Access all areas: The new breed of consultant under the spotlight

Access Economics' super fund clients are consistently in the top 10 of their performance surveys. The consultant's unique approach to asset allocation is becoming popular as more funds look to diversify away from listed assets. PENNY PRYOR discovers why the consultant is happy to dance to the beat of its own drum.

Access Economics, as its name suggests, has its origins in economics rather than investment advice. But this has enabled the consultancy to tackle the superannuation sector with a clean slate and a new approach.

Established two decades ago it only began offering investment advisory services in 1995.

"We were able to look at asset allocation from a totally free and unbiased perspective," David Chessell, co-founder and head of the investment advisory division, says.

Its advice approach has evolved over the years but it has always advocated clients use a target return portfolio of unlisted assets.

The trend towards a much higher allocation to 'unlisted' or alternative assets is growing with more superannuation funds, and not just Access clients, boosting their allocations to these asset classes from the 5 to 10 per cent mark.

Previously funds had a fairly haphazard approach to unlisted or public equity outside of property, Chessell says, and gave little thought to the ultimate reasoning behind their strategy.

Chessell says one of the underlying reasons behind the Access preference for unlisted assets is their ability to deliver higher returns for lower risk than some listed assets.

The listed markets are a good way of deploying members' long-term investment funds and over the long term, in real terms, deliver around 3 to 5 per cent.

"But that's probably about the highest you could expect," Chessell says.

Listed markets obviously have advantages that unlisted markets don't, he continues. They are liquid and offer a fair amount of diversity and broad exposure to the economy, but Access believes that is no reason to rule out unlisted opportunities if they offer better returns.

The consultant has set a number of hurdle rates to be considered in the target return portfolio.

The first of those hurdle rates is an absolute return of more than the equity markets' expected return of 3 to 5 percent.

"There are a range of different hurdle rates for different types of assets. For example a mature toll road would have a higher hurdle rate than private equity," Chessell says.

"That's a useful tool when proponents of transactions are coming to us. One of the key features of our approach is that if we can't get unlisted assets there's plenty of opportunities in the listed markets."

Access clients typically have between 40 to 45 per cent in their target return portfolio, a number which Chessell says has "edged up over time".

Most funds already have 15 to 20 per cent in 'target return' assets, which also includes property, when they appoint Access and use a number of different approaches to increase their allocation.

"Different clients have done it in different ways," Chessell says.

It can be done gradually with shifts from 20 to 30 and 40 per cent with reassessments at each stage before boosting the strategic asset allocation higher. Even if a fund decides to adopt a 40 per cent exposure straight away, it will always take time to source deals and make investments.

"One of the good things about [listed equity] is you can go straight there within a week but unlisted is a different game," Chessell says.

David Chessell... Success depends on finding opportunities and moving quickly

Even a small fund needs to diversify across a number of different target return opportunities in its target return portfolio.

Access Economics newest client – Prime Super – is currently undergoing a strategic asset allocation review after appointing the consultant late last year.

Its asset allocation prior to the appointment was 24 per cent in both Australian and international equities, 15.2 per cent in property, 14.6 per cent in diversified fixed interest, 7 per cent in cash and 15 per cent in alternatives.

It currently uses a suite of Australian equities managers including Investors Mutual, JF Capital Partners, Maple-Brown Abbott and Schroders, none of which are index managers.

Other Access clients usually allocate the majority of their equities mandates, both international and domestic, to index managers.

Australian Super chief executive officer, Lachlan Baird, expects some manager changes as a result of the strategic asset allocation next month.

Hedge funds are generally not a priority for Access clients, although Westscheme has some small investments in the asset class. Chessell says hedge funds' rates of return, relative to their risk, is not as attractive as other sectors.

The main Access clients are Westscheme, MTAA, Statewide and now Australian Prime Super. The consultancy also works with State Super and Cbus, while in the past assisting on a number of deals for AustralianSuper and Sunsuper.

In total it has $9 billion in assets under advice and 45 staff devoted to investment consulting. A New York office was opened in January with three staff and a London office is scheduled for the second half of this year.

Chessell says consulting on non-listed assets is far more people-intensive than other consulting.

"It requires a range of skills. Part of the attraction for going unlisted to us is we were able to do it. Most of these investments involve a lot of financial modelling. There's a skill set there that we have," he says.

For example, if a consultant is assessing an airport the key projection to determine returns on the asset will be the number of people passing through that airport. The consultant needs to analyse whether those projections are accurate.

Chessell cites Sydney's Cross City Tunnel as a prime example of poor analysis of use of an investment.

"To be successful you've got to be able to assess whether projections are well based," Chessell says.

Many of the deals also involve complex financial engineering and analysts need to understand the debt structure of different deals. There can also be regulator issues in different countries.

The typical asset consulting business model is to have a large number of clients for which the consultant offers similar advice, but the Access model is the reverse and Chessell believes it employs more people than any other major asset consultant in Australia.

Criticism levelled at Access Economics includes the complaint that the 'consultant' acts more like an investment bank in sourcing deals, but Chessell welcomes this description.

"We are different and we are glad to be different. We have a much broader skill set. We also do have a skill set that's more akin to an investment bank skill set and we need that to be able to select the transactions," he says.

He also disputes the suggestion that Access recommends unlisted assets because their fees are higher.

"It's because they offer a good return and low risk," he says.

Chessell would not reveal details of the consultant's fee structure but says they carry the risk until the fund says they are going to invest.

There are no origination fees for finding deals but fees do vary depending on the client.

Access needs to be given a fair amount of autonomy at the outset to enter particular deals when those opportunities arise, Chessell says - it can not afford to be waiting around for the approval of trustees at their monthly board meetings.

"We have clients that need to be able to understand that. Their processes need to be in tune [with these objectives]," he says.

"Success depends on finding opportunities and moving quickly."

There is also an ongoing monitoring fee to fund the active management of the 50 to 70 assets the consultant is monitoring at any one time.

In response to the accusation that Access Economics avoids fund vehicles in preference for co-investments – sometimes in the same assets that its client is investing in – Chessell says Access does in fact recommend fund vehicles for venture capital.

"That's pretty much how we invest in that space," he says. "In private equity we're looking to make co-investments."

But the consultant will go direct to the source when it believes it will offer a better deal for clients. ■

A perfect world with no bonds

One Access Economics client – MTAA – has recently announced it will be dialling down its bond allocations, which were already very low, to zero.

"The philosophy behind that is bonds are not a very attractive asset class," David Chessell, Access Economics co-founder. says.

Investors traditionally invest in bonds for defensive reasons but Access argues that some of the unlisted assets in its target return portfolios display similar characteristics.

"What we offer is an asset class that is very bond-like. The duration of our target return portfolio is double that of bonds," Chessell says.

The target return portfolio is designed to offer a consistent return and insulate the portfolio against down markets, although it may not outperform equities in bull markets.

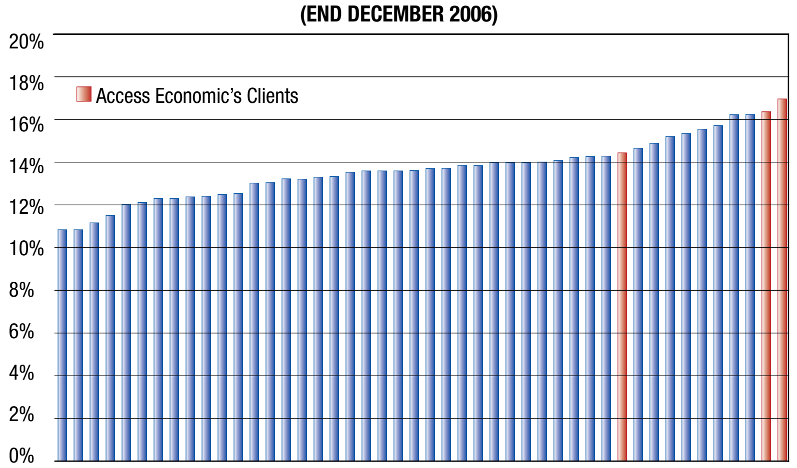
"Our clients have kept at the top of the ladder. There should have been years when other funds should have outperformed," Chessell says (see chart).

In a perfect world, Chessell envisages Yale and Harvard-type funds which are able to allocate much larger percentages to 'target return' style investments. But these funds do not have the members that the MTAAs and Westscheme's have to answer to. So the 40 to 45 per cent limit will remain for now.

COMPOSITE FUND RETURNS TO END DECEMBER 2006

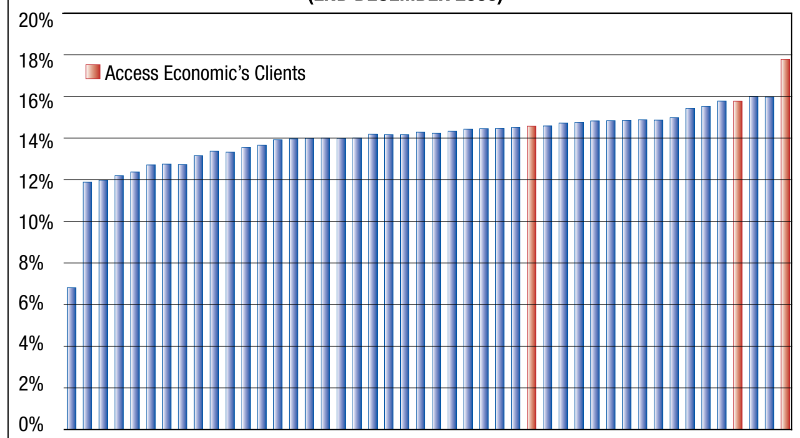
	One Year (% pa)	Three Years (% pa)	Five Years (% pa)	Since Inception (% pa)
Target Return Portfolio	16.6	19.2	18.1	15.5
Market Portfolio	17.5	18.1	10.2	9.8
Composite Fund	17.1	18.5	13.0	11.8

SUPERRATINGS BALANCED OPTION ROLLING 12 MONTHS CREDITING RATES (END DECEMBER 2006)



Westscheme 1st, MTAA 2nd and Statewide 11th

SUPERRATINGS BALANCED OPTION ROLLING THREE YEARS CREDITING RATES (END DECEMBER 2006)



MTAA 1st, Westscheme 4th and Statewide 17th (Statewide was a client for 30 out of the 36 months)

Not so perfect world

But the Access Economics model is not without its critics and some argue that a 'real consultant' needs to be used in tandem with the 'investment bank' model.

Les Fallick, Principle Advisory Services founder and managing director, has been bringing alternative asset opportunities to Australian institutional investors since 1994.

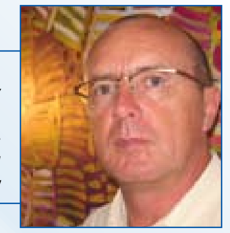
He says there are some serious problems with the Access Economics proposition and questions a consultant's ability to attract people with the relevant skills and experience to be able to originate and execute complex private equity transactions.

"Origination and execution are extremely labour intensive processes and often require long-term relationships," he says.

He argues that the skills of the Access Economics team are as yet untested.

"Asset consultants are going to pay market rates for the best people...The question is how many of those people have transaction experience," he says.

"How many of them have sector specific origination skill sets?"



Les Fallick... 'How many of them have sector specific origination skill sets?'

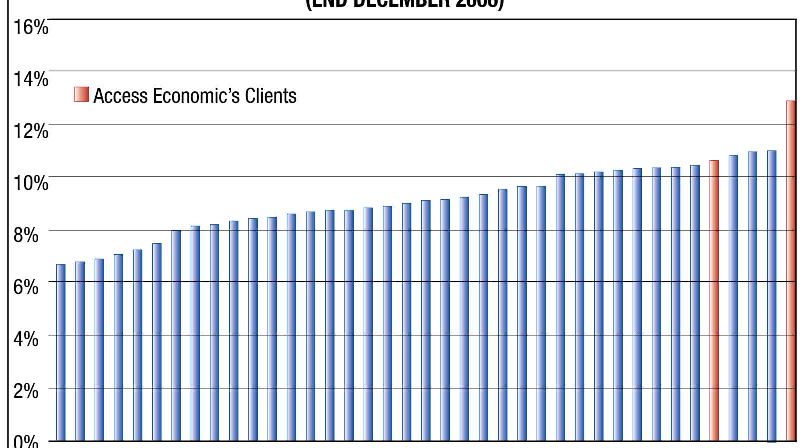
The argument that investors can save money by dealing directly with the supplier of the infrastructure, rather than a fund vehicle, is not always correct, according to Fallick.

"They still have to pay the pro rata fee on transactions," he says, adding that consultants also charge an ongoing management fee to clients which may not be less than the cost of investing in a pooled vehicle.

Fallick also knows of US managers who are not offering opportunities to Australian investors because they don't feel they are being evaluated fairly.

"Why try to take a fund opportunity to an investor if they are only going to take your business...Australian super funds may well see a reduced supply of fund opportunities coming to them," he says.

SUPERRATINGS BALANCED OPTION ROLLING FIVE YEARS CREDITING RATES (END DECEMBER 2006)



MTAA 1st and Westscheme 5th