Considerations when selecting an SMA Manager

Andrew Stanley – Ralton Asset Management

Brad Dunn – Daintree Capital

Upcoming Events

- 2019 Managed Account Awards
- Portfolio Management Conference
- Responsible Manager Master Class

2019 Managed Account Awards

- Entries Close 19 April
- Awards 27 June

Portfolio Management Conference

- Sydney 6th August – Portfolio management / asset allocation
- Melbourne 22nd October – Australian & Int'l equities and Fixed income Investments

Responsible Manager Master Class

- 20th May

IMAP
Institute of Managed Account Professionals

Selecting an SMA manager
What's in it for you and your client?

Andrew Stanley, Head of Australian Equities
| April 2019

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What does an investor want from an SMA?

- Performance
- Consistency of returns
- What type of investor?
  - Appreciates transparency
- What type of returns?
  - High Yield
  - Capital growth
  - Tax effective (capital gains and franked dividends)
- What other considerations should be front of mind?
  - Low turnover
  - Clients monitor portfolio changes
  - Regular communication

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Investor benefits: why the time is right for SMAs

Key Investor Benefit	Managed Funds	Direct Share Portfolio	SMA Platforms
Professional Management	✓	✗	✓
Transparency	✗	✓	✓
Direct Ownership of Assets	✗	✓	✓
Portability of Shares **(without triggering CGT)**	✗	✓	✓
Tax Advantages of Ownership **(No inheritance of capital gains from others)**	✗	✓	✓
Customisation	✗	✓	✓
Portfolio Reporting and Administration	✓	✗	✓
Low Cost Structure **(SMAs eliminate one layer of custody/admin fees)**	✓	✗	✓

So what does this mean for the manager?

Aim	How do we achieve this?
SMA specialist	• Portfolio structure (i.e. liquidity and market capitalisation, etc) • Investment systems built to manage SMAs
Low turnover	• Concentrated portfolio and being a value investor leads to longer term holdings • Economic and thematic views drive ‘buy and hold’ approach
Tax effective investment	• Follows from low turnover • 45 day rule/discounted capital gains
Consistent returns	• High conviction , stock selection, sector and thematic views
Risk measures	• What stocks or sectors are screened out? • Portfolio construction – focus on appropriate risk reward • Fundamental stock research and quality bias
Execution / trading	• Complete transparency – portfolios and trades • Liquidity monitors

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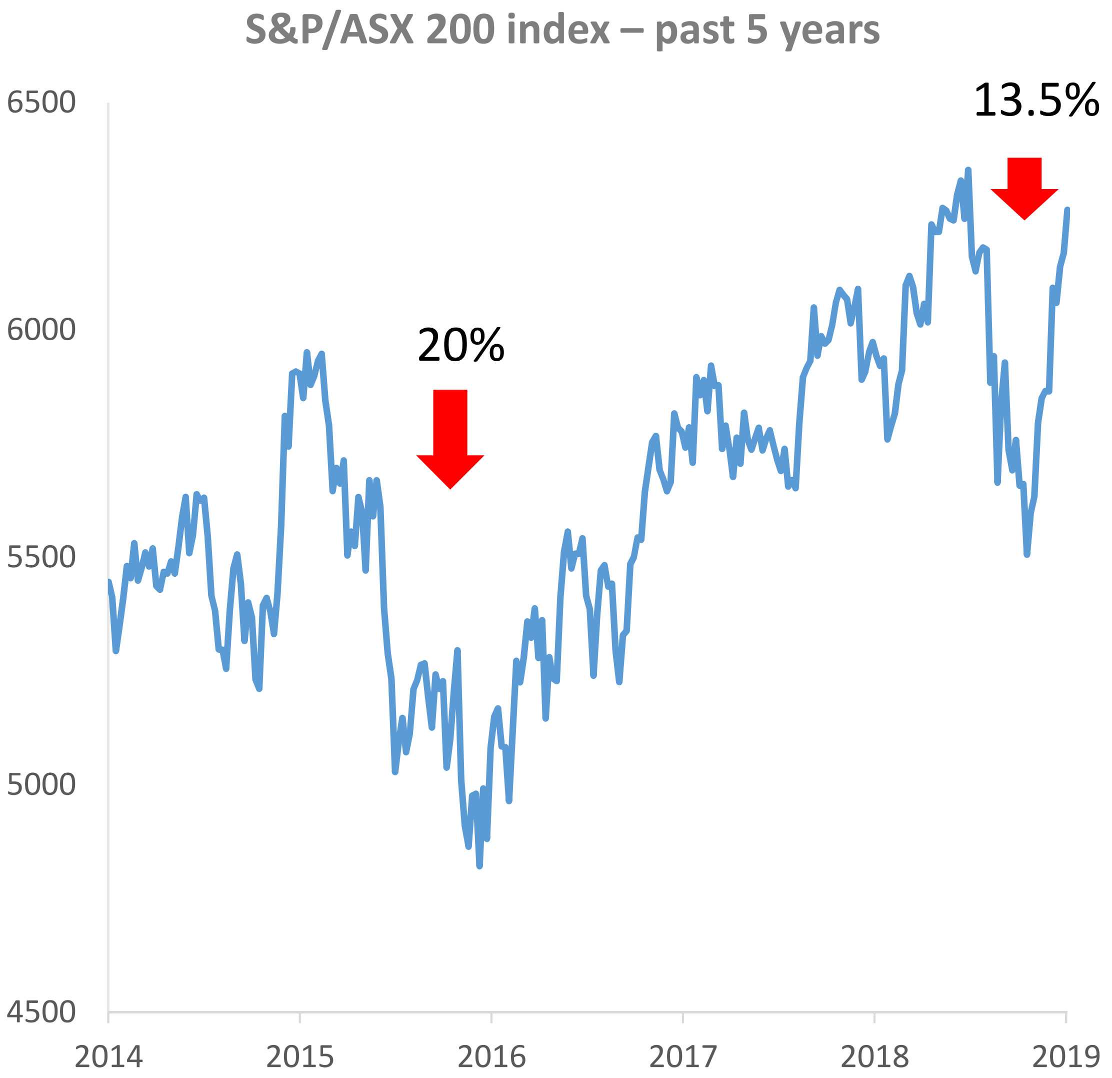
Is the market volatility over?



Source: Thomson Reuters Datastream/Ralton Asset Management

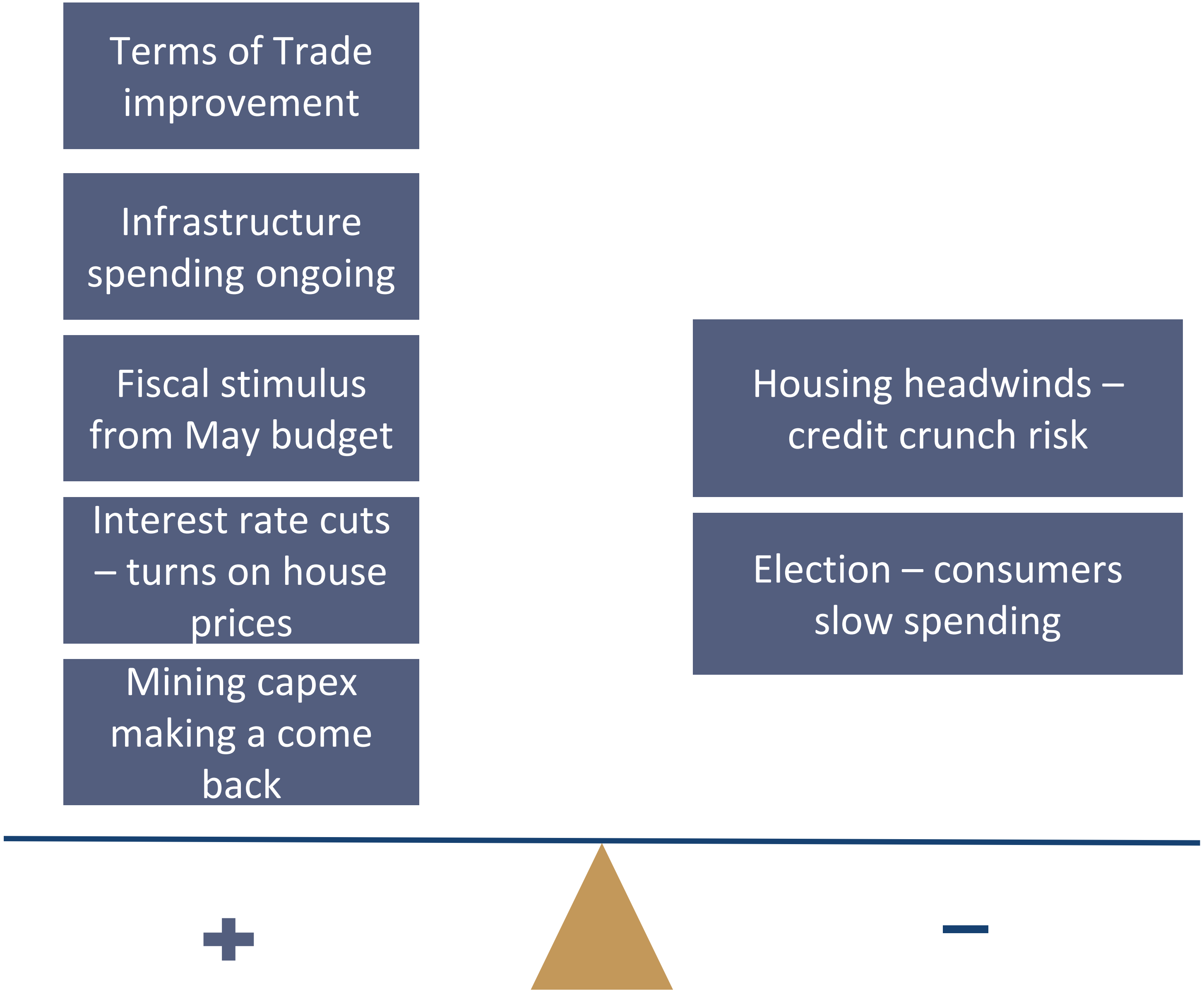
Central Banks

- Markets driven by central bank liquidity since GFC
- Quantitative tightening & wind down of QE accelerated during 2018 and US Fed raising rates
- CB's have now gone dovish

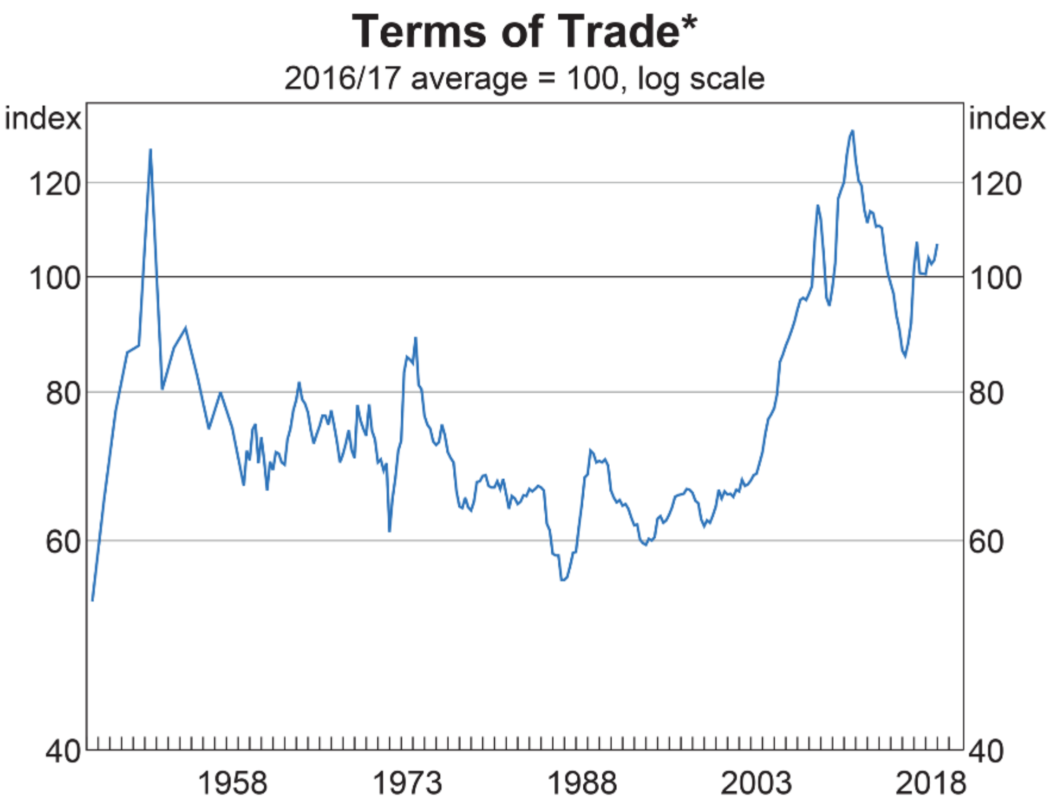
Other issues:

- Chinese deleveraging
- China-America Trade War
- EM slowdown

How balanced is the Australian economy?

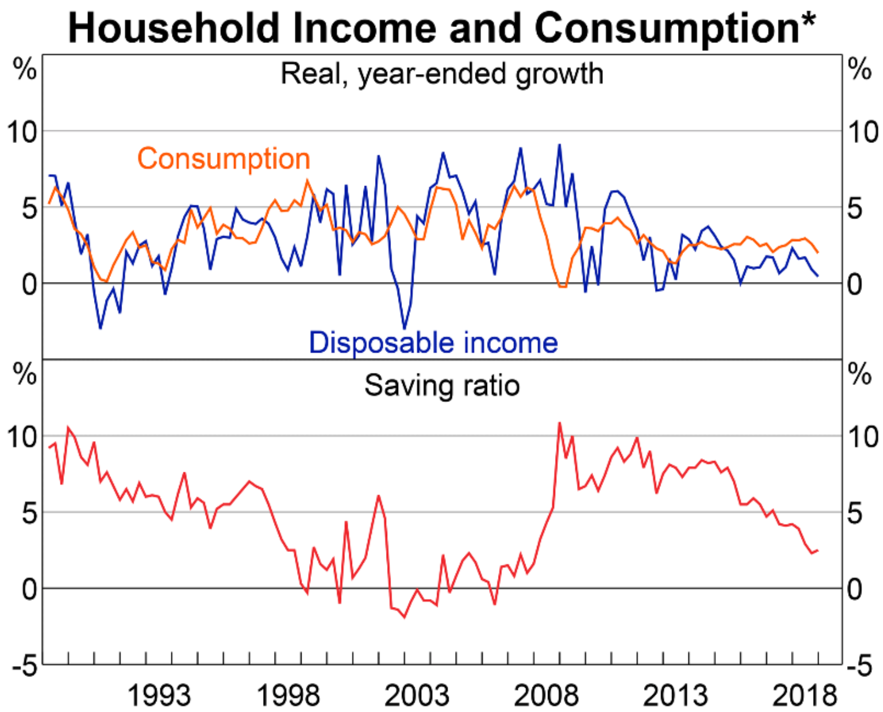


Australia’s terms of trade



* Annual data are used prior to 1960

Sources: ABS; RBA



* Household sector includes unincorporated enterprises; disposable income is after tax and interest payments; saving ratio is net of depreciation

Sources: ABS; RBA

Amcor | Predictable earnings and dividend growth

- Global packaging company
- Products

- Merger with Bemis – creating the global leader
- Strong balance sheet and cashflow post merger
- Sustainable packaging the key

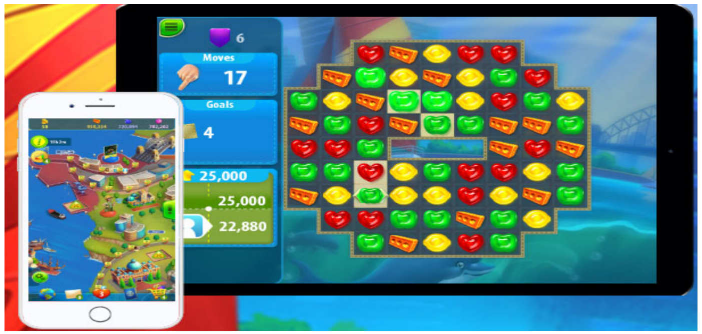
Mineral Resources | Beneficiary of capital expenditure

- MIN areas of operation:
  - Service provider across the mining supply chain (mine to port)
  - Becoming a world leading lithium producer
  - Iron ore miner (lower grade)
- Experienced WA management team

- Albermarle deal over Wodinga – A$1.6bn
- Balance sheet Strength
- Valuation: attractive
- Transparency: moderate

Aristocrat | Improving free cash flow

- Leading global land based and digital gaming manufacturer
- Transformation – game development studios and annuity type income machines
- Digital
  - Casino
  - Strategy
  - Social gaming
- Strong balance sheet & FCF generation



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Banks | Changing market environment

- Headwinds facing the sector are known:
  - Slowing credit growth
  - Royal Commission recommendations
  - Capacity to restructure cost base
- What is concerning the market:
  - Remediation costs
  - BDD cycle (?)
  - Potential regulatory constraints on capacity to re-price
  - NZ capital requirements

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THANK YOU

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IMAP BREAKFAST
Signals from the bond market
17 April 2019

BOND YIELDS

Who would have thought that these two charts could have converged in 2011?

Source: Bloomberg

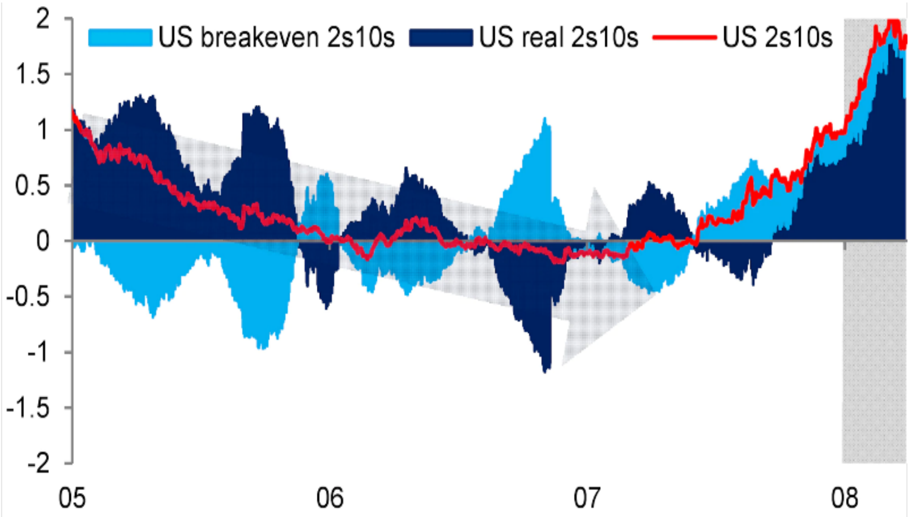
BOND YIELDS

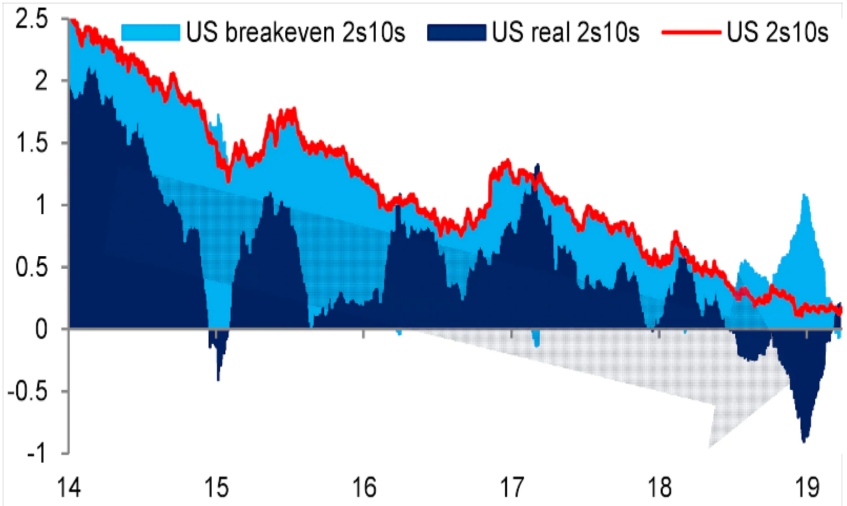
Some governments are fiscally better off than others, but would you pay them to hold your money?

Source: Bloomberg

YIELD CURVE

The US yield curve is low and falling, but does it foretell a recession while central banks remain in play?

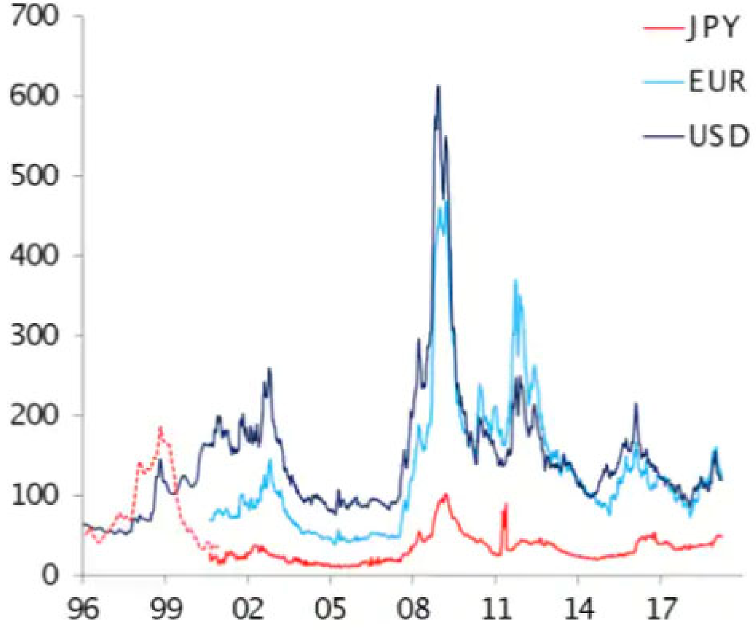




Source: Citi

CREDIT

Low interest rates and reactive central banks may not be negative for credit – just ask Japanese credit



Source: Citi

JAPANIFICATION?

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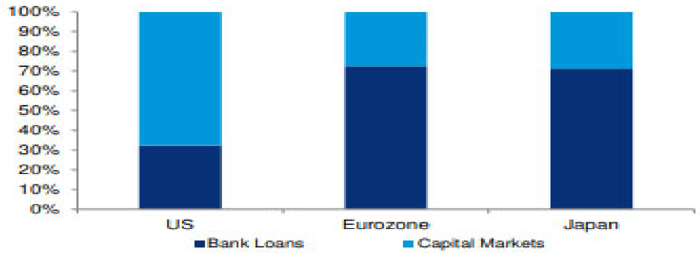
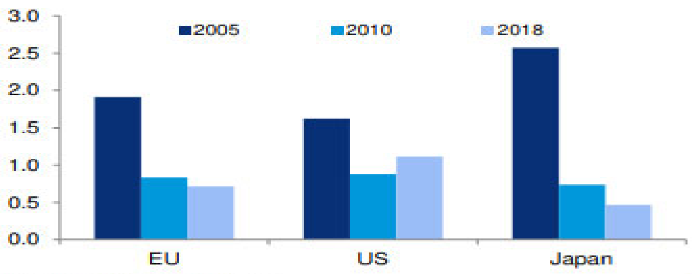
Japan and Europe both have high reliance on bank funding and weak banking systems…

Figure 15: Euro area and Japanese corporates are heavily reliant on bank funding



Source : ECB, Fed, BoJ, SIFMA, AFME, Deutsche Bank Research

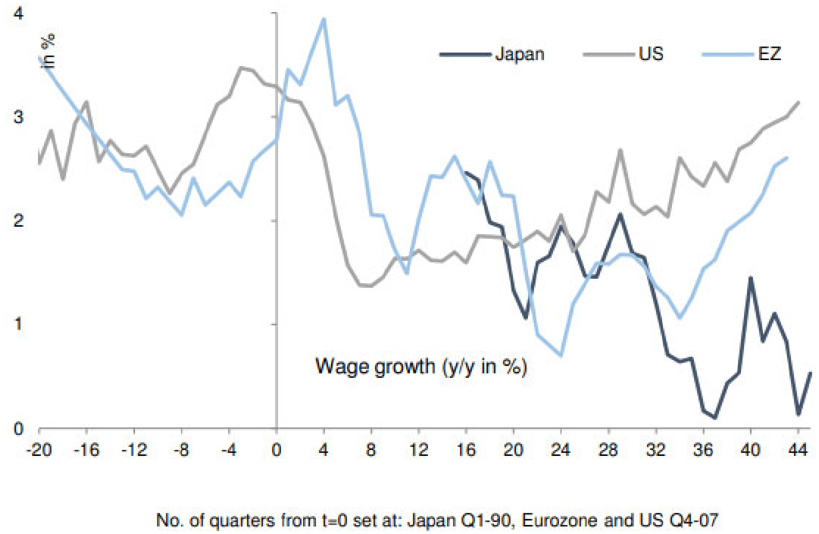
Figure 21: Increasing divergence in valuations between US versus European and Japanese banks



Source : Factset, Deutsche Bank Research

…but, labour markets in the EU and US are far more robust.

Figure 12: Wages in Europe are moving in line with the US



Source : Deutsche Bank, Haver Analytics, eurostat, BLS, Cabinet Office, BoJ

CONCLUSIONS

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- **Bond yields are suggesting that there are major issues in the global economy.** There is a growing sense that bond and equity markets are "talking past each other".

- The **US yield curve** is close to inverting across most tenors, but this **may not be the reliable recession signal it has been in the past.**

- **The spectre of "Japanification" will linger for as long as European growth struggles to escape stall speed**, but there are also factors that differentiate it from the Japanese experience.

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