APRIL 2018 VOLUME 30 | ISSUE 03

MONEY & LIFE

The magazine for FINANCIAL PLANNING PROFESSIONALS

Towards a cleaner, greener future

KATERINA KIMMORLEY ON PHILANTHROPY AND SOCIAL GIVING

Paul Clitheroe:

LIVING THE VALUES OF THE CULTURE YOU SET

+ ALSO: PHILANTHROPIC GIVING | NATIONAL CONSUMER CAMPAIGN | AUSSIE EQUITIES
NDIS AND LIFE INSURANCE | DEATH NOMINATION FORMS

FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA


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FOCUS

GIVING BACK FOR THE GREATER GOOD

I am constantly blown away by the generosity of FPA members who give back to the community.

This philanthropic work ranges from pro bono financial advice, to supporting community services and charitable causes, including Future2, as well as the giving of time and expertise through mentorship of up-and-coming individuals in our profession and more.

I proudly acknowledge each of you who are promoting positive change in your local communities.

I'm excited about the ways that FPA members have contributed to recent philanthropic initiatives, including the Cancer Council's Pro Bono Financial Planning Referral Service. FPA members from 81 practices across the country have registered to be involved with the service by donating their time to assist cancer patients and their families with a wide range of financial issues on a pro bono basis.

CONNECTING WITH YOUNG AUSSIES

Many FPA members are also active contributors in local schools. To support this, we have launched an FPA toolkit designed to help you connect with young Australians around financial literacy.

To bring interactive financial literacy to primary school kids, the FPA has partnered with Banqer – an online tool that helps teachers deliver financial literacy in an engaging and relevant way. In the high school space, we have developed a presentation to enable FPA members to deliver financial capability skills in a fun and engaging manner at their local school.

All tools, including the FPA toolkit and videos, are available online at the FPA Member Centre.

FUTURE2 GROWS

Thanks to each of you who generously support the Future2 Foundation. Your support is having a powerful and positive effect in improving the lives of disadvantaged young Australians.

A program we have supported recently included funding towards an education program for troubled youth. Outcomes from this program include halving the rates of severe psychological distress among participants, reducing the suicide rate by 40 per cent and dropping cases of multiple school suspensions by 70 per cent.

FASEA AND ROADSHOW

The FPA National Roadshow is a chance for you to hear about the latest on the proposed education standards and for you to contribute to the FPA's response back to FASEA. These events are happening at 33 locations from 18 April - 15 June. Find out more at fpa.com.au/roadshow.

CONSUMER ADVERTISING

Head over to p10 to read about our latest consumer advertising campaign that kicks off this month. Our ads showcase how a CFP® professional can help everyday Australians achieve their hopes and dreams.

Dante De Gori CFP®, CEO

Follow Dante on Twitter @ddegori10

News

NEW GUIDANCE ON PROPOSED FASEA EDUCATION STANDARDS ANNOUNCED

To date, there has been a lot of confusion circulating about the guidance the Financial Adviser Standards and Ethics Authority (FASEA) has released on proposed education pathways for the financial planning profession.

But as FPA Chair, Neil Kendall CFP® points out, it is important for members to understand that the qualification pathways announced by FASEA are proposals only and not the final outcome. And now, the proposed education standards are open to the industry for consultation until 29 June.

"So, the FPA wants to be very clear that this is a proposal from FASEA and has not been endorsed or supported by the FPA," Kendall said. "The FPA has had absolutely no input into these proposals, nor been consulted. We're completely at arms length to them."

On 20 March this year, FASEA announced new guidance on its proposed education standards for financial planners and a proposed Code of Ethics (see graphic below).

The other criteria being addressed by FASEA includes:

- **COMPETENCY EXAM**

Planners will have until 1 January 2021 to complete a competency exam. This exam will be done through FASEA to its standards. As yet, no further information on this exam has been issued by FASEA.

> *...the FPA wants to be very clear that this is a proposal from FASEA and has not been endorsed or supported by the FPA.*
>
> *– Neil Kendall CFP®*

FPA Chair, Neil Kendall CFP®

- **CPD**

There is now a requirement that all financial planners undertake regular CPD. However, for FPA practitioner members, this has long been an FPA standard. As such, the FPA doesn't expect the FASEA CPD requirement to be materially different to practitioner members' existing obligations.

- **CODE OF ETHICS**

All planners will be subject to a Code of Ethics from FASEA. On 20 March this year, FASEA released its draft code of ethics for consultation, which is open until 1 June 2018.

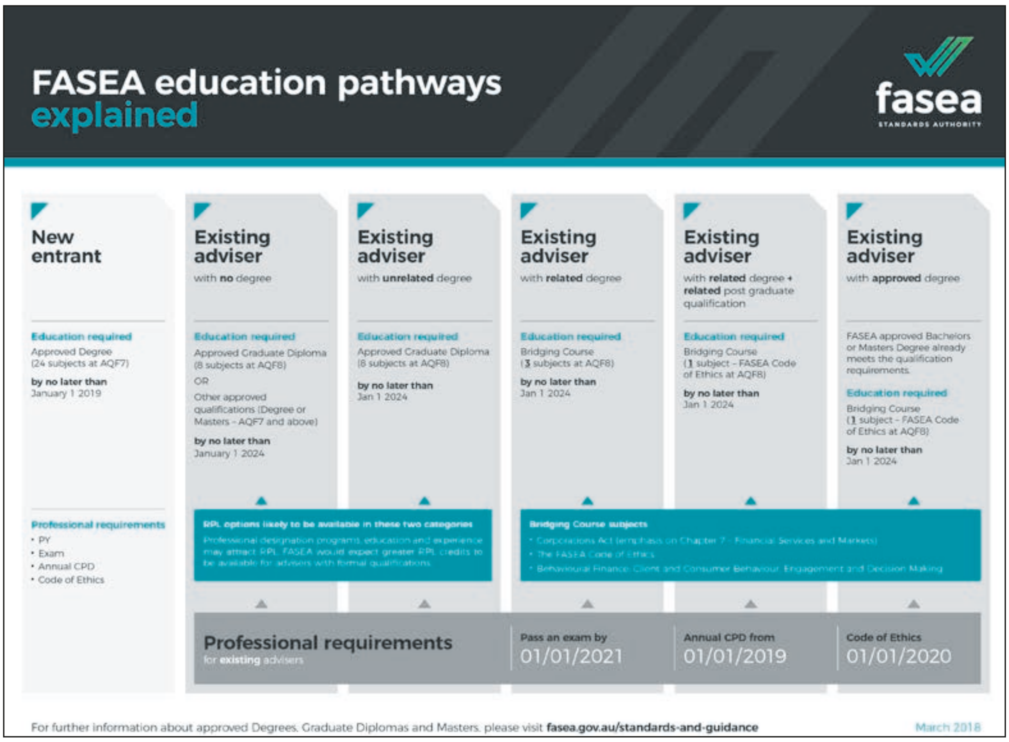
MEMBER FEEDBACK

In relation to FASEA's proposals, the next stage of the process for the FPA will be consultation.

"There have been significant changes in FASEA's thinking since its December announcement last year," Kendall said.

"It is important that FPA members think about how this will affect them, their business, their clients and potential clients, in order for them to share with us their considered feedback on the proposals."

Members can contact the FPA concerning the FASEA proposals at: policy@fpa.com.au



REGULATOR CONSULTS ON OVERSIGHT OF AFCA

ASIC has announced it will seek public consultation on draft regulatory guidance on its oversight of the Australian Financial Complaints Authority (AFCA).

The Minister for Revenue and Financial Services, Kelly O'Dwyer, welcomed the announcement, saying ASIC's draft guidance is an important step in establishing the AFCA as a one-stop shop for external dispute resolution in the Australian financial system.

"We are putting the governance processes in place, so the AFCA is ready to start receiving consumer and small business disputes no later than 1 November 2018," Kelly O'Dwyer said.

Parliament passed legislation to establish the AFCA scheme on 14 February 2018. Under the legislation, ASIC will have a new directions power that will strengthen its oversight of the new external dispute resolution scheme.

"The draft regulatory guidance sets out ASIC's approach and I encourage all stakeholders to be involved in this important consultation process," O'Dwyer said.

Kelly O'Dwyer

Peter Kell

The draft regulatory guidance – *Regulatory Guide 139, Oversight of AFCA* – is currently open for public consultation, with a view to the updated RG 139 being finalised and published by the time AFCA commences. ASIC also invites stakeholder views on the need for any transitional relief from external dispute resolution disclosure obligations.

If FPA members have any questions concerning RG 139, please email: policy@fpa.com.au.

ASIC DEPUTY CHAIR

And in other news from ASIC, the Government has announced that it will create a new Deputy Chairperson role at the regulator.

"This will build on and strengthen ASIC's leadership to assist it to operate as a world-class regulator," O'Dwyer said.

"A second Deputy Chair will give ASIC greater flexibility to manage the breadth of ASIC's new powers and increased responsibilities resulting from recent and upcoming law changes. It will also bring ASIC into line with the structure of the Australian Competition and Consumer Commission (ACCC)."

> *A second Deputy Chair will give ASIC greater flexibility to manage the breadth of ASIC's new powers and increased responsibilities resulting from recent and upcoming law changes. It will also bring ASIC into line with the structure of the Australian Competition and Consumer Commission (ACCC).*
>
> *– Kelly O'Dwyer*

As part of the Government's announcement, ASIC Deputy Chair, Peter Kell has been reappointed for a further one-year period – from 6 May 2018 to 5 May 2019.

Kell joined ASIC as a full-time member in 2011 and commenced as the Deputy Chair in 2013.

THE AUSSIE philanthropy *landscape*

Money & Life switches its focus onto philanthropy for this issue, with practitioners and entrepreneurs sharing their insights on philanthropy and giving.

AUSTRALIANS WHO GIVE **14.9** MILLION

12.5 BILLION TOTAL THAT AUSSIES GAVE TO CHARITIES AND NOT-FOR-PROFITS

81% PERCENTAGE OF POPULATION THAT GIVE

Source: Giving Australia 2016

NATIONAL ROADSHOW spotlight ON STANDARDS

The 2018 FPA National Roadshow will provide members with the chance to learn more about the proposed Financial Adviser Standards and Ethics Authority (FASEA) education and professional standards.

"We know there's a lot of confusion among existing financial planners about how exactly the proposed FASEA standards will affect them," said FPA chief executive officer, Dante De Gori CFP®.

"The annual FPA National Roadshow is an important opportunity for planners to unite across the profession and discuss what all the changes will mean.

"I encourage FPA members to share their concerns, so we can address the issues and build a solid position to respond to FASEA in an appropriate and meaningful way."

Kicking off with the South East Melbourne Chapter on 18 April, the roadshow will visit 33 locations nationally from April to June. The FPA has partnered with Perennial Value Management for the event.

Topics to be discussed at the roadshow include:

- **Understanding the proposed FASEA education standards;**
- **The latest Government and regulatory policy updates; and**
- **How to enhance client experience and strengthen client relationships with best practice guidance.**

In addition, Perennial Value Management will share insights on how passive and active management can co-exist in a client's portfolio. Attendees will earn two CPD hours and each session will include Q&A time.

The roadshow is free to attend and is open to FPA members and non-members. To register, go to fpa.com.au/roadshow

SAVE THE DATE

Wednesday 18 April
Geelong – 12pm-2pm
South East Melbourne – 7:30am-9:30am

Thursday 19 April
Ballarat – 7:30am-9:30am
Gippsland – 12pm-2pm

Friday 20 April
Bendigo – 7:30am-9:30am

Monday 30 April
Mid-North Coast (Coffs Harbour) – 12pm-2pm

Tuesday 1 May
Mid-North Coast (Port Macquarie) – 12pm-2pm

Wednesday 2 May
Far North Coast – 7:30am-9:30am
New England – 12pm-2pm

Thursday 3 May
Gold Coast – 12pm-2pm

Friday 4 May
Toowoomba/Darling Downs – 7:30am-9:30am

Monday 14 May
Western Division (Dubbo) – 12pm-3:15pm

Tuesday 15 May
Western Division (Orange) – 9:30am-12:30pm

Wednesday 16 May
Western Australia – 7:30am-9:30am

Thursday 17 May
Northern Territory – 7:30am-9:30am
South Australia – 12pm-2pm

Friday 18 May
Sunraysia – 12pm-2pm

Tuesday 22 May
Brisbane – 12pm-2pm

Wednesday 23 May
Melbourne – 12pm-2pm

Friday 25 May
Cairns – 12pm-2pm

Monday 28 May
Tasmania (Hobart) – 12pm-2pm
Tasmania (Launceston) – 12pm-2pm

Wednesday 30 May
Sunshine Coast – 12pm-2pm

Thursday 31 May
Wollongong – 12pm-2pm

Friday 1 June
ACT – 12pm-2pm

Tuesday 5 June
Riverina – 12pm-2pm

Wednesday 6 June
Albury Wodonga – 12pm-2pm

Thursday 7 June
Goulburn Valley – 12pm-2pm

Wednesday 13 June
Sydney – 12pm-2pm
Townsville – 12pm-2pm

Thursday 14 June
Mackay – 7:30am-9:30am

Friday 15 June
Newcastle – 12pm-2pm
Wide Bay – 7:30am-9:30am

** Breakfast or lunch is included. Registration is approximately 15 minutes before the start time.*

The FPA congratulates the following members who have been admitted as

CERTIFIED FINANCIAL PLANNER® PRACTITIONERS

NSW
Andrew Travis CFP®
NAB Financial Planning

QLD
Magdeline Jacovides CFP®
Aspire Retire Financial Services

VIC
Benjamin Walvisch CFP®
Strategic Financial Solutions

Cameron Bishop CFP®
NAB Financial Planning

MARKETING

CONSUMER CFP® AD CAMPAIGN KICKS OFF

This month sees the launch of the 2018 FPA consumer CFP® advertising campaign, which has been designed to promote the benefits of financial advice by a CERTIFIED FINANCIAL PLANNER® professional.

Building on the momentum from 2017, this year's consumer advertising campaign will continue to focus on demonstrating what a CFP® professional can do for everyday Australians. And over the April to June period, the campaign will go to new heights by refining its approach to the advertising channels utilised.

The advertising includes different messages to target key lifestyle goals among 40-65 year old Australians, including: '*A CFP® helped us plan for her future*'; '*A CFP® helped me pay off my home*'; '*A CFP® helped us travel the world*' and; '*A CFP® helped me start my dream business*'.

GOING DIGITAL AND OUTDOORS

Funded by CFP® professionals, this year's campaign will be seen across outdoor advertising and extensively on digital channels. The advertising will be used to drive impact and consumer awareness.

The campaign will utilise the latest digital location tools to ensure the ads are shown to a targeted online audience across premium and highly frequented sites, such as *news.com.au, ebay.com.au*, Facebook and *domain.com.au.*

Another powerful benefit presented by the latest digital advertising opportunities is the ability to ensure the advertising is seen by a consumer audience in the specific areas that Australia's 5,700 CFP® professionals are located in.

"The sophistication of digital advertising today means our ads will be seen in areas where CFP® professional members are directly located," said FPA Head of Marketing, Elle Manton.

"For example, the campaign will target those in the 40-65 year age bracket, who have been researching personal finance topics online, or searching for a financial planner on Google, or who might have recently been sharing content around these topics on social media or in emails," Manton said.

"It means our advertising is relevant to consumers, and also valuable to CFP® professionals."

The sophistication of digital advertising today means our ads will be seen in areas where CFP® professional members are directly located...

These are examples of advertising creative.

Digital advertising is no longer booked as a placement on a certain site or webpage, but rather, served to people who are considered a good prospect.

"The ads basically follow our audience where they go," Manton said.

OUTDOOR ADVERTISING IN REGIONAL AREAS

The success of last year's outdoor advertising campaign has prompted the FPA to increase the level of outdoor advertising to cover as many areas as possible across Australia.

The outdoor activity will run in major capital cities at bus stations and on the streets, as well as in shopping centres across major metropolitan and regional areas.

These ads will run alongside the digital advertising during the April to June campaign period.

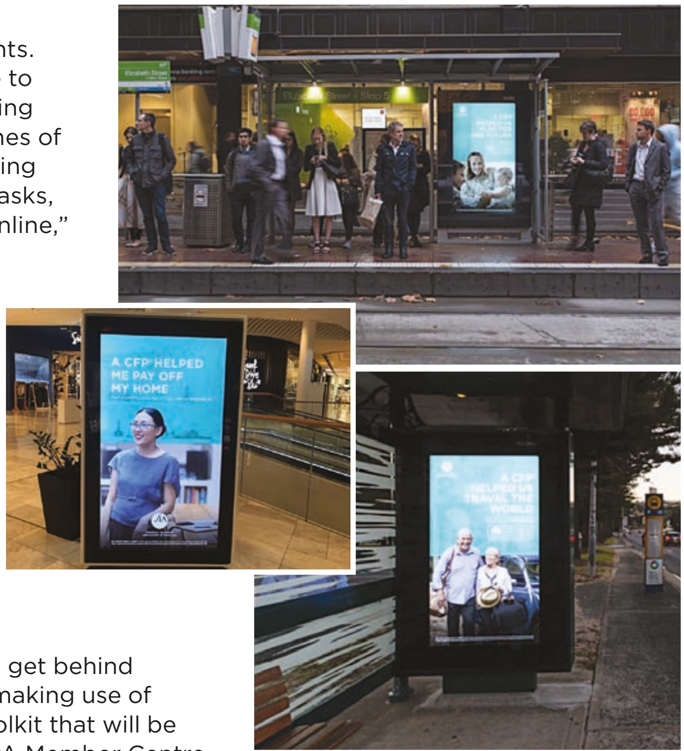
According to research conducted by Roy Morgan (*Roy Morgan Single Source Sept 17 Database)*, outdoor advertising has the heaviest media consumption among the target audience of 40-65 year old Australians.

"Our key audience is a heavy consumer of outdoor advertising and spend the most time within digital environments. So, it makes sense to show our advertising where large volumes of Australians are going about their daily tasks, both offline and online," Manton said.

The outdoor and digital advertising will run in conjunction with the ongoing content, social media and search advertising efforts the FPA runs year round.

FPA members can get behind the campaign by making use of the advertising toolkit that will be available at the FPA Member Centre, including social media assets, to help take the message directly to more Australians.

As with previous years, the campaign continues to inform consumers about the international recognition of the CFP® mark, as well as the high education, professional and ethical standards that the CFP® designation represents.



These are examples of outdoor advertising placements only.

Consumers will be directed to the 'Find a Planner' tool on the FPA website, which will help connect consumers to a CFP® professional in their local area.

Insight

OPINION CORNER

THE GIFT THAT KEEPS ON GIVING

Question: In what ways are you helping charities and not-for-profit organisations in your local community, and why do you believe it is important to do so?

Tracey Edwards CFP®

Director,
First Advice Solutions

Licensee: First Advice Licensee Services

As Chair of the EBL Foundation, the work we do has a powerful social impact on some of those most vulnerable people in society who are living with severe and profound disabilities.

Furthermore, the work we do creates financial benefits through sponsorship of carer events to ensure families and caregivers can take a well-earned break from the caring role. I never realised how important this work was until I saw the impact it has.

Specifically, the Foundation sponsors people living with severe disability to participate in a range of recreational activities and assisted holidays that may be out of reach for many individuals.

As the Chair, I provide monetary oversight of the Foundation's investments and expenditure. The Foundation continues to diversify its portfolio, with a current project underway involving key partners who are establishing specialised disability housing.

The disability housing project will showcase a range of innovative building design features and integrated assistive technologies aimed at improving the access and independence of those clients who utilise the building.

Peter Farrar CFP®

Financial Planner,
Cape Financial Planning

Licensee: Financial Wisdom

Looking back, my wife and I have provided financial support to worthy causes for many years. It was mostly done via our business and we tended to support whatever was 'on our radar'.

For example, when we were younger, it was Greenpeace. Then we had kids, and we made our focus the Children's Hospital and supported overseas kids through World Vision. Since then, we have added the Salvos and other worthwhile charities to the list.

But looking back, we didn't really support smaller local organisations, but I wish we had, because these local organisations are in our town.

We live in Busselton, a small regional town in Western Australia, two and half hours south of Perth. My current focus is a small not-for-profit organisation called 'Lamp Inc', and it is based right here in Busselton.

Lamp provides support to those suffering from mental health issues, and I really like their youth support program. But Lamp, like many local not-for-profits, is constantly struggling to access funding. People who are unwell, whether physically or mentally, need easy access to care facilities. Trying to get someone who is mentally unwell to travel for hours to get help just doesn't work.

I should have realised long ago that local organisations are vital. Being a smallish, regional financial planning practice, we provide support to a range of clients, and just like every other practice in the country, we are someone that people can speak to face-to-face when they need help or advice.

My wife and I look forward to continuing our support of not just the bigger organisations, but in future, some smaller ones too. Thanks again to the FPA and the Future2 Foundation.

Question: In what ways are you helping charities and not-for-profit organisations in your local community, and why do you believe it is important to do so?

Joseph Hoe CFP®

Financial Adviser,
Wealthwise
Licensee: Financial Wisdom

I'm involved in various charities, focusing predominantly on youth and education. Through my philanthropic board memberships, I have many opportunities to share my financial expertise and experience to work towards their strategic goals.

I am a board member of the Duke of Edinburgh's International Award – WA, as well as sit on the national board of EdConnect, a national charity that connects volunteers to mentor more than 11,000 primary and high school students who need help and guidance.

Also, I'm one the directors of the FPA's Future2 Foundation. We exist to make a lasting difference in the lives of those who need it most. Through grants to community not-for-profits and charities, the Future2 Foundation supports our young Australians who are financially and socially disadvantaged, helping them to productive, fulfilling lives in the community.

As we reach our 10 year anniversary, the Foundation has raised over $800,000 for our local charities and communities. So, as you can see, philanthropy is one of my great passions in life.

As Winston Churchill once said: "We make a living by what we get, but we make a life by what we give."

What we do to our clients matters to their lives, and what we do to our communities matters to our clients.

By giving back to the community, we play an active role in promoting the work of financial planners to everyday Australians, which highlights the values of our profession.

Sir Charles Court said: "Whatever we want for Australia, we should look for in ourselves. We must all lead by example, as we cannot expect Australians to do what we are not willing to do ourselves."

If we, as members of our beloved profession, bear the sentiments of this challenge in our minds, in our words and our deeds, then I believe we will earn the respect of our communities and perhaps ignite in young Australians, a flame of faith in our vocation and our profession.

For me, that is a challenge worth meeting.

Lisa Farnell CFP®

Financial Adviser,
Financial Solutions Geraldton
Licensee: FYG Planners

Living regionally, our community only survives by people doing what they can to support local charities and not-for-profits. Many of the standard government resources simply aren't available regionally without volunteers helping out.

Personally, I feel more connected to my local community by being involved in things outside my standard circle of work and friendships.

I'm the Chair of a not-for-profit called S.T.A.Y. – Short Term Accommodation for Youth.

Our core business is providing accommodation for youth (aged 14-24) in crisis, but the service extends beyond that to help young people re-engage in education or workplace training, to help them learn to manage and transition to independent living, look after their health and even learn to cook!

We were successful in obtaining a Future2 Grant this year for our driving program, which helps young people get their licences – an opportunity they wouldn't otherwise have had and which significantly enhances their job prospects.

In addition to this role, I also serve as a Justice of the Peace (JP). This role involves document signing and witnessing for the public, police and local rangers, as well as performing basic Magistrate functions from time to time.

Given we only have one Magistrate in town, this becomes an important job. It's not widely known that the role of a JP is voluntary.

I encourage anyone thinking of getting involved with their local community to give it a go. It's hugely rewarding and does make you feel good!

Question: In what ways are you helping charities and not-for-profit organisations in your local community, and why do you believe it is important to do so?

David Hazlewood CFP®

Director,
Knightswood House
Licensee: Consultum Financial Advisers

I'm a financial adviser who loves running and running marathons. I've developed a business that specialises in helping endurance athletes and adventurers to live a life of adventure, and be financially secure.

We are working with two specific charities in the running community.

The first is The Run Beyond Project, which uses running to develop goal setting, resilience and commitment in high school students who are facing adversity. We are helping develop curriculum resources that provide an introduction to financial planning in a way that supports the project's aims, while also providing financial support and assisting with other fundraising endeavours.

We also work with Outrun Cancer and its principal, Luca Turrini. Luca is a client and a 'Live The Dream' brand ambassador for our business. We support his family and the organisation by providing advice to them at a significant discount. We are also involved in their fundraising efforts, including organising a team for the Outrun Cancer Treadmill Marathon.

Working with these organisations allows us to give back to the community that we are both part of and work within, enabling us to make maximum impact.

From a business perspective, our clients connect with the charities and their aims, and they know that part of their fees are going back into areas they care about.

Anne Graham CFP® LRS®

Managing Director/
Senior Financial Planner,
Story Wealth Management
Licensee: Securitor

Many people, from all walks of life, help charities, not-for-profits and other community service providers by donating time, money, goods and so forth. I'm no different. I've done everything, ranging from the school sausage sizzle to climbing mountains. In fact, I'm no longer allowed to answer the phone or a knock at the door – I'm a soft touch!

A few years ago, an opportunity to join the board of the Future2 Foundation came up and that's been the gift that keeps on giving! To see firsthand the difference that can be made to disadvantaged youth, when people come together with a common vision, is motivating, exciting and heart-warming.

With the many challenges we face in the world of financial planning, it's a bonus to be able to look beyond my own issues (which in comparison are trivial) and focus on something else that's far more important. Part of 'making the difference' with Future2 is playing an active role in connecting our planning community, right across Australia, with each other to help support others in need.

As a fundraiser, I've had the privilege to camp, climb and hike with perfect strangers, who've become lifelong friends.

As a board member, I'm also fortunate to help plan for the years ahead and inspire more of our community to get involved and make an even bigger difference.

As a member of a broad community, our kids, friends, clients and colleagues can be positively influenced by the actions we take, and that's important.

I'm so fortunate to have found something I care about, which gives me purpose and (hopefully) makes me a better person. I hope everyone is as lucky as me.

Would you like to join our panel of FPA members willing to voice their opinion on various topical issues?

Email *fpmag@colloquial.com* to register your interest.

INVESTMENT INSIGHTS:

Will the real "defensives" please stand up?

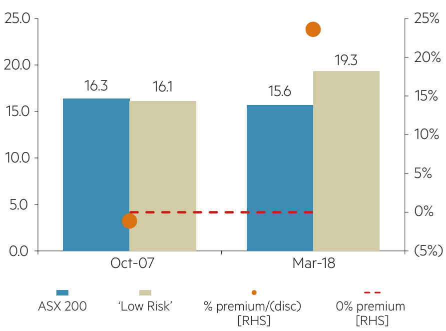
Despite some wobbles, the Australian equity market is still hovering around all-time highs when dividends are included. This means the market has enjoyed a bull-run of nine years since it started in March 2009, making it the longest bull-run in fifty years.

It is therefore unsurprising that valuations are somewhat stretched - the median industrial ex-financials price earnings ratio is hovering around 20 times. To be fair, the earnings level for the market as a whole isn't that elevated with resource earnings still well below their peak, so we are unlikely to suffer the undesirable double whammy of collapsing earnings and falling multiples that we saw in 2008. In our view however, there are stocks today, and sectors more generally, where both earnings are high and multiples are full - these are red flags that we are on the lookout for.

Given markets are at record levels and valuations are full, prudent investors would often seek more defensive stocks to protect their portfolios in the event of a market downturn. Generally these defensive stocks will have run less than the market and are most often less exposed to the economic cycle. Thus in 2007, prior to the Global Financial Crisis (GFC), our portfolios were full of the brewers (Fosters and Lion Nathan, both now delisted), the supermarkets (Coles Group and Metcash), the telecommunications companies (Telstra and Singtel) and the wagering and gaming group Tabcorp. Together with a relatively high level of cash, these types of stocks positioned us well for the sell-off in 2008. The chart below illustrates the challenges facing investors who are concerned about the level of the market today, and who wish to take a more defensive position.

The challenge facing investors who wish to protect the downside: "Low risk" stocks appear to be the problem – not the solution

12 month forward P/E prior to the GFC compared to today



Source: FactSet, Goldman Sachs Global Investment Research, data as at March 2018

The chart compares the price earnings multiples of a basket of "low risk" stocks to that of the market as a whole at points prior to previous market corrections. "Low risk" stocks comprise a basket of defensive stocks; although the composition of the basket will change over time (for example the two large brewers are no longer listed). In late 2007, that basket of "low risk" stocks was actually trading at a slight discount to the market as a whole and hence one reason why our portfolios were well exposed to such stocks (i.e. it was inexpensive to protect against market downside risks). Today, that basket of "low risk" stocks actually trades at a substantial premium (~ 25%) to the market as a whole. These stocks, as a group, have benefitted from a flight to quality and the hunt for yield. As such, they have been bid up and consequently performed well. Thus, it seems to us that these stocks are unlikely to fare well in a market correction: their underlying businesses might well be defensive but in our view their starting valuations are very rich (eg CSL on ~ 30x and Cochlear on over 35x forward earnings).

Clearly, no two cycles are ever exactly the same so it would be dangerous to draw too many conclusions from past cycles. However, it is also important to focus on what has caused the "valuation distortion" in each cycle. In 2000, the so called "Tech Crash", we witnessed extremely high multiples for a relatively small part of the market (particularly in Australia with a tiny IT sector). In 2007 the multiples were again high, but more broadly based and on elevated earnings and thus the subsequent sell-off was particularly nasty.

In the current cycle we would argue the distortion has been caused by record low interest rates which in most parts of the world look like increasing. Thus, in our view the valuation risk lies in the stocks that have benefitted most from falling rates: both the interest rate sensitive sectors (such as Utilities and REITs) and the long duration growth stocks (such as Health Care). The fact that these sectors have been some of the better performing over the last few years only heightens our concerns.

Only time will tell how the traditional defensives hold up in the inevitable correction. However, given the valuation premium enjoyed by many of these defensive stocks, we find it very difficult to hold most of them in our portfolios today.

Investment insights – brought to you by Dougal Maple-Brown, Head of Australian Equities at Maple-Brown Abbott

GUEST CONTRIBUTOR

A STATEMENT OF CULTURE AND VALUES

As **Paul Clitheroe** writes, the benefits of giving are enormous and can be life changing. The sense of purpose a planned program of giving provides to a family is extraordinary and the legacy lives through generations.

I started ipac back in 1983 with my partners Arun Abey, Peeyush Gupta and Suvan de Soysa. As we were all pretty fresh out of university, which had taught us finance theory and the dictum that 'a business must have a mission and a business plan', plus being full of zeal to change the world, we were highly motivated to own our own business.

University had taught us about competitive advantage and having a distinct position in the market. We figured that with deregulation on the way that Aussie consumers would want more than a home and a bank account as an investment.

It seems extraordinary today, but it was only 35 years ago that under 3 per cent of us owned a share. Managed funds did not really exist in Australia (and those that did should not have) but consumers really felt left out.

We had a couple of problems, but thanks to the enthusiasm of youth, we felt they were unimportant.

First up, we knew no one, bar family and uni mates, who could barely afford a pushbike.

Secondly, individually we could only just scrape up $20,000, which we felt was necessary to launch ipac.

OUR KEY PROPOSITION

We had been taught to test any business plan before launching into the market. So, off we went and spoke to respected senior folk in the world of banking and finance about our key proposition, namely to offer fee-for-service investment advice.

This was met by waves of laughter, as it was pointed out to us that everyone else provided 'free advice'. We weren't completely naïve, we knew that, but we also knew why it was free.

The 'advice' was not worth a burnt sausage. It was in the main selling ridiculously expensive products, usually with so called 'tax advantages' or absolute rubbish savings plans. These seemed to transfer the savings capacity of investors between the ludicrous commissions of salespeople and the insurance company involved.

OUR RISKS PAID OFF

So, undaunted, we left our jobs and went onto no pay for two years to preserve our meagre cash. After a couple of years, we had some really good corporate clients (a big thank you here to Dick Dusseldorf (Chairman of Lend Lease), Stuart Hornery (CEO of Lend Lease) and John Morschel (CEO of MLC), who took us on as corporate advisers for Lend Lease/MLC and its staff.

Our personal clients and cash flow had also reached the point where we could pay our rent and secretary each month without too much drama.

Ten years later, in 1993, things were more secure. As we had zero marketing budget, we used to type up and fax weekly 'personal investment' press releases. Somewhat to our surprise, these became really popular, leading to many TV and radio interviews and then the ridiculously successful Channel 9 TV show *Money*, which flowed into *Money Magazine*, *Money* books and so on.

Today, some 35 years later, I am still on the board of ipac. The company is now part of AMP. We sold it to AXA back in 2002. Which in turn was acquired by AMP. ipac no longer exists in the market, it has been absorbed into AMP Advice, but ipac the responsible entity for many billions of dollars still exists.

My adult kids think working for one company for 35 years sits alongside the time of dinosaurs; they probably correctly think that no one else would employ me.

A FEW LESSONS LEARNT

Anyway, my 35 years or so, including being the second President of the FPA in 1993, has taught me a few things.

The most profound is that I am now the person I was advising at ipac 35 years ago. As I look back, exactly why someone in their early 60's would have much regard for an enthusiastic mid 20's adviser is a mystery to me. I recall with fondness the look of horror in their faces when I was asked: "Do you invest as you are advising me to?" My answer, of course, was: "Good grief, no."

This rarely went down well until I pointed out that I wanted to be where they were financially in my 60's. In my mid 20's this meant having 100 per cent of my money tied up in ipac.

So here I am, and I have learnt something pretty important. We have about 25,000 clients at ipac. Sadly, many I spoke to decades ago have passed away. But it interests me that around 100 per cent of them have worried about running out of money and about 100 per cent have died far too rich.

This would not surprise a behavioural economist and as I look at myself at age 62, it does not surprise me either.

LIFE'S WORK

For some four decades, along with my wife Vicki, we have done what our clients have done, diligently spent less than we earnt, invested on a regular basis and then in our case, sold our business.

As an industry, we need to demonstrate our culture and values... we need to personally follow that value.

Many said to me that as I had made a reasonable amount of money when I sold the business, that I was on the way to being rich. Personally, I reckoned that everyone needs a bit of luck in business, and I had used my share of it. So, Vicki and I have invested as ipac clients have been advised to do for decades - diversification, a decent dollop of global, and 10 per cent for a bit of sensible risk around private equity and so on.

Just like my clients, we are cautious about losing our money and try really hard to spend less than we earn and our investment returns.

My TP52 yacht 'Balance' helps to get rid of a bit, but even then I could not help myself and bought it third-hand. But in terms of a return on your money, despite its running costs and depreciation, the lifestyle return has been extraordinary. Winning the Rolex Sydney Hobart yacht race overall in 2015 is a stand-out memory for me.

WHAT TO MAKE OF ALL THIS?

Well, the best thing we have done with part of our money is to establish the Clitheroe Foundation, a Private Ancillary Fund (PAF). Our three adult kids are directors and we have funded many scholarships and grants for young Australians in medical research and the arts since 2003.

Philanthropy is something our industry stands for and I am privileged to be Patron of the Future2 Foundation. As an industry, we need to demonstrate our culture and values. But as we grow and succeed in the industry, we need to personally follow that value. We also need to speak to our clients about their personal philanthropy during their lives and in their estate planning.

Our clients who trust us are in the main like us. They work hard to achieve financial independence, and like ipac clients, along with Vicki and I, the truth is, that despite our fretfulness about 'having enough', we are not used to spending more than we earn.

Despite saying to the kids they will get nothing, we all know they won't. We and most of our clients will die too rich. So, we should have a plan in life and death to give some away.

As a statement of culture we all want for our industry and representative of our own values, we should all have a plan to give. This can be time, money or preferably both. It applies to the FPA with Future2, for us as individuals and in the advice we give to clients.

No need to be too high handed about this. Yes, the benefits of giving are enormous. Lives can be changed through scholarships or grants or a donation of time and skills, but the sense of purpose a planned program of giving provides to a family is extraordinary and the legacy lives through generations.

If you are not chatting to your clients about this, you should be.

Paul Clitheroe AM is a Non Executive Director of ipac, Chairman Money Magazine and Chairman of the Australian Government Financial Literacy Board.

Insight

A CLEANER, GREENER FUTURE

Katerina Kimmorley epitomises the young breed of entrepreneurs – passionate, motivated and socially aware. She talks to **Jayson Forrest** about what it means to be philanthropic and why social giving is the right thing to do.

Social conscience comes in many forms. It can be as simple as making an informed decision about ethically sourced food at the supermarket, or helping fund raise for a cause, or volunteering your skills and time to a not-for-profit charity.

And then there's Katerina Kimmorley, who at the age of 24, was so shocked at the living conditions of the urban poor in India, that she decided to make a difference herself. It's a remarkable story of inspiration, self-sacrifice and self-belief that Katerina touched upon at last year's Women in Wealth breakfast at the FPA Professionals Congress in Hobart.

If we want to create a world where we can all flourish, then we need to be investing in those opportunities philanthropically.

But to understand Katerina's story, you need to first understand the underlying values that drive this extraordinary entrepreneur.

Katerina says she has always had a sense of social justice, crediting her family upbringing and schooling for instilling this quality within her. At school, she became the captain of social justice, where she was involved with many charities.

From there, she graduated to university, where, amongst other disciplines, Katerina studied photovoltaic engineering (that's solar renewable energy to the rest of us!), when in 2012, she was able to put her studies to some serious practice.

"We went to India to help a friend, who had set up a charity to raise money to build an orphanage in Bangalore. My friend built the orphanage with the funds raised but the children couldn't study because they didn't have access to lights. As I was working in renewable energy at the time, I knew there was an opportunity for me to help out the orphanage."

URBAN POOR

But the level and extent of poverty in India was something that deeply upset Katerina.

"The poverty in India is omnipresent. It was particularly distressing in city slums. There you would have slum houses with tarpaulin sheets covering the roofs, sitting next door to high tech business parks and more affluent residential areas.

"And the scale of poverty in India is massive," she says. "There are currently 65 million people living in urban slums in India, and this number is rapidly growing. Conditions in these slums are often unfit for people to live in, and their basic needs, like access to clean water and lighting, are simply missing."

According to Katerina, many of these slums are not connected to grid electricity or mains water supply, forcing people to go without, or to resort to unsafe products. Families rely on harmful kerosene for their lighting needs, they drink unclean water, and cook with dirty cookstoves.

"Sadly, most families are not educated about the better alternatives out there. They have no way to access them, and no idea how these alternatives could be used to improve their lives," Katerina says.

"And due to their low earning and transitory nature, families living in slums have no access to finance to enable them to purchase the products they need."

It was this deprivation of basic living conditions that proved the catalyst for Katerina to conduct research into providing solar lights for India's slums, which after overcoming many challenges, led her to set up Pollinate Energy in 2012. This, she says, was her entrée to the world of philanthropy.

END-TO-END SOLUTION

"At first, we thought that solving this energy need would simply be a matter of rolling out a technology solution. But we quickly realised it wasn't a technology problem. There were plenty of existing solar lighting solutions available. The problem was, we had no distribution or financing mechanism in place to enable us to implement our solar light solution."

And so, Katerina and her team approached various micro-financing organisations in India but were repeatedly knocked back, as these micro-financers considered people living in slums to be "too poor" and "too risky" to deal with.

"So, we quickly realised that we had to provide a whole end-to-end solution, which was technology, distribution and financing. Essentially, three businesses in one. It took a lot of trial and error, but that's how we developed Pollinate Energy."

In setting up and running Pollinate Energy, Katerina wanted to maintain an arm's-length relationship with the Indian Government, so she didn't seek any support from it, and the Australian Government doesn't provide donor support to India.

Continued overleaf

POLLINATE ENERGY HAS...

27,298 PRODUCTS SOLD

123,602 PEOPLE REACHED

970 COMMUNITIES SERVED

3,695,199 LITRES OF KEROSENE SAVED

Source: Pollinate Energy March 2018

"So, to help with the financing, we reached out far and wide. In fact, we were the first organisation to go on Australia's first crowd-funding website, where we raised $10,000. Since then, we have received huge levels of support from multiple corporates across Australia, as well as high-net-worth philanthropic support. But our core donor support still comes from individuals, who help us out financially on a monthly basis."

The other part of the Pollinate Energy model that is somewhat unique is that it runs a 'fellowship' program, where the organisation brings over to India young professionals and university students, who undertake a two week program with Pollinate Energy. As part of this fellowship, these individuals also raise money to launch one of the organisation's entrepreneurs – known as Pollinators – which Katerina says has been an effective co-financing mechanism.

The 'Pollinators' serve as the organisation's distribution arm and play a vital role in Pollinate Energy's success. They are the entrepreneurs recruited from the urban poor who sell durable, quality products, like Pollinate's solar lanterns, improved cookstoves, solar fans and water filters, to families living in slum communities. This face-to-face distribution network allows the organisation to build relationships and trust with its customers.

"It also means we gain regular feedback about the performance of our products and the needs of the families we serve," Katerina says.

But how can the urban poor afford to purchase these products?

It's a solution that Pollinate Energy has overcome by offering all its customers short-term payment plans to make the products affordable. The rate of defaults on these plans is less than 1 per cent, with all products coming with a minimum one year warranty and post-sale servicing.

"This model allows families to save 15 per cent of their income, thereby enabling them to improve their health, safety and quality of life," says Katerina.

LIFE-CHANGING

Today, Pollinate Energy has supplied over 27,200 environmentally efficient products, reaching over 123,600 individuals and servicing 970 communities in India. It's a remarkable achievement in just six years.

The organisation has set itself a mission based on three principles:

- **Improve the lives** of India's urban poor by giving them access to sustainable products that make their lives better.
- **Empower local Indian entrepreneurs** to be a positive force for change in India's urban poor communities (Pollinators).
- **Make social business mainstream by raising awareness** about the communities Pollinate Energy works with and supporting the next generation of social entrepreneurs.

"Pollinate Energy has a vision of a world where all communities have equal access to life-changing products, like lighting, that improve their lives," Katerina says. "To get there, we have five key goals that we are striving to achieve."

These five goals are:

1. **Expanding the organisation's solution** to impact as many lives as possible;
2. **Positively impacting families** living in slums by providing life-changing products, and encouraging manufacturers and service providers to work with Pollinate Energy in achieving this mission;
3. **Creating a movement of social leaders** through its Fellowship programs;
4. **Being an employer of choice;** and
5. **Creating growth paths** for the Pollinators to enable them to take on new challenges.

"But at Pollinate Energy, it's not just about what we aim to do, but also about how we do it. We have very clear values that we use to make decisions, build our strategy, and drive the company," Katerina says. "These values include: accountability, transparency, sustainability, practicality and awareness – it's vitally important that we listen to our customers and Pollinators when making decisions."

AWARENESS

While still involved with Pollinate Energy, these days, Katerina is concentrating her efforts on her current role as Associate Director of the Innovation Fund at the Clean

Energy Finance Corporation – a role she has held for the past 18 months.

In her role with the Innovation Fund, she is part of the process that decides which clean tech businesses in Australia to invest in – an often difficult task. But it's through this role and her continuing involvement with Pollinate Energy that the 30-year-old is buoyed to see the rapidly growing interest and uptake of philanthropic investing and in social justice causes by more Australians.

"This interest is coming right across the broader Australian community," Katerina says. "The Baby Boomer generation is starting to become quite active with social justice causes and philanthropy. They have built up substantial wealth and want to leave a legacy, not just an inheritance for their children. It's exciting to see them pair their activism with their investments."

And what about the younger generations?

"With younger Australians, I'm definitely seeing a lot more 'values-based' investing. Whether it's in high tech, or green technology, or social impact, we're seeing Gen X and Millennials choosing to invest in areas where it's making a beneficial social and environmental impact. But we need to see more retail offerings come to market to meet this growing demand," she says.

their investments and also considering participating in either Private Ancillary Funds or Public Ancillary Funds, in order to make a beneficial social and environmental impact."

That's where Katerina believes financial planners can play a key contributing role in growing the awareness of philanthropic giving amongst their clients and the wider community.

"I'm a big supporter of Private Ancillary Funds and Public Ancillary Funds. Clients can use the corpus to make impact investments that make a return and then give 4 per cent of funds to distribute to philanthropic causes. It's is a great tax-effective way of giving back, especially if you have had a capital event like selling a business or property," she says. "And, of course, the other way is to just get involved with causes that you care

Philanthropy isn't just about financial aid. It works in so many ways, like volunteering your skills and time.

"If you look at some of the big global, social and environmental issues, there's a definite gap between investible opportunities and opportunities that don't necessarily have a commercial return on the investment but have huge social and environmental implications.

"If we want to create a world where we can all flourish, then we need to be investing in those opportunities philanthropically. There is a huge role that Australians can play by looking at

about, whether it's at a board level or at a volunteer level. It all makes a difference."

To demonstrate the point, Katerina says Pollinate Energy has had "hundreds" of students and young professionals work with the organisation in India, using their skills to support the charitable initiative.

"This has been hugely beneficial for us, allowing us to expand into other states in India and new product areas, which we just couldn't have done otherwise. So, philanthropy isn't just about financial aid. It works in so many ways, like volunteering your skills and time. It's about mobilising your passion and purpose, and applying that to all the great charitable organisations out there."

BRIGHT FUTURE

To say the last six years have been frenetic for Katerina would be an understatement. After all, it's not every day you create a social business enterprise, responsible for the strategic direction, business planning, management and oversight of over 80 staff, as well as board members and stakeholders. So, what's next for this enterprising young leader?

"My aim has always been to work at the nexus of climate change and poverty. So, for me right now with my role at the Clean Energy Finance Corporation, if we can get more money to back these innovative and environmentally progressive organisations, it will go a long way in reducing, and perhaps even solving, catastrophic climate change.

"I'm really focused on trying to leverage as much private and philanthropic capital as possible, to grow the environmentally sustainable sector and to build tomorrow's future."

But although she might have her feet currently in the corporate world, her heart remains entrepreneurial.

"I will always be an entrepreneur," Katerina says. "As long as we are growing a cleaner and greener future, then I'll be happy to get up and go to work every morning."

AUSTRALIAN EQUITIES

THE SHADOW OF VOLATILITY

Despite the market being late in the cycle and the prospect of volatility returning, investment opportunities exist for savvy investors looking to reposition their Aussie equities allocation. **Jayson Forrest** reports.

Cast your mind back to February this year, and it's unlikely you're remembering the summer heat or the post Ashes celebration. Instead, you're probably recalling the nervous client phone calls received in the aftermath of 6 February, when $60 billion was wiped off the Aussie market.

Reece Birtles, CIO at Martin Currie.

Jitters around a strengthening U.S. economy, the prospect of a rise in U.S. interest rates and concerns this would lead to inflationary pressures, saw bourses around the world follow the U.S. into the 'red' – reaffirming just how closely entwined global markets are these days.

Move forward two months, and much of the gains lost have since been recovered. But for Lonsec Senior Equities Strategist, Danial Moradi, he is still cautious about the market entering a period of heightened volatility.

"From an earnings perspective, our reporting season was quite positive. However, given the extreme low volatility we have experienced over the past 12 months, it's likely there may be another spike in the market in 2018, which will be reliant on interest rates and the numbers we get out of the U.S.," Moradi says.

"So,we are probably entering a period of heightened volatility, despite underlying earnings currently being okay."

It's a view supported by Reece Birtles – the Chief Investment Officer at Martin Currie Australia.

"In the 12 months leading up to February, market volatility was low. For example, the VIX (CBOE Volatility Index) spent a lot of time below 10. So, people had become too complacent about extreme low volatility," he says.

"But that's changed. As the Federal Reserve raises interest rates to reflect the higher growth environment in America, we can probably expect to see more volatility in the market as a result."

CYCLES DON'T LAST FOREVER

Yet, despite this, Moradi believes the Australian equities bull run, which he says is relatively late in the cycle, isn't coming to an end – well, not quite yet.

"I wouldn't say the bull run is coming to an end. We're in year eight or nine of the bull market on a global equities market basis. So, from an historical perspective, this bull run has gone on longer than others," Moradi says.

Birtles believes the U.S. is in a much later cycle than Australia, with the U.S. Federal Reserve raising interest rates, the U.S. unemployment rate being extremely low and subsequent inflationary pressures. "So, in terms of late cycle, Australia has still a fair bit more to run compared to America."

Birtles adds that as you do get nearer to the end of the cycle and growth does slow, you do want assets that are going to be more stable.

"That means real income, so being in property infrastructure utility assets that benefit from rising inflation and are not going to be affected by falling growth, which could occur when interest rates rise," he says.

"As well as equity income, where you're earning from high quality companies with strong free cashflows. Their dividends are going to grow faster as a result of that inflation, and provide a growing stable income stream at a time when growth may slow."

But as for when the Aussie bull run might end, Moradi agrees: that's the 'million dollar' question.

"I don't think anybody can give you a specific answer to that question without speculating," he says. "All we can do is look for early signs within the market, such as a pick-up in volatility. But if we do get stability and earnings growth coming through, then there's no reason why the bull market can't continue for another year or so."

It's a view supported by Birtles: "Timing is a difficult thing. What we can tell you is growth is currently extremely strong and accelerating, both globally and in Australia.

"When you look at the infrastructure spend and the stimulus from the tax cuts in the U.S., and you look at the infrastructure spend in Australia, the strength of the construction cycle here, the extremely strong business conditions for Australian companies and the employment rate, there's nothing to suggest there is an imminent slowdown at all.

"But cycles don't last forever," Birtles warns.

FAIR VALUE OPPORTUNITIES

With consensus that the bull market, although late in the cycle, is set to continue, where does Moradi see fair value opportunities for investors, particularly given that Australian equities are at record highs?

"From a sector perspective, the Aussie market is dominated by financials and resources. Currently, the outlook for the major banks is still for high growth, despite the spotlight being turned on them with the Royal Commission, whilst the resources sector has rebounded strongly. For the rest of the market, we're seeing modest growth, with expectations for industrials being around 4.5 per cent earnings growth," Moradi says.

"In terms of looking for value, you need to look at company specific opportunities. You need to look for businesses with strong underlying fundamentals, good management, strong balance sheets and other key investment drivers, rather than looking at a sector level."

He points to companies like Ramsay Health Care as being a market leader with strong fundamentals and earnings growth.

...there is nothing to suggest there's a lack of value in the Australian market. You have to remember that dividends are growing as a result of better profit growth from Australian companies.

– Reece Birtles

"So, I'm looking for value opportunities from an individual company bottom-up selection process, rather than a broad sector."

Lonsec's Head of Listed Products and General Manager Australian Equities, Peter Green agrees, saying it's a stock pickers market, particularly with the return of volatility to the market.

"These quality listed companies can provide the investor with a hedge to more volatile conditions. The concentration in the Australian market is still the big four banks, but you need to consider that with expected lower economic conditions, this will mean a lower growth environment for the banks."

When looking for quality income generating companies that are going to provide a strong and growing dividend, Birtles believes the most important characteristic investors should be looking for is overall "quality" of the company.

"We determine the quality of the company by assessing the moat of the business, that is: the strength of the business, the barriers to entry, pricing power, the competitive advantages in terms of cost position, the level of debt, governance, and whether the company is really turning its profits or earnings into cashflow.

"That's why quality assessment is important to finding good income generating stocks, than any broad sector classification."

He adds that if you look at the equity income strategy, the expected dividend yield (including the benefit of franking credits) is currently in excess of 7 per cent, which has been a relatively stable percentage for a number of years now.

"So, there is nothing to suggest there's a lack of value in the Australian market. You have to remember that dividends are growing as a result of better profit growth from Australian companies."

Three quality stocks Birtles likes include IOOF Wealth Management, AGL Energy and JB Hi-Fi.

"IOOF Wealth Management has an 8 per cent expected dividend yield in the next 12 months, and will benefit from the synergies and the accretion of the ANZ deal. And it has a very strong cashflow stream, given its capital light model.

"Similarly, AGL Energy's dividend yield is expected to be 7.4 per cent over the next 12 months. Clearly, it's still benefiting from higher electricity prices, especially on commercial and industrial companies, as their contracts roll over.

Continued overleaf

"And then there is JB Hi-Fi, which we view as one of the world's best retailers in terms of sales productivity and low cost of doing business. And with the Good Guys acquisition, it continues to grow strongly. It has an expected dividend yield of 7.7 per cent over the next 12 months."

BE MINDFUL OF TRENDS

And what of any trends that are likely to impact the Aussie equities market over the coming years?

According to Green, the obvious trend over the past 12 months has been in resources, where there has been strong earnings appreciation across the resources sector. "And that's just as the market turns towards a reflationary type environment, where commodities have tended to do better.

"Going forward, there are some concerns around the inflationary environment, but I still expect commodities to do okay. Ultimately, in this type of environment, it's about taking a bottom-up view of quality stocks, which will continue to do well."

And what about the chase for yield?

"AREITs and bond proxies have underperformed of late, but again you have to look at the underlying fundamentals, like how much debt businesses are carrying and what exposure they have to potentially high interest rates, and what level of interest rates you're pricing in," Moradi says.

"The Australian yield curve does tend to move in tandem with the U.S., but it's driven off different fundamentals. As yields move higher, you'd expect that would be a headwind for the share prices of particular sectors. So, if interest rates are above what the current market is expecting, then that sector is likely to underperform."

In terms of geopolitics, Green concedes there is concern around the imposition of U.S. tariffs on trade, which he says, could cause "market volatility as a result of a global trade war".

"So, even though we're quite late in this bull market, we can still expect to have events, like the one we recently saw in February, which come as a result of increased volatility, which we're now seeing," he says.

According to Birtles, the strongest trend he is currently seeing in the market, is the number of companies that 'beat' their sales revenue forecast, compared to 'miss' their forecast, which is a positive sign for the Australian market. Indeed, he says the 'beat' ratio was 39 per cent, compared to 'misses' of 12 per cent.

"That ratio of 'beats to misses' is far superior to what we've seen for many years in Australia," Birtles says. "As a result, we've seen upgrades to revenue forecasts and we're seeing Australian industrial companies with revenue growth accelerating on average from 2 per cent over the last five years, to currently over 5 per cent.

"So, that revenue acceleration is very important in terms of sustainable growth of earnings and is a very good sign for the Australian market."

IT'S ALWAYS ABOUT DIVERSIFICATION

Given the market is late in the cycle and with Australian equities approaching record highs, Lonsec Head of Investment Consulting, Veronica Klaus believes it's important for any planner considering repositioning their clients' portfolio to a more defensive allocation, to keep in mind that the portfolio needs to be built on the client's end objectives.

"We need to consider whether the portfolio is for retirement or for accumulation. That's because as we increasingly enter into periods where markets are becoming more volatile, we need to be very focused on the risks, which are magnified when in retirement, and the impact that this volatility has on client portfolios," Klaus says.

She also believes planners need to look at how the portfolio is constructed and what the different positions within the portfolio are trying to achieve.

"That means understanding where we're getting our beta and alpha exposure from. Then looking to other strategies we need – whether it be risk control, which is increasingly important, and income for retirement portfolios. When we're late in the bull market cycle, you really have to start focusing on what the greatest risks are to your portfolio and to your Aussie equities. So, that means, how can you bring in elements of risk control to at least dampen some of that volatility and limit drawdown?"

Klaus recommends looking at strategies where the manager has a greater focus on absolute return, rather than just matching the index.

"Whether that's by taking calls on equities versus cash, whether that's using short positions and so forth - it's a very different approach to managing a traditional equities portfolio. So, you should look to increase that in your portfolio. And then you look to focus on where there is potential alpha still left in the market, and try and get some of that into your portfolio."

But over and beyond everything else, Klaus emphasises that given the current market environment, portfolio diversification remains the key consideration for any investor.

"Heading into a potentially more volatile market environment, it's incredibly important to have true diversification in your portfolio," she says. "So, it's vital that planners use an array of different strategies that encapsulates the likes of risk control and bottom-up stock selection to minimise risk."

Grow

THE HEART OF GIVING

Philanthropic giving is at the core of Stanford Brown's business model. **Jonathan Hoyle** talks to **Jayson Forrest** about what it means for a corporate organisation to be philanthropic.

There's something a little bit different about Stanford Brown. It's not so much its integrated private wealth division, or the numerous awards it has won, or even the fine views from its North Sydney location. Instead, it's the firm's strong focus on philanthropic giving that really sets it apart from other similar sized businesses.

Ask Stanford Brown's chief executive officer, Jonathan Hoyle, and he will tell you that its philanthropy service is a real point-of-difference for the business.

"Giving is something that runs deeply here at Stanford Brown," says Jonathan. "Not only internally in the way we run the business, but also externally in the way we engage with our clients."

'Giving back' is a core part of what the partners and staff at Stanford Brown believe. For them, it is the right thing to do and the right way to behave.

It's this conviction that underpins one of the firm's eight beliefs that form part of its corporate identity, which is: *As a business that enjoys the support of the community, we have an obligation to put resources and effort back into that community.*

Practice: Stanford Brown

Established: October 1987

Licensee: The Lunar Group

Number of staff: 44

Number of practitioners: 14

Number of CFP® practitioners: 3 (CFP® Certification is now a mandatory requirement for all planners)

"Whether a client is involved in giving as part of a public charitable foundation or whether a planner is helping others through pro bono advice, giving makes you feel good. That's why philanthropic giving is so important, yet so underrated," Jonathan says.

INSPIRATION AND SOCIAL CONSCIENCE

Jonathan believes philanthropic giving is an ideal client engagement tool and an important service offering for any practice. But he concedes it's a strategy that is probably most appealing to retiree clients.

"Our working clients tend to be time poor and more focused on raising a family, paying off their mortgage, building their careers and investing for their future. So, for the majority of these clients, the thought of building a philanthropic strategy just isn't on the radar."

Indeed, the typical client interested in philanthropic giving at Stanford Brown tends to be retired and have excess wealth above and beyond what it takes to have a comfortable retirement, so it's not a strategy embraced by everyone.

"Once our clients come to the end of their full-time working lives and things become a little less hectic for them, we find that for many of them, they want to do something meaningful with their money and philanthropic giving is a wonderful way for them to build a legacy whilst they're still living," Jonathan says. "That's when we really focus a lot of time with them on their giving strategy."

And the reasons clients choose to engage in philanthropic giving, is as varied as the causes they support.

"It can range from the spiritual to the practical, such as: what do I believe in; what am I passionate about; what do I want to change; what skills do

I have and can share with others; and how can I give back to the community," Jonathan says. "But one thing is always consistent, giving is predicated on social conscience."

He says a client's decision to be involved in giving usually comes after they have helped their children financially, like getting into the property market, and after they have sorted out their own retirement needs.

For many people, retirement today means something completely different to what it did a generation ago. People still want to leave full-time work at roughly the same age but they are much healthier and living longer than previous generations. But increasingly, for today's retirees who can afford it, they are wanting to leave a charitable legacy.

"Interestingly, what we are seeing with these retirees is they don't want to die and leave all their money to the kids. Just like Warren Buffett and Bill Gates, they think that leaving all their wealth to their children may actually be damaging for them.

"The view that you can actually damage your children by leaving them too much, is a widely held one that is increasing amongst high-net-worth clients."

Ancillary funds are one of Australia's best kept secrets but even so, we were surprised at just how poorly known and understood they were.

— Jonathan Hoyle

So, the obvious alternative for these types of clients is to gift their wealth through charitable funds and foundations. With this in mind, Stanford Brown spends a good deal of time focusing on building intergenerational wealth transfer plans, with philanthropic giving being a huge part of that.

"We encourage our clients to consider a structured giving plan and the centrepiece of that is having your own charitable foundation," Jonathan says.

CHARITABLE FOUNDATION

Surprisingly, Jonathan says setting up a charitable foundation is within the scope of most Australians, starting at just $50,000.

"At Stanford Brown, we have set up a Public Ancillary Fund – the Stanford Brown Charitable Foundation – from which our clients can set up their own sub funds. By doing so, they still get all the tax benefits of a charitable foundation, without any of the administrative hassle and at a significantly much lower cost. So, a client can set up a sub fund with a minimum of $50,000."

The Charitable Foundation was set up in January 2017 and currently has just over $1 million in it. Currently, there are 10 clients involved in the Charitable Foundation and it is they who decide where the funds are distributed – not Stanford Brown. Recent fund recipients include the Sydney Dance Company and the Australian Chamber Orchestra.

Jonathan adds that the fund has a legal requirement to give away 4 per cent of the corpus each year, which means about $40,000 has to be donated to deductible gift recipients (DGRs).

Continued overleaf

The Stanford Brown Philanthropy Committee: Alice Mitchell, Jonathan Hoyle and Cris Abellar.

"Our goal is to get our fund up to $2.5 million. That means we would have $100,000 to donate to various charities in perpetuity each year. And that's a wonderful goal to have."

In contrast, individuals also have the option of establishing their own Private Ancillary Fund, but that requires a minimum of $500,000, and the expenses of running such a fund are quite high.

FAVOURABLE PARTNERSHIPS

According to Jonathan, clients at Stanford Brown have responded favourably to the Charitable Foundation, with the fund's administration streamlined by partnering with Australian Philanthropic Services (APS) – one of the country's largest administrators of Private and Public Ancillary Funds.

"APS checks to make sure the donations are eligible, it researches and reviews charities to match a client's specific criteria, it checks that the charities are well run, and all the extra administration that is involved.

> *Charitable giving, whether for staff or clients, is a wonderful thing to do and be part of, and it's definitely uplifting for everybody involved.*
>
> *— Jonathan Hoyle*

"APS also runs 'giving strategy' evenings. These seminars help people to find more structured and targeted strategies for their giving."

And while APS does the legal work required for the Stanford Brown Charitable Foundation, for high-net-worth clients running their own Private Ancillary Funds, Stanford Brown uses separate law firms it has partnered with for this purpose.

INTERGENERATIONAL SUITABILITY

So, is putting together a philanthropic offering, like Stanford Brown's Charitable Foundation, appropriate for all practices or is it something that's more specialised?

For Jonathan, it's the latter.

"Putting together a Public Ancillary Fund is not straightforward. It took us 12 months to launch our Charitable Foundation and another 12 months to cross the $1 million mark. The whole implementation process took a great deal of work and explanation to clients, because this type of fund is a very poorly understood and known structure.

"So, I don't think Public Ancillary Funds are for every practice," Jonathan says.

"I think for those firms with Gen X and Gen Y clients, this would be a peripheral offering.

"However, I do think it's more suitable for practices with older high-net-worth clients, and very much for those firms dealing with the complexity of intergenerational wealth transfer."

THE FOUNDATIONS OF A SOLID STRUCTURE

As part of its giving ethos, Stanford Brown has set up a philanthropy committee – comprising three staff members – to oversee the various charitable initiatives that the business and staff undertake internally.

"The philanthropic committee really runs Stanford Brown's philanthropic program. Each year, a percentage of Stanford Brown's profits are set aside for charitable giving. The three staff members on the committee decide which charities to support and how much is allocated, and what activities to run within the business. This is the centrepiece of our staff giving program," Jonathan says.

Committee member and private wealth adviser, Cris Abellar says the committee meets once a quarter, where it reviews charitable initiatives the business has been involved with and discusses new charitable opportunities nominated by staff members.

"Stanford Brown takes philanthropy very seriously," Cris says. "Each staff member is entitled to take one day off each year for philanthropic purposes."

She says the business gives back to the community in many ways, including dollar matching the fundraising efforts of staff and clients.

In October 2017, the business raised $127,000 for the Children's Medical Research Institute, and more recently, staff participated in a Red Cross blood donation drive, demonstrating that charitable participation doesn't have to involve monetary donations.

Other philanthropic areas the business is involved with includes a pro bono advice program. As part of the program, which has been operating for five years, each client can nominate one friend or family member every two years for assistance. However, Jonathan concedes that the business has limited capacity for pro bono, so it needs to be selective in the cases it takes on.

What is an ancillary fund?

Ancillary funds are special funds that provide a link between people who want to give (donors) and organisations that can receive tax deductible donations as deductible gift recipients (DGRs). Ancillary funds are set up for the purpose of providing money, property or benefits to DGRs.

There are two types of ancillary funds that fall within a DGR category:

- private ancillary funds; and
- public ancillary funds.

A private ancillary fund is a type of charitable trust. It exists for the purpose of providing grants to eligible charities over time, and is an efficient and tax-effective way to put a structure around a client's philanthropy or giving.

A public ancillary fund is a communal philanthropic structure established by a will or trust deed for the purpose of making distributions to DGRs that are not ancillary funds. A public ancillary fund is itself a DGR and is therefore eligible for income tax exemptions.

Source: Australian Charities and Not-for-profits Commission

In addition, Stanford Brown has also recently signed up to the Cancer Council's Pro Bono Financial Planning Referral Service, which the FPA became involved with in June 2017.

"This program is completely voluntary for our planners, but a lot of our planners get a great deal of personal fulfilment being part of it," Jonathan says. "It's wonderful being able to use our knowledge and skill set to help people who are in desperate need of advice but who otherwise probably couldn't afford it."

BEST KEPT SECRET

Some of the key learnings experienced by Stanford Brown in rolling out its Charitable Foundation include the lack of client awareness of ancillary funds and their structure.

"Ancillary funds are one of Australia's best kept secrets but even so, we were surprised at just how poorly known and understood they were. And, of course, they are complicated. With the latest changes to superannuation, ancillary funds now have the unique status of being the only tax structure that is entirely tax-free."

However, perhaps the biggest learning for Stanford Brown was around the permanency of giving.

"Because the money going into a Public Ancillary Fund is one way, it's irreversible. So, once you put money into a Public Ancillary Fund, you can never get it back. It did take our clients a long time to get over that mental hurdle. Just like any charitable donations, it's irreversible.

"A Public Ancillary Fund means you're front-loading your charitable giving into one big hit. And people tend to do that when they have a big taxable gain to offset, because it's fully tax deductible."

Although philanthropic giving is perhaps more relevant to high-net-worth retirees, Jonathan is adamant that the concept of 'giving' should be part of every client's spending plan, just as it should be part of any financial advice offering.

"I encourage every financial planning firm to look at ways of incorporating giving into their client and staff programs. By being involved in giving, you get as much benefit yourself, as does the recipient," Jonathan says.

"Charitable giving, whether for staff or clients, is a wonderful thing to do and be part of, and it's definitely uplifting for everybody involved."

PRACTICE MANAGEMENT

WANT MORE OUT OF LIFE? GIVE MORE...

Michelle Gibbings explains the importance of finding social opportunities and developing practises, such as compassion and gratitude, to help you feel more connected with the people around you.

In a celebrity obsessed and individual centred world, it can be easy to think that getting more out of life is about focusing more on the 'I', than the 'you' or 'we'.

In fact, it's quite the opposite.

Much of our happiness is based on our mental model of the world and how our brain processes what is happening around us. Much of that is impacted by the level of effort that's put into building relationships.

Research reveals that people who help other people are often far happier than those who don't.

This is because when you do something nice for someone, your brain releases chemicals (dopamine) that make you feel good. These chemicals help you feel better about yourself and the world around you.

DROP THE FAMINE MINDSET

In highly competitive work environments, people often act as though there's not enough 'resources', 'rewards' or 'recognition' to go around.

Operating with a famine mindset, people jealously guard their access to the three 'Rs' because they see them as crucial to career success.

The more resources you have, the easier it is to get things done. The more rewards you have, the greater the return on investment for your work. The more recognition you have, the easier it is to rise up through the ranks.

People with this mindset worry that if someone else gets the same amount or more than them, it will diminish them in some way.

This has huge implications for how they work, as they approach conversations and negotiations with the intent of getting as much as they can. They are also less willing to collaborate and think about other people's needs, as the focus is 'all about me'.

As the American novelist and poet Wendell Berry said: "If you start a conversation with the assumption that you are right or that you must win, obviously it is difficult to talk."

ADOPT A FEAST MINDSET

In contrast, a person with a feast mindset sees a work environment filled with plenty of opportunity and enough to go around.

They look to expand relationships and to collaborate with the intent of securing joint outcomes. Consequently, they aren't just looking for what they want. They consider what other people need when they enter conversations and negotiations.

In doing this, they reframe the discussion from 'I must win', to 'How do we both walk away satisfied?'.

By doing this, they take the long-term view of relationships, and recognise that different people have different needs. They also accept that someone else getting what they need doesn't mean they need to get less or lose out.

Next time you are about to enter a difficult discussion or negotiation ask yourself:

- What are the other person's needs?
- What are my needs?
- How do we best balance and accommodate both needs?
- What does a fair outcome look like?

GO FOR THE LONG-TERM

Research from Berkley University's Greater Good Science Centre suggests that one of the keys to happiness is focusing on building relationships with people.

Similarly, Susan Pinker's recent TED talk shared that the secret to a long life may be your social life and the frequency in which you connect with people. And not just your friends, but everyday interactions, for example, with the person you buy your coffee from or serves you at a restaurant.

It's about finding social opportunities and developing practices, such as compassion and gratitude, which help you to feel connected with the people around you.

Susan Pinker's recent TED talk shared that the secret to a long life may be your social life and the frequency in which you connect with people.

Here are four ideas to put into practice:

1. **Wish people well** – If you are in a busy environment, take a moment to stop and notice those around you. Internally cultivate the wish that you want them to be happy, healthy and free of suffering. Wishing others well is good for your own emotional state.
2. **Devote time to important relationships every day** – This goes beyond maintaining connections on social media. Ring people. Have a coffee with them. The connection needs to be personal. Close bonds and being comfortable to share how you feel and being open about experiences is healthy.
3. **Congratulate others for their success** – Be genuinely happy when those around you do well. Take the time to write a hand written note or phone them.
4. **Be grateful for what you have** – Gratitude is an important component of a happy and healthy life. Be grateful for what you have, rather than focusing on what you don't have. A focus on the latter can breed jealousy, which is never an ingredient for good relationships.

It turns out that the more we focus on others, the more we receive in return.

Michelle Gibbings is a change leadership and career expert, author and founder of Change Meridian. Michelle works with leaders and teams to help them accelerate progress in complex environments. For more information, go to michellegibbings.com or email michelle@michellegibbings.com.

ABILITY, NOT DISABILITY

The horses at Pegasus Riding for the Disabled ACT are significantly changing the lives of disabled young Australians for the better.

GRANT RECIPIENT:
Pegasus Riding for the Disabled ACT Inc.

GRANT AMOUNT:
$10,000

ENDORSED BY:
Lisa Weissel CFP®

FPA CHAPTER:
ACT

Pegasus Riding for the Disabled ACT was a 2017 Future2 grant recipient, with the $10,000 grant going towards its Pegasus Equine Facilitated Learning (EFL) Program. This program has been designed specifically for participants with a disability who may suffer from social anxiety, low self-esteem, poor self-confidence, and issues with interpersonal relations and/or working together with others.

Canberra-based professional and ACT Chapter Chair, Lisa Weissel CFP® – a planner and partner at MiQ Private Wealth – endorsed the Pegasus nomination, saying she believes strongly in supporting "our local charities" and giving back to the community "wherever possible".

Lisa first met the CEO of Pegasus in December 2016, when she approached the charity about their work with Riding for the Disabled.

"I had seen the benefits that their programs deliver and wanted to know how we might better support them in our financial planning community," Lisa says.

"I found that Government support for this extremely worthwhile program had been severely limited since July 2016, due to the introduction of the NDIS scheme.

"The CEO explained to me that Pegasus is known for its positive energy, with riders and parents often commenting on the joy and uplifting feeling that being at Pegasus always brings. The gentle and understanding environment means that riders are not limited by what would normally be considered their limitations; because at Pegasus, there is no 'disability', there is only 'ability'."

FIRST-HAND EXPERIENCE

The meeting proved to be defining, with Lisa learning more about the Pegasus EFL program. The program is a rapidly developing therapy that involves working closely with an accredited coach and horse to undertake a series of specially designed activities to help develop a participant's problem solving and leadership skills, improve communication and interpersonal skills, and enhance self-confidence.

As a horse person herself, Lisa easily related to the benefits that the charity's horse-facilitated programs

A little about Pegasus

Established in 1973, Pegasus provides horse-facilitated programs and activities aimed at developing the abilities of people living with a disability. It is considered an iconic charitable organisation, operating on 100 acres in Holt (on Canberra's fringe), serving the ACT/NSW.

Pegasus provides more than 2,000 riding sessions each year to over 100 people living with a disability. Program participants enjoy equestrian activities appropriate to their abilities, delivered in a caring, family environment.

It is a not-for-profit organisation and many of its programs are individualised, focusing on specific goals identified in collaboration with families, carers and school staff.

Professional, qualified and caring instructors maintain the highest safety standards, alongside more than 200 dedicated, trained volunteers, who provide physical assistance and encouragement for participants during rides to those who require support.

"It is this support that is so important to enable local youth to achieve goals that might never have been possible without Pegasus," says Lisa Weissel CFP®.

future2
the Foundation of the Australian Financial Planning Association

Pegasus coach, Yolanda, with Smartie the horse and her rider, Rebecca.

and activities provides to improving the self-esteem and confidence of young people with a disability. She also realised how important a Future2 grant would be in making a positive difference to those involved in this program.

"The introduction of the NDIS and the severe reduction in support for Pegasus Riding for the Disabled ACT, really got to me and gave me the motivation to put forward the application," Lisa says.

"I have had first-hand experience in seeing the difference a program like this can make in the lives of our children. As a rider, I know how much horses help me in my everyday life and seeing what they do for our disabled youth really struck home."

FUNDING IN ACTION

According to Angela Lemanis from Pegasus ACT, Pegasus is utilising the grant funding to develop and deliver the EFL program for young adults living with a disability in the ACT and the local NSW region, and to extend training to additional staff throughout the year as the program progresses. This will enable the program to be offered to more participants over the next two semesters.

"The funding for this program will help young people living with a disability to develop their abilities by reducing their anxiety, increasing self-esteem, and improving their communication skills.

"This in turn helps to reduce their risk of experiencing social isolation, and enables them to live a more fulfilled and productive life in the wider community," says Angela.

Although Lisa's involvement with Pegasus Riding for the Disabled ACT is currently centred around fundraising and promotional activities, she is looking to become more personally involved in the years ahead.

Future2 Make the Difference! Grants: 2017 recipients

NSW

Byron Youth Services ($-Smart Youth) – $10,000
Endorsed by: Shane Hayes CFP®

The Run Beyond Project – $10,000
Endorsed by: David Hazlewood CFP®

QLD

Best Life (BestLife Sleepovers) – $10,000
Endorsed by: David Larman CFP®

Balkanu Cape York Development Corporation (YEEP = Youth Empowerment Employment Program) – $10,000
Endorsed by: Ian Byrne CFP®

Special Olympic Australia (Travelling Jackets) – $5,000
Endorsed by: Beverley Ferris CFP®

SA

EBL Disability Services (My Voice Matters) – $10,000
Endorsed by: Tracey Edwards CFP®

Junction Australia (Driving Lessons for Outer Southern Youth Homelessness Service) – $10,000
Endorsed by: Natalie Bordun CFP®

TAS

Beacon Foundation (Work Readiness for Young Tasmanians) – $10,000
Endorsed by: Todd Kennedy CFP®

Teen Challenge (Connections Mentoring Program) – $10,000
Endorsed by: Wayne Fenton CFP®

VIC

Conscious Creative (HoMie Retail Training and Employment Pathways Project) – $10,000
Endorsed by: Julian Place CFP®

Kids of the Kerb (Flipin-it) – $8,000
Endorsed by: Troy Rosenlis CFP®

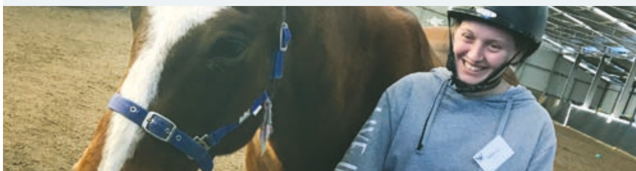
WA

Lamp Inc (Youth Program - Suicide Prevention) – $10,000
Endorsed by: Peter Farrar CFP®

Short Term Accommodation for Youth (S.T.A.Y) (STAY Driving Program) – $10,000
Endorsed by: Lisa Farnell CFP®

ACT

Pegasus Riding for the Disabled ACT Inc. (Pegasus Equine Facilitated Learning (EFL) Program) – $10,000
Endorsed by: Lisa Weissel CFP®



UNDERSTANDING THE DIFFERENCES: NDIS AND LIFE INSURANCE

Rachel Leong

BT

This article is worth
0.5 CPD HOURS

FPA Dimension
Critical Thinking

ASIC Knowledge Area
Insurance

INCLUDES:

- NDIS eligibility criteria
- Process to access the NDIS
- Purchasing funded supports
- Impact on life insurance

The Australian Government is working towards a complete national scheme that addresses the wide-ranging needs of disabled Australians. Previously, all states and territories operated independently, which resulted in inconsistencies and unmet demand for disability services and support.

This article considers the National Disability Insurance Scheme (NDIS), including who can gain access to the scheme, the scope of support and services provided, and the implications for life insurance advice.

There is a high level of misunderstanding in the community about what assistance the NDIS provides, and as an adviser, it is important to know the differences between what this scheme offers in comparison to personal insurance. This will enable you to educate your clients and cater for the scheme in any insurance needs analysis.

BACKGROUND AND PURPOSE OF THE NDIS

In 2011, the Productivity Commission Inquiry report, *Disability care and support*, was published and provided an overview on a number of items, including objectives of a national scheme, recommendations on what it would look like, and how it could be funded.

Subsequent to this, PricewaterhouseCoopers published its report, *Disability expectations. Investing in a better life, a stronger Australia*, which considered how such a scheme could progress.

Off the back of these two reports, the creation of '*DisabilityCare Australia*' was announced in the 2013 Federal Budget. Many of the principles within the Productivity Commission Inquiry report were adopted by DisabilityCare Australia, such as taking a lifetime approach, providing flexibility and choice, goal setting, and individual plans.

DisabilityCare Australia is now known as the National Disability Insurance Scheme or NDIS.

There were four test implementation sites in 2013, which were then followed by commencement of the full rollout in most states from July 2016 (over a three-year period). Now that we are in the middle of the rollout period, it's an appropriate time to revisit how the scheme works and what it offers.

With the proposed (at the time of writing) 0.5 per cent increase to the Medicare levy to 2.5 per cent from 1 July 2019, there is additional focus on the NDIS and what it should achieve. This follows the initial Medicare levy increase of 0.5 per cent in 2014 to partially fund the scheme.

The NDIS has been created to work with services available through other government agencies and support provided by family and friends. In addition, the NDIS can fund 'reasonable and necessary' supports related to an individual's disability. These supports are intended to allow disabled Australians to lead an 'ordinary life', become independent, increase their social and economic participation, pursue their goals, and be active in the community.

ELIGIBILITY CRITERIA

The criteria that must be satisfied, before access can be granted to NDIS services and funded supports, are:

- **Age criteria** – applicants must be under age 65 when they apply to join the NDIS. For anyone age 65 or older, they may receive support through the Commonwealth aged care system. If entry is gained prior to age 65, coverage is for life.

- **Residency criteria** – applicants must live in Australia and be an Australian citizen, permanent resident, or holder of a specific protected special category visa.
- **Disability criteria** – applicants must have a condition that is likely to be permanent, which substantially affects their ability to perform one or more everyday activities (functional capacity), i.e. communication, social interaction, learning, mobility, self-care and self-management, and affects their social or economic participation; which makes it likely that support from the NDIS will be required for their lifetime.

Note that all disability criteria must be met.

A condition is deemed to be 'permanent' if it is likely that it will be lifelong, and even after the application of known, available and appropriate treatment, the condition would not be remedied. A condition that is episodic in nature, does not prevent it from being viewed as permanent. Therefore, for example, clients with mental health conditions, despite their symptoms varying cyclically, can still be classed as suffering from a permanent impairment.

It is possible to meet the early intervention requirements if the client's impairment is likely to be permanent; and the early provision of support may reduce the level of support required in the future, improve or reduce the deterioration of functional capacity, or aid the client's family/carers to continue caring for your client. Funding cannot be available through another government scheme. There are different criteria for children under age six who have a developmental delay.

CASE STUDY: ASSESSMENT IN PRACTICE

As mentioned above, in order to access the NDIS, all disability criteria must be satisfied, along with age and residency requirements.

The disability requirements were tested in June 2014 and December 2015 in Mulligan and NDIS[1], in the Administrative Appeals Tribunal. In this case, it was considered whether Mr Mulligan's conditions, being ischaemic heart disease, cardiomyopathy, Conn's syndrome, and sciatica; were impairments that substantially reduced his functional capacity to engage in everyday activities and reduced his social and economic participation, and that he would require support under the NDIS for his lifetime.

Mr Mulligan was receiving the Disability Support Pension, and working when he was able to, in the years leading up to when the case was heard. He was on a leave of absence since March 2014, due to sciatica pain. His application to access the NDIS was to receive funded support for someone to mow his lawn, due to experiencing shortness of breath whenever he exerted himself.

The decision made in 2014 was that Mr Mulligan met all disability requirements except that his condition caused a substantial reduction in his ability to perform everyday activities, although it was acknowledged that he did those tasks, often with a great deal of pain and more slowly than he would have, if he was not impaired.

Members of the tribunal did state that Mr Mulligan met the criteria that required his social and economic participation to be affected, noting that it was not a legislative requirement that social and economic participation decrease significantly. However, overall, as Mr Mulligan did not meet the functional capacity test, the NDIA's decision was affirmed, and his application for access to the NDIS was declined.

In 2015, Mr Mulligan took the matter to the Federal Court, which then set aside the Tribunal's decision. It was referred back to the Tribunal for a second review. The original decision was reaffirmed, as there was no evidence to support Mr Mulligan's claim that his functional capacity for mobility, self-care or self-management was substantially reduced due to his condition(s).

PROCESS TO ACCESS THE NDIS

Clients will need to apply to join the NDIS, which involves completion of a form that includes questions about eligibility criteria, and provision of consent to seek information from third parties. Subsequent to this, the National Disability Insurance Agency (NDIA) may ask for additional information relating to your client's medical history, which could include the completion of forms by their health professional in regard to their medical history.

Proof of your client's disability is generally required, showing what disability your client suffers from, how long it is expected to last, and how it impacts their life. This last requirement may be waived if the condition is already known to have a permanent and significant effect on their ability to communicate, socially interact, learn, be mobile, self-care, and self-manage.

For example, clients with severe intellectual disabilities, or those with brain injuries resulting in paralysis, would be exempt from this requirement.

A condition is deemed to be 'permanent' if it is likely that it will be lifelong, and even after the application of known, available and appropriate treatment, the condition would not be remedied.

Continued overleaf

PURCHASING FUNDED SUPPORTS

The NDIS provides a certain amount of flexibility in how funded supports are purchased. The purchase can either be fully managed by the NDIA or can be completed by the NDIS participant.

As funded supports must represent value for money, purchases must be made from a list of preferred suppliers, where some have agreed to price their products or services at a level under a fixed ceiling, or where others have provided justification for why their price is higher than the benchmark.

The types of funded supports that may be made available through a participant's individual plan include those that help with their everyday activities, transportation (including vehicle modifications), ability to work, behavioural therapies, mobility aids (such as wheelchairs), and home modifications.

However, all funded supports must be deemed to be 'reasonable and necessary'.

What is deemed to be reasonable and necessary comes down to the discussion and information provided to the NDIS consultant. Therefore, there may instances where the funded supports available through the NDIS do not meet your client's expectations.

Specifically, the NDIS does not provide income replacement (and therefore, won't provide a safety net to pay down debt), funding for the cost of medical treatment, or the cost of overseas travel and/or accommodation that could allow access to treatment abroad.

IMPACT ON LIFE INSURANCE

Income Protection policies

As we have mentioned above, to access the services provided by the NDIS, individuals need to, amongst other things, have evidence showing they suffer from a disability that is permanent and significant.

In 2017, the majority of claims on Income Protection policies were due to musculoskeletal conditions, accidents, mental health conditions and cancer[2]. Therefore, in practise, the NDIS may be inaccessible for many income protection policy holders, and therefore, an adjustment to the insured monthly benefit, waiting period or benefit period is not warranted.

... all funded supports must be deemed to be 'reasonable and necessary'. What is deemed to be reasonable and necessary comes down to the discussion and information provided to the NDIS consultant.

However, the receipt of NDIS funding to purchase required supports may be an offset for some income protection policies.

Generally, retail policies will limit offsets to income from other insurance policies, workers' compensation and other similar payments (that are replacement of income), and for some occupations, income received from their employer or business.

However, it is important to be across what offsets apply to different income protection policies, particularly if they are group or direct policies, as the terms can vary widely.

TPD policies

In 2017, the top causes of claim on TPD policies were musculoskeletal and neurological conditions, accidents, mental health conditions and cancer[2].

The criteria that must be satisfied for a TPD policy can vary, depending on the underlying definition. If occupation-based, then this may be quite different from the requirements under the NDIS, where the condition must be permanent and have a significant negative effect on the individual's ability to perform one or more of a number of everyday activities.

This benchmark is more closely aligned with a general cover TPD definition, which requires that the insured person is more severely disabled to make a successful claim. Therefore, for the majority of clients, who require occupation-based cover, the NDIS will not replace TPD.

For those clients who only require general cover TPD (or those who are unable to obtain occupation-based cover due to their hazardous occupation or pastime(s)), a reduction in the sum insured could be considered, given that the NDIS can fund home modifications and mobility aids.

Once again, this measure should be taken with caution, as 'reasonable and necessary' funded supports through the NDIS may not be what your client desires.

Trauma policies

The amount of trauma cover that is obtained is usually based on a reduction of debt, one or two years of income replacement, and an amount to cover medical expenses. Generally, debt is not fully extinguished and income is not replaced in perpetuity, because it is expected that the client will be able to return to work after they have taken an appropriate amount of time to recover.

Trauma policies may have many specified medical events listed under the policy. However, in 2017, the most common reason for claim was because of cancer or cardiovascular conditions – with these two conditions making up 85 per cent of all claims[2].

It is unlikely that these claimants would have met the criteria to access the NDIS. However, with claims made for degenerative diseases, such as muscular dystrophy, these clients may be able to access the NDIS when they are affected to an extent that it significantly inhibits their daily life.

CONCLUSION

The NDIS is a great step towards meeting the needs of disabled Australians. However, it should be viewed as the minimum standard, rather than an equivalent to life insurance. Advisers should be well informed, so they can explain exactly what the NDIS can provide and what it can't.

Life insurance can provide a much higher level of cover and flexibility, allowing clients to achieve more than an 'ordinary life'.

Rachel Leong, Senior Manager – Product Technical, Life Insurance, BT.

FOOTNOTES

1. *Mulligan and National Disability Insurance Agency [2014] AATA 374, and Mulligan and National Disability Insurance Agency [2015] AATA 974.*
2. *BT Protection Plans.*

QUESTIONS

To answer the following questions, go to the CPD tab at moneyandlife.com.au/professionals

1 The National Disability Insurance Scheme (NDIS) is scheduled to reach full rollout for most states by:

a. 1 July 2016.
b. 1 January 2018.
c. 1 July 2019.
d. 1 January 2020.

2 The purpose of the National Disability Insurance Scheme (NDIS) is to:

a. Take a nationally consistent approach to providing services and supports that enable eligible disabled individuals living in Australia to lead an ordinary life.
b. Provide income replacement and debt reduction cover.
c. Replace personal life insurance cover through taxpayer funding.
d. Allow access to the best medical care available in Australia.

3 To access the NDIS, applicants must satisfy the following criteria:

a. Age, residency and disability requirements.
b. Disability requirements only.
c. Means testing, age, residency and disability requirements.
d. Income testing, age, residency and disability requirements.

4 The disability criteria require that the applicant suffers from:

a. a condition that is permanent and significant.
b. a listed condition that is known to affect functional capacity to perform everyday activities.
c. a condition that is episodic in nature.
d. a condition that is permanent, significantly affects their ability to perform everyday tasks, affects their social and economic participation, which makes it likely they will require support from the NDIS for their lifetime.

5 What is the proposed rate of Medicare levy, applicable from 1 July 2019, to fully fund the NDIS?

a. 1.5 per cent.
b. 2 per cent.
c. 2.5 per cent.
d. 3 per cent.

+ FOR MORE CPD ACCREDITED ARTICLES, CLICK ON THE CPD TAB AT MONEYANDLIFE.COM.AU/PROFESSIONALS

DEATH NOMINATION FORMS:
CROSSING THE 'T'S' & DOTTING THE 'I'S'

As Louise Macaulay writes, binding death nomination forms enable a person to nominate their superannuation beneficiary, and are an important part of estate planning.

The proper execution of binding death nomination forms is important because this form directs the trustee of the superannuation fund to pay super and insurance benefits in accordance with the account holder's instructions. Financial advisers play an important role in ensuring that preparation and execution of these instructions takes place correctly.

The Australian Securities and Investments Commission (ASIC) has become aware of a widespread practice among financial advisers of witnessing, or having staff members witness, client signatures on binding death nomination forms without being in the presence of the signatory. In other cases, forms have been backdated.

Each of these practices fails to comply with the law and may lead to the nominations being invalid, resulting in the death nomination being rejected. The trustee may then choose to exercise its discretion in a manner other than in accordance with the account holder's nomination, causing delays and uncertainty about the payment of the death benefit.

ASIC has recently put the financial advice sector on notice about meeting requirements for witnessing signatures, after receiving a number of breach reports and industry intelligence that made it clear that, for some organisations, cutting corners on binding death nomination forms was the norm.

ASIC understands that these organisations have taken steps to change their processes, and we want to ensure that the entire industry knows that claiming ignorance of the correct process, or claiming that it is standard procedure, will not be

Louise Macaulay

accepted as an excuse for this behaviour.

Australian financial services (AFS) licensees and advisers have a professional and legal obligation to comply with the law. Taking short cuts which result in important forms being invalid and thereby jeopardising the account holder's wishes, does not meet the minimum advice and conduct standards expected by ASIC. AFS licensees must comply with the following:

PROFESSIONAL AND ETHICAL OBLIGATIONS

AFS licensees have an obligation to ensure their staff are adequately trained and understand their professional and ethical obligations. A high standard of adviser professionalism, judgment and integrity is vital to ensuring that consumer trust and confidence is maintained in the financial services sector. Proper execution of documents is part of an adviser's professional and ethical obligations.

MONITOR AND SUPERVISION

ASIC expects that licensees will maintain adequate monitoring and supervision arrangements as an integral feature of their risk and compliance frameworks. Part of monitoring and supervising advisers involves licensees regularly reviewing the conduct of their advisers and performing 'spot checks' of key documents to ensure they are appropriately executed.

Where irregularities are found in key documents, licensees should conduct the necessary enquiries and responses in a timely manner. This may include contacting the affected clients, remediating clients where appropriate and conducting broader reviews of the relevant adviser's client files.

REMEDIATE CONSUMERS

AFS licensees must ensure that they proactively address any systemic problems caused by the conduct of their advisers and, where necessary, put processes in place to remediate their clients in a timely, fair and transparent way for loss.

ASIC has published guidance on client review and remediation in *Regulatory Guide 256 Client review and remediation conducted by advice licensees (RG 256)*. While the guidance is directed at licensees that provide personal advice to retail clients, the principles set out in the guidance should be applied to other review and remediation situations where relevant.

IDENTIFY BREACHES

ASIC expects licensees to have effective systems in place for identifying, escalating and reporting breaches in a timely manner. Inadequate or late reporting could indicate to ASIC that the licensee has broader compliance and cultural issues, and would be a red flag for closer scrutiny.

Louise Macaulay is the Senior Executive Leader of the Financial Advisers team at ASIC.

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