



# Managed account fees

Understanding the true cost of client outcomes

**Matt Van Dijk**

**F**or many advisers, cost is a significant factor when it comes to considering how best to meet their obligation to act in the client’s best interest. Custodial investment platforms, from older style master trusts and wraps to more modern solutions, have encouragingly moved from the historical single fee to an unbundled fee structure to provide increased transparency.

Platform fees typically comprise a headline administration fee, expressed as a percentage of assets under custody, and could have an additional fixed dollar account fee. Note that different platforms will offer their own level at which administration fees are capped and should be considered separately. In analysing and comparing fees an often neglected, yet important consideration, is the *ancillary fees* related to regulatory expense recovery, superannuation administration costs, or trading costs. The actual cost to the investor can be markedly different between platforms depending on the investment option selected and how the investment manager and client interact with the platform. If a complete analysis is not conducted, the full cost implications to an investor are not considered and this could challenge the adviser’s ability to prove best interest was attained.

Evaluating the cost of running your investment philosophy on differing platforms should account for all costs, including:

- Platform administration and account-keeping fees
- Manager MER variances and governance fees

- Impact of trading costs.

We have undertaken an analysis of these fees to demonstrate how on the face of it cost can seem straightforward but when factoring in all costs, different outcomes may be delivered for a client’s portfolio.

## Platform administration and account-keeping fees

The impact of a headline administration rate can often create a false impression of price competitiveness. The tables below compare Praemium’s retail Product Disclosure Statement (PDS) fees as at 7 March 2023, for an investment and superannuation product, and use a hypothetical example, Platform B, to provide a base comparison, as shown in Table 1.

**Table 1. Headline administration rate**

Praemium		Platform B	
FUM	Rate	FUM	Rate
\$0-\$250k	0.37%	\$0-\$250k	0.33%
\$250k-\$500k	0.30%	\$250k-\$500k	0.14%
\$500k-\$1m	0.20%	\$500k-\$1m	0.12%
\$1m-\$2m	0.00%	\$1m-\$2m	0.04%

*Note: Praemium has an Expense Recovery fee of up to \$100. Praemium caps administration at \$1m. Platform B has an additional Account-Keeping Fee of \$240 applied together with a percentage-based Expense Recovery fee of 0.01% capped at \$1m (\$100). Platform B caps administration fees at \$2m.*

**Table 2. Actual cost of four different portfolio valuations (\$250K - \$2m)**

Administration fee only				
Amount invested	\$250,000	\$500,000	\$1,000,000	\$2,000,000
Praemium	\$925	\$1,675	\$2,675	\$2,675
Platform B	\$825	\$1,175	\$1,775	\$2,175
Administration fee + account-keeping fees				
Amount invested	\$250,000	\$500,000	\$1,000,000	\$2,000,000
Praemium	\$925	\$1,675	\$2,675	\$2,675
Platform B	\$1,065	\$1,415	\$2,015	\$2,415
Administration fee + account-keeping fee + expense recovery fee				
Amount invested	\$250,000	\$500,000	\$1,000,000	\$2,000,000
Praemium	\$1,025	\$1,775	\$2,775	\$2,775
Platform B	\$1,065	\$1,415	\$2,115	\$2,515

When considering administration fees in isolation, it is reasonable that an adviser would determine Platform B to be the most cost-effective solution for the client. On the face of it, this looks like it might be a correct assumption. However, the example above, when including even just the account-keeping and expense recovery fees, demonstrates that the fee competitiveness of platforms can quickly change. Of course, all platforms have different fees, but this example starts to highlight the need to understand the impact of how different platforms charge.

## Manager MER variances and governance fees

Advisers often miss that the cost of Management Expense Ratios, particularly for Managed Accounts, is often variable for different platforms. This could be due to a distribution agreement offering a special deal to a particular platform over another or the ability to manage costs differently.

For example, some platforms charge an additional Responsible Entity (RE) fee, in addition to the platform administration fee. This is usually a basis points fee charged to the Model Manager, who can then in turn either absorb part or all this additional RE fee or pass it on to the investor as part of the model MER. The latter is the most common option, however, Praemium does not charge this additional RE fee at all and will be used to demonstrate the impact of its inclusion.

For example, XYZ Model has an MER of 0.09% on Praemium. Should Platform B charge an additional 0.10% RE fee to run this model, which is a reasonable expectation, this turns the MER of 0.09% to 0.19% on Platform B. Importantly the MER on models is unlike administration fees, in that they are uncapped. Therefore, the client pays on every dollar in the portfolio!

This would have the same impact as adding the RE fee

difference to every administration fee tier, making the rates look like in Table 3.

**Table 3. Illustration of administration fee + RE fee**

Praemium		Platform B	
FUM	Rate	FUM	Rate
\$0-\$250k	0.37%	\$0-\$250k	0.43%
\$250k-\$500k	0.30%	\$250k-\$500k	0.24%
\$500k-\$1m	0.20%	\$500k-\$1m	0.22%
\$1m+	0.00%	\$1m-\$2m	0.14%

How does this translate into additional, actual fees, to the investor?

**Table 4. Admin fee + account keeping fee + expense recovery + MER difference**

Amount invested	\$250,000	\$500,000	\$1,000,000	\$2,000,000
Praemium	\$1,025	\$1,775	\$2,775	\$2,775
Platform B	\$1,340	\$1,965	\$3,115	\$4,515

As the scenario shows, Praemium becomes a much more cost-effective solution across all portfolio sizes and particularly larger balance clients or family groups, where fee aggregation is possible, as shown in Table 4. This layering of fees is starting to demonstrate clearly the need to complete a detailed analysis of all fees and their impact to clients. This can be further complicated by the inclusion of trading costs.

## The impact of trading costs

There are also significant differences in brokerage costs across platforms and it is important to acknowledge that brokerage is not only charged on the initial investment, but is also paid on every cash flow, rebalance, and on any sell. Brokerage therefore can have a material impact on the cost to the investor, however, is the most common omission in terms of cost analysis.

Best practice would be to ensure you have considered the potential average life cycle of a client and the execution costs of implementing your strategy over time on different platforms. The impact of fees can compound over time, potentially resulting in a significant difference in cost and ultimately performance for the same portfolio on different platforms. This can impact the time to achieve financial goals and in turn, become a reflection of the adviser's recommendation.

Understanding how platforms pass on these costs can offer significant benefits, such as.

- **Cost management:** By understanding the specific trading costs associated with a given platform, advisers can make better informed decisions about which platforms to use for their clients. Importantly, they can also adjust their trading strategies to minimise costs when trading.



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### The quote

*The impact of a headline administration rate can often create a false impression of price competitiveness.*

- **Client transparency:** Advisers have a fiduciary responsibility to act in the best interests of their clients. Understanding how trading costs are passed on to clients allows advisers to be transparent about the costs associated with their investment strategies.
- **Performance measurement:** Trading costs can have a significant impact on investment performance. By understanding how trading costs are passed on to clients, advisers can accurately measure the performance of their investment strategies and most importantly reduce any potential impact of fees on performance.

Analysing trading can be the more complex aspect of a platform cost analysis and as such the following is a simple worked example, where a new portfolio is established and then the cost of ongoing management. Direct equities has been used to simplify the example, but it is acknowledged a portfolio could also include managed funds and other asset types, where there are no trading costs.

#### Considerations

Investment Profile:	20 Direct Equities
Average Turnover (p.a.)	20%
Praemium brokerage:	0.055% plus 0.87c per security settlement fee.
Platform B brokerage:	0.11% with no settlement fee.

*Note: Praemium offers a 100% netting benefit, but this benefit and cost reduction have been excluded for the purposes of this exercise for simplicity.*

Commonly, investment managers will rebalance or adjust a portfolio at least quarterly to maintain portfolio positions in line with their capital markets forecasts, research, and portfolio objectives but sometimes can be more often, depending on the mandate or strategy. This may be less for an advice firm managing an in-house portfolio but will differ from firm to firm, depending on the client engagement and advice model.

Let's now look at the considerations for this portfolio and factor in firstly, the initial brokerage costs and then the ongoing costs with quarterly rebalancing, for each of our four portfolio sizes.

As shown in Table 5, it is clear by factoring in the trading

**Table 5. Initial brokerage costs**

Amount invested	\$250,000	\$500,000	\$1,000,000	\$2,000,000
Praemium	\$155	\$292	\$567	\$1017
Platform B	\$275	\$550	\$1,100	\$2,200
<b>First 12 months</b> – Includes admin fee + account keeping fee + expense recovery + MER + brokerage (4x rebalances per year, 20% turnover)				
Amount invested	\$250,000	\$500,000	\$1,000,000	\$2,000,000
Praemium	\$1,273	\$2,243	\$3,683	\$4,563
Platform B	\$1,780	\$2,845	\$4,875	\$8,035

costs that there is a significant difference in fees between Praemium and our notional Platform B.

### In summary

At face value, cost comparisons seem straightforward, however, they can exclude material factors that will detrimentally affect your client. As an industry, we have embraced and utilised the Indirect Cost Ratio (ICR) to determine a more accurate comparison of the effect of fees on a client portfolio for managed funds.

We would suggest a similar Platform Cost Ratio (PCR) needs to be considered when comparing two or more platform options for clients. Importantly advisers need to factor in all underlying fees and the timeframes of an investor's financial goals and how these fees could potentially impact the outcome, and implement the best platform for that scenario in order to meet their best interest obligations. **FS**