FinClear

Look Ma, no platform!

13 November 2019

What are you talking about?

Does anyone understand me?

Probably not…

Even more of an issue with Managed Accounts

PDS

MIS

MDA

SMA

IDPS

SOA

APL

IMA

PMA

ROA

Some clarifications (which I'm sure not everybody will agree with!)

WHAT IS A MANAGED ACCOUNT ANYWAY?

- Can come in many forms, for example:

SEPARATELY MANAGED ACCOUNT ("SMA")

- An SMA is not necessarily an MIS…traditionally in Australia they have been but they don't have to me…an SMA can simply be a strategy that an advisor advises a client to directly invest using a model portfolio. So a service rather than a product.
- Advisors and clients can use model portfolios to construct investment outcomes outside of a wrap platform.
- Historically this was clunky and expensive for an advisor to build and manage this construct hence the rise in the use of platform SMA's through an MIS….effectively an ***"MIS within an MIS".***

MANAGED DISCRETIONARY ACCOUNT ("MDA")

- MDA's are often described as a product but in reality they are a service….a way for advisors to supply and service any investment option whether it be a Managed Account, direct share trading or any other kind of investment product.
- In fact, an SMA or an IMA is often also an MDA!
- Despite recent negative publicity around MDA and ASIC's (justifiable) concerns, there is nothing inherently wrong with using this service….assuming the service is suitable for each particular client and the terms of the MDA mandate are complied with.

What are we seeing in the market?

Three distinct drivers of change

GOVERNMENT AND REGULATION

Royal Commission

- Dislocation of advice – consumers moving to independent advice
- Movement away from vertically integrated bank platforms
- Focus on cost of advice and platforms

TECHNOLOGY

Scale and Efficiency

- Compression of margins to drive technology demand
- Australian market dominated by expensive bank and large independent platforms with multiple layers of fees
- Lack of a non platform alternative

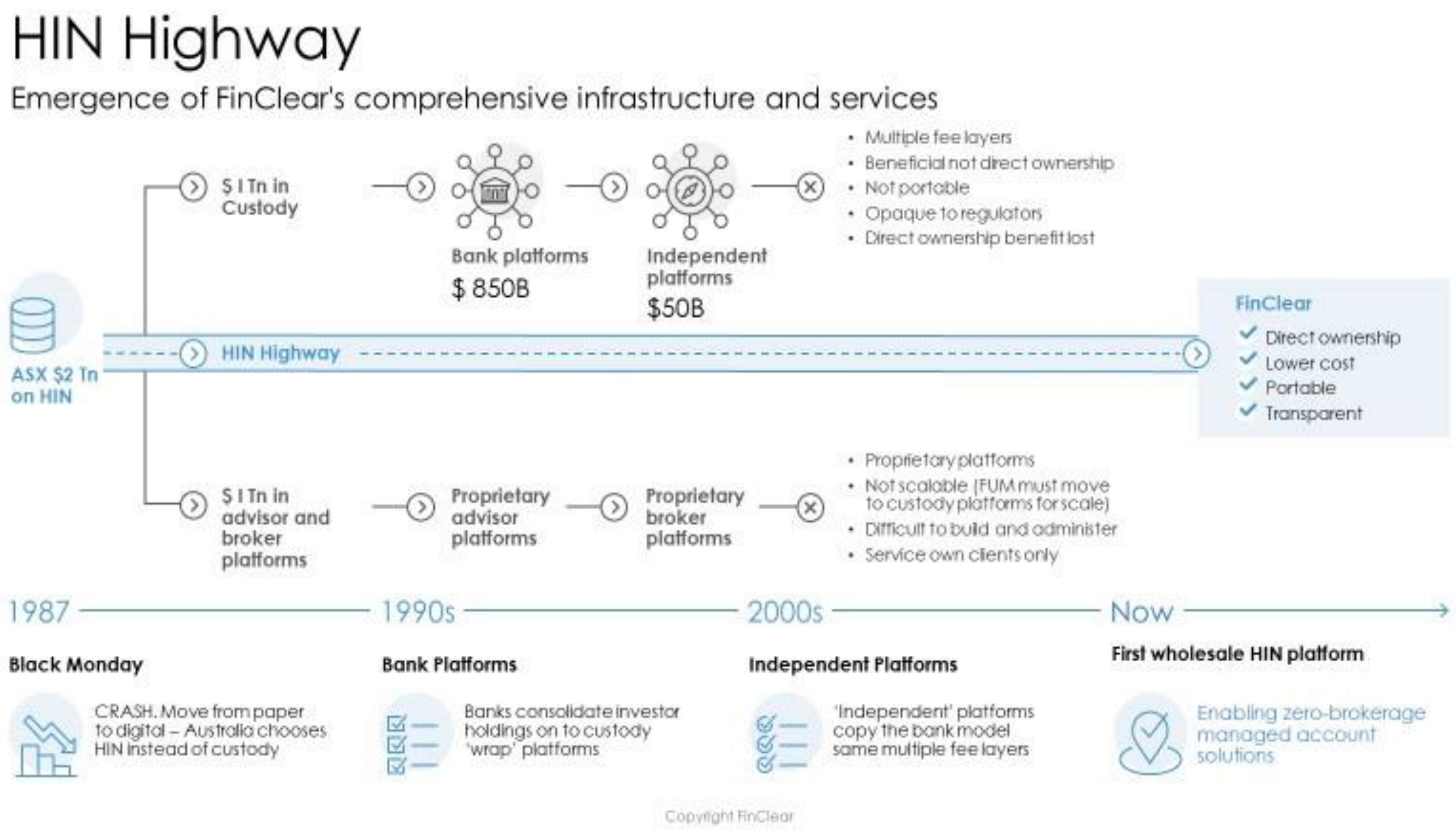
GREATER DIVERSITY OF ASX LISTED INVESTMENT OPTIONS

HIN platform capability delivers more cost effective solution

- HIN is the ASX platform
- 100% of investment asset allocation can now be accessed via ASX listed securities (HIN)
- No need for listed assets to be held on custodial platforms

HIN Opportunity

Shift away from custody products



The present – HIN Managed Accounts Platform (‘TC Invest’)

Platforms of the 'past' put HIN enabled assets into a custodial solution

Platforms of the past

HIN enabled assets | **Non-HIN enabled assets**

Custodial platform

Why?

- Platforms were developed to provide 'dashboards' and reporting on typically unlisted managed funds held across numerous product manufacturers
- Bank-aligned platforms were the 1st and biggest
- Many independent platforms simply 'followed suit' and didn't structure themselves with a HIN hosting capability
- The broking community did not develop any 'enterprise' level HIN capability to provide platforms with any real choice of an alternate structural approach to platform construction

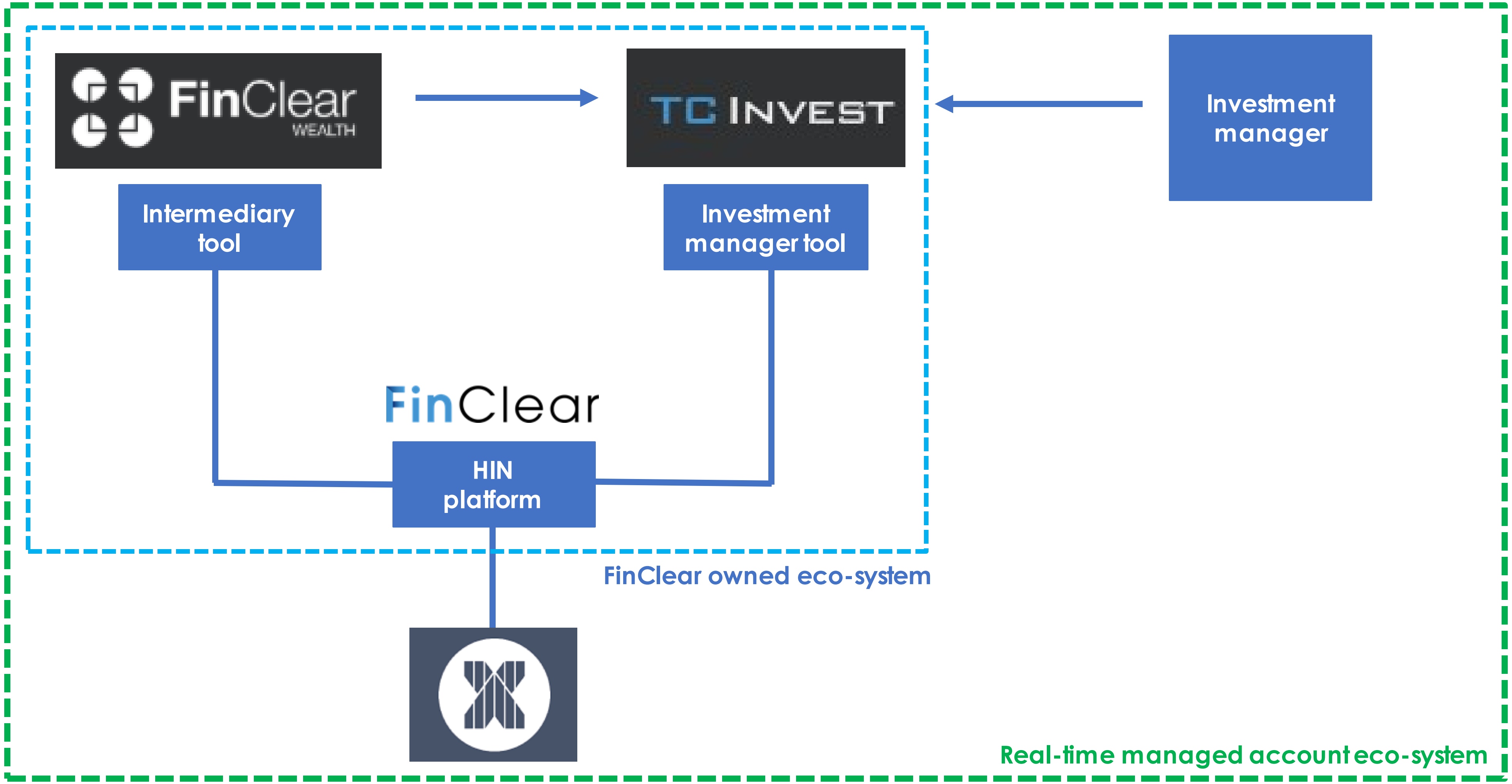
The benefits of an HIN enabled platform over a traditional custodial solution are numerous

HIN is lower cost and a more transparent structure

- There is no charge to sit HIN enabled assets on FinClear's HIN platform
- Charges only apply when there is activity
  - Broking
  - Managed account solutions
- Investors retain direct ownership of their assets within a HIN platform
- HIN is real-time technology enabled
- HIN enabled securities are growing at a rapid rate (eg. ETFs) so the ability for portfolio construction to be mostly or all HIN based is genuine
- The ongoing ASX technology project will only seek to enhance the attractiveness of HIN as a method of asset hosting infrastructure
  - Lower cost
  - Alternate cost structures (eg. flat fees as compared to value based fees)
  - HIN for the super industry

TC facilitates a ‘real-time’ eco-system

Investment managers connect directly into TC Invest



TC Invest provides for efficient model management

TC Invest '101' – The HIN Managed Account ("HMA")

- TC Invest allows investment managers to manage equity portfolios in an efficient manner
- Management of client portfolios linked to the selected model portfolios
- Real time execution of trades once model changes have been adjusted and confirmed
- Consolidated reporting for clients utilising CLASS or your provider of choice
- Linked cash accounts (Macquarie CMA as the preferred provider)
- Simplified structure allowing advisers to outsource investment management, trading & reporting in a managed accounts structure
- Corporate actions management on behalf of clients (not applicable for ETF investments)
- Direct ownership of shares on clients HIN
- Full visibility by the client of their holdings within the investment portfolio

FinClear believes HIN provides numerous benefits over custodial managed accounts

HIN is far simpler and cleaner

	FinClear HIN	Custodial
Legal ownership	Yes	No
Zero brokerage (MDA)	Yes	No
Single fee structure	Yes	No
Cash skim	No	Yes
Investment manager fee	Fully passed on to manager	Arrangements vary
Regulatory transparency	Full	Little
Portability	HIN transfers take 2 days	Difficult and potentially expensive
Tax transparency	Full	Varies, potential CGT implications
Real time execution	Yes	No
Small account balances	Low cost	High cost

The future – HIN enabled Super funds

FinClear sees itself as a direct beneficiary of the ASX's 'blockchain' project – Superannuation in particular

FINANCIAL REVIEW

AFR 28 Oct 2019: How ASX's blockchain will change finance

Sydney | Developers are planning on using the ASX's blockchain to bring registries in-house, automate proxy voting and mutualise KYC.

Selected quotes

- "….. expects ASX to trigger the redesign of many super products …."
- "….. by attaching a CHESS holder identification number (HIN) to a super account, an investment structure could be created that bypasses the pooled, unit trust so particular equities could be purchased directly on behalf of a member."
- "If that person wanted to switch funds with a similar asset allocation, the actual equities could shift too, rather than the current process of selling out of them and then buying them back. "
- "Custody is another archaic area of the financial markets set to go through a massive ASX-induced transformation."

The noise around costs is becoming louder

FINANCIAL REVIEW

AFR 23 Sep 2019: Sovereign wealth fund to fix super

London | Australians have been overcharged and under-serviced by their superannuation fund managers for too long – and they need the government to set up a low-fee, open-access sovereign wealth fund to fix the system, says the $575 million Financial Review Rich Lister Graham Tuckwell.

Selected quotes

- The growth in take-up of ETFs in Australia has been huge, but from a very low base. ETF funds under management have jumped from $1.5 billion in 2008 to $55 billion today, but still account for only 1.5 per cent of the Australian managed funds stock, and 10 per cent of turnover on the ASX.
- It's the fastest growing major market in the world, because it's finally catching up".
- He doesn't actually accept the label "passive investing". If you're choosing your ETFs – by geography, by commodity, by theme – then in his book you are in effect allocating actively.
- Tuckwell says 90 per cent of portfolio performance is based on asset allocation.