



Australian Government
Indigenous Business Australia

Understanding the need for investment advisory services for Indigenous organisations

*Prepared by Social Ventures Australia Consulting for
Indigenous Business Australia*

April 2013

SVA Consulting is
proudly supported by the
Macquarie Group Foundation



consulting

About this report

- This report on the need for investment advisory services for Indigenous organisations was commissioned by Indigenous Business Australia (IBA) as part of its work to promote economic independence for Aboriginal and Torres Strait Islander people
- The research project investigated ideas for roles that IBA could play to improve the outcomes for Indigenous organisations. This content is confidential and has been removed from this copy of the report
- This research is preliminary and not exhaustive. The authors acknowledge the limitations of the methodology adopted and welcome further information and insights into how this market operates and how outcomes could be improved
- This document details some background about Indigenous organisations, the elements of a good investment advisory relationship and the key issues identified at each stage of the advisory relationship where there is room for improvement

- Executive summary
- Project scope and methodology
- Indigenous organisations fact base
- Market review
 - More independent professional advice is needed in the Indigenous market
 - There is room for improvement across every dimension of the advisory relationship

Our approach

- Indigenous Business Australia (IBA) engaged Social Ventures Australia Consulting to assess the need and potential for investment advisory support for Indigenous organisations in Australia
- Our approach focused on engagement with a range of Indigenous organisations and advisors. Desk-top research was conducted using publicly available information to build a preliminary fact base on the size of the Indigenous market

Summary of Indigenous organisations fact base

- **Number:** There are ~6,000 Indigenous organisations (excl. trusts): ~3,000 are Aboriginal Corporations and estimates suggest at least another 3,000 registered under other legislation. It is unknown how many Indigenous Trusts there are.
- **Location:** Nearly 50% of Aboriginal Corporations are headquartered in Remote or Very Remote locations and only 15% are headquartered in Major Cities. 75% of Aboriginal Corporations are registered in WA, NT and QLD.
- **Value of income and assets:** Total value of assets held by Indigenous organisations is estimated at \$10-40b, the majority of which is held in trusts. The 4% of Aboriginal Corporations that are classified as *Large* hold nearly \$1b in total assets, which is 65% of the total assets of all Aboriginal Corporations. The top 20 Large Aboriginal Corporations hold a combined ~\$500m in total assets, which is 50% of the total assets of all large Aboriginal Corporations.
- **Growth:** On average, over the last 3 years, Large Aboriginal Corporations' total assets increased at 17% p.a. and total income increased at 18% p.a.

Summary of market review

- **Investment Advisory Market:** The Indigenous market is large, growing and professionalising. However, some organisations are not receiving good advice and more demand for high-quality advice is expected in the future
- **Areas for improvement:** Most of the Indigenous organisations have access to advisors and required 'outputs' such as an investment objective, an investment strategy and a way of implementing the strategy. However, there is a room for improvement in the 'process' of appointing and working with advisors

- Executive summary

- Project scope and methodology

- Indigenous organisations fact base

- Market review

- More independent professional advice is needed in the Indigenous market
- There is room for improvement across every dimension of the advisory relationship

This research project

Objective

- Understand the need for financial and investment advisory services of the Indigenous organisations
- Identify the key barriers / gaps in the existing supply of investment advisory services
- Estimate the size of the potential market
- Gather broad range of perspectives

Approach

- Develop hypothesis / preliminary framework
- Document the facts about the size of the potential market
- Conduct stakeholder engagement
 - Interviewed 9 Indigenous organisations
(covers a cross-section of; medium and large; regional, remote and metro; Aboriginal Corporations, Trusts and Companies; majority self-funded and significant mining royalties)
 - Interviewed 10 advisors
(covers a range of independent advisors, wealth management firms, financial advisory firms and trustee companies)

Timing

- February – March 2013

- Executive summary
- Project scope and methodology
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 - More independent professional advice is needed in the Indigenous market
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Indigenous organisation can be split into three groups: Trusts, Aboriginal Corporations and Other entity types

Trusts

A trust is an obligation imposed on a person or other entity (trustee) to hold property for the benefit of beneficiaries.

- Set up under specific terms as to how assets are managed (trust deed)
- Type of trust determines tax treatment of the trust and beneficiaries
- Majority of Indigenous trusts are Charitable Trusts. They are income tax exempt and have restrictions on whom they can give grants to
- Registered under the ATO
- Not related to *Indigeneity*
- No publicly available information exists on how many Indigenous trusts exist or the value of their assets

Aboriginal Corporations

Aboriginal or Torres Islander group incorporated under the *Corporations (Aboriginal and Torres Islander) Act 2006 (CATSI Act)*

- A distinct type of legal entity
- Majority of members are of Indigenous origin
- Registrations recorded by Office of the Registrar of Indigenous Corporations

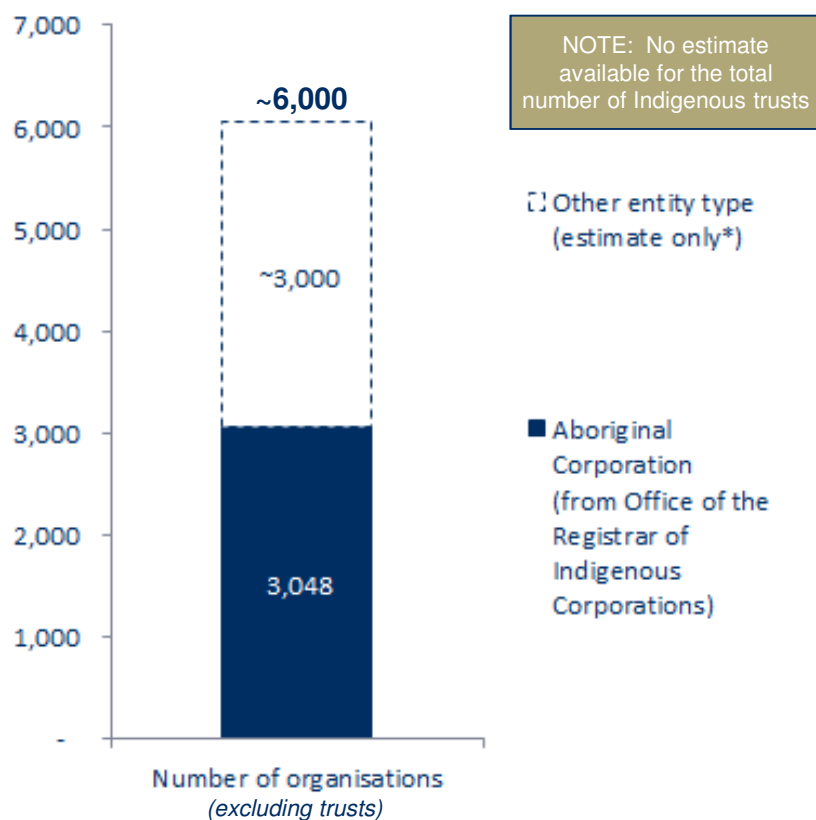
Other entity types

Other types of legal entities that are *not* related to Indigeneity. For example:

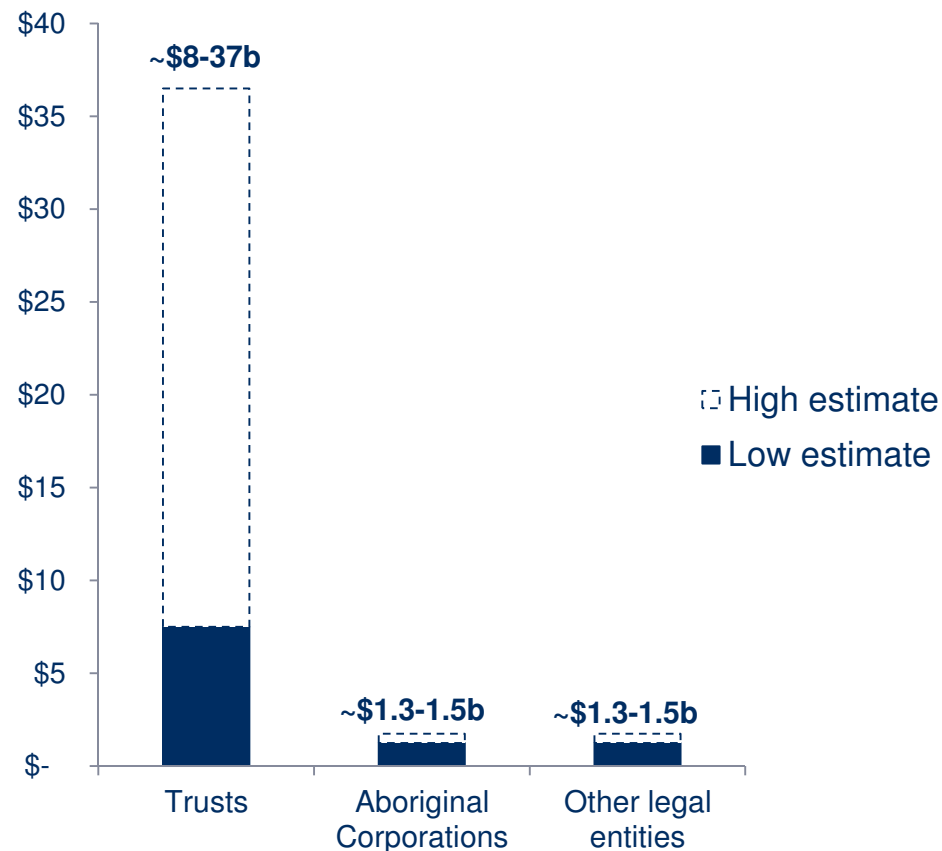
- Proprietary company – limited by shares *or* unlimited with share capital
- Public company – limited by shares *or* limited by guarantee *or* unlimited with share capital *or* no liability company
- Partnership
- Sole proprietor
- Trust
- Co-operative

There are ~6,000 Indigenous organisations (excluding trusts); total value of assets held by Indigenous organisations is \$10-40b, majority of which is in trusts

Number of Indigenous organisations by entity type (FY11-12)



Estimated total assets for Indigenous organisations by entity type (\$b)

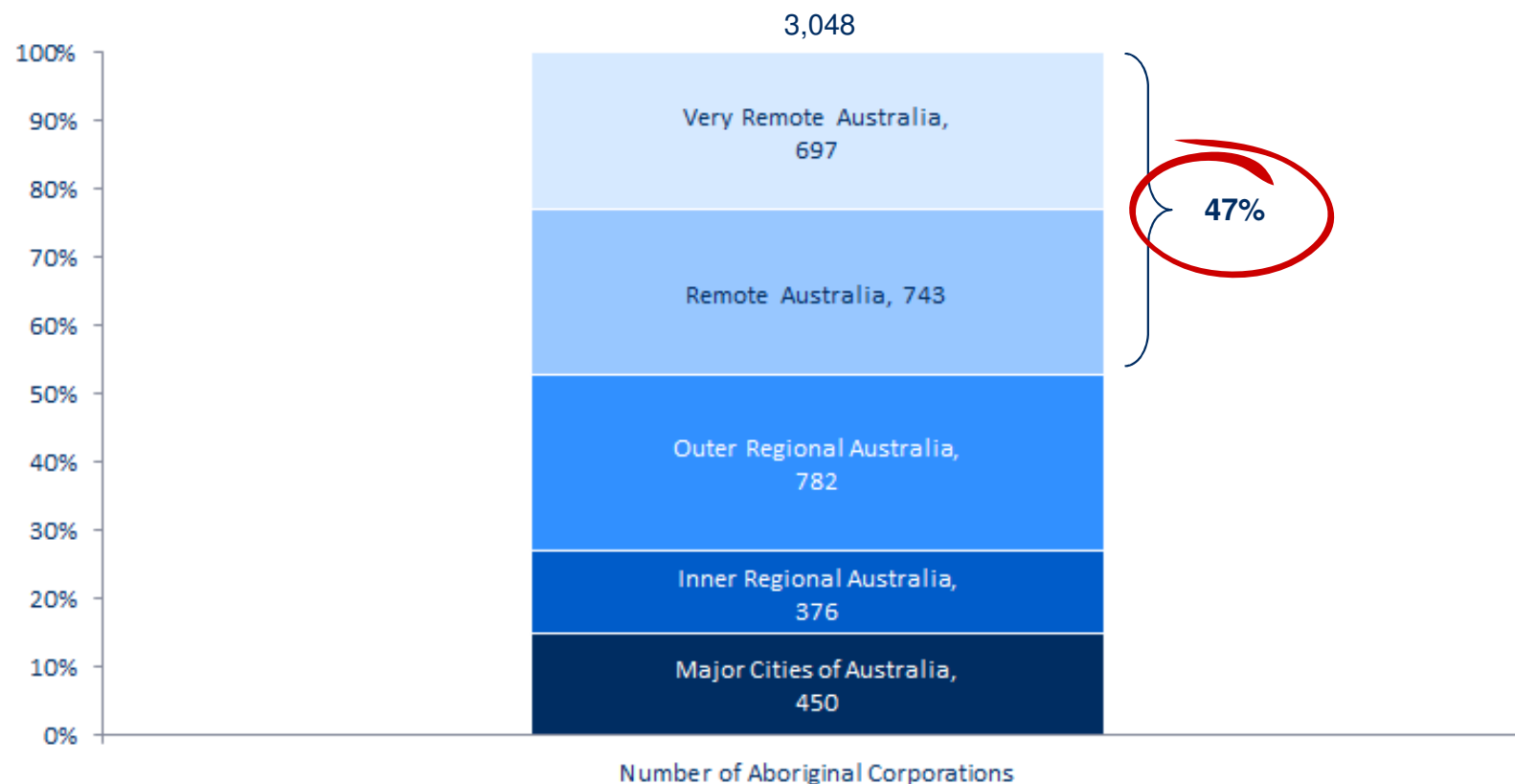


Source: Office of the Registrar of Indigenous Corporations, FY2011-12; SVA Interviews

* Estimate from Office of the Registrar of Indigenous Corporations

Nearly 50% of Aboriginal Corporations are headquartered in Remote or Very Remote locations and only 15% are headquartered in Major Cities

Number of Aboriginal Corporations by Remoteness Area* (FY11-12)

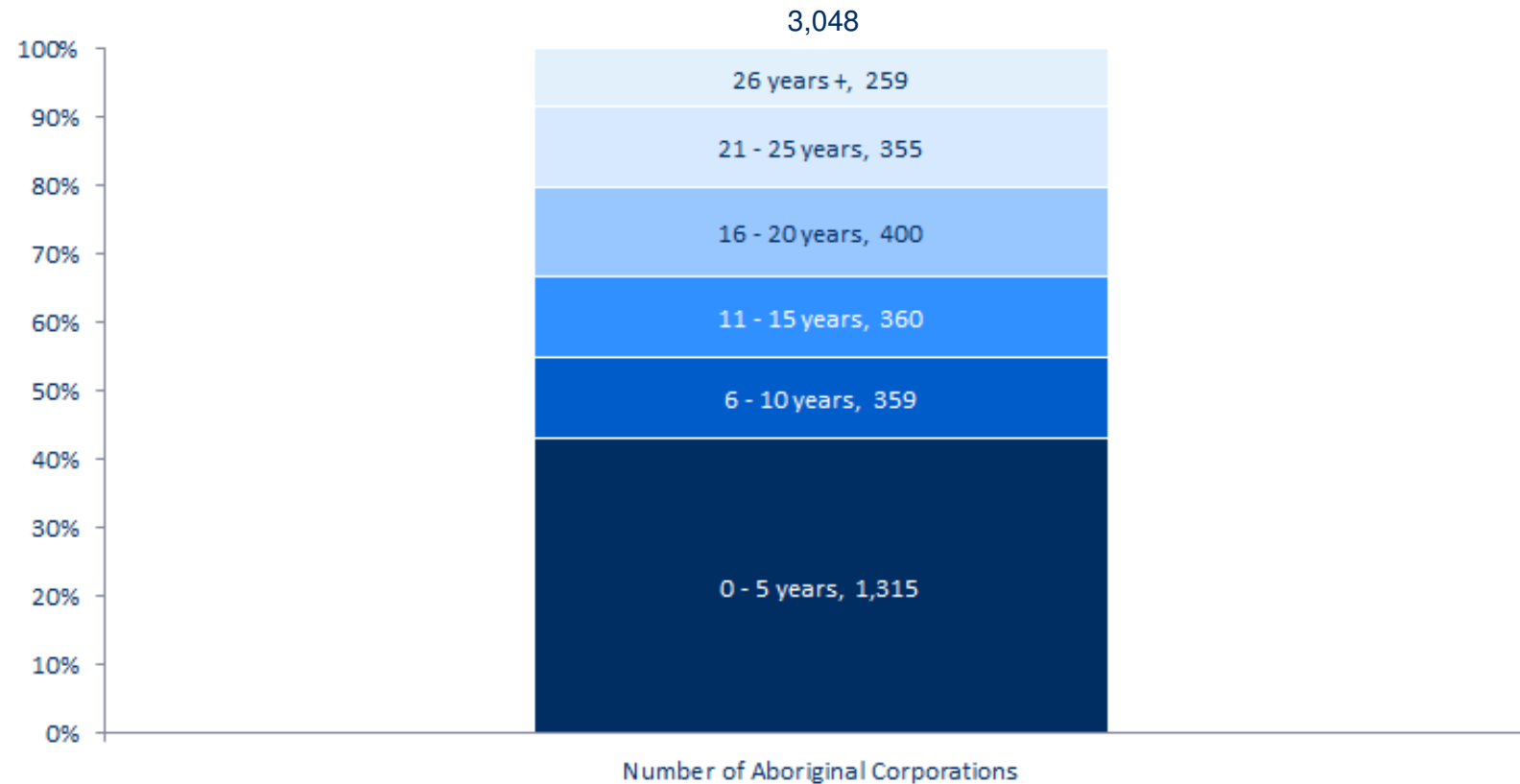


Source: Office of the Registrar of Indigenous Corporations, FY2011-12

* Remoteness Area is an Australian Statistical Geography Standard Remoteness Structure defined by the Australia Bureau of Statistics

Nearly 40% of Aboriginal Corporations are 0-5 years old

Number of Aboriginal Corporations by Organisation Age* (FY11-12)

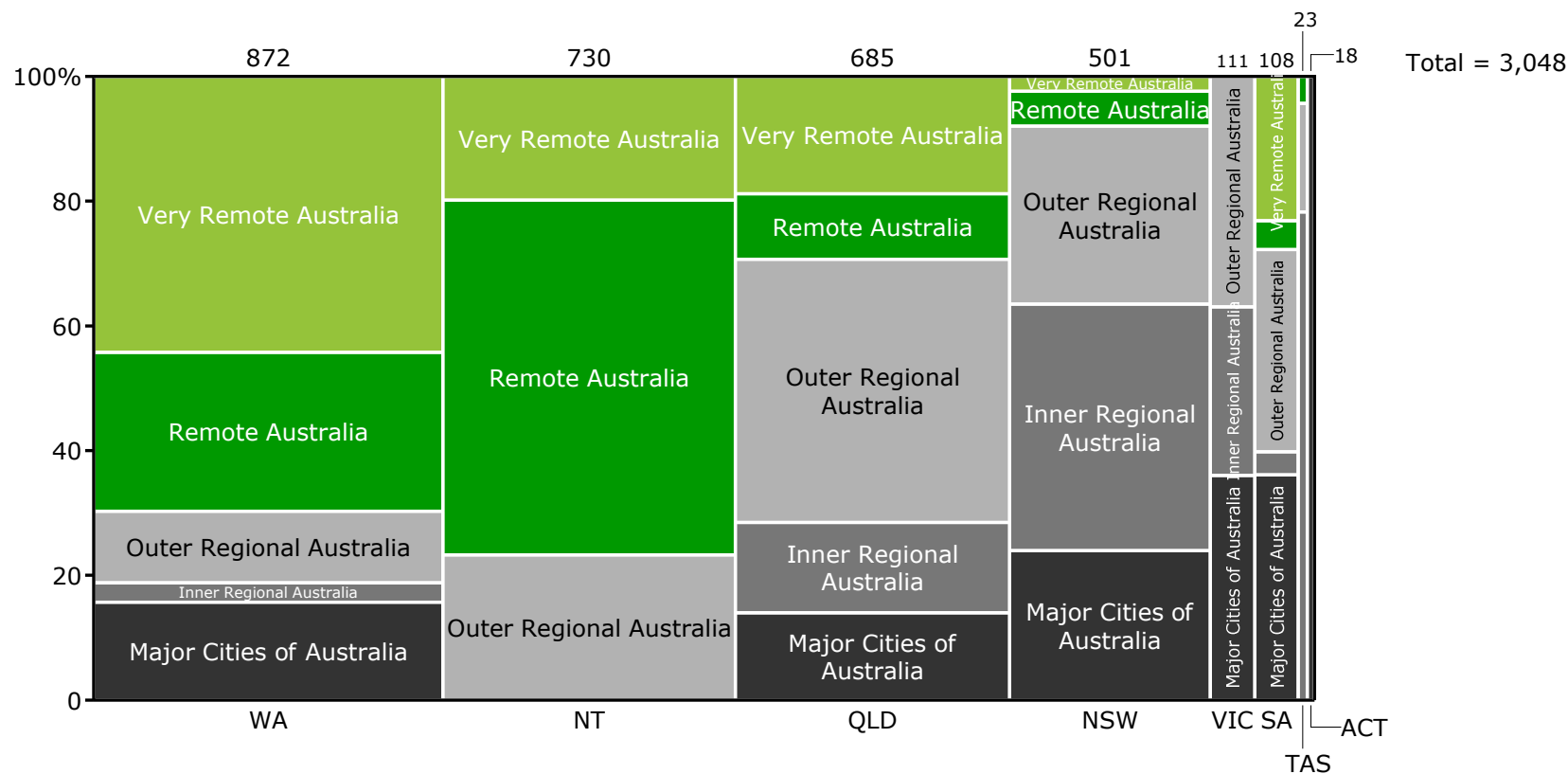


Source: Office of the Registrar of Indigenous Corporations, FY2011-12

* Organisation age calculated based on year of registration

75% of Aboriginal Corporations are registered in WA, NT and QLD and in these 3 states 60% of Aboriginal Corporations are in Remote and Very Remote locations

Number of Aboriginal Corporations by State and Remoteness Area* (FY11-12)



Source: Office of the Registrar of Indigenous Corporations, FY2011-12

* Remoteness Area is an Australian Statistical Geography Standard Remoteness Structure defined by the Australia Bureau of Statistics



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Aboriginal Corporations are categorised by size of income, assets and number of employees

Small

A small corporation will have at least TWO of the following:

- consolidated gross operating income of less than \$100,000
- consolidated gross assets of less than \$100,000
- less than 5 employees

Medium

All other corporations are medium and typically have:

- consolidated gross operating income between \$100,000 and \$5 million
- consolidated gross assets between \$100,000 and \$2.5 million
- between 5 and 24 employees

Large

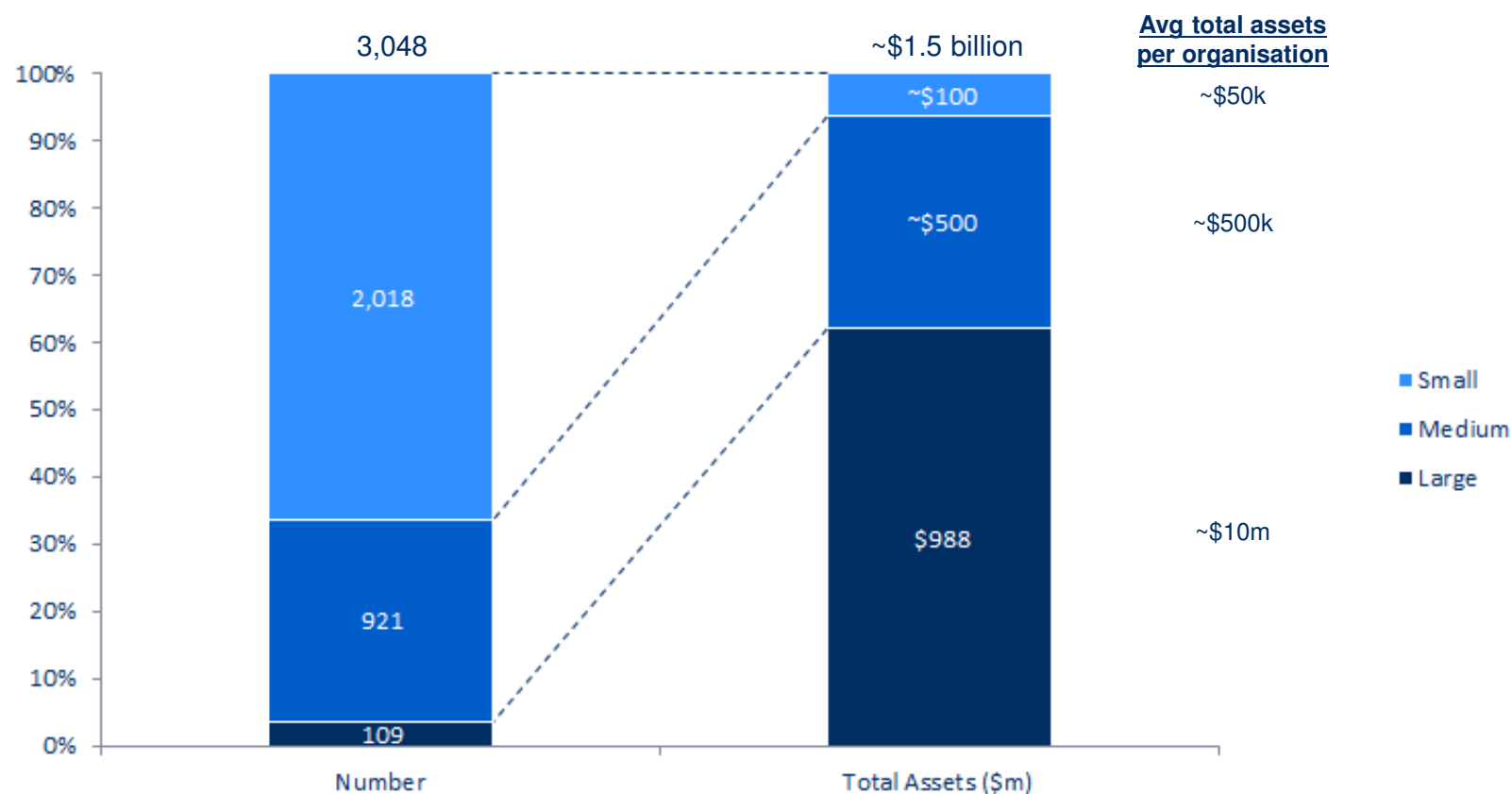
A large corporation will have at least TWO of the following:

- consolidated gross operating income of \$5 million or more
- consolidated gross assets of \$2.5 million or more
- more than 24 employees



The 4% of Aboriginal Corporations that are classified as *Large* hold nearly \$1b in total assets, which is 65% of the total assets of all Aboriginal Corporations

Aboriginal Corporations by Size (FY11-12)



Source: Office of the Registrar of Indigenous Corporations, FY2011-12

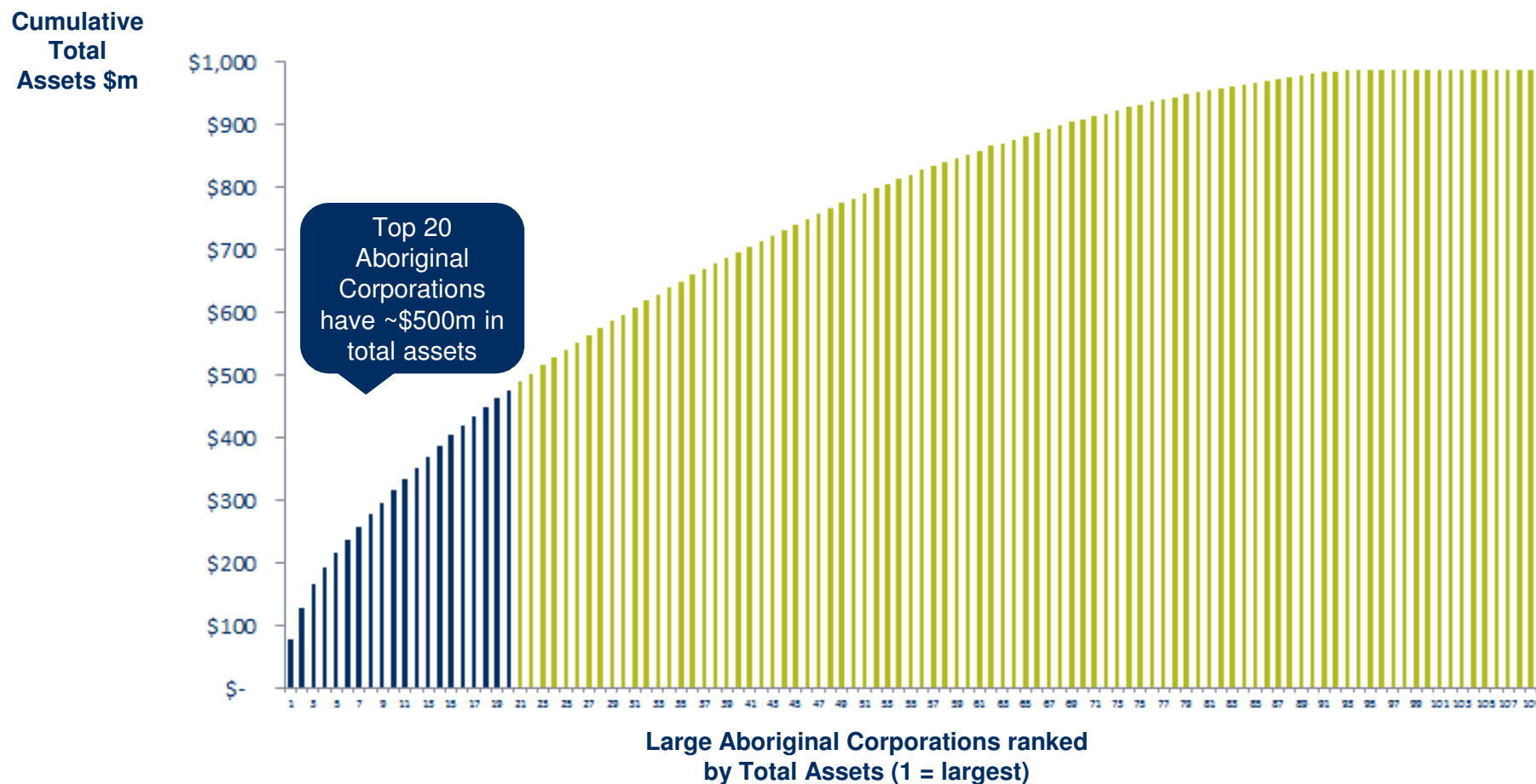
Note – Total Assets for large organisations taken from extracts from ORIC, Total Assets for medium and small organisations are estimates based on SVA analysis



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The top 20 Large Aboriginal Corporations hold a combined ~\$500m in total assets, which is 50% of the total assets of all large Aboriginal Corporations

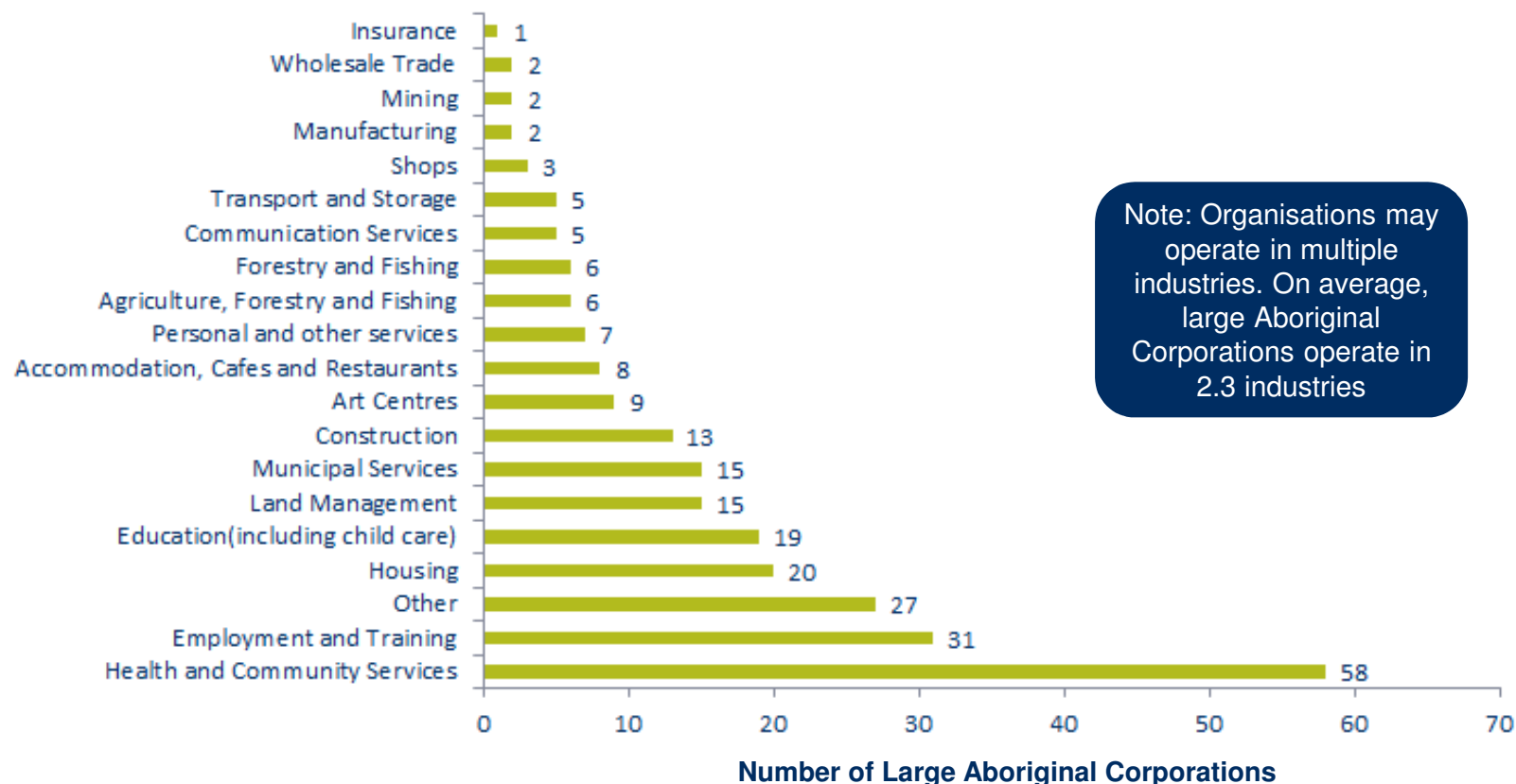
Cumulative Total Assets of Large Aboriginal Corporations (FY11-12)



Source: Office of the Registrar of Indigenous Corporations, FY2011-12

Large Aboriginal Corporations operate in a broad range of industries, with Health and Community Services the most popular

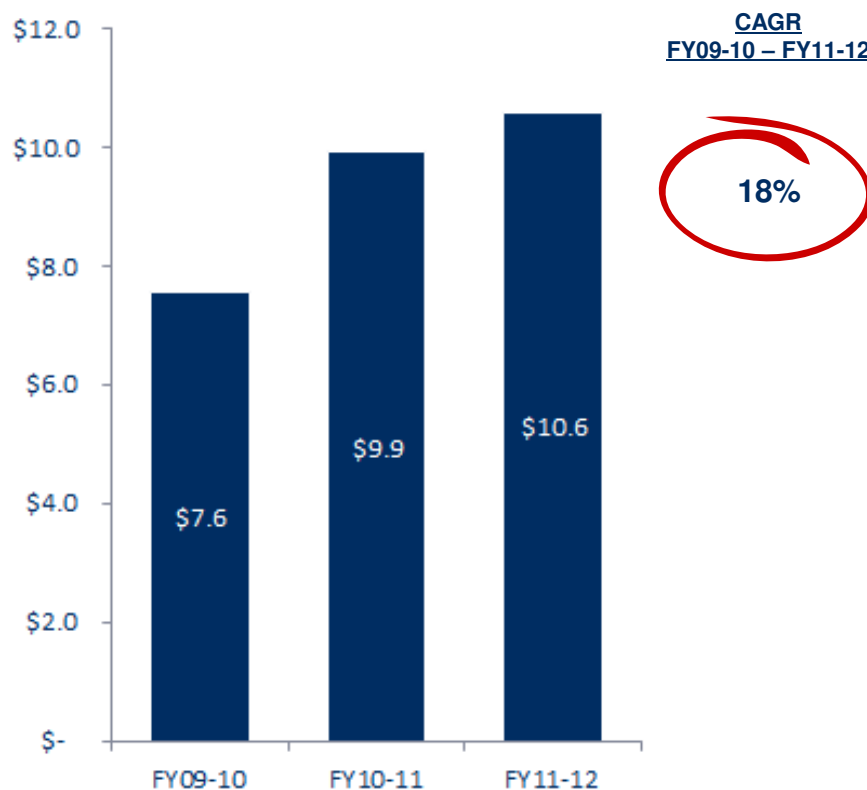
Principal Activities of Large Aboriginal Corporations (FY11-12)



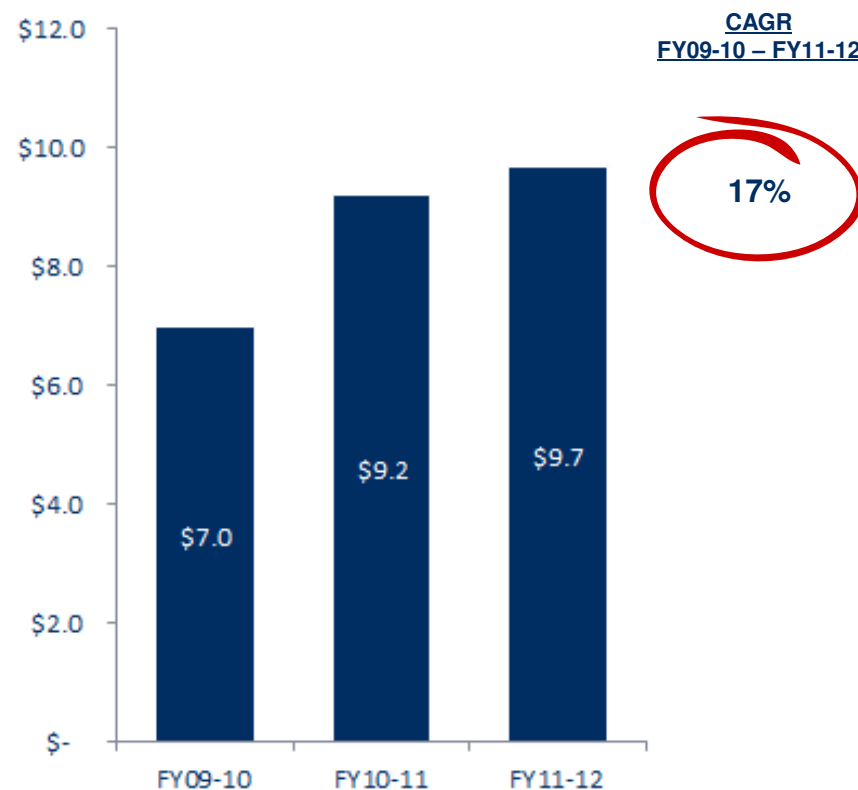
Source: Office of the Registrar of Indigenous Corporations, FY2011-12

On average, over the last 3 years Large Aboriginal Corporations' total assets increased at 17% p.a. and total income increased at 18% p.a.

Average total income for Large Aboriginal Corporations over 3 years



Average total assets for Large Aboriginal Corporations over 3 years



Source: Office of the Registrar of Indigenous Corporations, FY2011-12

The top 20 Aboriginal Corporations ranked by total assets in FY11-12 (1 of 2)

Corporation Name	Year of rego	Remoteness area	Indigenous Region (IREG)	Principal activity	Does the corporation own land?	FY2011/12 Total income (\$m)	Income CAGR FY09-10 - FY11-12	FY2011/12 Total assets (\$m)	Assets CAGR FY09-10 - FY11-12	FY2011/12 Employees
1 Groote Eylandt and Bickerton Island Enterprises Aboriginal Corporation	2001	Very Remote NT	Nhulunbuy	Art Centres; Construction; Employment and Training; Health and Community Services; Shops; Wholesale Trade;	Yes	\$58	N/A	\$79	N/A	52
2 The Arnhem Land Progress Aboriginal Corporation	2008	Outer Regional NT	Darwin	Shops;	Yes	\$45	2%	\$49	3%	-
3 Marra Worra Worra Aboriginal Corporation	1981	Very Remote WA	West Kimberley	Employment and Training; Housing; Municipal Services; Other; Personal and Other Services;	Yes	\$26	8%	\$37	15%	494
4 Laynhapuy Homelands Aboriginal Corporation	2012	Very Remote NT	Nhulunbuy	Construction; Employment and Training; Health and Community Services; Housing; Land Management; Municipal Services; Transport and Storage;	Unknown	\$25	N/A	\$27	N/A	279
5 Yawoorroong Miriuwung Gajerrong Yirrgab Noong Dawang Aboriginal Corporation	2006	Very Remote WA	Kununurra	Other	Yes	\$12	N/A	\$23	N/A	45
6 Gundjeihmi Aboriginal Corporation	1995	Remote NT	Jabiru - Tiwi	Art Centres; Education(including child care); Employment and Training; Health and Community Services; Housing; Land Management; Municipal Services; Personal and other services	Yes	\$7	-10%	\$22	9%	72
7 Miwatj Health Aboriginal Corporation	1992	Very Remote NT	Nhulunbuy	Health and Community Services;	Yes	\$17	27%	\$20	47%	118
8 Bungala Aboriginal Corporation	1994	Outer Regional SA	Port Augusta	Construction; Employment and Training; Land Management; Municipal Services;	Yes	\$16	-4%	\$20	11%	51
9 Kimberley Land Council Aboriginal Corporation	1979	Remote WA	Broome	Other;	Yes	\$31	5%	\$20	-2%	93
10 Ngaanyatjarra Council (Aboriginal Corporation)	1981	Remote NT	Alice Springs	Education(including child care); Employment and Training; Housing; Land Management; Municipal Services; Transport and Storage; Wholesale Trade;	Yes	\$25	-8%	\$19	43%	45

The top 20 Aboriginal Corporations ranked by total assets in FY11-12 (2 of 2)

Corporation Name	Year of rego	Remoteness area	Indigenous Region (IREG)	Principal activity	Does the corporation own land?	FY2011/12 Total income (\$m)	Income CAGR FY09-10 - FY11-12	FY2011/12 Total assets (\$m)	Assets CAGR FY09-10 - FY11-12	FY2011/12 Employees
11 Julalikari Council Aboriginal Corporation	1989	Very Remote NT	Tennant Creek	Art Centres; Construction; Education (including child care); Employment and Training; Health and Community Services; Housing; Land Management; Municipal Services;	Yes	\$12	N/A	\$19	N/A	-
12 Pilbara Meta Maya Regional Aboriginal Corporation	1994	Remote WA	South Hedland	Housing;	Yes	\$16	12%	\$19	75%	44
13 Anyinginyi Health Aboriginal Corporation	1984	Very Remote NT	Tennant Creek	Health and Community Services;	Yes	\$12	15%	\$18	12%	82
14 Ngaanyatjarra Services Aboriginal Corporation	1986	Remote NT	Alice Springs	Construction; Municipal Services; Transport and Storage;	Yes	\$19	N/A	\$17	N/A	55
15 Bawinanga Aboriginal Corporation (under special administration)	1979	Outer Regional NT	Darwin	Accommodation, Cafes and Restaurants; Agriculture, Forestry and Fishing; Art Centres; Communication Services; Construction; Education(including child care); Employment and Training	Unknown	\$35	1%	\$17	6%	515
16 Jawoyn Association Aboriginal Corporation	1985	Remote NT	Katherine	Employment and Training; Land Management; Other;	Unknown	\$13	53%	\$16	48%	25
17 Illawarra Aboriginal Corporation	1983	Major Cities of NSW	Sydney - Wollongong	Education(including child care); Employment and Training; Health and Community Services; Housing;	Unknown	\$4	6%	\$15	24%	50
18 Kurra Aboriginal Corporation	1993	Remote NT	Port Augusta	Other;	Unknown	\$8	-1%	\$14	-28%	-
19 Ngangganawili Aboriginal Community Controlled Health and Medical Services Aboriginal Corporation	1993	Very Remote WA	Kalgoorlie	Health and Community Services;	Unknown	\$15	N/A	\$14	N/A	31
20 Kununurra Region Economic Aboriginal Corporation	1995	Very Remote WA	Kununurra	Employment and Training;	Yes	\$13	19%	\$13	49%	45

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- Market review
 - More independent professional advice is needed in the Indigenous market
 - There is room for improvement across every dimension of the advisory relationship

- **More independent professional advice is needed in the Indigenous market**
 - The Indigenous market is already large and some Indigenous organisations are not currently receiving good advice, so more advice is needed
 - The market is growing, so more advice will be required in the future
 - The market is 'professionalising', so more advice is being demanded
- There is room for improvement across every dimension of the advisory relationship

Market

Large + Growing + Professionalising

The Indigenous market is already large and some Indigenous organisations are not currently receiving good advice, so more advice is needed

Market

1. The existing Indigenous market is large

- The total assets are estimated to be \$10-40b. (Note that this is *total* assets, not total *investable* assets)
- A small proportion (around \$2.5-\$3.5b) of total assets is held by Aboriginal Corporations and other legal entities such as Proprietary Limited Companies
- The vast majority of the total assets (remaining \$8-37b) is held in trusts

“The majority of Indigenous trusts are set up as charitable trusts. For us, it’s probably 90% charitable trusts.”

Trustee company

“Most of the assets are actually held in trust funds. The trust fund assets wouldn’t be reported. They would be held separately. For example, NSW Land Council alone has around \$3.5b worth of assets – mostly held in trust. Their investment portfolio is about \$700m and the balance is in property, which is held in trust.”

Trustee company

- Advisors believe the market is attractive and there is a large range of operators currently providing advice

“I spend 80% of my time supporting Indigenous organisations. Plus I have two other full time staff who exclusively work on these with me. This is just in Victoria. We also have teams set up in Queensland and Western Australia who are dedicated to this type of work.”

Wealth Management Firm

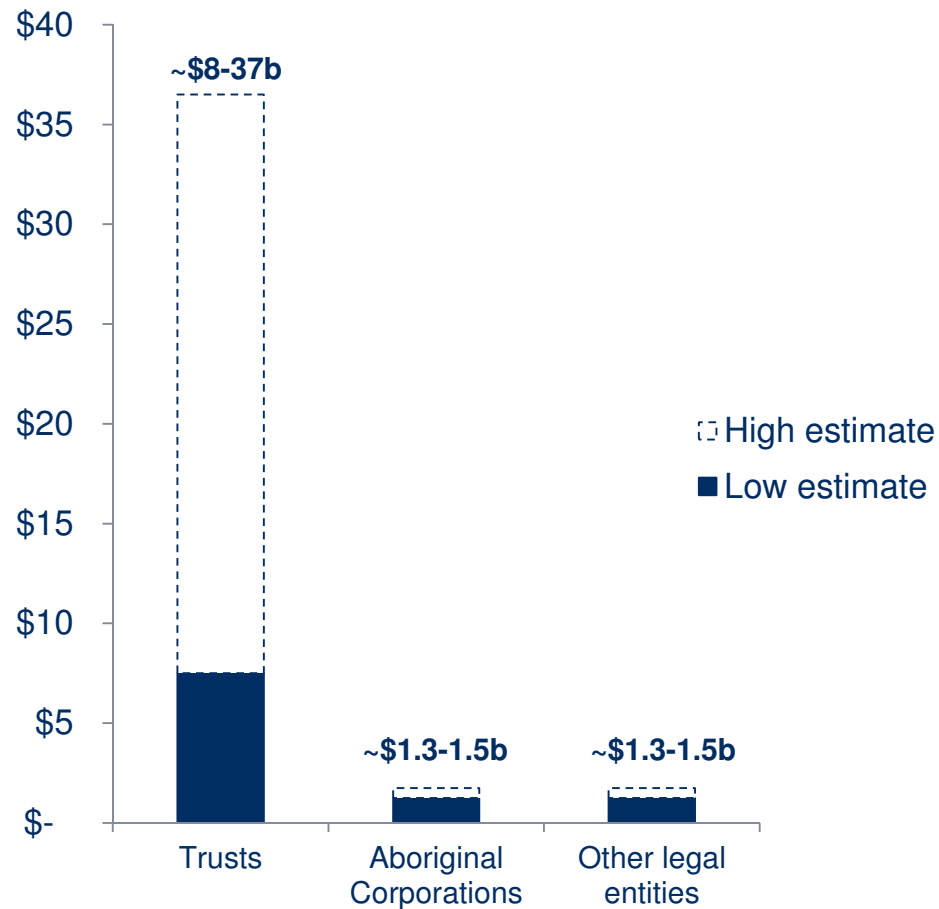
2. Some Indigenous organisations are not currently receiving good advice

- Some large Indigenous organisations do not have professional advisors supporting their investment decisions
- Other organisations receive advice, but it is not well-aligned to client needs and/or the advisor is not able to facilitate decision-making

Indigenous organisations have \$10-40b of total assets, the vast majority of which is held in trusts

Market

Estimated total assets for Indigenous organisations by entity type (\$b)



Characteristics of Indigenous Trusts

- Estimates for the total amount of assets held in trusts vary widely because there is **no publicly available information** about trusts
- Trusts are predominantly **‘giving’ structures** (for distributing income via grants), rather than **‘operating’ structures** (for running businesses and/or programs)
- Trusts have **investment policies** for how to invest the corpus and **distribution policies** for how to give grants
- The vast majority of Indigenous trusts are set up as **charitable trusts**
- Charitable trusts are income tax exempt and have restrictions on whom they can give grants to

The market is growing, so more advice will be required in the future

Market

1. The market has been growing quickly and is predicted to grow even faster in future

- Total assets for Aboriginal Corporations grew at 18% CAGR FY09/10 to FY11/12
- Mining royalties worth \$400m are paid out annually to Indigenous organisations in WA alone

“In the last 18 months we have acquired a lot of new clients.”

Trustee company

- Several large Native Title negotiations are expected to settle in the next decade (e.g. Single Noongar Claim)
- The number and size of Indigenous Land Use Agreements (ILUAs) are also expected to grow in the next decade

“We are anticipating a lot of new opportunities to start to come out of NT and SA as there is a significant potential for new money coming in from royalties and land rights. There could be game-changing events during the next generation.”

Wealth Management Firm

“In the last two years a lot of new players moved into management of Native Title Royalties. There is definitely no shortage of people supplying services!”

Trustee company

“We are engaging with a number of Native Trust settlements which are coming towards the end of the negotiation process.”

Trustee company

2. As the total assets grow, the amount of professional advice required will also grow

- The assets that are flowing in to the market need smart investment management



Source: SVA Interviews; ORIC register of Aboriginal Corporations

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Market

1. External parties often mandate the use of trusts to manage assets and also mandate the appointment of professional trustee companies

- The requirement to hold the assets in trusts is often driven by mining companies who believe that mandating the use of trusts will ensure that the assets are well-managed
- Governments are also starting to mandate that the money be held in trusts because they believe that this reduces the risk of mismanagement

"For the next big allocation of funding in WA, the government wants to make sure professional Trustees are always appointed. Strict guidelines need to be met when managing these Native Title Trusts, so more Indigenous organisations will be accessing professional financial services."

Trustee company

- Estimates suggest that trusts currently hold \$7-37b of Indigenous community assets
- In addition, many settlements and agreements now require Indigenous organisations to appoint professional trustee companies because they are concerned with the level of risk associated with non-professional trustees managing large trusts
- Many mining companies require the appointment of professional trustees as a condition of settlement: For BHP and Rio Tinto this is now non-negotiable and other mining companies often have the same requirement for larger sums of money

"The traditional trustee model, where an Aboriginal entity acts as a trustee (for example, IBN), is now uncommon. There is a push for professional trustees to manage the money allocated to Indigenous communities. Rio Tinto and BHP no longer allow non-professional trustees to be appointed. Many new contracts that are being signed now would suggest the use of professional trustees as well."

Large Indigenous organisation with significant mining royalties

The market is 'professionalising', so more advice is being demanded (2 of 2)

Market

2. Indigenous organisations are increasingly recognising the need for professional advice

- Indigenous organisations often seek professional advice when they have large increases in revenue because existing structures and skills may no longer be appropriate

"We used to manage our own funds and given that most of our money were in term deposits we were capable of doing it. However, once we started having a lot more money coming in, the Board decided that it was important to bring on-board a professional advisor. I understand they wanted to have more peace of mind that the money was being managed properly."

Large Indigenous organisation with significant mining royalties

"Royalties increased significantly over a two to three year period. Our governance structure was just not keeping up with where the organisation was heading. So we initiated a full review of our board and management and that is when they brought [an external CEO] on-board... Having such a significant amount of money required us to rethink our priorities and how we were going to invest for the future."

Large Indigenous organisation with significant mining royalties

- More Indigenous board members are attending formal governance courses and are becoming aware of their duties as directors and their own limitations. They may therefore seek professional advice because they want more checks and balances and greater transparency around decision-making
- Board members are increasingly fearful of mismanagement, given high-profile investigations into organisations such as Central Australian Aboriginal Congress,¹ Townsville Aboriginal and Islanders Health Services (TAIHS) and ABIS Community Co-operative Society² and Twin Cities Aboriginal and Torres Strait Islanders Corporation³
- Increasingly, Indigenous organisations have at least 1 independent director who is not a member of the community. Some mining companies require this as a condition of settlement (this trend is mostly seen in WA). These independent directors are more likely to have experience sitting on other boards and are therefore more likely to seek professional advice because they have seen the benefits elsewhere

¹ <http://www.smh.com.au/opinion/political-news/a-scandal-in-the-desert-20120622-20tqk.html#ixzz2Nwd0Xygu>

² http://www.townsvillebulletin.com.au/article/2011/05/10/229611_news.html

³ http://www.townsvillebulletin.com.au/article/2011/05/20/232601_news.html

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- More independent professional advice is needed in the Indigenous market

- **There is room for improvement across every dimension of the advisory relationship**

- Some Indigenous organisations do not have good mechanisms for making and executing on decisions
- Indigenous organisations are not always clear where to find potential advisors
- Once they have found candidates, many Indigenous organisations find it difficult to select from among candidates
- Sometimes the advisors do not understand the needs of Indigenous clients
- Some Indigenous organisations do not really understand what the advisors are selling and are not well-equipped to assess the quality of advice

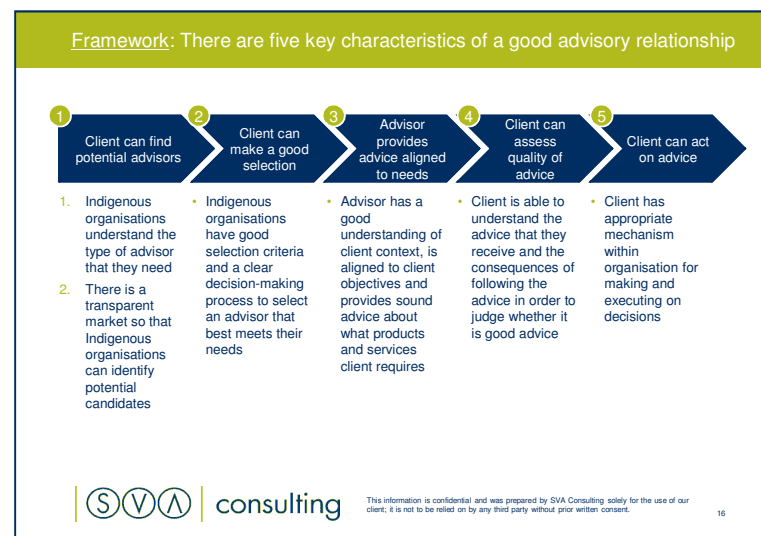
Most Indigenous have the required 'outputs', but there is room for improvement across every dimension of the advisory relationship

Outputs



Gaps here

Process



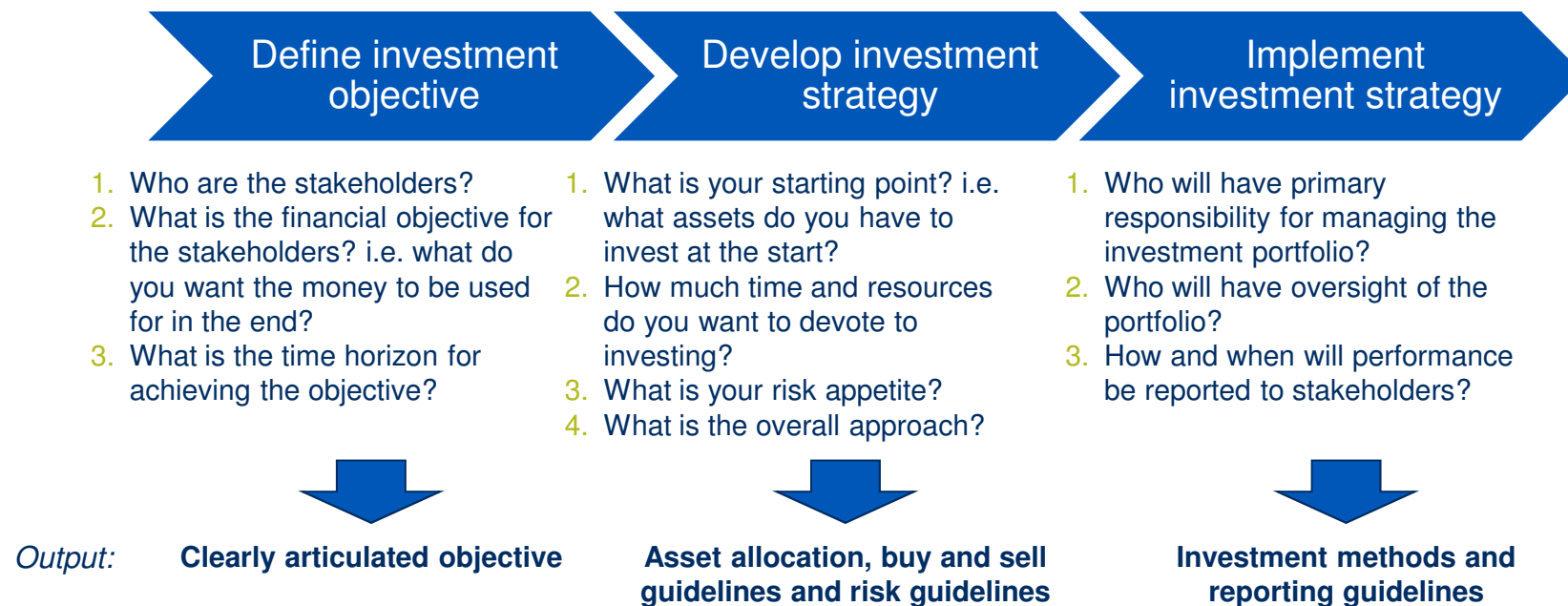
An unnecessarily high number of organisations do not have good advisory relationships, which may lead to frustration or collapse or sub-optimal returns

1. When an advisory relationship is not functioning effectively, both the Indigenous organisation and the advisor may experience frustration
 - Indigenous organisations believe that they are not well-understood and their needs are not being met
 - Advisors believe that they are not able to ensure the best financial outcomes for their clients
2. Financial mismanagement has led to poor financial outcomes for, and even collapse of, several Indigenous organisations
 - Buying very high risk assets has sometimes led to the collapse of Indigenous organisations
 - In some circumstances, disbursing all the money upfront to beneficiaries has led to the collapse of Indigenous organisations
3. Very conservative portfolios may mean that in the long-term Indigenous organisations are not receiving optimal returns
 - Economic theory suggests that in the long-term, it is wiser to invest in a portfolio of assets that are relatively riskier to take advantage of the relatively higher returns that you are likely to receive
 - By investing very conservatively, Indigenous organisations are protecting their corpus from downside risk, but also miss out on upside returns
 - The issue of sub-optimal returns is a problem if the Indigenous organisation is not well-informed when deciding to have a very conservative portfolio
 - It is not really a problem if the Indigenous organisation is well-informed and has consciously chosen to adopt a conservative investment strategy

Majority of Indigenous organisations we spoke to are currently engaging external advisors

Organisation	Currently engaging external advisor(s)	Type of advisor(s)
Large Indigenous organisation with significant mining royalties	✓	Investment manager
Large Indigenous organisation with significant mining royalties	✓	Independent advisor
Large Indigenous organisation with significant mining royalties	✓	Trustee
Large Indigenous organisation with significant mining royalties	✓	Trustee Investment manager
Large Indigenous organisation, majority self-funded	✓	Accountant
Large Indigenous organisation, majority self-funded	In the past yes, but not currently	Independent advisor
Large Indigenous organisation, majority self-funded	✗	-
Large Indigenous organisation with significant mining royalties	✗	-

Most Indigenous organisations have the required set of ‘outputs’; an investment objective, an investment strategy and a way of implementing the strategy



“We have an investment strategy. We have guiding principles about diversification and about not leveraging up too much. We are basically conservative. We see this as an endowment for future generations.”

Large Indigenous organisation, majority self-funded

“We have our investment guidelines, overseen by an investment committee. We have a strategic planning document, which says what the board wants to see. E.g. \$5m in cash reserves at any one point in time in case a store gets bowled over by a cyclone. Our investment document clearly specifies what the board’s risk appetite is and what we can do and what we can’t do and why. The document was developed in conjunction with management and the board.”

Large Indigenous organisation, majority self-funded

“Our investment strategy is reviewed every year. It is pretty broad. It fits with our risk profile.”

Large Indigenous organisation with significant mining royalties

However, we heard that there is often room for improvement in the ‘process’ of appointing and working with advisors

“The process is more important than the document. Advisors can produce a document, but they need to sit down with the clients and develop the objectives and the strategy together.”

Large Indigenous organisation with significant mining royalties

“I think that a lack of advisors is not the problem. It is not the case that there are lots of organisations without advisors. Rather, the problem is that people who are in charge of organisations are rarely capable of asking the right sort of questions. They don’t have the skills to assess advisors’ performance.”

Independent advisor

Framework: There are five key characteristics of a good advisory relationship



- Indigenous organisations can identify what advice is required and when
- There is an appropriate mechanism within organisations for making and executing on decisions

- Indigenous organisations understand the type of advisor that they need
- There is a transparent market so that Indigenous organisations can identify potential candidates

- Indigenous organisations have good selection criteria and a clear decision-making process to select an advisor that best meets their needs

- Advisor has a good understanding of client context, is aligned to client objectives and provides sound advice about what products and services client requires

- Client is able to understand the advice that they receive and the consequences of following the advice in order to judge whether it is good advice

Some Indigenous organisations do not have good mechanisms for making and executing on decisions (1 of 2)

Issue 1



1. Indigenous governance structures sometimes hamper investment decision-making

- There may not be a person or a group (e.g. investment committee) with clearly delegated investment decision-making authority
- Decision-making may be more consensus-driven and less hierarchical than in non-Indigenous setting
- Decision-making may not always be transparent, which can reduce trust and may lead to conflict
- Governance structure may be different to what is familiar to the advisor, which means advisors may not know who to talk to and what information to provide in order to facilitate decision-making

“Trying to get agreements or consensus is very difficult in most circumstances. It is a very complex task. It’s like saying, ‘here’s a significant amount of money for you, but we’re going to get a genealogist involved and they’re going to find your 200 closest relatives and you’re going to have to meet with those people and decide how the money will be used.’”

Trustee company

“The Indigenous organisations tend to be a lot more political, with a lot more vested interests, which tends to compromise the outcomes from time-to-time. It can be a bumpy road. We have to be sensitive to that and make sure that everyone has an opportunity to air their views and bring things to a consensus.”

Wealth Management Firm

“My advice for non-Indigenous people is that it’s important to talk to the right people. It’s not always obvious. In the past we’ve had consultants who talked to the people who they believed were the mandated people to talk to, but they weren’t the right people who could make the decisions.”

NZ Maori Organisation

“Most board directors still do not understand that liability lies with them when something goes wrong.”

Large Indigenous organisation with significant mining royalties

Some Indigenous organisations do not have good mechanisms for making and executing on decisions (2 of 2)

Issue 1



2. Some Indigenous organisations do not have the skills to execute on the decisions

- The board members or management team may not have any experience of implementing an investment strategy, purchasing assets, reporting performance etc.

“This is really a capacity issue. A lot of beneficiaries don’t really have a concept of the markets.”

Trustee company

Indigenous organisations are not always clear where to find potential advisors (1 of 2)

Issue 2



1. Many Indigenous board members do not have the skills, experience or networks that are required to know where to find advisors
 - Indigenous board members may not have high financial literacy skills and they may not understand what type of advice is available and how to differentiate between different providers such as trustees, asset consultants, financial planners
 - Indigenous board members may not have had experience in finding advisors from other boards or from other professional experiences

“A lot of Traditional Owner groups don’t know that they can access an independent trustee.”

Trustee company

Indigenous organisations are not always clear where to find potential advisors (2 of 2)

Issue 2



2. Indigenous organisations that have trusted relationships with third party professionals are often given recommendations, but this process is opaque and the board has to rely on untested recommendations from others to find advisors
- Professionals who are already known to the Indigenous organisation (accountants, lawyers, trustees etc.) can usually recommend advisors
 - Tho Indigenous organisations, this means that the market for advisors is relatively opaque as they are relying on others to select potential advisors

“When we were looking to change our advisor it was not so easy to find the right one. There are a lot of people out there who are offering all sort of services. Initially we met with a few organisations in Perth, but that went terribly. So in the end the search was driven by one of our directors who has experience with another board of an Aboriginal organisation and he is also a top Rio Tinto executive so he knew a lot of people.”

Large Indigenous organisation with significant mining royalties

“TO groups can be adverse to 3rd party ‘interventions’.... I would not approach the groups (and it’d be difficult for me) if I was not ‘endorsed’ by someone, a respected representative from the group... or their native title lawyers.. I have deep connections to native title lawyers who normally bring me along to meet the groups that need advice... they are happy to bring me along to meet the groups because they trust me and know that I have deep understanding of TO groups...”

Financial Advisor

“We utilise our regional bank branch network. Our connection might be the branch manager from the town that the group is from, or the nearest town.”

Trustee company

Once they have found candidates, many Indigenous organisations find it difficult to select from among candidates

Issue 3



1. Many Indigenous organisations do not know what criteria to use when selecting advisors

- Some Indigenous board members and beneficiaries have low financial literacy levels. They have a limited understanding of basic investment principles (e.g. risk and return), how the modern economy works and how to interpret financial statements and financial report

“An Aboriginal director will use trust more than he’ll use information to choose an advisor. That’s where it really worries me.”

Large Indigenous organisation, majority self-funded

“Some organisations lack the capacity to scrutinise the opportunities that are out there. Most of the time it would go out to tender, but in the end decisions are made based on instinct.”

Financial Advisor

- Indigenous organisations may find it difficult to learn from other Indigenous organisations’ experiences because of the intrinsic nature of community-based membership. This means there is limited cross-pollination of board members and beneficiaries and limited sharing and collaboration between management of Indigenous organisations

“The Aboriginal organisations don’t really cooperate with each other. The majority just deal directly with government. They don’t really work together or get advice from each other.”

Large Indigenous organisation with significant mining royalties

“People help each other out in the regions a bit, but nothing really nationally. One of the problems is not having transparency into other Indigenous businesses and what they are doing. The only external people that most Indigenous organisations have exposure to is the auditors.”

Large Indigenous organisation, majority self-funded

Sometimes the advisors do not understand the needs of Indigenous clients (1 of 3)

Issue 4



1. Most advisors do not undertake training about how to work with Indigenous boards in relation to financial and investment matters
 - Most advisors learn how to operate effectively in an Indigenous setting through on-the-job learning
 - Some advisors do attend cultural training, but it is not specific to governance, decision-making and financial and investment matters
 - Some advisors may not have a good understanding of what Indigenous clients' objectives and priorities are
2. Most Indigenous organisations are very conservative in their approach to investments and are hyper-sensitive to loss
 - Board members believe that, as stewards of the money, they must not let investments decrease in value
 - Board members believe that community members will find it unacceptable to see a decrease in investment value

"We have quite a significant term deposit, which is very important as it provides a safeguard against any unexpected events. We currently do not have any share or investments outside of cash, property and business interests."

Large Indigenous organisation, majority self-funded

"We've tended to invest in property and in gilt-edge financial stuff. In other words, it's a fairly conservative approach. Our fixed term deposit has been going for 4-5 years. We're not in the market for trading or dealing or anything like that."

Large Indigenous organisation with significant mining royalties

"Most Indigenous communities are hyper-sensitive to loss. They are generally more conservative."

Wealth Management Firm

Sometimes the advisors do not understand the needs of Indigenous clients (2 of 3)

Issue 4



3. Some advisors do not understand this perspective and believe that Indigenous clients should be more taking on more risk

- Given long investment horizons, Indigenous clients could take more risk and increase chance of higher returns

"I found some advisors to be quite patronising when working with us. They just assume that we are some sort of idiots who need things to be dumbed down and follow their advice without questioning. I do not need them to do my job! I want them to be there to support me with issues I ask them and not interfere with how we run our business."

Large Indigenous organisation, majority self-funded

"One group I'm aware of is going around winning a lot of money in the Indigenous community. They roll the Indigenous organisations into equity funds and charge them big fees and don't do any work in corporate governance. This is not necessarily bad, but it's a one-size-fits-all strategy. Their clients' needs will be different. Equity funds have too much risk for some organisations and they aren't thinking about whether the investment strategy is right for the particular client. They haven't matched the risk to the client."

Wealth Management Firm

"We had to get rid of our previous advisor. They were resistant to us influencing their investment policy. They did not align to our needs."

Large Indigenous organisation with significant mining royalties

Sometimes the advisors do not understand the needs of Indigenous clients (2 of 3)

Issue 4



4. However, the Indigenous organisations with conservative investment approaches are happy with their approach and believe they are well-informed
- Even when the investment horizon is very long (e.g. 30 years), Indigenous organisations are usually not prepared to invest in relatively risky assets such as equities and managed funds
 - Many Indigenous organisations with long investment horizons have independent professional advice and still have very conservative portfolios because their advisors listen to the Indigenous perspective and develop an investment approach that is aligned to their needs

“When we had advisors come in pitch their business to us, we were really clear about our risk appetite and they designed their offer based on that need. They did not try to push us into a direction that we were not comfortable with”

Large Indigenous organisation with significant mining royalties

“For example, one of our clients has cash and a fixed interest solution to maximise returns without taking on too much risk.”

Wealth Management Firm

Some Indigenous organisations do not really understand what the advisors are selling and are not well-equipped to assess the quality of advice

Issue 5



1. In some Indigenous organisations, low financial literacy levels of board members and beneficiaries means decision-makers only have a limited understanding of the advice that they receive and the consequences of following the advice
 - If board members and beneficiaries do not understand the advice that they are receiving, they are not able to assess the quality of the advice
 - If they do not understand the overall strategy and the specific investments then they are not able to judge whether the advice is aligned to their organisation's needs
 - Some organisations partially address this issue by hiring external CEOs who have relevant expertise

"There are many organisations with CEOs and management teams who cannot even do basic housekeeping such as submitting annual ORIC reports. They have no management skills, don't understand how accounting works etc. Having a good CEO is the first key step before getting external advice. Without a good CEO, how would you know if advice you are receiving is any good?"

Large Indigenous organisation with significant mining royalties

"The reason Indigenous organisations are vulnerable to being taken advantage of is that they operate in a very different culture, there are lower levels of education amongst the members and different values that people live by."

Large Indigenous organisation, majority self-funded

"There are quite different levels of financial understanding in different groups. Some have a general overall direction and others have no idea what to do."

Trustee company

"We are always trying to make sure that the board don't just trust us... that we are helping them to really understand what we are putting forward to them."

Large Indigenous organisation, majority self-funded



consulting

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Conclusion

- The Indigenous investment advisory market is attractive to advisors because it is large and growing
- The potential economic, social and broader benefits are significant. Many people believe that wise investments provide opportunities to help create wealth, drive economic independence and promote self-determination for Indigenous people and communities
- Currently, there is room for improvement in the 'process' of identifying, appointing and working with advisors
- We believe that key enablers (including IBA), can assist in improving this 'process' across the full spectrum of the advisory relationship cycle