

BOOMING WITH CONFIDENCE

Financial advisers are using managed accounts with greater conviction to improve client outcomes and help restore trust. **Karren Vergara** writes.





01:
Anne-Marie Tassoni
partner
Cameron Harrison
Private Wealth



02:
Sherise Mercer
head of Macquarie
virtual adviser network
Macquarie Group



03:
Tim Townsend
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Private Wealth Partners

The tide has turned. The skepticism that followed managed accounts in its early days has waned, says Cameron Harrison Private Wealth partner and Certified Financial Planner Anne-Marie Tassoni⁰¹.

Over the last two years, Tassoni explains, more financial advisers have adopted managed accounts – learning how to run them to enhance their client service offering.

She believes the rising \$60 billion sector is filling a confidence and trust gap at a time when the industry is under heavy scrutiny. On top of that, Tassoni says the public's perception of managed accounts has improved.

Macquarie head of virtual adviser network Sherise Mercer⁰² agrees and says managed accounts are helping advisers improve their client relationships and consequently drive business growth.

In previous *Financial Standard* articles on managed accounts, the focus has been on the evolution of the sector from the lens of the product manufacturers and platforms. In this special feature, the spotlight is on various financial advisers and the impact of managed accounts in the way they run their practice, communicate their value proposition and interact with clients.

The other side of the table

Founding partner of private wealth firm TownsendCobain, Tim Townsend⁰³, says one of the big changes occurring in the industry is the shift from a “product-building approach.”

The Royal Commission, for example, has made a lot of people stop and think about what they are doing and ask themselves whether they want to be designing and delivering their own product, he says.

The question is: “How do they maintain an independent advisory position while using the technology of managed accounts and the advantages it can bring?”

Townsend spoke at last year's *Financial Standard* Managed Accounts Forum and made a point of how some advisers find themselves “at the other side of the table from the client and not realise how they ended up there.”

After introducing the solution to one client, Townsend was asked: “Tim, are you still going to be there?”

When a new solution is used or a function outsourced, clients can immediately get the impression the adviser will be less involved or that they're just delivering someone else's solution, he says.

“By nature, this causes a level of disquiet in people,” he adds.

This is because clients who trust their adviser want them to represent their interests – and continue to do so when a new solution has been introduced, he explains.

“My role as an adviser is to represent the client's interest and to do that I need to be able to present any solution independent of it.”

Townsend points out that it's no surprise if a client goes to a bank-attached adviser and ends up recommending a product provided by the bank.

“Yet we have now set up an expectation that is what all forms of advice must take. If we are going to stay committed to that particular concept, then what we have to do is basically make advisers non-attached,” he says.

“The expectation that all advice is delivered in a non-attached and non-affected manner seems unrealistic in the commercial world in which we operate and is unlikely to be capable of providing advice across the range of clients from small to large.”

From the client's point of view, transparency and accountability are a “huge focus” in the context of the Royal Commission, Tassoni says. Clients want to see what they are invested in and understand how that operates, in addition to the legal and ownership structure. They also want portability, she adds.

Financial services has been good at explaining structures and arrangements, but clients have been too trusting as well – which was evidenced during the GFC, she says.

“Clients thought they bought a particular product or had shares, but it was really a managed investment scheme, and their recourse to the underlying assets was pretty limited,” Tassoni adds.



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Tim Townsend

Macquarie's Mercer says the generation under 30 is “hungry for information” and twice as many want to make informed decisions based on the level of education they can get their hands on. And that's partly driven by the Royal Commission.

The transparency of managed accounts is a really great tool in facilitating the education piece with them, she adds.

“[The more] educated clients are about what financial advisers do broadly – why we do it; why it's in their best interest and why they have to pay for it – the better off the industry and our clients are going to be,” Mercer says.

The digital generation

Mercer has heard from many practices that dealing with the next generation can be a “painful” experience.

She cites a staggering statistic that 98% of intergenerational wealth transfers won't stay with the existing adviser.

Mercer told this year's Institute of Managed Account Professionals Conference (IMAP) that as the client base ages every day, the value of practice in some way or another “diminishes.”

Capturing the next generation shouldn't have to be a daunting task, she says, if advisers endeavour to ask what they are looking for in an advice relationship and in many ways managed accounts can facilitate that.

Macquarie's latest benchmarking survey of 400 exemplary financial advisers and accounting firms found clients wanted three core offerings that haven't budged in the last five years.

They are: to feel valued, be informed regularly and have their affairs managed proactively. Mercer says it starts with personalising and delivering a “fantastic client experience.”

“High-performing practices really get to know and spend more time with clients – they know their families, hopes and dreams and values, and what makes that entire family system tick,” she says.

Wealth recipients 30-years-old and under said they want an adviser who understands their needs, and connects them to a network of professionals such as tax accountants and mortgage brokers to help manage their financial affairs.



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04:
Matt Heine
joint managing director
Netwealth



05:
Robert White
chief executive
DNR Capital



06:
Dan Miles
managing director
and co-chief
investment officer
Innova

They want the adviser to “get where I am coming from” and don’t want to feel as though they aren’t “talking to my parents.” Essentially, someone they can trust, educate them and make the advice process easy.

In light of these findings, advisers must provide responsive service to the “digital native generation” who are used to instant gratification.

“When they come into our practices, we say, ‘the SOA [will be ready] in a week then we can have a discussion, and then implementation is x-number of weeks down the track,’” Mercer says.

There is a complete lack of understanding about why it should be like that, she explains.

Instead, what will “float their boat” is managing expectations around responsiveness of the service; being available; and having access to self-service portals.

When it comes to advising on estate planning, Townsend says he doesn’t see a great deal of difference between using managed accounts as opposed to other solutions.

Townsend has intervened in clients’ affairs in the past, which at times brings about a level of emotion and even resentment in how one person wants their affairs to be managed.

“You do play a role as arbitrator to work with clients and try to find a middle ground so that they can actually move forward,” he says.

“Some advisers on the other hand might run a mile. But this side of financial advisers, the interpersonal advisory role of knowing your clients means knowing more than where their money is.”

An accountant would know what was going on 18 months ago in the client’s financial affairs, but a planner knows where the client is now and how the assets are controlled - all of which are key elements in understanding estate planning, he says.

“The advice process is still about engaging the client with an understanding of their current position, helping them identify their wishes and then instructing a solicitor to produce legal documentation to support that.”

Continuous education

Netwealth’s managed accounts business is only three years old and as at June, funds under management stood at \$2.8 billion.

Joint managing director Matt Heine⁰⁴ says when netwealth launched its first managed accounts it took a good 12 to 18 months of educating the market on the different managed accounts structures.

Subsequently, another six to 12 months were spent helping the market understand which investment managers were represented on managed accounts platforms, which at that stage was a fairly niche set of managers.

Now, Heine says, the market has matured and all the major platforms have a managed accounts offering.

“The market has moved from, ‘Do I need a managed account?’ to, ‘Which manage account should I use?’”

Heine concedes the education process never stops – the reason is managed accounts continue to evolve quickly.

“We’re starting to talk about managed accounts 2.0 and what’s next for managed accounts as opposed to ensuring that traditional offerings that are largely concentrated direct equity portfolios.”

Improving and creating new features to enhance the client’s adviser experience will naturally lead to educating advisers about how upgrades fit into their business to support portfolio construction, he says.

The advisers at Cameron Harrison are “very upfront and proactive in explaining to clients what managed accounts are.”

“We’re particular in terms of structuring our client service framework and program, as well as the underlying portfolio arrangement,” Tassoni says.

Some of the questions clients expressly ask include: ‘how assets are held and ‘what if I wanted to leave the firm?’

“In our advice documents, we use a lot of visual diagrams to explain the relationships between us, the clients and the custodian. They

are very clear who the three parties are and that they can terminate one or both of the relationship at any time.”

How effectively an adviser communicates financial literacy and how easily clients can comprehend is a measure of success in one practice, Mercer has observed.

That firm’s mantra, she says, is once the client walks out the door, they should be able to explain investment strategies in their own language to friends – otherwise the adviser has somewhat “failed.”

Another practice using managed accounts implemented a process that communicated big news items or headlines within 24 hours that clients might get anxious about.

Proactive communication that says to clients ‘we are on it’ is key to making sure they are comfortable, have trust in their adviser and know they are being looked after, she says.



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Matt Heine

Equal opportunity

About 14 years ago, stockbrokers and private banking divisions spawned the concept of managed accounts, using power of attorneys to invest on clients’ behalf.

It has evolved into what IMAF classifies into three subsets. Managed discretionary accounts (MDA) hold \$25 billion or 45% market share as at December 2017; followed by separately managed accounts (SMA) with \$17 billion or 30% of the market (see Figure 1).

Then there are investor directed portfolio service (IDPS) platforms comprising \$15 billion or 25%.

The fact that they’re synonymous with high-net-worth investors only is being upended.

DNR Capital chief executive Robert White⁰⁵ says SMAs were commonly considered a “high-net-worth solution” when in reality as little as \$25,000 can be invested per model portfolio.

“SMAs have evolved from a product previously reserved for larger sophisticated investors to one that is now part of the mainstream advice landscape,” he says.

Figure 1. Key features of SMAs and IMAs compared to other common investment structures

Feature	Managed Funds	LICs	EFTs	SMAs	IMAs
Tax Efficiency	Poor	Moderate	Good	Good	Excellent
Portability	None	None	None	Good	Excellent
Managed to Particular Tax Outcome	None	Sometimes	No	No	Yes
Transparency	Poor-Moderate	Moderate	Good	Excellent	Excellent
Direct Ownership	No	No	No	Yes	Yes
Embedded Tax Liability	Often	Often	Sometimes	No	No
Capital Losses can be applied to:	Future gains within structure	Future gains within structure	Future gains within structure	Any current or future gains	Any current or future gains
Variety of Investment Options	Excellent	Good	Moderate	Moderate	Moderate
Portfolio Construction	Manager’s discretion	Manager’s discretion	Manager’s discretion	Model portfolio	Manager’s discretion
Tailored Management	No	No	No	No	Yes
Management Fee Tax Deductibility	No	No	No	No	Yes

Source: PPM white paper IMAs & SMAs meet the demands of SMSF trustees for direct international equities portfolios.

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Josh Persky
head of model
portfolios and
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08:
Toby Potter
chair
The Institute of
Managed Account
Professionals

A volatile market is challenging even for experienced investment managers – it will rattle investors and make advisers' jobs more demanding – especially for those investing directly in equities, White adds.

Maintaining a timely focus on the portfolio structure requires significant amount of time and attention, not to mention increased trading frequency equating to a greater compliance and administration burden for the adviser.

"A continued focus on compliance and the search for increased revenue in the absence of volume-based payments makes SMAs an attractive alternative for advice practices looking to streamline processes, reduce risk and increase revenues," he says.

Heine says he's seeing users shift from using bespoke portfolios to best-ideas portfolios.

"They've moved to technology where they are able to support multi-asset portfolios and are looking for ways to manage that efficiently, whether that's using their own MDA for outsourcing that discretion."

With a best-ideas portfolio, many advisers historically had clients in very different portfolios and investments were rebalanced at various times. It was difficult to update portfolios on a consistent basis, time consuming and incurred compliance issues, he says.

"Now, technology overrides a lot of those obstacles," he adds.

It enables all clients to be treated equally and when rebalancing is implemented at approximately the same time, clients can access similar portfolios capabilities, Heine explains further.

White acknowledges that certain asset classes and investment strategies such as infrastructure and private equity will continue to remain the domain of pooled investments – at least in the medium term.

"The industry is rapidly addressing any limitations in the SMA space, which largely arise from a smaller number of managers offering their model portfolios on SMA platforms (through perceived issues in relinquishing control of their intellectual property," White says.

Endless possibilities

In 2006, when only direct equity SMAs were available, Innova managing director Dan Miles⁰⁶ believed that multi-asset offerings were a possibility.

He spent the next few years finding technology that would allow a professional manager to oversee portfolios on behalf of clients and give advisers the tools to tailor investments at some level for the end consumer.

Also at this year's IMAP Conference, Miles spoke of why he chose a managed accounts solution over the traditional fund of funds structure.

"If you're in a single balanced fund with a single line item, you don't know what's in it and there is no level of flexibility as clients couldn't do any kind of tailoring on their behalf," Miles told delegates.

For those at the start of the managed accounts journey, Miles warns that transparency is a "dual-edged sword," adding that some clients love it while others hate it.

For those lagging behind, Potter says there are some generic options available.

They can talk to a specialist platform provider to enable existing models to run as MDA models, subject to due diligence requirements, he says. White labeling on a preferred platform by having models duplicated by preferred platform SMAs in a licensee-specific program is another option.

Advisers may also consider a new licensee or platform provider altogether.

"If your current platform provider can't support you, migrate your book to a platform which will provide the managed accounts service you think best suits your business," he says.

Netwealth's Heine says helping those transitioning to future-proof their business has been a topic of conversation for the platform provider in the last 12 to 18 months.

It was also an impetus to deliver its smart Record of Advice service, whereby advisers operate traditional model portfolios and generate automatic RoAs in bulk for thousands of clients at a time. **FS**



SMAs have evolved from a product previously reserved for larger sophisticated investors to one that is now part of the mainstream advice landscape.

Robert White

Clients, by way of example, have phoned asking why a single line item didn't do well, while another performed.

"The reality of portfolio management is you do want everything in the portfolio to go up at the same time, because it could go down the same time," he says.

This is not the case. Miles says having a communication strategy in place for clients to manage the transparency piece is "absolutely critical."

These days, managed accounts offer a full-blown range of underlying assets and investment strategies from futures contracts, to foreign exchange and long-short positions.

One interesting trend is the proliferation of ETFs offered, which seems counter-intuitive to the one benefit of managed accounts – the ability to look through and own assets directly.

BlackRock head of model portfolios and solutions for Australia Josh Persky⁰⁷, says the fund manager began offering multi-asset class strategies to ETF-only model portfolios specifically for managed accounts as early as 2001.

The reason behind this push, he says, was BlackRock recognised some time ago that the Australian market was demanded a more cost effective, transparent and liquid way to manage multi-asset class portfolios, largely off the back of changes in the regulatory environment.

Miles says Innova is particular about the types of advisers it partners with. As part of the due diligence process, clients are asked why they want to move to a managed accounts solution. If the intention is in the right place, it determines whether the partnership will go ahead or not.

If they're focused on just profit margins, then "we generally say, 'no,'" he says.

What Innova usually looks for is advisers who believe managed accounts are an efficient way to get results and at the heart of it, want the most advantageous outcomes for clients.

As beneficial as managed accounts have been for numerous practices, Miles urges new users to "go into it with your eyes wide open."

And with the slew of asset classes and strategies available, advisers must ensure not to make promises they can't deliver to, he says. **FS**

The event

Leading managed account practitioners and financial advisers will be speaking at *Financial Standard's* annual Managed Accounts Forum to be held on Tuesday, September 11 at the Crown Promenade in Melbourne. To register or view the agenda, go to www.financialstandard.com.au/managed_accounts_forum or call 1300 884 434.

MDA deadline looms

As the limited managed discretionary account provision expires October 1, IMAP chair Toby Potter⁰⁸ says many advisers still haven't made formal arrangements.

It's now too late to apply for a full licence as the process takes up to 12 months, he says.

Based on ASIC August 2017 data, 1803 advisers were authorised to provide 'managed investment schemes/MDA service,' of which 53 had some type of MDA restriction.

When ASIC updated the MDA class order in September last year, one of the changes was to provide a sunset arrangement for limited MDA clients, while advisers could operate under the no-action letter ASIC issued in 2004, he adds.

"The letter effectively allowed advisers to operate a form of MDA subject to certain requirements, largely relating to advice and documentation," Potter says.

Potter adds the default course of action is to revert to giving "standard advice" client by client, transaction by transaction – meaning an "advice only, ROA service model" that might include SMAs.

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