



The evolution of managed accounts: Beyond market volatility

Brent Bevan

The turbulent market conditions that have prevailed in the 2020s have proved the worth of managed accounts—but what more can they deliver to advisers?

Some may say managed accounts have proved their worth, especially throughout the turbulent market conditions that have prevailed in the 2020s, such as COVID-19, geopolitical tension, rising inflation and a banking crisis. If anyone questioned the underlying proposition of the sector, they would be able to refer to various instances of its ability to guide both financial advisers and end investors through market turmoil.

This is first evident in the robust investment strategies that multi-asset funds, in particular, are able to deliver to clients. In a world where even Future Fund Chief Executive Officer Ralph Arndt believes set-and-forget strategies based on beta are insufficient to guarantee performance¹, it is almost undeniable that the portfolio construction skills of multi-asset managers should be considered for inclusion in every adviser's arsenal.

Arndt told a public forum in April 2023 that rapid change in the global environment means that the role of alpha in portfolio con-

struction is more important than ever—and that the nation's sovereign wealth fund was compelled to evolve its strategy in response.²

Multi-asset managed accounts offer a similar opportunity to financial advisers and their clients. The best providers, for example, proved their mettle in early 2022 by adjusting fixed income portfolios to counteract the impending quick-fire program of interest rate hikes implemented by central banks. By increasing their exposure to short maturities and global credit securities, these providers were able to limit losses in a period in which bonds bucked conventional wisdom by underperforming at the exact same time as equity markets.

Well-resourced managed fund providers with experienced research teams also benefited from adding an allocation to the fast-growing private credit sector that added extra ballast to portfolios. The very nature of private assets means that evaluating each potential investment, let alone constructing an appropriately diversified portfolio, requires a particular level of insight and focus to manage the inherent liquidity risk in this relatively new asset class.

These are just two examples of the adjustments that managed account providers could make in the turbulent market conditions of the 2020s.

Institutional outcomes

At the time of writing (June 2023), market volatility remained unrelenting as the ramifications of the prolonged US debt ceiling debate rattled through markets and the question of when terminal interest rates will be reached remained unresolved.

For advisers and their clients, the wide range of potential scenarios possible as global economies slowed made judging appropriate investments and asset allocation more challenging than in other periods in recent history. Indeed, economic conditions suggested the world was entrenched in a very different slowdown to traditional recessionary environments.

Multi-asset managed accounts providers with institutional capabilities could again respond by building robust portfolios calibrated for a highly uncertain environment, as opposed to an efficient portfolio that works in just one environment. In Australian equities, this could typically mean drilling beneath headline returns to find market sectors or resilient mid-to-small cap stocks which have tailwinds not generally shared among other companies.

In global equities, it could include identifying any divergence in the outlook for developed and emerging economies to identify which may be on different trajectories and thus have the capacity to add welcome alpha to overall returns.

Or in the alternatives space, it could mean diversifying into speciality finance or insurance-related investments. It could also include building the capability to access markets like onshore Chinese equities through a structure such as a total return swap, and in addition using some of the premium to purchase downside protection.

Such alternatives are not otherwise readily available to retail investors, who typically have access to a fraction of these opportunities due to the constraints of commonly used investment platforms. Regardless of those constraints, a multi-asset fund provides opportunities for individuals to build a robust alternatives portfolio as 10-15 different types of investments are generally required to achieve the prerequisite diversification.

In all instances, the underlying principle is that a multi-asset managed account provider with the necessary capabilities and investment focus can do more than identify the highest quality fund managers and sub-asset class themes that are dominant at any one time. It can also properly analyse the risk/reward trade-offs and implement an asset allocation that aims to deliver resilient returns in periods of extreme volatility, hence preserving the longer-term financial objectives of retail investors.

This highly specialised skill will equally benefit advisers when the market cycle inevitably turns, and different opportunities emerge to deliver the performance objectives that individual investors seek.

Institutional providers with real dollars on the table can also ensure all solutions are delivered with efficient pricing that is negotiated as a direct result of their scale—and the leverage that scale can bring to their relationships with underlying fund managers.

More than investment

Of course, managed accounts are about considerably more than just investment strategies. The reality is that managed account solutions, if implemented properly within an advisory practice, provide advisers with a range of benefits, allowing a financial adviser to operate at the same scale as an institutional investor. This efficiency and consistency are achieved via speed of execution and a significant reduction in both the implementation of investments and associated administration, ultimately reducing the cost to service a client.

At no other time than the past three years has the benefit of this functionality been more evident. It provided advisers with the extra capacity to both reassure unsettled investors as markets gyrated and to adapt portfolios to prevailing conditions with minimal interruption to other activities.

Even if an adviser had the necessary investment knowledge to make sophisticated asset allocation adjustments, he or she needed to execute those changes across an entire client base while also maintaining a careful eye on subsequent market movements. This would have necessitated individual discussions with every client and the drafting of execution documents and amended statements of advice.

Managed accounts instead provided a much simpler route by allowing advisers to react to market volatility in a manner that is simply not possible under a traditional advice framework, creating significant time and cost savings in the process.

The full transparency of holdings in a managed account also allowed advisers to easily demonstrate the performance of different portfolio components to nervous clients, while regular communications from portfolio managers provided far greater assurance than the sole annual statement received from an average balanced fund. Importantly, these communications come not just on a frequent basis but also now include the digital formats that engage with a modern audience, including video.

Together, these tools give advisers the appropriate information to encourage clients to stay the course with an investment program when human nature is suggesting an alternative action. These tools obviously work to an adviser's advantage in any market environment, but their value is particularly acute in a volatile one.

There is good reason that managed accounts are one of the fastest growing segments of the Australian financial services market. The big question now is how they will adapt to a constantly changing environment and maintain their unquestionable value to advisers and clients.

The answer likely lies in the continued enhancement of adviser and client experience, including the speed and mechanisms by which communications and insights are delivered to advisers and clients. Secondly, the continued expansion in the range of strategies that can be practically utilised within managed accounts, particularly in



The quote

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Brent Bevan,
MLC Asset
Management

Brent is head of investment consulting at MLC Asset Management and leads a team of experienced investment professionals, providing investment consulting services to financial advice firms and licensees. The team's primary focus is leveraging MLCAM's extensive multi-asset capabilities to develop and deliver bespoke managed account solutions.



The quote

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the alternative assets, currency, and private asset space. While both are heavily dependent on the continued evolution of platform technology, from an asset management perspective, it is Australia's most robust operators that have the capacity to deliver innovative new investment solutions and their brightest minds are working hard to ensure the next iteration of managed accounts are the best yet. **FS**

Notes

1. Future Fund, 27 April 2023, "Finding alpha in the new investment order" [speech] <https://www.futurefund.gov.au/news-room/20230427---Keynote-by-Dr-Raphael-Arndt---Alpha-Live-Conference>
2. ibid
3. MLC Asset Management is a business division in the Insignia Financial group of companies. It includes a range of businesses and partners that in aggregate manage over A\$145bn assets under management as at 31 December 2022.
4. As at December 2022.

MLC Asset Management is one of Australia's most experienced investment managers with over \$145 billion assets⁸ under management and more than 100 investment professionals across ten teams⁹. MLC's Managed Account Strategies combine MLC's proven investment expertise with the benefits and efficiencies of a managed account structure and have been given an Outstanding rating by independent research firm SQM Research, the only manager to receive this rating for multi asset managed accounts nationally.