Blackwattle

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## An Open Letter to Australia's Investment Management Industry

Let's be clear, personal trading (or 'PA trading') by fund managers is a conflict and a significant distraction.

It undermines the integrity of the financial management industry and can harm investment returns. It is undoubtably not congruent with a client's best interest.

The practice should be abolished not just in funds management but also across investment banking, equities research, and trading.

### Conflicts of Interest

Personal trading by fund managers conflicts with their fiduciary duty to clients.

Human beings are inherently self-interested. Fund managers are no different, they can be tempted to prioritise personal gain over client interests, especially when trading opportunities may benefit their own personal wealth. This conflict erodes the trust between clients and fund managers - a trust that is a fundamental tenet of the entire investment management industry.

Consider this scenario: suppose I have personally invested significant amounts of my own wealth into a publicly listed company, say Qantas (ASX). Now, imagine this company loses its CEO, the investment proposition changes, or it becomes overvalued. Would I recommend that the fund to which I am responsible, sells its investment, thus potentially causing the share price to drop and leading to my own financial loss?

This is a moral and ethical dilemma that some market participants will inevitably fail.

While we, and regulatory bodies like ASIC, might hope and wish that clients are always prioritised, human nature can be a powerful and unpredictable influence.

### Distraction

Managing investment portfolios is a complex task that demands focused attention and discipline (not to mention skill).

Personal trading is unequivocally a distraction.

It diverts focus from client portfolios to the pursuit of personal financial gain. This split attention can lead to poorer investment decisions, negatively impacting client returns.

Some will argue that different risk profiles exist when investing for a fund versus personal investment. However, a core issue is the time spent on PA trading, which is a distraction and therefore a conflict. A portfolio manager's time should be devoted to managing their designated fund(s), not chasing personal profits.

Consider a reporting season scenario where multiple companies release their results and host calls simultaneously. If I have a personal investment releasing results at the same time as a portfolio company, it is likely my attention will be diverted towards my personal gain. This distraction can negatively impact the performance of the portfolio and is clearly not in the best interest of the fund's investors.

**Trust**

Banning personal trading aligns portfolio managers' interests with those of their clients. It ensures that fund managers' decisions are in the best interest of the client, free from the cloud of personal financial conflict.

This alignment is crucial for maintaining the highest standards of professional conduct and should aid in the ultimate goal of delivering superior investment returns.

This alignment of investment and focus will undoubtably aid in rebuilding and improving trust throughout the industry.

**Internal Compliance and Costs**

Implementing a ban on personal trading simplifies internal compliance and reduces the risk of compliance breaches. Monitoring and regulating personal trading activities can be complex and costly. By prohibiting such activities, firms can reduce costs (to the business and to clients) and focus resources on activities that are in the best interests of investors.

**Other Industries Leading the Way**

Many industries regulate or strictly ban personal trading or similar activities to prevent conflicts of interest. For example, in the legal profession, lawyers are prohibited from engaging in activities that could conflict with their duty to clients. Similarly, government employees are restricted in their financial activities to prevent any appearance of impropriety.

Why haven't the funds management and finance industries followed these examples to elevate ethical standards?

**An Industry Call to Action**

The funds management industry must acknowledge the inherent risks, conflicts and the distraction posed by personal trading. By eliminating the practice, we can improve trust and greater align ourselves with clients' best interests.

At Blackwattle Investment Partners, we have implemented a strict no-personal-trading policy. This policy underscores our commitment to always act in our clients' best interests.

We call on regulators, industry bodies, and fellow fund managers to also ban the practice.

It is our responsibility to set the highest standards and ensure that the interests of our clients always come first.

To our clients, from large superannuation funds to individual investors, we urge you to hold the industry to account and reject the practice of personal trading by any and all fund managers.

Sincerely,

Michael Skinner

Managing Director and CIO, Blackwattle Investment Partners