MANAGED ACCOUNT

PERSPECTIVES

CUSTOMER EXPERIENCE

JACQUI HENDERSON ON FINTECH SHAPING THE FUTURE OF ADVICE

ALSO: LEADERSHIP IN THE AGE OF ARTIFICIAL INTELLIGENCE / GOALS-BASED ADVICE / TECHNOLOGY AND BUSINESS STRATEGY / PORTFOLIO MANAGEMENT CONFERENCE / INVESTTECH 2019

IMAP

Institute of Managed Account Professionals

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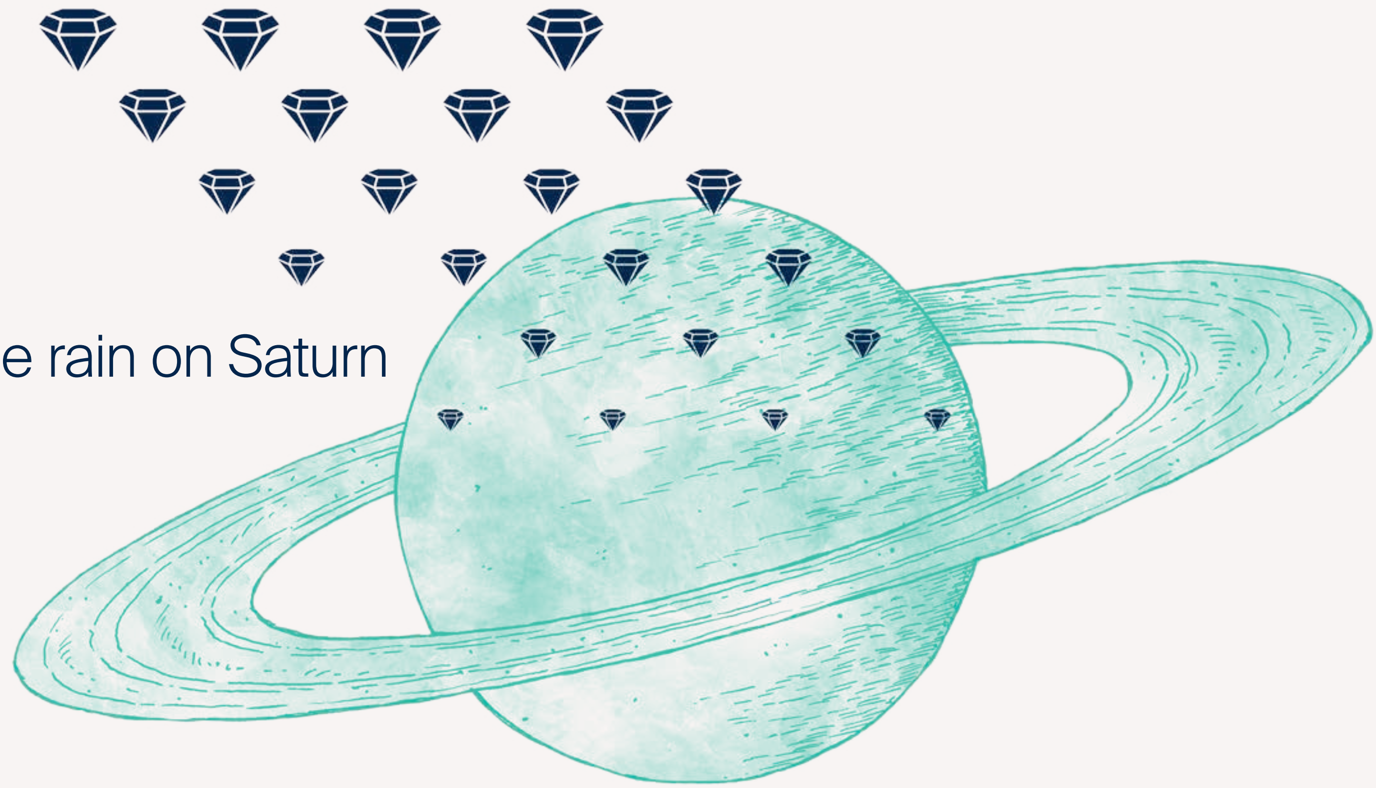
The rain on Saturn



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FEATURE

Managed Account Perspectives is the official publication of the Institute of Managed Account Professionals Ltd (ABN 57 125 794 274).
IMAP was formed to act as the nexus in this increasingly important part of the advice profession. Our aim is to bring together advisers, managers, platforms and other managed account service providers to help build a better industry.

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PROFESSIONALISATION – WHAT IT MEANS FOR ADVISERS

The drive for 'professionalism' has received a lot of focus over the period since February when the Royal Commission reported – most of it on the impact on individual advisers.

The changes that professionalism has caused have led to a good deal of disruption within advice practices – the institutionally-owned obviously – but in the independent practices as well. A good deal of this has been a focus on developing viable business models and revenue generation.

But let's assume from now on there will be a viable business model for advice, where a substantial pool of Australian households will be prepared to pay for advice.

This means we can focus on another aspect of 'professionalism', which has received less attention, and that is 'professionalisation'. That is the requirement for advice businesses to conduct themselves as professional businesses would – to manage each aspect of the business in a professional way.

This applies to every aspect of the business including:

- Recruitment;
- Adviser and personnel management;
- Operations;
- Insourcing versus outsourcing decisions;
- How investment portfolios are developed;
- How those investment portfolios are translated into individual recommendations; and
- Ongoing client service models.

In 2018, IMAP, in conjunction with Business Health, undertook a study of the attributes of profitable practices and this showed that the practices that achieved higher profitability were those that already operated in a more structured way. For example, this meant:

- Better developed value propositions;
- Clearly documented review processes;
- A conscious client engagement process; and
- Clearly articulated client segmentation.

IMAP has seen in three of our four areas of focus – Advice, Technology and Investment – the impact of this professionalisation.

For example, IMAP's newly established Portfolio Management Group recognises that increasingly, the task of developing investment portfolios is the responsibility of specialists within licensees who might, in earlier years, have worked in research houses or investment managers.

The increasing proliferation of technology offerings means that advice businesses can approach technology as a conscious decision, with a wide range of providers offering specialist capability.

So, in 2020, IMAP will be focusing on 'professionalisation' and this means asking questions like:

- What does it mean to run and advice business in a professional way?
- What capabilities do business principals need to obtain to ensure their business vision is delivered profitably?
- What does it mean to manage professionals?
- How do you offer investment solutions that are most likely to achieve client outcomes?

Toby Potter
Chair

" The increasing proliferation of technology offerings means that advice businesses can approach technology as a conscious decision, with a wide range of providers offering specialist capability. "

Toby Potter

MANAGED ACCOUNTS RECORD STRONG GROWTH

For the six months to 30 June 2019, funds under management (FUM) in managed accounts grew by 14.9 per cent or $9.26 billion, to stand at $71.38 billion. For the same six month period, ned fund inflows doubled on the previous six month period to $4.43 billion, or a 7 per cent increase on total FUM.

Commenting on the findings from the bi-annual *Managed Accounts FUM Census*, IMAP Chair Toby Potter said the FUM Census results suggest that investors are working closely with, and have confidence in, their financial advisers, "evidenced by the steady inflows of new funds into managed account arrangements".

According to Milliman Head of Capital Markets – Australia, Victor Huang, the improvement in investment markets for the first half of 2019 saw the value of the ASX/S&P 200 Accumulation Index increase by 19.73 per cent over the six month period, compared with a -6.83 per cent decrease in the six months prior.

Potter said although the MDA category remains the largest managed account category, platform-based SMAs are growing at a faster rate and closing in on the MDA total.

The *Managed Account FUM Census* is a bi-annual study of the FUM invested through the main forms of managed accounts, including SMA, MDA and IDPS-like services. The survey is conducted by IMAP in conjunction with global actuarial firm, Milliman. Forty-three companies participated in the latest *Managed Accounts FUM Census*.

MANAGED ACCOUNT FUM – 30 JUNE 2019

Managed Account category	30 June 2019 ($ billions)	31 Dec 2018 ($ billions)	Increase/ Decrease ($ billions) Dec to June 2019	Increase/ Decrease (%) Dec to June 2019
SMA/MIS	$25.56	$21.15	$4.41	20.9%
MDA services	$29.24	$26.52	$2.72	10.3%
Other services	$16.58	$14.45	$2.13	14.7%
Total	**$71.38**	**$62.12**	**$9.26**	**14.9%**

Source: IMAP/Milliman Managed Accounts FUM Census - 30 June 2019.

"This census provides a good, representative picture of the managed accounts market," Potter said. "Participants include the major platforms, banks and MDA providers, as well as individual licensees who largely operate their service internally."

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PLANNERS OUTSOURCE INVESTMENT SELECTION

Financial planners are increasingly bearish in their outlook for the domestic stock market, with planners expecting local shares to deliver capital gains of just 1.4 per cent over the next 12 months, down significantly from 4.6 per cent in 2018.

This was one of the key findings from the Investment Trends *2019 Adviser Product and Marketing Needs Report*, which was finalised in July 2019.

"Uncertain macro conditions at home and abroad have dented planners' confidence in delivering the appropriate level of risk-adjusted investment returns for their clients," said Investment Trends analyst, Viola Wang. "Geopolitical risk and share market volatility are growing concerns among planners, with many also keeping an eye on global debt levels and the Australian economy."

Wang said there was a noticeable trend among planners to move from being investment pickers to asset allocators, particularly post-Royal Commission.

"Once asset allocation is determined, close to half of planners now say they are no longer involved in picking the individual investments," Wang said.

The proportion of planners directly involved in selecting investments for their client portfolios fell from 56 per cent to 53 per cent in the last 12 months, with a growing proportion utilising model portfolios, managed accounts and multi-manager funds.

CONTINUES >>

"More planners are choosing to outsource investment selection to focus their time and effort in areas they believe they can deliver more value to clients. Our research shows outsourcers perform better in key business metrics compared to those who do not – they typically have significantly larger client books and advise on higher levels of new client inflows," said Wang.

PASSIVE INVESTING

At 65 per cent, diversification continues to be the top priority for planners when selecting investments for their clients, but lower cost products is now the second most-cited priority (42 per cent, up from 39 per cent), alongside capital preservation at 42 per cent (down from 54 per cent).

"Planners' appetite for low cost diversified portfolios is also reflected in their growing preference for passive investing," said Wang.

When asked what proportion of total client investments they would prefer to allocate to passive investments over actively managed investments, the average planner now prefers to allocate 33 per cent of client portfolios into index tracking investments, up significantly from 19 per cent in 2018.

"Against this backdrop, Vanguard has further extended its lead as the most widely used fund manager among planners (62 per cent use it for new business, up from 55 per cent in 2018), followed by Magellan (54 per cent) and Platinum (44 per cent). Fidelity (36 per cent) and PIMCO (36 per cent) have both made significant gains in the last 12 months to round out the top five," said Wang.

GREATER TRANSPARENCY

The report also revealed that planners would be re-evaluating their product set post-Royal Commission, with a growing number saying they will use more transparent investment products, while relying more on investment product providers for their information and education needs.

"Already, planners are interacting with investment product providers through a wider range of channels than in 2018, with conference and webinar attendance growing rapidly," said Wang.

> Planners' appetite for low cost diversified portfolios is also reflected in their growing preference for passive investing. – VIOLA WANG

"Faced with low yields and increasingly uncertain market conditions, financial planners will be relying on fund managers more than ever for insights and products that are appropriate for the current market environment."

The Investment Trends *2019 Adviser Product and Marketing Needs Report* is an in-depth study of key asset allocation trends among Australia's financial planners, as well as their views of fund managers and various investment products. The 12th annual edition of the report is based on a survey of 815 financial planners concluded in July 2019.

IMAP HIGHLIGHTS RISKS OF FASEA STANDARD 3

The IMAP Regulatory Group has written to FASEA in relations to its Code of Ethics and its poorly worded Standard 3, which affects advisers, including but not limited to their use of managed accounts. Following is the standard quoted in full:

"You must not advise, refer or act in any other manner where you have a conflict of interest or duty."

The Code of Ethics has the force of law and comes into effect on 1 January 2020. It applies to advisers personally and not to licensees or dealer groups. On the face of it, it tilts the playing field enormously in favour of advisers affiliated with institutions and against those where the adviser is a principal of the business or self-licensed.

The explanatory notes say that recommending in-house product is okay if the adviser doesn't directly benefit. However, it doesn't address the situation where the adviser is a shareholder in the licence and the business benefits as a result of the product or service recommended. The benefit need not be financial.

Read literally, the Code also bans an adviser recommending that a client receive ongoing advice, since the adviser will presumably benefit from remuneration received for providing advice.

IMAP's discussions with FASEA has suggested that further explanatory notes will be forthcoming and may address managed accounts in particular. However, explanatory notes may not be of any assistance to the Code Monitoring bodies in the face of black letter law.

The full version of IMAP's letter to FASEA CEO, Stephen Glenfield, which outlines IMAP's concerns in relation to FASEA Standard 3, can be accessed at imap.asn.au

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Building portfolios in times of uncertainty

With $6.4 trillion wrapped up in Aussie residential real estate, and $993 billion in commercial real estate, the property market remains the darling of investors.

And with the Sydney and Melbourne property markets rebounding strongly after recent dips in both capital cities, La Trobe Financial senior account manager, Andrew Evans, says the fundamentals for Australian property as an asset class remains strong.

Speaking at the IMAP Investment Forum in Melbourne and Sydney in September, Evans said investor demand in property remained strong and resilient, despite recent drops in real estate, which saw Sydney come off its peak by -14.7 per cent, Melbourne by -10.8 per cent and Brisbane by -2.7 per cent.

"There was no housing crash, as some commentators predicted, but instead, we saw an orderly correction of the market," Evans said. "We are now seeing significant auction clearance rates in both Sydney and Melbourne, which have rebounded strongly."

Supported by the Federal election result in April, Evans says the return to month-over-month house price growth is a continuation of a trend that has been in play since the start of 2019.

> There was no housing crash ... but instead, we saw an orderly correction of the market.
>
> – ANDREW EVANS

He added that the fundamentals for this asset class remain strong, with the housing market having bottomed and credit quality improving across the industry.

"The Australian population is growing annually at about 400,000 people per year. This means there is strong and continued demand for more dwellings to accomodate this growth," Evans said.

"And with record low interest rates, which is a stabilising factor for the housing market, property remains a solution for investors as they hunt for yield."

MACRO OUTLOOK

Building portfolios that are more resilient to market movements during challenging times, is in itself a challenge. And despite global trade tensions continuing to add to macro uncertainty, Chris Baker – Director, Fixed Income and Product Strategist at BlackRock – doesn't think a local recession is imminent.

"But the current U.S./China trade war will reduce market growth, which will remain mute to benign going forward," he said. "It's hard to see this changing anytime soon, with global interest rates likely to drop further or remain where they are.

"However, given the prospect of a weaker U.S. dollar, BlackRock favours local currency Emerging Market Debt as a way of generating yield."

Yet, despite a U.S. led protectionist push that has increased downside risks to the global economy, Baker remains cautious in his macro outlook for the Australian market.

According to Baker, BlackRock believes that as a 'base case' for

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INVESTMENT FORUM PRESENTATION

Australia, consumers will remain cautious, credit growth will remain weak, and rising unemployment will see additional RBA rate cuts.

"We expect the household saving rate to continue to increase, as households repair their balance sheets; we believe ongoing moderation in dwelling construction will have a drag on GDP; we believe the unemployment rate has bottomed with a gradual rise expected, although underemployment remains a challenge for the RBA; consumer confidence to remain weak as house price growth stagnates into 2020; and inflation remains weak with falling rents, dwelling construction, and very low wage growth," Baker said.

"However, despite this cautious assessment, we still don't believe a recession is imminent."

TABLE 1: AUSTRALIAN MACRO OUTLOOK

Growth	Real GDP to remain below 'potential' over 2019.
Inflation	'Core' inflation stays below the bottom of the RBA's 2-3% target band.
RBA policy	Expect a further 25bp cut in November. Further cuts in 2020 if unemployment rises.
Rates	Relative outperformance of the Australian bond market (six-month base case view).
Credit	Spreads to remain range bound around current levels (six-month base case view).
\$A/\$US	0.67 – 0.72 range (six-month base case view).

Source: BlackRock

L-R: Russel Pillemer, Samuel Mann and Stephen Karagianis.

> It's critical that investors consider the fees when investing in alternatives, as the alpha benefit can be eroded by the fees.
> – MICHAEL KARAGIANIS

ALTERNATIVES: LOOKING OUTSIDE THE MAINSTREAM

The first mistake many advisers make when thinking about 'alternatives' as part of an investment porfolio, is treating them as an asset class, which they are not, according to Michael Karagianis - a senior consultant at JANA.

Speaking at the IMAP Investment Forum on 31 October – along with Longreach Alternatives CEO, Samuel Mann and Pengana Capital CEO, Russel Pillemer – Stephen said 'alternatives' should be teated as a class of investments and not an asset class.

And with traditional 'go to' asset classes, like Australian equities, already fully valued, he believes alternatives make a compelling case for investors wanting to defend their positions in increasingly volatile markets.

Alternatives fall outside the traditional asset classes, like equities, bonds and cash. They typically include the like of private equity, hedge funds, managed futures, commodities, art and collectibles.

Making the case for alternatives, Stephen said the two common characteristics of alternatives are: a return premium for illiquidity and diversification of returns away from traditional asset classes.

However, he added that investors required "open-minded scepticism" when investing in alternatives.

"It's critical that investors consider the fees when investing in alternatives, as the alpha benefit can be eroded by the fees," Stephen said. "Advisers also need to fully understand the strategy they are invested in, so if you can't explain it to the client, then you need to reconsider the strategy."

And while Stephen viewed alternatives as providing true diversification to an investment portfolio, he also believed they were often mis-used by advisers, cautioning that diversifying into alternatives, at a time when traditional asset classes are outperforming, generally don't do as well.

It was a view supported by Longreach Alternatives' Samuel Mann, who agreed it was important to have an allocation of alternatives in a portfolio for diversification purposes.

"There has been a long held misconception that alternatives are highly volatile, when in fact, it's the opposite. Their volatility is extremely low. So, an allocation to alternatives does help reduce sequencing risk. That's why the Future Fund in Australia has allocated

INVESTMENT FORUM PRESENTATION

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nearly half of its portfolio to alternatives," Samuel said.

However, he added that while the quality and quantity of alternative opportunities had been slim in the past, this was changing for Australian investors, particularly in respect to private equity.

According to Pengana Capital's Russel Pillemer, private equity is experiencing considerable growth as an investment opportunity.

"When it comes to investing, public companies represent just the tip of the iceberg, with the majority of companies – about 98 per cent – being privately owned. Private companies tend not to be listed because of all the regulation involved," Russel said.

Private equity firms generally raise their funds from institutions and wealthy individuals, with those funds invested in buying and selling businesses. After raising a specified amount, a private equity fund will close to new investors; each fund is then liquidated, selling all its businesses within a preset time frame, which is usually no more than 10 years.

While private equity funds tend to outperform public offer funds, Russel added there were a couple of key considerations advisers and investors needed to be aware of.

"There are definitely liquidity issues," he said. "By investing in a private equity fund, your investment is likely to be locked up for about 10 years."

He also added that private equity was still an opaque market, where it was difficult for advisers and investors to get quality information on this type of investment in order to make an informed decision.

"To help address these issues, particularly around liquidity, Pengana has launched a listed private equity fund, allowing investors to take advantage of this alternatives opportunity," Russel said.

The IMAP Investment Forum is a community of interest for dealer group researchers, investment teams and independent researchers, where they can hear and learn from specialist portfolio managers and chief investment officers of advisory businesses. These experts and advisory professionals provide their insights on the practical issues involved in implementing managed accounts in an advice business.

"When it comes to investing, public companies represent just the tip of the iceberg, with the majority of companies - about 98 per cent - being privately owned. – RUSSEL PILLEMER"

INVESTMENT FORUM PRESENTATION

Enhancing the benefits of managed accounts

As more advisers and clients recognise the benefits of managed accounts, **Ilan Israelstam** believes these benefits can be enhanced by the use of ETFs as a core component of a managed account.

The benefits of managed accounts are well-documented, and flow to both clients and their financial advisers. At their core, managed accounts allow advisers more time to spend engaging with existing clients, and prospecting for new ones, due to administrative efficiencies and a reduced compliance burden.

At BetaShares, we are seeing a growing appreciation of the role that exchange traded funds (ETFs) can play in further enhancing these benefits – in many ways, ETFs and managed accounts are a perfect match!

ASSET ALLOCATION ADJUSTMENT

Advisers are telling us that using ETFs in managed accounts makes the process of adjusting a client's asset allocation much more efficient, with adjustments able to be made quickly, and with low costs.

One of the consequences of the rapidly increasing popularity of ETFs is that there is now a wide selection of funds available offering diversified exposure to a range of asset classes, including equities (both domestic and global), fixed income, hybrids, commodities and currencies.

> “One of the consequences of the rapidly increasing popularity of ETFs is that there is now a wide selection of funds available offering diversified exposure to a range of asset classes, including equities, fixed income, hybrids, commodities and currencies.”

In a single trade on the ASX, an adviser or managed account manager can increase, or reduce, a client's allocation to any of these asset classes. Compare this to where the client's exposure is achieved through individual stock holdings, requiring multiple transactions, with the associated costs and time involved.

Using ETFs also removes the need for the adviser to select the individual securities to buy or sell, with the inherent risk that those selections may underperform the market.

COST-EFFECTIVE

Investors are becoming increasingly aware that, after fees, the majority of actively managed funds have tended to underperform their stated benchmark. For example, up to 30 June 2019, more than 80 per cent of actively managed Australian Equity General funds underperformed the S&P/ASX 200 Index over one, three and five-year periods[1].

The lower fees that ETFs charge compared to actively managed funds, and the absence of entry or exit fees, is one of the most compelling reasons to use ETFs in managed accounts – providing the ability to significantly lower the cost of implementing financial advice to clients.

EXPOSURE TO THEMES, REGIONS OR SECTORS

Another consequence of the growth in ETF offerings is that it's become simpler to allocate client funds to a particular theme, geographic region, investment style or industry sector.

Advisers are welcoming the ability to offer tailored exposure that meets clients' preferences. It also gives advisers the opportunity to go to clients with investment ideas and a simple way to implement those ideas.

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At BetaShares, we have been a leading innovator in the development of thematic ETFs, launching funds that offer diversified exposure to themes, such as robotics and artificial intelligence, and global cybersecurity.

For investors who favour an investment style or strategy, such as ethical investing or factor investing, there are many ETF options. Smart beta ETFs are benefiting from the increase in interest in factor investing. We think there's likely to be strong growth in funds allocated to ETFs whose components are screened for factors, such as quality, yield or low volatility. Using smart beta ETFs in managed accounts also provides another 'story' for advisers to tell their clients, further demonstrating their value-add to investors.

Constructing such exposures via individual stocks is time-consuming and costly, while ETFs, by contrast, make the process fast and efficient.

TRANSPARENCY

A recent survey undertaken by Praemium, in conjunction with consulting firm Business Health[2], found that 40 per cent of clients today prefer self-service over human contact, and 50 per cent believe their adviser should offer a digital solution. ETFs are well-suited to be a part of an engaging interactive digital solution.

Feedback is that investors are very positive about the transparency of ETFs. The ability to – at any time – check an ETF issuer's website to see the fund's portfolio holdings and net asset value, updated daily, is a big plus.

In addition, real-time visibility of an ETF's market price during the trading day is an advantage over unlisted managed funds, whose prices may be updated daily at day-end or less frequently.

> Using ETFs also removes the need for the adviser to select the individual securities to buy or sell, with the inherent risk that those selections may underperform the market.

> A recent survey undertaken by Praemium, in conjunction with consulting firm Business Health[2], found that 40 per cent of clients today prefer self-service over human contact, and 50 per cent believe their adviser should offer a digital solution.

ETF MODEL PORTFOLIOS

ETF model portfolios take things a step further.

Our model portfolios were first developed in 2016, but it's only this year that they have become available on major platforms, including BT Panorama, Netwealth, Macquarie Wrap, Hub24 and Praemium.

We are seeing a lot of interest in these portfolios from advisers, who are attracted by the idea of lower costs of servicing clients, reduced compliance hassles, and increased efficiency in managing client portfolios.

We offer five ETF model portfolios tailored to varying client risk profiles, and based on the APRA Standard Risk Measure, enabling advisers to easily match portfolios to clients' financial objectives and risk profiles.

If an adviser invests in an ETF model portfolio in an implemented solution, such as a SMA via a platform, no trading or portfolio rebalancing is required, as it's all done on their behalf. In addition, when using SMAs, there are no ROA requirements for these regular rebalances.

SUMMARY

Current trends suggest that both clients and advisers are increasingly recognising the benefits of managed account solutions – benefits that we believe can be enhanced by the use of ETFs as a core component of a managed account.

Ilan Israelstam is Head of Strategy and Marketing at BetaShares.

FOOTONTES

1. Dow Jones Indices, *SPIVA Scorecard*, 2019.
2. Praemium, *The future is bright when you're prepared*, 2019.

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Customer eXperience

Jacqui Henderson is excited by the role fintech is playing in shaping the future of advice in Australia. She talks to **Jayson Forrest** about what this future might look like.

CONTINUES >>

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Whether you're ready for it or not, financial technology - otherwise known as fintech - is redefining the way financial advice is provided in this country.

Just ask Jacqui Henderson, the founder and CEO of Advice Intelligence (a.i.) - a cloud-based software platform that is enabling advisers to explore and co-create goals-based financial advice together with their clients - who says the future of advice is fintech.

"There is also genuine demand for advice amongst Australians, however, the stumbling block for many people is the cost and accessibility of financial advice. We need to lower the cost to serve advice, in order to increase scale to meet the unmet advice needs of consumers," she says.

Jacqui points to recent research from ASIC (Report 627), which reveals that 41 per cent of Australians intend to get financial advice in the future, supporting findings by Investment Trends in September 2018 that showed 51 per cent of Australians have unmet advice needs.

"Technology is the only enabler that will help the financial services industry to become sustainable in a world where compliance and administration is causing a lot of pain and cost to licensees and advice practices, particularly at a time when the need for advice has never been greater."

To help address this advice gap, Jacqui believes there is a growth opportunity for businesses to develop sustainable advice models, where advice can be delivered either as a co-creation model, a subscription model or self-service model - via digital technology.

"Today's consumer interacts more closely with technology through their smartphone - it's on demand, convenient, easy to use and it's visual. However, there is a massive gap between how a consumer interacts on their smartphone and how we deliver financial advice today via an archaic 60 page paper SOA document that a consumer struggles to understand, let alone relate to."

It's a view that's hard to disagree with.

And with Jacqui's experience in the private wealth sector, telecommunications and technology industries, she knows a thing or two when it comes to fintech. She has used her combined expertise to create a software platform aimed at improving the way advisers work, while making goals-based advice more accessible to Australians.

"a.i. is essentially a financial planning platform with a unique difference. We transform financial advice into an interactive, engaging experience that is centred around a client's life goals, which consumers can actively be part of," she says.

> "Goals-based advice is designed to make the financial advice experience more engaging, relevant and meaningful to consumers. It centres the advice conversation around their goals. It helps a client to articulate what their goals are and structures their financial plan around these. – JACQUI HENDERSON"

CONTINUES >>

"Our technology is transforming the old-world paper-based financial plan into a live and interactive app that connects a client's cash flow and investments, and tracks this daily to their life goals," she says. "That's the type of customer experience consumers want from financial advice."

TECHNOLOGY INTEGRATION

However, Jacqui states that when it comes to building portfolios and risk as part of a managed accounts solution, a.i. is not a portfolio construction offering. Instead, she emphasises it is advice technology (advicetech).

"We provide a framework for licensees and advice practices to integrate their pre-defined portfolios and risk within our customer-facing advice experience," Jacqui says.

Within a.i.'s goals-based investing methodology, a client's 'risk tolerance' and 'risk capacity' is considered via levers that advisers and their clients can dial up and down.

According to Jacqui, risk tolerance determines the client's behavioural willingness (upside/downside) in order to achieve an individual or bucket of goals, while risk capacity is the client's 'financial capital' and 'human capital' – the risk they can afford in order to achieve their goals.

"The future integration of 'advicetech' and 'investech' will provide a seamless end-to-end experience for both advisers and consumers," Jacqui adds.

GOALS-BASED ADVICE

But what is goals-based advice and what does it really mean to the everyday adviser?

"It's a good question," says Jacqui. "Goals-based advice isn't exactly a new phrase, however, it addresses an issue that's been around for a long time – namely, how can advisers link their clients' life goals directly to advice strategies and their investment portfolios, and then track that to their own goal outcomes?

"So, goals-based advice is designed to make the financial advice experience more engaging, relevant and meaningful to consumers. It centres the advice conversation around their goals. It helps a client to articulate what their goals are and structures their financial plan around these."

> The future integration of 'advicetech' and 'investech' will provide a seamless end-to-end experience for both advisers and consumers. – JACQUI HENDERSON

However, she concedes the main problem the industry has faced, up until now, with goals-based advice has been the lack of suitable financial planning technology that makes goals-based advice an easy and interactive process for advisers and consumers.

"This is particularly essential from a regulatory stance," Jacqui adds, referring to one of the main findings from the Hayne Royal Commission that found licensees could not directly link their advice back to their clients' goals and objectives.

So, when talking about goals-based advice, Jacqui likes to explain it as consisting of three distinct parts:

1. GOALS DISCOVERY

Goals discovery focuses on goal exploration and goal setting with the client. According to Jacqui, about 70 per cent of consumers don't know their goals, so advisers need access to the right tools that can help their clients discover what's important to them throughout each stage of their life journey.

2. GOALS MODELLING AND TRACKING

Goals modelling and tracking ensures a client's assets and income will meet their changing life goals, life events and expenses over time. This type of modelling is unique, as it is multi-dimensional, meaning advisers can perform modelling as part of a live, client-facing experience, which has now been made possible through advancements in technology.

"Advisers can create future scenarios. These can be combinations of advice strategies, stress tests (such as an economic or life event) and goal 'trade offs'. It essentially simulates the various approaches a client can take, in line with their goal target, which is fundamentally transforming financial planning into something that is more 'real-time' and relatable," Jacqui says.

"Clients are then able to play an active role when making important decisions that impact their futures. Once modelling is complete, by using technology like a.i., advisers can click to create an instant, digital SOA, based on recommendations made, as a joint responsibility and co-creation experience. It ticks all the compliance aspects because the adviser-client conversation was captured within the scenarios that were explored."

3. GOAL ACHIEVABILITY

At the heart of goals-based investing is the ability for clients to focus on their 'goal achievability', which does not necessarily mean outperforming the market by a percentage or benchmark.

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"Instead, clients can use single or multiple investments, assets, cash flows and debt to fund individual or multiple goals. It uses key levers including, goal priority, time horizon, funding source, risk and strategies to maximise a client's chances of success, in relation to their goal achievability," says Jacqui.

THE FUTURE

So, by enhancing the overall client experience in the financial planning process, does that mean goals-based advice is the future in the delivery of advice?

It's a question Jacqui answers with her trademark enthusiasm.

"Absolutely, it's the future," she says. "Why? Because goals are meaningful and tangible to consumers. A person saying, 'I beat the market by 5 per cent', doesn't really mean anything to them.

"Whereas, a person saying, 'I have a lovely house, my kids went to a great school, and I have saved and invested enough to enjoy a comfortable retirement', means so much more to people. It's something they can easily relate to."

> We will see a future where competitive advantage will be based on the Customer eXperience you deliver. Delighting, engaging and inspiring consumers is a big growth opportunity for the advice sector. – JACQUI HENDERSON

And Jacqui is quick to add that ASIC is also in favour of goals-based advice, as RG175 clearly states that advice must combine a client's objectives, current situation and future needs.

When it comes to advisers and practices using technology, Jacqui ardently believes that 'Customer eXperience' (CX) will be the key to doing this. At the heart of this will be goals-based advice technology, which will enable a much better CX in line with increasing consumer expectations.

"We will see a future where competitive advantage will be based on the Customer eXperience you deliver. Delighting, engaging and inspiring consumers is a big growth opportunity for the advice sector," she says. "And it's something to be genuinely excited about.

"Just as Netflix redefined TV, by allowing consumers to curate their own content, and Uber delivered a superior ride-sharing customer experience, so too can goals-based advice technology help enable consumers to better organise their own financial life with their adviser – in a way that is meaningful to them, through their own unique goals and life aspirations."

Jacqui firmly believes that by accelerating the transformation of digital advice through this human-centric lens, advisers will be able to truly enhance the overall client experience.

"Australians are becoming increasingly tech savvy, so if advice businesses are to survive and thrive in the future, they need to provide the type of client experience that more Australians are now demanding."

Wise leadership in the age of Artificial Intelligence

To navigate the change and challenges facing financial services, leaders will need to help their teams adapt, integrate and embrace the changes that artificial intelligence will bring, says **Gihan Perera**.

Are the robots coming for your job? Yes and no. According to a Dell Technologies survey, 82 per cent of leaders expect their employees and machines to work as "integrated teams". And many employees look forward to artificial intelligence (AI) that can help them do their job better.

But not everybody has such a rosy outlook. In Australia, the report '*Australia's Future Workforce*' predicts about 40 per cent of jobs could be lost to robotics, automation and artificial intelligence in the next 10-15 years. And many employees are stressed about 'robophobia': the fear of losing their job due to these forces.

If you're a leader, you have an added role as you navigate your team and organisation through this fast-changing world: to help your people adapt, integrate and embrace the changes that AI will bring. This role requires empathy, care, sensitivity, and yes – more than a smattering of wisdom.

> "As a wise leader, you will have to help people move out of these jobs. This won't be an easy task, but if you know it's likely to happen, act decisively, so your people have as much time as possible to adapt. The worst thing you can do is delay the inevitable."

HOW DO YOU APPLY WISE LEADERSHIP IN THE AGE OF AI?

Let's start by looking at how you build wisdom. It happens in four stages:

1. You start by learning a new **skill**.
2. Through many hours of experience via deliberate practice, you develop **mastery** in that skill.
3. Then, by applying your mastery in different contexts, you learn to exercise good **judgement**.
4. All this experience means you acquire a higher perspective, which leads to **wisdom**.

Obviously, different people are at different stages, and that can even vary within different roles in their job. If they are at any of the first three stages – skill, mastery or judgement – you can help them understand the impact of AI and automation on their role.

SKILL: AI WILL REPLACE MANY SKILLS AND SOME JOBS

There's no doubt some people will lose their jobs because computers and robots will have the same – or better – skills than humans. In the past, this was obvious for manual labour and blue-collar jobs, but it's increasingly true for higher-level roles as well.

As a wise leader, you will have to help people move out of these jobs. This won't be an easy task, but if you know it's likely to happen, act decisively, so your people have as much time as possible to adapt. The worst thing you can do is delay the inevitable.

MASTERY: AI WILL ACCELERATE THE EXPERIENCE CURVE

If mastery requires deliberate practice, AI can help by accelerating the experience curve. For example, it can provide customised learning paths, assist coaching and mentoring, help people design individual career paths,

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and help HR and L&D (learning and development) professionals manage the talent requirements of your organisation.

As a wise leader, identify ways to involve AI in this kind of learning and development for your people. Most people know they will need more learning to adapt to a changing world, and this is an opportunity for you to introduce AI in a positive, non-confrontational way.

JUDGEMENT: AI CAN HELP PEOPLE MAKE JUDGEMENT CALLS

Much of the negative media around AI has involved it making seemingly arbitrary judgement calls: turning down qualified candidates for senior roles, determining who qualifies for a home loan, showing racial bias in police arrests, and so on.

We're not yet at the point where we should trust AI to make those judgement calls, but it can help us make those calls. For example, it can analyse large volumes of data quickly, provide relevant information for making informed decisions, and monitor behaviour to determine the results of actions.

As a wise leader, assess the power of AI to help your people. This is all about humans and machines being better together than either could be alone. You have probably always done this with technology, but you might not realise just how powerful and affordable AI technology has become.

WILL YOU BE A WISE LEADER IN THE AGE OF AI?

According to research by *MIT Sloan Management Review*, 85 per cent of leaders believe AI can help them gain a competitive advantage. And Gartner predicts the greatest source of competitive advantage for 30 per cent of organisations will come from leveraging AI and related technologies.

But the real story is not about computers; it's about people. We have never needed wise leadership as much as we need it now.

Will you be one of those wise leaders?

Gihan Perera is a business futurist, speaker, and author who works with business leaders to help them lead and succeed in an uncertain but exciting future. He is the author of 'Disruption By Design: Leading the change in a fast-changing world'. For more, go to GihanPerera.com.

> "But the real story is not about computers; it's about people. We have never needed wise leadership as much as we need it now."

Business transformation

IMAP's third consecutive InvestTech conference showcased the latest technology offerings and solutions for the managed accounts sector.

With managed accounts at the forefront of technological change in financial services, over 220 people attended IMAP's InvestTech 2019 conference on 13 November.

Delegates heard from industry experts about the latest developments and trends in technology, which is transforming the way in which advisers and licensees produce and deliver advice.

The following are some of the highlights of InvestTech 2019.

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Jamie Wickham

DISRUPTING THE DISRUPTORS

One of the key trends in wealth management technologies emerging in the U.S., bucking the trend in markets like Australia, is the move by some of the large asset managers, like Charles Schwab and Vanguard, to disrupt the disruptors in digital technology.

Speaking at the InvestTech 2019 conference in Sydney, Morningstar Australia and New Zealand managing director, Jamie Wickham, said there was a growing trend in the U.S. where asset managers and banks were increasingly developing and rolling out technologies that "envelop the client".

"Unlike in Australia, where banks and larger institutions are looking to exit the advice space due to regulatory issues, in the U.S. it's the opposite, with more banks entering the advice space. Banks have identified the opportunity in the growth of financial advice by American consumers."

Wickham identified an increase in hybrid advice propositions in the U.S., consisting of both digital and client-facing offerings.

"The likes of J.P. Morgan and Goldman Sachs are leveraging their balance sheets, customer base and technology, to provide more enticing advice offerings to their clients.

"This has resulted in the rise of 'freemium' models, where basic services and products are provided free of charge. For example, no fees on transactions and no fee index funds," Wickham said.

"But in order to do this, you need scale, as there is a short-term hit to revenue for a long-term relationship with the customer. It's certainly a good example of how these larger organisations are disrupting the disruptors in America."

Wickham identified the growth in Registered Investment Advisers (RIAs) as another emerging trend in the U.S., with RIAs now representing the fastest growing sector of the advice market.

"RIAs have moved from product sales to client-centric advice," he said. "We're now seeing a trend in the U.S. where advisers are using model portfolios."

Jacqui Henderson

ADVICE 2020

"Change is happening. You can't stop it. And at the heart of this change will be technology."

This was one of the key observations from Jacqui Henderson – the CEO and founder of Advice Intelligence.

Speaking at the InvestTech 2019 conference, Henderson said that whether it's regulation, technology of client experience, change is now a significant part of the financial services landscape.

"Consumer demand for change is greater than ever, so moving forward, advice needs to be transferred into a client-centric lens. Consumers want advice that is tailored to their goals, and that's where technology can help, by enabling clients to curate their own advice requirements," Henderson said.

As the advice sector moves into a new decade, Henderson is confident more advisers will turn to goals-based advice models.

"Goals-based advice isn't exactly a new term, however, it addresses an issue that's been around for a long time – namely, how can advisers link their clients' life goals directly to advice strategies and their investment portfolios, and then track that to their own goal outcomes?

"Goals-based advice is designed to make the financial advice experience more engaging, relevant and meaningful to consumers. It centres the advice conversation around their goals. It helps a client to articulate what their goals are and structures their financial plan around these."

However, Henderson conceded that the main problem the industry has faced, up until now, with goals-based advice has been the lack of suitable financial planning technology that makes goals-based advice an easy and interactive process for advisers and consumers.

But she added that this is changing, with the evolution of technology now allowing advisers to move from traditional paper-based advice offerings, to integrated digital offerings that are more client-centric.

"Goals-based advice is the future of advice," she said. " That's because goals are meaningful and tangible to consumers. And ASIC is also in favour of goals-based advice, as RG175 clearly states that advice must combine a client's objectives, current situation and future needs."

Best practice at InvestTech 2019

Over 220 delegates enjoyed nine practical sessions at InvestTech 2019, which showcased the latest innovation, insights and trends in technology for the managed accounts sector. The following images capture some of the highlights from InvestTech 2019.

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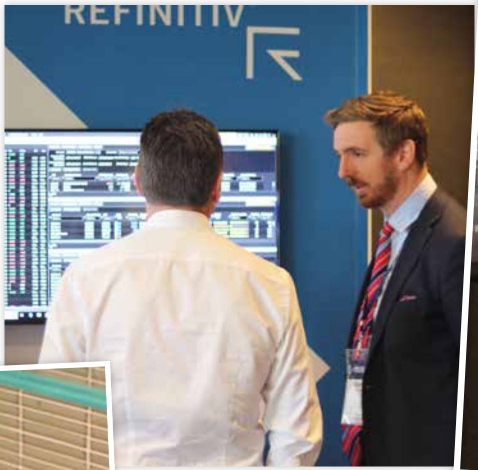

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Digital transformation

Lifewealth is so serious about technology that it has its own digital division. **Jason Harwood** explains how Lifewealth's technology strategy reflects its business strategy.

Lifewealth is a Melbourne-based business that has been operating for 22 years. We have $500 million in FUM. We have three divisions: financial advice, accounting/business advisory, and digital.

When I joined the business five years ago, the founder and two shareholders at that stage, wanted me to really drive growth in the business. That was my mandate to come in and take control of the business as CEO.

As part of taking control of the business, I undertook a SWAT analysis to find out what was working well, what were our opportunities, and where were our weaknesses. One of the things that was quite apparent were some of the gaps in our technology. Questions around we could achieve if we had the technology in place to support our people, meant we had to do some work around driving that technology aspect for the business.

We looked at what technology we could use for our financial services business, and there were plenty of good technology options available, like Salesforce and Xplan.

But the turning point for us was about 3.5 years ago, when I had a clearer idea of what I wanted to bring into the business to drive it forward from a technology point-of-view. And at that time, it was a CRM system. But a CRM system that would adapt to our needs, rather than us having to adapt to the software's requirements. And a CRM system that would allow us to plug in best-of-breed solutions as we moved forward into the future, allowing us to be ahead of the game as a business.

So, at that time 3.5 years ago, we came across a start-up business in Melbourne called Dexterous. We worked with them to find a solution for our business. In fact, we enjoyed working with them so much that we established Lifewealth Digital earlier in 2019, because of the combined values and vision we had for our respective businesses. I'll talk a little bit more about our relationship with Dexterous later.

BUSINESS IMPROVEMENT

So, what's great about technology? We all get excited by it. Technology can do such amazing things that it's hard not to be pumped about what the possibilities of technology are. But there are also downsides to using technology, if we don't plan for it well.

When it comes to business improvement, all businesses are different. They have different requirements, they have different goals and strategies. Every business is different but we're all trying to improve, become more efficiency and deliver better outcomes for our customers.

However, 70 per cent of all technological change, or digital transformation, initiatives do not reach their goals. A global survey of senior executives in 2018 found that the number one risk they foresaw in their business for 2019 was digital transformation. Why is this the case?

WHY DOES SOME DIGITAL TRANSFORMATION SUCCEED WHILE OTHERS FAIL?

In a world of technology, there has been constant change. I think the vast majority of people do like technology because we have seen how it has benefitted us, both personally and professionally. So, we do excited about the next opportunity that comes along and the ways in which that technology will improve our lives.

While the possibilities of technology are exciting, if you don't implement and execute it properly, and if you don't constantly review the technology to ensure it is continuing to meet your goals, then you're not going to have great outcomes.

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Digital transformation also requires having the right mindset, by ensuring you are not playing into the flaws of your organisational practises. So, it's all about linking your digital transformation to the strategy and vision of your business.

And digital transformation is also about leadership. You need to be clear in communicating to staff and clients about how your technology in a digital transformation is going to link in and deliver outcomes for not only your clients and your business, but also for your team. This is absolutely crucial.

From our experience at Lifewealth, we did this by engaging our people as early as we could and getting their input as part of the overall process. Our team was a major part of delivering on this technological outcome.

WHY UNDERTAKE DIGITAL TRANSFORMATION?

I'm a big believer in the power of what your people can achieve. Most people want to be employed and do a job that leads to a greater good. They want to be part of something that matters and feel like they are making a difference in the world.

However, when your people are lost to you as a result of the frustration of working with inadequate technology and systems, it is very hard to get them back. And you won't get them back through words alone. You need to make meaningful changes within the business that makes their jobs easier.

So, why undertake digital transformation? A big part of this is delivering better outcomes to your people, so they in turn can deliver better outcomes for you.

VISION AND MISSION

At Lifewealth, we were very clear on our mission, our vision and our business strategy. The management team made the decision to spend the time, energy and resources to do a digital transformation. We know we've still got a long way to go, and despite the bumps along the way, we're happy with where we have got to today.

Our mission statement at Lifewealth is: Lifewealth exists to achieve peace of mind and happiness for its clients, people and communities, by understanding what matters most to them.

We genuinely live our mission within the business. However, we still have a long way to go with our vision for the business, but one of our key points is: We have created positive change for our client's experience through our willingness to innovate.

If you're not pursuing your vision, then innovating for innovation sake is pointless. Innovating to improve your clients' and people's experience is crucial.

At Lifewealth, we've had no voluntary turnover of staff in three years. This is important to understand, as it goes hand-in-hand in delivering improved processes and systems for your people, and then having your people in a positive mindset, feeling they are achieving and working towards a greater goal.

By involving and engaging with our people early in our digital transformation, they understood that the changes the business was going through would also benefit them. We are now a fully digital business, with no paper-based files across our accounting and financial advice divisions. And we are almost a fully integrated ecosystem.

One of the keys in our digital transformation was enhancing our internal communications and the way we shared information. We used Facebook Workplace, which is a mobile and web app that aims to keep team members connected. The service offers features like Facebook Groups, Facebook Messenger, built-in audio and video calling, and access to the social network's profiles, events, and live video tools.

By using Facebook Workplace it has brought our team closer together. We share business and policy updates on there, we use the chat function, which has enabled us to significantly reduce our internal emails. Team members share their life events, like weddings and birthdays.

LINKING DIGITAL TRANSFORMATION TO BUSINESS STRATEGY

In order to link digital transformation to a business strategy, you need to ask yourself two questions. They are:

1. ARE OUR CURRENT SYSTEMS AND PROCESSES CABLE OF SUPPORTING THE BUSINESS IN THE PURSUIT AND DELIVERY OF ITS STRATEGY AND VISION.

If the answer is 'yes', then why undertake a digital transformation? Instead, take the opportunity to pursue some smaller tactical wins, like using Facebook Workplace. But, if the answer is 'no', then you need to ask yourself the following question:

2. ARE WE PREPARED TO GIVE UP ON OUR 'WHY' IN FAVOUR OF THE STATUS QUO?

If the answer is 'yes', then you probably need to spend some time thinking about your 'why'! But, if the answer is no', you need to start thinking about the cost that sits within the business, like technology and systems. Once you understand the real cost, you need to determine whether you can afford not to digitally transform.

Ordering your existing systems and processes is about time

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cost, staff satisfaction and opportunity cost. When it comes to disengaged staff, there is clearly a severe impact on your business, including its profitability and ongoing value.

We knew disengaged staff wasn't good for our business, so to address this, we knew we had to improve our technology. The key to this was implementing a CRM system that would adapt to our needs, rather than us having to adapt to the software's requirements. And we did that by teaming up with Dexterous about 3.5 years ago.

Dexterous is a centralised system and a mobile app, which has provided our business with greater flexibility in how we operate. Advisers can also record their file notes directly into the Dexterous system, which has been great for driving business efficiency.

When it comes to centralised document storage, this is a good example of how the system has adapted to us, rather than us adapting to it. We have some legacy documents stored on SharePoint and OneDrive, as well as document storage within the Dexterous system. However, all of these systems plug into Dexterous, which has been very efficient.

Workflow and task management across Lifewealth's three divisions is managed through Dexterous. We also have an external stakeholder portal, where clients can upload, for example, their tax receipts. This allows our accountants to directly access this information and receipts, allowing them to complete their work much faster. As our accountants get through the work, the various stages of the workflow get updated, so it becomes a better client experience and we field less phone calls.

Another great thing about teaming up with Dexterous is that we've been able to create solutions where we've had problems. For example, FoFA was a time-consuming challenge for us to manage.

"And digital transformation is also about leadership. You need to be clear in communicating to staff and clients about how your technology in a digital transformation is going to link in and deliver outcomes for not only your clients and your business, but also for your team. This is absolutely crucial."

However, in 2019, in conjunction with Dexterous, we created a system called Ontoma. This is a streamlined solution to managed FoFA compliance requirements and establishing best practice frameworks for delivering regulatory outcomes, while also enhancing the client experience.

By automating our processes, Ontoma has helped to reduce the time-consuming burden of compliance administration. This has been a big win for us.

When you're talking costs of implementing technology, a system like Dexterous will probably cost a business between $24,000 to $40,000 in upfront configuration costs, with an additional $15,000 to $25,000 per annum to run the system.

It's worth remembering that there will be distraction if you're going to undertake a digital transformation of the business in pursuit of your vision. But the reality is, without this digital transformation, you've already got distraction in your business in a negative way. However, if you are being distracted towards a better outcome, at least you know that should be finite and you're actually going to achieve something as a result of it. And this is particularly so if you can engage your staff along the way and they can see the benefits of those changes.

KEY POINTS TO CONSIDER

In summary, there are three key points an advice business should consider as part of their digital transformation. They are:

1. Digital transformation has to be linked to your strategy. It has to underpin the delivery of your mission and it has to drive your business towards its vision.
2. Identify a trusted technology partner. This is not only incredibly important but it has to reflect what we do as advisers. A technology partner has to understand your needs and goals. A technology partner has to deliver solutions and be constantly undertaking regular reviews to ensure your digital transformation is meeting your goals and requirements.
3. The status quo in your business today is costing you far more than you realise.

So, ask yourself, what could your business achieve and what vision could you pursue if the foundations of your firm were built on a loyal, passionate, focused, happy and hard-working group of team members?

Do you have the tools in your business today to support those team members and help them achieve their goals for the business?

Jason Harwood is CEO of Lifewealth Group.

FINTECH AT INVESTTECH

InvestTech 2019 showcased a number of leading fintech companies that are offering cutting-edge solutions to financial advisers and advice practices. The following showcases three of these companies.

Advice Intelligence (a.i.) is a cloud-based software platform that enables advisers to explore and co-create financial advice together with their clients.

a.i. is a complete online goals based financial advice platform. The only software of its kind, a.i. brings together all the essentials to transform the advice process for both the adviser and their clients.

From campaigns to compliance, a.i.'s intelligent CRM streamlines every aspect of the financial planning process, giving advisers more time to take care of what matters most: their client relationships.

a.i.'s interactive WealthMap™ allows clients to easily understand and visualise their financial journey – and take an active role in defining their future.

a.i. is an enterprise cloud-based platform. With a leading team of software engineers, PHDs, analysts, actuaries and behaviour scientists, it aims to improve the way advisers work, and to make goals based advice more accessible to Australians.

For more information, go to www.adviceintelligence.com

In 2019, Lifewealth, in conjunction with technology specialists Dexterous, launched its financial services software solution – **Ontoma** – with the stated goals of making compliance management simpler for all financial services firms in Australia, while supporting improved communication and access to information for clients in real time and with greater transparency.

Ontoma is a software response to relieve the compliance burden following the Royal Commission's recommendations that indicate financial services licensees need to work harder to demonstrate value for their clients and deliver greater transparency.

The streamlined solution allows advice practices, from self-licensed firms to institutionally aligned businesses, to manage FoFA compliance requirements at a glance like never before.

Ontoma has been developed to help manage compliance obligations and establish best practice frameworks for delivering regulatory outcomes, while also enhancing the client experience. By automating advice practice processes, Ontoma helps to reduce the time-consuming burden of compliance administration.

Ontoma is Australian-owned and developed, with all data being stored on Australian servers.

For more information, go to ontoma.com

iFactFind is an open architecture solution designed to be used in collaboration with an adviser's existing financial planning software.

iFactFind provides true database capability into your client data collection. The smart use of data feeds and APIs mean that there is no need for reverse fact finds prior to client reviews – in fact, advisers are able to 'snapshot their client's current situation each time they provide advice and have that stored for compliance purposes at the push of a button.

Rather than simply waiting for the information, the adviser has live access to what the client has completed. Client information is gathered collaboratively, so that the 'helping' relationship commences early in the relationship.

iFactFind allows advisers to know what is outstanding, who is committed to completing (and whose commitment is waiving), and when to schedule SoA production – all via the adviser dashboard.

Additionally, any details the adviser obtains can be directly entered into the client file – on the go.

For more information, go to ifactfind.com.au

SAVE THE DATE: ADVISER ROADSHOW 2020

- 12 March 2020 – Brisbane
- 20 March 2020 – Sydney
- 1 April 2020 – Melbourne

Stay up-to-date with what's happening in the industry by attending the Adviser Roadshow 2020. For more information, go to imap.asn.au/events or contact Jenny Phimleut at jenny.phimleut@imap.asn.au

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Innovation and your technology strategy

Speaking at InvestTech 2019, **Adam Pointon** outlines some of the key considerations required to successfully roll out technology within a planning business.

When we talk about platform innovation, we're talking about master trusts, wraps, and wrap bolt-ons. If we look at these offerings today, we have a bell curve in the middle representing SMA wraps and SMA bolt-ons. So, on one side of this bell curve are the legacy wraps and master trusts, which are almost gone, and on the other side of the bell curve is 'Next Gen' and 'Bleeding Edge'.

In terms of innovation, 'Bleeding Edge' is not where you want to be. This is experimental R&D, where you're coming up with commercial prototypes that may or may not work. However, 'Next Gen' sits between the SMA wrap/bolt-on and Bleeding Edge. This is the innovative edge, where you're right at the cusp of leading the way with new technology and innovation.

But as an adviser, how do you get to this Next Gen space and stay there? The answer is innovation, which means different things to different people. I will focus on three areas of innovation: delivery, technology and culture.

CULTURE

Culture is incredibly important for any business. Culture embodies 'trust'. Without trust you have fear and uncertainty. With trust you have the ability for staff to raise new ideas and for people to be themselves in order to think and act creatively. But in a fear culture, people are reluctant to come up with ideas and back themselves with those ideas.

Another element of culture is 'purpose'. Purpose allows people to understand where they are going and why they are going there. When they are being creative in that trusting environment, they are actually aligned to the 'why' and 'where' that the organisation and team are aiming towards.

To create a dynamic culture, it's important to surrounding yourself with people who care about the company and its vision. At Praemium, when we hire people, we actually look for individuals who have a caring disposition and who genuinely want to improve the product and the lives of others through their work. These are the type of people who are constantly thinking about ways of improving our products and services. They care about what we do.

Another part of culture is 'continuous improvement', which benefits everybody in every business. It involves looking back retrospectively at what has worked and not worked, and then refining that. Trust is a core element of continuous improvement, because without trust, people won't talk about what went wrong. This means you don't get the opportunity to improve or avoid mistakes going forward.

'Data' also plays an important role in the culture of a business. In a trustful culture, any preconceived ideas or bias can be removed by simply examining the data, without fear of internal hierarchy or ranking that may impede the unbiased examination of data.

Data warehousing is one strategy where you can take all your data from different silos and house it in the one place where you can query it. In fact, think about data like exhaust from a car. Data is being created all the time. So, unless you are capturing data at the time you are creating it, then it's gone. And just like car exhaust, you can't capture it once it has been produced and emitted.

This means you need to think about data, how you use it and how you may want to use that data in the future.

'Dogfooding' is the final element of culture. It's a term that comes from Yahoo and essentially means to use your own newly developed product and service offering, as a way of testing it, before it's made available to clients.

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DELIVERY

So, how do you change things within a business, regardless of whether they're big or small? The first thing to do is break these things down in order to change them. An analogy would be getting to 'base camp' first before climbing Mt Everest. You don't try to change everything in one go.

Increasing the frequency of change by reducing the size of change, works well. It's about doing small things more often. And when something is hard to do, the best way of making it easier is to break it down into more manageable pieces and doing it more often.

When making changes, you want people to progress and improve whatever is being changed, rather than undo it. You don't want to make a change to the business or your technology, but then decide if the change doesn't work out, you'll simply undo it. That's a mistake and you definitely don't want that because it allows people to 'half do' things.

Instead, change should be about implementing in increments and following them through to completion, then deciding whether the changes are working or not, and continuously improving upon them.

Change applies to anything, not just technology. For example, moving to a managed accounts structure requires change. You need to try it first and then review it, and always try and move forward.

Delivery and change also requires ownership and care. This means having somebody follow the process from inception through to completion. If a person has come up with the idea, then let them be involved with the development and implementation process. Allow them to celebrate the success, which is great for staff morale and building a successful business culture.

Obviously, with change, there is always the chance of failure for any business. But it's okay to fail, as long as you discover your failure early, pivot quickly and learn from that failure. Be confident to pivot. So, if something is not working, cut it off and change tack. Remember, failure is reinforcement learning in order to improve.

> "Culture is incredibly important for any business. Culture embodies 'trust'. Without trust you have fear and uncertainty."

TECHNOLOGY

When it comes to technology, you need to have some type of foundation and architecture in place from which to work from. Architecture allows you to move more quickly. That's why the likes of NAB and ANZ are moving to 'microservices', which is about making things smaller, so you can change them more easily without breaking everything.

Essentially, microservices is about loosely coupling services, so you can move faster and be more agile. It's all about getting to 'base camp', so you can then decide which direction you want to go.

An important element of technology is vision. This is all about thinking of the future and actually doing something about that vision, today. There's no point articulating your vision and then plan for it three years out and hope for the best. That doesn't work.

Instead, vision is about what you can do today, to incrementally and iteratively move towards that. Again, it's all about change. By doing a small change today, you can use that change and learn from it, as you move towards your future vision. But without having a vision and purpose, you're not going anywhere.

With technology, if you simply keep refining something in the hope of making it better, you might actually miss something that is key to what you are actually refining. Instead, iterations, which includes experiments, prototyping and developing things that you are prepared to discard if they're not right, enable people to come up with other ideas and changes that are better suited to where you want to get to. These changes can then be refined.

And data capturing and data use is important when you look at any platform or technology provider.

You need to ask yourself: Do they actually give me access to my data? Because you own that data. Do they allow me to export that data? Are they friendly if I want to move to another platform or will they make my life difficult? Will they allow me to walk away with my data and if so, what format will this be in? These are all questions an adviser should consider.

TECHNOLOGY DRIVING CLIENT ENGAGEMENT

At Praemium, we have thought about data for a long time. We have planned for artificial intelligence and for machine learning. But we have always wanted to offer more for our customers and something that was useful for them.

So, we thought: Could we identify client behaviours that indicated when fresh advice and engagement was required by the adviser? Could we predict, based on our data, if an investor was going to close their account?

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As a result, we launched an offering to advisers in early 2019, which provides client insights to advisers using our services. The insight notifies the adviser of unusual client behaviours, which are based on similar data from other investors who have previously closed their account. This is a red flag for the adviser to get in touch with their client. This new service offering is not about selling more products to clients, but to alert the adviser of their client's life events or changed circumstances, which may suggest they are looking to close their account with them. It's all about closer client engagement.

This is a good example of a company – in this case, Praemium – using its data to provide enhanced value to customers, by allowing them to have more meaningful conversations with their clients.

TECHNOLOGY PARTNERS AND YOUR STRATEGY

There are a number of important things to consider when partnering with a technology partner and developing your own technology strategy. They include:

- Does the provider align strategically with where you are going?
- Who are their customers?
- Are they nimble and agile?
- Is the company innovative and what's the evidence of this?
- Is the provider building on another technology that they are reliant on?
- Can the company provide the type of technology and agility you require to implement your strategy?

If your technology partner is building on someone else's technology that they are reliant on, when they want to make a major change to something, they become hamstrung. They become as slow as their supply chain, and therefore, you become as slow as both of them.

WHERE DO I START?

So, when it comes to developing and rolling out innovation within your business, where do you start? Indeed, how do you get to 'base camp'?

Innovation is about solving problems in creative and more optimal ways. The culture of trust, transparency and 'safe to fail' is so important when it comes to innovation and change.

So, where do you start? Firstly, take a critical look at your business. If you are running a financial advice business, ask yourself: 'What experience do I provide to my clients?'

'Dogfood' your business, by inviting your family and peers through your advice process and asking them for feedback on it. They will provide you with honest and valuable feedback. What worked, and what didn't? What was good, what was bad? It's all about the client experience.

And don't think of innovation from the point of optimising your business. Instead, think of it from the client experience. Naturally, you can make your business more efficient by automating your SOAs, but does that really help the client? Do they really care and what does it mean to them?

And as for potential technology partners, ask a lot of questions. Don't be afraid to query them, challenge them and doubt them. Importantly, make sure the technology aligns with your vision for the business.

Adam Pointon is Chief Technology Officer at Praemium.

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2019 Portfolio Management Conference:

Client-centric investment decision-making

It was a full house at the Arts Centre Melbourne on 22 October, when IMAP conducted its second **Portfolio Management Conference** for the year. With 11 sessions on offer, there was a good selection of client-focused investment topics and presentations for managed account professionals. Following are some of the highlights from the Melbourne conference.

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Client-centric decision-making

With 11 sessions available to the delegates attending the 2019 IMAP Portfolio Management conference in Melbourne, there were plenty of opportunities to learn from managed account professionals, while networking with industry peers.

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Designing portfolios for client goals

Matthew Walker CFP® talks to **Anne Hamieh** about his approach to goals-based advice.


Anne Hamieh


Matthew Walker CFP®

Q: WHY HAS YOUR BUSINESS FOCUSED ON GOALS-BASED ADVICE FOR YOUR CLIENTS?

Matthew Walker: After 25 years as a financial planner, you get to see all sorts or markets, ways of operating and the evolution of the industry. At WLM Financial, we do accounting and financial planning. Part of our own evolution has been the cultural aspect of blending those two disciplines together, which means our focus has always been less on sales and more on how we work with our clients to help them achieve their goals.

So, we have focused our business on goals-based advice. And in terms of executing our goals based advice, we have developed a goals based investing business – Dynamic Asset Consulting.

Q: MANY ADVISERS WOULD SAY THEY ARE ALREADY FOCUSED ON GOALS-BASED ADVICE, BY TRYING TO ACHIEVE THEIR CLIENTS' NEEDS. HOW ARE YOU DOING IT DIFFERENTLY?

Matthew Walker: I think it's fair to say that every financial planning firm is about helping their clients achieve their goals. Communication and the nuisances of financial planning is changing. For example, through the managed accounts structure, you have much more flexibility to work with your clients, so the discussions you have with your clients become less about the portfolio and more about their goals.

Where I believe there is a disconnect is when you finish the strategy part of the client meeting and start executing that strategy into portfolios. Clients never come to us and say: 'What I want to achieve is the ASX 200 and that's my retirement strategy.' That just doesn't happen. It's the same for 'balance' or 'growth' or any of these other risk tolerances or benchmarks.

Instead, clients come to us and say: 'I want to be secure in my retirement. I want regular cashflows. I want to travel. I want to help my children pay off their home loan.' The conversations with clients are much more human and not portfolio based.

However, the way advisers have traditionally been taught to have these types of conversations with clients revolves around: 'Hi, how are you? What do you want? How can I help you? These are our services. What is your risk tolerance? Here is your portfolio based on your risk tolerance.'

But in 25 years of advising, I don't think I have ever met anybody whose risk tolerance perfectly matches up with their financial needs. Therefore, a Strategic Asset Allocation (SAA) type portfolio doesn't necessarily come together with helping the client achieve their goals. It might if you are just focused on the risk side of things. But from a return point-of-view, it's a bit more challenging.

Q: DOES THAT MEAN THE SAA APPROACH IS NOT GOING TO WORK GOING FORWARD?

Matthew Walker: There is a considered viewpoint that an SAA-type model, which is risk profiling, will struggle going forward. If you think about the very large macro economic picture, such as falling interest rates over the last 30 years, which have been good tail winds for growth assets, property and fixed interest, we are near the bottom of that cycle and have to be close to zero or negative rates.

Considering that environment, building an SAA portfolio that is, by definition, based more on historical returns and correlations, and extrapolating that for what you expect

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> Clients didn't necessarily want to chase the best return, they just wanted to make sure their money was well looked after and properly managed.
> – MATTHEW WALKER CFP®

the future rates of return to be, is going to be really hard. So, if you do build an SAA portfolio, unless you do things that are different, or unless you are more dynamic or tactical, an SAA portfolio is going to be challenging.

Q: WHAT APPROACH TO INVESTING DO YOU CONSIDER WILL WORK GOING FORWARD?

Matthew Walker: It all comes back to goals-based investing. For WLM Financial, goals-based investing was born out of us having a conversation with our clients around what they wanted as part of their financial planning journey.

After the GFC, where you had market volatility and the impact that was having on people's lives, we knew there had to be a better way of doing things. A lot of products have been developed by institutions that are single asset class and risk profile based, but they actually have no relationship with the client.

So, when we sat down with our clients, we asked them what they wanted. At the end of the day, financial planning is all about helping our clients. They told us: they didn't want to lose their money, so protection was important to them; they wanted confidence in the process; they wanted transparency in what was happening with their money; and they wanted a return on their investments.

Clients didn't necessarily want to chase the best return, they just wanted to make sure their money was well looked after and properly managed.

So, if you take all that onboard and look at your clients' different goals and situations, it's never a simple matter of having a single goal. It might be saving towards retirement, paying off a home loan, educating the kids, upgrading their house – there are a plethora of goals in life.

The question for us was: if we have all these different goals, how do we then go about matching up those goals to our clients' portfolios and then execute that? We needed to work out the right way to go about doing that.

We discovered there were fundamentally three different types of goals for clients – retirement, which involved cashflow and liability management; risk, particularly as clients were heading into retirement; and investment return.

So, the challenge was actually bringing these three goals together to produce a cohesive outcome.

You couldn't really do a risk profile for each goal, because advisers typically only do one overall client risk profile. You can't say that a client's kids' education over the next five years has the same risk profile as their superannuation over the next 30 years. So, how do you build a conservative portfolio and a growth portfolio to satisfy a client's competing goals? That was challenging.

Q: HOW DO YOU MANAGE A CLIENT'S DIFFERENT GOALS IN THEIR PORTFOLIO?

Matthew Walker: We went out to market to see who can deliver on these different client goals. We quickly realised that an SAA style portfolio wasn't going to work for us, because of different changing economic cycles. So, what do you do?

Well, you have to be dynamic, you need to be flexible, you need to have a broad range of asset classes that you can work within, and not have a restricted APL. You need to be able to execute across a lot of different exchanges.

So, you really need a full toolkit to be able to move into areas where a specific asset is suitable for a particular mandate, allowing you to build a portfolio.

Designing and building structures around a portfolio to suit a client is critical. But how do you execute all that in reality?

We had a look at a number of different approaches we could take, including unit trusts, which is the typical structure in a managed fund. Fortunately, at the time, there weren't too many unit trusts that could deliver what we wanted to satisfy the different elements of a client's portfolio.

And while a single unit trust can match up with a single client goal, it didn't leave us feeling like we had a great value proposition for our clients. A portfolio of one asset doesn't seem like something that people would pay for.

So, in order to maintain our value proposition, while providing our clients with greater transparency, the solution for us was managed accounts. A managed account provided us with all the benefits of individual ownership, affordability, tax benefits, transparency and flexibility. An MDA licence gave us the flexibility and efficiency with the advice process and executing trades.

A managed accounts solution provided us with the opportunity to execute and scale the business in an efficient way, allowing our planners to get on with the job of being planners, where they can talk about strategy and

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client goals, and not spend as much time on the portfolio management side of the business.

Q: WHAT DOES THE PORTFOLIO CONSTRUCTION PROCESS LOOK LIKE FOR YOUR BUSINESS?

Matthew Walker: We have always aimed to produce the best outcome for our clients, without giving them a rollercoaster ride. As we went through the process of developing our managed accounts solution, we quickly realised we didn't have the skillset to do it ourselves. We were financial planners, not Chartered Financial Analysts (CFAs).

We simply couldn't compete with the plethora of full-time analysts and fund managers, who were solely focused on portfolio construction. As a result, we looked to outsource this process, which would immediately free up about 25 per cent of our time, which we could spend on our clients and allow us to generate more revenue.

However, when we first began our journey into managed accounts, unlike today, there wasn't a lot of choice in the market. Some were doing true-to-label style investing, and some companies were beginning to talk about goals-based investing. But when you looked under the hood of some of these true-to-label offerings, they were more of an SAA with a TAA overlay.

Despite wanting to outsource our managed accounts solution, we couldn't find the right fit for our business and our clients. So, we ended up setting up a new business – Dynamic Asset Consulting.

This business was separated out of the financial planning business due to any perceived conflicts of interest. Dynamic Asset Consulting put together an investment committee, with independent asset consultants, research houses and a full-time portfolio manager. A lot of resources were invested into this business.

It's been an interesting journey over the last decade. But if I look back at that journey, I wish there had been been businesses that we could have outsourced this to. However, we have done it now, and through that, we have set up a series of different portfolios that match up with what our clients want. For example, we have cashflow-based portfolios, risk-based portfolios, and return-based portfolios.

It's important to bear in mind that the choice of platform you use is critical. If you are trying to find a consistent outcome for your client in terms of goals-based, or CPI plus, or a particular level of risk, then you need to be reasonably nimble. You need to be able to get out of the way of approaching 'train wrecks' and avoid disasters.

> "The conversations with clients are much easier and more personable. It's easier to manage the investor psychology part of financial planning if you are focused on client goals, as opposed to being focused on an investment."
>
> – MATTHEW WALKER CFP®

But you also need choice. You need a platform that is able to deliver on things when you want them, like doing direct transactions in the market when you need to make them. You also need the ability to get into IPOs or access new boutique funds. All that is a source of alpha.

Another consideration is whether you can do it across superannuation as well as non-superannuation. A lot of managed accounts are set up for the investment side of the business, but with the super guarantee charge, there are still many people in retail superannuation. So, as an advice firm, we needed a solution that would cover both superannuation and investments as part of a single platform.

So, remember, a single platform that is able to execute across super and non-super, in a consistent and flexible way, is important. And while that may sound obvious, actually finding a platform that can deliver that is quite hard.

Q: HOW DO CLIENTS PERCEIVE YOUR VALUE PROPOSITION?

Matthew Walker: When we first decided to go down the goals-based advice path, by helping our clients match their goals, the first thing we were worried about was clients questioning the assumption that we had always been doing that, and in what ways would we be doing things differently now compared to previously.

However, when we sat down with our clients and explained to them what we were now doing in terms of goals based advice and matching their goals to portfolios, they actually understood it. It made perfect sense to them. They didn't care about the investment piece. They were more concerned about us delivering to their needs.

We found that the client relationship improved greatly, because we were talking about what they wanted, not investments or market indices, which they weren't really engaged with.

By having that goals-based advice conversation and relating it back to them, it really improved our client engagement.

When we first introduced goals-based advice, we planned to achieve a 75 per cent client transition rate. We ended up with a 99.8 per cent conversion rate. Only one client didn't transfer across. So, this was an amazing outcome for the business.

Clients identified that goals-based advice was much easier for them to understand and they could clearly see how it related to them. In fact, in the first 18 months of operating our goals based advice, we achieved a 30 per cent increase in FUM, as clients were happy to invest more with us.

As a result, we now receive less calls from clients about markets and market performance. The conversations with clients are much easier and more personable. It's easier to manage the investor psychology part of financial planning if you are focused on client goals, as opposed to being focused on an investment.

If you look after your clients, listen to them and help them achieve their goals, you're going to have an efficient and scaleable business.

Matthew Walker CFP® is a director at WLM Financial and Chair of the investment committee at Dynamic Asset Consulting. Anne Hamieh is Head of Distribution and Marketing at Xplore Wealth.

> In order to maintain our value proposition, while providing our clients with greater transparency, the solution for us was managed accounts.
>
> – MATTHEW WALKER CFP®

WHAT IS GOALS-BASED ADVICE?

Goals-based advice links a client's individual goals directly to the design of their portfolios, so the likelihood of achieving those goals is improved.

The traditional approach to building a portfolio is to use risk profiling to match a client's investment risk tolerance to a Strategic Asset Allocation (SAA) benchmark, which by definition is more backwards-looking and static in nature.

Goals-based advice is different. It seeks to look forward – using a more flexible portfolio design methodology and Dynamic Asset Allocation (DAA).

The primary aim is to achieve a specific outcome or goal. It may be to achieve a real return objective (i.e. above cash or inflation) over a given time period. It may be to manage 'risk' within certain parameters. It may be to ensure that capital is available at a specific point in time by using liability matching or Liability Driven Investing (LDI).

Regardless of what the primary driver of a portfolio may be, there is usually a strong focus on downside risk protection.

Source: Association of Goals Based Advice (AGBA).

The risks of retirement income portfolios

Speaking at the IMAP Portfolio Management Conference in Melbourne, **Michael Watson**, **Kris Walesby**, **Rudi Minbatiwala** and **Tom Schubert** talk about their approach to building retirement income portfolios, including the risks to be aware of.

L-R: Michael Watson, Kris Walesby, Rudi Minbatiwala and Tom Schubert

Q: WHY DO YOU THINK THE OVER-RELIANCE ON AUSTRALIAN YIELD SOURCES IS A RISK TO THE LONG-TERM PREDICABILITY OF RETIREMENT INCOME?

KRIS WALSEBY: One of the main reasons ETFs have taken off over the last five years is because it gives Australian advisers easy ways to play international markets without having to choose single stocks.

This probably boils down to risk. If you are invested in one country, like Australia, and it's already in a high yield environment, it is typical to stray away from that country. So, investing in Australia should be weighted relative to other countries.

Remember, Australia is just 2 per cent of the entire world market. There are so many other opportunities for investors from a country, regional or currency perspective. If the blending of these three opportunities is done well, it just means the chance of drawdown through diversification is dramatically reduced.

Australia has enjoyed a long period of relative stability, even during the GFC, where the drawdown wasn't as high as it was in other countries. But it doesn't make it immune from those types of threats in the future. Instead, reducing risk by going abroad and entering different markets, and accessing different opportunities, is just savvy investing.

When it comes to asset allocation, this should include a large international exposure, providing greater diversification and safety for clients.

Q: WHAT DO YOU THINK AN AVERAGE RETIREE'S PORTFOLIO MIGHT LOOK LIKE IN 5-10 YEARS' TIME?

MICHAEL WATSON: I think we will see a tilt into other asset classes, both locally and globally, which currently are not really front-of-mind with investors.

Q: IS IT WRONG TO FOCUS ON YIELD, WHICH MAY PRODUCE INFERIOR OUTCOMES FOR INVESTORS?

RUDI MINBATIWALA: I don't think there is anything wrong in searching for yield. I look at yield on my stocks every single day. It's just that the way we are using that metric has changed. Dividend yield is a valuation metric. However, the way it is used has changed. It's gone from being a valuation metric to become a proxy for cashflow generation, particularly in equities.

If you think of it on another level, the traditional income asset classes – like credit and bonds – don't use the same metric. If you talk to any bond or credit manager, they will tell you that it's not about the running yield, which is the coupon over the bond. You've got to look at the yield to maturity or horizon rate return.

It's interesting that as equity investors, we are using a rule or a valuation metric that traditional income users don't actually use as a metric.

> Equities are being called upon to do so much more heavy lifting in client portfolios, which seems at odds with one of the key retirement objectives, which is lower volatility.
>
> – RUDI MINBATIWALA

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> However, equities is an inherent risk, because no-one in Australia has been particularly stung by equities for the last 20 years. It's almost like a clear and present danger, and investors need to be cautious of that.
>
> – KRIS WALESBY

MICHAEL WATSON: From La Trobe's perspective, we absolutely prioritise capital preservation. Rule number one with investing is don't lose money, and rule number two is, don't forget rule number one.

In doing so, we have created products that generate strong running yields on an ongoing basis for investors, because when you're talking about retirement incomes, having a good strong yield is nothing, if the capital value is volatile.

So, yes, yield is important. Investors who have created portfolios have to live, eat and buy their groceries from the income they generate, which has to last them. That's why we need to see more diversification across broader assets in order to meet those objectives.

Q: IN A LOW RETURN WORLD, HOW DO YOU GET THE RIGHT BALANCE BETWEEN LOW COST PASSIVE STRATEGIES AND MORE ACTIVE STRATEGIES?

KRIS WALESBY: Many people think ETFs are passive but they are probably the most active products you can get and use in an investment strategy. A lot of people don't understand that. Essentially, using an ETF can mean taking away the active manager's selection.

If active managers can consistently outperform in any investment environment, particularly around retirement income, you should absolutely pay more for that expertise and ability to outperform the benchmark.

The main thing we talk about with our clients at ETF Securities is to only take the passive if you believe the active isn't going to significantly outperform. But if you do think it's going to outperform, then you need to take it or a combination of the two.

RUDI MINBATIWALA: I think the definition of value-add in the retirement composition of client portfolios actually matters. Kris is right to say there is an important role for that low cost, transparent market allocation component for a client's portfolio. When we're talking about retirement income portfolios, and we talk about these multiple objectives and timeframes for clients, I think there is value in what else can be done for them.

For example, when we think about whether it's worth the cost, there are things that can be done within different asset classes, like equities and credit.

I use the term 'intra asset risk management', which sits on top of your asset allocation risk management framework. Adding additional layers of risk management is an important part of what retirement income is going to include in a client solution. That's the framework I use when thinking about whether it's worth the extra cost.

MICHAEL WATSON: There needs to be some sort of thought towards how does that cost link back to performance or the generation of that performance. Some managers in some asset classes are always going to be a touch more hands-on than others, in terms of the asset selection and the investment process. So, therefore, a fund manager in an asset class with a more hands-on approach with their process, will therefore require, a higher management fee.

You need to look beyond the noise of a manager being a touch higher with their fee pricing than other managers, or a manager being priced lower, and basing your decision to go with a manger on price alone. Advisers need to look beyond that. Instead, they need to consider what the manager is actually doing, how are they generating their returns, and whether their approach to investing makes sense.

And if it all makes sense to the adviser, then the notion of cost should be secondary to them.

KRIS WALESBY: Whether it's the hands-on approach, the risk management or the scrutiny of funds – it just needs to work. That's why the use of passive funds have increasingly risen, because there is a long tail end of ultra active management that doesn't work.

> When we're talking about retirement income portfolios, and we talk about these multiple objectives and timeframes for clients, I think there is value in what else can be done for them.
>
> – RUDI MINBATIWALA

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Q: WHAT ARE YOUR THOUGHTS ON MANAGED ACCOUNTS?

TOM SCHUBERT: The technology and structure of managed accounts enable advice practices to focus on their total return outcome. You can time your cashflows out of portfolios to align with rebalancing events to minimise transaction costs.

And if we're thinking about preserving capital into the future for our clients and still having an adequately diversified portfolio, then managed accounts are a good avenue to enable that to occur.

Q: CONSIDERING RETIREMENT INCOMES, IN A LOW INTEREST RATE ENVIRONMENT, ARE RETAIL INVESTORS GOING TO BE FORCED INTO RISKIER PORTFOLIOS, AS THEY HUNT FOR YIELD AND RETURNS?

RUDI MINBATIWALA: From my perspective, that's why this topic of retirement income portfolios is so complicated. Yes, equities are being called upon to do so much more heavy lifting in client portfolios, which seems at odds with one of the key retirement objectives, which is lower volatility.

> I think we will see a tilt into other asset classes, both locally and globally, which currently are not really front-of-mind with investors.
>
> – MICHAEL WATSON

The equities component of an investor's portfolio dominates the risk contribution of the portfolio. That's why when we talk about 'balance', we've got to find a way to de-risk that most risky component of our client portfolios.

However, asset allocation is driving us towards equities because of the yield pressure in some of the other asset classes. So, by doing more within the equities component of a client's portfolio, can drive value for those clients in that stage of their financial planning.

KRIS WALESBY: Equities are more risky than most other asset classes. When I came to Australia five years ago, it was obvious to me that many professional Australian investors and retail investors think they are not taking risk with equities. However, when compared with most other regions, they are, in fact, taking a lot of risk.

For example, a conservative portfolio in Germany and Switzerland is made up entirely of bonds and cash. There are no equities included whatsoever. But because Australia is such an equities focused nation, driven by franking credits, equities is hugely popular in this country.

However, equities is an inherent risk, because no-one in Australia has been particularly stung by equities for the last 20 years. It's almost like a clear and present danger, and investors need to be cautious of that.

Michael Watson is Executive General Manager – Head of Major Clients at La Trobe Financial; Kris Walesby is the CEO of ETF Securities Australia; Rudi Minbatiwala CFA is Head of Equity Income at First Sentier Investors; and Tom Schubert is Managing Partner of Drummond Capital Partners.

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UPCOMING EVENTS

2020 IMAP EVENTS

2020 is shaping up as another busy year for IMAP, so make sure you mark these events in your diary for the next six months.

JANUARY

- **22 January 2020**
  Webinar

FEBRUARY

- **6 February 2020**
  Investment Forum
- **13 February 2020**
  Webinar
- **20 February 2020**
  Fintech cocktail evening

MARCH

- **4 March 2020**
  Webinar
- **5 March 2020**
  Responsible Manager Masterclass
- **11 March 2020**
  High-net-worth and wholesale advice workshop – Brisbane
  Goals based advice workshop – Brisbane
- **12 March 2020**
  IMAP Adviser Roadshow – Brisbane
- **19 March 2020**
  High-net-worth and wholesale advice workshop – Sydney
  Goals based advice workshop – Sydney
- **20 March 2020**
  IMAP Adviser Roadshow – Sydney
- **31 March 2020**
  High-net-worth and wholesale advice workshop – Melbourne
  Goals based advice workshop – Melbourne

APRIL

- **1 April 2020**
  IMAP Adviser Roadshow – Melbourne
- **2 April 2020**
  Webinar

MAY

- **6 May 2020**
  Webinar
- **14 May 2020**
  Fintech cocktail evening

JUNE

- **3 June 2020**
  Webinar
- **16 June 2020**
  Investment Forum
- **25 June 2020**
  IMAP Managed Account Awards

Dates and events may change. For more information on these events or to register your attendance, go to imap.asn.au/events or contact Jenny Phimleut at jenny.phimleut@imap.asn.au

IMAP hosts leading managed account educational events, including webinars for dealer principals and advisers, advice roadshows, practitioner forums, fintech evenings and the Responsible Manager Masterclass. For more information, go to imap.asn.au

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