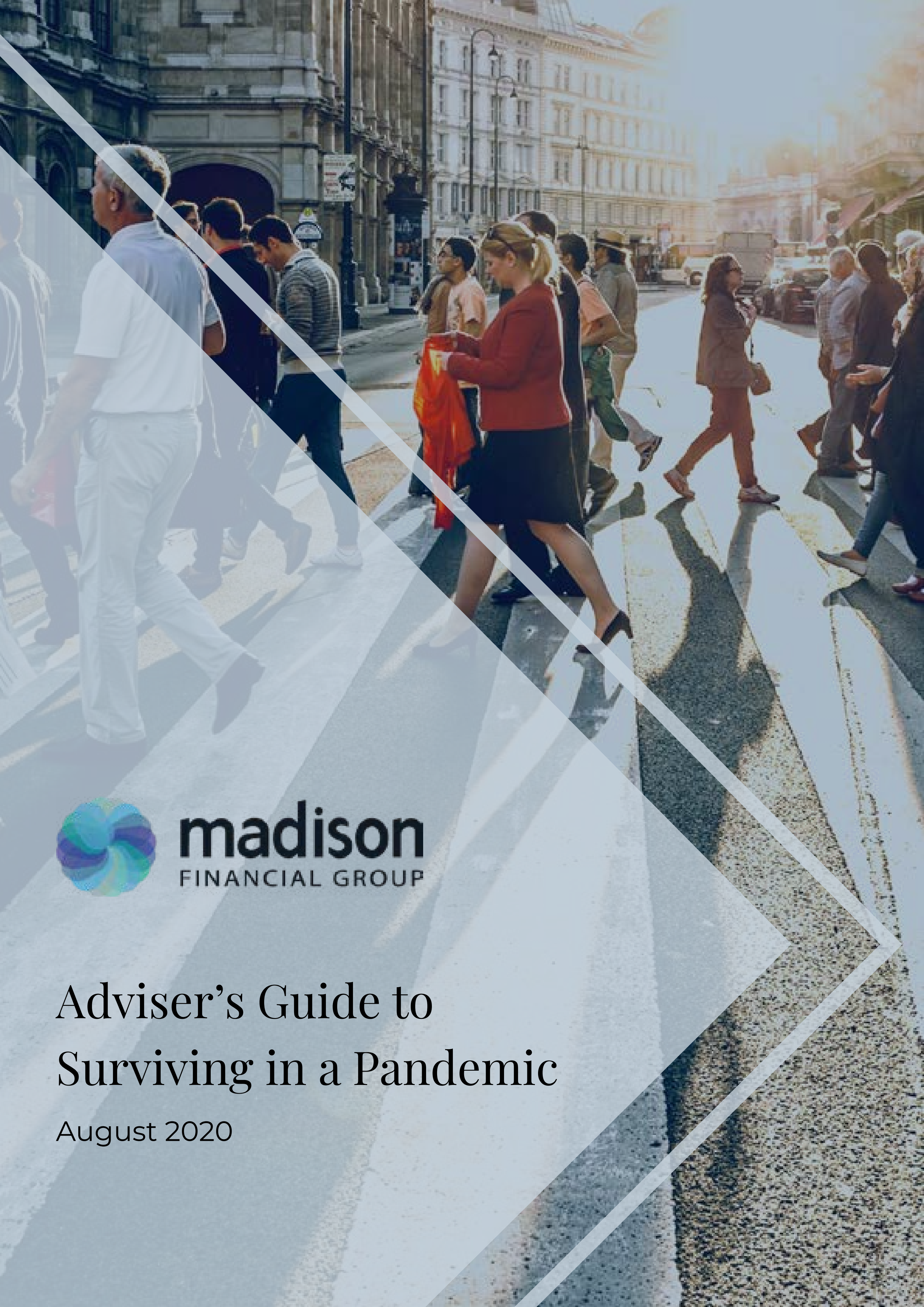

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FINANCIAL GROUP

Adviser's Guide to Surviving in a Pandemic

August 2020

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Contents

Current Environment

We all know that the COVID-19 pandemic is spreading rapidly around the globe. How the virus will spread in the weeks and months to come is impossible to tell[1] what we do know is that the local and global financial systems will still exist on the other side of this[2].

A threat to the health and welfare of the global population, in addition to the coronavirus itself, is the effect on mental health and the feeling of fear. This revolves around keeping ourselves and our loved ones safe and also looking out for the safety of others in our communities[3].

Fear about our livelihoods and our savings is increasing rapidly. Volatility is very high, with equity markets registering the biggest single-day declines and gains. Overall, this has so far been one of the fastest equity market corrections on record. While it can be difficult to overcome the gut reaction to act quickly to protect your finances, it is important to take a step back and understand the factors influencing the downturn before making any hasty decisions.

This is something to be mindful of when having conversations with clients.

Government support

COVID-19 has presented a fast-evolving and significant challenge to global health systems and economies. The Australian Government has acted to support households and businesses and address the significant economic consequences of the pandemic.

Mid-March 2020, saw the Reserve Bank Board agree to a comprehensive package to support the Australian economy through this challenging period[4]:

1. A reduction in the cash rate target to 0.25 percent – this will encourage banks to further drop borrowing rates for businesses and households[5].
2. A target for the yield on 3-year Australian Government bonds of around 0.25 percent – this will reduce the cost of longer-term, fixed-rate (as opposed to floating-rate) business and household loans that partly price off the 3 year government bond yield.
3. A term funding facility for the banking system, with particular support for credit to small and medium-sized businesses – this follows the Bank of England's approach[6].
4. Exchange settlement balances at the Reserve Bank will be remunerated at 10 basis points, rather than zero as would have been the case under the previous arrangements.

By late March the Morrison Government announced the provision of the historic wage subsidy 'JobKeeper' to around 6 million workers who would receive a flat payment of $1,500 per fortnight through their employer, before tax. This payment was designed to help keep Australians in jobs as we tackle the significant economic impact from COVID-19. On 21 July 2020, the Government announced the extension of the JobKeeper Payment for a further six months until 28 March 2021 and is targeting support to those businesses and not-for-profits who continue to be significantly impacted by COVID-19.

The Government's economic support packages have provided timely support to affected workers, businesses, and the broader community, and have kept Australians in work, and businesses in business. These measures continue to support jobs, incomes, and businesses through this difficult period and assist the Australian economy in the recovery.

Investment Considerations

We expect to see more volatility in markets in the weeks and months ahead as more data comes to light. Some of that data will encourage markets, while some may be received badly. Equity markets have fallen sharply enough to suggest markets are already pricing a recession, and perhaps even a severe one.

During uncertain times in the markets, it is more important than ever for investors to understand the benefits—and limitations—of diversification. Having the right investment mix for your situation is critical in good times and during downturns. While you cannot control the ups and downs in the economy, diversification helps to limit the impact on portfolios.

There is no magic investment mix and what may work now can shift over time as economic conditions change. A diversified portfolio can look very different depending on the circumstances of the investor at the time. For example, factors such as income needs, investment time horizon, and the availability of other assets such as real estate or a pension will all play a role in shaping a well-rounded asset allocation.

[1] The Economist briefing - https://www.economist.com/briefing/2020/02/29/covid-19-is-now-in-50-countries-and-things-will-get-worse
[2] Time magazine - https://time.com/5799582/epidemics-economies-history/
[3] Centers for Disease Control and Prevention - https://www.cdc.gov/coronavirus/2019-nCoV/index.html
[4] Statement by Philip Lowe, Governor: Monetary Policy Decision – 19 March 2020
[5] Christopher Joye, AFR: RBA and Treasury Roll-Out QE Bazookas!
[6] Bank of England Minutes of the special Monetary Policy Committee meeting ending on 10 March 2020 https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2020/13march-2020

Surviving a Liquidity Crisis

What is liquidity risk and how is it relevant now?

Liquidity risk can be broken down into market (asset) and funding (cash-flow) liquidity risk.

Market liquidity risk manifests as market risk[7]. As markets fall, financial conditions tighten. This, in turn, drives markets even lower.

Funding liquidity tends to manifest as credit risk[8], or the inability to fund liabilities producing defaults. As cash flows fall, the probability of credit defaults increases, which could threaten the economy at large. If companies go bankrupt, job losses increase, which would be a greater structural threat to the economy than just the current demand for liquidity.

These risks are unfolding in an environment where oil markets are reeling after the dual shock of a decline in demand due to the rapid slowdown in economic activity and the supply-side shock, driven by the price war between Saudi Arabia and Russia. Lower oil prices help consumers but disrupt supply chains. The economic consequences of the oil price war have already been compounded by the COVID-19 situation.

What are governments doing about liquidity risk?

Governments and central banks have responded by lowering rates and pumping liquidity into markets to meet a potential surge in short-term liquidity demands. This may inspire confidence to stabilize markets, however, a lasting recovery will likely depend on confidence that the rate of spread of the virus has been contained. The full future economic effects of COVID-19 are unknown, but we can look to history as a guide. In China, as a result of containment measures against the virus, industrial production experienced its steepest decline ever (even when compared to the global financial crisis)[9]. This suggests that economic data around the world will continue to be grim – for now, at least.

The more governments can prevent demand-side problems and liquidity concerns from evolving into structural issues, the better the chance for a strong earnings recovery. All of this centers around how quickly virus cases peak. Right now, it is unclear as to whether the pandemic will continue in waves over a long period.

What should investors be doing?

Liquidity concerns are top of mind for many market participants. There will be another crisis, however, what it looks like, what its impact will be and its timing are impossible to predict. Market disturbances are unpredictable and inevitable. During these uncertain times, it’s more important than ever for investors to understand the benefits and limitations—of diversification. Having the right investment mix for the situation at hand is critical in good times and during downturns.

There are lessons to be learned and strategies that can be employed to aid during these times of uncertainty. While we cannot control the volatility, much like surviving a pandemic, to survive a liquidity crunch we need to ensure that portfolios are equipped to cope. This can include:

- Increasing cash allocations.
- Avoiding excessively large positions.
- Being wary of crowding risk[10]. Know who else holds the same assets. Concentrated ownership can make liquidity events worse.
- Developing strategies to take advantage of the negative impact of liquidity.
- Bigger can be better. More diverse investors, counterparties, and investment opportunities can offer fund managers more ways to avoid liquidity

concerns consequently can be safer options over small investments.

• Control what you can. There might be simple steps such as boosting contributions to superannuation or temporarily reducing withdrawal rates for those already in retirement. Actions such as these can improve long-term outcomes and give more of a sense of control.

What are fund managers doing?

Fund managers who have intrinsic liquidity risks within their portfolios (e.g. infrastructure, fixed income with credit exposure, unlisted property fund) employ their own strategies to manage these.

The bottom line

Given the current environment, a continued focus on capital preservation is key. When markets fluctuate it can be difficult to overcome the gut reaction to act quickly to protect a portfolio. Ensuring investment portfolios remain relevant to client(s) goals and objectives is vital. Taking a step back before making any decisions will support this.

AUSTRAC temporary relief regarding AML/KYC obligations during COVID-19

AUSTRAC has provided guidance regarding identifying clients as a result of the social distancing currently taking place. Where you need to identify individuals (including where you need to identify them due to their position in an entity), and the client does not have a certified copy of their ID they can forward, below is the temporary process:

1. Have the client take a photo/scan of their ID and either email or post to you;
2. Once you have received the ID, complete a video conference call with the client. During the call, ask them to hold the ID in the video, comparing it to the copy you have been provided with;
3. Compare the client with the photo in their ID;
4. In your meeting file note, record that you undertook identification of the client in this way during the meeting; and
5. Complete the FSC/FPA Individual Form.

You will still need to undertake identification of any entity (i.e. company) in the usual manner. We are obtaining information from product providers regarding their requirements for client identification and will provide updates on these once available.

ASIC temporary relief regarding COVID-19 advice

There are temporary relief measures now in place for three specific advice scenarios, being time-critical advice, further advice, and early release of super. The relief measures only apply where the advice is sought by the client from you, as a direct result of the impact of COVID-19 on their financial situation. Details of the relief are on the following page.

We've prepared advice documents for use specific to the relief, which can be found here:

EARLY RELEASE OF SUPER ROA

FURTHER ADVICE ROA INSERT

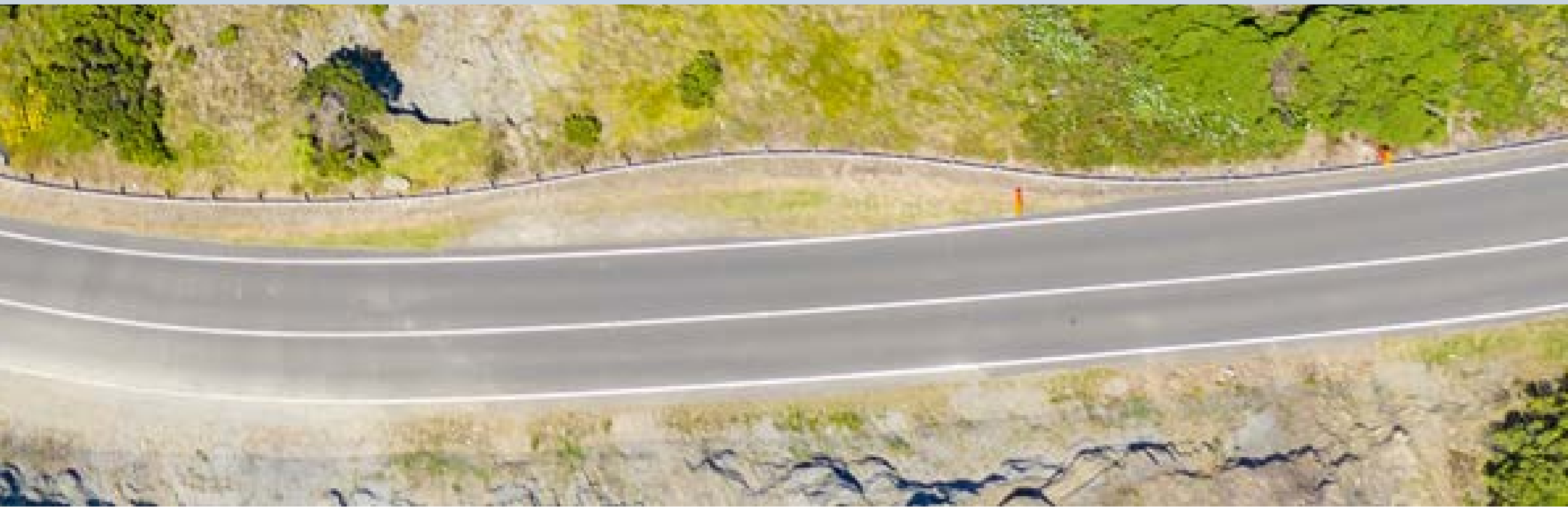
TIME CRITICAL ADVICE FILE NOTE

[7]Market risk: the possibility of an investor experiencing losses due to factors that affect the overall performance of financial markets. Sources can include recessions, political turmoil, changes in interest rates – Investopedia

[8]Credit risk: the possibility of a loss taken on by a lender resulting from a borrower's failure to repay a loan or meet contractual obligations – Investopedia

[9]IHS Markit – Caixin China manufacturing PMI falls to survey low

[10]Crowding risk: too many investors chasing the same strategy. This could lead to drawdowns should a sudden change in market sentiment occur resulting in many investors selling the strategy simultaneously with few natural buyers left in the market – Factor Research: www.factorresearch.com/factor-crowding



ASIC Temporary Relief regarding COVID-19

Type of Advice	Temporary relief	What to be aware of specific to the temporary relief
Time Critical Advice	SoA to be provided "as soon as practicable", but up to 30 business days after advice provided (rather than 5 business days)	• Client seeks urgent advice due to adverse economic effects of COVID-19; • You assess and agree advice need is urgent and related to COVID-19; • All requirements of time-critical advice must be met (why advice is in their best interest; all applicable disclosures must be made, including fees, conflicts, and product replacement); PDS provided and cooling-off period information if applicable, etc.).
Further Advice	If the only reason the advice would not meet the further advice requirement is due to the client's personal circumstances changing due to COVID-19, you can provide the client with an RoA rather than an SoA	• Client seeks advice due to adverse economic effects of COVID-19; • You assess and agree advice need related to COVID-19; • You, another AR in your practice, or another Madison AR, provided the previous SoA; • You have a copy of the previous SoA; • The RoA must state the change in client circumstances specific to COVID-19; • A copy of the RoA must be provided to the client.
Early Release of Superannuation	You can provide an RoA instead of an SoA to provide this advice	• The record of your advice must outline whether the client satisfies an eligible ground for early release of super, including whether they should apply to do so and why; it must name the super account to which the advice relates and the implications of accessing their super; • You must provide a copy of the record of your advice to the client; • If you charge a fee for your advice, it is capped to $300; • The client has approached you for the advice.

Providing advice or guidance for existing clients

Bulk ROA solution

During this time if you find you have a group of clients where investment recommendations and the reasons for them are the same the bulk RoA wizard in XPLAN will be the most efficient way to prepare the documents. This will enable you to email your advice to your clients. You will only need to follow up with them if they do not get back to you.
In order to maximise this efficiency:
• ensure that the date of the previous SoA field is completed.
• confirm that the client's circumstances have not changed in a way that would affect the appropriateness of the advice.
Once you have received the client's authority (verbally or via email) to proceed you can implement your recommendations.
include the following wording as part of your email to the client:
"Please respond to this email confirming that you are happy to proceed with this advice and that there haven't been any changes in your life that would affect its appropriateness.
If you are unsure, please feel free to call me for a chat on..."
Pre-recorded training for how to use the bulk ROA functionality in XPLAN is available on the Zendesk here.
For non XPLAN users, the Bulk RoA template is available to download on our adviser portal under Compliance » Advice Documents » Bulk RoA June 2019.

Responding to client enquiries

A reminder of the things you already do:
• Reassuring your client.
• Consider what actions you would take based on your client's concerns.
• Discuss considered actions and confirm the client understands.
• If there are transactions required let the client know that you will work with them to make these changes promptly (noting some things won't be in your control).

What to do next:
• Confirm that the client's circumstances have not changed in a way that would affect the appropriateness of the advice.
• Inform the client that you will be emailing them your advice to review and accept by return email or phone call.
• Paste relevant ROA template (see below) into the email, complete the required sections, and send it to the client attaching any required documentation.
• Once you have received the client's authority to proceed you can implement your recommendations.
• Ensure you place a copy of all correspondence on the client file.

ROA email templates
• Portfolio rebalance
• Lump-sum withdrawals

Providing and recording verbal advice

You may choose to provide your clients with this advice verbally, without providing a written Record of Advice to them. To do this, you must:
• Inform the client/s that you want to record the call, and gain their consent to do so;
• Commence the recording, and ask them to confirm their consent whilst on the recording;
• Provide the client with your verbal advice, using the RoA email templates released on Friday as your base for the discussion;
• Ensure they have received all appropriate disclosure documents (FSG where they don't have the current version; any new investment option PDS); and
• Keep a copy of the recording in your client file.
The consent is required to inform the client of both the fact and reason why the call is being recorded. Obtaining this on the recording assists with proving the consent was obtained. For example:

Before the recording starts
"Jane and Jack, as you know, we are currently in unprecedented times. So that we can help our clients in an as time-efficient manner as possible, we would like to record our phone conversation as part of our record-keeping obligations. Are you ok with this? I will need to ask you again once we start recording."
"Jane and Jack, can you confirm that you approve of the recording and storing of our discussion today?"

Storing the recording
The recording should be held within your client file, in a consistent location. The file should be clearly labeled (i.e. Verbal Record of Advice 23 March 2020) and stored in a format that can be accessed in the future. You may also need to review the capacity of your electronic file storage, and whether it needs to be increased.
Whilst these files can't be stored in XPLAN, your file note should list the location of the recording.

Digital Signatures

Our Advice Documentation policy allows you to use any suitable digital signature technology. One option is to use Adobe Sign which is integrated with X Plan. If you wish to use this functionality with your clients, you will need an Adobe subscription. One licence of Acrobat Pro with e-sign currently costs $30.50/month.

This subscription allows you to:
• Send documents to clients to sign.
• Convert documents to pdf and share.

https://acrobat.adobe.com/au/en/sign/pricing/plans.html

Here is a very simple video (CLICK HERE) to demonstrate how to use the functionality with advice documents.

We're aware some of our practices already use either Adobe e-sign , while Docusign is another popular choice.

Below is guidance on what to consider and apply when using digital signatures/consent. This guidance is also listed in our Advice Documentation policy.

Guidance on Digital Signatures

Madison Advisers may use digital signature technology and/or processes to gain and document consent for all advice and engagement documents such as:
• Letters of engagement
• Fact Find
• Risk Profile
• SOA - Authority to Proceed
• ROA - Authority to Proceed
• Execution only
• Ongoing Service Arrangement
• Renewal Notice (Opt-In)

The process must involve a signing method to identify the person signing and indicate their intention (i.e. show that they agree with the information contained in the document).

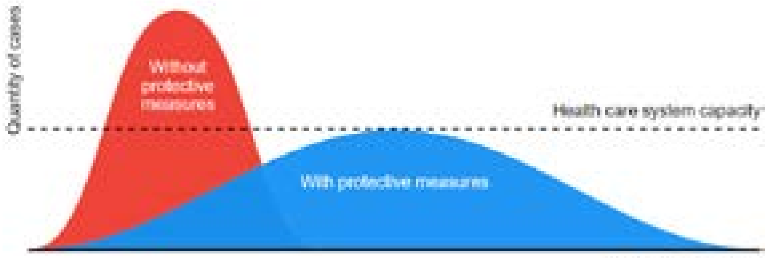
Clients must agree to use the digital process. This agreement may be express (e.g. the document recipient says they accept electronic signatures) or implied (e.g. Where a client replies to an email trail or clicks on the link to the document signing technology, this implies their agreement to use the proposed process).

Documents that need to be witnessed generally can't be signed electronically. In the advice world, this may include binding nomination forms for superannuation funds, but more generally also includes:

Adviser Guide

Things to remember

• Do not panic. You've got this.
• At some point, the virus will be contained, and the economies will recover.
• The coronavirus is first and foremost a public health issue, but it is also having a very major impact on the economy and the financial system[11]. In epidemiology, the idea of slowing a virus' spread so that fewer people need to seek treatment at any given time is known as "flattening the curve"[12]. It explains why so many countries are implementing "social distancing" guidelines.



Source: https://www.flattenthecurve.com/

• When markets fluctuate, the human response is to act: "buy more or sell". While it can be difficult to overcome the gut reaction to act quickly to protect your money, remember to take a step back and understand the factors influencing the downturn before making any decisions.

Resources

• Telehealth starts on Monday 30 March 2020. This is medical help via a phone or video conference, and it will be bulk billed. Here is a link Telehealth

• New government information sources through the Australian Government Coronavirus app. Worth downloading the app for up to date official information. These apps are available for free through the App Store for Apple devices and Google Play for Android devices. There is also a new What's App feature for up to date information. To activate the Whatsapp channel visit Whatsapp to launch the new feature.

• Phone numbers for support services
  - 1800RESPECT – Domestic violence and//sexual abuse
  - 1300 789 978 – Mensline Australia
  - 1800 551 800 – Kids Helpline
  - 1300 224 636 – Beyond Blue
  - 13 11 14 – Lifeline Australia

• Emergency food supplier contacts are available on the Department of Social Services website and also include OzHarvest, Vinnies, the Salvation Army and Anglicare.

[11]Statement by Philip Lowe, Governor: Monetary Policy Decision – 19 March 2020
[12]https://www.livescience.com/coronavirus-flatten-the-curve.html

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