



26 August, 2014

## Joint Report of the Chairman and the Managing Director

Dear Shareholder,

On behalf of the directors, we jointly report on the consolidated operating performance of Fiducian Portfolio Services Limited and its controlled operating entities for the year ended 30 June 2014.

### Financial Information

#### Results for 2013-2014

Consolidated Reportable Profit after income tax for the 2014 financial year is \$3.98 million and represents an increase of 17.4% in comparison to \$3.39 million for the prior year. The earnings before interest expense, tax, depreciation and amortisation (EBITDA) was \$6.76 million compared with \$5.35 million for the same period last year – an increase of 26.4%.

Reportable Profit is impacted by the accounting treatment to acquisitions by amortisation of \$0.52 million. As such, Underlying Net Profit after Tax adjusted for amortisation is \$4.50 million and represents adjusted earnings per share of 14.5 cents for the full year.

In summary, all operational divisions contributed positively to the result. The acquisitions executed last year have assimilated well within our business. Our system developments finalised predominantly last financial year also delivered greater cost efficiency and operational control.

In respect of financial planning, the Future of Financial Advice (FOFA) regulatory changes now appear accepted within the industry. As we have said in the past, our financial planning services were FOFA compliant well in advance of the regulatory changes being proposed. In addition, further regulatory change has come through the new Prudential Standards which have a significant impact on our activities as Trustee of a Superannuation Fund. To comply with these standards, we expect to introduce changes to the corporate structure of Fiducian Portfolio Services Limited, which is currently the parent listed entity but also the trustee of the Fiducian Superannuation Service, the Responsible Entity of Fiducian Funds and the Operator of Fiducian Investment Services our IDPS wrap platform. In coming months, we plan to separate the Parent Entity from Trustee and Responsible Entity functions. While this is a significant activity, we remain confident that it will not impact on our operations or growth in funds inflows whilst enhancing the group's corporate governance.

Despite operational challenges imposed by legislative change over the past few years, net operating expenses have been further reduced by 6.9% in 2014 (2013 decreased by 14.6%).

Fiducian follows a policy of training, building and retaining quality staff in good and poor economic times, so they can participate in the future expansion of the business and more importantly at this juncture, bring to bear their expertise which has been gained through years of loyal service.

Our diversity policy encourages persons of different sexes, ethnic backgrounds, ages and skills to participate and receive recognition, reward and management responsibility commensurate with their performance. No senior management positions changed during the year. Employees are from



over 20 different countries of origin, 26% are over 55 years of age and 42% are female with 31% in senior roles.

## Capital Management

A key feature of the company is that it currently remains debt free and exhibits a positive working capital and cash flow position.

## Final Dividend

The Board remains cautious in nature, but is confident that the future of the business is positive and likely to continue to strengthen. As a result, a fully franked final dividend of 5.0 cents per share has been declared which will bring the total fully franked dividend declared for the 2014 financial year to 9.1 cents, an increase of 30% (2013: 7.0 cents). The final dividend will be paid on issued shares held on 5<sup>th</sup> September 2014 and be paid on 19<sup>th</sup> September 2014.

## Acquisitions

During the year, we added to our existing salaried operations in Sydney by absorbing one small accounting practice and an additional small financial planning client base. Both are being serviced by existing staff. In April this year, a financial planning practice with \$66 million in funds under advice was also acquired in Tasmania. As acquisitions continue to assimilate into our processes, they should deliver increased corporate strength and demonstrate our disciplined approach to balancing growth and returns.

## On Market Buy-Back

Over the year, Fiducian bought 774,532 shares on market (2013: 259,502) for a total consideration, including brokerage, of \$0.91 million (2013: \$0.25 million) at an average price per share of \$1.17 (2013: \$0.96). There are 30.758 million shares on issue at year end (2013: 31.532 million).

## Cash Flow

Net operating cash flows of \$5.86 million were achieved (2013: \$4.81 million) – an increase of 21.8%. After payment for prior and current year business acquisitions (\$0.87 million), share buy backs (\$0.91 million), dividend outlays (\$2.40 million), fixed assets (\$0.09 million), receipts of loan repayment by staff / advisers (\$0.10) and investments (\$0.06 million) net cash increased by \$1.75 million (2013: increase \$1.77 million). Cash at year end was \$11.2 million (2013: \$9.4 million). An amount of \$5.0 million is required for regulatory purposes. Business acquisitions of prior years should assist our future revenue and earning capacity.

## Staff and Managing Director Options

In accordance with the terms and conditions of the approved Employee and Director Share Option Plan, no options will be issued to employees but 100,000 options will be issued to the Managing Director in accordance with his contract of employment. These options will be issued at \$1.63, a discount of 5% over the weighted volume average price in June and may be converted to shares by making a payment of their value to the company after 1 year and within 5 years.



## Financial Planning

During the year Funds under Advice grew 18.1% to 1.37 billion as financial planner productivity and net flow lifted. Fiducian expects the highest level of compliance and client service from its financial planning network. Even though the generation of higher inflows is important, our commitment is to quality. As such, our extensive internal training programs, that differentiate our financial planners from the marketplace enable them to deliver superior quality advice continues. As a consequence and despite financial market volatility, client retention remains high.

Over the years, there have been large scale groups merging to become bank or institutionally aligned and a number of smaller groups becoming insolvent or wound down due to claims or compliance issues. In addition, the propensity for credit seems to have contracted and lending covenants being imposed upon smaller dealerships appear much tighter. We shall be exploring opportunities here.

Regulatory changes whereby accountants will be required to be licensed if they offer self managed super fund advice should also provide Fiducian with further opportunities.

## Salaried Offices

Company owned offices with salaried financial planners are based in New South Wales, Victoria, Western Australia, Queensland and Tasmania and continue to contribute to overall results. Salaried offices now comprise over 46% of funds under administration. Acquisitions made during the year should in due course bolt on to our existing presence in Tasmania and Sydney and add to our results.

## Franchised Offices

Franchised offices now comprise around 44% of our funds under administration. Another five franchisees were added during the financial year resulting in a total of 42 franchised financial planners nationally which we continue to assist through practice development. In addition, referral arrangements continue to be initiated with accountants, who themselves have shown an interest in holistic financial planning given regulation changes to Self Managed Super Funds. As such, an additional 3 accountants have joined our 'Associate' franchise program which can also convert them to a full operating franchise when educational requirements are completed.

## Business Services

Fiducian Business Services (FBS) is our subsidiary that was established to provide support to accountants for bookkeeping, accounts preparation and self managed superannuation fund administration. It now has two accounting practices which operate as Fiducian Accountants & Business Advisers (FABA) in New South Wales and Queensland. Cross referrals of our financial planning clients needing accounting help and our accounting clients needing financial planning help further supports Fiducian's value proposition of service to all our clients. Our Self Managed Superannuation Fund administration facility has been showing steady growth in the number of funds administered. It is supported by our presence in India for cost effective processing. During the year one small accounting practice was purchased and absorbed into existing Sydney operations. Succession continues to be an issue for an ageing sole practitioner demographic and we shall be seeking such acquisition opportunities at realistic valuations.



## **Platform Administration**

Platform Administration offers portfolio wrap administration for superannuation and investment services to financial planners. The hallmark of the Fiducian administration offering is quality in terms of daily processing, accuracy and customer service.

## **Funds Under Administration**

Funds under administration increased in total by 11% to \$1.03 billion (2013: \$0.93 billion). Though the bulk of our withdrawals are from IFAs, we believe that the rate of IFA withdrawals could slow as many of their clients have been with Fiducian for a long time. Net Inflow continued to be positive from our aligned financial planners, both salaried and franchised.

## **Independent Financial Planners (IFAs)**

Funds under administration for IFAs are around 10% of total funds under administration. Some IFAs have sold their businesses to other Dealer Groups, which generally have their own recommended product lists and platform arrangements which can result in funds being withdrawn from Fiducian. Whilst this is the case, efforts are underway to build new relationships and net inflow from non-aligned financial planner groups. Our full service offer, supported by last year's product restructure could allow a non-aligned small dealer with a Fiducian relationship become competitive against large scale financial planning dealer groups.

## **Corporate Superannuation**

Corporate superannuation decreased by 16% (2013: decrease 25%) during the year. It forms only a small portion of funds under administration. The product has now been altered and does not offer default investment options which under new legislation can only be offered by funds authorised to offer a MySuper product. Fiducian's core belief is that holistic personalised financial planning advice is essential for all clients. Corporate superannuation and MySuper do not encourage personalised financial planning advice and therefore it has been decided to wind down this fund and transfer those members who wish to stay with Fiducian to the Fiducian Superannuation Service.

## **Investment Management**

Fiducian is a multi asset, multi style investment manager. We design Funds that seek to deliver above average returns over the short to medium term and deliver superior returns, compared with their peers, over the longer term.

Blending of underlying portfolios within asset sectors and tilts towards different managers' styles, depending on the economic cycle, also has the potential to reduce volatility. The investment team and investment committee remain confident that the Fiducian philosophy of liquidity and transparency will also benefit investors.

In investment performance surveys, our diversified funds remain regularly in the top quartile or top of the second quartile over multiple time periods, which is what our investment process is designed to deliver. Last year, there were some notable performances. The Fiducian Ultra Growth Fund was ranked 1<sup>st</sup> out of its 106 fund peer group survey. Performance last year from some Fiducian specialist funds was also very pleasing, with reported annual investment returns by the Fiducian





India Fund 43.0%, Fiducian Technology Fund 28.6% and the Fiducian Australian Smaller Companies Fund 28.3%.

## Information Technology

Fiducian Information Technology division has successfully delivered FasTrack our administration system which provides greater control, efficiency and substantial cost savings and as well, opens up new business opportunities. Reporting of member accounts is now also available on tablets and mobile phones. These improvements are now in place and provide greater integration with our on-line reporting tools and financial planning software FORCE which is licensed to our aligned financial planning groups.

## Human Resources

### Management and Staff

Staff numbers have been stable throughout the year and so has the management team on whom we place a great deal of reliance. Effective reporting processes enhance Board oversight of business activity and monthly performance. Key performance indicators have been identified for management in each area of the business operations which are used to monitor performance at least on a quarterly basis.

### Planners Council, IT and Platform User Groups

The Planners Council is drawn from our supporting financial planners and has again made a significant contribution to the company during the past year. It continues to fulfil its role as a sounding board for the company's management and Board and is a valuable resource and forum to allow financial planners to alert the company to issues that may need consideration.

The IT User Group again deserves commendation for its contribution to the development and enhancements to our financial planning software (FORCE), on-line reporting tool (Fiducian OnLine) and platform administration system (FasTrack).

The Platform User Group has also made valuable contributions to our system improvements, product enhancements and client administration efficiencies.

### Board of Directors

The Board of directors is working constructively to evaluate and support management's recommendations for the company. The Business Plan for the year ahead has adopted key measures for performance to lift profits including acquisitions. Future performance can also be influenced by continuing strength in financial markets and decisive political leadership. Management remains committed to achieving the goals and objectives set down in these plans.

## Current Economic and Market Environment

Share markets are not currently expensive by historical measures and there is a large amount of cash waiting on the sidelines to enter, which could strengthen them further. The Australian market has finally exceeded its high point of 2007 on an accumulation basis (including dividends).



However, the price index still remains below its previous high. We have seen a strong share market recovery in the United States, Japan and Europe. However, it has still not translated into an equivalent strength in the Australian share market. On this measure alone, there appears further upside for the Australian share market. Regardless, investors still remain somewhat cautious and the Global Financial Crisis remains etched in their memories. Our house view is for share markets to again deliver positive returns this year as news of European and US economic improvements come through. We also believe that fears about China are overdone and it should, along with India continue to show economic growth and support developed financial markets. As always, we recommend that investors should consult a Fiducian financial planner to develop a diversified investment strategy that could help them achieve their financial goals.

## Outlook

The Board expects profit growth to continue in coming years as management focuses on realizing the full potential of financial planning, platform administration, investment management, information technology and business/accounting services by building scale on existing capacity and leveraging its relatively fixed cost base.

Fiducian also continues to keep abreast of changes to superannuation legislation and implement required changes to comply with the Prudential Standards introduced by APRA, which includes creation of a separate Trustee.

Expenditure controls and profitable growth remain a priority. However, the business plan for 2015 financial year looks at expanding the revenue base by growing the existing Fiducian business model organically yet making more sizeable acquisitions where they can become earnings accretive and build scale quicker. Therefore our cash management strategy for the next financial year is to utilize profits to pay dividends and to use any surplus to support meaningful acquisitions or make further share buybacks where beneficial.

We would like to thank all participants for their individual contributions to the growth and success of Fiducian in what has been an eventful yet successful year with much accompanying change in legislation.



Robert Bucknell  
Chairman



Indy Singh  
Managing Director