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SIAA Board and executive visit Parliament to discuss a range of proposed legislative and regulatory reforms

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Stockbrokers and Investment Advisers Association

Serving the interests of investors

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FRONT COVER & ABOVE: Directors of the Association on a visit to Canberra for meetings with government and opposition March 2023.

L-R back row: Scott Webster, Matthew Nicholls, Steven Arnison, Frank Hegerty, Brian Sheahan, Peter Robinson, Andrew Fleming

L-R front row: Michelle Huckel, Chris Webster, Anita Mead, Judith Fox, Andrew Bird, Hamish Dee

SIAA Board and executive visit Parliament to discuss a range of proposed legislative and regulatory reforms

DEVELOPING ADVICE TAILORED FOR WOMEN: why the time is now

Provided by Netwealth

They are increasingly making financial decisions, are at the receiving end of wealth transfers and are growing in affluence. Women are increasingly becoming a business opportunity for forward-thinking advice practices.

KEY TAKEAWAYS

- ✓ Women are a growing and potentially lucrative segment of the market, and many who are not currently advised are considering professional help
- ✓ The financial goals of women are primarily focused on security
- ✓ They are not always confident in achieving their investment goals

For advisers, women may be one of the most under-served and also most promising segments of the advice market.

The reasons for this are many. For a start, a significant segment of women are at the receiving end of a significant wealth transfer. Due to their longer average lifespans and the fact they tend to be younger than their husbands, many are in line to receive inheritance from Baby Boomer men who control a significant portion of Australia's wealth. At the same time, females are increasingly taking on the burden of family wealth management. Meanwhile, the rise of the younger, educated, single affluent women presents a growth market for advisers.

> "Meanwhile, the rise of the younger, educated, single affluent women presents a growth market for advisers.

It's for this reason Netwealth developed the Women as the New Face of Wealth report, which surveyed 881 Australian women 18 years and over in late 2022.

The results highlighted the potential of this market. While a quarter of women currently use a financial adviser, a further quarter are considering using one in the future.

What does wealth mean to women?

Developing a value proposition to target this key market goes beyond standard measures such as products, education and recruiting female advisers. It means revamping business and service models to attract and retain women as long-term clients by understanding their wealth management needs — but how?

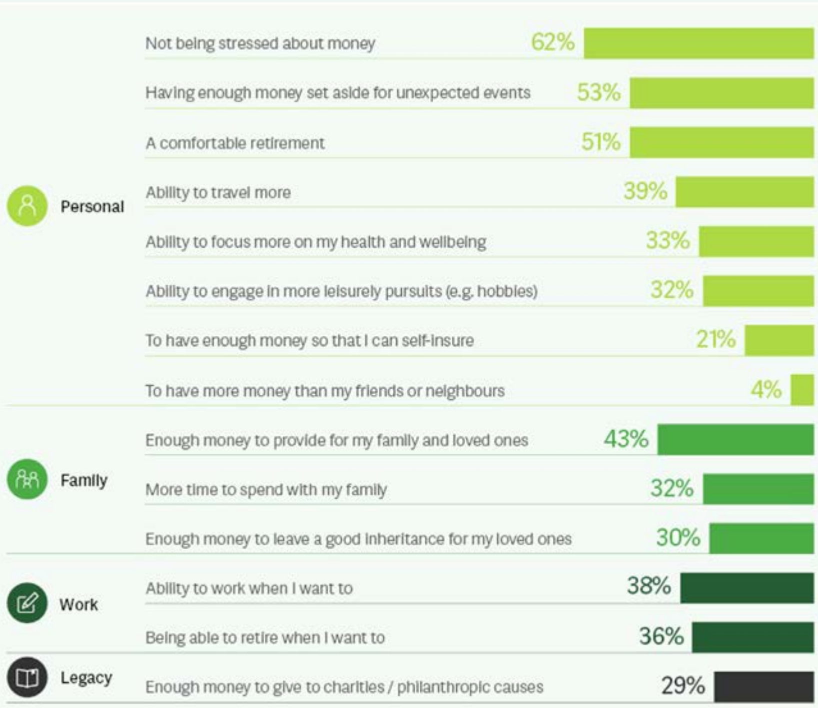
Firstly, it's worth recognising that for many women, wealth is a means to achieving a number of goals rather than an end in itself. The top three words women of all ages and life stages associate with wealth are: security (54 per cent), freedom (39 per cent) and stability (39 per cent).

This focus on stability becomes further evident when women were asked what financial success means to them. Topping the list was not being stressed about money (62 per cent), having enough set aside for unexpected events (53 per cent), a comfortable retirement (51 per cent) and having enough money to provide for family and loved ones (43 per cent).

These goals came above more lifestyle-oriented goals such as hobbies, travel and even spending more time with family and having more time to focus on their own health and wellbeing.

The consequences of women not achieving these financial security goals are clear, with over half of respondents (53 per cent) saying they worry about money at least weekly. This financial stress often permeates many aspects of a woman's life, with 35 per cent saying it had impacted their mental health in the past three years and 27 per cent their physical health. And 32 per cent said financial stress impacted family life, 33 per cent social life and 24 per cent work satisfaction.

Which of the following demonstrates what financial success looks like for you?



> "The top three words women of all ages and life stages associate with wealth are: security (54 per cent), freedom (39 per cent) and stability (39 per cent).

Advisers play an important role in helping them address and manage these complex real-life stressors.

Bridging investment goals and confidence

Women have plenty of investment goals, but only a small percentage feel fully confident in achieving them. Some of the top short-and-long-term financial goals they're actively working towards include:

- Ensuring their wealth is managed and invested wisely (59 per cent)
- Building a sustainable income stream (58 per cent)
- Learning more about investing (56 per cent)
- Gaining greater confidence in

making investment decisions (55 per cent)
- Building and diversifying their investment portfolios (55 per cent)
- Minimising risk in their investment portfolio (55 per cent)

Despite these clearly defined goals, the research also shows that less than 20 per cent feel very confident about achieving them. Only 42 per said they feel confident in making decisions about their investing activities, while another 23 per cent said they do not feel comfortable at all.

In line with this lack of confidence comes a desire for support. When choosing long-term investments like superannuation or a share portfolio, 53 per cent look for support or outsource decisions entirely. It's similar for major investment decisions like buying a property, where 57 per cent rely on external help. When seeking investment advice, they primarily turn to their network of family and friends (44 per cent), followed by research from a wealth adviser (28 per cent), and investment websites, blogs or podcasts (27 per cent).

There's also plenty of appetite for education, with 55 per cent of women saying they are eager to learn more about money matters.

Many women are underprepared for their growing wealth management responsibilities and financial security needs. Advisers ignore this segment of the market their own peril.

If you would like to find out more about the 2023 Advisable Australian report, please download the report here: https://www.netwealth.com.au/web/insights/the-advisable-australian/women-investors/

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Is it time to buy bonds in 2023 after the worst year on record in 2022?

Wednesday 12 April
1.00 to 2.00pm AET

2022 was the year of the great regime change or inflection point as the search for yield died because lofty risk-free interest rates on both cash and high-grade bonds are plentiful. Investors are having to reposition in 2023 and accept that markets are still in thrall to shifts in the macro environment driven by central banks. Hear why Christopher Joye from Coloabah Capital believes 2023 is the year for bonds.

Professional standards CPD:
1.0 Technical competence

ASIC RG146: 1.0
Generic Knowledge

Christopher Joye

Practical considerations for licensees and compliance teams following the introduction of ASIC RG277 consumer remediation

Wednesday 26 April
1.00 to 2.00pm AET

James Dickson, CEO of Oceanic Consulting Group, has over two decades of financial services experience. He has spent the last eight years leading the largest remediation programs in Australia and is therefore well placed to provide insight for those wishing to gain greater understanding of RG277.

Professional standards CPD: 1.0
Regulatory compliance and consumer protection

ASIC RG146: 1.0
Generic Knowledge

James Dickson

The Advisable Australian – A new way to think about Australian investors

Wednesday 10 May
1.00 to 2.00pm AET

Not all Advisable Australians look the same, and nor do they behave in the same way or have the same financial advice needs. Netwealth will look at two important segments, the Established Affluent and the Emerging Affluent – one is a younger cohort, largely millennials who are highly engaged in investing and digital natives, whilst the older 60+ group asset-rich individual, also highly engaged in investing.

Professional standards CPD:
1.0 Client care and practice

ASIC RG146: 1.0 Generic Knowledge

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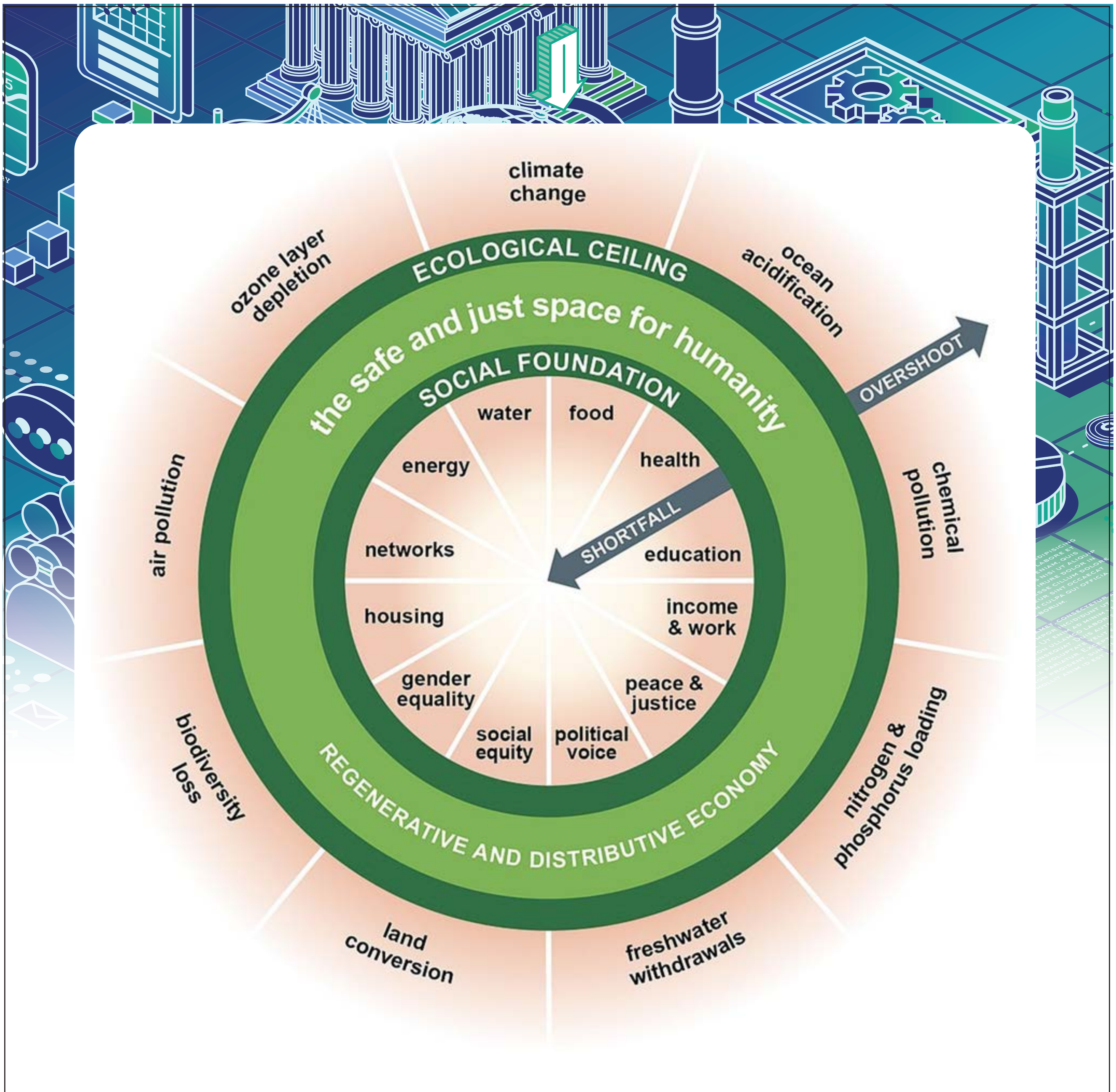
A new framework for understanding the sustainability of business models [PART 1]

By Mariana Wheatley and Pablo Berrutti, Altiorem

Scientists warn that we are in the midst of the sixth mass extinction, and the IPCC has delivered a final warning about the need for immediate action to avoid irreversible climate change. Despite technological progress, poverty has increased for the first time in 25 years. Business as usual is unsustainable. Whether you are providing advice or evaluating companies to invest in, clients are increasingly interested in how their money is invested. In this context, it is time to consider the role of business and the assumptions about what business traits make a company an attractive investment.

In its simplest form, a business model is how a company plans to make money. Current business models are designed to prioritise growth and short-term profit maximisation at the expense of social and environmental sustainability. Profit-maximising business models tend to exploit social and natural capital and drive inequality throughout the value chain while introducing unintended risks and issues for the company. As we face the climate crisis, biodiversity loss and growing inequality, we urgently need to rethink how we do business.

The good news is that sustainable business models can thrive while contributing to achieving and maintaining a sustainable economy. Altiorem's new research, 'How can businesses thrive in a sustainable economy?' explains why business models need to change and



Source: Doughnut Economics Action Lab, September 2022

how businesses can change. It presents a new framework for what business success will look like in a sustainable economy.

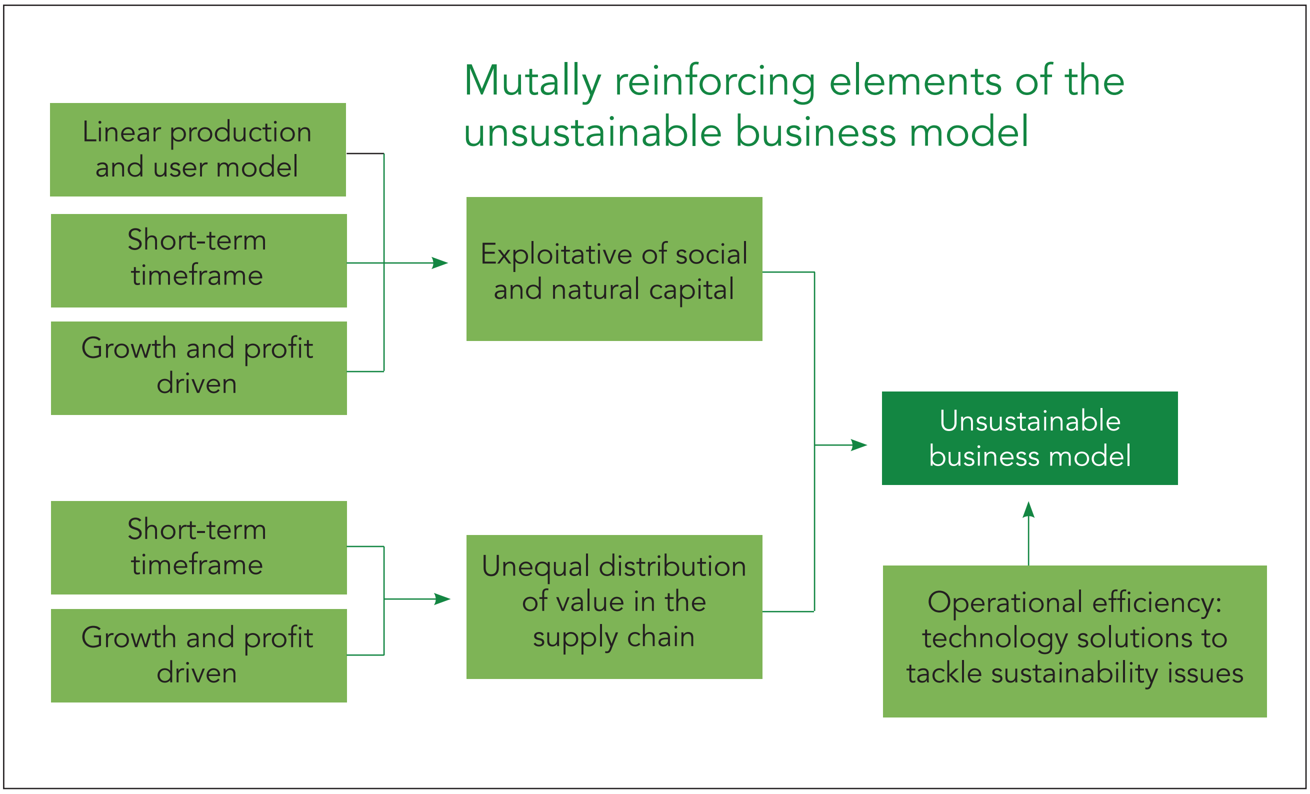
This research applies Kate Raworth's Doughnut Economics model, a framework for a sustainable, regenerative, and distributive economy where society and nature thrive. It is based on a social foundation in which society needs to provide a life of dignity and opportunity for all and an ecological ceiling representing the earth's planetary boundaries.

What are the sustainability issues with current business models?

The research diagnoses five unsustainable characteristics that need to be addressed if a business is to thrive in a sustainable economy:

1. Linearity and the take-make-waste structure

This is about product design, specifically the single-use resource extraction process to create products designed to be discarded, creating waste. Failure to design out the linear lifespan of products is predicted to result in a 70% increase in global waste, from 2.01 billion tons in 2016 to 3.4 billion tons in 2050, as projected by the World Bank.



Fast fashion, a linear business model, has caused a doubling in global clothing production from 2000 to 2015. While fast fashion has made fashionable clothing cheaper and more accessible, the linear business model encourages rapid turnover, lower-quality products, and operational inefficiency through high rates of unsold inventory. In 2019, H&M had $4.1 billion worth of unsold clothes, which poses not only a financial risk but also a reputational risk due to growing consumer concerns about environmental impact. In addition to the ecological impacts, the fast fashion industry's drive for speed and low cost has also led to labour rights issues, as seen in the 2021 Boohoo scandal.

2. Short-termism and its effect on sustainability in business operations

Businesses face pressure to focus on short-term financial results. However, sustainability strategies require long-term investment. Research shows that short-term approaches underperform compared with long-term business strategies.

During the COVID-19 pandemic, Fisher & Paykel Healthcare, a globally leading New Zealand-based maker of respirators and dehumidifiers, had exploding demand for its products as they became essential for treating COVID patients in intensive care. The high demand meant the company could increase its prices to compensate for increased input and transportation costs; however, it chose to maintain prices, resulting in lower margins in the short term. This decision-built trust with its customer while further embedding its systems in hospitals and other healthcare settings. As the company operates a 'razor blade model' where consumables are required to use their machines, the decision not to take advantage of the global crisis will have long-term reputational benefits and lead to more predictable sales of consumables in the future.

3. Growth and profit maximisation

In a linear and growth-driven business model, the primary objective is to increase profits by boosting sales volume through the promotion of higher consumption of products. This has led to product design that shortens product lifetime and increases sales while escalating resource use and waste creation.

The Margiris super trawler, the world's second-largest fishing vessel, catches up to 250 tons of fish daily. Margiris is an example of how the aim for continuous economic growth and profit maximisation drives unsustainable practices and neglects long-term consequences. Seafish Tasmania brought it to Australian waters in 2012 to fish for jack mackerel and red bait, leading to protests from environmental activists and local fisheries and a ban on super trawlers in Australian waters. Research showed that the Margiris would have caused the local depletion of threatened species such as seals, seabirds, and cetaceans.

4. Exploitative and unequal distribution of value within the supply chain

Globalisation and outsourcing have made cheap labour a vital component of many businesses, leading to the exploitation of workers. Developing countries rely on foreign investment and lower regulations to attract global corporations, resulting in a "race to the bottom" in working conditions. However, these conditions are not only found in developing countries and can be driven by unsustainable business models.

A Fairfax Media investigation revealed Domino's underpaid and exploited migrant workers, instructing franchisees to keep labour costs under 27% of sales. This pressure resulted in widespread and systematic underpayments, with workers earning as little as $10/hour. CEO Don Meij earned $37 million in 2017, while franchisees struggled to profit due to the company's model prioritising cheap pizza sales over sustainable profitability for franchisees.

Operational efficiency as a sustainability strategy

Businesses often implement technological solutions like renewable energy, recycling, and energy efficiency to address sustainability concerns. However, while these measures are essential, more is needed to address the underlying problems within the current business model fully.

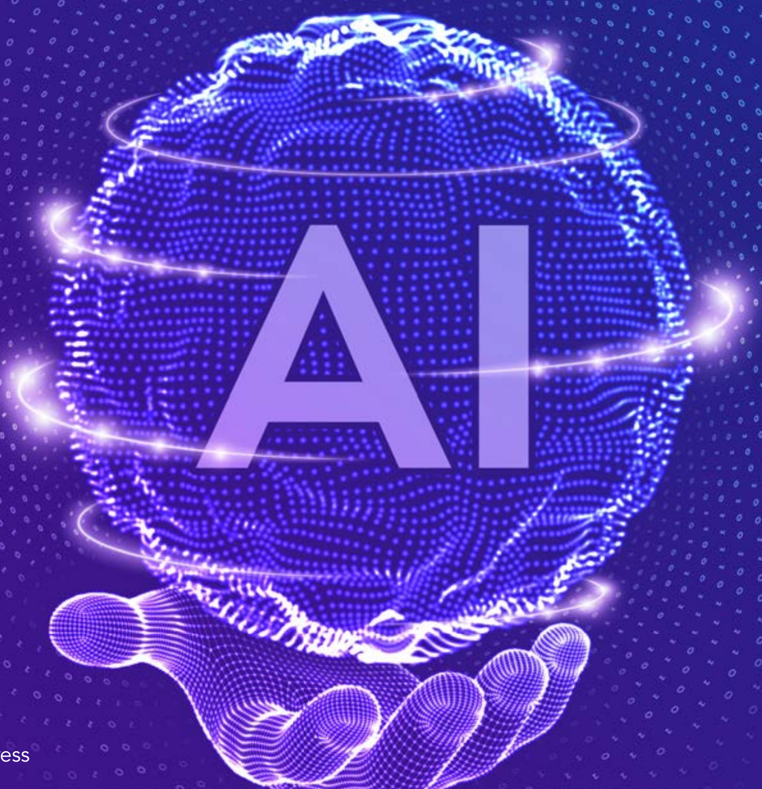
H&M's 2020 Sustainability Performance Report sets a target to become a circular business by 2040. However, the company still relies on volume growth and fast fashion. Greenwashing accusations challenge its sustainability ambitions due to large-scale production and opaque supply chains. A circular business model requires reducing production and consumption, but this cannot be achieved without moderating consumer demand.

Sustainable business traits

Addressing the unsustainable traits of current business models, Altiorem's report devises five elements businesses can implement to become more sustainable. Through best practice case studies and assessment questions, five sustainability areas are mapped in a simple framework that companies and investors can use to assess a company's alignment with a sustainable economy.

Part 2 in this series will highlight these characteristics, or in the interim, you can access the full report and sustainable business model canvas at https://altiorem.org/category/report/.

Working with the machine



By Emily Chen, Global Head of Product – Technology Platform, Iress

For quite some time, AI has played an important but limited role in the trading space. With machine learning models growing more sophisticated by the minute, is it time for AI to take centre stage?

If you've been paying attention to the headlines over the past few months, you'd be forgiven for wondering if we're just weeks away from a Skynet-style catastrophe.

After all, AI has entered the mainstream at an astonishing rate – language models like OpenAI's ChatGPT have attracted millions of users and prompted new questions about information security, plagiarism and even the fate of the humble search engine in an era where an AI can find what you're looking for in a fraction of the time. Governments throughout the world are quickly introducing legislation to help regulate the development (and usage) of AI – in March, Minister for Industry and Science Ed Husic said now was the ideal time to "implement practical guardrails around [AI's] ongoing use."

This sense of urgency might seem surprising to many people in the trading space, where AI has played a prominent role for quite some time. Back in 2021, research from Iress and WBR Insights[1] suggested that 80% of buy-side and sell-side firms were either considering or had already implemented some form of AI in the front office.

As this technology rapidly increases in sophistication, it's worth revisiting the ways in which AI (and machine learning in particular) can augment existing processes in your business as well as consider its limitations.

AI is currently used in stockbroking and investment advice for multiple purposes – these include trading automation, robo-advice, quantamental investing, sentiment analysis and market surveillance. What's been less common over the years – arguably because the technology just wasn't quite there yet – is using machine learning to create trading systems that don't rely on rules in traditional models.

Instead, these systems – using a combination of supervised and unsupervised machine learning – analyse historical and behavioural data to provide insights on transaction flow and trends, counterparty performance and best execution.

While AI and automation are often discussed in terms of their ability to reduce execution latency and "offload" simple tasks in the business, what this represents is just as valuable to the investment advice sector: information. More specifically, it connects you to vast amounts of data, distilled down to timely and relevant insights at a moment's notice.

The robots aren't taking over the trading desk, but it's easy to see the competitive edge that could emerge for those firms who can leverage this kind of technology effectively. Of course, "using it effectively" is a challenge in and of itself. Without the requisite dedicated data science capabilities and expertise – either within the business or via an external partner – training and extracting valuable insights from machine learning models could be an extremely difficult, expensive and risky undertaking.

The ability to understand and make use of the information an AI aggregates and analyses is arguably more important than the information itself. Even if a machine can make sense of "giant matrices of 175 billion inscrutable floating-point numbers," as AI researcher Eliezer Yudkowsky put it, the vast majority of humans cannot.

It's perhaps for this reason that many firms have yet to implement AI in the recommendation and analysis process. Along with specific expertise, it requires all the traditional tools in the trading desk to work with AI. Data needs to be parsed in a way that integrates with existing processes and APIs and everyone in the business needs to be trained on how to make use of this new technology. It's an all-hands-on-deck shift in how the business operates.

Ultimately, though, it's hard to imagine a future where AI isn't playing an important role in investment advice.

As trading desks contend with larger and more complex data sets every year, the ability to interpret and act on information as quickly as possible has become a critical concern. Given the ability of AI and machine learning models to rapidly ingest and process large volumes of information, they will likely become a very important tool of the trade.

Whether by building the capability in-house or working with a technology partner that can provide this service, firms that can leverage AI's potential now will likely have a significant competitive advantage in the future. As we've seen with ChatGPT, these technologies move very quickly – even if they aren't taking over the world, they could well leave you behind.

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[1] https://www.iress.com/media/documents/Data_analytics_and_trading_efficiency_post_covid_19.pdf

More questions than answers

By Darin Tyson-Chan, Editor, *selfmanagedsuper*

Probably the biggest talking point regarding superannuation in recent weeks has been the government's policy proposal to impose an additional 15 per cent tax on individuals who have accumulated a retirement savings balance of more than $3 million.

The announcement received a mixed reaction, but most pundits were willing to park their concerns until they had more information about the measure. To this end, the government issued a fact sheet demonstrating how the new tax, or charge as some people prefer to call it, will work.

The tax will be levied on what Treasury refers to as 'earnings', but this is not a concept linked to income as we have been used to with other parts of the taxation system.

In short, the extra 15 per cent tax will be applied to the difference between a person's total super balance (TSB) over the course of a particular financial year with adjustments for non-earnings items. It is due to commence in the 2026 income year.

More specifically, the methodology will involve three calculations. Firstly, the earnings for the financial year will be determined by subtracting the fund member's TSB at the end of the previous financial year from the member's TSB at the end of the current financial year, with any drawdowns being added back and any contributions subtracted from the result.

The next step will be to determine the proportion of earnings relating to the TSB that is above $3 million. To do this, $3 million will be subtracted from an individual's TSB for the current financial year with the result divided by the individual's TSB for the current financial year.

The last step will be the calculation of the person's tax liability arrived at by multiplying the earnings by the proportion of earnings and then by 15 per cent.

The government has provided an example demonstrating this process in the simplest terms that excludes withdrawals and contributions. The details are as follows.

Warren is 52 with $4 million in superannuation at 30 June 2025. He makes no withdrawals and no contributions in the 2026 financial year and his balance at 30 June 2026 has grown to $4.5 million.

Using the three-step process, Warren's calculated earnings are $500,000 ($4.5 million - $4 million).

His proportion of earnings corresponding to the funds in excess of $3 million is 33 per cent (($4.5 million - $3 million) / $4.5 million).

As such, his tax liability for 2025/26 is $24,750 (15% x $500,000 x 33%).

The government has adopted this methodology as it is the easiest to implement and can rely upon data the Australian Taxation Office already collects rather than having super fund trustees perform another administrative obligation.

But while the fact sheet provided some clarification as to how the tax will be calculated, it has raised concerns and left many questions over the measure unanswered.

As mentioned earlier, the concept of earnings does not follow any of the conventions established in the Australian taxation system – in particular it imposes a tax on unrealised capital gains. The approach before this point in time has always seen capital gains tax applied after an asset is sold when the gain has materialised.

This is a significant point when looking at situations where a person's TSB has actually dropped over the course of a financial year. The methodology allows this type of earnings reduction to be carried forward and applied against positive earnings in subsequent years, but this concession doesn't provide the fair or equitable solution it is intended to.

For example, what happens if a person incurred a tax liability from this measure in the 2026 year but suffered a devaluation of their assets in 2026/27 that sees their TSB fall below $3 million and never return to a level above the new threshold? The rules will not allow them to recoup the tax they have had to pay on unrealised capital gains.

One other element causing a lot of angst is the fact indexation has not been factored into the measure. At the moment the government has estimated the policy will impact only 80,000 Australians, but the inflationary effect on the economy could see more people edge toward the $3 million threshold in years to come.

"The Financial Services Council has already performed analysis that estimates 500,000 Australians will be caught by the new tax in years to come should indexation not be applied to the new measure.

The Financial Services Council has already performed analysis that estimates 500,000 Australians will be caught by the new tax in years to come should indexation not be applied to the new measure.

I haven't enough pages to delve deeper into some of the other concerns that have been raised, but the good news is the proposed policy is currently undergoing a consultation process and still has to be passed by both houses of parliament.

So I suppose all we can do is watch this space to see how it all plays out.

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