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Guide to Managed Accounts

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In this time, *Money Management* has rapidly evolved from a B2B newspaper into a respected provider of accredited education and training, research, professional support and advocacy as well as thought leadership in the financial services space.

While it remains the most-read print and online publication by financial planners in Australia and is widely recognised as a leading advocate for this profession, *Money Management's* growing audience is a diverse one that also includes fund managers, accountants, risk advisers and superannuation fund trustees.

Money Management is also the clear publication of choice for finance institutions – both domestic and international – seeking to connect with the high-earning and well-educated professionals working in Australia's financial services sector.

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FE fundinfo

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Faith in managed accounts by advisers still strong

Managed accounts not only have weathered the impact of the COVID-19 pandemic but have innovated in the last 12 to 24 months, all while growing funds under management to new heights.

As mentioned in this *Money Management Managed Accounts Guide,* financial advisers found the ability to de-risk client portfolios rapidly through managed accounts, useful during the downturn markets experienced in March last year.

Not only that, when green shoots appeared they were again able to easily take advantage of opportunities.

Also, criticisms regarding managed accounts seem to be a problem of the past now that the vehicle has the ability to provide multi-asset exposure, and because there is more understanding between the role of portfolio managers and advisers.

There is no doubt that managed accounts have proved to be a useful tool for financial advisers and this is further highlighted by the fact that managed accounts have now surpassed $111 billion in funds under management (FUM).

This year has been no different as $15.8 billion of this FUM was generated during the first six months of 2021.

The Institute of Managed Account Professionals (IMAP) latest census found that the value of advised investments through manage accounts has increased by $80 billion over the last five years.

However, it should be noted that advisers need to take care when calculating the actual cost of managed accounts as Zenith has found that total fees could range from 0.6% to 1.3%, far higher than the initial investment management fees.

I hope you find this year's *Managed Accounts Guide* informative and useful.

Jassmyn Goh,
Editor

Managed accounts

Driving efficiency with managed accounts

As managed accounts funds under management surpasses $100 billion, Chris Dastoor writes managed accounts have evolved drastically over the last few years.

The managed accounts segment has grown to new heights – surpassing over $100 billion in funds under management (FUM) – and advisers that have adapted them are finding a more efficient way to manage client funds.

Netwealth's '*AdviceTech 2021*' report found almost seven-in-10 advice firms who use managed accounts identify better trading efficiency as a benefit to clients.

"More than four-in-10 (42.5%) advice firms use managed accounts today, and of these firms, three-in-10 (30.4%) use them for more than half of their client base," the report said.

The biggest benefit found was improved back-office efficiency, which just over three-quarters (75.7%) of those surveyed agreed with.

The latest Institute of Managed Account Professionals (IMAP) and Milliman managed account census showed the industry had reached $111 billion in FUM, as of the end of FY21.

Anthony Wamsteker, Praemium chief executive, said managed accounts were the fastest growing segment of the platform market and for a good reason.

"They've got clear advantages for financial advisers to manage client portfolios using the managed account structure," Wamsteker said.

"It will continue to be the fastest growing segment with the overall platform market – they're a very efficient means of giving clients a portfolio that suits their needs at a particular point in time."

Wamsteker said the advantage was how much time they saved for an adviser.

"Once you've set up your managed account for a client or a group of clients – once you've got a group of clients on managed accounts it becomes a much more simple and efficient mechanism for you to implement the advice for a whole group of clients," Wamsteker said.

"Instead of one-on-one management, you can implement your strategies for your clients a lot more efficiently because you can do them all at once rather than one at a time.

"It really makes life better for advisers to have all their clients in a managed account structure."

ADOPTION

Matt Heine, Netwealth joint managing director, said managed accounts continued to get

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Managed accounts

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adopted at extremely high rates.

"We've seen this accelerate post COVID-19 and the volatility that was experienced back in March/April 2020," Heine said.

"Last time we saw a huge acceleration like this was after the Global Financial Crisis (GFC) when advisers realised trying to deliver advice at speed when markets are moving is extremely challenging.

"Through COVID-19, when the world did come to a grinding halt back in March 2020, portfolio managers and advisers as a result of the automation were able to de-risk client portfolios rapidly."

Heine said this meant making wholesale changes across all client bases and removing risky assets.

"Then as the market started to turn around and there were green shoots towards the end of March, they're quickly able to take advantage of opportunities," Heine said.

"The real benefit there is that in a traditional advice model, even on a scaled or limited advice basis, it's very difficult to actually make bulk changes across all of your clients at the same time to really de-risk and take advantage of opportunities as they present themselves.

"Because all of them have professional governance and managers within them, you've also got that capability where it's not just one person making decisions, it's an investment committee that are looking at various signals and trying to make well-educated investment decisions."

Heine said clients could have confidence their portfolio was going to be managed within the mandate they agreed to.

"The nature of managed accounts means from a governance perspective that it is true to label and you are going to be managed within the mandate that you've agreed to," Heine said.

Heine said historically managed accounts were viewed as an efficiency tool for advisers, largely by removing the back-office compliance and advice requirements.

"What we're now seeing though is those advisers that have been using them for quite a long time and are looking at adopting them now are seeing there's a huge benefit to the client particularly from an engagement perspective," Heine said.

EVOLUTION

Managed accounts had evolved drastically over the last few years and many of the valid criticisms of the past no longer applied, like assets that could be managed, control issues and revenue.

"Criticism in the past was on the range of type of assets that could be managed through a managed account," Heine said.

"That's really evolved in the last 12 to 24 months where a number of managed account providers provide true multi-asset exposure.

"That's through international managed funds, domestic hybrid securities etc. so clients are able to get a very sophisticated and diversified portfolio."

Heine also noted the criticism that there was a "small" loss of control, which was outweighed by the benefits.

"You've got professional management, seamless transactional capability and also in many cases the ability to benefit from scale, so where managers are happy to pass back rebates to clients as a result of some of the institutional style models they're running," Heine said.

Toby Potter, IMAP chair, said there were advisers who were concerned that a managed account potentially undermined their role.

"But that's based on a misunderstanding of the role of portfolio managers and the role of advisers," Potter said.

"Successful users of managed accounts relish the split of responsibilities between the expertise in specific areas that managed accounts make possible."

The other myth, Potter said, was whether managed accounts were simply a way of generating revenue for licensees.

"And again, nobody questions the right of a fund manager to charge a fee for the process of portfolio construction or manager selection," Potter said.

"Increasingly as portfolios are put together there's a right by the law and in principle for people to be remunerated for the work they do."

North

Helping your clients succeed with equities

In an environment where the cost of providing advice is increasing, it's never been more important to use investment solutions that help you stand out from the crowd.

Many advisers are finding the reporting, transaction and portfolio management capabilities of managed portfolios can make it easier to deliver high quality advice that meets clients' goals. And their popularity continues to grow, with 44% of advisers now using managed portfolios,[1] which account for over 10% of platform investments.[2]

Managed portfolios can benefit your practice by:

- **reducing operational risk** as a specialised trading team takes care of rebalancing, trading and monitoring
- **simplifying advice** by reducing the number of steps, with the investment manager taking responsibility for investment research and portfolio instructions
- **freeing up your time** to focus on your role as mentor, spending more time educating clients about investment goals and strategies
- **meeting client expectations** by catering for their less tangible needs. Clear investment objectives allow you to align the chosen portfolio with your client's values to meet their broader needs.
- **showing best interests' duty** considerations when developing Statements of Advice
- **leveraging experts** to help clients achieve their goals, including advisers, investment managers and specialised trading teams
- **building whole-of-wealth solutions** based on broad client goals such as retirement income, asset protection or maximising accumulation.

They can also benefit your clients. They are **transparent**, with underlying investments fully disclosed and regular communication around performance. They are **cost efficient** – for example, MyNorth Managed Portfolios use scale to negotiate discounts so clients can access funds at a cheaper rate than if they had invested outside the managed portfolio. And they can be **tax efficient,** as clients are the beneficial owners of underlying investments. In managed portfolios with equities, clients aren't disadvantaged by decisions of other investors which may trigger CGT liabilities, as they may have been in a unitised investment such as a managed fund.

Trading equities

Shares are at the top of many clients' wish lists, with Australian equities the most widely held asset class, owned by 58% of investors.[3] While demand is high, it can be difficult for clients to set themselves up for success. So, they look to you as their trusted adviser for guidance.

But being across a whole universe of investments can be tough. And your first responsibility is to understand your clients' goals and circumstances, without having to justify every buy and sell decision. So, it's important to find the right equity trading solution.

A managed portfolio can be an efficient way of holding Australian equities that clients recognise, and it is managed by experts. We're working to expand our MyNorth Managed Portfolio range to include Australian equities and listed products from high quality investment managers.

Transforming your advice

Most users say their value proposition has changed as a result of adopting managed portfolios (71%), citing benefits such as:

- greater focus on client financial and lifestyle goals (39%)
- greater transparency (38%)
- outsourcing portfolio construction to professionals (36%).[1]

As we've seen during the COVID-19 crisis and the subsequent ongoing instability, managed portfolios can help during market volatility. Most advisers rated managed portfolios as 'very good' (55%) or 'good' (33%) in terms of freeing up their time to spend educating and reassuring clients.[1] This is good news for any future market disruption, and it's a narrative you can leverage to demonstrate your value-add to clients.

Educate, don't sell

Les McGuire from Future Proof Wealth has almost 100 clients invested in MyNorth Managed Portfolios. He spends time with his clients on basic investment concepts through a fact find before covering investment risks and the mechanics of investing.

Les makes a point of explaining the differences between structures like managed portfolios, managed funds and ETFs.

"I make sure clients understand the role of the investment manager—that they can move investments into or out of the portfolio without reference to me or to them. We make sure they understand the risks of manager selection as well as market movement. It's not until we present the statement of advice that we deal with specific products. By this time, they understand the basic product structure and they know it's right for them."

As Les says, clients can benefit from active management by experts. "We could be going into a very difficult market and clients will need professional management to navigate that, to find specific investment opportunities."

To find out more about MyNorth Managed Portfolios visit amp.com.au/mynorthmp.

1 Investment Trends February 2021 Managed Accounts Report
2 IMAP Dec 2020 data and Plan for Life Dec 2020
3 ASX Australian Investor Study 2020

North

Making a difference – the evolution of ESG investing

In the modern world, investment performance by itself no longer cuts it. Naturally, returns are still important. But almost three in four advisers see it as their responsibility to align investments with their clients' personal values.[1]

And yet advisers can lack the confidence to discuss the issues, particularly those without environmental, social and governance (ESG) experience. Only around one in four of these advisers feel confident discussing ESG issues with their clients.[1]

In its early years, responsible investment primarily used negative screening to avoid companies and industries causing social or environmental harm. As interest has grown in ESG issues, investment managers have developed additional strategies including ESG integration, active ownership and impact investing.

ESG integration is how companies manage their risks and opportunities. Poor governance can lead to a company's value decreasing due to reputation damage, fines or loss of licence. Investment managers can also employ active ownership to improve ESG practices by pulling levers such as proxy voting, shareholder resolutions, class action lawsuits and even the Wall Street Walk, where a group of institutional investors forces change by flagging they are selling shares.[2]

As the Responsible Investing Association Australasia says, "Impact investing is a responsible

How confident do advisers feel discussing these ESG topics with clients? Among non-ESG planners [n=76]

Source: Investment Trends February 2021 ESG Adviser Report investing approach that seeks to go a step further. Beyond screening out the negative, and just managing for risks and opportunities, impact investments are those made into organisations, projects or funds with the intention of generating measurable social and environmental outcomes, in addition to a financial return."[3]

Asking the questions

ESG managed portfolios can free up your time to ask clients the right questions. Do they want to:

- seek out opportunities with positive social and environmental outcomes as well as good returns – for example renewable energy?
- exclude activities with a major impact on the environment and society such as tobacco, armaments, harmful animal testing or gambling?
- invest in companies with the best ESG track record, regardless of the section they operate in?[4]

We have extended our ESG range with additional risk profiles in the MyNorth Sustainable Managed Portfolios. **You can find more information at amp.com.au/mynorthesg.**

1 Investment Trends February 2021 ESG Adviser Report
2 AMP, A guide to ESG Investing
3 https://responsibleinvestment.org/impact-investment-forum/about-impact-investing/
4 Responsible Investment Association Australasia, Financial Adviser Guide to Responsible Investment, 2020

Managed accounts withstand market turmoil

Major adviser and regulatory change has failed to stem the growth of managed accounts with funds under management reaching $111 billion, Laura Dew finds.

Managed accounts rose by $15.8 billion in the first six months of 2021, according to the Institute of Managed Account Professionals (IMAP) census.

According to the organisation's latest census, conducted in association with Milliman and 48 companies including Lifespan, IOOF and Elston, funds under management as of 30 June were $111 billion, up from $95.2 billion at the end of 2020.

This was divided between $51 billion in separately managed accounts (SMAs) and managed investment schemes (MIS), $48 billion in managed discretionary accounts (MDAs) and $11.9 billion in other services.

The value of clients' investments advised through managed accounts had increased by $80 billion over the last five years.

Looking at five-year asset growth since 2017, SMAs had grown almost four times from $14 billion to $51 billion with a particular sharp rise in the second half of 2020 when funds rose from $28 billion to $45 million.

This 2020 rise had been caused by a one-off legal transition of a large platform's funds under management from other services to SMA, as well as organic and market growth.

FUM growth

Assets held in MDAs rose from $23 billion to $48 billion while other services saw growth from $11 billion in June 2017 to $12 billion in June 2021.

While assets in other services had reached as high as $19 billion in December 2019, the sector saw declines of $10 billion during 2020 before reporting growth again this year.

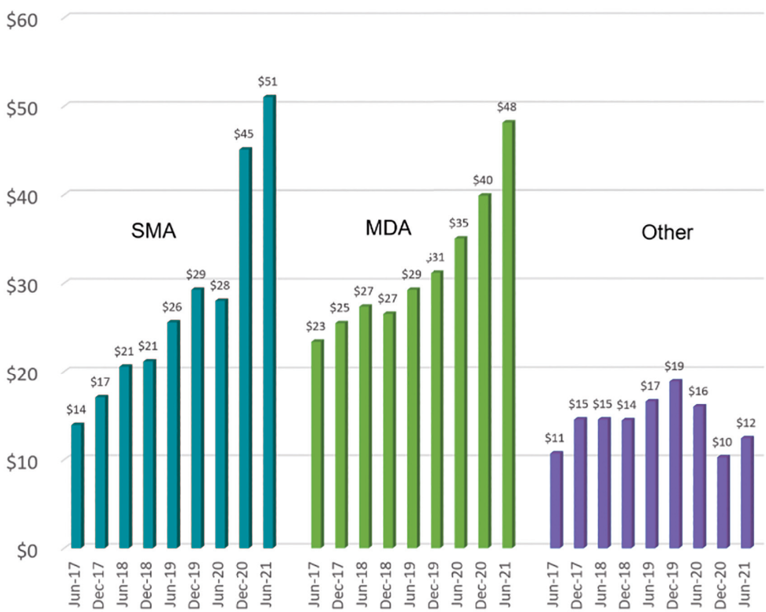
It was expected that if funds kept growing at the same rate, then they could reach $200 billion in the next three years.

Toby Potter, IMAP chair, said: "The significance is not just that managed accounts have now been used by advisers for 24 plus years, but that in the past five years alone the value of clients' investment advised through managed accounts has increased by $80 billion. We can remain confident that the managed accounts advice and investment sector is contributing strongly to wealth management of Australians of all ages.

"This is positive news and reassuring for investors, especially considering the continued high levels of major change across multiple key areas and COVID-19 disruptions."

However, Potter acknowledged there were numerous challenges facing the sector including market conditions, regulatory reform, restructuring of the adviser market and continued consolidation through acquisitions, advisers moving between licensees, competition to justify fees and striving for consistent investment performance from investment managers.

Managed Accounts growth by category ($ billions) June 2017 to June 2021



Source: Institute of Managed Account Professionals


præmium

The hidden costs of managed accounts

Financial advisers are being encouraged to look beyond the headline cost when accessing model portfolios via managed accounts, writes Laura Dew.

When it comes to using managed accounts to access model portfolios, it would be wise to focus on all the costs involved rather than just the headline cost.

Australian investors were able to use managed accounts to access model portfolios, a type of portfolio which utilised a diversified investment approach to target a particular risk or objective.

According to State Street, Australian investors focused on the investment management fee but failed to consider what other costs they might incur.

Where a model portfolio was held within a separately managed account, for example, this was managed by a responsible entity which charged a fee which could be recouped from the investment management fee.

Beyond this, there were administration fees to access the managed account on an investment management platform. This was usually a percentage-based fee of the model portfolio's assets.

"Investors are encouraged to understand the range of administration fees as different asset classes within a model portfolio have the potential to significantly impact the total cost to client," State Street said.

Investment management and responsible entity fees could vary from 0.2% to 0.61%, according to data from Zenith. There were also then indirect costs, which was the management cost of the underlying investments, performance fees and administration costs.

The combination of these brought total managed account fees to around 0.6% at the lowest to 1.3% at the highest, far higher than the initial investment management fees.

In order to avoid incurring too many administration costs or trading fees, State Street suggested holding fewer underlying vehicles.

"Be sure to ask the question – what is the optimal number of underlying vehicles to enhance expected return? Often a lengthy list of underlying vehicles can be reduced to enhance returns and reduce trading cost. In this case less can be more."

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