

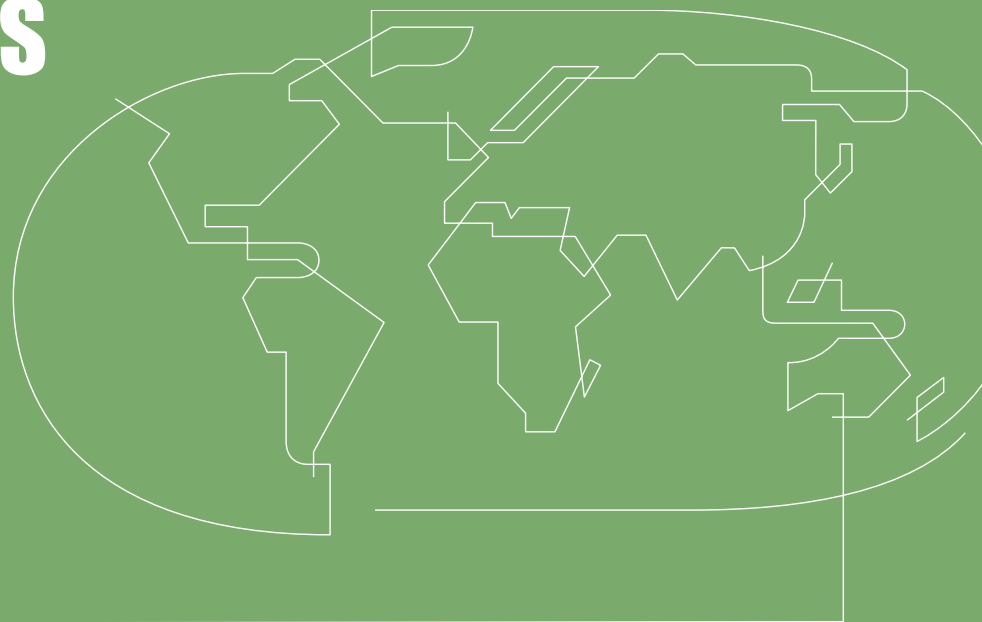
# MANAGED ACCOUNTS LESSONS FROM INTERNATIONAL MARKETS

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Head of the Investment Solutions Group, Asia Pacific

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The information contained in this document is current as of the date presented unless otherwise noted.



# Delivering institutional strength solutions for your clients

## About the Investment Solutions Group

<b>Dedicated</b>	<ul style="list-style-type: none"><li>Over 90 dedicated investment strategists, analysts and portfolio managers tap into more than 530* SSGA investment professionals, risk, regulatory and compliance specialists globally</li></ul>
<b>Experienced</b>	<ul style="list-style-type: none"><li>Team members average 15 years investment experience, many coming from central banks, plan sponsors, corporations and institutions</li></ul>
<b>Global/Local</b>	<ul style="list-style-type: none"><li>Located in key investment centers, Boston, London, Dublin, Tokyo, Sydney, Hong Kong, Montreal, Stamford and Bangalore, providing perspective on every region, issue and client type</li></ul>
<b>Decisive</b>	<ul style="list-style-type: none"><li>Deliver actionable ideas and advice, providing decisive answers to the full range of complex investment problems our clients face</li></ul>



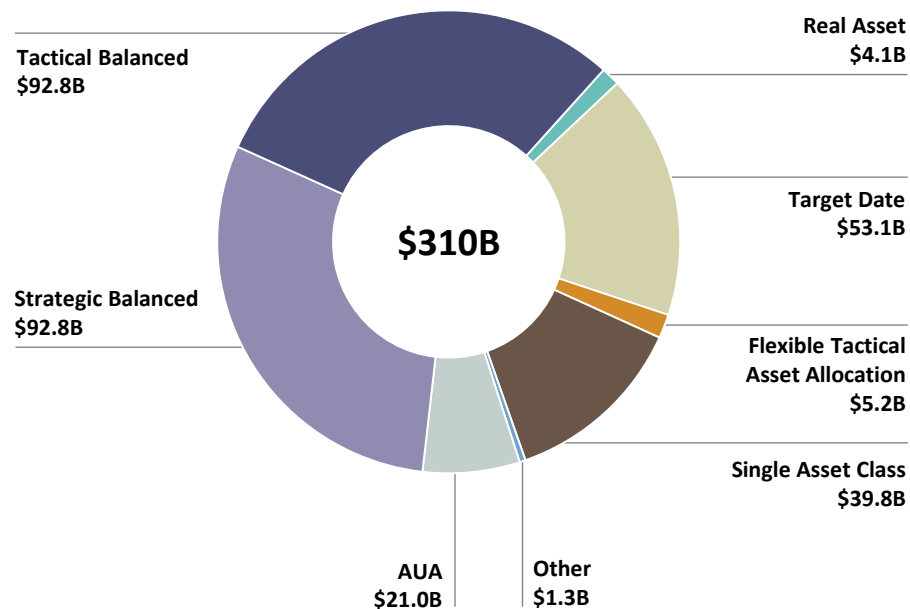
Source: SSGA, as of December 31, 2017.

\* As of March 31, 2017

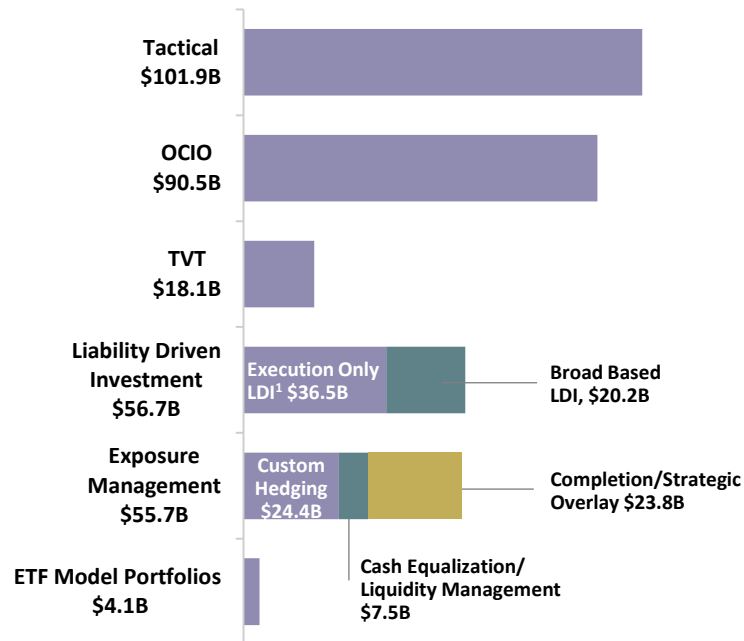
# SSGA Investment Solutions Group business profile

## Assets Under Management<sup>1</sup> and Assets Under Advisory/Consulting<sup>2</sup> \$310 Billion

### Total ISG AUM/AUAC — All Strategies



### Select ISG Capabilities



As of December 31, 2017. All figures are in US dollar.

<sup>1</sup> Total ISG AUM of \$289.1B excludes Execution Only LDI. Derivatives based exposure management AUM represents the notional value of exposure managed.

<sup>2</sup> Assets Under Advisory/Consulting of \$21.0B includes mandates for which the firm provides advisory or consulting services supporting an investment management process that does not include the responsibility to arrange or effect the purchase or sale of securities and/or funds.

In 2015, ISG revised the AUM and AUAC calculation methodology and account categorization process.

# Times are changing and so should your approach

## Global challenges

- Industry complexity resulting in time and resource constraints
- Time dedicated to investment management is shrinking as client facing activities are taking more time
- More ETF selection now than ever before making it harder to adequately track and evaluate options
- Value of advisor asset management is dwindling with growth of robo advisors and outsourced services

## Potential benefits of adopting managed portfolios

- Risk management for AFSLs
- Efficiency with your practice to deliver better service
- Free up more time to engage with clients, increase client retention and attract more business
- Access to institutional strength solutions for your clients

# GLOBAL TRENDS AND DRIVERS

# Global drivers supporting ETF managed portfolio growth



**REGULATION**



**TECHNOLOGY**



**MACRO  
TRENDS**



**DEMOGRAPHICS  
SHIFT**

Source: Morningstar “A Guided Tour of the European ETF Marketplace 2017”; Morgan Stanley “Asset Management: Disruption Looms”; CB Insights; BCG “The Innovator’s Advantage”; Credit Suisse “European Diversified Financials”. As at 30 September 2017.

# What's happening in the US?

59% of all respondents indicated they would use an external provider to **free up time in their practice**; with this extra time, 61% plan to **spend more time with clients** and 53% plan to spend more time **developing their business**

EXHIBIT 6: PRIMARY OUTSOURCING DRIVERS BY FIRM TYPE

	RIA	Independent broker/dealer	Hybrid RIA	Regional broker/dealer	Bank/trust	Insurance broker/dealer
To free up time in my practice	51%	67%	81%	60%	50%	29%
Alpha generation	31%	26%	11%	20%	50%	21%
Access to investment strategies	54%	58%	63%	50%	60%	43%
Access to investment vehicles	25%	19%	19%	30%	40%	21%
Access to portfolio services	15%	32%	26%	20%	20%	21%
Access to account management services	25%	35%	30%	40%	40%	21%

Source: "External Investment Management: Advisor Attitudes and Adoption," Northern Trust, 2016

Alpha generation isn't the primary driver for any firm type

# Drivers supporting ETF managed portfolio growth

## United States

### Regulatory

- **Department of Labor's (DOL) Fiduciary Rule** - demands that advisors act in the best interests of their clients, and to put their clients' interests above their own. It leaves no room for advisors to not conceal any potential conflict of interest, and states that all fees and commissions must be clearly disclosed in dollar form to clients

### Technology Disruption

- Rise of digital distribution and automated investing has democratized wealth management, giving all investors access to sophisticated investment strategies

### Macro / Demographic

- Low growth and rates remaining at relatively low levels placing heightened awareness on fees and performance
- 40% of advisors in the US are set to retire over the next decade
- Registered Investment Advisors (RIAs) are the fastest growing market segment

## Europe

- **Retail Distribution Review (RDR)** – aimed to improve consumer protection when purchasing investment products via transparency and removing commissions;
- **Markets in Financial Instruments Directive (MiFIDII)** – aimed to increase transparency and protection for end investors by shifting trading towards structured marketplaces, lowering cost of market data, and making costs of trading and investing clear and explicit
- Robo-advice offerings have grown rapidly throughout Europe with the UK and Germany raising 17% of global deal share
- Online distribution is increasing
- Geographically fragmented nature of European market has influenced ETF industry, e.g., there is no ubiquitous European equity index that is as comparable a focal point as S&P 500 in the US, but rather a collection of national blue-chip indices.



# Drivers supporting ETF managed portfolio growth

## Japan

### Regulatory

- **The Financial Services Agency (FSA)** “Dynamic Supervision of Safety and Soundness”. (See next page)

### Technology Disruption

- Robo – targeted at younger investors
- Mutual funds extremely expensive
- Strong shift to index underlyers

### Macro / Demographic

- Returns on investments extremely low
- Zero interest rates
- Negative population effect plus extreme aging
- More adult nappies sold than baby versions

## Australia

- **Future of Financial Advice (FOFA)** - A ban on conflicted remuneration structures including commissions and volume based payments, in relation to the distribution of and advice about a range of retail investment products.
- A duty for financial advisers to act in the best interests of their clients, subject to a 'reasonable steps' qualification, and place the best interests of their clients ahead of their own when providing personal advice to retail clients.
- ‘New age’ platforms are changing advisers business models, allowing for improved customer experience.
- Client demands for investment portfolio transparency supporting the acceptance of technology – 24/7 society
- Aging population – growing Active Retirement client base
- Millennials – seeking cost effective and transparent investment solutions – mostly non advised
- Brokers shifting to become Wealth managers, looking to diversify their client offerings and introducing a cost effective and flexible way to access global equities .

SSGA, as at 15 March 2018

# Japan - FSA's "Dynamic Supervision of Safety and Soundness"

- *"Even if a firm records decent current earnings, it may cease to be profitable and impair their capital base in the future, if its business model is not sustainable, for example, in the following manner:  
While shrinking population in the region is expected to lead to decrease in lending opportunities, the firm is wedded to a volume oriented strategy and has not found an alternative business model which enables it to grow together with its customers and the local community.  
The firm is **profitable by churning fees from investors, but the practice may erode customers' trust in it over time.**"*
- (6) Excessive trading  
*Based on materials on internal control and major accounts, transactions of inordinate frequency or excessive volume vis-à-vis the customer fund capacity and customers with peculiarities vis-à-vis their respective fund characteristics and customer attributes are selected and verified regarding the following matters:*
  - (i) *Have there been **excessive solicitations to the customer**, overlooking the customer's fund capacity and fund attributes?*
  - (ii) *Are there **suspicious transactions in terms of customer fund attributes** and transaction flow?*
  - (iii) *Are there suspicious transactions in terms of order times, with attention paid to customer attributes?*
  - (iv) ***Have intensive sales campaigns been organized, based on the allocation of sales quotas** to business offices and personnel?*
- *"The Financial Services Agency (FSA) has accused the nation's "toshin" investment funds of charging high fees, **delivering poor returns and pushing investors from one trendy product to the next to generate fees.**"*
- *"Fund distributors have gotten their asset-management subsidiaries to create products that help themselves make money, ignoring customer needs," wrote 44-year-old blogger Kenichi Minase, who joined a recent meeting of bloggers, investors and FSA officials.*
- ***Bloggers go by pseudonyms in Japan and the FSA did not require them to give their real names at the meetings. Minase is one of Japan's best-known bloggers among retail investors** and his blog has been viewed 41 million times since January 2016. He declined to be identified other than by his pseudonym." Reuters July 12th 2017*

Source: <http://www.fsa.go.jp/>

# Design a solution to fit your clients



**STRATEGIC ASSET  
ALLOCATION**



**STRATEGIC  
OPPORTUNITIES**



**TACTICAL ASSET  
ALLOCATION**



**THEMATIC**



**OUTCOME-BASED**

# Why ETFs? Effective managed portfolio building blocks

- Lower cost** ETFs offer a lower cost structure due to the low levels of imbedded MERs versus many managed funds and unit trusts total fees.
- Diversification** ETFs hold a diverse group of securities, delivering the potential benefit of broad exposure to a single asset class or category.
- Transparency** Clients can see what they own, such as Alibaba within the SPDR® S&P® Emerging Markets Fund
- Precision** ETFs are available in almost any asset class, market capitalization or investment style.
- Flexibility** Ease of transacting via ASX to support timely portfolio rebalances.

This information should not be a recommendation to buy or sell any security or sector shown. It is not known whether the securities or sectors shown will be profitable in the future.

# US CASE STUDY

Unconstrained tactical ETF managed portfolios

# US case study: Unconstrained tactical ETF managed portfolios

## Challenge

- A large Broker-Dealer had over \$3.5Bn of client money invested in ETF Managed Portfolios that were strategies ran by a manager who was issued a “Wells Notice” by the SEC for their Investment Management practices
- The Broker-Dealer needed to terminate the manager, and find a replacement manager who could generate the same investment outcomes for their clients

## Strategy Requirements

- The focus of the solution was to offer downside protection with the ability to tactically allocate to cash or short-term Treasuries.
- There were two strategies required:
  - **Domestic or Global Sector Rotation** – benchmarked to the S&P 500; targeted alpha 3-5%; satellite role within a diversified portfolio; aggressive risk tolerance
  - **Global Balanced/Rotation** – benchmarked to a combination of the S&P500, MSCI ACWI ex US, and the Barclays US Aggregate Bond Index; targeted alpha 3-5%; satellite role within a diversified portfolio; aggressive risk tolerance

The information contained above is for illustrative purposes only.

# US case study: Unconstrained tactical ETF managed portfolios

## Solution

- SSGA's Investment Solutions Group (ISG) had the following strategies and capabilities to draw upon:
  - US Equity Sector Rotation
  - International Country Rotation
  - Fixed Income Sector Rotation
  - Real Asset strategies (REITs and Commodities)
  - Risk Management/Downside Protection
  - Tactically Managed ETF Portfolios since 2008

## Outcome

- By paying specific attention to the client's needs and combining their capabilities in a thoughtful way, ISG was awarded the mandates both portfolios

The information contained above is for illustrative purposes only.

# CASE STUDY

Increasing diversification into an Australian wealth managers offering



# Case study: Increasing diversification into an Australian wealth managers offering

## Challenge

- Established Australian wealth adviser had well established set of client portfolios. Portfolios were all direct lines with limited use of managed funds.
- Accessing international equities and fixed income assets was achievable but not part of the core skills of the adviser.

## Strategy Requirements

- An active international equity solution, ACWI target, and an index fixed income solution, both for domestic and international exposures.

The information contained above is for illustrative purposes only.

# Case study: Increasing diversification into an Australian wealth managers offering

## Solution

- A quantitative review of the portfolios; objective was to identify the risk and return characteristics at the total portfolio level.
  - Stress tests versus a range of scenarios measuring drawdowns, volatility and income impairment.
  - Identification of key risk factors; duration, credit, equity beta and liquidity.
  - Identification of return risks; regional, country, sector, style and industry concentrations or gaps.
  - Identification of asset classes that could be added to improve diversification and enhance portfolio return.
- A sleeve of international equity ETFs was built to supplement the portfolios existing exposure. The strategy uses the active tactical processes used by the ISG since 2008.
- Additional ETFs were introduced that have exposure to Australian and international fixed income.

## Outcome

- Client has decided to implement the international equity strategy and has already deployed capital into fixed income ETFs.

The information contained above is for illustrative purposes only.

# CASE STUDY

Leveraging expertise to create efficiency

# Case study: Leveraging expertise to create efficiency

## Challenge

- Well established and experience financial planning firm establishes own AFSL and wishes to focus on their core capability of providing Strategic advice.
- Given that investment assets allocation, product selection and implementation is required to meet the needs of their clients strategic this is a capability which they would prefer not to undertake due to this not being their expertise, risk management concerns and also resourcing constraints within their practice.
- The firm is keen to define their investment approach prior to selecting a platform to implement to make sure all the required features are available.

## Strategy Requirements

- Sub advisory support
- Locally domiciled ETFs, within their APL
- Best of breed managers – an agnostic approach
- Total cost to client sub 100bps including platform fee

The information contained above is for illustrative purposes only.

# Case study: Leveraging expertise to create efficiency

## Solution

- A quantitative review of the portfolios; objective was to identify the risk and return characteristics at the total portfolio level.
  - Stress tests versus a range of scenarios measuring drawdowns, volatility and income impairment.
  - Identification of key risk factors; duration, credit, equity beta and liquidity.
  - Identification of return risks; regional, country, sector, style and industry concentrations or gaps.
  - Identification of asset classes that could be added to improve diversification and enhance portfolio return.

## Outcome

- ETF based model portfolios, mix of issuers, locally domiciled with SAA base with TAA overlay.
- SSGA implement the portfolios via their chosen platform.

The information contained above is for illustrative purposes only.

# A global reach through a local presence

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