



Welcome to our 26<sup>th</sup> conference since 1999 and without a doubt the most important to date.

ASIC, the Federal Government, Industry Funds, consumer groups are against us and the Banks are kind of with us. If the current market dynamics cannot convince the independent sector that we all need to support each other, it never will. With Count and DKN now in the Insto's hands [and numerous others with the for sale sign up] we represent around 15% of the market. If the adage **UNITED WE NEGOTIATE DIVIDED WE BEG** does not resonate with the independent sector things will get tougher rather than easier to operate.

The propensity for Institutions to purchase the larger dealer networks will result in a scattered network of small to medium size practices around the nation trying to get scale and purchasing power. An analogy are the IGA super markets combining together to get buying power to compete with Coles and Woolworths. This is precisely why the AIOFP and PCM was formed in 1998.

Shorten's upfront friendly consultative façade is finally been shown for what it is. He is a total captive of the Industry Funds, they cannot crush the Insto's but they can certainly hurt us. We hate the IFS network but they have been useful to us in some respects. They have forced the Insto's to lower margins which is great for the clients and us. In the past the advisers got 'trimmed' on their fee split whenever the Insto's lower overall MER's, never them. Today the Insto's readily offer institutional rates based on sufficient volume. This has presented the opportunity to negotiate hard, embed a margin for the advisers and still present a competitive deal for the client.

Won't make any apologies for getting a bit pushy on the AIOFP business model over the next few days. We are all creatures of habit and resist change, but it has to be done for the benefit of your clients, you and the independent sector. I know what it is like being entrenched in your practice and not appreciating the big picture but this is why the AIOFP/FRC/PCM Boards are in place. It is made up of members who are prepared to give up their time from their practice and help guide the independent agenda. For too long the independents have been subject to the institutional 'divide and rule/trinkets' tactics that dilutes our purchasing/political power and commercial outcomes. Ultimately it is our clients who are not benefitting.

PCM objective is to have a range of highly competitive products that suit all member business models. This will keep our collective FUA in one area to maximise scale benefits for our clients and maximise control for the shareholders. Having our FUA scattered across the industry only scatters our control and diminishes the ability to get the best deal for our clients and ourselves. With PCP approaching \$100 million, PCM is now focussing on 4 other areas. An SMSF solution, online Term Deposit facility to keep clients away from the front door of the Banks, a life pool and a PCM badged multi manager option.

We all seem to know that the only thing the product manufacturers are interested in are our clients FUA. That's obviously where they make their margins and it is no mere coincidence that the banks have taken an active interest in the wealth management game since 1996 when they could take control of the trustee role. How many more times do we have to be reminded that when a platform is sold the directors who control and/or own the trustee/RE walk away with the cash. The latest example is the Oasis/ING/ANZ sale. Quite simply, the Oasis Directors walked away with the cash and the advisers with white labels had no say and got no cash. This has been going on for decades and most just don't get it!!

The FOFA distraction has unfortunately taken attention away from the key fundamental competitive advantages of PCP. The shareholders own the structure, we have the relationship with the trustee and we have the agreements to remove both if we want to. This gives us the ultimate power and exit strategies at our disposal. Ironically, the big 3 who initially refused to give up control of the trustee role 2

years ago and turned PCM down, are now back at the table wanting to deal. The other key elements are price. Having institutional pricing on the platform margin and wholesale pricing on Trustee/RE fees gives PCM latitude to embed a margin for shareholders. We know platform rebates are not the perfect industry model but we don't have the perfect industry.

The AIOFP and PCM board's role is to formulate strategy that gives all members the tools to compete at a product level. The formula is quite simple. Our objective is to use the market/consumer/security appeal of Bank products, negotiate institutional rates and embed a margin. This gives the independent adviser the best of both worlds – offering palatable competitively priced products and maintain the integrity of independence.

A valuable lesson I have learnt over the past 32 years dealing with clients is if you have their best interests at the heart of your decision making, things normally work out. Moving clients into better priced administration services and investment vehicles must be central to your current decision making. Waiting to see what FOFA is about makes little sense. If FOFA gets up in its current form you have until 1/7/2012 to get clients rearranged, if FOFA does not get up you have done the right thing anyway by lowering costs. Moving clients around post 1/7/2012 potentially subjects you to the rebate ban, Opt in and best interests guidelines. It simply does not make any sense to wait.

The independents are collectively getting the blame for the \$9 billion of product failures over the past 6 years. The fact that legally advisers gave the advice to the client, we become their only hope of recovery. This allows the guilty parties to hide and the media attacks the advisers who normally get blamed. With ASIC not scrutinising PDS before market, the gate keeping Research Houses have a lot to answer for. It truly astounds me that most advisers are too forgiving of their past research relationships by persevering with them. The facts are they receive conflicted payments from the failed manufacture to recommend the product to you, you also pay them, the product fails, they run for all cover and you get the blame. Then you still use them!

Please consider FRC. You own it, its more cost effective than most in the market and it is reliable. Mercer are the world's largest Investment Consulting group, McGregor are experienced and local with JB WERE and MSSB perfect additions for ASX involvement. PCP/FRC are also educating members on the ASX products being included in portfolios as you will see this afternoon during the Portfolio Construction session.

Product failure destroy can your business and your life. Those responsible usually run for cover as ASIC moves in with the media. We are truly in a thankless industry and the only way we can survive long term is to avoid poor advice. Remember, when it comes to the crunch, clients care more about the return of their capital than on it. They will grumble when returns may not meet expectations but if their capital is affected they generally jump on the media/lawyer/FOS bandwagon.

The upside to this Institutional market domination is that the public are becoming more discerning and educated. The notion of an independent adviser will give the survivors a distinct competitive advantage so it is not all despair!

Finally, my view on FOFA and platform rebates. After discussions with key industry Executives and our legal team I want to make a prediction. Shorten is a lawyer and he knows the ramifications of the Competition and Consumer laws. Shorten is also trying to please his Industry Fund backers who will be desperately needed within two years to financially back a 'lame duck' government that is facing annihilation at the polls. I believe Shorten is going to back down on the banning of platform rebates. The Treasurers letter to an adviser in Queensland is quite astounding. It acknowledges that cross subsidisation of Institutional/industry fund practices occurs, it is too difficult to unravel the relationships in political/legal and commercial terms so they are going to do nothing about it. However they are not giving the independents have the same conditions. The real Shorten is starting to emerge and he cannot risk a public defeat with his lofty ambitions.

We trust you find the conference useful and look forward to seeing you in Bangkok.