AFR Focus | Wealth management

The man who sold before the crash

Risk profile

Alexandra Cain

Whether from prescience or good luck, after the shocking collapse sharemarkets experienced in March, John Moore is glad he sold out of shares that month just when the market was turning.

"I had a medium-risk, local and global equities portfolio. So I was relatively well hedged. But I did step out of the market for a while and put the money into cash. I'm now back in the market, in US tech stocks in particular."

Moore is expecting more pain in the local market in the upcoming earnings season.

"I think a lot of income from companies will have gone and some companies and even whole sectors may not survive the next year," he says. "But technology will become bigger and bigger. We've finally realised remote working is feasible. So that's why I'm heavy on tech."

Moore, 51, only returned to Australia in September, after a three-year stint in Britain. His business, Ikigai Partners, supports medtech start-ups and fintechs to commercialise their offerings.

He's at a stage at which he's focused on building his investments as he gets closer to retirement.

"My financial adviser keeps me engaged in wealth management. Ultimately, I want a comfortable retirement. I don't want to retire tomorrow; I like working. But I want to be able to work just as much as I want and still maintain my lifestyle."

Moore says using a separately managed account works better for him than a self-managed super fund given he's spent so much of his working life overseas.

SMSFs are hard to manage from a tax perspective as an expat because their tax benefits are difficult to maintain unless you're regularly back in the country.

Lane Financial senior financial adviser Morgan Collins, who is Moore's adviser, explains at the moment his SMA includes a portfolio of Australian and global shares, cash, global real estate, gold, bonds, global infrastructure, global consumer staples, global healthcare and an exposure to Nasdaq via active ETFs. The portfolio also contains passive ETFs that give him a tilt to fixed interest and property.

"The portfolio is appropriately positioned for this period of volatility.

"Like most investors, John is not immune to the market but given his age and working options, we're now agnostic to it. We elected to hedge risk through this period with a term deposit," Collins says.

Moore also has life insurance policies including total and permanent disablement, critical illness and income protection.

"Insurance is discrete from investment or global macro events and we're not making any changes to John's insurance policies over this period. His income protection policy has an agreed benefit, which is an added protection through uneasy times," Collins says.

Moore wasn't the only investor who reduced his exposure to the market at just the right time. Alex Jamieson, founder of financial advice firm AJ Financial Planning, explains in the lead-up to the start of the pandemic he recognised the market was in a late bull cycle. This prompted a degree of caution when investing clients' money.

> ■ **The portfolio is appropriately positioned for this period of volatility.**
> Morgan Collins, Lane Financial

"That said, we didn't expect a recession, only that one might be on the horizon at some point. We felt we needed to be ready if one did occur unexpectedly," says Jamieson.

John and Amy Petrovich, whose portfolio is tilted to growth, have been Jamieson's clients for years. Jamieson took a number of actions with their portfolio as a result of his view the bull market was coming to an end.

"We increased investment positions and diversity in the portfolio, and introduced options we expect should perform well during a recession as well as assets that should bounce back fairly quickly on the back of a recovery cycle," says Jamieson.

An example is global fixed interest investments that are financially safe but offer attractive yields. The AJ Financial Planning team also checked in to see how the Petrovichs were faring during COVID-19.

"We made sure John's employment was secure and reviewed government incentives to see if he qualified.

"We also reviewed his cash flow to make sure he was positioned to weather the COVID-19 storm," he adds.

Jamieson says it's important during a downturn to separate risk from hyperbole. "It's easy to go to cash but this opens up massive timing risk. We felt this was not warranted in the Petrovichs' strategy.

"John is an incredibly smart guy and he has some amazing insights on future technology, which helps with the conversation around investment options.

"There are tremendous opportunities during periods of turbulence and uncertainty. The Petrovichs don't want to sit on the side lines missing out on the buy of a lifetime."

It's a view that takes some courage, but it's one that may deliver significant rewards over time. AFR

Right timing. Morgan Collins and his client John Moore hedged risk with a term deposit. PHOTO: WAYNE TAYLOR

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Perpetual says Trillium's time in the sun is now

distribution had largely been conducted via word-of-mouth," he said.

Perpetual aims to use its distribution expertise and network to ramp up its presence. "We think we can extend Trillium's reach and accelerate its growth globally," Adams said.

Perpetual has sniffed the breeze when it comes to ethical investing. Adams believes the pandemic will hasten the shift as people reassess their lives on a host of fronts.

"ESG is one of the fastest growth categories globally and that's certainly reflected in Australia," he said. "Investors increasingly want their money to do good things, whilst delivering good returns".

What was a niche segment is rapidly spilling over into mainstream investment circles.

"I think the global pandemic and other climate events that Australia has endured in recent times has only sharpened the focus on ESG right across the spectrum of stakeholders," he said.

The track record of Trillium since 1982 in the sector gives it extra clout and credibility, he said.

"ESG investing is fast becoming mainstream and Trillium has been at the forefront of ESG investing for nearly 40 years".

Local investors will be able to see a tailor-made version soon, and there's plenty of big customers patiently waiting.

> ■ **Perpetual itself has an 18-year history in ethical investing.**

"We're on track with our plans to launch Trillium's ESG offering tailored to Australian investors in the next couple of months," Adams said, while tight-lipped about who is lining up.

"Interest levels amongst the investment community, including some of the larger Australian superannuation funds, asset consultants and private clients, have been highly encouraging since we closed the deal," Adams said.

"It shouldn't be forgotten that Perpetual itself has an 18-year history in ethical investing through our own actively managed funds that focus on ethical and socially responsible companies," Adams said. "So we're well-placed to meet that demand, drawing on our own expertise in ethical investment as well as through Trillium's pedigree".

Perpetual is also moving fast in Trillium's US heartland where it aims to lift the brand's profile and clout.

"Looking specifically at the Trillium ESG Global Equity Fund available to US investors, now in its 20th year, it has outperformed its benchmark over a one, three, five and ten-year period," Adams said.

What of the thorny issue of sharemarket-listed companies potentially being squeezed out when it comes to access to capital?

Adams said the issue isn't black and white.

What it does do is trigger an extra focus on innovation and cutting-edge technologies in industries perceived to be questionable on the "ethical" investment front.

"While I don't think you can solely attribute it to ethical investing, certainly there is evidence globally where some industries are facing challenges in accessing capital, particularly those companies situated higher up the cost curve," he said.

He expects it will lead to a shift in business model and encourage investment focus on innovation.

"More broadly, based upon investor and community expectations, quality companies and quality management in general apply the right emphasis on environment, social and governance issues," Adams said.

Over an extended time period, quality companies solving problems can provide investors with superior returns. "It's those companies that we focus on," he said. AFR

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Values matter in virus age

players may have erred in their commitment to ESG. The bfinance survey found that big pension funds were more likely to focus on ethical and social considerations than smaller institutional players such as insurers and family offices. That gap in sentiment, however, is "narrowing over time", the consultant says.

Other market participants have detected a more robust demand – and even a renewed fervour – for ESG funds during the pandemic.

Global investment manager Janus Henderson's Australia country head, Matt Gaden, says demand has shifted from a focus on environmental issues to societal issues, such as public health and economic equality, as the culture wars have permeated the headlines alongside the pandemic.

In other words, demand has not dried up, but shifted from the "E" in ESG to the "S".

"If anything, we've seen an increase [in demand] from our clients … whether that's around how companies are managing the physical and mental health of their workforces during the pandemic, diversity, supply chains, equal opportunity, health and safety, and so on," he says.

The public outcry over the death of African American man George Floyd in the city of Minneapolis in May, and subsequent Black Lives Matter protests across the globe and debate on Aboriginal deaths in custody here in Australia, have similarly stirred a renewed focus from ethical investors.

Chris Brycki

Rob Sullivan, of Bell Asset Management, agrees social concerns are paramount, but says the still topical summer bushfires in Australia have kept a steady focus on the environment and climate change for its client base.

"ESG has become even more of a prominent focus [during the pandemic]," he says.

For Scott Haslem, chief investment officer of Crestone Wealth Management, investment performance is just as core to the ESG investing discussion as the broader social and environmental issues at stake.

And, luckily for Crestone's clients who have chosen this path, there is mounting research suggesting a correlation between ESG factors and positive performance.

"Best-in-class sustainability and ESG strategies can and do outperform their traditional counterparts," Haslem says. "If there is one myth we work hard to debunk, it's that sustainable investing means forgoing financial returns."

That performance has come at an opportune time for those affected by the downturn.

A report by Deutsche Bank released in July found ESG funds had either outperformed or matched their respective benchmarks during the sharemarket crash in March.

But commentators including Chris Brycki, founder of online investment adviser Stockspot, have warned that the recent good fortune of many ESG products – particularly passive, rule-based ESG ETFs – is largely attributable to favourable "sector tilts".

With low exposure to mining and natural resources, many ESG equities products have a material allocation to the technology and healthcare sectors, for example, which have been winners of the pandemic period and its associated work-from-home revolution.

"This could, of course, continue or reverse in the future," Brycki says.

With strong performance and enlightened marketing comes the prospect of higher fees, ever tantalising for the managed funds industry in a world that is heading in the other direction.

Bhanu Singh, head of Asia-Pacific portfolio management at global powerhouse Dimensional Fund Advisors, agrees that ESG products tend to cost more, but he says the additional fees are often justified.

"It's true that ESG strategies generally have higher expense ratios in the market … [but] we think that's a reasonable reflection of the additional costs and effort taken to manage these strategies," Singh says.

"What's more, we've found many clients are happy to invest in these strategies at this marginally higher price." AFR

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