

CAS Investment Advisory Service

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Investment Advisory

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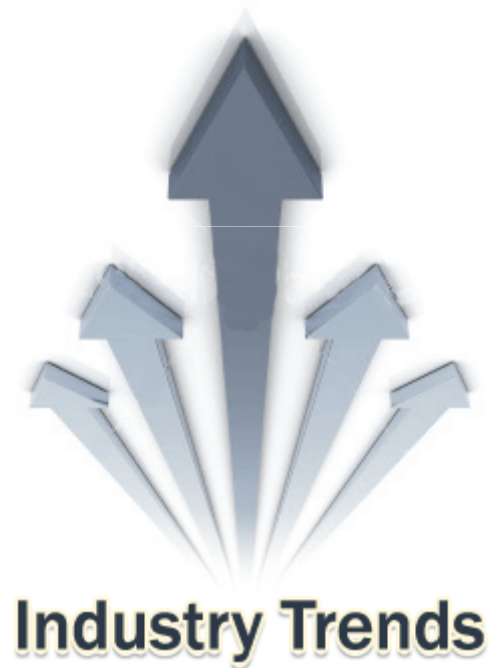
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Industry Trends – Issues Adviser Facing

- FOFA & Fee for Service
- Lower Fees & Investment Transparency
- SMSFs



Investment Trends Results



- By the year 2017, for every \$1 invested in managed funds, \$0.71 is expected to be invested into equities
- 76% of advisers are either investing, or planning to invest, in direct equities

Source: *Investment Trends Pty Ltd. March 2014 Planner Direct Equities & SMA Report*

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Investment Trends Results

Reasons for investing in Direct Equities

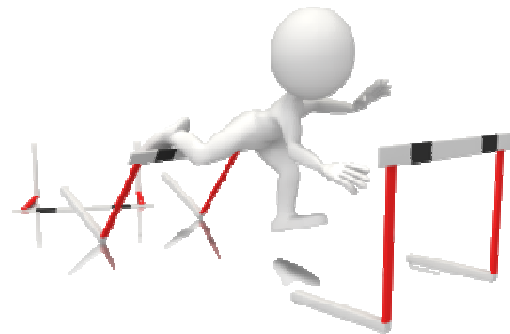
- Dividends
- Franking Credits
- Cost Effective
- Client Demand



Investment Trends Results

Hurdles to Direct Equities

- Compliance Risk - #1
- Too much work - #2
- Prefer to access asset class through professional fund managers



Source: *Investment Trends Pty Ltd. March 2014 Planner Direct Equities & SMA Report*

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What to do?

- Discretionary solution is most efficient
 - Easy
 - Professional
 - Outsource solution to concentrate on client engagement

- But does it apply for all cases?
 - Cost
 - Client control
 - Smaller portfolios



Dynamic Model Portfolios

- What is a Dynamic Model Portfolio?



Dynamic Model Portfolios

- Insourcing this type of expertise can change an advisers Value Proposition.
- Low Cost
- Efficient
- Ongoing Service Proposition
- Built for Advisers – SOA inserts, turnover cap, etc.
- Allows Flexibility – combine with bespoke portfolio service & other CAS solutions
- CBA Accelerator Cash Account



Dynamic Model Methodology

Proven Portfolio Methodology

- Top down & bottom up
- Depth of research
- Balance sheet
- Ratio's
- Balanced and dynamic weightings
- Diversification of earnings

- Investment Committee participation

- Long term investment horizon
- Appropriate turnover
- Appropriate risk profiles

**Investment Advisory
Income Model Portfolio**

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June 2013

Portfolio Methodology

The portfolio selected is constructed by adopting an extensive quantitative and qualitative approach. The individual portfolio components are selected based on quantitative financial modelling and research from Morningstar coupled with CommSec Adviser Services' proprietary qualitative overlay. The portfolio constructed takes into account varying macro and micro economic conditions as well as underlying economic sector performance or trends.

When analysing individual businesses for possible inclusion in the <Income Portfolio>, the research team focus on hygienic balance sheets, strong cash flows, management experience and history, diversification of business operations, the overall competitive landscape, as well as strong projected earnings growth and/or stability. To achieve some of these fundamental requirements for inclusion, a number of standard financial ratios are used to measure a company's overall suitability. These ratios or measures include, but are not limited to; Debt to Equity (D/E), Interest Cover (IC), Net Dividend Yield or Franking, Price to Earnings (PE) and Earnings per Share (EPS).

As a guide, all companies selected must have a debt to equity ratio of less than 50%, and a minimum interest cover of 2.5 times. Any company with debt to equity between 50% and 60% must have an interest cover of approximately 5 times, or any company with debt to equity between 60% and 70% must have an interest cover of approximately 10 times. Companies with a debt to equity ratio greater than 70% and less than approximately 10 times interest cover are generally excluded from portfolio selection - however we do reserve the right to include companies outside of these D/E & IC benchmarks, if companies exceed other agreed benchmarks on a comparative, or relative basis.

Balance sheet and cash flow ratios are employed as measures to reduce the overall risk of shareholder wealth being diluted, due to any company held within the portfolio experiencing financial difficulties, or facing the possibility of default.

A number of crucial diversification techniques have been employed in the construction of the <Income Model>. These include limiting individual sector exposure to no more than 50% of the total portfolio, or three times the S&P/ASX200 index weight. We also look to limit the individual weighting of any one company within the portfolio to a range of 5% to 15%. We always seek to have exposure to at least 4 major economic sectors, and at least 6 underlying Morningstar defined industry subsectors.

Companies with a single product focus are generally excluded from the stock universe we draw from due to insufficient diversification. Diversification within a company's earnings is required to soften the impact of potential competition and/or a downturn in their particular sector.

Due to existing business arrangements and a perceived conflict of interest, we do not recommend or include any listed entities of the CBA Group (Commonwealth Bank of Australia).

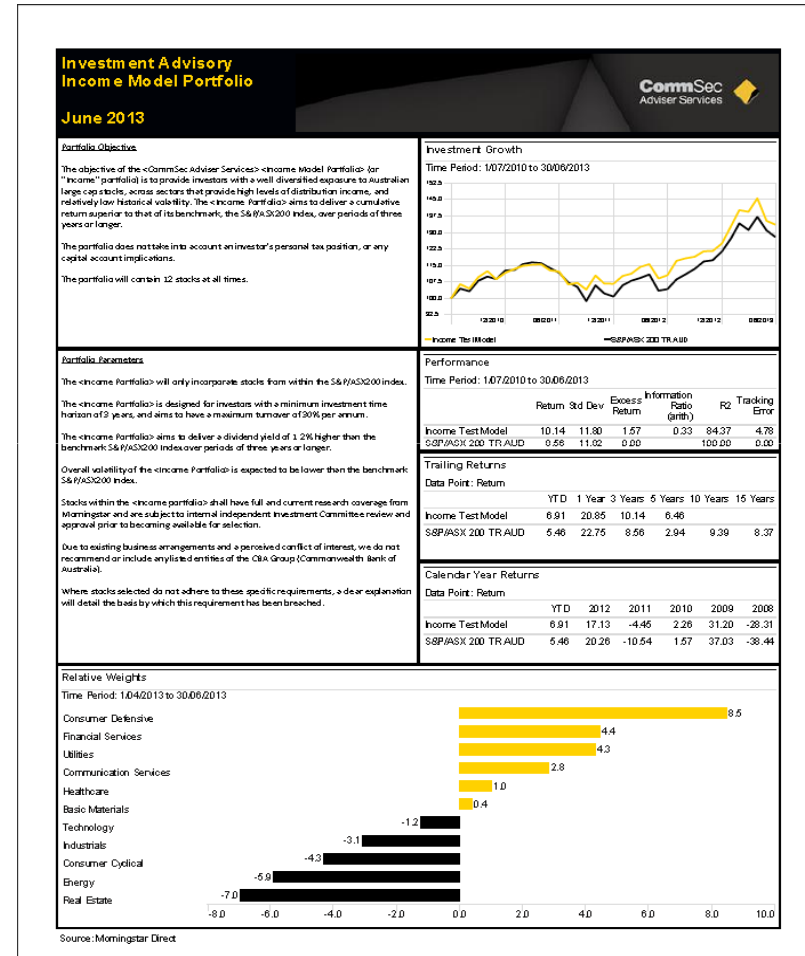
Once again, where stocks selected do not adhere to these specific requirements, a clear explanation will detail the basis by which this requirement has been breached.

The portfolio is designed for investors with a minimum investment time horizon of 3 years. The portfolio does not take into account an investor's personal tax position or any capital account implications.



Dynamic Model Report

- White Labelled
- Three portfolios – Income, Balanced, Growth, with more to come
- Clearly articulated purpose and parameters
- Performance tracking of the Model Portfolios (various types)
- Historical and forward looking data
- SOA template wording and research



Summary

- Industry Change Driving Push for Alternatives & Solutions
- Adviser's Need to Re-evaluate Their Service Proposition
- Adviser's Need to Manage Changes Efficiently
- Have Flexibility in Your Business
- Insource Support from an Industry Leader



Questions ?

[Labrie](#)