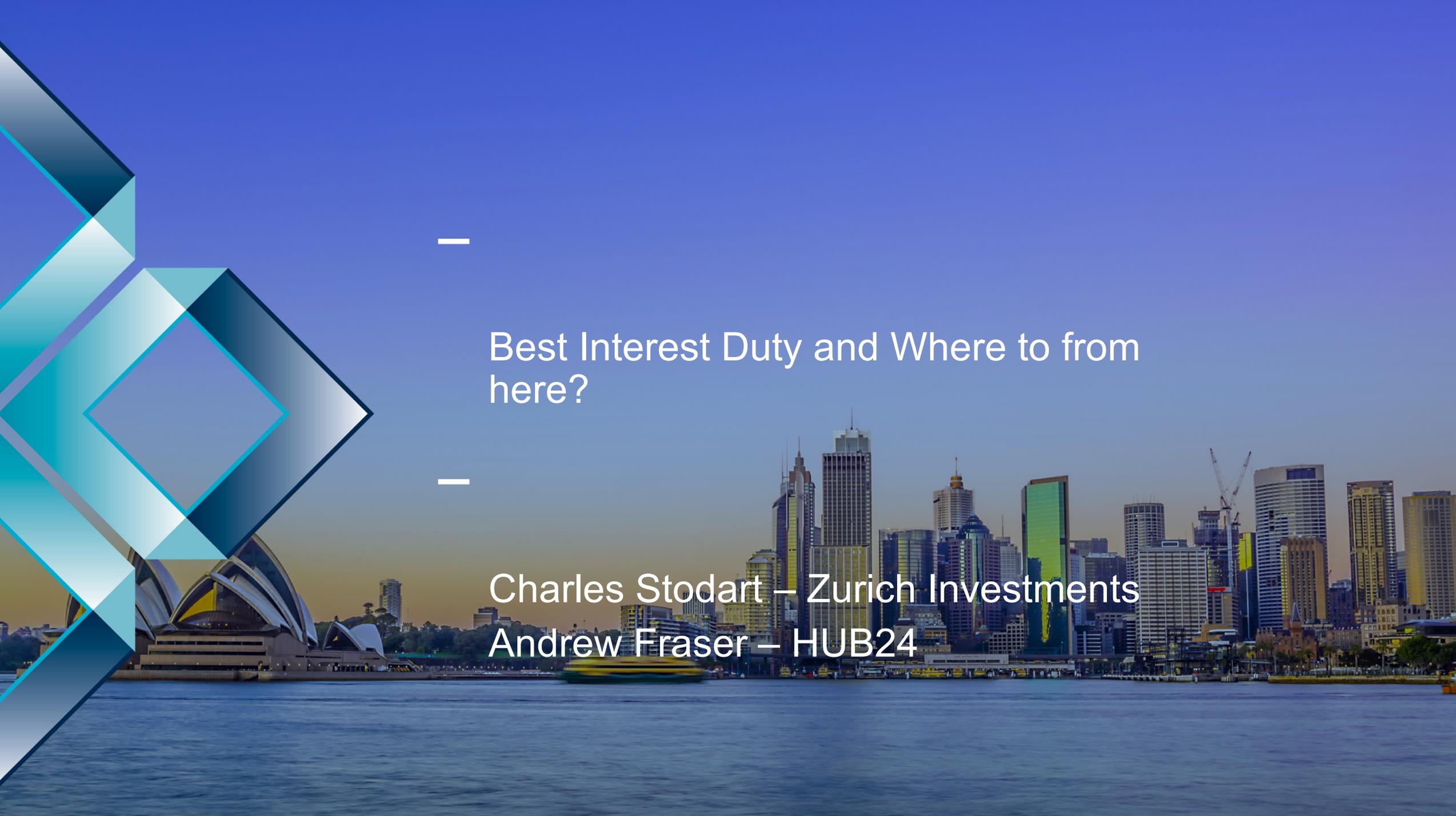




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Best Interest Duty and Where to from here?

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Charles Stodart – Zurich Investments
Andrew Fraser – HUB24

Upcoming Events

- 2019 Managed Account Awards
- Portfolio Management Conference
- Responsible Manager Masterclass

2019 Managed Account Awards

- Finalists announced 30th May
- Awards 25th June

Portfolio Management Conference

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

Responsible Manager Masterclass

- 5th June

Market update

Charles Stodart
Investment Specialist



Important information



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Asset class snapshot

Ranked real returns by asset class by year.

Green means you're beating inflation

Ranking	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 YTD
1	US 10yr	MSCI EM	REITS	US 10yr	MSCI China	Russell 2000	REITS	MSCI Japan	Commodities	MSCI China	US 2yr	MSCI China
2	US 2yr	MSCI China	Russell 2000	Inflation Bonds	MSCI Europe	S&P 500	S&P 500	REITS	Russell 2000	MSCI EM	US 10yr	Russell 2000
3	US Agg. Bond	Global HY	Commodities	EM\$Sov Credit	Global HY	MSCI Japan	US 10yr	US 10yr	US HY	MSCI Europe	US Agg. Bond	S&P 500
4	US IG	US HY	MSCI EM	US IG	REITS	MSCI Europe	MSCI China	EM\$Sov Credit	Global HY	MSCI Japan	US HY	REITS
5	Inflation Bonds	Commodities	MSCI Japan	US Agg. Bond	MSCI EM	US HY	US IG	S&P 500	S&P 500	S&P 500	US IG	MSCI Europe
6	EM\$Sov Credit	MSCI Europe	US HY	REITS	EM\$Sov Credit	Global HY	EM\$Sov Credit	US 2yr	MSCI EM	Russell 2000	EM Local Debt	MSCI EM
7	US HY	EM\$Sov Credit	S&P 500	US HY	Russell 2000	MSCI China	US Agg. Bond	US Agg. Bond	EM\$Sov Credit	EM Local Debt	Global HY	US HY
8	Global HY	REITS	Global HY	Global HY	S&P 500	REITS	Russell 2000	US IG	REITS	Global HY	REITS	MSCI Japan
9	Commodities	Russell 2000	EM Local Debt	S&P 500	US HY	US 2yr	Inflation Bonds	MSCI Europe	US IG	EM\$Sov Credit	Inflation Bonds	Commodities
10	MSCI Japan	S&P 500	EM\$Sov Credit	US 2yr	EM Local Debt	US IG	US HY	Global HY	EM Local Debt	REITS	EM\$Sov Credit	Global HY
11	Russell 2000	US IG	US 10yr	EM Local Debt	US IG	US Agg. Bond	US 2yr	Russell 2000	Inflation Bonds	Inflation Bonds	S&P 500	EM\$Sov Credit
12	S&P 500	EM Local Debt	US IG	Russell 2000	Inflation Bonds	MSCI EM	Global HY	US HY	MSCI Japan	Commodities	Commodities	US IG
13	REITS	Inflation Bonds	US Agg. Bond	Commodities	MSCI Japan	Inflation Bonds	MSCI EM	Inflation Bonds	US Agg. Bond	US HY	Russell 2000	Inflation Bonds
14	MSCI Europe	MSCI Japan	MSCI China	MSCI Europe	US Agg. Bond	EM Local Debt	EM Local Debt	MSCI China	MSCI China	US IG	MSCI Japan	US Agg. Bond
15	MSCI China	US Agg. Bond	MSCI Europe	MSCI Japan	US 10yr	US 10yr	MSCI Japan	EM Local Debt	US 2yr	US Agg. Bond	MSCI EM	US 10yr
16	MSCI EM	US 2yr	Inflation Bonds	MSCI EM	Commodities	EM\$Sov Credit	MSCI Europe	MSCI EM	US 10yr	US 10yr	MSCI Europe	EM Local Debt
17		US 10yr	US 2yr	MSCI China	US 2yr	Commodities	Commodities	Commodities	MSCI Europe	US 2yr	MSCI China	US 2yr

What's changed?

Market implied pace of rate hikes in the US

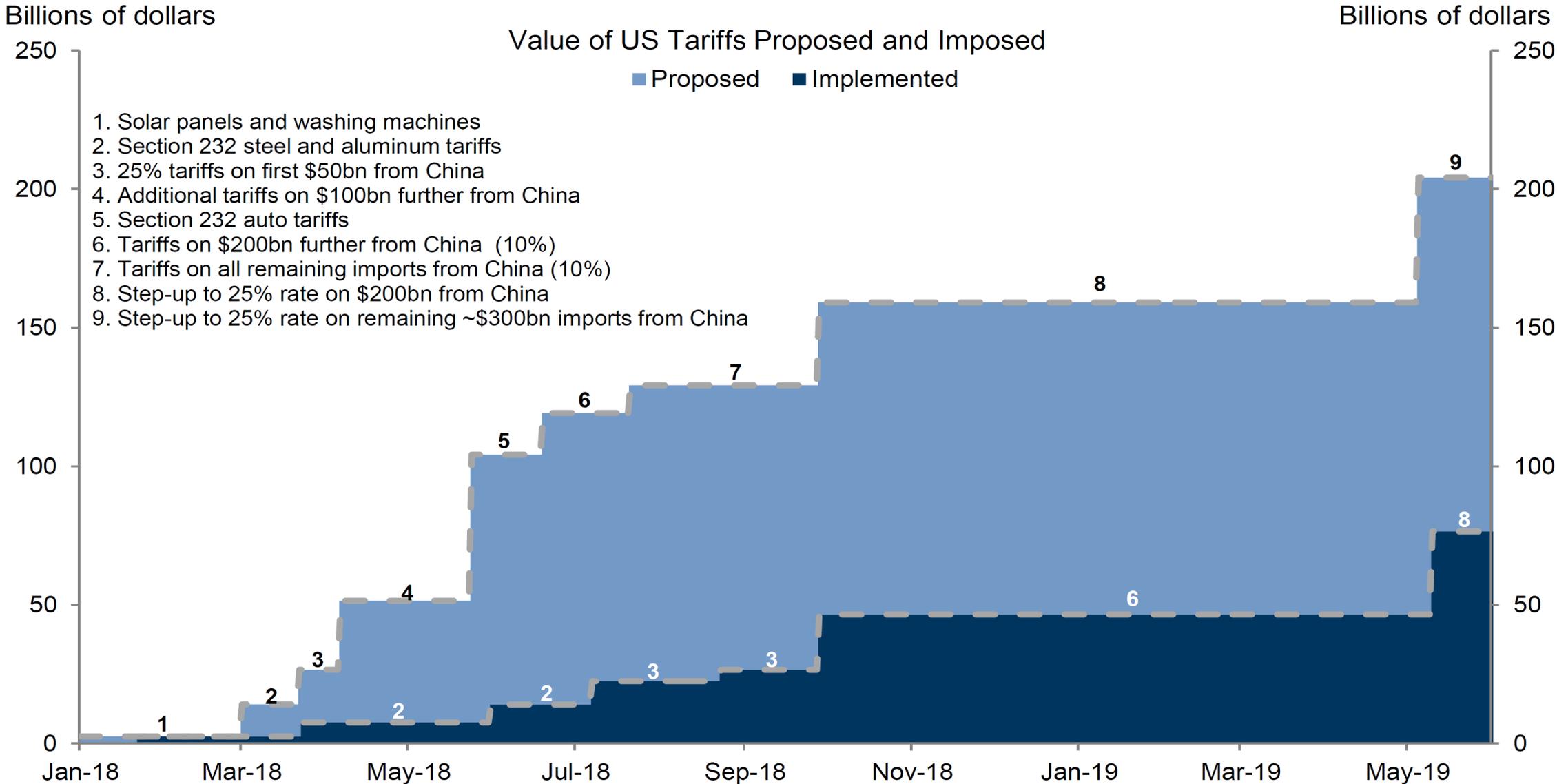


Global growth remains decent...

...but momentum has moderated

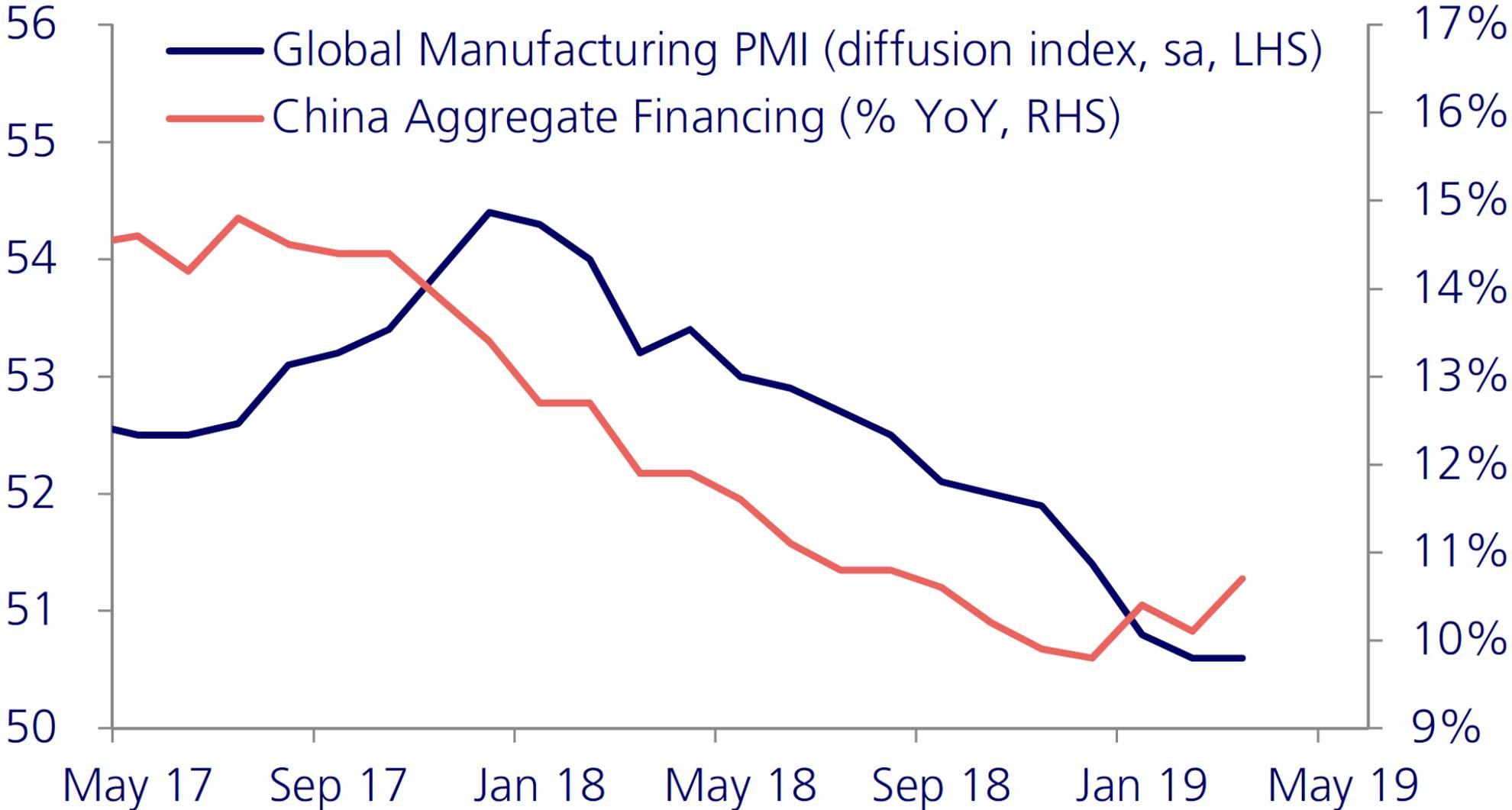
PMI	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
World	53.7	53.6	53.5	53.9	53.8	53.9	54.0	54.3	54.5	54.8	53.3	53.8	54.0	54.2	53.7	53.4	52.8	53.0	53.2	52.7	52.1	52.6	52.7	52.1
USA	53.6	53.9	54.6	55.3	54.8	55.2	54.5	54.1	53.8	55.8	54.2	54.9	56.6	56.2	55.7	54.7	53.9	54.9	54.7	54.4	54.4	55.5	54.6	53.0
Japan	53.4	52.9	51.8	51.9	51.7	53.4	52.2	52.2	52.8	52.2	51.3	53.1	51.7	52.1	51.8	52.0	50.7	52.5	52.4	52.0	50.9	50.7	50.4	50.8
Eurozone	56.8	56.3	55.7	55.7	56.7	56.0	57.5	58.1	58.8	57.1	55.2	55.1	54.1	54.9	54.3	54.5	54.1	53.1	52.7	51.1	51.0	51.9	51.6	51.5
Germany	57.4	56.4	54.7	55.8	57.7	56.6	57.3	58.9	59.0	57.6	55.1	54.6	53.4	54.8	55.0	55.6	55.0	53.4	52.3	51.6	52.1	52.8	51.4	52.2
France	56.9	56.6	55.6	55.2	57.1	57.4	60.3	59.6	59.6	57.3	56.3	56.9	54.2	55.0	54.4	54.9	54.0	54.1	54.2	48.7	48.2	50.4	48.9	50.1
Italy	55.2	54.5	56.2	55.8	54.3	53.9	56.0	56.5	59.0	56.0	53.5	52.9	52.9	53.9	53.0	51.7	52.4	49.3	49.3	50.0	48.8	49.6	51.5	49.5
Spain	57.2	57.7	56.7	55.3	56.4	55.1	55.2	55.4	56.7	57.1	55.8	55.4	55.9	54.8	52.7	53.0	52.5	53.7	53.9	53.4	54.5	53.5	55.4	52.9
Switzerland	55.7	60.0	60.3	61.4	62.1	61.9	64.6	65.2	64.6	65.1	61.4	62.8	62.8	61.8	61.7	64.6	59.9	57.8	57.7	57.5	54.3	55.4	50.3	48.5
UK	54.3	53.9	54.2	53.9	54.0	55.9	54.9	54.8	53.4	54.5	52.4	53.2	54.4	55.1	53.5	54.2	54.1	52.1	50.8	51.4	50.3	51.5	50.0	50.9
Canada	57.3	57.1	56.2	54.8	55.1	54.0	53.3	52.1	52.6	54.5	56.4	57.5	59.8	60.3	57.7	56.9	53.9	52.7	53.5	51.4	49.6	51.4	50.5	50.6
Australia	54.3	53.8	57.2	57.5	54.4	51.2	57.0	57.0	58.2	56.4	62.5	58.6	56.8	55.6	52.5	55.9	57.1	54.7	50.8	50.0	52.5	54.0	51.0	54.8
Brazil	50.4	48.5	49.4	49.6	51.1	49.5	48.9	48.8	50.7	53.1	51.5	50.6	49.7	47.0	50.4	47.8	47.3	50.5	51.6	52.4	52.3	52.6	53.1	50.6
Russia	56.0	54.8	53.4	54.2	54.8	53.2	56.3	56.0	54.8	55.2	53.2	54.9	53.4	52.0	51.7	52.1	53.5	55.8	55.0	53.9	53.6	54.1	54.6	53.0
India	52.5	52.7	46.0	49.0	51.1	51.3	50.3	53.0	52.5	49.7	50.8	51.9	50.4	53.3	54.1	51.9	51.6	53.0	54.5	53.6	53.6	53.8	52.7	51.7
China	51.5	51.1	51.9	52.4	51.4	51.0	51.6	53.0	53.7	53.3	51.8	52.3	52.3	53.0	52.3	52.0	52.1	50.5	51.9	52.2	50.9	50.7	52.9	52.7
South Africa	50.2	49.0	50.1	49.8	48.5	49.6	48.8	48.4	49.0	51.4	51.1	50.4	50.0	50.9	49.3	47.2	48.0	46.9	48.2	49.0	49.6	50.2	48.8	50.3

Macro factors resurface... Trade Tensions



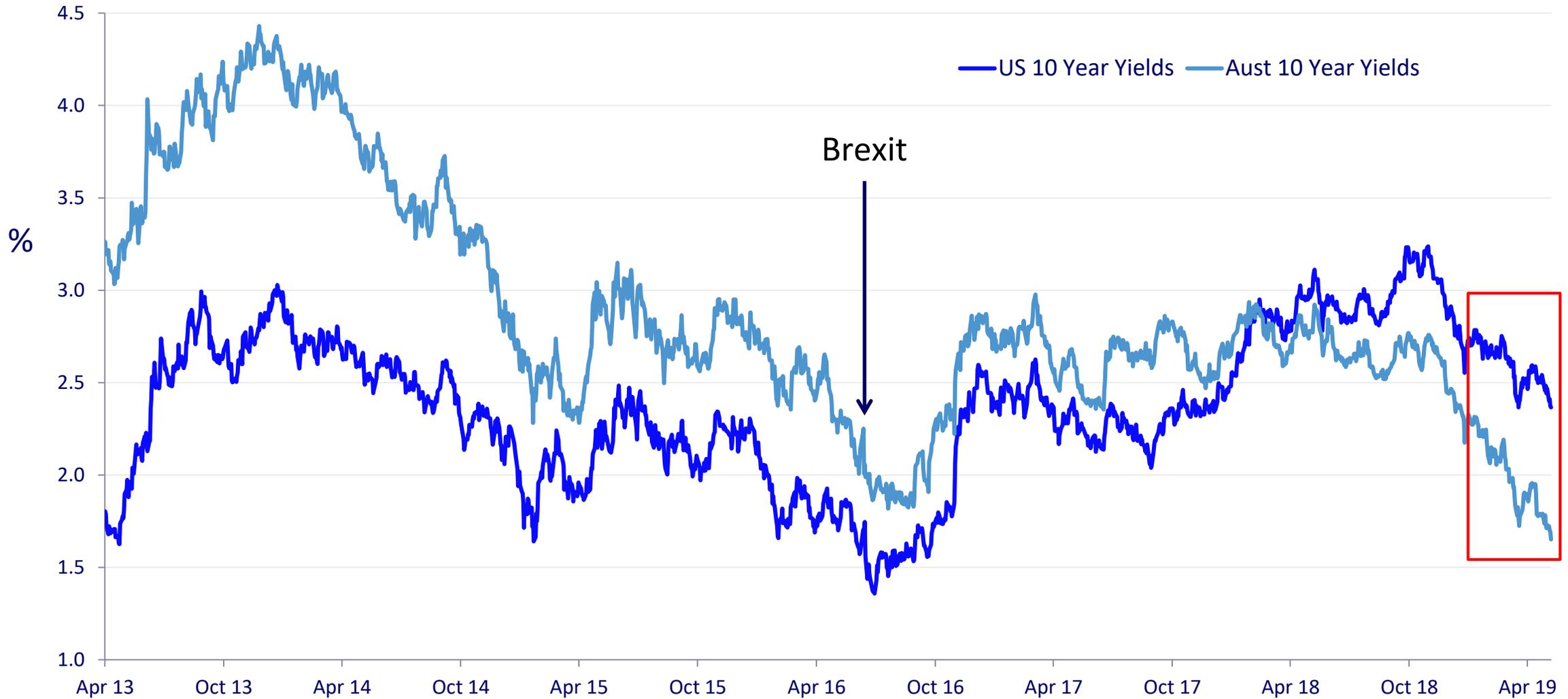
Source: Goldman Sachs Economics Research, The Return of the Trade War, 11th May 2019

Can China stimulus lead a global economic recovery?



What are bond yields telling us?

The price of money



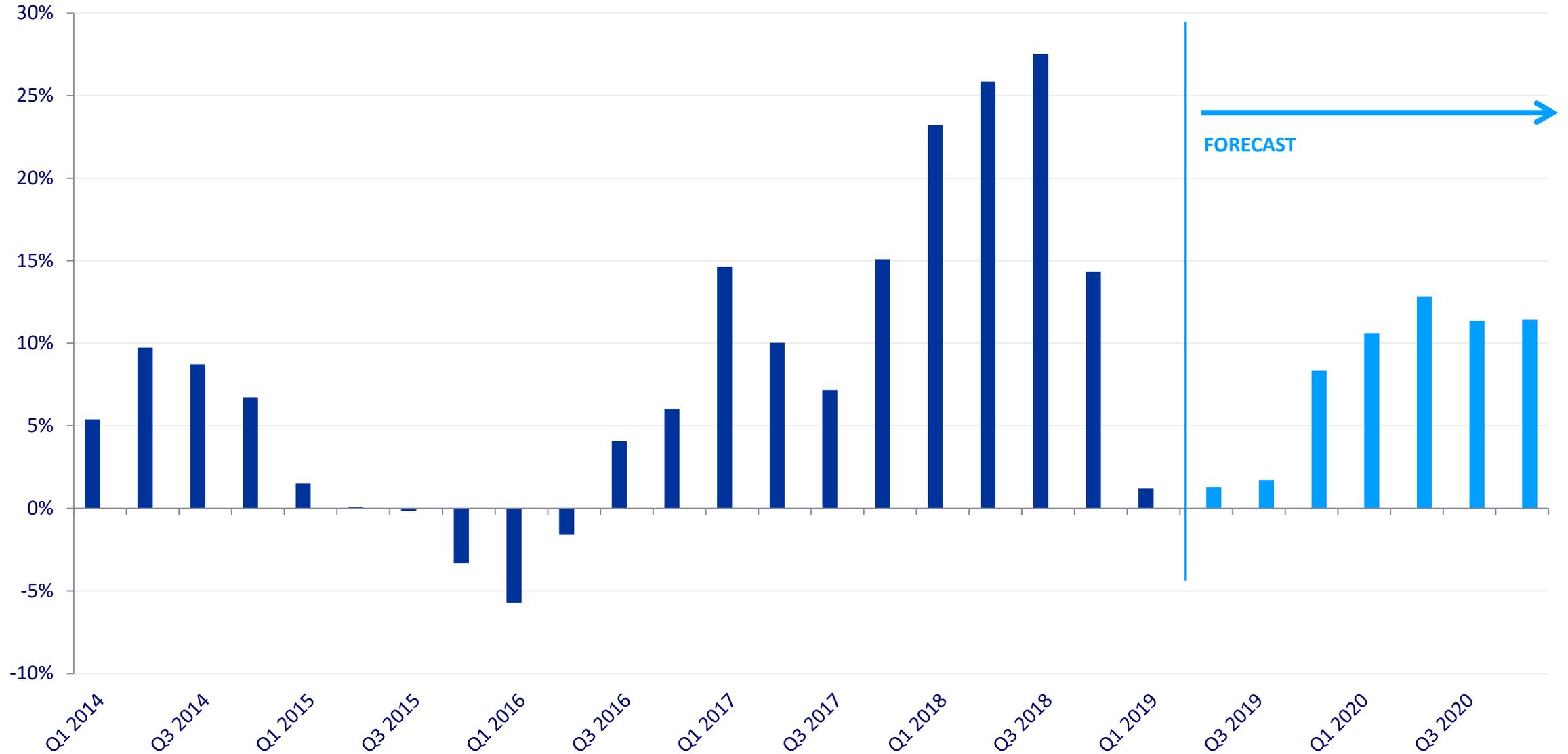
Investor sentiment

Bulls vs Bears





S&P 500 earnings per share growth



Current opportunities for growth investors

- Secular growth drivers, rather than cyclical
 - Selected IT, including cloud computing, 5G, online
 - Health Care, particularly medical devices and diagnostic tools

- Highly visible revenue base

- Companies with idiosyncratic growth drivers

THANK YOU

<https://www.zurich.com.au/advisers/investments.html>





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Questions

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BEST INTEREST DUTY

Andrew Fraser (HUB24)

OVERVIEW

- About the survey
- Key findings
- Advice
- Platforms
- Tax management
- Managed Accounts & BID

ABOUT THE SURVEY

- This Research Paper is based on responses to 56 questions which were sent to a broad selection of advisers across Australia with responses received from over 300 advisers.
- The questions were prepared by CoreData with input from HUB24, the AFA and preliminary interviews with 5 industry participants
- The paper examines how technology, including the use of platforms, has been used to support compliance with, and to meet the aims and objectives of, the Best Interests Duty.
- Additionally, the paper investigates the impact of the Best Interests Duty on aspects of providing advice on risk insurance – notably, on how frequently insurance needs are reassessed.

Notes on the Royal Commission:

- Royal Commission recommendation: Safe Harbour provisions remain in place for the time being, with this to be reviewed by the Government (in consultation with ASIC) by 31 December 2022
- Royal Commission recommendation: Mortgage Brokers will fall under BID when acting in connection with home lending
- Royal Commission recommendation: Ongoing fee arrangements must be reviewed annually by the client

KEY FINDINGS

Advisers have welcomed Best Interests Duty:

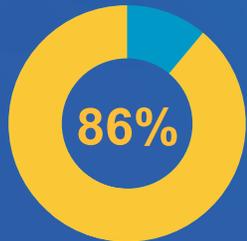
4/5

Advisers agree that BID was necessary to raise industry standards

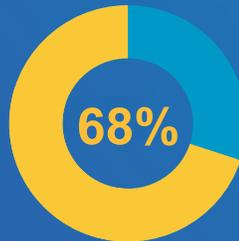
66.3%

Advisers agree or strongly agree that BID has led to better outcomes for clients

Advisers believe they have received adequate training, but welcome more:



Received in-house training from their licensee or a specialist provider



Would be open to receiving additional information or training on their obligations



By far the most important issue in Best Interests Duty compliance when considering an investment product is whether or not the product matches the client's risk tolerance.



Just over a third of non-aligned advisers have implemented specific technology solutions/tools, including permitting detailed tax modelling and portfolio modelling, to help comply with the Best Interests Duty.



When it comes to the use of platforms, the primary consideration in Best Interests Duty compliance is the features offered by the platform, followed by price.



70.7% of advisers surveyed believe that the Best Interests Duty has had no impact on the quality of advice they provide to their clients



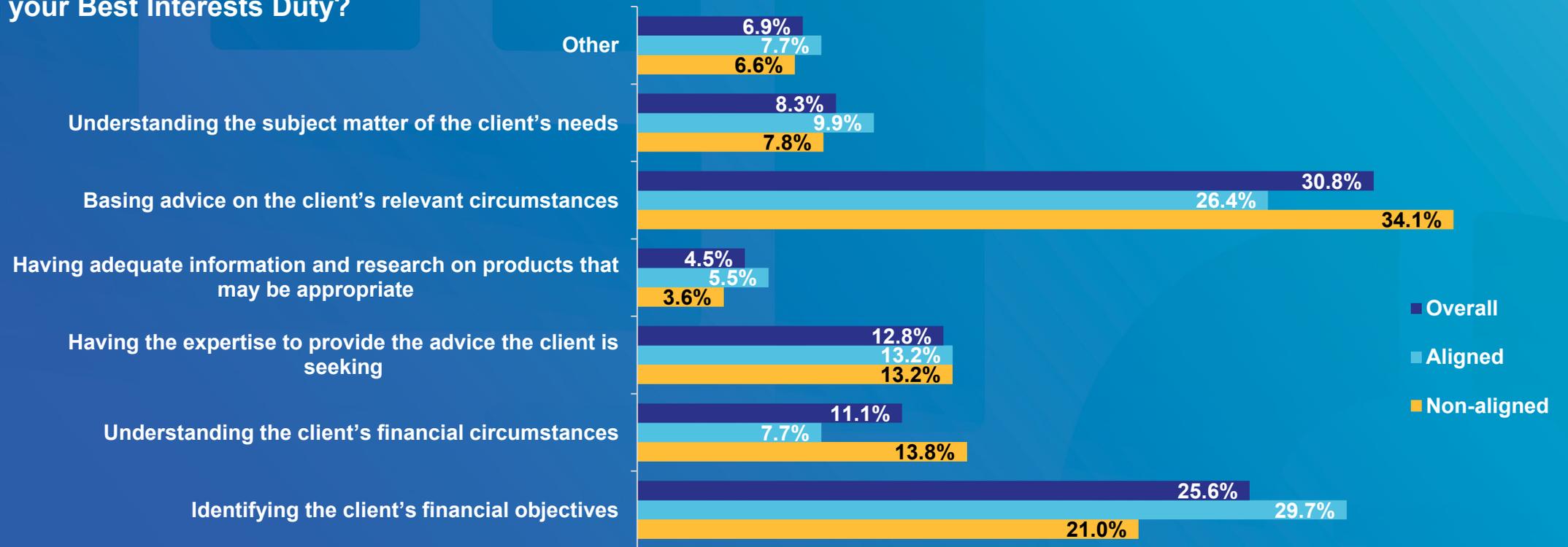
ASIC Report 562 into big 4 banks + AMP - findings revealed that 75% failed the best interest duty test. More specifically, not that 75% was poor or incorrect advice, but rather insufficient supporting evidence or documentation was provided. Documentation was the primary deficiency.

SAFE HARBOUR

- Best Interests Duty (s961B)
- Seven safe harbor steps:
 - Identify client's needs and objectives;
 - Identify subject matter of advice;
 - Make reasonable enquiries;
 - Assess own expertise;
 - Do your product research;
 - Base all judgements on client's needs and objectives; and
 - Any other reasonable step

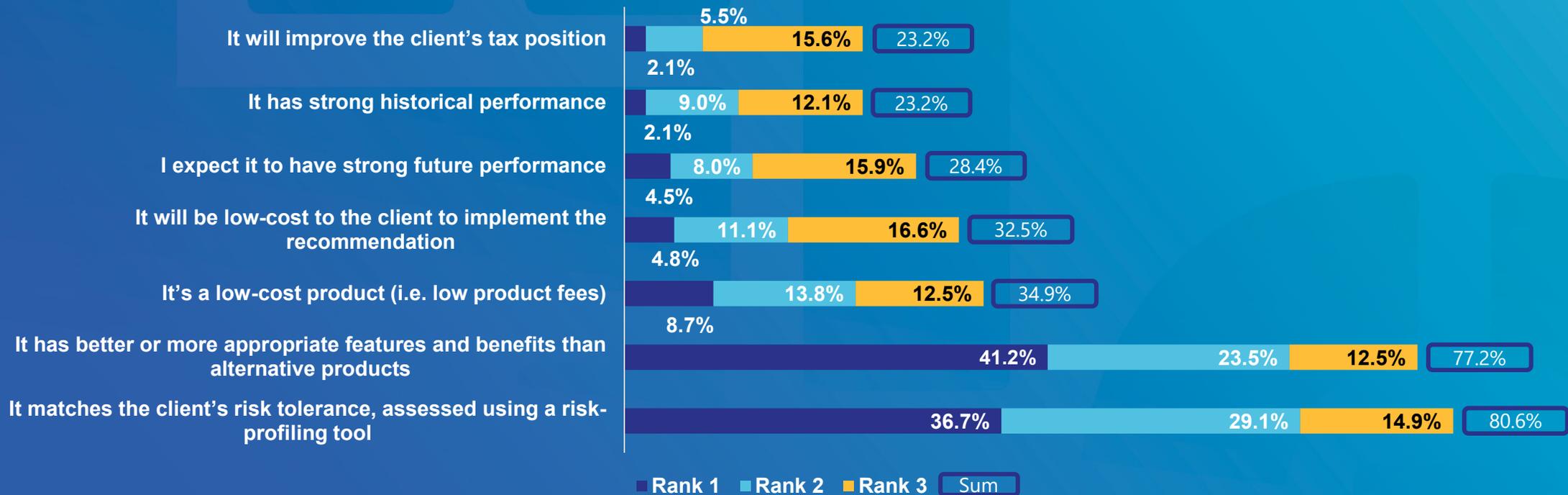
PROVIDING ADVICE TO CLIENTS

When providing advice to a client, which of the following issues do you consider most important in ensuring compliance with your Best Interests Duty?



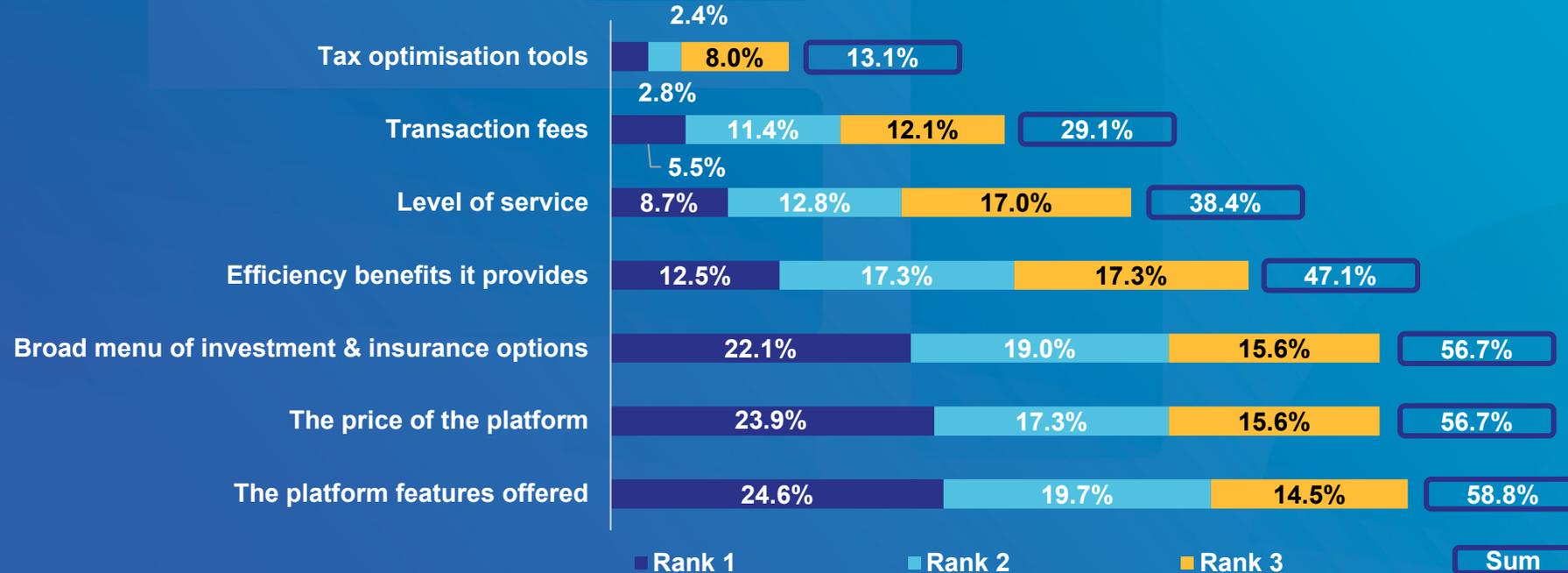
LEAD PRODUCT CHOICE CONSIDERATIONS

When you make an investment product recommendation, in what order do the following issues rank when you consider your compliance with the Best Interests Duty?



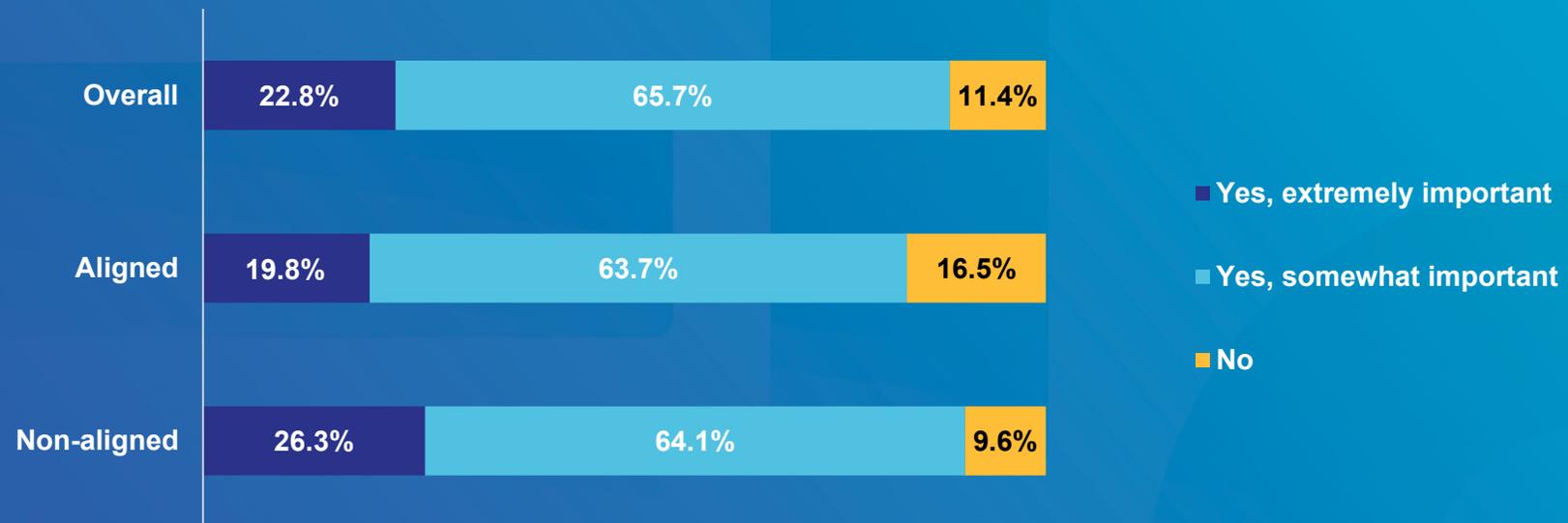
PLATFORM OFFERINGS

Thinking about your compliance with the Best Interests Duty, which of the following are most important in considering a platform solution?



IMPORTANCE OF TAX MANAGEMENT TOOLS

If a platform could add value to client outcomes through active tax management would you consider it important for your compliance with the Best Interests Duty?



2

HOW MANAGED ACCOUNTS CAN HELP ACHIEVE BID

MAXIMISING THE BENEFITS

Managed Portfolios

- 1 Fee savings through netting of assets when trading
- 2 Modelling CGT impact to help manager selection and minimise tax
- 3 Managed portfolios allow tax parcel optimisation at an account level
- 4 Substitution & exclusion of assets to cater for client preferences and restrictions
- 5 Managed portfolios allow advisers to determine which assets are sold or retained to control CGT
- 6 Transparency to give visibility of what's owned and what's happening in a portfolio.

OBSERVATIONS FROM HUB24

- Providing quality advice for clients **relies on understanding their specific circumstances**, but advisers also need a clear understanding how new products and features offered by contemporary platforms can enhance client outcomes
- There is **clearly demand from advisers for platform technology that supports them with achieving better client outcomes** such as assisting with active tax management of a client's investment portfolio
- The functionality, features and flexibility of **managed account solutions provided on contemporary platforms are providing new opportunities for advisers to enhanced their clients outcomes**



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Questions

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