SIAA monthly

www.stockbrokers.org.au | September 2022

ENERGISING LONG-TERM RETURNS

Managing cyber risk in your supply chain

SUCCESSION: Risk or opportunity?

In whose best interest?

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Stockbrokers and Investment Advisers Association

Serving the interests of investors

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MESSAGE FROM THE CEO

Judith Fox, CEO

A proposals paper issued by Treasury last week has implications for all of our members. That is because it proposes getting rid of the definition of general advice.

Quality of Advice Review

The Quality of Advice Review is critically important, given its focus on how to improve the current system of providing financial advice for the benefit of all consumers. It is an independent review that was commissioned by the former government as recommended by the Hayne Royal Commission, and then expanded by the former government to focus on access to affordable advice. When the ALP was elected it committed to the review, noting it provides an important opportunity to streamline and simplify the regulatory settings for financial advice to reduce cost and remove duplication.

The proposal paper demonstrates the Federal Government's ongoing commitment to the independent review aimed at identifying suitable ways to improve access to quality, affordable and accessible financial advice for all Australians. It sets out proposals to make it easier for consumers to have meaningful, fit-for-purpose conversations with their advice provider about all or part of their financial and lifestyle objectives while maintaining robust consumer protections.

The paper canvasses a number of propositions, including that the definition of 'personal advice' should be somewhat broader so that it is clear it applies whenever a recommendation or opinion is provided to a client about a financial product (or class of financial product) and, at the time the advice is provided, the provider has or holds information about the client's objectives, needs or any aspect of their financial situation.

This would replace the current definition of 'personal advice' which applies where the provider actually considers the client's objectives, financial situation or needs, or where a reasonable person might expect the provider to have considered any of these matters.

The paper also proposes that the regime should no longer regulate 'general advice' as a financial service and the definition should be removed together with the obligation to give a general advice warning.

What is currently general advice (but would not be covered under the proposed definition of personal advice) should continue to be subject to general consumer protections, in particular the prohibition against engaging in misleading or deceptive conduct in connection to the supply of financial services. The conflicted remuneration provisions would also need to be adjusted so that they continue to apply to conduct which is currently general advice.

The paper canvasses a range of other matters, but we are sure that all members will take an interest in this review. Submissions are due 23 September, and we have a dedicated working group to assist us with the SIAA submission. Of course, we are also glad to hear from other members who may wish to join the working group or just provide us with their views on various issues that the paper addresses.

Importantly, this is an independent review, led by Michelle Levy, a partner at law firm Allens. SIAA has engaged on more than one occasion with Michelle Levy, both in dedicated meetings and with other advice associations. We have been impressed by the quality and depth of the engagement from her and those in Treasury on the Quality of Advice Review team, given the complexities and range of issues involved.

Meanwhile the consultation on the education standards for financial advisers is also underway, but that is a consultation on the commitment by the government to introduce both an experience and expanded qualification pathway for financial advisers. The two consultations are happening simultaneously, but the government has made no commitment to implementing any of the recommendations from the final report

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> The proposal paper demonstrates the Federal Government's ongoing commitment to the independent review aimed at identifying suitable ways to improve access to quality, affordable and accessible financial advice for all Australians.

of the Quality of Advice Review to be issued in December this year.

Governance

SIAA's Board of Directors has been working to bolster the effectiveness of the company's governance model. A key aspect of this has been a review of the company's Constitution, as it vests in its Board and management the power to direct the resources provided by members for the members' ultimate benefit.

Constitutions should be reviewed regularly to stay up to date with changes to the Corporations Act 2001 (Cth) and other legislation, contemporary company practices and technologies. The current Constitution has been in place since the company was established and has become outdated. The directors have taken a decision to put a new Constitution to members at the November AGM. It contains a number of provisions designed to promote the more efficient running of the company, which should be of long-term benefit to the members.

SIAA will provide members with a link so they can review the new Constitution when the AGM Notice of Meeting is issued, and it will be accompanied by an Explanatory Memorandum stepping members through the changes.

The Board has also recognised that contemporary governance practice is for the Board to have a Board Charter and each Board Committee to also have a charter. The rules of each SIAA Board Committee were previously contained in a Rules document, which had also become outdated as SIAA and the industry evolved.

There are four Board Committees: Audit; Nominations; Broking; and Profession. Each is chaired by a Board Director. The Committee Charters ensure that each Board Committee understands its responsibilities and functions professionally and they assist new directors to understand their responsibilities in dispatching the work of the Board.

Australian Stockbrokers Foundation dinner

A reminder that the 2022 ASF Awards dinner will be held on Wednesday 21 September at the Sofitel Wentworth Sydney. The Foundation has been supporting charities that receive little or no government funding for many years, and it is the generosity of stockbrokers and their willingness to give that has made so much difference to the work of these charities. Please come along and make sure that you contribute to making a difference to the lives of others.

SIAA support

SIAA has been an Association Partner of the Annual Australian Microcap Investment Conference for some years. The conference could not be held in 2020 and 2021 due to COVID. It is back on this year, on Tuesday 18th and Wednesday 19th October 2022 at the Sofitel, Melbourne. SIAA has been provided with 50 free passes for members to attend (use the code SIAA2022 when registering). You can find more information on page 22.
SIAA also wishes to thank our new Education Partner Netwealth. They will be supporting our webinar program and conference and we look forward to working with them.

COMMITTEE NEWS – SEPTEMBER 2022

Upcoming meetings of the Stockbrokers and Investment Advisers Association – Committees, Working Groups and Advisory Panels:

Compliance Subcommittee Meeting, Thursday 8 September 2022
Chair: Melissa Nolan MSIAA, Ord Minnett

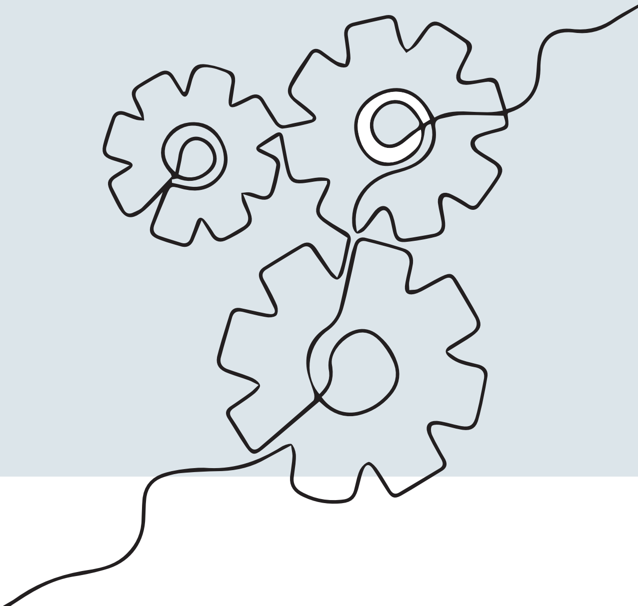
Derivatives Subcommittee Meeting, Tuesday 13 September
Chair: Peter Tardent MSIAA, JBWere Ltd

Audit Committee Meeting, Thursday 22 September 2022
Chair: Scott Webster MSIAA, FNZ

New members

Practitioner Member MeSIAA application approved:
Evan Vassos, Dolphin Partners

Master Practitioner Member MSIAA application approved:
Liam Madden, Instinet Australia



SIAA-ACCREDITED **CPD webinars**

Stay on top of your CPD with these SIAA-accredited CPD webinars – FREE for Practitioner, Affiliate and employees of Principal Members.

Grant Bloxham

Maximise profit and optimise your business value | Wed 14 September | 1.00 to 1.45pm AEST

Industry profitability and valuation benchmarking data indicates there are vast differences between average and top performance. By attending this 'profit and value driver' webinar you will be introduced to a succession planning guide and online course to help you address and resolve advice practice succession issues.

Professional Standards CPD: 0.75 Client care and practice | ASIC RG146: 0.75 Generic Knowledge

How margin lending supports wealth creation | Wed 28 September | 1.00 to 2.00pm AEST

Even in today's financial environment not all debt is bad. James Winder from Leveraged will outline the rules for prudent wealth creation, what to be careful of and the potential for amplified returns available to investors with an appropriate time horizon and clear strategy.

Professional Standards CPD: 1.0 Technical competence | RG146: 1.00 Generic knowledge

James Winder

Frances Russell

The 'Essential Eight' – keys to protecting your business | Wed 12 October | 1.00 to 2.00pm AEST

Frances Russell, a leading Australian Managed Service and Security Provider, will outline what the 'Essential Eight' are and why businesses are being urged to implement them. The 'Essential Eight' are a key tool for understanding how a business can describe where they are at, and where they should aim to be.

Professional Standards CPD: 1.0 Regulatory compliance and consumer protection | RG146: 1.00 Generic knowledge

Unconscious bias | Wed 26 October | 1.00 to 2.00pm AEST

Having worked in financial services for over 25 years, Angela Godfrey, an expert HR professional, will discuss how unconscious bias impacts the attraction of women into the stockbroking industry. She will identify how to deal with unconscious bias and possible solutions for attracting women into the industry.

Professional Standards CPD: 1.0 Professionalism and ethics | RG146: 1.00 Generic knowledge

Angela Godfrey

Practitioner & Organisation Members: FREE | Non-Members: $55.00

Thanks for supporting SIAA's webinar program during 2022

FOR MORE INFORMATION OR TO REGISTER: 02 8080 3200 | education@stockbrokers.org.au

www.stockbrokers.org.au/education/cpd-webinars

Education standards for financial advisers – IMPORTANT UPDATE

Treasury has released the long-awaited consultation paper on financial adviser education standards that revisits the education requirements for existing advisers and explores the requirements for new entrants.

The consultation includes the following key proposals:

- Existing advisers with 10 years full-time experience in Australia between 1 January 2004 and 1 January 2019 who have passed the exam and have a clean disciplinary record are no longer required to undertake any additional formal study.
- Existing advisers with less than 10 years full-time experience are required to have completed, at most, an approved eight-unit graduate diploma (or equivalent) by 1 January 2026.
- New entrants are required to hold an 'approved bachelor's degree' (or higher qualification) and undertake a professional year.

One of the issues we intend to raise with Treasury is that the window for 10 years' experience is between 2004 and 2019, which means that advisers' work in the last three and a half years is no longer counted as experience. The paper proposes that in 2022, an adviser can only count six and a half years' of experience out of the last ten.

Another issue that we will discuss with Treasury is the issue of the 'approved bachelor's degree'. The paper makes it clear that the Minister's intent is to make a broader range of degrees eligible as entry pathways. To be 'approved' a degree would be required to include the following new core knowledge areas:

- Taxation law
- Commercial law
- Financial advice regulatory and legal obligations
- Ethics and professionalism
- Behavioural finance and client engagement.

SIAA has made the point many times that the degrees sought for new entrants to the stockbroking and investment adviser profession are those in commerce or finance or economics — these are best suited to working in equity capital markets, given the subjects they cover. The proposals as currently drafted appear to provide that advisers cannot complete the core knowledge subjects across different degrees or through further study if their first degree does not cover all topics — they can only complete those subjects within one degree. We are concerned that if new entrants hold a commerce, economics or finance degree that has not included a core knowledge area, they may be forced to study a second unrelated financial planning degree to cover one or two subjects. This would be a repeat of the one-size-fits-all model that FASEA put in place that did not work.

The closing date for submissions is 16 September 2022 and SIAA will continue to update our members on the outcome of this important consultation.

ASX CHESS Replacement

ASX has announced that it has appointed Accenture to provide an independent review of the new CHESS application software, having identified that more development is required than previously anticipated to meet ASX's scalability and resilience requirements for the Digital Asset application. The review, which is expected to take 12 weeks, is expected to assist ASX determine a new go live date and form part of its replanning process. ASX does not expect that the new go live date will be before late 2024. ASX will publicly release the findings of the review and consult with stakeholders on the new go live date.

ASIC updates Market Integrity Rules Reg Guides

ASIC has updated regulatory guides, 241 and 265 to take into account updated Market Integrity Rules resulting from:

- the commencement of the Capital Rules 2021
- the move from MECS to ASIC regulatory portal for lodgement of forms
- trading participants' obligations under the new technological and operational resilience rules that deal with matters such as critical business service arrangements, change management of systems, information security and governance.

The new section of RG 265 is Part O.

ASX consults on market management during an outage

ASIC's Report 708 *ASIC's expectations for industry in responding to a market outage* outlined the findings of its review of the ASX market outage of November 2020 and set out a series of expectations that it will apply to Market Operators, Market Participants and large institutional investors.

As part of its implementation of its response to ASIC's expectations, ASX is currently consulting with industry on session states, order and trade position certainty, frequency and content of communications and intraday checkpoints and cut-off times.

In our response, SIAA has highlighted that we continue to dispute some of the findings of ASIC Report 708, particularly that Market Participants were unable or unwilling to facilitate client access to the alternative market during the market outage due to limited arrangements to continue submitting orders. SIAA's members were already capable of trading on the alternative venue of Cboe during the ASX outage, but at the time of the November 2020 ASX outage they could not facilitate the resolution of price uncertainty in the absence of the primary market. The diminished trading on the day of the ASX outage was not due to incapacity to reroute.

We consider that ASIC's expectations for Market Participants set out in Report 708, particularly the one requiring our members to have arrangements in place to submit new orders to the alternative market, will introduce substantial cost and significant, unwieldy complexity to our members, as well as additional risk. The cause of future market outages, which tend to be infrequent, will be unique and as such endeavouring to impose a pre-determined response to an unquantified issue which introduces such cost and complexity will likely not guarantee an optimal result. The changes ASIC is 'expecting' Market Participants to implement are intended to solve the problem of a market outage where the fact pattern experienced in November 2020 is repeated. Experience suggests that this is unlikely.

Session states

ASX has made it clear that where an incident may result in ASX not being able to provide reliable market data until the underlying issue has been resolved, consideration of ASX's obligations to provide a fair, orderly and transparent market will prevent it from unfreezing the ASX market. ASX's approach will be to hold systems in a 'no change' ENQUIRE session state in the first instance while it determines whether moving to an ADJUST state will not be detrimental to the resolution of the technical problem and result in erroneous orders.

SIAA agrees with this approach and strongly supports ASX's position of freezing the market and keeping it in ENQUIRE session state to avoid the publication by ASX of erroneous data. In saying this, we are aware that while the market is in ENQUIRE our members' orders are frozen and cannot be cancelled or amended and that there may be confusion as to the status of the orders. We have pointed out to ASX that this is something that is outside our members' control and they are captive to this decision. This was one of the reasons there was not the flow of liquidity to Cboe on the day of the November 2020 outage. Our members' orders were stuck in the system, they couldn't be cancelled or moved and there was uncertainty as to the status of executed trades.

Backstop time

A positive determination by ASX to unfreeze the ASX market will be a condition precedent for resumption. One of the matters ASX will take into account will be whether a pre-determined backstop time has been reached. The backstop time will be the latest possible time at which ASX will confirm the results of its feasibility assessment. If ASX considers that it is not feasible to resume the market by that time, ASX will declare the market down for the day.

ASX has proposed a backstop time of 1.30pm. This would permit up to one hour and 50 minutes of OPEN trading before the closing auction sequence begins at 4.00pm.

The reason for a backstop time or 'down for the day' announcement is to remove uncertainty and allow Market Participants and their clients the ability to make adjustments. We consider that any determination of the backstop time must take into account ASIC's expectation that new orders from that time will be directed to the alternative market, in the event ASX declares the market 'down for the day'. SIAA considers either 12.30pm or 1.00pm as appropriate backstop times for the final determination of the resumption of the ASX market. A backstop time of 1.00pm has the benefit of it being halfway through a normal trading day. An earlier backstop time of 12.30pm would allow Market Participants 30 minutes to get ready for a move to the alternative market at 1.00pm. Our members have pointed out that a backstop time of 1.30pm would be appropriate if trading was being extended. One of the challenges, identified by our members, would be the potential log jam of Market Participants trying to obtain details of orders and trades after the backstop time if the ASX advises the market is 'down for the day'.

Notwithstanding the adoption of a backstop time, our members expect ASX to form a decision on the resumption of trading within a reasonable period to allow sufficient trading time for Market Participants on the alternative market.

Incident communications

SIAA considers that on the day of the ASX Market Outage, ASX communications did not provide sufficient information and created uncertainty as to when the market would re-open.

We agree with ASX's proposed increase in the standard content for inclusion in the System Status Page updates. We have argued that it is important that detailed information is provided in a transparent manner in the event of a market outage that assists Market Participants to make appropriate decisions and allows them to provide best execution for clients.

Dependencies

We highlighted the following practical issues facing our members during a market outage:

- Changing smart order routers/destinations takes time to implement.
- New orders or amendments must be compatible with the market they are placed into which creates challenges in order management.
- Market Participants will need to receive reconciliation data in a timely manner – new or amended orders can't be properly managed if the executed status of existing orders is not known. The communication exercise for Market Participants with large numbers of retail orders at any one time either sitting or being placed into the market is extremely challenging, as it must take into account multiple layers of orders and customer types.
- Market Participants use multiple interfaces for order management which also add complexity to communications and interfaces into the trading system.

ASX will be consulting further on market expectations throughout the year and SIAA looks forward to providing our members' feedback.

SIAA's submission on the ASX Market Management consultation is here.

Breach reporting challenges

In an admission that the new breach reporting regime has led to a number of implementation challenges, ASIC has announced that it is working with stakeholders to find commonsense solutions. ASIC will consider whether enhancements are required to the approved form on the Regulatory Portal for lodging reports and whether further practical guidance should be developed to assist licensees meet their obligations.

ASIC is now obliged to report annually on information that is provided under the new breach reporting regime with ASIC's first public report due to be published in October 2022. ASIC has confirmed that this report will not name licensees nor refer to the nature or number of reports lodged by specific licensees but will include high-level insights into trends observed across the reports lodged by licensees during the period 1 October 2021 to 30 June 2022.

It will be interesting to see if ASIC reports on the total number of breach reports lodged since the new regime began as SIAA members report a significant increase in the number of reports that they have been required to lodge under the new provisions.

ASIC has warned however that its approach to reporting will evolve over time, as implementation of the regime matures and allows for greater granularity of reporting. ASIC will consider its approach to the 2023 public report early next year, including whether that report should include a list of all licensees who have reported to ASIC during the period. ASIC will consult with stakeholders in advance of the commencement of licensee-level granular public reporting (likely in 2024).

SIAA looks forward to engaging with ASIC and will keep members updated on breach reporting matters.

ASIC publishes updated Financial Services and Credit Panel regulatory guidance and new 'your rights' infosheet

ASIC has released new guidance about the Financial Services and Credit Panel (FSCP), including an update to Regulatory Guide 263 *Financial Services and Credit Panel* and a new Information Sheet 273 *FSCP decisions: Your rights*.

Information Sheet 273 outlines the rights of financial advisers affected by an FSCP decision, including how to make an application to vary or revoke FSCP decisions and how to seek an independent review of FSCP decisions. A copy of Information Sheet 273 will be provided to financial advisers when they receive a decision from the FSCP.

Regulatory Guide 263 provides an overview of the purposes and composition of the FSCP, an outline of the actions a sitting panel may take, as well as the FSCP's processes and procedures around hearings, decisions and confidentiality. ASIC made the following important points in response to feedback provided on the draft guidance:

- It will only exercise its discretionary power to convene a sitting panel where it thinks that concerning a panel will result in some regulatory benefit, that is it will be selective about the matters it pursues to ensure it uses its resources to target misconduct effectively.
- In most cases it will be appropriate to convene hearings of a sitting panel using audio-visual teleconferencing to promote efficiency and manage costs.
- Hearings of a sitting panel will generally be conducted in private and recorded. ASIC will endeavour to take all reasonable steps to ensure that the hearings are secure.
- The names of members of individual sitting panels will not be published.
- ASIC will not publish quarterly reports on sitting panel data but will publish and maintain an FSCP Outcomes Register on its website that will include a brief explanation of the background to each panel decision. The register will not identify the financial adviser involved in a matter unless the outcome is required to be displayed on the Financial Adviser Register.

The updated regulatory guide and Information Sheet can be found on ASIC's website here.

MEMBERS CAN VIEW ALL SUBMISSIONS **HERE**

Energising long-term returns

By Andrew Russell, Portfolio Manager, PM Capital

Three reasons why the energy sector is in the early stage of a new supercycle.

Is it too late to buy oil and gas stocks? After underperforming for a decade[1], energy was the top-performing sector last year with a 54% return.[2]

A soaring oil price[3] during the COVID-19 recovery boosted energy stocks. But oil has fallen 24% since March 2022.[4] Rising inflation and interest rates this year have triggered fears of recession and lower oil demand.

Longer term, there are concerns that fossil-fuel stocks will underperform because of Environmental, Social and Governance (ESG) issues.

PM Capital has a different view. We believe energy stocks are in the early stage of a new supercycle this decade. A larger re-rating is likely to occur as the market reassesses growth in free cash flow and dividends from select energy companies.

By sector, energy has the second-highest weighting in the PM Capital Global Companies Fund[5]. Key positions include Shell plc and Woodside Energy Group.

Our view is based on a long-term assessment of energy stocks. PM Capital's process is to buy companies when they trade at bottom-quartile valuations and sell when they achieve top-quartile valuations, typically over 7-10-year cycles.

We recognise the risk of short-term volatility in energy stocks. Russia's war with Ukraine is a wild card. Heightened global tensions – economically, geo-politically and environmentally – are other challenges for energy markets.

Caveats aside, energy remains one of PM Capital's highest-conviction ideas – and a contributor to market-leading returns[6] from our global equity strategy. Portfolios that underweight energy will likely miss an attractive source of 'alpha' this decade.

Rare opportunity

In March 2020, PM Capital initiated a position in Shell after its shares more than halved in the first quarter that year. A massive disconnect in oil fundamentals created an opportunity to buy Shell at a bottom-quartile valuation.

Oil demand plunged when governments shuttered their economies to prevent COVID-19 from spreading. At the same time, an oil-price war erupted between Russia and Saudi Arabia – the two largest OPEC producers – when they could not agree on oil production. US oil prices briefly turned negative for the first time in history.[7]

In April 2020, the market value of Netflix, an entertainment streaming company, surpassed that of ExxonMobil, an energy 'supermajor'[8].

The energy sector was significantly 'under-owned', even though it offered compelling value. By end-2021, the energy sector's weighting in the S&P 500 Index in the US was less than 3%.[9] A decade earlier, the weighting was 10%.

Chart 1 below shows the fall in energy-sector valuations.

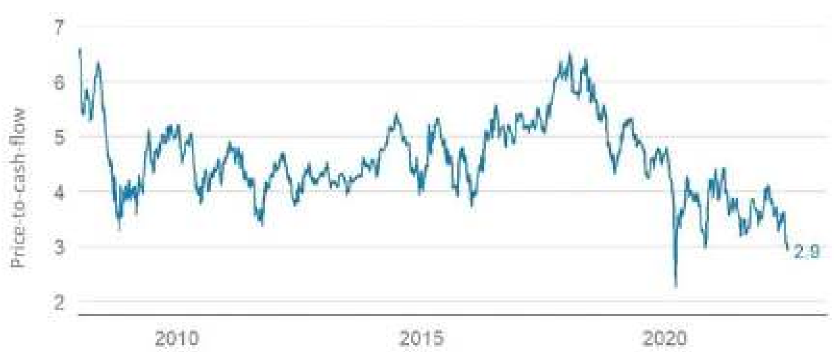
We took a mid-cycle (five-year) view of sector valuations, using a forecast price of US$60 a barrel in our models which we viewed as the minimum, through-the-cycle breakeven price that would be supported by oil majors.

We identified a large gap between European and US-listed energy valuations. In March 2020, Shell traded on a forward Price Earnings (PE) multiple of about eight times; compared to Exxon and Chevron Corporation trading on 16-18 times, even though these companies have broadly similar assets. Shell's decision in April 2020 to slash its first-quarter dividend by more than half – its first dividend cut since World War Two[10] – spooked investors and allowed PM Capital to build its position throughout 2020.

In December 2021, we initiated a position in Woodside Energy Group. Woodside, too, was undervalued relative to peers and its merger with BHP's petroleum business improved its asset optionality and growth profile.

The market agrees. Woodside's year-to-date price return is 58%.[11] Shell's one-year price return is 63%.[12] Although these returns impress, three factors suggest they are the start of a longer-term recovery in global energy stocks.

Chart 1: Energy stocks: price-to-cash-flow multiple



Source: Refinitiv, Morgan Stanley. Chart shows aggregate of Shell, TotalEnergies, BP, Eni and Equinor.

1. Supply and demand to remain tight

In 2021, the International Energy Agency (IEA) recommended that the global oil and gas industry stop investing in its traditional upstream businesses – and reallocate capital to renewable energy projects. That has profound implications for capital expenditure, cash flow and future supply in the energy sector.

The IEA said oil supplies will become increasingly concentrated in a small number of low-cost producers. OPEC's share of the global oil supply will grow from around 37% in recent years to 52% in 2050[13] – a level above any point in the history of the oil market. PM Capital believes OPEC's greater control of the oil market will enable more favourable (and sustainable) oil prices for producers this decade.

Separately, investors that use ESG filters are allocating less capital to oil and gas companies and more to those in renewable energy. Activist investors are targeting energy 'supermajors'[14] and European governments are increasing pressure on the energy sector after legal decisions that require a reduction in emissions.[15] These pressures exacerbate challenges for oil companies to maintain their reserve base and production.

As future oil supply becomes more constrained, demand should remain favourable due to population growth and because oil and gas are still by far the largest part of the global 'energy stack' and cannot be quickly replaced by renewables.

Restricted supply combined with strong demand suggests higher oil prices for longer, while shifting supply chains will likely support growth in LNG demand which bodes well for Shell and Woodside as two of the largest LNG suppliers to spot markets globally.

2. Cash flow and distributions

Unlike prior cycles where higher prices incentivised new projects and led to oversupply, capital expenditure in the sector has been mostly flat, with an increased focus on downstream and renewables at the expense of new oil and gas fields.

Combining lower capex with higher prices, the result is record free cash flow. In the June-quarter of 2022, global energy majors Exxon, Chevron, Shell and BP all reported record profits while also keeping spending in check. This excess cash flow will be allocated to renewable-energy projects, share buybacks and higher dividends.

PM Capital expects energy companies to return more of their free cash flow to shareholders. Even if oil prices average US$70 per barrel over the next four years, Shell should generate enough cash flow from operations to fully fund their energy transition ambitions and still generate enough free cash flow to cover half of their market capitalisation. In May 2022, Shell announced a small increase to the interim dividend of US25 cents for the first quarter, continuing a modest dividend recovery since the COVID-19 lows.

Shell's dividend recovery has much further to run. Its latest dividend of US25 cents compares to a US47 cent dividend in the first quarter of 2019. Moreover, in July 2022 Shell announced a US$6 billion share buyback for the September-quarter to reduce its issued share capital. This means Shell will be in the market buying approximately 20% of their daily traded volume.

PM Capital believes European energy stocks still trade at a significant discount to their US peers because the latter are returning more cash to shareholders via buybacks and dividends, rather than boosting capital expenditure. As European energy companies follow suit, their dividends-per-share will rise and the market will further re-rate valuations as it recognises the sector's latent value in free cash flow. This is starting to occur with Shell.

3. ESG focus is shifting

The narrative about ESG investing and energy stocks is changing. Russia's invasion of Ukraine – and its implications for global energy security – has seen more European countries discuss new investments in fossil fuels. Germany, for example, is reactivating mothballed coal-fired power plants to support electricity generation.

The narrative on energy companies divesting fossil-fuel assets into standalone companies is also changing. The market has recognised that responsible depletion of fossil-fuel assets is best done through high-quality energy companies rather than by transferring ownership to lower-quality companies that buy these assets and try to maximise their value through higher production.

PM Capital expects sentiment towards energy stocks will continue to improve this decade as markets reassess fossil-fuel production in the context of energy-security risks and rolling blackouts in Europe.

For investors, energy prices, earnings and dividends growth, and company valuations matter most. On that score, the energy sector's recovery is just starting.

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PM Capital is an asset manager in global and Australian equities and interest rate securities.

1 S&P 500 Energy Sector Index compared to S&P 500 Index since 19 August 2012.
2 The S&P 500 Energy Sector index had a total return of 54.64% in calendar-year 2021. Source: S&P Global.
3 Brent Crude Oil
4 US Brent Crude was US$127.98 a barrel on 8 March 2022. The September contract was US$96.23 a barrel on 19 August 2022.
5 Energy had at 15% sector weighting in the fund at end-June 2022.
6 The PM Capital Global Companies Fund performed in the top quartile of global equities funds in its Morningstar peer group* for financial year 2022. Past performance is not an indicator of future performance.
7 The price of a barrel of West Texas Intermediate fell as low as minus $37.63 a barrel in March 2020.
8 Patridge, J. "Netflix is now worth more than ExxonMobil." The Guardian. 17 April 2020.
9 Source: Siblis Research 31 December 2021
10 Reuters, "Shell cuts dividend for first time since World War Two'. April 30, 2020
11 To 24 August 2022 (excludes dividends)
12 To 23 August 2022 (excludes dividends)
13 Ibid. Press release to accompany IEA report. 18 May 2021.
14 In June 2021, Engine No. 1, a small US hedge fund that was supported by giant index funds, successfully waged a battle to install three directors on ExxonMobil's board.
15 In May 2021, the Hague District Court in The Netherlands ordered Shell to reduce its worldwide carbon-dioxide emissions by 45% to 2030 (compared to 2019 levels)

of the Funds to your personal objectives, financial situation and needs. All investments carry risk, and the repayment of capital and performance in the Fund is not guaranteed. Past performance is not a reliable indicator of future performance. The content herein does not provide, and should not be relied on for accounting, legal or tax advice. The Index for the Global Companies Fund is the MSCI World Net Total Return Index in Australian dollars, net dividends reinvested. See www. msci.com for further information on the MSCI index. The Index for the Australian Companies Fund is the S&P/ASX 200 Accumulation Index. See www.asx.com.au for further information.

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Managing cyber risk in your supply chain

Organisations that operate in Australia's financial markets sector are becoming increasingly interconnected and interdependent – leaving them more vulnerable than ever to cyber attacks through their supply chain.

ASIC
Australian Securities & Investments Commission

To better understand the challenges faced by organisations, ASIC held nine roundtables with seven different industry groups, professional associations and their members. We asked participants how they identified, managed, and mitigated cyber-related risk with their suppliers.

Industry spoke – and we listened.

Managing cyber risk in supply chains is complex. Organisations need to identify risks relevant to their business and clearly define their risk appetite. This is essential to ensuring your cyber risk management framework is appropriate to the nature, scale and complexity to your business.

Regardless of your organisation's size or sector, we encourage you to consider whether the common themes we identified are accounted for in your risk frameworks.

Finding your weakest link isn't always easy

Most organisations were aware they were only as strong as the weakest link in their supply chain. However, they often faced challenges obtaining visibility of their suppliers' operations.

To help increase transparency and mitigate fourth-party risk, many organisations used contract terms. For example, by requiring suppliers to notify the organisation if their subcontractors or vendors experienced a cyber security event.

In some cases, organisations felt they had limited bargaining power when negotiating contracts with established larger third-party suppliers. This was common in sectors that relied on a small number of vendors.

Innovation and cyber security can coexist

For most organisations, cyber security did not mean sacrificing innovation. Instead, it highlighted the need for robust risk management practices with vendors.

Organisations effectively leveraged innovation by:

- looking at cyber risk through an enterprise lens (e.g. by outsourcing in accordance with established risk appetite statements)
- conducting periodic risk-based testing of their suppliers cyber security (e.g. through scenario testing, and risk-based vendor assessment and testing).

People matter

Many organisations recognised their people were their greatest defence against supply chain cyber risk.

Organisations that fostered close collaborative relationships with suppliers, rather than solely relying on contract terms, obtained more timely threat intelligence.

Similarly, organisations that sought to empower staff to actively consider cyber risk – for example, through training and awareness or by integrating cyber expertise within the business – helped minimise exposure to cyber threats.

We need to speak the same language

Management of cyber security risk is not a matter limited to IT departments – or suppliers of IT services.

Organisations that tackled the initial 'barrier of ignorance' and prioritised cyber literacy were better placed to identify, manage, and mitigate cyber supply chain risk.

The right information at the right time

To make informed decisions, decision-makers need access to the right information at the right time.

While many decision-makers actively sought opportunities to uplift their own capabilities, reports were often too complex or jargon-heavy. This made it difficult for decision-makers to understand the cyber risks facing their organisation.

Independent audits or assessments of your organisation's cyber resilience can help decision-makers make informed cyber risk decisions. While having board members and/or senior management with information technology competency changes the nature of the conversations around cyber security.

Need more information?

We recognise challenges within the supply chain vary, and solutions must be tailored to the nature, scale, and complexity of each business. For more guidance on managing your organisation's cyber supply chain risk, visit the Australian Cyber Security Centre website.

ASIC has previously engaged with firms on their cyber resilience preparedness through three self-assessment cycles. Our report on the latest self-assessment includes our analysis of supply chain risk among surveyed firms.

AUSTRALIAN STOCKBROKERS FOUNDATION

2022

This year the ASF are putting on a musical-themed awards night in support of all their charities that use music therapy and incorporate music as part of their healing process.

When?

Wednesday 21 Sept , 6pm

Where?

Sofitel Wentworth Sydney
61/101 Phillip St, Sydney NSW

Buy Tickets >

www.stockbrokersfoundation.org.au

SUCCESSION: Risk or opportunity?

Industry crisis

Practice succession is at the forefront of many advisers' minds as they deal with the consequences that the Professional Standards for Financial Advisers will have on their future plans.

Since 2019 there have been more than 10,000 departures in three short years and industry insiders estimate there could be a further exodus of up to 5,000 advisers plateauing at 12,000 by 2026[1], while demand for advice will continue to rise.

Every practice is grappling with change and there is an urgent need to address succession planning. Advisers leaving the industry need to manage their exit and Professional Year candidates need to understand what they are moving into. Securing practice succession is directly correlated to delivering ongoing and consistent client advice outcomes.

The education gap

Business valuations are an integral component of any succession planning process and can make or break a deal. But Bstar's research confirms there is an education gap in how business valuation is related to improvement and succession planning.

88% of SME owners have a 'value gap risk' as their business value is not enough to meet their needs. Their key challenge is to grow value before sale or exit.

Key valuation elements that are often not well understood include:

- the difference between Personal vs Business goodwill.
- what is being valued – is it the client base, the business, or the entity's net tangible assets?
- does the valuation process assess non-financial performance indicators?
- whether industry benchmarks are available to validate key assumptions and independence.

What are leading advice practices doing to resolve their succession issues?

Firstly, they are optimising practice value by implementing a range of industry-specific and customised 'Profit and Value Driver' strategies to maximise profits and improve cash flow. These include:

1. automating client services
2. adopting a three-step 'Employer of Choice' process
3. utilising innovative education and planning solutions to attain benchmark performance.

Bstar's Industry Benchmarks confirm there is a vast difference between average and top performance:

- Profit margins 23.5% (average); 36.1% (top)
- Valuation multiples 4.28 (average); 5.31 (top).

Secondly, they understand how to take control through a new DIY, online education course that helps to:

- develop a business plan to achieve financial independence
- understand the true value of their practice

- identify profit and cash flow improvement opportunities
- create a framework to address and resolve their succession needs.

Advisers who complete the online course are eligible for two CPD hours.

Future proof YOUR practice

Take the first step and complete the course. This will help you to future proof YOUR practice for the benefit of both you and your clients.

SIAA is pleased to partner with Bstar and offer a **free online Business Valuation, Improvement & Succession Planning Course** to industry participants.

Visit www.stockbrokers.org.au/membership/free-business-valuation-course to watch an introductory video or register to do the online Course.

[1] Adviser Ratings, March 2022, https://www.adviserratings.com.au/news/one-big-change-could-halt-the-mass-adviser-exodus/. Adviser Ratings data also suggests that the reprieve of the experience pathway, to which the government has committed, could allow these advisers, who might otherwise quit or retire from the industry, to stay.

A day in the life of a trade

Tuesday 18 October | 11.00 – 1.15pm

An excellent refresher for experienced staff and perfect for those in auxiliary roles (eg legal, IT, HR and other supporting roles associated with stockbroking), this workshop delves deep into the day of a life of a trade. You will walk away with a solid understanding of client onboarding processes, the process of share and derivative trades from order placement through to execution to settlement, sponsorship/HINS, CHESS messaging, registries and more.

ROB TALEVSKI joined Webull Securities, a Fintech empowering individuals to become life-long investors, as its CEO in November 2021. Prior to this he was the Responsible Manager who led the trade execution business of Australian Investment Exchange (AUSIEX), a multifaceted business responsible for the execution and management of all listed security products across ASX and CHI-X. With over 18 years' experience across retail, wholesale and institutional channels Rob will provide great insight into a day in the life of a trade.

Dates & Times

Tuesday 18 October, 11.00 – 1.15pm AEDT (*includes 15 min break*)

Professional Standards CPD Area

Regulatory compliance and consumer protection 1.0 hour

Technical competence 1.0 hour

ASIC Knowledge Area: Generic knowledge 2.0 hours

Cost

Practitioner Members	$100
Organisation Members	$150
Non-members	$200

Register four or more (Organisation Member or Non-member) **by Tuesday 4 October to receive a $50pp discount.** Registration includes handouts and a quiz to consolidate learning outcomes.

To access this rate please call **02 8080 3200** or email education@stockbrokers.org.au.

TO REGISTER: Call 02 8080 3200 | Email **education@stockbrokers.org.au** or register online **www.stockbrokers.org.au/education/cpd-workshop/day-life-trade-workshop**

DERIVATIVES ACCREDITATION

FY23 Scholarships Now Open

Providing continuous learning whilst adding to existing skill set and experience are often the most important part of career progression increasing your ability to retain staff.

The derivatives accreditation program provides a great opportunity for desk assistants, operations staff and junior advisers to expand their knowledge and understanding of equity markets through derivatives.

Level 1 Accreditation

The subject content examines in detail the derivatives sector of the finance and investment industry and the range of market participants and product types. The characteristics and uses of various derivative products are considered in-depth in order to determine their suitability and application in a wealth creation strategy. Also covered are the regulatory and taxation environments affecting the use of derivatives products.

Level 2 Accreditation

Expands on knowledge learnt via the level 1 accreditation with a focus on margins, advanced trading strategies and provides successful students the ability to advise clients in all option strategies. Perfect for those that completed Level 1 accreditation last year

Scholarship Details/Benefits

To help advisers meet accreditation requirements for advising clients on options ASX, together with the Stockbrokers and Investment Advisers Association (SIAA), are offering ADA 1 and ADA 2 Scholarships.

Scholarship recipients have three (3) months to complete either course unless when enrolling in both where twelve (12) months time is provided.

If claiming Professional Standards CPD, both courses provide 20 Professional Standards CPD hours, the breakdown as follows: Technical competence 10 hours | Regulatory compliance and consumer protection 5 hours | General 5 hours.

Each Scholarship is valued up to $400 and covers the full cost of the ADA 1 or ADA 2 enrolment plus a complimentary one hour training session.

Apply for a ASX / SIAA Scholarship

This article is general information only.

Stockbrokers and Investment Advisers Association
Serving the interests of investors

ASX

By Jason Spits, Senior Journalist, *selfmanagedsuper*

After every change in government, the incoming party is often keen to tell the public how little its predecessor did and how poorly they did it, and this has certainly been the case with the Albanese government.

Headline-grabbing issues such as climate change and foreign policy have taken a different tack with new ministers keen to distance themselves, their policies and party from the actions and ideology of the previous incumbents.

The same is taking place with superannuation and while it may not be front-page news, the shift is as significant as any of the new policy directions we see coming from Canberra and is being led by two voices that appear to have a far more expansionist view of what represents 'best interests' in super.

The first is Treasurer Jim Chalmers who, on 22 August, spoke to a gathering of large superannuation funds and major banks about the new government's agenda for the sector.

In that speech, Chalmers said the government wanted to legislate an objective for superannuation, fix non-compliance with the super guarantee so workers are paid what they have earned and address gender disparities in retirement balances.

He committed the government to not messing with the sole purpose of superannuation – which is to be used only for the generation of retirement benefits for members – and to retain the preservation of funds until retirement age.

All these are good things and will benefit superannuation fund members, but into that mix Chalmers added the following: "We also see trillions of dollars in workers' capital, government budgets heaving with debt and obvious needs for investment in areas like housing and energy."

It was a theme he touched on earlier in his speech when he said superannuation represented "trillions of dollars looking for a home" and was the "hope of the side when it comes to building national savings for the masses, when it comes to investing in our national priorities, when it comes to projecting our influence in the region".

He then spent a good part of his speech spit-balling ideas about how superannuation could be used to finance the transition to renewable energy and dealing with the shortage and affordability of housing. He also asked his audience of big funds and big banks to provide input into these uses of superannuation.

These ideas were first flagged by the second voice, Assistant Treasurer and Financial Services Minister Stephen Jones, who Chalmers acknowledged does much of the work on superannuation. That is clear from a speech he gave to financial services media in January while still opposition financial services and superannuation spokesman.

During that speech, Jones criticised suggestions by some in the former government to allow the use of superannuation to help individuals buy their first home, but that idea appears now to have merit if carried out by the larger end of the sector.

He also laid the groundwork for Chalmers' speech and the government's plans for a new partnership with superannuation when he said funds could be deployed in the interests of the members who own them, but also in the national interest, and the government had a role to play as a facilitator of large-scale deals.

"There is an important role in government working with industry to create investment opportunities, not with taxpayers' money, and ensuring that the national interests and the interests of the owners can be married and deployed to the better interest of everyone," Jones said.

This may indeed be possible. The big bags of money in superannuation need places to go to continue to grow retirement benefits for members, but is this conflation of the best interest of members with Labor's view of the national interest just a roundabout way of tapping super funds on the shoulder for a contribution to government coffers?

Adding or raising taxes in super would illicit howls of protest from the funds, their members and the media, but co-opting some of the largest pools of money in Australia to help fix problems that belong to the government is much more subtle and potentially more risky.

Large-scale infrastructure and unlisted asset deals have not always worked out well for the larger end of the superannuation sector, not that most people would know, unless they trawl through each fund's annual report every year.

Don't worry though, Chalmers said the government won't be directing superannuation funds into asset classes, despite Jones being keen on seeing more deal flows in the infrastructure sector.

And as for the 'best financial interests duty' introduced by the former government to ensure super funds act only in the best interests of their members, while exposing the questionable marketing, sponsorship and investment arrangements of the past – that's under review already.

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