Mr Jeremy Flood

Private Investment Adviser

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Personal Investment and Wealth Management - Concurrent breakout session repeated

Friday, 29 July 2011	Start 2:00pm	Duration: 60mins	Greenslade Room
	Start 4:00pm	Duration: 60mins	Greenslade Room

General Practice Conference and Medical Exhibition

Dunedin, 29 July 2011

Jeremy Flood

- Private Investment Adviser for Westpac's Private Bank South Island
- Grew up in Canterbury
- Education in New Zealand: BCom, DipBS (Personal Financial Planning)

Background:

  - Started working life in Investment Banking in London
  - 15 years in Financial Services (London, Christchurch)
  - 3 years with Westpac's Private Bank
  - Authorised Financial Adviser

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Scott Gullery

- Financial Adviser for Westpac's Investment Advisory Service Dunedin
- Education in New Zealand: PGDipPFinPlan (Personal Financial Planning)

Background:

  - 14 years in Financial Services with Westpac Investment team
  - Authorised Financial Adviser

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Financial Planning – What is it?

- Covers a wide range of issues, but principal components include:
  - Investment planning based on short, medium and long term goals
  - Retirement planning
  - Addressing personal risk planning
  - Addressing business risk issues
  - Investment rebalancing, monitoring, and reviews
  - Estate planning
  - Succession planning

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Why is financial planning important?

Why is financial planning important?

- To enhance and sustain our standard of living and financial security.

  “Money can’t buy you happiness, but it does bring you a more pleasant form of misery” Spike Milligan.

- To provide more certainty as to our future income and lifestyle, and the likelihood of achieving our goals.

- To protect our wealth against erosion (be it from inflation (last car/first house), excess taxation, excessive expenditure, or the claims of others).

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Personal Investment Strategies

- Your investment strategy should not be planned in isolation – it is part of the wider financial planning process and needs to be executed within an appropriate structure.

- Without appropriate personal risk, ownership, and estate planning structures in place, the best investment plan can be easily derailed.

- You can do your investment planning yourself or seek advice – if you seek expert advice for the other aspects of financial planning (via an accountant, solicitor, etc.) why wouldn't you do the same for investment planning?

The importance of good advice

What to look for in a Financial Planner:

- Authorised Financial Adviser (AFA)
- Experience and Qualifications (CFP, CLU,CFA)
- Professional membership (IFA) with a Code of Ethics and Professional Conduct
- Professional Indemnity Insurance
- Areas of specialty
- Nature and level of fees
- No criminal convictions or adverse findings

Under the Financial Advisers Act 2008 all advisers offering a Personalised Investment Planning Service need to be an AFA.

Investment asset types: plenty of choice

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Cash

- Most common form is bank accounts and term deposits.
- Most stable asset class, provided cash is held with an investment grade entity.
- Benefits: Liquid, low volatility, certainty of capital.
- Disadvantages: Lower yield over the long term thus may not keep up with inflation, and a volatile income stream over time.
- Good way to fund short term goals (ie. capital that will be needed within 3 years).

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What's wrong with Cash?

- Savings accounts and term deposits can work well as short term solutions. However they are generally sub-optimal for those seeking long term growth and/or income as they represent:
- Minimal protection against inflation, which is really an investor's primary concern over the long term (remember: last car/first house)
- A lower return over the long term: Cash has historically returned 1% after tax and inflation*, below both bonds and equities.
- A volatile income stream: those looking for long term income end up on the interest rate rollercoaster (2008/2009 is a good example).

* NZ Retirement Commission

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Bonds

- A debt obligation from another party. Many different kinds: Government, Local body, Corporate, Convertible, Zero-Coupon, Floating, Perpetual, etc.
- Bonds are generally tradeable - price is variable and influenced by a number of variables including risk appetite, interest rate expectations, issuer credit risk.
- Benefits: Higher yield than cash over time, certainty of income stream, liquidity, ability to diversify.
- Disadvantages: Capital movement, credit risk (depending on type of bond), interest rate risk, reinvestment risk.
- Can work well for conservative investors seeking income, and as a hedge against share price volatility.

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Constructing a bond portfolio

Need to consider:

1. Maturity profile and aggregate maturity (duration) of portfolio.
   - Best practice recommends a laddered maturity profile.
   - This reduces reinvestment risk and yield curve risk
   - Can set duration to account for interest rate expectations

2. Individual bond credit risk and aggregate portfolio credit risk.
   - Measured by credit rating
   - Preferable to stick with investment grade issues (rated BBB- or better by Standard & Poors)

3. Adequate diversification of issuers and industry sectors across the portfolio, to reduce exposure to company and industry specific risk.

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Bond investment

Need to consider:

1. Actively managed approach vs. direct buy and hold approach

- Cost vs. return vs. diversification vs. volatility

2. Diversification into global bonds

- similar volatility profile
- reduces systemic risk in portfolio
- interest rate differential
- most easily accessed via managed funds

Using credit ratings

S&P Rating	Financial Strength	Prob. of default over 5 years
Investment grade: Capacity to make timely payment		
AAA	Extremely strong	1 in 600
AA	Very strong	1 in 300
A	Strong	1 in 150
BBB	Adequate	1 in 30
Speculative grade: Vulnerability to non payment		
BB	Less vulnerable	1 in 10
B	More vulnerable	1 in 5
CC/CCC	Currently vulnerable	1 in 2
D	Default	

Source: Reserve Bank of New Zealand

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Property

- Many types: (commercial, industrial, residential etc.) and forms (direct, Listed Property Trust (LPT), syndicate etc.) of investment.
- Benefits: Growth asset, alternative utility, ability to use leverage (debt), potential tax benefits.
- Disadvantages: Liquidity, ability to diversify, price discovery, no central exchange, management intensive, poor yields in most residential property.
- Listed property (LPTs) is generally the easiest way to get exposure to property while retaining liquidity and diversification.
- Investment in LPTs can be accessed directly or through managed funds.

Shares (Equities)

- Investing in businesses. Many different forms however common stock in listed companies is the most common. Investment may be direct, via a passive fund, or through an active manager.
- Benefits: Historically best return of main asset classes, good inflation hedge, easy to diversify by sector and geography, liquidity via a central exchange, NZ PIE regime means PIE funds aren't subject to capital gains tax from selling NZX and ASX (All Ords) shares.
- Disadvantages: Volatility, harder to use leverage.
- Shares should provide the highest risk-adjusted returns of main asset classes over time provided exposure is well managed.

Ways to gain share exposure

- **Direct:** Investing directly in listed companies via a sharebroker. Will generally mean less diversification. Stocks are selected by the investor or their adviser/broker.
- **Passive:** Investing across a market or sector via an index fund (also called Exchange Traded Funds). The investor doesn't rely on manager skill and receives a return close to the index, less the fund's fees.
- **Active:** Investing via an actively managed fund. Most NZ based actively managed funds are structured as Portfolio Investment Entities (PIEs), which generally aren't subject to capital gains tax on NZX share gains and most ASX stocks. An expectation that the manager will outperform the relevant index over time.

Alternative Investments

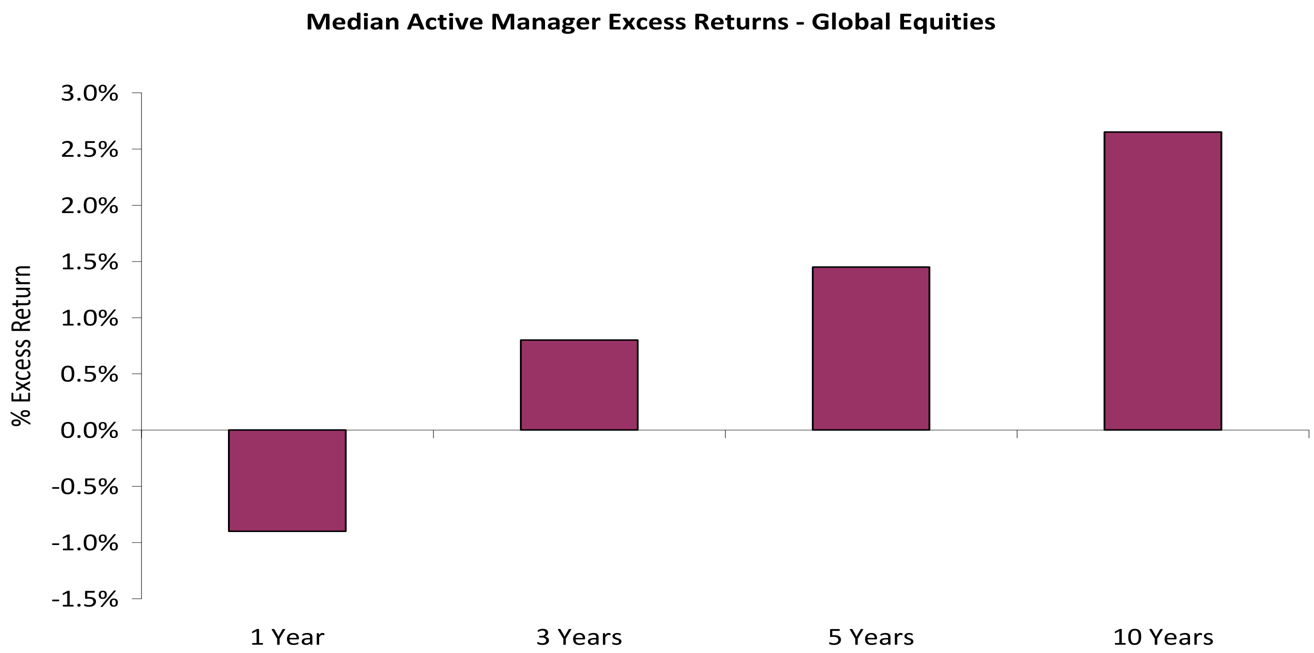
- A portfolio's expected risk and return outcomes may be further improved by the inclusion of alternative investments.

- Expected volatility, returns, liquidity and underlying risk need to be taken into account. Higher volatility/risk investment types should be used carefully.

- This includes commodities and hedge funds.

- In the context of a diversified portfolio this asset class is generally included for its low correlation to the equity market, in order to dampen total portfolio volatility.

The argument for active management



As of 31 December 2008. Returns for periods longer than 1 year are annualised. Source: Mercer Investment Consulting

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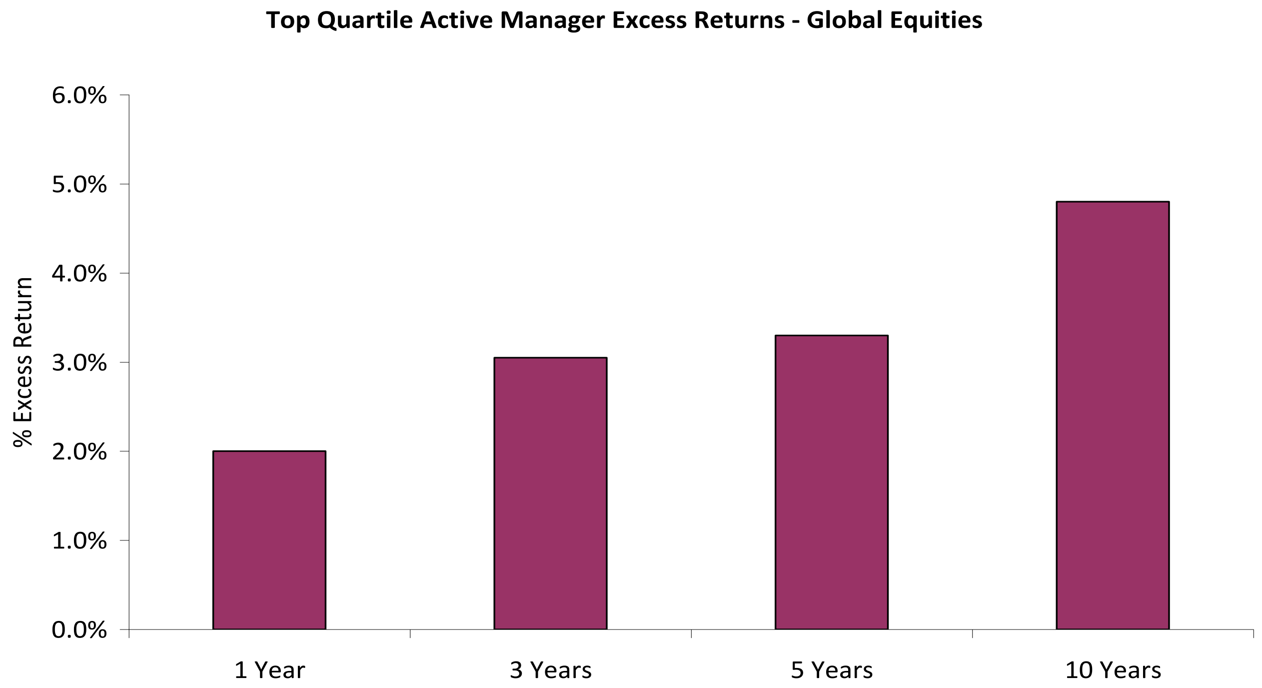
The argument for active management



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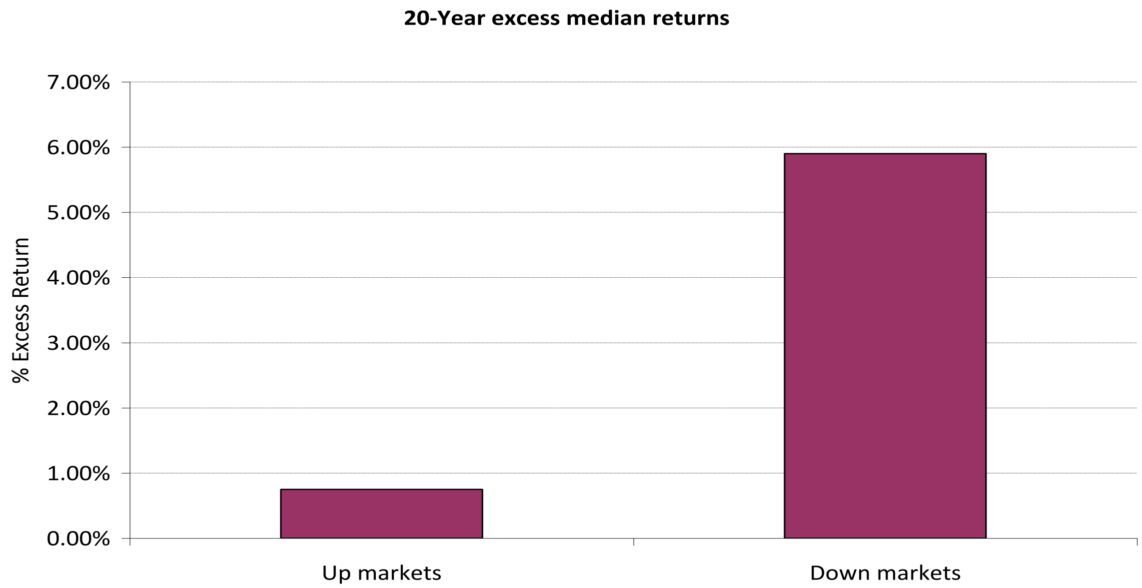

Source: eVestment Global Equity Universe Median vs MSCI World Index with gross dividends reinvested as of 31 Dec 2008.

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Spot Quiz: Where were the best returns in 2010?

Choices:

- Cash (bank account)
- NZ Bonds
- Global Bonds
- NZ Shares
- Global Shares (in NZD)
- Listed Property

Spot Quiz: Where were the best returns in 2010?

Choices:

Cash (bank account)	3.0%	
NZ Bonds	7.0%	
Global Bonds	7.6%	Best
NZ Shares	2.4%	Worst
Global Shares (in NZD)	4.1%	
Listed Property	3.4%	

Where have the best returns been?

Calendar Year	NZ Cash	NZ Bonds	International Bonds	NZ Shares	International Shares
1999	4.85%	0.06%	0.44%	13.30%	26.56%
2000	6.56%	11.12%	10.27%	-8.03%	2.32%
2001	6.10%	4.75%	8.20%	13.35%	-11.61%
2002	5.65%	8.68%	12.10%	0.89%	-36.22%
2003	5.60%	6.42%	6.32%	25.25%	6.05%
2004	6.10%	5.45%	9.46%	25.06%	4.28%
2005	7.16%	6.95%	9.06%	9.99%	16.12%
2006	7.74%	4.18%	5.48%	20.32%	15.97%
2007	8.48%	3.87%	8.86%	-0.35%	-0.09%
2008	8.78%	15.85%	15.25%	-32.80%	-21.92%
2009	3.39%	1.65%	3.49%	18.94%	4.40%
2010	3.00%	7.00%	7.60%	2.40%	4.10%

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Based on the following indices: NZX 90 Day Bank Bill Index, NZX NZ Govt Bond Index,
Citigroup World Govt Bond Index Hedged in NZD, NZX50, MSCI World Accum Index in NZD

Risk and return: no free lunch

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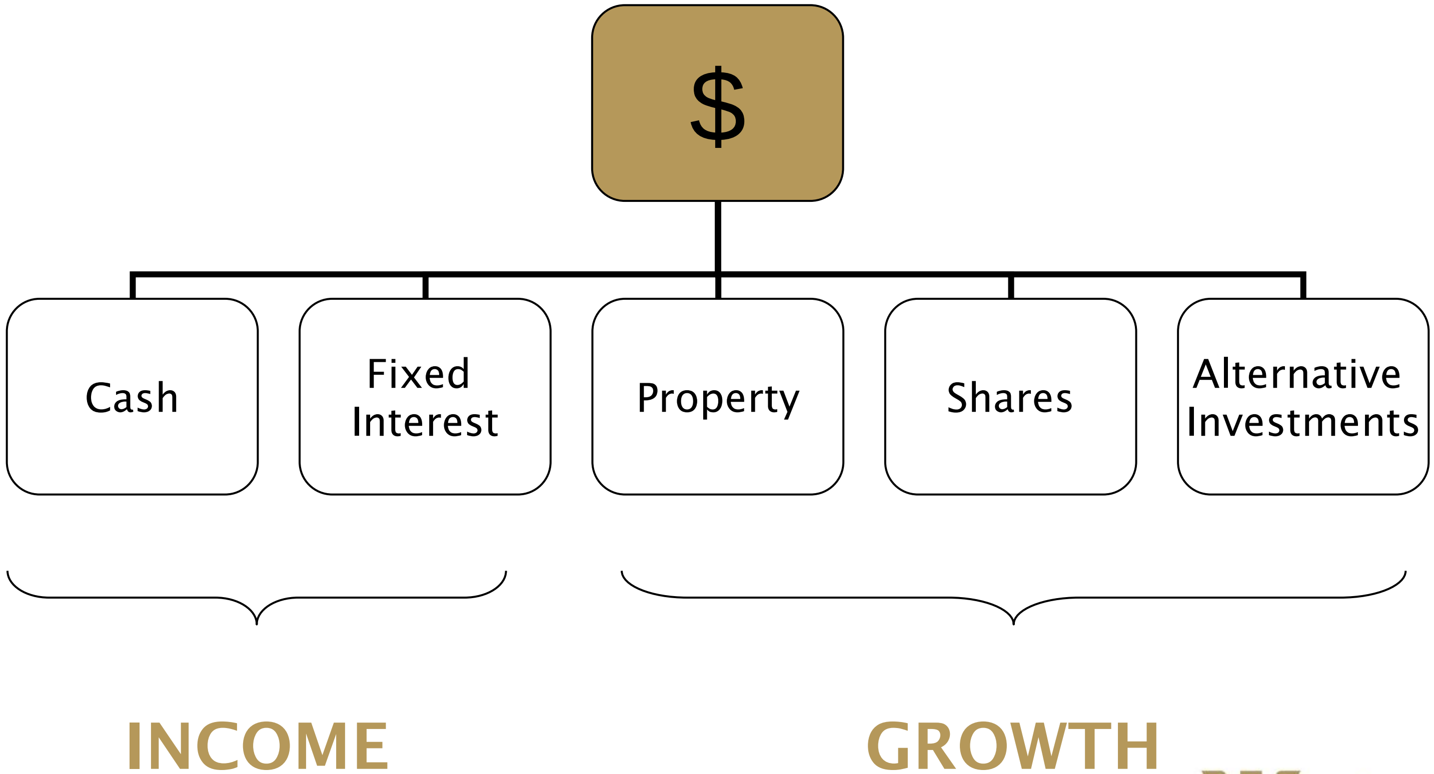
It’s all about balance

A diversified portfolio has been shown to be the optimal way to balance risk and return over the long term:

- Optimisation process allows us to maximise return for a given level of risk/volatility, providing customers with more consistent returns.
- Allows us to spread/diversify our investment across asset managers, asset classes, across issuers and geographically.
- Provides a more stable income stream than cash.
- Asset allocation can be adjusted to account for risk tolerance.
- Will generally capture best performing asset class each year.

Diversification



Tax considerations

- Investment strategies also need to consider tax outcomes:
- Will PIE structured funds/investments be beneficial?
- Will FIFs (Foreign Investment Funds) be beneficial?
- Is the investment generally tax effective?
- Is your investment strategy consistent with other components of the bigger financial plan with regards to desired tax outcomes?

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Where will your income come from in retirement?

Retirement planning can be seen as a layering exercise:

Sources of income/capital:

- NZ Superannuation
- Cash/term deposits
- Workplace superannuation
- KiwiSaver
- Direct investments (shares/bonds/property)
- Managed investment solutions

- Many rely primarily on the first of these, yet arguably this is the source of income over which you have the least control.

Westpac's Investment Advisory Service

- Westpac's Investment Advisory Service provides financial advice and investment solutions to all of Westpac's customers in New Zealand.
- This includes advice on investment strategy and options, retirement planning, estate planning and risk management/insurance.
- We also provide long term investment solutions and ongoing advice.
- We provide general support to all our Westpac customers in relation to investment, KiwiSaver, and financial planning.

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What sort of customers do we help?

Almost everyone needs financial advice but most of our demand comes from these types of customers:

- Customers who are approaching retirement (or have arrived at retirement), but have no plan and need help to invest their money.
- Customers who need to diversify away from cash and/or residential property but can't do it themselves.
- Customers who have sold a business or a property and need help to invest the capital.
- Customers who need help to manage their assets (e.g. charitable trusts, and professional associations).

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What makes Westpac's solutions different?

- **Process** – we only offer advice via a structured process that complies with IFA practice standards. All Westpac advisers have or are progressing towards CFP.
- **Service** – after client investment we provide ongoing monitoring and advice, formal reviews and access to an Adviser + Consultant.
- **Multi-manager** – we have the ability to select the best active managers in each asset class, which provides clients with a wider range of managers, and improved risk-adjusted returns.
- **Westpac Wrap Service** – this provides our customers with transparency and fast and easy to understand reporting, regular rebalancing and WRAP Online.

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Research

- Matthew Goldsack, **Head of Investment Solutions, BT Funds Management (NZ) Ltd (15)**

  François Richeboeuf **- Portfolio Manager, BT Funds Management, CAIA (9)**
- Angelika Sansom **- Investment Analytics Manager, BT Funds**

  Management, B.Com (19)
- Anna Florence Research Analyst, **BT Funds Management, B.Com (3)**
- Helen Wang - Senior Research Analyst, **BT Funds Management, MMS (Finance) (6)**
- Daniel Thomson – Research Analyst, **BT Funds Management, BCom, BA,**

  CFA (4)

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What makes Westpac's solutions different?

- **Cost** – Our scale (FuA of >$1bn) enables us to achieve lower management fees with fund managers.

- **Specialisation** – Best of Breed approach we don't believe that one individual can execute all aspects of investment advice for the client and do it well. Our clients benefit from the expertise of a number of specialists.

- **Active management** – we are strong advocates of active management. Using active managers provides:

  - higher risk-adjusted returns to our clients, particularly for NZ shares.

  - It also allows us to make use of the PIE regime, which can reduce tax liability via a lower effective tax rate and the absence of capital gains tax on NZX and ASX (All Ords) shares.

What is the process?

Our Investment Advisers can provide customers with ongoing financial advice and opportunities to help meet their financial goals through our six step financial planning process:

- First we establish the financial goals and objectives
- We then determine their current financial position
- Next we will analyse their situation and recommend a financial solution designed to achieve their goals
- We will then communicate our recommended solution in a financial plan
- Once a recommendation has been agreed, we will implement the financial solution
- Finally, we continue to monitor the investments and provide regular reviews

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