SAFAA MONTHLY

September 2020

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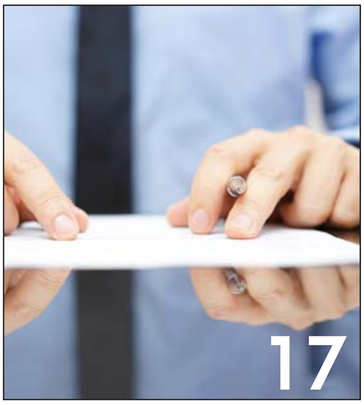

Stockbrokers and Financial Advisers Association

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Judith Fox, CEO

MESSAGE FROM THE CEO

SAFAA held its first virtual conference last week. There were a lot of firsts involved — for the speakers, the delegates and the sponsors, as well as the team at SAFAA. Early feedback from our delegates is that it was a very positive experience. They liked the format and thought the sessions were informative and geared appropriately to our industry.

I noted in this column last month that together at our conference we could build robust virtual connections that can replace some of the physical proximity we've lost for the time being. Delegates certainly took up the challenge, utilising the chat functionality to engage with each other as they commented on the sessions. However, fewer delegates engaged with our sponsors, revealing a limitation on the virtual environment. Wandering around sponsor profiles on a conference platform is not the same as wandering around exhibition booths at the conference venue.

As we learn to live with COVID-19, learning how to adjust our expectations and our approaches is the key issue we all have to deal with. A virtual conference is a great opportunity to learn new skills, but it also provided the chance to assess what works and what doesn't work in an online environment.

We found that what worked was a greater sense of connection to speakers and panels during sessions. As one member commented, it was similar to watching sport on television compared to from the back of a large crowd. Another commented that you felt more connected to the speakers than in a big room — the impact was more immediate and more engaging.

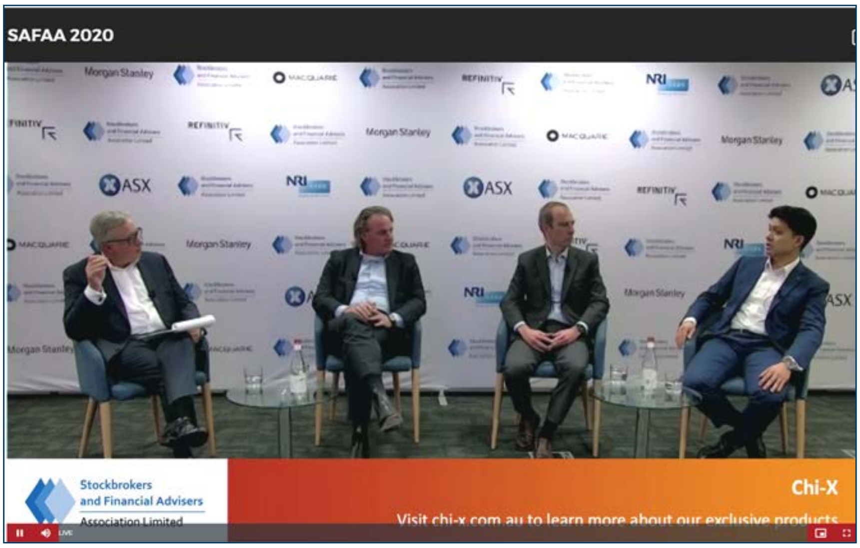
Choice was easier. It is easier to navigate an online platform in the way that suits the individual, as everything is at your fingertips. You can download the slides before a presentation and look at them while the speaker addresses them or look at them later. You can download resources

The uncertainty attached to the lifting of bans on mass gatherings and the realisation that virtual connection can supplant expensive business travel means that virtual events are likely to be the norm for the foreseeable future. But in the long term, the jury is out on whether virtual conferences will entirely replace face-to-face ones.

from sponsors. It is certainly easier to exit an online room than a room in a conference venue, either to take an important call or to check out an alternative concurrent session!

Asking questions is easier, as delegates do not need to find the courage to stand up and ask for the microphone in front of a crowd. You can enter your question at any time, and not have to worry about remembering it for when Q&A commences. And branding for sponsors is easier, with banners at the foot of the screen and videos in the transitions between sessions.

The uncertainty attached to the lifting of bans on mass gatherings and the realisation that virtual connection can supplant expensive business travel means that virtual events are likely to be the norm for the foreseeable future. But in the long term, the jury is out on whether virtual conferences will entirely replace face-to-face ones. We could see



SAFAA 2020: 'The tech story: judging investment' – Vik Jokovic, Chi-X; Heath Behncke, Holon Global Investments; Stefan Marcionetti, Magellan Global Trust; Roger Samuel, Jefferies

SAFAA 2020: 'View from the Government' – Senator the Hon Jane Hume and Judith Fox, SAFAA CEO

the emergence of the hybrid model, similar to AGMs.

One thing is sure — it's an exciting time to experiment and test new approaches and build new knowledge. On behalf of the Board and team at SAFAA I want to thank all our delegates who joined us for this opportunity to learn and connect. SAFAA exists to promote high standards, skills and knowledge of securities and investment advisory professionals. Our mission is to advocate for ethical, efficient and stable, listed equity and debt markets in Australia and provide practitioner-led professional development for members and the conference is certainly a key part of that professional development. Thanks to you all for making our first virtual conference such an interesting and compelling journey.

I also wish to thank all of our sponsors. Without their generous support, we would not have been able to bring you such a rich program. Particular thanks go to our Gold Sponsor ASX and Silver Sponsors Macquarie Wealth Solutions, Morgan Stanley Wealth Management, Nomura Research Institute and Refinitiv. The financial support of our exhibiting sponsors Broadridge, Chi-X, Complii Fintech Solutions, Finantix, IG Prime, Iress, MyCompliance Office and Praemium was also central to enhancing our offerings, as was that of our Supporting Sponsor Sydney Stock Exchange.

Finally, I also want to thank our small but dedicated team at SAFAA who worked so hard to put on our virtual conference in challenging circumstances. We all embarked on that learning curve together.

Peter Stepek retires

Our longstanding Policy Executive, Peter Stepek, retired last month. Peter has been assisting SAFAA since 2007 (when it went by the name of the Securities & Derivatives Industry Association). He has been a formidable advocate on behalf of the association, preparing submissions of substance and intellect on a range of regulatory issues affecting the industry and representing members at meetings with regulators, the government and opposition and stakeholders. His contributions were always informed, incisive and geared to finding solutions that can be practically implemented. His deep knowledge of the industry and successive waves of regulation and his capacity to consider proposals for change and explore all consequences have been a great asset to SAFAA and its members.

The Board and team wish him well as he heads into his next chapter. We have a tribute to Peter on page 7. ■

SAFAA ACCREDITED
CPD webinars

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

When ASIC issues a notice… how to be prepared

Wednesday 9 September
1.00pm to 2.00pm EST

Receiving a notice from ASIC to produce documents and or provide answers to questions is never something to which a licensee looks forward. Our expert panellists, Alexandra Mason, Partner, Allens; David Dworjanyn, Senior Specialist (Legal & Policy), Market Supervision, ASIC and Douglas Clark, solicitor and expert witness for market-related cases, will discuss:

- what are the do's and don't's of engaging with regulators?
- what can you learn from those who have gone through this trial of fire?
- what can you do to reduce the stress of an ASIC audit?

FASEA CPD: 1.00 hour Regulatory compliance and consumer protection

RG146: Generic Knowledge

Ethics in action – are you match fit?

Wednesday 16 September
1.00pm to 2.00pm EST

Ethics consultants advise that you cannot approach ethics with a compliance lens. Ethical issues are not about 'right or wrong' or 'black and white', but the areas of grey in decision-making and what you can rely on to deal with those. What are the steps that you can take to apply an ethical lens to your decision-making in preparation for the FASEA exam and to give advice in line with the FASEA Code of Ethics? Having created a FASEA-approved Master's Degree level ethics course for financial advisers, Steve Mark is well qualified to provide practical applications to the following issues.

- Ethics: Rules vs Values – which should I use in decision making?
- the 'best interest' duty – is it my or the client's view of their best interests?
- conflicts of interest – what is informed consent?
- what steps should I take to ensure ethical decision-making?

FASEA CPD: 1.00 hour Professionalism and ethics

RG146: Generic Knowledge

Identifying the winners of tomorrow in emerging markets

Wednesday 23 September
from 1.00pm to 2.00pm EST

Today there are varying levels of ability for each company in emerging markets to cope with the continuing economic fallout from COVID-19. The composition of the index has changed over time which highlights why active management is crucial to reducing risk in this market. Anthony Doyle, Cross Asset Specialist with Fidelity International, will dive into the undisputable growth drivers in emerging markets and discuss the underlying trends supporting why emerging markets vs developed marked should be considered in an investment portfolio.

FASEA CPD: 1.00 hour Technical competence

RG146: Securities

The Privacy Act and Anti-money Laundering

Wednesday 7 October
from 1.00pm to 2.00pm EST

Two expert presenters will discuss:

- the Privacy Act – understanding the difference between personal and sensitive information and whether consent has been appropriately obtained before using information, and
- the Anti-money Laundering and Counter-Terrorism Financing legislation – how to apply the definition of a suspicious transaction and related reporting requirements to the scenarios provided.

FASEA CPD: 1.00 hour Regulatory Compliance & Consumer Protection

RG146: Generic Knowledge

Cost

Practioner & Organisational Members	FREE
Non-Member	$55.00

Thanks for supporting SAFAA's webinar program during 2020

HUB24 | Fidelity INTERNATIONAL | THE PERTH MINT AUSTRALIA

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www.stockbrokers.org.au/education/cpd-webinars

EXHIBITOR PASSPORT WINNERS

THANK YOU to all our sponsors who donated prizes to the SAFAA 2020 Virtual Conference passport activity. The following winners were announced prior to the final session on Friday 28 August.

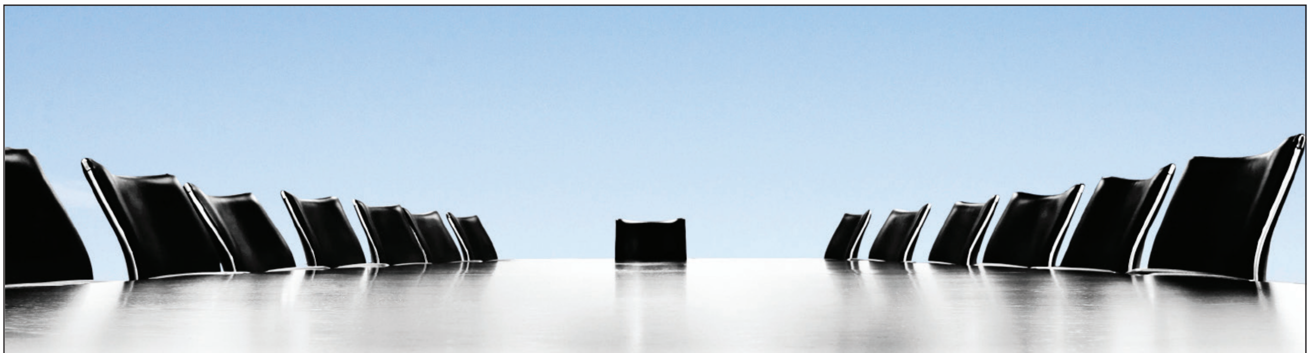
PRIZE 1 – SHIPRA SARIN FROM NAB PRIVATE WEALTH
$150 Red Balloon gift voucher – **Complii**
$150 Myer voucher – **Praemium**
750ml bottle Veuve Clicquot Brut – **Refinitiv**

PRIZE 2 – DAVID SMITH FROM CLSA
$200 wine voucher – **IG Markets**
$100 Amazon eGfit Voucher – **MyComplianceOffice**

PRIZE 3 – TANYA COBBY, TAYLOR COLLISON
$100 JB HIFI voucher – **Iress**
Wine bundle – **Finantix**

Thank you also to Broadridge who provided a $25 Uber Eats voucher to anyone who connected with them.

Congratulations Shipra, David and Tanya!



SAFAA committee news

Recent and upcoming meetings of the Stockbrokers and Financial Advisers Association – Committees, Working Groups and Advisory Panels:

Profession Committee Meeting, Wednesday 9 September 2020
Chair: Andrew Fleming MSAFAA, Morgans Tynan Partners

Derivatives sub-Committee Meeting, Tuesday 15 September 2020
Chair: Peter Tardent MSAFAA, JBWere

Audit Committee Meeting, Thursday 17 September 2020
Chair: Michael Tritton MSAFAA, Crestone wealth Management

Practitioner Member MeSAFAA applications approved:

- Andrew Gribble
- Michael Munro
- Brent Plasier
- Dana Tan

PETER STEPEK – You will be missed

The industry has been incredibly fortunate to have had the benefit of Peter's wisdom and experience to assist it through some very challenging times. Thanks, Peter, for your great work. We wish you all the very best for the future, whatever roads you and Helen take.


Peter Stepek

We recently said farewell to Peter Stepek who has decided to finish up his roles at the Association. In 2007, Peter joined what was then the Securities & Derivatives Industry Association as Company Secretary, later heading up Policy.

Peter's first introduction to the industry was at the Corporate Affairs Commission in NSW, which merged with the NCSC to become the ASC (now known as ASIC) in 1991. He was solicitor for the Commission in the famous *Nomura* case, whose 1998 judgment by Justice Sackville is now one of the 'must-reads' for any practitioner operating in the area of market manipulation.

He then moved to industry, holding senior legal and compliance roles with Deutsche Bank, UBS and Credit Suisse.

His calm, urbane, intelligent approach always impressed Members, as he navigated his way through complex issues from the policy and legal perspective, and presented views to government and regulators on behalf of the industry. These included the bedding down of 'FOFA', dealings with the new AFCA, and the new and at times byzantine FASEA. Even where feedback was lacking from Members, he still managed to craft submissions in his own inimitable way, based on his knowledge of the issues and their likely effect on Members.

Former policy adviser Doug Clark says Peter's most memorable effort was in the early days of market supervision cost-recovery, when overspending by ASIC was a concern. In one submission to Treasury (which was then oft-quoted), he said, 'The industry does not need a Rolls-Royce supervision system when a Holden will do.'

The industry has been incredibly fortunate to have had the benefit of Peter's wisdom and experience to assist it through some very challenging times. Thanks, Peter, for your great work. We wish you all the very best for the future, whatever roads you and Helen take. There just may be more time for your extensive charity work, hunting treasures in old sheds, for more remarkable travel adventures (such as your narrowboat voyages along the canals and rivers of Europe, when international travel is again permitted), and whatever else takes your fancy. ■

SAFAA 2020 Virtual Conference – CPD

SAFAA 2020 Virtual Conference delegates will receive their CPD certificates by the end of September.

Conference delegates can continue to access the video recordings of all sessions via the conference platform for the next 12 months. Once viewed please advise education@stockbrokers.org.au to receive your CPD.

As market activity lifts, more Australians are interested in advice, ASX study shows

The ASX Australian Investor Study 2020 reveals that an increasing number of Australians are investing for the first time, with a growing appetite for advice in the wake of the COVID-19 pandemic.

Since 1986, ASX share ownership and investor studies have been charting the evolution of share-trading and investment in Australia. Yet few have been more revealing than the latest study, which includes a special edition for financial advisers and stockbrokers.

Combining findings from two wide-ranging surveys taken immediately before and after the COVID-19 crisis hit, the 2020 study provides a unique snapshot of a critical moment in the history of our markets. It also charts the long-term demographic trends shaping the future of Australian investing, with important implications for brokers and advisers seeking to appeal to a rising generation of investors.

Activity lifts as investors reset

SAFAA members won't be surprised to learn that the report found a rapid rise in investor activity in response to COVID-induced market volatility, with 54% of investors making changes to their portfolios. Yet the nature of that response and the motivations underlying it were perhaps more surprising.

"Far from becoming risk averse, many investors seem to have become more accepting of risk as the crisis progressed," says Andrew Campion, ASX General Manager, Investment Products. "Around two in three investors in our May survey said they would accept high or moderate variability in the short term if it helped them achieve higher returns. That's about 18 percentage points

"The market and economic dislocation caused by the COVID-19 pandemic has also sharpened the minds of investors to factors such as the impact of diversification on portfolio volatility and returns, as well as the sustainability of dividends" higher than in our January survey, just three months before. The market and economic dislocation caused by the COVID-19 pandemic has also sharpened the minds of investors to factors such as the impact of diversification on portfolio volatility and returns, as well as the sustainability of dividends”

Taking advantage of lower asset prices

Younger investors in particular seem to have seen the crisis as an opportunity to take advantage of lower asset prices to build their portfolios, with 34% of investors aged 18 to 24 saying they had invested all their spare cash. Yet these next generation investors were also most likely to say diversification had become a higher priority due to the COVID-19 outbreak, along with hedging strategies and the resilience of defensive assets.

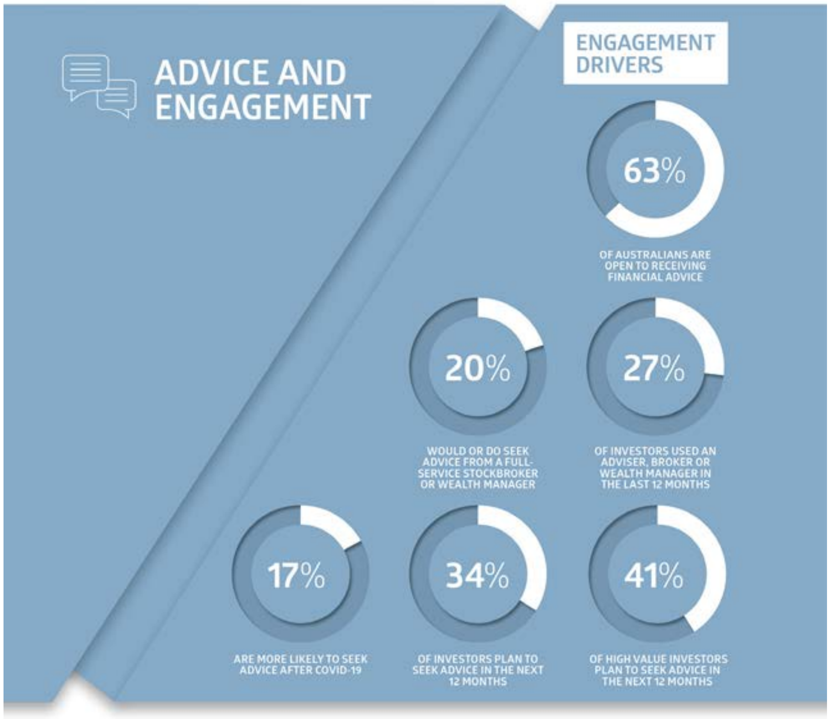
“These findings show retail investors responding to volatility with some sophistication,” says Recep Peker, Research Director at Investment Trends, which conducted the survey on behalf of ASX. “Rather than selling at the bottom of the market, many have treated volatility as a buying opportunity, with 17% increasing their allocation to Australian shares, compared to just 3% who sold down their holdings.”

The lift in activity also seems likely to be sustained in the year ahead, with many investors planning to continue building their holdings of listed assets. Asked about their intentions for the next 12 months, 57% say they plan to invest in Australian direct shares, including 83% of 18 to 24 year olds. These younger investors are particularly likely to use exchange traded funds (ETFs) as their investment vehicle of choice, with 45% saying they intend to invest in ETFs.

The benefits of advice

Advised investors were particularly active in responding to the pandemic, with 68% making changes to their portfolios. Asked how well their financial adviser had supported them in managing the impact of COVID-19, 84% of advised investors said they had been helpful, with 41% describing them as “very” or “extremely” helpful.

Meanwhile, a significant number of unadvised investors have become increasingly likely to seek advice in the wake of the pandemic, with 17% saying they are now more likely to consult an adviser than before.



Engaging a new generation of investors

The report shows a significant increase in new investor numbers over the last few years, even before the upswing in activity during the COVID-19 crisis. While the overall proportion of Australians investing on-market has stabilised at around 35% of the adult population, one in four began investing less than two years ago, while another 18% began within the last five years.

The result is a measurable shift in investor demographics, with a growing number of women and younger Australians actively investing, a trend that looks set to accelerate. Among intending investors (non investors planning to begin within 12 months), 51% are female and 27% are under 24.

“Our survey shows these new investors are actively engaged and eager to learn, with higher than average interest in receiving professional advice,” says Campion. “Many are already looking to use a range of investment products beyond shares, with next generation investors in particular using ETFs for accessible diversification.”

“That creates a real opportunity for brokers and advisers to engage a growing segment of the investor population with many years of active investing before them.”

A healthy outlook

Campion also says the survey shows the outlook for Australian investing is healthy, with investors remaining resilient and active, despite recent volatility.

“For brokers and advisers that’s largely good news. However, it does highlight the importance of reaching out to these new investor cohorts with the right content on the right platforms,” he says.

For example, the research shows that while older investors like to receive investment information face to face or by email, younger investors are more likely to prefer online videos, with 51% saying that YouTube is one of their preferred channels.

“These new investors don’t consume media in the same way as the investors of the past, so businesses need to develop a deep understanding of which channels work best for each group, and how to use them effectively.” ■

Stockbrokers and Financial Advisers Association

ETF workshop series

Since launching in the US in 1993 ETFs have gained considerable traction globally. The local industry has grown from $18 billion in 2015 to over $60 billion today, with BetaShares managing over $12 billion of this.

With market observers predicting that by 2022 FUM will reach $100 billion, and ETFs now traded on virtually every major asset class, commodity and currency in the world, they provide investment advisers with convenient and cost-effective access to all asset classes and sectors.

FREE for members and accredited for CPD, these three upcoming virtual workshops will provide practical strategies you can apply to your client's portfolio.

THE WORKSHOPS

How ETFs are expanding the value proposition of the traditional broker

Monday, 28 September from 1.00 to 1.45pm EST

You will learn how ETFs can be used to broaden your service proposition beyond the Australian equity part of a client portfolio and win the greater share of wallet.

Building better client portfolios using ETFs

Monday, 19 October from 1.00 to 1.45pm

This practical session will show you how to use ETF building blocks for portfolio construction and ways of blending active investments with low cost passive exposures.

Introduction to thematic investing using ETFs

Monday, 16 November from 1.00 to 1.45pm

You will learn how thematic ETFs can be used to enhance or augment portfolio outcomes to meet specific client requirements.

THE PRESENTERS

Peter Harper, Executive Director – Capital Markets and Institutional Business
As Co-Head of Distribution, Peter is responsible for leading sales strategy and execution across all client segments, as well as leading the firm's capital markets activities.

Adam O'Connor, Director - Capital Markets & Adviser Business
Adam O'Connor is a member of the BetaShares Distribution team responsible for supporting Institutional and Intermediary Broker and Adviser channels.

Alistair Mills, Associate Director - Portfolio Analytics & Adviser Business
Alistair is a member of the BetaShares Distribution team, responsible for supporting Institutional and Intermediary Broker channels.

Cameron Gleeson, Senior Investment Specialist
Cameron's responsibilities span supporting all distribution channels and working alongside the portfolio management team.

Available for each workshop

FASEA CPD
45 minutes Technical competence

RG146
Specialist knowledge – Securities

Cost

Practitioner Member ...... FREE

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BY DARIN TYSON-CHAN, EDITOR OF *selfmanagedsuper*

Considerations when SMSF circumstances change

Life as we know it is never static. People's circumstances change regularly and we have to find ways to deal with new developments that present themselves. When looking at self-managed superannuation funds (SMSF), three identifiable elements that affect a fund's circumstances, as well as the individuals running it, are divorce, disability and death.

Dealing with each of these events from an SMSF perspective is quite complicated, apart from how traumatic they may already be, and even more so when you examine some of the finer details involved – many of which would not be obvious at first glance. We will detail some of the more intricate elements that often require addressing in these disruptive circumstances.

Let's start by having a look at divorce – a very significant change considering most SMSFs are established by husbands and wives. This is obviously an unpleasant experience to have to go through, with many thoughts playing on the mind of the individuals involved. But regardless, they need to have clarity of mind as to how to manage the impact on their SMSF.

The process of divorce usually sees the separating parties emerge with a legal document defining the terms of the divorce. At the time, the parties involved would probably not be considering the impact this document will have on their SMSF, but SuperConcepts executive manager Graeme Colley says there are serious implications even at the most fundamental levels.

"What we find as administrators is the complexity in the language used by the lawyers can sometimes lead to ambiguity in the way in which they have agreed to split the assets and that does create a problem with the valuation of the fund at the time of the split," Colley explains.

Further, he warns SMSF trustees cannot be tardy in addressing issues involving their SMSF once the terms of the divorce have been agreed to.

"In some cases it's the time taken to actually get the clients to take action regarding their settlement. We regularly see people coming in wanting us to get involved as administrators a year or two down the track after they've received their court settlement," he says.

A lag in time from when the settlement orders are received and applying them to the SMSF makes the process significantly more difficult, he says, and recommends the divorcing parties take action immediately in these circumstances.

"The reason for that is it is fresh in everyone's mind, and the idea of a divorce is to draw a line in the sand and get on with your life. Some people don't want to do that because they don't realise the orders are aimed at drawing that line in the sand," he says.

An event that leaves an SMSF trustee disabled also needs careful consideration. Often this will result in an insurance payout, referred to as a structured settlement payment in the superannuation arena. While unfortunately originating from a traumatic event, these payments can provide a significant boost to a person's retirement savings as rolling them into the superannuation environment does not constitute a non-concessional contribution and can be made regardless of the individual's total super balance (under normal circumstances a person cannot make any super contributions if their total super balance is $1.6 million or more).

The amount from the structured settlement must be paid into the SMSF within 90 days of receipt of the payment, but Colley points out this is not the only time frame to consider.

"There's a case on the Australian Taxation Office website which details

> "If you are concerned about conflicts of interest between beneficiaries, it's probably better to get an independent person to look after the estate and possibly also look after the SMSF as trustee. This will give independence to that person and it takes any conflict away from the situation."

a situation where someone who was disabled and then some years later made an insurance claim. They were paid an amount, but the court said in these circumstances it won't be regarded as a structured settlement because of the time that has lapsed between making the claim and the actual award being done," he says.

Finally, death is a situation no one likes to address, but again requires careful management to ensure the deceased SMSF member's benefits are treated properly.

Here Colley highlights how easy it is for conflicts of interest to arise in these situations and the need to manage them properly.

"For example, if the SMSF member has died intestate and the executor of the deceased estate comes in, looks after the super fund as well and is also a beneficiary of that SMSF, they need to be really careful that they don't run into a conflict where they are taking advantage personally over looking after the estate," he says.

He recommends the appointment of an independent person to manage the death benefits at hand as a prudent approach.

"If you are concerned about conflicts of interest between beneficiaries, it's probably better to get an independent person to look after the estate and possibly also look after the SMSF as trustee. This will give independence to that person and it takes any conflict away from the situation," he says. ■

Graeme Colley and all of the SuperConcepts technical services team will be discussing this topic and others in greater depth at SMSF Professionals Day Digital 2020 to be jointly hosted by selfmanagedsuper and SuperConcepts on 27 October. Register at https://web.cvent.com/event/978e0162-af29-4c07-af16-4fc7946b2688/summary.

Platforms enabling the adoption of responsible investing

Stockbroking firms are increasingly responding to consumer needs and preferences, broadening their value proposition beyond traditional stock selection as they transition into wealth management.

This expansion has created a convergence between stockbroking and financial advice sectors, driving brokers towards platforms to help them leverage the opportunity and engage with clients.

Platforms such as HUB24 have been attractive to brokers looking to diversify their traditional business model, and to modernise their investment process to be cost-effective and efficient. By leveraging the capability available on platforms, brokers have provided their clients with access to a range of investments, greater transparency and the ability to view all investments made through the platform in one place, alongside consolidated reporting.

Additionally, by accessing an innovative managed portfolio solution fully integrated with the platform, brokers can still provide the traditional direct share ownership many of their clients are accustomed to, but with the potential benefits of tax optimisation, trading efficiencies, reduced paperwork, and access to professional investment managements.

With increasing demand for responsible investing options, the stock selection and stock substitution functionalities offered on platforms like HUB24 give brokers control and transparency over how their clients invest.

Responsible investing opportunity

As the broker transition into wealth management has occurred, the rise in demand for responsible investing practices have presented new opportunities for brokers to engage with wealth management clients.

Based on HUB24's recent whitepaper titled '*Platforms and responsible investing: A new outlook*', it is clear responsible investing is an enduring trend with clients and one which is set to become the new normal as more clients seek education and in time, investment in this space.

According to Ord Minnett's Head of Private Wealth George Deva, historically it has been private wealth advisers specialising in the not-for-profit and philanthropic space who have used an ESG (Ethical, Social and Governance) filter as a component in their recommendations, however this is now changing.

Mr Deva stated, "Whilst this adoption of ESG filters as a qualifying requirement has been marginally slower for retail clients, we are now seeing clients increasingly demanding and subsequently choosing advisers and portfolio managers with this as a determining factor."

Shift to wealth

As demand for a direct equities only offering has tapered, stockbroking firms have sought to future proof their businesses to build engagement with their clients and provide a new value proposition.

While clients still want access to direct shares, brokers have sought a more cost effective and efficient solution that is scalable.

Today brokers are helping their clients with superannuation, insurance, estate planning, pre and post retirement advice and portfolio diversification. With the increased demand for responsible investing, it makes sense they educate themselves and their clients on ESG.

"Stockbrokers have the opportunity to be more involved in discussing responsible investing as part of their process," said Recep III Peker, Research Director, Investment Trends Research.

According to Investment Trends, HNW (High Net Worth) investors are increasingly excluding investments based on ESG grounds, up from 26% in 2018 to 39% in 2019[1].

Further, 19% of HNW investors would like their broker to provide them with some advice on responsible investing, yet only 33% of these investors have received this advice[2].

While brokers service various client segments, HNW are a growing market segment, increasing from 460,000 in 2018 to 490,000 in 2019. Stockbrokers also report an increase in the number of clients requesting information on responsible investing, with six in ten brokers approached by their clients in the past 12 months seeking both positive and negative screening[3].

These findings are consistent with the rise of the 'conscious consumer' – a new decision-making framework used by consumers that incorporates ethical, social and governance factors, to help make everyday decisions.

Using this framework, clients have also come to expect that companies, investment managers and super funds with which they invest, do so in a responsible manner or at least offer them the choice to tailor their investments.

Recent triggers drive understanding of responsible investing

Product providers also point to the recent bushfire season as a strong mobiliser of change, highlighting the desire of wealthy families to do good and to leave a good legacy with their capital.

"There was a definite increase in interest in products which catered to such investment objectives with a particular focus on fossil fuels and carbon," said Rachel White, Senior Manager Product Strategy, Vanguard Investments Australia.

"There was a definite increase in interest in products which catered to such investment objectives with a particular focus on fossil fuels and carbon," said Rachel White, Senior Manager Product Strategy, Vanguard Investments Australia.

Australian Unity's Head of Intermediated Markets, Adam Kirk agrees: "We have continued to see the growth and sophistication of the responsible investment market. Investor understanding of responsible investing has helped drive this growth."

Platform technology is enabling choice

As technology continues to shape the advice landscape, clients are demanding more flexibility and individualisation from their advice. Responsible investing is more than just a trend, and brokers are searching for the right solutions to respond to their clients' needs.

With stock substitution and exclusion capabilities, access to a broad investment menu and professional investment management via managed portfolios, platforms like HUB24 are making it easier for brokers to expand their business into wealth management, and enhance their ability to deliver responsible investing practices to their clients. ■

HUB24

To read HUB24's recent whitepaper titled 'Platforms and responsible investing: A new outlook', click here.

https://www.hub24.com.au/wp-content/uploads/2020/08/Platforms_and_responsible_investing_HTFS.pdf

1, 2 & 3 Investment Trends 2019 High Net Worth Investor (HNW) Report.

Sole Purpose and fees

One of the underlying principles of superannuation is the sole purpose test (SPT). Simply put, it requires that a super fund must be operated solely to provide retirement benefits for its members. Every so often a new issue emerges and the SPT gets debated amongst the regulators, trustees, and compliance people.

The latest controversy is whether financial advisers can be paid a fee for their services from a member's account in superannuation.

Stated in more detail, the SPT requires trustees to ensure that the fund is maintained solely to provide retirement benefits for members of the fund, or to provide benefits to member's dependants if they die before retirement. A fund can also provide 'ancillary benefits' such as:

- Life and disability insurance,
- Income protection insurance,
- Reversionary benefits to dependants (where the member dies after retirement).

The SIS Act also allows benefits to be paid for other special purposes such as releasing benefits in the event of severe financial hardship, on compassionate grounds or for the COVID19 early release scheme.

Self-managed super funds (SMSFs) are the type of fund most likely to fall foul of this test because the members of the fund are also the trustees. A SMSF must be audited every year and the auditor must declare that the trustees have satisfied the sole purpose test. Essentially, the trustees must be able to demonstrate that they have not 'loaned money or given financial assistance to members or relatives' and not 'used fund money before a member's retirement?'

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Penalties for breaching the SPT vary in severity. Trustees could be admonished and fined or required to undertake further education. In more serious cases (such as where the breach is deliberate), the fund could lose its concessional tax treatment, the fund could be terminated, or the trustees banned from managing a super fund.

The issue of advisers being paid fees from superannuation arose in the Royal Commission into Banking, Superannuation and Financial Services in 2019. The current debate is about the nature of the services provided to trustees or fund members.

There will be many advisory services which are clearly consistent with the SPT. For instance:

- developing an investment strategy, asset allocation and asset selection for a super fund,
- contribution strategies,
- transitioning to a pension, and
- disposal of assets in winding up the fund.

However, fees from other services should not be paid by the superannuation fund. Examples could be advice on non-superannuation assets, life insurance outside super, and personal debt management. Both APRA regulated funds and the ATO for SMSFs are looking more closely at payments that might breach the Sole Purpose Test. ■