



WOMEN IN SUPER NSW LUNCH

Featuring Fiona Trafford-Walker, Frontier Advisors

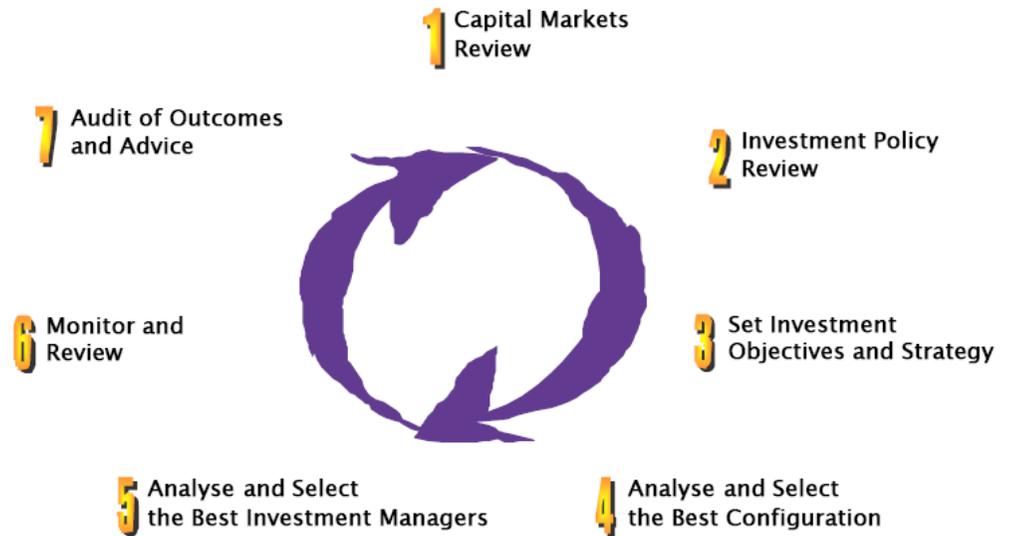
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@WomeninSuper

WHAT DO ASSET CONSULTANTS DO?

Lots of things in the superannuation and non-superannuation space

- Investment policy – investment objectives and (strategic and dynamic) asset allocations
- Risk identification and management
- Fund manager review and selection
- Investment research/new ideas
- Governance advice
- Specialist services including asset advice and remediation
- Education and trustee training
- Reporting and monitoring
- And so on...



THE INSTITUTIONAL ASSET CONSULTING INDUSTRY

- Four major firms today – Frontier Advisors, JANA, Mercer and Willis Towers Watson
 - Business models – advisory only (Frontier, WTW) v. advisory and implemented consulting i.e. their own products (JANA, Mercer)
 - Location – Australian firms (Frontier, JANA) and global firms (Mercer, WTW)
- Other/smaller/niche firms include – Cambridge Associates (small here but large in the US), Quentin Ayers (private markets), Russell and Whitehelm Capital
- Some history...
 - Firms in 1992 (when I started) included Towers Perrin (now part of Willis Towers Watson), John A. Nolan and Associates (now JANA), Mercer Campbell Cook and Knight (now Mercer), Intech (now Morningstar), IPAC and Frank Russell (now Russell)
 - IFS was formed in 1994, with the consulting business spun out in 2000 to form Frontier Investment Consulting (now Frontier Advisors)
 - Watson Wyatt entered the market in the early 2000s

INSTITUTIONAL ASSET CONSULTING INDUSTRY TODAY

- Focussing on institutional superannuation (i.e. ex SMSFs), the “advisable” market is around \$720 billion (and growing) held by 94 funds (and shrinking)

Massive decline in corporate funds; significant declines in other categories

	September 2005		December 2015	
	No. funds	Assets (\$bn)	No. funds	Assets (\$bn)
Corporate	1,224	59.0	32	54.1
Industry	99	75.0	43	445.6
Public sector	53	129.0	19	223.6
Total	1,376	263.0	94	723.3
Average size		0.2		7.7

Source: APRA

- But “institutional” is a wide definition and includes SWFs, endowments/universities, charities, redundancy trusts, local/state/federal government asset pools and some firms also provide advice in the retail space

INVESTMENT-RELATED CHALLENGES FACING SUPERANNUATION INDUSTRY

- Policy – Financial System Inquiry and Productivity Commission review, specifically around fees
 - Key strategies to reduce fees include using scale (aggregation, partnerships), first mover advantage, disintermediation (direct, co-investments) and substitution (including removal of expensive asset classes)
- Regulation – boards and governance, reporting, APRA
- Competition and “retailisation” – product suite, advice model including on-line and roboadvice, use of technology and big data, retirement products, default fund status, SMSFs/other competition
- Investment – internal investment management and decision making, disintermediation, strategic partnerships
- Risk – and all that entails
- ESG
- **All these have involved, and will continue to involve, significant time and focus by Boards**
 - Plus they have lots of other non-investment challenges e.g. brand positioning, member engagement etc
- **They also create the framework for asset consultants to review the services they offer now and into the future**

THE BIG ONE FOR US – INTERNALISATION

- Significant change in the last five years, with corresponding impact on asset consultants (and fund managers)
- Internationalisation of investment expertise, typically complemented by external advice
 - The best models are those where the duplication is low i.e. a true partnership, and where everyone has the confidence to have the debate i.e. no “selective vetting” of the external advice to the Board/Investment Committee by the internal team
 - Changes the nature of the discussion – more interesting! (Investments 24/7, what could be better than that?)
- Internalisation of investing
 - Typically co-exists with external management
 - Cost control, flexibility, ESG/other
 - Capacity management
 - Creates challenges of its own e.g. operational, organisational/culture, benchmarking, acting quickly if things don't work out
- Funds are investing heavily in new talent and capability

ASSET CONSULTANTS TODAY

- Very different to January 1992... let alone five and ten years ago!
- Much greater differentiation between the firms now – self-stated “unique or excellent” features¹ include:
 - Frontier – technology that enables full access to research, customisation
 - JANA – direct investment (property and infrastructure) unit, member engagement and online tools, post-retirement solutions
 - Mercer – global reach, ESG research, private equity, governance
 - WTW – Thinking Ahead Institute, readiness to challenge conventional structures and products e.g. smart beta
- No longer “hand holders”, “gatekeepers” or Moses coming down from the mountain with his tablets of wisdom
- But hopefully still influential on member and sponsor outcomes – net (risk-adjusted) returns rule, OK!
- And now ... meliorism!
 - “The belief that the world can be made better by human effort”

1. Source: David Rowley for Investment Magazine, “*The big four investment consultants*”, 24/7/15. Each firm was asked to pick the areas they considered unique or excellent at their firms.

IMPORTANT INFORMATION

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Frontier Advisors

Level 16, 222 Exhibition Street

Melbourne, Victoria 3000

Tel: +61 3 8648 4300

www.frontieradvisors.com.au

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