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Navigating the challenges of deregistered companies

Short-term weakness in commodity prices creates opportunity

Aspiring higher

Adopting AI into your practice today

Rekindling the interest in bonds amid peaking rates

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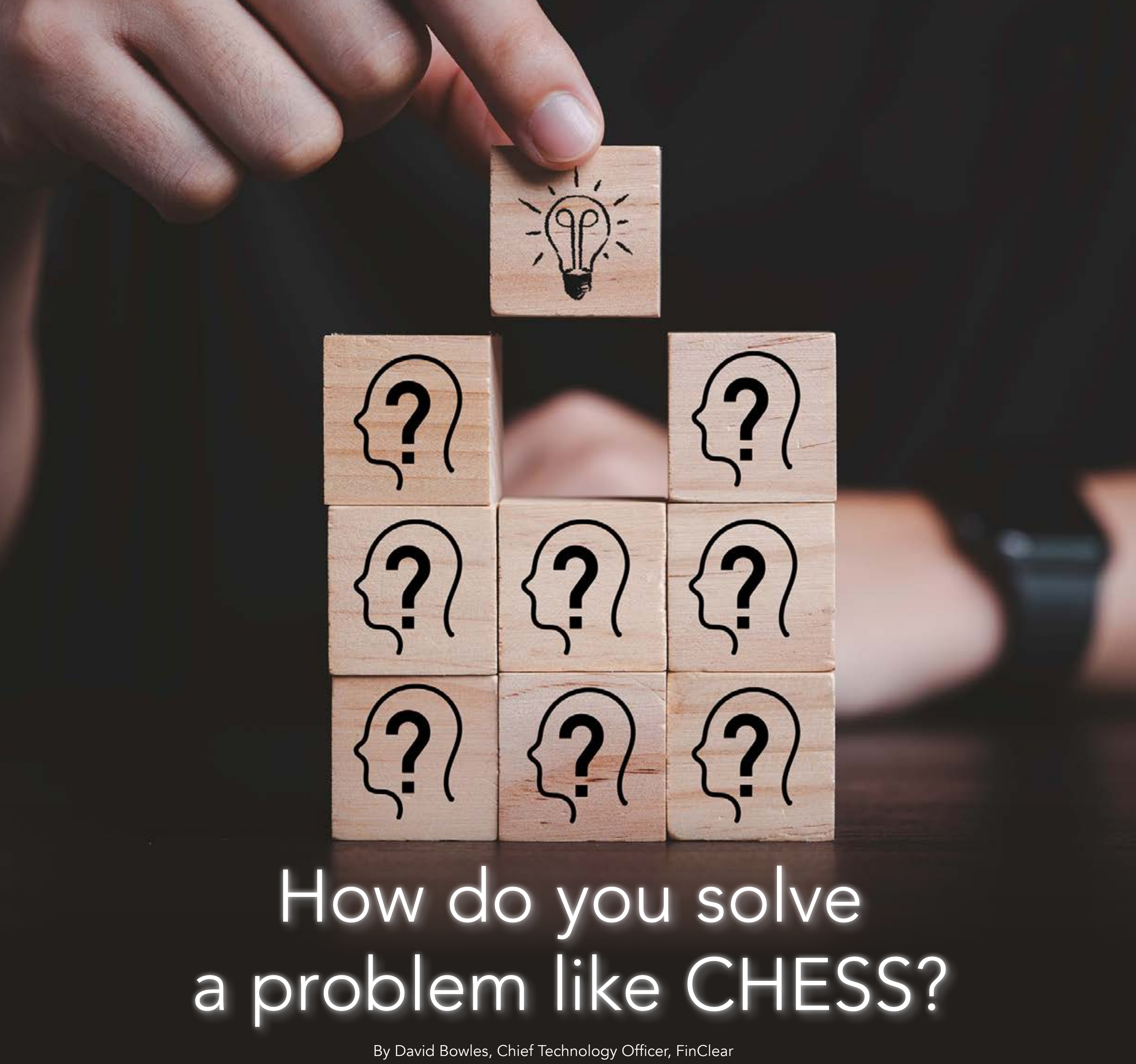


How do you solve a problem like CHESS?

By David Bowles, Chief Technology Officer, FinClear

If you have CHESS fatigue, you are not alone. You have been hearing about the ASX's attempt to upgrade its clearing and settlement system with distributed ledger technology on and off for seven years now. After recent developments, the case looks more challenging than ever. Why is the CHESS replacement project so frustrating for everyone – including the ASX itself?

The CHESS upgrade is entangled with wider market issues due to its current monopolistic nature. It is not just an upgrade to an exchange and settlement house's systems – it currently represents changes to Australia's only clearing and settlement agency, that could restrict any other entrants and so dictate and limit our infrastructure for years to come.

There are two common denominators to the current situation:

1. Sensible industry participants, FinClear included, are supporters of the upgrade and want a similar solution that scales and will not cause mass disruption and (further) costs to the industry.
2. It is incontrovertible that competition will bring innovation and efficiencies (including cost reduction) to the market. *See evidence for this in "From Laggard to Leader" Mandala Group research report commissioned by FinClear.*

These market needs must be separated in order to succeed. The priority for ASX must be upgrading critical market infrastructure as quickly and smoothly as now possible, making it

scalable and with some incremental enhancements, but no fundamental changes.

The ASX should not simultaneously be leading industry discussion around how to bring competition into the Australian settlement and clearing market. What is needed instead is an impartial industry body to write a Framework mandating open standards for clearing and settlement, which ASX's upcoming CHESS upgrade must abide by, as well as any potential new entrants or innovation that will be made possible by such standards. Below we explain the benefits of such a framework, the standards it must cover, and the potential areas it could bring competition, innovation, and efficiencies.

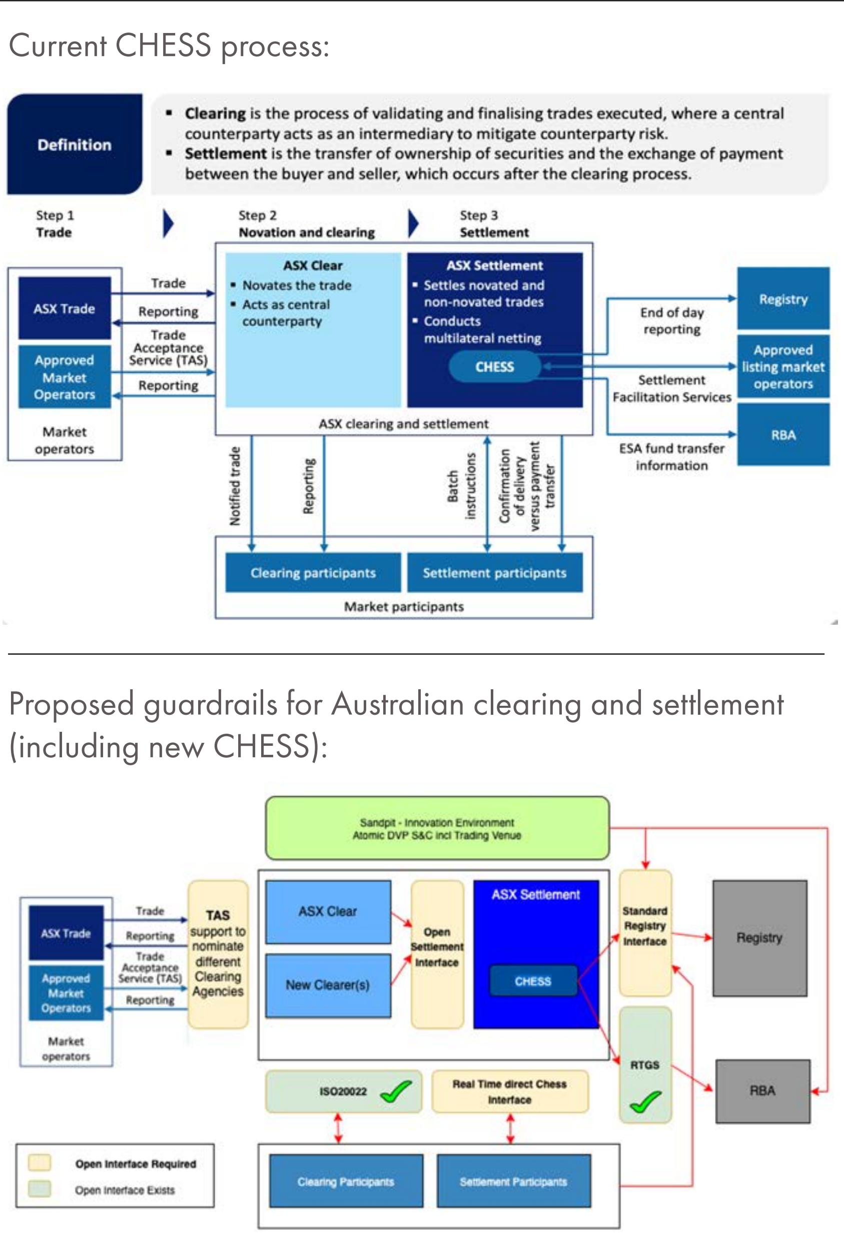
Interoperability is fundamental

The ASX's plans to use ISO20022 messaging won't bring competition to clearing and settlements. It will allow participants to use a wider variety of back-office systems to work with CHESS, bringing competition and flexibility to that one component. But this won't address CHESS as the single clearing and settlement agency in Australia.

To have a pathway to competition we need a set of interoperable interfaces open to anyone (with the correct licencing agreements) – and not bespoke to CHESS. CHESS needs to work within these open and interoperable frameworks – which would form a set of guardrails for the Australian clearing and settlement ecosystem – alongside any other market participants or potential competitors.

The ASX should not be leading this discussion, but CHESS upgrades should conform to these guardrails so that the Australian market has a single set of principals for all, to open up clearing and settlement functions to other parties in future. These should be set before the next CHESS replacement project starts, so that it can conform to – not dictate – these principals.

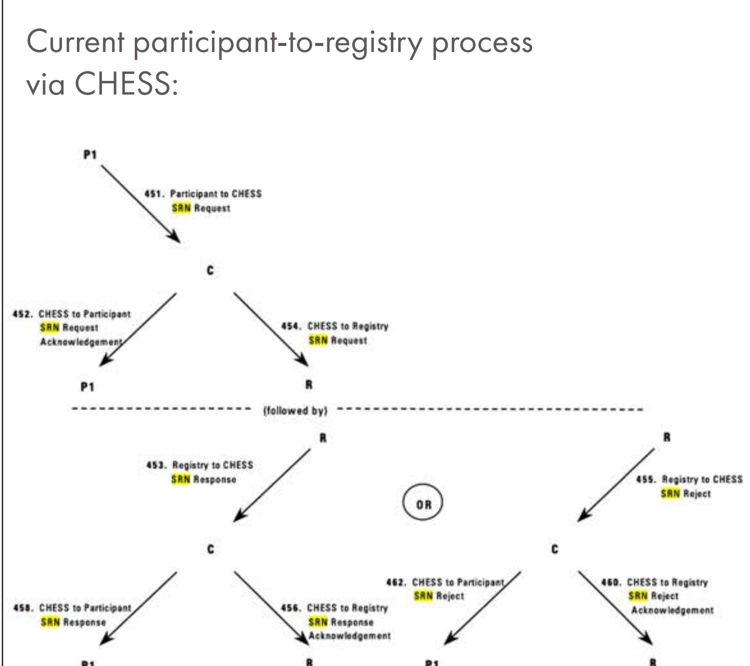
If we plan and build these open interfaces now, we will pave the way for potential competition in the future. More importantly, if we fail to do so, we will cement the ASX CHESS monopoly for the next twenty years, shutting out the possibility of innovation, price reduction, and optimisation via competition.



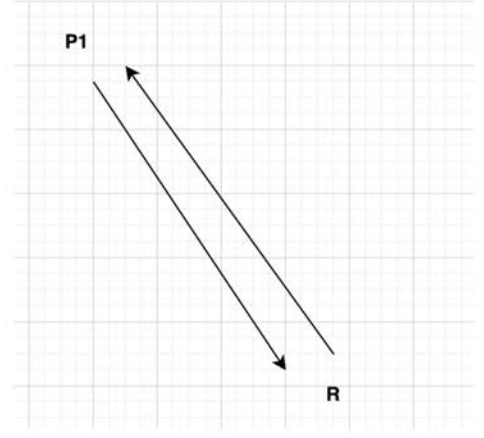
Designing an industry-wide framework

There are four main channels where a market framework prescribing open standards will allow for multiple providers: messaging between execution participants and clearing agencies; messaging between registries and settlement agencies; messaging between standards into CHESS; messaging between clearing and settlement agencies. These frameworks and standards don't need to be invented from scratch: they are already widely in operation in other major global markets.

1. **TAS (Trade Acceptance Services)** The framework should define open message structures / standards for execution participants to notify which clearing agency to use. That clearing agency may continue to be CHESS for the next ten years, but we should nonetheless enable multiple clearing agencies to be used. There are global standards for this, already widely used in Europe.



Potential participant-to-registry direct flow with open APIs:



2. **Registries**
   Australia differs from the rest of the world in that we do not have a Central Repository Agency, so centralised securities ownership records are spread across multiple registries. Currently, settlement is a closed loop between CHESS and these registries. The system should instead support the use of multiple settlement agencies. We need a single, common, open interface into all registries in Australia that CHESS or any other potential settlement agency could use.
3. **Messaging standards**
   As mentioned above, CHESS plans to use ISO20022 messaging. That is a global standard used in other markets, but if it is modified too much (as was the case in the original CHESS upgrade plans), then the benefits are lost as the messaging won't really conform to ISO20022 at all. It's a bit like buying a BMW, replacing the engine with a Toyota engine, but still calling it a BMW.

   In addition, ISO20022 is a legacy standard. At this juncture, it would be more advantageous to the industry if a real-time API into CHESS was made available, allowing for innovation. The original DLT CHESS plans supported this. Regardless of what technology the ASX uses, open, real-time APIs into CHESS are required alongside ISO20022 message support.
4. **Clearing to Settlement**
   If the ASX plans to have separate clearing and settlement platforms – a good design principal – then the interface between clearing and settlement should use open global standards, in order to allow additional clearing agents to be able to interface with ASX settlement and enter the market.

Open standards for an open market

There are some immediate areas that the proposed framework, with the above four channels of open standards, would open up for competition and therefore for innovation:

- **TAS & Settlement Interface:** providing guardrails within which new CHESS and any new entrants would need to work would allow new clearers to enter the market.
- **Single Open Registries API:** a single standard Registries API supported by all registries and supporting multiple sub-registries or settlement agencies, would make it far easier for other vendors to provide applications competing with CHESS functions.
- **SRN Lookup, SRN Balance, TFN/ABN Advice & DRP messages:** most registries have bespoke APIs for these functions, but it would be far more beneficial to have a single industry standard solution so that CHESS or any other vendor could use such open messaging infrastructure.
- Tokenised, atomic Delivery versus Payment capabilities: using current technology, there is a path to tokenized wallets – as an alternative to HIN or SRN – for investors to hold their equities. Investors could transfer holdings from SRN or HIN to their wallet, keeping them in their name. In this ecosystem, atomic (instant) settlement services could be provided at a significantly reduced price.

This would directly benefit the retail market (comprising 30% of the investment market), but it would also allow retail investors and brokers to reduce costs. Competition like this could in turn lead to the ASX reviewing Cash Market Margining

charges for scheduled novated obligations – an area where the industry is paying a heavy price for settlement risk that is not there.

Taking steps to catch up

So, to solve the issues complicating the CHESS replacement project – which are in fact further-reaching industry needs – requires:

1. First, a new industry regulatory body tasked with providing an Open Framework, within which CHESS and any other entrants will need to work. This Framework – Australian Clearing and Settlement Open Standards – will put in place the building blocks for a market open to new entrants and innovation, without bringing large-scale change or cost to the industry.
2. Once the framework is established, the ASX should upgrade CHESS as we need a strong and successful ASX. The ASX should use whatever technologies or vendors it deems best, as long as they conform to the new Framework.
3. If the CHESS upgrade doesn't result in efficiencies and innovation, the Framework will allow others to step in, without the need for large, expensive industry changes.

Australia regaining world-leading financial infrastructure is within reach – we just have to take the first step.

David's extensive experience in the UK, US and Australia has included founding, developing and leading extensive IT programs and projects across multiple countries. A passionate IT professional, David delights in solving complex business problems with clever technology.

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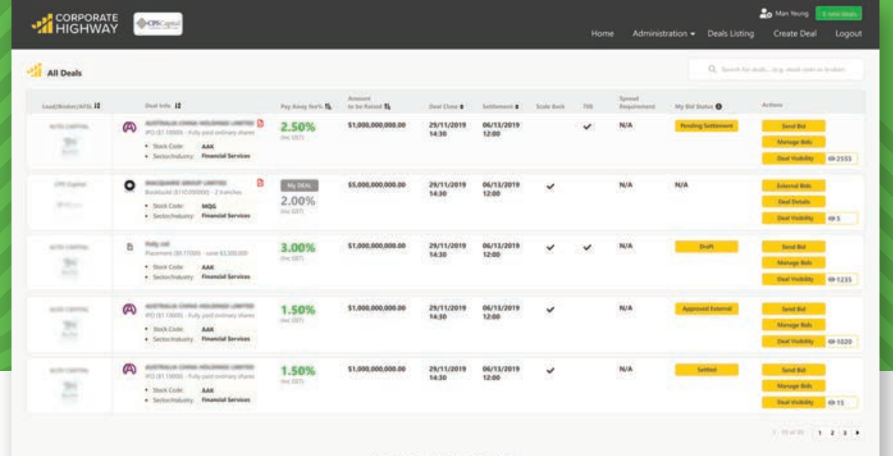

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11.00am to 1.15pm AEDT

This workshop provides an overview of the critical role that stockbrokers play both in retail and institutional markets. A high-level view of stockbroking and financial advisory operations including order taking, transaction and settlement will provide insight into the different systems involved and allow for a discussion of the different business models in stockbroking today.

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0.5 Professionalism and ethics

ASIC RG146:
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RUSSELL MCKIMM

Fraud horizon and detection webinar

Wednesday 11 October
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Bryce Watson, a former senior detective, will focus on fraud awareness and trends. Bryce will outline various types of scams, accompanied by statistics on scam data. He will delve into recognising red flags and provide practical prevention tips to safeguard against fraudulent activities. In this ever-increasing environment of cyber-crime, this topic is most timely.

Professional standards CPD:
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ASIC RG146:
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Cost:
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BRYCE WATSON
Regional Head of Financial Crime, Computershare

Market manipulation and other prohibited conduct workshop

Tuesday 17 October
10.00am to 12.15pm AEDT

This workshop focuses on the prohibition on creating or maintaining an artificial price for trading in various financial products, including shares and futures, and 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.

Professional Standards CPD:
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1.0 Professionalism & ethics

ASIC RG146:
2.0 Generic Knowledge

Cost:
Practitioner member $100
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PROFESSOR MICHAEL ADAMS

A day in the life of a trade workshop

Wednesday 18 October
11.00am to 1.15pm AEDT

An excellent refresher for experienced staff and perfect for those in auxiliary roles (eg legal, IT, HR and other supporting roles associated with stockbroking), this workshop delves deep into the day of a life of a trade. You will walk away with a solid understanding of client onboarding processes, the process of share and derivative trades from order placement through to execution to settlement, sponsorship/HINS, CHESS messaging, registries and more.

Professional Standards CPD:
1.0 Regulatory compliance and consumer protection
1.0 Technical competence

ASIC Knowledge Area:
2.0 Generic knowledge

Cost:
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ROB TALEVSKI
CEO, Webull Securities

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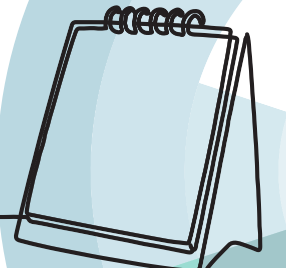

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Ethical scenarios for PY candidates webinar

MEMBER ONLY

Wednesday 25 October
1.00pm to 2.00pm AEDT

Designed for PY candidates, their supervisors, compliance and HR teams, this interactive webinar will provide PY candidates the opportunity to discuss a case study with their peers. To be moderated by three experts this webinar will also count as meeting one of the ethical dilemmas that needs to be satisfactorily identified and resolved in each quarter.

Professional Standards CPD: 1.0 Professionalsim and ethics
ASIC Knowledge Area: 1.0 Generic knowledge

Cost:
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SALLY BRIDGLAND
Client Experience & Professional Development Manager, JBWere

HAMISH DEE
Director – Market Operations, Morgans Financial Ltd

MELISSA NOLAN
Senior Compliance Manager, Ord Minnett Limited

Netwealth 2023 AdviceTech: Humans with machine

Wednesday 8 November
1.00pm to 2.00pm AEDT

Netwealth's Andrew Braun will explore how machines can supercharge human productivity and the client experience, with a close look at current and emerging technologies. He will do a deep dive in how you can introduce artificial intelligence into your practice, with a discussion on the practical applications that are available right now.

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

Cost:
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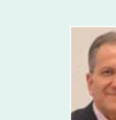

ANDREW BRAUN
General Manager Marketing, netwealth

Bridging the intergenerational advice divide webinar

Wednesday 15 November
1.00pm to 2.00pm AEDT

Recent HSBC research shows that the vast majority (96%) of advisers feel taking an intergenerational approach is important. However, only just over a third (35%) have met the client's children and only 30% have discussed the financial plans with them. moneyGPS is an Australian FinTech that has created digitally enabled, fully client-led personal advice capability.

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

Cost:
Member FREE |
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GEORGE HARAMIS
CEO & Co-Founder, accountantsGPS & moneyGPS

AARON WILLIAMSON
Head of Digital, moneyGPA

The Client File

Thursday 23 November
1.00pm to 2.00pm AEDT

Something that should be relatively unambiguous is often the source of plenty of debate when licensees are looking at historical matters and responding to requests for "Client Files". James Dickson, CEO of OCG, will outline the critical elements, to avoid potential issues in the future.

Professional Standards CPD: 0.5 Client care and practice | 0.5 Regulatory compliance and consumer protection
ASIC Knowledge Area: 1.0 Generic knowledge

Cost:
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JAMES DICKSON
CEO, Oceanic Consulting Group

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Stockbrokers and Investment Advisers Association

Serving the interests of investors

Navigating the challenges of deregistered companies

By John Greenhow, Managing Director, Tecassa

The Australian Corporations Act, section 601AD 'Effect of de-registration', states that assets of a deregistered company rest with ASIC. This is becoming a hot topic on the sell-side following a recent court decision resulting in Westpac being fined a significant sum for paying out funds to deregistered companies, described by this ASIC Media Release.

Westpac's multi-million dollar oversight: a lesson in compliance

Westpac experienced a challenge in effectively tracking companies holding accounts with them that had been deregistered under the Corporations Act.

For those unfamiliar with the process, when a company is deregistered, its remaining assets are transferred to ASIC's control. Westpac, however, unintentionally permitted transactions on around 21,000 accounts associated with such deregistered companies, encompassing approximately $120 million in funds.

Moreover, while Westpac did identify approximately 4,200 deregistered company accounts, it did not always prevent withdrawals from them. In a few instances, staff members inadvertently lifted withdrawal restrictions on about 100 of these accounts.

The court also highlighted an oversight in Westpac's system, which resulted in about 11,000 previously deregistered company accounts, from companies deregistered before April 2017, remaining open till a later period.

This meant that around 21,000 deregistered company accounts were either still active or were reactivated, enabling transactions, even though the ownership of these funds had technically shifted to ASIC.

It's worth noting that during this period, Westpac inadvertently received certain fees, interest, and repayments from these accounts and incorporated them into their regular business operations.

As a result of these findings, the court decided on a penalty of $20 million for Westpac.

But what does this mean for the SIAA community? For one, it underscores the importance of stringent compliance and the costly consequences of lack of oversight.

What does ASIC require?

While the wording of section 601AD refers to property, its implications are significant for licensees that transact on behalf of their clients. Given that many licensees' clients are companies with ACNs, understanding these rules helps to ensure firms can protect their client's interests and avoid potential pitfalls related to deregistered companies.

ASIC has communicated its expectation to some participants that when onboarding clients, firms should check whether it is a de-registered company as part of their existing KYC obligations. Accounts then need to be monitored in some ongoing way to ensure that they are not de-registered.

If a licensee identifies an account in the name of a de-registered company,

then ultimately ASIC can provide the licensee with instructions to liquidate the stock.

Trusts are treated differently, and ASIC may choose not to sell the shares in the trust company, rather seeking to appoint a new trustee.

If a de-registered company is allowed to buy shares, the matter should be referred to the registry, which must rectify the register to record the shares in the name of the person who gave the instructions – not the company. Those shares would not have vested with ASIC because the company was de-registered at the time of the share purchase.

To be clear, precise guidelines for compliance are not available from ASIC and licensees will need to seek their own legal advice on what it will take to be compliant.

However, establishing robust processes to actively monitor client records for registration status is a good first step.

Data quality

In the short term, licensees can implement procedural solutions to prevent mistakes.

Performing a regular sweep of records using ASIC's own website to manually look up company details is not an appealing option, given the human effort involved. This leads to the obvious answer of using software applications to scan databases regularly.

When looking into active monitoring with software, data quality problems quickly come to the fore. Large client databases frequently contain typos or mistakes, and in older records some information may be missing entirely because of system migrations over the years.

This is further compounded by the fact that while ASIC's own data shows company names in full, brokers' systems often shorten company names in their databases.

Given the historical data quality issues common to many firms, any software used must be sophisticated enough to match names and records across multiple databases, as well as being able to access ASIC's registration status.

The takeaway for the SIAA community is clear: vigilance is non-negotiable. There is an acute need for firms to implement section 601AD compliance processes. Technology can be a valuable ally in this endeavour, provided firms recognise and rectify data quality challenges. In an age where oversight can lead to overwhelming setbacks, proactive diligence becomes not just a best practice, but a fundamental imperative.

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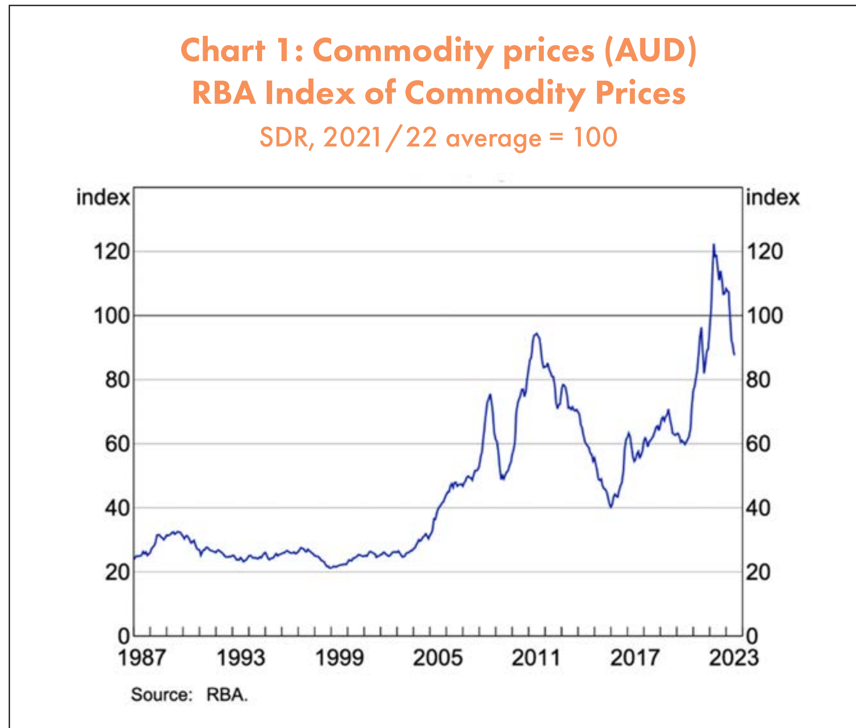
Short-term weakness in commodity prices creates opportunity

By Kevin Bertoli, Co-Portfolio Manager, PM Capital

PM Capital is often asked for its view on the commodities supercycle. Companies that produce energy and industrial metals had a combined 29% weighting in the PM Capital Global Companies Fund at end-July 2023. Our positions in copper, oil and coal companies have contributed to the Fund's strong performance.[1]

Lately, weakness in China's economy has prompted more questions on the commodities supercycle. A rule of thumb in commodity markets is that China consumes 'half of everything', although it varies by commodity. Thus, a slowing Chinese economy weighs on commodity demand and commodity prices.

The Reserve Bank Index of Commodity Prices has fallen from a peak of 118 in June 2022 to 91 in July 2023, as Chart 1 below shows.



Other factors this year have also affected commodity sentiment. Global economic growth has fallen as central banks lifted interest rates to fight inflation. The International Monetary Fund forecasts global economic growth to fall from 3.5% in 2022 to 3% in 2023 and 2024[2], which is weak by historical standards. Sluggish global growth will affect commodities demand.

Moreover, commodity prices are coming off an inflated base from COVID-19. As countries went into lockdown, supply-chain bottlenecks during the pandemic hurt commodity production and supply, driving prices sharply higher. This year's retreat in commodity prices must be viewed within that context.

Last year, PM Capital outlined four reasons why the commodity supercycle is intact and why the Fund maintains a large position in resources.[3] They were: geopolitical factors (Russia's war on Ukraine); reduced capital investment in new projects; mining complexity (new copper mines, for example, are getting harder to find and develop); and new demand drivers (principally, renewables).

We stand by that view. As a patient long-term investor, PM Capital is assessing the commodity supercycle over the next five-10 years. Current market action is important, but commodity prices can be volatile in the short term. Spot commodity prices shift from day to day, affecting prices for resource companies.

A recurring message from PM Capital is to beware of 'market noise' and focus on what matters most: company valuation. We view current volatility in commodity prices as an opportunity to buy quality resource producers at lower prices.

Here is a brief update on our view on the commodity supercycle:

China and global demand

In July 2023, China reported second-quarter GDP growth of 6.3% from a year ago, below expectation. China's economy grew just 0.8% in the June quarter, compared to 2.2% in the first quarter. Problems in its property sector, high youth unemployment and slowing retail sales are sapping confidence in China.

Long term, fears are growing that China's ageing population will become a bigger drag on growth. One scenario is China following the experience of Japan, which has battled anaemic growth for years due to its ageing population. But China (a command-controlled economy) lacks the agility of Japan's open economy.

These are valid concerns. However, China in early August flagged the possibility of additional fiscal stimulus and policy support to aid economic growth. Although the size, timing and effectiveness of any stimulus is uncertain, China has a history of injecting larger fiscal stimulus into its economy when needed.

As China slows, improving fundamentals in developed markets could support commodity markets. Global inflation is retreating; interest rates appear to have peaked; and the United States dollar is starting to decline as investors pare back interest-rate expectations.[4] These factors are positive for commodities.

"As China slows, improving fundamentals in developed markets could support commodity markets. Global inflation is retreating; interest rates appear to have peaked; and the United States dollar is starting to decline as investors pare back interest-rate expectations.[4] These factors are positive for commodities.

Emerging sources of demand

In 2019, PM Capital initiated a position in copper companies. Similar to today, the market then focused on China's problems: slowing economic growth, the US-China trade dispute and risks in Chinese property. We favoured copper due to growth in renewables and shortages in new supply. Copper became a successful position for the Fund.

We saw renewables as an important new demand driver for copper and other metals. Copper is an essential material in Electric Vehicles (EVs) due to its use in batteries, electric motors, charging stations and other areas. Copper is also used in renewable-energy systems that generate power from wind, solar and hydro.

As developed nations move faster to decarbonise their economies, demand for renewables – materials like copper – will rise. This structural trend has decades of growth ahead given the scale of the decarbonisation challenge.

In 2021, the International Energy Agency (IEA) forecast that US$5 trillion of annual investment in clean energy will be required by 2030 under the pathway for net-zero carbon emissions.[5] That will add an extra 0.4% to annual global GDP.

For copper, the IEA estimated that demand will be 1,7-2.7 times greater over the next decade and a half due to the clean-energy transition, including renewables, EVs and energy-grid investment.[6]

Clearly, renewables will become a stronger source of new minerals demand over this decade and beyond – and a large source of economic growth, such is the amount of investment required to decarbonise economies.

Growth in developing nations will also drive commodities demand this decade. As investors focus on China's slowing economy and its effect principally on iron-ore demand, they risk overlooking growth in steel production in India. In July 2023, BHP Group estimated that annual steel production in India could increase from around 100 million tonnes in 2020 to almost 400 million tonnes by 2050.[7] Iron-ore and metallurgical coal are essential minerals for steel production.

S&P Global, a ratings house, predicts India will become the world's third-largest economy by 2030, overtaking Japan and Germany.[8] So, as China slows, other sources of commodity demand from developing nations are strengthening.

Supply constraints

As mentioned earlier, PM Capital's position in copper was partly driven by the lack of new supply coming to market. Copper projects were becoming more complex, taking longer to build and requiring greater capital. A higher copper price was needed to incentivise companies to invest in new copper supply.

In May 2023, BHP noted that the copper industry requires US$250 billion of investment in new supply between 2022 and 2030 to meet increased demand from renewables and EVs. But committed new copper projects total well below 50% of that figure.[9] Although a higher copper price will

encourage greater investment in copper projects, it takes years to develop new copper supply to meet rising demand and offset natural depletion.

Today, we continue to see project pipelines for new copper mines pushed out and higher capital expenditure budgets required. Codelco, the world's largest copper producer after Freeport McMoRan, is spending more than US$40 billion in the next six years just to maintain current production levels. Southern Copper, the fourth-largest producer, recently pushed out its development pipeline by 2-3 years for several projects, with most now due after 2030.

Other factors are also constraining investment and supply in new mining projects. As institutional investors put more weight on Environmental, Social and Governance (ESG) factors in investment decisions, large mining companies are increasingly moving away from fossil fuels through divestments of existing assets or less investment in fossil-fuel exploration. Issues with approvals for new fossil-fuel projects and sourcing external capital are compounding supply challenges.

As with other commodities, oil and met coal have been affected by market fears of slowing Chinese demand. Yet oil and met coal also benefit from emerging demand sources in the medium term. India's steel mills, for example, almost fully rely on imported met coal. As we noted earlier, steel demand in India is rising rapidly. The India Steel Association expects 25-30% growth in steel capacity over 3-4 years to come. The sector's blast furnaces need met coal.

Selected resource positions

The Fund continues to maintain investments in met coal, oil and copper producers – and has taken advantage of volatility in commodity prices and resource stocks to add new resource positions.

In met coal, Stanmore Resources is a key position. Stanmore, a low-cost producer, has three coal mines in Queensland and no debt. Stanmore completed its acquisition of BHP Group's 80% interest in BHP Mitsui Coal in May 2022. That left Stanmore well-positioned to benefit from higher coal prices.

In energy, we maintain a position in CNOOC, the largest Chinese oil and gas producer. CNOOC is in the lowest quartile for production costs, trades on a Price Earnings (PE) of about 5 times and is expected to yield 8% at its current share price.

In copper, valuation anomalies are not as obvious as they were in 2019 due to key copper stocks rallying in the past few years, including several in the Fund. We recently added Grupo Mexico, which has an 89% stake in Southern Copper (a large, listed copper producer with low-cost mines) and a 70% stake in Mexico's largest rail operator. At US$4 a pound for copper, Grupo Mexico trades on about 12 times earnings and should yield above 5%.

Conclusion

This analysis reinforces the opportunities that emerge when markets over-react to short-term news – in this case, China's slowing economy. All too often, investors base their decisions on top-down macroeconomic forecasts and ignore company valuation and longer-term industry trends.

China has a critical role in commodities demand and its economy has several short- and long-term threats. But viewing Chinese commodities demand in isolation risks overlooking other positives: new sources of demand from clean-energy investments; rising demand from India and other developing nations; and supply constraints for copper, oil and met coal, which continue to worsen.

For more PM Capital Insights, visit www.pmcapital.com.au/insights.

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[1] The PM Capital Global Companies Fund returned 30.2% over one year to end-June 2023. The return on its benchmark MSCI World Net Total Return Index (AUD) over that period was 22.4%.

[2] International Monetary Fund (2023). "World Economic Outlook Update". July 2023.

[3] PM Capital, "Four Factors Driving the Next Commodities Supercycle", SIAA Monthly 2022.

[4] Reflected by the US Dollar Index year-to-date. At 31 August 2021.

[5] International Energy Agency, "Net Zero 2050", May 2021.

[6] International Energy Agency, "Net Zero 2050", May 2021.

[7] Dr Huw McKay, BHP, "India: The World's Leading Growth Story". The Times of India. 21 July 2023.

[8] S&P Global, "Outlook for India's economic growth policy and platforms". 21 November 2022.

[9] BHP, "Bank of America 2023 Global Metals, Mining and Steel Conference." 16 May 2023.

Aspiring higher

What Australian wealth management firms can learn from Aspiriant's growth model.

Provided by Macquarie Virtual Adviser Network

A patient and intentional growth strategy has seen Aspiriant become one of the largest independent wealth management firms in the US. CEO and Co-Founder Rob Francais shares how his commitment to creating a national service partnership model has established the foundation for scalable, sustainable success.

With 11 offices across the US, Aspiriant has become a significant advice enterprise with over a third of its 220 employees also owning partnership equity in the firm and approximately $14billion assets under management.

This phenomenal growth has been achieved through mergers: one advice business at a time.

The firm's history stretches back to 2002, when Aspiriant's CEO and Co-Founder Rob Francais established family office Quintile Wealth Management. But it was in 2008, following Quintile's merger with wealth management firm Kochis Fitz, that a new model for RIAs (Registered Investment Advisors) was born.

"When we began, we could see a need for a service organisation that focused on the unique needs of affluent families," explains CEO and Co-Founder Rob Francais. "In the late '90s, a lot of money was in motion as long-established family-owned businesses were sold. There were national accounting firms to help with tax advisory and national legal firms to advise on contracts. But no equivalent to guide them on how to manage this new liquid wealth."

In the US, much like Australia, wealth management firms typically grow organically. One adviser starts serving clients, then hires another as more clients come on board.

"Then one day you wake up aged 60 and think, 'Now what am I going to do with this business?'" observes Francais.

That's why he started Aspiriant with a succession plan front and centre.

"We wanted to create a 100% employee-owned partnership model, where we could act as true fiduciaries. That means no product sales for commissions – we need to take full responsibility for achieving client goals. We would remain permanently independent, and leverage our scale to build our client services."

In the US, RIAs have a fiduciary duty to act in their clients' best interests - unlike other types of financial advisors in that country.

John Sullivan, Head of Macquarie Adviser Network says that's what makes Aspiriant's model so interesting for growth-oriented Australian wealth management firms to consider.

"We see many different models work well in our industry, and Aspiriant's is quite distinctive – and clearly very successful," he says.

Alignment is at the heart of Aspiriant's model – alignment between the interests of the client, employees and the business owners.

"We're in the 'clarity and peace of mind' business," says Francais. That's what his ideal client group, affluent families, is seeking. And it aligns with what talented trusted advisers want too: the opportunity to provide a superior service and value, in a collegial environment with opportunities to advance their career.

This compelling purpose has attracted eight other wealth management firms who wanted to be part of Aspiriant's story. The enterprise now has more than 1,600 wealth management clients (averaging $7million AUM) and over 100 family office clients (averaging $25 million AUM).

It's worth noting they've done this without any external capital.

"This growth story has been entirely self-financed by reinvesting the profits each year, and that independence has become a point of difference for their client proposition and strategy," says Sullivan. "We've visited Aspiriant's office during several VAN Global Innovation Program tours, and participants have been impressed by Rob's ability to build significant scale without compromising control, or requiring a lot of external capital."

"Rob had an ambitious vision from day one, and was very clear about the building blocks that needed to be in place to attract the right talent," he adds. "Every decision his team has made aligns with Macquarie VAN's four proven business success drivers – especially around planning for sustainable growth and scale from the beginning."

Sullivan believes this focus on creating a model that works in their clients' best interests will resonate with Australian advisers, given the growing demand for independent advice and integrated services. "Aspiriant's volume is larger, which drives its adviser compensation model. But every other aspect aligns with the growth levers we share with Australian firms in VAN's Build for the Future program."

Francais shared five principles that underpin Aspiriant's proven, effective model – and why he's only just getting started.

1. 100% employee owned, from day one

Aspiriant has never had to raise capital. "We just started serving clients, and then revenue less expenses gave us net income to invest back into the business."

The firm now has 82 equity partners. Several mergers added more than $2.5billion AUM to Aspiriant's model, injecting significant scale in the process.

"The benefits of this scale accumulate over time," Francais says.

For employees, that includes career opportunities, diversification of ownership risk and the freedom to move between offices across the country. For the firm, it reduces shared services costs including marketing, technology and finance. Clients also benefit from access to better, more cost effective advice and products – and can have confidence in the continued independence of their advice, as well as the knowledge they're guided by a significant business.

Francais says that's why being open about this business model can also bring organic client growth.

"It's a story we can share with clients. We're showing them how we're bringing the next generation of advisers to them, and we're focused 100% on their happiness and care. They want to be part of that."

2. Focus on mergers – not acquisitions

Francais says bringing in talent from other firms doesn't just make Aspiriant bigger.

It also makes it better.

"That's why we don't do acquisitions, we do mergers. We could chase a better financial outcome with an acquisition, but it would compromise our long-term strategy," he explains.

He describes it as the difference between being transactional and being in a relational business. "Our people care about stability, and we like making a difference for people. So there are things we won't do, even if they might make us more money in the short-run."

For Aspiriant, mergers allow the team to expand its services, capabilities and culture. "We added a tax department and an estate planning group this way. Now we can create in-house shared services and client service resources," Francais says.

Mergers also expand Aspiriant's geographic footprint. For Francais, that decision demands a strategic rationale: what value will it bring for both employees and clients?

"For example, we recently expanded into Austin because we knew our younger partners and employees

> Growth helps us retain talented employees, because they know they have a path to ownership. They can see we're going places and want to be part of our succession strategy.
>
> ROB FRANCAIS, ASPIRIANT

want to live there – it's up and coming and more affordable," he says.

When he meets with a potential new firm, Francais brings an org chart with empty boxes. He says this is his wish list for roles Aspiriant wants to add – such as a training and development capability. His due diligence also weeds out any prospective firms that aren't fully aligned with Aspiriant's culture and values.

"Sometimes you get more talent on the client services side from a deal, and sometimes you get more on the shared services. Regardless, in every way it makes us better as an organisation," he says.

3. Give talent a stake in their future

The 100% employee-owned model is not just a differentiator for clients: it defines Aspiriant's employee value proposition as well.

"Growth helps us retain talented employees, because they know they have a path to ownership. They can see we're going places and want to be part of our succession strategy," explains Francais.

Every partner has the same rights, privileges and obligations of ownership. "Our ownership model has always been opt-in, and once you opt in you're subject to the same rules as everyone else."

With a transparent succession strategy, advisers can plan to retire on their terms, knowing they can transition their business to the next generation and realise the value they've worked so hard to build.

Francais calls this an 'engineered succession' model. It's deliberate and can be executed at scale. It has also ensured the average age of partners has remained consistent over the past 15 years – the average age of new partners is 38, while Aspiriant partners typically retire aged 66.

4. Grow a bigger circle around client-centred services

Scale can help you attract and retain the best people, and it can also broaden the scope of your services – ultimately delivering better outcomes for your clients. "This is how scale can support and enhance your strategy, regardless of growth stage of your business," observes Sullivan.

Asked what sets Aspiriant apart in the US market, Francais describes how his firm, "draws a bigger circle around client service."

Direct client services across investments and financial planning are at the heart of this model. But around that, there is a comprehensive layer of additional services to draw on as needed, for all the other financially-related decisions in life – such as philanthropy guidance, tax structures or estate planning.

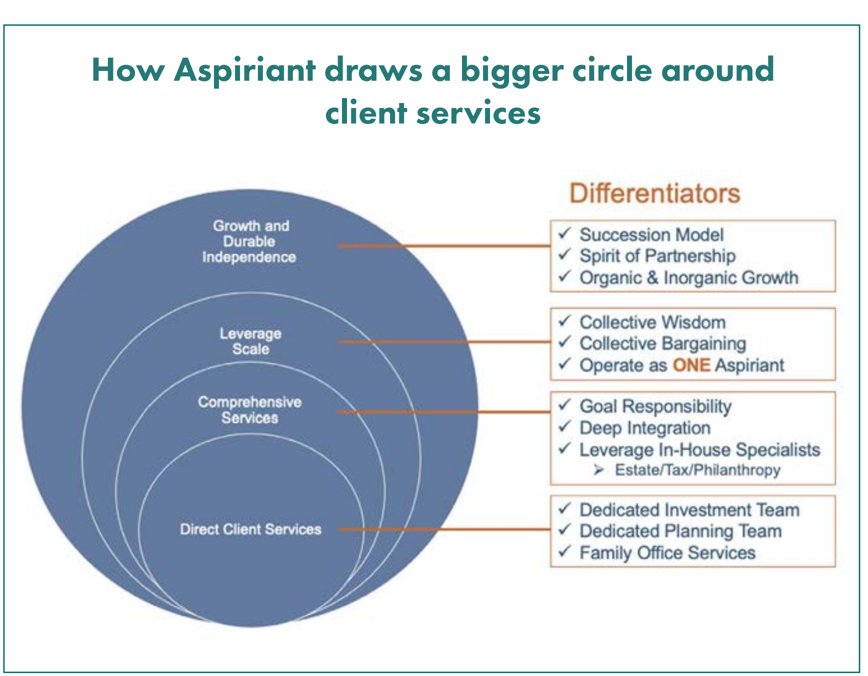
Beyond this, Aspiriant's key differentiators of scale and independence enable continual improvements and innovation in client services.

For example, scale has enabled Aspiriant to grow its in-house investment strategy and research team to 11 people – and create its own not-for-profit mutual funds (like managed funds or unit trusts) for the benefit of clients.

"This is not a revenue stream for us. There are no fees associated with these funds, it's just how we manage our client investments more efficiently and drive down the costs of investing for our clients," Francais explains, noting he never could have set these up without scale in the form of significant client assets under management.

"Once our clients understand why we manage their money in this way, it becomes a huge differentiator for us – because as far as I know only

How Aspiriant draws a bigger circle around client services



one or two other registered investment advisers (RIAs) have registered mutual funds, but they sell them as a product," he says.

Sullivan says the idea could be similar to using a Separately Managed Account (SMA) to manage client investments, without charging any fees beyond the base cost.

5. Build your business on transitions

By sticking to its core values, Aspiriant has staked a unique place in the wealth management landscape.

"Most of our competitors have sold to private equity. I think we're one of just two employee-owned organisations in the US with over $10billion AUM," notes Francais.

Those values include a sense of partnership, courage and commitment.

"I talk about us being in the transition business – we help clients transition through their lives and make decisions at critical moments. We help our employees and partners transition through their careers. And we reaffirm this every chance we get."

At annual partner meetings, exiting (or 'graduating') partners can reflect on their experience, and the next generation discusses how Aspiriant is delivering on expectations.

Sullivan says he had the chance to speak to some of Aspiriant's newest partners during the VAN US Study Tour in late 2022. "They spoke of the serious rigour it took to assess the opportunity, and how they then knew that Aspiriant would be the right place for them and their clients over the long-term. That spirit of partnership was crystal clear."

The entire firm also comes together once every two years for an intense focus on culture, core values, community norms, training and team building. "You have to invest in your core values to sustain that cohesive culture as you scale," notes Francais.

A clear path to sustainable growth

"Aspiriant is a business built on three clarities," concludes Sullivan. "They are clear on what they're building, clear on the plan and very clear about how they'll extract value in the end."

He says Australian advice principals could adopt a similar approach by finding a like-minded group of people who are interested in that philosophy and willing to join forces.

"While it's a very different type of model, and it may not suit every firm, it shows that a great vision – supported by excellent planning and alignment between owners, employees and clients – can build great outcomes for clients, employees and the industry," he suggests.

Francais says he challenges advisers not to leave their options open for too long if they want to pursue a model like this.

"You have to declare what the end game is for your business, what's your strategy for succession. It's not enough to say, 'we're scaling up' – if it's just talk, you are limiting your organisation's potential."

Over the years, he has learned that getting bigger can add complications – unless you have an intentional focus on getting better as well.

"It takes time to commit to your strategy," he says. "I'm often told that it's tough to scale a trusted advice business – but I believe that with patience and trust you can build loyalty. You just have to be willing to give up some control."

Aspiriant is at yet another pivotal point in its business as it enters the 'enterprise phase' of growth, drawing on the strengths of its scale and brand. Francais' strategic timeline won't end with his retirement – he has plans for 2075 and beyond. And by publicly declaring his strategy to build a pipeline of future leaders from the day he opened his practice, he can be confident that growth journey will continue.

"Aspiriant is a business built on three clarities. They are clear on what they're building, clear on the plan and very clear about how they'll extract value in the end."

JOHN SULLIVAN, MACQUARIE VAN

Learn more about VAN's Build for the Future program, and how it can help your advice firm scale.

Source:1 https://www.investmentnews.com/for-los-angeles-based-ria-aspiriant-growth-is-crucial-yet-deliberate-77301

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Adopting AI into your practice today[1]

By Andrew Braun, General Manager Marketing, Netwealth

As we look ahead to the next five years, we see several key areas where artificial intelligence (AI) and adjacent technologies should have a real impact. Not surprisingly, these touch all parts of the advice process including portfolio construction and management, financial advice, the client experience, back-office administration, and compliance and risk support.

As part of Netwealth's 2023 Advice-Tech Report – Humans and Machines, we have developed an AI Impact Map to help advice firms navigate the changes and understand the different uses for AI in the short and medium term. In this article we consider a few of these.

New technologies are making life easier for those responsible for the research-heavy, time-consuming task of building and managing portfolios

Advice firms are turning to big data and AI solutions to help research and construct portfolios, and use platforms, alternative exchanges, managed accounts, automated RoAs, and non-custodial asset administration services to help scale investment execution.

AI and investment research

Today's traditional research tools are getting stretched with the introduction of new asset classes and an increasing demand by clients for more personalised and niche investment options – such as responsible investments (52% of advised clients hold today[2]), private markets and alternatives (on average around 20% of a client's portfolio is held in non-custodial assets[3]).

New AI capabilities can assist investment research by not only analysing real-time market data, such as price movements, trade volumes and liquidity levels, but financial news articles and analyst reviews, social media data, and company reports.

AI and adjacent technologies can support advisers when providing advice.

The hope of AdviceTech and especially AI will be to address the often-time-consuming activities related to providing advice.

AI as knowledge base and 'virtual assistant'

Some advice firms are using AI to make the most of all their large data sets to help guide their advisers. According to OpenAI's case study on their website, Morgan Stanley has trained OpenAI's ChatGPT on its research on over 2000 companies, as well as procedure documents and product cards.[4] This means when one of its advisers asks the AI chatbot a question, it

The Netwealth AI Impact Map:
How AI could help your business today

	PORTFOLIO CONSTRUCTION & MANAGEMENT	FINANCIAL ADVICE	THE CLIENT EXPERIENCE	BACK-OFFICE ADMIN	SECURITY, COMPLIANCE & RISK SUPPORT	MARKETING
In theory:	Big data and AI to aid research and construct portfolios. Scaled investment execution – inc. trading, and investment instructions with automation.	AI and adjacent technologies acts as a 'virtual assistant' to provide unique insights that help advisers construct and manage client advice.	With clients demanding personalised, and 'always-on service', firms are using AI and client portals to support client communications and education.	To ease administration, firms are using AI, integration tools, APIs to streamline document and data management, and automate repetitive tasks.	With regulation always changing, firms are engaging with AI to stay on top of new requirements, and to undertake risk assessments and fraud detection.	To manage marketing and advertising volume and to hone messages, firms are exploring new AI, especially GenAI, in creating text, images, videos and more.
Potential applications:	• AI scans unstructured data for investment research • AI algorithmic trading • Robo Advice • Alternative investing • ESG research • Managed accounts • Automated advice document production	• AI knowledge base and virtual assistants • Improving assumptions ins financial models • Real-time modelling and forecasting • Online fact finds • Enhancing understandability of advice documents • Streamlining client reviews and reporting	• Real-time alerts to advisers based on market activity, client behaviours and preferences • Client portals for 24/7 access • AI triggered 'behavioural nudges' • Chatbots for 24/7 client support	• Data management and system integrations • Embedded AI as a 'copilot' and Gen AI to help the day-to-day • Onboarding and KYC management • AI for coding, VB, and Excel Macros	• Managing compliance requirements • Tracking regulatory change • Predictive AI models for risk assessment and fraud detection • Cyber security support and detection	• Creation of content marketing using GenAI • Simplifying digital advertising using embedded AI tools • Big data and AI for client profiling and segmentation analysis

can answer simple questions like how a client can setup a Morgan Stanley online account, or what is the in-house view on Alphabet. It can also answer market questions such as who the top 5 competitors to IBM are.

Jeff McMillan, responsible for Morgan Stanley's big data and AI efforts, said: "You essentially have the knowledge of the most knowledgeable person in wealth management instantly. Think of it as having our Chief Investment Strategist, Chief Global Economist, Global Equities Strategist, and every other analyst around the globe on call for every advisor, every day."[5]

AI for financial modelling

A financial model is comprised of two parts – assumptions and projections. Assumptions are made on things like the client's risk profile, asset valuations and projections, life expectancy, timings of inheritance and on expenditure and savings. Typically, these assumptions are based on feedback from the client, historical data, and the experience of the adviser.

To improve the accuracy of data collected from clients, almost half of advice firms (46%) use online self-service tools to capture client (or prospect) information, including their risk profile. A further 36% plan to adopt these tools in the next 24 months.

With tools like Netwealth and Xeppo, open-banking and API capabilities, you can collect bank account and transaction information, asset holdings, property values and business information from different sources and systems to provide a more accurate picture of a client when preparing advice.

Some organisations are also using AI to help make assumptions and projections more accurate and useful. AI can draw on information such as a client's spending habits or debt, and compare that to other similar clients, who are perhaps older. By making this comparison, you might be able to better forecast their long-term expenditure, life expectancy etc.

Refining advice documents with AI

Advice documents are a critical tool in communicating the advice options and strategy to clients, but can often be complicated with legal and compliance necessity. Some advice firms are looking at how Generative AI tools, such as ChatGPT, may help to refine advice documents into a more relatable document, with improved grammar and even diagrams, whilst still maintaining their legal rigour.

Alert! As a word of warning, remember to never upload client details or personally identifiable information (PII) to any public AI system, like ChatGPT.

Clients expect a human-digital (or machine) interaction with your firm that varies over the client lifecycle

The nature of the relationship will often be dependent upon how established the relationship is, and the message

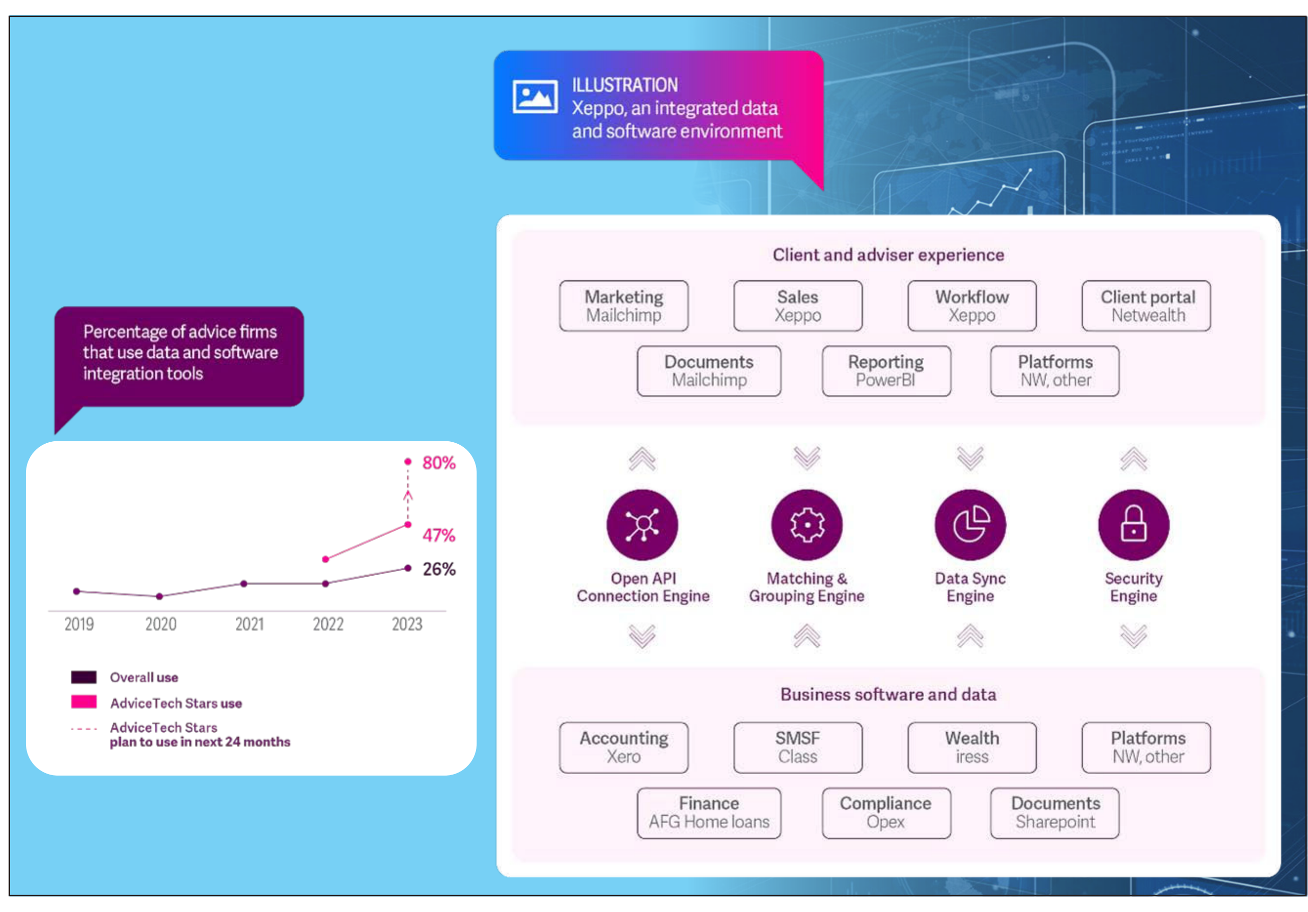

ILLUSTRATION
Behavioural wealth nudges

INSIGHTS
Unusual deposits
You received **$2,276.25** from ACME INC. Make sure to save some of it.
$2.3k

INSIGHTS
Refinance your mortgage
Get excellent rates on your current payment. Click below to set up a meeting with our experts.
20%↑

INSIGHTS
Portfolio changes
You've had a significant change in your portfolio since yesterday.
12.5%↑

INSIGHTS
Tax return
You got **$36,253** tax return. Invest it before spending it. Transfer to your brokerage account today.
$36k

INSIGHTS
Similar Subscription
Are you sure you want to pay for both of these services?

TIPS & ARTICLES
Learn about your securities
We've curated articles about your current holdings.

TRADE ACTIVITY
Dividend received
You've received dividend from one of your large-cap stocks.
STOCK IBM
AMOUNT $2,200

ADVISER COLLABORATION
Annual Review
Given your portfolio growth you are entitled to a review with one of our experts.
HOW TO BOOK

being communicated, and AI can help guide you.

Proactive advice with alerts

AI and machine learning systems are being developed to produce operational and advice alerts to advisers so they can service clients more proactively. For example, alerts like margin calls, or low-cash balances, or if a term deposit is about to expire can be displayed in the adviser's platform. AI has the potential to come up with insurance or portfolio adjustment suggestions. It could also provide behavioural-event notifications, for example, when a person changes jobs (identified through a new employee on their contribution details), or an inheritance alert (based on a lump sum bank transaction), or identify if a child has just started school (based on first time tuition fees). Behavioural analytics can also reveal things like which clients prefer to access information over their mobile device, or the frequency of contact they desire.

Behavioural nudges

With AI and big data sets, alerts can be directed to the client portal encouraging clients to behave in a certain way, such as saving more. Some people call this a 'behavioural nudge'!

Clients could get spending alerts to help budgeting and reduce debt, such as an alert when they overspend, loan rates change, they use a new merchant (to prevent cyber fraud), or it might recommend a foreign currency account when overseas. They might even get alerts to improve financial literacy, like educational material sent during market volatility (which can also help manage client expectations and reduce the influx of phone calls and emails that may occur).

Big data, AI and client analysis

AI tools can help financial advice firms better research and understand their market. AI tools can analyse customer data and preferences, or factors such as client behaviours, sentiment and decision making. This information can inform marketing strategies for finding new clients, tweaking pricing, or reducing client churn.

Advice firms can then leverage these tools to segment prospects and clients into different groups beyond traditional metrics like demographics and net worth and look at behaviours such as email open rates, website visitation, and client portal usage. These tools can also help advice firms understand client attrition issues, with AI predictive tools helping to identify clients at high risk of leaving or prospects who are more engaged with, for example, their website or newsletter.

Download the 2023 Netwealth AdviceTech Report – Humans and Machines, for a more detailed analysis at www.netwealth.com.au/advicetech. Andrew Braun will present a SIAA webinar 'Netwealth 2023 Advice Tech: Humans with machine' on 8 November 2023.

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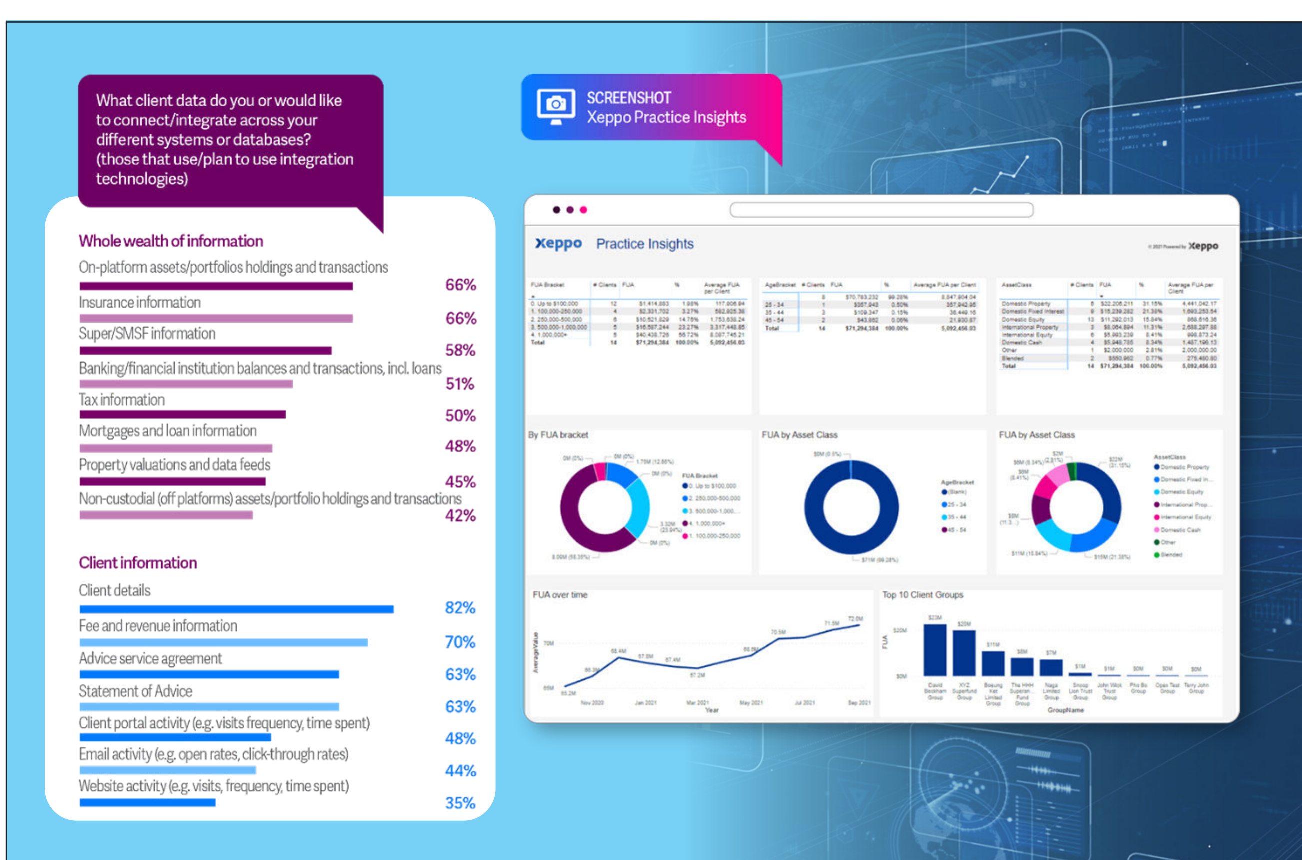
1 Netwealth *AdviceTech 2023 – Humans and machines*
2 2023 Netwealth Advisable Australian survey
3 Ibid
4 Hugh Son, 'Morgan Stanley is testing an OpenAI-powered chatbot for its 16,000 financial advisors', CNBC, 14 March 2023: Morgan Stanley testing OpenAI-powered chatbot for its financial advisors (cnbc.com)
5 'Morgan Stanley wealth management deploys GPT-4 to organize its vast knowledge base', Morgan Stanley, 14 March 2023: https://openai.com/customer-stories/morgan-stanley



Rekindling the interest in bonds amid peaking rates

By Jonathan Liang, Head of Asia ex-Japan Investment Specialists, Global Fixed Income, Currency & Commodities Group (GFICC), J.P. Morgan Asset Management

Of landings, both hard and soft

That the fastest rate hike cycle in forty years would trigger a recession in the US was seemingly a straightforward conclusion earlier this year. Yet, more than 500 basis points of rate hikes in, the US economy remains surprisingly resilient. Inflation has softened without a meaningful increase in unemployment, and growth has stayed relatively firm despite the regional banking sector crisis in March.

Indeed, recent economic data have increased optimism of a potential soft landing. The rally in risk assets, the upward revisions to consensus growth forecasts and the rise in long-term bond yields may signal that the market is becoming more confident in the Federal Reserve's (Fed) ability to engineer a decline in inflation without necessarily tipping the economy into a recession[1]. This also means that the timeline of a possible policy pivot is likely pushed out, lending credence to the "higher for longer" interest rate narrative.

Nevertheless, a recession remains our base case. The expansion of the US federal budget deficit may have bolstered growth this year, but its effects could wane in the months ahead. In addition, leading recession indicators continue to flash red, as illustrated below, while lending conditions have tightened significantly. This at a time when US consumers have markedly drawn down the excess savings built up during the height of the COVID-19 crisis. As a result, we believe there is still a risk of a recession in the US, albeit a shallow one, with the timing likely pushed out to early 2024.

The end is near or is it here...

On monetary policy, we believe the Fed could adopt a "wait-and-see" approach for the remainder of the year as they assess the lagged and cumulative economic impact of the 525-basis points increase in policy rates since March 2022. Prudence might be wise given the added uncertainty of the potential ramifications of an unprecedented synchronised policy tightening cycle across developed markets.

Moreover, softening inflation and looser labour market conditions could increase the conviction among policymakers that a pause at current rates might be sufficient to return inflation to target without having to apply further restraints on the economy.

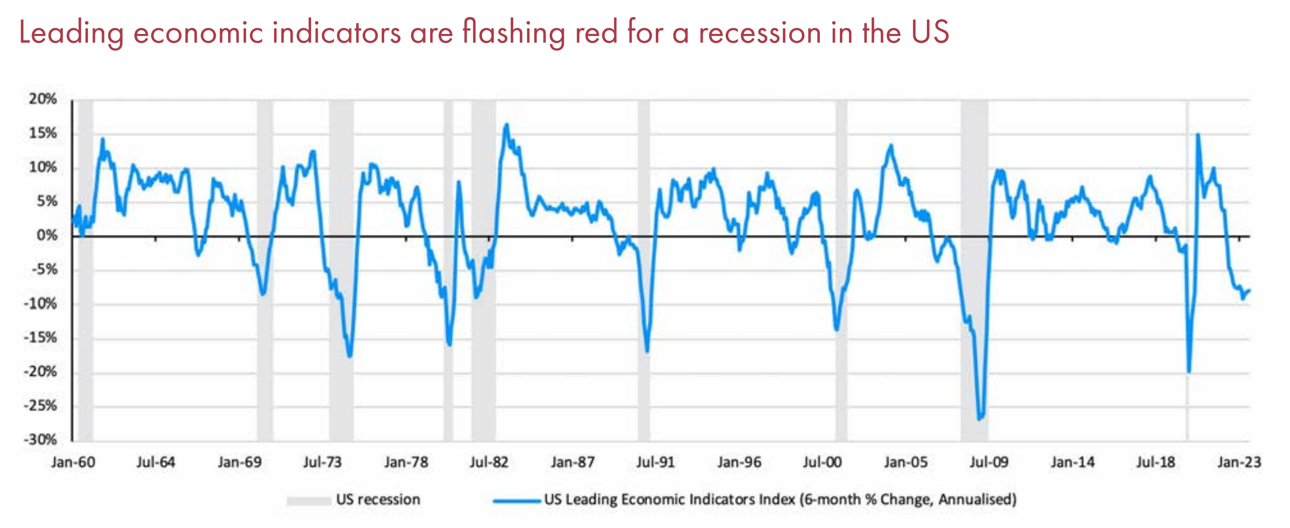
Taken together, these could suggest that we are close to, if not at, the end of the Fed's tightening cycle.

Don't you... forget about bonds

This could be a boon for fixed income. Over the past seven rate hike cycles, bonds, as measured by the Bloomberg US Aggregate Index and Bloomberg US Treasury Index, have outperformed short-term US Treasury Bills (represented by the Bloomberg US Treasury Bellwethers 3-Month Index), a typical proxy for cash, in the subsequent 24 months after the last interest rate hike, as illustrated overpage[1]. Accordingly, some allocation to fixed income in a portfolio could create a more meaningful impact from a total return perspective, especially as interest rates peak.

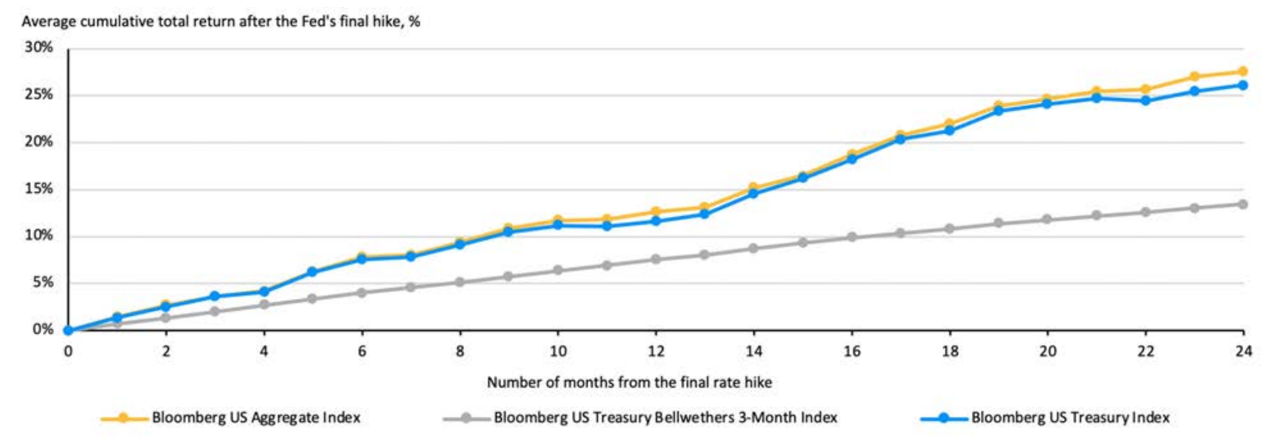
Furthermore, with yields across many fixed income sectors hovering near decade highs, it could be opportune to lock in elevated yields as central banks approach the end of their

Leading economic indicators are flashing red for a recession in the US



Source: J.P. Morgan Asset Management, The Conference Board, Bloomberg. Data as of 31.07.2023.

Historically, bonds have presented opportunities for robust returns after the last rate hike[1]



Source: J.P. Morgan Asset Management, Bloomberg. Data as of 31.08.2023. Includes seven hiking cycles: 1981, 1984, 1989, 1995, 2000, 2006 and 2018.

rate hike cycles. Higher yields tend to be a good indicator of forward returns and more importantly, present a larger income buffer that can help soften the blow should credit spreads widen or interest rates increase.

Moving up in credit quality as recession risks loom

In line with our recessionary outlook, we continue to adopt a defensive stance in our Income Strategy – the strategy underlying the JPMorgan Income ETF (Cboe: JPIE).

In terms of allocation[2] decisions, the Income Strategy has:

- **Trimmed its average duration[3] positioning slightly**, from around 3.8 years as of end July 2023 to 3.5 years as of end August. This reflects our view that while a recession outcome is likely, the timing could be pushed further out into 2024.
- **Increased the credit quality of the portfolio.** Notably, the portfolio's allocation[2] to Agency mortgage backed securities (MBS)[4] is up from around 13.1% at the beginning of 2022 to 27.4% as of end August 2023. These assets are guaranteed by US government-related bodies, such as Ginnie Mae, Fannie Mae and Freddie Mac, and are generally AAA-rated. Agency MBS[4] present relatively attractive opportunities with higher yields and can also help increase the overall credit quality and liquidity of the portfolio's securitised[4] allocation. In addition, the portfolio is currently light on high yield[5] exposure versus its history, on account of relatively unattractive valuations and potential recession risks.

- **Maintained a well-diversified commercial mortgage-backed securities (CMBS)[4] allocation.** The portfolio has exposure to some 200 CMBS conduits that have been rigorously researched, each of them comprising dozens of properties. Essentially, these are pools of loans made out to a diversified array of commercial real estate such as multi-family, industrial, self-storage, retail, hotels, and offices. And having scrutinised the entire portfolio, we believe the potential upside and expected return from our CMBS[4] exposure from this point could be significant.

More options for fixed income investors amid an expanded opportunity set

Indeed, after a few years of abnormal correlations and a general absence of yield, bonds have returned to their traditional role of providing income and portfolio diversification. There's currently a wider opportunity set for some investors to lock in relatively higher yields for longer. Nevertheless, judicious bottom-up credit selection and careful management of duration and credit risks remain critical to ensure exposure to quality assets that can generate enduring income through market cycles.

At J.P. Morgan Asset Management, we actively pursue stronger bond outcomes with robust risk management[6]. We manage over US$2.7 trillion in assets, with around US$719 billion in fixed income[7]. Our fixed income solutions span the risk spectrum and is underpinned by the deep resources and rigorous research of a truly global platform. Our actively managed ETFs can also tap into the full resources of our global network, allowing investors to access outcome-oriented fixed income solutions through long-established investment strategies.

1. For illustrative purposes only based on current market conditions, subject to change from time to time, and are not to be construed as offer, research or investment advice. Not all investments are suitable for all investors. Exact allocation of portfolio depends on each individual's circumstance and market conditions.
2. The Fund is an actively managed portfolio; holdings, sector weights, allocations and leverage, as applicable are subject to change at the discretion of the Investment Manager without notice.
3. Duration is a measure of the sensitivity of the price (the value of the principal) of a fixed income investment to a change in interest rates and is expressed as number of years.
4. Securitisation is the process in which certain type of assets, such as mortgages or other types of loans, are pooled so that they can be repackaged into interest-bearing securities. Examples of securitised debt include asset-backed securities and mortgage-backed securities.
5. High-yield credit refers to corporate bonds which are given ratings below investment grade and are deemed to have a higher risk of default. Yield is not guaranteed. Positive yield does not imply positive return.
6. The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk.
7. Source: J.P. Morgan Asset Management, data as of 30.06.2023.

Further Information: For further information please email us at jpmorgan.funds.au@jpmorgan.com, telephone 1800 576 468 or visit our website am.jpmorgan.com/au/
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NETS upgrade implementation

NSX is upgrading its NETS trading platform, supplied by Nasdaq on 30 October 2023.

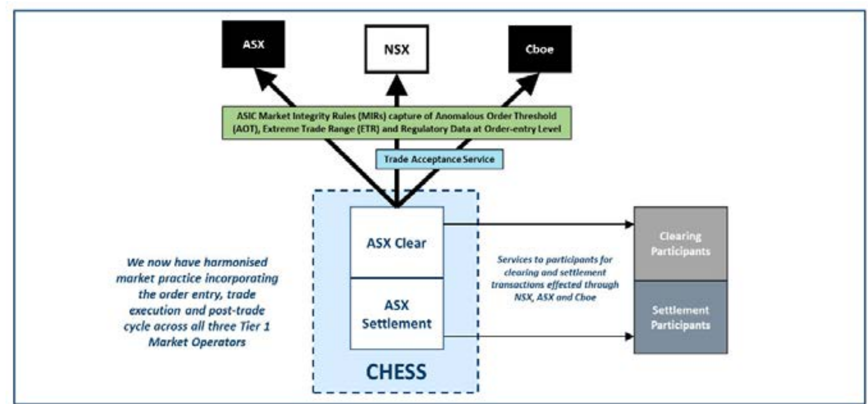
The changes will introduce certain ASIC Market Integrity Rules (MIRs) for which NSX had been previously exempt and follows the market consultation on the NSX Market Business Rule changes in June 2022.

Since then, NSX has been working with market data vendors and Iress as your NSX trade order system provider to implement the technical requirements to facilitate this upgrade.

The NETS upgrade will further streamline processes for NSX Participants by introducing ASIC MIRs to deliver consistency across all three Tier 1 Markets.

Coupled with NSX's adoption of the Trade Acceptance Service (TAS) on 23 November 2020 it will lead to the harmonisation of market practice incorporating the order entry, trade execution and post-trade cycle across all three markets.

Diagram 1: Harmonised Market Practice Across Tier 1 Market Operators



Summary of MIR changes

The table below summarises the MIR changes being introduced.

MIR RULE	DESCRIPTION
Part 7.4 – Requirement to Record and Provide Regulatory Data	NSX Participants will be required to provide regulatory data on both trade reports and the entering of orders into an order book. This includes: • Execution Venue • Capacity of Participant • Origin of Order or Transaction • Intermediary ID • Directed Wholesale Indicator
Part 8.1 – Order Entry Controls for Anomalous Orders	NSX will be implementing Anomalous Order Thresholds (AOT)'s to all securities listed. The system will reject orders from being entered that are outside the AOT range applied.
Part 8.2 – Extreme Trade Range	NSX will also be implementing an Extreme Trade Range (ETR) to all securities listed. The system will place a security in a 2-minute trading pause if the ETR applied is exceeded.
Part 9.4 – Tick Sizes	Implemented with the new trading engine will be revised tick sizes: • $0.01 for an Equity Market Product priced at equal to or greater than $2.00; • $0.005 for an Equity Market Product priced at equal to or greater than $0.10 and less than $2.00; • $0.001 for an Equity Market Product priced at less than $0.10

NETS functional changes

In summary, the functional changes that will apply following the NETS upgrade are described below:

- Conformance with the ASIC Market Integrity Rules (MIRs)
- FIX 5.0 for order management
- FIX drop copy capability
- ITCH for market data
- Improved trader workstation delivered through a web-browser

Participant-User demonstration

As we approach the final stage of the project, NSX is hosting a webinar for Participants with the following Agenda:

1. Carry out a demonstration via the Iress Test Order System to highlight the key functional changes;
2. Carry out a demonstration of the Off-market Trade Reporting function which must be operated through the NSX WebTrader;
3. Describe the data migration plan and key tasks to be carried out by Participants

NSX has scheduled a webinar for participants' DTRs and compliance representatives which has been communicated to all participants.

Attendance at one of these sessions is mandatory and NSX is currently finalising attendance with participants at once of these sessions.

Webinar schedule

1. 11:00 Wednesday 4 October
2. 14:00 Wednesday 4 October
3. 11.00 Thursday 5 October
4. 14:30 Thursday 5 October
5. 14.00 Wednesday 11 October

Following the conclusion of the scheduled webinars, NSX will publish a set of Questions and Answers to Participants.

NSX will be seeking an attestation statement from each NSX Participant following attendance to the webinar, in line with ASIC MIR requirements.

The detail is the key

By Darin Tyson-Chan,Editor, *selfmanagedsuper*

Shortly after the Albanese government won the last federal election, it declared its commitment to enshrining the objective of superannuation into law. Further, it confirmed once this had been achieved, no super policy proposed in the future could be formulated without taking this objective into account.

Ironically after making this announcement Canberra then unveiled several measures regarding superannuation before anything happened on the legislated objective front, for example, the new 15 per cent tax on member super balances over $3 million. You could say our politicians have been putting the cart before the horse.

Well the horse finally made an appearance recently with the government releasing the Superannuation (Objective) Bill 2023 and Superannuation (Objective) (Consequential and Transitional Provisions) Bill 2023 to execute its first commitment to the retirement savings system.

And the objective it originally proposed has not changed – "to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way". But with the proposed legislation having been introduced to parliament, we finally have some idea of what some of the more contentious notions of 'dignified retirement', 'equitable' and 'sustainable' potentially mean.

On the score of 'dignified retirement', the question has been around who defines what that is. According to the proposed legislation, it "denotes a standard of financial security and wellbeing in retirement which allows the person to participate economically and socially in their community". Further, it has been stipulated the 'dignified' notion will not be the same for all people and individuals will determine what this means for themselves.

So no government dictates here and that is a positive element.

With regard to the term 'equitable', the proposed legislation states "in this context it captures the importance of a system that delivers similar outcomes to people in similar situations and targets support in the superannuation system to those most in need". Again, on the surface a fairly innocuous concept.

Finally, 'sustainable' is said to mean "ensuring superannuation policy meets community needs and expectations, and responds appropriately to external factors that impact retirement incomes", while also reflecting "the Australian economy's capacity to support the system and the need for it to be fiscally sustainable for the commonwealth government from a budgetary cost from both tax expenditures and government contributions". I'd say this is pretty reasonable.

However, before we start thinking any negative outcomes may have been avoided as a result of this proposed objective, there is some devil in the detail. As I have said in the past, concerns have always been focused on having Capital Hill dictate how the pool of our retirement savings, now over $3.5 trillion, can be used.

To this end, we have seen suggestions it can be used to help fund affordable housing, infrastructure projects, foreign aid and, more recently, aged care.

So the worrying part of the proposed legislation comes under the heading of "Context on the broader benefits of the superannuation system". Here it states: "Superannuation is an increasingly important source of capital in the economy and the significant scale of the superannuation system contributes to the strength of Australia's financial markets through capital deepening. This can support significant investment in areas where there is alignment between the best financial interests of members and national economic priorities, particularly given the long-term investment horizon of superannuation funds."

Call me cynical, but that's the part potentially enabling the government to channel retirement savings into the areas it has prioritised as we don't know what the 'best financial interests' of members might be. For instance, is that a top-dollar return or an acceptable one and how would any opportunity cost be factored in?

So a large part here still has to be played out and there is a consultation period that concluded on 29 September. As they say in the classics watch this space.

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