

## **AZ Sestante Client Services & Marketing**

# **HUB24 Flagship Sestante Managed Accounts - FAQ**

**28 April 2020**

### **Investment Management**

#### **1. What are the competitive advantages of AZ Sestante versus other Australian managed account providers?**

- Our managed accounts are actively managed by experienced portfolios managers supported by a global investment platform.
- Our global investment platform's views, supported by the quantitative investment team, drive tactical and strategic asset allocation, manager selection, risk management and ultimately performance.
- Our global quantitative team uses the Black-Litterman model to provide a strategic asset allocation superstructure to client portfolios, as well as supporting tactical asset allocation decisions and risk management.
- AZ Sestante, as part of the AZ global investment platform, enjoys significant "buying power" for third party investment managers.
- AZ NGA practices access highly competitive fees as well as direct and frequent access to portfolio management team.

#### **2. Why is the track record for the HUB24 managed accounts only 1 year?**

- The AZ Group has a long history in managing multi-asset portfolios for clients. The Australian arm, AZ Sestante, began in 2016.
- Given the client profile at the time, the first product offering were discrete multi-asset funds built to Financial Wisdom specifications on the CFS platform and limited to CFS managers and CFS trustee oversight.
- The Hub24 managed accounts were the natural evolution of this offering, with a purer representation of our tactical asset allocation and manager selection. Construction of the portfolios and governance / compliance structure began in 3 Q2018. The portfolios were released in late February 2019.
- Since inception the portfolios across all risk profiles have performed in a "true to label" fashion.

#### **3. Why are the Dynamic Portfolios Called Dynamic?**

- "Dynamic" describes the portfolios ability to allocate to both active and passive managers when the investment team feels it is appropriate.
- Dynamic portfolios are the purest form of our investment views given they have the "extra lever" of active fund manager views which help drive more granular implementation of our house views on asset classes and risk management.

#### **4. Are the Sestante Index Portfolios managed the same way as Dynamic?**

- "Index" portfolios are managed exactly the same way as the "Dynamic" portfolios i.e. actively managed TAA, identical risk management. Where they differ is that the underlying managers/securities are passive only i.e. index ETF's or funds. The Index portfolios do not allocate to active investment managers.
- They are intended to provide a cost-effective entry point to our active asset allocation abilities which we believe drive 80%+ of portfolios returns.

## 5. Do the Dynamic funds perform better than the Index funds?

- We expect the Dynamic portfolios will outperform the Index portfolios over the longer term given the extra lever of active managers to drive more granular views on asset allocation.
- We expect Dynamic will outperform Index in markets that tend to benefit active management over beta exposure.
- In highly momentum driven markets, markets where fundamentals are not driving price discovery or when asset classes are highly correlated we would expect Index to marginally outperform Dynamic if we were not positioning the sub managers in Dynamic to benefit from these types of conditions.
- We think over a typical 3-5 year business cycle Dynamic portfolio's active manager exposure and the ability to be more granular in asset classes (eg Credit, EM, mid/small cap) will outperform the Index portfolios.
- Moreover, the bulk – circa 80% - of total return we expect to be derived from tactical asset allocation. Both the index and Dynamic portfolios are highly correlated given they share the same TAA and investment DNA. Importantly, the Dynamic portfolios should not be seen as a portfolio that “trades” more than the Index portfolios. It simply has more “levers” to pull within the boundaries of our house TAA.
- The Index portfolios were designed as cost-effective vehicles that leverage the same house views and TAA of Dynamic. However the lower performance objectives (and fees) relative to Dynamic reflects zero exposure to active managers and less granular exposure to asset classes.

## 6. Why do you choose one manager over another?

- We have a pragmatic approach to manager selection:
  - Best in class investment managers/passive structures (approved by both the Fortnum APL and AZ manager research platform)
  - Best fit”” to portfolio strategy via their underlying holdings/approach
  - Best fit price wise – for example 90% of the same return/diversification benefits in an indexed exposure plus a saving of 1% in fees plus no performance fees is more attractive to our investment team.

## AZ Sestante & AZ NGA

### 1. Is it a conflict of interest for us to use AZ Sestante given they are part of AZ NGA? Is this structure vertically integrated and hence is conflict with FASEA3?

- The only common element is that AZ NGA and AZ Sestante are owned by AZ International Holdings.
- There is no financial benefit to AZ Sestante or AZ NGA when AZ NGA practices use AZ Sestante managed accounts or funds.
- AZ Sestante outsources ALL its underlying exposures to external investment managers – not AZ investment management business.
- AZ Sestante competes on a level playing field - performance, fees, product, service - with other managed account consultants for AZ NGA business.

### 2. What financial incentives are paid to AZ NGA and its group companies by AZ Sestante for business flows/FUM?

- None. See above.

### 3. What are the advantages of AZ Sestante and AZ NGA being owned by AZ International?

- One advantage of the ownership relationship we have is we offer a close relationship between the advisers and with the investment platform that advisers would not get with a third-party provider. This applies to client service standards and access as well.
- This close relationship directly benefits the financial adviser's quality of investment interface with their clients.

## **HUB24**

### **1. Is HUB24 a Strong business compared to the major platforms?**

- Managed accounts is all HUB24 do. They are 100% focused on managed account business. That's it.
- Listed company on the ASX market cap circa 600M
- March quarter this year 1.5bn inflows, 15bn FUA up 33% yoy, 15m EBITDA growing at 30%
- Hub have won best platform managed accounts by Investment Trends 4 years in a row
- Great active tax optimisation (as opposed to blunt FIFO) , ability to blend MA's and substitution/exclusion option (some practical limitations but still better than everybody else IMO)
- The adviser interface is excellent, intuitive and has very detailed output for clients

### **2. Are the Sestante HUB24 Managed Accounts approved on Fortnum's APL?**

- At the time of writing AZ Sestante Hub24 managed accounts are approved by a Fortnum blanket waiver"" for AZ NGA practices
- We expect the managed accounts to be approved on the APL shortly.
- All AZ Sestante managers and securities are approved on the Fortnum APL.

### **3. Why are the Fees in the PDS and on HuUB24 higher than what Sestante tells me?**

- AZ Sestante has carefully cultivated "privately negotiated" fee rates with best in class investment managers. HUB 24 is privy to these arrangements.
- These fee rates are reflected directly in client accounts via fee rebates.
- Given the private nature of these fee arrangements, "public" disclosure of fees is limited to the managers "full published rate" on both HUB24 and as disclosed in the Ironbark/AZ Sestante PDS.
- These published fees are higher than the "actual" fees realised in client accounts.
- Advisers that use the AZ Sestante HUB24 managed accounts utilise "fee disclaimers" that clearly outline the difference between headline/published rates and the actual rates clients receive after the discounts are reflected in their accounts via rebates. .

### **4. Why is the cash fee on HUB24 1.75%?**

- HUB24 and Wealthplan/Xplan software discloses a "maximum possible" fee for the cash account for HUB24, which is currently set at 1.75%.
- HUB24 retains the RBA cash rate as a fee, which (while HUB24 may charge up to a maximum of 1.75%) is currently only 0.25%.
- If for example the official RBA cash rate was 2%, clients would receive 0.25% as a return on their cash hub investments.
- The cash hub is primarily a facility for funding transactions such as pension payments and ongoing fees and so the allocation to this account is minimised to only cover costs for the next 12 months before being rebalanced periodically

#### **Important information**

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