

FRONTIER

International

Global research and insights from Frontier Advisors

**Trends, technology and
future strategy**

**UK and North America
Strategy Trip**

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25
years

Frontier regularly conducts international research trips to observe and understand more about international trends and to meet and evaluate, first hand, a range of fund managers and products.

In conjunction with insights we share with our Global Investment Research Alliance partners, these observations feed into our extensive international research library.

This edition investigates trends that will impact how asset owners invest and manage increasingly complex and global investment portfolios as learned by members of our very own Leadership Team.

AUTHOR

Andrew Polson

Chief Executive Officer

Andrew is responsible for overall leadership, operation, strategic planning, and financial performance of Frontier, ensuring compliance with regulatory requirements. Prior to Frontier, Andrew was General Manager, Wealth Management with financial services group MyState Limited, and before that Global Head of Investment Management and Implementation for ANZ Global Wealth's Chief Investment Office. He has also held several other senior Wealth Management specific roles within the ANZ Group and at IOOF. Andrew started his career at NAB in Business Banking and then Group Strategy. Andrew holds a Master of Marketing Management from Melbourne Business School and a Bachelor of Commerce from La Trobe University.



AUTHOR

Paul Newfield

Director of Sector Research

Paul Newfield is Director of Sector Research, having joined the firm in July 2019. Paul has a primary focus on driving innovation and client alignment in our research program and works closely with our Global Investment Research Alliance (GIRA) partners. Paul joins Frontier from Willis Towers Watson where he held the role of Senior Consultant for over eight years and was involved in a number of governance and strategy areas, including liability driven clients and retirement incomes. Prior to that, Paul spent twelve years at Mercer where he held a variety of senior roles in both Australia and New Zealand, including leading Mercer's retirement business in New Zealand and was Board Chair of their trustee company. Paul is a Fellow of the Institute of Actuaries and holds a CIMA certification as well as a Bachelor of Economic Science.

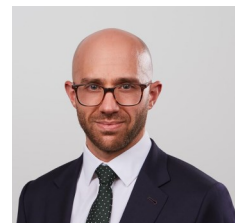


AUTHOR

Michael Sofer

Head of Strategy & Business Solutions

Michael Sofer is a Principal Consultant and Frontier's Head of Strategy & Business Solutions. He is responsible for the development, communication and execution of Frontier's commercial strategy. He also has oversight of Frontier's three specialist teams – Governance, Advice, Risk, Decisions and Strategy (GARDS), Member Solutions Group (MSG) and Quantitative Solutions Group (QSG). Prior to this, Michael spent over seven years working across Frontier's research, specialist and client consulting teams. Michael completed a Bachelor of Commerce and Bachelor of Aerospace Engineering (Hons) at Monash University. He graduated Class Dux for Engineering and received the University Medal for Commerce. He is a CFA Charterholder.



Trends, technology and future strategy

Members of Frontier's Leadership Team travelled to the UK and US to investigate trends that will impact how asset owners invest and manage increasingly complex and global investment portfolios.

The key areas explored included: the application of technology to long-term institutional portfolio management; global research and coverage with our Global Investment Research Alliance (GIRA) partners; the incorporation of environmental, social and governance (ESG) considerations into investment decision making; and the role of private market investments in long-term investment portfolios.

The key take-outs

Technological developments will fundamentally shift how asset owners utilise systems and data to manage their portfolios. As they increasingly harness genuinely disruptive innovations, fully integrated and hyper-customised top-down solutions covering the entire investment decision making process are now realistic. The impact on their ability to visualise the portfolio and make informed investment decisions will be revolutionary.

For our largest clients, open ecosystems will mean we can integrate effectively with investment teams' own technology platforms. For our clients with more limited resources to build their own platforms, our vision is to enable access to the very best global technology solutions which are uniquely tailored and customised by leveraging our deep understanding of their investment approach.

Frontier has already embraced many of these new approaches to software development as we continue to develop our technology solution for clients. This has required a huge shift in approach and a significant investment in new capabilities, but we believe it will be the key to Frontier continuing to provide world class technology solutions to all our clients over the coming years.

Frontier will continue engaging with our Global Investment Research Alliance (GIRA) Partners Lane Clarke & Peacock (UK) and Segal Marco Advisors (US).

It is important to us to explore ways of deepening the relationship to continue bringing best-of-breed investment ideas to our clients. Accessing private markets, leveraging technology for insight, applying ESG data and delivering customised investment ideas are priorities for all three partners.

ESG is a complex area which continues to evolve. In response to a greater awareness of the inherent risks and opportunities, there has been a proliferation of ESG data and analytics providers. This is positive for clients seeking to more fully integrate ESG considerations into their investment process and decision making. The challenge (and opportunity) is working out the baseline for clients and how to evolve their process over time. Importantly, there is no one right answer but rather ESG is a process of continual improvement.

Private market investments offer opportunity both in terms of solid risk-adjusted returns and also access to a different sector and regional profile than available in public markets (e.g. more technology companies in the US). Asset owners need to think how they access these investments, especially as companies increasingly preference private over public capital. Importantly, such a strategy needs to reflect a total portfolio approach that incorporates consideration of risk management, illiquidity and fee budgets.

High level macro takeaways

As well as these key outcomes, in the UK, we spent all our time in London. London seemed fine but, from discussions, the two key themes which seemed to emanate were that there were more issues starting to emerge outside of London (although we did not witness this first hand), and there was a reasonable consensus that within the UK there was very little focus on anything other than Brexit. There did seem to be a strong sense of Brexit exhaustion and some modest concerns that all else was on the waiting list until Brexit was resolved. When we arrived in the US we sensed, and discussions suggested, that the US does seem to be in the early stages of a variety of secular challenges. Each member of the research group observed an increasing and noticeable gap between the haves and have nots, relative to previous similar experiences in North America.

It was clear also from an investment perspective that lots of physical assets need work and general reform seemed to be a long way off (and wanting by many of the investment entities we met). Issues around climate change and how modernised or resilient power supply is, were highlighted in our trip to San Francisco (where some areas had been without power for several days). People we met did seem to have a reasonably group view, consensus may be too strong a word, that there was an element of dysfunction in various parts of the economy and a lack of cohesion in terms of how to address structural challenges in the US economy. There was also some concern that traditional methods, such as increasing government spending or cutting interest rates, may not work to the same degree as they have done in previous decades. Our view is that there are challenges ahead.



Business strategy

Andrew Polson

Chief Executive Officer



Areas of focus

The purpose of this trip was to progress a number of strategic items on our agenda as a firm. These include the development of new markets, informing our plans to enhance both our research and technology offerings and to ensure we continue to develop our proposition for clients. These all fit with the three pillars of our long-term strategy including continuing to diversify and strengthen our business for the benefit of all clients, driving excellence and being technology enabled.

Michael Sofer (Head of Strategy) and I started in Japan. We have been travelling to the region for some time as we see a real opportunity to advise Japanese asset owners as they develop more sophisticated and more global investment portfolios. Entering the Japanese market forms part of our business strategy to continue to grow and diversify our business leveraging the global capabilities in our research and consulting capabilities and technology platform.

We then met with Paul Newfield (Director of Sector Research) in London. As a group we then conducted meetings in London, New York and San Francisco, focused on:

- Investigating ways to deepen our Global Investment Research Alliance in areas such as private markets, data, technology, ESG and actuarial skills for LDI and Retirement solutions;
- Investigating the relevant universe of suppliers (and some institutional users) of technology solutions to institutional investors that we felt were critical to inform our view of how and where to play, as well as the likely path forward for the development of technology solutions for asset owners globally;

- Better understanding how fintech providers are being funded in the US and how venture capitalists are assessing these opportunities;
- further investigating various suppliers of ESG research and solutions to better inform the development of our ESG offering; and
- Developing a plan to extend our Private Equity coverage for clients.

Expectations

The trip was extensive and certainly met and exceeded my expectations in many ways. There was confirmation of a lot of our thinking and there were also areas that surprised us which will be valuable as we take the learnings from our trip forward into our business plans.

One of the key things this trip reinforced to me is that while we operate in Australia today, we offer capabilities that have global reach and require connections and a deep understanding of what is going on in global markets. Understanding the context and connections that underpin developments in these markets is essential. As is the case with many of our clients when they engage with participants and markets offshore, we were able to experience that in spades on this trip, which will serve us well and shape the way we continue to develop our highly credentialed and global capabilities for the benefit of our clients.

Future development

The key takeaways from our meetings and observations for me are:

- Leveraging partnerships, as well as continuing to invest ourselves, in truly global capability sets such as research and technology in order to deliver the best solutions for our clients;
- Private market assets are only going to grow in importance to our clients. Consequently, we must continue to develop our coverage and capability in these markets; and
- We have a clear opportunity to further develop our ESG offering for clients to help them navigate what is a very challenging and diverse space.
- The lack of progress being made to move to truly open ecosystems from a technology standpoint. Many players

(incumbents and otherwise) who purport to be open are in fact simply building closed environments that they can control rather than being truly aligned with the best interests of asset owners;

- Understanding the importance of data, how to support it with technology architecture, how to structure it, access it economically and leverage it is critical for both asset owners and advisers; and
- How small and interconnected the communities are that drive decisions in their markets and developments globally and why it is so important for us to keep developing connections with these players.

All the findings from our trip will be fed directly into improving our proposition to fulfil our purpose:

“to empower our clients to enhance the prosperity of their members”.



Sector research

Paul Newfield

Director of Sector Research



Areas of focus

The trip itself was multi-dimensional. We visited a number of technology companies, a number of companies focussed on ESG data and ESG analytics, a number of specialist managers in private asset classes and, I also managed to link in with our equity research specialists who were in London at the same time and meet a number of global equity managers.

A key part of the trip for me as Director of Sector Research was meeting our GIRA partners, LCP in London and Segal Marco in New York. We met with their respective leadership teams (including manager research leaders) and spent significant time assessing common challenges in investments, looking at areas of increased client exploration and looking for common ground discussing how we continue to evolve the GIRA partnership for the mutual benefit of all of our clients.

Today, Australian investors allocate a significant amount of capital overseas – particularly our superannuation fund clients. And as the superannuation assets in the Australian system grow, we think it a certainty that more and more capital will be deployed across a range of opportunities in overseas markets. Regardless of where the money is deployed, investors the world over face many common themes and challenges: low inflation; slowing economic growth; late cycle investment dynamics; ageing demographics; unusual, some would say new, fiscal as well as monetary policy paradigms; and compressed risk premia in some cases. But, all investors want to ensure their members can achieve a good retirement (in the case of pension or superannuation funds) or can achieve and sustain their solvency positions in the case of liability driven investors.

In summary, the trip was about what we can do today and into the future to help clients as far as possible in finding return generating opportunities and mitigating against risk (which seems somewhat heightened today). We also focussed on how we can use technology as an enabler in these pursuits.

Expectations

Certain elements of the trip were about looking at technology and the tools we can provide to clients to assist them into the future.

There were a number of technology providers and thought leaders we spoke with around how technology can be used, how it is changing the investment value chain and what are the tools and data for the future that would be most helpful for clients. Many of these providers see Australia as a potential opportunity and some had reasonable knowledge of our system and the funds, particularly the large funds, which they are targeting.

However, another key element was exploring potential new asset classes for funds to further allocate to in the future. In this regard the trip was not about vetting particular managers in these niche areas but more about assessing macro themes and whether these niche assets may have a place in client portfolios. One of these niche areas was private equity and we met a few managers in both London and New York about this ever-changing, and ever-growing space (as expected we did not forget to mention fees and the need to ensure better aligned fee models for clients and end savers, and evidence does suggest things are moving in the right direction here!).

Another area we believe is critical (and we have a specialist area which focus on this) is culture. The trip was not focussed on this but there were two specific manager engagements which talked about and focussed on their culture. It really reinforced a lot of our thinking and was a positive engagement.

The Global Investment Research Alliance (GIRA)

For me there were four key takeaways at a thematic level which were consistent with both our discussions with our GIRA partners and indeed a number of our own views:

- Both LCP and Segal Marco have a significant number of liability driven clients and while Frontier already has been

successful in this space, our GIRA partners have significant exposure here. Seeing how they operate here and some of the challenges their clients have faced and the tools they use for liability management, does provide some interesting thought pieces and opportunities for Frontier and our liability driven clients (since arriving at Frontier it has surprised me that some folk in the Australian market still think we only deal with industry super funds).

- Like Frontier, both LCP and Segal Marco make use of technology both for internal efficiency purposes and also, in the case of LCP, for institutional client facing tools. Technology will continue to evolve and while Frontier has won awards and been recognised as a leader here, this ground is continuing to shift, continuing to grow and more data and improved analytics will be key here. We need to continuously improve here and discussions led to some interesting ideas, several of which are already in the pipeline at Frontier.
- Both LCP and Segal Marco spoke of an increase in focus on ESG and ESG data. This was a common and resounding theme that really echoed throughout the trip. Visiting and having discussions with a significant number of managers and their ESG tools, implementation and analytics and meeting with data providers and technology vendors in ESG, provided for a very rich cross sectional discussion and further opportunities which we will explore.
- There will be more money invested in private markets! Segal Marco in particular already have a number of private markets and private equity investments.

Future development

For me there were probably two surprises (and I am not often surprised!):

- One particular manager I met talked about the inefficiencies of ESG data today and that several sources of data analysing the same thing arose to different conclusions. The manager said that ESG was important but cited the variance in views as an alpha rather than a beta opportunity. They believed those managers and those investors committed to more deeply assessing ESG factors could draw out competitive advantages and additional returns. The way the manager thought about ESG was fundamentally different to others I have met and the extent of their research also contributed to my curiosity;

- The second was the variance in fee models and the attempt by managers to produce more aligned fee models in private equity. There were some that charged nothing for investing in their fund (noting it was a new version of a fund of funds) but then charged on secondaries and co-investments, while others charged for the fund but then charged nothing for the other two parts. There were also a number who focussed on their teams investing significant allocations alongside institutional investors which has the capacity to generate stronger alignment.

The work done on the trip will help us assist our clients in:

- Gaining even deeper ESG thinking and potentially more analytics. One area that has historically stood out for Frontier is our research in property and infrastructure. While ESG data in public markets is somewhat easier to come by (although some entities tried to look at what listed companies do rather than what they say – to combat green washing), ESG data in these private markets is far more difficult. This is an area we will be working on to continue to help our existing clients and continue to lead the Australian market in. We are told our real assets database and technology leads the market, adding a further ESG dimension here will assist our clients in gaining further insights;
- Opening overseas investment opportunities up even further - we will continue to work more closely with our GIRA partners LCP and Segal Marco. This can only bring even more opportunities (both from a research, intellectual, data and technology perspective) for our thinking and for our clients;
- Continuing to examine further investment opportunities in private markets and at a fee level or structure which will create even better alignment for clients (relative to managers). A number of managers did mention the common ailment of over-diversification in these markets, while private markets do provide tremendous opportunities they also come with risks (at both a market centric and individual investment level).

I think both ESG and private markets do provide future opportunities for investors if done right.

Strategy & Business Solutions

Michael Sofer

Head of Strategy and Business Solutions



Areas of focus

My research was aimed at exploring how the model of modern portfolio management for institutional investors is shifting. And as a result, how Frontier should position itself to remain at the forefront of advice and bespoke solutions for clients.

In other words, how do we remain a progressive and innovative investment consulting business delivering superior performing investment solutions to asset owners?

I met with large global asset managers, technology firms, ESG data vendors and private market investors.

Expectations

While I participated in meetings across a variety of topics, what connected them all was the overarching theme of the pace and extent of change.

Technology disruption

First, technology is redefining how asset owners can or should manage their portfolios.

Currently, asset owners are struggling with systems that were never built with them in mind and hence do not provide cohesive, holistic and comprehensive portfolio management systems. Further, workflows are highly fragmented and information flow from front to back office is disjointed, broken and slow. Finally, data is more copious and complex than ever and asset owners face the formidable challenge of capturing, cleaning and using it to their benefit.

Especially as markets and portfolios grow more complex, and we find ourselves at the later stages of the market cycle with risks rising, a deep understanding of the portfolio - including its key drivers, linkages and sensitivities - has gone from being useful to essential. Managing this with a mix of spreadsheets, intuition and stale data is no longer sufficient.

This issue has been recognised and new innovative technologies are being applied to solve it. This includes the so called front-to-back integration where information flows seamlessly from front office to back (and back again) allowing decision makers access to real-time data on their investments. Also, there is a progressive belief that asset owners should have access to the best tools for the job which very likely come from multiple service providers. In this respect, open-architecture technology which allows interoperability (meaning allowing different systems to talk to each other and work together) is becoming ubiquitous.

For Frontier this means three things. One, the application of modern technology to portfolio management will significantly impact how assets owners interact with their portfolios. Two, workflows are becoming more connected facilitating more informed decision making. And three, it is dated to think that one provider has all the answers and can control information in a closed way. All are instructive for the future of our advice and the future of our technology platform, the Partners Platform.

Private market assets

Second, structural changes in capital markets are shifting the balance of capital towards private market companies.

On the investor side, institutional capital allocates structurally to the asset class to extract the illiquidity premia, diversification and yield. Cyclically, it allocates in a bid for returns amidst a low returning environment. Many asset owners are initiating or expanding private market portfolios (private equity, property, infrastructure, credit).

Equally on the company side, many are choosing to remain private longer (or indefinitely). This is due to it being easier to raise private capital both from a regulatory perspective and also as a result of the maturing of institutional private market asset classes (e.g. private equity and infrastructure). Equally, public markets are more challenging for companies as they are under more pressure to deliver short-term results and

face stricter regulatory requirements. Case in point - technology firms are better represented in private markets due to the need for patient capital.

For Frontier, this means we need to think about how we facilitate and recommend access for clients. Private market investments can certainly be compelling. They just need to be fit-for-purpose and implemented in a way that manages risk, illiquidity and fee budgets. Further, particularly given the late stage of the investment cycle, it is important to deploy capital intelligently and selectively. The past ten years where every investment delivered strong outcomes will not be repeated and so experience, expertise and focus count more than ever.

ESG

Finally, asset owners are more conscious of delivering sustainable and responsible long-term investment returns. Consideration of ESG is now the norm, not the exception.

In response to the recognition that consideration of ESG factors is critical for managing risk and capturing opportunity, the ESG "industry" has grown significantly. The broader availability of data, consultants and frameworks are encouraging for asset owners seeking to benchmark their performance on ESG metrics and respond accordingly.

However, incorporation of ESG considerations continues to evolve and mature. There is significant variation in data quality, assessment methodology and coverage by asset class. As asset owners are encouraged to more comprehensively incorporate ESG considerations, this presents significant challenges to be managed over time.

For Frontier, we need to consider how to normalise ESG with clients and help them reflect it more fully in their process. This means making ESG considerations accessible to all client types to the degree appropriate to their circumstances, helping them visualise the whole portfolio (not just listed equities and fixed income but private assets too), and giving advice on action (i.e. making different investment decisions because of ESG data).

We also need to acknowledge that ESG is a complex area that continues to evolve. This means there is no right answer and it is rather about setting a base line and working on incremental improvement.

Future developments

In general, an advisor in a rapidly shifting world needs to be flexible, insightful and innovative. They must support clients in their quest to make better decisions.

On the advice side, we will do this by continuing to engage and interact with our clients and their needs. This includes: always reflecting their unique requirements, constraints and targets in our advice; developing bespoke solutions from first principles (rather than solely using the past as a guide); and being more global in our research (reflecting the rising allocations offshore for many clients).

On the technology side, our challenge is to continue helping users to distil complexity into meaning and insight. This means applying modern technologies to deliver flexible and customised portfolio analysis and visualisation. It also means being more considerate of client workflows and better integrating with the full information value chain. We will consider these issues as we develop the next generation of our technology platform.

The key is recognising that different clients will engage with us in different ways and for different purposes. Hence to help our clients be successful, it is important for us to remain flexible, progressive and innovative. If we can deliver targeted solutions in a way that works for our clients, we will help them to achieve their goals.

I continue to believe that our real strength remains our focus on client outcomes. It is why we have delivered for our clients over the past 25 years and it is why we will continue to do so for the next 25.



About Frontier Advisors: Frontier Advisors is one of Australia's leading asset consultants. We offer a range of services and solutions to some of the nation's largest institutional investors including superannuation funds, charities, government / sovereign wealth funds and universities. Our services range from asset allocation and portfolio configuration advice, through to fund manager research and rating, investment auditing and assurance, quantitative modelling and analysis and general investment consulting advice. We have been providing investment advice to clients since 1994. Our advice is fully independent of product, manager, or broker conflicts which means our focus is firmly on tailoring optimal solutions and opportunities for our clients.

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