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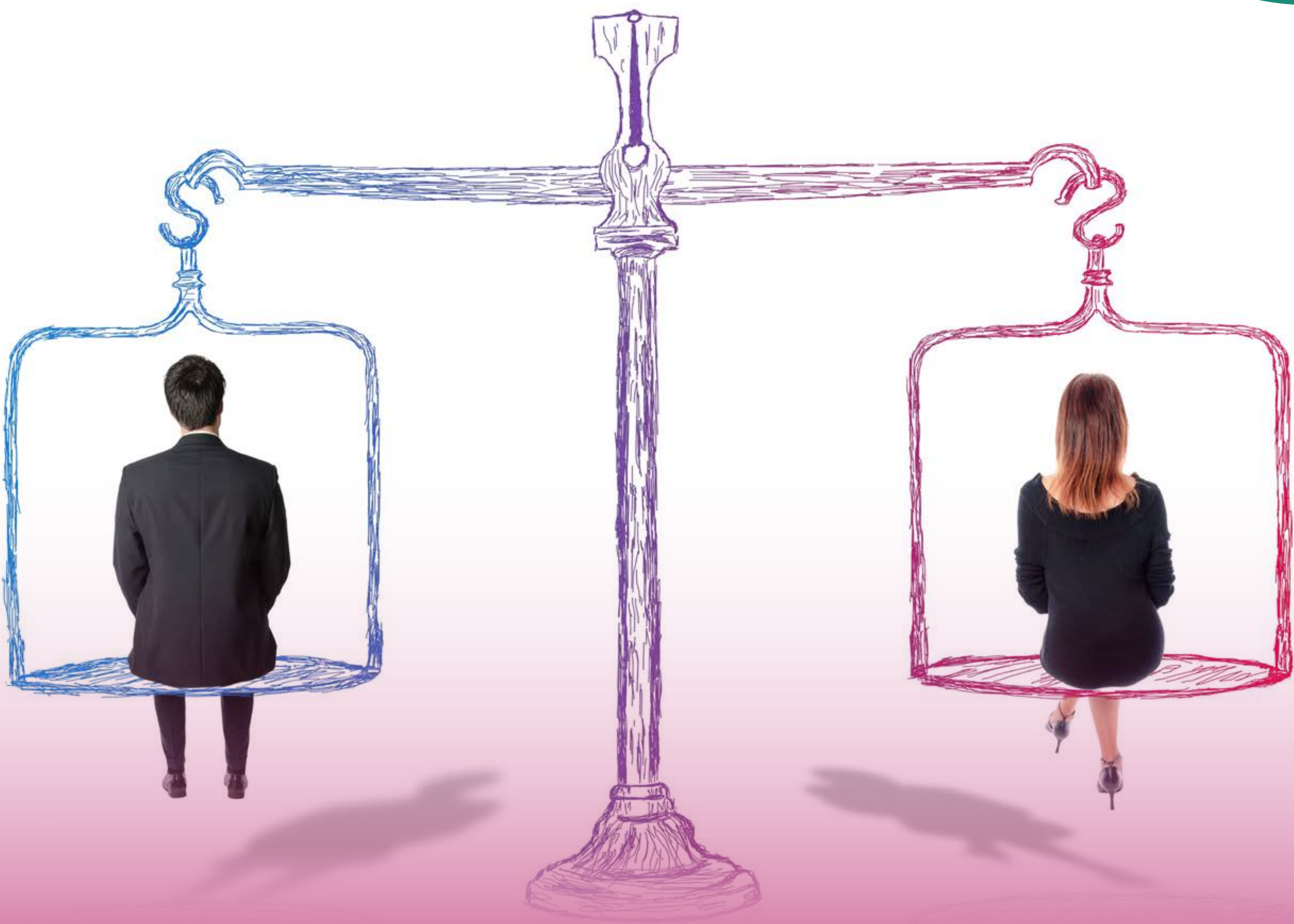

ELIZABETH BRODERICK AO on how to progress gender balance in stockbroking and investment advice

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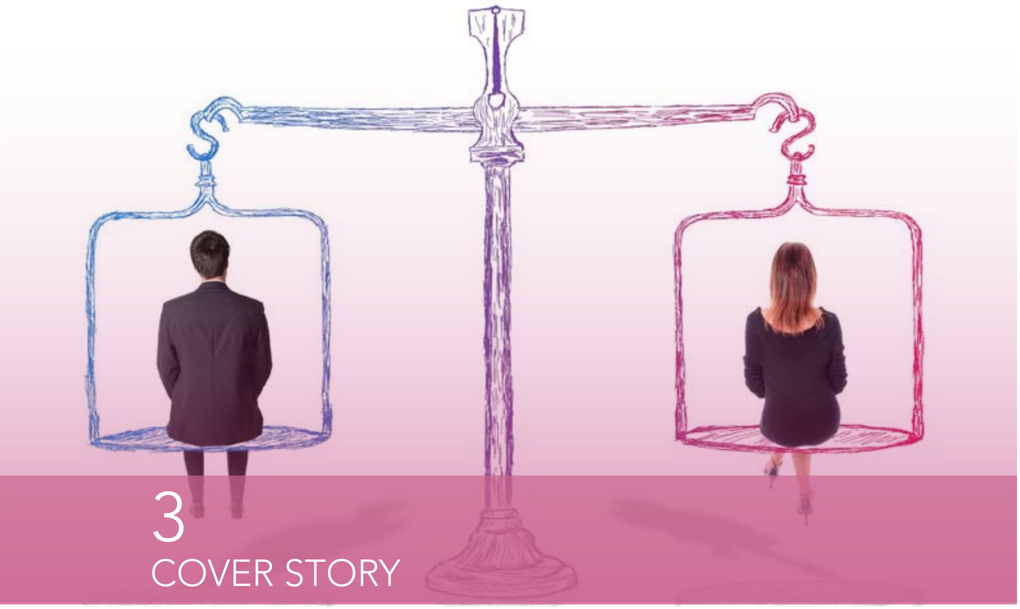

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ELIZABETH BRODERICK AO
on how to progress gender balance in stockbroking and investment advice

At the launch of SIAA's *Guidance on improving gender balance in stockbroking and investment advice* in March, SIAA's CEO Judith Fox interviewed Elizabeth Broderick AO.

Elizabeth Broderick AO

How are women faring internationally?

In my work as a United Nations special rapporteur for Discrimination against Women and Girls since 2017, together with my colleagues, I review the status of women and girls and make recommendations to governments. There has been a recent major regression in human rights generally across the world, particularly in womens' rights and the rights of the LGBTQ community. The situation for women and girls in Afghanistan is dire. My UN mandate recently conducted a country mission into Afghanistan on behalf of the UN. There is no schooling for girls, women's spaces like beauty salons have been closed down and there are strict dress restrictions. The activists on the ground have hope however.

In the developed world there are issues as well. Recently the Supreme Court of Alabama found that embryos created by IVF are children. This has resulted in many IVF clinics in Alabama pausing their services. America is experiencing the impact of the overturn of Roe V Wade. All of this impacts women and in particular poor women who cannot afford to travel to access reproductive services.

If you care about gender equality, this is the moment to step forward. It will take 300 years to achieve gender equality at current rates.

The good news is that in Australia we are running counter-cyclical to most other regions of the world.

The median gender pay gap is 19% across all industries once bonuses, overtime and allowances were factored in; and the median gender pay gap is 26% in financial services. A disproportionate number of employers in male-dominated industries have gender pay gaps in the top 50% of employer gender pay gaps. Indeed, some of SIAA's members were called out for having gender pay gaps as high as 62%. Can we start with the issue of why male-dominated environments in particular struggle with gender equality as demonstrated by this data? Are there common factors at play in these environments?

Most mature organisations have been created by men, for men and even today are run by men. They have been successful because the talent pool has been largely male. However, the demographic of the talent pool has changed dramatically. The genesis of male-dominated industries makes it difficult for them to deal with gender equality. They have a strong hierarchical approach and are based on a call-to-action business model. These approaches are different to a listening and adaptive culture.

A common approach to improving gender diversity has been 'add women and stir'; in other words pour women into the situation and expect it to change. Unless you actively and intentionally include women that approach won't work. You need to address the gender 'asbestos' in the environment – the intangible beliefs and stereotypes about women and men. Courageous leadership is the only cure.

Following up on your comments about male-dominated environments having an action-oriented approach to business and strong hierarchies, if we look at leadership – can you unpack further the sorts of actions and messages that leaders need to provide to embed respect in the culture? What sort of approach is needed? Are there absolutes to avoid, such as making one person – a woman – responsible for achieving change?

The one-woman approach won't work. Gender equality is not a women's issue. The one-woman approach means that all the responsibility sits on her shoulders and failure to make progress lays at her feet. Human rights starts at home. We should ask: Are we modelling inclusive culture at home? You need to consider how you are ensuring that culture is safe, healthy and inclusive. You also need to ask yourself what part am I playing in the culture that exists today, both the good and the bad.

I was told about a workplace event where a sexist joke was made and everyone laughed including the women. The CEO then laughed as well. Later when he was speaking to some women about workplace culture they said that the culture was not positive due to that incident. The CEO could not understand what the issue was, as the women had laughed at the joke as well. The women explained that they had to laugh at the joke or otherwise they would be seen to be out of step and would struggle to keep their job. The CEO was in a different situation and should not have indicated that the sexist joke was OK by laughing. That CEO decided that he would no longer be part of a conversation that his daughter could not be part of. This highlights the importance of micro-moments. It is important to hold people accountable for their behaviour. Bullies are a workplace hazard. It is important that those in the executive level are accountable as well.

It is also hard for men as these issues are hugely complex. It is important to create a safe environment for everyone to learn in. That's why the Male Champions of Change was started. Gender equality is about the redistribution of power. It is important to work with those who hold the levers of power. I recognised where power sits and connected with men, urging them to use their collective influence and voice to create change. It's not a zero-sum game. Gender equality improves our community, our society and our economy. Importantly it lifts everyone.

Stockbroking and the investment environment generally have a perception problem that tends to make women in particular recoil from considering being part of it. I am thinking of the Hollywood perception in films such as The Wolf of Wall Street. How does changing culture address this perception problem? Can our industry reinvent its image in an authentic manner?

You need to test your public image. Have a look at the material on the Champions of Change website. Have a look at the images in your annual report. You need to represent diversity in all public communications.

The mining industry traditionally had pictures of machinery and heavy lifting in their reports. Consider photos of all people and particularly women doing interesting and cognitive work. You can take the "panel pledge" and don't appear on a panel without women. These are easy things that don't cost money.

Sexual harassment is an important issue. How do you deal with that issue? As isolated workplace grievances or as a key leadership and safety issue? You should never waste a good crisis as it is an opportunity to embed new and disruptive strategies. You want parents to influence their children. We need to connect with girls in years 6,7 and 8. That's what STEM education has done.

The ADF has changed its culture. The ADF has more women in the army/navy/airforce than almost any other defence force in the world. The ADF advertising has been good. But the best way to change the culture of an organisation is to bring in more women. When you bring women into male-dominated environments or indeed men into female-dominated environments, the group dynamics change and everyone lifts.

> "
> What is the gender pay gap in new hires versus existing roles? Where is the first broken rung, that is, where promotion rates differ? How open is your organisation to caring? How many men take parental leave? What is the gender make-up of the top 10% of the highest paid workers in your organisation versus the bottom 10%?

One of the challenges in improving gender balance is that there is no silver bullet. Leaders are obviously key to success, but what other factors need to be considered to shift the dial? What role do recruitment and retention practices play for example?

You need to interrogate your processes. What is the gender pay gap in new hires versus existing roles? Where is the first broken rung, that is, where promotion rates differ? How open is your organisation to caring? How many men take parental leave? What is the gender make-up of the top 10% of the highest paid workers in your organisation versus the bottom 10%? The pay gap often occurs due to occupational segmentation. What's your bonus structure? What's the female net promoter score? Go onto the Glass Door website and see what people are saying about your organisation.

It is possible to interrupt bias. Look at the material on the Champions of Change website. Don't underestimate the value of listening. Leaders need to see the human story. The impact of bullying is profound on people's lives. Listening is an action – it is not passive. When you learn you start to think about the role you play. You want to create psychologically safe places. Are you hearing as much negative news as positive news about your organisation?

Are there pitfalls to be aware of in the process of change, such as change fatigue? How do you deal with backlash?

If you are not getting backlash, you are not over the target. You should welcome backlash, but you need to work out how to deal with it. Being safe at work is a fundamental human right. It's not a woke agenda. A woman who comes to you to report sexual harassment should not be victimized. She should be celebrated as she is providing early identification of risk. It is important that you make work a safe place for people's views no matter what.

I would like to finish on a positive note. Can you talk about the benefits you have seen in male-dominated environments where there has been significant engagement with improving gender balance, from the leadership team and throughout the organisation? What has been the feedback from those involved?

There are many reports and case studies about the increased productivity gains of improving gender balance in the workplace. No one wants to work in an environment where women are paid 60% less than men. A gender balanced workplace is a much nicer place to work. What type of workplaces do we want for our children? Don't we want our children to love work and be equally remunerated for their efforts?

AUDIENCE MEMBERS ASKED ELIZABETH FOR HER VIEWS ON THE FOLLOWING ISSUES.

In the media response to the gender wage gap there has been discussion about the issue of women's choice of working in lesser paid roles, part-time etc. What is your response to that?

Every society has well-established social norms. Australian society believes that good mothers spend all their time with their children. There is the ideal worker who is available 24/7 and has no caring responsibilities. These are gender stereotypes and we make decisions on the basis of these social constructs. But if you live in Sydney or any other metropolitan area you need two incomes to survive. That is the context in which you have to exist. It can be difficult for men to be carers. That's why the number of men taking parental leave is a good proxy for gender equality.

Females are expected to have certain attributes, that is, to be more empathetic and men are expected to have certain attributes such as being pushy. How do we change these attributes?

The education system plays an important role. There was a Harvard bias survey that concluded that women were thought to have greater connection to humanities, families, and culture. Our gender schemas develop from the minute we are born. We observe what is happening in the family and the interactions we have in the outside world consolidate these beliefs. The education system needs to offer humans different and diverse examples of who they can be. We need to model respect within our own households and families. What we model at home our children will take into their lives. Modelling violence against women means that children take that into their lives. It looks normal.

Are there countries that are doing well? Is it their policy settings or their culture?

Scandinavian countries are the most equal. Gender equality is built into their education systems. But those countries still have very high rates of violence against women. We don't know why this is so. Iceland is also doing well with gender equality. The Scandinavian countries also have different tax/welfare settings. But no country has full gender equality.

Australia is making progress with its national gender equality strategy, the reporting of individual employer gender pay data, and a recent change to the Sex Discrimination Act that imposes a positive duty to prevent sexual harassment in the workplace. There are many more women in Parliament. So on many fronts women are doing well in Australia. But 1.5 women a week are murdered by their partner. That's a problem. Andrew Tate has 12.5 billion views on TikTok. They are mainstream influencers. What is the antidote? In a recent poll, 60% of respondees said that the work of gender equality is finished business. We still have much more to do.

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Is history about to repeat as the Magnificent 7 drive the tech sector to dot.com highs? Wednesday 10 April from 1.00 to 2.00pm AEST

ALAN PULLEN
Magellan

The technology sector has now eclipsed its all-time high relative to the S&P 500, exceeding its dot.com bubble highs. So, this begs the question, will history repeat itself? Is this a bubble and what is the risk of another tech wreck?

Professional Standards CPD: Technical competence 1.0 hour | **ASIC Knowledge Area:** Specialist knowledge – Securities 1.0 hour

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Wholesale clients: The do's and don'ts Wednesday 17 April from 1.00 to 2.00pm AEST

JAMES DICKSON
OCG Consulting

By attending this webinar you gain a greater understanding of the needs of these sophisticated clients and their requirements from regulators, particularly relating to ongoing monitoring and the documents issued to clients.

Professional Standards CPD: Professionalism and ethics 1.0 hour | **ASIC Knowledge Area:** Specialist knowledge – Financial planning 1.0 hour

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Deceased Estate – an adviser's perspective Wednesday 24 April from 11.00 to 1.15pm AEST

KYM BAILEY
JBWere

JBWere's Kym Bailey will provide a comprehensive guide to dealing with a deceased client's estate in terms of their investment portfolio, tax, succession and non-estate considerations.

Professional Standards CPD: Technical competence 1.0 hour | **ASIC Knowledge Area:**Specialist knowledge – Financial planning 1.0 hour

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From theory to reality: A practical AI example and the best way to invest in this megatrend Wednesday 8 May from 1.00pm to 2.00pm AEDT

TRENT MASTERS
Alphinity

ELFREDA JONKER
Alphinity

Discover the AI hype and its business benefits! Join Alphinity's Elfreda Jonker and Trent Masters as they showcase Microsoft's AI monetisation and identify investment opportunities in this new megatrend, benefiting both their bottom line and investors.

Professional Standards CPD: Professionalism and ethics 1.0 hour | **ASIC Knowledge Area:** Generic knowledge 1.0 hour

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2024 Global Fixed Income Update Wednesday 29 May from 1.00pm to 2.00pm AEDT

JONATHAN LIANG
J.P. Morgan Asset Management

Join Jonathan Liang for insights from J.P. Morgan Asset Management's Global Fixed Income Quarterly Views. Learn about fixed income resilience amidst macro uncertainties and regional interest rate outlooks. Discover strategic portfolio positioning, featuring examples like JPGB and JPIE.

Professional Standards CPD: Technical competence 1.0 hour | **ASIC Knowledge Area:** Generic knowledge 1.0 hour

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Carbon markets and the state of play

By Monique Bell, Commodities Product Manager, ASX Limited

ASX recently hosted The Network Forum where Mark Williamson, Executive General Manager from the Clean Energy Regulator presented insights on carbon markets and the current state of play. John Connor, CEO, Carbon Markets Institute and Karen Webb, Head of Issuer Services at ASX joined Mark on stage to discuss recent and future developments in the Australian carbon market.

Blue skies, rolling plains and vast natural resources make Australia the envy of the world. In the race to net zero, these defining characteristics take on a new meaning. Australia has the potential to help the world decarbonise by becoming a leading provider of clean energy and using that to value add to its minerals. To achieve this, large-scale capital investment in onshore renewable projects, industrial decarbonisation and carbon sequestration is required. The Clean Energy Regulator (CER) is working with industry to ensure Australia has the infrastructure it needs to support capital investment in the rapidly growing carbon market, including the development of a new register, which it believes will form the foundation of a world leading carbon exchange.

A renewable energy powerhouse

Rich in natural resources, the transition to renewables presents Australia with the opportunity to evolve into a clean energy export superpower. Mark Williamson, Executive General Manager at the CER believes Australia has the potential to help the world decarbonise. "We have all the minerals to support the clean energy transition. If we meaningfully invest in this approach then we could help reduce the world's carbon emissions by exporting production that has low greenhouse gas emissions intensity," he says.

Capital is an important part of making the energy transition a reality and Australia represents an attractive opportunity for those looking to invest. With vast solar and wind resources, a large land mass and an abundance of minerals that are crucial to the transition, Australia has what the world needs to reach net zero.

Getting the foundations right

To aid in becoming a net zero emissions economy and a clean energy export super power, Australia needs market infrastructure that can support large scale investment in renewables and other climate solutions. The Australian National Registry of Emissions Units (ANREU), built in the 1990's, is where Australian Carbon Credit Units (ACCU's) are currently held and transferred between buyers and sellers.

The CER believes a strong foundation is crucial to support the growing carbon market. After 18 months of a multi-stage procurement process, the CER recently announced the procurement of a new register to be delivered by technology solutions provider, Trovio Group.

According to Williamson, the goal is to enable interconnectedness between markets by allowing trusted digital platforms to connect to the register. "This will ultimately offer buyers and sellers greater choice, efficiency and transparency," he says.

The CER believes the new register will form the foundation of a world class carbon market. The register will ultimately hold all existing carbon units and certificates such as ACCUs and Renewable Energy Certificates (REC's). It will also hold proposed new certificates including Safeguard Mechanism Credits (SMCs) and Guarantee of Origin certificates for low emissions production of hydrogen and other low emissions production such as metals and liquid fuels.

In parallel, the CER is working with the Australian Securities Exchange (ASX) to understand what a centralised exchange traded carbon market might look like.

Karen Webb, Head of Issuer Services at ASX says, "The aim is to find a solution that's as simple as possible". Ideally, this would fit within ASX's existing share trading infrastructure, which supports around $1.5 billion in transactions daily.

Finding a solution that fits

ASX operates its own register known as CHESS, which facilitates the clearing, settlement and transfer of products, such as shares, traded on market. The carbon exchange will need to link to both CHESS and ANREU so that ACCUs can be traded and surrendered by entities to the government in order to meet their compliance obligations.

There are some key differences between ACCUs and shares that will need to be considered in the design of the exchange. While shares are fungible, some ACCUs can attract a price premium by the market depending on the project method that is used to create them.

Williamson notes, "One ACCU, by definition, represents one tonne of CO_2-e abated. That does not change. We know that markets have priced ACCUs differently because of their environmental benefits or positive First Nations' impacts such as employment opportunities, but the attributes that are valued can change and vary over time. Relatively, there's a small proportion of ACCUs that attract a sustained and material premium."

Finding the right balance to standardising ACCUs on the carbon exchange will need to be informed by the market. The regulatory requirements for the ACCU Scheme means there will always be some level of differentiation between projects, and markets will value these accordingly.

John Connor, CEO of the Carbon Market Institute agrees. "Part of the challenge in building a centralised exchange is the wide range of methods available to create ACCU's. While most volume comes from a handful of methods, there can be significant stratification in prices among those methods."

This highlights the need for the existing Over the Counter (OTC) market, which has played an important role in supporting price stratification and facilitating trading among different ACCU methods with co-benefits.

An exchange traded market is intended to complement rather than replace the OTC market, which Webb acknowledges works well. "Investors appreciate the stratification among methods and co-benefits that the OTC market provides. However, as more volume comes onto the ACCU market, we need a platform that can support and scale that volume to help the market to reach its full potential. The best way to achieve this is through standardisation," she says.

Taking a collaborative approach

The CER and ASX are working together to develop a consultation paper on the design of the carbon exchange, requesting feedback from the market on the potential structure and functionality. The Australian Securities and Investment Commission (ASIC) will also be part of the process with a focus on ensuring buyers are clear on what they are purchasing via an exchange traded model.

At this stage, the timeline for the carbon exchange is unclear with much depending on the outcome of market

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To aid in becoming a net zero emissions economy and a clean energy export super power, Australia needs market infrastructure that can support large scale investment in renewables and other climate solutions. The Australian National Registry of Emissions Units (ANREU), built in the 1990's, is where Australian Carbon Credit Units (ACCU's) are currently held and transferred between buyers and sellers.

and regulator consultation. The CER expects the new register to be functional by the end of 2024 with the carbon exchange currently set to follow some time in 2025.

Looking to the future

ASX believes it has the ability to scale Australia's carbon markets by connecting its ecosystem with the ACCU market. Webb believes the ACCU market fits nicely within the ASX universe which, when combined with the existing customer base, provides a powerful tool for growth.

In addition to the spot carbon exchange, ASX is currently working on a range of derivative contracts to support forward pricing across the ACCU, Large-scale Generation Certificate (LGC) and New Zealand Unit (NZU) markets. The contracts are scheduled for launch in July 2024[1] and will provide a transparent forward curve out to five years, sending important price signals for risk management and investment.

An active and transparent derivatives market complements a centralised carbon exchange. Williamson agrees stating, "Consistent forward price signals, in addition to the development of a liquid spot market, will give investors' the confidence they need to commit funding to clean energy, industrial transformation and carbon offset projects leading to an increase in genuine and additional carbon abatement."

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[1] Subject to readiness and internal and regulatory approvals

Monique Bell is a Commodities Product Manager, ASX Limited. Monique is working on the upcoming listing of a new Gas Futures contract as well as a suite of Environmental Futures products to support Australia and New Zealand's energy transition. Monique is a CFA, holds a Masters' Degree in Finance and recently completed certification with the Cambridge Institute for Sustainability Leadership.

Contact: commodities@asx.com.au
Learn more about ASX Energy Derivatives

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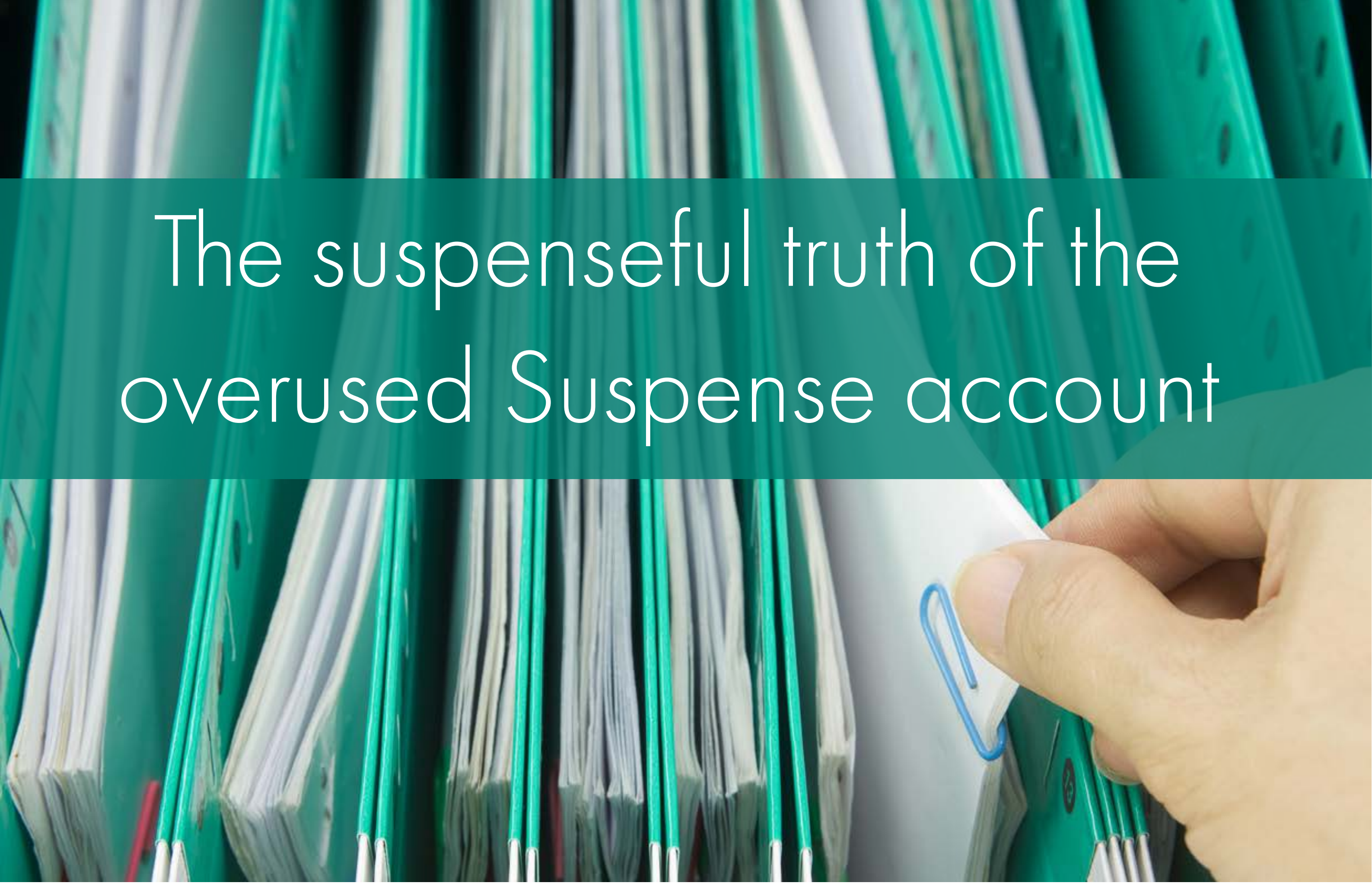

The suspenseful truth of the overused Suspense account

By Amanda Mark, Co-CEO, MIntegrity

Trading Participants must do all things necessary to provide their financial services efficiently, honestly and fairly (Corporations Act s912A). Suspense accounts can be a risk in this area. While many firms use their suspense accounts for bona fide trading activities, there is also a risk that they can also be used inappropriately to hide market misconduct. Most firms use their suspense account for legitimate purposes. But misuse can lead to regulatory enforcement. This article explores the do's and don'ts of using suspense accounts and how to use them within a robust compliance framework.

Be warned, both the Australian Securities & Investments Commission (ASIC) and the various market operators are very interested in your suspense accounts.

Suspense accounts

A suspense account is an account set up by a trading participant to temporarily store trades until they can be allocated.

ASIC has stated in a recent court enforceable undertaking[1], "Suspense Accounts are typically used for the temporary entry of orders and/or transactions in circumstances where there is incomplete or missing information to properly assign the order or transaction to the client's account."

Using a suspense account

Trading firms use suspense accounts on a daily basis in both the securities and derivatives space. Legitimate purposes for using a suspense account include:

- holding positions waiting on client account allocations
- principal trading positions waiting on allocation to relevant trading books
- orders placed by an investment manager where not all sub accounts have yet been set up in the trading participants systems (consider improving your processes to avoid this)
- A number of unrelated clients want to achieve an outcome over the day such as volume-weighted average price (VWAP) or time-weighted average price (TWAP) and the allocations will be made at end of day (consider having another account specifically for this type of trading)
- An overseas client submits an order through an intermediary and allocations are provided upon completion

of the order (consider avoiding this by getting allocations upfront)

Suspense accounts should be flat at the end of each trading day. If you hold a position overnight then it must not distort the reporting obligations. If you do hold overnight, consider how your suspense account impacts your Daily Beneficial Ownership Reporting (DBOR[2]) for principal trading and client trading, the calculation of capital for client balances and counterparty risk, and participant regulatory data[3]. While these are all reasonable uses of suspense accounts you should contemplate how these scenarios impact your ability to meet your obligations.

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> Firms must be vigilant and implement robust processes to monitor who is using suspense accounts and why.

Misusing a suspense account

Firms must be vigilant and implement robust processes to monitor who is using suspense accounts and why. If not closely monitored, suspense accounts can give rise to misuse, misconduct, or potential breaches of regulations. ASIC has a history of enforcement action in this area, leading to enforceable undertakings, adviser bans, licence cancellations and market disciplinary actions.

ASIC has taken action against firms and individuals over many years, yet firms continue to use suspense accounts for purposes they are not intended.

A December 2023 Court Enforceable Undertaking 031914829 outlines how an adviser instructed the Designated Trading Repetitive (DTR) to place buy orders using the suspense account as the reference for the orders to avoid identifying who the client was. This adviser was found to have breached conflict of interest procedures by:

- accepting client orders when wall crossed,
- failing to maintain client order records particularly when executed through the suspense account, and
- creating a false and misleading appearance of trading in the securities.

The adviser was banned from industry for five years and must undertake retraining to be allowed to re-enter the industry. The AFSL holder failed to monitor and control the use of the suspense account, failed to maintain compliance measures and failed to ensure its representatives complied with financial services laws. The AFSL was found to have breached its obligations to act honestly, efficiently and fairly and the AFSL was cancelled.

ASIC has also taken action against a listed company[4] that acquired shares in itself by issuing and holding shares in a suspense account, breaching the continuous disclosure laws.

Regulatory obligation considerations

When using a suspense account firms must consider if they are adhering to their regulatory requirements. They should consider their best execution obligations, client priority requirements and fairness as per their allocation policy.

If trades are executed using the suspense account has the firm met its order record keeping requirements? And can the regulatory data requirements be met when transmitting orders to an order book? Can conflicts be managed if the client identity is hidden behind a suspense account? Firms need a clear policy on who can use the suspense account and why.

Firms should constantly monitor their suspense accounts. It is not appropriate to review the suspense account only at the end of each day. Firms must carry out intraday monitoring to see who is moving transactions through the account, why, and at what time. Take note of trends, repeat offenders and trades with cancel corrects.

What to look for

Signs that someone is misusing a suspense account include:

- trades being moved into suspense prior to daily margin call calculations and back to the client after margin call processing for the day
- suspense trades being added to client orders where suspense accounts are used to create the appearance of active trading by multiple parties
- comingling of house and client trades
- VWAP or TWAP trades where specific executions get allocated to a specific client
- substantial positions being accumulated in suspense to delay reporting
- trades being executed prior to the client being onboarded

Minimising misuse

To minimise misuse and stay on the right side of the regulations firms should design and implement a clear policy on suspense accounts. They should train staff on the policy and the potential for misconduct. The policy must cover how the firm monitors the account, the independence of the control performer, how issues will be escalated and the consequences for non-compliance.

Conclusion

Suspense accounts are a legitimate tool in managing operational efficiency, but they should only be used in specific circumstances. Monitor them closely and be aware that ASIC has a track record of regulatory enforcement in this area.

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[1] 031914829 paragraph 12
[2] ASX-24-Operating-Rules-Section-04
[3] ASIC MIR Securities 7.4
[4] Continuous Disclosure Breaches

ALTERNATIVE INVESTMENTS AND PRIVATE MARKETS

Scaling up portfolio diversification for wholesale clients

By Andrew Braun, General Manager of Marketing, Netwealth

Alternative investments and private markets are gaining popularity among wholesale clients, especially millennials, presenting a new revenue opportunity for advice firms. With the new technology services available, such as iCapital, advisers now have access to global alternative markets to help meet this growing demand.

Key points

- ✓ Millennial Emerging Affluent wholesale clients are increasingly interested in alternative investments and private markets.
- ✓ Outsourcing alternative asset management to technology providers like Netwealth can help relieve the burden of administering and reporting on alternative assets.
- ✓ Netwealth's partnership with iCapital offers advisers access to unique investment opportunities and educational resources.

A growing opportunity for an emerging market

Alternative investments and private markets are rapidly becoming a new frontier for a segment of Australians who have a lot of capital and want to diversify their investment preferences to include other asset classes that have not been traditionally accessible – investments like private equity, private credit, and commercial real estate assets.

There are several factors driving interest in these asset classes. Investors and wealth managers have been looking to diversify their portfolios in what until recently was a very low interest-rate environment, and volatile market. Because of the decline in access to local private markets via initial public offerings (IPOs) since 2021 (190 IPOs raised around $12B, whilst in 2023 there were around 30 raising less than a billion, Source: HLB Mann), there has been a trend to seek global options.

The second, is growing availability of global options now available due to new exchanges and technology which allows for meaningful participation in the alternative investments market, which has previously only been enjoyed by institutional investors. For example, the new service Netwealth has launched with iCapital, gives advice firms access to a range of global alternatives for their clients.

To illustrate this, Netwealth's Advisable Australian research points to the fact that interest in non-traditional assets such as commodities, commercial property, private debt, hedge funds and even cryptocurrencies have enjoyed a significant increase in investing.

And finally, and perhaps the most important, is the bottom-up demand from clients, who likely have a better understanding of the role alternatives and private markets play in their portfolios, typically with lower correlation to the current market and with longer time-horizons. To illustrate this, Netwealth's Advisable Australian research points to the fact that interest in non-traditional assets has surged significantly. Notably between 2020 and 2022, commodities have seen a 7% growth, cryptocurrencies have skyrocketed by 17%, commercial property has expanded by 9%, private debt has shown a steady 7% increase, and hedge funds have grown by 5% between those years.

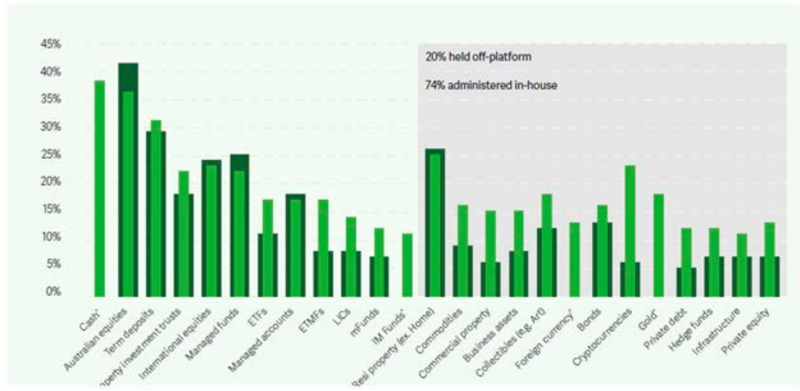
The disconnect between demand and supply

Today, advice firms are overwhelmed when managing any alternative style investments in-house and typically use systems and processes that are not necessarily fit for purpose. According to Netwealth's 2023 AdviceTech research, 20% of client balances are 'off-platform' or in non-custodial arrangement, often in more alternative style investments. And they are usually administered in-house, with three quarters (74%) of advice firms who manage non-custodial assets doing so. This can create an unnecessary burden on the advice firm, where they may not have the required skillset, time, process, or fit-for-purpose technology.

According to the report the most typical alternatives being managed by advice firms are:

Percentage of advised clients investing in the following asset classes

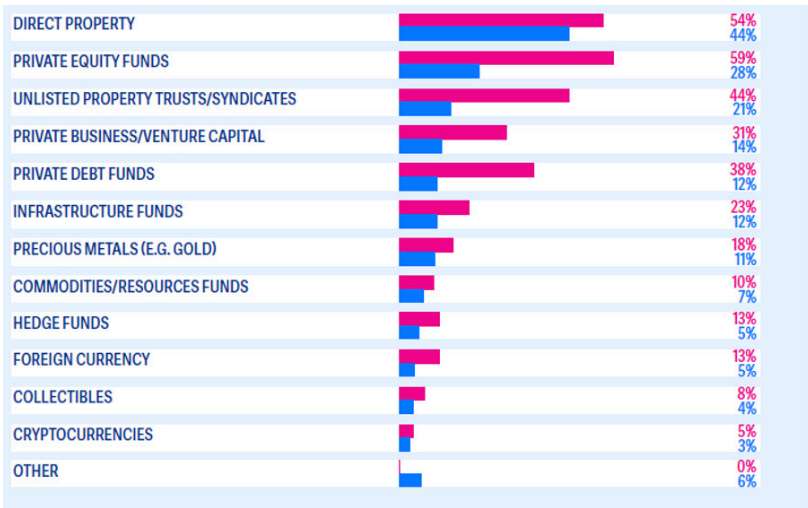
2020 2022



Source: Netwealth 2024 Advisable Australian Report – Understanding Australian advice clients better

Which of the following non-custodial assets do you manage for your clients?

AdviceTech Stars Overall



Source: Netwealth 2023 AdviceTech Buyer's Guide

- Direct property – managed by 44% of all advice firms.
- Private equity funds – 28%
- Unlisted property trusts/syndicates – 21%
- Private debt funds – 12%.

This shows a potential disconnect between what Australians are demanding, and what advice firms are offering. And here lies the opportunity. Perhaps there is an opportunity to attract a new high net worth (HNW) client base, or to simply evolve your offering to meet the changing investment preferences of your clients.

The hunt for better alternative investment access and administration

Having the right technology, processes, people, and partners is the key to meeting client needs and improving

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Alternative investments may have higher risks and will not be appropriate for all investors, so advisers need to be prepared to handle conversations across the new range of offerings available.

back-office efficiency. We recognise the importance of all this, and as a result have established an Australian distribution agreement with iCapital. iCapital is a global fintech platform that provides access to a range of alternative investments, as well as rich research capabilities and educational resources. This arrangement offers access to private equity, debt, and hedge funds, via our non-custodial service available through a Wealth Accelerator account.

The technology and service integration between iCapital and Netwealth offers several advantages for advisers and their clients, including more effective investment, administration, and reporting. Administration of these assets is handled by Netwealth, and not the advice firm, to save precious resources and time. Advice firms can depend on the administrative expertise and rich technology resources of Netwealth to manage complex transactions (such as call payment executions), data management (such as unit pricing) and reporting (including tax reporting and consolidated reporting across assets and entities).

Another important benefit of the partnership is that the price of entry has been lowered. iCapital has lowered their minimum investment per asset from $1 million to $100,000 for Netwealth's wholesale investors.

Education in focus

Education of staff will also be essential if advice firms want to include private market investments in their clients' portfolios. Alternative investments may have higher risks and will not be appropriate for all investors, so advisers need to be prepared to handle conversations across the new range of offerings available. Learning the basics will be essential, such as the characteristics of the different types of alternatives, or how to build a portfolio with alternatives. Though just as important will be understanding the underlying research and specifics of the investments, such as history and performance summaries. With Netwealth's iCapital partnership, advice firms will have access to such research.

A way forward with Netwealth and iCapital

The growing interest in alternative investments among wholesale clients presents a new revenue opportunity for advice firms. Netwealth's partnership with iCapital offers advisers access to unique investment opportunities and educational resources to help them stay ahead of the curve. By outsourcing the management of alternative assets to technology providers like Netwealth, advisers can save time and work more efficiently.

To learn more about how Netwealth can help your advice firm meet the changing investment needs of your clients, get in touch with a Netwealth BDM today.

Potential for a super boost

By Jason Spits, Senior Journalist, *selfmanagedsuper*

Long-term watchers of the superannuation system would have noted its continued growth to $3.9 trillion at the end of 2023, a 10 per cent increase on the same figure a year earlier. Over that year, the government proposed and moved into legislation a bill to define the objective of superannuation, which now sits in parliament awaiting approval.

For many people, these numbers and actions register in the mind and remind them superannuation exists, while their regular fund statements remind them they too have their own super savings.

Yet, levels of engagement with superannuation are still low across the board, with most people aware their employer makes regular contributions as they watch the underlying balance increase via statements from their fund.

However, superannuation members can engage with their fund in many ways, including picking its investment strategy and making their own concessional and non-concessional contributions. Concessional superannuation contributions are payments made into a super account from pre-tax income that receives a concessional (or lower) tax rate, while non-concessional contributions are made from personal savings or income that has been taxed.

Last month, this column examined the changes to the contributions caps that will take effect from 1 July 2024, after which superannuation fund members will have more room to make concessional and non-concessional contributions.

To recap those changes, the concessional contributions cap will increase from $27,500 to $30,000 and the non-concessional contributions cap will rise from $110,000 to $120,000, but these numbers may be irrelevant for fully committed investors with a mortgage and little spare cash to direct towards super.

And this is where a beneficial set of events will work in their favour because the stage 3 tax cuts will also commence from that date.

While they are not as generous at the top of the scale as first proposed, the revised cuts can still be used to boost superannuation where people have not reached their super contribution thresholds, and there are a number of ways to do this.

The first is to direct the extra disposable income that results from the cuts into superannuation via salary sacrifice or a personal deductible contribution and claim it as a concessional contribution, assuming there is room under that cap.

Secondly, if there is no room under the concessional contribution cap, they could make use of the much larger non-concessional contribution cap to boost their superannuation.

Thirdly, where a spouse is earning less than $40,000 a year, an after-tax amount of up to $3,000 can be contributed to their super as a spouse contribution and with the person making the contribution eligible to receive a spouse contribution tax offset of up to $540.

> "While they are not as generous at the top of the scale as first proposed, the revised cuts can still be used to boost superannuation where people have not reached their super contribution thresholds...

The advantage with these approaches is that the tax cuts will provide people who don't necessarily have spare cash to contribute to superannuation with extra cash flow they can use for this purpose and if redirected for five years, could add around $23,000 in today's dollars to their balance for those on the highest tax thresholds.

Alternatively, SMSF members who are likely to have a lower marginal tax rate after 1 July 2024 could use that difference in rates to engage in contribution reserving by making an additional personal deductible contribution in June 2024, allocate it to the next financial year but claim it as a tax deduction, at the higher rate, in this year.

This is possible under the superannuation rules as an SMSF has until 28 July 2024 to allocate additional contributions to members' accumulation accounts and can claim a tax deduction in one year, while the contribution will count towards the member's concessional contribution cap next year.

Any strategies like those described should not be put in place without qualified professional advice, but it would seem the next few months are a prime time to examine how two simultaneous changes to superannuation and tax can work in tandem to boost the super balances of your clients.

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