

FRONTIER
ADVISORS



Managers & Investors. How do they see the market?

Frontier Annual Conference - 26 June 2014

#Frontier_Conf

Background and summary of results

At the Frontier Advisors Annual Conference on 26 June 2014, we surveyed around 60 delegates (mostly super fund investment staff, CEO's and trustees) on a number of topical investment areas. A few weeks earlier, we asked the same questions of almost 150 fund managers. We found there were some areas of alignment in thinking between the groups, and other areas where managers and investors were not quite on the same page. But, we think that's probably a good thing. After all, when everyone starts thinking the same way, that's often cause for alarm.

So where were the areas of commonality?

In terms of a prediction on the likely best performing asset classes for 2014/15, both groups feel most confident in international equities. That was a strong preference with almost three quarters of both groups indicating this. There was some difference however between emerging and developed markets, with managers more buoyant on the less traditional markets than investors. Investors however, have more confidence in the domestic equity market with more than double nominating that class as this year's likely standout (albeit both relatively small groups).

There was more consensus around the question of what makes a good investment consultant with almost half of each group nominating the quality of personnel as the single most important attribute. The depth of manager and product research ranked second as the most important attribute by both groups, although was given more importance by investors. Over 70 per cent of the investors believe investment consultants are a service funds need to invest in, or are the group best placed to research and advise on investments. Similarly, around two thirds of managers also shared this view.

In terms of the number of MySuper products that will be in the market in twelve months time, exactly 42% of both groups saw an increase from the current number of around 120, in a range of up to 145 products. Amongst investors, 22% thought even more than that, compared to 10% of managers seeing that kind of increase. However, over a third of investors thought there would be fewer MySuper products in a year, along with a quarter of fund managers. Another quarter of the managers saw no change – a view not shared by a single member of the investor cohort.

Background and summary of results

What about the areas of difference? The primary areas of difference relate to how each group sees the other – perhaps not surprisingly!

In terms of fund managers, almost half believe they provide a depth of research internal investment teams cannot match. This is a belief that was not recorded by a single person at the Frontier Conference. Given the question virtually pits the skills of one group against the other, perhaps the true answer lies somewhere in the middle.

Almost a third of investors believe the number of fund managers in the Australian market will drop over the next five years, a view shared by just one in ten managers. Individually, more than 90 per cent of managers expect their businesses to grow in the next five years, with one third of investors thinking the exact opposite. We'd expect, and hope, managers would have confidence in their businesses and while investors are not quite as bullish, 60 per cent do share their optimism. However, on this theme, more than 40 per cent of investors feel that managers will need to trim their fees to remain competitive. Just 6 per cent of managers agree.

There was some consistency between the groups around manager remuneration though, with around one third of both groups believing managers should be primarily remunerated on performance – with a slightly stronger feeling on this point amongst the managers themselves (36% versus 29%).

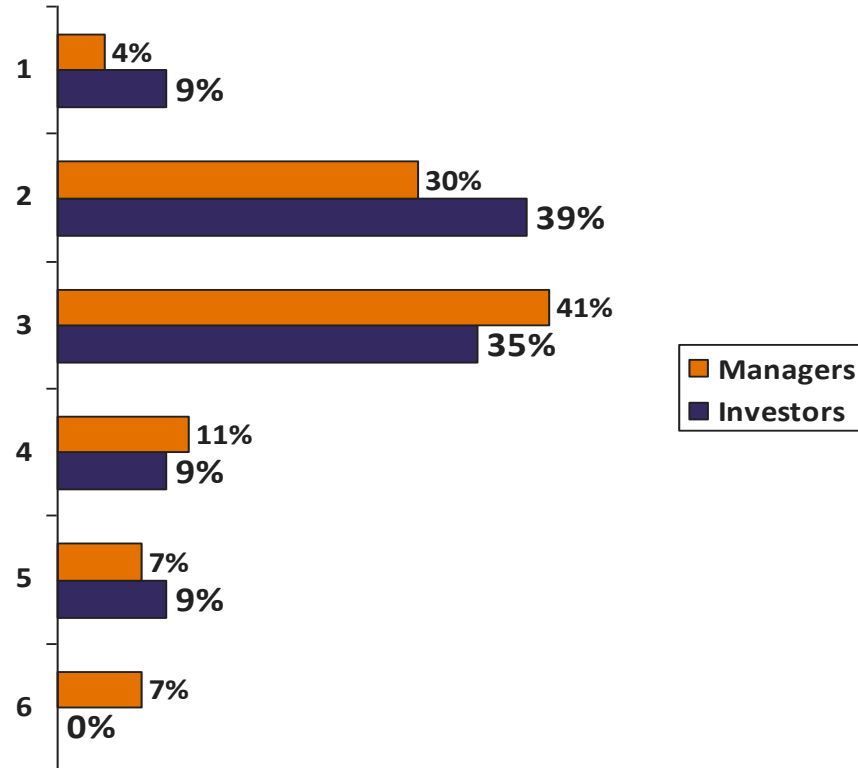
On the subject of investment consultants, one third of managers believe the primary role of investment consultants is to protect funds from highly adverse performance or governance issues. However, only one in ten investors see this as a primary function for advisors. Just two per cent of managers think investment consultants have outlived their relevance, and while more investors hold this view (14%), both groups are in alignment with this belief not being a widely held opinion. Naturally, we agree on that point!

Looking at the question of who holds the influence within funds, more than a third of managers believe this to be the CIO, a view shared by just half as many from the investor side. In fact, almost 50% more investors nominated the investment consultant as the most influential, a view held by exactly half the number of managers. However, and perhaps surprisingly, neither group supported the idea of CEOs being the most influential party in awarding a mandate – indeed not one person from the investor cohort, which included a number of CEOs, voted that way.

1. Performance expectations for 2014/15

What do you think will be the best performing asset class in 2014/15?

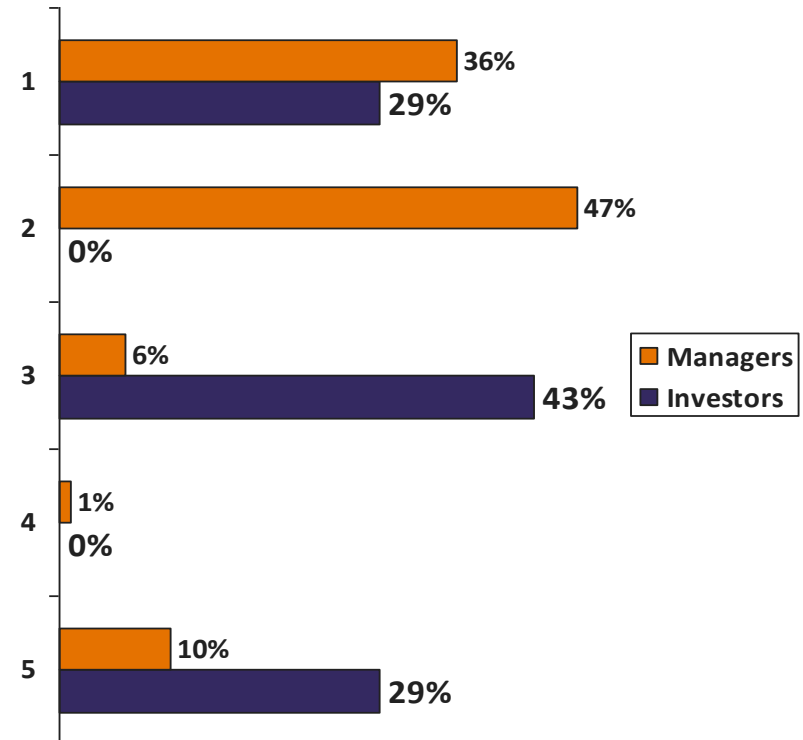
1. Australian equities
2. International equities (Developed Markets)
3. International equities (Emerging markets)
4. Infrastructure
5. Property
6. Bonds/Credit/Cash



2. Fund managers

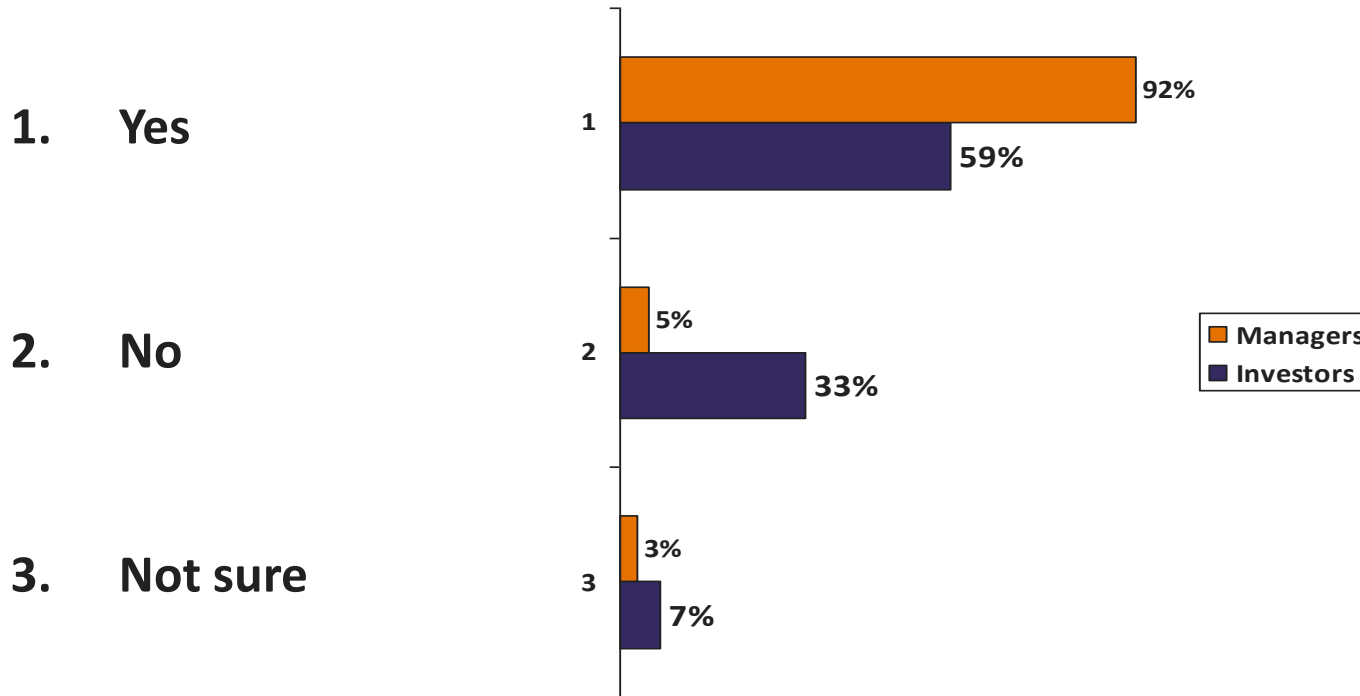
Choose the answer you most agree with. Fund managers...

1. Should be primarily remunerated on performance
2. Provide a depth of research internal teams can't match
3. Will need to trim fees to remain competitive
4. Will reduce product complexity and performance to meet fee targets
5. Will drop in numbers in the Australian market over the next five years



3. Funds management businesses

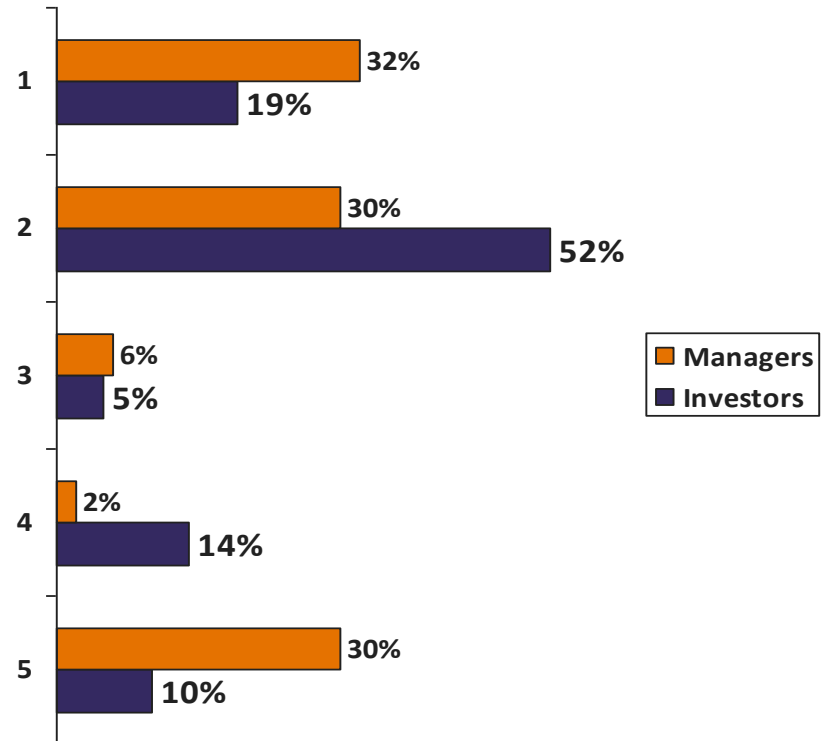
Other than via market growth, do you expect individual fund manager businesses to experience growth over the next five years?



4. Investment consultants

Choose the answer you most agree with. Investment consultants:

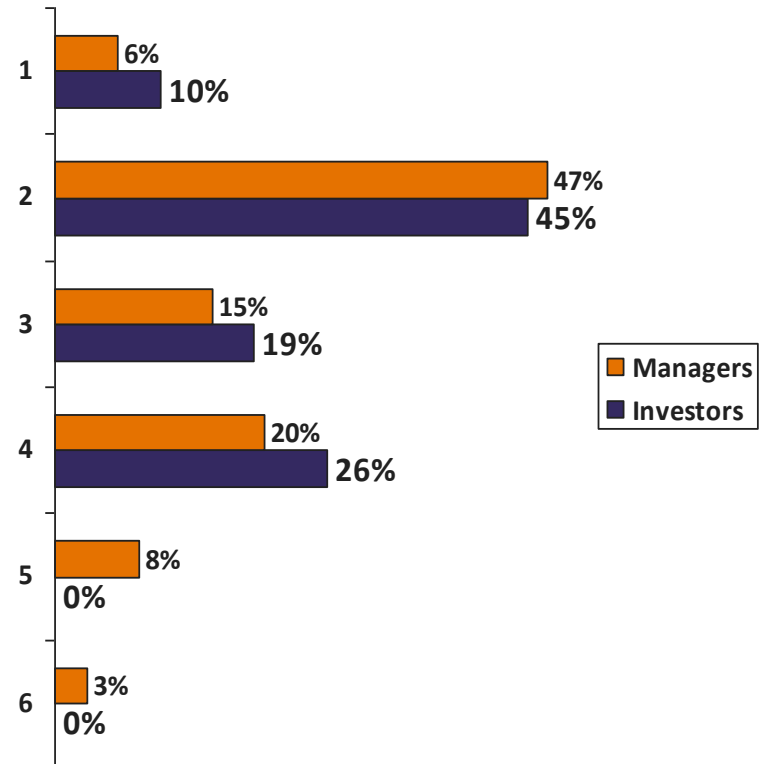
1. Are best placed to research and advise on investments
2. Are a service funds need to invest in to improve performance
3. Hinder funds from achieving break-out results
4. Have outlived their relevance
5. Protect funds from highly adverse performance or governance issues



5. What makes a good investment consultant?

What is the most important attribute of a good investment consultant?

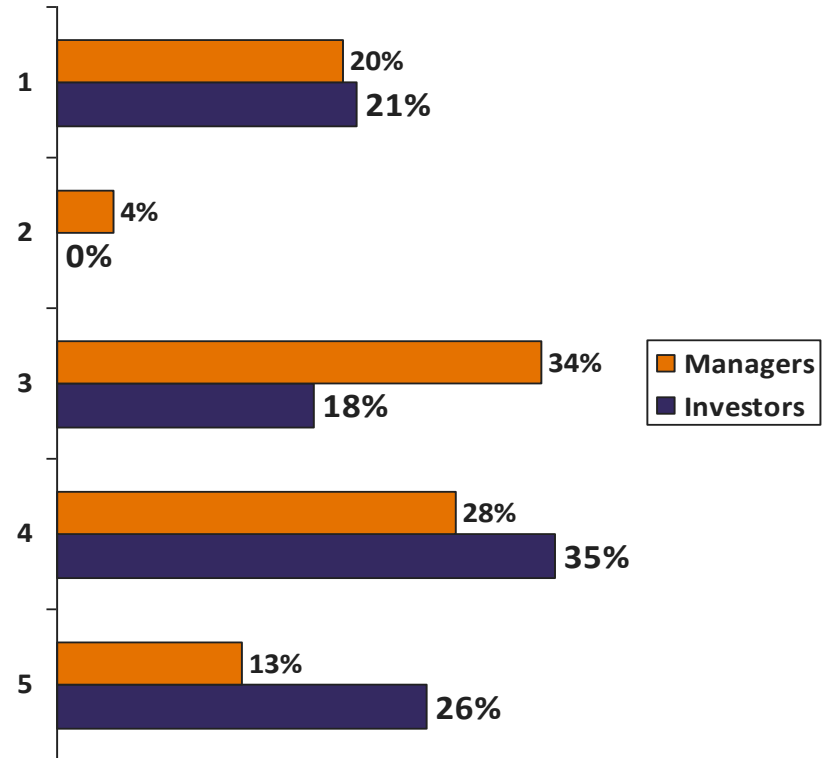
1. Independence
2. Quality of personnel
3. Thought leadership
4. Depth of manager/product research
5. Coverage of manager/product research
6. Local environment understanding



6. Investor decision making

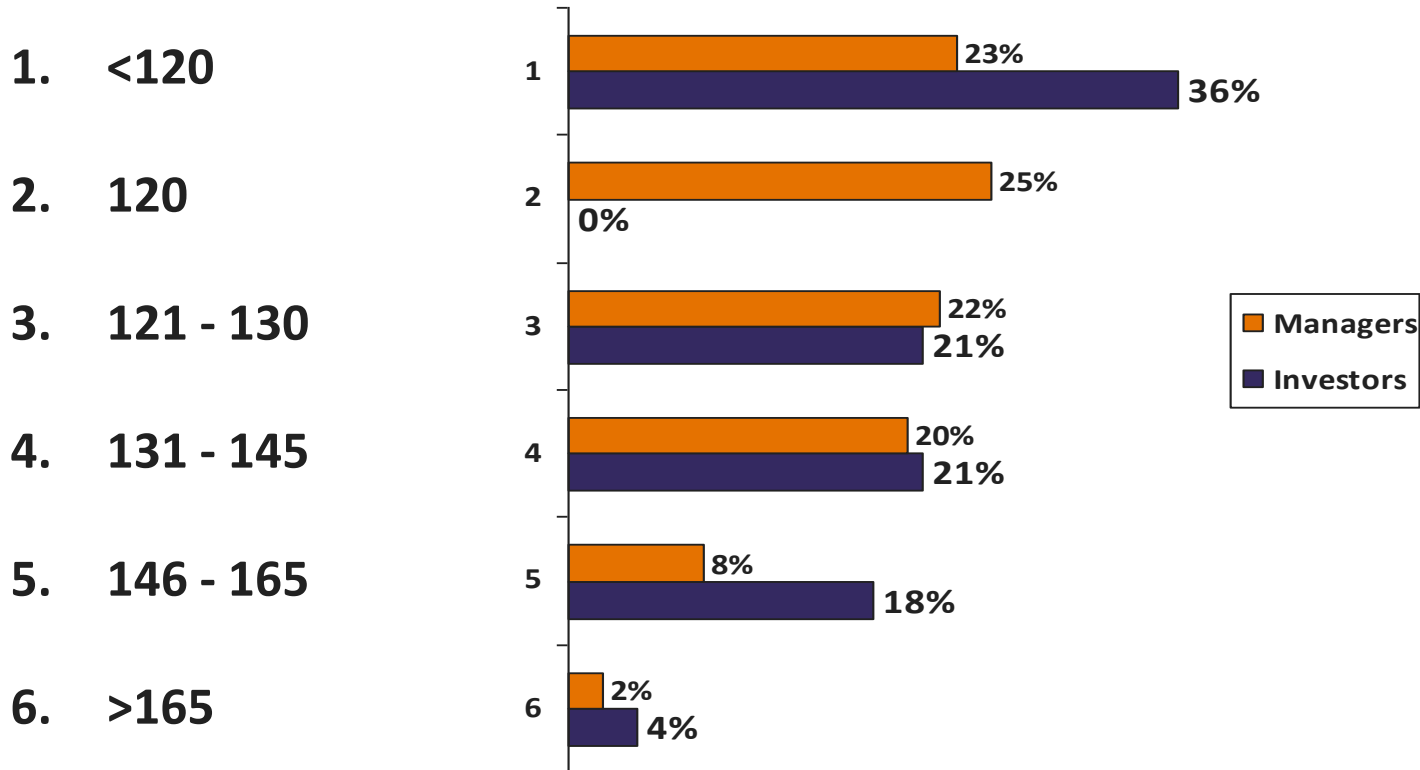
For fund managers trying to win mandates, who is the most influential?

1. Board/Investment committee
2. CEO
3. CIO
4. Internal teams
5. Investment consultant



7. MySuper

How many MySuper products will there be in a year's time? (Around 120 today.)



Important information

Frontier Advisors Pty Ltd ABN 21 074 287 406 AFS Licence No. 241266

This presentation is intended for wholesale investors only (as that term is defined in the Corporations Act 2001 (Cth)). The information contained in this presentation is current as at the date of preparation, but may be subject to change. The information contained in this presentation is intended as general commentary and should not be regarded as financial, legal or other advice. This presentation has been prepared without taking into account your objectives, financial situation or needs. Should you require specific advice on the topics or areas discussed please contact the presenter directly or an appropriate advisor. This presentation may contain forward-looking statements. These are not facts, rather, these forward-looking statements are based on the current beliefs, assumptions, expectations, estimates, and projections of Frontier Advisors Pty Ltd about the business, the industry and the markets in which we operate. Past performance is not a reliable indicator of future performance. Frontier Advisors Pty Ltd makes no representation or warranty that any of the information contained in this presentation is accurate or complete. To the maximum extent permitted by law, Frontier Advisors Pty Ltd does not accept any liability for loss arising from any reliance placed on the use of this presentation including the information contained within it. The contents of this presentation are confidential and must not be disclosed to any third party without our written consent. This presentation must not be copied, reproduced or distributed without the written consent of Frontier Advisors Pty Ltd.

Frontier Advisors

Level 16, 222 Exhibition Street

Melbourne, Victoria 3000

Tel: +61 3 8648 4300

www.frontieradvisors.com.au

[@frontier_adv](https://twitter.com/frontier_adv)