SIAA monthly

www.stockbrokers.org.au | August 2024

Biden out, Harris in?

Markets reassess the US presidential race – and the 'Trump Trade'

Pockets of opportunity in small caps

Redefining wholesale investors in Australia

Delivering Better Financial Outcomes: Important changes

Whatever happened to the US recession?

Australia's equity markets receive a clean bill of health

CONTENTS

Stockbrokers and Investment Advisers Association
Serving the interests of investors

3
COVER STORY

3 Biden out, Harris in? Markets reassess the US presidential race – and the 'Trump Trade'

In a less than surprising move, United States President Joe Biden last month announced he will not seek reelection in 2024 and threw his support behind Vice President Kamala Harris to become the Democratic Party nominee.

5 Pockets of opportunity in small caps

For but a brief period of time small caps showed their potential, but potential there is.

7 Redefining wholesale investors in Australia

The government's indicated timeline of 'early 2024' for Treasury to deliver findings on the review of the regulatory framework for managed investment schemes has passed.

10 Delivering Better Financial Outcomes: Important changes

The Treasury Laws Amendment (Delivering Better Financial Outcomes and other measures) Act 2024 implements some important changes that are aimed at reducing red tape for advice providers.

15 Whatever happened to the US recession?

Rewind the clock 18 months to the end of 2022. Equity markets were down around 20 per cent over the preceding 12 months (though the drawdowns from peak to trough were much larger), and all the fears were around a US recession.

18 Australia's equity markets receive a clean bill of health

It's official – Australia continues to be one of the cleanest equity markets in the world compared to its international peers.

20 Your piece of Australia's next success stories

Venture capital and growth equity capital funds have been foundational elements in the portfolios of superannuation funds and institutional investors for many years.

22 Super snippets: Last-minute super chaos

Stockbrokers and Investment Advisers Association Limited ABN 91 089 767 706

Level 2, 74 Pitt Street, Sydney NSW 2000

Email: info@stockbrokers.org.au

Tel: +61 2 8080 3200

www.stockbrokers.org.au

Advertising

Silvana Eccles, Education and Operations Manager

Email: silvana.eccles@stockbrokers.org.au

Tel: 02 8080 3204

DISCLAIMER: This Newsletter is provided solely for the information of members and stakeholders of Stockbrokers and Investment Advisers Association. The content is general information and does not consider the circumstances of any investor or constitute advice. Stockbrokers and Investment Advisers Association nor any of its officers or agents accepts no liability or responsibility for the accuracy, reliability or completeness of any information contained in the Newsletter, and readers should rely on their own enquiries and analysis in making any decision or taking any action that affects them.

COPYRIGHT: Material published in SIAA Monthly is copyright and may not be reproduced without permission. Any requests for reproduction will be referred to the contributor for permission.

Biden out, Harris in?

Markets reassess the US presidential race – and the 'Trump Trade'

By Charu Chanana, Head of FX Strategy, Saxo, and Althea Spinozzi, Head of Fixed Income Strategy, Saxo

In a less than surprising move, United States President Joe Biden last month announced he will not seek re-election in 2024 and threw his support behind Vice President Kamala Harris to become the Democratic Party nominee. Democratic State Party Chairs and leaders have come out in broad support for Harris's nomination, and campaign donations jumped significantly higher following the announcement. This changes the stakes for the US presidential election, which was seemingly tilting in favour of the Republican Party and former President Donald Trump.

But global markets must now brace for a more competitive race. Some of the so-called 'Trump Trades' — the market movements in response to a potential second Trump Administration — could unwind, but not all. Some parts of the market could also be concerned about the prospects of a Harris Administration.

Let us assess what this closer race could mean for the markets — and for investors:

1. **More uncertainty, higher volatility:** The race for the White House could become much more open in the run-up to November, compared to prior expectations of a Republican "Red Wave". The political narrative will come to the fore as a market driver, and markets will become much more attentive to campaign headlines and polls. This could mean higher cross-asset volatility.
2. **Softer US dollar:** The "safe haven" characteristic of the US dollar could take a backseat as November nears, with US macroeconomic

data and Federal Reserve policy resuming a more dominant role in the greenback's movements.

3. **Broader US indices focus on Fed and earnings:** Despite current uncertainties, the US' fiscal policy direction under Harris or Trump may prove similar. This means the movement of US tech stocks and broader US indices leading into November may depend largely upon earnings results and Fed rate cut expectations. Any dips in US tech stocks could continue to attract buyers (if earnings/guidance continue to come in above expectations), while US small-cap stocks — which enjoyed a run higher amid expectations of tax benefits under a second Trump presidency — could see some profit-taking.
4. **Trump trades could unwind:** Specific "Trump Trades", such as higher defence and energy stocks or declines in clean energy stocks, could face risks of an unwind. There could also be a temporary sense of relief in non-US markets, particularly those in China and Europe, amid the weakening threat of tariffs.
5. **Bonds face more of the same:** Fiscal restraint is unlikely, irrespective of the next US president. This means markets will continue to worry about the ballooning fiscal deficit, and the long end of the yield curve will likely continue to face selling pressure. Meanwhile, the possibility of a September Fed rate cut could bring the short end of the yield curve lower.

It is crucial to remember that we are still months away from the US election and, over time, market reactions will depend on each candidate's policies. What we must acknowledge is that heightened political uncertainty, leading to increased volatility for investors, may ensue.

For those in the industry, it is crucial to provide clients with all the information they need to make informed decisions on their US-exposed investments as November draws closer — and the confidence and reassurance they need to ride out any volatility associated with the political cycle.

Following November, based on the current macroeconomic backdrop and historical findings, here is what we could expect in 2025 from a Democratic or Republican president:

Democratic Party victory:

- **Stock markets:** Expect positive performance. Historically, stock markets tend to perform well in the first year of a Democratic presidency. Major indices such as the Russell 2000 and Nasdaq often show stronger gains. Given the current high levels of indices like the Nasdaq and S&P, a continuation of positive performance can be expected, especially if fiscal stimulus measures are implemented for lower income earners.
- **Gold:** Stable or declining prices. With a Democratic president, improved economic stability and reduced inflation fears could lead to decreased demand for gold as a safe-haven asset.
- **WTI (crude oil):** Moderate performance. WTI crude oil may experience stable-to-moderate gains. While Democratic policies might focus on renewable energy, broader economic recovery may bolster short-term demand for oil.
- **Bond markets:** Stable yields. US Treasuries might experience stable yields. Democratic presidencies often pursue policies that maintain economic stability, which could result in modest changes in interest rates and a balanced performance in the bond markets.

Republican Party victory:

- **Stock markets:** Mixed performance. Certain sectors, particularly energy and industrials, may benefit from deregulation and pro-business policies. However, given the current high valuations, investors may become cautious.
- **Gold:** Potential for higher prices. Historically, gold has seen positive performance during Republican presidencies, particularly in times of economic uncertainty or geopolitical tension.
- **WTI (crude oil):** Stronger gains. WTI crude oil might see significant gains. Republican policies often favour fossil fuel industries, with reduced regulation and support for domestic production leading to higher prices.
- **Bond markets:** Mixed performance. US Treasuries could experience varied performance. While safe-haven demand might increase, leading to stable or slightly lower yields, economic policies that boost growth might also result in a higher neutral interest rate, which could place pressure on long-term Treasuries.

Pockets of opportunity in small caps

By Glen Hoffman, Director and Co-Founder, Renaissance Smaller Companies

For but a brief period of time small caps showed their potential, but potential there is.

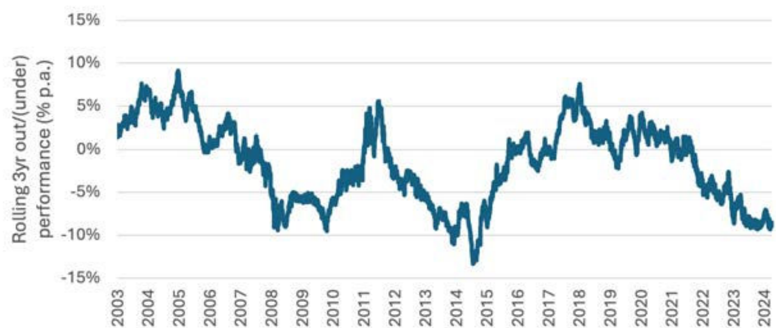
The opportunity in Australian small caps

After a near-record period of underperformance relative to their larger peers (Figure 1) Australian small caps are back and building momentum. Between November and March, Australian small caps were up 20% and outperformed large caps by 5%, signalling some of the potential ahead. While the prospects of further Australian interest rate hikes have slowed the momentum, the opportunity remains huge.

Australian small caps are projected to deliver higher growth than their large cap peers at a cheaper multiple. Based on broker consensus, small cap industrials are forecast to grow earnings at double the rate of large industrials over the next two years (Figure 2).

This superior growth has not yet been reflected in performance. Over the last twelve months small industrials have grown earnings per share faster than large industrials, by 6% compared to just 1%, yet have underperformed by 7%. Concerns around the interest rate outlook mean small cap industrials now trade at a discount to their large cap peers[1]. Clarity around the domestic outlook could be the catalyst for a small cap re-rate.

In the meantime, the beauty of the small cap sector, where Renaissance has been an investor for over 20 years, is that it's possible to find pockets of value in any environment. Active management has been proven to outperform in small caps on a consistent basis over a long period.



Pockets of value #1 – index inclusion

The increasing proportion of passive money in the market means that small cap stocks pushing for inclusion in the ASX300 are a rich hunting ground for investors. Since 2020 stocks added to the ASX300 outperform the index by an average of 23% in the twelve months prior to inclusion with a bit under half of this coming after the announcement.

Two stocks that Renaissance believe will push for index inclusion in the near-term are Superloop and Nuix. Both companies are already larger than 30% of current companies in the Small Ords and are poised to significantly grow earnings and cash flow over the next few years. While both stocks have performed well recently, history suggests that with potential for further earnings upgrades and likely index inclusion they should continue to deliver good returns for investors.

Pockets of value #2 – lithium

Lithium is another area showing value. Lithium stocks have fallen substantially as slowing EV growth and rising supply has tipped the market into surplus, for now. Lithium prices are now halfway into the cost curve and many companies are trading 70-90% below their prior inflated valuations. However, importantly, this level now represents a fraction of replacement costs meaning investors are getting the metal in the ground for free.

To date Chinese car makers have had a big jump on western original equipment manufacturers (OEMs) leading to protectionist tariffs being raised in the US and Europe. As Western economies expedite their own EV programs and energy transitions more broadly, Renaissance see a renewed increase in demand for the commodity.

One way to play this is Sayona. Sayona has an operating asset that Renaissance visited recently called North American Lithium that is the only operating lithium mine in North America. With ~$70m cash on their balance sheet and ramp-up costs behind them they are well positioned to approach free cash flow and are leveraged to higher spodumene prices.

Pockets of value #3 – defence

In a period of heightened geopolitical tensions globally, governments are increasing spend on defence. Austal, which builds vessels for both the US and Australian navies, is uniquely positioned to benefit from this spend.

Through capex in part sponsored by the US Government, Austal's Mobile, Alabama yard is now one of the largest shipbuilders of aluminium and steel vessels for the US Navy. Over the last two years Austral been awarded multiple new programs of work that in total represent a record order book of $12.7bn.

In Australia, Austal recently announced that it had signed a heads of agreement with the Australian Government to be the strategic shipbuilder at Henderson, WA. This would see Austal takeover a redesigned naval precinct in Henderson and be responsible for multiple programs totalling the best part of $15bn. This will see Austal build vessels for the Australian Navy in a continuous fashion for over two decades, an unprecedented pipeline of work for the company.

Conclusion

In this article Renaissance has highlighted just three of the many opportunities for small cap investors in the current environment. We believe these pockets of value can be found in small caps, especially when they are well placed to grow earnings faster than large caps.

---

[1] If you exclude loss making and marginally profitable (>50x PE) companies. This allows an "apples with apples" comparison between small and large caps.

SIAA NEWSROOM

SIAA's monthly email designed to keep you informed.

Delivering the big issues in stockbroking and investment advice, insights from industry experts and updates from the advocacy team.

Delivered to your inbox, once a month. | www.stockbrokers.org.au

Redefining wholesale investors in Australia

By James Dickson, Managing Director, OCG

The government's indicated timeline of 'early 2024' for Treasury to deliver findings on the review of the regulatory framework for managed investment schemes has passed. An inquiry by the Parliamentary Joint Committee on Corporations and Financial Services into the wholesale investor test closed at the end of May 2024 and intends to report to the Parliament by the end of 2024. While calls continue to circulate for changes to the wealth tests in the Act (otherwise known as the wholesale investor test), the government has indicated that any action on these two reviews is not for this term of government. With an election next year looming, however, a new term of government will see this issue come onto the agenda.

The individual wealth test is the one most popularly used to categorise clients as wholesale. Clients categorised as wholesale clients under this test are also referred to as high net worth clients or (confusingly) sophisticated investors. However, the sophisticated investor test is a separate test in the Act. This article deals with the individual wealth test, where the monetary thresholds are set at $2.5 million in net assets, or gross income for each of the last two financial years of at least $250,000 per annum. The clients meeting this test are referred to as wholesale clients.

Why are there calls for changes?

The legislated definition of 'wholesale investors' has remained unchanged since 2002 when only 1.8% of the population qualified, estimated at ~12% in 2018 and is expected to rise to 43% in the next two decades if no changes are introduced. The growth in this designation has impacts for AFSL providers and for consumer protections.

The classification of wholesale investors has become increasingly relevant as more clients meet the criteria due to rising incomes and property values. While the Treasury report on the review of the regulatory framework for managed investment schemes (MISs) looked at the application of the wholesale investor test within the narrow prism of MISs, the calls for reforms surrounding the classification of wholesale clients generally are not going away. The inherent AFS licensee implications make it a critical issue for financial advisers to monitor and understand.

Why some advisers prefer "wholesale investors"

For clients, being classified as wholesale offers access to exclusive investment opportunities not typically available to retail investors, such as unlisted bonds, pre-IPO stocks, and venture capital. Advisers and wealth management institutions benefit from reduced compliance costs and the potential to work with wealthier clients more willing to pay fees.

This distinction is designed to provide greater consumer protection to retail clients, who are deemed to have lower financial literacy, through robust disclosure, dispute resolution, product design, and conduct requirements. However, these clients forfeit signifi-

> The implications of wholesale clients transitioning to retail status are multifaceted and necessitate careful navigation of regulatory complexities, proactive client engagement, ongoing compliance considerations, and adherence to ASIC guidelines.

cant protections, including the right to certain disclosures, dispute resolution services, and compensation for adviser breaches. These distinctions leave room for potentially harmful oversights in advisers' day-to-day operations, such as the distribution of Financial Services Guides (FSG) and communicating retail client rights not available to wholesale clients.

The simple act of providing a Financial Services Guide to a wholesale investor could have a significant financial and regulatory impact for the adviser and/or the wealth management institution should a client and/or the regulator take matters further for an investment strategy 'not performing' or simply appearing to 'educate' a client about the investment vehicle.

Regulatory bodies including the Australian Securities & Investments Commission (ASIC), Australian Financial Complaints Authority (AFCA) and the Compensation Scheme of Last Resort (CSLR) are determined to ensure that advice given to clients does not cross the boundaries of retail and wholesale investors. The blurring of these lines will undoubtedly be amplified if and when legislation is passed that effectively reclassifies investors if measured only by the asset test should that be lifted from the current benchmark.

- Net assets of $2.5 million or an annual income of $250,000 for the past two years, certified by an accountant.

ASIC and AFCA have highlighted concerns about advisers misclassifying clients as wholesale investors to bypass retail protections, leading to inappropriate risk exposures for financially unsavvy individuals. Proposals to address these risks include increasing and indexing asset thresholds; excluding non-investable assets like the family home; and requiring explicit opt-in mechanisms. Some advocate for knowledge-based assessments similar to Singapore's Customer Knowledge Assessment to ensure true financial sophistication.

The implications of wholesale clients transitioning to retail status are multifaceted and necessitate careful navigation of regulatory complexities, proactive client engagement, ongoing compliance considerations, and adherence to ASIC guidelines. As the industry adapts to the evolving regulatory landscape, collaboration, transparency, and a commitment to compliance will be instrumental in ensuring continued financial resilience and prosperity.

2025 Federal election

The reforms from Prime Minister Anthony Albanese's Government intend to action recommendations of Hayne Royal Commission for review of the classification requirements — a topic front of mind for ASIC, AFCA and AFS licensees. Regulated entities should be alive to present remediation programs concerning record retention, signalling the current attention to these issues from the regulator. While the government has indicated that no changes will be made to the individual wealth tests prior to the Federal election in 2025, preparation for the real potential for change post the 2025 election is crucial for the implications for AFSL policies, procedures and compliance.

Key considerations

The terms "sophisticated investor" and "wholesale investor/client" are not synonymous, not just because of the confusion between the two tests, but also because the introduction of the FASEA Code of Ethics in 2020 added complexity, requiring advisers to assess clients' financial literacy beyond merely holding an accountant's certificate. According to the Code advisers have ethical expectations for client documentation and communication; however the current distinction between retail and wholesale clients convolutes expectations and adds unnecessary ethical complexity to adviser conduct. The key high level Ethical Standards include:

- acting in the best interests of clients
- avoiding conflicts of interest
- ensuring that clients give informed consent and understand the advice they receive
- ensuring that clients clearly agree to the fees they will pay
- maintaining a high level of knowledge and skills.

For some products, even wholesale investors must be treated as retail clients. Self-Managed Super Funds (SMSFs) can meet the wholesale investor criteria if the trustees of the fund have net assets of $2.5 million or an annual income of $250,000. However, in multi-member funds, especially where control is equally shared, determining eligibility can be challenging.

Preparing for the future state

It's imperative investment advisers and stockbrokers are aware of their current regulatory obligations and client-facing systems and processes as they prepare for upcoming regulatory changes in the medium term.

AFS licensees should prioritise internal operational and compliance consolidation to ensure they are equipped to respond effectively to this significant external framework reform that is anticipated post the 2025 federal election.

AUSIEX
an NRI company

One solution for the future of trading

Combining 25 years of market experience and the backing of NRI, a global powerhouse in technology and operations services, AUSIEX have a depth and breadth of knowledge within the Australian equities market, which enables us to understand the world our clients operate in. Supporting over 500,000 direct customers and 4,500 advisers from more than 850 advice firms, we provide solutions across the entire trade lifecycle including domestic and international trade execution, clearing and settlement services, corporate actions, portfolio and tax reporting, and fully supported B2B platforms.

ausiex.com.au
1800 252 351

This information has been prepared by Australian Investment Exchange Limited (AUSIEX) ABN 71 076 515 930 AFSL 241400, a wholly owned subsidiary of Nomura Research Institute, Ltd. (NRI). AUSIEX is a Market Participant of ASX Limited and Cboe Australia Pty Ltd, a Clearing Participant of ASX Clear Pty Limited and a Settlement Participant of ASX Settlement Pty Limited. Share Trading is a service provided by AUSIEX.

Delivering Better Financial Outcomes: Important changes

By Michelle Huckel, Policy Manager, SIAA

The Treasury Laws Amendment (Delivering Better Financial Outcomes and other measures) Act 2024 implements some important changes that are aimed at reducing red tape for advice providers.

Flexibility for FSG requirements

These changes came into effect on 10 July 2024. The Act amends Part 7.7 of the Corporations Act by inserting Division 2A to allow providers of both personal advice and general advice to either continue to give their retail clients an FSG (in accordance with Division 2) or alternatively make the FSG information publicly available on their website as 'website disclosure information'.

The option is intended to provide efficiency for advice providers in deciding how to present information to their clients, without reducing consumer protections. Website disclosure information means the same statements and information that would be required to be in an FSG provided by the respective entity under sections 942B and 942C of the Corporations Act. This approach ensures that a client accessing the information through a provider's website has access to the same information as if they had been given an FSG.

The website disclosure information can appear across different locations or parts of the provider's website; it is not necessary for the information to be co-located on the website. This is consistent with the approach of section 942D of the Corporations Act, which provides that an FSG may consist of multiple documents. Website disclosure information can also take any form, for example it could be written or graphic information on a webpage (or webpages) of the website, be in a PDF, or be made available in other forms or formats. However, where a certain use of wording or phrase is required for an FSG under sections 942B and 942C of the Corporations Act, the website disclosure information must use that wording or phrase.

The Explanatory Memorandum states that while an advice provider is not required to notify their clients that this website disclosure information is available on their website, this is encouraged. For example, a link to this information on the website could be included in email correspondence with a client.

A licensee or its authorised representative who fulfils their FSG obligations by providing website disclosure information is subject to obligations in Division 2A of part 7.7 of the Corporations Act, as well as penalties and offences under Division 7 of Part 7.7 of the Corporations Act.

ASIC intends to issue a new Information Sheet on FSGs and the new website disclosure information, which will replace the guidance on FSGs in Section C of Regulatory Guide 175.

Ongoing fee arrangements

These amendments establish a consolidated and streamlined consent process for when a client enters or renews an ongoing fee arrangement and authorises ongoing advice fees to be deducted from a financial product. They also remove the current requirement for advisers to provide a fee disclosure statement to clients as part of an ongoing fee arrangement.

Transitional arrangements

Due to transitional arrangements, the provisions concerning ongoing fee arrangements and fee disclosure statements do not apply until the start day which is 6 months after commencement. **The start day for these provisions is 10 January 2025.** After the start day, some amendments apply immediately, and others apply in different ways to new and existing ongoing fee arrangements.

New ongoing fee arrangements

Where an ongoing fee arrangement is entered into after 10 January 2025 the amendments apply to that arrangement without modification.

Existing ongoing fee arrangements

An existing ongoing fee arrangement is one that was entered into and remains in force immediately before 10 January 2025.

The amendments apply to existing ongoing fee arrangements on and after the first anniversary day (defined as the first anniversary of the day on which the arrangement was entered into) that occurs after the start day. This is called the transition day.

For an existing ongoing fee arrangement whose anniversary day occurs before 10 January 2025, the previous obligations on fee recipients continue to apply (including the requirement to provide a fee disclosure statement). The arrangement will be subject to the new obligations from the next anniversary day (being the transition day).

However, the law provides a modified renewal period for ongoing fee arrangements which are in force immediately before 10 January 2025. After this date, a consent that complies with the new requirements must be put in place within a modified renewal period that starts whichever is the later of:

- the start day, and
- 60 days before the arrangement's transition day.

If this is not done, the arrangement will terminate at the end of the renewal period, 150 days after the transition day.

The modified renewal period ensures existing ongoing fee arrangements have the benefit of the amendments that increase flexibility in renewing consent after 10 January 2025.

For example:

Simon is the fee recipient for an ongoing fee arrangement with a client, Sid. The anniversary day of that arrangement as defined under the previous legislation is 15 December annually. Sid has also arranged for ongoing advice fees to be deducted from an account he holds with Simon. Under the previous law, Simon is required to give Sid a fee disclosure statement for the arrangement on or before 13 February 2025. Sid has until 14 April 2025 to renew the arrangement.

Under the new act, the amendments do not apply until the transition day for this arrangement, which will be 15 December 2025 (the anniversary of the agreement which falls after the start day). However, Simon and Sid would be able to put a consent consistent with new requirements in place on and from 16 October 2025, 60 days before the next anniversary of the arrangement on 15 December 2025. From 15 December 2025, Simon is not required to give Sid a fee disclosure statement.

Other key changes

There are other key changes in the legislation concerning ongoing fee arrangements.

Consents must be signed but technology neutral provisions apply

The consent must be signed by the client (section 962G) and the account holder (section 962 T). However, the Corporations Act arrangements that ensure that documents can be signed in a technologically neutral way are intended to apply to the signing of written consents. In other words, the client can sign an electronic form of the document using electronic means using a method that identifies the person and

meets general reliability requirements set out in the Corporations Act.

Increased flexibility for renewal of consent

There is additional flexibility provided in the timing of renewals of consents for ongoing fee arrangements and deduction arrangements. While consent continues to be required annually, the amendments provide for an extended window of time around the annual date in which consent can be renewed which gives clients and advisers the ability to agree an earlier renewal date at the time a consent is first signed or renewed.

First of all, a consent can specify a day to be used as a reference day for determining when the renewal period will start. This means the adviser and the client can agree on an earlier, more convenient day to be used in working out the renewal period so that renewal can occur in a period that better suits their schedules on an annual basis. If a reference day is chosen, it must be specified in the consent documentation. If no reference day is chosen, the reference date for the next consent's renewal period will be the anniversary of the previous specified date, or for the first renewal, the anniversary of the day on which the arrangement is entered into.

Secondly, a new consent can validly be given up to 60 days before the reference day (either a specified date or the default date based on the anniversary of the day the arrangement was entered into). This gives the adviser and client a buffer period to accommodate new or unforeseen circumstances that make it more practicable to give consent earlier than this day.

Finally, a new compliance consent must be given on or before 150 days after the reference date. This new 150-day period during which a new consent must be put in place standardises the applicable periods for both ongoing fee arrangements and deductions of ongoing fees from accounts.

Taken together the amendments have effect such that, each year, a new consent that complies with the requirements must be put in place in the period that starts 60 days before and ends 150 days after:

- The reference day that is specified in the consent currently on foot; or
- If no reference day is specified, the anniversary of:
  - The most recent day specified in the consent for this purpose; or
  - If no such day has ever been specified, the day on which the arrangement was entered into.

ASIC intends to issue new guidance on ongoing fee arrangements by November 2024.

CPD EVENTS

Stay on top of your CPD with these SIAA-accredited CPD events.
Webinars are FREE for Practitioner and Affiliate members and employees of Principal Members.

VanEck's Investment Playbook: Top strategies in focus

Wednesday 14 August from 1.00pm to 2.00pm AEST

JOHN CAULFIELD
VanEck Australia

The first half of 2024 was strong for many assets. Inflation, central bank actions, and over 50 global elections will shape the second half. Join VanEck John Caulfield for insights on Australian equities, commodities, and key strategies in the current macro environment.

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

---

Wholesale clients: The do's and don'ts

Wednesday 21 August from 1.00pm 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

---

Understanding direct indexing – enabling true personalisation at scale

Wednesday 28 August from 1.00pm to 2.00pm AEST

JOSH PERSKY
Briefcase

GEOFF KELLETT
Briefcase

Growing faster than ETFs in North America and once limited to institutional and ultra-high net worth investors, direct indexing is now accessible to many. Join Josh Persky and Geoff Kellett as they explore its opportunities and benefits for Australian investors.

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

---

Implementing Delivering Better Financial Outcomes

Wednesday 4 September from 1.00 to 2.00pm AEST

SAMANTHA HILLS
Holley Nethercote

Join Samantha Hills from Holley Nethercote who will explore DFBO reforms and their impact on stockbrokers and investment advisers. Samantha will outline the critical changes, including updates to the provision of Financial Services Guides and the reforms to ongoing fee arrangements and fee disclosure statements.

Professional Standards CPD: Regulatory compliance and consumer protection 0.5 hour, Professionalism and ethics 0.5 hour
ASIC Knowledge Area: Generic knowledge 1.0 hour

Introduction to stockbroking workshop

Tuesday 10 September from 11.00am to 1.15pm AEST

RUSSELL McKIMM

This workshop outlines stockbrokers' vital role in retail and institutional markets, covering operations like order taking, transactions, and settlement. Gain insights into the different systems involved and allow for a discussion of the different business models in stockbroking today.

Professional Standards CPD: Regulatory compliance and consumer protection 1.0 hour, Technical competence 0.5 hour, Professionalism and ethics 0.5 hour | **ASIC Knowledge Area:** Generic knowledge 2.0 hour

---

Webinars: Member FREE | Non-member $75

Workshops: Practitioner member $100 | Organisation Member $150 | Non-member $200

Thanks for supporting SIAA's education program

FOR MORE INFORMATION OR TO REGISTER: 02 8080 3200 | education@stockbrokers.org.au

www.stockbrokers.org.au/education/upcoming-events

CPD EVENTS

Stay on top of your CPD with these SIAA-accredited CPD events.
Webinars are FREE for Practitioner and Affiliate members and employees of Principal Members.

Digital engagement practices – Marketing and the use of Influencers

Wednesday 11 September from 1.00pm to 2.00pm AEST

This webinar will discuss key considerations for financial firms using digital engagement practices like social trading, including prohibitions on misleading conduct, the use of emojis, tips for appointing influencers, and ensuring influencers comply with financial services laws to avoid unauthorised activities.

Professional Standards CPD: Client care and practice 1.0 hour | **ASIC Knowledge Area:** Specialist knowledge – Financial planning 1.0 hour

---

A day in the life of a trade workshop

Monday 16 September from 11.00am to 1.00pm AEST

ROB TALEVSKI
Webull

Ideal for experienced and auxiliary staff in legal, IT, HR, and related roles, this workshop explores the trade lifecycle. Gain insights into client onboarding, share and derivative trade processes, settlement, sponsorship/HINS, CHESS messaging, and registries.

Professional Standards CPD: Regulatory compliance and consumer protection 1.0 hour, Technical competence 1.0 hour
ASIC Knowledge Area: Generic knowledge 2.0 hour

Market manipulation and other prohibited conduct workshop

Tuesday 17 September from 10.00am to 12.15pm AEST

PROFESSOR
MICHAEL ADAMS

Focused on prohibiting artificial price creation in financial products, this workshop benefits all seeking market understanding and obligation consequences. Tailored for financial professionals, it covers obligations, self-protection, and discerning manipulation from market forces.

Professional Standards CPD: Regulatory compliance and consumer protection 1.0 hour, Professionalism and ethics 1.0 hour
ASIC Knowledge Area: Generic knowledge 2.0 hour

Whatever happened to the US recession?

Wednesday 25 September from 1.00 to 2.00pm AEST

MAROUN YOUNES
Fidelity International

In March 2023, US Federal Reserve economists were expecting "a mild recession starting later this year," while Bloomberg termed it "the most-anticipated downturn ever." This was a significant concern at the time. Yet, the recession didn't eventuate, and instead, there has been a sharp rally in world equity markets. What happened? Join Maroun Younes to explore this in detail.

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

Webinars: Member FREE | Non-member $75

Workshops: Practitioner member $100 | Organisation Member $150 | Non-member $200

Thanks for supporting SIAA's education program

FOR MORE INFORMATION OR TO REGISTER: 02 8080 3200 | education@stockbrokers.org.au

www.stockbrokers.org.au/education/upcoming-events

MAROUN'S MARKET MUSINGS:

Whatever happened to the US recession?

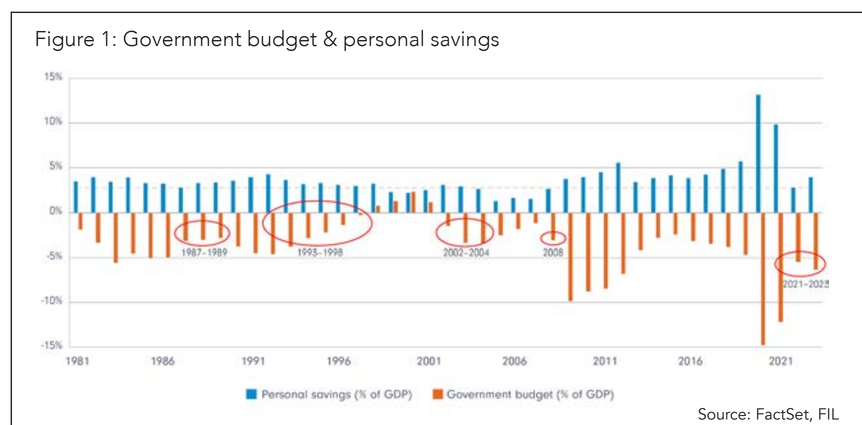
By Maroun Younes, Co-Portfolio Manager, Fidelity Global Future Leaders Fund, Fidelity Global Future Leaders Fund Active ETF (ASX:FCAP)

Rewind the clock 18 months to the end of 2022. Equity markets were down around 20 per cent over the preceding 12 months (though the drawdowns from peak to trough were much larger), and all the fears were around a US recession.

In March 2023, US Federal Reserve economists were expecting 'a mild recession starting later this year'[1], while Bloomberg termed it 'The Most-Anticipated Downturn Ever'[2]. That was certainly top of the list of fears in my mind too, at the time. Yet, the recession didn't eventuate, and we have witnessed a sharp rally in world equity markets.

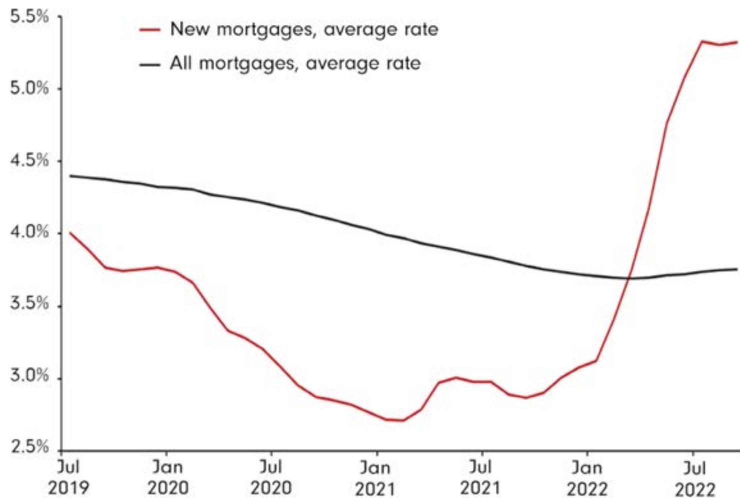
What happened? What sheltered the US economy was an unusual confluence of circumstances, piloted by both the private and public sectors. Figure 1 shows the US fiscal budget deficits and the personal savings rates (both standardised as a percentage of GDP).

Figure 1: Government budget & personal savings



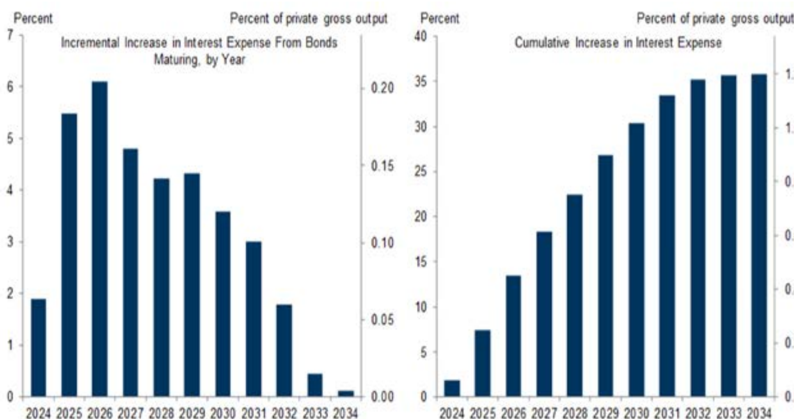
Source: FactSet, FIL

Figure 2: Average outstanding mortgage rate remains very low



Source: Federal Reserve Bank of Dallas

Figure 3: We estimate that refinancing maturing debt will boost interest expense by 2% in 2024 and 5.5% in 2025



Source: Goldman Sachs

> "... when personal savings rates were at similarly low levels, government budget deficits were also small, highlighted by the circled orange bars. Said differently, when personal savings rates have been small, otherwise expressed as high personal consumption rates, the government hasn't stimulated the economy because the private sector was doing a good enough job.

The positive blue bars represent personal savings rates, while the predominantly negative orange bars represent fiscal budget deficits. A few things stand out, including the fact that around the turn of the millennium, the US did manage a few consecutive years of small budget surpluses.

If we focus on personal savings, we see huge spikes in 2020 and 2021, driven by the COVID lockdowns. People couldn't spend on dining, travel or experiences. At the same time, most people remained employed and those who didn't, received stimulus payments. As a result, most consumers accumulated more savings.

However, as restrictions eased in 2022, consumer behaviour returned to normal, and the savings rates collapsed to more typical low single digit levels. The dotted horizontal line represents the level achieved in 2022, allowing us to easily look at similar periods in the past.

What is notable is that when personal savings rates were at similarly low levels, government budget deficits were also small, highlighted by the circled orange bars. Said differently, when personal savings rates have been small, otherwise expressed as high personal consumption rates, the government hasn't stimulated the economy because the private sector was doing a good enough job.

What makes the last period unique is that fiscal budget deficits were running at levels previously only associated with high personal savings rates, such as the post-GFC recovery period. Private consumption and spending accelerated in 2022 (some have referred to this as 'revenge spending'), but budget deficits remained relatively large, meaning that both the private and public sectors were stimulating the US economy at the same time.

These twin forces have been more than enough to offset the increase in interest rates. Many US homeowners and corporates also locked in ultra-low fixed term interest rates during 2020-21, which means that higher interest rates haven't yet dented spending across the board.

Analysis by the Federal Reserve Bank of Dallas[3] shows that the average mortgage rate on outstanding debt in the US towards the end of 2022 was around four per cent, despite rates on new mortgages at the time averaging 5.5% (Figure 2).

Similarly, based on estimates by Goldman Sachs, corporate interest expense won't rise in a material way until around 2025-2026[4] (Figure 3).

Reality check

But what about valuations? Can US earnings meet lofty expectations? Let's look at how the market arrived here.

Once the market started to gain confidence a recession was no longer imminent, multiples expanded, reflecting the improving sentiment. This is shown in Figure 4.

That's quite typical behaviour when we see a recovery — first the multiples expand and then the company earnings reflect the multiple. However, if actual company earnings don't catch expectations, the market is in a very vulnerable position.

Positively, on the earnings front, things are starting to look up. Having spent most of 2022 and 2023 being revised down, earnings estimates for 2024 are now actually being revised upwards, ever so slightly.

If reality delivers on expectations, 2024 earnings growth will be in the realm of double digits, which is clearly much better than the low single digit growth rates we've witnessed over the past few years.

It's also worth mentioning that we are coming into the home stretch for the US presidential elections. Historically, the fourth and final year of the US presidential cycle has delivered above average returns, as both candidates typically announce a bunch of 'sweetener' policies aimed at winning over voters (think of tax cuts, big spending programs etc.).

Putting this altogether, the set-up in the near term (remainder of 2024) seems supportive of the US equity market, as the economy continues to hum along, and unemployment remains low.

However, investors are wise to remain cautious. Higher interest rates haven't been able to have much impact in the US yet, and these impacts could still come through later on. On that basis, I think it makes sense to make sure that portfolios remain focused on ensuring resiliency and survivability, whilst also maintaining a balanced exposure to the upside. A portfolio of high-quality businesses with strong balance sheets and secular growth opportunities, purchased at attractive valuations remains, in my opinion, the best place to be.

Figure 4: Market confidence increases

Source: FactSet, FIL

Figure 5: 2024 earnings estimates (S&P 500)

Source: FactSet, FIL

[1] Minutes of the Federal Open Market Committee March 21-22, 2023

[2] Kennedy, Simon, "*The Most-Anticipated Downturn Ever*", Bloomberg, 3rd January 2023

[3] Zhou, Xiaoqing, "*Existing low-rate mortgages blunt impact of recent rate surge*", Federal Reserve Bank of Dallas, 27th December 2022

[4] Hatzius et al, "*The Corporate Debt Maturity Wall: Implications for Capex and Employment*", Goldman Sachs, 6th August 2023

All information is current as at 24 June 2024 unless otherwise stated.
Disclaimer: This document is issued by FIL Responsible Entity (Australia) Limited ABN 33 148 059 009, AFSL No. 409340 ('Fidelity Australia'). Fidelity Australia is a member of the FIL Limited group of companies commonly known as Fidelity International. Prior to making any investment decision, investors should consider seeking independent legal, taxation, financial or other relevant professional advice. This document is intended as general information only and has been prepared without taking into account any person's objectives, financial situation or needs. This document may include general commentary on market activity, sector trends or other broad-based economic or political conditions that should not be taken as investment advice. Any graphs, examples or case studies included are for illustrative purposes only and may be specific to the context and circumstances and based on specific factual and other assumptions. They are not and do not represent forecasts or guides regarding future returns or any other future matters and are not intended to be considered in a broader context. While the information contained in this document has been prepared with reasonable care, to the maximum extent permitted by law, no responsibility or liability is accepted for any errors or omissions or misstatements however caused.

Australia's equity markets receive a clean bill of health

Michelle Huckel, Policy Manager, SIAA

It's official – Australia continues to be one of the cleanest equity markets in the world compared to its international peers. But, in response to the threat posed by leaked transaction information during fundraising, merger and takeover activity, ASIC has warned the market that it is enhancing its enforcement capabilities to swiftly progress insider trading investigations and has commenced a targeted review of firms' handling of confidential information.

ASIC's review of the cleanliness of the Australian equity markets for the five and a half years to 30 April 2024 found that they continue to be clean and operate with a high degree of integrity.

However, among the report's key findings, was that market cleanliness temporarily deteriorated during the COVID-19 pandemic in 2020-2021, when there was extreme price volatility, a large influx of new investors and some unusual market activity. There was also a period of deterioration in late 2023, when ASIC observed an increase in media reports ahead of announcements of takeovers, mergers and capital transactions suggesting that information may have been leaked.

ASIC reports that while both these periods of deterioration were temporary, it continues to monitor trading around significant market announcements to identify and disrupt potential market misconduct.

Overseas comparisons

The findings of ASIC's review were consistent with external research by SS&C Intralinks and the University of London, which investigated the leakiness off M&A transactions across 10 peer jurisdictions and found that Australia is among the least leaky, with 55% fewer leaks than the group average from 2009 to 2022.

Figure 1: International comparison of M&A deal leaks (2009–2022)

Source: *Review of Australian equity market cleanliness*, Report 787, ASIC, July 2024

Figure 2: Account-based market cleanliness measures

Source: *Review of Australian equity market cleanliness*, Report 787, ASIC, July 2024

Methodology

One of the methodologies used by ASIC in its report directly focuses on the prevalence of potentially anomalous trading by individual accounts before a material, price sensitive announcement. This account-based methodology leverages ASIC's in-house surveillance activity and enhanced regulatory data through its Market Analysis and Intelligence (MAI) surveillance system. It allows ASIC to identify the accounts (also known as origin of order IDs) on the buying and selling side of each trade and uses the account-level data that has been provided by Market Participants via the regulatory data feed since 28 July 2014.

ASIC's expectations of market participants

The report highlights the key role for companies, Investment banks, brokers and other advisers to support market cleanliness as these parties have access to inside information, which needs to be handled with care.

ASIC expects Market Participants to have effective policies and procedures overseen by a compliance function for handling inside information. This includes implementing effective information barriers, wall-crossing staff who are made aware of inside information, maintaining insider lists, and limiting information to a 'need to know' basis. ASIC also expects Market Participants to look to enhance their internal surveillance arrangements and increase the quantity and quality of suspicious activity reporting.

Insider Trading

ASIC Commissioner Joe Longo has stated that ASIC has a dedicated criminal investigation team to swiftly progress insider trading investigations increasing the number of criminal briefs referred to the Commonwealth Director of Public Prosecutions. Where it is clear that confidentiality has been compromised – particularly where a market impact can be observed – ASIC will contact parties connected to a transaction to identify the source of an information leak that will support its assessment of any suspicious trading activity.

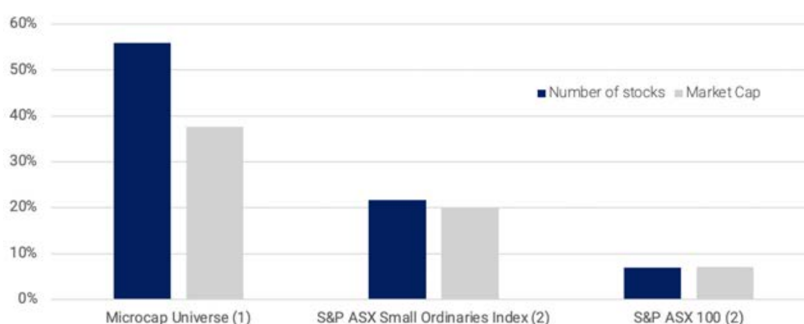
The link to ASIC's report 787 *Review of Australian equity market cleanliness* is here.

The report highlights the key role for companies, Investment banks, brokers and other advisers to support market cleanliness as these parties have access to inside information, which needs to be handled with care.

Your piece of Australia's next success stories

By Dan McAleer, Acorn Capital

Figure 1: Percentage of 'developing companies' across various indices



Source: Acorn Capital (at 31 Dec 2023). 1. Acorn Capital, developing companies' definition: revenues are < 10% of market cap OR dividend payout ratio is < 25%. 2. Source: Factset

Venture capital and growth equity capital funds have been foundational elements in the portfolios of superannuation funds and institutional investors for many years. These investments are prized for their potential to enhance portfolio diversification and increase return on investment. Over the years, access to such private (also known as 'unlisted') market allocations has widened somewhat, though they have primarily remained accessible only to those capable of making substantial investments — typically in excess of $500,000.

Venture capital and growth equity funds are characteristically long-term, often requiring capital commitments of seven years or more. This illiquidity aligns well with the long-term investment strategies preferred by institutional investors. These investors are typically comfortable foregoing immediate liquidity and short-term cash flows in exchange for the prospect of achieving significantly higher returns down the line.

However, the challenge in venture capital and growth capital investing isn't just in making the capital available — it's also in selecting the right managers and opportunities. Venture and growth equity capital funds demand adept selection of management teams and business models. Potential investee companies usually have minimal trading histories and little to no revenue, often burning through cash as they strive to break new ground in their respective markets. Success in this arena requires that these companies not only present innovative products or services but are also steered by robust and capable management.

The Australian Securities Exchange (ASX) is distinguished globally as a primary exchange given its significant number of what are described as 'developing companies'. These exhibit similar characteristics to the early-stage companies found in private markets. At Acorn Capital, we categorise a 'developing company' as one where the revenue is less than 10% of its market capitalisation. Remarkably, as of 31 December 2023, over half (55%) of the companies outside the top 250 listed on the ASX fall into this category – akin to making the ASX a quasi-venture capital exchange. This is a stark contrast to the landscape within the top 100 companies, where less than 10% qualify as developing.

In terms of portfolio construction, it's crucial to balance investments across this high-risk, high-reward sector. Diversification within a portfolio of developing companies can be approached through various lenses — company size, industry sector, development stage, and market listing status (public vs private). Developing a strategic investment matrix can help investors mitigate specific risks associated with this segment of the market, ensuring a

balanced approach to potential high-gain investments.

A solution which aligns with the needs of these smaller investors is the Listed Investment Company (LIC). A LIC provides direct exposure to a portfolio of both listed and private assets, combining the potential high returns of illiquid assets with the liquidity provided by a publicly traded entity. This structure is particularly advantageous as it offers everyday investors the opportunity to participate in private market investments without the usual entry barriers.

Despite some criticism, particularly around issues such as persistent discounts to net tangible assets (NTA) which have spurred calls for the closure of some LICs, this investment vehicle remains a rational choice when the underlying assets are illiquid. The Acorn Capital Investment Fund (ACQ.ASX) exemplifies this model. It offers investors diversified exposure across 11 sectors, from consumer staples to technology and energy, focusing primarily on companies outside the largest 250 on the ASX.

Looking more closely at ACQ's portfolio reveals a dynamic mix of investments. In the healthcare sector alone, the portfolio manager, Paul Palumbo, currently oversees an array of approximately 150 companies ranging from service providers to biotechnology and medical devices. One notable investment was in Telix Pharmaceuticals Ltd (TLX.ASX), which focuses on radiopharmaceuticals for cancer treatment. Initially unlisted and valued by Acorn Capital at under $12 million, Telix was a prime example of a successful venture, eventually going public on the ASX in November 2017. Its share price and valuation have since increased substantially, reflecting the ideal potentiality of the early stage and emerging opportunities ACQ looks to invest in.

As at 30 June 2024, ACQ has six unlisted investments within the Top 10, accounting for 17.9% of the portfolio (with an additional 13.3% in unlisted assets sitting outside the Top 10). The larger unlisted positions are across a diverse range of sectors including resources (Koumbia Bauxite), financials (mx51), consumer (Marketplacer) and industrials (Splend, Fremantle Commercial Diving & Elenium). Each business is in a different stage of development; however, what they all have in common is a desire and capability to grow and succeed.

Recently, times have been very tough for smaller companies looking to grow and scale. Capital has been scarce as many of the larger venture capital shops have retreated from the Australian market (post a flurry of investments through 2019-2021). It is during these periods you need strong, focused leadership with a constructive board. Across the six unlisted companies we highlighted earlier, Acorn sits on five of these boards, providing us with an oversight position and the ability to influence.

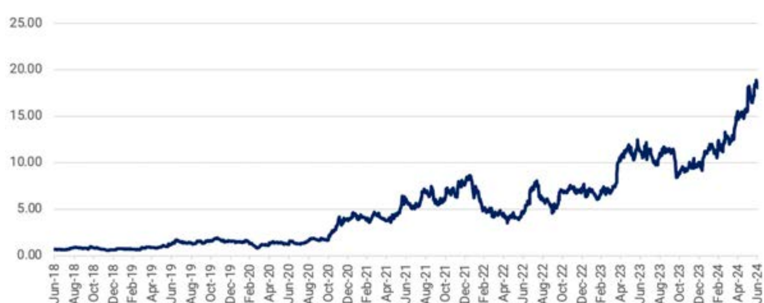
A new name to the Top 10 in June was Fremantle Commercial Diving (FCD), an investment we made back in November 2021. FCD is a Perth-based business that manufactures and operates robotic equipment to clean and service contaminated water (think of it as a larger version of the creepy crawly in the pool). Off the back of the capital raise in 2021, FCD got to work in expanding its manufacturing and scaling up the business. It has won a number of contracts with large-scale mining firms, helping them with the maintenance of their dams and we see this growth continuing as it expands with further specialised robotics.

Another significant holding is Splend Pty Ltd, an unlisted company that provides vehicles to gig economy drivers through a subscription model, providing them with the necessary tools to earn a living when traditional financing options are out of reach. The value of ACQ's initial investment in Splend has grown considerably, showcasing the fund's capabilities in identifying and nurturing companies with substantial growth potential.

Helping the portfolio of unlisted investments is there is no vintage bias, which is an ongoing issue with venture capital firms. ACQ has the ability to recycle capital from one investment and onto the next, reducing the reliance on market cycles. Whilst there is no set target on how many unlisted investments will be complete each year within ACQ, on average the investments are held for three to four years and when exiting we are achieving an uplift of circa 60% on the previously help valuation.

Despite recent economic pressures such as rising interest rates and inflation, which have tightened capital availability for small and micro-cap companies, ACQ has skilfully navigated these challenges. Looking ahead, the fund sees abundant opportunities to support and grow companies poised for success over the next decade.

Figure 2: Telix Pharmaceuticals Ltd (TLX.ASX) - Share Price (Daily)(AU$)



Source: S&P Global

Disclaimer: This document is published by Acorn Capital Limited (Acorn) ABN: 51 082 694 531, AFSL: 227605 and is general information only and is not intended to be, an offer, solicitation or invitation for the subscription or sale of financial products or services of any kind, or advice or a recommendation of any kind with respect to any financial products or services of any kind. Acorn is the investment manager for the Acorn Capital Investment Fund (ACQ:ASX). This document does not take into account the investment objectives, financial situation or needs of any particular person. Investors should obtain personal financial advice based on their own particular needs and circumstances before making any investment decision. Whilst all care has been taken in its preparation, Acorn does not give any representation or warranty as to the reliability, completeness or accuracy of the information contained in this document.

Last-minute super chaos

Darin Tyson-Chan, Publisher, Editor *selfmanagedsuper*, *smstrusteenews* and *Financial Observer*

One of the biggest talking points in relation to superannuation since its announcement back in February 2023, if not the biggest talking point, has been the proposed new tax on total super balances over $3 million.

Since that time, there have been endless rounds of industry consultation and debates over the merits of the measure and the flaws contained in the parliamentary bill to introduce the new impost, now known as Division 296 tax, but it remains currently unchanged from the federal government's original announcement, with an implementation date of 1 July 2025.

Naturally, the coalition opposed the tax, but members of parliament in both the upper and lower houses have been extremely slow in coming to the party to properly scrutinise what are considered some of the more egregious elements of the legislation.

But as push has come to shove with regard to passing the Division 296 tax bill tabled in parliament, this situation is starting to shift dramatically.

While there are many concerning aspects of the proposed policy, one causing the great angst is the fact no indexation measure has been included, meaning currently the $3 million threshold will remain unchanged regardless of inflationary pressures in the economy. It means the tax is likely to affect a greater number of Australian superannuants than the 80,000 initially forecast.

The other element causing people to worry is the approach whereby the new impost will be levied on unrealised capital gains, putting it at odds with the country's basic existing taxation system.

I mentioned earlier some politicians have been very late in coming to this party, but opportunism or the reality of what this measure might mean to their constituents seems to have prompted a change of heart and that has thrown a bit of chaos into the process.

One party to raise a recent formal objection to the bill was the Greens and it did this in the upper house. The amendments suggested by senators of this party were basically opportunist and conflated the debate with demands to have other parts of the retirement savings system changed as part of the process.

Firstly, the Greens asked to have the threshold lowered from $3 million to $2 million. This change would have the effect of impacting even more Australians than those who would have been affected by the omission of an indexation measure. And there was no request to have indexation of the cap included either.

Secondly, the Adam Bandt-led party called for a ban on the ability for self-managed super funds to use limited recourse borrowing arrangements – totally unrelated to the Division 296 tax and a bugbear of the Greens for as long as I can remember.

Subsequent to these suggested amendments, the bill was returned to the House of Representatives where the Member for North Sydney Kylea Tink has proposed indexation be applied to the $3 million threshold to allow it to move in line with the consumer price index and that the liability be determined using a deemed earnings methodology that will prevent the taxing of unrealised capital gains.

Fellow teal Member for Wentworth Allegra Spender has also weighed into the process with recommendations for an independent review of the measure be performed to assess the consequences of the tax and reported to parliament by 1 July 2025, for the taxing of unrealised gains not to be used in the design of future amendments to the policy and for the application of a five-year deferral of any resulting tax liability.

Such has the flurry of late activity been that some quarters of the superannuation industry are predicting there is now only a 50 per cent chance of the legislation being passed without change – a situation the government would have considered unthinkable only a few months ago.

So where it will all land is now completely unpredictable, making the retirement savings landscape even more difficult to navigate should individuals want to minimise their tax commitments.

To subscribe to *selfmanagedsuper* please visit www.smsmagazine.com.au

Stockbrokers and Investment Advisers Association

Serving the interests of investors

www.stockbrokers.org.au