



STUART + CARLYON

Financial advisers for your lifetime goals

Safeguarding your money

In this age of technology, with online access to information, why do many of our systems remain so resolutely old fashioned? The answer: to make sure our clients' monies are protected.

Take the process of setting up a portfolio to be handled by a custodial service. Neither clients nor ourselves particularly enjoy all the paperwork involved. This includes:

- The requirement for personal details such as date of birth and a passport or driver's licence.
- A signed original bank deposit slip, (who has these with internet banking these days?) or;
- A trip to the client's bank for verification of bank account.
- Original documents need to be signed by all parties.

At the time of signing and countersigning all these papers the process seems like overkill, but actually it is a vital step for your security. In fact since custodian facilities became available for client portfolios, we have been using these services, and building the ensuing paper trails – for around twenty years.

The key idea is to ensure that we have a clearly defined role in relation to your monies. We provide advice, but we don't handle your funds.

“The key idea is to ensure that we have a clearly defined role in relation to your monies. We provide advice, but we don't handle your funds.”

This is what went wrong for clients in recent cases of Ponzi-type schemes. In each of these cases the advisors didn't assign their client monies over to a custodian such as Aegis. Instead, and this was the problem, the advisors were assigned control of these funds. They were able to move these funds around without further written authority. That was the danger sign. A handshake deal offers no protection.

At Stuart+Carlyon our business has always been about advice. Our role as your financial adviser is to:

- Understand client's needs and match investments to your objectives and risk profile;
- Select from the myriad of options;
- Choose investments independently – we have no ties to funds managers and we don't take commissions or brokerage;
- Your investment money goes straight to the custodian, never into Stuart+Carlyon Ltd's bank account.

The Custodian we work with, Aegis, is subject to stringent regulations. As a custodian they must:

- Act only on “proper instructions” ie: they may buy, sell or transfer investments only if authorised signatures are received.
- Settle transactions and keep a register of assets on your behalf as a “bare trustee”.
- Process portfolio withdrawals only to bank accounts previously signed off by you as the client.
- Send you a quarterly report of transactions and cash accounts as stipulated by their external auditor, PricewaterhouseCoopers.
- Send you an annual Independent verification of safe custody of your holdings.

If that provides a sound layer of client protection, then the Investment offerings into which your portfolio might be placed have their own requirements and structures.

- Unlisted managed funds, new share issues and new bond issues are required to produce an Investment Statement or Product Disclosure Document which we send to you.
- Managed funds such as PIEs, KiwiSaver and unit trusts must have a trustee to hold unit holders' money separate from the fund manager's business.
- Listed companies or bonds are subject to Stock Exchange reporting and compliance oversight as well as Companies Office requirements, annual reporting requirements and Annual General Meetings for shareholders.

We recommend investments that are transparent with publicly available information. We don't use any financial vehicle that falls outside these requirements. For example, we avoid property syndicates, private offerings or offerings made only to high net worth investors where an issuer can legally get away with not producing an investment statement.

For their own protection, we treat all our clients as retail investors under the legislation regardless of their net worth.

This technical loophole for so called “high net worth” clients was what allowed the recently exposed case of Wellington based Ross



Asset Management to operate with no investment statement. This operation had mixed the roles of fund manager, financial adviser and custodian all in one – a dangerous cocktail. With no separation of roles there was no oversight by a third party and no accountability.

“The lack of structure allowed David Ross to access client money inappropriately.”

The lack of structure allowed David Ross to access client money inappropriately. Clients were kept in the dark because he produced the portfolio reports himself with no independent verification. Although still in the early stages of analysis by the Financial Markets Authority and PricewaterhouseCoopers, David Ross is said to have been operating a Ponzi scheme. That's the merry-go-round made infamous by Bernie Madoff in the US: paying out clients who need to withdraw, with money from new clients, with very few real investments ever having been made.

We follow systems, processes and compliance that sometimes seem tiresome to us and you – but they are vital for your ongoing financial health.

Balancing on a Surf Board

At Stuart+Carlyon we oversee investment funds of \$125 million. It's quite a fiduciary responsibility and the way we safely manage the money is through a custodian like Aegis.

Newer clients won't know this but Susanna also has another fiduciary role; as a volunteer with Surf Life Saving Northern Region. No; not as a lifeguard. In fact Susanna admits that she can't even swim, and she couldn't balance on a surfboard either. But she can balance the books and she has served as a Director of the Board since 2004 by helping the organisation fulfil its financial obligations.

She has found the directorship role very interesting in part because she is an independent director rather than a "clubbie" who has grown up through a lifetime of surf life saving service.



"It opened my eyes to an amazing culture," she says. "I've got to learn more about the work involved in becoming a lifeguard and the amazing dedication, commitment, courage this entails. The

organisation has much more of a family focus than I first imagined. "Their slogan *In it for Life*, is particularly apt."

For Susanna the annual highlight of her involvement is the Awards night, held in the middle of winter. On this night, dominated by the boisterous young club members from across the Northern region, lifeguards and their families celebrate the skills and genuine heroics of its members. "They should make all of us proud," says Susanna. "Imagine being just 17 years old and knowing that you've saved human lives?"

“Newer clients won't know this but Susanna also has another fiduciary role; as a volunteer with Surf Life Saving Northern Region.”

How did she get this role? The story begins in December 1981 when in a poorly supervised school trip to Piha, her brother Andrew was swept out in a rip. It was an early summer day and the beach was, as yet, unsupervised. However a lifeguard from California happened to be there and saw the situation. Alone, he swam out to make a rescue near Lion Rock and he saved another boy. Later that weekend he helped Susanna's family deal with the loss of their ever-cheerful family member. He remembered Andrew as "the Chinese kid who told me his friend was in trouble."

Years later, Susanna related that story in her column in Next magazine and on that basis was asked to speak, from a victim's family point of view, to a lifeguard leadership camp. She told them of the big difference the visiting lifeguard had made in helping her family deal with the grief.

As a result of the connection Susanna was asked to contribute her financial skills at the Board level. This governance role is very important as the organisation relies heavily on funds donated by individuals, ratepayers and corporate sponsors so it is important to use these funds efficiently and to act with due care and prudence. All supporters need to know that the money is being spent wisely and that the paperwork is clean and tidy.

With summer coming, the season now starts with beaches being manned. To help keep our beaches safe, you can donate to Jandal Day appeal from 2-8 December by going to <http://www.jandalday.co.nz/>. There will be volunteers on streets and this year Coca Cola in the Park on 8 December is supporting Surf Life Saving so fill those collection buckets! Special bonus: you know the money will be well looked after.

Summer Holidays

Well this year has gone quickly. We've checked the Christmas calendar and on that basis our office will close this year on December 21st. We will re-open on January the 14th 2013.

Merry Christmas to you and your family, and best wishes for 2013 from us all. Let's all hope for a golden summer.