Episode 16: What will it take to serve retail investors in 2023?

This podcast examines the challenges of servicing Retail investors' demands in 2023 challenges of servicing Retail investors' demands in 2023

- What is your value proposition for different groups of clients and how to create a sustainable service option
- Technology to implement your proposition and communicate efficiently with clients
- ESG: what are client preferences and how can advisers become comfortable in discussing ESG with clients.
- Ethical thinking in dealing with clients
- Geopolitics: handling client concerns
- Communicating with clients around volatility and appropriate actions or need to not make changes if not appropriate

Featuring:
James Freeman, Philo Capital Advisers
Nick Mitchell, Mason Stevens
Steven Tang, Zenith Investment Partners
Rick Di Cristoforo, Morningstar

Moderated by **David McDonald, CFA IMAP Investment Specialist**

Transcription

IMAP Disclaimer (00:01):

This podcast series is not meant for retail investors, but instead is meant for financial advice and investment professionals. Please refer to **IMAP's website https://imap.asn.au** for more details

David McDonald, CFA - IMAP (00:17):

Welcome to this podcast and the IMAP Independent Thought series. Today we are going to be looking at what it might take to serve retail investors in 2023.

I'm joined by a larger than normal panel of experts to help us today to discuss this topic and come up with some answers. Joining me today. I have James Freeman from Philo Capital Advisors, Nick Mitchell from Mason Stevens, Steven Tang from Zenith Investment Partners, and Rick di Cristoforo from Morningstar. Welcome, gentlemen.

To get us started. I think Rick, if I can start with you, if that's all right. I know that one of the things you talked about was perhaps the importance of being able to segment your clients, and working out the different groups, and what's needed for them.

Rick Di Cristoforo, Morningstar ([01:07](#)):

Yeah, I think probably starting at first principles, and it seems funny that we're talking about this in 2022, because it seems like almost a standard thing you would say from an advice perspective. But understanding what your client value proposition is and how it aligns to your client base and the segments within your client base would be the first thing you'd need to do before you determine how you actually meet those requirements.

Once you do that, then understanding what those services or the services you need to be able to deliver to the client value proposition. And then of course, the technology to support that.

So, the full extent of the financial planning support and the information services that you need and the outsource providers that you need, I think is mission critical. As you are servicing clients, … clients do not want you having to second guess what , how you are delivering.

They just want to believe that you've got this all under control. And of course, the other side of this is being very clear about what's profitable and what's not within your business in order to service the clients.

David McDonald, CFA - IMAP ([02:17](#)):

That makes sense. The profitability part obviously is important. And in terms of dividing up the clients, Rick, I mean, how do you do that? Is it by size or is it pre-retirees and retirees or what?

Rick Di Cristoforo, Morningstar ([02:33](#)):

Yeah, I think in days gone by, I don't think everybody who's worked in advice businesses would typically have looked at the revenue that's currently been collected and gold, silver, bronze people.

I think that's not where we are today.

When I'm talking about service offerings, I'm talking about the clients are looking at things from a client-centric perspective. And much closer to what you said, David, in terms of people's life stages and where they are, and what they need. So you may not be able to classify a pre-retiree and just say, Oh, they're clearly going to need these types of services, but there's more of a likelihood that a cohort of pre-retirees will need a similar set of services and therefore probably also be engaged with a similar set of technology.

Whereas if you are lucky enough to have a decent cohort of millennials, you would more than likely have a very different service proposition and also a very different technology outcome.

David McDonald, CFA - IMAP ([03:30]()):

Nick, I know technology was something that you'd raised in our earlier chat as well, that its something that you think is vital in servicing clients, Is that right?

Nick Mitchell, Mason Stevens ([03:40]()):

Yes I mean look, there are really two elements to it. I think there's the investment piece, so it's how you invest the client capital.

But as you rightly point out, the mechanism by which that investment programs administered, I think is, is just as important. So access to the investment piece, that's fundamentally pretty straightforward from a platform perspective. It's a menu approach. So recognizing that everybody's different, we try and meet that wealth practice where they're at and our menu allows for that group to pick and choose what they want.

But then there's the mechanism by which to trade those assets. So we're a specialist platform. Our focus is on MDAs. So clients who use that service now, whether they manage their own models or outsource to a third party, like an asset consultant to manage on their behalf, I think they find the MDA services a really robust way to service clients in a meaningful and scalable way.

David McDonald, CFA - IMAP ([04:32]()):

So we are talking about, I guess, two different things. The sort of technology to run the business and be able to manage the investments and so on, but also the technology for the client facing for them to be able to see what's going on? Is that correct?

Nick Mitchell, Mason Stevens ([04:48]()):

Yes, I think so, and look, platforms play a significant role there and I think it's fair to say they've come a long way when it comes to the administration and managed accounts. So we don't have to go back many years to think about some of that functionality on platforms. It was pretty simplistic.

But now as managed accounts have become a lot more mainstream, we are seeing execution, the reporting portfolio analytics, they've really gone to another level. And they offer great visibility over what an adviser is trying to do for their clients.

David McDonald, CFA - IMAP ([05:20]()):

Oh, I guess these days everyone wants to be able to do everything on the mobile phone too. How good are we at that or how close are we to being where people can just use their phone to do everything.

Nick Mitchell, Mason Stevens ([05:34]()):

Yes, anyone like me with kids knows that phones are pretty important. They're almost stuck in the hand. So it's interesting that the usage of the app from our perspective, funnily enough, from the data we've run, suggests that a lot of people will use the app just to check their balance. So it's almost a comfort thing as far as to what levels they are engaging and trading with technology via the app. At the moment, the take-ups not huge but that's my generation.

I'm generation X. So let's just see the next couple of generations, they'll probably use their phone to start their car. They'll probably use their phone to make their coffee. And most importantly for the purposes of our industry, they'll probably be using their phone to transact.

James Freeman, Philo Capital Advisers (06:19):

Yes I think with the ability to make transactions efficiently and fairly across clients, it really does up the need for the communications side of things to be at the similar cadence to your trades and your portfolio changes.

So what we see with a lot of different models and consultants that we work with is that those that do it best, are those that follow any sort of portfolio movement with a short, , easily digestible explanation of what's just happened or what's about to be happening, which seems like the most motherhood statement of all.

And yet you can see some people really struggling with this, they know what they want to do. Translating that into a retail friendly or an adviser friendly explanation of the market conditions and the changes they've made can take can take substantial amount of time.

James Freeman, Philo Capital Advisers (07:13):

So it's almost deserve, some people are looking at framed by the sort of monthly report or quarterly report of what's happened in the past quarter.

That old school way of communicating with managed accounts and that sort of tangible engagement at the client or the adviser level with day to day balances or day to day trades that are going through the requirement to communicate effectively about the what and the why is going on there is heightened a lot. And so that old school reporting approach needs to change, it needs to meet the technology's ability to move decisively and swiftly.

And I think that's an area that’s an opportunity for those that do it well to take the lead. And, it's an area where those that think, oh well, we'll do the quarterly report, I think will sort of erode trust and sense of engagement, which is a real missed opportunity.

Steven Tang, Zenith Investment Partners (08:08):

Yes, I can care about that. James. As an asset consultant that services advisers, that's really been a big change in our businesses, how often we communicate with our client base. It's pretty much every time we touch a portfolio…everything time something happens in the markets, we have to actually be on the front foot.

So we still have that regular reporting, but our clients definitely expect us to actually communicate with them more regularly. That's what we do to your point, we send out a note before we do any trades, we send a communication afterwards explaining what happened. It does get tricky though. I mean, we service advisers and the adviser want the actual sort of pitch. What level are you pitching at? As in, at the end of the day, they need to be able to communicate that back to their client base.

Steven Tang, Zenith Investment Partners (08:49):

So for us, it's really sort of making sure that we get the pitch right. And that is actually a bit more challenging that people think, it's like you if you're talking to an adviser, but then they have to communicate back to their client base. It's actually quite complicated about what level of pitch you actually use, removing all the jargon that we think is simple in our industry.

Like our industry is full of jargon, but at the end of the day, mum and dad investor does not get the jargon. So if you just talk about equity markets, even that simple statement, you've got to talk about share markets.

My mum and dad just don't understand if I said , equity markets a bit lower.., what's that ??? <laughter> , simple things like that. Which when you're communicating regularly and effectively, you need to think about what is the language you use in the communications that you're sending out. And that's what we've spent a lot of time doing in our part of our business.

Rick Di Cristoforo, Morningstar (09:38):

Yeah, that's a perfect link to the idea around the servicing, and the service value proposition because you guys have not just spoken to the method of communication, but the cadence and the style of language. And that's essentially when our clients in front of an adviser, it's not just what they're doing for them, but how they're explaining what they're doing for them and what frequency they're doing it.

The idea that a millennial would not necessarily want to sit down in front of somebody and say, what's happened? And likewise, they wouldn't necessarily want to receive a written document, but having something quickly available, like almost a punch out on the phone would be potentially useful to them.

So yeah, we certainly see that sort of the idea that when we are delivering our thought leadership or our research material is thinking about multiple levels of communication. So in our case we run multiple styles of research report for exactly that's that reason, so that there are levels of sophistication that would suit some groups and others where you would basically just say, Look, we just needed a little bit of information. And likewise, when we're assisting people in the builder, the managed accounts, the same thing occurs where the level of sophistication on the reporting will vary depending on the outcome that's seen, and also the style of client that's actually using the particular portfolio.

Steven Tang, Zenith Investment Partners (11:04):

Yes. But getting that right is quite difficult too, because people want to absorb information in different ways. Like sometimes we have quite a one on one relationship with a lot of clients, we can get on the phone and talk to them. Sometimes they just want to talk, and understand what you've done. Sometimes they want the comms, sometimes I want a video, sometimes I want a podcast. It gets pretty interesting when you're trying to communicate to a very broad client base that has different needs and different requirements. So it's always interesting that one.

Rick Di Cristoforo, Morningstar (11:31):

Yeah, it's almost like do everything and we'll just take that off the shelf.

Steven Tang, Zenith Investment Partners (11:34):

Correct. It's almost like that it's become like that.

James Freeman, Philo Capital Advisers (11:38):

Yes, leaving it to an adviser to do the translation themselves puts a big burden on them.

I think we found with some groups where they started out with an investment committee process in-house, which an adviser would attend, but then for the rest of the advisers they would communicate the minutes or the sort of the papers from the committee on the idea that that would fully inform them as to the decisions (which was information overload).

And they've had to shift and hear that that wasn't meeting the needs for the advisers. The amount of work would take for them to translate that into something they could talk to clients about was too much. And it really wasn't sort of doing anything. It became in the too-hard baskets. So doing that additional translation piece is hugely valuable, and you can't just assume if the information's there, that those that need it, we'll self serve, it needs to be pre-prepared for that audience.

David McDonald, CFA - IMAP (12:38):

I think that gets back to what Steven was saying too, James, that if an investment committee's probably going to minute something that says the Fed's increasing rates, so we're reducing equities and in Steven's example people will go "Well, who's the Fed? What's the Fed and what are equities?"

Steven Tang, Zenith Investment Partners (12:56):

I've had that, I've had that exact same conversation internally, as in you've got to remove the FED , even a central bank is hard for some people to understand. So everyone's heard of the IPA cause we're all filling the pain right now of milk rates, but the FED is probably not as common. But yes removing simple terms like that and not like what's raising cash rates, don't talk about bond yields because nobody gets that <laugh>. So that sort of simple language communication is so important.

David McDonald, CFA - IMAP (13:24):

I think the other thing that's interesting, I get your opinion, I know an adviser we talked to a little while ago was saying that one of the more important communications with clients is not just telling them what you've done or what you're about to do, but what they shouldn't do.

You know, the people that maybe come in and say, Oh my gosh, I saw on television this is happening, I want to take all my money out. Or explain to clients why it's best to do nothing sometimes.

Steven Tang, Zenith Investment Partners (13:52):

Yes. We send out for those pieces.

Nick Mitchell, Mason Stevens (13:56):

We've found some numbers across the platform, across all our portfolios. And it probably is not going to surprise anybody that clients at the moment are holding the highest levels of cash than they ever have before. So obviously there's a number of really good reasons for that. You might argue that a lot of asset managers are positioning selling, and positioning themselves for buying opportunities. So I think the beauty of managed accounts is if they decide that opportunity is, say at three o'clock today, then they can execute on that trade. But certainly we're seeing for an adviser to sit in front of a client and be able to say, Look, we're stockpiling a bit of cash here for an opportunity. I think that's quite a powerful message as well.

Rick Di Cristoforo, Morningstar (14:38):

Yeah, that does talk to the scale that you can extract out of managed accounts because the idea that you can execute in a grouped fashion to deliver a particular strategy. It's regardless of a model portfolio that's used by an adviser, they'll never be able to execute the theory.

So it's where I mean personally as far as all the other efficiencies you get out of this thing, ultimately when it comes down to the client's best interest it's the ability to be able to say to your cohort of clients, if you believe the philosophy and you're buying the philosophy, you could bit rest assured that you'll also get an executed philosophy.

The other point that was really interesting just then was there's the point you made, I think Steven about the actual activity, reminding people that, , making a decision and changing something is not free, like transactions cost. But often people say, Well I hope you don't make the wrong call. Well, making the wrong call is an element, but if doing any call has a cost and therefore it, the actual doing something is potentially a bad idea.

I don't think people pay enough attention to the execution cost of these things require regardless of what the actual investment vehicle is.

Steven Tang, Zenith Investment Partners (15:55):

No, I agree with that one. I also think that people like, at least if they're using active managers like you spoke Nick before around sort of cash hoarding, as in if you have got a managed account, you're using active managers, they're hoarding cash and you go to cash as well, you're just doubling down on what move they've already made.

So it's really important that you understand who are the managers underneath, If you hold a managed account full of active managers, what are they doing in the portfolio before you make any decision? Because to Rick's point, you're going to transact.

There's no point transacting if your managers have already done that for you. If your managers are already hoarding cash and you're holding 5% look through cash and your managers, who are supporting you just doubling down and putting more cash and transacting cause they've just done it for you.

So that's the sort of technology you do need as well to look through and, and have that ability to sort of know what the managers that you hold are doing as well.

Not just what you want to do, but what are they doing.

David McDonald, CFA - IMAP (16:48):

Can we may be just talk a little bit more about the sort of details or the practicalities of managed accounts? I mean we've touched on it quite a bit, but the benefits maybe someone can give an example perhaps of how they've implemented a change through managed accounts or how they help.

Nick Mitchell, Mason Stevens (17:06):

Look, I think in simplest terms, we tend to always go back to March 2022 when covid sort of globally started to take control and what that did to the markets. And then before people had time to pick their chins up off the floor, the markets had had moved again. So that's a really extreme case of volatility.

But advisers who did have the ability under their managed account framework to be able to make those moves on behalf of their clients at the touch of a button in a really scalable way meant that they were talking about communicating with clients, what a fantastic problem to have to be able to call clients and said before that phone call comes in about "did you see what the markets did overnight?" They were able to respond on behalf of them.

Nick Mitchell, Mason Stevens (17:51):

And I think from that point of view we would talk about best interest. I just can't help but think that having a managed account program in place that matches up with your investment thesis, the ability to execute on that is pretty amazing.

And I also think if we take that implementation capability to the next level, and I think it's something of a hidden secret when it comes to managed accounts, but this can be what separates platforms when it comes to transacting is that we do real time execution across client portfolios or some others will do VWAP (or daily weighted) and you think okay, who cares?

But if you think that everybody aims to sort of execute and transact on the terms that are most favorable to the client and the steps to take and other things to consider, things like price costs, speed the likelihood of the settlement size all of those considerations that are relevant to the execution of an audit at any time.

Nick Mitchell, Mason Stevens (18:47):

So the focus has got to be on achieving the best outcome for clients when both the implicit costs and the explicit costs are considered. So great in theory but I broke it down like this for the same portfolio, depending on which platform you use, you can get a very different performance.

So we've tracked a number of the performance of a number of managers and their portfolios on the, our platform and how they perform over certain time periods versus how they perform with against others. And it's the same fund, different platform, but a very different performance.

And what it comes down to is the implementation of live trading. So I think that's quite powerful when you consider client outcomes. And I think it's why one of the reasons why we work closely with asset consultants and fundies who are keen to see that better investment outcome for clients. And again, it's just having that laser focus. So I think we talk about best interests and what not, I think that implicit vs explicit can be two different things when it comes to cost.

David McDonald, CFA - IMAP (19:53):

And James, I know you've done some work on that as well, haven't you?

James Freeman, Philo Capital Advisers (19:55):

Yes, just anecdotally the sort of thing that always brings it to life for me, and in that point you made Nick around just being decisive and treating all the clients at the same time, pressing the button.

The classic for us was one of our client firms across all their models did a rebalance, not exactly picking the bottom at Covid in 2020, but within a month of it just doing just a rebalance, no other positioning changes and a year later that one move, there were subsequent moves, but just that one move added 4% value to their balanced one, and different ones up and down the, the risk spectrum.

So in terms of sort of bringing to life the ability to do that sort of thing, scalability and its ability to sort of pay for itself and all the attendant, the incremental costs that implementing that sort of technology can pay off for years to come, in just the ability to do that.

James Freeman, Philo Capital Advisers (20:53):

Not to mention, the sort of client trust and confidence that being able to do that at a time that was appropriate and we were able to build that for them. But anecdotes are good, but we have this approach where anecdotes are nice, but of course you'll pick the ones that sort of serve the story.

So we went and did a bit of research about a couple years ago now actually on the speed of implementation and really looked at sort of 22 years of data and what we did was simulate different levels of delayed implementation to a tactical asset allocation program.

And what we found was with the classic sort of ROI delay of up to three months, you lose about 80% of any “value add” that if you have any “value add”, about 80% of it will be eroded by three months time.

James Freeman, Philo Capital Advisers (21:50):

And in one month about 50% of any value adds eroded. So really speaking to the idea that if you've got a value additive idea to implement it, when it's appropriate and not letting clients get back up to three months or more to get a signature or chase them down, that's real.

You know that's real erosion of real money kept in the portfolio. The faster a client's able to get back to you in managed accounts, in a discretionary situation where you can transact with without waiting for that information to come back, means you can preserve the entirety of the what ever value add you're able to add there.

So that's a bit of research we've done and since then every new sort of client firm that's come along and wanted to sort of run their history through a similar analysis have all been confirming that where swings and roundabouts in terms of which particular trades or particular sequences they've had more or less value.

James Freeman, Philo Capital Advisers (22:52):

But the erosion of value from just the passing of time, as these good ideas go stale essentially was confirmed with every live portfolio history we've put through this process. So yes, at the end of the day, this timely decisive moves across your entire client base is do it in theory, and do it in practice. It all points to - the faster you can implement if it's a good idea, the better.

David McDonald, CFA - IMAP (23:22):

That's great. Thanks James. If I can just change tech here and bring up another topic. And I know one thing we found through the IMAP conferences and some of the webinars and things we've done that one topic that keeps coming up time and again is ESG and this growing client interest in it

I know there were some statistics we saw recently, I forget who did the survey, but some global firm did a big survey that said it was something like 65 - 70% of clients said they were interested in ESG, but there were well under half of advisers that said they were set up to handle those client needs. So just wondering, given what's going to be continued, with client interest in the area. How can the advisers get up to speed or how do we make advisers more comfortable in talking to clients about ESG?

Rick Di Cristoforo, Morningstar (24:20):

I'd probably like to weigh in on this. I think the first thing is making a decision to ask the question.

I've spoken at length at this actually at some other webinars basically around the obligation under the FASEA standards to ask client preferences. So there's two ways to look at it. You could either say as an adviser, I'd like to know more about my client and get to the real heart of what really interests them. And you'd hope people would think of this and go, Well, this is just another way to show that I care like that. That's a great way to look at it. The more, more I guess abrupt way to look at it is it is a requirement under FASEA they talk in their explanatory notes around items of preference such as people's ESG preferences in the standards themselves.

Rick Di Cristoforo, Morningstar (25:13):

They don't obviously talk specifically to ESG, but you've got to ask yourself, ESG is a classic preference. It is right up there with how much money do I want to keep for my pool versus safer my retirement. The first thing I guess from a comfort perspective is an adviser needs to be ready to ask the question about - do you care?

And then from there, the conversation an then go the other part of this is the education side of things. I mean, our business puts together a plethora of information around this. I'd say advisers need to get educated about the differences because most people think of ESG as all climate. It's not, but is, but there's a lot more to it.

If we were in the UK or in Europe right now, we'd be thinking about 17 factors that relate to ESG. Fortunately in Australia it's a little bit simpler right now, but certainly the idea that ESG is much more than climate. So that's, yeah, there are two things I'd say definitely would be a kickstart

David McDonald, CFA - IMAP (26:21):

And the product range that's out there to serve clients that have got those interests, I mean are views on that. It seems to be moving away, at least from probably what you were just talking about, Rick, where we used to have funds that said, Well, we don't buy oil and gas to now much broader things looking at modern slavery and all sorts of other needs that clients might have.

I mean is there enough product out there now to be able to, to suit what clients might need?

Steven Tang, Zenith Investment Partners (26:52):

I can talk from our perspective, I think our perspective is that I think if you look at the additions to our APL across our book the biggest growth is as an ESG product right now is, and that's what we're seeing in terms across our book.

Now do you have enough product across everything?

The answer says no, not you still don't have everything that you need. But again, it's very nuanced and this is the issue that we face is that depends what you want. I mean, if you want to climate focused product I think there's more of those and there are other products at the moment, so potentially you might have, if that's your concern, but you still need sort of growth in choice and across asset classes.

Fixed income is one that's growing, but again you probably couldn't fill a book sufficiently to or portfolio sufficiently to make that work. It's growing but it's not quite there yet.

James Freeman, Philo Capital Advisers (27:44):

Yeah, I think you'd be well advised as an adviser to be flexible in the positioning around ESG to recognize that it's an evolving space because , saying this is our answer and line in the sand sort of stuff be given what said in terms of how much is available to fill that asset classes, and to express your views is changing.

It it's such a moving target that I think recognizing that demonstrating a flexibility to evolve with them evolve with what's available out there is a sort of a mature, and sort of pragmatic approach to it. And all the clients we've worked with that have gone down this path, there's lots of debates around what it means, but what they all end up landing on… it's an evolving space and to the extent that we include impact because we like to or not, it's going to change.

James Freeman, Philo Capital Advisers (28:43):

We're going to start with what's sensible - returns and risk first ESG implementation are close second but then it's a case of it's a watching brief as the universe expands in the options then so too will the implementation of it.

So too will how much of the portfolio is pursuing an impact or an ESG, or one of those sort of letters components as well. And, just speaking on the managed account end of things the flexibility of using that structure to roll out a new thing or deploy a new exposure across the entire client base because now it's available and it makes sense and it meets the committee's approval.

That's the sort of flexibility that means as the universe expands so too will clients' appropriate positioning within that. So key takeout is be flexible, don't draw hard lines in the sand when you're talking ESG because the market will move underneath your feet if you're not careful.

David McDonald, CFA - IMAP (29:46):

Is this another area where managed account spring benefits perhaps then if I come along and say, I don't like gambling, but I'm okay with fossil fuels and you've got another client that doesn't want gambling or fossil fuels its hard to manage and to account and allow you to be flexible to take into account those preferences.

James Freeman, Philo Capital Advisers (30:09):

I would say that it technically you could see it happening, but in practice I haven't seen anyone attempt it, mainly because I wonder about the workload that the various investment committees would be interested in taking on to maintain that.

So far it's been a singular view, a house view expressed in a suite of risk profile models.

Client preferences is something that the platforms are getting increasingly sophisticated at helping you express, but at a sort of top down policy level. And I'm yet to see the sort of the next stage of granular sophistication come through in terms of what sort of models give you exposure to what sort of thing. It's an interesting area to keep an eye on, but so far I think people are "keeping over their skis" here in terms of what they're able to maintain from a committee perspective first.

Steven Tang, Zenith Investment Partners (31:01):

Yes you're right James. I mean from our perspective designing or building portfolios with that sort of exclusionary basis, you got to be very careful. You might have managers that might hold something that you're not aware of. So this is where it become tricky, I think James is saying you've got to be a bit more pragmatic for clients, say I'm absolutely against something you could hold something within one of your funds that unless you have full look through which you might end up holding something that they're against.

So I think you got to be very, very careful with trying to promise that you're never going to hold something in a managed account portfolio as well as be pragmatic. The client needs to be a bit more pragmatic and probably not say I don't, that goes back to what I think Rick was saying before like, as in where do you draw the line for some of these preferences though?

Nick Mitchell, Mason Stevens (31:50):

That to me Steve is that you've nailed it. So there is such a breadth of definition to what ESG means.

I think the concept of doing something better with your capital is a very personal bespoke journey for each individual. So I think it's very hard from a product perspective to create something that's going to suit all clients. And I mean it's almost an ethical dilemma, the implications of a lack of capital into coal and oil.

You know, are we now in a position to respond to the limited access to oil?

So the social impact of that, and that's a very important part of ESG is the price of petrol is that restricting people from being able to put food on the table. So I think human nature suggests people want to naturally do what they think is the right thing with their money, but they're still not quite sure how to do that exactly. And I think in our industry, articulating ESG to clients still remains, still remains a challenge. And I think that's going to be continue to be a challenge as far as what those impacts will be and then how do we respond from a product point of view and how do we respond from an implementation point of view. I don't think we're there yet.

Rick Di Cristoforo, Morningstar (33:02):

Yeah, perhaps, I mean in terms of finding out, I mean perhaps from the point of exclusion is the idea to avoid something and then the idea, I guess an impact is what do I?, what am I interested in supporting? It'd be worth thinking about that from a cohort perspective.

And I think managed accounts does have that natural advantage that the ability to implement at a scale that wouldn't be possible in a managed fund for these sorts of themes is something that's, that's obviously of interest to people. So you could, like.. I could imagine a not too distant future where there basically is a pure impact fund or there's a pure social fund, like that sort of thing might exist because you don't have the heavy burden of costs if you're running an issue, let's say it was a standard fund.

Rick Di Cristoforo, Morningstar (33:56):

So I think there's a real opportunity there, but yeah, I mean you, where does this thing end? I don't even know if our population's big enough to support, the European view of slice this up under 17 different SDGs and then deliver a fund for each. I don't even think they're there yet. So it's definitely be a journey. David, , I think there's definitely that intent as you said, that the interest is there and , and showing that you are truly delivering a portfolio that delivers to the right thing, whatever that is defined as from an ESG perspective is probably not a bad place to start.

David McDonald, CFA - IMAP (34:35):

Thanks. Look I know we've taken up quite a bit of time and perhaps what I'd like to do just to finish up is maybe just go around the four of you and just ask you if there sort of one final point that you would like to emphasize that you, you think's important and perhaps Rick can I start with you?

Rick Di Cristoforo, Morningstar (34:54):

Yeah, I just wanted to iterate just that we spent a lot of time today talking about the managed account side of delivering to a service and I guess that's what I just wanted to iterate is just understanding your cohort, and meeting the needs of that cohort with your service offering, which would include comms and cadence and investment philosophy and obviously execution and implementation through an efficient structure like a managed account.

David McDonald, CFA - IMAP (35:22):

Thanks….. Steven. Do you have one point,

Steven Tang, Zenith Investment Partners (35:28):

Do I have one point? <Laugh>, I think you need the technology to understand sort of what you hold and then be able to clearly articulate that to your client base as in and execute according to what you say you will deliver.

David McDonald, CFA - IMAP (35:43):

And Nick, is there something you'd like to emphasize?

Nick Mitchell, Mason Stevens (35:47):

Yes. Of the previous two comments from both the boys? Can I just blend those because I think that pretty much sums it up very well from an investment point of view.

Let your asset allocation do the job, focus on well-constructed portfolios that match your investment philosophy. And what managed accounts do is that they provide a mechanism to make quick positive decisions on behalf of your clients. So the more they're adopted, I think the better it'll be for Australian investors

David McDonald, CFA - IMAP (36:12):

And James.

James Freeman, Philo Capital Advisers (36:14):

Oh yes. All good points of have now been made, but I'll give it a shot. So I think the key for next year, and an evergreen point for every year is really be in a position to move decisively to minimize that cost of delay that we touched on earlier and to do so across your entire client base.

So that you can treat all your clients fairly and I think a managed account situation, which we've discussed, that definitely puts you in a sort of technology and sort of governance position to be able to do those two key things.

David McDonald, CFA - IMAP (36:49):

Okay. Well, just remains for me to thank the four of you for taking part in this podcast today, looking at what it takes to serve retail investors in 2023 and indeed beyond that.

So I'd like to thank James Freeman from Philo Capital, Nick Mitchell from Mason Stevens, Stephen Tang from Zenith, and Rick Di Cristoforo from Morningstar. Thank you all. And just finally, you can check on the IMAP website for upcoming events.

One I would like to point out is in the week beginning the 5th of December 2022, we are going to have a webinar series looking at the advantages and disadvantages of boutique and smaller fund managers.