PROFILE'S CORNER

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This photo 'Reflections' is an award winning shot, taken by our Finance Manager Debbie Fowler
To see more of her work please visit http://debbiefowlerphotography.com/

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*Asset class returns referred to in this publication are based on the following indices: Australian shares: S&P/ASX 300 Accumulation Index. International shares: MSCI World (AUD) TR Index. Fixed interest: UBS Warburg Composite All Maturities Index. Cash: UBS Warburg bank bill Index. Gold: Spot Gold Bullion (USD).

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Profile Update

Welcome to Volume 29 of our quarterly client newsletter. In this section, I provide an update on what's happening at Profile.
By Sarah Abood, CEO

Welcoming the clients of onePlan

On 1st May 2018 we hit an important milestone, completing the purchase of a large financial planning business with offices in Sydney, Mudgee and Dubbo – onePlan Financial Planning.

The principal of onePlan, Louise Scifleet, had been searching for some time for the right business partnership to help her gain access to greater scale, staff, technology, administration and processes. This will help ensure her clients can benefit from greater scale as well as having a long-term succession solution ensuring continuity in their financial affairs.

The onePlan team all remain working for Profile and the Mudgee and Dubbo offices remain operational.

A big welcome to all the clients of onePlan – we are really looking forward to getting to know you, and working with you, in the years to come!

People news

We've had a big influx of new faces recently, partly due to welcoming the onePlan team.

In Dubbo, we welcome Louise Scifleet – Principal of onePlan and Senior Financial Planner with Profile.

Louise normally travels a lot but recently had the misfortune of breaking her ankle – we are having lots of video meetings at the moment and are looking forward to seeing her in person at Mudgee and Sydney once recovered!

At Mudgee, Christie Holt (left) and Karen Denyer (right) are running the office as well as supporting clients in the Client Support Officer role.

All three are ably supported by administration assistant Lyn Hudspeth, working from both the Mudgee and Dubbo offices as required.

In Sydney, Craig Gava from the onePlan team has joined us as Compliance Manager in a job share role with our current Compliance Manager Alison Mercier.

Investment Update

By Jerome Bodisco, Head of Investments
Period returns to 30 April 2018 (%)

Asset class	1 mth		3 mth	1 yr
Australian shares	+3.8		+0.2	+5.7
International Shares($A)	+2.8		+1.9	+12.8
Fixed interest	-0.3		+0.8	+2.2
Cash	+0.2		+0.4	+1.7
Gold($US)	-0.8		-2.2	+3.7

Australia

Australia's economic performance has been mixed of late. Interest rates have been on hold now for 21 months. Inflation is still relatively low at 1.9%. Australian GDP growth for the year to 31 December 2017 was 2.4%, falling slightly short of consensus estimates of 2.5%. The unemployment rate rose slightly to 5.6%, while wages growth remains stubbornly low. Coupled with the Reserve Bank's fears that any rise in interest rates will put a lot of pressure on households, this suggests that interest rates are likely to stay at current low levels for another 6-12 months.

US

News from the US continues to captivate the global markets. The US Federal Reserve Board lifted rates by 0.25% in March, marking the first time in over 15 years the official US cash rate is above Australia's official cash rate. Unemployment remained at 4.1% in March, the level it finished at in December 2017. Growth and activity in the US is now evident. Year-on-year US headline inflation increased 2.4% in March with annual core inflation expected to be 2.0% at March quarter end. Talk of a trade war between the US and China continues to rattle markets.

Europe

Here, the seasonally-adjusted unemployment rate is forecasted to be 8.7% at the end of December, down from 8.9% at the end of the September quarter. The manufacturing sector is experiencing rapid expansion, driven by growth in output, new orders and employment.

China

The Chinese quarterly GDP growth rate is expected to come in at 1.4% for March end, slightly below the 1.6% realised over the December quarter. The strength of the global economy is benefitting China, however the lift in interest rates and the slowdown in credit growth are likely to mean slower growth over the coming quarters.

Capital Markets

Asset Class	March Quarter Performance / Result	Notes
Australian equities	**-3.8%**	Result was driven by a largely turbulent US stock market. Telecoms and Financials were the worst performing at -6.2% and -5.8%, respectively. This is the worst Q1 performance since the GFC!
Global equities (UH)	**0.8%**	Global equity markets finished lower over the first quarter with the Trump administration's trade tariffs weighing on returns.
Listed property	**-6.2%**	Higher bond yields are bringing the sector under pressure.
Global Bonds	**Global bond yields increased over the quarter.**	The UK 10-year government bond yield increased from 1.19% to 1.35% at the March quarter end. The US 10-year government bond yield increased from 2.41% to 2.74% over the quarter.
Aussie Dollar	**The AUD depreciated against USD from 78.00 US cents to 76.65 US cents at the end of March.**	Lower commodity prices and fears of a trade war hurt. There is downward pressure on the AUD as the US continues to lift rates.

Medium term outlook

One interpretation of the outcomes seen in 2017 is that the global economy and asset markets are in the early stages of a productivity-driven expansion that could last for another five years. While the lack of headline inflationary pressures and improvement in growth and confidence mean we cannot rule this out, we continue to expect positive but low asset returns over the next five years, with rising downside risks over time.

Our analysis of the major developed economies suggests that the global business cycle will mature over the medium term. Led by the US, spare economic capacity has been eroded by years of sufficiently strong economic growth. We believe the current stage of the business cycle warrants gradual but persistent removal of the monetary stimulus provided by central banks i.e. the end of ultra-low interest rates. The US Federal Reserve will continue to lead this tightening cycle, but other major central banks will tighten monetary policy as well. Historically, the combination of higher interest rates and a maturing growth cycle has led to a growth slowdown and reduced inflation pressures. In the shorter term, the downside risks we are watching include the risk of rising central bank rates leading to volatility in longer-dated bond markets and China's ongoing management of its excess debt.

Our forecast that growth will slow, coupled with the observation that asset markets are 'pricing-in' a continuation of the recent good growth and low inflation environment, leads us to conclude that valuation levels are expensive in many asset markets including bonds and equities. Historically, high valuation levels have led to relatively poor returns above cash over a five-year horizon. A 'lower for longer' scenario is our expectation.

Philanthropic Giving – Part 4

By Todd Stanford, Senior Financial Adviser

Our last newsletter saw the end of our three-part series on planned giving that focused on a structure known as a Private Ancillary Fund (PAF). A PAF requires a significant donation to make the structure feasible (of at least $500,000).

This article discusses an alternative to a PAF called a Public Ancillary Fund that requires a much lower donation (of $50,000 in most cases).

There is still much consistency between a **Public Ancillary Fund (PuAF)** and a PAF, especially around the tax benefits and grant making.

What is a Public Ancillary Fund (PuAF)?

A PuAF is a communal tax exempt philanthropic trust that enables a number of donors to establish and name a 'sub fund' under the broader PuAF structure.

With a sub fund, the donor does not need to worry about the trustee obligations and responsibilities associated with a PAF and can put their energy into choosing charities they would like to support.

Benefits

- Less money to establish – the PuAF acts as an aggregator to provide access to a deductible charitable foundation without the funds required for a PAF.
- Simple & less time consuming– as the trustee already exists and handles the administration, investment and compliance matters, the donor can focus on the granting.
- Quick to set-up – A sub-fund can be established immediately, as there is no requirement to set-up a new trust or trustee company. A donor simply opens a new 'sub-fund'. There is no cost to do this.
- Tailored – a donor can name the sub-fund and grants made to charities will refer to this name. Anonymous grants are also possible.
- Taxation benefits – the money donated to your sub-fund is usually tax deductible in the year of the donation (or can be spread over a period of up to 5 tax years). It is a tax-exempt structure, so the philanthropic dollar goes further.
- Portability – In certain circumstances, it's possible to transfer assets from a PuAF into your own PAF down the track. It requires the approval of the Trustee and Australian Taxation Office (ATO)

Who can donate to a PuAF?

Anyone can donate to a donor 'sub-fund' and its purpose is to collect donations from the public.

There are no limits on the amount that can donated.

This is contrasted to a PAF where a PAF must not solicit funds from the public and is limited in any one year from accepting donations exceeding 20% of the PAF value from non-associates of the founder.

Making grants

The minimum grant is 4% of the opening 30 June value of the sub-fund each tax year. The Trustee will advise the amount. Any amount above this minimum is also possible.

Grants are presented to the Trustee for approval. It is rare for the Trustee not to approve the grant, provided they meet the guidelines (below) and the grant does not exceed the financial capacity of the sub-account.

Grants must be to an eligible Deductible Gift Recipient (DGR) endorsed as DGR Item 1 by the ATO. The grant recipient must also be a registered charity with the Australian Charities and Not-for-profits Commission (ACNC).

Is important to note that the Trustee has the final decision on grants. Thus donors who establish sub-funds are not entitled to direct, but only to recommend, the disbursement of these funds.

A PuAF cannot distribute to another PuAF or PAF.

How much control does a donor have?

The Board of Trustees of the PuAF has complete control over all aspects of the investments held.

The donor is free to choose the DGR recipients within the guidelines noted above and also to name their sub-fund.

There are also minimums imposed by Trustees for grant amounts (such as $1,000) and donations (for example $5,000).

The Trustee may also undertake its own due diligence on the recommended charity before approving a grant recommendation.

What if I am an organisation?

Organisations can also set up and administer their own PuAF. Organisations that may be interested include:

- Financial advisory firms (to provide a philanthropic option for their clients)
- Specific geographic-based communities (to benefit their own community organisations)
- Companies (to engage with staff and clients)
- Groups with a common interest (such as sporting groups or giving circles).

What does it cost?

Generally, the fee charged for a PuAF is 1% - 1.5% p.a. of the value of the sub-fund. This covers all aspects of running expenses such as administration, compliance and investment costs.

We often recommend the Australian Philanthropic Services PuAF that has a single, all-inclusive fee of 1% p.a. They also have a grant-making service with templates and tools to facilitate and assist in the grant making process.

Interested to find out more?

If you are interested in finding out more about PAFs, please contact your Profile Financial Adviser. Further information can also be found in the handbook issued by Philanthropy Australia http://australianphilanthropicservices.com.au/wp-content/uploads/2013/03/PUAF_Trustee_Handbook.pdf

The Royal Commission

By Phillip Win, MD, and Sarah Abood, CEO

The recent Round 2 hearings of The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, focusing on financial advice, generated a huge amount of concern and debate in our industry.

Around the same time, APRA's report on CBA was released. It identified many similar areas of concern.

Many of us thought the big legislative changes made in 2012 and 2014 had 'weeded out' these types of practices. Clearly though, plenty of work remains to be done.

In this article we take a look at some of the key areas of misconduct identified, and explain Profile's view and what we do now.

Leadership and culture

It's almost never the case that failures were the result of a single person's actions or mistakes. Issues in the organisations featured were systemic and rooted in a culture where people didn't feel safe to speak up, and when they did they were penalised. Behaviours that drove revenue and growth were rewarded excessively, whereas behaviours that prioritised the client and managed risk were hardly recognised at all. Mistakes were covered up and even when exposed, took many years and much pain to resolve for clients. 'Independent' reports were doctored. Clearly, leadership within the organisations did not live the values that were claimed on the website or on the wall!

Profile's view: Even good people find it hard to do the right thing when their job and promotion prospects depend on doing something else. It's leadership's responsibility to create an environment in which people feel safe to call out poor behaviours and practices, and are rewarded for putting the client first. Leaders must act on poor behaviour quickly and decisively. They must be held to account regularly and fearlessly to ensure this is really happening.

What we do: Basically, let the sunlight in! We seek out external scrutiny, with a non-executive chair of our board, and regular external, independent audits of our advice and client satisfaction. We're very transparent with our team, sharing strategies and financials regularly with all staff. We encourage self-reporting of incidents and don't penalise staff for being human beings who occasionally make mistakes. When we've made a mistake, we let the client know, and 'make–good' any detriment, quickly. We expect all our staff to live our values and we act if this isn't happening – and this applies to everyone, irrespective of their role.

Remuneration

Still in this day and age, some organisations pay their planners very little unless they make a sale. Top 'performers' are considered to be those planners who bring in the most $ to the organisation. They are set very high sales targets such that they have no time left to look after existing clients or improve their knowledge, if they want to pay the mortgage and feed their families.

Profile's view: What gets rewarded gets done. The remuneration structure is a pretty clear indication of what an organisation really values.

What we do: Overall, helping Profile grow is just one of five KPI areas for our planners, and it's 25% or less of the overall assessment. The other 4 areas are client satisfaction, delivering on our service & quality promises, ongoing professional development, and teamwork & leadership. To be considered a good performer in our organisation, a planner needs to be delivering across all these areas - great sales can't make up for poor client satisfaction, or poor quality advice.

Vertical integration

This term refers to businesses which combine activities at two or more stages of production – such as advice and a platform or investment product. It is the dominant business model in the financial services industry. In fact almost all businesses of any size use it – including the "big 6" of AMP, IOOF, ANZ, NAB, Westpac and CBA, as well as most industry super funds – as does Profile, and most boutiques of our size or larger. It can provide many benefits to clients (including economies of scale and the convenience of dealing with fewer providers). However it's clear from the findings so far that many institutions are poorly managing the potential conflict this structure presents. In some cases clients were given poor advice to move to in-house products that left them in an worse position than before.

Profile's view: It's critically important to manage potential conflicts effectively in any business. Advice providers have a duty to put their clients' interests before their own and must ensure that incentives structures, processes and monitoring and supervision support this.

What we do: Our planners have no targets set or bonuses paid for recommending any one product over another – or indeed, any products at all. Our processes ensure that all advice to clients is seen by at least three people in our business before being issued to clients. And we regularly audit our advice – both internally via our compliance team (which has a separate reporting line to the planning division), supplemented by external audits. Most importantly we act on any findings – including improving internal processes and training. A planner who fails an audit cannot receive a bonus.

Fee for no service

There were several examples of organisations that hadn't delivered on contractual promises of service made to their clients, but continued to charge fees. In a few cases this was deliberate – a new planner wasn't assigned to a client when the previous planner left an organisation. Many also weren't producing statutory documents, such as the FDS, that are already required by law.

There's still a grey area under this heading, which relates to products in some cases many decades old, where ongoing 'commission' is built into the fee structure. If that isn't being paid to a planner, the institution keeps it - with no saving for the client and no service either!

Profile's view: Compliance with the law isn't optional, even if the laws are hard to comply with. But further legal changes are going to be required to deal with the issue of legacy fees and products. A requirement that the client save the fee if there's no active adviser on the product, would force institutions to upgrade their systems and product rules. Even better would be legislation that helped clients in moving away from old products, such as waiving CGT, and ensuring clients can move to the latest & most favourable insurance policies with no loss of coverage.

What we do: Planners are assigned to all our review service clients. When a planner changes (which is fairly rare!) we ensure continuity of service and advice. We internally audit annually to ensure we're delivering on our service promises. And we currently produce the FDS document, and opt-in notice, annually in bulk for all our clients (which helps many at tax time).

We, along with most firms with a long history, have some clients holding legacy products with commission built in. Where it's not in the client's best interests to change products, we treat that commission as part of our overall fee (where applicable, reducing advice fees payable from other sources).

In conclusion

This isn't a complete list of issues, and the Royal Commission still has a while to run (the final report is due on 1 February 2019.) We know it's also critical that we stay vigilant and never get complacent when it comes to our culture of putting the client first. We would welcome any questions you might have about the issues raised - please don't hesitate to contact your planner, or either of us, if you'd like to discuss any of the issues further.

Client Profile – Rick Beehag

By Aine Love, Marketing Manager

Rick starts with a comment that may resonate with a lot of us, "One's life is sometimes influenced by one's beginning". It set the tone for quite a philosophical insight into how we can all learn and adjust in a positive way to most situations, as he certainly did.

Rick describes how his parents split when he was two and he was raised by a very kind, elderly lady who had no children of her own. They lived above a shop in Sydney until he moved out when he was 20, and he remained in contact with both his parents during this time. As a child, Rick recalls his needs were adequately covered but he also witnessed significant poverty by those who were close to him, which he feels was due to lack of education and opportunity.

When Rick was 21 he bought a small two-bedroom decaying property in what was then considered a slum area in Glebe. He converted it to a share house and rented rooms out to help pay it off. Rick and his wife still live in this property today, 45 years later, although it's safe to say it's no longer a run-down abode in a slum area!

Rick met his wife through both their mothers chatting at a bus stop and deciding their son's might like to meet, but Rick admits he was much more interested in daughter Eva, his now wife and mother of his three daughters. Eva is from Poland and he tells a sad tale of how her parents lived through World War II, and how his father-in-law lost his first wife and child, six siblings and parents in the war. What Rick's family learnt from that, is summarised in a quote from his father-in-law "They can take everything away from you, but they cannot take what is in your heart and mind".

Rick and Eva feel very strongly about the importance of education – and its effects on opportunities in life. Their daughters all went to the local High School which was then classified as a disadvantaged school as about 20% of Glebe is department housing. Rick feels their background, education and first-hand experience of all sorts of issues of society (from very disadvantaged to advantaged) gave his daughters a depth of understanding of how society works and helped to form their characters. He is proud that his daughters have used their grass roots for good in their careers.

Rick talks about his alarm business which he said unfolded over time. He worked in electronics as a computer customer technician, and then gradually started his own alarm business. While his kids were younger his priority was very much about being part of their lives and the local community. What he loved about being his own boss was that he had the freedom to do things like walk his daughters to school, and participate in their lives more – which was very important to Rick and in a sense made up for what he did not have as a child. He had an active involvement in issues and committees including playing an important role in creating a local basketball organisation for local children, most of whom were from disadvantaged backgrounds and lived in the housing estate. Rick feels very strongly about work-life balance, and acknowledges that there is a trade-off between making a fortune in life and staying in touch with your kids and their lives!

Rick is very motivated and believes if something needs doing he will do it himself. In proving this he decided he wanted a man cave. In Glebe there is not much room to manoeuvre and not being able to build up, he built down! He is rather renowned for his self-built man-cave (google Rick Beehag for the full story), he may have even started a trend! This is not the average undertaking but Rick achieved it - filling 72 skips in the process and wearing out 5 jack hammers!

Rick also shows his courage of conviction by standing up to the state government in 2001 over the issues of selling schools in areas that were facing significant future population growth that was not recognized at the time. Whilst during this time he learnt a sad lesson about humanity, social justice and positions of power, he also had the contents of a paper he wrote being extensively used by a politician on the ABC's 7:30 report, which resulted in positive change around the needs of kids living in the inner-city.

Rick became a client of Profile's through our merger with Capel & Associates in 2013. The Beehags followed with full confidence in their adviser having made the right choice for them. Rick tells me he likes the culture of Profile, and the flexibility and services that Profile offers.

We are delighted that despite their previous adviser having retired, Rick and Eva remain happy clients and we look forward to hearing about any future ventures Rick may undertake!

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