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Guide to Managed Accounts

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Launched 35 years ago, *Money Management* has firmly established itself as the leading source of news and analysis for Australia's financial services sector.

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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Managed accounts go mainstream

Usage of managed accounts is increasing significantly as advisers understand the benefits it can bring to their business.

While managed accounts have grown steadily over the years, this year has been an especially strong year for the structure.

As mentioned in the latest edition of *Money Management* Managed Accounts Guide, funds under management in the space have passed $100 billion as advisers increasingly choose the structure for their clients.

They are also being used for a wider number of clients rather than the traditional high-net-worth investors. While advisers acknowledge their main client base for the structure are affluent clients, they also report using them for self-managed superannuation funds and younger clients with fewer assets as providers slash costs.

This evidence of the broad types of usage demonstrates how mainstream they have become with the number of advisers recommending them rising from 44% in 2021 to 60% in 2022, according to State Street Global Advisors.

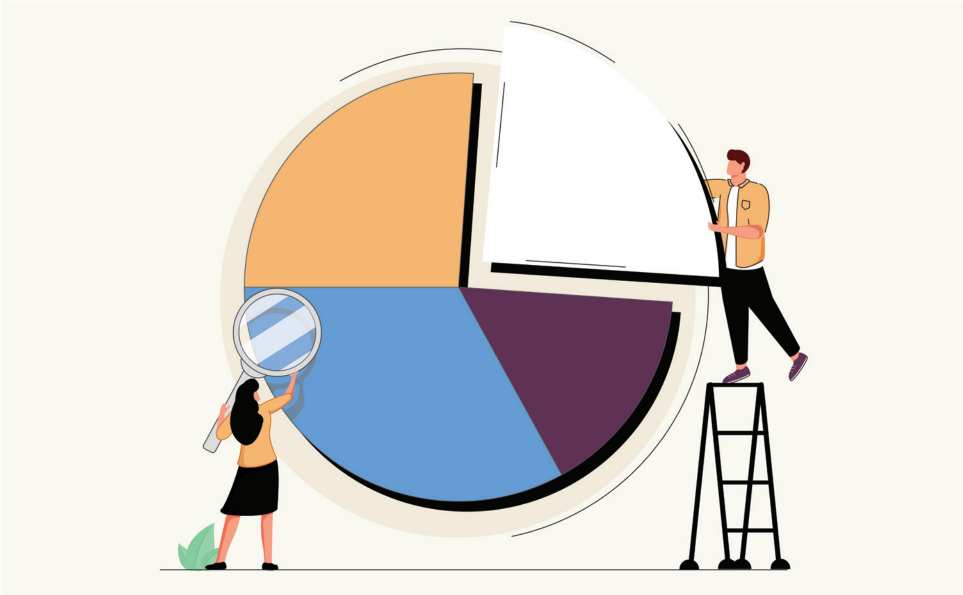
It is likely this growth will continue in the future as advisers acknowledge the benefits they can bring to their businesses via the reporting, transaction and portfolio management capabilities and the reduction in work needed to deliver advice to the client.

Research found advisers who used managed accounts are able to have an average of 7.4 weekly clients compared to the industry-wide standard of six per week.

This is particularly needed in an environment of rising regulatory and compliance requirements where anything that helps to ease that strain is welcome.

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

Laura Dew
Editor



Managed accounts bolster earnings for advisers

A record number of advisers are using managed accounts to implement client solutions amid rising inflationary pressures and market volatility, writes Nina Hendy.

Managed accounts have emerged as the investment vehicle of choice for advisers, investors and wealth managers, enjoying strong growth on the back of economic volatility and global geopolitical tensions.

Managed accounts crossed the $100 billion milestone of funds under management, rising to $131.6 billion as of 31 December, 2021 in Australia, and continue to climb quickly.

According to a recent report published by the Institute of Managed Account Professionals (IMAP) with Colonial First State, managed accounts have become a key part of the delivery of retail financial advice, with about 5% of platform assets now invested in this way.

Ramping up

A number of wealth advisers, professional investors and wealth managers openly admit they are favouring managed accounts more

- which included separately managed accounts and managed discretionary accounts.

MLC portfolio manager, Anthony Golowenko, confirms that MLC has doubled the number of managed accounts on its books in the past year alone, utilising them for clients with less to invest than in previous years, down to balances from $100,000.

He's adamant they will be the dominant vehicle for investment advice in Australia in years to come.

AMP also confirms it has expanded its MyNorth Managed Portfolio range, using scale to negotiate discounts for clients.

Managed accounts have been one of the biggest game changers for advice practices in the past 20 years, said Edwina Maloney, director, platforms at AMP.

Their popularity continues to grow, with 44% of advisers now using managed portfolios, accounting for just over 10% of platform investments, Maloney said.

Put simply, they enable advisers to reduce operational risk as a specialised trading team takes care of rebalancing, trading and monitoring.

Many advisers find the reporting, transaction and portfolio management capabilities of managed portfolios can make it easier to deliver high quality advice that meets clients' goals.

"Advisers are telling us they like to use managed accounts because they provide access to institutional-grade investment management, efficiencies of scale, and more scope to focus on educating their clients and meeting client goals."

"They make it simpler to deliver advice by reducing the number of steps, with the investment manager taking responsibility for investment research and portfolio construction and implementation. This means they free up your time to focus on your role as mentor, spending more time educating clients about investment goals and strategies."

Similarly, Russell Investments head of adviser and intermediary services, Neil Rogan, said the firm has been drawn to managed accounts for their efficiency, flexibility and transparency.

Atrium Investment Management head of investment services, David Dix, said the firm has been utilising managed accounts for around 20 years.

"They're part of our DNA, but there have been particularly strong advanced in the past couple of years."

Technology advancements have enabled more sophisticated portfolio solutions delivered to clients in a simple and easy to administer format, and platforms play a huge part in that, he says.

"There's an expectation from clients that there will be a high level of transparency and flexibility in the portfolio design these days," Dix says.

Ironing out the bumps

The main drawcard for the switch, of course, has been reduced administration, with 87% of practices saying managed accounts have reduced their administrative workload since making the switch, according to IMAP research.

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Managed accounts

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Advisers using managed accounts have on average 7.4 weekly client appointments, compared with an industry-wide standard of 6.0. Firms are also generating an average of 32% more revenue than their peers.

Meanwhile, a second report also reveals more financial advisers are turning to institutional-style investment vehicles to better manage client funds during periods of market volatility.

Released by State Street Global Advisors, the asset management business of State Street Corporation, together with Investment Trends, it found that more financial advisers are turning to institutional-style investment vehicles to better manage client funds during market volatility.

According to the research, more than half (53%) of financial advisers are using managed accounts, up from just 16% a decade ago.

Interestingly, advisers who already use managed accounts are now recommending them for 60% of their clients, up from 44% in 2021. Prior to COVID-19, advisers were recommending managed accounts to one third of their client base, the research found.

State Street Global Advisors head of SPDR ETFs Australia & model portfolios for EMEA and APAC, Kathleen Gallagher, said outsourcing some aspects of investment management can help free up advisers to spend more time with clients, focusing on objectives and guiding them through market movements.

"Advisers are telling us they like to use managed accounts because they provide access to institutional-grade investment management, efficiencies of scale, and more scope to focus on educating their clients and meeting client goals," Gallagher said.

"Almost half of advisers who outsource investment management through managed accounts also said it reduced their operational risk.

"This is because managed accounts are typically used across multiple clients. Instead of having to manage individual investment portfolios, advisers can streamline their advice and investment management processes. Less intervention on a client-by-client basis reduces the probability of something going wrong at the individual trade level," she said.

Currently, 20% of client funds are invested into managed accounts, up from just 4% in 2015. This is expected to rise to 25% by 2025, over and above flows into direct shares and Listed Investment Companies.

Future growth

But it's only just the start for managed accounts as IMAP predicts that the investment vehicle expected to reach $200 billion in the next three years.

The uptake has resulted in substantial changes to the way advice is prepared and to the role of advisers, platforms, investment managers and managed account providers.

However, IMAP points out that this change will require the industry to deepen its collective understanding of the potential and implications of this type of advice among regulators, senior management and advisers.

Investment Trends chief executive, Sarah Brennan, said the popularity of managed accounts was being driven in part because

advisers are now seeing the benefits for a broader investor demographic.

"When it comes to implementing responsible investing solutions, the vast majority, or 76%, of advisers prefer to do so within a managed accounts structure, suggesting they trust that ESG themes are best managed by professional investment managers," she says.

"Part of the growth in managed accounts comes down to their growing suitability as a solution for lower balanced clients (less than $100k) and high net worth clients with more than $1 million in investable assets.

"While these structures continue to grow in popularity, the industry has some work to do to provide advisers with more educational tools."

Dix also noted an element of production proliferation in this space. In particular, barriers to entry seem to be lowering as products in the space proliferate, with new entrants are starting their portfolios with a fee outcome in mind.

"We believe that over time there may be less the bells and whistles of what a managed account provides when it comes down to the nuts and bolts, and a focus on proving them with a truly diversified risk portfolio.

"For example, we're building out portfolios that have exposure to more diversifying assets, such as liquid alternatives in global private markets, which is something generally not readily available for clients in this space," Dix said.

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How equity managed portfolios can help your clients navigate market volatility

Over the past three years, Australian and global markets have weathered the storm of COVID-19 but now face further uncertainty from the crisis in Ukraine.

AMP Chief Economist Shane Oliver says, "The volatility in global share markets reflects a fear of the unknown about how far the conflict will extend and how severe the economic impact will be.

"But in the medium term there are likely to be some lasting implications for investors.

1. **Heightened geopolitical tensions** that may require higher risk premiums on growth assets.
2. **A reversal in globalisation** that will reduce growth potential for emerging economies, reduce global competition and potentially reduce productivity growth.
3. **Higher commodity prices** that may see shares and currencies of commodity producing countries outperform.
4. **Inflation pressures** from the boost to energy and food prices.
5. **Higher interest rates and bond yields** that will constrain longer-term returns from shares and property."

As market volatility continues, managed portfolios illustrate how a robust and efficient product, coupled with professional investment management, can help clients and advisers alike. Advisers rated managed portfolios as very good (55%) or good (33%) in terms of freeing up their time during COVID[1].

And equity managed portfolios are proving particularly beneficial, with efficient trading and transparent holdings boosting client engagement, trust and confidence.

Searching for growth or value?

When it comes to equity managed portfolios, advisers have plenty of choice but two of the most common approaches are growth and value.

- **Growth-style investors** are generally looking for companies with potential to outperform the market over time—these stocks typically have higher price-to-earnings ratios and pay minimal dividends as they aim to continue growing.
- **Value-style investors** are generally looking for companies trading below what they are really worth and may provide superior future returns—these stocks are usually larger, more well-established companies.

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Here are some thoughts from two investment managers who recently joined the rapidly expanding MyNorth Managed Portfolios investment menu.

First Sentier Investors on growth investing

"The rotation to value and away from growth has been very rapid, with the value factor experiencing its largest monthly outperformance since the GFC.

We believe the trend towards value has largely played out due to factors such as easing supply chain blockages, abating inflation pressures, fiscal contraction and a higher oil price, which are expected to slow the economy and ease pressure on rising bond yields.

So we're well placed for a reversal back in favour of growth stocks in 2022, albeit with periods of market volatility. Lower inflation, lower rates and slower growth should provide a supportive backdrop for growth stocks in the latter stages of 2022.

We're diligently scouring the investment universe to identify companies with distinctive products and services that have the ability to grow their earnings consistently, take market share and generate superior returns on capital, regardless of the market cycle."

Macquarie Investment Management on value investing

"The situation in Ukraine is changing rapidly, but we've already seen the impact of trade sanctions on commodity markets. The spot prices of key energy commodities, such as oil, gas, LNG and thermal coal, have spiked higher due to supply concerns. Russia is a key supplier and consumer of many commodities, and new sources of supply will need to be established. Until this happens, global inflation is likely to be higher than expected.

In terms of Australian equities, energy and mining companies have been performing well on the back of higher commodity prices. High valuation companies were already facing headwinds before the conflict, due to expectation of higher interest rates during 2022. The added inflationary pressure stemming from the situation in Ukraine is likely to see valuations remain under pressure for these types of businesses.

We continue to actively manage our suite of model portfolios as we navigate this period of equity market volatility. We believe the Macquarie Income Australian Equity model portfolio in particular is well placed to navigate the current environment, given its focus on high yielding companies that offer strong valuation support."

Making a difference

Managed portfolios will continue to help clients navigate market volatility by delegating decision-making to expert investment managers and offering efficient rebalancing, trading and monitoring via a specialised trading team like North.

Australian equities and listed products are now available in MyNorth Managed Portfolios to take your investment strategies to the next level. Find out more at **northonline.com.au/emp**

[1] Investment Trends February 2021 Managed Accounts Report

Education needed for managed accounts

As advisers' use of managed accounts increases, education is needed to help them understand more complex issues and terminology.

The latest SPDR ETFs/Investment Trends managed accounts report surveyed 660 advisers and found more than half were using managed accounts, up from 16% a decade ago.

Funds under management in the space had passed $131 billion but there was still a belief they were not completely understood by advisers, particularly the different types of accounts available.

Toby Potter, chair at the Institute of Managed Account Professionals, said as advisers' understanding had moved on from definitions of a managed accounts, so had the complexity of questions being asked.

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"We have moved beyond 'what is a managed account' that we used to have five years ago and we are dealing with more nuanced issues such as the right type of managed account to support advisers' service proposition.

"A lot of education is going to be necessary in supporting the particular portfolios which each adviser now uses, for example, understanding the reasons for portfolio changes and the risk and return characteristics that each portfolio has within its mandate."

Asked whether there was anything that could be done to help clarify the structure for advisers, Potter said the problem lay in the fact they were still poorly understood by the regulator as well.

"Generally, I would say the regulators have a very poor understanding of how all types of managed accounts operate, the benefits for clients and when it was appropriate for them to be used."

Commenting John Nicoll, head of sales at Zenith, said advisers may be keener than they were to use them but still needed information on the back-office challenges of running a managed account and the resources needed.

"There is limited understanding of some of the back-office challenges of running a managed account and the resources an investment manager needs to perform these tasks efficiently and in a compliant manner.

"Parts of the industry are still confused by the terminology surrounding SMA's [separately managed accounts], IMA [individually managed account] and MDA [managed discretionary account]. Multi-asset managed accounts are now often referred to as SMAs for example whereas traditionally SMAs referred to a pool of directly-owned equities.

"I believe most of the misconceptions around managed accounts are now peripheral and require a conversation specific to the particular business' needs," he commented.

Blake Briggs, chief executive of the Financial Services Council, said: "With managed accounts seeing a rise in popularity with consumers in recent years, it is important the education requirements on advisers continue to keep pace with the evolution of financial services and products."

He added that advisers were already required to undertake tertiary-level courses and minimum levels of professional development hours to ensure competency across a range of financial products.

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Fee cuts prompt wider usage of managed accounts

Providers opting to slash the costs of their vehicles is helping advisers use managed accounts for a wider demographic of clients and balances.

According to research company Investment Trends and SPDR, advisers historically tended to separate out use of managed accounts for their wealthiest clients, those with more than $250,000 in assets under management.

But the firm's study on the managed account landscape in 2022 noted managed accounts were now increasingly being used for clients with smaller balances as well as affluent clients.

The number of advisers who said they were happy to "hold the majority (over 75%) of a portfolio in a managed account" had risen from 27% to 38% for those with less than $100,000 and from 49% to 59% for those with between $100,000-$250,000.

For millennials, those aged under 35, the number of advisers who thought managed accounts were a suitable option had moved from 29% to 36%.

Irene Guiamatsia, head of research at Investment Trends, said: "This is a positive development as it shows more advisers are finding managed accounts are suitable for all client types. An important point is the research is not asking about a satellite approach, this is for the majority of their portfolio.

"Moves in pricing have really resonated with advisers and are encouraging the vehicle to become mainstream. It has become more cost-effective for advisers to use them, the considerable moves in pricing has definitely enabled this huge uptake."

There had also been growth in the number of advisers who thought managed accounts were suitable for clients with self-managed superannuation funds (SMSFs) which had risen from 29% in 2021 to 35%.

Managed accounts could be useful in an SMSF structure as it allowed some of the underlying investments to be segregated between different members or between investments held in accumulation or pension phase. Alternatively, the managed account could be pooled with the existing investments and allocated on a proportional basis.

Guiamatsia said the transparency of managed accounts appealed to those with SMSFs who generally sought greater control of their investments than a typical client.

"SMSF clients are an interesting group; they want control over their investments and managed accounts can provide them with that transparency on the underlying investments which resonates with the persona of an SMSF client."

Asked if managed accounts were received positively by advisers and set for future growth, she concluded: "The actions speak for themselves, advisers say they are finding it easier to comply with best interest duty when using managed accounts and they are finding huge benefits for the adviser, the client and the business".

This included greater focus on client's lifestyle, the ability to outsource portfolio construction to professionals, more emphasis on educating clients and greater transparency of investment structure.

Some 68% said they had more time for client goals and education, 64% said they had a more efficient investment structure and 35% had improved availability and services.

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Our range of managed portfolios includes:

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- **Partnered** – Bespoke managed portfolios that reflect practice's investment philosophy.

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