

[WWW.IMAP.ASN.AU](http://WWW.IMAP.ASN.AU)

# MANAGED ACCOUNTS – A HANDBOOK FOR ADVICE PRACTICES

—  
IMAP

Institute of Managed Account Professionals



# Discover the best of both worlds with our award-winning\* managed portfolio solution available through HUB24.



Broad choice of multi and single sector portfolios – including international equities



Estimate and model tax outcomes



Manage CGT & transaction costs via a single account structure



Experience HUB24's award-winning adviser and client interface with AdviserHUB & InvestorHUB



Available on IDPS, super and pension

**TALK TO US TODAY ABOUT  
GETTING STARTED ON HUB24**

**1300 854 994  
HUB24.COM.AU**

# HUB<sup>24</sup>

This advertisement has been prepared for financial adviser use only and not for their clients or retail investors. As with any investment there are risks, so you need to ensure you and your clients have read the HUB24 Platform disclosure documents before any investment decisions are made. HUB24 Custodial Services Ltd ABN 94 073 633 664, AFSL 239 122 (HUB24) prepared this advertisement and is the operator of HUB24 Invest and the promoter of HUB24 Super. Diversa Trustees Limited ABN 49 006 421 638, AFSL 235 153, RSE Licence No. L0000635 is the issuer of interests in HUB24 Super. The information in this advertisement is intended as general information only and not as financial product advice. It doesn't take into account any particular person's objectives, financial situations or needs. Nor does it, HUB24, Diversa nor any of their related bodies corporate provide tax advice. Accordingly, before making any investment decision or making any recommendation to your clients, advisers should consider these matters. Investment Trends 2017 Planner Technology Report, based on a survey of 533 financial planners (joint 1st Adviser Satisfaction), and 2016 Platform Benchmarking Report, based on detailed analyst reviews. \*2017 Planner Technology Report – 1st Overall Satisfaction: Platform; Best Ease of Use/Navigation: Platform; 2016 Platform Competitive Analysis & Benchmarking Report – Best Platform Managed Accounts Functionality; Best Tablet/Smartphone Interface; Best Navigation & User Interface. The relevant disclosure documents are available at: [hub24.com.au](http://hub24.com.au) ©HUB24

# CONTENTS

<b>Section 1:</b> Understanding the Managed Account Choices	3
<b>Section 2:</b> Why Advisers are Adopting Managed Accounts	5
<b>Section 3:</b> Benefits for Licensees	6
<b>Section 4:</b> How Managed Accounts Achieve better Client Outcomes	9
<b>Section 5:</b> Combining managed accounts	11
<b>Section 6:</b> Fees and charges	13
<b>Section 7:</b> The importance of an effective communications plan	14
<b>Section 8:</b> Migrating to a managed account program: Which clients?	16

## WHY ARE MANAGED ACCOUNTS BOOMING?

efficiency • consistency • flexibility • improved client outcomes

---

**A well constructed managed account program allows advisers to deliver highly-customised and professionally managed investment portfolios in an efficient, consistent and reliable way.**

Managed accounts are coming into their own with the IMAP June 2017 FUM Census showing nearly \$50bn in client investments managed through these structures.

They are a much more efficient and scalable way for advisers to build and support a wide number of tailored portfolios.

A robust managed account program ensures portfolios are managed in line with each clients' objectives, risk tolerance, and investment preferences while removing the operating inefficiencies that flow from advisers having to produce a Record of Advice (RoA) for every portfolio change. Improved tax outcomes is also a benefit of a managed accounts program.

As a result, practices can achieve greater efficiency and productivity use to ensure that client portfolios reflect their investment philosophy and develop a more compelling and sustainable client value proposition.

This handbook covers the main considerations for advisers and licensees in developing and operating a managed account program, whether through SMAs or MDAs or the other

options offered under the broad "managed accounts" category.

### SECTION 1: UNDERSTANDING THE MANAGED ACCOUNT CHOICES

Since they first started to emerge on 2004 with the release by ASIC of the MDA Class Order, several types of managed account have emerged.

The two main types are SMAs – or Separately Managed Accounts – and MDAs – or Managed Discretionary Accounts. However, some other legal structures are also used such as standing instructions, IDPS Like Schemes and superannuation trustee discretion.

- SMAs are generally offered by a platform and form part of their product offering. They may also be called Managed Portfolios
- MDAs are generally either operated by the advice licensee or by a specialist MDA Provider

The table (on the next page) compares the main features of SMAs and MDAs. Of course the details of individual managed account services mean this is a general guide only.

	SMA's	MDAs
<b>Legal structure</b>	Varies including: <ul style="list-style-type: none"> <li>• Registered managed investment scheme(MIS) offered by a platform,</li> <li>• IDPS Like scheme, or</li> <li>• IDPS with standing instructions</li> </ul>	MDA Agreement
<b>Legal issuer</b>	Responsible entity for MIS and IDPS like schemes, or IDPS Operator	MDA Provider
<b>Key documents</b>	PDS and recommendation in the SOA	MDA Agreement, FSG and Investment program included in the initial SOA
<b>Specialised AFSL authorisations required to be "issuer"</b>	Yes	Yes
<b>Types of assets that can be included in managed account</b>	Assets must be held on platform. Some such as term deposits generally not included	Wide range of asset types including ASX listed, managed funds, international listed, fixed income, derivatives
<b>Asset holding</b>	Generally platform as custodian	Wide range of asset holding structures, including; <ul style="list-style-type: none"> <li>On platform</li> <li>Client own name, or</li> <li>MDA Provider as custodian</li> </ul>
<b>Beneficial asset ownership for each client</b>	Yes	Yes
<b>Investment management choices</b>	Portfolio management can be provided by: <ul style="list-style-type: none"> <li>• Investment managers</li> <li>• Research houses</li> <li>• Licensee</li> </ul>	Portfolio management can be provided by: <ul style="list-style-type: none"> <li>• Investment managers</li> <li>• Research houses</li> <li>• Licensees</li> </ul>
<b>Restrictions on assets</b>	Set by issuer	Unregistered managed investment schemes are banned Special rules for derivatives
<b>Advice requirements for retail investors</b>	Personal or general advice	Personal advice only with annual review
<b>Potential margin for licensees</b>	Yes	Yes

# SECTION 2: WHY ADVISERS ARE ADOPTING MANAGED ACCOUNTS

Advisers should consider managed accounts for a number of key reasons.

## 1) EFFICIENCY GAINS IN ADVICE PRACTICES

Under a managed account structure, there's no need for advisers to produce a Record of Advice (RoA) for every portfolio change with the resulting reduction in staff and adviser time.

## 2) IMPLEMENTATION EFFECTIVENESS

Generally portfolio changes are implemented by a central administration team at the platform, the managed account provider or in the Licensee's office. This means the transactions to implement investment changes across multiple portfolios can be swiftly implemented and often with more control – such as with a price limit.

## 3) BETTER SERVICE - MORE SATISFACTION

A managed account program ensures client portfolios are professionally managed with care and consistency in accordance with a clear investment framework.

Traditional portfolio advice processes which require advisers to provide clients with a RoA and wait for their approval commonly result in an implementation lag because clients respond to RoAs at different times, if they respond at all.

With a manual ROA based approach, commonality and consistency is difficult to achieve which makes it virtually impossible for advisers to keep on top of every portfolio, especially if they have a large number of clients. It's often not until review time, that an adviser considers exactly what's in a client's portfolio and whether it still suits their goals.

A managed account program eliminates implementation lag and helps advisers meet

their obligations under the regulator's 'know your client, know your product' rule. It also minimises the risk of some clients missing out on timely opportunities because they were on holidays or sick, leading to consistent portfolio management and improved client outcomes.

When the FDS and renewal requirements come around for a client, a managed account program means there can be more evidence of continuous service.

## 4) LOWER ADVISER DEPENDENCY

Advisers who have a well-constructed managed account program in place have the freedom to go on holidays or spend less time in the office, knowing that portfolios will continue to be managed in line with clients' expectations.

Historically, advisers had to delegate portfolio management responsibilities to another adviser or simply let them go unattended if they went on holidays but under a managed account structure, portfolio management is performed by the managed account provider and investment manager, which may be a licensee, external asset consultant, research house or funds manager.

Self-licensed advisory firms are typically supported by an investment committee made up of internal and independent members.

The outcome is a more automated and streamlined investment process.

## 5) BEST INTEREST AND RISK MANAGEMENT

Outside of a managed account program, every single transaction performed by an adviser is subject to the best interests' test. In other words, advisers must be able to clearly demonstrate that each and every portfolio change was likely to leave the client better off and clearly aligned to their goals.

However, with managed accounts, an adviser's liability is limited to demonstrating that the original investment mandate was appropriate for the client at the time it was established and

the portfolio has been managed in accordance with that mandate. Advisers are required to review investment suitability every 13 months.

For advisers who have a strong strategic advice focus but who don't want responsibility for stock or manager selection, a managed account solution may be ideal. They can confidently hand over those responsibilities to a portfolio manager.

## 6) WIDER CHOICE

As Managed Accounts become a more mainstream investment choice, most of the major platforms will develop services for advisers. This is going to mean a choice of specialist providers or the opportunity to implement managed accounts for an established wrap account client base with easier implementation and ongoing management.

## SECTION 3: BENEFITS FOR LICENSEES

### It's not all about money

**A more compelling offer • consistency across Adviser Firms • higher adviser, staff and client satisfaction**

Just like advisers, licensees value the benefits of efficiency, better service and best interest protection. However, there are additional advantages for licensees including the opportunity to build new revenue sources, standardise portfolio management processes and manage operational risk.

Given licensees are legally responsible and liable for the actions and advice of their advisers, one of the most important benefits of managed accounts is that portfolios are professionally managed in accordance with clear investment principles, aligned with the client's objectives.

This may mean that portfolios are managed in line with a licensee's investment philosophy.

Licensees who are managed account providers should have a clear and formally documented investment philosophy, which details their



**Julia Schortinghuis –  
Lighthouse Capital Perth**

"We've actually been operating MDAs right from our beginning and the reason for that is because of the style of business we run," says Lighthouse Capital principal and financial planning specialist, Julia Schortinghuis CFP®. "MDAs really do enable us to drive the type of business efficiency we want, while allowing us to operate with lower overheads overall."

One of the main advantages of offering clients a managed accounts solution is that it has opened up capacity for Lighthouse Capital.

"Where it's relevant and appropriate for parts of a client's portfolio solution, we will use direct equities. This is where MDAs are essential, as it allows us to make changes quickly and execute trades without having to speak to the client first," Julia says. She adds that the other advantage of using managed accounts is that the business can more easily handle corporate actions and participate in IPOs, enabling the practice to efficiently allocate and implement them across its client base.

"So, that does allow us to open up opportunities in an efficient and streamlined way that you might not be able to do otherwise."

investment style, investment approach, and risk and performance benchmarks. It is likely to stipulate whether portfolios will be actively or passively managed.

Many licensees already have firm investment

# INTELLIGENT INVESTMENT SOLUTIONS FROM THE ETF MANAGER OF THE YEAR

BetaShares funds are simple-to-use, cost effective and tailored to the needs of Australian investors and their advisers. Give your clients smarter ways to invest with BetaShares' suite of intelligent investment solutions.

BetaShares manages over \$5B across a broad range of products to meet a variety of investor needs.

Buy or sell BetaShares funds on the ASX. Easy, effective, intelligent.

- EQUITY INCOME
- INTERNATIONAL EQUITIES
- MANAGED RISK
- CASH & FIXED INCOME
- HYBRIDS
- SHORT
- AUSTRALIAN EQUITIES
- GLOBAL SECTORS
- GEARED
- CURRENCY
- COMMODITIES
- ACTIVE



NOW TRADING ON THE ASX

guidelines in place. The process of implementing a managed account program will help them refine and corporatise those beliefs.

It will also minimise operational risk because portfolios are centrally-managed in an efficient, transparent and controlled way. The potential for client requests to be overlooked or an adviser act outside their agreement with the client is significantly reduced, minimising the risk of future claims.

## TOP FIVE BENEFITS FOR LICENSEES AND THEIR PRINCIPALS

### 1) REVENUE OPPORTUNITIES

Managed account providers aren't exempt from complying with the Australian Securities and Investments Commission's conflicted remuneration rules and regulations, however, a properly structured managed account program creates an opportunity for remuneration for portfolio management services .

Managed accounts offer two main revenue opportunities for licensees.

Firstly, licensees can be authorised as MDA to bring portfolio management, administration and custody in-house.

Alternatively, licensees can choose to provide portfolio management only, through acting as Investment Manager of an SMA model or partnering with an MDA provider.

Under either approach, the licensee earns a fee or margin for either providing the total service or organising and overseeing the provision of a managed account program and providing ongoing portfolio management services. Larger licensees may have sufficient internal capability to manage asset allocation, manager selection and possibly security selection. Many licensees will prefer to work with a research house, asset consultant or investment manager to build and manage separately managed accounts model.

Licensees considering the revenue potential of a managed account program have to be very conscious of two issues in particular:

- In order to manage the obligations of conflicted remuneration, most licensees will ensure that "clear client consent" is obtained in respect of any fees they are charging.
- If they are working with a platform SMA service or MDA Provider, their processes must be sufficiently robust to meet the platform or MDA Provider's due diligence requirements

Business brokers report that the contractual revenue streams from portfolio management are likely to be more highly valued by the market when considering the sale of the business.

### 2) EASIER COMPLIANCE

The managed account structure makes it easier for licensees to control the investments included in a client's portfolio, allowing them to monitor whether underlying investments remain appropriate.

This is critical given complaints and compensation claims often arise as a result of operational or human error, for example, an adviser forgetting to buy or sell an investment or incorrectly filling out a form.

A managed account structure significantly lowers the risk of both scenarios because there's no requirement for advisers to continuously produce RoAs and gain client approval.

Complaints also commonly arise due to inappropriate investment advice or failing to implement a strategy appropriately.

Furthermore, portfolios are managed in accordance with a clearly defined set of pre-determined investment principles, approved by the client.

### 3) STRONGER RISK MANAGEMENT FRAMEWORK

In the same way a managed account program can help advisers manage their best interest obligations licensees benefit from risk management in several ways:

- Knowing what's in client portfolios is covered elsewhere, but managed accounts make it far less likely that inappropriate recommendations end up in portfolios or that a client portfolio

goes unattended for an extended period

- Standard processes mean that transactions, corporate actions and advice are easier to manage centrally
- Working with experts in asset allocation or manager selection should lead to better client outcomes and more satisfied clients.

#### 4) STANDARDISED OPERATING PROCESSES

Dealer groups and self-licensed advisory firms with multiple office locations can standardise operating processes and achieve consistency across practices by implementing a managed account program which takes the task of processing transactions away from individual practices and gives it to the managed account provider.

Advisers are then released to focus on providing strategic advice which is where they can add most value.

#### 5) AN INNOVATIVE PROPOSITION FOR ADVISERS

Licensees must continuously enhance their value proposition to attract and retain advisers.

A well-constructed, easy-to-understand managed account program can be a compelling point of difference. It can ease the administration burden on advisers while handing them another valuable service to offer to clients.

#### 6) PRICING FLEXIBILITY AND REDUCTION IN TOTAL COST TO CLIENT

One of the benefits of a well constructed Managed Accounts Program is the flexibility it provides Licensees to structure pricing to reduce costs to clients and create value for themselves. The ability to use pricing levers such as;

- lower cost investments like ETFs,
- discounted brokerage and transaction costs,
- manager rebates on managed funds,
- reduced platform costs and
- tiered client pricing

can mean lower costs for clients.

## SECTION 4: HOW MANAGED ACCOUNTS ACHIEVE BETTER CLIENT OUTCOMES

Transparency, control,  
customisation and tax advantages

**Beneficial ownership and more individual management of each client's portfolio are two standout features of managed accounts.**

Financial planning is all about helping people do more with their wealth to achieve their goals and objectives. Managed accounts can play a significant role because portfolios are invested according to a structured investment program that can be highly customised to deliver improved client outcomes.

This is significantly different to traditional portfolio management where even routine changes need to be administered through an RoA before changes can be made. As a result, portfolios can be out of synch with a client's objectives through delay or because RoAs get overlooked. Worse, for clients investing through managed funds, with pooled holdings there is little opportunity for individual outcomes.

With managed accounts the portfolio manager can implement asset allocation decisions, actively manage portfolio risk and execute investment ideas.

A managed account program will set out a portfolio's general holdings, strategic asset allocation ranges and maximum single stock exposure.

It can be designed to reflect an advice firm's investment philosophy and also accommodate a client's beliefs and attitudes. For example, ethical investors can specify that their portfolio excludes companies involved in alcohol, mining or armaments.

## FOUR KEY CLIENT BENEFITS

### 1) PROFESSIONAL PORTFOLIO MANAGEMENT

Most licensees offering a managed account program will use a research house, independent asset consultant or established investment management business to assist in the management of portfolio construction, asset allocation, security selection and ongoing management. Alternatively they may utilise the multi asset class portfolios offered by most MA Providers or a construction of single sector SMA's.

Similar to the way trustee boards of large superannuation funds outsource asset allocation and investment management to third parties, while maintaining oversight and responsibility for members' assets, this approach allows the licensee or managed account provider to oversee the provision and implementation of a managed account service.

This additional a layer of expertise ensures that once an appropriate strategy is in place, a professional investment manager is responsible for trades, executing tactical asset allocation decisions and rebalancing portfolios in a timely and efficient manner. This has the potential to deliver valuable additional returns to clients over time.

### 2) OPEN INVESTMENT ARCHITECTURE

A managed account program allows investors to hold a wide variety of listed and unlisted assets including Australian and international shares, managed funds, ETFs, listed income securities, bonds, term deposits and cash.

For many self-managed super fund investors this is essential.

However, there are some limitations. For example, managed accounts typically can't hold direct property and there are restriction of unregistered managed investment schemes and derivatives for MDA programs.

### 3) TRANSPARENCY, BENEFICIAL SHARE OWNERSHIP, TAX BENEFITS AND CORPORATE ACTIONS

With a managed account program, the portfolio assets like shares are generally held by a custodian although some programs use individual holdings under a broker sponsored Holder Identification Number (HIN).

The investor enjoys all the normal rights of ownership. This beneficial ownership is critically important for many clients because it delivers greater transparency, flexibility and tax efficiency while allowing investors to avoid additional expenses incurred within pooled fund structures.

Investors can clearly see their total exposures at an asset level.

Under an MDA structure, investors have the added benefit of being able to participate in corporate actions such as Share Purchase Plans, Dividend Reinvestment Plans and Share Buyback Schemes.

Whether they hold 1,000 or 200,000 ordinary shares, investors may be able to boost their after-tax performance by participating in corporate actions that convey particular benefits such as lower issue price for retail investors.

In contract, in pooled investment structures like unit trusts, ETFs and listed investment companies, all underlying unit holders are treated as a single corporate investor.

### 4) COST MANAGEMENT

A managed account program can often deliver more efficient and transparent investment portfolios at a lower cost to the client than typically available from managed funds or traditional wrap platform arrangements.

A managed account program which focuses on direct investments can reduce the cost of investment management and administration.

Internal administration costs are often lower than conventional unit trusts because managed account providers don't need to provide daily unit pricing or the attendant trust operating expenses.

Furthermore, custody and transactions costs tend to be lower within a managed account structure because managed account providers generally transact across many accounts at once and negotiate lower brokerage costs. They can also avoid flat dollar transaction fees and negotiate a basis point fee structure.

## SECTION 5: COMBINING MANAGED ACCOUNTS

### Finding the perfect match

**The transparent nature of managed accounts makes it possible for advisers to look through and analyse multiple portfolio models to ensure client portfolios are properly diversified.**

Advisers can combine managed accounts to create an optimal portfolio in the same way they blend managed funds to construct model portfolios however a portfolio of managed accounts can provide greater efficiency and transparency at a lower cost.

Advisers and clients can look through a client account invested in several managed accounts to see underlying holdings and their weighting. That's not possible if only pooled unit trusts are used, which makes it difficult for advisers to accurately monitor the composition and risk in client portfolios.

New technology makes it possible for managed account providers to compare and reconcile multiple accounts to ensure client portfolios continue to be managed according to their original investment mandate.

For example, it will be abundantly clear if a manager, included in the portfolio because they aim to be benchmark-unaware and high conviction isn't investing in line with their stated philosophy.

### PORTFOLIO CONSTRUCTION

**Blending direct investments, managed funds and ETFs**

The managed account approach supports

licensees and advisers with a clearly defined investment philosophy.

For example, licensees who believe in active management and dynamic asset allocation should have a managed account program which reflects that.

On the other hand, licensees who believe in passive management can implement a low-cost managed account program which blends direct equities, index funds and ETFs.

Many licensees and research houses believe that some asset classes are better approached through active management and others with a passive, low cost style. The portfolio construction approach in their managed account can reflect this.

Low-cost managed portfolios have become increasingly popular in the current low growth and lower return environment where investors are increasingly cost-conscious clients.

A managed account program can also support clients with specific investment preferences.

This feature allows advisers to add value by developing and managing highly-customised portfolios. They can demonstrate their ability to respond to client requests which is crucial given many people have personal objectives and beliefs that are unrelated to money.

For example, clients who are morally opposed to holding mining or gaming stocks can mandate that those stocks be excluded from their portfolio.

This ensures portfolios are more closely aligned to investors' broader personal objectives as well as their financial goals.

### HOW TO MEASURE PERFORMANCE

The performance of any managed account program will depend on the strategic advice provided to the client by their adviser.

It won't simply be a case of comparing the performance of a managed account portfolio to a standard market index because managed portfolios can be highly customised.



## Agility is not a luxury

**TO SUCCEED**, let alone grow your business these days, an adviser **must** be agile. You certainly can't afford to be held back by your operational infrastructure. That's why the solutions offered through our Mason Stevens Global Administration Service allow you to be as agile and flexible as required.

Today, clients expect to be able to own international equities and fixed income directly, not just through a managed fund, and they expect it to happen now – not tomorrow or the next day, but in the next few minutes.

They want their adviser to have a multi-asset, multi-currency capability and access to a truly open universe of investments, including managed accounts.

If you would like to see what's possible, a solution that improves your agility, talk to us.

**For a confidential conversation, contact Tim Yule  
on 8270 0217 or [tim.yule@masonstevens.com.au](mailto:tim.yule@masonstevens.com.au)  
[www.masonstevens.com.au](http://www.masonstevens.com.au)**



For example, if a managed portfolio is designed to deliver an annualised after-tax return of 4 per cent above CPI with minimal risk and excluding companies regarded as not meeting the client's ethical filter, it's not sensible to compare that portfolio's performance to a market index or the median balanced fund.

A managed account's performance must be evaluated in the context of the client's personal situation and the strategic advice they received. If a client has received sound advice and a robust managed account program has been put in place by a professional managed account provider and managed account operator, the outcome will be after-tax performance which is reflective of the client's goals and objectives.

## SECTION 6: FEES AND CHARGES

### COST CONTROL

**A MANAGED ACCOUNT PROGRAM, WHICH FORMS PART OF A BROADER STRATEGIC ADVICE PROPOSITION CAN MEAN A REDUCTION IN THE TOTAL COST TO CLIENT, REDUCTION FOR ADVISERS IN THEIR COST OF PROVIDING ADVICE. FOR SOME ADVISERS THIS IS AN OPPORTUNITY TO RESTRUCTURE THEIR WHOLE APPROACH TO CLIENT FEE STRUCTURES.**

### REDUCING COSTS

With the cost of providing compliant, strategic advice rising and traditional revenue streams banned advisers must either increase advice fees or find ways to lower the cost of delivering advice.

Substantial increases in advice fees isn't generally an easy option, especially in a low growth, lower return environment. Furthermore, advisers who deal with retirees will know that their capacity and tolerance for fee increase is low.

A managed account program provides a way for advisers to gain greater control over investment, administration and operating costs.

By using a managed account based on their wrap platform or from a specialist provider, advisers can eliminate repetitive time-consuming

administration tasks such as making the same transaction recommendation to many clients or dealing with corporate actions individually.

Advisers and staff are then free to spend more time on new business acquisition or existing client service.

The ease of managing listed portfolios and the increasing range of ETFs and other listed investment vehicles means that advisers can actively manage direct portfolios at lower investment costs. Together with lower administration and operating costs these allow advisers to potentially increase the advice fee component while keeping the total cost to the client steady.

### RESTRUCTURING YOUR FEES

Adopting a Managed Account program gives advisers and Licensees the opportunity to completely restructure the cost to client. The benefits of this can be greater connection for clients between fees and value added and fee structures that the market values more highly.

Restructuring opportunities are dependent on the roles each party plays and the AFSL authorisations they hold but include:

- Separate fees for the SMA/portfolio management and wrap platform
- Bundling advice and portfolio management fees into a single charge
- Bundling platform administration fees and portfolio management into a single charge
- Acting as MDA Operator or SMA Responsible Entity and charging a single fee for the managed account
- Absorbing all transaction charges as a benefit of participating in the Managed Account program
- Charging the portfolio management revenue as a discrete fee in a separate AFSL.

The ban on conflicted remuneration means that whatever fee structure is adopted, when some portion of this is retained by the advice Licensee, full disclosure and client consent will be required.

## PORTFOLIO MANAGEMENT FEE OPTIONS

There are two options available depending on whether clients are invested via a Separately Managed Account (SMA) structure or Managed Discretionary Account (MDA) structure.

An SMA provider typically charges a fee for portfolio construction, security selection and portfolio management. An SMA or Wrap platform will then charge for platform administration, transaction execution, custody and reporting services.

An MDA provider typically charges a bundled fee which combines investment management and administration and the other services.

## TRANSACTIONS FEES THAT MAKE SENSE

Transactions are processed in bulk in a managed account environment. For example, if an SMA portfolio with 100 underlying investors wants to increase its exposure to a commonly traded stock e.g. Telstra, there will generally only be one bulk transaction.

This is vastly different to traditional, manual portfolio management where each individual client portfolio would need to buy Telstra shares and incur at least minimum brokerage.

Unlike single client advised portfolio on platforms which typically charge a minimum flat dollar fee per trade, managed account services generally benefit from a basis point brokerage..

Some managed account programs absorb internally the cost of transactions fees. This is increasingly common because transaction fees can be a major hurdle for some investors, especially those who come from a corporate or industry super background and haven't experienced transactions fees before.

## PERFORMANCE FEES

In the same way that many fund managers charge performance fees, managed account portfolio managers may apply performance fees. This is more common for highly specialised and tailored client portfolios.

Performance fees are generally applied when a portfolio outperforms a nominated benchmark with a high watermark.

A high watermark ensures that if the net asset value of the portfolio falls, the performance fee can only ever be charged on any outperformance above the highest previous peak in the fund's value. This rule protects investors by ensuring that managers aren't rewarded for a burst in performance despite an extended period of poor performance. The manager must get the portfolio's value above the previous high watermark before receiving a performance bonus.

Depending on how they are structured, performance fees can be a deterrent for some investors who believe performance fees don't make sense because investors wear all the investment risk and potential losses.

The ability to charge performance fees will be determined by the platform or administration provider responsible for fee calculations.

## SECTION 7: THE IMPORTANCE OF AN EFFECTIVE COMMUNICATIONS PLAN

### Keep clients in the loop

**Even the most brilliant managed account program can fail without an effective communications strategy.**

The successful implementation of a managed account program will depend heavily on an effective, strategic communications plan. There must be clear, regular client communication before, during and after implementation.

Advisers must be able to confidently articulate the features and benefits of the managed account program, how the process works, and why it's appropriate for the client. They should explain how a managed account program works in the context of their overall advice proposition.

## POINTS TO CONSIDER IN DEVELOPING A COMMUNICATION PLAN TO SUPPORT A MANAGED ACCOUNT PROGRAM

- Writing tone, who is this coming from - adviser, portfolio manager, someone else?
- What does each client want to know? e.g. “everything that’s going on” or “not much, that’s your job”
- Can your plan accommodate clients with different information needs?
- What prompts a communication?
  - regular updates e.g. monthly or quarterly or a portfolio action such as a transaction or ad hoc
- How personalised is each communication?
- Is the communications process scaleable?

If investment management is outsourced to external managers, advisers may need to explain how and why managers were selected and how they will be monitored on an ongoing basis.

It won’t be enough to simply forward pre-existing information and marketing material to end clients. Many clients don’t read, let alone fully understand, the information and reports sent to them. Many investment reports contain jargon and complex terms which retail investors don’t understand.

Any client-facing document must be tailored for retail investors. For maximum cut through, it should read as if their adviser is personally writing to them.

Advisers should leverage information and content given to them by their managed account provider and investment managers.

Client communications around a managed account program should be centralised to ensure consistent messaging and avoid confusion. An effective client communications

strategy should reinforce the value being delivered through the managed account program.

While portfolios are managed in line with predetermined investment guidelines, advisers should also be ready to answer questions around major portfolio changes. They should draw on communications sent by their managed account provider.

Clear communication is critical in a regulatory environment where advisers must provide an annual written fee disclosure statement and ask clients to opt-in for advice fees every two years.

## THE PROPOSAL

The rationale behind implementing a managed account program must be clearly explained to the client if they’re expected to accept the recommendation.

While there are obvious benefits for advisers from an operational, administration and execution perspective, these benefits won’t mean much to the client. Clients just want to know how it fits with their circumstances and needs.

In every piece of client communication, especially the SOA, advisers must make sure they stress the important role they play in providing ongoing strategic advice, overseeing the managed account program and ensuring it continues to meet clients’ needs and objectives.

## ARTICULATING THE VALUE OF ADVICE

Advisers who adopt a managed account program generally won’t have responsibility for picking securities or day-to-day portfolio management, which will free them up to spend more time providing strategic advice.

If they previously performed those duties, they’ll need to re-examine their value proposition, emphasising the quality of their service and advice, and the value they add in continuously reviewing a client’s circumstances to ensure the investment strategy continues to suit their needs and objectives, ultimately delivering improved outcomes.

## SHOULD ADVISERS EXPLAIN EVERY TRANSACTION?

An excellent managed account program will communicate every portfolio decision to advisers.

Armed with that information, advisers can then choose to proactively inform clients of portfolio changes or just field incoming inquiries.

There's no legal obligation for advisers to issue RoAs, or even informal memos, explaining every portfolio change. That means a practice's communications strategy can simply focus on major changes and what's important to the client, rather than potentially bombard them with insignificant detail that doesn't add much value.

## WHO'S RESPONSIBLE?

The managed account provider should ensure that clear and concise marketing materials are initially made available to advisers, followed by ongoing communications which support the decisions being made by the investment team/managers. These foundational documents not only help advisers better understand the managed account process and progress, but they allow advisers to articulate the benefits to clients.

A communications program should be reviewed on a regular basis, potentially in line with the legal obligation on MDA providers to review the continuing suitability of the service and investment strategy every 13 months.

## SECTION 8: MIGRATING TO A MANAGED ACCOUNT PROGRAM: WHICH CLIENTS?

### Making the move

**How smooth, or bumpy, the transition is will depend on how closely aligned a client's existing portfolio is to the proposed managed account program and the preparation which is done with advisers and clients ahead of time.**

Advisers who plan to introduce a managed account program should closely consider who their core clients are now as well as who they ideally want their core clients to be in the future.

Managed accounts don't suit everyone.

For example, clients with simple needs and low account balances are typically better-off investing in managed funds, even in a single diversified fund.

It's widely accepted that investors need meaningful assets in order for a managed account program to be most effective.

Below a certain portfolio value, it can be difficult to build a well-diversified portfolio with meaningful exposure to different asset classes. Portfolios which are highly concentrated in one or two asset classes, or a handful of stocks, carry additional risk. However, the widening range of ETFs and exchange listed investment funds are making Managed Accounts viable for clients with smaller balances.

Managed accounts don't typically suit clients who invest mainly in cash and term deposits although there's no reason why a managed account program can't work for retirees.

While retirees tend to be conservative investors and hold a larger percentage of cash in their portfolio, an adviser can implement a strategy where they have enough held in liquid assets to cover two or three years of their income needs while the remainder is in a managed portfolio of growth-orientated assets. This way they're able to continue growing their wealth and fighting inflation while meeting their retirement income needs. It all boils down to having the right strategic plan in place and appointing a professional investment manager to effectively implement that plan.

## HOW TO MANAGE THE TRANSITION

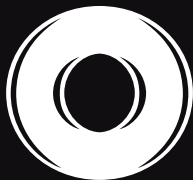
Advisers will need to work closely with their managed account provider and operator to minimise the disruption.

How much work is involved will depend on how closely aligned the client's existing portfolio is to the proposed managed account program. If

# Thinking managed accounts? Think Macquarie

With more than \$2 billion of managed account funds under management, we know we can help you achieve success for your business and clients.

We're with Macquarie



MACQUARIE

[macquarie.com/managedaccounts](http://macquarie.com/managedaccounts)

the existing portfolio closely resembles the new program, and the managed account program supports the client's overall strategic plan, then the disruption will be relatively modest.

For example, a client who has a direct portfolio of stocks based on the Licensees model, may find the move to a managed account comparatively painless. This is particularly the case where the managed account program runs as part of their preferred wrap account.

Clearly communicating the changes and detailing the process will be important, not least to ensure that the adviser meets the best interest test of being sure that the client is likely to be better off.

Advisers who are transitioning their clients from a conventional wrap platform to a specialist managed account program may find the transition more challenging because it may have substantial capital gains and GST implications.

## PREPARING FOR THE TRANSITION

It will be up to advisers to ensure that their clients fully understand the terms of the managed account program including the implementation date, risks, fee structure and how the investment

program or SMA will operate.

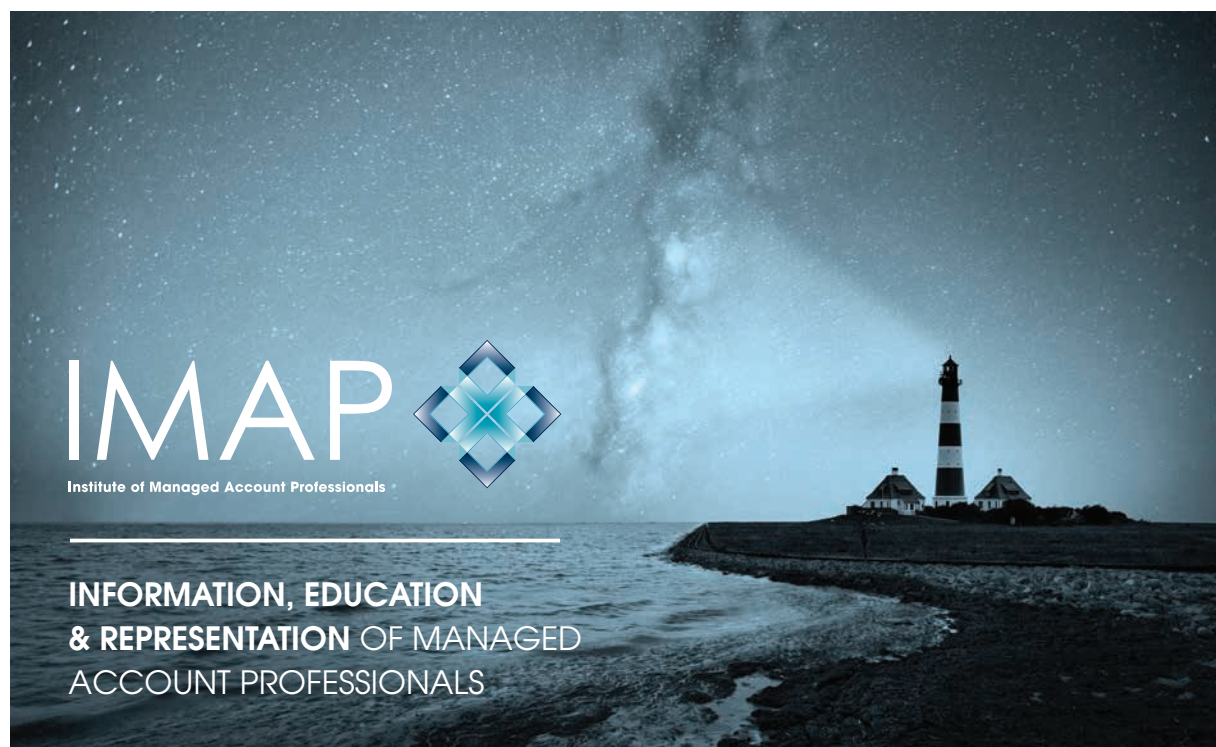
Clients will also need to be given information on the roles of the adviser, managed account provider or operator and investment manager.

All of this will of course need to be set out in the initial SOA that recommends the managed account program.

Advisers will be required to review their advice templates to ensure they remain relevant and compliant given the changes. Advice documents and the FSG will need to change to include details of the new managed account service as well as the risks involved and fee structure.

Advisers will need to think carefully about how the new service will be introduced to existing clients. A common approach is for all new clients to be invested via the managed account program with existing clients gradually transitioned during their next review. Some advisers choose to start with their largest clients and work through their client base.

All office and administration staff should be familiar with the managed account program so they can support both advisers and clients through the transition.







—  
**IMAP**

Institute of Managed Account Professionals



**Toby Potter** CHAIR

TELEPHONE +61 (02) 8003 4147

MOBILE +61 (0) 414 443 236

toby.potter@imap.asn.au

**Jane McIlroy** MARKETING & EVENTS

TELEPHONE +61 (02) 8003 4131

MOBILE +61 (0) 411 420 180

jane.mcilroy@imap.asn.au