The FM Report

Sharing Experts' insights with Investors

Showcase of articles from The FM Report 2019

E-book series 2

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Climate disruption: the new normal

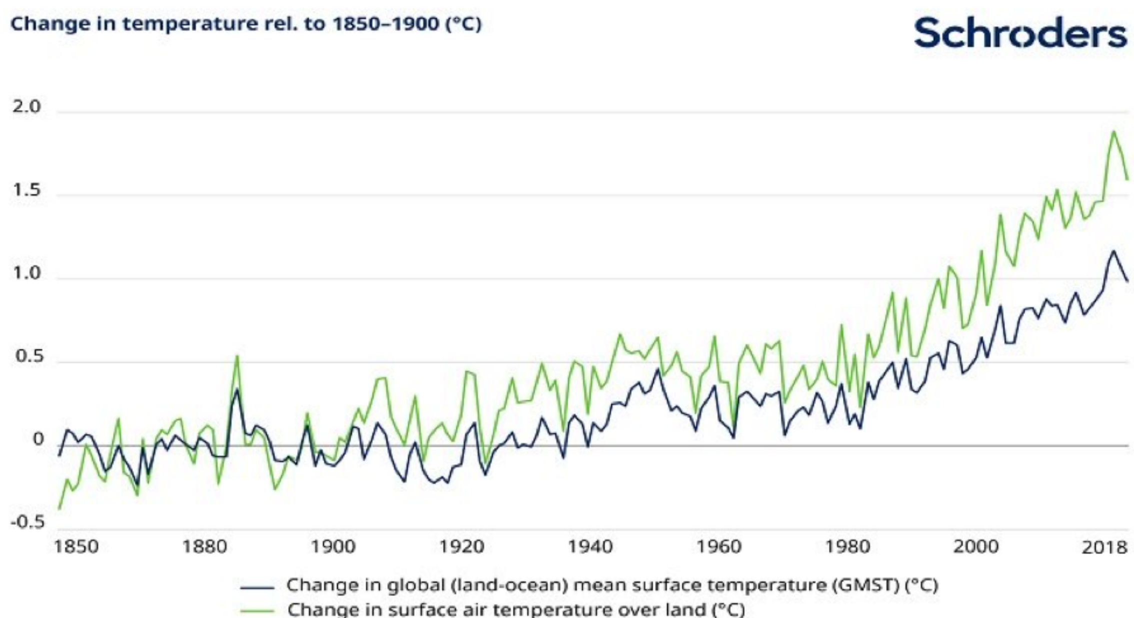
December 18, 2019 By Mark Hassler

The world seems to be losing the battle to halt climate change. Economies and financial markets appear increasingly unprepared for the disruption that higher global temperatures will bring. Moreover, policies to limit rising temperatures do not yet appear to be fit for purpose.

We believe 2020 and beyond will bring a new normal, with climate disruption triggering a large-scale restructuring of societies, economies and business models. This will make climate change an ever more pressing topic for investors around the world.

The past and present: a climate "super year"

2019 was a year of records: record temperatures, record climate protests and election results, and record carbon prices – to name a few. The year wasn't short of high-profile climate summits either, such as the UN Climate Action Summit in New York and the 25th Conference of the Parties (COP25) in Madrid. These events were supported by the release of numerous scientific studies, such as the two reports on climate change and land and the ocean and cryosphere by the Intergovernmental Panel on Climate Change (IPCC).



All of the above is indicating disruption ahead. Almost 200 countries committed to limit the rise in global mean surface temperature to less than 2 degrees Celsius as part of the 2015 Paris Agreement. However, temperatures have already risen by 1C (1.5C if measured above land alone, see chart above) and current atmospheric levels of greenhouses gases (GHGs) roughly imply an additional 0.5C in the years to come. Time is running out and pressure is mounting, prompting radical climate action.

2020 and beyond: brace for impact

As we look ahead, significant change seems unavoidable. The Paris Agreement will become operational in 2020, requiring each signatory to report on their respective emission targets and update every five years after that. Emission pricing mechanisms, such as emission trading schemes and border taxes, are already being implemented or becoming significant pieces of regulatory discussion.

In her role as President of the European Commission, Ursula von der Leyen's European Green New Deal aims to implement carbon border taxes on polluting foreign firms to shelter EU businesses striving to become environmentally friendly. China's emission trading scheme is expected to become active in 2020. And the original Green New Deal proposed in the US is gaining traction.

As technologies become more cost-effective, the first-mover disadvantage that has long been associated with tackling climate change is now turning into a first-mover advantage. Nations start to create the regulatory environments and infrastructure needed for the industries of the future to thrive, locking in growth in a low-carbon world.

These industries stretch beyond the generation of renewable energy, including (but not limited to) agriculture and environmental resources, sustainable transportation, energy storage and distribution, green building technologies and the decarbonisation of sectors such as steel, cement and aluminium.

As climate change investors, we believe these trends pose immense opportunities for companies providing the products and services needed as the world transitions to a low-carbon economy. However, in a time of climate change many companies will be at risk, making stock selection ever more important.

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Market timing and resisting our inner pessimist

October 30, 2019 By David Quinn

The stock market has had a flyer in 2019. This has been the best years since 1987 and proves that there is still some resilience and optimism in the markets after an extremely volatile year in 2018. Even with the recent volatility, in euro terms, the S&P500 is up 22% year to date, with the Eurostoxx up 15.95%. There was a rush to sell back in the last quarter of 2018 as commentators and analysts rushed to call the top of the market and tempt investors into timing their investments. Anyone who listened to these doom merchants has missed out on a very quick but dramatic recovery. Market timing is fraught with danger, whether in the short term like this past few months, or even over very long time periods.

15th June 2007. We pity the poor sap who invested in the US stock market on that day. This was the day the S&P500 (the index of the largest 500 companies in US), hit its peak, before plunging over 50% in the following 18 months. Anyone who invested $100,000 on this date saw their fund fall to $48,400 over this period!

The stock market hit the bottom of this crash on the 9th March 2009. Many investors had already run for the hills at this stage, cashing in their investment and moving to safer holdings. Anecdotally we heard that Irish Life had their record level of switches out of equity funds in March 2009.

From a behavioural standpoint this is understandable, as the world was in a very bad place. There was the threat of another 'great depression', investment asset values were collapsing, and banks were in serious trouble.

So, let's race forward to today. How has that poor sap faired since the crash?

If they had the patience and courage to hold tight, Tuesday 26th September 2017 was an interesting milestone. The value of their initial investment had DOUBLED. Their $100,000 hit $200,000! It is now over 10 years from the bottom of the market in early March 2009, and the US stock market is actually 190% above the previous peak. Even more interestingly, it is up over 400% in Euro terms since the markets started to recover.

Buy and Hold

Which all proves the old adage that 'time-in' the markets, and a 'buy and hold' strategy, can still work. And that is a maxim particularly relevant right now, with a choppier market ride than we have seen in a while. Given increased levels of volatility, we are tempted to time the markets, sell out and wait for stability.

I have not had many clients call me, as I redirect my attention, and the attention of clients, away from market commentary to their long-term financial goals. As Warren

Buffett is often quoted as saying “No-one wants to get rich slowly” and many investors I meet are constantly on the look out for the next big thing and get rich quick schemes (Bitcoin, Leveraged Property etc.).

Seasoned investors don’t get nervous when the market declines. Often, they get excited by the prospect of buying shares at cheaper prices. Recently though, there hasn’t been much to get excited about, because valuations remain rich.

Trying to time the markets is almost impossible and relies largely on good luck. As our earlier example shows, even the worst market timer, who invested at a significant high, has still achieved extremely strong returns over the past 10 years. We may very well be at another ‘top’ now, with Central Banks and President Trump driving markets ever higher. No-one knows, and very few will be able to call a top with any certainty.

What we do know though, is that if you have a long enough time horizon (a pension, for example), and are willing to stick with your long term plan, and not be influenced by short term financial trends, investment markets can give you strong returns, regardless of timing.

S&P 500 (USD) 15th June 2007 –4th October 2019

***David Quinn** is Managing Director of Investwise, a full service financial advisory firm and leading independent pensions advisor, uniquely offering a fee-only business model to better serve the interests of clients. To find out more go to www.investwise.ie*

Shares are a conservative investment

September 28, 2019 By Peter Thornhill

Some years ago, as my wife and I contemplated the transition to full retirement, we decided to take charge of our future and opted to manage our own pension. One of the primary reasons for this was to ensure that the assets reflected our very conservative nature; that is 100% shares. This may sound contradictory to many but after more than 45 years in the financial services industry I had learnt some very important lessons.

The word 'risk' is bandied about but many do not truly understand the investment risks associated with retirement. Still today, the definition of investment risk remains the volatility of share prices. So, leaving our future hostage to an industry still wedded to this outdated dogma did not appeal to us. We refuse to accept volatility as a problem; our primary risk is not losing money, as most people see share market volatility, but outliving it.

When discussing whether we could afford my ceasing full time work; the consideration was not how much money we had but how much income we needed. We looked at the three assets available, cash, property and shares, considered their income prospects both present and future, and opted for shares.

The income they generated would meet our immediate needs without having to rely on selling thus maintaining the integrity of our asset base. Also, over the long term I knew that the dividends from a diversified portfolio of shares had and would grow in a relatively stable way and being linked to the productive efforts of the nation, they would be superior to the income from other sources.

The dividends, during the 80's and 90's whilst I was still working, were being reinvested. When I quit the industry and wound down my business in 2007/8 it was simply a matter of redirecting the dividend stream from reinvestment to pension mode.

With nearly a decade behind us now and the Global Financial Crisis (GFC) to add some spice we can now look at our strategy being tested in real time. As painful as it was to watch our portfolio almost halve in price, the income only dropped by 20%. However, as we held enough in cash to cover 2 years pension withdrawals, we simply followed our parents' example who, when times were tough, simply tightened their belts. Please note that I use the word price above as the value of the companies clearly did not fall by that amount. These sharp movements in prices always remind me of the quote that most people know the price of everything and the value of nothing!

Today, too many retire with too little, too early and leave themselves exposed to the disaster that is cashing assets to produce income when prices have retreated. As we drew down on our cash buffer the dividends replenished the account which

avoided us having to cash any of the holdings. In fact, with cash available, we were able to take advantage of the turmoil generated by the GFC to modestly enhance our future income by purchasing additional shares.

By focussing only on the income and not the prices of our shares we have avoided much of the angst associated with the GFC. Also, as longevity appears to be a potential genetic advantage that we enjoy I need to be sure that the asset base remains intact and the income stream will continue to grow for decades to come.

I have watched as my parents, in-laws and many of their peers were reduced to living totally on the old age pension because they had initially relied on bank deposits in what they thought was the 'safe' option. The nail in the coffin (no pun intended) as far as I was concerned was watching as the two respective family homes were sold as neither widow (the husbands having pre-deceased their spouses) could afford to maintain them.

As the probability is that my wife will outlive me; we will continue to invest solely in shares, the conservative option, as I am determined that she will continue to live with dignity.

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Three simple tips on how to invest in uncertain times

September 28, 2019 By Eoin McBennett

Looking at the headlines over the last two years, you could be forgiven for thinking that investors have experienced poor returns. It has been a rocky ride for sure as the trade dispute between the US and China has escalated, the chances of a no-deal Brexit have risen with the rise of Boris Johnson, and more recently the protests in Hong Kong threaten to undermine an important financial hub for China. All this should surely point to poor returns for investors?

On reviewing returns though, we have found investors had done reasonably well over this period. Both European and American shares are up over the twelve months to the end of August, and investors in other asset classes like government bonds and gold have done well. The Irish stock market, however, has lagged more recently, affected by the ongoing uncertainty being played out in the House of Commons.

While the headlines fill airtime or newspaper columns, they may be full of little other than short-term concerns. The truth is that heightened political risk often does not translate into lower market returns over the medium term. This is not to say that issues like US-China trade tensions or Brexit don't matter, they do. Triggers for market uncertainty can come from a variety of macro-economic factors such as interest rates, inflation, unemployment and economic growth. One thing we can be certain about when investing is that there will be volatility.

It is easy for investment professionals to say downturns are normal but that doesn't make them any less uncomfortable for those invested. History shows us time and again that equity markets have the ability to recover from declines and provide positive long-term returns. Fidelity has shown that over the last 35 years, the US stock market has experienced an average drop of 14% from peak to trough each year, but still had positive annual returns in more than 80% of those years within timeframe. While googling 'strategies for uncertain times' will generate vast number of articles providing tips, the biggest takeaway from any article should be: keep your perspective and know what your end goal is.

So if you are looking for tips on how to grit your teeth and invest even when the outlook seems so uncertain, here are my top three simple tips below.

1. **Time in the market, not timing the market**

Avoiding the temptation to time the market is perhaps the most important lesson for investing in uncertain times. If you could avoid being invested on the bad days and fully invested on the good ones, you would be greatest investor of all time. The problem is, it is impossible to consistently predict when those good and bad days will happen. American Century Investments have shown the effect on portfolios by trying to time markets and the effects on valuation by missing the strongest days

within a period. Their analysis highlighted staying invested throughout a cycle resulted in the best return for long-term investors.

Investors in shares benefit from both capital growth and dividends, with dividends simply the share of profits a business pays out to its shareholders. Over time, the contribution of reinvested dividends to your total return can be substantial, sometime contributing more than half your total return. Trying to time the market, or buy low and sell low, means you miss out on the power of reinvested dividends.

2. **Diversify your investments**

Diversifying your investments can shield you from some – though by no means all – of the risks of investing. Spreading your assets across a range of companies, countries and markets reduces your dependence on any one area, and the risk of one bad event making a dent in your portfolio. By investing in a range of asset classes, you can produce a portfolio which has smoother returns over time, and include exposure to assets which tend to perform well during times of uncertainty, such as gold or government bonds.

3. **Don't forget the cost of not investing**

People tend to see investing as a binary thing, where you are either doing it and taking a lot of risk, or not doing it and not taking risk at all. The truth is more complicated. By not investing, you run the risk that your money will decline in value as inflation erodes away at your wealth. The cost of things around you will rise over time, but with banks offering a meagre level of interest, your money will not keep up and will not be able to buy as much for you in future.

But what happens if you invest before a market crash?

Having said all this, I know people still tend to look at me at this point in the conversation and want to know what happens if I do pick a bad time.

So let's assume the worst and look at what would have happened if you only ever invested before a market crash. One of my colleagues has done just this for UK shares, running the numbers to see what would happened in you invested at the market peak right before the Asian Financial Crisis (1998), bursting of the dotcom bubble (2001) and financial crisis (2008).

After those three peaks, the UK market saw declines of 25%, 30% and 40%. You would be feeling pretty sick after that. But if you had invested equal amounts right before those three crashes, you would have doubled your money by the end of 2018. You can run the analysis for US shares and reach a similar conclusion. Even if you invest right before a market crash, staying invested over the long term tends to pays off.

In conclusion…

I am not going to sit here and tell you this that this is the best time to invest. If that were the case, everyone would want to part with their money and I wouldn't have time to write this article because I would be tripping over clients.

Investing in uncertain times requires us to recognise that our long-term financial needs are not going away. The need to save for a pension, your children's education or any other financial goal, does not generally disappear overnight. Keeping that in mind should help to make investing in uncertain times easier, even when we are watching the latest news report. How to invest in uncertain times? Make a plan, and stick to it.

Author: Eoin McBennett, Investment Manager at Quilter Cheviot, **https://www.quiltercheviot.com**

Investors should remember that the value of investments, and the income from them, can go down as well as up. Investors may not recover what they invest. Past performance is no guarantee of future results.

Any mention of a specific security should not be interpreted as a solicitation to buy or sell a specific security.

Yield curve hysteria

August 29, 2019 By Sonal Desai

The recent inversion of the US Treasury yield curve has had the financial press in a bit of a frenzy.

I see a glaring contradiction in the fact that so many market participants and commentators emphasize the heightened level of economic uncertainty, and at the same time seem to consider flat or inverted yield curves as foolproof predictors of a recession. I see this as completely misguided—I think the yield curve is telling us nothing about what lies ahead for the real economy.

Yes, protracted uncertainty on trade is having some impact on business sentiment. But we have lived with trade uncertainty for almost three years now, with very little economic impact. The US economy is holding up well, and now it benefits from a more dovish US Federal Reserve (Fed).

China has shown a bit of weakness, but not a sharp slowdown; and the latest data show that China's lower exports to the United States have been offset by stronger exports to the rest of the world. The weakness in Europe is more pronounced, notably in Germany as we've seen with recent gross domestic product data, but by no means a collapse.

The US economy continues to create jobs at a robust clip, even with the unemployment rate already at a 50-year low. Employees' wages and salaries grew at 4.7% in 2017, 5% in 2018 and 5.1% in the first half of this year.[1] Household consumption powers the economy, and the household saving rate as of June this year is at a very healthy 8.1%.[2]

In short: the economic data show no evidence that either the United States or the global economy is approaching a recession.

Government bond markets are still distorted by the major role that central banks continue to play. And now the Fed has cut interest rates and signaled the possibility of further reductions; the European Central Bank has opened the door to a resumption of quantitative easing. Major central banks are essentially inviting investors to ignore the economic data and bet on lower yields.

So, I think fixed income markets are betting on the Fed, and the Fed has just taken a dovish turn—ignoring the economic data. But this betting on the Fed gives no indication whatsoever on where the economy is going. In other words, I think the Treasury yield curve has no value whatsoever as a predictor of recession. It's just a good predictor of Fed dovishness, for now, and a sign of some panic in the markets.

The markets and the Fed seem to be looking at each other, feeding each other's fears, and completely ignoring what's actually going on in the real economy.

Author: Sonal Desai, Ph.D. Chief Investment Officer, Franklin Templeton Fixed Income. If you want to find out more about Franklin Templeton solutions talk to your financial adviser

What Are the Risks?

All investments involve risks, including possible loss of principal. The value of investments can go down as well as up, and investors may not get back the full amount invested. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in an investment portfolio adjust to a rise in interest rates, the value of the portfolio may decline. Investments in foreign securities involve special risks including currency fluctuations, economic instability and political developments. Investments in emerging market countries involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size, lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets. Such investments could experience significant price volatility in any given year.

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1. Source: US Bureau of Economic Analysis.
2. Source: Ibid.

How innovative companies gain a powerful edge on rivals

September 28, 2019 By David Eiswert

We live in a world where the pace of change is rapid. Disruption is omnipresent, accelerated by low interest rates and easy credit. Often, it has a “winner takes all” dynamic, with early movers grabbing the lion’s share of the spoils. It can also be explosively fast, particularly where innovation combines with enthusiastic consumer demand to pave the way for blockbuster products that transform an existing market. Old business models can be blown out of the water by new entrants that can compete better on cost and quality. Meanwhile, the time needed to develop a nascent idea into an established business has narrowed sharply, making it difficult for incumbents to react and adapt.

For investors, understanding the economic and market impact of these changes is imperative. At the individual stock level, it is even more crucial as the return differential for stocks on the right and wrong sides of these dynamics has been, and will continue to be, substantial.

Innovation And Natural Monopolies Create Divergent Outcomes

The dynamics of disruption create divergent outcomes across a range of industries and come at the expense of many incumbent competitors. Among them, slow-moving brick-and-mortar retailers, traditional media companies reliant on dwindling users and advertising revenue, as well as consumer companies whose products are losing long-established brand monopoly advantages.

Even simple products like toothpaste have struggled to adapt and compete. Incumbent providers of these commoditised goods have suffered as the model that governed how they were once marketed and purchased has fundamentally changed. While e-commerce has infinite shelf space, traditional distribution methods have more limited scope on supermarket shelves. Advertising and consumer engagement patterns have also changed. Established television and print advertising techniques are losing out to modern promotional activity on Instagram or YouTube, which also enable instant purchase responses and next-day delivery.

Meanwhile, innovation in streaming and Web delivery of home entertainment has enabled on-demand services to challenge traditional cable TV companies in both the delivery and production of entertainment content. Web-based broadcasters have achieved global scale and attained unprecedented access to viewer analytics to identify the needs of audiences. By contrast, traditional cable providers and content producers reliant on bundled channels for much of their revenue have suffered. Crucially, the winners from disruption have been winning big, while the losers have suffered badly (Figure 1).

(Fig. 1) The Remarkable Impact On Stock Returns Of New Consumer Spending

December 31, 2015–December 31, 2018

Past performance cannot guarantee future results.

Source: FactSet (see Additional Disclosures).

All this has been exacerbated by the amount of liquidity and excess credit available in this low-growth and low interest rate world. Investors have been taking excess credit and, in their search for yield, have poured even more money into these disruptive and innovative companies.

Significant Regional Disparities Have Emerged

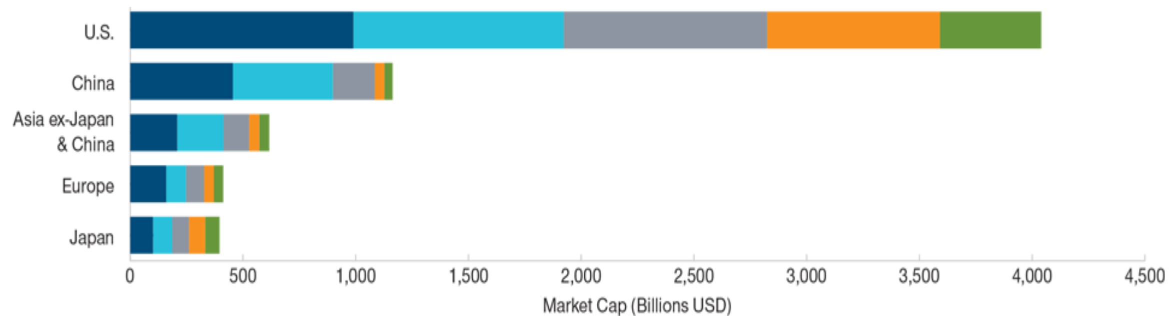
Regional factors are also at play. Public policy, monetary conditions, and industry dynamics have worked to concentrate many of the winners of the tech revolution in the United States and China at the expense of slow movers in regions like Europe.

Figure 2 illustrates just how far Europe has lagged, a reflection of the lack of participation in the development of “national/regional” champions in new technology sectors. Why has this disparity emerged? Because many innovations have had the effect of favouring first movers, which build competitive advantages that create monopolies that attain a global reach and significant financial and economic power.

(Fig. 2) First Mover Advantage Has Seen The U.S. And China Dominate

Technology has created global natural monopolies.

Market Cap of the top 5 technology stocks by region, as of May 16, 2019



Rowe Price calculations using data from FactSet Research Systems Inc. *All rights reserved.*

Shows the market capitalisation of the largest companies within the information technology and communications services sectors and the internet and direct marketing retail industry portion of the consumer discretionary sector within each region as represented by the MSCI USA Index, MSCI China Index, MSCI All Country World Index ex-Japan (with Chinese companies excluded), MSCI Europe Index, and MSCI Japan Index. Source: MSCI (see Additional Disclosures). The following companies are represented within each region, in order of market capitalization: U.S.—Microsoft, Amazon, Apple, Alphabet, Facebook; China—Alibaba, Tencent, China Mobile, Baidu, JD.com; Asia ex-JP & CN—Samsung Electronics, Taiwan Semiconductor, Tata Consultancy, Infosys, SK Hynix; Europe—SAP, ASML, Deutsche Telekom, Vodafone, Telefonica; Japan—SoftBank, Nippon, NTT DoCoMo, Keyence, KDDI.

Many game-changing innovations have been concentrated in specific areas of the United States and China. Silicon Valley (and Seattle) helped to spawn over USD 4,000bn of market cap via just five technology/platform companies—Microsoft, Amazon, Apple, Alphabet, and Facebook. This incredible growth has been achieved due to the companies' global reach and investment in innovation.

China has also benefited enormously from this phenomenon, led by homegrown champion disruptors. The country's decision to exclude foreign Web platforms (Google search was blocked in China in 2010) has aided the growth of local disruptors. (Chinese authorities have also achieved their goal of maintaining control over regulation, tax base, and internet security within the sector.)

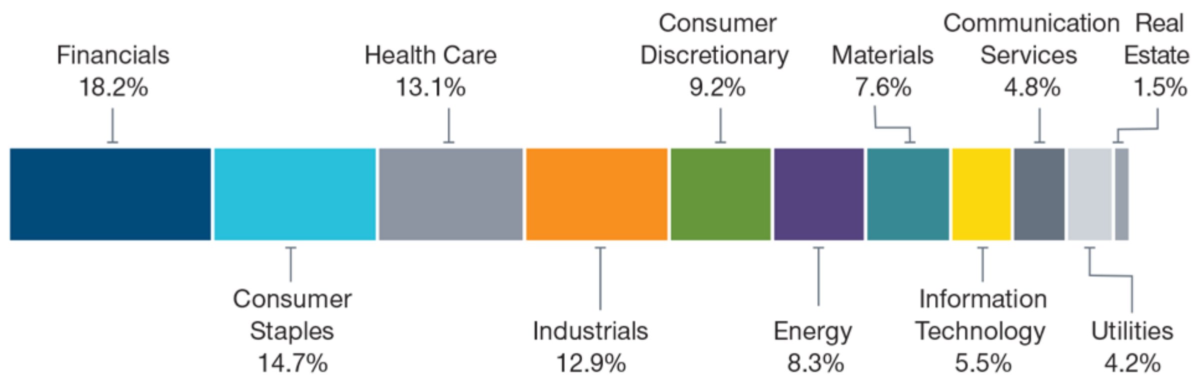
But these internet champions have also grabbed the opportunity to leapfrog the evolutionary path of some of their U.S. counterparts, adopting the best elements of the technology revolution and taking it to new levels. Alibaba, the most successful provider in China, has become an amalgam of many key Web-based innovations. It is effectively PayPal, Amazon, Amazon AWS, Facebook, YouTube, Instagram, and

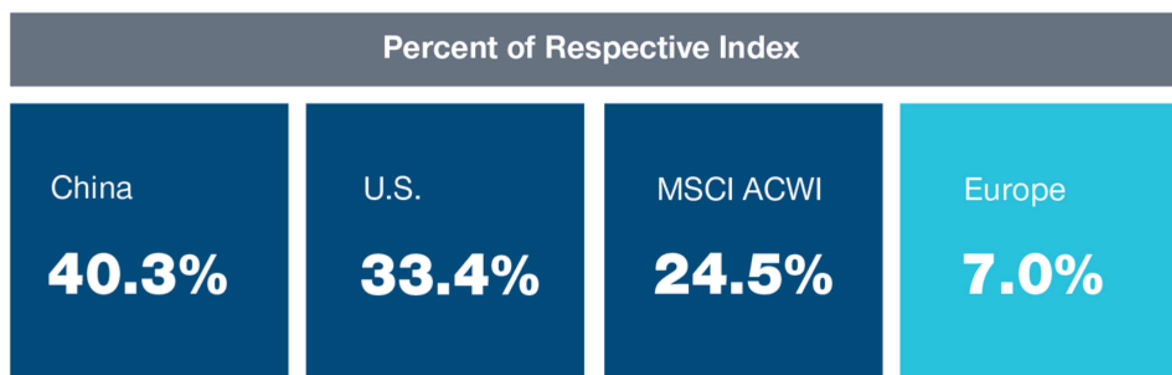
Google, all in one company. This reach gives it extraordinary insights into its customer user base—and has enabled it to capture revenues and and has enabled from an audience that, in turn, likes the services and utility it provides.

Europe on the other hand has had to deal with fractured policymaking, open regulation of the internet, the absence of private equity funding, and a lack of domestic innovation. This has left it short on domestic technology champions, highlighted by Europe's current weight in "disruptive technology" that hovers around 5% of the MSCI Europe Index (Figure 3). This compares with China at nearly 40% of the index and the U.S. at around 33%.[1]

(Fig. 3) Europe Has Been Left Behind In This New World.

Europe—long disruption and short disruptors, as of March 31, 2019





Source: MSCI (see Additional Disclosures).

Of course, for those seeking financials (18%), consumer staples (15%), health care (13%), or commodities (16%), Europe has exposure in abundance. However, many of the region's domestic champions in these sectors have been challenged by the

low growth, low pricing power, and post-China industrialisation era. While policymakers have focused on fiscal and monetary stimulus to find growth and inflation catalysts, rapid technological change has created what we call “deflationary progress.” The unlocking of capacity in everything from oil and gas supply to financial services and electric vehicles has meant that inflationary pressures have been suppressed. The increased capacity has stagnated or lowered prices for goods or services and led to market share losses for large-cap incumbents as industries change.

“Value” Stocks Are Often On The Wrong Side Of Change

Value stocks have performed poorly versus growth stocks for much of the last decade. Does this indicate that the time has arrived to switch to value, or are other forces at play?

We believe many growth stocks remain reasonable in valuation terms compared with the broader market and historical levels. Even so, the valuation discourse must acknowledge that cheap stocks levered to growth and inflation alone have typically been on the wrong side of change as are cheap, disrupted stocks in sectors such as the consumer and media. There are certain value companies experiencing attrition at an accelerated pace. The key is to identify the nuanced influence of rapid technological change on the longer-term potential of companies.

Staying Alert To The Changes Of Tomorrow

Understanding the factors driving change, identifying the winners and losers, recognising when to take sizable positions, and determining when the risks outweigh the potential benefits are complex challenges. However, insights about change and a degree of imagination about what it may mean for a company or industry is where the art of stock picking comes to the fore. Being on the right side of these changes is more important than ever, particularly given the dispersion of outcomes between winners and losers.

Disruption has no respect for borders, so having a global perspective is best. Valuation entry points are important, so investors need a degree of courage to add to their best ideas when market conditions may be volatile. Difficult choices are sometimes needed, but that is where skill, experience, and deep insights into the return opportunities of the future come into play.

Author: David Eiswert, Global Stock Fund Portfolio Manager at T. Rowe Price, www.troweprice.com . To find out more contact your financial adviser

[1] As of March 31, 2019.

Additional Disclosures

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PENSIONS

Defined Benefit (DB) pension schemes in Ireland and the importance of advice

November 28, 2019 By Derek Ryan

Defined Benefit Schemes (DB) are pension schemes that provide a promised benefit to employees based on years of service with an employer and, in most cases, their salary at date of retirement.

The Pensions Authority has the following definition:

"Final Salary Defined Benefit (DB) Schemes are occupational pension schemes that provide a set level of pension at retirement, the amount of which normally depends on your service and your earnings at retirement or in the years immediately preceding retirement"

An alternative definition by the legal profession in Ireland is more likely to be the following:

"Final Salary Defined Benefit (DB) Schemes are occupational pension schemes that may provide a set level of pension at a future date, the amount of which not only depends on your service and your earnings at retirement or in the years immediately preceding retirement but also upon the ongoing funding of the Scheme by the Employer and the ability and willingness of the trustee to enforce such funding"

The issue is therefore that though we see these schemes in Ireland as a guarantee and a "rock solid" promise by the employer, they are in fact dependent on many factors that if not in place or enforced could result in the benefit being reduced or not paid at all.

In Ireland we have had many examples of schemes closing, collapsing or facing a serious challenge to make sure the benefits are paid and therefore a member of a DB scheme when they are looking for advice needs to be aware of the risks in staying as well as leaving the DB Scheme. Examples to look at are:

https://www.thetimes.co.uk/article/high-hopes-for-pensioners-in-aer-lingus-case-7l98wqrlt

https://www.irishtimes.com/news/ireland/irish-news/pension-cut-at-independent-a-new-low-in-corporate-behaviour-1.2893832

https://www.irishtimes.com/business/arnotts-indicates-it-may-wind-up-pension-scheme-1.544291

Important issue in Ireland that differ from the UK for example in relation to DB schemes are as follows:

- All DB Plans are vulnerable if a sponsor ceases trading while the Plan is in deficit
- Due to the Priority Order (where pensions in payment are accorded more security) active and deferred members are more at risk

As a result, DB pension schemes and the question that members are faced with (should I stay or should I go?) are without doubt one of the most important, specific and individualistic advice we can provide.

In helping members of DB schemes make a decision the advisor must be at all times professional, thorough and have a lot of understanding of the plight that the member faces. That is because the advice is very individual in nature and what works for one client may not work for another. There is no one size fits all when it comes to advice around DB schemes and as a result, it is important that a strict process is followed on all cases so that all areas are examined and understood by the member. The following is an example of a useful “roadmap” for DB Transfer Advice:

1. **Hold an Initial Meeting** with a strict detailed Agenda, for example:

    -
    - Pensions and Awareness of the Changes in Legislation
    - Current Benefits and the Clients understanding of same
    - Approved Retirement Fund v Annuities
    - ARF:
        - Importance of age 60
        - PRSA as an alternative
        - Mandatory Drawdown
        - Personal Asset
    - Taking a Transfer – Pros and Cons
    - Transfer Options
    - Access to the Pension
    - Interaction of Pension Scheme with Severance Payments
    - Investment
    - Q&A

This is not exhaustive, but it covers most of the areas that need to be addressed.

2. **Prepare a Report**: After the meeting it is important that the following information is collected:

-
- Detailed information on the scheme along with a note of retirement options. Included in this will be a transfer value figure the scheme is willing to pay out now for the member to forfeit any future entitlement.
- Calculate the hurdle rate (i.e. what does the transfer value have to earn per annum to match the benefit been given up) for the employee
- Calculate the difference in potential lump sums available under both staying and leaving the scheme
- Examine the death benefits under both staying and leaving.
- Obtain a copy of the Trust Deed and Rules. Does it mention any restrictions on wind up placed on the employer and/or the trustees?
- Copy of the last Actuarial Report. Is the scheme solvent? Is there a surplus or a deficit? Has a plan been put in place to fill the deficit?

It would be very unusual for a recommendation not to state to stay in the scheme. The issue though is that there are other factors at play that may influence the member of the DB scheme to look for the transfer.

3. **Follow Up Meeting**: This meeting will recap on the initial meeting and will go through the Report that was prepared. In addition, though it needs to address the following:

-
- How close are they to Retirement?
- How confident are they in the scheme winding up? The copy of the recent Actuarial Report will answer this question
- If there is a deficit in the scheme currently how is it being handled or treated by the trustees and the employer?
- Is there a chance of a lower or no transfer value in the future?
- Is there a chance of lower benefits in the future?
- Will more people retire ahead of the client given his/her age?
- Is there a proposal for a Section 50 Order in with the Pensions Authority that will reduce their benefits?
- Is the Scheme planning to wind up?
- Has the Client got Ill Health Issues or Low Life Expectancy?
- Is there an Enhanced Transfer Value being offered?
- Is a Higher Lump Sum important to them given say their personal debt situation?
- Does the client simply want the ARF option?
- Is the client close to a Standard Fund Threshold of €2m?
- Are they able to handle the Investment Risk?

All these questions have to be taken into account in the follow up meeting so that the advisor has knowledge of all the issues and the member is aware of their impact on whatever their decision is. There may be very specific areas that might concern a client, and these will be afforded greater detail and discussion in the follow up meeting.

Once it has been decided by the client that they want to move out of a DB scheme a comprehensive Suitability Letter should be prepared by the advisor outlining the client's circumstances, benefits, choices, costs and reasons for their decision. The Client then can have time to reflect and see their choice in writing and what it might mean, and do they still then agree or disagree with the advisor's interpretations before proceeding.

So, there are specific issues with a DB transfer and as said, it is the most specific and individualistic advice we advisors will ever give. It is not done quickly, and many factors need to be considered. Our job is often to show the client the options, but the decision must rest with them. There is often no right or wrong answer and different members will make different decisions based on their own circumstances. However, they must have all the facts and be able to compare as much as is possible the pros and cons of this very big decision.

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IORP II – what’s all the fuss about?

August 29, 2019 By Paul Murray

There has been a lot of talk in the industry about the IORP (Institutions for Occupational Retirement Provision) II Directive.

In the following paragraphs I’m going to try to put in broad terms (and in in plain English) what IORP II is, why it is coming about, what some of the fundamental issues around it are from an Irish perspective and why it has culminated in High Court legal proceedings.

Strap yourself in folks, it’s about to get rather technical!

What is IORP II?

The first IORP Directive came in to effect in March 2005. The rationale behind the first IORP Directive was to enable cross border pension schemes (i.e. a company with employees in multiple jurisdictions around the EU would be able to have one centralised pension scheme and facilitate pensions for all staff regardless of their / its geographical location) by harmonising pension scheme rules around Europe.

At the time of IORP I, the then Minister for Social Welfare, the late Seamus Brennan decided that ‘one-member pension schemes’ would be granted a derogation (exemption) permitted by IORP I that disapplied some of the more onerous compliance burdens on schemes with fewer than 100 members – and most obligations applying to single member schemes. The Social Welfare and Pensions Act 2005 provided a legal definition of a one member pension scheme to cement the use of the derogation.

It should be noted that Ireland fought for, at an EU level, and got this derogation inserted in the first IORP Directive due to the nature of pension scheme landscape in Ireland, it’s worth noting this same derogation is contained in IORP II and the Directive specifically confirms a ‘one size fits all’ isn’t appropriate for its implementation.

Why is IORP II being implemented?

Well it appears, from my research, that IORP I didn’t really work in the sense that the harmonisation idea didn’t really filter through as much as was expected and there wasn’t as much cross border pension establishment and migration as had been hoped. So IORP II was introduced to encourage more cross-border schemes by harmonising pension scheme investment rules on an EU member state basis, simple example – you can acquire residential property in an Irish occupational pension scheme but you can’t in a UK one. Therefore, whereas the concept of

cross-border schemes works well on paper, on a drill down basis, it becomes an issue where investment rules etc. are different in different jurisdictions.

Some real problems from an Irish perspective

The Irish pension landscape is quite unique from a European perspective as we have significantly more single-member pension schemes than larger multi-member pension schemes.

IORP II Directive has multiple articles, 66 in total, and it is worth noting that it was drafted to apply to multiple member pension schemes – a brief reading of the Directive and the explanatory document makes this clear.

(see https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32016L2341 and https://eur-lex.europa.eu/legal-content/EN/LSU/?uri=CELEX:32016L2341)

This cause an issue as there are some significant aspects of the Directive that provide no benefit to smaller scheme, particularly one-member schemes, and will only cause an unnecessary cost burden for them.

What has been highlighted in the industry is the significant restriction on investment, limiting investment in unregulated investments (e.g. property) to less than 50% of the assets of a scheme, abolishing the right to borrow save for short term liquidity purposes, the requirement for a custodian, actuarial and audit requirements and technical provisions such areas as solvency requirements, biometric risks etc.

When dealing with a scheme with multiple members, the above requirements cannot really be challenged as they benefit the scheme members as a whole, from a prudential standpoint, and the additional costs of these measures will be spread across the members and as such the cost per member should be relatively insignificant.

However, having said that, there is little or no benefit of the Directive being implemented to single member pension schemes. Single member schemes have, by their very *legal* definition, only one member, and thus arguably cannot be an ‘IORP’ as they cannot facilitate multi-membership in multiple jurisdictions, nor do any of the above requirements actually benefit to any degree a DC pension scheme with only one member.

It has been estimated that the additional costs to existing single member pension schemes will ultimately make them unviable, with the estimated cost of maintaining a single member pension scheme being almost certain to increase by 250% – 300% per annum.

So what you may say, that this is about protecting consumers. Well what doesn't seem to have been factored into the equation is the impact this will have on an essential source of domestic funding in Ireland – especially the funding of SMEs. Funding from self-administered pension schemes in the Irish economy will be lost – not just in residential and commercial property but also in the likes of;

- private equity investment in indigenous Irish companies – existing and start-up,
- Primary Care Centres (PCCs),
- the hotel industry,
- social housing,
- eco-energy industry – wind & bio-mass, the nursing home industry.

A part reason for the implementation of IORP II is to harmonise pension investment in the EU with the goals of the EU Capital Markets Union (CMU), to invest in infrastructure projects and to reduce the reliance on the banking sector in the event of another global crash by creating a source of finance from domestic pension schemes.

Unfortunately the implementation of the IORP II Directive on single-member pension schemes will have the opposite effect due to their funds being corralled by regulatory authorities into highly regulated financial products. Properties within schemes will be sold, tenants displaced, funds disinvested, potentially reduced returns for investors by restriction of investment etc., and future sources of the finance no longer being available to Irish indigenous industry / projects.

Don't even get me started on the practical aspects of managing a scheme under the provisions of IORP II.

The impending High Court case

So why is there a court case coming down the tracks? Well we did try to explain the negative implications of implementing the Directive on one-member schemes to the Department of Employment Affairs and Social Protection (DEASP) but they appeared unmoved by our points. Maybe they were more focused on introducing Public Service Cards than listening to us…….

To protect the interests of single-member pension schemes we made an application for a Judicial Review of the decision made by DEASP. Broadly speaking there is a process that is required when implementing an EU Directive and we feel strongly that the process wasn't followed, and had it been adhered to, the decision would have been different.The date for the hearing is the 15th October coming so you may be hearing from me again soon.

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Personal Retirement Bonds – what are they and why are they

July 30, 2019 By Paul Murray

A Personal Retirement Bond (PRB), AKA a Buy Out Bond (BOB) is, in my mind, essentially the pension's equivalent of a waiting room.

An accrued pension benefit from the likes of an old employer scheme is moved in to this waiting room, known as a PRB / BOB, and sits there until you draw the benefits down.

So how did PRBs / BOBs come about, can I invest the funds in a PRB / BOB, how do I draw benefits and why, with the likes of PRSA's, do they even still exist?

Let's break these questions down

How did PRB's / BOB's come about?

Well in simple terms they emerged because either employer pension schemes are wind up or you leave employment and thus leave active membership of the old employer pension scheme.

In the case of an employer scheme winding up the trustees inform the member of the wind up of the scheme and request the member notify them of where they want funds transferred to. Typically to a new employer scheme (if the trustees of the new scheme are willing to accept the funds in), to a PRSA (if certain quirky conditions are met – see below for the weird stuff) or to a PRB / BOB.

They are approved by the Revenue Commissioners under Section 786 TCA 1997 (if you're interested), the pro-forma contract is approved as opposed to each PRB / BOB being individually approved.

Can I invest the funds in a PRB / BOB?

Absolutely, the same investment rules applying to an employer pension scheme apply to a PRB / BOB and the same tax advantages, exemption from income tax and capital gains tax also apply, so invest away if you are in a PRB / BOB.

How do I draw down benefits?

A weird rule applied till circa mid 2016 – there are essentially 2 types of employer pension scheme –

Defined contribution schemes;

The employer and possibly the employee make a ‘defined contribution’ amount to a pension scheme for the employee. The defined contribution may be a set amount or a % of salary, what is available at the end of the day, i.e. retirement is a pot of cash to draw benefits – lump sum (based on length of service) and annuity (annual income) or lump sum (25%) and ARF / AMRF with remainder (there is a little more to this but that’s not the focus of this article).

Defined benefit schemes;

This type of pension provides the scheme member with a ‘defined benefit’ at retirement, based on their length of service at retirement, this is typically defined as a pension of 1/60th of salary for each year of service up to a maximum of 40/60ths of salary, and aa reduction in the annual pension if a lump sum is taken, normally measured in terms of 3/80ths of salary up to a maximum of 120/80^{ths} (there is a lot more to this but that’s not the focus of this article either).

Strangely up until mid-2016 if you took a transfer from a defined benefit scheme to a PRB / BOB you were limited to taking the benefits in the form of the annual income and lump sum based on service. This was completely at odds with what choices you had if you moved from a defined contribution scheme where you could go this way or the 25% / A(M)RF route.

I can only assume that there was a fear that there would be a flood of transfers from defined benefit schemes at some stage, and for some reason, which could threaten the solvency of defined benefit pension schemes (which someone at some point circa mid 2016 decided wasn’t going to happen).

As and from mid-2016 you can ‘ARF’ the proceeds of a PRB / BOB regardless if funds came from a DC or DB pension scheme.

& why, with the PRSA product do PRBs / BOBs even still exist?

As mentioned, the PRB / ARF anomaly was corrected in 2016 however there remains still a strange rule re PRSAs which has kept PRBs / BOBs alive.

PRSAs were first introduced under the Pensions (Amendment) Act 2002. The PRSA was hailed as the product that would do away with the Personal Pension Plan (RAC) and the Personal Retirement Bond / Buy out Bond, both products would effectively become obsolete going forward. However, Section 122 of the Pensions (Amendment) Act 2002 never came in to force, so PRBs / BOBs have never actually been outlawed.

Section 122 states ‘replacement of buy-out bonds’ – *(1) Notwithstanding anything contained in this or any other enactment, a person may not effect a policy or*

contract of insurance of the kind formerly approved by the Revenue Commissioners for the purpose of receiving payments from retirement benefit schemes approved under Chapter 1 of Part 30 of the Taxes Consolidation Act, 1997, and any such policy or contract which is purported to be entered into after the commencement of section 3 of the Pensions (Amendment) Act, 2002, in respect of this section shall be void.

Why? Well you have another anomaly commonly referred to as the '15 year rule' (I would argue it is not actually a *rule,* but that's a discussion for another article) contained in section 772 (3D) that can prohibit a an individual transferring accrued benefits from an employer pension scheme to a PRSA when the individual has been a member of a scheme for more than 15 years – so where can it go? A new employer scheme or if no new employer scheme exists……………..yep a PRB / BOB.

Where can you transfer a PRB / BOB in the future?

Broadly speaking an existing PRB / BOB can be transferred to either of the following;

– A new PRB / BOB

– A new employer scheme

However, the 3rd anomaly with PRBs / BOBs arises when you try to transfer a PRB / BOB to another other jurisdiction other than the UK, for some strange reason this appears to be impossible unless you transfer to a PRSA or a new employer scheme first.

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Divorce and Pensions: Does my legal bum look big in this?

April 30, 2019 By Jim Connolly

If the law is an ass, then the branch of law with the biggest ass must be Schedule 23B of the Taxes Acts – the bit that deals with pensions and divorce.

Most people seeking a divorce are looking for a little closure – a permanent parting of the ways, a decisive pulling of the plug, a good bye and good riddance type of closure.

Unfortunately, thanks to Schedule 23B, any of your clients who have a negotiated a share of their Ex's pension as part of the deal are indelibly linked to their former spouse until that former spouse retires. And to make it worse, this legislative gem means that you won't know if you have any Chargeable Excess Tax[1] (CET) to pay until your Ex retires. And to cap off the misery, the power rests with your Ex in determining if, how and when this tax bill might arise. The more affluent your client, the more pressing this issue really is.

Don't adjust your set, the following tax treatment is actually the way it is.

The Basics

The initial legal framework dealt with the distribution of pension assets in divorce quite effectively.

The original legislation allowed pension benefits to be divided between the Member Spouse who owned the benefit and their Non-Member Spouse through a Pension Adjustment Order (PAO). This instrument apportions the pension according to a relevant percentage of the benefits accrued during the period of the marriage.

Once a PAO has been awarded it is the recipient of the order who controls what happens next. They can

1. simply leave the benefit where it is and when their Ex retires or dies they will receive their share, OR
2. they can carve out the benefit and move it to a product in their own name.

Square peg, round hole

Since 1996 the Family law position hasn't really changed. Unfortunately, pensions legislation has – and it has changed hugely. We've new products, new thresholds, new taxes, new lump sum rules to deal with and none of these legislative measures

took any material account of how they interact with family law. Real square peg, round hole territory.

When the new CET regime was introduced in 2005, the square peg got bigger as this new legislation was silent on how one should deal with divorce situations. The issue didn't get much billing (or sympathy) for the few high rollers that would have been affected by the original €5m pension threshold but, now that the Standard Fund Transfer (SFT) stands at €2m for pensions, a far higher percentage of the population into the equation.

The way it was

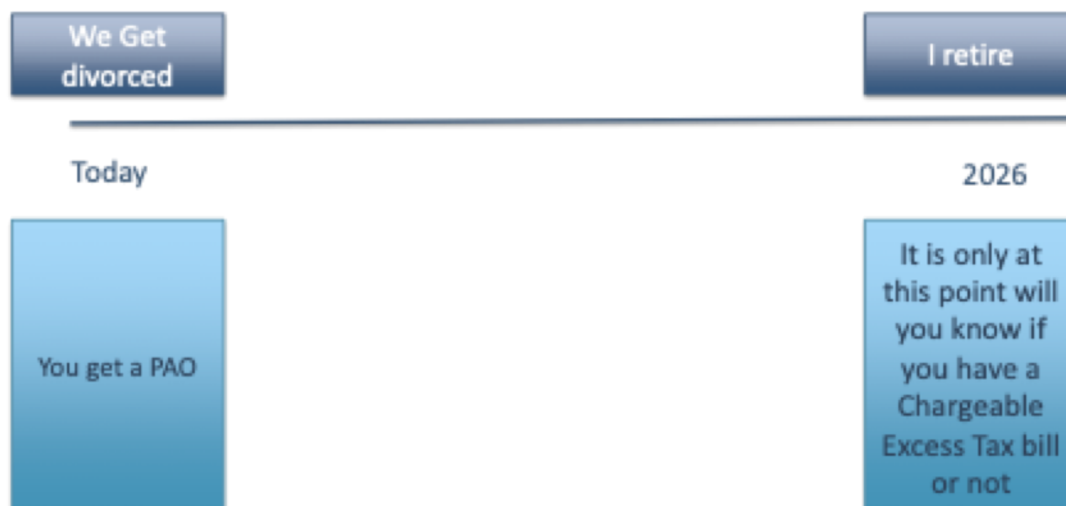
Up until 31st December 2014, all chargeable excess tax fell on the member spouse.

So, in simple terms say I have a pension fund of €2m today, we get divorced, you get half and you take the money into your own product and run. When I eventually retire, a calculation must be carried out to 'guess' what the value of my fund would have been had you not taken your half. Say this calculation results in me having a total notional pension fund of €3m. I would then incur CET of 40% of the €1m excess. Ouch.

The way it is now

In an attempt to address this inequity Finance Act 2014 introduced a regime that seems nothing short of bizarre.

Consider the same situation. Assume I'm 51.



We split up today (in 2016) and you take €1m into product in your own name. Say I am age 50 which allows you to actually retire the portion of the fund you have taken. So you sail off into the sunset with a lump sum and an ARF.

In 2026 when I retire at age 60 the administrators of my pension must carry out a calculation to establish what the value of my fund might have been had you not taken half of it 9 years earlier. So, let's say, it works out at the same €3m above.

Now a second calculation is carried out to establish how much of this you owe. And because you got €1m of my €3m notional fund, you are now the proud owner of 1/3rd of the tax bill.

No, I'm not joking. A full 9 years after we spilt you get presented with a whopping tax bill of €133,333 (being 1/3rd x 40% x €1m). And all the measures are in place for this to be deducted straight from your ARF.

Maybe its just me but this seems to be grossly unfair on the Non-Member Spouse as we are essentially saying – here's a PAO, but don't go spending it all at once because you might have a tax bill of an unknown amount payable at an unknown date in the future and its your Ex that will determine this because it's the future value of their fund that matters.

Anomalies

The interesting thing about this new regime is that the test is only carried out when I trigger my half of the benefit. If I had given you 100% then nothing would happen as I can never trigger part of it. This presents an anomaly. Instead of me giving you half of my fund, I could split my fund into two separate contracts first and then give you 100% of one of them. In this case, the entire issue is avoided.

The solution

The solution is to convince Policy and Legislation division of the Department of Finance to recognise that PAOs and Standard Fund Thresholds have never worked properly and that we need a drawing board to go back to.

This should culminate in the obvious solution of recognising that each of the parties to a divorce are entitled to their own €2m pension threshold and should be taxed accordingly – if I give you €1m, then you should be limited to accumulating a further €1m. As it stands today if I give you €1m of my €2m pension fund you can still accumulate another €2m and I have no scope to make any further contributions – nuts. In the meantime, if you have clients that have already given away some for their pension or will be seeking a PAO they need to take advice, particularly if they are likely to breach the threshold.

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Auto-Enrolment Pensions: Another Budgetary Black Hole?

March 27, 2019 By Colm Fagan

Irish taxpayers, still smarting from the shock of massive cost-overruns on the proposed new national children's hospital, now face the prospect of another budgetary black hole, this time in financial services. At least that's the view of some respondents to the government's proposals for a national auto-enrolment retirement savings scheme, due to be rolled out by 2022.

All employees, even those in tiny two or three-person enterprises, are due to be enrolled automatically in the new savings scheme.   There will be an opt-out clause, intended primarily for employees already in good quality pension schemes.

The scheme's potential black hole is the proposed Central Processing Authority (CPA), which will be charged with overseeing the scheme. The CPA is the cornerstone of the "Strawman" proposals for auto-enrolment, which Regina Doherty, Minister for Employment Affairs and Social Protection, unveiled last year.

It is envisaged that the CPA will license a small number of product providers and will set an upper limit on what they can charge for administering contributors' accounts and managing their investments. The CPA will also specify the range of investment options that providers must make available to contributors and will set minimum acceptable service levels.

Contributors will be asked to choose a product provider from the CPA's approved list. Anyone who doesn't choose a provider will be allocated one by the CPA on a "carousel" basis, i.e. contributors who haven't made a choice will be allocated in turn between providers.

Contributors will also be asked to decide how they want their money to be managed. Do they want to be boy (or girl) racers and choose an aggressive investment strategy, or would they prefer the financial equivalent of a Zimmer frame, opting for low-risk, low-return investments? Some won't be able to – or won't want to – decide where they stand on the risk/return spectrum.   The CPA will oblige product providers to make default funds available for such ditherers. Generally, default funds put people into the boy/girl racer box when they're young, then move them towards the Zimmer frame as they get older. As a wannabe boy racer whom the experts want to put in a Zimmer frame, I disagree with the conventional wisdom: it means taking the foot off the gas when my fund is at its maximum earning power, but that's a discussion for another day – or another day in court for the litigiously-minded – so I'll ignore it for now.

Another of the CPA's key responsibilities will be to collect contributions from employees and employers and remit them, together with a state top-up, currently proposed at one-third of employees' contributions, to the chosen product providers. The CPA will have a web-based portal to allow contributors keep to tabs on their contributions and on the progress of their investments. Product providers will be required to populate the data on the portal.

The CPA will have an onerous workload. How much will it cost to set up and run, and how will the costs be shared between the state and product providers? That's the 64-thousand-dollar – or is it a 64-million or even a 364-million-dollar question?

The Strawman gives no indication of the likely cost of the Central Processing Authority but has asked for views on how the cost should be shared between government and providers. Providers haven't been shy in coming up with their cost estimates, nor with suggestions for how they should be shared. Irish Life, the country's largest pension provider, reckons that the cost of developing the full range of infrastructure from scratch will be "huge", citing the example of New Zealand, whose hub cost more than €300 million. Irish Life also looked at the UK, where auto-enrolment was introduced in 2012. They estimated that, if the costs of the CPA are just one-third of the publicly available costs for the UK's NEST scheme, it will take more than 80 years to recoup the initial costs. And that's optimistic: it assumes that providers will be allowed to charge 50% more than the government's proposed maximum.

To put these figures in context, my own back-of-an-envelope estimate is that, if the hub costs the same as its New Zealand equivalent, the cost of setting it up will equate to **three times** total charges to contributors in the first eight years.

Small wonder then that providers and industry and professional bodies, such as the Irish Association of Pension Funds and the Society of Actuaries in Ireland, are united in arguing that the CPA set-up costs should be met entirely by taxpayers rather than by product providers. Irish Life has also asked that the state bear ongoing running costs in their entirety and that providers should not be on the hook for any cost overruns.

The CPA also has legal risks. It must decide at the start, and at the end of each contract period, probably every 7 or 10 years, which providers to grant a license to and which to refuse. What if a provider's application is rejected? Will they have recourse to the courts?

The CPA also faces legal risks with contributors. What if the default fund to which a contributor has been allocated on the "carousel" basis underperforms? Will the contributor blame the provider or the CPA for putting them into that fund without consultation?

At this stage, the taxpayer can reasonably ask whether the state should forget entirely about auto-enrolment.

Happily, there is a solution, one that results in low set-up and running costs, that will cause minimal financial risk to the state, that addresses the legal risks, and that will not necessitate charges to contributors being raised above the proposed ceiling of 0.5% of funds per annum.

The solution flows from identifying the key risks and costs in the model as currently proposed and working to eliminate them.

The complicated provider and product proposals are at the heart of the problem with the CPA. A single provider, established on a trust basis with independent trustees and mandated to operate on a non-profit basis, will be able to achieve economies of scale that couldn't be matched by commercial providers. The product can be simplified by offering just one fund, which can be administered like a post office savings account, with the same interest rate being credited to all contributors. Such an account will be simple and cheap to administer. It will also be easy for contributors to understand.

The real secret to the success of the proposed approach is how funds will be invested and how returns on the investments will be credited to contributors. Because the fund will have positive cash flows for the first twenty years at least, investments can be chosen that will deliver good returns over an investment horizon of ten, twenty years, or even longer, without the trustees having to concern themselves with short-term fluctuations in market values. They will also be able to quote returns that smooth out the humps and hollows of short-term fluctuations in market values. Comprehensive modelling of possible future returns on the type of real assets in which funds will be invested – equities, real estate, forestry, etc. –indicate that an initial (net) return of 4% to 5% a year can be credited to contributors. This compares with less than 1% a year from bank, post office and credit union accounts. Returns in subsequent years could be higher or lower but are most unlikely to fall below zero for the first 20 years.

The cost to the exchequer of creating the required infrastructure to collect and invest contributions is likely to be a fraction of the €300 million cost of the New Zealand hub, while the ongoing costs of the CPA can be covered by margins in the management fee of 0.5% per annum.

All in all, an excellent outcome for contributors, the state, and taxpayers.

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