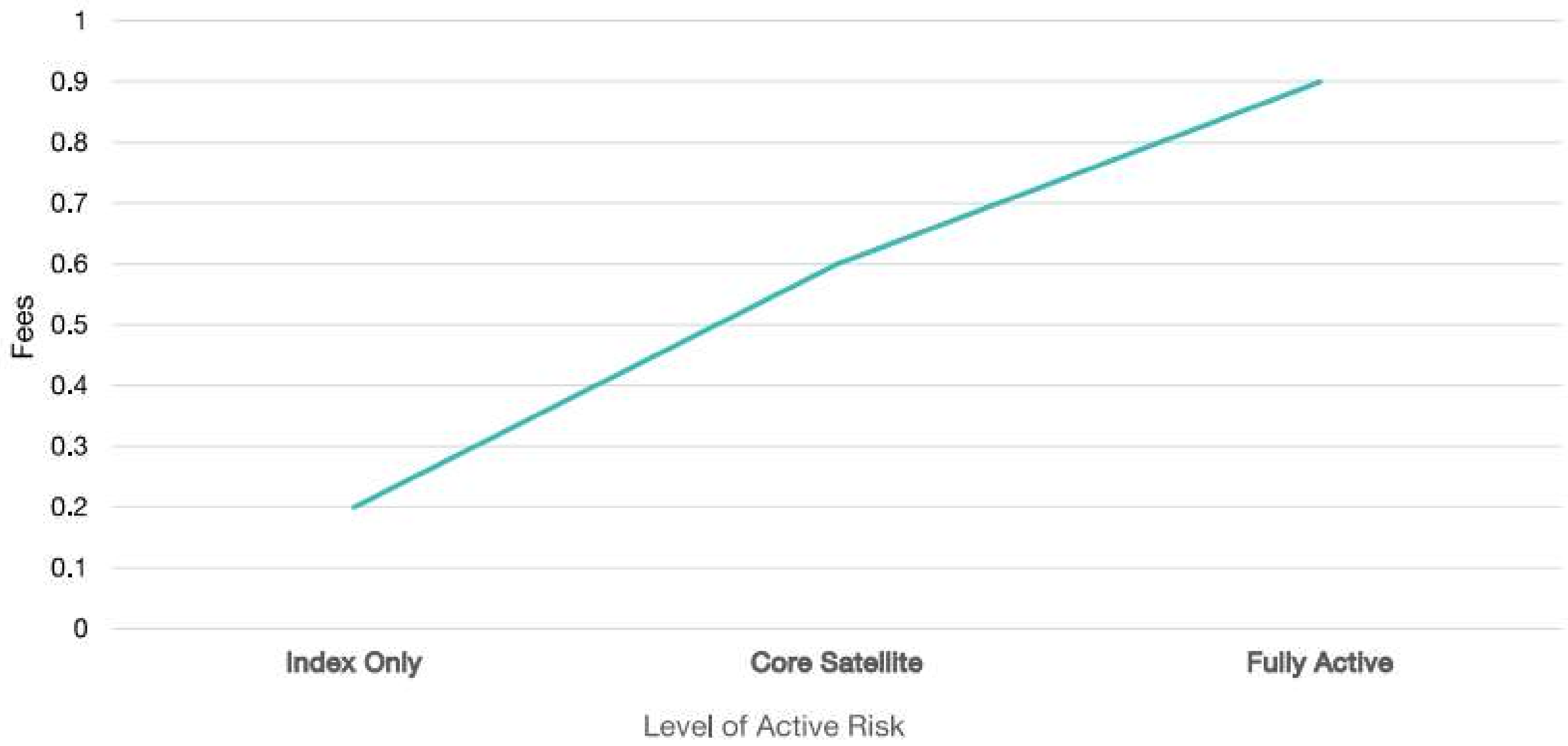
Active risk = Tracking Error = volatility of active returns around a benchmark

**Areas under normal curve that lie between 1, 2, and 3 standard deviations on each side of the mean**



# Fees

Fees are often seen as a target but are really an outcome of choices.



# Customisation levers

# Customised or off the shelf

Retain a point of differentiation

Long-standing portfolios – don't want to make wholesale changes

Long-held funds – embedded large capital gains

Fee budget

# Thank you

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# Transitioning to Managed Accounts

- The key factors to a Successful Implementation

June 2022 | Prepared by John Burton

# Why managed accounts?

How managed accounts benefit the adviser:

**01 Greater efficiency**
Reduce time associated with portfolio implementation, leaving more time to grow your business and client base.

**02 Best interest duty**
Avoid potential conflicts of interest and support your best interest duty.

**03 Stronger client relationships**
Create more time to enhance the value of your financial advice offering.

**04 Lower costs**
Reduced compliance and reporting administration overheads.

**05 Improved risk management**
Portfolios are underpinned by a professional investment process within required risk management obligations.

**06 Deeper client conversations**
Reporting from portfolio manager can enhance your client conversations.

# What prevents full implementation?

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### Not fully Committed

- Unclear on the business outcomes
- Staff are not engaged and confident in the process or the benefits of change
- Leadership not understanding the cost/benefit

### Not making adjustments to the business

- Unclear Value Proposition and Investment Philosophy
- Not considering potential change to processes or servicing
- Limited change management undertaken

### Poor planning

- Not part of the business plan or strategy
- Staff capacity not assessed – time and workload
- Not in the objectives or key result areas for staff
- No project plan

### Poor execution

- Unclear or inconsistent client engagement
- Limited product knowledge and training undertaken
- Not providing collateral for client communication and education

## What is required:

- Clear strategy and plan
- High level of commitment
- Make the adjustments to your business

# Critical Success Factors

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01 Must form part of your business plan and in objectives and key results for staff

02 Review the value of your advice

03 Choose an investment manager that supports and compliments your investment beliefs

04 Clear positioning and client engagement

05 Consider the change management for your team

06 Understand the financial implications and business outcomes

# The Key to Success – A Practice Transformation

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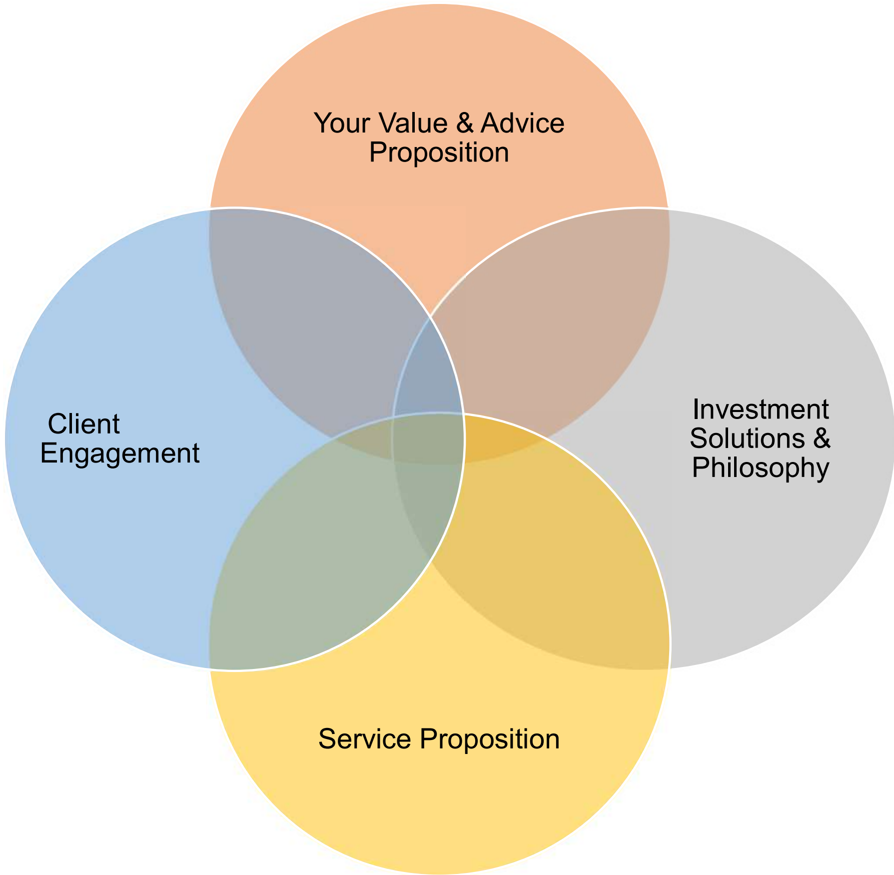
Connected Client Experience:

- Clearly articulate your ideal client and the value of your advice to that market
- Your back office is efficient and easy to do business with
- Clear articulation of your investment philosophy and how that proposition delivers the required risk/return outcomes
- Engaging with your client to create memorable progress meetings
- Showing progress in the client's situation creates trust, understanding and certainty
- Align pricing to value not service or investments



# The Lonsec practice transformation process:

01 Articulating your client value proposition

02 Assisting with creating or refining your investment philosophy

03 Identifying which clients may be appropriate for a managed account solution

04 Assisting in communicating the practice transformation story

05 Ensuring that staff are engaged and confident in the process and the benefits of change

06 Creating a project plan which aligns all stakeholders in the business

07 Forecasting and tracking practice goals in the transition to managed accounts

08 Providing collateral for client communication and education

09 Assisting with the preparation and execution of advice

10 Proactive review of your transformation plan to ensure your practice goals are realised

# Thank you

# Get in touch

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# Profit facts and prosperity drivers – using managed accounts for practice success

Matt Van Dijk, Praemium

# IMAP Advice in Action

PRESENTED BY
Praemium

# Managed Accounts - profit facts and prosperity drivers

June 2022

Praemium Limited ACN 098 405 826

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## Agenda

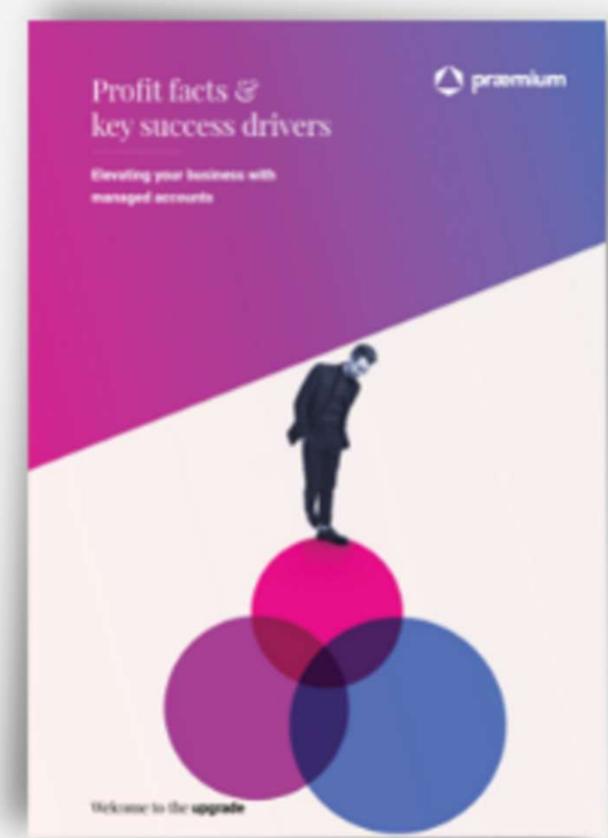
» The growth story continues

» What sets managed accounts firms apart

» The evolving investor

# 2022 – Profit facts & Key success drivers

- We know that managed accounts deliver efficiencies that translate into improved performance metrics for advice practices
- We sought to identify the key differentiators between firms using managed accounts and firms that don't.
- Is it simply the use of the solution that is driving success?



# What sets managed accounts firms apart

## What are managed account firms doing differently to those who don’t use them

1. Working on your business not just in it
2. Prioritising the client experience

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# Working on your business not just in it

| Key business driver | Firms not using managed accounts | Firms using managed account for 3+ years (Uplift) | Firms with 75%+ of clients invested in managed accounts (Uplift) |
|---|---|---|---|
| Documented 3–5-year strategic business plan | 22% | 36% (+64%) | 44% (+100%) |
| Regularly seeking external business advice | 39% | 45% (+15%) | 56% (+44%) |
| Documented client value proposition (CVP) | 41% | 64% (+56%) | 89% (+117%) |

# Prioritising the client experience

67%

report improved client engagement

89%

spend more time with clients

143%

more likely to seek formal client feedback

# Prioritising the client experience

| Key business driver | Firms not using managed accounts | Firms using managed accounts for 3+ years (Uplift) | Firms with 75%+ of clients invested in managed accounts (Uplift) |
|---|---|---|---|
| Improved client engagement | – | 59% | 67% |
| More time spent with clients | – | 45% | 89% |
| Client reviews lasting 60+ minutes | 77% | 91% (+19%) | 89% (+16%) |
| 20+ items covered in the client review | 14% | 23% (+64%) | 22% (+57%) |
| Formally seeking client feedback | 23% | 36% (+57%) | 56% (+143%) |
| 10+ “A” client touch points per year | 29% | 45% (+73%) | 44% (+69%) |

# Prioritising the client experience

| Key business driver | Firms not using managed accounts | Firms using managed accounts for 3+ years (Uplift) | Firms with 75%+ of clients invested in managed accounts (Uplift) |
|---|---|---|---|
| Clients per adviser | 262 | 239 (-9%) | 214 (-18%) |
| Client meetings per adviser per week | 5.9 | 7.8 (+32%) | 7.8 (+32%) |
| Firms adding 20+ new clients in past 12 mths | 44% | 77% (+75%) | 78% (+77%) |

# Efficiency and scale transforming profits

| Key business driver | Firms not using managed accounts | Firms using managed account for 3+ years (Uplift) | Firms with 75%+ of clients invested in managed accounts (Uplift) |
|---|---|---|---|
| Notional practice profitability* | 25.4% | 36.2% (+43%) | 35.1% (+38%) |
| Notional profit* per owner | $268,253 | $481,169 (+79%) | $609,736 (+127%) |
| Notional profit* per client | $903 | $2,425 (+169%) | $4,662 (+416%) |

# Efficiency and scale transforming profits

| Key business driver | Firms not using managed accounts | Firms using managed account for 3+ years (Uplift) | Firms with 75%+ of clients invested in managed accounts (Uplift) |
|---|---|---|---|
| Practice revenue | $1.2m | $2.1m (+75%) | $2.2m (+84%) |
| Revenue per client | $3,224 | $5,321 (+65%) | $9,685 (+200%) |
| Notional salaries as a percentage of revenue | 47.3% | 39.7% (-16%) | 39.7% (-16%) |
| FUM growth of 20%+ | 12% | 27% (+125%) | 33% (+175%) |

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# The evolving investor

# Digital service experience

**Smart technology has been one of the biggest drivers of changing consumer behaviour over the last decade**

**40%**
of customers today prefer self-service over human contact.

**50%**
of clients believe their adviser should offer a digital solution.

**60%**
of emerging HNWs would welcome the ability to access and manage their whole investment portfolio through a single digital experience.

Source: Aspect

Source: Accenture Wealth Management Consumer Report

Source: Investment Trends High Net Worth Report 2021

# Digital service met by managed accounts

Compelling & Innovative

Scalable & Cost-effective

Digital onboarding

Positive UX

Communication & Reporting

# Access to new investment opportunities

- » Increased awareness of investment opportunities amongst retail investors is driving interest in accessing new opportunities e.g crypto, NFTs, ETFs etc
- » Managed accounts provide breadth of choice and access
- » Trading efficiencies allow advisers to act quickly and action recommendations promptly for the benefit of clients

# Increasing prioritisations of ESG

Whilst millennials led the charge to ESG investing, interest is increasing across all demographic groups

**82%**
of retail investors globally say that they are interested in investing in companies that are socially and environmentally responsible.

**72%**
want to avoid any industry that contributes to climate change.

**81%**
want their investments to match their values.

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Source: Natixis Investment Managers 2020 Global Survey of Financial Professionals and 2019 Global Survey of Individual Investors

# ESG with managed accounts

**Increased investment choice**

**Ability to tailor with exclusions & substitutions**

**ESG technology for tailored scalable solution**

# Personalised holistic service

The digital evolution has driven an expectation for an increasingly personalised service

55%

feel the advice they receive is too generic

34%

would increase their investments
if they received a hyper-personalised experience

# Personalised holistic service with managed accounts

**Customised investments**

**Communications tailored to information needs**

**AI allowing for more personalised engagement opportunities**

# Intergenerational wealth and the emerging HNW investor

$3 trillion in wealth is set to transfer from one generation of Australians to the next over the next decade

53%

of the nation's wealth is held by Boomers who will be passing it on in the decades to come.

90%

of those who inherit do not stay with their parents' financial adviser.

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Source: McCrindle /The Emerging HNW Investor - an advice opportunity. Investment Trends HNW Research Report 2021

# Meeting the needs of the next generation with managed accounts

- Rapid growth in new millionaires over the last year much of this wealth is achieved through inheritance
- Citing a number of unmet advice needs and a preference for using an adviser
- Our recent research indicated that this segment is focused on many of these key investor needs
  - Holistic personalised wealth service
  - Focus on ESG
  - Digital service
- Seeking education and support on inheritance and estate planning

# Summary

# The profit facts

## The more you use managed accounts the greater the benefit

**84%**
uplift in revenue when using managed accounts for 75% + of client base

**200%**
uplift in revenue per client
adjflasjdfljdslkfjdslfj

**127%**
uplift in notional profit per owner

**416%**
uplift in notional profit per client
$9,685 p

# Key success drivers

- Focused on the client experience – more time with clients, greater detail on reviews
- Regularly seek client feedback
- Documented 5 year strategic plan
- Documented client value proposition
- Regularly seek external business advice

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# The importance of a rigorous investment process to deliver on client goals

Wayne Chatterjee, Morgan Stanley

Session Host: Russ Hanlon, AMP

Morgan Stanley

# The Importance of a Robust Investment Process

**Alexandre Ventelon, Executive Director**
**Head of Research, Morgan Stanley Wealth Management Australia**

**June 2022**

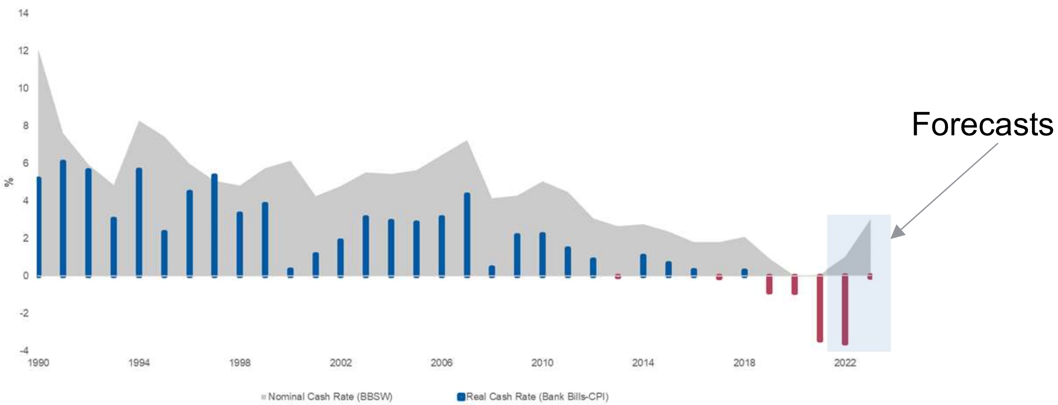
Morgan Stanley

## Why Multi-Asset now?

# Why Multi-Asset Now (i) – Inflation will keep eroding savings

- With cash rates falling to near zero in the last couple of years, real returns on cash have been negative in 4 of the last 5 years.
- Morgan Stanley expects headline inflation in Australia to be strong this year (4.6%) and the next (3.1%).
- Cash rates will move higher but not enough to match inflation so we expect substantial negative real returns for 2022 and slightly negative returns for 2023.

**Cash Returns in Australia**

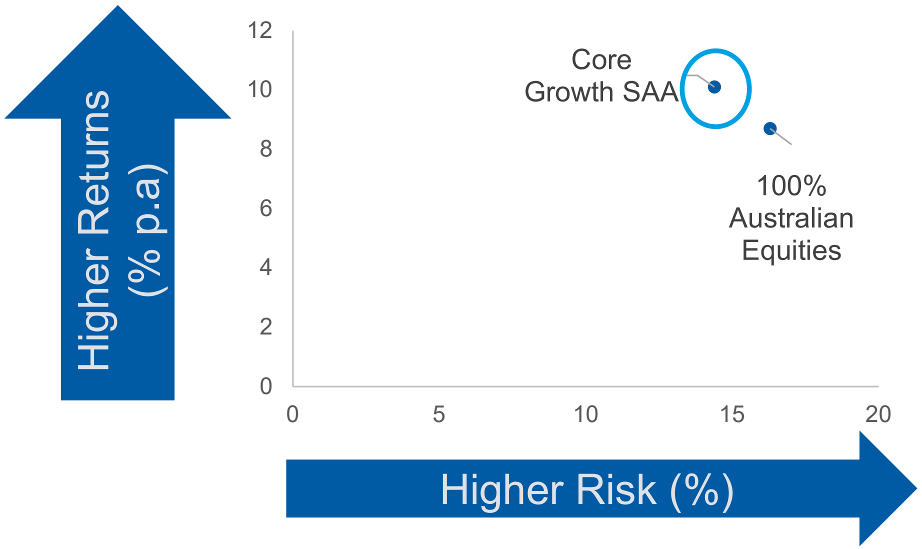



Source: Bloomberg, Morgan Stanley Wealth Management Research. Output generated using Asset Allocation Tool. Forecasts using Morgan Stanley macro assumptions.

# Why Multi-Asset Now (ii) – Diversification

**A Multi-Asset 'Growth' Allocation has historically generated better return for lower risk compared to a 100% Australian equities portfolio**



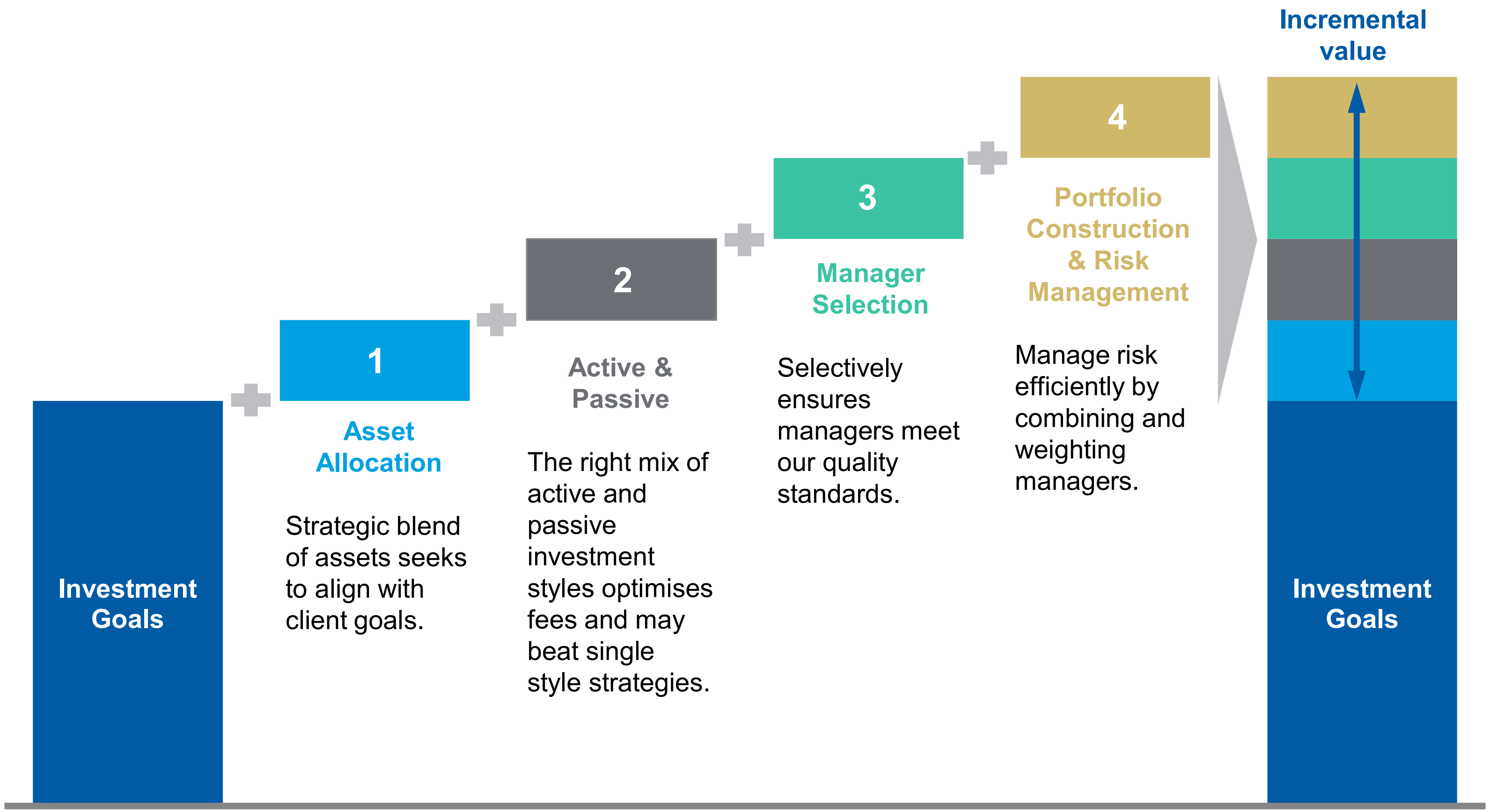

Source: Morgan Stanley Wealth Management Research Division using underlying data from Bloomberg and Factset. Annual returns between 1990 and 2021 have been used to calculate the annualised return outcomes. All returns except Commodities in AUD. Commodities returns are in USD. Use of USD return series will impact the overall simulated return outcome, however, given these exposures are often partially or fully hedged and gained offshore, we feel that the use of these indices as a proxy for performance is appropriate. All returns unhedged except for International Bonds and Hedge Funds. See Morgan Stanley Wealth Management Research Asset Allocation Insights publication dated 9 December 2020 and Asset Allocation Insights: Strategic Asset Allocation Review 3 August 2021 for further details on long term assumptions. Asset allocation weights recommended today are being applied retrospectively and returns and volatility are calculated assuming an historical investment in an index, rather than an underlying asset - as such the simulated portfolio returns are not an actual representation of Morgan Stanley asset allocation returns. Moreover it is not possible to invest directly in an index and unlike fund or ETF returns indices do not reflect any fees, expenses or transaction costs. In practice asset allocation weights will change over time. Certain sub-asset classes that are within the client or the Morgan Stanley asset allocation may not be captured in the above simulation.

Morgan Stanley

# Investment Process

# Investment Process

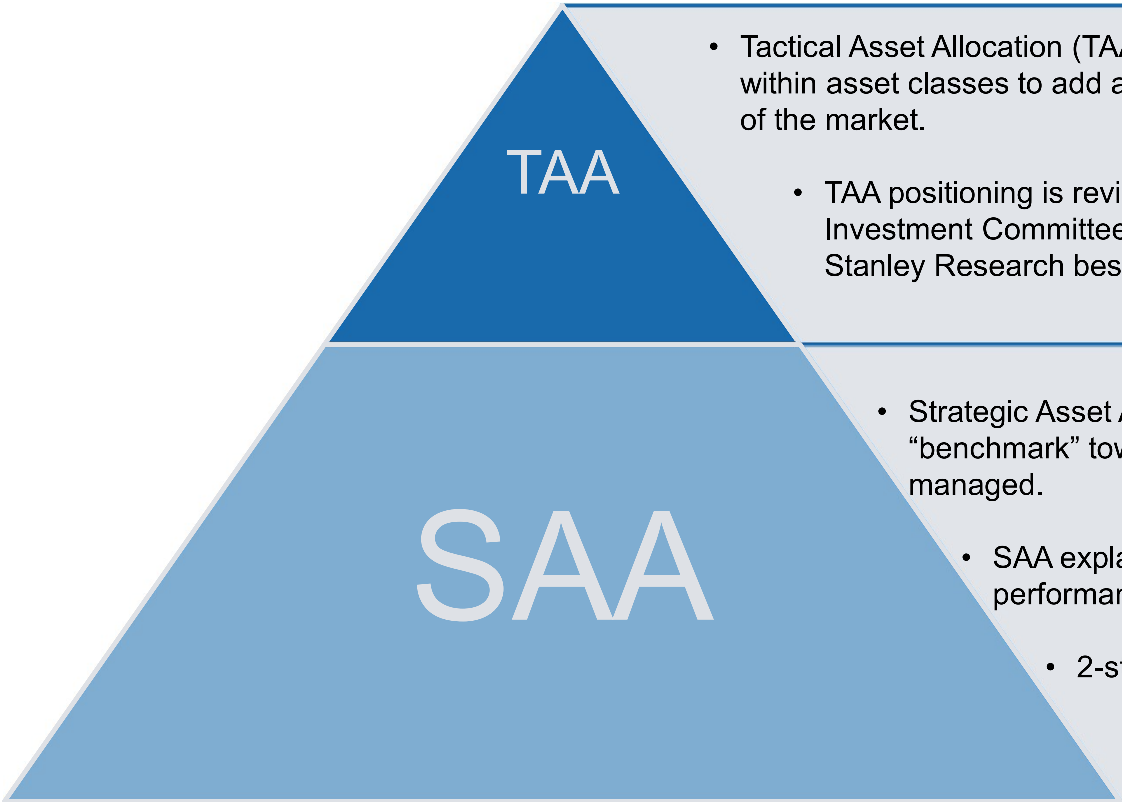
## Our investment process is built on four pillars




Source: Morgan Stanley Wealth Management Research

# Asset Allocation (i): A two-step process

**SAA sets the 'trajectory' to achieve financial goals. TAA seizes opportunities with the objective to reach it faster and/or exceed peers.**




- Tactical Asset Allocation (TAA) looks at short-term opportunities within asset classes to add additional value above that of the rest of the market.
  - TAA positioning is reviewed every 4-6 weeks, with weekly Investment Committee monitoring, leveraging Morgan Stanley Research best ideas.

- Strategic Asset Allocation (SAA) creates the long term "benchmark" towards which the client portfolio is managed.
  - SAA explains ~90% of long-term fund performance.
    - 2-step process:
      - ❑ Capital Market Assumption formation.
      - ❑ Optimisation.

Source: Morgan Stanley Wealth Management Research

# Asset Allocation (ii): Why does it matter?

## History overestimates predicted returns and highlights the need for a sophisticated SAA optimization process

Predicting the future with historical data implies investors will experience a “normal distribution of returns”.

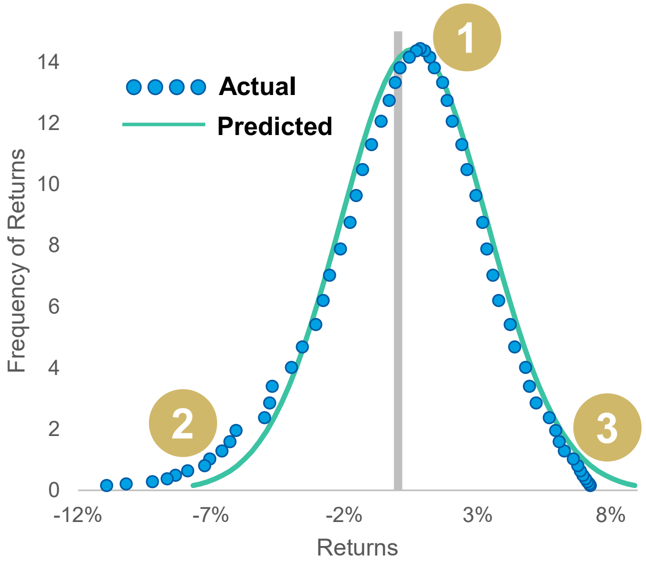
However, the actual experience for investors has been more negatively skewed.

We manage this risk when designing our SAA by accounting for:

i. the “noisiness” of return; and

ii. asymmetrical or ‘fat-tailed’ return distributions.

**Return Distributions of a 60/40 Portfolio**

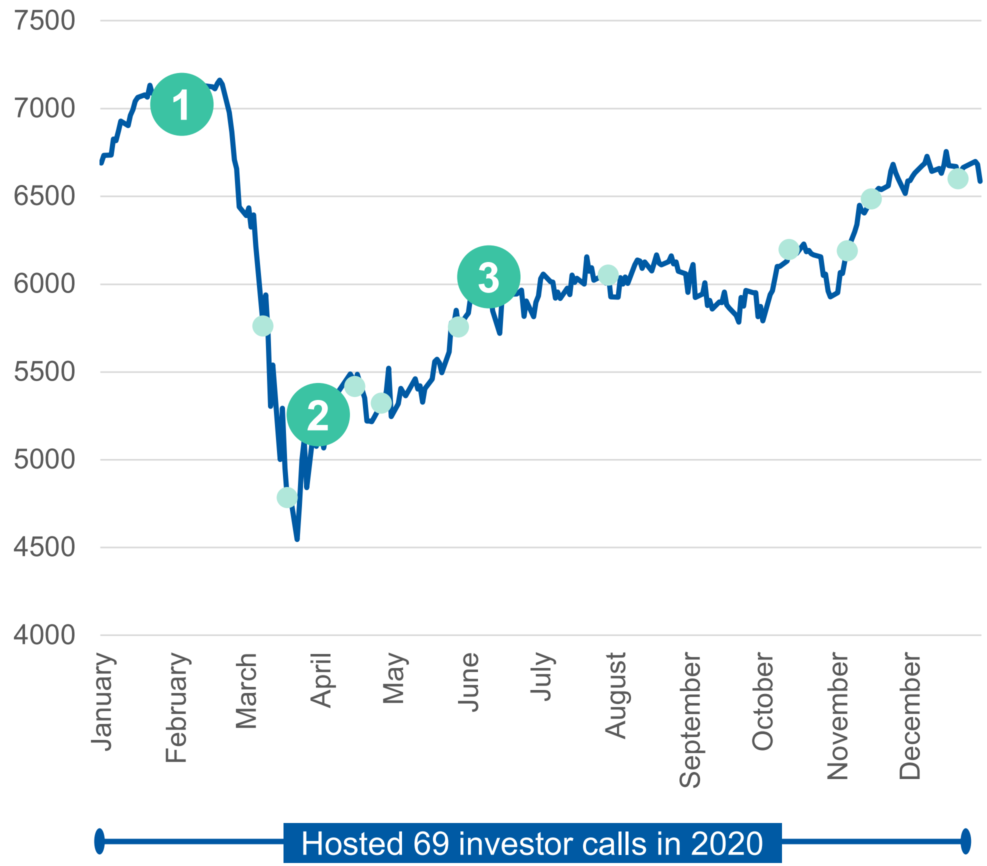



Source: Morgan Stanley Wealth Management Research, Bloomberg. Data at 23 July 2020 Monthly returns since 1990. Portfolio is composed of 60% growth assets and 40% defensive assets.

# Asset Allocation (iii): The need for active management in volatile times

## Our processes and teamwork successfully navigated the extreme volatility of 2020

S&P/ASX200 - January to December 2020




In 2020, Morgan Stanley's Core Growth Model returned 5.8% vs ASX200 1.4% vs Peers 1.8%.

Source: Morgan Stanley Wealth Management Research

# Asset Allocation (iv): Leveraging Morgan Stanley global capabilities and resources

## Research is at the heart of our service

### Institutional Research

Number 1 in the 2022 Institutional Investor All-Asia Research Team Survey for the 8th consecutive year.

| 480+ | 30+ | 60+ | 30+ | 30+ |
|---|---|---|---|---|
| Equity Analysts | Equity Strategists | Fixed Income Strategists | Economists | Quant & Data Strategists |

**Global Insights**

Asset class, sector and thematic analysis.

Monetary and fiscal policy.

Macroeconomics.

### Wealth Management Research

Morgan Stanley is the largest wealth manager in the US with ~US$4.9 trillion in client assets under management.

| 150+ | 8 |
|---|---|
| Analysts & Strategists | Leading Thinkers |

**Best Practices**

Managed Fund and ETF selection.

Quantitative modelling.

Portfolio construction.

**Morgan Stanley Wealth Management Australia Research**

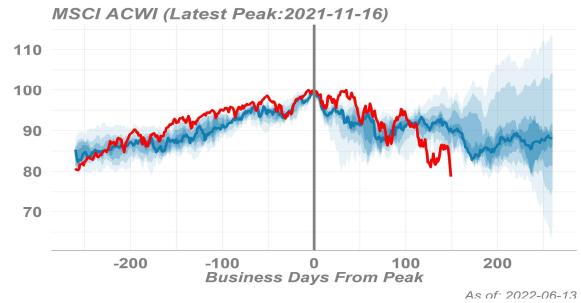
Morgan Stanley

# TAA Views and Positioning

# Ongoing correction in equities is likely

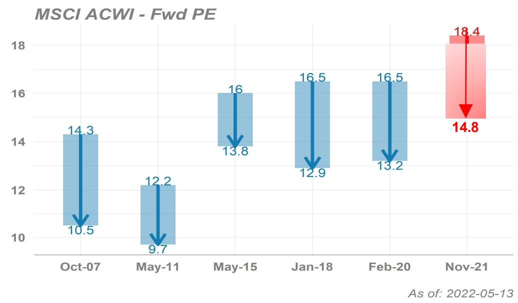
## Current uncertain outlook

**MSCI ACWI has recently seen a peak to trough decline of 20%+ …**




Source: Bloomberg, Morgan Stanley Research; Note: Shows summary of bear market episodes. Each band represents observation decile starting at 10% to 90%, solid line is median. Red line is current sell-off. Data from whenever history begins.

**… but global equities entered this sell-off at relatively higher valuations**




Source: Bloomberg, Datastream, Morgan Stanley Research.

- Global equities are in the midst of a bear market that is not yet finished.
- Earnings revisions are slowing globally.
- Cost pressures remain an issue for corporates around the world.
- At the same time, the Federal Reserve has embarked on an aggressive monetary policy tightening path in an effort to fight inflation that is running at a 40-year high in the US.

# Key Recommendations

## Favour beneficiaries of elevated inflation, higher interest rates, slowing economic growth, and higher volatility

- **International Equities**: Favour defensive (i.e. Healthcare, Infrastructure, Minimum Volatility) combined with inflation hedges (i.e. Materials, Energy) and exposure to higher yields (i.e. Value).

- **Australian Equities:** Market looks more attractive in the current environment given the recent de-rating and defensive quality attributes.
  - Energy and Materials sectors are attractive given low earnings multiples, favourable free cashflow, and a positive outlook for commodities.
  - Prefer stable earnings/high dividend quality stocks.

- **Fixed Income:** We prefer Australian short term credit after the recent rise in yields. We believe short term yields will come in as interest rate pricing is too aggressive. We also like floating rate Investment Grade markets to capitalise on rising rates.

- **Commodities:** Fundamentals remain strong in most key markets, benefiting from supply/demand imbalances. Commodities offer a solid hedge against inflation and geopolitical risks. We like Aluminium, Iron Ore and Oil.

- **Alternatives:** Favour hedge fund strategies that have the ability to go long and short (e.g. Relative Value, Long Short and Market Neutral).

# Positioning

## Tactically more defensive

**Equities:** Neutral / Mild Underweight

- Favour defensive exposures (i.e. Minimum Volatility, Infrastructure). Value still preferred over Growth. Quality no longer divested, rather retain exposure.
- Australia remains preferred in the current environment given the recent de-rating, defensive quality attributes and attractive yield.

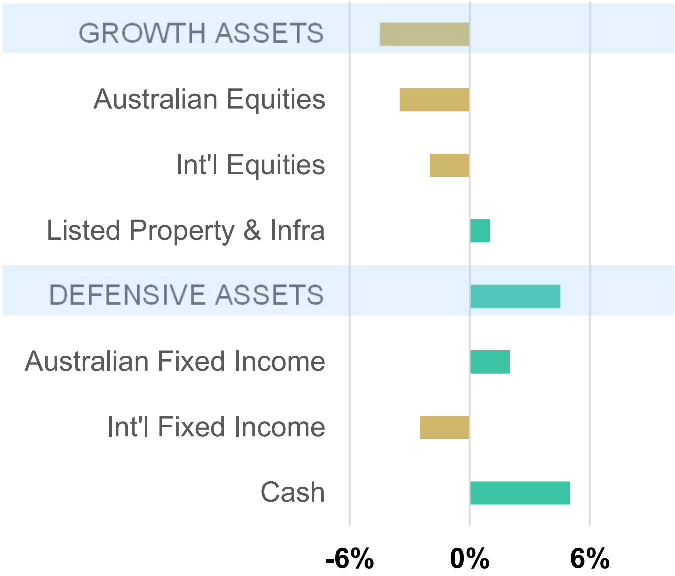
**Fixed Income:** Mild Underweight

- In Credit, move exposure to 'higher grade', replacing floating rate notes with cash, while we replace hybrids with subordinated debt.
- Build back duration.

**Cash:** Mild Overweight

- Retain a small cash allocation to deploy opportunistically.

**Recommended Positioning For Australian Investors**




Source: MSWM Research. Data as at 27 May 2022. Views are expressed against our SAA.

Morgan Stanley

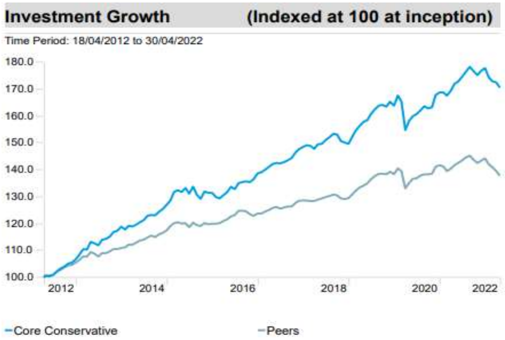
# Performance

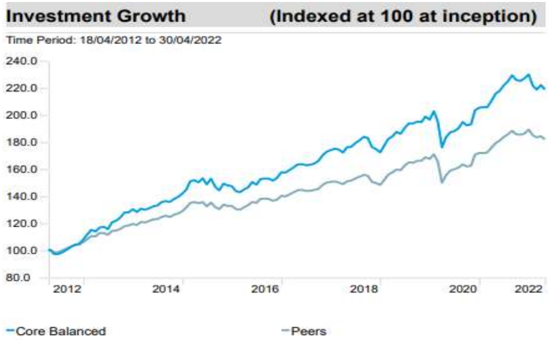
Morgan Stanley

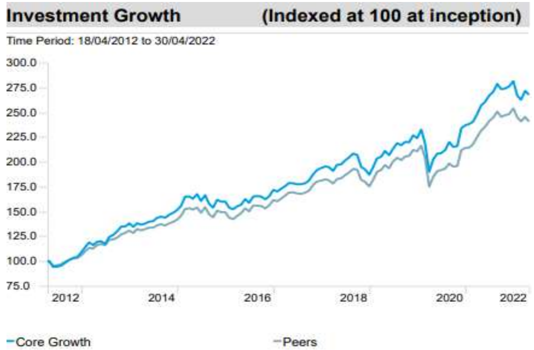
# Multi-Asset Core Model Portfolios

## Performance to 30 April 2022

| | Conservative | Balanced | Growth |
|---|---|---|---|
| **Return since inception (Annualised, 18 Apr 2012)** | 5.4% | 8.1% | 10.3% |
| Peer Group | 3.3% | 6.2% | 9.2% |
| **Excess return** | **2.1%** | **1.9%** | **1.1%** |




– Core+ **Conservative** has also **NEVER** had a negative calendar year return.

- **Every** strategy in the Core series has **beaten** its peer group in the **3**,**5**,**7** and **9** year periods.

Source: Morningstar, Morgan Stanley Wealth Management Research. Results shown represent total return (including dividends). Past performance is no guarantee of future results. Figures may not sum due to rounding. The portfolio is hypothetical and does not include actual trades; results do not include transaction costs/fees. Return data from 18 April 2012 (inception) to 30 April 2022. Performance is net of ICRs (indirect cost ratio). The Peer Groups are the Morningstar Australia Fund Multisector Conservative, Balanced and Aggressive Category Averages, respectively. For further details see Asset Allocation Insights: Core Conservative, Balanced and Growth Model Portfolio Performance Updates for April 2022.

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# Executive Summary

## Asset Allocation generates better risk adjusted returns versus most single risk asset classes. A robust investment process is key to successful implementation.

- In the current volatile and inflationary environment, no single asset class is likely to generate returns over and above inflation this year and the next. Rather, an asset allocation approach is best suited to generate favourable risk adjusted returns.
- Our multi-asset portfolio management process is supported by four key pillars:
  - The most important one is Asset Allocation, where the SAA sets the risk/return trajectory, whilst active management helps capture short-term opportunities to add additional value above that of the rest of the market.
  - Additional alpha can be added via active versus passive selection and security selection, as well as portfolio construction.

➢ **The robustness of the process, in particular the ability to generate and implement high-value investment ideas and manage risk appropriately, is what drives long term performance.**

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Each security will then be given one of four ratings:

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- Medium Risk – a security is backed by an entity that exhibits adequate protection parameters, however, adverse economic conditions or changes in circumstances could lead to a weakened capacity of the entity to meet its financial obligations.
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