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Martin Morris
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How financial advisers measure goals-based performance

Praemium's client reporting and performance benchmarking service puts advisers and clients on the same page to meet investment milestones.

The rise of savvy investors, and the resultant increase of complex portfolios and asset mixes, means financial advisers need more than the standard investment tracking mechanisms to benchmark client performance.

But knowing whether an adviser is matching the right benchmark tools with the right asset mix in a client's portfolio can be challenging. Goals-based advice is one element to the solution, largely because performance can be tracked or benchmarked to a common risk objective or investment return.

Praemium head of distribution Martin Morris⁰¹ says goals-based advice has reshaped the way the platform provider delivers its client reporting and performance benchmarking service.

"What we're seeing in the market is a big shift towards goals-based advice," he says.

"Advisers are now looking to be more client-facing and, instead of being focused on a standard benchmark return, they're looking at the goals and objectives of the client – and how to achieve that."

Morris explains that once a client's goals and objectives are set, it's vital the investment/model portfolio manager and adviser are on the same page to achieve certain milestones over the coming years. They need to be able to track performance collectively and have the ability to make short-term portfolio changes quickly and efficiently.

The engine room

Praemium's client reporting and performance benchmarking service can generate about 40 types of client reports with more than 200 customisable options. Its flagship portfolio administration and reporting tool, Praemium Portfolio (formerly V-Wrap), has the ability to update investor accounts with even the most complex of corporate and post-corporate actions (such as an ATO ruling).

It can maximise or minimise capital gains and perform 'what-if' scenarios which gives clients more confidence when CGT and other tax reports are prepared. There's also functionality to provide SMSF monitoring and processing to meet reporting requirements, Praemium says. As part of that reporting suite, Morris explains, there is also the performance benchmarking and asset allocation solutions.

Initially advisers have up to 46 defined index

benchmarking options available, and they generally select one to two of these indexes to benchmark against their client's investment portfolio.

All of the indexes have different needs depending on the complexity of the advice that's being given and the makeup of each model the adviser is trying to offer to clients.

"More importantly what they [advisers] can do is create their own composite benchmarks from those indexes in line with the asset weight of the portfolio or the complexity of the portfolio that's been chosen," Morris says.

Alternatively, advisers can also create their own composite benchmarks with the data they have in their own office. Morris says the platform provider is conscious that many institutions create and run their own data or create their own custom indexes and those indexes can be more specific to the makeup of the portfolio.

Major enhancements to the benchmarking and asset allocation service in the last 12 months include the ability to produce an asset class performance report which details where a client's asset mix is versus the investment strategy.

Additionally, there's new upload centre options and automated email notifications to investors when reports are published to the investor portal.

Benchmarking is important

The critical factor in having the right performance benchmarking tools is to be able to show clients their investment strategy is working, Praemium says.

Two benchmarking examples include a relative return approach and an absolute return approach.

If an adviser and client were to agree on a relative return approach, the general aim is for the portfolio to outperform the market. It would require an adviser to select a market-based index or composite of indices that is comparable with the asset mix of the portfolio – e.g. the ASX 200 Accumulation Index, and a composite index for an asset mix that is aligned with a moderate risk profile.

An absolute return approach generally aims to achieve a specific goal, such as returns above cash or inflation, or a target percentage per annum. For example, an adviser can benchmark against a targeted absolute return of 5.5% per annum and/or outperforming in-



The quote

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flation (as measured by the Australian Consumer Price Index).

Morris highlights Praemium can also cater for bespoke benchmarks which include adding percentages above relative return approaches (e.g. ASX200 Accumulation + 1).

"When you're looking at goals based advice, it's important that you have a defined benchmark," he says.

Praemium provides advisers with the tools to be able to set the most appropriate benchmark for individual portfolios and incorporate this into all client reporting functions.

Investor and adviser dynamics

Traditional platforms only had a limited number of benchmarks e.g. CPI + 2%, Morris explains, and it left investors questioning how their investments were really tracking. It also somewhat diminished the trust between adviser and client.

However, the head of distribution says investors have taken the initiative and become more dynamic with an increased desire for and ability to access more information.

To generate the "performance story" of individual investors, advisers will need to gather information about what the client has put in or taken out of the investment portfolio. They'll also need to give feedback on previous investment decisions, asset allocation and risk levels – as well as look back at how market expectations compared with what really happened.

It is also important to have a reporting suite that complements a goals-based approach, so that the adviser can deliver reports that allow investors to easily track how their portfolio is tracking relative to these goals.

"Investors are looking for more transparency, they're looking for more control over their portfolio and they're looking for more education," Morris says.

"So it's important the tool used by the adviser can help create trust and answer some of those questions of the investor."

In the goals-based environment, Morris adds it's important the reporting and benchmarking tools used are specific. It's also important these tools are developed with capabilities for use across multiple mediums including tablets, iPads and mobile phones as it gives clients and advisers the opportunity to track their portfolio in real-time. **FS**



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