



Stormy times ahead

Shares of wealth management firm IOOF Holdings (ASX.IFL) fell approximately 7% to a fresh multi-year low on Monday, extending its slide from Friday when the shares tumbled by roughly a third after APRA announced a series of actions against IOOF entities, directors and executives, in what will be a landmark case. On Monday IOOF announced that its Managing Director and Chairman have stepped aside from their respective positions immediately, pending resolution of the proceedings.

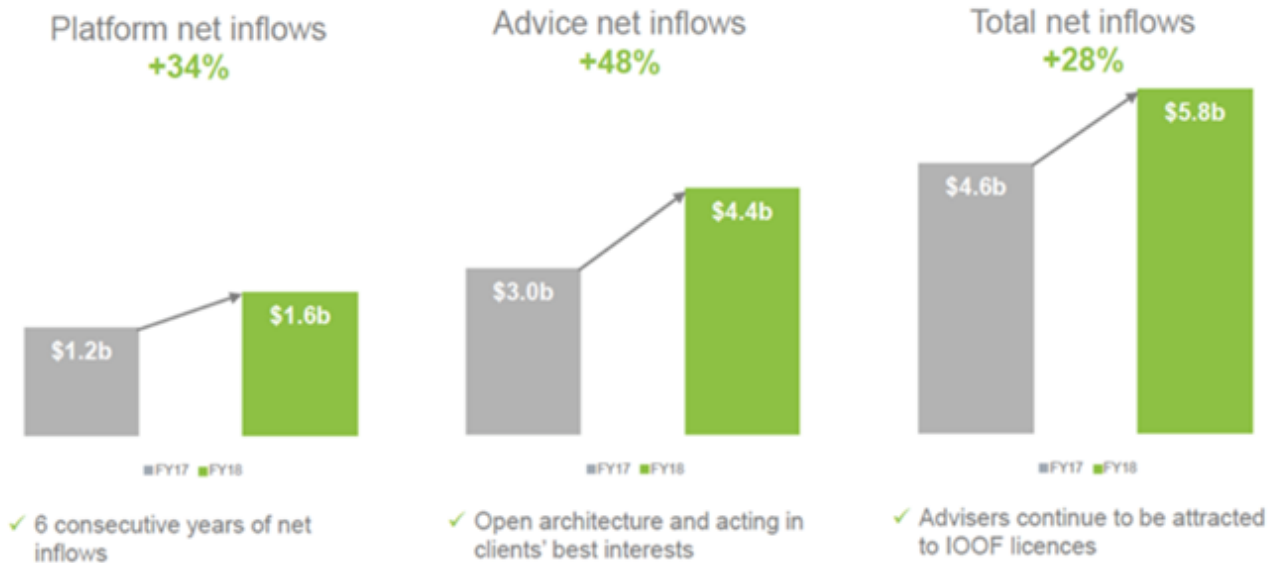
IOOF said on Monday that it "We maintain our position that the allegations made by APRA are misconceived, and will be vigorously defended". However, the actions by APRA cast a dark cloud over IOOF Holdings and at the very least there is certainly a period of substantial uncertainty ahead.

How it will impact the sale of ANZ's OnePath Pensions and Investments business to IOOF remains to be seen, but it certainly is a major complicating factor. ANZ Deputy CEO Alexis George said in a statement released to the ASX last Friday that, "Given the significance of APRA's action, we will assess the various options available to use while we seek urgent information from both IOOF and APRA".

IOOF agreed to buy OnePath and some financial planning operations (Aligned Dealer Groups) in October 2017 for a price tag of \$975 million to increase its scale in Australia's huge and growing superannuation market. IOOF yesterday said "We remain committed to the ANZ transaction and are working cooperatively with ANZ as they consider their position".

Another likely outcome of the action by APRA is further reputational damage, impacting funds under management and advisor numbers going forward.

Inflows are likely to be impacted, but were strong in FY18:



Source: IOOF Holdings

ASIC are also reportedly investigating IOOF and if it were to also commence action, that would compound the problem for IOOF. At the very least we expect there to be **sweeping management changes in the winds at IOOF**, whatever the outcome of the friction with APRA.

What's it all about?

On 7 December 2018, the Australian Prudential Regulation Authority (APRA) announced several actions against IOOF entities, directors and executives claiming they have failed to act in the best interests of superannuation members. The actions by APRA constitute a big deal, and show a new steel from the regulator.

APRA commenced proceedings in the Federal Court of Australia to seek the disqualification of five IOOF Holdings individuals, in relation to relation "to breaches of sections 52 and 55 of the SIS Act and Prudential Standards, and associated conduct."

The individuals in APRA's crosshairs are Managing Director Chris Kelaher, Chairperson George Venardos, CFO David Coulter, Company Secretary Paul Vine, and General Counsel Gary Riordan.

If APRA's proceedings to disqualify the above individuals is successful, that would prohibit the above individuals from being or acting as responsible person of a trustee of a superannuation entity.

APRA also issued a show cause notice outlining APRA's intention to direct IOOF to comply with its Registrable Superannuation Entity (RSE) License and impose additional conditions on the licenses of several entities. Those entities have 14 days to respond to the notice.

It appears the APRA's frustration has been bubbling away for some time, and the revelations and attention spotlighted by the Royal Commission made the situation more public.

APRA Deputy Chair Helen Rowell said "APRA's efforts to resolve its concerns with IOOF have been frustrated by a disappointing level of acceptance and responsiveness to the issues raised by APRA, which is

not the behaviour we expect from an APRA-regulated entity,” and added, “The actions we are now taking are aimed at achieving enduring change to ensure that the trustees of the superannuation funds operated by IOOF fully meet their obligation to put the interests of members ahead of all other interests.” She also referred to “a lack of contrition in relation to the breaches of the SIS Act identified by APRA.”

Reportedly at the heart of APRA's case against IOOF was an old error from a subsidiary called Questor that made an over-distribution to its beneficiaries all the way back in 2009. The over-distribution was not identified until 2011 and APRA has taken issue with how IOOF handled the situation. IOOF Holdings Managing Director Chris Kelahar was grilled on the issue, along with others at the Royal Commission, but was widely reported to have been dismissive of the highlighted governance issues.

He now finds himself really in the hot seat, along with four others at IOOF previously mentioned. IOOF announced yesterday that Mr Kelahar, along with Chairman George Venardos, have agreed to step aside from their positions, pending resolution of the proceedings brought by APRA. They will be on leave while they focus on defending themselves against the actions.

Mr Renato Mota, Group General Manager of Wealth Management, has been appointed Acting CEO, while Mr Allan Griffiths, a current non-executive Director of IFL, will step up as Acting Chairman.

CFO David Coulter, Company Secretary Paul Vine and General Counsel Gary Riordan will remain in their positions, however IOOF stated they “will have no responsibilities in relation to the management of the IOOF trustee companies and will have no engagement at all with APRA during this period, including in relation to the matters the subject of APRA's announcement of Friday 7 December.”

Turning to the daily chart, and the technical picture has deteriorated sharply since the announcement of APRA's action against the company. A zone of support between \$10.34 and \$10.39 has given way in this year's sell off. The next layer of support existed around the \$9.33 region, and has also been breached. A move back towards the 50 day moving average proved short-lived, with prices gapping down substantially, and with little in the way of imminent support.

IOOF HOLDINGS LTD - IFL (ASX) - 1 Day CandleStick Chart - AUD



Looking at the monthly chart, after reaching a high of \$10.98 in May 2015, IOOF Holdings' share price fell into correction-mode, and in the process, touched a low of \$7.34 in February 2016. A move towards fresh all-time highs late last year at \$11.94 has since been met with a fall back below previous resistance levels at \$11 and subsequently \$9.70. Prices have also fallen below successive Fibonacci retracements in quick succession last week. Support around \$4.22 looks tepid at best.



Summary

Shares of wealth management firm IOOF Holdings have slumped over the past couple of trading days after APRA announced a series of actions against IOOF entities, directors and executives, in what will be a landmark case. The issues raised by APRA are significant and place some doubt on the completion of the OnePath acquisition. There is also likely to be some reputational fallout likely to impact funds under management and advisor numbers going forward. We expect to see sweeping changes at the management level, regardless of the outcome with APRA.

To create meaningful change in the culture, there would likely need to be some 'new blood' required from outside the business. Change won't be quick coming and we believe that will see the stock remain under pressure, despite recent underlying results being solid.

IOOF has promised much at times, and is a company with strong leverage to Australia's rising superannuation pot. We saw the ANZ deal as being highly beneficial to IOOF, but this is now in serious jeopardy. With the recovery for the financial services company uncertain, and at best a long one, we are opting to move on. We can take some solace that we earlier chose to bank some gains around \$9.90 in **FAT-AUS-709**, after our initial recommendation price of \$5.65.

We recommend selling IOOF Holdings. It will be removed from the Fat Prophets portfolio.

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Snapshot IFL

IOOF Holdings

IOOF Holdings Ltd, along with its subsidiaries is engaged in providing financial advice and distribution; platform management and superannuation administration; investment management, and trustee services including estate planning and corporate trust. It operates in five segments: platform management and administration, which is engaged in the provision of administration and management services; investment management, which is engaged in the management and investment of monies on behalf of corporate, superannuation, institutional clients and private individual investor clients; financial advice and distribution, which is engaged in the provision of financial planning advice; estate and trustee services.

Market Capitalisation: \$1.57b

	FY1	FY2
Price to Earnings	34.1	6.9
Dividend Yield (%)	6.0	13.1
Price to Book	1.8	0.9
Return on Equity (%)	5.6	11.9
EV/EBITDA	5.1	4.4