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GOING FOR BROKE

Reimagining the retail brokerage model in the age of digital disruption

Listed investment companies – Celebrating the past and looking to the future

How to get the indexing edge for your clients

The inexorable shift from public to private: Capital and Debt

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GOING FOR BROKE

Reimagining the retail brokerage model in the age of digital disruption

By Benjamin Quinlan, CEO & Managing Partner, Quinlan & Associates

Between 2002-18, Australians passed on an eye watering AUD 1.5 trillion to their heirs.[1] That figure is expected to more than double to a whopping AUD 3.5 trillion during the next generational wealth transfer up to 2050.[2] However, the big winner of this handover of riches is expected to be a completely different cast of characters: online investors.

Out of the ark

Close to 60% of the Australian financial advisers' clientele consists of people aged 55 and above,[3] placing them out of the ark of the younger generation who are set to inherit vast sums of wealth in coming decades. While one may still hope that their longstanding clients' offspring will stay on board as future clients, statistics beg to differ, with 65% of inheritors parting ways with their parents' financial adviser.[4] More worryingly for many traditional brokers, only 3% of 21-24 years olds in Australia are receiving financial advice. In fact, the proportion of Australians receiving financial advice is on the wane, falling to ~10% in 2021, down from ~14% in 2018.

Adding to their woes, rising regulatory constraints have decimated the financial adviser community, which has fallen sharply from 28,353 advisers in 2018 to 16,545 advisers in 2022, with this trend expected to continue. This supply shock has, in turn, ratcheted up remuneration costs for junior advisers, whose median wage has climbed by 23% between 2019-21. As a result, between 2018-21, the median cost of financial advice in Australia has shot-up by 41%, further nudging people away from seeking out a financial adviser.

If fewer Australians, especially from the younger generation, are turning towards financial advisers, then what are they doing with their wealth?

The answer lies in a newly cultivated "do it yourself ('DIY')" mindset that is encouraging Australians to invest their wealth independently, conducting their own research online to drive their own capital allocation decisions. Much of this has been made possible thanks to technological advancements that have ushered in mobile- and web-based investment platforms, significantly lowering entry barriers for retail investors.

Consequently, Australian retail investor participation, particularly via digital channels, has swelled, reaching 1.52 million active online investors in 2021, growing more than two-fold since 2019.[5] A Key beneficiary of this trend are low-cost online brokers (i.e. "neobrokers"), who now command 50% of the market share.[6]

New kids on the block

Witnessing the burgeoning potential of online trading, a slew of digitally native "neobrokers" have cropped up across the world in recent years, and Australia has been no exception.

With their low-to-zero commissions, smooth user interface and experience ("UI / UX"), and various rewards on offer, investors are rushing to sign-up with them. For instance, over the past year, the likes of Stake and Superhero have experienced their customer count skyrocket by approximately six-fold.[7,8]

On the back of strong customer growth, the wallet opportunity for neobrokers is expected to touch AUD 82.2 million next year (and continue rising), growing at a rapid compound annual growth rate ("CAGR") of 26.6% between 2017-23.[9]

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Running for cover

Noting the blistering pace at which neobrokers have grown, a growing number of incumbents are scrambling to digitally transform their legacy business models. In general, there are three key steps that brokers are undertaking to defend their market share, including:

- **Digital Partnerships:** Given the lack of their own technological prowess, many traditional brokers are partnering with third-party providers to develop / advance their own digital trading proposition
- **Fee Cuts:** With neobrokers pushing the envelope with low-to-zero cost trading, incumbents are being pressured to cut their commission rates
- **Industry Consolidation:** Undergoing a period of “creative destruction”, the industry is witnessing widespread consolidation in the form of closures, acquisitions, and mergers / joint ventures

However, despite their best efforts, there are a number of key roadblocks that are stymieing incumbents’ progress, as the doomsday clock keeps ticking:

- **Budget Constraints:** Digital transformation can prove to be very costly, acting as a key barrier in case of budget constraints
- **Legacy Systems:** Outdated systems result in slower pace of innovation and make firmwide technological integration more challenging
- **Cultural Barriers:** An over-reliance on a few large legacy clients has resulted in a widespread resistance to change, reflecting pervasive cultural complacency

With a similar story playing out worldwide, we expect more than

two-thirds of traditional brokers across the globe to either be wiped out or forced to become pure-play digital brokers over the next six years.

The way forward

In order to adapt to the new, digital-first reality of the industry, brokers need to fundamentally rethink their digital value proposition across the entire customer journey, namely:[10]

- **Identify:** Identify a suitable pool of target customers
- **Acquire:** Build a sizeable target customer base
- **Engage:** Achieve high user engagement rates
- **Service:** Add value to existing customers
- **Monetise:** Monetise the captive customer base
- **Maintain:** Drive customer loyalty and satisfaction
- **Envelop:** Build a closed ecosystem

As they conduct this transformation exercise, brokers need to remain cognisant of key operational enablers to drive successful delivery, including talent management, technological capability, risk management, regulatory compliance, and data management. And for those who can get it right, rich pickings await.

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[1] Productivity Commission, ‘Wealth transfers and their economic effects’, November 2021, available at: https://www.pc.gov.au/research/completed/wealth-transfers/wealth-transfers.pdf

[2] The Australian Financial Review, ‘Baby Boomers to pass on $224b a year by 2050’, December 2021, available at: https://www.afr.com/policy/economy/baby-boomers-to-pass-on-224b-a-year-by-2050-20211206-p59f7d#:~:text=Baby%20Boomers%20will%20pass%20on,generations%2C%20including%20the%20poorest%20Australians

[3] Adviser Ratings, ‘Australian Financial Adviser Landscape 2022’, April 2022, available at: https://www.ardata.com.au/wp-content/uploads/2022/05/AFALandscape2022-AB_R2.pdf

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[5] The Australian Financial Review, ‘Nearly 300,000 people (mostly Millennials) became traders last year’, March 2022, available at: https://www.afr.com/wealth/investing/nearly-300-000-mostly-millennials-became-traders-last-year-20220302-p5a151#:~:text=In%20total%2C%201.52%20million%20online,to%201.25%20million%20in%202020.

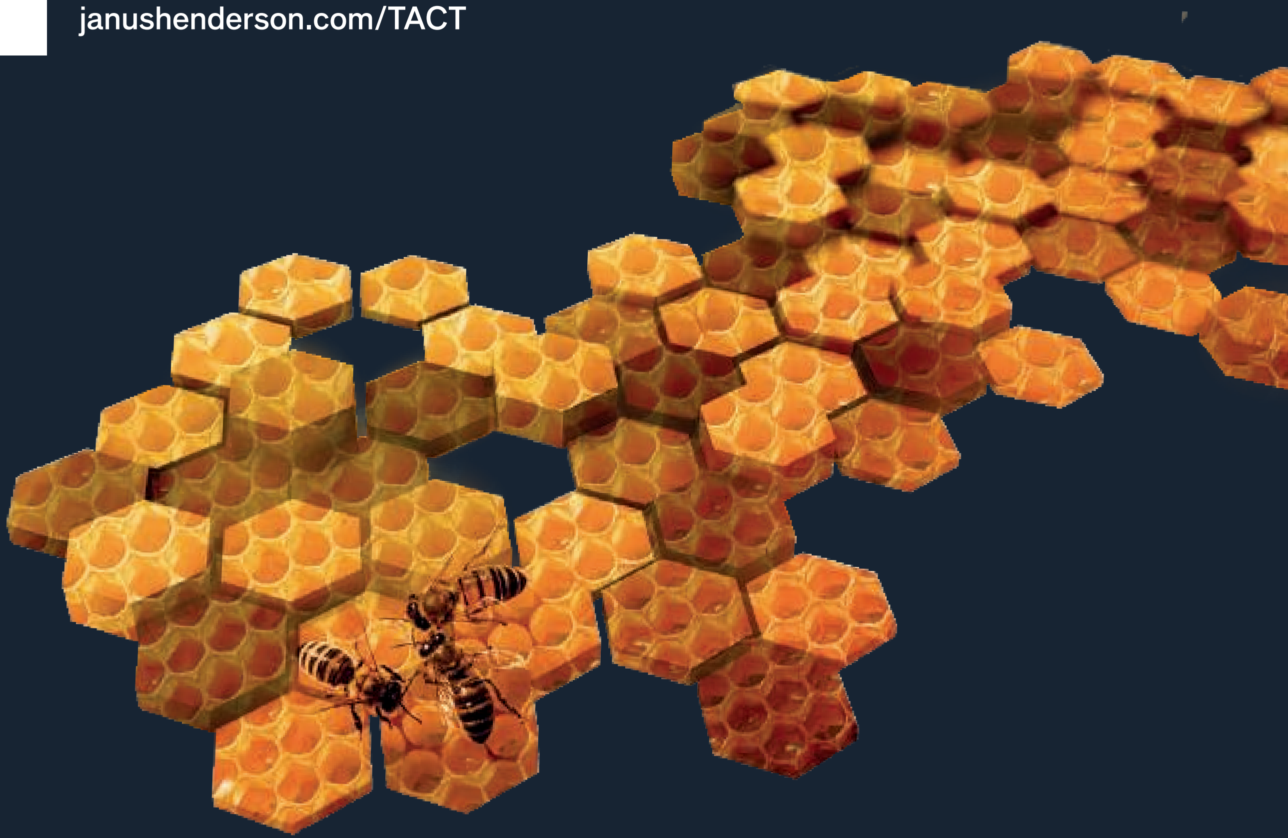
[6] Firstlinks, ‘Three charts on the surprising rise of Australian retail investors’, April 2021, available at: https://www.firstlinks.com.au/three-charts-surprising-rise-retail-investor-australia

[7] Yahoo Finance, ‘Fintechs Swyftx, Superhero in $1.5b merger’, June 2022, available at: https://nz.finance.yahoo.com/news/fintechs-swyftx-superhero-1-5b-015454099.html?guccounter=1#:~:text=Brisbane%2Dbased%20Swyftx%20and%20Sydney,%2C%20Brisbane%2C%20London%20and%20Vancouver.

[8] SmartCompany, ‘Australian fintech Stake raises a further $50 million as it gears up to launch crypto trading’, April 2022, available at: https://www.smartcompany.com.au/startupsmart/news/australian-fintech-stake-crypto-trading/#:~:text=Stake%20now%20has%20450%2C000%20customers,about%2075%25%20of%20its%20users.

[9] Statista, ‘Neobrokers’, March 2022, available at: https://www.statista.com/outlook/dmo/fintech/digital-investment/neobrokers/australia?currency=usd

[10] Quinlan & Associates, ‘Going For Broke: Reimagining The Retail Brokerage Model In the Age Of Digital Disruption, June 2022, available at: https://www.quinlanandassociates.com/wp-content/uploads/2022/04/Quinlan-Associates-Going-For-Broke.pdf



SIAA-ACCREDITED **CPD webinars**

Stay on top of your CPD with these SIAA-accredited CPD webinars – FREE for Practitioner, Affiliate and employees of Principal Members.

Inside insider trading

Having worked on the side of the regulator for 17 years Wendy Prince is in a unique position to outline the type of activities to look out for to avoid inside trading. Using case studies Wendy will outline how to detect insider trading, the profile of a "typical" insider, the long-term ramifications of an insider's career and life tips on what to do if one is alleged to have insider traded.

Wendy Prince

WEBINAR DETAILS

Wednesday 10 August | 1.00 to 2.00pm AEST

Practitioner & Organisation Members: FREE
Non-Members: $55.00

Professional Standards CPD: 1.0 Professionalism and ethics
RG146: 1.00 Generic knowledge

Taking the leap to a digital solution

SIAA's CEO, Judith Fox, will moderate an insightful discussion with Trent Doughty, Kelly & Partners Private Wealth; James Gerrish, Market Matters and Sam Mackay, Mackay Private who have successfully navigated the leap and are now offering a digital investing solution. Hear about the challenges and opportunities which led these firms to launch an online solution, the steps they took to implement it, and what the outcomes have been.

Trent Doughty

James Gerrish

Sam Mackay

Judith Fox

WEBINAR DETAILS

Wednesday 24 August | 1.00 to 2.00pm AEST

Practitioner & Organisation Members: FREE
Non-Members: $55.00

Professional standards CPD: 1.0 Client care and practise
ASIC RG146: 1.0 Generic knowledge

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Celebrating the past and looking to the future

By Ian Irvine, CEO, Listed Investment Companies & Trusts Association (LICAT)

For close to 100 years Listed Investment Companies (LICs) have been a part of the investment fabric of Australia.

Their closed-end structure has provided a very stable, constructive and efficient investment platform for hundreds of thousands of Australian investors over those years.

As closed-end investment vehicles, LICs and LITs can avoid many of the administration inefficiencies faced by open-end funds. Capital raisings are administered and invested in a single, compact block, in contrast to open-end funds which must continuously market and distribute their fund, administer daily withdrawals and deposits and repeatedly buy and sell investment assets to accommodate cash flows.

Additionally, and importantly the stability of capital provided by a LIC or LIT encourages a long-term mindset at both management and investor levels, and supports the development of investment teams with experience and longevity. While these nuanced benefits are infrequently mentioned, the continuity and longevity of an investment team is one of the most pertinent contributors to the delivery of high quality returns for investors.

For these reasons the LIC industry contains some of the most cost efficient and long lasting investment entities in Australia. Operating expenses for the largest and most efficient LICs sit between 0.15% and 0.42% – significantly less than many other actively managed investment funds. The oldest LIC in Australia, Whitefield Limited (ASX: WHF) has been listed since 1923. Others include:

- Argo Investments Limited (ASX: ARG), listed in 1946
- Australian Foundation Investment Company Limited (ASX: AFI) listed in 1928
- Australian United Investment Company Limited (ASX: AUI) listed in 1953
- WAM Capital Limited (ASX: WAM) listed in 1999

The closed-end nature of a LIC or LIT also makes these vehicles highly suited to the management of longer time horizon investment strategies and assets, while continuing to be able to provide underlying investors with a mechanism to buy or sell their investment at any time.

This attribute has seen a range of LITs launch and grow over the last decade by providing investors with access to asset-backed credit strategies, that would usually only be accessible by wholesale and professional investors.

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> While LICs were originally vehcicles that specialised in Australian equities, the sector has broadened over the last 30 years, and now also includes entities offering exposure to global equities, credit products and infrastructure.

Recent LITs of this type include:

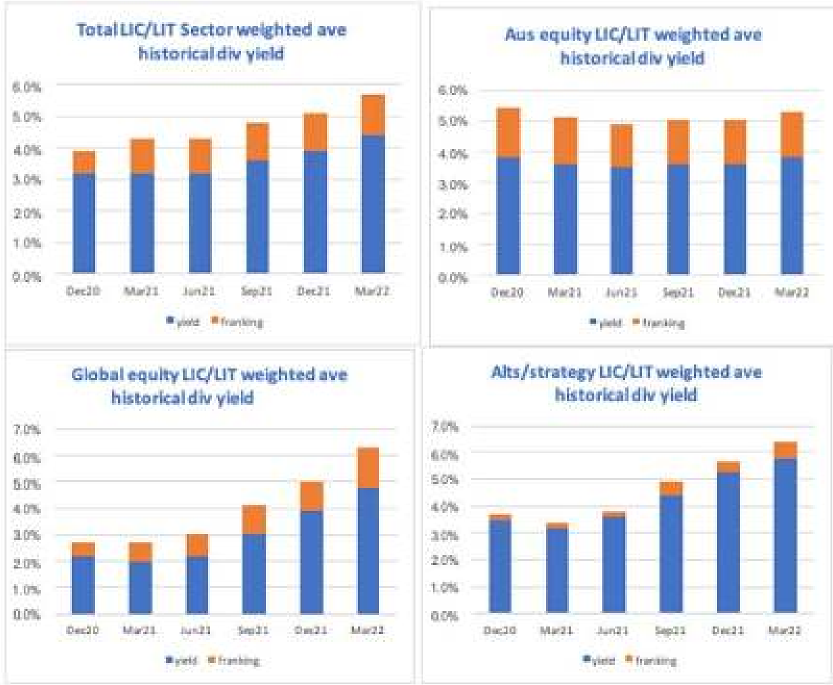
- Gryphon Capital Income Trust (ASX: GCI)
- Metrics Credit Partners (ASX: MXT, MOT)
- Qualitas Real Estate Income Trust (ASX: QRI)

A close linkage with the stockbroking community

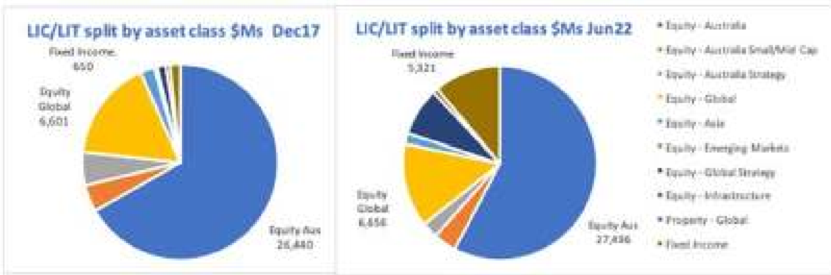
LICs and LITs only raise capital periodically. So unlike open-end funds that must maintain large in-house distribution teams, LICs and LITs engage the services of the stockbroking community to co-ordinate and manage their periodic capital raisings.

This process provides the important linkage that enables capital to be efficiently raised and applied into markets and the underlying businesses those markets support.

The ability for stockbrokers to review, consider and assess LIC and LIT capital raisings en-masse both before they are brought to market, and once they are brought to market provides an important level of investor protection. It is generally believed that around 2/3rds of potential LIC/LIT issues are rejected by the stockbroker vetting process, with only 1/3rd of proposed issues being accepted by the broking community.



Source: Bell Potter Securities



Source: ASX Investment Products monthly report

Income, yield and franking

With a range of LITs specialising in credit strategies, and the company structure of LICs enabling the smoothing of dividend payment streams, LICs and LITs have been utilised as a means of providing investors with a robust flow of income during the exceptionally low interest rate environment of the last decade.

Asset Class Diversification

While LICs were originally vehicles that specialised in Australian equities, the sector has broadened over the last 30 years, and now also includes entities offering exposure to global equities, credit products and infrastructure.

Premiums and discounts

There is a misconception that all LICs/LITs trade at discounts, all discounts are bad, and that investors may be trapped in a LIC or LIT. There are a number of reasons as to why this is not correct.

Firstly, it does not acknowledge the benefits that accrue to an investor because a fund is closed-end. A closed-end fund creates benefits for investors through cost savings, longevity of management, and the steady building of scale.

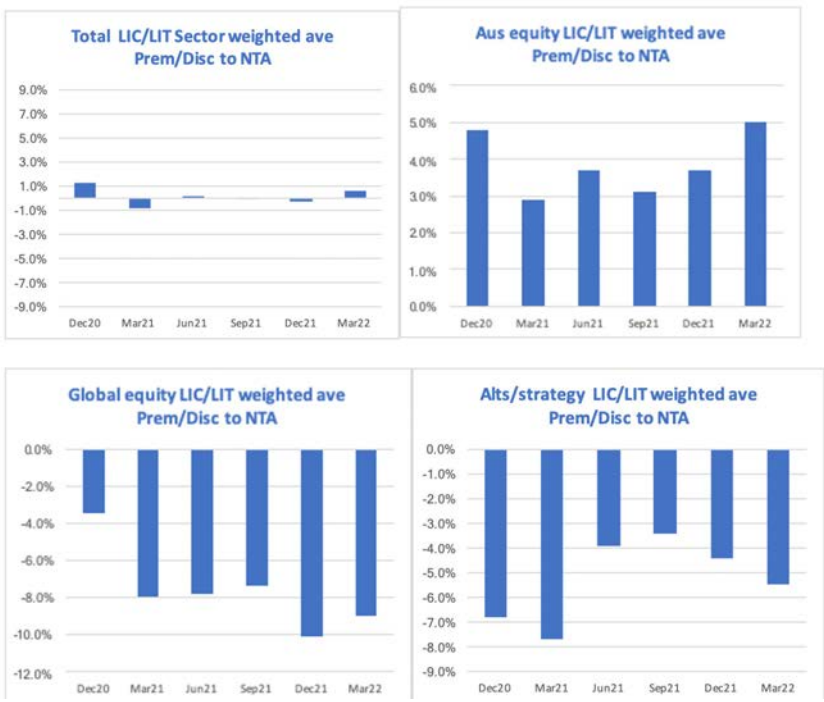
Secondly, LICs and LITs are no different from BHP Group, Commonwealth Bank, or any other share on ASX. Investors may buy and sell their shares on market at any time.

The price at which the shares trade will periodically be cheap and at other times expensive relative to underlying intrinsic value. This is the way buyers are matched with sellers without underlying assets having to be sold.

As with shares generally, among the range of LICs and LITs, there will be frequently expensive market darlings and deep-value entities that trade cheaply more often than not.

Thirdly, the buying and selling of a LIC/LIT at a discount or premium is a zero-net sum game between the buyer and seller. It has no impact on the return generated on the underlying assets for all other ongoing investors.

Fourthly, LIC and LIT investors will typically take the dynamics of open-market pricing into account in how they invest. Some investors may choose to invest steadily over time so that short-term fluctuations in premiums/discounts average out. Astute investors and their advisers may seek to time their purchases to when the LIC or LIT trades cheaply. Others may simply invest over very long periods, so any premium/discount at a point of entry or exit becomes inconsequential relative to their investment.



Source: Bell Potter Securities

In general, so long as the average premium/discount an investor buys in at is similar to the premium/discount they sell out at, they will have not been disadvantaged.

Indeed, financially, investors who buy at a discount and later sell at the same discount will still have achieved a net benefit over the course of their investment due to receiving investment income generated on the higher asset value.

Lastly, there is the failure to recognise that even for a persistently and heavily discounted LIC or LIT, market forces will ensure a resolution for investors.

Summary

Sensible investing always requires long-term commitment – something the closed-end structure encourages and embraces. As Warren Buffett said: "If you aren't thinking about owning a stock for 10 years, don't even think about owning it for 10 minutes".

Many hundreds of thousands of LIC and LIT investors understand the truth in this statement and have benefited through the compounding of sound returns over many decades.

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Sensible investing always requires long-term commitment – something the closed-end structure encourages and embraces. As Warren Buffett said: "If you aren't thinking about owning a stock for 10 years, don't even think about owning it for 10 minutes".

The Listed Investment Companies and Trusts Association (LICAT) represents the interests of Listed Investment Companies (LICs), Listed Investment Trusts (LITs) and over 850,000 Australians who invest in the LIC and LIT sector. LICAT represents the LICs and LITs accounting for approximately 80% of the current Australian capital invested in the LIC and LIT sector. More information can be found at www.licat.com.au.

AUSTRALIAN
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This year the ASF are putting on a musical-themed awards night in support of all their charities that use music therapy and incorporate music as part of their healing process.

When?

Wednesday 21 Sept , 6pm

Where?

Sofitel Wentworth Sydney
61/101 Phillip St, Sydney NSW

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www.stockbrokersfoundation.org.au

How to get the indexing edge for your clients

By Minh Tieu, Head of ETF Capital Markets Asia-Pacific and Investment Strategy Group, Vanguard Australia

When it comes to choosing an index fund for your clients' portfolios, it may be tempting to pick the lowest-fee product. But not all indexers are the same. Below the surface there's a lot that fund managers need to get right.

Consistent performance, close index tracking and replication of risk exposures all require careful and sophisticated work. Fees are an important consideration, but it's long-term investment outcomes that really count.

So what should you look for when choosing an index ETF? The following six considerations will help you get the edge when making your decision.

1. Know your provider

Invest with a reputable fund manager with experience and a solid track record of delivering index performance. They should have a clear investment philosophy and explain what objectives they prioritise when offering products.

A disciplined approach to portfolio management combined with the scale to have dedicated risk, research and investment teams is more likely to produce returns consistent with the benchmark.

2. Global trading infrastructure

Fund managers with trading desks in regions around the world are able to carefully execute their funds' trades in ways that best align with the strategies of the portfolios.

In contrast, those funds with only a domestic trading desk often rely on outsourcing to regional brokers, who are paid commissions based on trade volume.

These external parties may not value the idea of managing market impact, instead trading in a way that is indifferent to maximising value for your clients.

3. Prudent securities lending

Globally, securities lending is a widely used value-adding investment strategy involving the loan of portfolio securities to financial institutions that have a need to borrow them. While this basic framework exists across the globe, the approach or lending philosophy can vary significantly.

For example, Vanguard's securities lending program is designed to generate incremental value for your clients. Unlike some other fund managers, Vanguard returns 100% of the program's profits to the funds, which helps reduce the overall cost of investing.

4. A focus on lowering the total cost of investing

The cost of investing in ETFs is more than just the management fee. The total cost includes all costs associated with buying, selling and owning the investment. This means the bid/ask spread must be factored in.

Bid/ask spreads are determined by the market. ETFs with deep liquidity and market maker support will generally have tighter bid/ask spreads. Vanguard's ETF Capital Markets Team constantly monitors trading and liquidity throughout the day, allowing them to coordinate different trade types to get the best ETF execution for your clients. We have among the widest market maker coverage in the region, meaning our team can ensure bid/ask spreads regularly trade within a tight range and source additional liquidity for your larger trades.

5. Scale

Whether it's manufacturing cars or managing index funds, greater scale means increased efficiency and reduced costs.

Scale enables managers to more closely replicate quality indexes with a high number of securities. Smaller scale managers may need to opt for less diversified benchmarks with fewer securities or optimise portfolios through representative sampling that may not match the risk characteristics of the benchmark.

6. Alignment with your clients' interests

Index fund managers come in all shapes and sizes. The details are important because a fund manager's ownership structure and philosophy define the incentives that drive their business strategy.

What sets Vanguard apart—and lets Vanguard put investors first around the world—is the ownership structure of The Vanguard Group in the United States.

Rather than being publicly traded or owned by a small group of individuals, The Vanguard Group is owned by Vanguard's U.S.-domiciled funds and ETFs. Those funds, in turn, are owned by their investors. This unique mutual structure aligns our interests with those of our investors and drives the culture, philosophy, and policies throughout the Vanguard organisation worldwide.

Not all indexers are the same

Index funds are not commodities that compete purely on price. You may be able to squeeze out an extra two or three basis points in fee savings by going with the cheapest fund. But in an era of ultra-low expense ratios, you need to look beyond the headline fee to get the best investment outcomes for your clients.

SIAA WORKSHOPS

Market Manipulation & Other Prohibited Conduct

Tuesday 6 September | 11.00 – 1.15pm

This workshop on the prohibition on creating or maintaining an artificial price for trading in various financial products, including shares and futures, will benefit all who wish to gain an understanding of markets and the consequences of breaching obligations. Designed to suit the needs of financial market professionals from the front and back office, this is a great opportunity to brush up on your obligations, learn how to protect yourself and understand the difference between manipulation and ordinary market forces.

PROFESSOR MICHAEL ADAMS is a specialist in Australian corporate law and international corporate governance. Michael has expertise in financial services regulation, information governance, consumer protection and the broader area of legal technology and education. Professor Adams was Dean of Law at Western Sydney Law School from 2007 to 2017 and from 2019 the Head of the University of New England Law School.

Dates & Times (*includes 15 min break*)

Tuesday 6 September, 11.00 – 1.15pm AEDT

Professional Standards CPD Area

Regulatory compliance and consumer protection 1.0 hour

Professionalism and ethics 1.0 hour

Call 02 8080 3200

Email education@stockbrokers.org.au

Register online @ www.stockbrokers.org.au/education/cpd-workshop/market-manipulation-prohibited-conduct

Introduction to stockbroking

Tuesday 13 September | 11.00 – 1.15pm

Australia's financial markets are among the most sophisticated and well-regulated markets in the world. Central to the operation of efficient markets is the role of stockbrokers. This workshop provides an overview of Australia's financial markets and the critical role that stockbrokers play both in retail and institutional markets. A high-level view of stockbroking and financial advisory operations including order taking, transaction and settlement will provide insight into the different systems involved and allow for a discussion of the different business models in stockbroking today.

RUSSELL McKIMM During his 40+ year career in stockbroking Russell has held a number of senior management positions in leading broking firms as well as providing advice to a wide range of clients. He has also been involved in numerous industry bodies including President of the Financial Planning Association of Australia (FPA), board member of Stockbrokers Association (now SIAA) and as a board member of the Financial Ombudsman Service (FOS). He has always had a passion for educating clients which he has fulfilled by being a lecturer in many industry courses and through his commitments including his talkback radio program on 2GB.

Dates & Times (*includes 15 min break*)

Tuesday 13 September, 11.00 – 1.15pm AEDT

Professional Standards CPD Area

Regulatory compliance and consumer protection 1.0 hour

Professionalism and ethics 0.5 hour

Technical competence 0.5 hour

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Cost

Members $125

Non-members $175

Register four or more

by Tuesday 30 August to receive a $50pp discount!

Registration includes case studies, resources, interactive discussion and a quiz to consolidate learning outcomes.

To access this rate please call **02 8080 3200** or email education@stockbrokers.org.au.

PLEASE NOTE: Numbers strictly limited, please book early to avoid disappointment.

The inexorable shift from public to private: Capital and Debt

Mark Papendieck, Chief Revenue Officer, Integrated Portfolio Solutions

Will public market assets still form a core part of our clients' portfolios in ten years time? Absolutely. Will private market assets form a significantly bigger part of client's portfolios then compared to now? Undoubtedly!

A fair question to then ask about the increase in the relative size of private markets is whether it is only a trend that will fade or whether it is a systemic long-term shift? Just as importantly, we need to know the implications for how we structure our wealth advisory businesses.

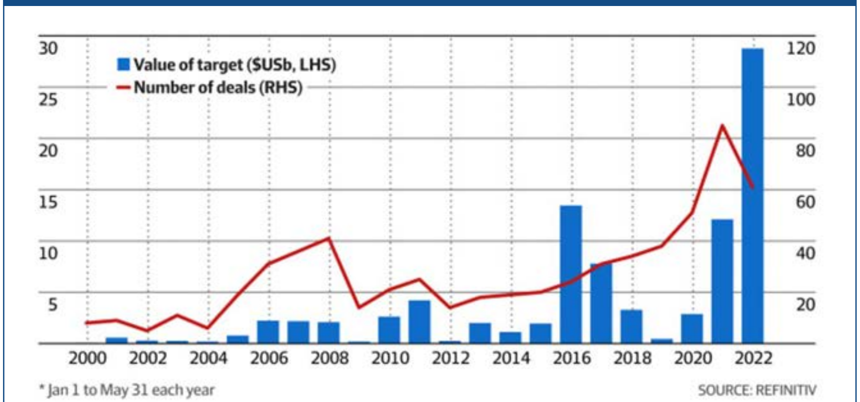
We have a maturing venture capital (VC) ecosystem in Australia that saw $10 billion deployed by VC companies in 2021. That was almost as much as the $13 billion capital raised through ASX IPOs. When you then also consider that the value of the private equity (PE)/ private capital involvement in public mergers and acquisitions (M&A) hit $44.8 billion in the same year (over 90% of the M&A deals were private deals) you begin to see the size of the shift. Figure 1 shows that PE-backed deals are accelerating.

One of the key reasons that companies choose to list is to access growth capital. The reality of today is that many successful companies are accessing growth capital from VC and PE investors (think Canva, Atlassian and SafetyCulture in Australia) and international billion-dollar tech companies like Discord and TikTok parent company ByteDance.

As large institutional investors seek to deploy ever increasing amounts of capital the necessity of taking larger stakes in assets or businesses without the short-term volatility or scrutiny of public markets (or at least a reduced correlation to public markets) will continue to move institutional asset allocation toward private markets.

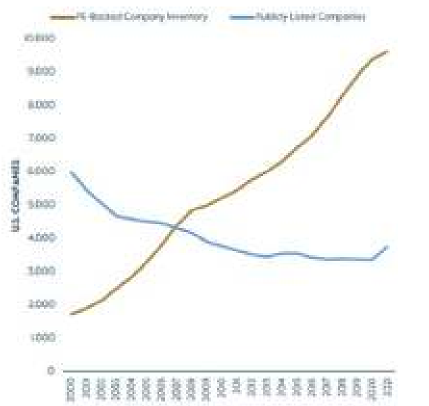
Additionally, whereas exits for VC firms used to be via an IPO, the

Figure 1: Private equity-backed M&A targeting Australian companies



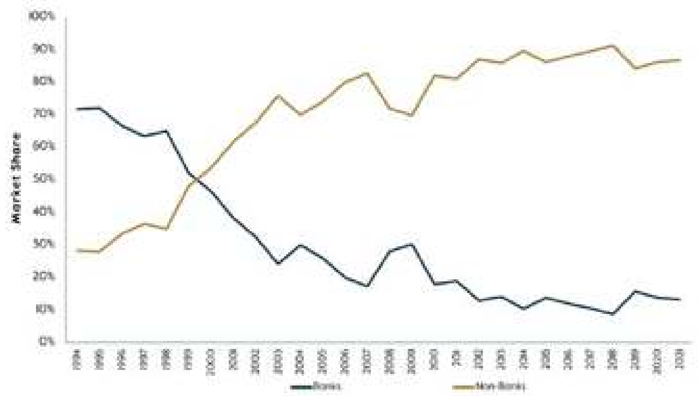
Source: AFR & Refinitiv

Figure 2: Growth in privately held companies



Source: Carlyle Analysis, Preqin,Fen 2022

Figure 3: Non-banks increasing market share compared to banks



Source: Carlyle Analysis, L&P LCD Quarterly Leveraged Lending Review

rapid increase in VC funds (and later stage private growth capital) and the necessity for these funds to continue to deploy capital raised (dry powder) into the future means that capital is readily available to fund a company's future raisings. Exits for buyouts are more frequently dominated by strategic sales to other companies and there has been rapid growth in sales from PE to other PE firms.

So while there will no doubt continue to be quality investment opportunities available on public markets, the drop in listings globally (figure 1) means that public companies today are much larger and older on average than in the past. Access to the higher growth opportunities in a portfolio will necessarily rely more on private capital opportunities in years to come.

While these trends drive the growing conversation around the more glamorous rapid growth of private capital markets, less discussed is the shift of key segments of the debt and credit markets from public to private.

This systemic trend towards more economic activity occurring in private companies at the expense of public capital markets has also led to a rapid expansion of the direct lending opportunity set. Australian private debt is estimated to be 10% of the corporate loan market, but heading towards the 40-50% share of non-bank lending now seen in Europe. In the US, the banks' share of lending to small and medium business has shrunk to around 20%.

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> The shift from public to private markets is structural and can't be ignored. From the perspective of a wealth adviser, the ability to cater for these types of assets and the structures that they are paired with is critical.

In Australia, there are underlying regulatory and macro-economic drivers of the growth of private debt. As in the US and Europe, strengthened lending guidelines and requirements for additional capital to be held in the wake of the global financial crisis of 2007-2008 led banks to reduce their exposures to mid-tier borrowers. In turn, this provided opportunities for non-bank financial institutions to expand their footprints in the private debt market.

From a regulatory perspective, APRA is likely to want private debt's asset allocation classification to fall into "fixed income" for the purposes of the Your Future, Your Super performance test. As private debt is less affected by short-term market volatility and generally provides a higher yield with lower correlation to traditional fixed income asset classes it is likely to enjoy an increasing allocation in institutional super portfolios.

More tactically, the floating rate structure of Australian private debt protects against inflation and will likely be an attractive investment thematic in the current inflationary environment. Private debt in the form of corporate loans offers protection against inflation because they earn their returns from interest that is generally charged at a floating rate.

The takeaway: The shift from public to private markets is structural and can't be ignored. From the perspective of a wealth adviser, the ability to cater for these types of assets and the structures that they are paired with is critical. The increasing usage of private market assets will cause more advisers to question whether they are running an administration business, or an advice business, as the old tool sets of wrap accounts and spreadsheets struggle with investments that include capital calls, syndicates and other esoteric structures.

Accreditation and training

Stockbrokers and Investment Advisers Association

CORE 1: SECURITIES AND MANAGED INVESTMENTS	ACCREDITED DERIVATIVES ADVISER LEVEL 1 (ADA 1)	ACCREDITED DERIVATIVES ADVISER LEVEL 2 (ADA 2)	FOREIGN EXCHANGE
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Allow up to 90 hours^	Allow up to 150 hours^	4 weeks on-the-job training with a Senior DTR^	4 weeks on-the-job training with a Senior DTR^

^ Suggested study hours per course

Graduates of DTR will receive a Certificate of Completion including Professional Standards CPD hours. Enrolments close at 3.00pm every Monday Sydney time.

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Supervision and controls for remote working

For many market intermediaries, remote or hybrid working arrangements now form part of normal business operations beyond the prolonged COVID-19 pandemic.

As market intermediaries transition from 'temporary' business continuity arrangements, ASIC encourages you to review your operational risk management framework for remote working. ASIC expects that well-designed, ongoing systems and controls for managing operational risks are embedded and operating effectively.

In reviewing your arrangements, ASIC encourages you to consider the following questions. They complement the new technological and operational resilience market integrity rules that will apply from 10 March 2023, and the accompanying guidance in Regulatory Guide 265 (securities) and Regulatory Guide 266 (futures). You should also expect ASIC to ask these questions as they continue to review market intermediaries' supervisory arrangements and controls.

Remote working arrangements

- How do you maintain effective controls and supervision over staff and third-party service providers who are working remotely, and what enhancements mitigate additional remote working risks?
- Did you follow robust change management and governance processes when implementing or changing remote working arrangements?
- Have you formalised and regularly reviewed policies and procedures relating to remote working and expected staff behaviour?
- How do you regularly assess the effectiveness of controls and supervision under remote working arrangements within established risk frameworks and risk appetite?
- What training is provided to staff to ensure they understand additional requirements and expectations if working remotely?
- Have you reviewed business continuity plans to ensure they remain effective, considering any remote working arrangements? Do these reviews incorporate extreme but plausible scenarios?
- How might remote working arrangements impact services provided by third parties and how do you ensure risk management controls and supervisory arrangements remain effective?

Communication devices, applications and platforms

ASIC has observed that a broader range of communication devices, applications and platforms are being used by staff, creating challenges for supervision and record keeping.

- How are your staff communicating between themselves and their clients?
- What limits do you place on the use of devices and communication applications or platforms? How do you test whether staff adhere to these limits?
- Are there adequate supervisory arrangements and controls to identify and manage conflicts of interest and poor conduct? How do you maintain appropriate records?

WORLD CLASS,
but best yet to come

By Jason Spits, Senior Journalist,
selfmanagedsuper

If asked, many Australians could name a few things in which we are world class. Sporting figures comes to mind – including Cameron Smith's win at this year's British Open golf tournament – as do entertainers and scientific achievements, such as the development of fast wi-fi and plastic bank notes.

However, it is less likely many would name our compulsory superannuation system as being world class, yet it consistently ranks in the top 10 retirement income systems around the world for adequacy, sustainability and integrity.

The reason for that is its design, which is based on compulsory contributions made by members into a tax-friendly environment that are invested for the long-term goal of providing retirement income in the future.

This was not always the case. The proto-superannuation system first set up in 1976 under some industrial awards to provide the same type of retirement savings model for blue-collar workers that existed for white-collar workers, was not compulsory for all and mainly tax friendly for employers making the contributions.

Cue a decade and half of refinements and tax changes and on 1 July 1992, the compulsory superannuation system, with the superannuation guarantee (SG), commenced requiring all Australian employers to pay their employees super at the SG rate and boosting superannuation coverage of the working population to 80 per cent within a year.

In 2022, 30 years later, that system is still in place and the SG is rate is 10.5 per cent and heading to 12 per cent by 1 July 2025 – and it is likely to be the single biggest contributor to funding the retirement of most Australians.

The reason for that is most people can't or won't put aside around 10 per cent of their annual income for their retirement and have to be forced to do so, with the money never passing through their hands until they reach retirement.

And it has paid off. According to the most recent figures from the Australian Prudential Regulation Authority (APRA), total superannuation assets are $3.44 trillion, compared to $148 billion in 1992 – spread across corporate, retail, public sector, industry and self-managed super funds and the 23.2 million people who are members of those funds.

The APRA figure will also continue to grow, driven, at a minimum, by SG contributions each year and, dependent on economic conditions, by investment returns, and for many people these will be the only inputs that dictate how much they can look forward to in retirement, apart from the age pension.

Yet this is why the system is one of the best in the world. Apart from its longevity, it is not dependent on state-based or state-funded pension arrangements like the social security system in the United States. It is based on defined contributions made for each working Australian for every year of their working life and investment returns on those contributions.

Additionally, fund members can make their own contributions each year of $27,500 at a concessional tax rate and $110,000 at a non-concessional rate to boost their retirement savings or catch up on those years they were out of the workforce.

The super system also offers competition among providers who are required to regularly report on their performance to members and regulators, with the latter imposing coercive actions on funds that consistently underperform.

So, is it a perfect system? No, it is not. The 13th edition of the Mercer CFA Institute Global Pension Index released in October last year stated Australia was now ranked sixth in the world, down from its highest ranking of third, in regards to its retirement income system due to the administration costs of running a defined contribution system.

Those costs will impact smaller funds and already we have seen the first wave of super fund mergers as their trustees aim to ensure running costs and poor returns don't eat away at member balances.

APRA-regulated funds are now also required to document a strategy that identifies the retirement income needs of fund members and develop a plan to service those needs.

As more super fund members age and move from accumulation into decumulation phase, this will be critical in ensuring individual funds meet the promise of super for each fund member.

At the 30th anniversary of compulsory superannuation, it is worth remembering its long track record in building retirement wealth for millions, but its ongoing value will be seen in how many can look forward to life after age 65 with greater confidence than those of preceding generations.

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