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IMPACT INVESTING

The case for Australian equities

ESG and sustainable investing: Navigating adverse weather systems

Correcting the alternatives imbalance

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IMPACT INVESTING

Impact investing seeks to add value to society whilst also achieving financial returns. It is different from sustainable or ethical investing as it explicitly seeks to make a measurable positive social or environmental impact from the investment. Impact investing in recent years has begun to gain traction, with young investors most notably taking part. This article will explore impact investing, recent trends, and what the future holds for impact investing.

By Ksenija Rykina-Tameeva and Pablo Berrutti, Altiorem

What is impact investing

Impact investing can be defined as actively deploying capital towards addressing specific, measurable societal and environmental goals while generating economic returns. Impact investing can be done in numerous asset classes, where investors value the social and environmental outcomes equally to financial returns.

Investors of impact investing include institutional investors such as hedge funds, private foundations, banks, pensions and other fund managers. Some notable organisations include The Bill and Melinda Gates Foundation who endeavour to "invest in organisations or projects that benefit the world's poorest and are often overlooked by traditional investors". Leap Frog Investments is one of the world's best known impact investors, with a record of private equity investments in Asia and Africa. Impact Investment Group was started in 2013 by Danny Almagor and Berry Liberman when they couldn't find the types of impact investments they wanted access to in Australia, and are now one of a growing group of Australian based impact investment managers.

While impact investing has historically been private markets focused, as it is easier to measure impact, funds with listed assets like equities and bonds are increasingly becoming available. The introduction of these products has made impact investing more accessible for a broader group on investors. These differ (or at least should differ) from sustainability or ethical funds as impact funds should have clearly defined and measurable impact goals.

Rise of impact investing

Impact investing has grown rapidly in recent years with more investors noting its importance and willingness to consider it in their own investments or portfolios. The market itself has grown exponentially where in the US in 2012 the market was estimated to be $3.74 trillion but in 2016 it was $8.72 trillion. This trend is expected to continue as a 2018 Morgan Stanley report observed that of asset owners who were surveyed 78 percent are seeking to align their investment with the United Nations Sustainable Development Goals.

In Australia, the Responsible Investment Association of Australasia's bi-annual benchmarking impact report, found that at the end of 2019 Australia had 111 impact investment products managing $19.9bn. The report also identified more than $100bn in potential demand.

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Impact investing has allowed for investors to think more systematically about risks. They are beginning to think more thoroughly about how ESG factors can hurt long-term returns. 78 percent of respondents listed risk management as an important factor driving their adoption of sustainable investing. In addition, the availability and adoption of impact investing has allowed business to accrue positive corporate reputation, reduce operating costs, find new marketing opportunities and ethical management strategies.

High net worth investors and large foundations like the Bill and Melinda Gates foundation were early adopters and drivers of growth in impact investing. More recently, young people including millennials and Gen Zers have been driving this trend as a greater diversity of products become available.

COVID-19 pandemic

The COVID-19 pandemic has seen the shift of expectations from investors in corporations. Investors have heightened their demand for companies to be more accountable to their stakeholders, triggering organisations to work towards implementing better frameworks and guidelines.

Despite the turbulence that the COVID-19 pandemic caused in financial markets, in a report by the Global Impact Investment Network (GIIN), 57 percent of impact investors say they are unlikely to change their capital commitments and 15 percent state they are willing to commit more. Several investors in the 2020 GIIN report have indicated that they are allocating more capital to projects that are contributing solutions to the effects of the pandemic.

Leading investors have also adapted their approach during the pandemic with more responding to the crisis with flexibility and resolve. For example, investors sought to mitigate potential risks by renegotiating loan terms, investing more funds to support their investments and exercising patience so that they can realise their performance expectations over a longer-term investment horizon.

Empowering future impact investors

Impact investing has made great strides in progress with more investors adopting this investment strategy, however there are still some challenges that need to be overcome. Respondents in the 2018 Morgan Stanley Report cited their biggest challenges and obstacles to impact investing is the lack of availability of quality sustainability data and lack of knowledge.

In addition to this, 75 percent relied heavily on in-house research to support investments and 73 percent requiring third-party speciality research. Thus, for impact investors to expand its reach greater tools need to be made available for investors to easily identify potential impact investing opportunities. However, despite these challenges a significant number are still willing to learn more about impact investing, with 84 percent outlining their willingness to learn more about one approach to impact investing.

The Altiorem sustainable finance library includes a range of resources to support investors interested in impact investing. Including frameworks for how investors can find impact investment opportunities or ensure that their impact funds are managed well. Impact Investing Australia is an industry association which includes resources to support both those wishing to invest with impact and those wishing to access capital.

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Jamie Towers

Incidental tax advice | Wednesday 13 July | 1.00 to 2.00pm

Invariably when giving advice an individual's tax situation will arise. Investment advisers need to understand their obligations in regard to the complex area of taxation. This session will provide an overview of tax implications including discussion on dividends, withholding tax, CGT, estate tax, superannuation contributions and more.

Professional Standards CPD: 1.0 Regulatory compliance and consumer protection
RG146: 1.00 Generic knowledge

Technological and operational resilience | Wednesday 27 July | 1.00 to 2.00pm

Under the upcoming Market Integrity Rules on technological and operational resilience, Market Participants must have adequate arrangements to ensure the resilience, reliability, integrity and security of their critical business services. Paul Derham, a partner with Holley Nethercote, and Shane Bell, a partner with McGrathNicol, will join Michelle Huckel, SIAA's Policy Manager, to discuss what matters Market Participants will need to consider to implement the new rules.

Professional Standards CPD: 1.0 Regulatory compliance and consumer protection
RG146: 1.00 Generic knowledge

Paul Derham

Shane Bell

Michelle Huckel

Wendy Prince

Inside insider trading | Wednesday 10 August | 1.00 to 2.00pm

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.

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

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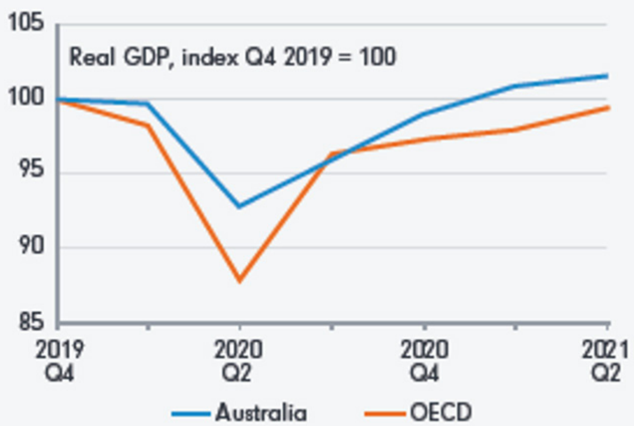
THE CASE FOR Australian equities

Paul Taylor, Portfolio Manager, Fidelity Australia

Blessed with resilience and resources

The Australian economy has proven more resilient than most during recent economic crises. It held up well in the face of the calamitous 1997 Asian financial crisis.[1] It emerged relatively unscathed from the 2008–09 global financial crisis, thanks to its robust banking system and strong demand for resources from fast-growing countries like China.[2] It dipped only briefly during the COVID-19 pandemic and experienced an earlier recovery than most OECD countries (see Figure 1).[3]

Figure 1: Australia's economy declined less as the pandemic struck and recovered quicker than the OECD average



Source: OECD Economic Outlook database

This resilience is underpinned by a diverse mix of industries.[4] Not only does Australia have diverse and plentiful mineral and energy reserves, but its resources companies are considered leaders in technical and project delivery, and for their commitment to safety.[5] The country's leading financial institutions are also highly competitive within the Asia-Pacific region, with its fund management sector particularly recognised for innovation and sophistication.[6]

"We are witnessing a notable acceleration in existing trends, such as e-commerce, the digital delivery of food and beverages, cashless transactions, and working from home, which will continue to shape the future – both in 2022 and over the longer term. These trends expand our universe of investment opportunities, as more innovation and business models come to the market."

Paul Taylor, Portfolio Manager, Fidelity Australian Equities Fund

Several industries are flourishing

Financial services and mining, then, are vital to Australia's economy, and they have performed strongly over the past three decades, recording compound annual growth rates of 4.3% and 4.1% in GVA terms respectively (see Figure 3).

Good though this is, three other industries outstripped even these economic stalwarts. The strongest performance was seen in information, media and telecommunications, which registered 5% compound annual growth in GVA from 1990/91 to 2020/21. Professional, scientific and technical services expanded 4.8% each year during that period, while healthcare and social assistance rose 4.5%. Opportunities, in other words, have been plentiful across a variety of Australian industries.

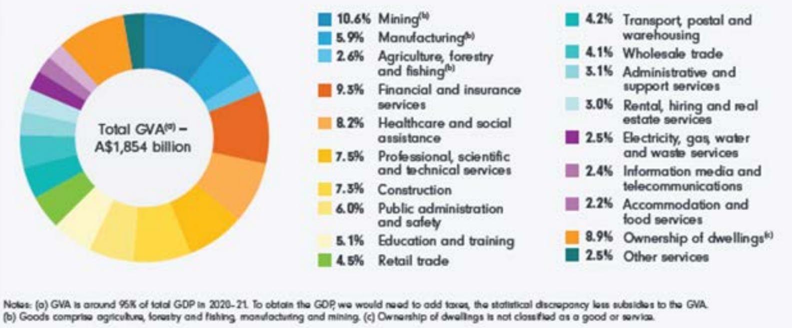
Although the COVID-19 pandemic temporarily slowed this momentum, earnings growth quickly returned in a variety of sectors including consumer, industrials, healthcare and financials. Real estate also rebounded quickly on the back of solid asset values.

The outlook for 2022 is positive: the overall economy is expected to grow strongly,[7] with the rebound occurring alongside a wave of innovation that has the potential to create sustained gains.

Monetary policy should remain benign

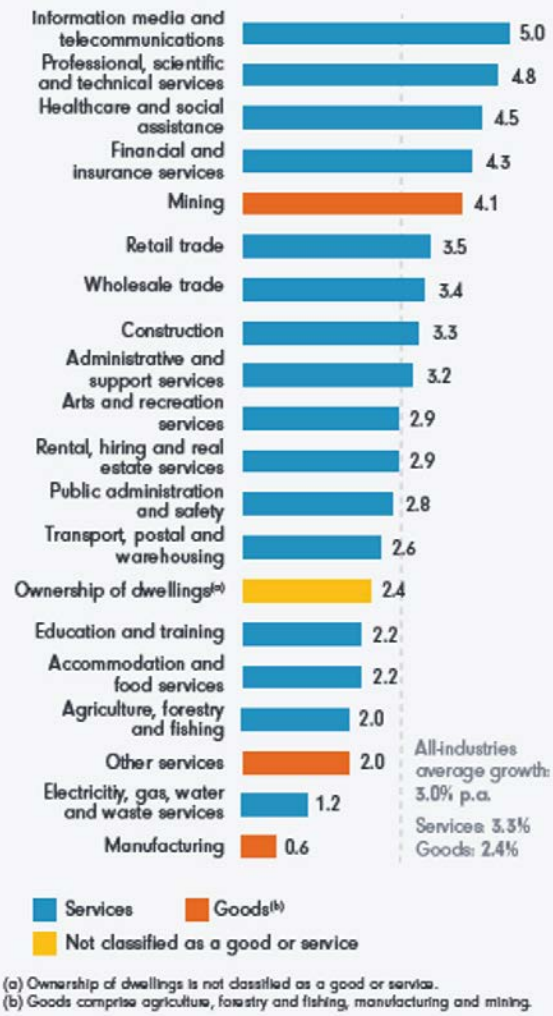
There are some potential causes for concern, including mounting inflationary pressure from tight labour markets, elevated commodity prices and the rising cost of capital. On balance, however, the case for Australian equities remains compelling, and the country continues to be a preferred destination in which to invest, work and study. The reopening of borders toward the end of 2021 is expected to drive a rebound in

Figure 2: Contribution to Australia's economy by industry
Total as a percentage of total industry, 2020-21



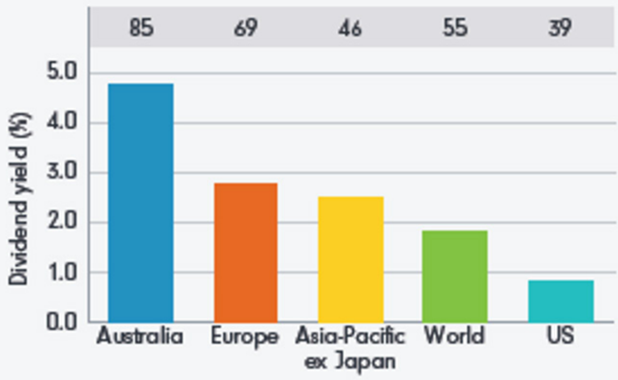
Source: Australian Bureau of Statistics, Austrade

Figure 3: Growth by industry
Compound annual growth rate (%), 1990/91 to 2020/21



Source: Australian Bureau of Statistics, Austrade

Figure 1: Average payout ratio over last 5 years (%)



Source: Bloomberg, Factset, Refinitiv DataStream, as at 28 February 2022

travel after a period of stifled demand since March 2020.[8] Companies are also expected to increase their investments. And while inflation and the spectre of higher interest rates have increased uncertainty for Australian equities, we believe the market still offers structural, growth-led winners at attractive valuations.

A vibrant, consistently performing market

This bodes well for Australia's vibrant equities market – the world's ninth-largest, and which has consistently been among its best performers.

It's worth noting that finance and materials have a disproportionately large representation on the country's stock market, respectively holding a 27.8% and 24.4% weighting on the benchmark S&P/ASX 200 Index.[9] Although the strong performance of these industries has contributed to the market's consistent returns, their heavy weighting does create a degree of risk should their fortunes falter. It also means the benchmark index isn't fully reflecting the relatively stronger growth seen recently in sectors such as technology and healthcare.

Nonetheless, despite these issues, Australia's stock market has delivered greater historic returns in US dollar terms than any other market since 1900.[10]

Over 2,000 companies are listed on the Australian Securities Exchange (ASX), the largest 200 of which are included in the S&P/ASX 200 Index, which represents over 80% of the market's total capitalisation.[11] Although other indices represent small-caps with valuations under A$2 billion, mid-caps ranging from A$2–10 billion and large-caps worth over A$10 billion, the S&P/ASX 200 contains at least a few companies from each segment. The largest index constituents, BHP Group, Commonwealth Bank of Australia and CSL Limited, have valuations in excess of A$100 billion. And the 20 biggest Australian stocks account for about 43% of total market value.[12] The Australian small–mid-cap segment has been home to several future leaders that can generate considerable value for investors as they graduate to the larger cap arena. One such prominent recent example is the sleep apnea equipment technology specialist ResMed, which was included in the S&P/ASX 50 Index in September 2021.

A greater focus on dividends

Australia has a well-established culture of dividend discipline, with dividends having contributed 53% of returns over the 121 years to 2021. By comparison, in the US, dividends accounted for 42% of returns over the same period.[13]

Given the importance of dividends in the local market, most of our actively managed funds focused on Australian equities are benchmarked against accumulation indices rather than those which measure only price change. Accumulation indices assume all dividends are reinvested and compounded, providing a better yardstick of total return derived from investing in the constituent stocks. For this reason, they are also known as total return indices. Australia's dividend yield is one of the highest in the world, hence appeal from overseas due to the income angle.

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1 Ron Duncan and Yongzheng Yang, 'The impact of the Asian Crisis on Australia's primary exports: why it has not been so bad', Asia Pacific Press at the Australian National University, 2000-1: https://crawford.anu.edu.au/pdf/wp00/di00-1.pdf

2 Credit Suisse Global Investment Returns Yearbook 2021

3 'International economic comparisons after a year of the pandemic', Australia Bureau of Statistics, 2 June 2021: https://www.abs.gov.au/articles/international-economic-comparisons-afteryear-pandemic

4 Austrade: https://www.austrade.gov.au/benchmark-report/resilient-economy

5 Australian Government Department of Industry, Science, Energy and Resources: https://www.industry.gov.au/data-and-publications/australias-national-resources-statement/the-australian-resources-sector-significance-and-opportunities

6 Australian Trade and Investment Commission: https://www.austrade.gov.au/international/buy/australian-industry-capabilities/financial-services

7 'Statement on Monetary Policy – February 2022, Economic Outlook', Reserve Bank of Australia: https://www.rba.gov.au/publications/smp/2022/feb/economic-outlook.html

8 RenjuJose, 'Australia re-opens borders to non-citizens despite Omicron worries', Reuters, 15 December 2021: https://www.reuters.com/world/asia-pacific/australia-reopensborders-non-citizens-despite-omicron-worries-2021-12-14/

9 As of 31 January 2022, S&P Dow Jones Indices: https://www.spglobal.com/spdji/en/indices/equity/sp-asx-200/#overview

10 Richard Henderson, 'Australian stocks lead the world in returns', Australian Financial Review, 5 March 2021: https://www.afr.com/markets/equitymarkets/australian-stocks-lead-the-world-in-returns-20210305-p5784x

11 https://www.spglobal.com/spdji/en/documents/spiva/spiva-australia-mid-year-2021.pdf

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13 Richard Henderson, 'Australian stocks lead the world in returns', Australian Financial Review, 5 March, 2021: https://www.afr.com/markets/equity-markets/australian-stocks-lead-the-world-in-returns-20210305-p5784x.

ESG and sustainable investing: Navigating adverse weather systems

Hamish Chamberlayne, Head of Global Sustainable Equities and Portfolio Manager for the Janus Henderson Global Sustainable Equity Active ETF (Managed Fund) (ASX:FUTR) answers key questions on the drivers shaping environmental, social and governance (ESG) and sustainable investing in 2022 and beyond.

By Hamish Chamberlayne, Head of Global Sustainable Equities and Portfolio Manager, Janus Henderson

How has the sustainable investing and ESG narrative evolved so far this year?

Equity markets have faced stiff headwinds this year, and for ESG investing it has been a near perfect storm. The Russia/Ukraine conflict, rising inflation, slowing growth, central bank activity, and the lingering impact of the pandemic have created much uncertainty at a macroeconomic level. This has combined with a shift in market rhetoric to a strong anti-growth and less positive ESG stance leading to stronger performance from sectors typically not associated with sustainable investing, such as energy, defence, tobacco and commodities. The good news, however, is that we see this as a natural correction and a logical outcome of the excesses of the ESG bubble that formed in markets last year.

2021 saw strong upward momentum for all things ESG and growth stocks with a 'story' behind them. Appetite reached peak levels for these 'story' stocks, with the promise of what's to come in the future trumping cash flows and profitability today. This was particularly apparent with demand for special purpose acquisition companies (SPACs), 'shell companies' formed to raise money through an initial public offering to buy another company, often with an ESG angle. These included companies associated with solid-state batteries, hydrogen, plastic recycling, fuel cells, and new EVs.

We put SPACs in the same category as highly speculative crypto and meme stocks (which receive strong followings based on online and social media platforms). While the stories could potentially look exciting, our approach was to avoid all SPACs. We believed this to be a vast speculative ESG bubble and, in line with our long-held approach, did not participate. In 2022, we have seen the bubble burst in a high-profile way.

While the current environment is challenging for growth and ESG, it is actually reinforcing the medium-term trends we are focused on. Energy security, economic resilience, and supply chain re-localisation are all very aligned with our sustainability themes. Regulators and governments have also maintained their focus on ESG with steps being taken to support the migration to a more sustainable global economy. Recent sustainability developments included the latest report from the Intergovernmental Panel on Climate Change, which suggested that global warming is happening at a faster pace than previously believed and that the need for action is intensifying.

Short-term challenges for ESG investing have been meaningful, but the longer-term direction of travel is unchanged, and has potentially accelerated. We therefore view the volatility as an overdue shakeout of the excesses in the system and supportive of the sustainability investment trends that we as a team are focused on.

How have rising energy prices and inflation impacted sustainable investing?

Energy stocks have been some of the big winners this year and sustainable investment approaches, such as our own, that do not offer exposure to oil and gas companies have been negatively impacted. While a negative for ESG and sustainable investing in the short term, we believe higher oil and gas prices will accelerate the adoption of products and services from companies providing sustainable solutions. Sustainability is closely linked to innovation and we seek businesses that are transforming the world for the better. An obvious example is the renewable energy sector and related development projects. As oil and gas prices rise, the number of projects that can generate acceptable returns increases. More broadly, we are witnessing greater demand for many renewable projects.

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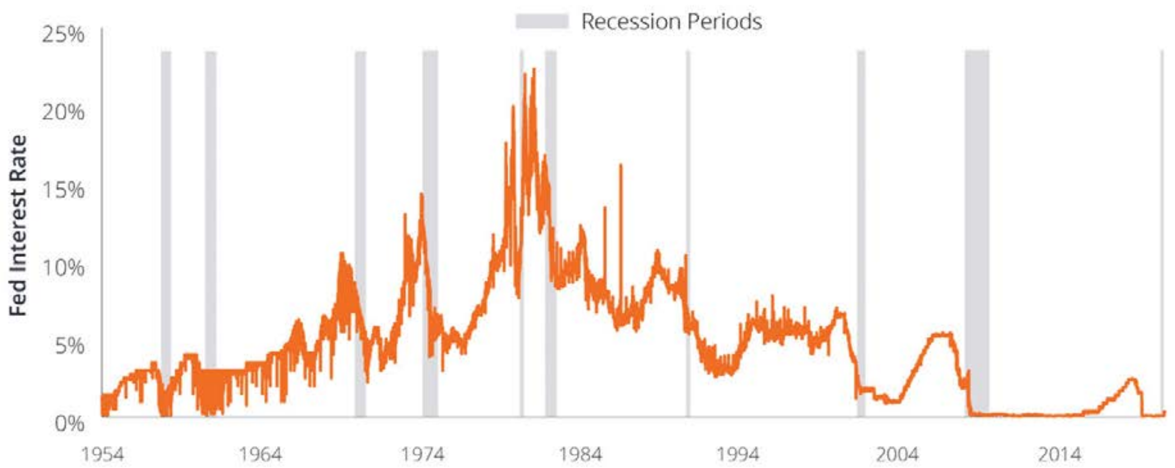
> From a relative perspective the increase in interest rates is significant given the starting point of close to zero but, taking a step back, interest rates are still at multi-decade lows.

In terms of inflation and the rate of change of interest rates, which is currently worrying markets, we believe this should be viewed as a move back towards normalisation. From a relative perspective the increase in interest rates is significant given the starting point of close to zero but, taking a step back, interest rates are still at multi-decade lows (see Figure 1). We therefore continue to see these levels as representing favourable conditions for growth.

Has the landscape fundamentally shifted for ESG investing?

It is important to note that we are long-term investors, which means not reacting to short-term trends, notably the sector moves and style rotation we are currently experiencing. As noted above, we believe the trends we have built our approach around remain very much in place and, if anything, have accelerated. When we look globally, we see a lot of concerns around supply chain fragility, economic resilience, reshoring manufacturing, re-localising supply chains, and energy independence. These play into the sustainability trends that we are focused on. We therefore see volatility as an opportunity to take advantage of a market shaped by short-term fear. This has meant adding

Figure 1: US Federal Funds Rates – moving back to normality?



Source: Macrotrends Data, www.macrotrends.net, as at 6 April 2022
Note: Historical data is provided “as is” and solely for informational purposes and not advise.

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> The short-term challenges for ESG investing have been meaningful, but, in our view, the longer-term direction of travel is unchanged.

to names where we have conviction in the long-term thesis.

We believe the sustainability challenge is captured by four megatrends – and these will continue to drive the global economy of the future:

- Resource constraints
- Population growth
- Climate change
- Ageing populations

Our focus has always been to seek companies with proven business economics and cash flows. Many sustainable companies offer strong compounding potential because they provide solutions to key societal and environmental challenges. They also have the potential to do well in an inflationary environment. Many have pricing power and are offering solutions that, in many cases, are deflationary. Technological innovation is a case in point as it presents efficiencies in the production of goods and services at scale. Lower-cost energy via renewables is another deflationary benefit.

Has 2022 weakened your conviction in sustainable investing?

It is very important to distinguish between the short, medium and long term. There is no doubt we are experiencing some of the most adverse investment conditions over the last decade. However, for the first quarter, this contrasts with what we are seeing and hearing from the companies we invest in. Examining companies’ strengths and weaknesses from a fundamental analysis point of view currently shows many positive signs, good growth, and resilience in business models.

At the country level, governments are increasing their focus on making investments in renewable energy and helping to re-shore and localise supply chains. This has led to announcements from semiconductor companies on the building of new fabs (factories for making advanced electronic products) in the US and in Europe.

This emphasises the importance of focusing on the true health of companies today as opposed to the ‘stories’ of tomorrow. The short-term challenges for ESG investing have been meaningful, but, in our view, the longer-term direction of travel is unchanged. While the ‘weather’ will continue to blow through markets, we welcome the longer-term opportunities they bring.

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*)

Tues 6 September, 11.00 – 1.15pm AEDT

Cost

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Responding to recent market volatility

In periods of heightened market volatility, like we're currently experiencing, we remind market participants of the importance of maintaining robust monitoring and supervision controls.

Times of stress are when we see some of the worst market conduct. Market participants are the gatekeepers to Australian markets, and they have a duty to detect and deter this activity quickly, to support the integrity of markets and to provide financial services efficiently, honestly, and fairly.

Market participants should, for example:

- protect client money
- monitor client and house positions, the build-up of risk and signs of distress
- be well prepared for margin calls
- consider system capacity issues and the robustness of IT systems, including of third parties and other dependencies
- monitor client trading activity that may have the effect of manipulating prices
- monitor the use of trading algorithms to avoid aberrant trading or contributing to market movements
- monitor the build-up of short positions, ensuring that short positions are covered and that they are appropriately reported.

It's also important that trade surveillance teams are vigilant, responsive, and equipped to manage the high volume of activity and pay due attention to the larger number of trade alerts. We're seeing up to six times the volume of alerts triggered by our trade surveillance system. While many have legitimate explanations, we're also seeing more potentially manipulative trades across a range of markets. As a proactive step, market participants should check that their trade surveillance alerts are fit for purpose and operating as intended.

If you see suspicious activity, you must report it quickly to ASIC or AUSTRAC. If we contact you about concerning conduct, we expect you to act immediately. You can also contact our Market Surveillance team directly at markets@asic.gov.au or through your Intermediary Supervisor.

Correcting the alternatives imbalance

Interest in alternatives is growing. In the US ultra-high-net-worth portfolios have exposure of between 37%-52% to alternative assets, but here in Australia we typically see exposure of 20%-30% to alternatives. Why the difference?

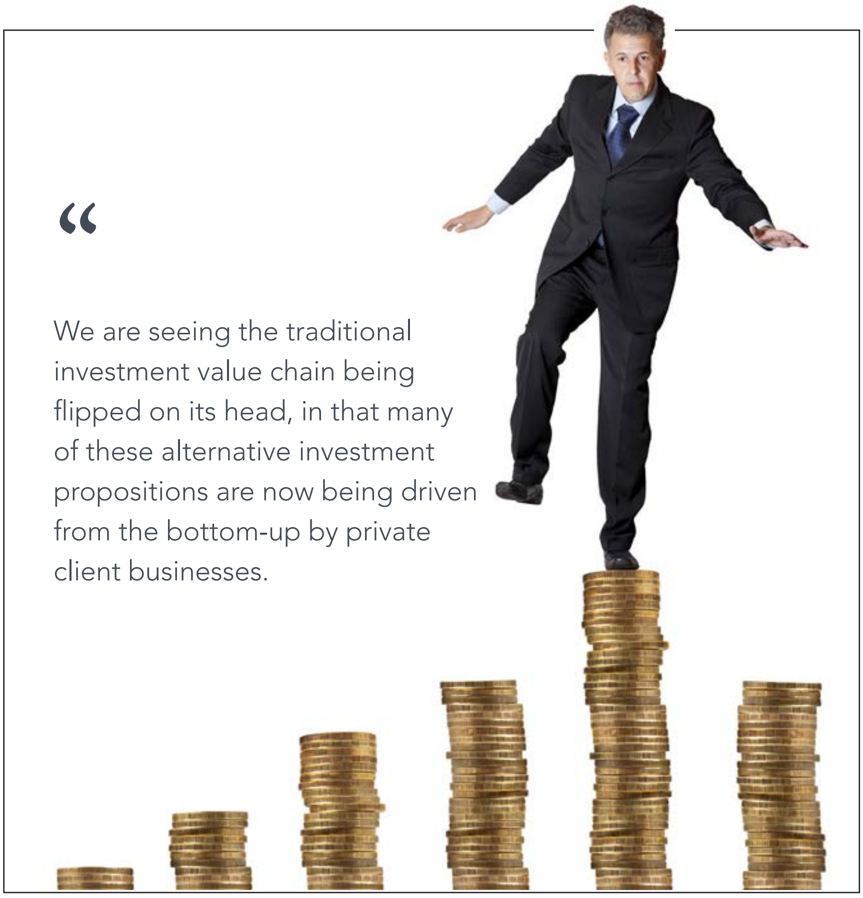
By Mark Papendieck, Chief Revenue Officer, Integrated Portfolio Solutions

At a high level, there are probably two key factors that account for much of the relative under-use of alternatives in Australian portfolios: accessibility and 'artificial' constraints.

To invest successfully private client advisers need an unencumbered investment process that is free to consider, analyse and access their entire desired investment universe. Investment decisions are too often unnecessarily constrained by non-market related factors or 'artificial constraints'. We see some private client businesses shy away from certain structures such as investments with capital calls because of the administrative burden of trying to manage, administer and report on these structures alongside traditional assets.

The bull market in 'everything' is over, and it's now time to be making well-informed portfolio construction decisions and to have flexibility and efficiency to action those investment decisions no matter what they are.

To achieve this, there is of course a need for data and information to be



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both in-depth, that allows for precise decisioning, as well as wholistic to enable whole-of-portfolio decisioning and reporting. Having the capability to administer, manage and report on alternative investments in the same way as the rest of your portfolio allows for more informed decision-making around cash flows and asset allocation decisions as well as allowing for other functions such as compliance, risk, and tax to be fulfilled more efficiently and effectively.

Ultimately if something is too hard to administer and report on then the efficiency to return ratio doesn't add up and it becomes too hard invest in. If it's hard to hold as a direct investment, HNWI prefer to steer clear.

Accessibility – the investment game changer

The realisation that you no longer need to rely on traditional investment product manufacturing providers when you have an unconstrained administration environment and investment universe is a game changer. We are seeing the traditional investment value chain being flipped on its head, in that many of these alternative investment propositions are now being driven from the bottom-up by private client businesses.

Accessibility is a key theme in this respect. To put this into context, access to some investments and investment capabilities has, in the past, been limited to large institutional investors. But this is changing rapidly, and these capabilities and investment propositions are well within the reach of many private client businesses.

One of the trends that we've been noticing is an increasing desire by private client advisers to access and harness capabilities to manufacture investment propositions in conjunction with specialist partners.

Over the last few years, we have seen a real hunt for yield driving the usage of alternatives and a proliferation of debt capital market and commercial/industrial property syndication (both capital and debt). Alongside our clients, we worked with capital markets and property specialists to craft and access these solutions.

Now, with surging inflation and rising interest rates driving a simultaneous decline in most asset classes, investors of all shapes and sizes are pivoting their usage of alternatives to risk management. In this new environment we are working with specialist providers to enable HNWI and private client businesses to have ‘conviction with protection’. They can take a view on a market or sector and we can help them protect their downside or lock in a yield.

In addition to seeing portfolios moving to more defensive instruments such as floating-rate notes and market-neutral hedge funds we are also seeing increased interest in structured investments, which while not as talked about as ETFs are actually on a par with ETFs in terms of having a global market size of circa $10trn.

How can technology help?

The proliferation of alternative asset marketplaces is helping to solve the accessibility issue but at the same time it is exacerbating the problem of data being siloed. Investors need to bring all their data together to make decisions on the portfolio as a whole, rather than dealing with the composite parts on a stand-alone basis.

This is where technology needs to come into play. In that context, the role of portfolio administration and reporting service is to remove the artificial barriers around investing and portfolio construction and facilitate information flow and partnerships. In basic terms, this means that the more tech can assist here, the easier it is for the investment managers and the portfolio decision-makers to focus on what they do best.

However, it is important to note that while tech is a critical enabler in aggregating all portfolio data and opening up the investible universe for investors and their advisors, it is only a part of the stolution. The world of alternatives is so broad and relationships and networks so important that tech alone is never going to be the answer. Hence, we do not describe our proposition as Software *as* a Service (SaaS) but rather Software *with* a Service (SwaS) – the human element is very important.

Sequencing risk perhaps less of a danger

By Darin Tyson-Chan, Editor, *selfmanagedsuper*

Inflationary concerns and rising interest rates are probably the most common talking points when it comes to the economy at the moment and rightly so. The current rate of inflation in Australia is 5.1 per cent, which is the highest it has been in decades.

Of course, these elements in turn usually trigger a dip in both share and property markets, which is not good for superannuants and is particularly concerning for retirees.

To this point, research house Chant West has predicted the current economic downturn will see superannuation funds experience a 5 per cent reduction in asset balances this financial year, representing a 13-year low from a performance perspective.

AMP Capital chief economist Shane Oliver estimates this will translate into a loss of $8000 for an individual with a retirement savings balance of $150,000.

Of course, the last thing that is needed under these circumstances is a panic-driven sell-off of shares and other assets as it will almost guarantee individuals will fall into the unwanted trap of selling when prices are low and potentially re-entering the market when values have bounced back.

And one thing superannuants really need to understand is that paper-based losses are not realised until the assets in question are sold.

Even if an individual falls into this trap, as long as they are young enough, they will still have the ability to repair their super balance over the coming decades through both an increase in returns and the continual contributions they will be able to make over their remaining employment years.

The situation, though, is a lot more serious for retirees. They are no longer working so don't have years in the workforce to enable them to make contributions and may not have the time required to fully benefit from a market recovery.

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But sequencing risk as a result of this market fall might be less of a worry than it has been in the past. This is due to some of the budgetary measures put in place by the Morrison government that are set to take effect on 1 July 2022. I'm referring to the changes to the superannuation contribution rules.

Probably the most telling change in helping to neutralise sequencing risk is the abolition of the work test rule for individuals up to the age of 75 with regard to making non-concessional contributions. Currently people over 67 cannot make personal superannuation contributions unless they can prove they have been gainfully employed for 40 hours or more in any 30-day period in a particular financial year.

With this requirement no longer necessary, it will be much easier for those over the age of 67 to tip more money into the superannuation system, which remains the most tax-effective savings regime in the country, and potentially repair some of the losses resulting from the current drop in the market.

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Further, superannuants can also take advantage of the bring-forward non-concessional contribution rule up to the age of 75. This means, subject to satisfying other conditions such as having a total super balance of less than $1.7 million, they can make up to three years of non-concessional contributions in their 74th year. Currently this amounts to $330,000.

In addition, the requisite age that will allow people to make downsizer contributions is to be lowered to 60. This type of contribution has no restrictions involving the total super balance or an upper band age limit and can afford an individual the opportunity to put up to a further $300,000 into their retirement savings.

Ignoring sequencing risk, these types of measures were long overdue from a common-sense perspective as they see superannuation contribution rules finally aligning with the financial cycle of most Australians. In other words, the retirement savings framework will finally allow people to contribute to their super when they can most afford to do so – once the mortgage is paid off and the children’s school fees are no longer an impost.

If we consider sequencing risk, these changes are an added bonus as they have the ability to provide greater peace of mind to retirees.

The Morrison government may have had the first goal in mind when announcing these initiatives, but given the general misreading of the inflation issue to date, I’d say the resulting softening of sequencing risk was an unexpected positive.

Nevertheless, the previous government does deserve credit for improving the situation of retirees.

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