

A yellow arrow pointing upwards, positioned in the upper right quadrant of the slide.

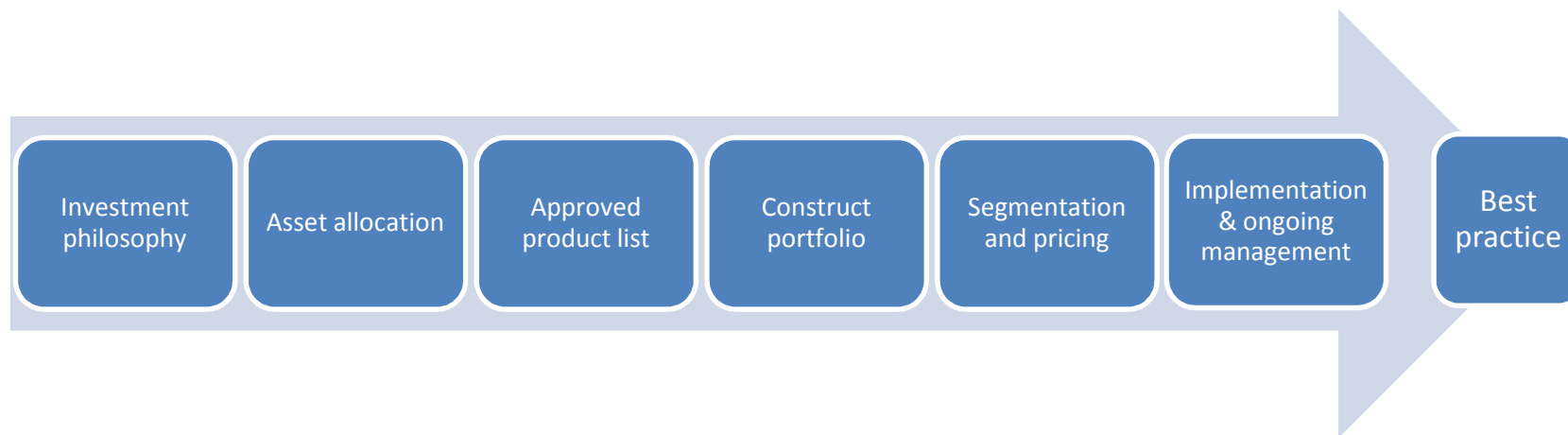
‘Retain valued clients, find new ones’

Streamline client experience, improve efficiency and
business value.

By Dan Powell, Head of SFG Alliance Services

Best practice

Leveraging the blocks to build best practice



Developing an investment philosophy

All advice businesses require a guiding set of principles that are used to underpin the construction of investment portfolios.

For example, SFG maintains these core principles:

- Investing is not speculating
- Markets work
- Risk and return are related
- Diversification is essential
- Cost and taxes matter
- Discipline is paramount
- Set policy for implementation and management of client portfolios.

It is important to document and deliver to these principles as:

- It defines your business and services you provide
- Creates consistency and sets expectation
- Provides evidence to ASIC of best practice.



Asset allocation

- Asset allocation is arguably the most important contributor to portfolio performance with 74%¹ of portfolio returns coming from market movements.
 - Strategic
 - Dynamic

Traditional + Alternatives Portfolios

	G30		G50		G60		G70		G80		G100	
Investment Profile	Conservative		Moderate		Balanced		Growth		Assertive		Aggressive	
FinaMetrica Score	24.44		45.54		55.60		61.66		67.81		82.100	
Marginal Risk Tolerance	24 to 50		38 to 62		45 to 69		51 to 78		57 to 92		71 to 100	
SAA and Range	Strategic	Range	Strategic	Range	Strategic	Range	Strategic	Range	Strategic	Range	Strategic	Range
Cash SAA	20.0%	15% - 30%	10.0%	5% - 15%	10.0%	5% - 15%	5.0%	0% - 10%	5.0%	0% - 10%	2.0%	0% - 7%
Fixed Interest SAA	50.0%	45% - 55%	40.0%	35% - 45%	30.0%	25% - 35%	25.0%	20% - 30%	15.0%	10% - 20%	0.0%	0% - 5%
Core fixed interest		40% - 55%		30% - 45%		20% - 35%		20% - 30%		10% - 20%		0% - 5%
Satellite		5% - 15%		5% - 15%		5% - 15%		0% - 10%		0% - 10%		0% - 5%
Property SAA	5.0%	0% - 10%	10.0%	5% - 15%	10.0%	5% - 15%	10.0%	5% - 15%	10.0%	5% - 15%	10.0%	5% - 15%
Core REITs		5% - 10%		5% - 15%		5% - 15%		5% - 15%		5% - 15%		5% - 15%
Satellite		0% - 5%		0% - 5%		0% - 5%		0% - 5%		0% - 5%		0% - 5%
Australian Shares SAA	12.5%	8% - 18%	20.0%	15% - 25%	25.0%	20% - 30%	30.0%	25% - 35%	35.0%	30% - 40%	43.0%	38% - 50%
Core Australian shares		8% - 18%		15% - 25%		15% - 30%		20% - 35%		20% - 40%		25% - 50%
Satellite		0% - 5%		0% - 10%		5% - 15%		5% - 15%		10% - 20%		15% - 25%
International Shares SAA	7.5%	3% - 13%	10.0%	5% - 15%	15.0%	10% - 20%	20.0%	15% - 25%	25.0%	20% - 30%	35.0%	30% - 40%
Core International shares		5% - 13%		5% - 15%		10% - 20%		10% - 25%		15% - 30%		20% - 40%
Satellite		0% - 5%		0% - 5%		0% - 10%		5% - 10%		5% - 15%		10% - 20%
Alternatives SAA	5.0%	0% - 10%	10.0%	5% - 15%	10.0%	5% - 15%	10.0%	5% - 15%	10.0%	5% - 15%	10.0%	5% - 15%

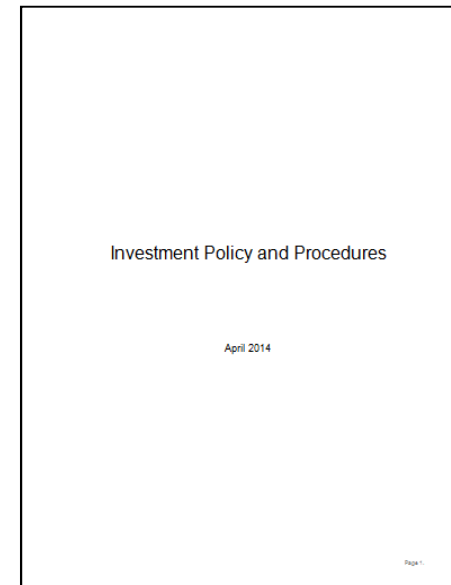
¹ Xiong James X, Ibbotson Roger G, Idzorek Thomas M and Chen Peng, "The equal importance of asset allocation and Active Management", Financial Analysts Journal Volume 66, Number 2, 2010.



Approved product list

This should be created to document the Group's Investment Policy and also outline the business rules and processes to be implemented to ensure that advisers can:

- demonstrate “due care and skill”,
- a “reasonable basis” for their decisions,
- and that they “act in the best interests of the client”.



Picking winners

Hackethal, Andreas & Haliassos (June 8, 2011 – Goethe University Germany) – Financial Advisors: A case of Babysitters?

- Analysis of portfolio returns of over 30,000 portfolios between 2003 – 2006 - advised accounts vs. non-advised accounts
- Involvement of financial advisors lowered portfolio returns net of costs and worsened risk-return profiles, results more so with bank advisors than independent advisors.

Bergstresser , Chalmers & Tufano (Jan 16, 2006 – Harvard University USA) – Assessing Cost and Benefits of Brokers in Mutual Fund Industry

- Relative to direct sold funds, broker sold funds deliver lower risk adjusted returns even before subtracting distribution costs.

Jenkinson, Jones & Martinez (Dec 12, 2013 – Oxford University UK) – Picking Winners?: Investment Consultants Recommendations and Fund Managers

- Study of Investment consultants Worldwide \$25 trillion USD.
- Found recommendations of funds are driven largely by soft factors, rather than the funds' past performance, their recommendations have a very significant effect on fund flows. However, found little evidence that these recommendations add value to plan sponsors.



Construct portfolios

Options

- MDA - *professionally managed portfolio to a pre agreed model, client delegates the portfolio decisions and transactions to the operator*
- Limited MDA – *delegation limited to assets within a Wrap-like structure*
- Client consent - *based on client approval*

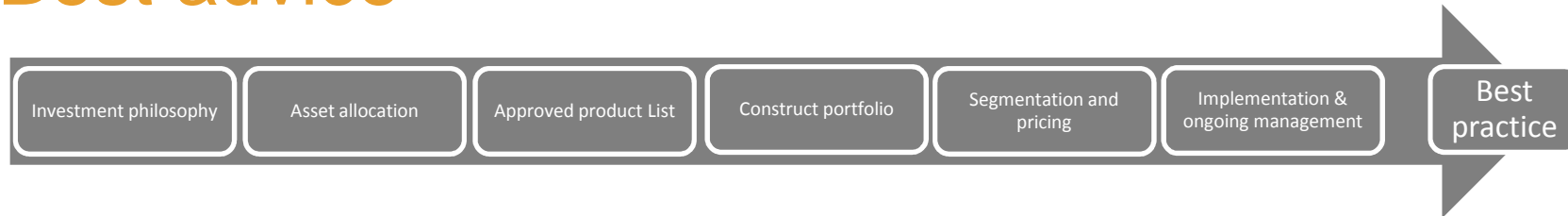
Construction

- Adviser directed – *(risk & process issues for MDA if at AR level)*
- AFSL directed - *insource or outsource*

Type of investment profile

- Passive investments
- Active investments
- Core & Satellite

Best advice



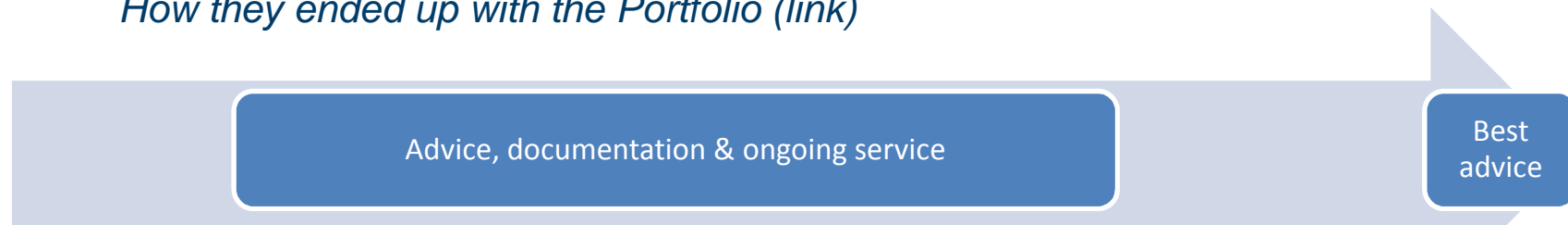
Post FOFA

'Document, Document, Document– be very clear in the advice documentation re your 'models' and how it links to the clients e.g.

What they are

How they work

How they ended up with the Portfolio (link)



Implementation

SFG primarily utilise main stream platforms to implement client portfolios:
Acuity (BT) & Symetry (CFS)

Drivers

- Scale
- Operational risk
- Service
- Capital to reinvest
- Longevity
- Diversity of functionality



Practice economics

Managed Portfolio Service (MDA)

Task	Description	Admin Saving (per account)	Adviser Saving (per account)
Portfolio Change (Equities) recommendations	Regular Review of equity holdings for re weightings addition or removal of stocks, advice documents prepared for any required changes	2.0	4.0
Portfolio change Implementation	Prepare and issue advice and implementation paperwork for any changes to managed fund or equity	4.0	
Quarterly update to client	Prepare and provide regular client update including market commentary and performance		
Corporate actions	Make client level decision on action, notify colonial of response and provide and issue advice where required	1.0	1.0
Cash management	Monitor and or report on cash holdings, prepare and issue recommendations where sell are required to restore cash balances or buys are required to invest any excess cash amounts	1.0	1.0
Sell trades to fund withdrawal requests	Lodge sell of assets via trade centre for required amount to fund a withdrawal request, epost withdrawal instruction to Colonial. Re weight account post the withdrawal OR sell pro rata across funds to maintain allocation	1.0	1.0
Totals		9.0	7.0

Assumes: i) Review and rebalance quarterly ii) 1 incidence of corporate action, cash replenishment, withdrawal per annum



Practice economics

Managed Portfolio Service (MDA)

	Cost per hour		
Admin	\$50		
Adviser	\$100		
Number of clients	10	30	50
Cumulative hours saved	160	480	800
Cost Savings \$	\$11,500	\$34,500	\$57,500

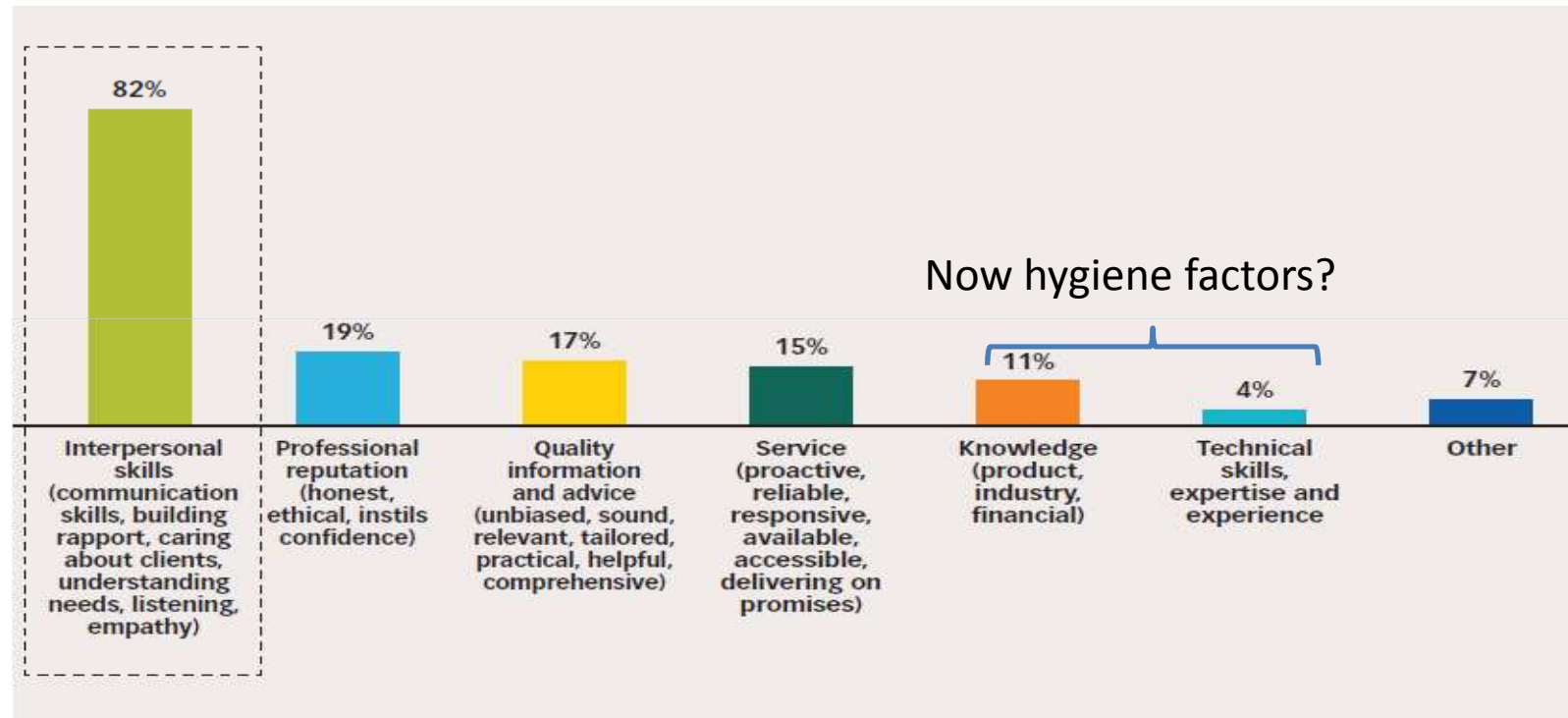
50 clients at 800 hours = 9 weeks of an adviser time and 11.25 weeks of an administrative persons time

The opportunity costs to the business from new clients is considerable.





Clients value - “Retain valued clients, find new ones”



Source: AFA, “The Trusted Adviser”: May 2013

[Bugryn](#)





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