

# Chanticleer

For crowing there was not his equal in all the land...



www.afr.com | 15-16 August 2020

## This fundie thinks outside the box

**T**he coronavirus pandemic is putting the spotlight on fund managers who don't normally garner publicity and that's got to be good for those trying to think differently about investing in markets.

One fundie that has come on Chanticleer's radar after keeping a low profile for decades is Dimensional Fund Advisors, which was established in the United States 40 years ago.

It has about \$749 billion under management including \$32 billion in Australia and New Zealand.

It is cut from a different cloth to most active equities and fixed interest managers partly due to its strong academic heritage (including three Nobel prize winners) and partly due to its highly ethical distribution model.

The Dimensional business model is worth closer attention for several reasons.

First, its investment philosophy forces its money managers to think outside the box. Unlike most active equities managers who build complex models to predict future earnings, Dimensional starts from the view that markets have plenty of information to inform you about expected returns.

This means Dimensional approaches the profit reporting season with a different lens to other active equity managers.

Bhanu Singh, who is head of Asia Pacific portfolio management, uses this week's release of profits by Telstra to illustrate Dimensional's approach, which is summed up as systematic, fundamental investing.

"One of the things that we think drives future profitability is a company's current profitability," he says. "So, what we're interested in is asking: Where does a company rank in the wider universe of stocks in terms of profitability? And what does that tell me about future profitability? And therefore, then I can see how much am I paying for it?"

Singh says Dimensional is very focused on core profitability, which is almost the equivalent of cash flow earnings. It is less interested in net income, which can be corrupted by other items.

History has shown Dimensional's philosophy has worked well in times of stress. For example, during the coronavirus meltdown in credit markets in March, the Dimensional fixed interest managers were big buyers of names that suffered big movements in credit spreads.

Dimensional's local chief executive Glenn Crane readily admits his firm has a low profile. He attributes that to the fact its primary business is managing institutional money and it does not sell direct to retail investors.

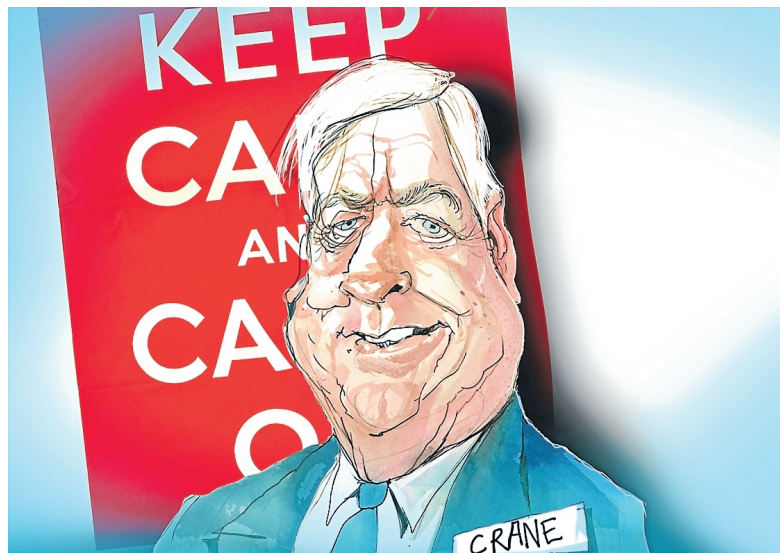
Crane says the decision by Dimensional to only sell its funds through independent financial advisers was a conscious move to avoid the sorts of conflicts of interest that led to the Hayne royal commission.

This non-conflicted distribution model means Dimensional is well placed to deal with the profound changes to the laws covering the sale of financial products coming next year.

From April, 2021, the Australian Securities and Investments Commission will require financial product firms to develop products that meet the needs of the consumers in their intended target market.

ASIC commissioner Karen Chester has said providers of financial products must ask themselves three fundamental questions: What are the target markets for our financial products? Do our financial products meet the genuine needs of our consumers? Do our distribution channels mean our products will likely get to the right consumers?

Crane says the industry has not really got its head around this looming shift in the way products are sold.



*This non-conflicted distribution model means Dimensional is well placed to deal with the profound changes to the laws.*

"We already have that responsibility because we use a financial intermediary between the client and ourselves," he says.

Dimensional takes the stewardship of client money seriously and it has become increasingly aggressive in enforcing the rights of shareholders both here and overseas.

During the COVID-19 rush of capital raisings, it was quite active in its lobbying of investment banks, ASIC and the ASX for greater fairness in equity capital raisings.

Dimensional has not been afraid to use its voting power on share registers to send a message to non-executive directors about meeting what it believes are appropriate governance standards.

### NAB bankers feeling the COVID-19 pain

While health workers and staff in aged care facilities in Victoria are clearly bearing the brunt of COVID-19, there is also immense psychological pressure on bankers who are talking to the thousands of customers unable to service their loans.

National Australia Bank chief executive Ross McEwan talked about the human side of COVID-19's second wave during a call on Friday with the media for the bank's third-quarter earnings.

His comments echoed those made earlier in the week by Commonwealth Bank of Australia chief executive Matt Comyn during his presentation of the full-year profit.

"It has been more psychologically damaging I think than financially at this point in time, because people thought – our colleagues and all our customers here in Victoria – thought we were coming out of it," McEwan said.

"And all of a sudden we're back into quite a terrible situation here with high levels of infection and some horrific numbers of deaths, which is terrible.

"So, that is impacting our customers and also our colleagues. I think from a human perspective, it has been psychologically damaging and that's what we've seen from our colleagues.

"They're dealing with businesses all day and every day. And it's very difficult for them. These are strong relationships they've had for years. And we're seeing customers for no fault of their own having difficulty."

McEwan said NAB was recruiting between 300 and 500 people to assist frontline staff in making calls to customers who needed help in getting through the COVID-19 crisis.

NAB told the ASX on Friday it had 86,000

home loans and 38,000 business loans totalling \$55 billion that had deferred interest payments.

Bankers have been progressively calling each of these borrowers to ask about their situation and see if they need extra support to manage through the pandemic.

About 16 per cent of NAB's home loan customers who had deferred repayments have now recommenced them.

"Our business bankers are all day, every day talking to customers about how we can be helpful," McEwan said.

Last month, NAB stepped up its help for business customers by offering small-business borrowers access to free psychological and financial coaching services.

McEwan has been personally involved in hearing from customers. Last month, he joined the 12-strong NAB executive team in spending a few hours taking customer-complaint calls.

At CBA, Comyn had revealed this week how much frontline bankers had been engaged in helping customers.

"We've responded to more than a million requests for help and assistance," he told a media call on Wednesday. "As part of that, we've processed 250,000 loan deferrals for customers to help them free up cash flow."

"We've sent over 250 million personalised messages to make sure our customers are getting the help they need. And we've sent 130,000 debit cards to customers unfamiliar with digital banking to ensure they can make purchases and pay their bills from home."

CBA's experience shows an apparent correlation between bankers talking to customers about financial assistance and increased staff engagement.

One explanation for this is that COVID-19 has given bank employees a greater sense of purpose in their lives after years of being pilloried before and during the Hayne royal commission.

Comyn summed up this sentiment in the following message to staff on Wednesday: "I know it's been a difficult time for everyone, yet I couldn't be prouder of the way we've risen to the challenges we've been presented.

"From our employee engagement and people pulse survey results, it's clear that you also feel engaged and energised about the opportunity to make a real difference to so many people's lives."

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**In practice, creation of a Club Democracy would be counter-productive because it would create another fault line between the US and rival countries.**

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**We saw during the bushfire emergency that Canberra was more than prepared to dump on Berejiklian's government.**

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Registered by Australia Post.

Publication No. NBF 1310

Published by:  
Fairfax Media Publications Pty Ltd,  
ACN003357720, at 1 Darling Island Rd,  
Pyrmont, 2009

Printed in Brisbane by News Ltd, Lytton Road, Murarrie, for the publisher.

Printed in Sydney by News Ltd, 26-52 Hume Highway, Chullora, for the publisher.

Printed in Ballarat by Fairfax Media, Print and Distribution (ABN 55 004 810 511), Grandview Drive, Wendouree, for the publisher.

Printed in Perth by Rural Press Printing, 7 Rafferty Close, Mandurah, for the publisher.

Printed in South Australia by Bridge Printing Office Pty Ltd, t/a Rural Press Printing, Mannum Rd, Murray Bridge, for the publisher.

Registered at the British Post Office as a newspaper.

Recommended and maximum price only.

ISSN 0404-2918



9 770404 201068

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