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Advice in a Post Royal Commission
World

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Simon Carrodus – The Fold Legal
Tom Bignill – Mason Stevens



About IMAP

Upcoming Events

- Adviser Roadshow – March 2019
 - Melbourne / Sydney / Brisbane

Investment Forum

- January 29th

ADVICE IN A POST

ROYAL COMMISSION WORLD.

Simon Carrodus

December 2018



THEFOLDLEGAL.COM.AU

INTERIM REPORT.

- + Released on 28 September 2018.
- + No recommendations, only observations and findings.
- + Hundreds of submissions.
- + Final report due 1 February 2019.



MANAGED ACCOUNTS.

- + Managed accounts offer advantages to both clients and advisers.
 - + Not immune from the effects of the Royal Commission's recommendations.
 - + Challenges:
 - + In-house conflicts; and
 - + Ongoing service fees.
-

CONFLICTS OF INTEREST.

- + Understanding the conflict in recommending an in-house product/service.
- + Structural separation?
- + Much closer scrutiny of in-house recommendations.

“How far should there be separation between providing financial advice and the manufacture or sale of financial products?”



STRUCTURAL SEPARATION?



- + Best interests duty (s961B):
 - + Do your product research.
 - + Link the advice back to the client's needs and objectives.
- + Provide appropriate advice (s961G).
- + Conflict priority rule (s961J) – important for in-house recommendations.

ASIC REPORT 562

- + Big four banks plus AMP.
- + 68% of client funds invested in-house products.
- + 200 client files reviewed.
- + 75% of files were non-compliant.





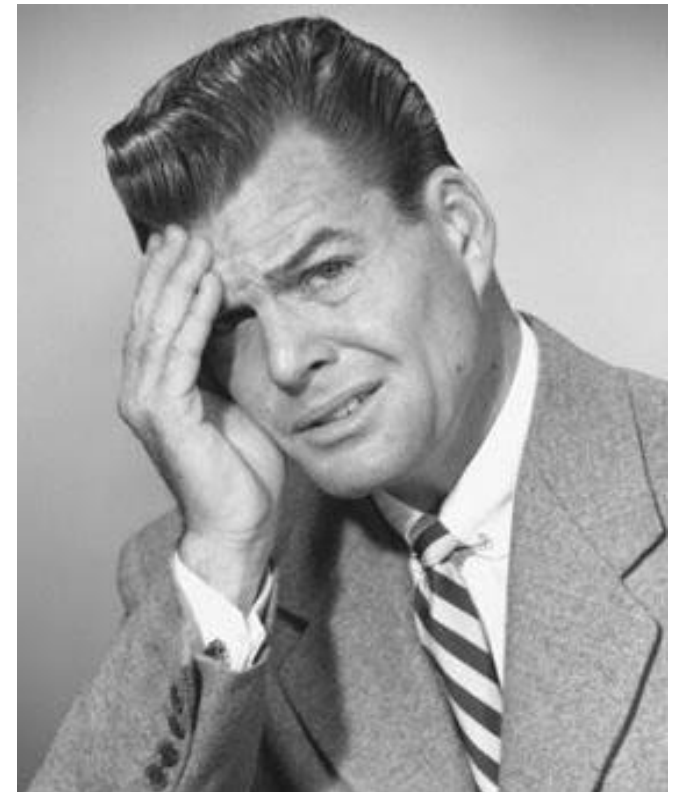
**IF A TREE FALLS IN
THE WOODS...**

IN-HOUSE RECOMMENDATION

- + Research the client's existing product.
- + If the existing product is able to satisfy the client's needs and objectives, it will be difficult to justify a recommendation to replace it.
- + Perform a like-for-like comparison between the existing product and the in-house product.
- + Replacement product advice will *generally* be inappropriate if:
 - + benefits of in-house product are lower; or
 - + costs of in-house product are higher;
 - Unless you provide clear justification, linked to client's needs and objectives.

GIMME ONE GOOD REASON

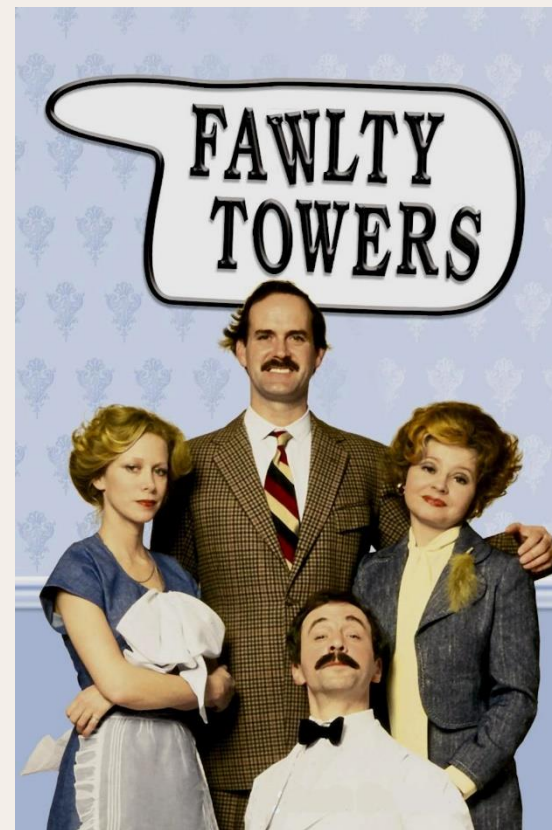
- + “You want to receive ongoing advice from me, and I don’t advise on your existing product.”
- + “This product provides regular reporting, online access, a range of investment options etc...”
- + “This product allows me to monitor your investments more easily.”
- + “This product allows your advice fees to be deducted directly from your account.”



FEES FOR NO SERVICE.

“Advisers often treated ongoing service arrangements as nothing but trail commissions for advice that had already been given.”

- + Damning of the “Fees for no service” scandals (ASIC Report 499).



ONGOING SERVICE

"Ongoing service arrangements were often very loosely-defined, but also defined in a way that had little or no substantive content."

- + Question of value for money.
- + Hayne critical of asset-based ongoing fees.
- + Ongoing fees to be charged directly?

"Should the adviser and the client have to renegotiate an ongoing service arrangement annually?"

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IMAP Webinar, 06 December 2018



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Advice fees in the future

We believe that a future-proof advice practice will charge for services along the following lines:

- **Annual retainer** – flat fee amount that offers a defined set of services for a client.
- **Hourly rate** – a defined charging rate for situational advice over and above the services provided within the Annual Retainer.
- **Investment advice fee** – an investment advice fee delivering a flexible yet scalable solution to clients. This can be structured as basis points.

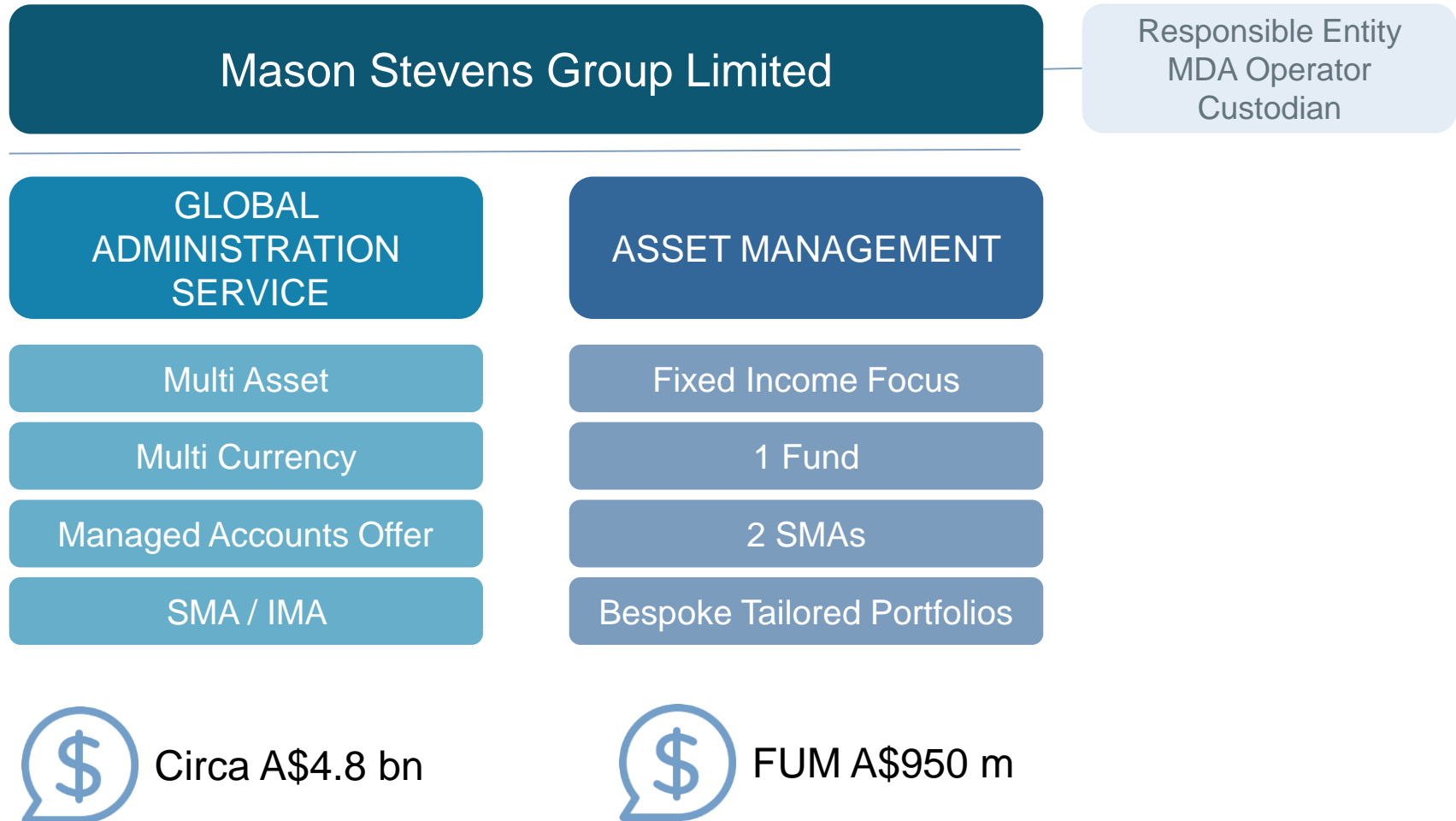
Scalable Investment solution

The scalability aspects of a managed account solution are relatively well known.

These include:

- A range of risk profile or goals-based solutions for clients in a single service
- Speed of implementation across all client portfolios when an investment decision is made
- Ability to substitute managers quickly and seamlessly
- Ability to tailor individual client portfolios using scalable “building blocks” derived from the managed account service
- Adviser and client transparency of holdings
- Ability to create blended portfolios using scalable managed accounts, in combination with bespoke client portfolios

Corporate Structure



Unconstrained Investing

GLOBAL EQUITIES






FOREIGN EXCHANGE

£ \$
¥ €

GLOBAL DERIVATIVES & COMMODITIES



Your clients
wealth



One Account

TD HUB





MARGIN LENDING

Wholesale Margin
Lending

MANAGED ACCOUNTS & MANAGED FUNDS

FIXED INCOME

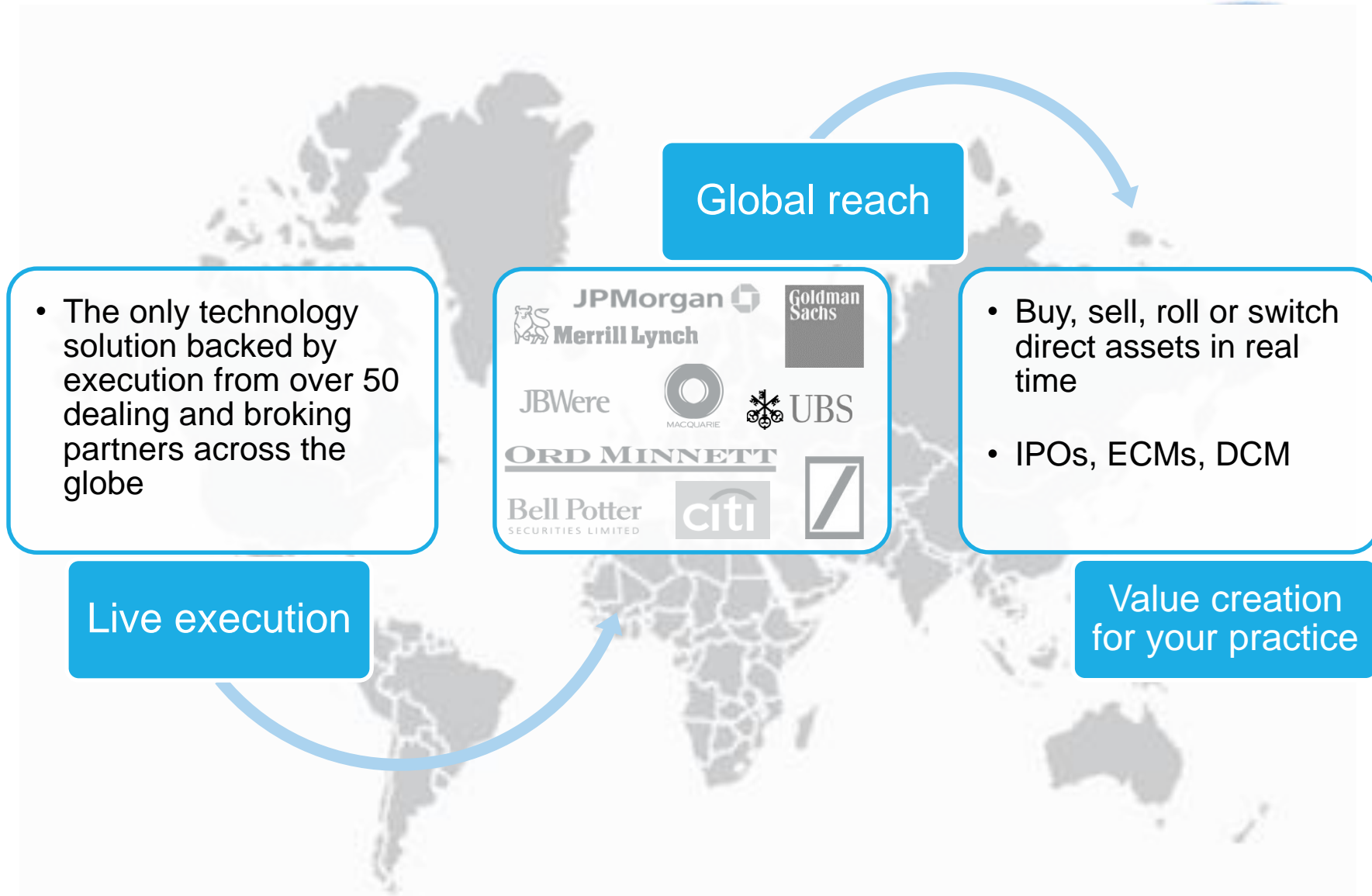
Corporate Bonds,
RMBS, Sovereign

Unconstrained Investing:

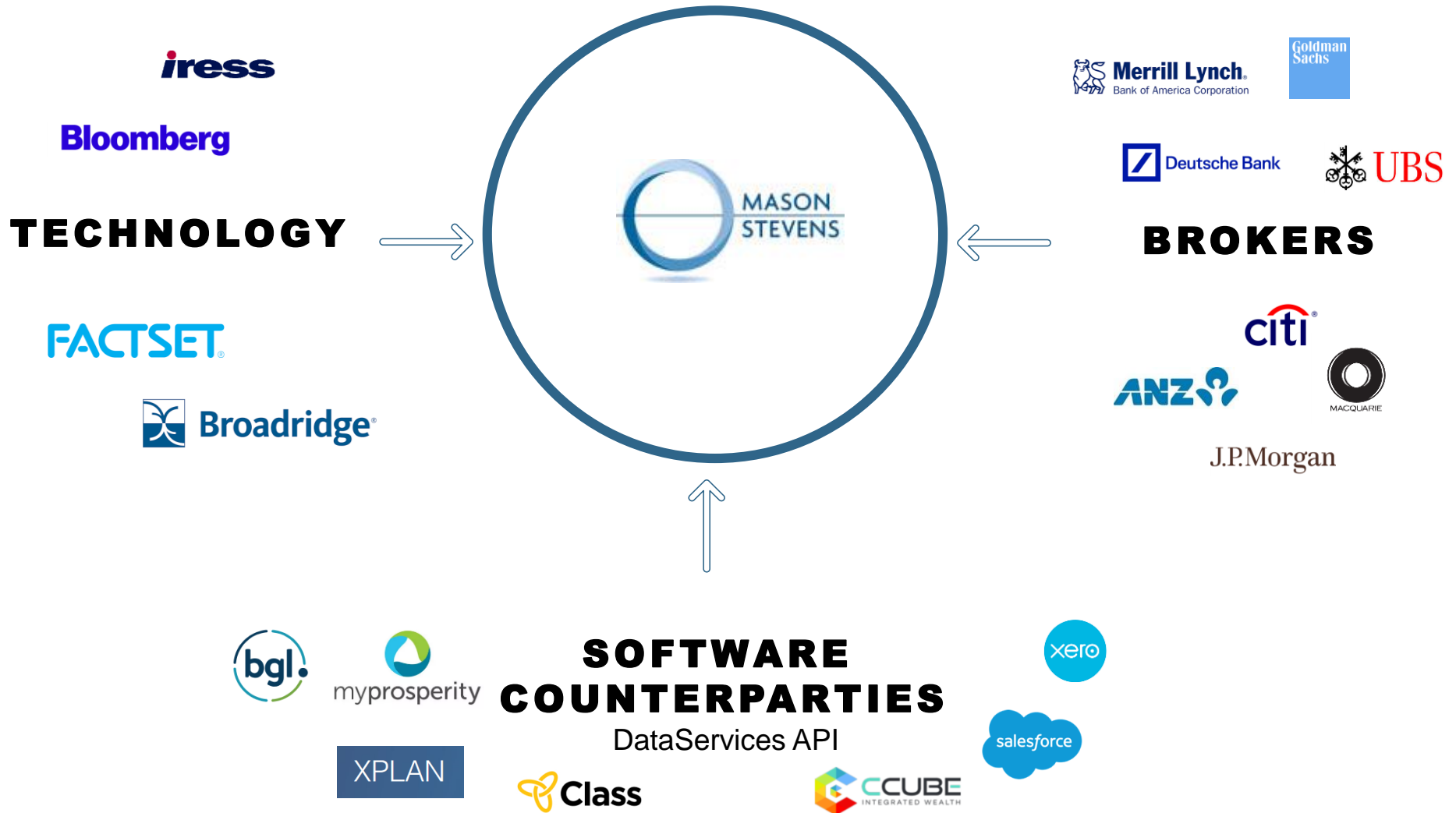
some live examples

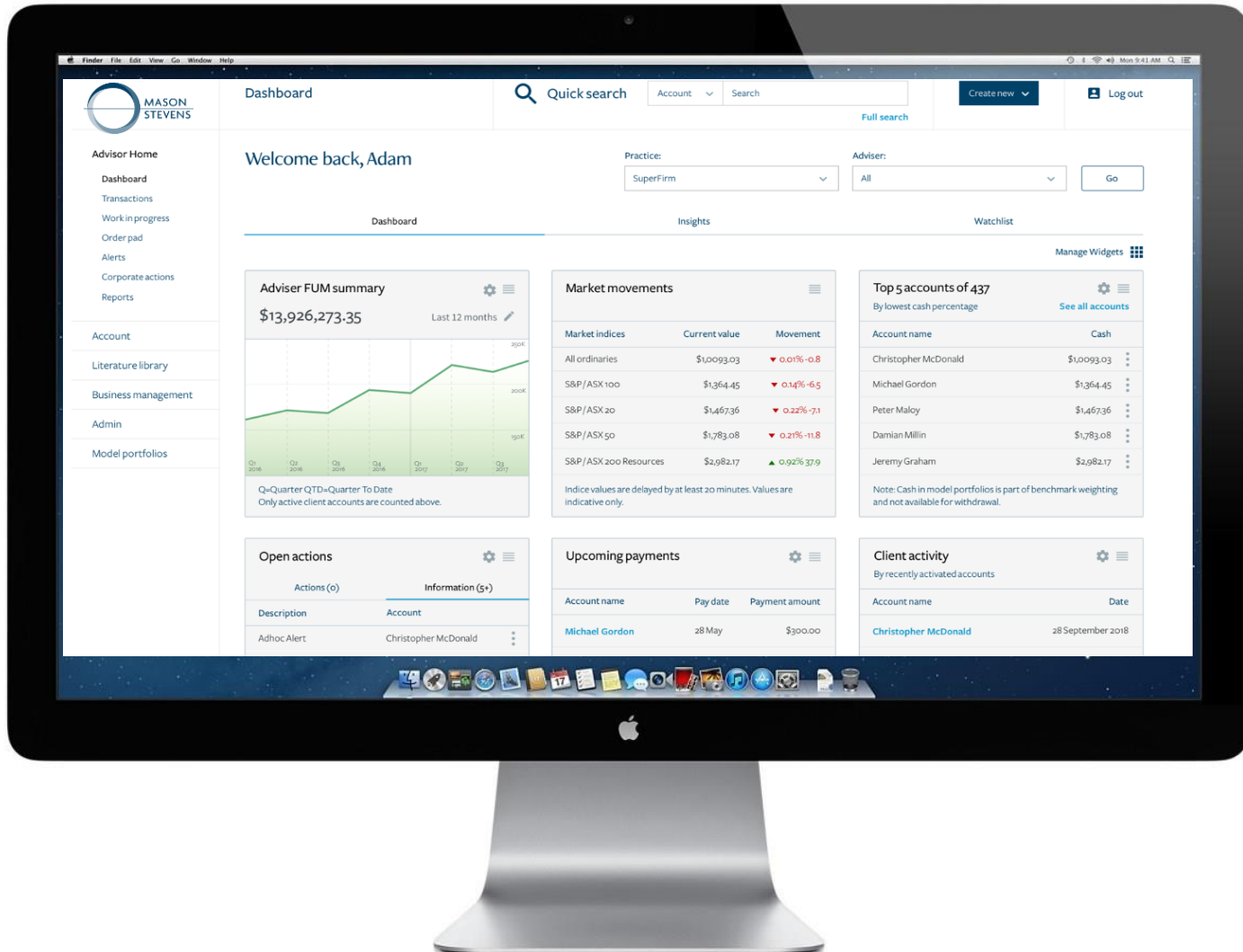
- Reporting at the consolidated “household” level, with an ability to drill down into separate portfolios and look at performance against relevant benchmarks
- Tax optimisation across all holdings at an entity basis
- Client able to segregate assets for example just USD assets in a portfolio, keep the account domiciled in USD, and never expose it to AUD
- Client may want to isolate reporting on specific non custodial assets, or potential Private Equity investments with ongoing cash calls

Global Market Access



Multiple Partnerships





Dashboard

Quick search

Account Search

Create new

Log out

- Advisor Home
- Dashboard
- Transactions
- Work in progress
- Order pad
- Alerts
- Corporate actions
- Reports

- Account
- Literature library
- Business management
- Admin
- Model portfolios

Welcome back, Adam

Practice: SuperFirm Adviser: All Go

Dashboard Insights Watchlist

Manage Widgets

Adviser FUM summary

\$13,926,273.35 Last 12 months



Q-Quarter QTD=Quarter To Date Only active client accounts are counted above.

Market movements

Market indices	Current value	Movement
All ordinaries	\$1,0093.03	▼ 0.01% -0.8
S&P/ASX 100	\$1,364.45	▼ 0.14% -65
S&P/ASX 20	\$1,467.36	▼ 0.22% -7.1
S&P/ASX 50	\$1,783.08	▼ 0.21% -11.8
S&P/ASX 200 Resources	\$2,982.17	▲ 0.92% 37.9

Index values are delayed by at least 20 minutes. Values are indicative only.

Top 5 accounts of 437

By lowest cash percentage See all accounts

Account name	Cash
Christopher McDonald	\$1,0093.03
Michael Gordon	\$1,364.45
Peter Maloy	\$1,467.36
Damian Millin	\$1,783.08
Jeremy Graham	\$2,982.17

Note: Cash in model portfolios is part of benchmark weighting and not available for withdrawal.

Open actions

Actions (0)		Information (5+)	
Description	Account		
Adhoc Alert	Christopher McDonald		

Upcoming payments

Account name	Pay date	Payment amount
Michael Gordon	28 May	\$300.00

Client activity

By recently activated accounts

Account name	Date
Christopher McDonald	28 September 2018

Contact



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