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## Independent external responsible entity appointments way of the future

Avoiding real or perceived conflicts of interest between managers of funds and unitholders is critical to maintaining the integrity of Australia's wealth management industry. The appointment of independent responsible entities in that framework is an obvious solution to protect investors' interests.

Harvey Kalman, the Executive General Manager of the part of the Equity Trustees business that provides independent responsible entity (RE) and trustee services, said there are many examples of internal RE functions causing issues.

"Reports of funds that are contested, or have experienced performance problems and investor unrest raise a number of issues with real or perceived conflicts of interest," he said.

"Recent situations have highlighted that a fund manager cannot wear two hats – that of RE and fund manager - without facing potentially significant challenges. Having an internal RE resulted recently in investors in the products or investment vehicles of associated companies being excluded from voting on their own investments or the strategic direction of the Fund. The Australian system that allows these circumstances to exist is not aligned with the other major regulatory systems globally. This has to change.

"This problem was clearly identified as a barrier in The Second Johnson Report *Australia as a Financial Centre: Seven years on* which outlined the uniquely Australian approach to the funds management industry which allows the same entity to be both trustee of a fund, and an investment manager. Elsewhere, these functions are carried out by separate entities.

"The perception the 'single responsible entity' arrangement creates is 'confusing and concerning for some Asian investors' according to the report because on the surface there can be a perceived conflict of interest.

"Of course, we have regulations and practices which aim to mitigate against conflicts, but perception is critical to our reputation globally as a regional centre of excellence in funds management," Mr Kalman said.

He added that independent RE's brought additional benefits to those articulated in the Report.

"Funds that adopt a model which outsources the responsible entity to an independent fiduciary bypass the possibility that there is a conflict between the rights of unitholders and the investment manager of a fund, with the additional benefit of not having the associated regulatory and compliance costs that come with the RE function," Mr Kalman explained.

"We are at an important moment in time for our industry," he said. "We have the introduction of the new MIT's and AMIT's regimes which are enabling the flow of funds into Australia, and for us to export funds and expertise. We have the introduction of Collective Investment Vehicles (CIV's) next year – all great initiatives. It is important that we ensure the two systems are compatible, and that we are competitive globally – functionally and in terms of perceptions," he said.

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# Media Release



*Equity Trustees was established in 1888 to provide independent and impartial trustee and executor services to help families throughout Australia protect their wealth. As one of Australia's largest listed independent trustees, we offer a diverse range of services to individuals, families and corporate clients including aged care advice, asset management, estate planning, philanthropic services and responsible entity services for external fund managers.*

*EQT Holdings Limited is a public company listed on the Australian Securities Exchange (ASX: EQT).*

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