MANAGED ACCOUNT

PERSPECTIVES

A DIFFERENT PERSPECTIVE

PHIL SMITH CFP® AND THE CHALLENGES OF TRANSITIONING A BUSINESS

ALSO: BIRTH OF THE HYBRID INVESTOR / INVESTTECH 2017 / AMAZON AND THE CUSTOMER EXPERIENCE / FUTURE OF ADVICE

VOLUME 1 ISSUE 3 DECEMBER 2017

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Managed Account Perspectives is the official publication of the Institute of Managed Account Professionals Ltd (ABN 57 125 794 274).
IMAP was formed to act as the nexus in this increasingly important part of the advice profession. Our aim is to bring together advisers, managers, platforms and other managed account service providers to help build a better industry.

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2 APPROACHES TO TECHNOLOGY – 2 BUSINESS MODELS

One of the key drivers of the development of managed accounts is the availability of the technology that makes it possible to manage dozens or hundreds of portfolios based on predetermined portfolios.

IMAP has developed **InvestTech 2017** to showcase the technology available to advisers and the potential the separate approaches offer.

A recent netwealth technology report[1] asked advisers what technology would "have the greatest impact on financial advice practices in the next five years". More advisers (38 per cent) answered 'managed accounts' than any other technology they could think of.

A separate question in the netwealth report asked about current and intended use of managed accounts and 57 per cent of advisers either already use these or are intending to do so in the next 18 months.

Since managed accounts are, more than most other aspects of the advice profession, driven by the capacity of the technology employed, there are some key decisions to be made by advice groups about the technology that underlies their adoption of managed accounts.

It boils down to two choices:

1. Rely on an integrated technology and operations service as part of a broader offer; or
2. Manage each component – technology, operations and often legal structure – independently.

These can be expressed in the following two statements:

"Yes, it's important, but someone is going to provide it for me."

This is the majority view amongst advisers. Someone – most likely a platform – is going to provide the technology that enables SMAs, or potentially MDA services, to be utilised in each adviser's office.

"It's important, so I'm going to be in control of the technology decision."

This view represents those advisers who, most likely, have a more diversified approach to managing the technology in their practice. They are more likely to be using MDA services, especially 'off platform'.

Neither view is necessarily better than the other.

The platform based view is a business model that has served advisers well for several decades. As the needs of investors and advisers became increasingly sophisticated, the platforms developed from a managed fund only investment selection, to equities and fixed income investments. Lately, many have added digital engagement and reporting tools.

Portfolio management technology and operations to support SMAs or MDA portfolios is another step along that path. It's a more complex one in that supporting SMAs has involved not just technology but also the legal structures of SMAs, the operational management of bulk trading and rebate processing, and the due diligence processes where dealer groups want to offer their own portfolios as managed accounts.

The full control model, where the licensee takes responsibility for the implementation and operation of the technology that supports managed accounts, is generally associated with a business model that takes more control of the total service offer to clients. Generally delivered through MDA structures, the decision to invest in portfolio management technology is also a decision to assume operational, legal and investment management responsibility.

Of course, an 'off platform' business model makes it a necessity to have this type of control.

In developing **InvestTech 2017**, IMAP wants to highlight the benefits and costs of each approach to technology.

In addition, we want to showcase the impact of that other technology driver, the emergence of the fintechs.

New functionality, lower operating cost models for clients and advisers, and direct client engagement are all hallmarks of many of these emergent providers. And they'll be on display as well at **InvestTech 2017**.

All the best.

Toby Potter | Chair

1. netwealth Advice Tech Research Report 2017 Edition.

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WORKING GROUP ESTABLISHED TO DEVELOP DATA STANDARDS

IMAP has announced the establishment of an 'industry working group' to develop data standards for the exchange of managed account model data.

In making the announcement, IMAP chair Toby Potter said with the rapid growth of managed accounts in the financial services industry, model data was being electronically distributed between all participants. However, he added that no standard was in place for the definition or formats for this data, which led to bespoke development, greater risk of error and higher cost of integration.

Potter said platforms and other managed account providers had developed proprietary approaches to the provision of model data, with managers reporting they found it increasingly difficult to meet these varying data requirements.

"These challenges will only increase as the number of managed account services increases," Potter said.

"Other industries have already developed standard data transfer formats, with planning software being an adjacent market example of widespread adoption of a single industry wide standard. So, since managed accounts are still a relatively new market, this seems the right time to establish a common standard.

"We are not trying to create a binding standard, but it will provide a useful incentive to prevent further proliferation in proprietary specifications."

As part of its initiative to develop appropriate data standards for managed accounts, IMAP has convened a representative working group to deliver efficiencies to the industry. Participating organisations include: AMP, Bennelong Funds, BT, Colonial First State, Copia and Ralton, Elston, Financial Express, IOOF, IRESS, Lonsec, Macquarie, Morningstar, netwealth and Praemium.

For further information, contact IMAP Co-ordinator Data Standard Project, Mark Perica at mark.perica@imap.asn.au, or Toby Potter at toby.potter@imap.asn.au

Russell Brinckley

14 HOURS PER WEEK SAVED USING MANAGED ACCOUNTS

Advisers using managed accounts are saving on average, 14.4 hours per week in administration and compliance work, according to new research by BT.

The research also found that this time saving for advisers who recommend managed accounts, provided them with the ability to service more clients, potentially enabling them to generate additional revenue of $45,000 per annum from advice fees.

BT's National Manager of Product Development, Russell Brinckley said the findings demonstrate why the take up of managed accounts is growing so rapidly, as advisers seek new ways to save time, reduce paperwork and have more time to spend on holistic advice.

According to Brinckley, the areas that advisers increasingly want to focus on are:

- ongoing client engagement (61 per cent);
- building efficiency in their practices (53 per cent); and
- client acquisition/prospecting (45 per cent).

According to the Investment Trends *April 2017 Planner Direct Equities & Managed Accounts Report*, use

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of managed accounts has increased for the fifth consecutive year, with one-quarter of advisers (26 per cent) now recommending these solutions, up from 22 per cent in 2016 – the largest year-on-year increase to date.

Intention to recommend managed accounts is also strong, with a further 20 per cent of advisers intending to recommend managed accounts in the near future.

"Despite historic perceptions that managed accounts are the domain of high-net-worth (HNW) clients, advisers are increasingly seeing opportunities for managed accounts among their broader client base," Brinckley said.

The BT research, which was undertaken by Investment Trends, showed advisers had a wide range of reasons for recommending managed accounts, but the most popular were:

- investment transparency (64 per cent);
- greater practice efficiency (62 per cent); and
- access to professional investment managers (46 per cent).

"We think managed accounts are the natural next step in practice efficiency, providing advisers and licensees the opportunity for scale, to be more nimble and to deliver more personalised advice to more clients," Brinckley said.

ADVISERS WHO RECOMMEND MANAGED ACCOUNTS

46 AVERAGE AGE

114 AVERAGE NUMBER OF ACTIVE CLIENTS

18 AVERAGE NUMBER OF CLIENTS ACQUIRED IN LAST 12 MONTHS

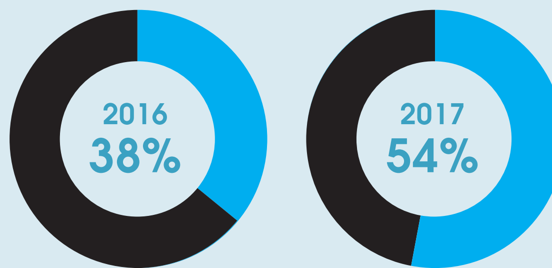
$65m AVERAGE FUA

AUSSIE FINTECH ADOPTION 5TH IN WORLD

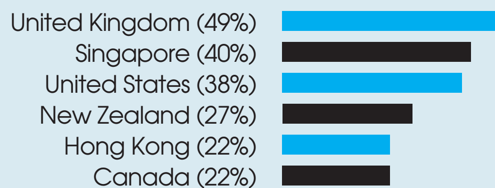
Australia's fintech adoption rate is ranked fifth in the world, with an adoption rating of 37 per cent – up 24 per cent from two years ago. This puts Australia behind China (69 per cent), India (52 per cent), U.K. (42 per cent) and Brazil (40 per cent), but in front of countries like Germany (35 per cent) and USA (33 per cent).

Future outlook

More fintechs are looking to expand overseas in the next 12 months (expand/expand further overseas)



Top 6 markets for potential expansions (excl. don't know)



This was one of the key findings from the *EY FinTech Australia Census 2017*, which profiles and defines the fintech sector.

According to the census report, the Australian fintech industry has matured over the past 12 months and is a sector now with much greater definition and structure. The report estimates that the number of fintechs operating in Australia is now approaching 600, having more than doubled since 2015.

Key findings to emerge from this year's census include:

- A greater proportion of fintechs have been in business for more than three years, pointing to greater stability and resilience.
- The proportion of Australian fintechs that are now in the post revenue stage has also increased, indicating that their products/service offerings are in demand and filling gaps in the market.
- What falls under the 'fintech' banner is now much broader (e.g. RegTech, cyber/digital security, data analytics) and firms that see themselves as 'fintech' are stretching far and wide into other tech industries (e.g. Agtech).

The *EY FinTech Australia Census 2017* report notes that the most important determinant of this bourgeoning maturity for B2C firms is the level of receptiveness of the Australian public. The EY Fintech Adoption Index, conducted across

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20 markets, saw:

- The global average for fintech adoption was 33 per cent.
- Australia ranked fifth with a 37 per cent adoption rating, putting it on par with other developed economies with similar financial systems (such as the U.S. and U.K.).
- This level of adoption shows that fintech is now at a tipping point where it is poised for mainstream adoption.

The report also found that Australian fintechs were internationally competitive, with two-thirds (63 per cent) of fintechs saying they will be able to compete internationally, while 45 per cent agreed that Australian fintech organisations will be able to 'win' against international peers.

However, in terms of local competition, there were mixed views on the perceived quality of domestically based organisations – 34 per cent 'agreeing' there was a lack of quality fintechs in Australia, with 38 per cent disagreeing.

DEMAND FOR ADVICE HIGH AS CLIENT NUMBERS FALL

King Loong Choi

While the demand for advice from financial planners is at a record high, the number of Australians using them has dropped by 25 per cent to 2.2 million active clients in just 10 years – down from three million in 2007.

These were two of the key findings coming from the *2017 Investment Trends Financial Advice Report*.

But, in a positive move, the report also found that three million Australians intend to turn to a financial planner for advice in the next two years – up from 2.6 million in 2016, and double the number recorded in 2013.

"A growing number of individuals with unmet advice needs is fuelling growth in demand for financial advice," said Investment Trends senior analyst, King Loong Choi. "Right now, half of Australian adults say there are areas where they would like to be receiving financial advice but currently aren't, and this proportion has been on the rise since 2014."

According to Choi, the top unmet advice needs of everyday Australians centre around retirement planning and budgeting.

However, despite these potential opportunities for planners to service the unmet advice needs of consumers, the research also revealed that client retention remains a key issue, with planners typically losing three clients for every two they gain.

But planners have pro-actively taken steps to address client retention by servicing their existing clients better. Client satisfaction levels have improved to an all-time high in 2017, with 55 per cent of planner clients rating their overall satisfaction with their planner as 'very satisfied', up from 45 per cent in 2016.

"Keeping clients well informed on their progress towards achieving their goals is key to enhancing perceptions of value and, in turn, improving client retention further," said Choi.

Another key finding of the report was the substantial difference between the amount that Australians are willing to pay for advice ($750 on average) and planners' estimated cost of delivering advice ($2,500 on average).

"Planners themselves, and the providers that support them, play a key role in bridging this advice cost gap," said Choi. "The majority of potential planner clients are open to a range of cost-saving options, ranging from filling in an online fact-find prior to initial consultation to non face-to-face review meetings.

"In fact, over nine in 10 potential planner clients are open to conducting review meetings with someone other than their planner, if it meant a reduction in fees."

In its tenth year, the findings of the *2017 Investment Trends Financial Advice Report* is based on a survey of 9,552 Australian adults, conducted in July 2017.

Spotlighting managed accounts

From 22-24 November, IMAP showcased managed accounts to 1,100 financial services professionals attending the FPA Professionals Congress in Hobart. The majority of these delegates were financial planners, with many of them showing strong interest in managed accounts. Joining IMAP at the Managed Account Central stand were BT Panorama, Colonial First State, Praemium, Financial Express, Financial Simplicity, Finclear and Watershed Funds Management.

CLIENT ENGAGEMENT REMAINS KEY

With over 10 years' experience in implementing asset class models and multi-sector portfolios on behalf of IFAs across multiple managed account platforms, who better to share his insights on the important considerations for any business transitioning across to a managed account business model than DFS Portfolio Solutions principal, Stephen Romic.

Speaking at the IMAP Investment Forum on 30 October 2017 – with concurrent presentations in Sydney, Melbourne, Brisbane and Perth – Romic said managed accounts were simply a better way for advisers to manage client investment portfolios.

"Managed accounts provide consistency, they reduce the burden of SOAs and ROAs, and therefore reduce the incidence of human error occurring," Romic said. "Managed accounts provide operational efficiencies and improved compliance, which all have the potential of improving client outcomes."

In 2008, DFS Portfolio Solutions' business model transitioned across to managed accounts, offering an in-house investment solution, rather than outsourcing to a provider. Romic said the business saw immediate gains in operational efficiency and he attributed the success of this transition to client engagement.

"Well before we began the transition procedure, we engaged with all our clients and got them involved in what we were doing," Romic said. "This took place 12-18 months beforehand. We carefully explained to clients what managed accounts were, why we were implementing this solution, and the benefits this service would bring to them and the business. Our clients really embraced this."

Romic emphasised that managing client expectations was key for any business transitioning to managed accounts.

"It's essential that you communicate with your clients and educate them about managed accounts. This can be done through newsletters, phone calls and face-to-face

"The product-based approach to investing will come under increasing pressure and will be subject to future regulatory scrutiny. That's why investment solutions are becoming increasingly important." – STEPHEN ROMIC

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meetings. Delivering a positive experience for clients is crucial in this transition process."

Romic believed that as investors increasingly demanded greater transparency and cost-efficiencies with their investments, managed accounts were well placed to offer genuine differentiation as an investment solution.

"The product-based approach to investing will come under increasing pressure and will be subject to future regulatory scrutiny," Romic said. "That's why investment solutions are becoming increasingly important.

"Transitioning across to managed accounts allowed our business to evolve from the traditional product-based approach to investments, to a business that can now consider the behavioural biases of investors when implementing investment solutions for them."

Also speaking at the IMAP Investment Forum was Morningstar Head of Discretionary Equity Strategies – Asia-Pacific, Joel Bloomer.

Bloomer provided an interesting presentation that included explaining the type of equity portfolios best suited to standalone SMAs or as part of multi-asset class portfolios.

In doing so, he referred to Warren Buffet's 'moat framework' when building conviction in concentrated portfolios.

"At Morningstar, we use the 'economic moat framework' when identifying stocks that are at least risk from competitors, thereby protecting their growth opportunities," Bloomer said.

"For example, the Commonwealth Bank of Australia is a stock position that we consider has a wide moat around it, whereas Wesfarmers, which is coming under pressure from its competitors, has a narrow moat. A company like Super Retail Group (Supercheap Auto etc) has no moat around it and, as such, is highly vulnerable."

Bloomer said the use of 'moats' tended to stabilise portfolios, and he believed the use of the economic moat framework worked well in the managed account environment.

The IMAP Investment Forum is a community of interest for dealer group researchers, investment teams and independent researchers, where they can hear and learn from specialist portfolio managers and chief investment officers of advisory businesses. These experts and advisory professionals provide their insights on the practical issues involved in implementing managed accounts in an advice business.

"We use the 'economic moat framework' when identifying stocks that are at least risk from competitors, thereby protecting their growth opportunities." – JOEL BLOOMER

Birth of the hybrid investor

As the new age of investing emerges, advisers are forced to embrace 'disruption' and move towards digitalisation. It's time to meet the more engaged consumer; the 'hybrid' investor, says Arnie Selvarajah.

ARNIE SELVARAJAH

Chief Executive Officer, Bell Direct

Today's investor is different. As an amalgamation of the 'advised investor' and the 'self-directed investor', the industry-coined 'hybrid investor' is more engaged and more educated than previous generations.

A hybrid is not always easy to recognise. They are comfortable with the financial basics and happy to control some aspects of their finances. They seek traditional advice on other aspects to validate their investment decisions, usually to ensure their asset allocation achieves their financial goals or tax considerations are met.

"It's clear the emergence of robo-advice is, in fact, an opportunity for traditional advisers. The intrinsic need for personal service and tailored advice can never truly be replaced by automation, and despite what the headlines claim, the advice industry is alive and well."

Hybrids are demanding more from the industry, and seeking greater transparency from financial products and advice.

LOOKING TO THE U.S.

In the United States, the latest iteration of robo-advice takes a hybrid approach to incorporate an adviser or consultant to assist clients across the broad spectrum of needs. From guidance on how to use the advice platform, to understanding what to invest in and how to best meet their financial goals, the need for 'traditional' advice remains, despite the self-directed automation hype.

Stretching far beyond the basic ability to invest solely into ETFs, U.S. robo models have evolved to meet the needs of hybrids. This means robo models are now able to invest into any asset class via managed accounts.

What was once viewed as fierce competition between the rise of robo and decline of traditional, we can see that not only is there room for both in the market, but the emerging hybrid market is finding value in fusion. The advice model is shifting, and it's working.

Robo models that include an adviser or consultant, are lifting average account balances substantially. With a team of dedicated advisers, the average client portfolio

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has a balance of US$350,000. Compare this to a totally automated solution with no adviser inclusion, and the average client balance is US$35,000. Somewhere in the middle, where advisers or consultants are available at a call centre as needed, accounts are yielding an average of US$150,000.

The U.S. industry has successfully embraced technology, benefitting both advisers and the end client. The ability to use technology to automate the investment decision process is freeing up valuable time to focus on client acquisition and service.

With this lens, it's clear the emergence of robo-advice is, in fact, an opportunity for traditional advisers. The intrinsic need for personal service and tailored advice can never truly be replaced by automation, and despite what the headlines claim, the advice industry is alive and well.

DIGITALISATION IS AN OPPORTUNITY

The move towards robo-advice is an opportunity for advisers to offer a tailored and personal service, through a progressive, hybrid model. There is a growing number of advisers outsourcing aspects of advice, such as product selection and investment decisions, to managed account providers. And as the Australian robo market matures, this process of outsourcing will become the norm.

In the U.S., pure-play robo is usually offered at around 20 to 25 basis points. Tailored advice can be offered on top of this at an additional 25 basis points. This means hybrid investors are facing a cost of just 50 basis points, plus the underlying management fees of the investments. Where ETFs are used, the additional cost can range between 3 and 10 basis points.

All up, the cost to the client in the U.S. is just 60 basis points. This price point has opened the advice market to a wide group of potential investors. Advisers in the U.S. can now build much-needed scale without sacrificing the value delivered to their clients.

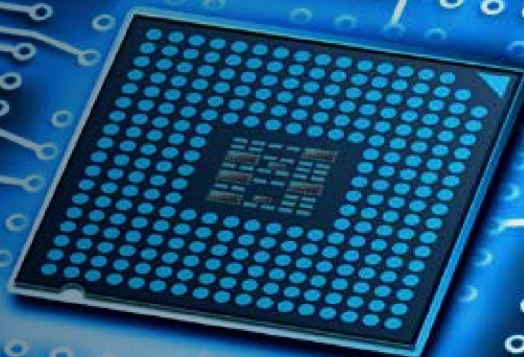
Compare this with the costs in Australia of between 150 and 200 basis points. For the industry, this is the chance to embrace technology to help reshape the way advice is administered. It also gives the advisers the opportunity to reach the 80 per cent of adults who don't currently access professional financial advice, because of the high cost.

But delivering digital advice is more than just creating a fancy website or elaborate solution. It's about incorporating all the elements the hybrid breed will demand from a truly great advice model – education, digital account opening, life-cycle-focused portfolios, real-time reporting, objectives modelling with links to investment solutions. And the list goes on.

There's no time like the present for advisers in Australia to look to the U.S. and learn from the successes. It's time the industry changed its perceptions of disruption. Instead, let's consider it help, rather than a hindrance, in the way we deliver client service and prove unquestionable value.

Arnie Selvarajah is Chief Executive Officer of Bell Direct, which powers Desktop Broker, an innovative solution developed exclusively for financial advisers.

"The move towards robo-advice is an opportunity for advisers to offer a tailored and personal service, through a progressive, hybrid model."



A different perspective

When it comes to rolling out a managed accounts offering, Phil Smith CFP® wishes he had done it years ago. Jayson Forrest talks to him about the challenges involved.

Cutcher & Neale isn't your typical advisory practice. For one thing, it has a close affiliation with the NSW Australian Medical Association (AMA) as its 'Preferred Accounting Partner'. It's a mutually beneficial referral partnership, which sees many high-net-worth clients turn to the expertise of this accounting and financial services firm.

"Our client base is typically high-net-worth, sophisticated professionals," says Phil Smith CFP® – a partner at Cutcher & Neale. "We have a lot of SMSF clients and a lot of investment portfolios in company and trust names."

However, Phil says the business – based in Newcastle and Sydney – is a little different in the sense that all its investment portfolios are a direct asset model, rather than a managed fund model.

"We've been doing direct assets from virtually day one, which is about 23 years ago. Our Aussie and international equities portfolios include ASX, NASDAQ, NYSE, STOXX and FTSE-listed companies. And with our property exposures, we've actually invested in the building of a Kmart at Port Macquarie, and we're also currently doing the same with a Bunnings in Brisbane. So, you can see, it's a direct asset model we're using."

Established in 1953, Cutcher & Neale has an industry pedigree spanning well over 60 years. But the firm's investment services division, which Phil is responsible for, is somewhat younger, having formed in 1994.

Interestingly, although the firm prides itself on delivering a wide range of services – such as forensic accounting, superannuation, financial planning, risk insurance, investing, auditing and software services – in something that is somewhat counter-intuitive, Cutcher & Neale is only a recent adopter of managed accounts. It's a surprising fact, given the firm's approach to direct investing.

It's a truth not lost on Phil.

"I realised some time ago we couldn't keep operating on the IMA-type structure of SOAs and ROAs. I did look at the managed account environment about five years ago, but the technology at that time wasn't really there for what we wanted to do."

Back then, Phil was specifically looking for a provider that had an international equities currency capability. It was a crucial criteria for Phil.

"So, until providers got up to speed with that capability, we really couldn't go down the managed account route."

Fast forward five years, and with more providers offering the type of international currency capability Phil was looking for, Cutcher & Neale was finally able to roll out a managed accounts solution for its clients this year.

However, Phil concedes that choosing the right provider for the business was difficult and required a great deal of due diligence.

"In selecting a provider, there were a couple of things that were important for us. Firstly, the importance of being able to transact internationally, and secondly, being able to store the cash in the currency of the offshore entity, otherwise you'll get smashed on foreign exchange rates," Phil says.

"So, the decision to go with Mason Stevens was based on its international currency capability. As a provider, Mason Stevens was able to offer us that unique capability of being able to sell an international stock and leave the cash in that currency. And for us, that was a massive issue."

IMPLEMENTATION

Phil doesn't sugar coat the fact that once Mason Stevens was selected as Cutcher & Neale's managed accounts provider, it was a massive undertaking to implement the service within the business.

Phil and his team is currently in the process of meeting with every client to explain the new managed accounts service. But what's been interesting for Phil is how well clients have responded to the offering.

"They actually 'get' it," Phil says. "They understand that under our previous arrangement, there was a delay between us making a decision, then us getting in contact with them, and then getting their approval, and then us implementing that decision.

"Clients understand that this delay in transacting is inefficient and costly, because we can't move at the speed we want to in order to implement a decision. So, clients 'get' managed accounts, but it's been – and continues to be – a big operation to move everyone over to our new managed accounts service."

As Cutcher & Neale only uses direct assets, Phil believes having the capability to move quickly across a client's

"In selecting a provider, there were a couple of things that were important for us. Firstly, the importance of being able to transact internationally, and secondly, being able to store the cash in the currency of the offshore entity, otherwise you'll get smashed on foreign exchange rates." – PHIL SMITH

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total portfolio makes the MDA a perfect solution for the business. He says the key to managed accounts is speed and ease of the transaction process.

"Speed is not only important in getting into a stock but it's also important in repositioning clients into cash, if, for example, we felt another GST was coming upon us. The fact is, there's going to be another downturn somewhere along the line, so we want to be able to move quickly to protect our clients' capital. And an MDA provides us with that ability."

So, while clients "get" managed accounts, what about Phil's planners and support staff? Do they 'get' it?

"Absolutely," he says. "They got it straightaway and clearly understood the benefits, cost efficiencies and time savings that managed accounts is bringing to the business. They want to be more nimble and spend more time in front of clients, rather than being bound up by the administrative burden of an IMA.

"So, our new managed accounts service is freeing up their time significantly."

OFFERING

Cutcher & Neale's new managed accounts service offers a top-down model approach – High Growth, Growth, Balanced and Conservative – as well as any combination of Australian equities, international equities, fixed income, property and what Phil calls, an "opportunities" category for non-mainstream investments.

"The fixed income category is also a segment in which Mason Stevens brings something to the table for us, as well," Phil says. "Mason Stevens has got a far more sophisticated fixed income capability, which we currently don't have. That's giving us access to the corporate and government bond markets, which we've never really been able to access before."

And what of the firm's investment committee?

Currently, it consists of seven members, comprising Phil and four of his planners, a compliance officer and an investment specialist from Mason Stevens.

"We research the underlying themes we want to have in our portfolios and potential stock selection, which as a

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committee, we discuss together.

"Mason Stevens also provides us with one of its investment specialists to participate on our investment committee. So, one month we might have the Mason Stevens fixed income specialist sit in on the committee, and then the next time it could be an equities or economics specialist," Phil says. "I'm happy to have Mason Stevens' expertise on our committee."

CLIENTS

Cutcher & Neale is currently bedding down its managed accounts service but it expects to have about 350-380 clients operating under its MDA structure. The clients typically have portfolio balances over $1 million and favour the transparency of direct equities.

"If you've got an investment portfolio, you want to know where it's invested," Phil says. "Our clients want to know where their money is invested and why it's invested there – to the cent. That's important for them. And that's where client communication kicks in."

In fact, Cutcher & Neale takes client communication very seriously.

"I believe one of the key issues facing the financial advisory profession is the failure of planners to communicate with clients. But ironically, that's working in our favour, as we're seeing many new clients coming to us as a result of this."

As part of its client communication strategy, Cutcher & Neale publishes *Morning Market Update* – an in-house daily report that is sent to clients five mornings each week. The update informs clients about what's happened to local and overseas markets overnight.

"In addition, the last part of the *Morning Market Update* is what we call 'CNIS Perspective'. This is an opinion piece about what the investment services team is thinking about at the macro economic level, like what's happening with the dollar or employment, or what's happening with specific global issues, like Brexit or the US economy."

The investment services team takes it in turn to write the nuts and bolts of the report, with Phil rolling up his sleeves to write the 'CNIS Perspective' part of the bulletin.

"Therefore, when we're talking to clients about a stock specific recommendation, they already know what our mindset is with regard to certain issues, like the dollar or interest rates or what sectors we want to be invested in. That's because we've expressed our views in our daily client report."

But is a daily report for clients information overload?

"Not so," says Phil. "Clients genuinely see value in the report. While the report is somewhat onerous to do each

> "Our clients want to know where their money is invested and why it's invested there – to the cent. That's important for them. And that's where client communication kicks in." – PHIL SMITH

day, our clients have a lot of money invested with us and seek reassurance that their money is being well managed. In fact, if we're late sending out the report, we soon get emails wanting to know where it is!"

Recently, Phil wrote about the 30-year anniversary of the 1987 stock market crash. He finished his opinion piece by saying the crash taught investors to never be afraid to take profit and sit in cash.

"That's the type of material I want our clients to be aware of. It's important to remind them that we're not 'gung-ho' all the time, and there are times when it's appropriate to be conservative."

ADVICE

Having only recently undertaken the challenging process of implementing a managed account service within the business, is there anything Phil would do differently?

"Seriously, I should have done it years ago," he says. "But as I said, the technology and capability for what we wanted to do with currency on our international portfolios, wasn't available back then.

"But, if I was starting out right now, I definitely wouldn't go IMA. Instead, I'd go straight to the MDA environment.

"Businesses need to realise that the transition process to managed accounts does take a fair bit of time, but it's a great opportunity to get in front of clients, talk to them about the service and engage with them."

With the heavy lifting already done in transitioning to an MDA offering, Phil is genuinely excited by the prospect of Cutcher & Neale's investment services business becoming less administrative and more incisive of macro economic issues in relation to its investment decisions.

"Our new managed accounts service means we won't be bombarding our clients with the mountain of paperwork that SOAs and ROAs produce, which is definitely a good thing. Instead, we'll have more time to analyse client portfolios and their asset allocations, and be talking to clients about this," Phil says.

"So, it's a definite win-win for our clients and our staff."

Choosing a Managed Account: What you need to know

Toby Potter and Angela Ashton explain the four elements that make up a managed account and the importance of understanding how each element interlocks with the others.

There are four elements of a managed account program that every adviser or licensee that is thinking about implementing a program needs to consider:

1. Legal Structure
2. Investment process
3. Technology and Operations
4. Advice process

Put together, these four elements determine the type of managed account that will be offered and how it's going to fit with the advice service offer.

The 'program sponsor' needs to think about each area carefully. While the term 'program sponsor' has no legal basis, it's a useful concept if you take it to mean the organisation which, while not necessarily undertaking all the functions to deliver the managed account program, is primarily responsible for: determining its characteristics; which other organisations are involved; and how it is presented to the retail client.

Generally, the program sponsor will be the advice business that has the retail client relationships.

Before choosing a managed account for your practice, it's best first to answer a couple of questions. These include:

- What advice and portfolio management service do you currently offer?
- What do you want the new service to look like?
- What are the current resources you currently have available, either internally or externally?
- What level of operational and financial risk are you prepared to assume?
- What revenue do you need to achieve to make the service viable and sustainable?

These questions will determine the approach you need to take in determining the optimal approach in designing the managed account service. Making it more complex is that considerations in one area – for example, legal structure – will be affected by your options in other areas, such as technology.

Set out below are the key issues which you will need to consider in each of the four elements of a managed account program and we end this article with a couple of examples of how the business model determines quite different approaches to adopting a managed account program.

1. LEGAL STRUCTURE

The two principal options that a licensee can choose are Separately Managed Accounts (SMAs) or Managed Discretionary Accounts (MDAs), and within each are a number of choices.

SMA

A platform-only choice where the managed account is effectively a managed investment scheme with a PDS and responsible entity. Product choices are generally a menu of third party managers, dealer managed portfolios and in some cases, third party responsible entities. These can be offered under personal or general advice.

The twp principal options that a licensee can choose are Seperately Managed Accounts (SMAs) or Managed Discretionary Accounts (MDAs), and within each are a number of choices.

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MDA

MDA services have an MDA provider (rather than a responsible entity), a client agreement, FSG, and an investment program that accompanies the SOA.

Part of the motivation for adopting one or another of the available legal structures will be the branding and pricing strategies that the sponsor decides to implement. This may be because it wants:

- to take a margin for its investment management;
- reflect its operational structure; or
- ensure the program is branded consistently with the presentation of other services, such as investment management or its corporate brands.

2. INVESTMENT CHOICE

Just like advice provided outside the managed accounts world, advice businesses have many choices in the depth and style of investment approach they adopt. These include:

- Relying on external research on SMA managers and providing advisers with an APL from which they select for each client;
- In-house investment committee to provide asset allocation and manager selection;
- In-house security selection; and
- Delegation of responsibility for investment selection to advisers.

Choosing amongst these options will depend on the current business model and the aspirations for development. In turn, this is influenced by your investment philosophy and choice of investment vehicles: managed funds vs ETFs or direct security holdings, active vs passive or enhanced index, Strategic Asset Allocation vs Dynamic Asset Allocation.

If you are involved in the portfolio management of the managed accounts your advisers recommend – whether as dealer SMAs or in an MDA program – it is likely that you will need to significantly increase the resourcing of your investment team and investment committee. External, independent participants, such as researchers and investment committee members with specific expertise, are likely to be necessary.

3. TECHNOLOGY AND OPERATIONS

The default technology and operations model for most advice firms has been to outsource these functions to one or several platforms, and choose a planning and reporting software provider.

Implementing a managed account program frequently means a change in the way in which advice is delivered and a change in the relative roles of the adviser, their support staff and the central functions of the licensee.

Platforms increasingly offer portfolio management capabilities, which allow advisers, licensees or SMA/MDA providers, to execute portfolio trades and make corporate action decisions. This ensures integration of portfolio management and asset holding and reporting.

However, many external software providers are now starting to offer software capability, which allows portfolio management outside the constraints of platform administration.

Allied with decisions about technology are decisions about custody or asset holding. Holder identification number (HIN) sponsored ASX holdings are the most obvious example of a widely used structure as an alternative to platforms.

This may mean that the generation and execution of trades and administration is retained in the advice business, which raises both the complexity and operational risk in the business.

4. ADVICE

Implementing a managed account program frequently means a change in the way in which advice is delivered and a change in the relative roles of the adviser, their support staff and the central functions of the licensee.

When a practice decides to adopt a managed account program, the role of the adviser changes but becomes no less significant than when the adviser was making the investment recommendations.

Firstly, in explaining to clients how the service will operate and how each client will benefit, is central to the success of the program. Then, ensuring that the client's goals and constraints, such as investments to retain or exclude, can be accommodated by the managed account program, which is an essential part of the managed account service.

Although one of the benefits cited for managed accounts is adviser practice efficiency, the primary change to the advice process is generally to move the individual account investment selection process away from the individual adviser and into the central investment team.

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As long as the technology chosen has the capacity to support individual preferences or constraints, such as exclusions – which is the responsibility of the adviser to identify and address – and the investment choices offered enable the client's goals to be achieved, then the basic portfolio decisions of what to buy or sell and when to achieve those goals, can be delegated to an investment team.

COMBINING THE FOUR ELEMENTS

The choices in each area are interlocking. Or viewed another way, the business model in which each advice firm has developed, means that a relatively unique but complimentary set of decisions need to be made to ensure the program is successful.

In Table 1, there are a number of advice business models and the choices which the program sponsor might make as a consequence. These examples are only representative of some of the ways in which appropriate choices can be made in each area to develop a coherent service offer. There are, of course, many other combinations which would be appropriate for other organisations.

Toby Potter is Chair of the Institute of Managed Account Professionals (IMAP) and Angela Ashton is a Director at Evergreen Consulting.

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TABLE 1: BUSINESS MODEL OPTIONS

Business model	Legal structure	Investment	Technology & Operations	Advice
Conventional decentralised advice AFSL with adviser choice of investments from APL.	Menu of SMAs, no portfolio management fee or branding opportunity.	Approved managers on APL.	All operations and technology delivered by platform. Investment changes undertaken in SMA.	Personal advice delivered ad hoc by advisers. ROA to move between SMAs.
Self-employed advisers but strong centrally developed advice philosophy and use platforms for implementation.	MDA service where the AFSL has its own MDA authorisation or partners with an MDA provider or Dealer SMA models on platform.	AFSL portfolios developed with external inputs, such as asset allocation and manager selection.	Platform provides technology and operations.	SOAs used to provide initial advice and annual review if MDA used.
Vertically integrated model, especially with salaried advisers.	Dealer SMA on platform or MDA service, with AFSL or related entity as MDA provider.	AFSL portfolios developed with external inputs, such as asset allocation and manager selection.	Platform technology relied on from each platform that is used with portfolio management operations carried out by the platform or advice central teams.	SOAs used to provide initial advice and annual review if MDA used.
Advice business serving high-net-worth clients.	MDA structure used to integrate portfolio management into the advice service.	Investment decisions may be managed in-house, down to level of security selection, but some asset classes outsourced to specialists.	Portfolio management technology and operations handled internally, with asset holding in a combination of direct (HIN) and platform, especially for retail super.	Personal advice delivered through SOA and annual review. Adviser extensively involved in ensuring that client specific circumstances are accommodated.

** Table 1 shows some of the options that a licensee might select, depending on the business model they adopt for advice.*

InvestTech 2017: Technology and transformation

Technology and innovation is rapidly transforming the delivery of advice, and managed accounts are at the very centre of this transformation. The inaugural InvestTech 2017 conference showcases how technology is changing the way businesses operate.

Highlights of InvestTech 2017 include:

- how new technology is affecting businesses;
- case studies in wealth management about redefining client relationships;
- how leading advice businesses are using portfolio management technology to reinvent their businesses;
- how SMSF technology will reach ever deeper into portfolio management; and
- how the ASX is colonising the advice profession and what that means for advice going forward.

For more on InvestTech 2017, *Perspectives* magazine has published the following collection of white papers from the conference. Read on.

InvestTech 2017 / Dockside Convention Centre / Level 1
Cockle Bay Wharf / Darling Harbour / 5 December 2017

MANAGED PORTFOLIOS: A SOUND INVESTMENT IN YOUR CLIENTS AND YOUR BUSINESS

Hub24 considers the growing trend of managed portfolios overseas and the significant benefit they offer clients, advisers and practice staff.

It's no secret that financial advisers are under increasing pressure to grow their business, which means focusing on revenue growth and profitability, as well as delivering quality financial product advice to their clients in the context of an increasing and ever-changing regulatory and compliance environment.

Most importantly, advisers are looking for ways to add value for their clients.

Following improvements in technology, managed portfolios have the potential to streamline administrative operations and deliver measurable gains to clients, and advisers, in terms of outcomes and costs.

Uptake of new technologies – especially those that challenge the status quo – can often be slow, and despite their many benefits, research by CoreData[1] suggests only one-third of advisers in Australia are using managed portfolios within their practice. A lack of understanding about the potential benefits available and how platforms are delivering these solutions is often a key impediment to their take-up, yet the concept is remarkably straightforward.

In essence, a managed portfolio is a package of a diverse range of investments, which may encompass traditional managed funds, and listed securities, including exchange traded funds and listed investment companies, as well as cash-based assets, such as term deposits, that is managed by a professional investment manager within the framework of an investor directed portfolio service (IDPS) or super wrap platform.

The client can provide a standing instruction in relation to the investments in the managed portfolio – so those investments remain investor directed. Those investments, however, typically reflect the investment strategy developed by a professional investment manager, who is responsible for the development and ongoing monitoring of the investment strategy of the managed portfolio. This means investment rebalancing and reallocation of investments within the managed portfolio can occur seamlessly as and when required.

There can be important benefits to the client of holding such a portfolio: exposure to a broad selection of asset classes enabling risk management and the pursuit of growth objectives, access to professional investment managers, and the potential for tax efficiencies that are not available through investing in traditional managed investment schemes.

For advisers, the ability to collaborate, outsource or partly outsource investment management in accordance with a client's standing instruction, can provide new opportunities to reduce or remove some of the burden associated with records of advice (ROAs).

The ability to construct managed portfolios that can speak to the needs of different types of clients, while reducing the administrative burden, has the potential to enable a greater focus on the core function of providing holistic planning and strategic advice for their clients.

THE GROWING TREND TO MANAGED PORTFOLIOS OVERSEAS

The use of managed portfolios in jurisdictions, such as the United States and the United Kingdom, is part of a wider outsourcing trend driven by a confluence of factors, including the bid to reduce regulatory risk, lower investment management costs and meet rising client expectations.

GROWING MOMENTUM IN THE U.K.

Momentum for investment management outsourcing has increased measurably in the U.K. following the introduction of the Retail Distribution Review (RDR) on

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31 December 2012[2]. The RDR resulted in heightened scrutiny of adviser recommendations, and many advisers no longer consider investment selection their core strength.

Support for managed portfolios in the U.K. has been further bolstered by the incoming MiFID II (the Markets in Financial Instruments Directive) regulations, set to take effect in 2018.

Under the regulations, advisers will have to comply with additional transparency and reporting obligations.

The shift from managing investments to financial planning was underscored by CoreData's *Adviser Fees and Business Models 2015* report[3], which found U.K. advisers only spend 15 per cent of their time managing existing client portfolios.

The net result is that as many as 45 per cent of U.K. advisers use managed portfolios[4], a figure that could potentially reach 60-70 per cent over the next few years. In fact, research by Skandia in the U.K. found the majority of investment advisers now outsource portfolio management[5].

Findings from the research, which surveyed 252 U.K. investment advisers, revealed the proportion of advisers outsourcing portfolio management rose to above 50 per cent for the first time in Q4 2016, while the proportion of advisers who chose not to outsource, dropped to 48 per cent. Under the regulations, advisers will have to comply with additional transparency and reporting obligations.

RISK MITIGATION DRIVES U.S. OUTSOURCING

In the U.S., the *Natixis Portfolio Clarity U.S. Trends Report* for the third quarter of 2016[6], reported that financial advisers are increasingly using diversified managed portfolios as a means of risk mitigation in expectation of volatile market conditions.

The same report found advisers are managing two-thirds (67 per cent) of their clients' discretionary assets themselves, though 33 per cent of client assets are either in their firm's managed portfolios or managed by external consultants[7]. Nine per cent of advisers say they plan to outsource investment decisions[8].

NEW TECHNOLOGY UNDERPINS GROWTH IN USE OF MANAGED PORTFOLIOS IN AUSTRALIA

Managed portfolios have been available in Australia in various forms for many years. However, in practise, many of the processes associated with them were manual or unscaleable, which led to higher costs where only high-net-worth investors could benefit. In recent years, the development of more efficient technology has meant that managed portfolios can be operated in a way that is cheaper and faster, and therefore, more accessible to a broader range of investors.

In June 2017, the Institute of Managed Account Professionals released its *30 June 2017 Managed Accounts FUM Survey*, estimating FUM for managed accounts in Australia now stands at $47.97 billion[9].

THE TRIFECTA OF BENEFITS OFFERED BY MANAGED PORTFOLIOS

To understand some of the advantages of managed portfolios, it is worth breaking down the advantages across three key groups: clients, advisers and practice staff.

1. WINS FOR THE CLIENT

For an adviser, any product or service must fulfil one overarching brief – better serving clients' needs.

Control and transparency
One of the headline advantages of managed portfolios is the potential they offer to build a highly diverse portfolio.

Rather than being limited to traditional listed investments, such as equities, managed portfolios can encompass other listed securities, including hybrids, bonds, exchange traded bonds, units and exchange traded funds, as well as unlisted managed funds.

In specie transfers can typically be made into the managed portfolio, and, subject to the terms on which the managed portfolios are made available, specific stock holdings can be removed or swapped to reflect the preferences, current holdings or ethical considerations of each client.

Without an interposing trust, clients can see exactly which assets comprise the managed portfolio, with complete visibility of underlying investments. This transparency also allows advisers to monitor client portfolios on a daily (rather than monthly or quarterly) basis, which in turn can enhance a deepening of the client/adviser relationship.

Tax efficiency
Australian investors are increasingly becoming aware of the need to measure portfolio success by after-tax returns. Yet, in a traditional managed fund, investments are unitised, hence individuals have no control over the timing of transactions with regards to personal tax planning. Indeed, the fund manager's decision to sell underlying assets may be driven by the redemption requests of other unitholders, rather than reflecting the market timing benefit that an adviser or their client is seeking to achieve.

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Within a managed portfolio, tax benefits that can be associated with dividends and franking credits flow directly to the client (which in turn can offer predictable cash flows to them), something that may not always be the case with a managed fund.

Furthermore, by using the platform technology through which managed portfolios are made available, advisers can time the transacting of specific parcels of securities to optimise tax outcomes for the individual client (with a view to maximising or minimising gains).

2. WINS FOR ADVISERS

Benefits delivered to clients can organically flow through to advisers, not just in terms of an improved service but also through business growth via increased client referrals.

Enhanced efficiency deepens the client relationship

Research by the Association of Financial Advisers[10] indicates that 82 per cent of adviser clients place greatest importance on their adviser's ability to build rapport, show their concern for the client and understand the client's needs.

Strong technical skills, on the other hand, are assumed to be a given, with just 4 per cent of respondents citing this as the 'most important' quality of a financial adviser.

How does this relate to managed portfolios?

Improved management of tax outcomes (often a key client objective) allows advisers to demonstrate on a practical level, genuine concern for their clients' tax positions.

The transparency of managed portfolios allows advisers to keep each client better informed, often with near real-time data. The portfolio manager typically provides regular commentary, firstly on their view of the global outlook, and then, on how they are tailoring the position in the portfolios in response to market developments. This can resonate with clients, who can track what is happening in the world in the news, and then see how their portfolio manager is responding to these events. This can then provide a topic of conversation between clients and their social network, acting as a driver of referrals.

The outsourcing of asset management and portfolio construction also provides efficiencies in the implementation and management of client portfolios. This can result in cost savings to the adviser, which can be passed on to clients.

By integrating managed portfolios as part of a broader proposition, rather than as a standalone managed portfolio offer, advisers can access the services provided by the platform provider – including superannuation and investments, consolidated reporting and tax optimisation.

The use of managed portfolios can be a radical step for advice practices, and it may involve a rethink of an adviser's value proposition. Ultimately though, it also allows advisers to focus on what they do best – engaging with clients to provide holistic and strategic, tailored advice – the very activity that clients value most. From a business continuity perspective, outsourcing the investment function also eliminates many of the concerns over succession planning.

3. WINS FOR ADMINISTRATIVE STAFF

As managed portfolios remove a large part of the burden associated with building and managing a client's investment portfolio, administrative staff are relieved of a wide array of every-day, high-cost tasks.

As all or part of the investment management is provided by a professional investment manager, administrative operations are significantly streamlined. The process of buying/selling investments in-house can be virtually eliminated, offering considerable administrative time savings.

The result is that administrative staff can be freed up to focus on higher value activities. Indeed, a practice may find it needs fewer administrative personnel because of the efficiencies available through managed portfolios, or they can be better utilised supporting client management and strategic advice functions.

Footnotes

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What open platforms mean for the future of advice

John Kim shares his views on how tomorrow's platforms will further evolve the role of financial advisers and portfolio management.

Since they entered the market more than 17 years ago, platforms have evolved considerably. Each iteration has driven change for financial advice practices. As we enter the realm of open platforms and open banking, what will the next generation of platforms mean for the role of the adviser?

In their earliest form, back in 2000, platforms were basically efficiency solutions aimed at removing the back-office burden for advisers. But this was just the start.

Next, wrap platforms changed the game, enabling advisers to scale their businesses by offering a low-touch online means of giving investors access to listed securities and managed funds across different product structures and tax reporting. Wrap platforms further improved administration and efficiency, reduced the cost to serve, and allowed advisers to grow their client base without eroding value.

On all sides, the client and adviser experience improved with the enhancements to digital portals via new technologies.

Empowered by platforms, advice practices were able to decrease their administrative resources and, instead, focus on value adding services and propositions, such as research, strategy development, client management and more face-to-face time with their clients.

But advice practices didn't just get more efficient, their very nature changed.

Until quite recently, many advisers were effectively running advice practices providing investment and retirement advice, researching and formulating investment portfolios. However, as platforms have evolved, so too has their investment and portfolio management capabilities.

When your focus is on investments, trade execution and reporting, client conversations are kept very investment outcome driven: "How are our investments performing?"

As advisers and practices have moved to more goals-based advice models and utilising platform and portfolio efficiencies, such as model portfolios and managed accounts, their focus moved to more strategic, and ultimately more valuable conversations: "How are we tracking against your life goals?"

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FULL-SERVICE INVESTMENT PLATFORMS

Today, the next technology iteration has created full-service platforms that are able to cater for clients and advisers more holistically.

These new core platforms, integrated with digital solutions, are able to provide portfolio management services across multiple business models and structures (custodial and non-custodial) and service offerings (trading, investment, super, pension and SMA overlays). They give advisers up-to-date, real-time information for themselves and their clients – and full visibility and control.

Importantly, from a service perspective, they also support straight-through-processing, smart automated workflows, financial planning software integration, as well as client engagement and communication tools. These digital platform solutions allow advisers to engage via preferred devices and channels – a critical capability for advisers gearing up to capture generational wealth transfer.

In practical terms, the new platforms mean a single adviser will be able to service a substantially larger number of clients, while actually continuing to improve service quality. And that service will be much more about financial wellbeing and much less about investment strategy, which will soon have the potential to be almost completely automated.

PLATFORMS KEY TO LEVERAGING OPEN BANKING

Following similar moves in the U.K. and Europe, Australia is in the process of developing policy to support an open banking regime. This will create a new financial services environment where consumers can take greater control of their financial data and, with consent, securely share this information with third parties to access new products, competitive offers and improved services.

Open banking will offer significant opportunities for personal finance management platforms that allow customers to take greater control of their personal financial data, enabling them to aggregate a full view of their financial position. This will also have clear benefits for advisers working with these customers to provide holistic wealth advice.

Macquarie has already launched Australia's first open banking platform using Application Programming Interface (API) technology to give customers greater control over how they choose to use their own financial data to securely access services from third party providers, such as budgeting apps, accounting software or their financial adviser.

WHERE NEXT FOR PLATFORMS?

Strategically, we see platforms as essential to the way advisers do business; driving efficiency, enabling scale and adding expertise.

Portfolio management is, or will soon be, largely a commodity service. Platforms of the future will offer an integrated seamless experience to clients across the entire wealth value proposition: omni-channel, omni-device and be completely API-driven.

These open platforms will enable advisers to specialise in comprehensive wealth management and transfer issues, including: investment and retirement planning, executive compensation, complex trust and estate planning, and charitable giving. Clients will sit in the middle of a financial ecosystem, run on open digital platforms.

For those harnessing the right technology, this will allow for greater innovation and even better client experiences.

WHAT DOES THIS MEAN FOR ADVISERS?

This is good news for advisers who know their clients well and are prepared to get on board with new technologies and open platforms. Platforms will connect advisers with clients in new ways, positioning them to play a critical role in supporting financial wellbeing.

To get ready for this future, advisers should:

1. **Check** – to participate in the new financial ecosystem, advisers need to make sure the platforms they are using are investing in the latest technologies. Choose open, API-based platforms that are working to harness technologies, such as artificial intelligence (AI), analytics and robotics.

2. **Consider** – which platforms work with which customer segment. Baby boomers value trust. Gen X love convenience. Millennials expect an immersive, personalised digital experience. Tomorrow's successful advisers will serve a far more technologically literate client base. This means they need to develop a multi-generational strategy for their clients' adult children – or other young investors – to take advantage of this significant future wealth transfer opportunity. It's time to make sure platforms are positioned to expand and grow with the very different needs of future clients.

3. **Envision** – advisers are moving into a new role as a sounding board and life coach. This will be enabled by open platforms, which will soon give advisers greater access to real-time, holistic information about a client's financial circumstances, enabling more powerful and timely conversations supported by AI-generated insights. Advisers need to consider their new value proposition and adapt their go-to-market strategies accordingly.

John Kim is Head of Wealth Platforms and Delivery at Macquarie Wealth Management.

SEEING IS BELIEVING

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JACKALOPE

The power of connecting

Martin Morris discusses the importance of keeping your business healthy and keeping your clients engaged in today's digital world.

Technological innovation is driving change across all businesses globally, specifically in how a business deals with its customers.

The advent of smart technology and social media has forced businesses to adapt. Customers now have a greater voice if they are unhappy with a company's products or services. Posting a tweet or commenting on a company's social media page can often get a quicker response than the traditional customer service channels.

Customers are demanding more; more information, better service and more engaged relationships with organisations. Those firms that aren't embracing technology to better connect with their clients are falling further behind.

So, what does this mean for the financial planning sector, where customer relationships really are the core of an advice proposition?

THE CORNERSTONE OF THE FINANCIAL PLANNING RELATIONSHIP

Every client of a financial planning practice has unique characteristics that affect how they behave and how they interact with others. Therefore, to ask a planning practice to connect successfully with each of its clients is a tough request, yet only those practices that build strong relationships with a large proportion of their clients will grow and endure.

Trust is the foundation of a strong relationship between a planner and their client. Humans have a natural disposition to trust and to assess trustworthiness, which the financial planning industry can use to its advantage.

However, the planning process is not finite – there are many factors that influence the outcome of financial planning strategies that are out of the control of the planner and their client.

Therefore, in order to hand over control of their wealth management and potentially their future livelihood, the trust a client has in their planner must be strong enough to counteract these intangibles.

In the pre-FSR (2001) era, it was possible to commit a much larger portion of a practice's time to being in front of clients. Financial planners of this era were often more adept at using soft skills to understand clients and adapting their advice approach accordingly, as they had the time to focus on and hone these skills.

It can therefore be assumed that, due to the greater time available, it was relatively easier to attain and maintain trust in the planner client relationship.

However, time and resources are factors that few financial planners have in abundance post-FSR. To add to a financial planner's time and resource limitations, the Global Financial Crisis had a significant impact on the way trust is created and maintained in this complex planner-client relationship.

Transparency and control are increasingly becoming a requirement across new client demographics, but also amongst current investors who previously may have handed the management reins to their planner, being content with one review a year.

So, today, building enduring trust is becoming harder.

So, what is the answer to this quandary?

Trust is typically built when a client feels that their planner is putting their needs first and is keeping them informed. Communication is key to this and technology can play a significant role in building trust and enhancing the planner/client relationship. Communicating with clients in the way they want to be communicated, and with the level of detail and personalisation they are looking for, is also important.

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Enhanced adoption of technology is the quick and readily given answer. However, a tough reality is that technology and access to knowledge is advancing faster than business models are adapting.

TECHNOLOGY ADVANCES AND BUSINESS MODEL ADAPTION AT A DISCONNECT

Time Magazine named 1982 'The year of the computer'. By 1983, 10 million PCs were in use, and by 2014, PC usage was up to two billion.

As the hardware market matured, the internet was equally growing and in 1995 it exploded into the mainstream with 16 million users (0.4 per cent of the world population). Extraordinarily, by June 2017, it had grown to 3.89 billion users (51.7 per cent of the global population).

If that wasn't enough progress, we then saw the advent of the mobile phone, yet another way to connect, and by 2013, UN research showed there were six billion people of the world's population of seven billion, who had a mobile phone – a larger percentage than those who had a toilet!

It is incredible how much information is now accessible on the internet and at the fingertips of the research savvy and knowledge thirsty.

By the end of 2016, global internet traffic was 1.1 zettabytes per year. To put that into perspective, one zettabyte is the equivalent of 36,000 years of high-definition video.

So, what does this mean for Australia?

At the beginning of 2017, there were 13.5 million internet subscribers and 17 million Facebook accounts from a population of 24.4 million. At that stage, Australia also recorded a growing, and not surprising, statistic that 40.44 per cent of internet usage is via mobile and a dwindling share of 59.56 per cent through desktop.

With technology connectivity advancing at such a pace, as an industry, we need to ask ourselves a couple of hard questions:

1. Have our business models adapted at the same, or a reasonable pace, to keep up with this innovation and change of consumer behaviour; and
2. Is the industry having a positive enough impact on the wider Australian population to materially increase the number of people seeking financial planning advice?

Unfortunately, time and resource restrictions have been an easy excuse for many within the planning community and provided them with a reason to continue as they always have done. Many are maintaining their current models with a focus on retention, rather than any real substantial growth.

It could be argued that the ageing planner base in Australia are themselves transitioning to retirement, with neither the drive nor energy to deliver change within their own business. Or, that many larger AFSLs are finding the revenue pressure post-FoFA a deterrent and barrier to investing in innovation within their network.

Either way, the cold reality for the industry is there does not seem to have been any real net growth in financial planning clients since the ASIC study in 2009/10, which stated that as little as 20 per cent of the population seek financial advice.

Therefore, all that can have really happened is existing, unhappy clients have switched planners, or a planner is acting as a disaster recovery agent helping a self-directed client to dig themselves out of a financial or strategic mess.

Unfortunately, the high retention rates only help to support this apathy amongst practices. There is little motivation to provide their clients with enhanced connectivity, control and transparency if they convince themselves that it's not needed. Social media isn't deemed relevant for their business due to the belief that an ageing client is not technologically connected. This overlooks a significant social change that is occurring that may force an adjustment in their thinking.

With more baby boomers retiring, the grey nomad community increases in number. Luxury caravans mean significant wealth will literally congregate around the proverbial campfire at night, whilst chasing warmer locations. If not driving through the bush, a larger portion of retirees are flying across the world to find warmth and adventure.

This leads to a couple of obvious questions:

1. What sort of planners will get the most positive feedback and referrals? Those who have developed connected client bases or those whose clients need to chase them to work out their finances or gain ad hoc portfolio information?

> "As a planner works through their managed account opportunity, it is important to include their technology partner and to ensure they understand the breadth of functionality at their fingertips."

CONTINUES >>

2. Which clients are most at risk of seeking alternatives?

Regardless of this retention apathy and the average client-base age of practices, the generic client engagement model has not advanced much in over a decade. There have been small incremental changes, as planners add components of technological advancement at different stages of the advice value chain. However, they have all been predominantly to the benefit of the practice.

Many platforms continue to focus their attention on servicing the planner to the detriment of building really engaging investor portals. As other industries drive a more dynamic customer experience, the planning industry still lags behind conservatively at the point where planner clients connect.

So, what is the outcome of all this?

- From an investor perspective, the client engagement experience has remained consistent, even though consumers are changing the way they request and consume other professional and retail services.
- Client bases are more at risk than ever before and planners need to be careful not to react only when clients begin their exit process.
- Increasing numbers of investors early in their financial journey are experiencing online education and services to address their investment or financial strategy needs. This encourages them to remain self-directed for longer, thereby reducing the client prospect pool significantly.
- General referral rates of many practices remain low, as client are uninspired by their own experience, even though they may stay due to trust in their planner.
- As the financial planning industry continues to fall behind other industries' use of technology, its value proposition will continue to be eroded and our ability to increase the usage of planners by the general population will be hindered.

Of course, the more established and mature a practice is, the harder it can be to transition into this digital age. The options available can make it seem extremely overpowering and paralyse a planner from making progress, which is understandable, but until change is implemented, it will remain a risk to the business.

Managed accounts on their own are just an investment solution with benefits to both the planner and investor. The golden egg is using managed accounts in conjunction with investor-focused managed account technology to address this conundrum of client connectivity.

Of course, there are still some embedded habits by planners of internalising the opportunity of managed accounts, considering the benefits around reduced compliance requirements and possible enhanced margin opportunities.

However, the real power of harnessing managed account technology is when planners engage and connect with their clients to create exceptional wealth management experiences.

When focusing on a review or implementation of managed accounts, a planner should steer away from 'internalising' the benefits. Harnessing the technology to drive connectivity and keeping the client experience as the cornerstone of the advice process, will yield a greater level of business benefits, as seen in Table 1.

TABLE 1: BUSINESS BENEFITS

Benefit	
Increase revenue	Generate greater fees by adding more value
Increase profitability	Drive efficiencies within the practice and advice process
Address control and transparency	Deliver customer needs in a scalable manner
Increase customer satisfaction	Create more connected, engaged and trusting clients
Secure client retention	Remove a major business risk
Increase referral rates	Engaged and inspired clients refer
Increase practice value	Efficient businesses with engaged connected clients

As a planner works through their managed account opportunity, it is important to include their technology partner and to ensure they understand the breadth of functionality at their fingertips.

Reviewing the client engagement experience will also allow a planner to ensure that the technology will, in fact, address all the points listed above and not just deliver a similar client experience to that under a pre-managed account advice process.

Martin Morris is Head of Distribution at Praemium.

The future of managed accounts

Over the past 10 years, the managed accounts sector has established itself as a major participant in the Australian financial services industry. As Matt Heine writes*, the next five years will see this sector come of age, where new entrants, new technologies and new consumer habits will shape and evolve managed accounts to be mainstream in financial service practices.

Three years ago, we set ourselves a challenge – to create a dynamic, flexible and efficient managed account platform that advisers could tailor to really suit their needs and the needs of their clients. We set out to create a real game changer; a solution that would make a tangible difference to the advice industry and businesses right from the onset.

It was an exciting, and sometimes exhausting, time for our dedicated team of investment and technology experts, who invested thousands of hours over a 12 month period into developing our managed account (MA) offering – shaping and reshaping, tuning and fine-tuning, until finally, about two and a half years ago, we were ready for launch.

A GENUINE SURPRISE

It therefore came as a genuine surprise to us that we faced challenges right from the start. We faced these challenges because, as it happened, our initial thinking around how the advice community would use our product was completely incorrect.

We thought advisers and advice groups would use our managed account in one of two ways.

Firstly, to solve asset class problems or to supplement a portfolio and gain direct exposure to a specific asset

> "We are starting to see practices introducing managed accounts into their diversified models through a process we call 'model-of-models'."

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class. This scenario could see an adviser pulling out of an Australian managed fund and buying into an Australian managed account model to access the underlying assets that made up that model. Off the back of that, we also expected most advisers to use managed accounts to better manage direct equity portfolios.

The second way we expected advice groups to use our managed account offer was as an investment solution for clients, as managed accounts have often been touted as an investment solution that provides greater transparency and tax effectiveness than other solutions.

Well, we were wrong on both counts.

Most advisers began by using our managed accounts as whole of business solutions and they continue to use them this way. So, rather than just employing them to solve an asset class problem, they are using them to manage portfolios of diversified assets.

Approximately 75 per cent of the assets sitting within our managed account product are managed funds.

This experience naturally informed the evolution of our managed account offer. For example, the use of managed funds meant we needed to enhance our algorithms to handle non-liquid assets.

It also meant catering to numerous advice business models and developing ways to facilitate different asset types within managed accounts, such as fixed interest, which have different trading requirements.

Today, we are seeing the early adopters, or the advisers who have been researching, looking and now using managed accounts for 12-18 months, very comfortable with the managed account structure. They are comfortable positioning it with their clients and very comfortable about the benefits it has for their back-office.

Findings from research published in the recent netwealth *AdviceTech Report* indicated that 57 per cent of advisers plan to adopt a managed account solution by 2019, with 35 per cent of advisers already using them today.

POPULARITY

So, why are managed accounts becoming so popular?

We think the growth in managed accounts has been driven by several factors all coming together at the same time to create a perfect storm.

The first factor, albeit seven years ago now, was the Global Financial Crisis (GFC). The GFC exposed poor portfolio management. Clients had serious losses and advisers couldn't quickly react to market conditions, so they began looking for more efficient ways to manage their portfolios.

The second factor was that advisers began to recognise that their value proposition was strategy and client engagement, not the delivery of investment.

The third factor was the Future of Financial Advice (FoFA) reforms. FoFA meant advisers had no choice but to become more efficient and to literally look at every part of their business, decide where they added value and where they could offer the greatest benefit to clients.

The fourth factor was technology and how technology has changed consumer expectations. Consumers demand absolute transparency and increasing access, and technology has enabled both these things.

Further, over the past three years, technology has made managed accounts accessible as an investment option within most platforms for the very first time. Before that, they were stand-alone niche offerings capable of solving small problems that weren't easily consolidated with broader portfolio assets. So, technology has made managed accounts far more accessible to a much bigger market.

THE FUTURE: MANAGED ACCOUNTS 3.0

Which brings us neatly to the big picture question, which is: What does the wealth industry want from managed accounts in the future? Or, where to from here?

We believe the answer is: greater sophistication and greater customisation.

This next stage of the managed account evolution is about being able to build out a full, sophisticated, customised offering, as not every managed account is the same.

To date, we have set up 14 private label managed accounts and each one is different. This is because advisers and licensees tend to have slightly different takes on what it needs to look like or what it should be able to do. For example, we have needed to cater for negotiated rebates on managed funds to lower the costs of managed accounts.

"Which brings us neatly to the big picture question, which is: What does the wealth industry want from managed accounts in the future? Or, where to from here? We believe the answer is: greater sophistication and greater customisation."

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"The challenge for us, and other platforms, is to continually deliver a highly customised and configurable product that is incredibly efficient at the back-end, and that can deliver what the advice community really wants."

We are starting to see practices introducing managed accounts into their diversified models through a process we call 'model-of-models'.

This translates to a sophisticated, multi-asset portfolio made up of a number of managed account models and other investments. Models might include international equities, direct equities, managed funds, ETFs, cash and so on.

We also expect growth from other avenues, including the continued development of broader asset classes to be used in managed accounts, including bonds, as well as the continued evolution and development of international equities.

It could be the use of less traditional assets, such as infrastructure funds that only price on a monthly or quarterly basis.

Ultimately, this involves refactoring the way that the rebalancing algorithm works to accommodate more sophisticated assets and greater offerings for international equities and multi-currencies.

These developments are really off the back of the adviser's comfort level, but they are also being driven by the fact that managed accounts are now seen as a very suitable solution for sophisticated private wealth groups and high-net-worth clients.

On that point, we think there was a bit of a misconception in the industry that managed accounts would industrialise advice, providing a solution primarily for low balance or disengaged clients.

Our experience, however, is that the industry is now seeing it as a way of automating the investment program for very sophisticated investment philosophies, effectively managing mandates and efficiently managing a range of different strategies, including being far more active from an asset allocation perspective.

From a business perspective, particularly within IFA/high-net-worth firms, we have rarely come across identical investment philosophies. Advisers have different views on how to run asset allocation and the answers to the following questions will be different:

- Strategic asset allocation, tactical asset allocation or dynamic asset allocation?
- Once that's decided, what actual assets will be used to achieve exposure to different asset classes? Active investing or passive investing? Are managed funds required for particular exposures?
- After that, it's a matter of looking at capabilities – whether or not advice practices need to partner with external asset consultants, if they have the capability to be the model manager, or whether they need a provider to act in a policy oversight role.

Given there are very different views around these questions and how they relate to each asset class, managed accounts will, depending upon the business, look very different. As no two businesses are the same, the future of managed accounts will involve customisation.

Technology will also obviously be a huge feature in the future, with even better reporting capabilities possible.

Fees will continue to develop to support the ever evolving business models of advice practices. As a result, managed account technology will need to support different fee structures.

Fees for their clients, the addition of performance fees to portfolios or parts of a portfolio, the ability to pay fees to multiple parties, and 'model-of-models' technology that support payments to different investment managers.

EVOLUTIONARY PROCESS

So, industrialisation has happened, but it's not being applied in the way originally thought.

Instead, some very clever investment intellectual property is being put through a very efficient, automated service (called a managed account), so that it's a solution for many types of clients and many types of advice businesses.

There's an almost never-ending list of requirements or variations that can be built into a managed account platform.

The challenge for us, and other platforms, is to continually deliver a highly customised and configurable product that is incredibly efficient at the back-end, and that can deliver what the advice community really wants.

It's very exciting times.

Matt Heine is Joint Managing Director of Netwealth.

* This article was originally published by Financial Standard in FS Managed Accounts 2017.

IMAP

Amazon: May the best prepared win

ANDREW STANLEY
Head of Australian Equities
Ralton Asset Management

Amazon's planned entry into the Australian market has generated intense speculation about the outlook for incumbent players. While Amazon will undoubtedly take some retail share, our research suggests the major impact of Amazon will be to accelerate fundamental changes in the ways companies interact with their customers. These include:

- price transparency will increase;
- cost to serve will likely need to fall for those facing direct competition; and
- the customer experience will be enhanced.

The experience of retailers offshore has been highly dependent on their response to a changed industry structure driven by Amazon's entry. Much like a season of 'Survivor', the winners and losers in this new competitive landscape will be determined by the strategies they choose and their ability to execute on these plans.

With Amazon preparing to launch its Australian domestic operations in late 2018, the pace of innovation and change is set to accelerate in a range of sectors across the Australian market. Companies will need to evolve to remain competitive in this new environment. There has been plenty of notice that Amazon is coming and companies can learn from experiences in foreign markets: to do nothing is not an option.

From our perspective, there are four key aspects in assessing the impact of Amazon across the retail, consumer staples and REITs sectors. These four key aspects are:

1. Assess incumbents against our framework for the future.
2. Understand Amazon's business model to see how

CONTINUES >>

customer obsession drives disruption.

3. Look at the key variables that will shape Amazon's Australian expansion.

4. Consider the risks Amazon faces in penetrating the Australian market.

Points one and three are detailed below.

ASSESS INCUMBENTS AGAINST FRAMEWORK

Amazon's impact on an incumbent retailer, product provider or retail landlord will be highly dependent on how the incumbent responds. As a result, we assess the outlook for an incumbent in two stages.

First, we form a view around valuation, with key assumptions guided by international experience. Second, we assess a corporate's delivery on the changes required to realise our valuation. This section explores this second stage in more detail.

From our analysis of Amazon's business model and its strategy and success offshore, we have identified five key strategic pillars of change (see Table 1) that will assist companies to adapt to the new competitive landscape and three underlying capabilities necessary to implement these changes. This framework will allow us to assess the quality and viability of a company's response to Amazon and hence, form a view on its future market position and ultimately, its valuation.

1. MANAGEMENT CAPABILITY

We need to assess whether management has the capability to evolve its strategy and execute on plans to adapt to the shift in consumer habits. Companies able to adapt and innovate will survive and even prosper after the arrival of Amazon. In contrast, those that are unprepared may be forced out of the market.

2. PRICE TRANSPARENCY

Amazon's arrival will give consumers a tool to instantly cross-check prices to ensure they are getting a fair deal. While retailers may not need to match Amazon's prices, margins may need to reduce to create a competitive market price. Where consumer branded products have sought to hold Australian pricing above that in other markets, we would expect Amazon to assist in breaking this down for the benefit of the Australian consumer. However, it will likely reduce the gross margin of Australian retailers.

3. LOGISTICS

Amazon's delivery capabilities have revolutionised the retail industry and have driven a virtuous circle of increased sales, which are reinvested in the supply chain to offer better service, leading to more volumes sold. The introduction of Kiva robots has reduced warehouse operating costs by around 20 per cent. The next step is last mile delivery, with 'Prime Air' already delivering parcels via drones.

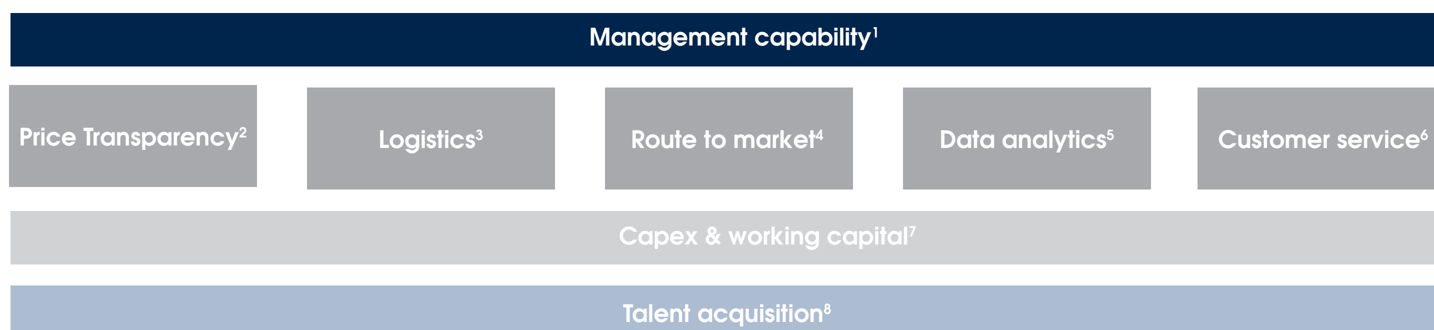
To compete with Amazon, brand owners and retailers will need to collaborate to create faster, flexible and more reliable supply chains to reduce costs and meet new delivery expectations. Companies may choose to leverage Amazon's fulfilment capability to drive sales, in which case, actively managing inventory and optimising product design will be key to success.

4. ROUTE TO MARKET

Amazon will drive changes in how consumers shop, presenting both an opportunity and a risk for traditional retailers. A combination of a strong online and physical presence will be critical for retailers and consumer packaged goods providers.

Online and in-store sales will become increasingly interdependent as customers may choose to 'look and feel' in store and buy online, or vice versa. A company's digital interface, delivery capability and online range will

TABLE 1: FIVE KEY STRATEGIC PILLARS



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be increasingly important, while store footprint is likely to be consolidated.

Prime real estate will become increasingly sought after, as companies move to flagship-style physical stores to engage consumers. Further, consumer packaged goods companies may choose to leverage Amazon's scale to grow sales and/or to develop their own direct-to-consumer online platform. Each of these approaches offers opportunities if done properly; we will monitor which approach companies choose to take and how they seek to achieve this.

5. DATA ANALYTICS

Through its huge data warehouses and sophisticated analytics capability, Amazon knows its customers better than anyone else and makes rapid, data-driven decisions. For instance, it is estimated Amazon changes its prices tens of millions of times globally every single day.

To keep pace, retailers will need to invest in their own ability to collect, analyse and apply insights from data to increase loyalty, create personalised experiences and make quick decisions based on what their customers want.

Australian retailers have data – the question is whether they will be able to use it.

Companies that already have sophisticated data analysis capabilities should be able to defend against Amazon's arrival; others will need to increase their online presence and invest in the area to remain relevant in a landscape where data is critical to success.

Shopping centres will be able to harness data on how customers spend to engage customers, allowing them to optimise the physical shopping experience to defend against the convenience of online retail.

6. CUSTOMER SERVICE

Amazon's 'customer obsession' will force companies to adjust their strategies in an environment of increased price transparency, decreased margins and higher customer expectations.

Given Amazon's broad goal of becoming 'the everything store', traditional retailers need to specialise and differentiate to engage their customers. This may be done through a focus on premium or private label offerings, investment in the in-store experience or targeting products and consumers unattractive to competitors.

Bricks and mortar retailers have a natural advantage in service and experience, which can be leveraged to create an engaging buying experience, both in-store and online.

Whatever approach is taken, a strong focus on customers will be essential.

7. CAPEX AND WORKING CAPITAL

A flexible capital structure will be required to close surplus stores, reconfigure supply chains, invest in online presence, increase data capabilities and improve the overall retail experience.

The short-term focus of equity markets is a clear disadvantage for listed companies competing with Amazon, which is prepared to lose money for over five years before becoming profitable in a region.

A company's financial health and capability to implement the major changes required will be key determinants of its ability to survive.

Further, companies with negative working capital cycles (i.e. those that receive customer payments before paying their suppliers) are more of a concern, if their sales revenue declines as Amazon captures share.

These are critical factors we will look at in assessing a company's ability to adapt to the new environment.

8. TALENT ACQUISITION

Amazon's teams of PhD mathematicians, economists and behavioural scientists have been a key driver of its success.

To establish an online presence, optimise logistics and understand data on their customers, companies will need to attract and retain the necessary talent from a limited pool.

Existing capability in these areas will be a major source of competitive advantage and we will monitor the focus placed by management on this area going forward.

KEY VARIABLES THAT WILL SHAPE AMAZON'S AUSTRALIAN EXPANSION

After deciding on the locations of its first two Australian warehousing sites at Eastern Creek in Sydney and Dandenong South in Melbourne, Amazon looks set to build out its logistics network and begin sales in Australia in 2018.

The way in which Amazon moves into a new market is highly region-specific and has exhibited varying levels of success. This suggests its roll-out in Australia could follow several paths.

In entering Australia, key variables we will monitor are:

CONTINUES >>

PRODUCT ROLL-OUT – TIMING AND RANGE

Releasing its full range of products has been key to Amazon's success in new markets. Its roll-out in Canada was very slow, with significantly less products launched over a much longer period than more recent entries into Italy and Spain, which led to poor take-up of its platform. The most recent expansion into Mexico was aggressive, with the full range rolled out at once.

Having learnt from the Canadian experience, we expect Amazon to follow a similar pattern to its European launches.

The Prime offering is particularly important in driving sales, with subscribers spending more than double the amount spent by non-members. The launch of Prime has historically been a key point of inflection for Amazon's sales and online retail.

ONLINE PENETRATION OF PRODUCT CATEGORIES

Amazon's success to date has also been highly dependent on product category. It has traditionally taken the most share in relatively commoditised categories, such as electronics, sports, apparel (predominantly socks and undergarments) and physical/electronic media, such as books.

Australia's department store and electronics industries are significantly over-stored on a global basis. Electronics and fashion are also relatively consolidated. This is negative for large retailers, which have more share to lose and less to gain as smaller retailers are driven out.

Amazon has been seeking to move into under-penetrated product categories, such as clothing retail and grocery, by removing frictions for customers. The recent Whole Foods acquisition represents a major step into the previously unsuccessful fresh grocery market, which could herald the arrival of a hybrid online/physical offering.

However, we believe Amazon will struggle in the Australian grocery market, given the strength of the Coles and Woolworths duopoly. Their 70 per cent combined market share provides them with a lot of capacity to compete.

In addition, supermarkets can gain an insight into how Amazon intends to attack the market from its offshore approach, giving them time to innovate and adapt. Amazon's non-perishables offering, Amazon Pantry, is likely to be rolled out quickly, however, this has not significantly impacted grocery retailers elsewhere.

GEOGRAPHIC REACH

Australia's low population density will be a key challenge for Amazon in establishing its delivery capabilities. As a result, Amazon is likely to focus on the east coast, with fulfilment centres expected in Sydney, Melbourne and Brisbane.

> "Australian businesses can learn from mistakes made offshore, where retailers have typically waited several years before consolidating their store footprint, leading to margin declines for several years."

It has been reported that Prime Now will be launched in Australia, however, given the relatively low population density even in key cities, the geographic reach of the one-hour free delivery service is likely to be very limited.

CONSUMER TAKE-UP

Australia has the third highest retail spend per capita in the world, behind only the U.S. and Japan, and the third highest online spend per capita in Amazon's current markets.

Amazon typically drives increased online penetration in its new markets. This high online spend prior to Amazon's entry may make Australian consumers particularly receptive to Amazon's offering. However, growth in online retail in general may be lower than in other new markets, due to the high starting point.

COMPETITIVE RESPONSE

The way in which retailers respond to Amazon's entry will determine the amount of market share Amazon is able to gain and whether it succeeds or fails on an individual level.

Australian businesses can learn from mistakes made offshore, where retailers have typically waited several years before consolidating their store footprint, leading to margin declines for several years.

Retailers that exhibit high levels of gross margin selling products available elsewhere, combined with high costs, are particularly vulnerable and need to significantly reposition themselves to avoid being crushed by Amazon's pricing model.

However, Amazon will not have everything its own way, as it faces several risks in entering Australia, given the nature of our business and economic landscape.

Andrew Stanley is Head of Australian Equities at Ralton Asset Management.

DECEMBER 2017

INVESTTECH 2017

When: Tuesday 5 December

Where: Dockside Conference Centre, Cockle Bay Wharf, Darling Park, Sydney

This full day event highlights the central role technology is playing in the development of managed accounts and the transformation of advice.

InvestTech 2017 provides a showcase for platforms and portfolio management technology providers and the connectivity between investors, advisers, managers, administrators and brokers. InvestTech 2017 will feature a unique 'quick-fire' presentation style, framed around a common market structure concept. This is supported by an expo area for participants.

InvestTech 2017 provides sponsors the opportunity to reach:

- investment managers;
- 200 AFSLs, which are MDA providers;
- advice groups that undertake their own portfolio management;
- platforms;
- family offices; and
- brokers.

New technology solutions are central to the growth in managed accounts.

Emerging portfolio management technology on platforms and in adviser and investment managers' offices allows:

- Efficient portfolio management of many client accounts across many investment strategies;
- Control of how investment management decisions are implemented;
- Efficient trading and equity among investors when rebalancing and adjusting portfolios;
- Compliance management; and
- Connectivity between managers, platforms, custodians and advisers.

InvestTech 2017 will be the inaugural event held in Sydney at Dockside, Cockle Bay Wharf, Sydney on December 5.

MARCH 2018

IMAP ADVISER ROADSHOW

When: Beginning Thursday 1 March, 2018

Where: Roadshow venues to be confirmed

The annual IMAP Adviser Roadshow will be held in March 2018 across a number of venues in different states. This event attracts a wide range of managed account professionals, and provides advisers and dealer groups with the latest industry specific information, including regulatory updates, case studies, trends and developments.

The IMAP Adviser Roadshow also provides attendees with peer networking opportunities in this vibrant and fast growing industry sector.

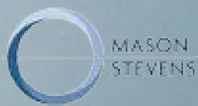
IMAP represents and works for the best interests of advisers, dealer groups, platforms, investment managers, service providers and all other participants in managed accounts. In addition, IMAP also works in the best interest of the clients of managed accounts.

For more information on these events or to register your attendance, go to imap.asn.au/events

IMAP hosts leading managed account educational events, including webinars for dealer principals and advisers, advice roadshows, practitioner forums and the Responsible Manager Masterclass. For more information, go to imap.asn.au

PERSPECTIVES

IMAP kindly acknowledges its 2017 sponsors



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