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THE MAGAZINE FOR SMART ADVISERS

What lies ahead *in 2020?*

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Generate
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Generate
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Generate
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We're the 1st ranked KiwiSaver Moderate Fund for the year.

5YEAR

Average
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Average return of all KiwiSaver Moderate Funds for the last 5 years.

Generate
7.5%*
We're the 2nd ranked KiwiSaver Moderate Fund for the last 5 years.

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*Generate was awarded KiwiSaver Manager of the Year in the Fund Manager of the Year 2019 awards by Good Returns powered by Research IP. www.goodreturns.co.nz/article/976515986 Performance results are from the Morningstar KiwiSaver Survey September Quarter 2019. Results are to 30 September 2019. The PDS, Morningstar and advertising disclosures are at www.generatewealth.co.nz/pds. Generate Investment Management Ltd is the issuer. Past performance is not a reliable indicator of future performance.



FINANCIAL FORECAST 2020

AMP Capital's investment team give an overview of key economic and investment themes to watch for this year.

18

11 MEET THE MANAGERS ROADSHOW

Clayton Coplestone on the butterfly effect hitting the industry at present. Q&A with Daintree and Castle Point.

UP FRONT

04 EDITORIAL

Five things to expect from 2020.

05 KIWISAVER

Michael Lang discusses active v passive.



06 NEWS

KiwiSaver advice changes; PAA holiday homes update.



10 PEOPLE

ASSET rounds up the main people stories from the past month.

REGULARS

28 INVESTMENT COMMENTARY

David van Schaardenburg: impacts of lower returns' series part three.

30 PRACTICE MANAGEMENT

Russell Hutchinson: benefits of digital underwriting.

32 MORNINGSTAR DATA

FEATURES

08 GRTV

Naomi Ballantyne on key issues facing insurance advisers.

16 PROFILE

Patrick Middleton – moving Conrad name into funds management.

26

LICENSING FORECAST

Compliance Refinery's Steve Burgess with a pocket guide to licensing. All the key dates and requirements for the year.



Here comes 2020



Whether we're ready or not,
another year is upon us.

As with every year in recent memory, 2020 is likely to bring significant change for financial advisers.

Here are five things that I think we can expect.

Licences will be issued – and some in a hurry.

Anyone who wants to continue to give personalised financial advice in the new regime will need to apply for a transitional licence by June. Judging by the rate at which applications have been flowing in so far, there may be a rush towards the end of this licensing period.

More focus will go on insurer and bank conduct.

The Conduct of Financial Institutions Bill is set to pop up in Parliament in the next few weeks. While it simply puts into law a

lot of what financial institutions already say they do, sources tell me that for many being forced to show that they're not all talk will be quite tricky. It will be important that advisers get a carveout from these rules.

Markets will do ... okay. Maybe.

Who knows?

A year ago, we were predicting that stockmarkets couldn't have another strong year because there had been so many. The NZX turned around and notched up a 30% gain. It is hard to see how it could top that but, then again, with interest rates so low, and growth still bumbling along, there might not be a lot to knock it off its course.

Advisers will join forces.

It'll be harder to be a solo operator in the new regime. More advisers may join forces to get that back office support to help them keep up with compliance. This may be especially useful for those who want an exit strategy. For all the talk about rejuvenating the ageing adviser force, there don't seem to be a large number of young advisers coming in – especially if you don't include the banks.

People will need good, independent advice.

KiwiSaver isn't just giving New Zealanders retirement savings they might not otherwise have had, it's making them wake up to the opportunities in the investment markets. And as more of us reach retirement age and wonder how to turn our money into an income when interest rates are still rock bottom, the helping hand of a good financial adviser will be as important as ever.

Susan Edmunds
Editor



HEAD OFFICE

1448A Hinemoa Street, Rotorua
PO Box 2011, Rotorua
P: 07 349 1920
F: 07 349 1926
E: philip@tarawera.co.nz

PUBLISHER

Philip Macalister

EDITOR

Susan Edmunds

SUBEDITOR

Dawn Adams

CONTRIBUTORS

Michael Lang, Russell Hutchinson,
David van Schaardenburg, AMP Capital
Investment Team, Clayton Coplestone,
Steve Burgess

DESIGN

Amy Bennie

ADVERTISING SALES

Amanda Ellery
P: 027 420 2083
E: amanda@tarawera.co.nz

SUBSCRIPTIONS

Jill Lewis
P: 07 349 1920
E: jill.lewis@tarawera.co.nz

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How active is your KiwiSaver manager?

Active v passive – a popular discussion topic. Michael Lang discusses the features and benefits of both options.

FMA ISSUES REQUEST FOR INFORMATION

Late last year, KiwiSaver managers received a request for detailed financial information on the investment management of the KiwiSaver funds that they are responsible for. Initially this request came from a private organisation, but was followed up shortly afterwards by a more formal email from the Financial Markets Authority (FMA). The purpose of the exercise? To determine how active each KiwiSaver manager is.

IS ACTIVE MANAGEMENT NOW A CRIME?

The short answer is no. Worldwide, the investment management industry has long debated the merits of active management (managers actively altering asset allocation, managers and securities) versus passive management (a more static mix of assets, managers and securities, the allocations of which are determined by an index). Neither form of asset management is wrong and, in NZ Funds' view, both have merit.

WHAT ABOUT CLOSET INDEXING?

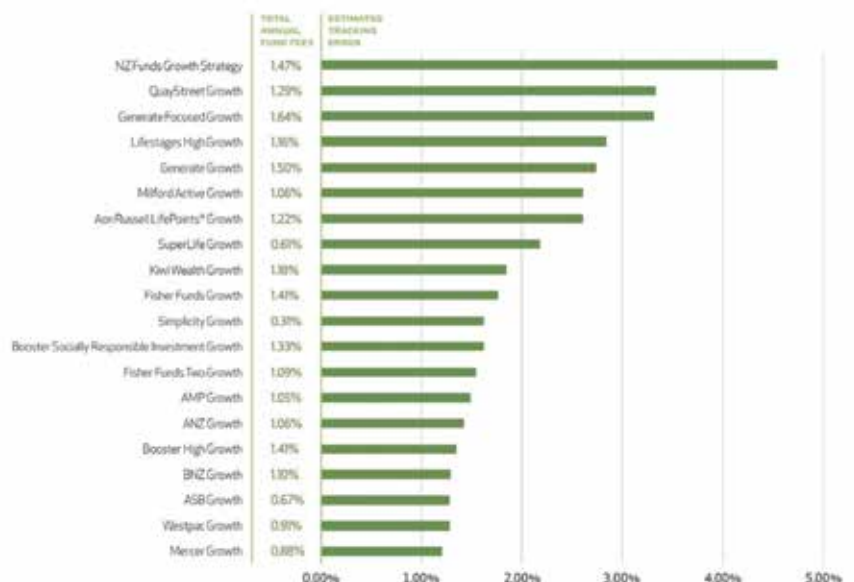
Again, the short answer is no. Closet indexing is the practice of having the mandate to make active decisions, but in practice following an index very closely. Many institutional mandates, used in the management of large sums of money, put constraints on the managers to ensure the funds do not deviate too far from an agreed index. This is a valid and prudent asset management approach.

What may be misleading is marketing a fund as active (or passive) when the opposite occurs in practice. For example, a manager could attract investors to an actively managed higher fee fund, and then only provide lower cost, passive management, pocketing the difference. Late last year, the regulatory authority in the United Kingdom fined a large fund manager for doing just that.

WHO IS ACTIVE AND WHO IS NOT?

How active or passive a KiwiSaver manager is can be estimated by calculating how much

KiwiSaver growth funds – degree of active management and fund fees



their investment performance deviates from an index. This measure is called a tracking error. The lower the tracking error, the closer the fund is likely to perform to its index. In the attached table, NZ Funds has estimated selected KiwiSaver growth funds' tracking errors using the funds' disclosed performance and target asset allocation.¹

The data shows NZ Funds, QuayStreet and Generate have been more active than their peers and on average charge more as a result. In contrast, the major banks and larger institutional managers like AMP and Mercer have both a lower tracking error and a lower management fee. Booster's High Growth Fund is an interesting exception.

A FINAL WORD ON FEES AND STYLES

The difficulty with comparing degrees of activeness with levels of members' KiwiSaver fees is that fees go to pay for a lot more than investment management. For example, for the same annual fee some managers are providing access to financial advisers, financial planning software, research on responsible

investing, and superior client communications and service levels, while others are not. These additional services may be of considerably more value in helping clients achieve their long-term financial objectives than whether a manager is active or passive, or the degree that their fees are marginally higher or lower than a competitor's. **A**

Source: FMA, FE Analytics, Bloomberg. Total annual fund fees sourced from September 2019 fund updates. For more information on indices used and calculation methodology, contact NZ Funds.

1. The tracking error calculation is an estimate only. The tracking errors are calculated against a proxy market index using historical monthly data for three years to September 30, 2019. An otherwise passive manager, like Simplicity, may exhibit a higher than usual tracking error due to month end pricing times and dates, the choice of asset class indices in the calculations, and assumptions about currency hedging ratios, amongst other things.

Disclaimer: Michael Lang is Chief Executive of NZ Funds and his comments are of a general nature. New Zealand Funds Management Limited is the issuer of the NZ Funds KiwiSaver Scheme. A copy of the latest Product Disclosure Statement is available on request or by visiting the NZ Funds website at www.nzfunds.co.nz.

Trade Me sells LifeDirect back to one of its original adviser owners

LifeDirect has been bought by Mark Solomon, transfer of ownership will occur on April 1.

Solomon is chief executive of Crest Financial Services. He has worked in financial services since 1995 as an adviser.

Trade Me chief executive Anders Skoe said LifeDirect was a great business with lots of potential but it didn't fit with Trade Me's priorities. "We don't think Trade Me is the best long term owner for LifeDirect, it's a profitable business with great growth potential but we only have so many resources and we can't prioritise LifeDirect over the many other opportunities we have.

"We see Mark as a great fit for this business and we're sure they'll unleash the potential it has. As a former owner, Mark and his team are very familiar with LifeDirect so they know the business and the industry very well. It feels like a very natural fit for it to return to them."

Solomon said: "We are delighted to be re-engaging with LifeDirect, supporting its journey to drive great customer outcomes for all New Zealanders."

Skoe said Trade Me and Solomon were now working through plans for a smooth transition. "Mark has indicated that he wants to keep the expertise of the LifeDirect team as they look to take the business forward. We're working through this with him now."

The sale price remains confidential.

Trade Me delisted from the NZX in May.

In its 2018 annual report, Trade Me noted that the business category comprising dating, insurance and payments businesses had a drop in revenue of 2.3% year-on-year, although that was due in part to divestment of travel businesses.

The year before, the company said the direct-to-market life insurance sales platform experienced an 11.3% drop in revenue, to \$5.3 million, due to lower traffic volumes.

Questions about holiday homes money

The Professional Advisers Association (PAA) sold its holiday homes in 2016 but now questions are being asked about what's happened to the money since.

The PAA froze its holiday home scheme in 2015 and subsequently sold the seven properties for \$2.9 million. The association then established the PAA Legacy Trust which has as one of its stated purposes the goals of promoting and educating financial advisers.

The net proceeds from the sale process was about \$2 million.

While the meeting to establish the trust took place in the middle of 2018, the initial \$2 million was only transferred into the trust in the second half of last year.

Trust spokesman Trevor Slater said the association had to go through its wind-up process before all the money could be transferred, which was "almost completed".

"Setting up the accounts took quite a while due to banking requirements. These funds are now in a bank account earning standard interest," he said.

He said it had taken longer than expected for the trust to receive the money from PAA because of the administrative process but it had ended up with slightly more than had initially been expected.

The trustees were all "working people", he said, so it was not always easy to convene a meeting.

"Late last year the Legacy Trust issued an RFP for an investment and management plan for the funds. We received three proposals which were considered by the trustees just before Christmas. There were some further questions that needed to be answered and we are currently waiting for these to be responded to."

It had narrowed it down to two options, he said, but the trust was seeking more information on tax and fees in particular.

"The Legacy Trust is also still waiting for the final funds from the PAA that cannot be paid until the PAA

taxation obligations are completed. How the funds are to be used is set out in the trust deed of the PAA Legacy Trust."

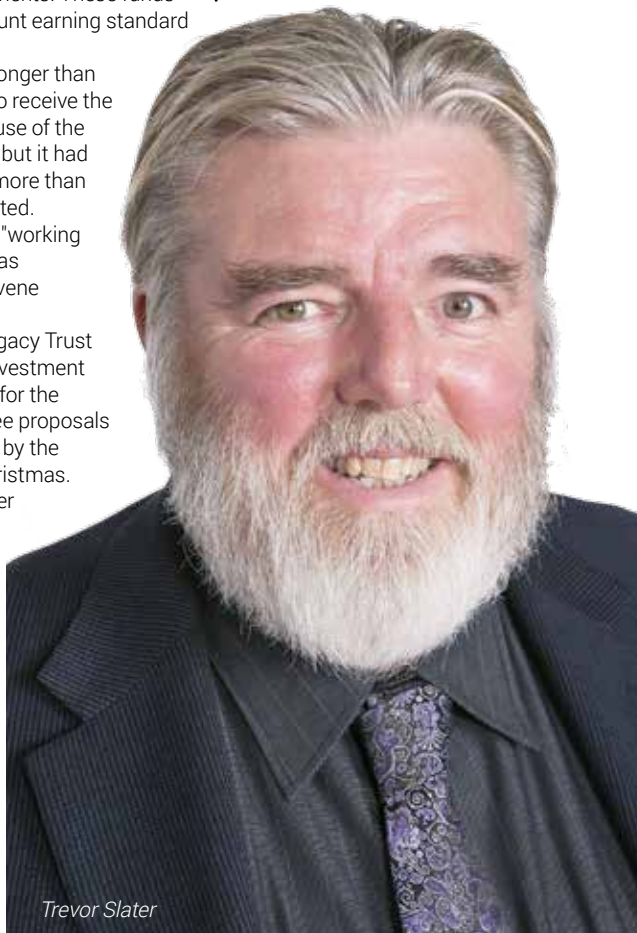
He said the trust had already received a couple of proposals for funding. It should be able to make grants "fairly quickly", he said, and would not need to wait 12 months for the first payment of investment returns.

But adviser Geoff Wilson said not enough information was being given to advisers – and because the PAA had been wound up there were no association members to report to.

He said the trust was intended to promote the industry but it did not seem to be clear how it would do that.

But he said, given the changes the industry was working through, it should not be hard for the trust board to find work to fund.

"We're going through a period of drastic change in the industry with very little input from advisers. I would have thought if you wanted to do some research and someone could spend time doing that they could help out the industry enormously. But they're sitting on their hands."



Trevor Slater



Pie: We had too much cash

Pie Funds founder Mike Taylor says holding too much cash through the start of 2019 ended up costing its funds' returns.

Taylor said at the end of 2018, share markets had been through a sharp downturn – the worst December for the S&P 500 on record.

His fund managers responded by moving funds very defensively to up to 60% cash.

But the downturn did not last as long as Pie Funds expected, which was to its detriment and Taylor said it was too slow to jump back in to the market. "It was the right call at that time ... but we were too slow to bring our cash back down to appropriate levels."

The S&P 500 and NZX rebounded to clock up a 30% return.

"As we've discussed with clients many times, directly and in our newsletters, holding high cash through the final quarter of 2018 was the right call, given the severity of the September-to-December ructions.

"But we held on to it for too long, showing the inherent difficulty of trying to time the market. Our concern the post-Boxing-Day-2018 recovery was fragile and wouldn't last, was misplaced. Cash stayed too high and, while we steadily reduced it through 2019, we failed to capture all the strong market recovery characterising most of 2019."

In the year to the third quarter of 2019 the growth fund returned 18.76% after charges and tax; Growth 2 15.5%; and conservative 2.96%.

"The 'good defence' impact of having high cash in late 2018 shielded most investors from the worst of the downturn (which showed up in the performance of the funds' market indices). This provided funds with a good base for more supportive markets in 2019," Taylor said.

"Two important perspectives arise from these figures. First, given the average cash level across all funds for the two-year period was 30-35%, the risk-adjusted, stock-picking-fuelled performance for some funds is even more impressive. But, second, we can't – and don't – congratulate ourselves too much about that. Because it's also true that had we reduced cash sooner, results for our investors would have been better still."



Changes coming for KiwiSaver advice

Registered financial advisers providing KiwiSaver advice will need to complete an investment qualification to continue to do so under the new advice regime.

At the moment, a number of advisers are able to offer assistance with KiwiSaver as RFAs by offering only class advice.

But under the new rules, class advice will no longer be an option and all advisers will need appropriate qualifications for the services they offer.

A Financial Markets Authority spokesperson said any adviser relying on the two-year competency exemption from June 29 this year would be able to continue to give class advice until June 2022.

The competency exemption applies to any adviser operating under the current regime who obtains a transitional or full licence under

the new regime.

"Any adviser not relying on the competency exemption, or giving advice after June 2022, must meet the competence knowledge and skill requirements set out in the new Code of Professional Conduct for Financial Services before providing such advice.

"For example, if the type of advice provided falls under code standard 7 (designing an investment plan) then the investment strand is required (or equivalent as per the code).

"If the type of advice provided falls under code standard 8 (providing a recommendation on a financial advice product or switching funds within a managed investment scheme) then the most relevant specialist strand is required for each financial advice product type (or equivalent as per the code). In the case of recommending KiwiSaver or switching funds within a KiwiSaver scheme, the most relevant

specialist strand is the investment strand (or equivalent as per the code)."

Peter Cave, managing director of adviser group Lifetime, said it was important for RFAs offering KiwiSaver advice to attain the investment strand.

"KiwiSaver is being sold as a commodity currently, where it should be delivered as a retirement and wealth accumulation strategy, particularly given the balances that will accumulate over time. Whilst some may challenge the need to do the investment strand, consumers will ultimately demand higher levels of investment advice, not just a sales process.

"One could challenge the adviser's level of competency if they struggle to complete the investment strand. We would have an expectation that Lifetime advisers meet this standard as a minimum." +

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Conduct and culture

Partners Life managing director Naomi Ballantyne discusses the critical issues facing insurance advisers today.

GRTV: BACK IN THE STUDIO WITH ME IS NAOMI BALLANTYNE, THE MANAGING DIRECTOR OF PARTNERS LIFE. WELCOME BACK NAOMI, IT'S GREAT TO HAVE YOU HERE.

YOU'VE HAD A REALLY BIG YEAR. YOU'VE HAD THE GET LIFE RIGHT CAMPAIGN LAUNCH. YOU'VE JUST RECENTLY LAUNCHED YOUR UNDERWRITING PLATFORM, MUM, AND YOU'VE ALSO GOT EVINCE OUT THERE. SO HOW HAVE ALL THOSE GONE?

Ballantyne: It's kind of been a phenomenal year for us, really. Obviously all of those pieces of work take a long period of time until you can bring them to the market. So they have been our kind of "secret baby" for a couple of years now.

GRTV: THE SECRETS ARE OUT.

Ballantyne: Yeah. So, it's really nice to have those secrets out there. And I think we hit the market at the perfect time. Not that we knew two years ago that the market would necessarily look like it does today. But it's been really clear that there's been a need for tools to support advisers and to also give them confidence that whatever regulatory changes, cost changes, commission changes might happen, that they can counter the balance with efficiency and productivity if they can re-engineer their processes in their back office to do that. And these tools help them to do that.

GRTV: SO, MUM, WHICH IS YOUR UNDERWRITING PLATFORM ... THAT WILL SPEED UP THE PROCESS SIGNIFICANTLY?

Ballantyne: It already has, absolutely. So, we knew it would. We just didn't know how quickly we would get a lot of uptake. It's been phenomenal.

GRTV: WELL, THAT WAS GOING TO BE MY NEXT QUESTION. HOW HAS THE UPTAKE BEEN?

Ballantyne: So, two weeks, and we're now at 30% of all applications coming through MUM.

GRTV: WOW, THAT'S IMPRESSIVE.

Ballantyne: It's amazing. And obviously the more people use it, the more comfortable they become with it, the more it becomes just the way they do business with us. So, absolutely, that is the intent. That it completely shrinks that part of the process, and Evince shrinks the other part of the process in terms of the education, the consumer and the provision of advice. So between those two tools, you can do so much more now in the time that you have than has been possible before. And I think that hopefully that's given advisers real comfort that they can do this as they go into the future, which is really important for us as an advice company.

GRTV: I KNOW. DEFINITELY. AND OF COURSE THE OTHER BIG THING IS CONDUCT AND



CULTURE AND THE REVIEW FROM THE REGULATORS. YOU'VE GOT YOUR FEEDBACK. CAN YOU TALK ANY, ABOUT THE FEEDBACK YOU'VE GOT AND ANY CHANGES THAT YOU'VE HAD TO MAKE SUBSEQUENTLY TO THE BUSINESS?

Ballantyne: Yeah. Well it's not really surprising as an eight-year-old business that has always had automatic upgrades for customers that we don't have any issues with legacy products or systems. Certainly we were challenged by what the regulators asked us to do in terms of the "prove" stuff. Prove that you haven't done bad things to your customers with no real guidance in terms of what that proof needed to look like or what would satisfy them. So, the biggest challenge of this conduct and culture work was really us asking ourselves, "How can we ... What are we looking for? How do we find it? And then how do we present it if we find it?" So, that's been the biggest challenge. There's some good things that have come out of it. We've got a number of projects that we're looking at how we get more in-depth data about what's happening in our own book. Certainly, it's changed our thinking about our relationship with that triangle of adviser, client and insurance company.

GRTV: SO HOW DOES THAT CHANGE?

Ballantyne: Historically the advisers owned the client relationship, and the insurance company's been the insurer. And, in some cases with some companies they've effectively, I guess, outsourced everything to do with client interaction to the adviser. And we've never done that. We've always seen it as a three-way street, but we've still trusted all of the pieces that lead to the client becoming ours and all of the pieces of servicing the client outside of just their policy. We trusted that that was happening because that's the adviser's space, and we've always felt that it's a conflict for an insurance company

to be in the middle of an advice process. So, to hear regulators saying, "They're your customers. You've got to take responsibility for the quality of the advice that they receive" was really, really challenging and scary for advisers.

GRTV: SO, THE LIFE COMPANY NOW OWNS THE CLIENT MORE THAN THE ADVISER?

Ballantyne: Well, I think they always have. It's just your own mindset in terms of how you see it because we collect premiums, we deliver against the product promises, right? We have all the contractual relationships with the client and, in the end, we pay the money in the event of a claim. The difference is now the Life Company's being expected to know that the client is theirs correctly. And the client hasn't come to them incorrectly and so been exposed to conflicted risk that the client's been completely unaware of. And so, the challenge for us is how do we do that when we don't have any relationship with the client and nor should we until they actually apply to us once the product provider decision has been made at the end of the process?

GRTV: SO, A LOT OF ADVISERS THINK THAT THEY OWN THE CLIENTS, BUT IN REALITY, THEY DON'T.

Ballantyne: They don't.

GRTV: SO, DOES IT CHANGE HOW ADVISERS MIGHT VALUE THEIR BUSINESSES?

Ballantyne: I think it will. For a couple of reasons. The first one is in terms of the advice piece. So, we've been doing some work in terms of understanding once we have a client, how do we backtrack to check that they went through a proper advice process. Not was the advice correct, but was there a process? Do they understand underwriting? Do they fully understand the requirement to disclose? Was it replacement business, and did they go through a process to identify the benefits in the gate? So, how do we do that without actually getting involved, and was it right to advise them to sell

our product or someone else's product or this amount of the product? Because we're not there, and that's not information about the client that is ours to know. But we should check that there has at least been advice provided for the commission that we're paying for that advice and that the risks have been mitigated for the client making the decisions that they've made, as best as we can. So, that's one part of it which means we are going to be in a conversation with clients about the advice.

GRTV: THAT'S QUITE A BIG CHANGE.

Ballantyne: It's a huge change. The other part of it is this requirement to service the clients. We've heard a lot of the language saying, "You're getting paid to do nothing". And you've seen articles, and you've published articles from me saying, "Hang on with it. Let's be careful. There's not nothing going on here." But, for some clients, there is, because we've all heard stories of clients who say, "I haven't heard from my broker for the last eight years". Right?

And yet that broker is presumably still collecting a commission and assuming that they've got an asset to sell off the back of that. And so the things I've been saying to advisers is you can't have certainty that the regulations around who owns the commission, the renewal commission, is not going to change. Because the rhetoric around it is certainly saying, "Prove that you deserve it. You don't just get it because ..." So, it's changed from a deferral of the upfront commission to a service commission conversation. So, I've been saying to advisers, "If you want to have certainty that that's an asset service your clients and prove that you service your clients."

GRTV: AND SO STICKING WITH THE COMMISSION THEME, BY THE TIME WE GET THIS UP ON THE SITE, TRANSITIONAL LICENSING WILL BE OPEN. WHAT'S PARTNERS LIFE THINKING ABOUT IN TERMS OF ITS RELATIONSHIPS WITH FAPS GOING FORWARD, AND WHAT DO YOU THINK THE RELATIONSHIPS WILL BE WITH DEALER GROUPS BECAUSE ALL THE OVERRIDES AND ALL THOSE AGGREGATION BENEFITS OF THE GROUPS HAVE NOW DISAPPEARED?

Ballantyne: Yeah, that's a really interesting question. So, in the FAP world, we don't see FAPs any differently than the way we currently see advisers. And they are dealer groups that provide services for their members and that are focused on system support, compliance, all of those sorts of things. They have a license process they've got to go through, but in the end they are involved in the provision of advice to the client. We need them, and they need to be remunerated.

So, the question now becomes, "If you've got organisations who want to sit over the top of groups of brokers but not be a FAP, so stay as they are, for want of a better word, where should the remuneration go?" Because who's got the cost and the liability, which didn't exist in the old days? So, the dilemma for us or the question for us is, "Who do we pay to provide the things that the overrides that we pay are designed to do? And on what basis should they be paid? And the reason I say that is one of the questions the regulators have asked us over and over is,

"How are you going to use your remuneration to incentivise good advice behaviour?"

GRTV: AND THE ANSWER?

Ballantyne: Well, it's interesting. We used to have a production bonus in our suite. So, a base commission for everybody, the same for everybody, and then a bonus level built on how much business you've written for us because that was the normal way of doing things.

GRTV: THAT'S THE NORMAL THING.

Ballantyne: Yeah. And then the regulator banned/is banning the volume-based incentives. So, we went: "Well we've got this vehicle that rewards people for something over and above just selling the policy. So let's remove the volume criteria and give ourselves time to think about what criteria we replace it with." So, we don't see the remuneration model to an adviser changing. There's a bonus and there's a base commission. It's just how you quantify how much of the bonus commission they should get paid based on what criteria. So, we've been doing huge amounts of work around that. If we have to monitor this stuff, how do we reward it? How do we measure it so that the adviser gets a feel for how they're tracking? So you can change their behaviour because the intention is not to not pay people, it's to get them to do the right thing.

GRTV: SO, THE POT OF MONEY WILL STILL BE THERE, BUT IT WILL BE PAID OUT ON A DIFFERENT BASIS. SO HAVE YOU FINALISED HOW THAT MIGHT WORK, OR IS THAT A WORK IN PROGRESS?

Ballantyne: It's a work in progress. We're pretty close. Our board needs to consider it and make sure that they're comfortable with it, but we think it's the right answer. We think it's the right answer, but we have seen a couple of our competitors just roll their production bonus into their base commission and just go, "Our base commission is now higher".

I'm not sure how that then can be used to motivate or incentivise good behaviour, and you've always got that little feeling in your stomach that means that if we aren't paying people the same level of bonus that others are because they're not hitting the levels of quality criteria we need, they will be financially better off to move. And we've got that dilemma. Is that okay? Are we comfortable with it?

GRTV: SO YOU CAN EITHER WRAP IT UP INTO YOUR EXISTING COMMISSION, OR YOU CAN ACTUALLY PUT SOME MORE CRITERIA IN AROUND HOW YOU EARN IT IS, I GUESS, IS WHAT YOU'RE SAYING.

Ballantyne: Yeah. And as I see it, the whole intention is to get everybody to hit the highest mark possible, because they're earning it, and demonstrate that the industry is at a good space and that people are behaving appropriately. That's the intention of a scheme that allows you to do that.

GRTV: SO, DO YOU THINK WE'RE GOING TO SEE A GREATER DIVERSITY IN THE REMUNERATION MODELS OFFERED BY LIFE COMPANIES?

Ballantyne: It's hard to say. I think that there was a rapid, "Gosh we've got to get rid of this volume-based incentive". An easy thing is to just put it into commission so now we don't have

any volume-based incentives. I'm guessing. But I suspect that's the case because it's hard to build systems and processes. It's hard if you're not already monitoring something to build a remuneration structure around it. And it's hard to be the first mover. I wonder if, for example, we lead in a number of these ways that it then becomes the norm for the industry because these are things that you can look to and modify to suit your own company as opposed to trying to figure it out from scratch. So, I don't know. And we're not banking on that. We are truly doing what the regulators have asked us to do which is to think about how we use remuneration to incentivise the right things. So that they don't regulate commissions in order to try to achieve ...

GRTV: WELL, THAT'S THE LAST THING THE INDUSTRY WANTS. FINALLY, DEALER GROUPS WERE SET UP ESSENTIALLY FOR AGGREGATION PURPOSES. DO DEALER GROUPS HAVE A FUTURE GOING FORWARD?

Ballantyne: Well, it's the question about the FAP not FAP, right? If a dealer group becomes a FAP, definitely, they have a future going forward. They are now in the advice process. They are taking liability and responsibility for what happens in their organisation.

GRTV: WHICH, THEY DIDN'T DO PREVIOUSLY.

Ballantyne: That's right. Well, they didn't have to. There was no requirement to, and that's a big step, a big amount of money that they need to invest to do that. They will survive provided that they can fund themselves through this transition period because if they haven't already got systems and processes in place then they're going to have to invest in them. So, definitely. In terms of dealer groups that see themselves as service providers, maybe, outside of taking responsibility and liability. So, you can all be your own FAPs, but we'll provide this sort of economies of scale in terms of access to things. Their world might change because as a service provider, generally, you charge the people you're providing the service to. And if those people have got the liability and the responsibility of the licence, then should the money go to those people and they pay out of that for the services that they have to acquire in order to deliver against the requirements? So, it's a big question mark in the industry in terms of how does this all work together? **A**



To watch the full interview, download an audio podcast or to read the full transcript, visit

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NZ funds grows UK pension transfer team

NZ Funds has recently added further UK pension expertise to its Private Wealth team to help with the large volume of UK pension transfers.

Steve Noble has joined the firm's quickly expanding UK pension team. Noble recently moved to New Zealand from the UK where he worked for St James's Place Wealth Management focusing on holistic wealth management, including UK pensions. It was also where he completed his Diploma in Regulated Financial Planning (DipPFS) enabling him to engage with clients to understand their financial objectives and help develop solutions that were fit for purpose.

"Since its launch in



2017, our UK Pension Transfer Service has been a great success and over the last couple of years we have had to add further capacity to handle the increasing number of UK pension transfers we are receiving," NZ Funds' chief client officer Stephan Clark said.

"I'm thrilled to have joined such an innovative Kiwi firm and to be working with a team of such highly skilled investment professionals. My previous experience in the UK will enable me to provide the type of assistance our clients are looking for when they decide to transfer their UK pension to New Zealand, making the process as smooth and trouble-free as possible."

Fisher Funds distribution head moves on

Fisher Funds' head of distribution has resigned.

Chief executive Bruce McLachlan said **Michael Raynes** had resigned in mid-December.

"He has been living in Hamilton and commuting up each week to Auckland for some time now, and he has a brand new member of his family born last year, so he understandably wishes to commit himself to making sure the family arrangements work. His relocating full-time back to Hamilton was not a surprise to anyone and he is moving on with our best wishes."

Raynes has been with Fisher Funds for more than a decade and started as a direct retail sales manager before moving into marketing and then distribution. +

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The butterfly effect

Edward Lorenz' theory is a good analogy for the NZ financial services space at present. Clayton Coplestone expands on where the effects are being felt and what this will mean for the future.

In Edward Lorenz' chaos theory, the butterfly effect can be summarised as a butterfly flapping its wings in New Mexico having the power to cause a hurricane in China. It may take a very long time, but there is a connection between the two events.

In the 2020 New Zealand financial services environment, we are witnessing several trends that will have far reaching implications on the industry and its participants going forward.

We've already seen hints of this through the accounting world, whereby technology has replaced the data-collection and aggregation-process with meaningful advice and planning. This enhances the accountant's existence as the "trusted adviser" to investors going forward, with many accounting firms likely to add wealth management to their expanding list of services. As this technology becomes readily available, consumers will be presented with viable options to gather and appraise and direct their unique wealth management positions "online". This will force the advice industry into differentiating themselves through specialisation and/or providing a modular pricing structure. Add to this a significant market gyration(s) and you will see the days of asset-based pricing quickly replaced with a "you-want-you-pay" structure.

Technology will also challenge any "set-and-forget" adviser pricing structures, whereby the consumer will demand a hands-on relationship in exchange for payment. That adds a layer of complexity for the New Zealand industry, where there currently isn't much in the way of tax or superannuation complexity.

The good news for the industry, is that the continuing downward pressure on interest rates will continue to present both equities and property sectors as the only worthwhile destinations for investment. As domestic equities and (to a lesser extent) property markets continue to break fundamental rules, investors will increasingly

look offshore for diversity and returns.

The knock-on impact in capital markets will be increased difficulties for local companies to raise capital, with increased capital raisings being directed to offshore markets or private equity investors. There are significant repercussions for investors, with over half of the world's debt now receiving negative interest rates. Within capital markets, lower rates raise the cost of equity for banks, making it more efficient for banks to shrink rather than grow. Investors pursuing returns will prefer to allocate increasing amounts of capital to riskier securities within asset classes.

Whilst I'm no economist, I can't help but think that the weight of demographics will continue to support global property and equities markets for the next five or so years – with increased nervousness (reflected in increased market volatility) along the way. After that, the demographic time-bomb will detonate, with the entitlement community demanding that social services be readily available for their needs. Elsewhere, the environment is making it harder for pensions to meet their liabilities, whilst allowing loss-making companies to survive, hogging resources that would be better used by profitable companies. This creates a unique divide between those who have paid for a secure social structure, and those who are still paying. The financial services industry will need to be aware of this moving dynamic, and the new resources that are required to satisfy changing consumer demands. This will include a growing preference for capital preservation, and more elaborate solutions for annuity incomes.

Simply put, consumers will shortly have easier

access to a wide range of wealth management choices, with all industry participants needing to be very deliberate about what their role is, and how they will get paid.

The local funds management community will increasingly tempt consumers to side-step their over-priced advisers and invest with them direct. This will be enhanced through price incentives, a wider range of financial services, and technology gateways to make transitions a bit easier. Whilst the regulator will remain focussed on compressing the advice industry through principal/agency rules, they will struggle to effectively manage and monitor the increased consumption of direct and offshore investment initiatives being provided through technologies. Even today, the various industry watchdogs have little knowledge of just how much has been placed by New Zealand resident investors into offshore collective investment vehicles, with no immediate solutions available to capture this information.

Other butterflies will no doubt arise from the continuing discussions around ESG, with the majority of industry players being forced into complying with these socially acceptable norms. Whilst some charlatans will continue to claim that their approach to ESG is the only way forward, I anticipate that the financial service industry's general adoption and conformity will quickly direct the discussions back to the fundamental premise of "how do you add value to my wealth?". This is a useful segue into the outlook for passive versus active investment styles. In short – passive investing is well entrenched into portfolio

construction and is here to stay. Passive investing is a price argument, and one whereby consumers will enjoy international single-digit pricing as technological gateways improve access. The active/passive debate will continue to put the spotlight on the value proposition of all active managers, with many "actively-priced-passive-performing" managers struggling for survival. Whilst there will be an inevitable departure of active managers who are struggling to add value or differentiate themselves, the active/passive debate will strongly support those active managers who have a unique ability. 





Q&a

WITH CASTLE POINT FUNDS MANAGEMENT

In conjunction with Clayton Coplestone from Heathcote we reached out to advisers to see what questions they would like us to have a crack at answering.

YOU'VE BEEN AWARDED BOUTIQUE FUND MANAGER OF THE YEAR, WHAT MAKES YOU STAND OUT FROM THE CROWD?

It was great to win that award, but it was even better to win the Australasian Equity Manager of the Year which was a completely open category. What sets us aside is our genuinely long-term approach to investing, which is evidenced by our low turnover. We don't try to trade stocks, we look for companies with a lot of potential, buy them and hold them.

AS A BOUTIQUE, WHAT ADVANTAGES/DISADVANTAGES DOES THIS BRING?

Being a proper boutique manager is a huge advantage versus our peers. We can look at micro caps and mega caps with a view to taking meaningful positions in either. On the flipside there are no real disadvantages to being a boutique. Overall we can just focus on delivering good returns to our clients.

WHAT'S WORKED WELL FOR YOU IN TERMS OF REWARD FOR CLIENTS?

We've been fortunate to have some good and patient wins for our clients over the past six-plus years. Highlights include Afterpay, a2 Milk, Kogan.com, Corporate Travel Management, Wellcom Group, Vista Group and Scott Technology, all of whom delivered over 100% returns.

WHAT HASN'T WORKED FOR YOU AND WHAT HAVE YOU LEARNED FROM THIS EXPERIENCE TO IMPROVE OUTCOMES FOR ALL STAKEHOLDERS?

Of course, we've had our howlers as well. Slater and Gordon being the main one, sadly we lost 94% of our investment

“ We've been fortunate to have some good and patient wins for our clients over the past six-plus years. ”

in that company. We spent a great deal of time reviewing that mistake and it led to enhancements to both our research process and our portfolio construction methodology. That won't mean mistakes won't happen again but as long as they are not the same ones, progress is being made.

WHAT'S THE CORRELATION OF FEES TO YOUR OFFERING AND WHAT IS THE MAIN CONSIDERATION WHEN EVALUATING THESE?

We believe fees should be aligned with long-term performance. Our Trans-Tasman Fund is benchmarked against the S&P NZX 50 and has a base fee only. Our Ranger Fund is a more aggressive fund with an absolute return benchmark and has a base and performance fee. Since inception these funds have outperformed their benchmarks and the relevant market indices.

DO YOU THINK THEMES ARE IMPORTANT, FOR EXAMPLE GLOBAL FOODS, WATER?

This is a very good question because it elicits a yes and no answer. We are not thematic investors, rather we look for specific company dynamics that have the potential for significant growth in earnings. However, we review the exposure at a fund level to

see if exposure to a theme or particular driver have occurred. Where we feel that is a sensible exposure we may not take measures to actively reduce that factor, for example in the past couple of years our exposure to "big data" has increased and we are comfortable with that. Although we did not set out to have a "big data" play. Additionally, it is important to us that the companies we invest in consider social responsibilities.

HOW HAS COMPLIANCE AFFECTED YOUR BUSINESS, IS THIS A HELP OR A HINDERANCE AND DO YOU THINK THERE IS OVERCOMPLIANCE OCCURRING TO THE DETRIMENT OR BENEFIT OF THE INVESTOR?

Two-part answer. It's good that clients now have assurance that a vigilant regulator oversees our industry. However, going from an unregulated situation where Ross Asset Management could occur, to a regulated one creates the potential for a "one extreme to the other" dynamic. Overall though, it is settling down and we operate in a far better industry compared to 10 years ago.

WHAT ARE YOUR MACRO/MICRO THOUGHTS FOR PERFORMANCE OVER THE NEXT 12 MONTHS TO THREE YEARS?

Ultimately this is all about rising interest rates which will be affected by government policy. What is going to happen the next time 10-year US Treasuries get to a yield of 3.25%? The last time was in October 2018 and that didn't go well. But the reality is that at some point the world will have to like it or lump it, when it comes to higher interest rates. Our approach is to avoid bond proxy exposures and have some downside protection, in the form of listed ASX put options, in case the markets melt down again.

ALLAN GRAY

CONTRARIAN INVESTING

LESS FOLLOWING THE PACK.
MORE CONVICTION.



INVESTMENTS AND SUPERANNUATION

Q&a

WITH DAINTREE CAPITAL DIRECTORS MARK MITCHELL AND JUSTIN TYLER

WHY DO YOU TAKE AN ACTIVE APPROACH TO FIXED INCOME INVESTING?

As most people would be aware there has been a significant increase in the amount of money being invested in passive strategies in recent years, especially in the equity space. While we believe the data supports looking at passive exposures in certain large capitalisation equity markets, we believe this doesn't make a lot of sense in fixed income markets, especially given the absolute low level of interest rates. The fixed income markets are very large and very diverse. There is no one index that does a good job of representing that investable universe. Any passive strategy which replicates a simple fixed income index is going to be sub-optimal.

Another challenge is that it is very easy to outperform an index in the fixed income world by simply buying assets that yield more than the assets in the index, including those that are not in the underlying index.

And perhaps most importantly, the vast majority of passive fixed income products are run against indices that have long duration exposures which means they have done pretty well as a result of the forty-year bull market in bonds. However, we don't believe they will do anywhere near as well over the next decade given the absolute low level of interest rates. Some would say they have gone from a "risk free return" to "return free risk".

HOW CAN YOU TELL IF A FUND IS TRULY DEFENSIVE?

Well the first thing you must determine is exactly what you mean by "defensive". Some people invest in fixed income products primarily because they view them as a hedge against the equity risk in their portfolio. "If my equities go down my bonds will help cushion the blow." Over the past twenty years or so that has generally been a reasonable assumption, but it's not always the case and as interest rates have got lower, the effectiveness of that hedging has diminished. So, in simple terms if

“ Any passive strategy which replicates a simple fixed income index is going to be sub-optimal. ”

your goal is purely to hedge equity risk in a diversified portfolio then having a longish duration (three to five years) fund makes




some sense. But be aware that longer duration exposure comes with interest rate risk that will cause those funds to perform poorly if interest rates rise.

Standard measures of risk such as volatility, average credit ratings, drawdowns and percent negative months can all provide investors with a rough indication of the amount of risk being taken but they are far from perfect. These measures are close to meaningless if the assets being purchased are not marked to market and sometimes higher volatility is not necessarily equivalent to higher risk if the volatility is skewed toward positive returns.

MY FIXED INCOME MANAGER IS RIGHT DOWN THE STREET. WHY WOULD I INVEST WITH AN OFFSHORE MANAGER?

While New Zealand has some amazing things on offer, unfortunately it does not have a large or diverse bond market and the yields of the bonds on offer are lower than comparable bonds offshore. Investing in fixed income is very different to investing in equities, because there is very little prospect of a significant increase in capital prices. For the most part you just get your capital back at maturity and coupon along the way. Which means you need to be very well diversified because if any one name blows up it can cause significant damage to your portfolio. This is also why building a direct bond portfolio as an individual can be challenging unless you have enough money to build a portfolio of 70-100+ issuers yourself which most of us do not.

Another challenge with just looking locally, is that most of the products on offer tend to be run as both benchmark aware and with long duration. As we've highlighted, we believe these strategies make a lot less sense now than they have in the past. And good historical performance can be very misleading as to what future performance will look like.

If investors are looking for income focused strategies that protect capital without taking significant interest risk, we believe they might want to consider conservative absolute return strategies such as those available at Daintree. 

Fixed income - never sit still

Daintree is a boutique investment management firm specialising in building fixed income portfolios.

Daintree's core investment philosophy is based on an obsession with capital preservation, risk mitigation and reliable income generation.

Daintree believes that its clients should achieve good results from their fixed income portfolio in most market environments.



Daintree
CAPITAL

Fund Characteristics	Daintree Core Income Trust (NZD)	Daintree High Income Trust (NZD)
Return Target	RBNZ Cash Rate + 2.00% – 2.50% after fees	RBNZ Cash Rate + 3.00% – 4.00% after fees
Fees (PA)	0.50%	0.75%
Liquidity	Daily	Daily
Suggested Time Frame	3 years	3 to 5 years
Allowed Duration Range	-1 to +3 years	-2 to +4 years
Average Credit Quality	A/A-	BBB+/BBB
Distribution Frequency	Monthly	Monthly



Why invest in the Core Income Trust

- Excellent diversification
- Multiple sources of return
- Better return than TDs with daily liquidity



Why invest in the High Income Trust

- Investors seeking higher return who can tolerate greater market volatility
- Clients who have a longer term investment horizon
- Individuals seeking reduction in equity risk

PLATFORMS

The Daintree Core Income Trust (NZD) and High Income Trust (NZD) are available on the following platforms:

- FNZ
- FINZO
- Aegis

CONTACT US

Distribution Partner
Heathcote Investment Partners
Clayton Coplestone

Email: clayton@heathcoteinvestment.com

Phone: +6421 410 815

Website: www.daintreecapital.com.au

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By Susan Edmunds

Middleton moves Conrad name into funds management

It's been associated with apartment development – but Conrad Funds Management's chief executive is keen for advisers to understand it offers investment fund opportunities too.

When you hear the name Conrad, you probably think of apartment development.

But Conrad Funds Management Ltd's chief executive is working to change that – including tapping into the investment adviser market to make its presence known.

Chief executive Patrick Middleton became involved with CFML in 2016.

Conrad is better known in New Zealand as Conrad Properties, an apartment developer that dominates in Auckland and around the country.

But Middleton said, in the process of building those apartments, the company had been asked by many offshore buyers whether, if they were buying an apartment off the plans, that would satisfy the investment requirements for immigration.

"For a number of years the answer was no but then they

[Conrad Properties] started to think is there something we should look at in relation to that."

Middleton was brought on to establish a fund management business as a separate entity. While based in Ashburton, he commutes to Auckland each week for the role.

Initially CFML set up funds with off-the-plan apartments as the underlying assets. But over time the feedback made it obvious that it was complicated and so it was parked.

Instead CFML created a new structure where investors were set up with a company to purchase apartments. Then, with an eye on diversification, it also launched a mortgage fund in 2018, first as a wholesale fund and then for retail investors in March 2019. He said the fund manager had wanted to make sure it was the right product for the market before taking it to the retail markets. "Part of that was looking at the competition in the market. FMT is very successful with their product and Midlands Mortgage Trust. With all the work we were doing we thought we might as well go to retail."

The fund reported a 4.92% return for the September 2019 quarter. It also has a long-term funding facility from Westpac which allows it to continue to be in the market to supply funding, no matter how much is coming in from private investors.

He said the fund management business had passed through its growth phase and was now in a position where it was nicely established so it

could "get on and incrementally grow". There are now seven full-time staff and compliance is outsourced.

CFML started working with investment advisers in the middle of last year. It was part of a roadshow with Heathcote, which Middleton said was designed to obtain feedback from, and exposure to, the adviser market.

But he said he expected advisers would want to see fund managers with a track record of at least three years. "We've touched advisers to say we're here, we've got a product here. In time we'd like to get on the platforms. We've had discussions with FNZ, Aegis and the NZX platform. It's chicken and egg, we need to get the support of advisers before we put ourselves on a platform but we do need another 12 months' track record so it sits comfortable to take to an investment committee."

A "handful" of advisers had signed up for regular updates from CFML, he said, and were starting to originate business. It also has a relationship with Syndex.

Middleton said, with term deposit rates so low, most advisers would be looking for alternatives for their clients. There would also need to be an online distribution element, he said. "If you are not thinking about some form of online strategy in your distribution strategy you'll probably get caught out as the years go by."

He is familiar with the adviser space: Middleton started his career in financial services, in New Zealand, in lending and was involved with AMP before moving on to roles with Spicer and as head of wealth management at Westpac Bank. He was chief executive of Perpetual, then spent a couple of years consulting in the agricultural sector



Patrick Middleton

before moving to CFML.

He said it seemed likely there would be more consolidation of the financial advice market into the future as it went through a period of significant change. The Spicer brand is no longer in the market. "My experience in my time at Spicers was that we were what I would have called a semi-corporatised model. There are benefits to advisers of having national office support on compliance systems and marketing."

Advisers also had to contend with people wanting or needing advice but not necessarily being willing to pay for it, he said. "That challenge has been there all the time and I don't think it will go away. I don't know what the solution is to it."

People tended to only look at the returns they were getting, he said, and if things started to slip, would ask what value they were getting from advice. "Individuals can do well but it's a problem across the sector."

Advice would become more important as rates remained low, he said. "We've seen cycles where New Zealanders have chased rates without understanding the risks associated with that. We have to be careful with the cycle we're going into, with near record low interest rates, how do people get that advice and understand what they're going into?"

Middleton said organisations such as Forsyth Barr, Craigs Investment Partners and Hobson Wealth all had good structures that allowed them to flourish. But he said the biggest changes were likely to come in

the bank space as a result of changes from the Royal Commission in Australia relating to management of vertically integrated organisations. "I think that all the banks in New Zealand will be looking at their models."

Middleton said he was drawn to the job because he liked the challenge of a start-up and being able to use his experience and knowledge to establish funds. The business is boutique and niche which gave flexibility, he said. "We're not managing 30, 40, 50 staff. There's a small number of staff and we're just quietly sitting under the radar doing what we need to do, building a boutique business. It's one of those things where it's nice to do what you know but do it in a different way."

Being a "people person" made financial services a good fit for him, he said. "I like working with good people."

New Zealand's funds management sector was in good shape, he said. "What has been a major change for New Zealand is KiwiSaver. Until that, funds management was in good shape but it was hard to get a lot of incremental growth."

Now New Zealanders were putting more money aside and new fund managers were entering the market with new KiwiSaver funds launching. "It's quite an exciting time. We're a bit like Australia when it started with compulsory superannuation. The next 15 to 20 years will be exciting times."


He said it was a tough market in which to compete for investor money – as well as other fund managers, there was New Zealanders' propensity to put their money

“ With all the work we were doing we thought we might as well go to retail. ”

into property.

People also liked to have money in the bank, he said, particularly if they had lived through a couple of economic cycles and experienced a severe downturn. But he said CFML was offering a product that was only intended to be a small part of people's portfolio.

In time CFML might look at other funds, he said, but at the moment was focused on residential mortgages. "We might look at other products down the track if we felt the investment was appropriate ... at this stage we are sticking to our knitting."

Middleton said he was looking forward to the continued growth of the firm. But he'll keep commuting back to his rural lifestyle in Ashburton. "We've got five acres of parkland and gardens, I'm keen on playing in that and spending time with my wife and sons. For me, once I get on the plane and get down there, it's nice to switch off. It's a totally different environment to Auckland. The people in the office look at me a little strangely when I say I'll probably go to the supermarket in my gumboots this weekend." 



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*Past performance is not an indication of future performance.

What lies ahead in 2020?

**Members of the AMP Capital investment
team give their views on key economic
and investment themes for 2020.**

Key economic themes **FOR 2020**

By: Bevan Graham, Managing Director and Chief Economist

The combination of easier monetary conditions that were implemented in many countries in 2019, along with the beginnings of an easing in trade tensions, should see some stabilisation in global growth in 2020.

We see global growth of 3.2% in 2020, up from an estimated 3.0% in 2019, though that improvement comes from emerging markets (particularly India).

Risks are evenly balanced. Continued improvement in trade relations leading to improved business confidence and higher business investment could see growth surprise on the upside. However, if business sentiment remains soft and business investment doesn't pick up, the risk of industrial weakness remaining depressed with a spill-over into the broader economy could see growth disappoint.

Among the key developed economies, we expect slightly lower growth in the US this year at 2.1%, down from an estimated 2.4% in 2019. Importantly that's still ahead of its non-inflationary potential which we put at around 1.8%. It is also well above the recession that was often feared through the course of 2019. After a record length economic expansion, it has been tempting for some analysts to predict the imminent arrival of the next US recession. We continue to see little sign of recession in the US. As we've said before, economic expansions don't die of old age. Economic expansions typically end via an exogenous shock (which we are not in the habit of predicting) or a build-up of imbalances in the economy, none of which we are seeing right now.

The post-GFC period has seen monetary policy do all the stimulus heavy-lifting,

especially as a number of countries, most notably in Europe, imposed fiscal austerity measures. This has seen unconventional tools, such as quantitative easing, become conventional, and it is only in the United States that any real progress has been made towards monetary policy normalisation. The stimulus baton now needs to pass to fiscal policy, though that too remains constrained in many countries. 2020 will provide a real-time experiment in the extent fiscal easing can in fact be implemented, with the UK as a key laboratory as its government has signalled major spending initiatives intended to offset the contractionary impulse from Brexit disruptions.

“ Politically, risks to the global outlook are still skewed slightly to the downside. ”

We expect growth will be modestly higher in the Eurozone, mostly driven by a recovery in Germany, and in the United Kingdom as Brexit anxiety, though not the reality, unwinds. For a number of years, the Eurozone has been able to rely on the strength of Germany to see it through to modest economic growth. Despite all of the warnings from the Eurozone debt crisis, there is still a remarkable lack of consistency in approach towards the use of fiscal policy across the region.

Politically, risks to the global outlook are still skewed slightly to the downside. If the cease-fire in the trade war holds, other parts of the world are still contributing to geopolitical uncertainty. Tensions between



Bevan
Graham

Iran, the US and Saudi Arabia are high with Iran backing insurgents in Iraq who attacked the US embassy in Baghdad, triggering a sharp US response with drone strikes in early 2020 and the tragic loss of a civilian airliner in the Iranian counter-strike. Expect more unnerving incidents in the Middle East. Elections this year in the US, South Korea, Hong Kong and even Iran could potentially trigger a shift in delicate power balances.

GDP growth is reaching what we think will be a localised low point of just under 2% per annum which will be achieved with the release of December quarter GDP. 2020 will see modestly higher growth off the back of accommodative monetary conditions, fiscal expansion, an improvement in global growth, and stabilisation/recovery in business confidence. That said we are not expecting a significant rebound in growth but rather a temporary blip higher in an overall picture of growth trending lower as this very long cycle continues to mature. With that picture of stabilisation comes an expectation that after cutting interest rates by a total of 75 basis points over May to August, monetary policy is now on hold for the foreseeable future as fiscal policy steps up to support late-cycle activity levels.

Asset markets IN 2020

By: Greg Fleming, Head of Investment Strategy

2019 was an extraordinarily strong year for investment assets around the world. Despite mid-year market qualms about recession risks which did not eventuate, equity investors focused on the positives and were well-rewarded.

Many major share markets, listed property and infrastructure returned between 20%-30% for the full year, while key bond markets also experienced returns in a 5%-8% range. This outcome was made possible despite a range of serious geopolitical risks, due to the still-benevolent inflation environment, accommodative central banks, and the willingness by investors to look forward to a recovery in corporate profits in the course of 2020.

So, there is considerable optimism on a number of fronts reflected in asset prices as this year gets underway. For another year of better-than-average returns to unfold, certain conditions have to be fulfilled to preserve the bullish mood:

- A gradual recovery in international growth and, ideally, evidence that international trade volumes have found a bottom.
- Greater clarity on trade wars and tariff tensions. Investors need to know whether the last year's frictions were an anomaly, or are set to become the new normal.
- Demonstrable progress on geopolitical "danger zones" like the Gulf, transition to Brexit, China/Hong Kong and the US November election.
- Quiescent inflation, even with very tight labour markets and rising energy prices likely to remain all year.

Given the moderately improving economic outlook, inflation risks look underappreciated. While this continues, long-duration assets



Greg Fleming

such as property and infrastructure can continue to do well. All the same, any surprise on the upside from inflation would limit the sort of gains seen last year being repeated. The silver lining is that central banks appear very tolerant and asset-supportive at present.

Quality real assets with good cash flows that provide some inflation hedging will still perform. Cyclical, non-US and emerging market shares are likely to outperform, if the US dollar declines further, as we expect. Expensive markets like New Zealand could be challenged.

This leaves us with a modestly pro-growth asset stance overall, though we are alert to the potential for reversals. In fact, the resumption of "Goldilocks" investment conditions in the latter part of last year raises some risk that

we now see a final "euphoric" overshoot rally, driving already-expensive assets into a more dangerously overvalued zone.

If a bullish climax unfolds in the first half of 2020, we would have concern that it may not be a long-term price appreciation but rather a transitory period of asset exuberance vulnerable to disruptions. Given where the world is at the moment, the "pin" capable of pricking any bubbles that form is likely to be political. An election upset, a military showdown escalating, a debt default or a climate shock might serve this purpose, though none of these are predictable events. In sum remain cautiously optimistic but be ready to reduce riskier exposures quickly in the event of shocks that will test traditional portfolio resilience.

NZ fixed income outlook

By: Vicky Hyde-Smith, Head of NZ Fixed Income

2019 was another solid year for NZ fixed income with falling global bond yields and RBNZ rate cuts combining to stoke portfolio returns.

We're not expecting a repeat in 2020, with global bond yields likely past their nadir and with the bar to RBNZ rate cuts somewhat higher in response to an improved economic backdrop. Indeed, we've been gradually reducing long-duration and curve-flattening positions in our fixed income portfolios in recent quarters.

Global data has stabilised in recent months (albeit at low levels) after some speed bumps in 2019. Downside tail risks arising from US/China trade tensions and a hard Brexit have also dissipated, yet the global economy is by no means out of the woods with the outlook remaining sub-par. Global inflation pressures also remain muted and as such we expect the US Federal Reserve to keep interest rates on hold ahead of the November election, helping anchor long-end bond yields and allowing portfolios to eke out positive returns.

Easier monetary policy settings are underpinning sentiment and should continue to support risk markets the likes of equities and credit in 2020. That's not to say bouts of volatility won't occur in the year ahead, and we're cognisant that credit spreads are close to post-GFC lows, despite relatively soft macro fundamentals globally and event risks.

The domestic economy cycle is also looking a little long in the tooth after a decade of expansion, but there's increasing evidence that easier monetary conditions are now supporting a late-cycle boost in business sentiment, house prices and export prices. These cyclical improvements are likely to keep the RBNZ on hold in 2020, which should see NZ bond yields largely range-bound.

Downside risks to interest rates could arrive in the form of further New Zealand

“ Global data has stabilised in recent months (albeit at low levels) after some speed bumps in 2019. ”

dollar strength, potential tightening in credit conditions in response to increased bank capital, and if rate cuts in Australia were to impact New Zealand market expectations. Upside risks could stem from a spike in

house prices, additional fiscal stimulus come the May Budget and/or the possibility of higher than expected inflation – something our portfolios are positioned for with an overweight to inflation-indexed linked bonds.

In New Zealand a resurgence of securitised and subordinated bank issuance later in the year following recent RBNZ bank capital and liquidity policy changes has the potential to alter the relative attractiveness of some corporate bonds. We're expecting to see value in early Tier 2 issuance from the local banks, especially with equity buffers increasing. We also see opportunity for return-enhancement from issuance of bank Residential Mortgage Obligations (RMOs) potentially later in the year.



Vicky Hyde-Smith

Secular tailwinds in infrastructure investment

By: Joseph Titmus, Portfolio Manager/Analyst, Global Listed Infrastructure

The outlook for global listed infrastructure in 2020 remains positive, supported by economic activity and industry-wide secular investment tailwinds. With the asset class having now returned around 10% pa over the past decade, we remain confident that it will continue to perform well as investors seek liquid defensive assets with above-market yield.

A number of key trends will affect the performance of the underlying sectors within the asset class.

In the energy sector the US shale gas revolution continues to support strong volume growth in North America. Efforts to reduce carbon emissions have seen developing economies' LNG imports surge, and supply investment is thus needed on a global basis to facilitate the increasing demand for cheap gas. Management teams are focused on executing the most attractive projects, further deleveraging the balance sheets, improving ROIC while solidifying the move to self-funding/retained cash flow model. Additionally, we see North American oil production outpacing takeaway capacity due to the years of delay in building new pipelines, and the value of storage assets, particularly in Canada, continuing to increase on the back of this bottleneck.

Although cautious on the utilities sector, we see opportunities in the North American transmission and distribution sector, with drivers such as renewables; grid modernisation; safety and security; and electric vehicles representing a secular tailwind for infrastructure investments. Elsewhere, we continue to find value in European and UK utilities as we believe the regulatory and political concerns that have impacted the sector over the last two years are overstated, while the sector is benefiting from structural trends that support investment.

“ In transportation, 2020 is likely to be among the weakest years in the past ten for traffic growth in the airport industry. ”

We still favour the communication sector on the back of strong secular tailwind, and expect to see increased activity around 5G in 2020 as the race between countries and between carriers accelerates. CapEx spends are likely to increase as new spectrum and antenna technologies are deployed in order to build functionality, as well as increase speeds



Joseph Titmus

and capacity on the network. Within the sector we favour European and developing economies' assets over the US due to more supportive valuations.

In transportation, 2020 is likely to be among the weakest years in the past ten for traffic growth in the airport industry. This is driven by more challenging economic conditions, airlines proactively reducing capacity, and the knock-on effects of the grounding of the 737MAX (one of the biggest contributors to global airline capacity growth). Non-aeronautical activity threatens to remain muted as high spending nations (principally China) turn their focus to spending "onshore". Despite this muted outlook, we continue to focus on airports that offer attractive value where there are idiosyncratic factors which have caused investors to stay away in 2019. In the toll road space, we expect more predictable, but slower, growth across the board.

Emerging trends in real estate

By: James Maydew, Head of Global Listed Real Estate

In 2019 we expected listed real estate to continue to play an important role for investors who use the asset class for a defensive equity allocation.

Looking into 2020, this view is unchanged, especially as rates have continued to fall precipitously and investors seek duration, income and lower volatility. We still see geopolitical challenges globally, especially around a resolution to the US/China tension and instability in Hong Kong, and importantly a US election to work through in November 2020. Taking all of this into consideration, listed real estate will continue to prove an attractive asset class, where the fundamentals of supply and demand remain intact and the overall cost of capital is supported by accommodative policy.

Investors continue to allocate more and more capital towards long-term structural trends and alternative real estate sectors, including data proliferation, fresh food growth, e-commerce and demographics. We expect to see further interest in 2020, although are cognisant that valuation in some of these areas is further extended relative to 2019 and history.

With fresh food growth we have both the consumer and governments globally pursuing a healthier lifestyle, leading to improved eating habits and behaviour. This will continue to underpin one of the newest standalone REIT sectors to appear in recent years which is the cold storage business model, including the storage, management and distribution of perishable goods. An attraction of the sector is its consistent cash flows and resilience through economic downturns, as consumption of fresh food is a need not a want, underpinned by a growing global population.

In the US, the Gen Y cohort are in the process of overtaking the "baby boomers", to become the largest population demographic. Gen Z, or those born between 1997 and 2012, make up nearly 20% of the US population, and in 2034 will become the country's largest cohort.

This is a tremendously interesting dynamic for many sectors as consumption habits evolve, especially data use, 5G, e-commerce penetration and dwelling formation.

An asset class that is greatly impacted is another new(ish) REIT sector, Single Family Residential (SFRs). As baby boomers' retirement accelerates and they sell the family home, the purchase take-up from Gen Y and Z is unlikely to match the supply given consumption habits are likely to continue to shift to having more flexibility and hence renting increase. SFRs are 40% of the rental market, but institutional investors own less than 2% of the approximate 15 million stock of SFR units. So if they can buy a small fraction of the homes that come to market, this has the potential for an explosive growth in the asset class.

As the number of baby boomer retirees increases, a slow, long-term trend is unfolding and we will see greater demand for goods and services that assist their changing lifestyles,

“ With fresh food growth we have both the consumer and governments globally pursuing a healthier lifestyle, leading to improved eating habits and behaviour. ”

including the increasing need for healthcare services. With an ageing population, continued pressure on existing healthcare infrastructure is a significant long-term tailwind for real estate owners that offer high-quality healthcare facilities matching this demand.

James Maydew



The power of disruption

By: Andy Gardner, Investment Manager, Global Equities

Investing in “disruption” has become topic de jour in equity markets in recent years.

This is understandable given that structural shifts, fuelled by technology, are creating opportunities for disruptive companies to take market share or create new markets. However, as high-profile examples like WeWork demonstrate, investing in disruption alone is not a recipe for success.

“ As high-profile examples like WeWork demonstrate, investing in disruption alone is not a recipe for success. ”

Technology has accelerated the pace of change, but the concept of disruption is not new – it is simply a modern-day term for a long-standing phenomenon that has underpinned economic development for centuries. It is a structural change or shift in the economy derived from a product, process

or service innovation that alters an existing market or creates a new one. Often it disrupts an existing profit pool and can displace the established incumbent firms who invariably become the donors of economic rents to the disruptor.

For every winner of a profit pool shift there must also be a loser and this is why it is crucial to understand structural shifts in the economy. Being on the right side of the shift can be a useful tailwind to profit growth and value creation, while being on the wrong side can be very painful – as many offline retailers (and their shareholders) have discovered to their cost.

Nevertheless, being positively exposed to structural shifts does not in itself define a sound investment. Far from it – it is perfectly possible to be an unprofitable disruptor with disastrous outcomes for shareholders. To be successful, investment must combine a structural growth opportunity with an enduring competitive advantage and solid stewardship.

Identifying a winning disruptor involves analysing the trajectory and certainty of cash flows, as successful companies (and successful investments) are those that can be relied upon to generate a persistently high sustainable cash flow from their assets over many years. Investors should consider companies that have a growing market for



Andy Gardner

their products and services, and avoid those that are negatively exposed to disruption as profit pools shift away from them.

The most important requirement of all is to generate high and sustainable returns on capital over a long timeframe. This is a function of possessing a substantial competitive advantage, strong capital allocation decision making, and certainty of demand. Only when all these components are aligned with a structural tailwind to growth, is the magic of compounding and a genuinely great investment unlocked. Failure on any of those fronts can have significant and costly consequences. +

FURTHER INFORMATION

All of the contributors to this article will be speaking at AMP Capital's Investment Outlook 2020 roadshow being held around the country in February. For further information on these events, please email ampcapitalnz@ampcapital.com.

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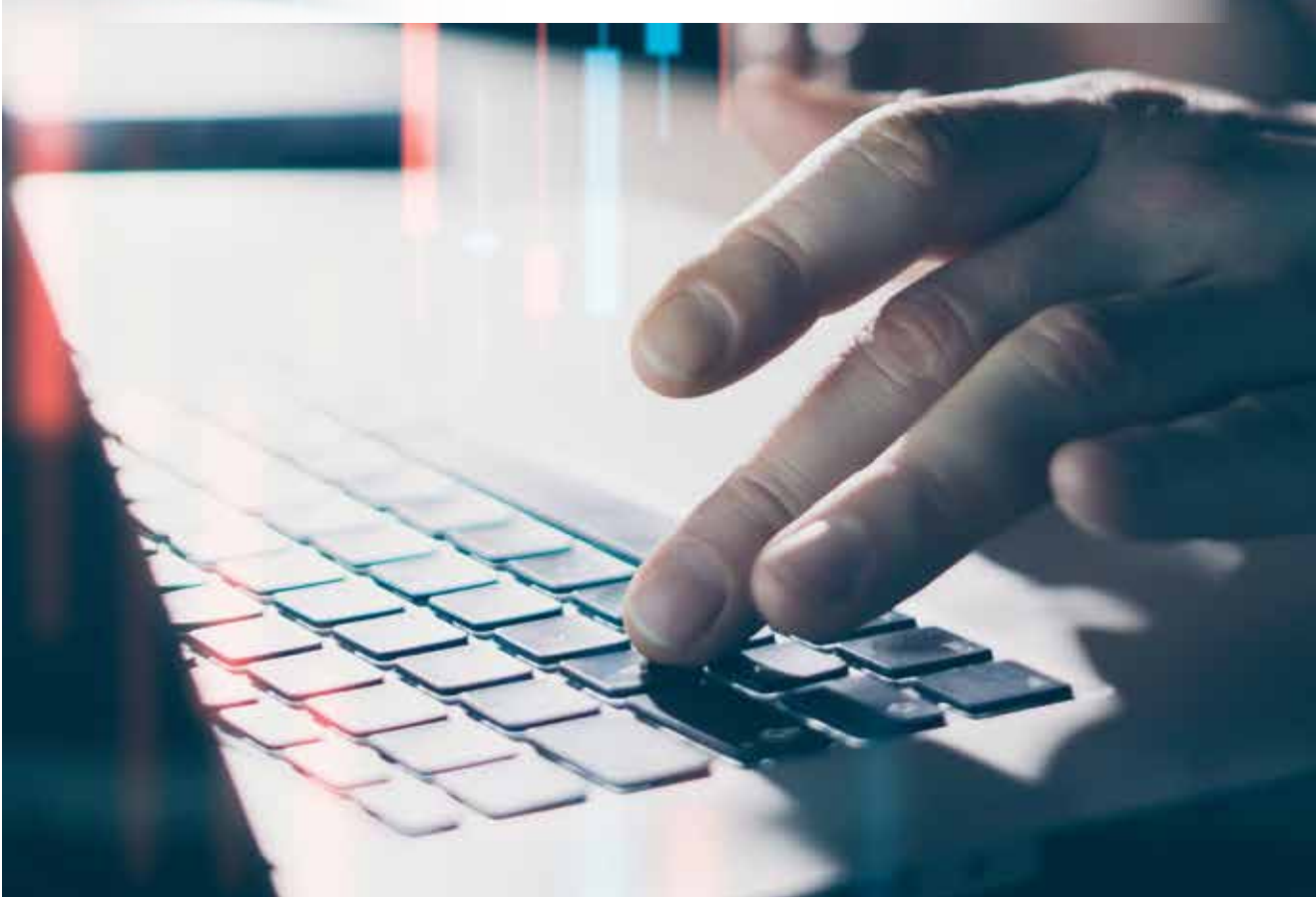
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By Steve Burgess



How to get ready for **ADVISER REGULATION**

Steve Burgess from the Compliance Refinery has put together a guide to help advisers plan for licensing this year.



1ST QUARTER 2020

Already completed actions:

- You should have made a decision to become a FAP or looked for a FAP to join.
- You should have applied for your transitional licence in this period of time or be in a group that is applying for theirs.

Options:

1. If you are going to be a FAP: You should be well on your way to becoming a FAP at this point. If you are not half way there, get active now.
2. If you are joining a FAP: Ensure the FAP is stable, has a strong plan that instils confidence and has the realistic capability to deliver on their promises. If the FAP falls down close to or just after June 2020 and you don't have a home you also don't have a business and might not have an income. Be a part of the conversations and planning.
3. If you are using the transitional licence as a placeholder: Be very careful, come June 2020 you have to be up and running. The luxury of this strategy is starting to end with the realisation that you probably don't have the resources and time to get across the line to become a FAP by June 2020.

Commercial considerations:

Product providers will be impacted by the new conduct legislation. This will impact how they interact with their distribution channels. This is an unknown at the moment but they could decide they don't want to have arrangements with less productive FAPs or FAPs that do not meet certain criteria.

If you are in a dealer group or waiting for a dealer group to assist you with your process you should look at the resources available to assist you within the group to determine how much help they will be able to be.

Being a member of two FAPs: Although this is allowed, FAPs will have to decide and agree how this arrangement would work. It would be difficult to see larger FAPs supporting this as they would have many arrangements to manage which would be a risk in itself and add costs to each FAP.

Potential Risks: Time is short, if you have not made a decision you risk not being in a position to meet the standards on June 29, 2020. This creates significant potential risks to your business. You need to either have a good plan, secured resources and the capital to achieve being a FAP or confidence that the FAP you are going to join does.

There has not been a significant number of larger FAPs form, those looking for a home might struggle to find one.

2ND QUARTER 2020

If you have a strong plan in place and have prepared thoroughly for your next step you are probably very relaxed and have little effort to put forth in this period. Transitional licences will stop being granted at the end of this period and the Financial Advisers Act will be XXXXXX.

Options: If you have not made a decision by now you are in trouble. Your options can be open, but the average business will have to put in a lot of resources to get across the line to become a FAP. You have three months to meet the

required standards in the new legislation. This will not be an easy task.

If you are looking for a FAP, ensure that FAP has matured its plan to become a FAP and will meet the requirements.

Potential risks:

If you are not in a FAP or haven't been granted a transitional licence by the end of this period you have essentially exited the industry.

If you have a home ensure you are confident that leadership group can deliver on becoming a FAP.

3RD QUARTER 2020 AND BEYOND – TIME'S UP – WELCOME TO THE NEW REGIME!

Welcome to the new code and legislative requirements that the FMA will use to oversee you. You are now being held to a new standard and have to be prepared to meet it. At this stage you should have a plan in place to apply for your FAP licence and will continue to operate as a FAP or within a FAP.

Key risks: If you have not met or are not meeting the standard after getting your transitional licence you are taking significant risks with your business, including:

- The FMA reviewing your business and potentially limiting your ability to operate. If this happens product providers could step in and take over your book.
- If a product provider realises your systems and processes are inadequate you could risk losing relationships with them and your income from them.
- Businesses not operating within the required standard could see the value of their book decrease as they will present compliance risks or undue time to bringing them up to standard.

HOW ARE DEALER GROUPS IMPACTED?

Dealer groups are commercial entities that operate a business model. Usually that model involves getting overrides from product providers for nominal services provided to advisers which usually include a conference and a few other basic services. Product providers are going to be looking for client value for the override paid in the future, this will drastically alter the business model of current dealer groups. In a number of cases they have to decide what their future looks like, some have proposed a service model, which will be a significant change from their previous business model and a large transition. Watch this space, expect a lot of change and some key entrants to exit the industry.

THE NEXT SHOE TO DROP

Financial advisers will be impacted by the conduct legislation being implemented across banks and insurers. This will alter how your FAP interacts with product providers. You can expect to see changes in overrides, commission amounts and structures, incentives and the oversight product providers have over your FAP. There is a lot unknowns in this space, but with more change comes more opportunity. Those businesses that have great processes will be able to grow and mature more effectively as the industry continues to change.

Be prepared. **A**



Steve Burgess



Lower returns: impacts for fund managers

This is the third of a three-part series which looks at the strategic and material changes occurring to investment returns; the implications for investors, investment advice and the businesses of investment advisers and fund managers.



THE FUND MANAGER REVENUE SQUEEZE

In my previous articles in this "life after death" series I have outlined how the coming lower return world will challenge both investors and their advisers. While there are options for investors and advisers to mitigate the negative implications of the trend to lower long-term returns, I'm not so sure there is the same flexibility in some funds management businesses to adapt at the pace likely to be required.

Here is my review of the investment environment for the near future.

First, lower interest rates and investment yields will cause a collapse of returns (versus that of the past decade) especially in lower risk client portfolios and funds (frankly anything below "growth"). The search for investor yield/return will drive a surge of interest and a greater understanding of the primary factor outside of low investment risk which diminishes returns; intermediary costs.

Intermediary costs include brokerage, fund manager fees, advice fees, entry and exit costs, bid/offer spreads, FX fees, exchange fees ... and probably a few more hidden outside of the obvious.

Secondly, there will be a surge in financial literacy. This will be driven by the need to know more about investing for retirement and easier access to information made available via publicly funded information bases like the Sorted website.

Thirdly, while the vast bulk of New Zealanders are yet to use a financial adviser, rising KiwiSaver balances and lower bank deposit rates will fuel the demand for expert advice ... at an acceptable price.

So while I do expect the semi-expert "DIY segment" of the market will grow, investment advisers (the independent ones) will have an increasingly important role to play in directing investor capital to securities and funds management offerings.

The great returns of the decade since the global financial crisis have enabled large segments of the investment fund industry to sustain fees and overall cost levels which I strongly believe will be unsustainable in the future.

THE ROLE OF GOVERNMENT IN GROWING INVESTMENT LITERACY

While financial experts might say the government's financial website, Sorted, carries limited and often dated information, it is an independent, easy to use source of basic data to help investors know more about their investment options, either in KiwiSaver or non KiwiSaver funds. Most importantly it is TRUSTED as an information intermediary.

In a financial world increasingly starved of

“ I continue to be astonished at the number of investment advisers who stick with high cost and/or poor performing fund solutions for their clients. ”

returns, the absolute and comparative data in such websites will become more and more influential in investor and adviser decisions. This will also be supported by the increasingly digitally savvy investor population.

Across the Tasman, the superannuation regulator, APRA, is about to launch the MySuper "Heatmap". This is set to be a "powerful tool" of public exposure to name and shame, effectively burning MySuper funds that are deemed to be underperforming according to APRA's intense analysis."

We eagerly await the same to be launched here in New Zealand!

HOW IS THE NEW ZEALAND FUNDS MANAGEMENT INDUSTRY RESPONDING?

A minority of KiwiSaver providers, especially new ones like Juno, are responding by taking price leadership in their investment management fees, with the high cost competition looking on I suspect a bit nervously.

In the non-KiwiSaver fund sector, according to Sorted, managed fund costs are on average near 45% HIGHER than their equivalent KiwiSaver funds.

So if low and moderate risk KiwiSaver funds need to on average reduce their investor costs by 45% then similar non-KiwiSaver funds need to reduce theirs by an average of 65%.

THE GOOD NEWS

New low cost managed funds are being launched. Simplicity, Smartshares and Kernel have all launched, or are about to launch, managed funds in 2019 where their fees are hugely below the incumbent competition.

The cost of Simplicity's Balanced Fund is 0.37% per annum. This compares to the balanced fund sector fee average of 1.62%; based on Simplicity's fund at the low end rising up to 2.86% at the top end. An astonishing high average and wide range of fund fees.

THE BAD NEWS

Plenty of New Zealand fund managers

still charge management fees that on an international scale are unduly expensive relying on clients to either not be well advised or not be well informed. I continue to be astonished at the number of investment advisers who stick with high cost and/or poor performing fund solutions for their clients.

We even have some New Zealand funds management groups recently launching new funds where the fund costs are close to the present unsustainably high fund fee averages.

With global groups like JPMorgan forecasting balanced fund returns to be only 5.4% on average for the next decade before any fees and taxes. As an adviser I am compelled to seek lower costs for my clients at every possible point in the investing equation.

There are plenty of places to reduce costs but the most obvious is redeeming clients from relatively high cost active managers – a good number of whom regularly underperform their peers and benchmarks.

WHERE IS THERE LIFE IN FUNDS MANAGEMENT?

Regulations entrench and protect the role of KiwiSaver fund managers. The politics of KiwiSaver means that is unlikely to change.

However outside of KiwiSaver there is little to stop investment advisers furthering the trend of disintermediating higher cost and sometimes underperforming fund managers.

Funds management life in 2019 appears to be in either providing low cost index solutions or in more modestly priced and well managed active solutions.

Every adviser reading this knows that considerable value can be added to most clients by good quality financial planning, especially drawdown analysis and portfolio construction. The next emphasis in the adviser's value add process is going to be, more than ever, about reducing the total investment costs your clients incur.

In doing so you'll better ensure they, in a lower return world, obtain better value for money and portfolio returns on average above the rate of inflation.

Frankly I can't imagine an investment advice practice prospering unless they actively and comprehensively pick up an emphasis on cutting their clients' investment costs which will often be to the detriment of higher cost fund managers. More for less.

For funds management firms that have fat shareholder margins or a top-heavy fixed cost base, expect life to get leaner, quickly. For investment advisers that remain passive on this issue expect to lose more and more of your clients. 📉

David van Schaardenburg is a Senior Partner – Wealth Management at Findex. An Adviser Disclosure Statement is available on request and free of charge.



By Russell Hutchinson

Digital future here now

Digital underwriting is becoming more widely available to the adviser world. Russell Hutchinson investigates its progress and benefits.

Finally, the digital future feels like it is arriving in the life insurance world.

Insurers have been deeply resistant to change. Some of this is about attitude, some is about the structure of our business. We are paid to be cautious: people want us to be here in 10, 20, or 30 years and to be able to keep paying claims. We have low frequency of interaction with our customers: some days I can look at my banking app more than I will interact with my insurer in a whole year. There are two good reasons why – the world over – insurers are slow to adopt digital. New Zealand adds another reason – being a small market, the capital costs make the business case hard.

Three major factors have pushed the process a lot further over the last couple of years.

First, as a few brave pioneers have got

the ball rolling, it has thrown some serious shade over the large number of laggards. Wherever you look, change is happening. Quote systems have improved, as have CRMs, presenters, email marketing tools, adviser websites and more. Not all of this is a consequence of competition within the life insurance sector – as digital systems improve in, say, banking, and especially wealth management, clients wonder why their experience with insurance is so clunky and manual compared to, say, how their KiwiSaver works.

Secondly, The FMA / RBNZ conduct and culture review has commented at several points on poor systems. Examples included: concerns that policy ownership was not properly recorded, the inability to revise premiums properly or in a timely manner, and difficulty discriminating between different types of clients and policies in communications. I am sure you could add much more to the list of useful improvements.

As big tech companies have been hiring hundreds of insurance staff in London and New York it looks like insurance specialists may soon be getting a good run for their money. In southern China a health insurance outfit manages over 100,000 contracts with a handful of staff. It's mostly digital. In Edinburgh there is a life insurer like that. This year several digital advice exemptions were issued, one of them to a life insurer. Most have the ambition to have one within the next few years.

The stages of digital adoption are baffling in how they proceed. One moment it seems like its all terrible software, failed promises, and the next moment it seems like everyone

is using it. Even then some don't admit it. I remember laughing as I saw one commenter on a *Good Returns* story write that they never use social media ... *Good Returns* is, of course, social media for the New Zealand financial services community. People tell me that forums like Facebook, Instagram and LinkedIn are useless for marketing. In 2019 one company wrote more than \$20 million in new premium from those sources. Even while people write about how terrible and useless digital services are, they are typing those words on computers, emailing them to an address recorded in their personal database, and probably saving the results in cloud services. Digital is now. There is a great global, cross-cultural shove towards digital, because it is usually better, either on its own or in conjunction with an expert – like you.

“ We're seeing really good uptake of our eApp solution with rates of up to 90% of all applications across some channels. ”

Simon Baker

The implementation of FSLAA means that advisers have to become a lot more efficient. For insurers the implementation of CoFI means that they must become a lot more



efficient too, so you are not alone. Many, perhaps most, insurance sales today are made without a good statement of advice. The few that are properly written are usually individually crafted. Soon every advised sale will need one. You can't keep doing that the old way – there just aren't enough dollars or people to cover the work required.

The same goes for underwriting.

Underwriting has been resistant to full conversion to digital for some time. Huge systems filled with rules for every conceivable disorder were developed over the last few decades by reinsurers and larger insurers in Europe and the US. These have proven difficult to deploy in the New Zealand context – and were not widely adopted. Affordable and easy to use systems were then deployed by direct insurers, but advisers have had to wait to enjoy the latest generation of systems tailored just for them.

I have seen demonstrations of both AIA's recent upgraded system and Partners Life's new underwriting tool known as MUM.

AIA in particular, has been promoting their system a lot following the launch of AIA Living in August. AIA also revamped their quote tools and the new system has a much-improved visual interface in an easy-to-follow vertical flow that expands and contracts nicely depending on the screen size being used to view it. They also recently updated their eApp solution, to create a more integrated experience and adapt the process to accommodate recent product upgrades, including the addition of the AIA Vitality programme.

Simon Baker, Head of Digital Underwriting says: "We're seeing really good uptake of our eApp solution with rates of up to 90%

“ They are useful in speeding up the initial underwriting process and help with overall compliance requirements. ”

Tim Arrowsmith

of all applications across some channels – the feedback from the market has been very positive. We're constantly looking to better our offering for intermediaries and customers."

Partners Life launched MUM recently – which stands for My Underwriting Manager. They feel it is important to underline that live online decisions are made by MUM. It's a very slick interface which incorporates a new approach to how questions are asked, another crucial change in more recent years. MUM and others tend to use functional questions, based on behavioural economics to work out whether more specific questions are required. Gone are the long lists of disorders that are a feature of some of the worst "short" questionnaires. That process was almost guaranteed to feed non-disclosure – conditions you don't have are rarely memorable. Sometimes your doctor doesn't even bother using the medical terminology with you – if you just know, for example, that you take a certain drug every day, that's a trigger which can

then mean a much more detailed question set, specific to you, is served.

Advisers like the change too. Ed Hempseed says he has used the Southern Cross, AIA and Fidelity online applications a number of times, adding that "the current AIA version is a great advance on the previous option offered via Sovereign". Hempseed offers clients the option to submit applications on either paper or the eApp, and says that they mostly choose the app. But he has reservations, adding "I much prefer the option to talk over potential loadings or exclusions so will always make use of the option to dispute an auto-decision if that is the case".

Tim Arrowsmith says that in the past few weeks he has used the new AIA and Partners Life systems: "They are useful in speeding up the initial underwriting process and help with overall compliance requirements. We look forward to them being able to cope with more complex scenarios and feedback – they are not yet sophisticated enough to differentiate between the importance of missing requirements eg medical and financial underwriting."

Every significant insurer either has or will soon deploy new systems to capture application data and complete decisioning. It now seems obvious that more than half of all applications will be managed this way soon – possibly within two years – saving countless hours of time from incomplete, illegible, and poorly designed paper forms. **A**

Russell Hutchinson is director of Chatswood Consulting and Quality Product Research, which operates Quotemonster.





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