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From: grow@marinisgroup.com.au
Sent: Friday, 7 September 2018 9:39 AM
To: Alex Wiedenmann | Marinis Group
Cc: Grow | Marinis Group
Subject: What the Royal Commission has told us so far
Attachments: 2018 08 04 _ Super funds face a pounding in round six of royal commission hearings.pdf; SPIVA Australia Scorecard Year End 2017 _ PRINT VERSION.pdf

Dear Friends,

What the Royal Commission has told us so far

Regular readers will know that the Royal Commission into Banking and Financial Services has my full support. It shines a light on the underbelly of the wealth management industry, and I hope that after the deliberations are finished and the report is published, it will bring some significant improvement.

Already, two important conclusions have emerged:

- The industry regulators, the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investment Commission (ASIC) have been lenient in their treatment of legislative breaches by banks and insurers; and
- Successive federal governments of both persuasions (and the flawed systems they have designed) are not blameless in the practices which are being exposed.

Now, I don't want people to be overly concerned, as the saying goes, "Be alert, not alarmed". Australia's financial institutions and practices are among the world's best, but they are far from perfect.

APRA has been revealed as a toothless tiger and in need of a new direction. It is my view that there is a need for a new culture of vigilance at APRA and ASIC, one that is more than an email from the chair. It is about re-training staff, amending practices, and putting the interests of the Australian consumer first. Nor am I convinced that the proposed co-location of ASIC staff into the large institutions will do anything to change the culture of chumminess. In my experience, putting people with competing objectives together blurs boundaries, and defeats the purpose of retaining a single-minded umpire.

Competition drives performance and cost consciousness

Over the years, successive federal governments and their senior bureaucrat advisers have effectively outsourced regulation of the super system to the 4 major banks and the institutions, including AMP and IOOF, just as they are now asking us to trust the industry funds.

Now, the federal government and their failed regulators are telling us "don't trust the banks – trust industry super funds and their masters in the unions and large employer organisations!" just as they are about to suggest the dismantling of their competitors, the 'BIG' banks.

If I have concerns, it is that one of the outcomes of the Royal Commission may be a weakening of competition in the financial services industry. While retail super funds have been widely criticised in the hearings, industry funds have been the recipients of noticeably lighter treatment. Glowing commentary from the Productivity Commission suggests that industry funds should be the sole provider of super savings.

Only competition drives performance and cost consciousness, so the best outcome would be for both streams of super to remain – but with BOTH vigorously regulated and 'super' competitive.

We should all hold everyone we pay to account, on a regular basis.

In the meantime, the exposure of bad practices around fee disclosure solely in percentage terms (without the inclusion in dollar figures) is a good outcome. It sounds far less to say "You only pay 1.00% pa in fees" than to say "You are paying a fee of \$10,000 pa."

To demonstrate by actual example, clients who came to us paying fees of 1.00% pa (and having not thought to query the cost in dollar terms) were actually paying an annual dollar figure of \$100,000 – and yet they were only drawing down approximately \$95,000 in pension income. They didn't really believe me at first when I told them.

I'm glad to say that for these clients (as we have on the same basis for all of you over the last decade or so) we are in the process of reorganising their affairs to save them approximately \$52,000 pa in TOTAL fees and tax.

An important 'wish' for me for the outcome from the Royal Commission is that it will encourage and empower clients to ask questions, not just blindly accept what they are told.

There are so many design flaws in the super system that I could write a PhD on the subject. Fundamentally, the vision of super as a vehicle for saving for retirement has been eroded by regulation driven vested interests. As I am often heard to say, the superannuation, taxation and Centrelink interface is far too complex for the average 'civilian' to navigate. I hope this can be fixed... but I am not optimistic in the short term.

I warmly welcome any questions – or challenges – about the way Marinis Financial Group operates. Our Australian Financial Services Licence (AFSL) allows us the flexibility to find the best fee solutions with FULL transparency, cost effectiveness and efficiency for our clients. Those of you who know me well will know how much I despise the opacity that has caused much hurt and frustration in our industry.

And Two More things:

I was quietly delighted to see that yet again the SPIVA Report (attached) has vindicated my view on the benefits of passive investment – an approach I have been advocating for almost two decades. In just about every situation, a better return is to be achieved by 'buying the market' rather than attempting to stock pick.

I've also attached my recent Media Commentary on the recent final round of the Royal Commission hearings.

As always, feel free to call me or any of the team on (08) 8130 5130 if we can be of assistance.

Kind Regards,

Theo Marinis B.A., B.Ec., CPA., FPA®
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Super funds face a pounding in round six of royal commission hearings

Anthony Keane and Sophie Elsworth, News Corp Australia Network

August 4, 2018 9:30pm

FEE gouging, advice rip-offs and dodgy insurance practices in the superannuation industry are about to be put under a blowtorch as the royal commission turns its focus to Australians' retirement savings.

A painful fortnight lies ahead for super as directors of more than a dozen funds front the royal commission that has already slammed the banking and financial advice industries in recent months.

However, the result of the spotlight on super is expected to be more money flowing to millions of Australians.

Funds are nervous, some have already started cutting fees, and Association of Superannuation Funds of Australia chief executive Martin Fahy conceded "more people will lose trust" in super during the public hearings.

"Do we need to make some changes and do better? Probably," Dr Fahy said.

"The reason we should be interested next week is superannuation is your money."

Financial consultant Paul Atherton said super was most people's biggest asset next to their home, and the royal commission was likely to deliver people greater transparency, lower fees and more options for their super.

"Lower fees will mean better returns for investors and this can only be a good thing," Mr Atherton said.

Some super funds have already started cutting fees before facing the banking royal commission.

Revelations at royal commission hearings earlier this year included people being slugged fees for financial advice they never received, banks charging dead people for advice, and questionable lending practices.

For the next fortnight the royal commission will hear from both industry and retail super funds and is expected to cover fees, relationships between super funds and financial planners, money paid to super fund directors, poor performance, penalties and regulation.

Financial strategist Theo Marinis said the hearings would be a "painful process, but when you come out the other side it's going to be better across the board".

Some super funds and advisers were going to get clobbered, he said. "Those going through the pain have brought it on themselves, but it's great for super fund members and good for good operators too."

However, one industry source — who did not wish to be named — said the commission hearings could harm super funds and their members.

"Costs will probably keep going up, and instead of having organisations with service, education and sales teams it will just be one big compliance team that paralyses everyone," the source said.

Shadow Treasurer Chris Bowen said it was good for super's issues to be addressed. "You can have confidence in superannuation going forward," he said.

<https://www.adelaidenow.com.au/business/news-story/d3e7b99127f9895b39b75d6b784c5ba3>

SUPER IN THE SPOTLIGHT

FEES: Many people have been ripped off by super fund fees that they don't understand. Some will be highlighted in the hearings.

HIDDEN CHARGES: Layers of fees charged to manage people's life savings should be made clearer.

SELLING PRACTICES: Pushing people into funds that aren't suitable for them has been a longstanding problem. Expect to hear some horror stories.

PERFORMANCE: Why do some funds continually perform worse than others?

COSY DEALS: Relationships between super funds and financial advisers will be examined.

FUND DIRECTORS: A long running battle over union-backed directors sitting on industry fund boards will come to a head.

DIRECTOR FEES: Do super fund board members get paid too much? Expect to find out.

Originally published as [Royal banking commission's next targets](#)

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REPORTS

Report 1a: Percentage of Funds Outperformed by the Index (Based on Absolute Return)						
FUND CATEGORY	COMPARISON INDEX	ONE-YEAR (%)	THREE-YEAR (%)	FIVE-YEAR (%)	TEN-YEAR (%)	15-YEAR (%)
Australian Equity General	S&P/ASX 200	59.00	66.77	63.00	73.94	77.00
Australian Equity Mid- and Small-Cap	S&P/ASX Mid-Small	74.04	75.00	55.67	40.00	54.72
International Equity General	S&P Developed Ex-Australia LargeMidCap	52.51	80.93	90.86	88.26	87.10
Australian Bonds	S&P/ASX Australian Fixed Interest 0+ Index	68.63	77.36	85.42	85.00	NA
Australian Equity A-REIT	S&P/ASX 200 A-REIT	43.94	66.18	83.56	71.59	78.08

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 29, 2017. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 1b: Percentage of Funds Outperformed by the Index (Based on Risk-Adjusted Return)						
FUND CATEGORY	COMPARISON INDEX	ONE-YEAR (%)	THREE-YEAR (%)	FIVE-YEAR (%)	TEN-YEAR (%)	15-YEAR (%)
Australian Equity General	S&P/ASX 200	59.00	67.42	61.00	74.24	78.00
Australian Equity Mid- and Small-Cap	S&P/ASX Mid-Small	78.85	72.00	57.73	40.00	54.72
International Equity General	S&P Developed Ex-Australia LargeMidCap	47.49	79.07	91.88	89.20	88.71
Australian Bonds	S&P/ASX Australian Fixed Interest 0+ Index	56.86	66.04	66.67	70.00	NA
Australian Equity A-REIT	S&P/ASX 200 A-REIT	40.91	44.12	56.16	71.59	75.34

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 29, 2017. Risk-adjusted return is computed as annualized average monthly return divided by annualized standard deviation of the monthly return for the measured periods. Past performance is no guarantee of future results. Table is provided for illustrative purposes.