



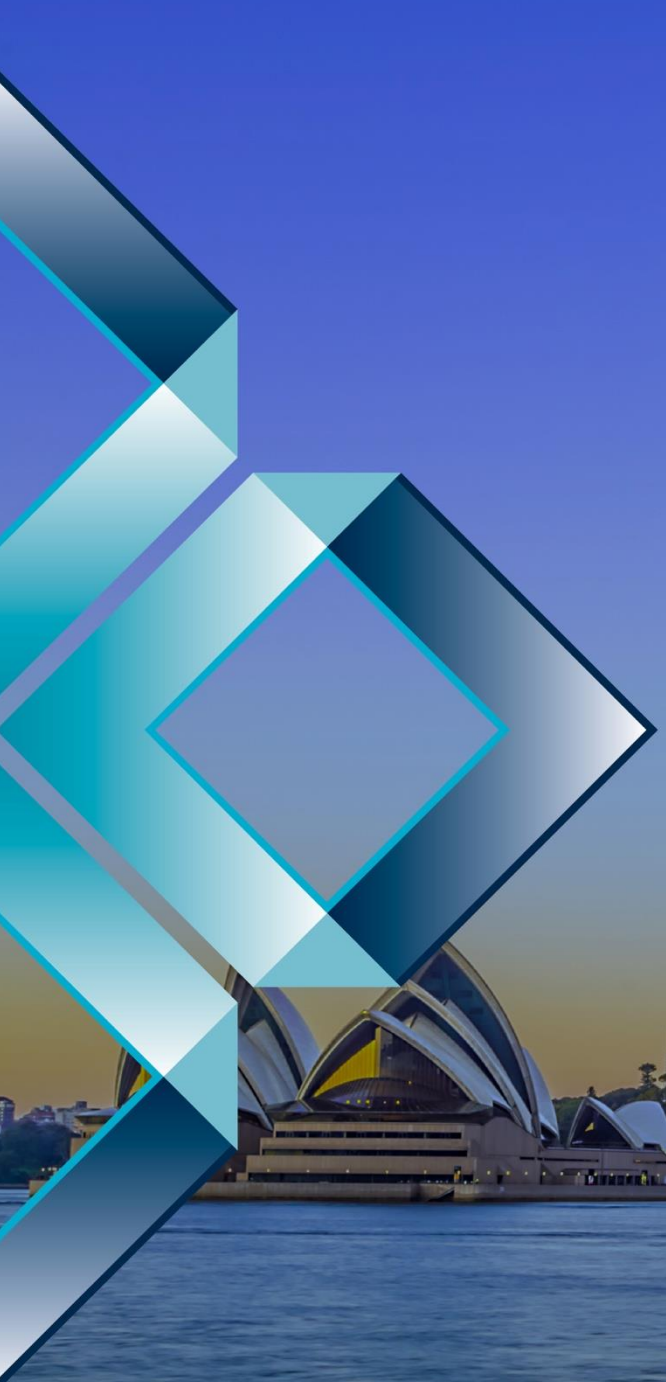
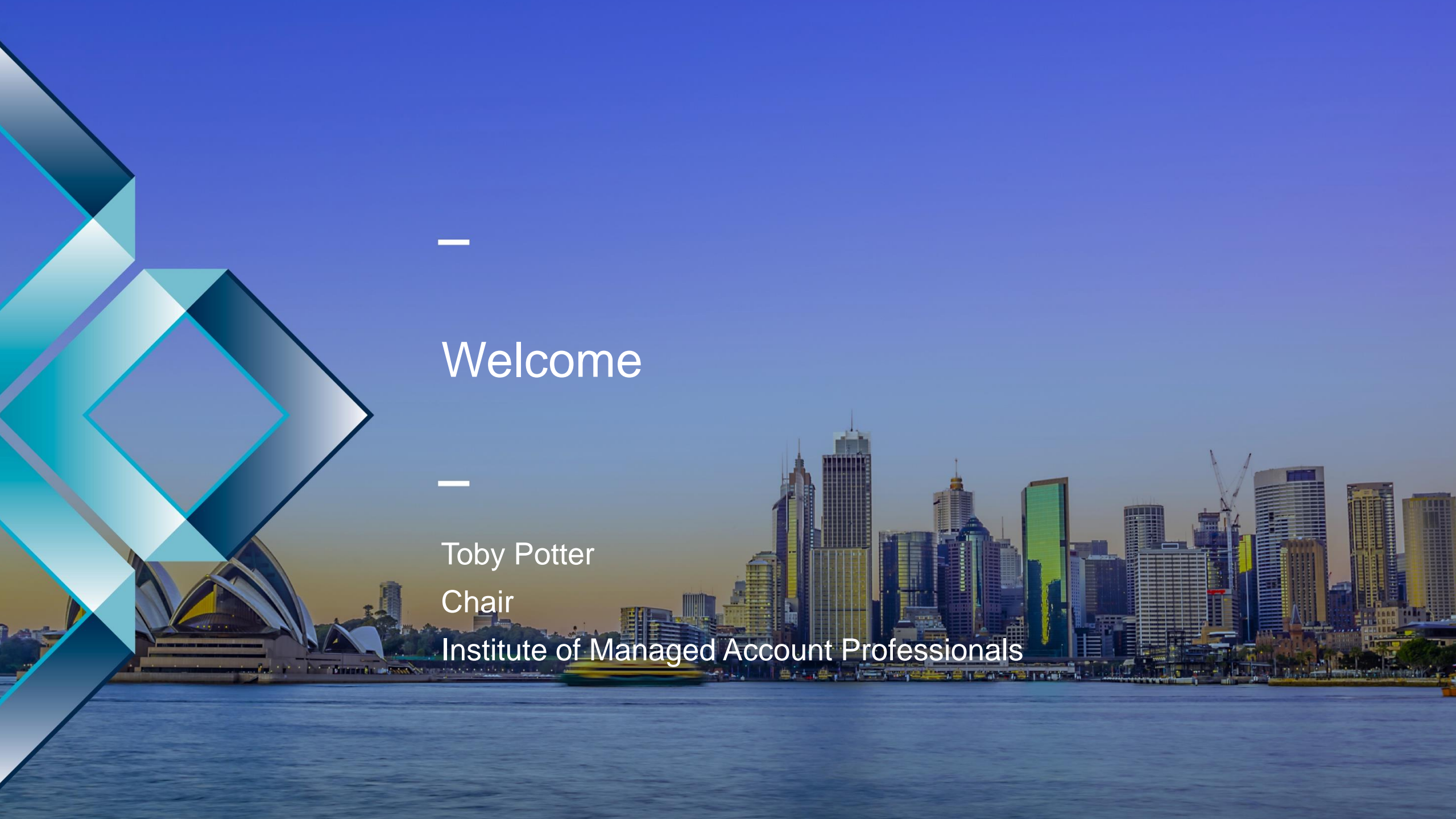
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IMAP Investment Forum – Revenge of the incumbents and Goals Based Advice

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Andrew McKie and Grayden Taylor – Elston Asset Management
Matthew Walker – WLM financial





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Welcome

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Toby Potter

Chair

Institute of Managed Account Professionals

About IMAP

- Managed Account Awards 1 August
- Portfolio Management Conference 2 August
- InvestTech – 8 November 2018
- Adviser Roadshow – March 2019

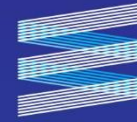
- Investment Forums
- Webinars

- Communities of Interest
 - Data Group
 - Regulatory Group
 - Investment Group in 2019



Upcoming Events

- InvestTech – Technology Transforming Advice 8 November
- Webinars
 - 3 September – Managed Account Awards Criteria
 - 19 September – Portfolios for Volatile Markets Lukasz de Pourbaix
 - 21 November – Best interest – Live from the FPA Congress
- Investment Events
 - 17/18 October Investment Breakfast – Lonsec, Private Investment Consulting, Antares
 - 15/16 November – Licensee Award Winner Stanford Brown w BlackRock
- Responsible Manager Masterclass 24 September
- Managed Account Central at FPA Congress



ELSTON
Customised Financial Solutions

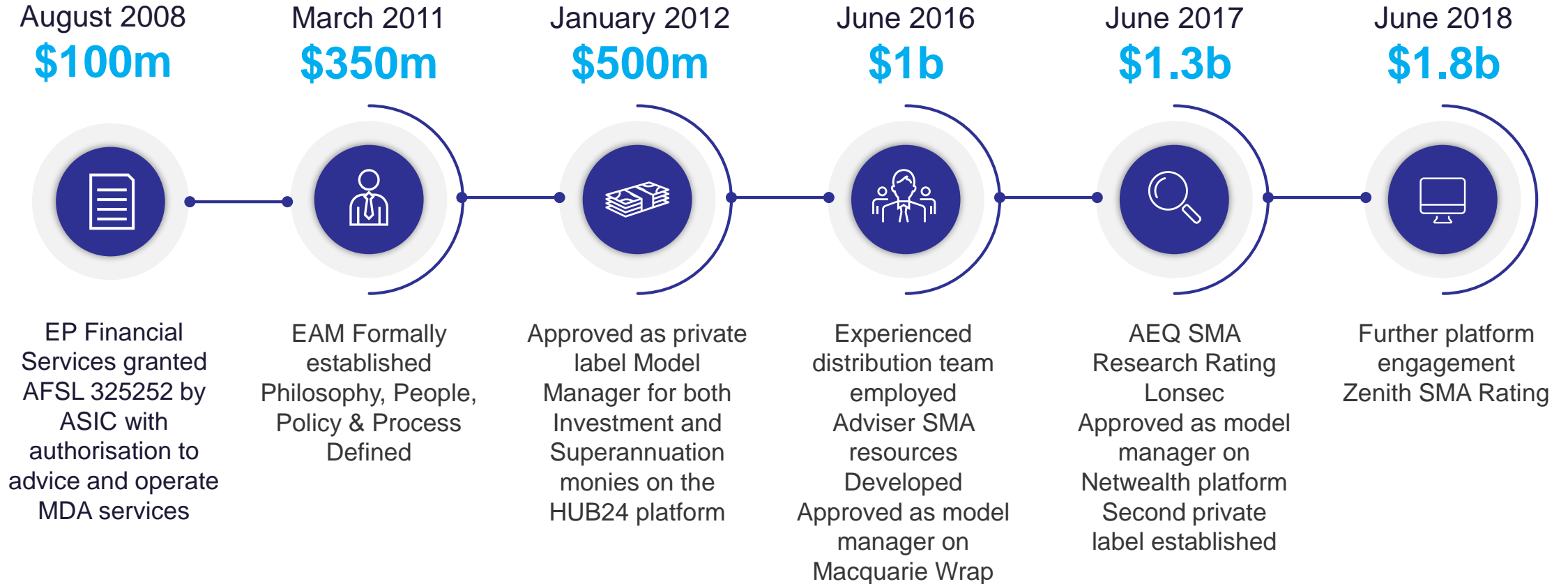
IMAP Investment Forum - Sydney, Melbourne & Brisbane

Friday August 31st 2018

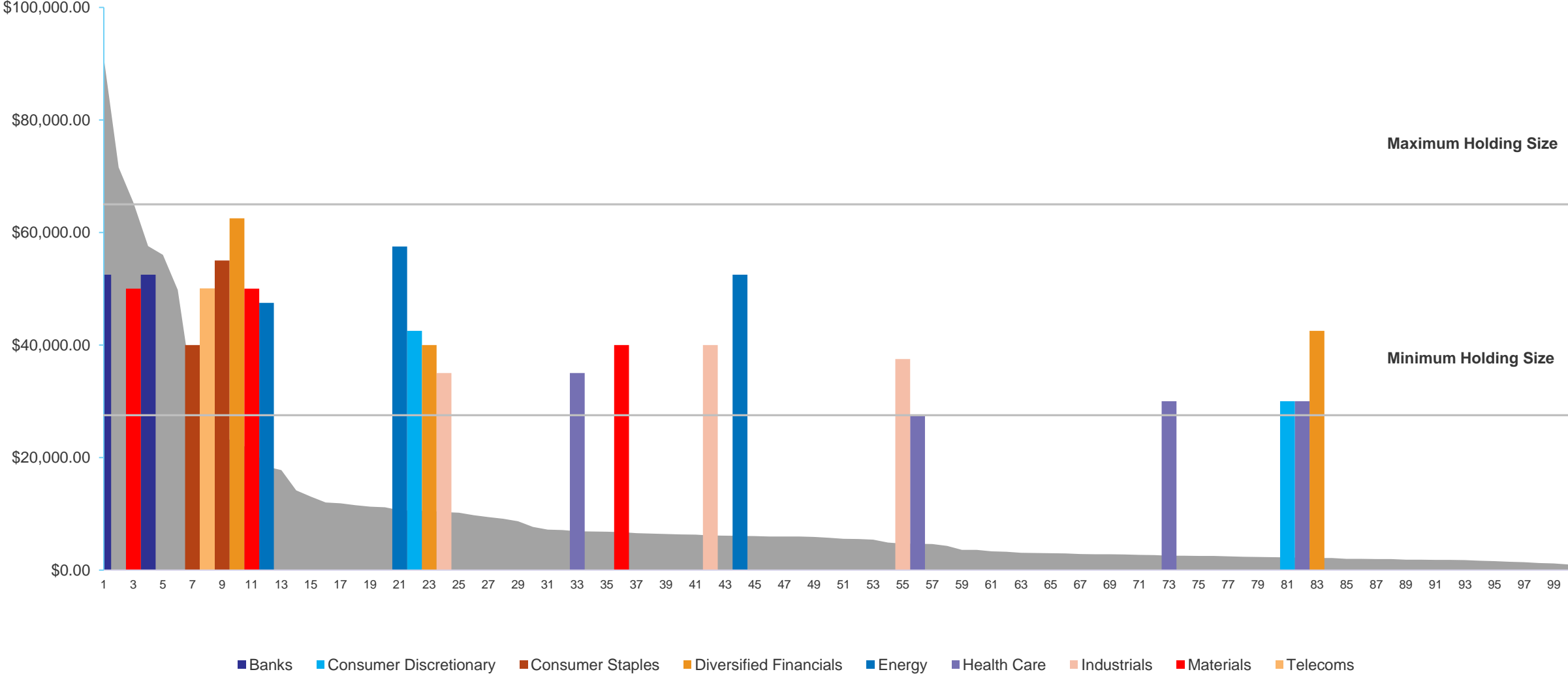
Disrupters II – the revenge of the incumbent?

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Corporate History

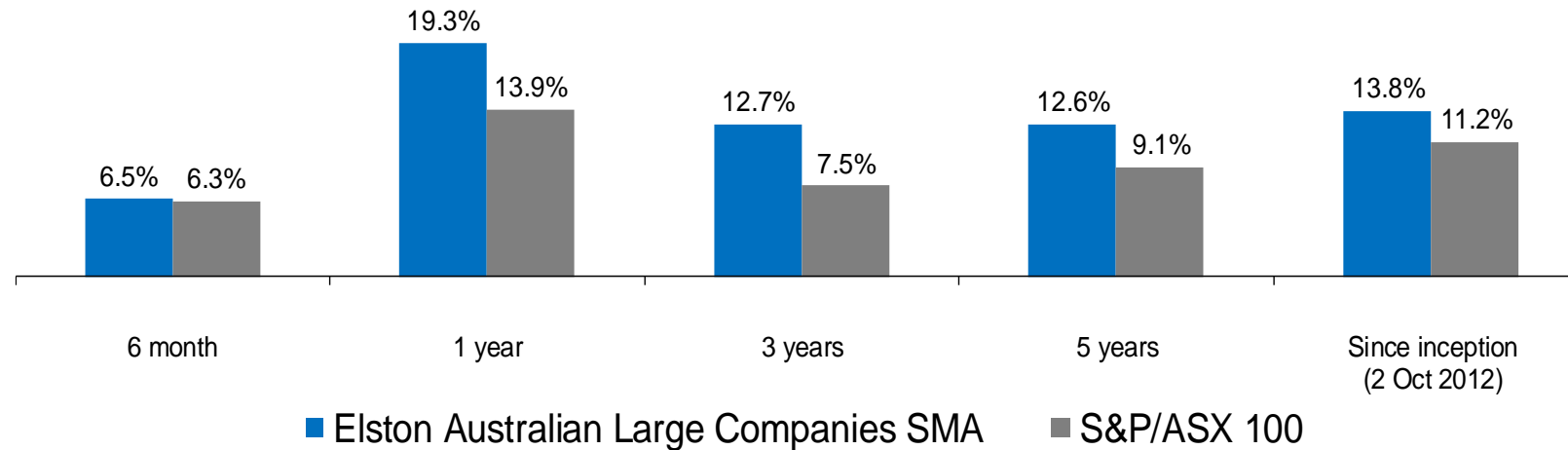


Genuine Diversity



Elston Australian Large Companies SMA performance

Performance versus benchmark



Outperformance¹	+0.2%	+5.4%	+5.2%	+3.5%	+2.6%
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Source: HUB24 and Elston Asset Management as at 31 July 2018. Benchmark is the S&P/ASX 100 Accumulation Index. The performance figures sets out the investment performance returns (AFTER investment management fees of (0.44% pa), but BEFORE administration fees, performance based fees and taxes). The performance returns have been calculated on a daily basis taking into account brokerage costs, and are accumulated for the relevant period.

Genuine Large Cap

Active exposure to the
S&P/ASX 100 with 80%
invested in the S&P/ASX 50

Style-neutral

Competitively priced

Team based approach

Excellent Long Term Track
Record

Stable & Aligned Team

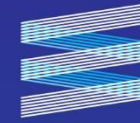
Repeatable Process driven by
Investment Philosophy.

Deep Managed account experience

After-tax focus

Adviser & Dealer
Communications

Award winning managed
account innovation.



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Disrupters II – the revenge of the incumbent?

The Netflix logo is displayed in red, bold, sans-serif capital letters within a light gray circular background.

The Disruption Thematic

- Disruption has come to define new businesses – often tech based that have taken on existing long term dominant forces in different markets

The Uber logo consists of the word "UBER" in white, bold, sans-serif capital letters centered within a solid black circle.The Airbnb logo features a white outline of the company's signature symbol (a stylized 'A' shape) above the word "airbnb" in a lowercase, white, sans-serif font, all set against a red circular background.

Disrupter Tailwinds

Speed &
Efficiency

Globalisation

Customer
Focus

Cheap Money

Unprepared
Incumbents

Digital
Marketing
Channels

Revenge of the Incumbent?

Zero Customer Acquisition Costs

Financial Strength

Leverage Fixed Software Costs

Embracing Innovation

Investment Opportunity or Threat?



- Strong suppliers channels built over decades
- Fresh a different category than non-discretionary
- Real estate footprint a plus
- Unique Australian factors – labour costs, population density, habit



Peak Amazon

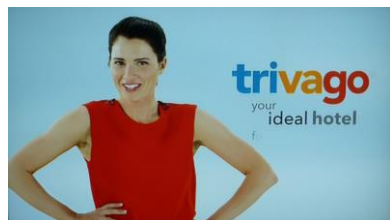


VS

The Disrupters



tripadvisor



- New entrants using technology
- Touting improving the “experience”
- But are they really just competing on price

Fundamentals	29-Sep-16
Market Cap	\$3,600m
FY17 EBIT	\$353m
Net Cash	\$474m
Surplus F/C	\$312m
EBIT Margins	15%
EBIT Growth	13%

Flight Centre We Can Use Technology as Well – plus traditional channels!

Digital Transformation Digital in All Channels



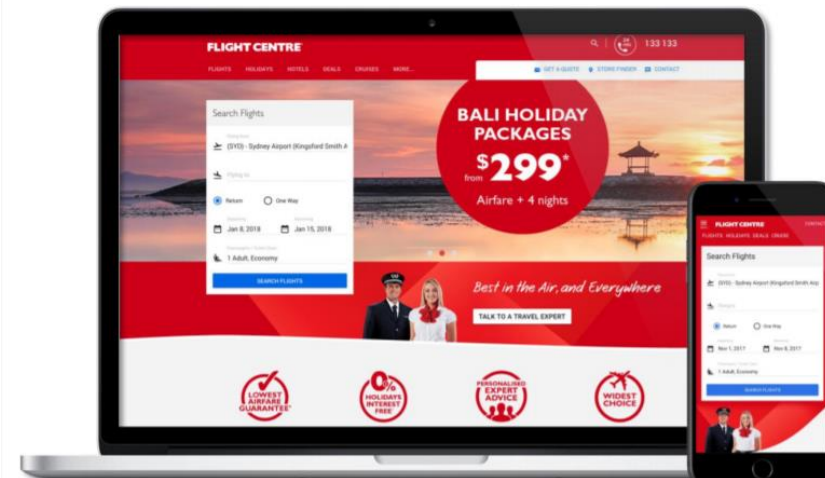
Digital Transformation Improving our services

Changing from a position of strength.



Digital Transformation Online Completion

Leisure e-commerce sales growing



Regulation

New entrants exploiting a regulatory loophole



Advantage not necessary the offering but slow moving regulators



Reregulation & Digital Transformation

20%

2012 Digital % of Wagering Turnover

42%

2018 Digital % of Wagering Turnover



business **retail**

Newsagents declare victory as Turnbull government moves to ban 'fake' lotto websites

CONTROVERSIAL "fake" lotto website Lottoland will be banned following a massive lobbying campaign by the newsagent industry.



Frank Chung [@franks_chung](#)



MARCH 27, 2018 1:44PM

Business Model Disruption

Government trying to be a disrupter and doing it as only a government can:

- Slower
- Dearer
- Older



Australia's
broadband
network

Commerical Incentive to Innovate

5G

FIRST PRECINCT OF 5G WI-FI HOTSPOTS IN THE

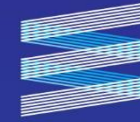


...in home,
...st uninterrupted.

...art.

...t a more reliable nbn™ connection
with the Telstra Smart Modem.™

Backed up by Australia's best
mobile network, to help get you back
up and running with fewer interruptions.
It's the smart way to connect to nbn.™



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Thank You



**Innovation
Winner**

2018 IMAP MANAGED
ACCOUNT AWARDS

Goals Based Advice & Investments in a Financial Planning Business

Presentation by Matthew Walker, CFP

August 2018

Download: [White Paper](#)

Why Goals Based?

[Wikipedia definition](#): Financial planning should cover all areas of the client's financial needs and should result in the achievement of each of the client's goals as required.

Goals Based is what we do.

Language..?

The market is using 'Goals Based' or 'Outcomes Based' language to refocus the discussion to clients from institutions. This is good.

Market is changing:

- Consumer awareness,
- information overload,
- technology,
- communications.

Market is evolving.

The evolution of a Planning Business

The GFC raised a lot of questions. Was there a better way?

Best place to start is to ask clients what they want:

1. Peace of mind
2. Understand what is going on
3. Don't lose our money
4. Good returns

Interesting that returns # 4 on list of client's priorities....

Problems..?

Training, education and systems all based on Risk Profiling and Modern Portfolio Theory. Fine in 'theory' but in practice there are problems.

Schroders: [Why Strategic Asset Allocation is Flawed](#) showed that SAA under-performed a 5% real return objective:

- **49%** of the time on a rolling 5-year basis, and
- **47%** of the time on a rolling 10-year basis.

Mark Wills from State Street Global Advisors: [Broad Thinking on Asset Allocation is Required](#) showed that through a cycle, between **33% to 50%** of investors may not reach their financial goals.

Consequences

Being one of those 35% - 50% 'unfortunates' can be life changing.

Investors are simply not getting the risk adjusted results they should. They are exposed to too much investment risk that comes from a reliance on outdated theories and institutional approaches.

The real risk to the investor is in not achieving their investment goals.

Unacceptable to WLM: **Too much risk** *

* for both clients + the financial planning business

Conclusion # 1

Goals Based Advice is what our clients want and what they understand.

Better able to target and communicate to specific investment goals:

1. Time = Liquidity / Liability matching, or
2. Risk = Protection of Capital, or
3. Return = Target capital required

The skill of a good planner is to help clients identify, understand and manage these goals and the solutions in a way they clearly understand and are comfortable with.

What are the differences between SAA and Goals Based portfolios?

The traditional SAA approach is to do a risk profile then apply a portfolio of assets that have historical attributes that 'match' the risk tolerance of the investor - no matter if it meets their needs or not.

Goals Based Investing actively manages portfolios that best matches the clients' needs.

If the idea is to improve the probability that a client will meet their goals, then what makes the most sense?

What approach would you chose for yourself?

Different Investment Philosophies



Risk Profiling or Strategic Asset Allocation (SAA): which typically believes that:

- Risk profiling is the most appropriate way to determine an investment strategy, and
- Risk means volatility of capital, and
- History is the best guide to future outcomes
- MPT builds optimal portfolios using historical data as markets are always efficient and repeatable, and
- Investors are always adequately rewarded for risk, and
- Markets will always mean revert.

Goals Based Investing or Dynamic Asset Allocation (DAA): which typically believes that:

- Investors actual needs should determine an investment strategy, and
- Risk is the probability of not meeting an investors goals, and
- Investors will have numerous different goals - so no one strategy or profile will suit all needs, and
- Markets are not always efficient - risk-reward opportunities arise from time-to-time, and
- Forward looking estimates and projections are more relevant, and
- The world is constantly changing, and
- Protecting capital is of paramount importance.

SAA clarified

Critical to understand that SAA is largely akin to a buy-and-hold strategy.

There may be some Tactical Asset Allocation (TAA) tweaks if it is being 'actively' managed but ultimately, SAA suggests that investors will benefit most by always staying invested in the markets, regardless of financial conditions or economic outlook.

WLM asked:

- 1. Does this work in the modern investment world?**
- 2. Is this how we want to invest for our clients?**

Has SAA held true?

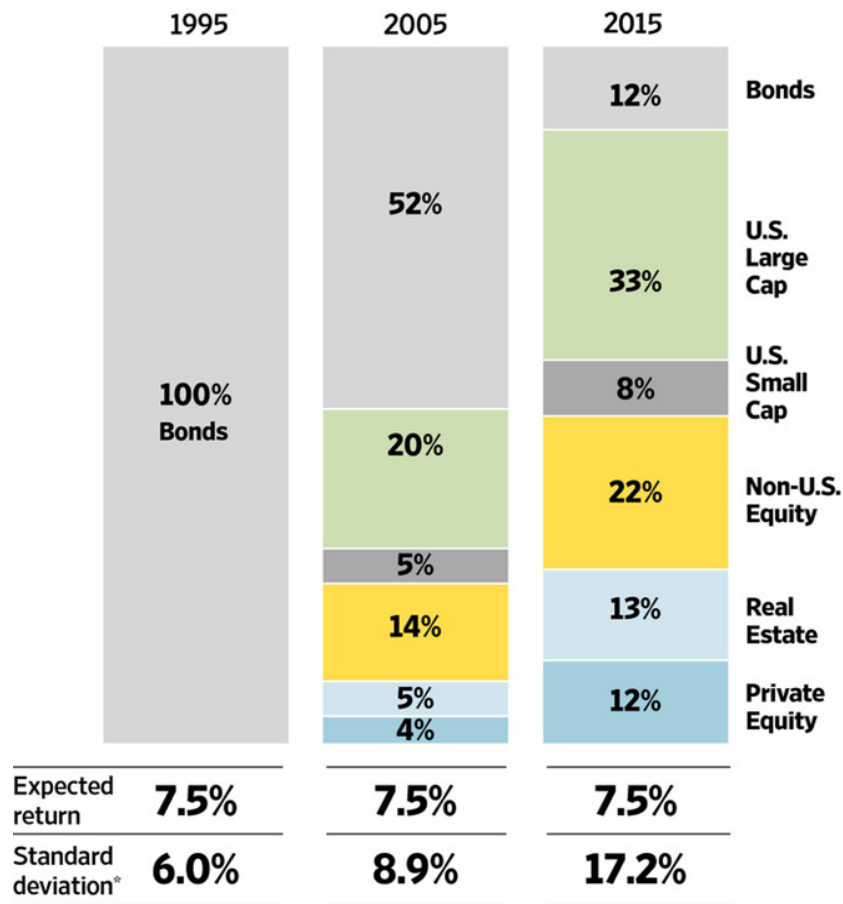
No.

This simple example shows how an investor wanting 7.5% return on their investments has had to change their portfolio over time – and with it the volatility of the portfolio.....

Rolling the Dice

Investors grappling with lower interest rates have to take bigger risks if they want to equal returns of two decades ago.

Estimates of what investors needed to earn 7.5%



*Likely amount by which returns could vary
Source: Callan Associates

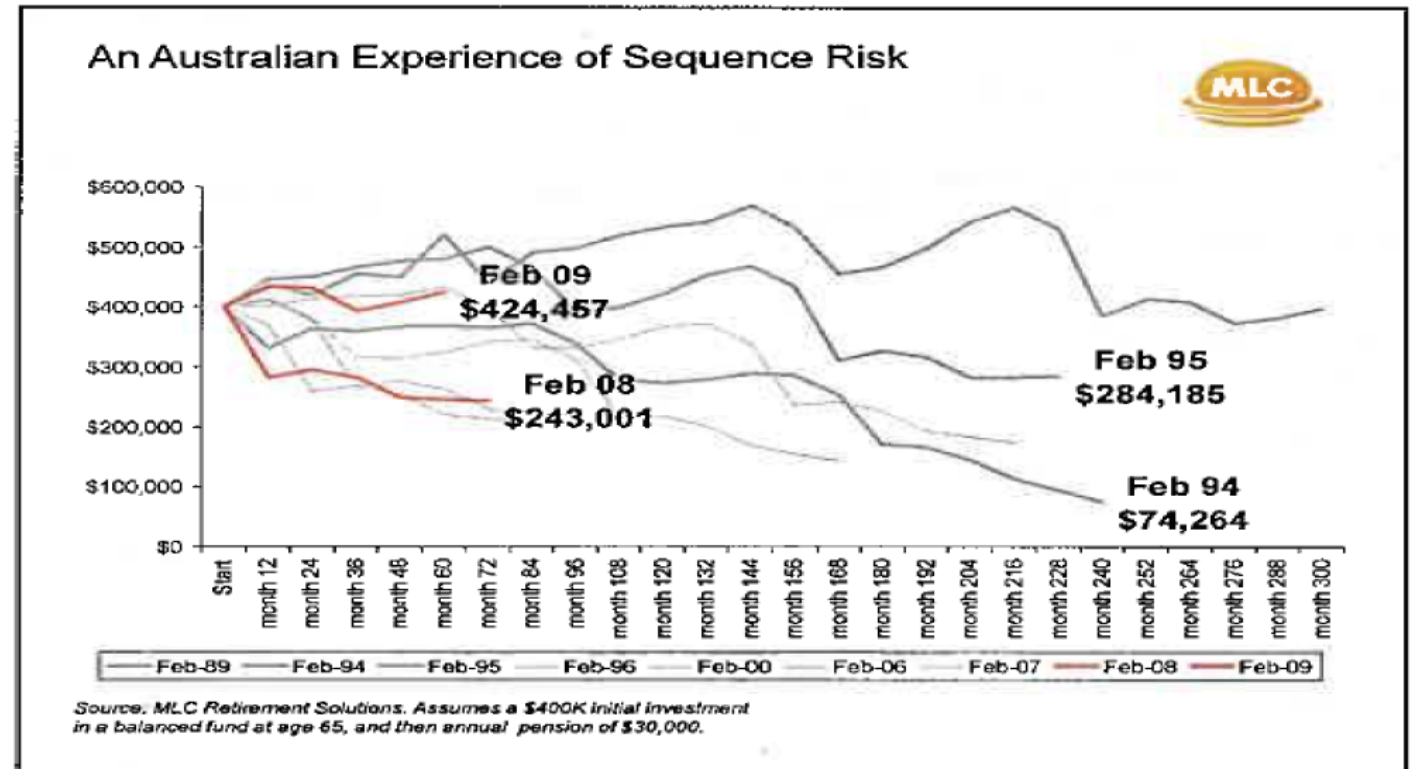
Timing

SAA ignores 'timing risk' to an investor

- Key milestones, such as retirement
- Sequencing Risk during drawdown
- Even during accumulation

Timing (luck) can be important using SAA

Timing of return series (and more importantly losses) is critical, especially for retirees who are drawing down.



Source: Brian Parker CFA, Senior Investment Consultant

Behavioural Finance

Individual experience, personality traits and unexpected market outcomes can significantly influence individual investment decisions.

Simple example: At the height of the GFC many investors panicked and went to cash. It was the worst possible time to sell. But their decision was understandable. They lacked confidence in a strategy that seemed too abstract to their needs.

It wasn't connected to their goals.

Goals-based planning helps address behavioural finance issues by directly linking the investment portfolio to the clients' goals.

They understand.

Conclusion # 2

Conclusion # 1: Goals Based Advice is what our clients want and what they understand.

Conclusion # 2: Goals Based Investing using DAA holds many advantages that deliver what clients actually want.

Result: clients have a greater sense of clarity, control and increased confidence. Business is good.

Note: Leading planning groups we spoke to through the [Association of Goals Based Advice](#) are using goals-based planning as a strategy to attract clients, gain their trust and build their business.

How to Execute?

It's critical that you can execute what you want effectively and efficiently.

The challenge: develop a scalable framework and service model to address the wants and needs of individual investors?

Market lacked any true to label “Goals Based Investment” offerings.

We needed a solution that starts with what the clients' want, had the right mandates to suit, good administration, good structure and skillset to deliver - efficiently.

Mandate Design

The mandates must relate to the clients' needs

Market indices have no relevance to clients' goals or requirements.

We needed appropriately targeted and risk-diversified multi-asset portfolios.

Asset Allocation ranges needed to be broad / flexible

Asset selection (APL) needed to be open to get best in class

The portfolios should only be populated with assets that were fit for purpose.

Administration Structure

Managed Accounts was the best fit for our clients as it provided individual investment management in a scalable and transparent way.

Managed Discretionary Accounts (MDA) licencing solution works best as we could operate consistently and efficiently, reducing time spent on writing SoA's, chasing up client authorities and executing trades.

This is supported by a [Managed Accounts Research Paper](#) released by BT in July 2017, which showed that advisers could **save up to 14.4 hours a week** in research, admin and compliance work, which in turn translated into additional revenue of \$45,000 p.a. through being able to take on more clients.

Skills

We all know how important good people are in a sustainable business

We recognised our strengths lay in planning, not Portfolio Construction or Management.

To deliver high quality Goals Based Investment portfolio management, we needed a different skillset.

You need the best people and resources that we could trust to do the job to the standard we, and our clients, expected.

The Solution



- True to label Goals Based Portfolios.
- Clients clearly understand the purpose and are comfortable.
- MDA efficiencies through Managed Account admin structure.
- Planning process more efficient and flexible.
- Market leading risk-return performance and downside protection.

[Dynamic Asset](#) provides a better way to deliver what clients want.

The Solution

5 mandates designed specifically for financial planning clients needs:

- Timeframes or Liquidity needs, and
- Return objectives, and
- Risk management requirements.

Multi-asset / multi-manager GBI portfolios executed under MDA using managed accounts:

- Transparent and simple for clients to understand
- Bespoke client solutions to match specific client needs or risk profile
- Blend portfolios through customised portfolio construction software
- Fully implemented turn-key solution highly efficient and simple to use
- Consistent 'Whole of business' solution for both investment + retail superannuation investors.

The Solution

Dynamic have a good team with strong experience in Goals Based Investing:

- Jerome Lander – Portfolio Manager
- Lonsec – Independent Research
- CPG – Independent Economists and Analysts
- Financial planner input to keep it ‘real’

Results from Dynamic Asset have been market leading with low risk.

Note: GBI is typically less volatile with good downside protection. It can under-perform in a rising market but out-perform in a falling market. This is explained further in the article “[What to expect from Goals Based Investing](#)”

The Result

WLM outsources the difficult job of portfolio management and administration to focus on core services.

Advisers have more time to work with clients on areas that are most important to them – their goals.

Clients are more satisfied and have peace of mind.

Business is simpler, more efficient with reduced costs.

A real win-win result for clients and WLM.



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Questions

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Closing Remarks

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Toby Potter
Chair

Institute of Managed Account Professionals

