

Traditional Investment Models Pushing Investors Away

ISSUE DATE: 6-08-2015

Lonsec Multi-Asset Sector Review 2015

Retail investors are increasingly rejecting traditional investment models, instead turning to more dynamic and tailored products, including goals-based investing and lifestage funds.

“The failure of existing models to meet investor expectations has already seen a significant push to self managed superannuation funds and do-it-yourself investing,” Lonsec Research Senior Analyst Deanne Baker says.

“Many investors have felt let down by static and unresponsive products on offer,” Ms Baker says.

Much of the dissatisfaction stems from competing performance measurements, according to the latest Multi-Asset Sector Review by the research and ratings company.

“Retail investors often judge an investment’s performance against personal objectives, how they will meet living expenses, long term aspirations, family needs or travel goals. Fund managers, however, measure in terms of ‘benchmark relative’ or ‘alpha’ or ‘peer relative’ performance. There needs to be a more tangible link between fund objectives and investor outcomes,” Ms Baker says

Fund managers are responding, however, and beginning to offer new products never seen before in the retail space.

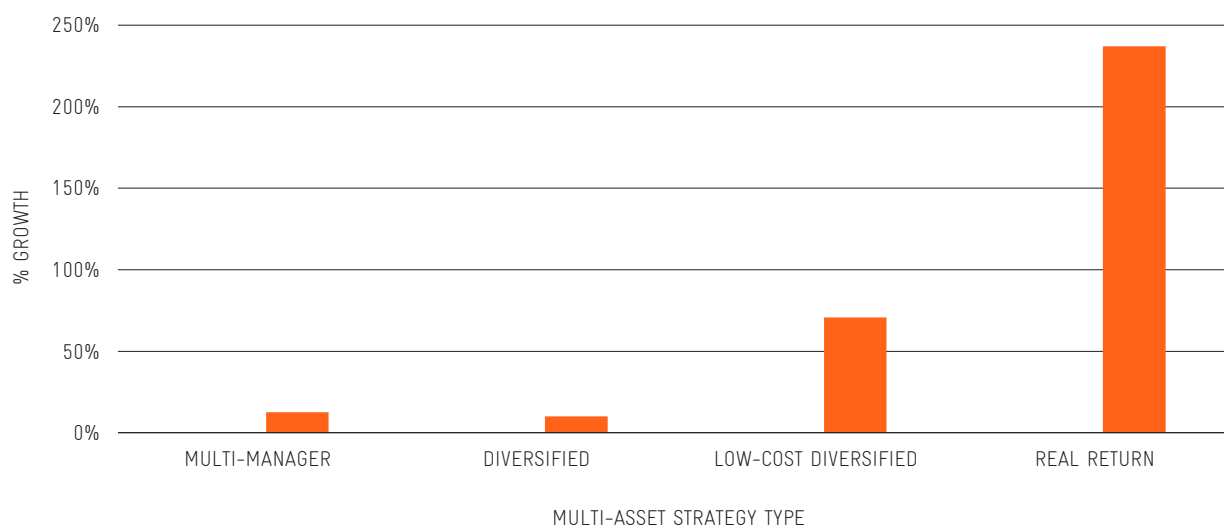
“We are starting to see solution-based investments replacing the traditional off the shelf and one-size-fits-all models,” Ms Baker says.

“Previously, these products were the exclusive domain of institutional investors but now they are being specifically packaged and tailored for individual investors, particularly in the multi-asset sector.

“Product design is no longer being driven by fund managers in an ‘if you build it they will come’ fashion. Instead, investor needs and goals are now at the heart of the product development process,” she says.

According to Lonsec’s latest review, multi-asset managers are leading the charge in goals based investing with multi-asset real return strategies, in particular, having enormous success as inflows surged from \$327 million to \$14.4 billion during the past two years to June 2014.

Year on Year Average FUM Growth to June 2014



Source: Lonsec Research July 2015

Traditional Investment Models Pushing Investors Away

Lonsec’s Mult-Asset Sector Review also found Lifestage funds, also known as target date funds or lifecycle investments, are also showing a significant increase in uptake.

The asset allocation of Lifestage funds automatically tilts to more conservative as the investor ages.

“Popular in the United Kingdom and United States, these glide-path strategies are relatively new but becoming increasingly popular in the Australian market,” Ms Baker says.

Lifestage funds have recently been included as default options under MySuper legislation which is expected to further boost new product development, she says.

Lifestage Asset Allocation by Decade of Birth



Source: Lonsec Research July 2015

For more detailed information and other findings, please contact Deanne Baker as per below.

Contact details

Deanne Baker,

Senior Investment Analyst, Lonsec Research

Deanne.baker@lonsec.com.au

03 9623 6385

Traditional Investment Models Pushing Investors Away

About Lonsec Research Pty Ltd

Lonsec Research Pty Ltd is an investment research and investment consulting business that focuses on providing investment insight, advice and solutions to stakeholders in the wealth management industry.

Lonsec's experience in generating investment insight and advice solutions makes it a valuable research and consulting partner for financial advisory businesses. With its genesis as a dealer group research unit and a long history of providing investment research and investment consulting services to financial advisers, Lonsec's experienced analysts and consultants have a sound understanding of the advice processes and financial products used in both the accumulation and retirement phases of the investor lifecycle.

Lonsec is a wholly owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned entity with a multi-brand strategy of providing leading financial services research and investment execution.

IMPORTANT NOTICE: This document is published by Lonsec Research Pty Ltd ABN 11 151 658 561, AFSL 421 445 (Lonsec). Please read the following before making any investment decision about any financial product mentioned in this document.

Warnings: Lonsec reserves the right to withdraw this document at any time and assumes no obligation to update this document after the date of publication. Past performance is not a reliable indicator of future performance. Any express or implied recommendation, rating, or advice presented in this document is a "class service" (as defined in the Financial Advisers Act 2008 (NZ)) or limited to "general advice" (as defined in the Corporations Act (C'th)) and based solely on consideration of data or the investment merits of the financial product(s) alone, without taking into account the investment objectives, financial situation and particular needs ("financial circumstances") of any particular person.

Warnings and Disclosure in relation to particular products: If our general advice relates to the acquisition or possible acquisition or disposal or possible disposal of particular classes of assets or financial product(s), before making any decision the reader should obtain and consider more information, including the Investment Statement or Product Disclosure Statement and, where relevant, refer to Lonsec's full research report for each financial product, including the disclosure notice. The reader must also consider whether it is personally appropriate in light of his or her financial circumstances or should seek further advice on its appropriateness. It is not a "personalised service" (as defined in the Financial Advisers Act 2008 (NZ)) and does not constitute a recommendation to purchase, hold, redeem or sell any financial product(s), and the reader should seek independent financial advice before investing in any financial product. Lonsec may receive a fee from Fund Manager or Product Issuer (s) for reviewing and rating individual financial product(s), using comprehensive and objective criteria. Lonsec may also receive fees from the Fund Manager or Financial Product Issuer (s) for subscribing to investment research content and services provided by Lonsec.

Disclaimer: This document is for the exclusive use of the person to whom it is provided by Lonsec and must not be used or relied upon by any other person. No representation, warranty or undertaking is given or made in relation to the accuracy or completeness of the information presented in this document, which is drawn from public information not verified by Lonsec. Conclusions, ratings and advice are reasonably held at the time of completion but subject to change without notice. Lonsec assumes no obligation to update this document following publication. Except for any liability which cannot be excluded, Lonsec, its directors, officers, employees and agents disclaim all liability for any error, inaccuracy, misstatement or omission, or any loss suffered through relying on the information.