HAMILTON WEALTH PARTNERS

Response to Stamping Fee Exemption

Hamilton Wealth Partners is a boutique firm specialising in Private Wealth Management, founded in 2013. We are proud to assist clients across Australia and abroad to achieve their financial goals, delivering personalised and attentive wealth management services to sophisticated high net worth individuals, families and not-for-profit institutions.

We established our business based on total fee transparency, charging our clients only an advice fee, and rebating directly back to clients any commissions or fee rebates that we had negotiated with fund managers. We believed this eliminated any conflict of interest and put us clearly on the side of representing the client only.

The issue that we propose to tackle here is not the structure of Listed Investment Companies ("LICs") or Trusts ("LITs"), but the stamping fees that some brokers and advisors have come to expect in exchange for investing their clients into these structures.

FOFA was introduced so that advisors *should be paid by their clients through an advice fee*, for the work that an adviser does for them. This can include recommending investments which are in their clients' best interests.

The stamping or selling fee reverses this concept as the adviser recommending the product is paid a selling fee by the product's fund manager. In this way, the structure is fundamentally flawed.

Another question to ask is why a selling commission that is illegal in an unlisted context is considered acceptable in a listed context? Since 2012 it has been accepted that, for unlisted investment products, sales commissions have been banned because of the risk that they produce adverse client outcomes. Product commissions or stamping fees may encourage advisers to sell products rather than conduct critical research and give unbiased advice that

Level 1, Tooronga Village
1 Crescent Road Glen Iris, VIC 3146 Australia
P +61 3 9275 8888 **W** hamiltonwealth.com.au

Postal Address
PO BOX 7031 Glen Iris, VIC 3146 Australia
AFSL 440046

is focused on the best interests of their clients. In 2014, listed funds were exempted from this rule.

We understand that there has been c$16bn of new LICs/LITs issued over the last four years, with the current total sector size being $53bn. While not all fund managers pay selling fees, we estimate that fund managers have paid advisers up to $440m in total selling fees since 2017, mostly on behalf of retail investors. To a large extent this has been driven through stamping fees.

The performance of these structures has been underwhelming. LICs linked to the Australian Equities market underperformed the All Ordinaries Accumulation Index by 4.9% in 2019, begging the question as to why so many advisers are recommending them to their clients.

If not for the incentive provided by the stamping fees would these complex products still be promoted to investors? Beyond the Australian market, it has been further estimated that Global Equities LICs/LITs underperformed the MSCI Global Index by 10.2% in 2019, in a period that saw open ended unlisted unit trusts generally outperform their index.

Dr Sunita Sah, in her paper *"Conflicts of Interest and Disclosure"* https://financialservices.royalcommission.gov.au/publications/Documents/research-paper-conflicts-interest-disclosure.pdf , found that advisers subject to conflicts give significantly more biased advice, to the detriment of their advisees. Advisers may more easily succumb to bias from conflicts of interest if they give advice to multiple recipients despite potentially causing greater harm if that advice is biased. This is due to psychological processes that increase the psychological distance between advisers and advisees so that they are less likely to consider the harm they may be inflicting on individual clients.

Furthermore, the CFA Institute conducted a study on this subject *"Do Commissions Cause Investment Adviser Misconduct"* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3514987 , and the results of their paper indicate that commissions can be both a means for extracting rent from naïve consumers and a tool for optimising information provision. They also found that gender is an important determinant for individual rates of misconduct – finding men to engage more frequently than women – which seems to be driven by women being more risk averse.

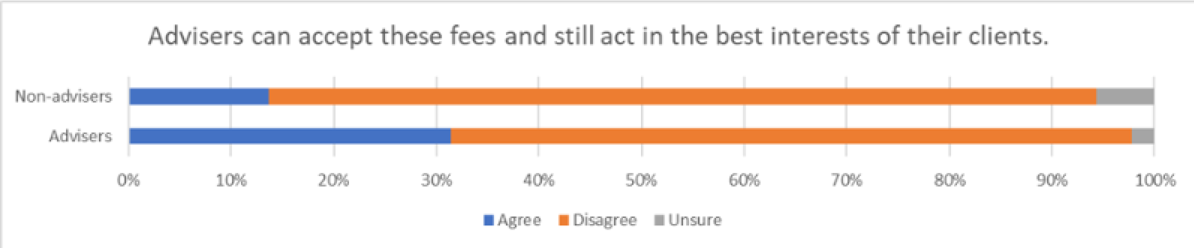
We believe what both these papers highlight is that the original intent of FOFA was correct and that advisors *should be paid by their clients through an advice fee*, for the work that an adviser does for them. A commission in any form, in this case a stamping fee being paid to advisers by the product's fund manager, creates not only a conflict of interest but can also lead to bias through sales rather than advice.

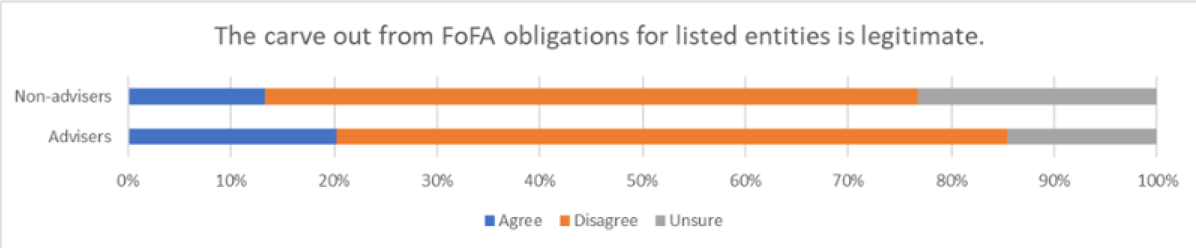
Hamilton Wealth Partners estimates that we spend at least 16 hours reviewing and researching a potential investment in advance of recommending it to our clients. This results in a $20,000 cost to our business.

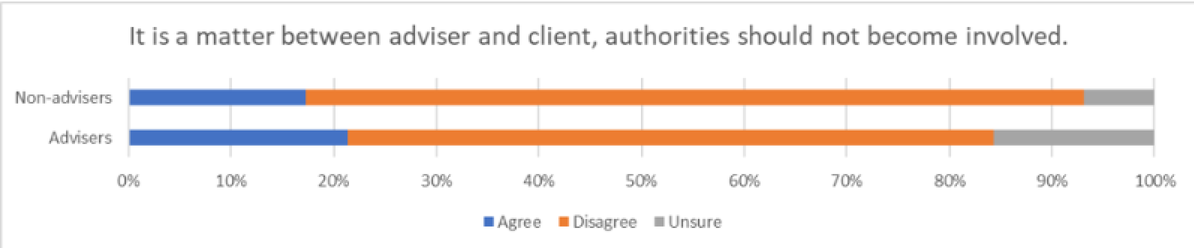
A question that is being raised is will a cap on sales commissions be sufficient to mitigate the chance of advisers providing conflicted or biased recommendations to clients on these LICs/LITs? Unfortunately, we believe that their behavior will still be influenced by the financial incentive. Individual advisers should be paid by the client for the work that building and running the investment portfolio tailored to their needs involves, as opposed to the fund manager paying the adviser for the business.

Firstlinks, a Morningstar company, conducted a survey recently assessing the attitudes of advisers and non-advisers. Below are some graphs that show the opinions on several key questions. The responses are overwhelmingly negative towards the stamping fees from the clear majority of advisers and advisees alike.

We have enclosed for your information some of these results, full details are available via the following link; https://www.firstlinks.com.au/article/results-lic-lit-stamping-fees-survey?utm_source=Website+Subscribers&utm_campaign=9716847ced-EMAIL_CAMPAIGN_2020_01_06_12_40_COPY_01&utm_medium=email&utm_term=0_953154ac75-9716847ced-60515601


Advisers can accept these fees and still act in the best interests of their clients.
Non-advisers
Advisers
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
Agree
Disagree
Unsure


The carve out from FoFA obligations for listed entities is legitimate.
Non-advisers
Advisers
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
Agree
Disagree
Unsure


It is a matter between adviser and client, authorities should not become involved.
Non-advisers
Advisers
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
Agree
Disagree
Unsure


Advisers should only receive a fee from clients, never from a product provider.
Non-advisers
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
Agree
Disagree
Unsure

HAMILTON WEALTH PARTNERS

We believe that stamping fees represent conflicted remuneration for selling products on behalf of another party (fund managers) and do not belong in an industry that wishes to become a profession. As an industry we need to be totally conflict free, therefore being assured we are always acting in the best interests of consumers and society, who after all are the ones that will provide the industry the "trust" and eventually recognition as a profession.

We ask you to reverse the exemption to stamping fees that is allowed as conflicted remuneration, and therefore to ban stamping fees.

Please do not hesitate to contact the undersigned if you have any queries.

Will Hamilton
CEO & Managing Partner
will.hamilton@hamiltonwealth.com.au
03 9275 8888

Kate Walley
Associate Wealth Adviser
kate.walley@hamiltonwealth.com.au
03 9275 8888