

MANAGED ACCOUNT

PERSPECTIVES

THE RIGHT FIT

PIERS BOLGER AND VIRIDIAN ADVISORY'S
WINNING APPROACH TO MANAGED ACCOUNTS

ALSO: IMAW AWARDS / ESG ROUNDTABLE /
PORTFOLIO MANAGEMENT CONFERENCE /
PRACTICE-BASED INVESTMENT MANAGEMENT



VOLUME 3 ISSUE 3 SPRING 2019

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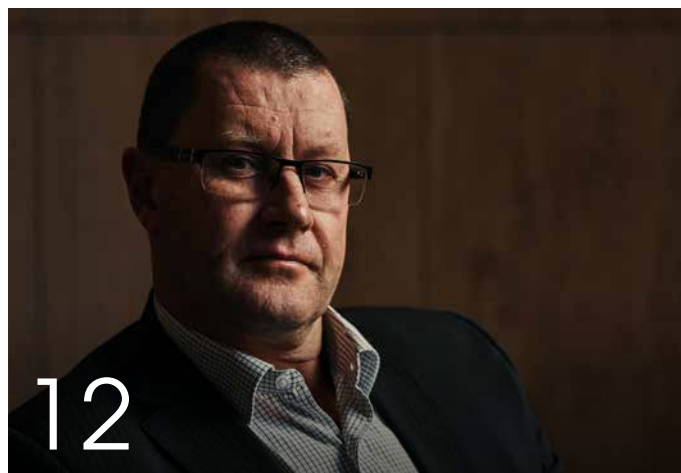
PERSPECTIVES

REGULAR

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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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WHAT THE FASEA CODE OF ETHICS MEANS FOR ADVISERS

It's a pretty common observation that we live in politically correct times. Who needs careful consideration when there are 'obvious' wrongs to right? Who can disagree with a Code of Ethics, after all, every one agrees advisers need more moral fibre.

So, what can be wrong with a standard which says: *"You must not advise, refer or act in any other manner where you have a conflict of interest or duty."*

I've quoted the standard in its totality, in case you are wondering.

Who can object to a blanket ban on advisers from acting where they have a conflict?

The explanatory note goes on to say: *"You will not breach Standard 3 merely because you recommend to a client financial products offered by your employer or principal. However, you will breach Standard 3 if a variable component of your remuneration depends on the amount or volume you recommend of those products, because your*

interests will or may conflict with your duty to act in the client's best interests."

So, what conflicts are caught here?

An adviser who is a principal or shareholder in the advice business and who pays themselves a salary and, potentially at the end of the year, a dividend from profits earned as a result of charging advice fees – that's pretty clearly not permissible.

An adviser who recommends that a client engage in an ongoing advice relationship of which they receive a portion – that seems to me to be pretty clearly banned.

An advice business that charges portfolio management fees as a result of providing portfolio management services, where the advisers are also business principals – that's banned.

A broker who receives a portion of the brokerage paid by the clients and who also provides personal advice to those clients – how can that be legal under this Standard?

But a salaried adviser from an

institutionally-owned licensee who recommends the in-house platforms or funds – well, the explanatory notes say that's okay (subject to not receiving conflicted remuneration, which is already banned anyway).

The other Standards in the Code, among other laudable objectives, require that clients give free, prior and informed consent, particularly in respect of the costs they will incur.

But if Standard 3 – which is after all, black letter law on 1 January 2020 – comes into effect, the other Standards will never be engaged in respect of non-aligned advisers. That's because there will be no non-aligned advisers, since it will be *prima facie* illegal to charge an advice fee, or portfolio management fees, or brokerage – except in a salaried institutional advice model.

Is that what all the enforceable undertakings were designed to achieve?

Toby Potter
Chair

“

Who needs careful consideration when there are 'obvious' wrongs to right? Who can disagree with a Code of Ethics, after all, every one agrees advisers need more moral fibre. – TOBY POTTER

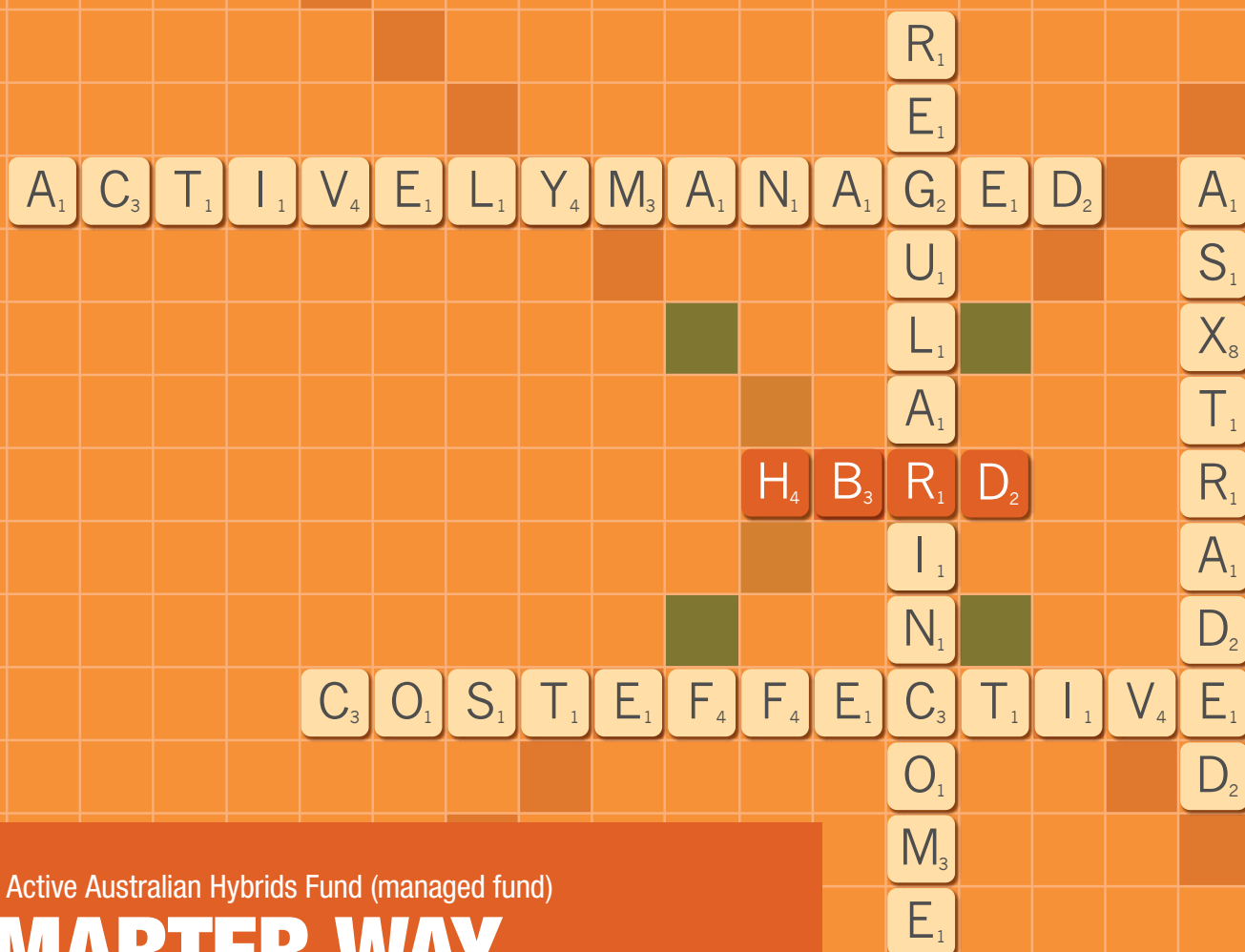
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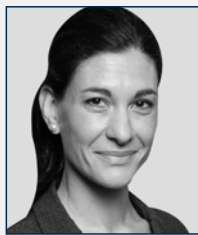
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Vicki Riggio

PERPETUAL KICKS GOALS WITH MAINSTREAM SMA

Following Perpetual Corporate Trust's appointment as the responsible entity (RE) of global fund administrator Mainstream Group's Separately Managed Account (SMA),

the platform has been fully operational and delivering benefits to clients since May 2019, with initial commitments greater than \$150 million.

Mainstream Fund Services supports Perpetual Corporate Trust by providing administration, registry or custody services to more than 30 funds where Perpetual Corporate Trust acts as RE.

Speaking of the partnership, Perpetual Corporate Trust General Manager of Management Services, Vicki Riggio said: "Given improvements in technology, we are seeing an increased demand for SMAs across the market. The added compliance an SMA offers as a regulated product, helps address financial planner concerns regarding the administration, costs or independence of platforms they currently use."

The SMA investment solution offers advisers and their clients customised access to specialist investment models across 25 international markets and potential access to Mainstream administered managed funds from over 110 leading investment managers across all asset classes.

Mainstream Chief Executive Officer, Martin Smith, said Mainstream administers funds for 110 Australian fund managers, with more than \$90 billion assets under management.

"The SMA offers our clients with the infrastructure to provide retail investors with actively managed, tax optimised products, typically reserved for high-net-wealth investors. The SMA forms part of our investment in digital services. Benefits of the SMA platform include integrated reporting, operational efficiency, asset transparency and improved financial outcomes," Smith said.

He added that clients investing through the SMA could access institutional brokerage rates that would usually be unavailable to retail clients.

"This can produce substantial savings in brokerage over time. Furthermore, pooling of client trades helps avoid minimum brokerage charges on smaller accounts," Smith said.

According to Smith, Rivkin Securities is one of the foundation clients of Mainstream's SMA platform.

Commenting on the benefits and adoption growth of SMAs,

Rivkin Chief Executive Officer, Nikos Enginertan, said: "Rivkin has traditionally followed the model of providing investment advice but leaving execution up to the client. We have seen substantial demand from clients for a solution where all the trading and administration is done for them."



Recep Peker

PLANNERS REMAIN RESILIENT TO CHANGING LANDSCAPE

The financial advice industry remains resilient to the many challenges facing it, despite more compliance and regulatory

requirements on the horizon.

This was one of the key findings from the Investment Trends 2019 Licensee Satisfaction Report, which shows that only 11 per cent of planners say they intend to leave the industry if the full recommendations of the Royal Commission are implemented, while 7 per cent say they will cease providing advice when FASEA's education requirements come into effect in 2024.

As planners adjust to this new regulatory regime, the affordability of advice is also a growing concern. Significantly, more say they are facing obstacles in providing affordable advice (43 per cent, up from 33 per cent in 2018) and reducing the cost of advice (39 per cent, up from 27 per cent).

"While heightened regulation will add time and cost pressures to their business, the vast majority of financial planners have no plans for leaving the industry," said Recep Peker, Research Director at Investment Trends. "However, planners recognise the need to evolve their business not only to satisfy regulatory standards, but also to meet the demands of shifting consumer preferences and an uncertain investing climate."

When asked how the Royal Commission will impact their planning practice, 69 per cent of planners intend to accelerate their adoption of technology to better serve their clients.

"By using technology more effectively, planners believe they can enrich their client engagement capabilities, helping them better demonstrate value to existing clients and to expand their pool of potential clients," Peker said.

SELF-LICENSING

The trend towards self-licensing is also increasing rapidly, with 24 per cent of planners now saying they either

operate their own AFSL or belong to a self-licensed boutique (up from 15 per cent five years ago). In the next 12 months, a further 10 per cent say they intend to take the same route.

"More planners are moving away from the traditional licensee model, believing they can deliver better outcomes for the end-client by taking full control of their operating environment, value proposition and product set," Peker said.

While self-licensing provides planners with greater autonomy, it also comes with greater responsibility that often requires a more hands-on approach. This highlights why the vast majority of self-licensed planners (85 per cent) rely on external support to operate their advice business, particularly for compliance/audits, professional development and research.

"As more planners consider self-licensing, we expect to see growing interest and utilisation of solutions that can satisfy their wide-ranging needs. At present, there is already widespread awareness of solutions such as BT Open, Centrepont Alliance and IOOF Alliances, as planners weigh up their self-licensing options," Peker said.

DEALER GROUP MODEL

However, despite the attraction of self-licensing, most planners indicated they will continue to rely on the dealer group model, with over half (55 per cent) intending to remain with their existing dealer group. A further 10 per cent intend to switch to another dealer group within the next 12 months.

"Dealer groups remain the backbone of the financial planning industry, and many planners believe that the support, guidance and services provided by their dealer group outweigh the self-licensed model," said Peker.

"Still, dealer groups can do more to support their network of financial planners. Among those who are part of a dealer group, nine in 10 (91 per cent) seek further assistance from their dealer group – from support with improving back-office efficiency to ongoing client engagement."

Peker added that ongoing client engagement should be a top priority for planners, as the Investment Trends research shows that those who currently invest more to develop their digital client engagement capabilities, are also the industry's most successful by revenue, profitability and client growth.

"These successful planners are reaping immediate and tangible benefits of placing their clients at the centre

of their business, highlighting the need for greater collaboration between planners and their dealer group to deliver better outcomes for the end-client," Peter said.

The Investment Trends 2019 Licensee Satisfaction Report is based on an in-depth study of 1,030 financial planners concluded in May 2019.



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IMAP APPOINTS CHAIR OF PORTFOLIO MANAGEMENT GROUP

IMAP has appointed Amanda Munro CFA to the position of Chair of the Portfolio Management Group within the organisation. As part of her responsibilities, Amanda will facilitate greater engagement by IMAP with licensee portfolio management teams, by providing activities and education events to help raise the standard of portfolio management and investment decision-making in managed accounts.

According to Munro, the IMAP Portfolio Management Group is a non-commercial, invitation-only group.

"There are many opportunities presented to licensee portfolio managers to attend lunches and events, but many of these are openly commercial. The IMAP Portfolio Management Group is neutral. Groups will be small and invitation only, which will help facilitate better discussion," Munro said.

In making the announcement, IMAP Chair, Toby Potter said he was delighted Munro was joining IMAP to Chair the Portfolio Management Group.

"We are very fortunate to have somebody of Amanda's calibre join IMAP," Potter said. "Amanda is a Chartered Financial Analyst and has extensive background in adviser research, as well as experience as an analyst and investment manager. These qualities and experience brings added strength to IMAP's internal capabilities, particularly in respect to focusing on the challenges that portfolio managers face within licensees."

IMAP Awards 2019: Celebrating industry excellence

On 25 June, the annual IMAP Managed Account Awards were announced. This was the second year of these prestigious awards, where industry excellence in managed accounts is celebrated. Following is a review of the award methodology and the winners of the seven award categories.





IMAP Awards: Raising standards

The judges of the 2019 IMAP Managed Account Awards were pleased with the quality of entries across the seven categories.

Judges praised the overall quality of finalists in this year's IMAP Managed Account Awards, with Viridian Advisory taking out the coveted award for Licensee Managed Account.

Now in its second year, the awards ceremony took place in Sydney on 25 June, with the following winners announced across seven categories:

- ▶ **Australian Equities** – Elston Asset Management
- ▶ **Australian Equities Small Cap** – Macquarie Investment Management
- ▶ **International Equities** – Watershed Funds Management
- ▶ **Multi-Asset Class** – Soteria Capital
- ▶ **Australian Fixed Interest** – Real Asset Management
- ▶ **Innovation** – Praemium
- ▶ **Licensee Managed Account** – Viridian Advisory

Speaking about the overall quality of entries for the 2019 IMAP Awards, judge Paul Saliba – Founder and Managing Director at Evolutionary Portfolio Services – said there was a wide variety of entries, with a large number of high quality submissions.

"It was pleasing to see so many businesses pursuing

excellence in managed accounts and putting themselves forward to be judged for these awards," Paul said. "We must continue to raise the standards to ensure that client outcomes are improved. This process has revealed that the industry is moving in the right direction towards more client-centric solutions."

However, through the process of judging this year's awards, Paul believed there were still a number of key areas that the managed accounts sector could improve on over the next couple of years.

"There needs to be increased sophistication around risk management and portfolio construction," he said. "Also, there needs to be recognition that some asset classes are not conducive to being owned directly in managed accounts and so restraint is required. Just because something can be done, doesn't mean it should be."

He believed portfolios needed to be adequately diversified, meaning different things for different asset classes.

"Direct fixed interest is an example where there are significantly different risks than what the asset class would



provide through a more broadly diversified portfolio or what the benchmarks provide. I don't believe it is an asset that should be a sole component in a portfolio as a managed account."

Paul said the judges were impressed by some of the systems and processes being used in managed accounts that were more "institutional than ever before". He added that the level of rigour that some businesses were applying to their managed account offering was very impressive.

However, Paul noted that the judging panel did identify a number of weaknesses with some of the submissions. Top of the list were businesses trying to do too many things.

"For example, running direct Australian and international equities, on top of other parts of the portfolio, is alarming, particularly if the resources to do so are simply inadequate," he said.

"Moreover", he added "while it is pleasing to see that there is a move away from financial planning practices running a managed account offering as a means of simply adding another fee for what they were already doing – managing client portfolios."

JUDGING CRITERIA

In terms of the judging criteria for these awards, the portfolio needed to be offered through a managed account structure with the following features:

- ▶ Recognised legal structure – generally registered MIS, MDA, IDPS-like, IDPS model.
- ▶ Investments directly held by or on behalf of each investor, i.e. not a pooled structure.
- ▶ Model based.
- ▶ Clear discretion held by the portfolio or investment manager.
- ▶ Importantly, the portfolio also needed to have a clear objective and a benchmark.

For the **Asset Class** portfolios, the judges took into account:

- ▶ Performance over time periods of one and three years;
- ▶ Risk measures, including standard deviation and Sharpe ratio;
- ▶ Weighted average cost of investment, both directly and considering the underlying investments; and
- ▶ Qualitative criteria, including the resources available to the portfolio management organisation and the structure.

For the **Licensee Managed Account** category, the criteria

applied to single sector portfolios, with the judges also considering:

- ▶ The investment committee structure and resourcing;
- ▶ The way in which the portfolios reflected the advice firm's investment philosophy and appeared to be integrated with it;
- ▶ How the managed account service fitted with the client proposition; and
- ▶ Supporting materials, in particular, the client and adviser communications about portfolio management and portfolio changes.

The **Innovation Award** category recognised those activities that had been designed to improve the:

- ▶ Operation and process of managed accounts;
- ▶ Adoption by advisers and licensees;
- ▶ Investment options;
- ▶ Technology used to support managed accounts; and
- ▶ Other functions the judges thought were worthy of recognition.

JUDGING PANEL

This year's judges all had a deep understanding of the portfolio construction and investment selection process, through their experience on investment committees, in running managed accounts and fund portfolios, and through their hands-on involvement in the development of managed account portfolios.

The judging panel for the awards included:

- ▶ **Stuart Alsop** – Head of Data Australia/New Zealand for Financial Express.
- ▶ **Angela Ashton** – co-founder and director at Evergreen Consultants.
- ▶ **Nigel Douglas** – Chief Executive Officer at Douglas Funds Consulting.
- ▶ **Brad Matthews** – Founding Director at Brad Matthews Investment Strategies.
- ▶ **Dominic McCormick** – Head of Investment Strategy/ Portfolio Manager, Select Funds at Select Investment Partners.
- ▶ **Mark Oliver** – Head of Managed Accounts, Macquarie Wealth Management.
- ▶ **Paul Saliba** – Founder and Managing Director at Evolutionary Portfolio Services.

Following is a review of each category winner.



Recognising excellence

On 25 June, IMAP celebrated its second annual IMAP Managed Account Awards, where winners and finalists across seven categories were recognised for their outstanding achievement.

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The right fit

Category: Licensee Managed Account

Viridian Advisory took home the prestigious Licensee Managed Account category at the 2019 IMAP Managed Account Awards. Piers Bolger, Chief Investment Officer at Viridian, talks to Jayson Forrest about the firm's approach to managed accounts.

© Simon Kirk

With a team of almost 300 employees nationally, servicing over 10,000 clients, Viridian Advisory is a significant player in the managed accounts space. The advice business has an expansive service offering that includes wealth and retirement planning, cash-flow and income strategies, lending and borrowing, investment management and portfolio construction.

And although Viridian Advisory is only relatively new to the managed accounts space, having first started offering this investment solution to clients soon after the firm was established in 2015, the investment team has been managing managed account portfolios for close to a decade. So, it must be doing something right, with the Melbourne-based business taking out the prestigious 2019 IMAP Award for Licensee Managed Account.

It's an achievement not lost on Viridian Advisory's Chief Investment Officer, Piers Bolger, who says winning the award is "significant" for the advice business.

"Winning this award clearly validates all the hard work we have put into building the managed accounts business within Viridian Advisory over the last four years," he says.

"It also reflects the very strong professionally led investment team we have, our robust investment process, and the fact that, as a business, we are prepared to put the resources into our investment capabilities to deliver the best outcomes for our clients."

He quietly adds that receiving the award is also external recognition from the industry that Viridian is one of the leaders in the marketplace in delivering a managed account solution for clients.

FINALISTS

IMAP congratulates all the finalists in the Licensee Managed Account category.

- ▶ Canaccord
- ▶ Crystal Wealth
- ▶ Prime Financial Group
- ▶ Royston Capital
- ▶ Stanford Brown
- ▶ Viridian Advisory

**IMAP MANAGED ACCOUNT
AWARDS LICENSEE CATEGORY
SPONSORED BY:**

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“

When you think about the value that managed accounts bring to the marketplace, they enable advisers to avoid doing multiple tasks, particularly as it relates to investment selection and documentation, and focus on what they do best – looking after their clients and building client relationships. – PIERS BOLGER

”

Today, Viridian Advisory offers 13 different managed account portfolios, comprising six multi-sector diversified portfolios, five sector-based portfolios that cover the main asset classes (Australian Equities, Global Equities, Property and Infrastructure, Diversified Fixed Interest, and Alternatives), and two direct Australian equities portfolios (large cap and small-mid cap).

IMPLEMENTATION

When Viridian Advisory was establishing its business, there was much internal discussion and research about what the firm's broad investment offer would be. It ended with Viridian deciding to move into the managed account space, believing it provided the best solution for both advisers and clients.

“When we first set the business up, we were looking at how we wanted to run our investment strategy. We saw managed accounts as providing the right solution for our advisers and clients,” Piers says. “It provided our advisers with the ability to tap into an institutional grade investment framework, while allowing them to focus on the strategic side of providing advice to their clients.

“

As part of our core philosophy, if you get less wrong over time, generally speaking, you will be able to deliver a more consistent return. It's all about how you manage risk. If you can reduce the downside, we believe you'll be able to deliver a more consistent investment profile over time. – PIERS BOLGER

”

“By separating the investment process from the advice process, it has enabled our investment professionals to concentrate on the investment strategy, which has enabled our advisers to focus on looking after their clients.”

Piers says managed accounts were an optimal fit for the business. He adds that one of the reasons why Viridian opted for a diversity of managed account portfolios is to enable advisers to tailor the investment offering to the individual needs of clients, while avoiding the unnecessary complexity that comes with running multiple types of portfolios.

Another important aspect for Viridian in going down the managed account path was the ability for the business to create scale, enabling it to more effectively negotiate fees with external managers.

“As a result of this scale, we've been able to pass any rebates or discounts that we've negotiated, directly back to the clients to reduce their investment costs,” Piers says.

INVESTMENT CONSISTENCY

Viridian has a five person portfolio management team, which is responsible for making the investment decisions for the business. The portfolio management team includes an external independent representative from Ironbark Asset Management (Fund Services), which is the licensed Responsible Entity for Viridian's managed account portfolios.

From an investment perspective, Viridian manages all the portfolios in-house but uses a number of market leading vendors, such as Bloomberg and FE Analytics, in regard to the provision of market data and other portfolio management tools, while the business turns to both HUB24 and BT Panorama as its two platforms for the administration of the portfolios.

And what underpins Viridian's philosophy when it comes to investing?



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“Our core philosophy is built on seven key principles, which define the way we think about investing,” Piers says. “Those principles are the construct by which we look to deliver our investment solutions for clients. From there, it’s about understanding where we are in the market cycle and how we want to position portfolios to best manage those portfolio objectives.

“Firstly, to manage the objective of the strategy. Obviously, different portfolios have different strategies. And secondly, delivering that outcome in the best risk controlled manner possible.

“As part of our core philosophy, if you get less wrong over time, generally speaking, you will be able to deliver a more consistent return. It’s all about how you manage risk. If you can reduce the downside, we believe you’ll be able to deliver a more consistent investment profile over time.”

“

Winning this award clearly validates all the hard work we have put into building the managed accounts business within Viridian Advisory over the last four years.

– PIERS BOLGER

”

CLIENT PROPOSITION

So, how does Viridian’s managed account service fit in with the advice business’ client value proposition?

“Very neatly,” says Piers. “When we think about how we manage our client relationships and how we deliver advice to clients, the adviser is really there to provide that strategic advice. Given that our managed accounts are managed by a professional investment team that is fully resourced within the business, it enables the adviser to focus on the strategic and holistic advice they need to provide for clients. It also shows to the client that as a business, we have an array of resources focused on their needs. We think this provides a compelling offer.

“When you think about the value that managed accounts bring to the marketplace, they enable advisers to avoid doing multiple tasks, particularly as it relates to investment selection and documentation, and focus on what they do best – looking after their clients and building client relationships.”

And with well over 1,500 Viridian clients already investing in the SMA offering, Piers believes Viridian’s approach to managed accounts is working – both for advisers and clients.

“I believe because we are prepared to put the resources into managed accounts, it clearly differentiates us as an advice business, and perhaps was one of the reasons why we won the IMAP Award for Licensee Managed Account,” Piers says.



Category: Australian Equities

Elston Asset Management has taken out the Australian Equities category at the 2019 IMAP Managed Account Awards.

As one of Australia's largest privately owned and operated investment firms, Elston knows a thing or two when it comes to investing. Having taken out the IMAP Award for Innovation in 2018, this year it took out the Australian Equities category at the IMAP Managed Account Awards.

And it's an achievement not lost on Elston CIO and co-founder, Andrew McKie: "After winning the inaugural IMAP Award for Innovation last year, this award means a lot to Elston, as it's great peer recognition and endorsement of the journey Elston Asset Management has been on for the past eight years as a managed account specialist."

Andrew adds that any recognition by key stakeholders (whether it's advisers, investors, peers, regulators or industry bodies) is the by-product of constant hard work and improvement.

"We are continuing to look at ways we can enhance and improve the way we support advisers in executing a successful managed accounts solution in their business," Andrew says.

"Most people are probably not aware that our logo is the double helix of a DNA strand. These were chosen to represent the ideals of evolution and constant improvement within our business. Our goal is for Elston to be Australia's most trusted and respected investment firm, so we are obviously pleased that the hard work and improvements made during our eight year journey as a managed account specialist have been recognised by winning this award."

LEADING STRATEGY

Elston took out the Australian Equities category at the 2019 IMAP

FINALISTS

IMAP congratulates all the finalists in the Australian Equities category.

- ▶ Antares Equities
- ▶ Blackmore Capital
- ▶ DNR Capital
- ▶ Elston Asset Management
- ▶ Perpetual Private
- ▶ Watershed Funds Management

Managed Account Awards with its Elston Large Cap Australian Equities SMA model portfolio, which focuses on the top 100 companies listed on the ASX. This Australian Equities model portfolio also forms the core of Elston's multi-asset managed account offerings.

According to Andrew, when it comes to investing, overarching all Elston's investment strategies is

a belief that the most effective way to invest is through exposure to intelligently constructed high conviction portfolios that are actively managed.

"The key tenets of our investment philosophy are focusing on long-term fundamentals that balance the need for earnings growth against the price paid for those uncertain future earnings, protecting capital through genuine portfolio diversity, avoiding illiquid investments, and always considering the tax impacts of decisions on investors," Andrew says.

"Our investment philosophy, policy, process and people are all instrumental in the delivery of our managed account solutions."

According to Nick Revis – CEO of Elston Asset Management – what sets Elston apart in the universe of Large Cap Australian Equities managed account providers, is that Elston is both truly active and large cap focused, with a minimum of 80 per cent invested in the S&P/ASX 50 Index.

"As an active manager, we believe it's best to avoid style biases (contrarian, growth, value, GARP etc), since different investment styles tend to outperform at different times," Nick says. "Also, sticking rigidly to benchmark weightings in constructing portfolios will result in sub-optimal returns over time."

Instead, Elston adopts a fixed weight methodology to portfolio construction – the minimum and maximum allowable positions are 2.75 per cent and 6.5 per cent respectively – and have exposure to a minimum of eight GICS (Global Industry Classification Standard) industry groups. The end result, Nick says, is a 'true-to-label' benchmark unaware, large cap portfolio, consisting of 20-25 holdings designed to be the 'core' of any investor's portfolio.

Andrew also attributes much of Elston's success with managed accounts to the expertise and skills of the investment team, which consists of nine investment professionals, with the Large Cap strategy led by four portfolio managers. And when it comes to portfolio changes, a majority consensus first needs to be reached before any changes can be made.

"The differentiated backgrounds of our portfolio managers is conducive to robust discussion and peer review," Nick says. "Additionally, the portfolio managers' long-term working relationship provides a strong working culture and environment. This team-based approach, we believe, is a key to the long-term consistent returns achieved by the strategy."

INVESTMENT PROCESS

The investment approach used at Elston Asset Management is a combination of quantitative and fundamental analysis designed to be robust and repeatable over time.

The investment process encompasses six stages:

1. Quantitative screening and ranking of the S&P/ASX 100 Index in a consistent and repeatable manner for idea generation and to focus the research effort;
2. Qualitative assessment of each company focused on understanding the complexity of operations, market share, earnings stability, balance sheet capacity and management quality;
3. Valuation and expected return calculations using Elston's derived forecasts over a three year period;
4. Portfolio construction in accordance with strict policy guidelines to ensure diversification is achieved across both securities and sectors;
5. Momentum screening and portfolio execution, which assists with the timing of purchases and sales; and
6. Ongoing rebalancing to avoid individual positions and sector exposures in excess of risk tolerances.

The result of this six stage investment process is proving successful for Elston, delivering – first and foremost – consistent and reliable outcomes for investors over time.

"As a long-term provider of managed account solutions, the business measures its success in a number of ways, with the most important being to ensure consistent and reliable investor outcomes over time," Andrew says. "And that goes to the fact that we don't have a style bias. We're not value or growth. We're a combination of styles. So, we find that being style neutral, we're able to deliver more consistent outcomes over time.

"We also are very focused on the adviser experience, which is not only about meeting long-term return goals for their clients, but also in executing our investment process constantly and with discipline."

Andrew also credits Elston's proactive communication strategy, for which it won the 2018 IMAP Award for Innovation, as a key to its continuing success and the strong relationship it has with the advisers who support the business.

"If the advisers and investors are informed in a timely and innovative manner as to our specialised investment approach, then we can really leverage the benefits of transparency offered by managed account investing and control the challenges," he says.

Category: Australian Equities Small Cap

At the IMAP Managed Account Awards, Macquarie Investment Management took out the Australian Equities Small Cap category for the second consecutive year.

When it comes to investing, they must be doing something right at Macquarie Investment Management, with the manager taking out the 2019 IMAP Managed Account Award for Australian Equities Small Cap for the second consecutive year with its Australian Equities Small Companies SMA.

According to Brad Partridge – a portfolio manager at Macquarie Investment Management – the Australian Equities Small Companies SMA is a direct equities SMA, which focuses on companies outside the ASX 100 index.

“This SMA offers clients access to Macquarie’s flagship small companies capability, but instead of it being through a fund, it’s through a direct Aussie Equities portfolio,” Brad says.

He attributes part of the success of

the Macquarie Australian Equities Small Companies SMA to the systematic approach that underpins Macquarie’s investment philosophy.

Brad explains: “We run a quantitative screening process. What we are looking for as part of this screening process are companies which have characteristics that have historically worked well in the Australian market.”

According to Brad, as part of this process, Macquarie looks to buy good quality companies over the long-term at reasonable valuations, with positive operating momentum (such as earnings and share prices).

“This systematic approach to investing works particularly well for small caps,” says Brad.

INVESTMENT PROCESS

Macquarie’s investment process revolves around three core factors:

FINALISTS

IMAP congratulates all the finalists in the Australian Equities Small Cap category.

- ▶ Infinity Asset Management
- ▶ Macquarie Investment Management
- ▶ Pearl Funds Management
- ▶ Watershed Funds Management

quality, value and momentum. A score is then applied to each company based on these three factors. Companies are then ranked based on their scores. A portfolio is then put together that is biased towards the companies that rank the highest.

“But we also use a commonsense overlay in constructing the portfolio to ensure that we’ve got good diversification across various



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themes and sectors, as well as to ensure we are taking appropriate position sizes to account for the individual stock specific risk in each stock," Brad says.

MEASURING SUCCESS

To win an industry award is one thing, but how does Macquarie internally measure the success of its offering?

According to Brad, Macquarie's success rests with the consistency of its performance over long periods of time.

"Relative performance is always a key focus," Brad says. However, Macquarie just doesn't focus on short-term outcomes. Instead, it focuses on consistency in returns over the long-term.

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Winning the award again is great recognition of the strong capability we have within managed accounts. It highlights that we've got a market leading small caps offering, both in terms of managed accounts and also managed funds. – BRAD PARTRIDGE

”

"And that's what you'd expect from a systematic approach. So, if we can deliver consistent second quartile performance, relative to our competitors, then that's a great outcome for clients."

Macquarie is a benchmark aware manager, but it does run quite a high tracking error. For example, within Macquarie's Australian Equities Small Companies SMA, it aims to beat the Small Ordinaries Index, but it runs a tracking error of about 5 per cent.

"This means we do have performance outcomes that can look somewhat different to the index at various points in time," Brad says. "But, broadly speaking, we hope to outperform the Small Ordinaries Index by about 3-4 per cent per annum over the long-term."

SECOND CONSECUTIVE YEAR

By anybody's reckoning, winning the IMAP Managed Account Award for the Australian Equities Small Cap category for a consecutive year is a remarkable achievement. So, what does the win mean for Macquarie Investment Management?

"Obviously, we're very proud of the achievement," Brad says. "We've been managing SMA portfolios in Australian equities for 18 years, so we've got a long track record in this space."

"Winning the award again is great recognition of the strong capability we have within managed accounts. It highlights that we've got a market leading small caps offering, both in terms of managed accounts and also managed funds."



Category: Australian Fixed Interest

When it comes to managed accounts, Real Asset Management punches well above its weight, taking out the Australian Fixed Interest category at the IMAP Managed Account Awards.

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Get used to the name Real Asset Management (RAM). Established in 2013, over the past six years, RAM has steadily built a reputation as a leading business focused on providing tailored investment solutions to high-net-worth clients and family offices across the Asia Pacific region. Since 2017, RAM has expanded into traditional Australian funds management via managed accounts and a growing wholesale fund range in fixed income and property.

And after taking out last year's IMAP Award in the Other Asset Classes category with its Diversified Fixed Income & Credit Strategy, the Aussie owned wealth and asset management firm has again stepped up to the plate, taking out the 2019 IMAP Managed Account Award for Australian Fixed Interest. Not a bad effort for this young business!

But with \$950 million in FUM, RAM has some serious runs on the board, led by a management team with over 150 years of collective experience gained through working at senior global and regional management positions in the world's largest financial services firms.

RAM took out the Australian Fixed Interest category at the IMAP Managed Account Awards with its Diversified Fixed Income & Credit Strategy, which forms part of its managed accounts offering to advisers and dealer groups.

The managed account comprises government bonds, cash, subordinate/senior debt and hybrid securities via direct securities and exchange traded products (ETPs).

According to RAM Director – Portfolio Manager, Michael Frearson, winning the award for a second consecutive year speaks to the quality of processes, performance track record,

FINALISTS

IMAP congratulates all the finalists in the Australian Fixed Interest category.

- ▶ JB Were
- ▶ Mason Stevens
- ▶ Prime Financial Group
- ▶ Real Asset Management
- ▶ Royston Capital

investment team and the hard work RAM is putting into its investment portfolios and adviser resources.

"Winning this award again is great industry recognition of the quality of our offering, including the investment strategy and the support material we provide to advisers who recommend this strategy to their clients," he says.

"And given the judges are all very experienced, with a strong understanding of investments, it's

wonderful external validation of RAM's Diversified Fixed Income & Credit Strategy."

PHILOSOPHY AND INVESTING

According to Michael, as part of RAM's approach to investing, it aims to bring institutional quality investments and strategies to private clients in a simple and transparent solution, and the managed account structure closely aligns with that philosophy.

"We are an active manager with a quality focused approach to portfolio construction," Michael says. "This focus is designed to ensure we deliver on the investment objective."

Aligning with that investment objective is the selection of high quality companies and securities that have a higher likelihood of delivering on their terms of issue and delivering a reliable income stream for investors, along with low levels of capital volatility.

"We're a strong believer in diversification. We diversify across a range of sub-sectors, security types and companies, with strong risk management and clear concentration risk rules. We select securities on an after-tax basis, which is particularly relevant in the managed account space."

As an active manager, RAM takes a risk-adjusted approach to portfolio management. Michael says the starting point for RAM's investment process begins with careful analysis of the issuer, which includes both the quality of the issuer and the quality of the security.

According to Michael, RAM scores company issuers on a range of criteria, such as management, capital position, earnings outlook, and the risks that the issuer faces.

"We have a detailed process reviewing the terms of issue on each ASX-listed credit instrument and also ETPs. From there, we have a proprietary ranking system, where each security is given a specific RAM security score based on structural subordination and the company scoring. This provides us with a consistent score that we can use to rank the universe of eligible investments," he says.

"The increasing complexity of hybrid securities requires specialist knowledge to appropriately determine relative value."

In addition to applying its proprietary scoring for companies and securities, RAM also models the investment universe on an after-tax basis, using in-house modelling. This gives the portfolio managers a snapshot of valuations at any point in time, providing a consistent approach to after-tax valuation when selecting investment opportunities.

RAM uses a top-down overlay to guide sub-sector

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The increasing complexity of hybrid securities requires specialist knowledge to appropriately determine relative value. – MICHAEL FREARSON

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positioning, which is about 20 per cent of its alpha delivery and process, with the remaining 80 per cent from bottom-up analysis and portfolio construction.

"From top-down, we're looking at the outlook for interest rates, credit, risk premiums, the economy and inflation. We also have a strong focus on the global outlook and global risks, because that really does flow through to Australian interest rates and credit spread movements," Michael says.

STILL EARLY DAYS

With RAM's Managed Account Strategy only kicking off in 2017, Michael says it's still early days to measure the overall success of this offering, although admits that clients are already attracted to the risk-adjusted approach to portfolio construction and the specialist expertise available.

But when it comes to measuring the success of its investments, RAM is old school, with success measured by delivering on the investment objective for clients.

"It's been another strong year for our strategy, delivering above average returns over the last 12 months on the back of strong tailwinds and low levels of volatility," Michael says.

He attributes this result to the current environment, which has seen positive performance from listed credit securities, and Australian and global bond markets, as well as sound portfolio construction and active management, which protected clients from market volatility in late 2018.

In fact, since the inception of this managed account strategy, the standard deviation of monthly returns has only been 1.26 per cent, which Michael says is surprisingly low, given the types of securities RAM invests in.

"But that's due to our style and our diversified approach to portfolio construction, blending a range of security types and structures," he adds.

"When advisers invest their clients' wealth with us, they're expecting we achieve the required investment objective, which is to provide a tax-effective income stream with low levels of volatility. And that's what we're aiming to deliver."



Category: International Equities

Watershed Funds Management has taken out the International Equities category at this year's IMAP Managed Account Awards.

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There's a lot to like about the Watershed International Share SMA, which got the judges' thumbs up for the International Equities category at the 2019 IMAP Managed Account Awards.

Firstly, the SMA has delivered an impressive 16.1 per cent since its inception 10 years ago, dwarfing the returns of its benchmark – the MSCI World Index Ex Aus – at 10.3 per cent.

"These returns also rank our SMA in the very upper echelon of performance in the international share space, eclipsing those of our much larger competitors," says Watershed Funds Management Head of Equity Strategies, Adrian Rowley. "And with a management fee of 60bps with no performance fee, it comes at close to half the cost."

Adrian describes this SMA as a

concentrated international equity portfolio that is predominantly US-centric. He adds that the SMA is a conservatively managed, low-turnover portfolio, with a real focus on balance sheet strength, operational cashflow and ensuring that companies selected have a moat or competitive advantage in the sector in which they operate.

In fact, when it comes to managed accounts, Watershed has a strong record, utilising the latest

FINALISTS

IMAP congratulates all the finalists in the International Equities category.

- ▶ Loftus Peak
- ▶ Nucleus Wealth
- ▶ Pearl Funds Management
- ▶ Private Portfolio Managers
- ▶ Royston Capital
- ▶ Watershed Funds Management

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These returns also rank our SMA in the very upper echelon of performance in the international share space, eclipsing those of our much larger competitors.

– ADRIAN ROWLEY

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“

On platform, the Watershed International Share SMA is 60bps with no performance fee, which means this SMA is probably less than half the cost of most traditional international equity managed funds.

– ADRIAN ROWLEY

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technology to run portfolios at both the individual portfolio level (SMAs) and the multi-asset class level (model-of-models).

Currently, Watershed runs five sector-based SMAs that are available on multiple platforms. These include the Australian Share (Large Cap), Emerging Leaders (Australian Share Mid Cap), International Share (Direct, US-centric), International Share ETF (Rest of World Exposure) and Income (Australian Fixed Interest) SMAs.

Watershed also uses these sector-based SMAs as the core building blocks for four diversified, risk-based model-of-models: conservative, balanced, growth and high growth. These diversified models provide a whole of portfolio solution where holdings are dynamically managed at both the individual stock and asset class level.

According to Adrian, macro-economic conditions and specific sector cycles drive the majority of asset class performance, both short and long-term. Therefore, Watershed seeks to exploit these cycles to achieve higher than index returns over time through active portfolio management, utilising the benefits of managed accounts via either an SMA or MDA structure.

“We favour direct investment, both internationally and domestically, over managed funds or unitised investment vehicles,” Adrian says.

As a result, he says each sector-based SMA has an impeccable track record over the longer-term, with returns comparing favourably to industry peers and at a lower cost, in addition to providing transparency, transaction immediacy and tax-efficiency.

A GREAT DISRUPTOR

The Watershed International Share SMA has delivered a return of 16.1 per cent since its inception in 2009, which is nothing to sneeze at, so performance is understandably one of the key measures of success for this SMA. But is it the only measure?

“In funds management, everybody measures their success in performance numbers relative to the benchmark. But the Watershed International Share SMA is a portfolio that has consistently beaten the benchmark by almost 4 to 5 per cent every year since its inception,” says Adrian.

“However, success can also be measured in other ways, like how a product is structured, relative to its peers.”

He adds that with the much lower turnover of managed accounts, their tax-efficiency, strong growth and lower cost, managed accounts continue to disrupt the traditional managed funds sector.

“On platform, the Watershed International Share SMA is 60bps with no performance fee, which means this SMA is probably less than half the cost of most traditional international equity managed funds. And in terms of performance, this SMA has consistently been up there in the top quartile.

“So, the way in which this SMA stacks up against its traditional peers, is certainly another way in which we can measure the success of our product.”

WINNING THE AWARD

Adrian doesn’t deny that winning the IMAP Award for the Watershed International Share SMA means a lot to the business.

“We have just celebrated our 10-year anniversary in July this year, but it’s taken us a long time to build our strategies and track record. Only by doing that have we been able to build a brand that is now being recognised in the industry and the wider marketplace,” he says.

“By winning this award, I hope it enables us to build more brand awareness of Watershed and our capabilities, which hopefully will result in more fund flow for us and great results for our clients.”



Category: Multi Asset Class

Against some quality competition, Soteria Capital – Stanford Brown’s fully owned investment company – took out the award for Multi Asset Class at the IMAP Awards.

For the second year running, the IMAP Award for Multi Asset Class went to Stanford Brown/Soteria Capital, which Chief Investment Officer, Ashley Owen, acknowledges is a wonderful endorsement of the quality and rigour of Stanford Brown’s investment philosophy.

“It’s recognition that what we’re doing at Stanford Brown and Soteria Capital is working,” says Ashley.

Ashley oversees a five person investment committee, which dutifully considers the models, processes and methodologies for every single asset class under review. It’s a meticulous undertaking.

At the heart of the decision-making process is Stanford Brown/Soteria Capital’s distinctive philosophy towards investing, which Ashley

says is very evidence-based.

“Our philosophy and investment process is fact-based as opposed to dogmatic theory, like Markowitz and efficient markets,” Ashley says. “We deal with how markets work in the real world.

“The implication of that is that the ‘buy and hold’, ‘set-and-forget’, Markowitz-type nonsense, is not part of our process. The idea of time in the market, not timing the market, is a dogma that’s been around for decades, but it’s definitely not part of our process.”

Ashley points to Japan as an example: “If you were invested there in 1989, you’re still waiting for half your money back 30 years later. So much for time in the market!”

Having discarded the academic dogma and theory that still drives

FINALISTS

IMAP congratulates all the finalists in the Multi Asset Class category.

- ▶ Canaccord
- ▶ Infinity Asset Management
- ▶ Resonant
- ▶ Shaw and Partners
- ▶ Soteria Capital
- ▶ Watershed Funds Management

most of the thinking around investing today, Ashley says it has allowed the business to develop its own approach to investing with a clean slate.

“We’re always taking a stance on things,” Ashley says. “For example, we underweighted global and Aussie shares significantly prior to the sell-off last year. We underweighted the



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dollar, we bought US\$ cash, bought gold, and then at the beginning of this year, we turned bullish with the rebound, so we went overweight global and Aussie shares.

"These are the types of significant moves you make probably once every three or four years, whereas at other times, like the QE boom of 2012-2015, we basically did nothing. We just sat on our positions – overweight shares, while the rest of the world remained nervous about QE and money printing."

Ashley attributes much of Stanford Brown/Soteria Capital's success to the skill of the investment committee and to the fact that the business is prepared to take a stand on asset classes and positions, which many other investment managers are reluctant to do.

"We are prepared to change allocations significantly where necessary, compared to a lot of other managers who just stick to their 'buy and hold', 'set-and-forget' allocations."

LOWER RISKING VOLATILITY

At the core of Stanford Brown/Soteria Capital's approach to investing is its primary goal of achieving its investors' long-term returns.

"Our portfolios have targets of CPI + 3, 3.5, 4, 4.5 and 5, which ranges from conservative to high growth. We are able to achieve that with lower risk and volatility, providing our investors with a much smoother investment path," he says.

To demonstrate, Ashley looks at last year, where the

worst month in most portfolios was down -4 to -4.5 per cent, due to the downturn in the U.S. market, which recorded its worst December since 1931.

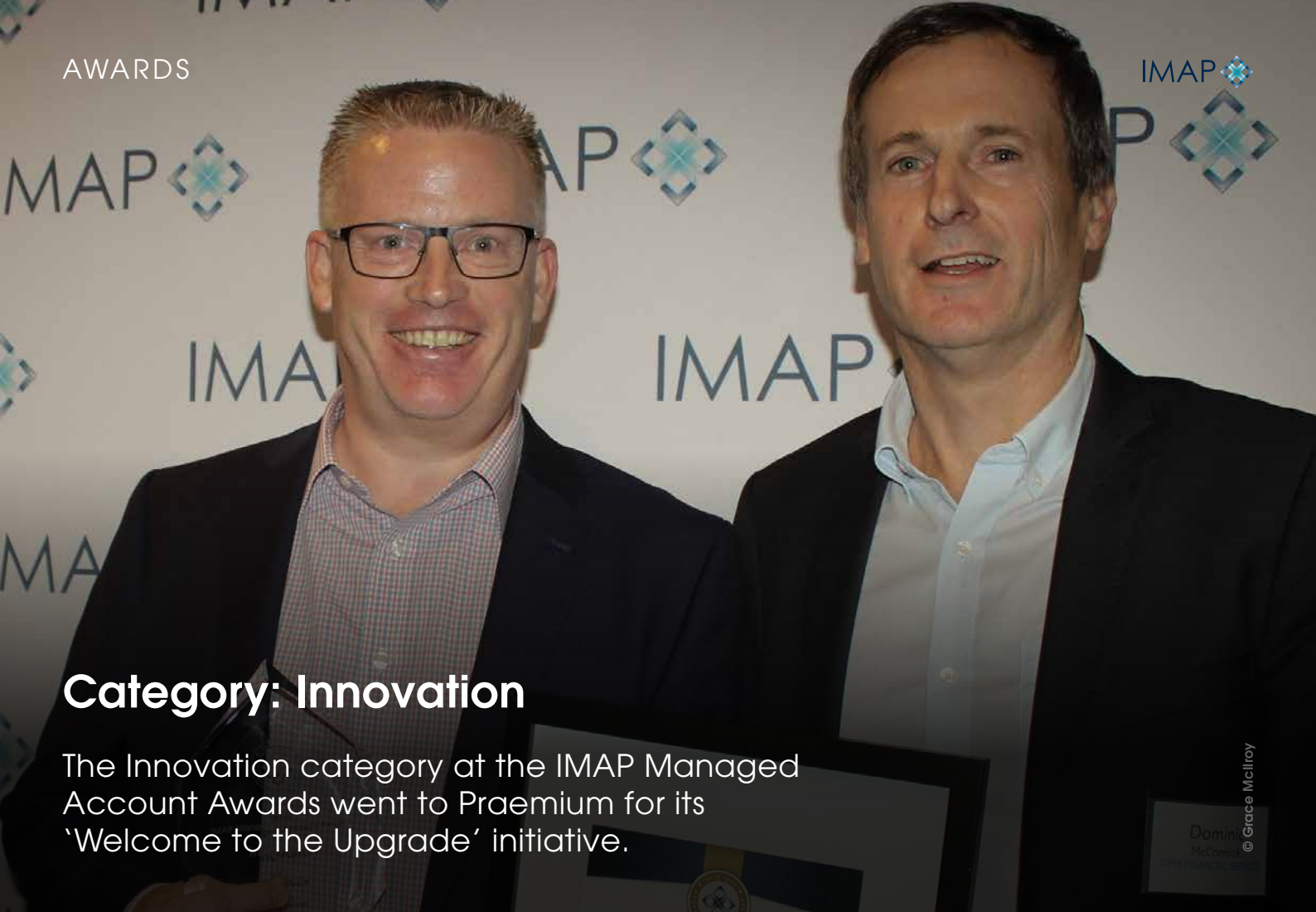
"In contrast, our worst month in our most aggressive portfolio was down about -1.25 per cent because we were underweight shares. So, we aim to give investors fewer, shorter and shallower setbacks in their journey through investment markets, in order for them to achieve their goals," he says.

"We aim to achieve better returns at lower risk and volatility. We do that by taking an evidence-based approach to investing, which includes taking an active position on markets where we need to."

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The implication of that is that the 'buy and hold', 'set-and-forget', Markowitz-type nonsense, is not part of our process. The idea of time in the market, not timing the market, is a dogma that's been around for decades, but it's definitely not part of our process. – ASHLEY OWEN

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Category: Innovation

The Innovation category at the IMA P Managed Account Awards went to Praemium for its 'Welcome to the Upgrade' initiative.

With its long commitment to developing and advancing the use of managed accounts among advisers and their clients, both here and overseas, it shouldn't come as any surprise that Praemium took out this year's IMA P Managed Account Award for Innovation.

This prestigious gong went to Praemium for its 'Welcome to the Upgrade' initiative, which formed part of the marketing campaign for its fully integrated managed accounts platform that was rolled out in February this year.

According to Praemium Head of Product and Marketing, Mat Walker, the key highlight of the initiative was enabling the various forms of managed accounts (including SMAs, IMAs, VMAs, UMAs and MDAs) to be available and accessible on the one integrated technology platform,

covering both custodial and non-custodial investment assets.

"To do this meant developing very innovative technology," Mat says. "For example, in February, we introduced a new adviser portal, which has been a significant value-add for how advisers engage with their clients, as well as how they implement portfolios and managed accounts."

The technology also allows for complex corporate actions, investment and tax reporting, which are considered to be market leading capabilities.

In addition, Praemium's 'upgrade initiative' also includes an impressive choice of investment options, allowing advice businesses to transform their service offering.

"As an example, we currently have the broadest range of SMA model

FINALISTS

IMAP congratulates all the finalists in the Innovation category.

- ▶ BTFG
- ▶ Investum
- ▶ JB Were
- ▶ Nucleus Wealth
- ▶ Praemium
- ▶ Resonant

portfolios available in the market – about 350 options from approximately 80 investment managers. We also provide access to more than 1,000 individually listed and unlisted investments, both domestic and international, on the platform," Mat says.

INNOVATIVE AND TRANSFORMATIONAL

As part of its innovation submission, Praemium also highlighted its

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In February, we introduced a new adviser portal, which has been a significant value-add for how advisers engage with their clients, as well as how they implement portfolios and managed accounts. – MAT WALKER

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thought-leadership articles and concept marketing, which supported its upgrade initiative.

“We feel this has helped to contribute to the further education of advisers about managed accounts,” Mat says.

And the IMAP Award judges agreed, rewarding Praemium with the IMAP Managed Account Award for Innovation due to its consistent improvements, which has been demonstrated over a long period, in developing a service that is flexible and meets the needs of a broad range of advice businesses and their clients.

With the continued growth of managed accounts transforming many advice businesses, Mat believes the unique ability for Praemium’s integrated managed account platform to support almost every kind of advice firm, investor and investment, is a clear market differentiator for the Melbourne-based business.

“And another differentiator is our global presence, where we run managed accounts, particularly SMAs, in other parts of the world,” Mat says.

In fact, Praemium is currently the market leader in Australia for SMAs, with over \$9 billion in FUM, including offshore SMAs, and a leader for non-custodial investment reporting, corporate actions and tax management. Praemium currently reports on more than \$140 billion in investment assets on behalf of advice firms.

“Our scale enables us to pass through benefits to advisers’ clients. Our unique ability to net equity transactions across our whole FUM is an important benefit we pass on.”

ADVANCING DEVELOPMENT

So, in what ways is Praemium advancing the development of managed accounts?

For one thing, it has rolled out a series of thought-leadership articles that have proved popular with advisers

and investment professionals alike. And then there are the adviser and investor portals.

“We have spent a lot of time developing adviser and investor portals that enable advisers to engage more effectively with their clients. This is allowing advisers to highlight the transparency and depth of information available in an investor’s account,” Mat says.

“Developments like these are not only helping to advance the understanding of the benefits of managed accounts with advisers, but also with investors, too.”

But perhaps what the business is most proud of is the innovative technology Praemium has developed that enables advisers to build model portfolios using a vertical build structure.

“This is allowing advisers to realise the many benefits that managed accounts bring in terms of advice efficiency, rather than the traditional wrap platform structure that is more horizontal, where an SMA is just another investment option that is just included in reporting, as opposed to being an overall consolidated investment experience,” he says.

RECOGNITION AND VINDICATION

Praemium is a strong supporter of IMAP, particularly in its objective to better educate the industry (and regulators) in its understanding of managed accounts. Therefore, Mat says it means a lot to Praemium to be recognised by IMAP, as well as the judging panel, for this year’s Innovation Award.

“We have invested considerably in our managed accounts service and capability over recent times, and have experienced considerable client and FUM growth as a result. To receive this recognition is vindication of the work we are doing with managed accounts.”

Winning the award also adds to the recognition that Praemium is receiving overseas, having won the ‘International Adviser’ international platform award for its global SMA platform.

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Developments like these are not only helping to advance the understanding of the benefits of managed accounts with advisers, but also with investors, too. – MAT WALKER

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An ethical and sustainable approach

A panel of Environmental, Social and Governance (ESG) experts discuss the growing move towards ethical investing, and the challenges involved in incorporating ESG into the investment process.

PARTICIPANTS

- ▶ **Amanda Munro** – Chair, Portfolio Management Group, IMAP
- ▶ **Daniel Nelson** – Senior Research Analyst – Direct Equities, Perpetual Private
- ▶ **James Freeman** – Philo Capital
- ▶ **Paul Hewitt** – Client Specialist Manager, Refinitiv
- ▶ **Ronan Leonard** – Market Development Manager, Wealth – Pacific, Refinitiv
- ▶ **Dr Stuart Palmer** – Head of Ethics Research, Australian Ethical
- ▶ **Toby Potter** – Chair, IMAP
- ▶ **Trevor Thomas** – Managing Director, Ethinvest

Q: HOW DOES ESG UNDERPIN YOUR APPROACH TO INVESTING?

Daniel Nelson: At Perpetual Private, our clients tend to be high-net-worth or not-for-profit organisations. So, the integration of ESG into their investment portfolios is usually quite important for them. From our broad group of clients, we took the time to find out what they really care about when it comes to investing and from there, we created our ESG methodology around that.

Stuart Palmer: When we work out the risk return profile of potential investments, we look at the impacts that investments have on the planet and not purely as part of our financial risk analysis. So, we don't care what our valuation model is saying around a tobacco company or a fossil fuel company. The company may be extremely good value, but we're not going to buy it due to our

ethical position on investing.

Trevor Thomas: Most ethical investors walk in the front door expecting their money is going to be doing good things in the world, and not just avoiding bad things.

We start by asking our clients what they're after in their portfolios. Our experience is that clients have zero tolerance for unethical investments and want to avoid them. I've never had a client tell me they have a 15 per cent tolerance for tobacco or a 5 per cent tolerance for gambling. They just don't want to see these types of investments in their portfolio.

So, we start with what they want and we build a portfolio around that. But because of that nuance, the number of managed funds we can use gets restricted, so we end up building lots of direct share and investment portfolios to specific mandates.

We engage in conversations and we do quite a lot of shareholder activism. Where we see unethical practises we want to change, we will buy shares for clients in the company and then put a resolution to the AGM. By doing so, it gets us meetings with those companies.

However, divestment isn't our only option. We can be responsible owners as well.

Stuart Palmer: We are also involved in activism. Within the universe that we screen, we still don't find perfect companies. However, we do have engagement and advocacy with the companies we do invest in. But similar to Trevor, due to our position on ethical investing, there are companies we don't hold, like Santos or Origin Energy, because we think there are a lot of issues around gas, particularly unconventional gas.

James Freeman: ESG is really about tailoring to individual advice firms and their clients' needs. One of the advantages of Philo Capital is that by offering a service to different advice firms, these firms can bring their own investment philosophy around ESG that is particular to their client base.

However, the degrees of sophistication around ESG ranges. Some firms know exactly what they want and have thought it through, while others are just exploring an idea or an opportunity that had not previously been available to them. So, we help them understand the trade-offs that come with the tactical implementation of ESG investing.

There's also the opportunity for clients to take a bottom-up, granular approach to investing, where ESG exclusions or concerns can be expressed in the portfolio, overriding a top-down model portfolio approach.

Trevor Thomas: Our clients are generally looking to be consistent in the way they run their lives, including bringing their investment choices into line with their beliefs.

The conversations we have with them about specific investment opportunities then prompt our clients to begin rethinking some of their investment choices, like banking, particularly in the aftermath of the Royal Commission. In fact, many of our clients changed their shopping behaviours when they discovered Woolworths' involvement with owning poker machines.

Q: HOW DO YOU FORM YOUR ETHICAL VIEW WHEN IT COMES TO INVESTING?

Stuart Palmer: We have an ethical charter which is part of Australian Ethical's constitution, since we established over 30 years ago. That ethical charter doesn't change. It's principles-based about the things we stand for. This includes finding investment opportunities that provide a positive impact on people, animals and the environment. We avoid investing in companies that are causing unnecessary harm to people, animals or the environment.

And while this is easy to say, it's often extremely challenging to apply in practise, because virtually every companies' business activities are going to derive some benefit that may impact, directly or indirectly, people, animals or the environment.

We have developed frameworks that allow us to examine sectors, like banking, property and energy, and how they impact our principles-based approach to investing and what we need to worry about when looking at companies operating in these sectors.

Those frameworks get developed over time. From the very

beginning, climate change has been at the centre of our framework development. Our expectations around what companies do to limit global warming by 1.5 to 2 degrees, means that our standards rise overtime.

Our charter is just as relevant today as it was three decades ago. The charter embeds both positive and negative elements of our view towards the way in which companies operate. The way in which we do analysis revolves around: what is the product and service that is being delivered, and do we think it's part of a sustainable world?

If we think the product and service is good, then we determine if the company is delivering their product/service in a way that is properly managing its impact on people and the environment.

For example, if a wind farmer or a solar farm developer is ridding roughshod over local communities, then we may screen them out at that stage. So, despite loving their product and service, if we don't like how they do business, then we screen them out.

Q: LOOKING AT THE UNIVERSE OF STOCKS, WHAT PERCENTAGE OF THEM WOULD BE SCREENED OUT?

Stuart Palmer: About 50-70 per cent of the market would be screened out. There is a huge variety of companies that fail the ethical investing test, like tobacco, that can be screened out. So, we end up with portfolios that are very different from mainstream indicies.

Trevor Thomas: One of the problems for advisers and retail clients with ESG is the amount of 'greenwash' and misinformation in this sector. Greenwashing is a form of spin in which green PR or green marketing is deceptively used to promote the perception that an organisation's products, aims or policies are environmentally friendly.

There are probably three dozen advisers in Australia who are really specialised in the area of ESG, of which it is their core business. Recently, we have begun providing scores out of five green leaves across all of the major ESG funds. Australian Ethical scores extremely highly on the five green leaf scale, whereas many industry super funds' eco options score very poorly, with the field scattered between 1.5 and 4.5 green leaves.

There are many ESG funds in the market that cost more, but look very similar to the company's typical ASX100 or ASX200 fund, and that's something advisers and investors need to be aware of.

They might drop the pure play exposure to gambling, alcohol and tobacco companies, but they still hold the big supermarkets, the big banks and the diversified miners. That's because companies can score very well if they've

got great ESG policies. For example, BHP scores brilliantly on a number of indigenous and environment policies, but it still owns the world's largest uranium mine. So, if you are concerned about uranium, then BHP needs to be screened out.

Q: IF WE ARE CONCERNED ABOUT CLIMATE CHANGE, CAN NUCLEAR POWER BE THE SOLUTION TO OUR ENERGY NEEDS, WITHOUT PUMPING MORE CARBON EMISSIONS INTO THE ATMOSPHERE?

Stuart Palmer: We get asked that a lot. There is the ethical judgement around balancing the interests of people, with the needs of animals and the environment. So, part of our ethical research looks at the scalability of renewables. For example, do we need nuclear and how do we manage the risks around it, such as some of the product being used for weapons? We throw all that into our analysis, but we still end up with a very clear decision that justifies the exclusion of nuclear for Australian Ethical.

Our members care deeply about all humans, animals and the environment. So, it all comes down to what is going to produce the best investment outcomes for them. Ultimately, there are a lot of issues around nuclear. It's a question of balancing the risks versus the rewards.

Also, our investors will weigh their interests differently. Some people will be very concerned about any form of animal farming or animal testing, while others are happier to trade that off for human wellbeing.

Trevor Thomas: And things change. Our thinking changes. It's not fixed forever. For example, 20 years ago, gas was in Australian Ethical's portfolio, because everybody was talking about it as being a transitional fuel. But today, it's not because we know more about it.

Daniel Nelson: It all comes down to where you draw the line on things like nuclear power, or genetically modified food or animal testing. For us, nuclear power and uranium is out. As for animal testing, we believe that if it's for cosmetic purposes, it's out. But if it's for proper medical purposes, we're okay with that.

It does come down to the individual client and what they care about. So, we have developed our screening and filters that we believe satisfy most of our clients with their ESG requirements.

Q: WHAT ARE THE CHALLENGES INVOLVED IN INCORPORATING ESG INTO THE INVESTMENT PROCESS?

Stuart Palmer: We get direct feedback from some of our members who, for example, tell us they don't like the big four banks. So, if that's a deal breaker for them, they

won't invest in our funds. That's one of the reasons we are looking at developing an ethical SMA; to provide flexibility around this issue. But there is a big difference between people who say they prefer you not to be invested in a company or sector, and those who will actually go somewhere else as a result of it.

Once clients understand we are genuinely working hard to navigate all those shades of grey in ESG, the fact that they might fall on the other side of the line with a judgment call about, say, animal testing for vital medical research, becomes less important.

And while it's obviously vital that we listen to our clients and communities, we also need to exercise our expertise and judgement with making investment decisions, and share our reasons for these positions with our clients.

James Freeman: In that respect, scale comes into the equation. The amount of thought, research and analysis that you are able to dedicate to ESG issues, vastly outweighs the time an individual can spend doing the same thing.

Aligning the investor's values to what's in their portfolio, and the value that can provide from a behavioural finance perspective, is huge. So, the comfort investors can gain from understanding the investing process is very important.

Q: WHAT DO YOU TAKE INTO CONSIDERATION FOR REAPPRAISING A COMPANY THAT IS SEEKING TO GET ON YOUR ETHICAL INVESTING RADAR? WHAT STEPS DO COMPANIES NEED TO MAKE?

Stuart Palmer: Let's look at a company like AGL as an example. It still owns a lot of coal generation infrastructure, but it might be doing as much as any company in trying to transition its offering. So, you could argue to support it. But under our process, we would still screen AGL out because we have revenue thresholds for energy generation. If they are above the threshold for fossil fuel power related revenue, which they are, then they're going to be out.

If you are going to screen companies, you need thresholds. However, we do invest in Contact Energy, which derives about 20 per cent of its revenue from gas but 80 per cent of its power is geothermal and hydro. And as a company, it is continuing to invest in hydro, and the gas allocation, which is used for periods when there may not be enough rainfall for the hydro, is not increasing.

And when there is a major cultural issue within a company, as we have seen with AMP and IOOF, when enough bad things have and continue to happen, then not only will we not be investing in that company, but a period of one to three years needs to pass before we will



consider reinvesting in them. This period is to allow the company to fix systemic cultural issues.

Trevor Thomas: The approach we take is the same. It's three years for bad corporate behaviour. However, if the matter goes before court, we don't make any exclusions until the court rules. The accusation needs to be first proved.

The beauty of our approach is that even though we do run some SMA models, most of our clients make their own decisions concerning whether they stay with a company or not.

Stuart Palmer: With bad corporate behaviour, you can wait for the relevant claims to be fully aired in court, or you can sit somewhere in the middle, as we sometimes do. For example, if somebody is appearing on the front page of the newspaper for all the wrong reasons, that's still not a reason for us to get out. We consider all the merits first and speak to the affected company involved.

Q: TO WHAT EXTENT DO YOU CONSIDER THE ABILITY FOR A COMPANY TO PROVIDE EMPLOYMENT TO THE WIDER COMMUNITY WHEN MAKING YOUR INVESTMENT DECISIONS?

Stuart Palmer: For us, it's about building a better and more sustainable economy and society. Jobs and meaningful work are all part of that better future. However, I don't think jobs alone are a reason to stay invested in something when we don't like the product or service.

The argument that we stay in coal because the industry employs many people, is not a good or strong enough argument for staying in an old and harmful technology. The onus falls on governments to contribute capital to

transition people to jobs in sustainable industries.

Trevor Thomas: And the companies themselves are asking how they can employ less people to dig up the same amount of coal or do the same amount of work. They are not asking how they can create more jobs. It's all about mechanisation and enhanced profits.

Stuart Palmer: It's a transitional issue. You can't deny change for the sake of change, particularly when there are better and more cost-effective ways of doing things.

Daniel Nelson: When it comes to employment, it's all about the quality of those jobs and the environment in which employees are working.

Stuart Palmer: History has shown that despite worrying about printing presses and weaving machines putting people out of jobs, technology has enabled us to actually get rid of the nastier jobs, while opening up new opportunities for interesting and rewarding jobs.

We are at a point where artificial intelligence will surpass human capacities in certain areas, so things may change rather radically now.

We continue to invest in innovation, because we think it's a positive thing. But I can imagine there will come a point where, as a society, we need to decide whether we put a brake on innovation to maintain the level of employment or do we become more expansive with our thinking and explore other alternatives, like reduced working hours.

As a society, maybe we are too hung up on a career and a 9-to-5 job as a source of meaning in our lives.

Q: ARE COMPANIES THAT EMBRACE ESG MORE SUSTAINABLE OVER THE LONGER TERM?

Stuart Palmer: I think the debate has moved on about there being a trade-off in performance between ethical/ ESG funds, and mainstream funds in the market. More people are realising the need to stay away from certain investment areas that aren't being well managed, because they carry big risks of adverse Government regulation and consumer backlash.

Trevor Thomas: The underperformance myth of ESG is a self-serving lie that is perpetuated by some within the industry. You have never had to sacrifice returns to invest ethically in Australia.

Our portfolios are embarrassingly above the benchmarks every quarter. And sure, it's because we are taking bigger risks, because we are fishing in smaller ponds where companies aren't increasing their profits by minimising their tax aggressively, or not screening their environment or stakeholders in order to make returns. That's the type of company I want to invest in. A company that is profitable without cheating.

Paul Hewitt: The Bank of America has done a huge amount of research on ESG, and it's seeing significant gains over the benchmark for companies that incorporate ESG.

People look for positive trends in companies. 'Diversity' is a classic example, where people are looking for companies that have a diverse board, to ensure it's not at risk of 'group thinking', which can lead to unchallenged decisions that ultimately, can lead to a company going down the wrong path.

Q: DO INVESTORS GROW OUT OF THEIR ETHICAL INVESTING VIEWS AND WHAT TYPE OF DEMOGRAPHIC IS ATTRACTED TO ESG?

Trevor Thomas: The ethical client is incredibly sticky, because they are very tightly committed to the program and objectives you are helping them to achieve.

We provide a narrative about ESG. We tell them what their investments are doing. We've got clients who have held the same companies for 15 or 20 years and you keep updating them about what they're doing.

Most companies that are working in positive areas are increasing their footprint. For example, we've got clients who have held Sims Metal for 15 years, but it's not the company it was 15 years ago. It has invested in a whole range of new products and services over that time. So, we tell the story.

ESG is particularly strong with people aged under 35. This generation is not impressed by ESG-tilts. They have strong

absolute values they want to reflect in their portfolios. So, at the retail level, the conversation around ESG is essentially black and white.

The war on waste has had a huge impact on people's thinking about plastics and recyclables. Climate change awareness is now mainstream, which crosses over all demographics. However, there is an acceptance for people aged under 35 that climate change is real, and it's going to impact and affect their lives badly. But they feel we still have time to do something positive about it.

Our business is structured around individually managed portfolios, and the average portfolio size is \$1.5 million. So, there aren't too many Millennials knocking on our door with that type of money, yet. The average age of our clients sits around 55-years-old and they come to us because they know we specialise in ESG. They are incredibly loyal.

We are also increasingly talking to the adult children of our clients, particularly in relation to generational wealth transfer.

Daniel Nelson: Many of our clients tell us they are not interested in the 'responsible' portfolio, but inform us that when they go, their children will want this 'responsible' portfolio in the trust that our clients leave them. So, in that respect, there is more interest in ESG from the next generation of investors.

However, I do feel that the demographic towards ESG investing is changing. We have a steady level of interest from our existing client base towards ESG. So, interest is definitely building.

Stuart Palmer: We can feel optimistic about the trend towards ESG. What gets a lot of people excited, both the younger and older generations, is climate change. The polling that we and the Responsible Investment Association of Australia (RIAA) conduct, reveals a disconnect between what people expect around climate action and what's actually happening. People want to see real effort put into ESG issues, like climate change, that creates meaningful and sustainable change.

Q: TO WHAT EXTENT IS DATA AND INFORMATION AVAILABLE ON ESG IN OTHER MARKETS OUTSIDE OF AUSTRALIA?

Stuart Palmer: We only operate in developed markets, so we do get a good flow of data and information from these markets. However, our access to overseas companies is different, compared to here. So, opportunities for engagement with these offshore companies is less.

We do take account of different practises in different markets. We accept we will receive less responsiveness from Japanese companies compared to European companies. But that's changing.

However, the ESG data providers are still operating globally and rating companies globally, and that's where we do rely a lot more on these sources of information, compared to our own research on local companies.

Trevor Thomas: There is a lot more choice today for the retail investor to get exposure to global equities or assets. A lot of these are specialist managers from overseas that have a portal into Australia, which gives us more flexibility in building portfolios than we've had previously.

And when it comes to ranking managed funds, transparency is the first rule in ethical investment. So, if the fund manager won't tell us what they own, then they are immediately given a low ranking based on suspicion, with the likelihood we won't use their fund.

Daniel Nelson: Perpetual Private does have a full suite of asset classes. While we do use external fund managers, we still keep to the same principles and ensure those fund managers satisfy what we want them to do.

Q: HOW DOES INVESTING IN CHINA – THE LARGEST ECONOMY IN OUR REGION – INFLUENCE YOUR APPROACH TO ESG INVESTING?

Stuart Palmer: We do have a government framework, which outlines what governments we will and won't invest in. We like democratic and legitimate governments. We don't like autocratic governments.

So, we're not investing in Chinese Government bonds, but that doesn't mean we will rule out investment in companies operating in China, or indeed, Chinese companies. In that respect, what we look at is whether these companies are complicit in facilitating the things we don't like about the Chinese Government and its economic activity, or do we see them as being a force for good in that country?

An example would be social media companies – like Facebook, Google and Twitter. In this case, we're looking at what they are doing when they seek to offer their products and services in China. What concessions will they make about allowing Government access to their data, which could be used to impede the civil liberties of its citizens? What type of censorship will be imposed on these platforms to enable them to operate in that country?

But I understand these companies have stayed out of China because they haven't been prepared to sign up to the Chinese Government's requirements. However, if they did agree to some of the requirements and we thought

these companies would encourage greater openness and greater freedom of speech within China, then they could be a force for good, in which case, we would consider investing in them.

Trevor Thomas: One's beef is with the Chinese Government, not the Chinese people. So, Australian and other overseas companies that want to sell to the Chinese, have to negotiate Chinese regulations.

For example, if you want to sell medications or cosmetics, then these companies have to go through the Chinese Government's requirement that they are all tested on animals. That has implications for investors who are concerned about those issues.

So, we have to be open and honest about which companies have had to go through that process and allow clients to make up their own minds.

Stuart Palmer: If a company is developing cosmetic products and testing them on animals, then regardless of whether they are looking to go into China or not, we automatically rule them out. When it comes to vitamins, Blackmores is looking to be licensed directly in China, which would mean animal testing of its products, as part of Chinese regulation. This would then be a reason for us to divest in Blackmores.

Trevor Thomas: Blackmores is an interesting company. Our clients hold them because of the positive way in which they treat their staff and the amazing work it does in terms of the environmental management of its footprint.

Q: WHAT IS YOUR VIEW ON MANAGED ACCOUNTS?

Trevor Thomas: It would be much more efficient for us to run managed accounts, because currently, every advice recommendation we make has to be authorised by the client before we can change it in their portfolio. So, I believe managed accounts are well suited to the ESG space.

It also allows easier customisation. People have idiosyncratic views about companies that they want to either include or exclude. Managed accounts can accommodate that perfectly.

Stuart Palmer: We are developing an SMA. A big part of my job is justifying why we are invested in certain companies, so it would be more efficient to provide greater customisation to clients to enable them to screen out certain companies.

Disclosure of interest: IMAP Chair, Toby Potter is a shareholder in Philo Capital Advisers.

2019 Portfolio Management Conference

Strategic Perspectives

Over 210 delegates attended IMAP's Portfolio Management Conference in Sydney on 6 August. With 12 sessions on offer, there was a good selection of investment focused topics and presentations to whet the appetite of managed account professionals. Following are some of the highlights from the conference.



Strategic Perspectives

With 12 sessions available to the 210 delegates attending the 2019 IMAP Portfolio Management conference, there were plenty of opportunities to learn from managed account professional, while networking with industry peers.

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Practice-based investment management

Speaking at the IMAP Investment Management Conference in Sydney, Piers Bolger and Martin Crabb talked with Damian Cilmi of Praemium about the importance of getting the foundations right when building an investment program internally within an advisory business.

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DAMIAN CILMI: WHY DID YOU DECIDE TO BUILD AN INVESTMENT PROGRAM INTERNALLY WITHIN YOUR ADVISORY BUSINESS?

Piers Bolger: We clearly saw a number of benefits of developing our own internal capability, particularly around the execution model and how it sat within the advice process.

When we started Viridian Advisory, we thought about what our business could look like over the next three, five and 10 years. This included how we wanted to position our investment offering within the business and engage our clients around that as a value proposition.

For Viridian, the managed account solution was where we wanted to go, as it allowed us to tailor investment solutions for client portfolios. It was the right model for us.

Martin Crabb: At Shaw and Partners, we already had a securities research team in-house, so it was a logical extension to develop a managed account solution. We already had the capability to provide advice, so developing a managed account solution was just a natural evolution of what we were doing.

DAMIAN CILMI: IN TERMS OF RESOURCING, WHAT DID YOU NEED TO INVEST IN TO IMPLEMENT AN INTERNAL INVESTMENT PROGRAM WITHIN YOUR BUSINESS?

Piers Bolger: There were three elements. The first element was choosing the right technology that allowed us to implement research into the portfolio structure. Technology is not cheap, so this is one of the biggest challenges for businesses wanting to get into managed accounts.

The second element was to ensure that the investment business within Viridian clearly sat apart from the advisory side of the business. This is an additional cost to the business. So, if

you want an institutional grade offering within your business, you need to invest in it.

The third element was deciding what we wanted to do internally versus outsourcing, by looking externally for assistance or input into the business. So, it's important to clearly identify your internal investment philosophy and capabilities, and where this is lacking. Where you don't have the necessary skills or expertise within the business, you need to look externally for these.

It's also important how businesses set themselves up from the beginning. If you do this right from the get-go, you're not chasing your tail. It enables you to develop a much stronger offering and value proposition for clients.

Martin Crabb: We already had a strong equities capability. We had a good hybrid strategy and some good equity strategies for both large and small caps. However, global equities was the missing piece for us.

So, we started out with an ETF-based global equity portfolio using a tactical asset allocation company model, but it wasn't up-to-scratch and not institutional grade. We were crying out for a really good global manager. Fortunately, we were able to find one in AllianceBernstein. We currently use the AllianceBernstein Concentrated Global Growth strategy.

As an advisory business, if you don't have the internal capabilities, don't try to do it inadequately yourself. Spend the money and get a partner with the required capabilities to help you.

DAMIAN CILMI: HOW DID YOU GO ABOUT PUTTING YOUR INVESTMENT PROGRAM TOGETHER?

Martin Crabb: It's a work in progress. We decided to go down the path of building an advice framework around the managed account program. At its core, Shaw and Partners is

a stockbroking business, so our advisers aren't used to doing things like goals-based advice or objectives-based advice.

So, we needed to develop a framework that allowed us to deliver a managed account program and an advice solution at the same time? That included looking at the fact-finds we were doing, the risk profiling we were doing, and then the asset allocation that would sit behind that. We also needed to have the flexibility within our managed account program to dial up and down our asset allocation.

The managed account structure needs to be flexible and cheap enough to transact on. You need to have the right structure, the right advice framework and the right execution capability out the back-end.

We are cognisant that we need to do a lot more work with our advisers. Goals-based advice is not straightforward.

DAMIAN CILMI: HOW DO YOU MANAGE THE CHALLENGE OF ENSURING ADVISERS ARE ON-BOARD WITH YOUR MANAGED ACCOUNT PROGRAM?

Martin Crabb: When it comes to adviser types, you've got the early adopters, the true believers and everything in between. So, we're less focused on whether all our advisers are embracing managed accounts because we offer a range of services to clients. When it comes to products and services, we just want to ensure we provide the best in-class that we can for each individual client across the range of advisory services we offer.

Piers Bolger: As a business, what we don't want to have is a very long tail. So, we have to be able to demonstrate value and the adviser then needs to demonstrate that value back to their clients.

One of the big challenges we've had over the last few years has been having advisers saying to their clients that their value proposition was investment management. However, that changes with managed accounts. So, they have to adjust their discussions with clients around a new value proposition.

This is always an interesting discussion to have with clients, when the investment management is now being outsourced to another part of the business.

But as a business, you need to be firm. You can't let things just meander along. You have to be absolutely clear about what the business stands for and where it's heading.

Martin Crabb: Often you see the most financially successful advisers – those who earn the most and manage the most assets – don't typically get involved with investment management or securities selection. They outsource all that. Instead, what they are good at is finding clients, looking after people and developing trust with their clients. So, they don't try to be all things to all people.

Successful advisers realise that it's all about the client experience and the client relationship. They understand that they can outsource all the investment management and securities selection to enable them to focus on what's really important for the business.

Piers Bolger: Importantly, the way we are thinking about our engagement model revolves around how the platforms are evolving. One of the challenges that we've seen is that platforms have a lot of functionality but no two platforms actually behave in a similar manner. We're currently on two platforms, soon to be three.

Platforms need to evolve and catch up to the managed account world. This is something we're mindful of when providing solutions to clients, because we need an administration vehicle that can properly execute those solutions. Without having an administration vehicle to do that efficiently, makes it very challenging to deliver the types of investment solutions we want to deliver.

DAMIAN CILMI: ONE OF THE BENEFITS OF RUNNING A LICENSEE-BASED INVESTMENT MANAGEMENT PROGRAM IS THE PROXIMITY IT ALLOWS YOU TO THE END-CLIENT. WHAT ARE SOME OF THE LEARNINGS AS A RESULT OF THIS PROXIMITY?

Martin Crabb: The key challenge for us is having a story for every single holding within a portfolio. There has to be a reason for having these holdings, to explain the reasons why. And if there are changes to a portfolio, you need to communicate those changes back to clients and explain the reason for the changes. Effective client communication with managed accounts is massive.

Piers Bolger: Building client trust in the management of their wealth is essential, as is working with the adviser to help them manage that client relationship. It's part of what you should be focusing on within your business. You need to be able to deliver that and ensure you have the resources to be able to provide that one-on-one relationship between adviser and client.

DAMIAN CILMI: ARE YOU SEEING AN INCREASE IN INTEREST BY YOUR CLIENTS IN ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING?

Martin Crabb: I really haven't seen any increase in the level of interest in ESG. If you go to any institution presentation, ESG is a major focus. But at a retail level, while people talk about ESG, I haven't had anybody come forward and request an ESG version of what we're doing or request that a holding, like Woolworths, which is one of the biggest purveyors of gambling and tobacco, be removed from a portfolio.

I've heard that Millennials are big on ESG, but they aren't the typical generation of clients advisers are currently dealing with. But this may change as Millennials begin seeking advice in the years ahead.

Piers Bolger: When it comes to investing, we tend to look at ESG more around the edges, rather than taking a blanket view towards ESG within a managed account portfolio. Somebody's view on ESG can be very different from another person's view. So, we much prefer to take a tailored approach to ESG when that's required.

DAMIAN CILMI: ARE MANAGED ACCOUNTS A SUITABLE SOLUTION FOR ALL YOUR CLIENTS?

Martin Crabb: We don't product flog managed accounts. We put our services in front of our clients and our advisers will help their clients choose the best mix of investment options and solutions that are in their best interests.

Managed accounts are constantly evolving. I can see a future where we take individual tax parcels into account when we look to do a transaction. And if you look at using alternatives with liquidity issues, fractional ownership, derivatives, swaps and all these sorts of things, they are currently part the institutional world. However, with technology and scale, a lot of these things can be brought to the retail market.

From a business viewpoint, it would be great if all our clients were in managed accounts from a compliance perspective, because you know exactly what is going on, but managed accounts are not necessarily for everyone.

Piers Bolger: Managed accounts are not without their challenges, and clearly, they are not appropriate for every type of client. But, if a managed account fits in with a client's objectives and needs, and is appropriate for them, then we will recommend this solution for them.

DAMIAN CILMI: AS A BUSINESS, DOES IT HELP YOU TO HAVE BOTH SINGLE ASSET CLASS MODELS AND MULTI-ASSET CLASS MODELS?

Martin Crabb: We have five times as much money in single strategy SMAs. Most people are using the SMA like a stock or a fund, like the hybrid SMA or the Aussie Large Cap Growth SMA. I think that expands your reach. And advisers are using it in different ways. For example, advisers might take on more of the asset allocation decision and leave the securities selection to the investment committee.

DAMIAN CILMI: AS CHIEF INVESTMENT OFFICERS, HOW ARE YOU ACCOUNTABLE FOR YOUR DECISIONS?

Martin Crabb: It's all about transparency in our



As an advisory business, if you don't have the internal capabilities, don't try to do it inadequately yourself. Spend the money and get a partner with the required capabilities to help you. – MARTIN CRABB



decision-making. Anyone who has managed money will know that you are measured hourly, daily, weekly and monthly on your performance. It's a numbers game, so it's relatively easy to see if you are or aren't doing your job as an investment manager.

We also have 27 different managers that we are also using for securities. For example, in our balanced portfolio we have 150 securities.

There has to be several levels of accountability. The investment committee selects the managers in our program. But ultimately, as CIO, I take responsibility for the investment outcomes and if they're not good, I'll be asked to leave.

Piers Bolger: There are very clear lines of separation between the investment committee and the wider business. In the context of our offering at Viridian, we benchmark against what our peers are doing in the marketplace. We also need to clearly translate the rationale as to why our solution is working and why it's still viable for the business.

So, it's very important that the investment committee is run at an appropriate level from a governance viewpoint. That enables you to more easily identify what you are doing that's right or wrong, and adjust accordingly.

You also need to be able to clearly articulate your decisions back into the business and importantly, that means the business needs to understand the rationale behind your decisions and the position you are taking.

But no matter how good a manager is, there is always going to be cyclical movements in the market. So, as CIO, it's about managing this by having the right structures in place. But ultimately, a CIO is accountable by the performance that he or she delivers.

Piers Bolger is the Chief Investment Officer at Viridian Advisory, and Martin Crabb is the Chief Investment Officer at Shaw and Partners.



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UPCOMING EVENTS

OCTOBER 2019

IMAP PORTFOLIO MANAGEMENT CONFERENCE 2019 - MELBOURNE

When: 22 October 2019, 8:30am-5:00pm

Where: The Pavillion Room, Arts Centre Melbourne, 100 St Kilda Road, Melbourne

Following the successful conference in Sydney, the IMAP Portfolio Management Conference 2019 is also taking place in Melbourne on 22 October at the Arts Centre Melbourne. This conference is designed to provide client portfolio investment managers with insights and information that they can use to manage portfolios.

The Melbourne conference will focus on a range of topics, including: security selection and blending, and risk management.

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

2019 IMAP EVENTS

Make sure you mark these events in your diary now!

SEPTEMBER

- ▶ 11 September
Licensee Investment Breakfast - Melbourne
- ▶ 17 September
Responsible Manager Masterclass
- ▶ 18 September
Licensee Investment Breakfast - Sydney

OCTOBER

- ▶ 31 October
Investment Forum

NOVEMBER

- ▶ 11 November
Responsible Manager Masterclass
- ▶ 13 November
InvestTech 2019

* 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

PERSPECTIVES

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