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MANAGED ACCOUNTS – A HANDBOOK FOR ADVICE PRACTICES

—
IMAP

Institute of Managed Account Professionals

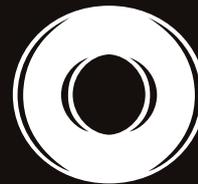




My clients get more value from our time together

Using managed accounts helps me reduce
back-office administration. Now my meetings
with clients focus more on their goals.

I'm with Macquarie

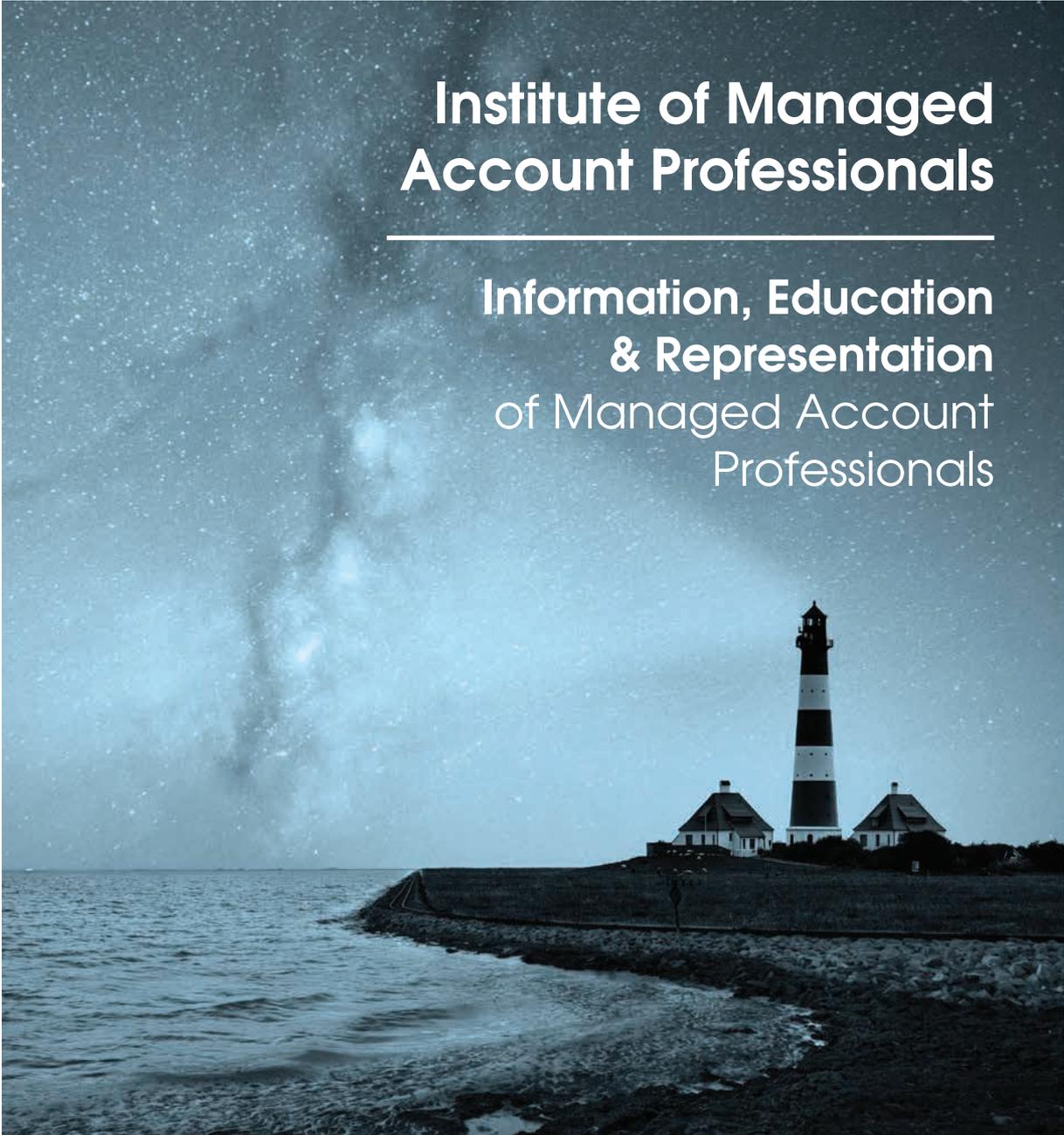


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Institute of Managed Account Professionals

Information, Education
& Representation
of Managed Account
Professionals

ABOUT THE INSTITUTE OF MANAGED ACCOUNT PROFESSIONALS LTD (IMAP)

IMAP was established as an industry group in 2008. Its purpose is, "Education, Information and Representation of Managed Account Professionals" and today it comprises over 20,000 subscribers, drawn from specialisations across the financial services industry including financial

advice, investment management, administration and financial technology.

IMAP operates exclusively in Australia and organises a calendar of conferences, webinars and other educational events. In addition, IMAP organises the annual managed accounts awards event, designed to celebrate best practice and it publishes a quarterly magazine.

IMAP's constituents are drawn from advice, investment management, platform and custody, technology and legal providers. On their behalf, IMAP also facilitates industry liaison with government and regulators.

IMAP 2019 PROGRAM

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
IMAP CONFERENCES												
ADVISER ROADSHOW			•									
PORTFOLIO MANAGEMENT CONF.								•		•		
MANAGED ACCOUNT AWARDS						•						
INVESTTECH											•	
COMMUNITIES OF INTEREST												
INVESTMENT FORUM	•			•			•			•		
OTHER EVENTS												
WEBINAR	•	•	•	•	•	•	•	•	•	•	•	
RESPONSIBLE MANAGER MASTERCLASS					•						•	
MANAGED ACCOUNT CENTRAL		•									•	
INDUSTRY GROWTH												
FUM CENSUS		•						•				
DATA STANDARDS GROUP	•	•	•	•	•	•	•	•	•	•	•	•
REGULATORY GROUP	•	•	•	•	•	•	•	•	•	•	•	•
INVESTMENT GROUP	•	•	•	•	•	•	•	•	•	•	•	•
PUBLICATIONS												
MANAGED ACCOUNT PERSPECTIVES			•			•			•			•
NEWSLETTER	•	•	•	•	•	•	•	•	•	•	•	•

To attend any IMAP event <https://imap.asn.au/events/upcoming-events>

Continuing Education about Managed Accounts

Each IMAP Conference, Masterclass and Investment event is accredited for CPD by the FPA. Generally, 25 CPD hours will be attainable each year from attending IMAP events and Masterclasses.

ABOUT MANAGED ACCOUNTS

1. BACKGROUND

Managed accounts have become a significant structure by which personal financial advice is implemented. They allow the separation of roles between advice, portfolio management and administration with each function allocated to a specialist so that each function is performed in a more professional manner. Compared to traditional advice models, managed accounts provide a much more efficient way of implementing portfolios.

Over time, the managed accounts industry has evolved significantly, leveraging improvements in operations, investment management and asset management functions, along with advances in technology, to make the management of clients' portfolios more professional and more systematic. Managed accounts enable the efficiencies of pooled investments, with the control, transparency and precision of a personalised investment portfolio. Managed accounts can provide investors with access to any financial asset, but for retail investors, in practice, typically comprise ASX or international listed shares, managed funds, cash, ETFs / LICs / LITs and tradeable fixed interest investments. Clients retain advantages of beneficial ownership of underlying assets in their portfolio.

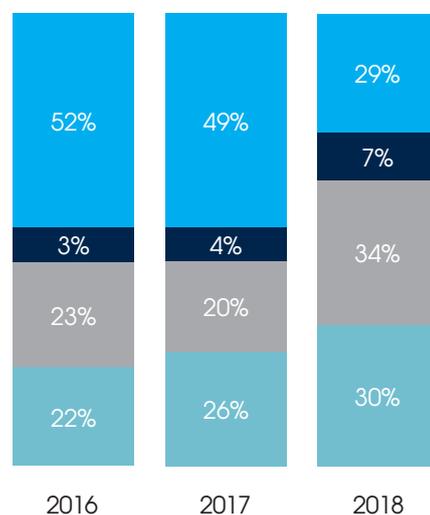
2. GROWTH IN MANAGED ACCOUNTS

Managed Accounts are growing strongly with overall growth over the 12 months to 30

June 2018 of over 30%. The table below shows the FUM associated with the main types of managed account as at 30 June 2018¹.

This trend is supported by the *2018 Investment Trends Managed Accounts Report*, which found the adoption of managed accounts by advisers continues to gain momentum, with 30 per cent of advisers currently recommending this investment structure to clients (an increase of 4 per cent on the previous year), with an additional 34 per cent of advisers saying they were potential users (an increase of 14 per cent).

Have you used managed accounts for your client investments? Among financial planners.



● Not interested ● Potential users
● Previous users ● Current users

Figure 1 Source: February 2018 Investment Trends Managed Accounts Report based on a survey of 841 financial planners

	30 June 2018 (\$BN)	30 June 2017 (\$BN)
Registered MIS: SMAs	\$20.55	\$13.90
Unregistered MIS: MDA	\$27.34	\$23.37
IDPS, IDPS like and other	\$14.54	\$10.70
Total managed accounts	\$62.43	\$47.97

¹ IMAP Research

Characteristic	SMA or Managed Portfolio	MDA
Legally, a managed investment scheme	✓	✓
Issuer needs to comply with Corporations Act requirements for Responsible Entities incl NTA requirements	✓	✗
Allows discretionary portfolio management	✓	✓
Removes ROA requirement for portfolio changes	✓	✓
Can support multiple underlying investments e.g. Australian and international shares, managed funds, fixed interest, cash	✓	✓
Can support choice of investment styles	✓	✓
Can create "Licensee portfolios"	✓	✓
Reduces operating risk for Licensee and adviser	✓	✓
Clients can invest without personal advice	✓	✗
Quick, easy and inexpensive to create portfolios to suit Licensee, adviser or client needs	✗	✓
Potentially multi platform and administration services	✗	✓

As always, these differences are only broadly representative and individual services will have different characteristics.

4. HOW DO MANAGED ACCOUNTS WORK FOR ADVISERS AND CLIENTS?

Advisers say the top business benefit of managed accounts is the efficiency gain they deliver. The average user estimates they save 12.4 hours per week on portfolio management tasks.

For advisers using a managed accounts solution, the leading business benefit is the efficiency gains they deliver.

For the 30 per cent of advisers who currently use managed accounts - and for the 34 per cent who are preparing to do so - their decision to offer this type of solution within their business is driven by the significant range of benefits it provides them with.

For these advisers and licensees, the numerous efficiency advantages of managed accounts is the key attraction, which include lower administration costs, improved business

efficiency, and greater time savings. And according to the *2018 Investment Trends Managed Accounts Report*, the time savings to a business are substantial, with advisers who switch to managed accounts reporting an average of 12.4 hours per week saved on portfolio management related tasks.

Notably, advisers using managed accounts are spending less time:

- chasing client authorisations (from 70 minutes to just 7 minutes - a saving of 63 minutes);
- selecting and researching investments (from 134 minutes to 37 minutes - 97 minutes saved);
- undertaking investment administration work (from 155 minutes to 50 minutes - a saving of 105 minutes); and
- preparing ROAs (from 124 minutes to 31 minutes - a reduction of 93 minutes).

**12.4
HOURS
PER WEEK
SAVED†**

†2018 Investment Trends Managed Accounts Report, based on a survey of 841 financial planners

Welcome to the upgrade

Praemium offers the only fully integrated Managed Accounts (MA) platform that has almost no limits to the investor types, investment assets and advice businesses it can support.

From domestic and international listed securities, exchange traded products (ETPs) and managed funds right through to property, cash and exotics. From high net worth individuals, family offices and SMSFs with more complex needs to retirees, wealth accumulators and retirement savers, Praemium is a huge upgrade on Wrap accounts and other MA platforms that can't match our functionality and constant improvements. Get onto the new wave of technology.

Find out more at upgrade.praemium.com



EFFICIENCY

Other research undertaken with advisers shows efficiency gains from implementing a managed accounts structure include:

- Execution of transactions on client accounts without the need for ROAs or SOAs;
- Efficient execution of transactions across many accounts simultaneously and without favouring one client over another;
- The ability to run multiple portfolios based on a single asset allocation view but allowing advisers to choose the way in which this is implemented;
- Handling of corporate actions in a centralised and efficient way; and
- The ability to provide a customised service to smaller clients.

In addition, for licensees where some or all of their advisers are salaried, the cost of advice and execution is a direct cost. Adopting a managed account program provides licensees with the ability to centralise the investment administration operations into a specialist team. This in turn provides the ability to better manage organisational resources for greater efficiency and lower cost.

RISK MITIGATION

Managed accounts also address numerous risk management issues, providing advisers with greater confidence knowing that many of the

risks that arise in advice businesses are dealt with. These include:

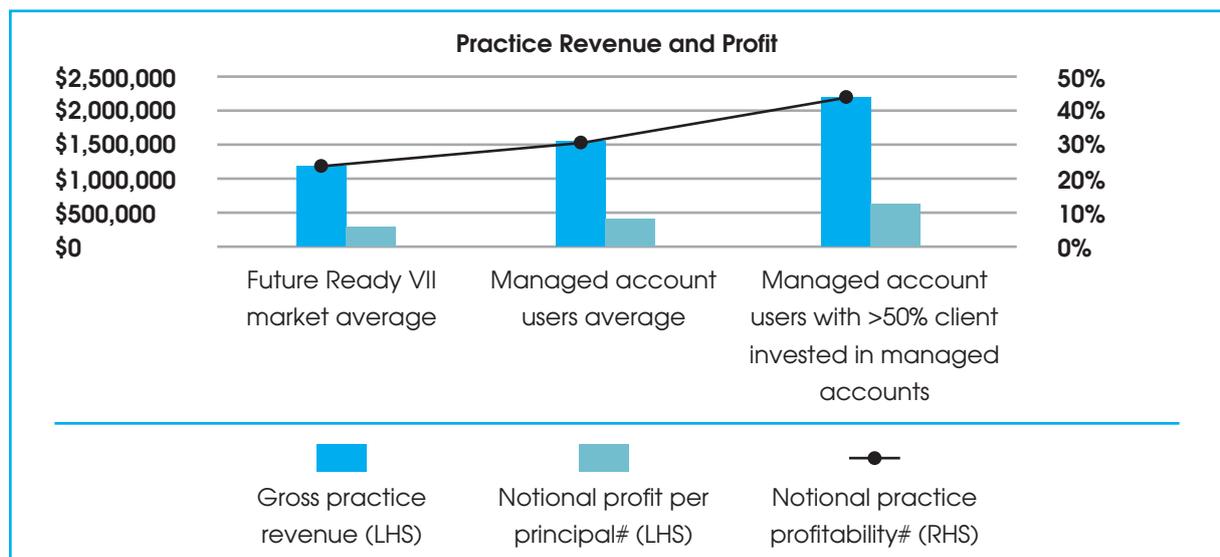
- Reducing the operational risk of missed client instructions to invest or to respond to a corporate action;
- All client portfolios can be dealt with simultaneously;
- Investment decisions are made by an investment committee, enabling advisers to be confident that no clients are invested inappropriately, either through deliberate decision or inattention; and
- Confidence that changes to model portfolios can be implemented in a timely manner.

These risk management and efficiency gains mean that adopting a managed account program offers a wide range of benefits for advisers and advisory businesses, enabling them to provide better investment outcomes for clients.

5. ARE MANAGED ACCOUNT PRACTICES BETTER BUSINESSES?

IMAP, in association with Business Health undertook an adviser profitability study in 2018.

This snapshot indicates the average key attributes of the practices surveyed, based on data collected during the *HealthCheck* process.*



Source: Business Health HealthCheck 2018

The number of advisers not interested in managed accounts dropped substantially - by 20 per cent in 2018 - suggesting that planners were increasingly recognising the business efficiencies of implementing a managed accounts solution.

Interestingly, of the 30 per cent of advisers currently using managed accounts, this investment solution comprises 33 per cent of their total funds under advice, with expectations that this will increase to 51 per cent in three years' time.

3. TYPES OF MANAGED ACCOUNT

Managed accounts are generally offered to retail investors in Australia under four legal structures;

1. Unregistered managed investment schemes called "Managed Discretionary Accounts" ("MDA") Investors make application to these schemes via MDA contracts issued by MDA Providers and, as part of the client application, specific investment programs are developed.
MDA providers in some cases may outsource some services, including administration services, personal financial advice or custodial services. Where the arrangement involves an External MDA Adviser or External MDA Custodian, the adviser or custodian are contractually responsible directly to the client.
2. Unregistered managed investment schemes called Investor Directed Portfolio Services ("IDPS"), with standing instructions. Investors make application to these schemes via an IDPS guide issued by the platform operator. Essentially, through the operational and investment efficiency of a platform structure, IDPS's provide benefits of netting, access to wholesale investments and cost efficiencies. As part of the client subscription, specific models or Managed Portfolios can be used as the basis for management of the client's investments.
3. Registered managed investment schemes: Designated as Investor Director Portfolio Services like ("IDPS like"). Investors make application for an interest in the scheme via product disclosure statements ("PDS") issued by the Responsible Entity ("RE").
IDPS like schemes operate in much the same way as an IDPS, however, the RE must meet certain additional regulatory compliance requirements, including investment governance. Further, being a registered managed investment scheme, investors can select model portfolios to suit their investment objectives and may be able to access the scheme without personal advice. Platform, custodial and administrative services are managed by the RE.
4. Registered managed investment schemes: Commonly known as Separately Managed Accounts ("SMA"). Generally offered in the form of a Financial Product, Investors make application for an interest in the scheme via product disclosure statements ("PDS") issued by the Responsible Entity ("RE").
SMAs allow investors to select model portfolios, in line with their objectives, from an investment menu. An SMA is part of the registered managed investment scheme regime, since the RE is ultimately responsible for the effectiveness and governance of the investment options (model portfolios and customisations) that are available via the scheme, regardless of whether an external investment manager, dealer group or adviser is appointed. Whilst providing transparency and flexibility of investment decisions through the selection of model portfolios and assets within the investment menu, SMAs operate more like a financial product, rather than an investment service.

Choosing the best managed account structure for an advice business is a matter of understanding the sometimes subtle differences between them. The main two types of service are SMAs and MDAs and the table below compares the main features of each.

Mandate	1 Month	3 Month	6 Month	1 year	2 years
Watershed Conservative	0.19%	3.19%	7.44%	10.71%	9.23%
Zenith Integrity Financial Planners Moderate (Elite)	0.17%	1.64%	3.66%	6.41%	5.21%
Elston Conservative Portfolio	-0.10%	0.26%	2.83%	6.17%	
DFS Conservative	-0.05%	1.02%	3.08%	5.80%	5.10%
Morningstar Aus Msec Conservative TR AUD	-0.26%	1.02%	2.78%	4.61%	3.31%
Netwealth Active Conservative			1.94%	4.16%	
Morningstar Conservative Managed Account Portfolio	0.11%	0.98%		2.78%	1.80%
Evergreen Premier Conservative Portfolio	-0.16%	0.56%	2.01%		
Watershed Relative Performance to Benchmark*	0.45%	2.17%	4.66%	6.10%	5.92%
Watershed Balanced	0.22%	4.10%	9.73%	14.67%	11.61%
Elston Balanced Portfolio	-0.32%	-0.02%	4.92%	11.09%	
Morningstar Aus Msec Balanced TR AUD	-0.34%	2.41%	6.55%	9.85%	7.69%
Lonsec Managed Portfolio - Balanced	-0.68%	1.06%	4.76%	8.27%	
Zenith Integrity Financial Planners Balanced (Elite)	0.04%	1.80%	4.55%	8.22%	6.54%
DFS Balanced	-0.06%	1.92%	4.26%	7.90%	7.01%
Netwealth Active Balanced			3.51%	6.41%	
Morningstar Balanced Managed Account Portfolio	0.52%	2.74%		6.28%	
Evergreen Premier Balanced Portfolio	-0.32%	0.89%	2.88%		
Watershed Relative Performance to Benchmark*	0.56%	1.69%	3.18%	4.82%	3.92%
Watershed Growth	0.24%	4.68%	10.87%	16.88%	13.01%
Elston Growth Portfolio	-0.38%	-0.09%	5.53%	12.56%	
Morningstar Aus Msec Growth TR AUD	-0.39%	3.01%	8.34%	12.32%	9.76%
DFS Growth	-0.08%	2.88%	7.10%	12.00%	9.73%
Lonsec Managed Portfolio - Growth	-0.73%	1.51%	6.19%	10.58%	
Zenith Integrity Financial Planners Growth (Elite)	-0.09%	2.08%	5.71%	10.05%	7.92%
Morningstar Growth Managed Account Portfolio	0.56%	3.55%		8.63%	
Netwealth Active Growth			5.02%	8.42%	
Evergreen Premier Growth Portfolio	-0.52%	0.66%	2.94%		
Watershed Relative Performance to Benchmark*	0.63%	1.67%	2.53%	4.56%	3.25%
Watershed High Growth	0.38%	5.85%	12.81%	20.50%	15.33%
Morningstar Aus Msec Aggressive TR AUD	-0.31%	3.94%	10.40%	15.35%	12.75%
DFS High Growth	-0.06%	3.12%	7.96%	13.08%	11.40%
Morningstar High Growth Managed Account Portfolio	0.71%	4.26%		10.55%	
Zenith Integrity Financial Planners High Growth (Elite)	-0.17%	2.37%	6.84%	11.86%	9.17%
Elston Aggressive Portfolio	-0.42%	-0.12%	5.94%	13.42%	
Lonsec Managed Portfolio - High Growth	-0.73%	1.83%	6.90%	12.49%	
Netwealth Active High Growth			6.23%	10.23%	
Watershed Relative Performance to Benchmark*	0.69%	1.91%	2.41%	5.15%	2.58%

*Benchmark is the Morningstar Aus Msec index's
 Note: This graph reflects figures as at 30 Sept 2018

	Future Ready VII market average	Managed account users average	Managed account users with >50% clients invested in managed accounts
Funds under administration			
Total FUA	\$137.0m	\$164.9m	\$234.6m
FUA per client	\$363,948	\$453,081	\$671,173
FUA per adviser	\$50.8m	\$64.0m	\$82.3m
Client/staff ratios[^]			
Number of clients	715	614	815
Number of staff	5.6	6.1	8.1
Clients per adviser	285	336	348
Clients per support staff	302	186	162
Client touchpoints			
Face-to-face client meetings per adviser per week	6.0	7.4	7.5
10+ touchpoints per year with key clients	39%	47%	44%
Practice planning			
Documented Client Value Proposition	56%	73%	78%
Not charging for plan/ Statement of Advice	13%	3%	0%
Formally surveying clients	34%	45%	50%

Source: Business Health HealthCheck 2018

* The above results were calculated by using individual practice-level averages for the 30 practices surveyed then averaging these across the data group. This approach produces a far more meaningful result and explains the apparent discrepancy if some of the key practice attributes are simply multiplied or subtracted from each other.

All 'notional' profit and salary calculations in this report assume a notional \$100,000 salary for each principal working in the practice.

[^] All staffing ratios have been calculated on a full-time equivalent (FTE) basis.





IMAP award winning Lunar Managed Accounts, now renamed Soteria Capital Managed Accounts

Discretionary Investment Management solutions for SMSFs

Benefits for SMSF Investors

- Cost effective access to well diversified funds.
- Dynamic Asset Allocation to optimise returns in volatile markets.
- High quality investment commentary and reporting.

Benefits for SMSF Advisers

- Easier implementation across many client portfolios.
- Less burden on admin staff and lowers potential errors.
- More consistency in portfolio holdings and reporting.
- Boost client engagement.

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0408 123 155 p.anderson@soteriacapital.com.au



**Licensee Managed
Account
Winner**

2018 IMAP MANAGED
ACCOUNT AWARDS



**Multi Asset
Class
Winner**

2018 IMAP MANAGED
ACCOUNT AWARDS



Ashley Owen CIO and Jonathan Hoyle CEO Stanford Brown

6 AN ADVISER CASE STUDY – STANFORD BROWN IMAP LICENSEE MANAGED ACCOUNT AWARD WINNER 2018

Sydney-based Stanford Brown was named the inaugural winner of the Licensee Managed Account category at the IMAP Managed Account Awards.

The North Sydney-based business operates under its own licence through The Lunar Group, with a staff of around 50 looking after 600 high-net-worth clients. Two years ago, Stanford Brown reached a significant milestone as it crossed \$1 billion in funds under management, which prompted the business to reconsider how it managed its clients' investments.

"It was at this time we came to the conclusion that the way we were running our clients' money was neither in their best interests nor our best interests," says Stanford Brown chief executive officer, Jonathan Hoyle. "The traditional way of managing clients' money is clunky, it's reactive, it's slow and it's administratively inefficient. We had been searching for a better solution for a while and with managed accounts, we realised that a superior solution for managing clients' funds had finally arrived."

With the research capabilities of Morningstar and Zenith, Stanford Brown's Lunar Managed Account was launched in early 2017 comprising of five multi-sector models - ranging from



conservative (with 30 per cent growth assets) to high growth (with 95 per cent growth assets).

“Within that managed account we can buy managed funds, ETFs, individual shares, hybrids, unlisted and listed funds, as well as cash and term deposits,” Jonathan says.

INVESTMENT COMMITTEE

Despite the considerable advantages its managed account solution has provided to its clients and the Stanford Brown business, Jonathan warns that the biggest expense for any business setting up its own discretionary portfolios is building a quality investment committee. He says practices shouldn't underestimate the cost involved in doing that.

At Stanford Brown, six members make up its investment committee, which meets formally every month. The committee comprises the group's highly experienced chief investment officer, Ashely Owen CFA, an analyst, three senior Stanford Brown advisers, including Jonathan, and Dr Don Stammer as an external, independent member of the committee.

LESSONS LEARNED

Jonathan believes effective client and adviser communication is absolutely necessary for any business wanting to implement a managed accounts service. At Stanford Brown, the communication process begins with the monthly meeting of the investment committee. Following the meeting, the company's chief investment officer, Ashley Owen, runs a one-hour presentation for all the advisers, explaining his view of the markets and any changes that the investment committee has made to their clients' portfolios.

In addition to this, clients regularly receive three forms of communication.

Firstly, there is a weekly client update, called TW3 - 'That Was The Week That Was', secondly, a deeper investment piece each month and finally, an in-depth Quarterly update that reviews Stanford Brown's portfolios and progress against their benchmarks.

THE BENEFITS

A better outcome for Clients

Every client benefits from the most professional

approach to investment management that Stanford Brown can offer and immediate implementation of the changes the Investment Committee makes.

A Better Outcome for the Business

Since implementation error rates have fallen and the effort dedicated to routine administration has been substantially reduced.

A Better Outcome for Advisers

Managed accounts free up an adviser's time to truly focus on the advice process and enable them to have deeper conversations with clients.

Other Finalists in the IMAP Licensee Managed Account Awards were:

- Crystal Wealth
- Paradigm Group
- Viridian Advisory
- WLM Financial Services

7 SETTING FEES AND CHARGES FOR A MANAGED ACCOUNT PROGRAM

A managed account program, which forms part of a broader strategic advice proposition can mean a reduction in the total cost to client and a 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 conflicted remuneration 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 advice businesses can provide actively managed 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 total cost to client. The benefit of this can be greater appreciation by clients of the connection between fees and value added.

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

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. The 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 may include administration and other services. Increasingly, MDA services are being offered as stand alone services on mainstream platforms.

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.

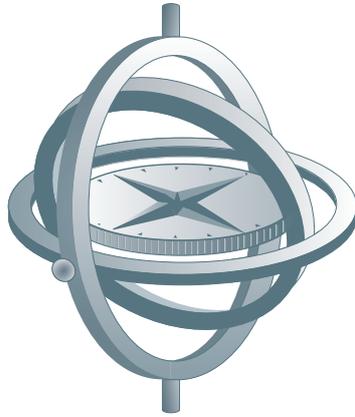
This is vastly different to traditional, manual portfolio management where each individual client portfolio would need to buy Telstra shares and incur at least minimum brokerage.

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 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, portfolio managers appointed to managed account programs may apply performance fees. This is more common for highly specialised and tailored client portfolios.



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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 portfolio'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.

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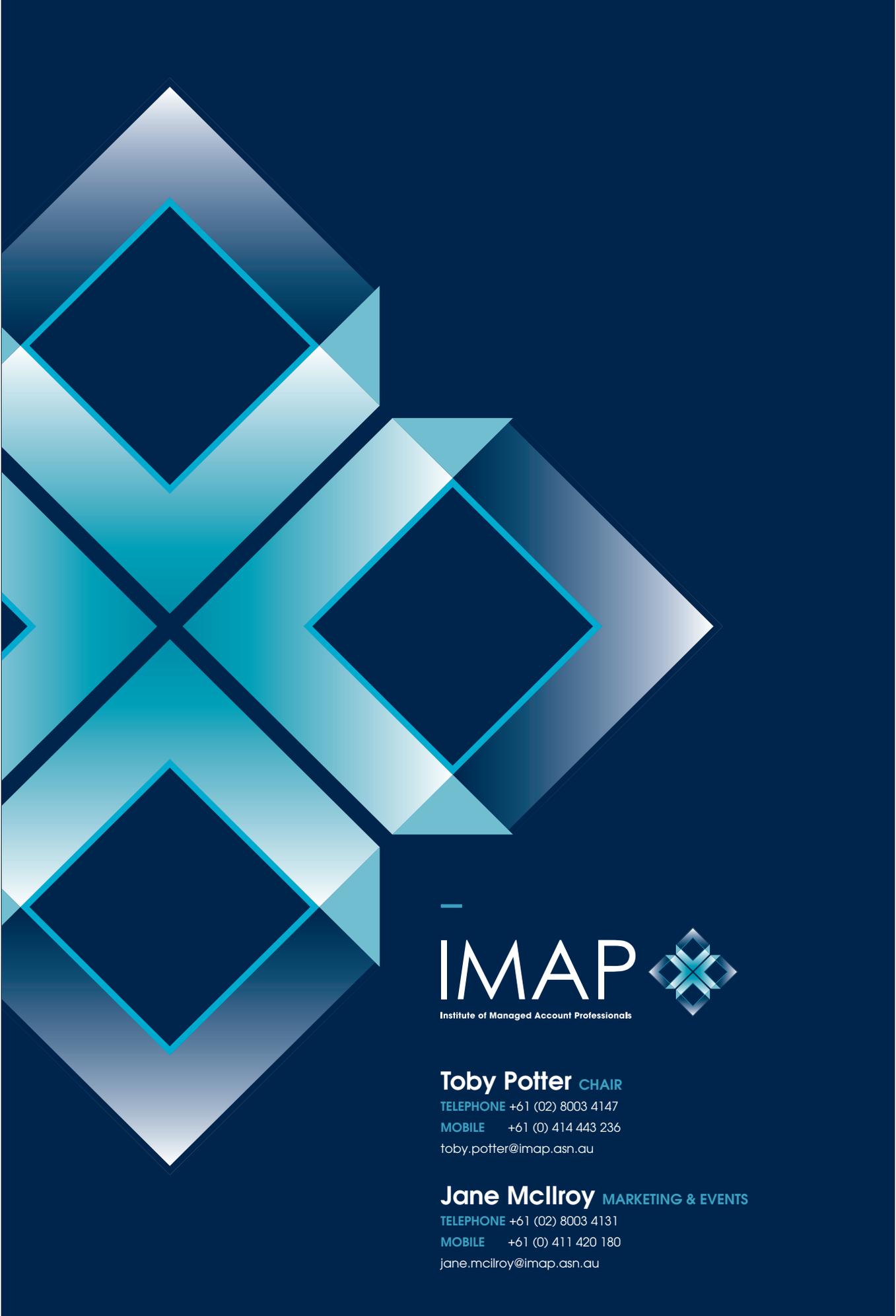
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