FINANCIAL STANDARD GUIDE TO

MANAGED ACCOUNTS

USING SMAs IN SELF-MANAGED SUPER FUNDS

GUIDE SERIES 1

No. 2

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SMSFs and SMAs are a good fit because they both offer better investment control, transparency and flexibility compared to traditional managed funds.

INDUSTRY SNAPSHOT

SELF-MANAGED SUPER FUNDS (SMSFs) and separately managed accounts (SMAs) have more things in common than meet the eye, not least that they have continued to defy their critics. Since SMSFs were first developed as an alternative type of super fund back in the 1990s, many investment experts dismissed them as a passing fad. More than a decade later, the SMSF market has grown into a $300 billion market or 26 per cent of the country's total superannuation pool. The sector has also grown at double the rate of retail super funds. Not bad for a fad.

The same can be said about SMAs. The sector has had a slow start since they were first introduced in the mid-90s. But since BlackRock (formerly Merrill Lynch Investment Managers), one of the largest SMA providers in the US, offered a local version in late 2005, more planners and investors sat up and took notice.

Since then, the sector has steadily gained traction with major investment houses such as Macquarie and BT all launching their own SMAs. In addition, more than 50 financial planning groups have also signed up to offer managed accounts (both SMAs and individually managed accounts or IMAs) in the past two years.

Where the worlds of SMSFs and SMAs collide is that as both segments grew and as the technology evolved, a key trend has crystallised. The same type of people who invest their retirement savings through SMSFs are the same type of investors who are drawn to managed accounts. For example, SMA technology provider Praemium grew its funds under administration by 50 per cent to $28.5 billion in the space of 12 months. A bulk of that amount originated from the 13,200 SMSF portfolios administered by the company.

Another company, Alpha Structured Investments, focuses solely on self-managed super fund holders and high net worth (HNW) investors and once again, its founder Dr Tony Rumble, said his clients have demanded a SMA platform to invest in the stock market.

In a nutshell, the reason why SMSFs and SMAs are a good fit is that they both offer better investment control, transparency and flexibility compared to traditional managed funds. This guide will explore how a SMSF trustee can use SMAs as an alternative to investing in equities direct or through a managed fund. More importantly, the guide also explores the legal issues to consider and the financial advantages of using SMAs.

For those who are new to SMAs, there is a "Back to Basics" section in the next chapter although for detailed information, it is worth reading the **Financial Standard Guide to Managed Accounts** (Guide Series 1, No. 1) released last year.

BACK TO BASICS

What are managed accounts?

THERE ARE TWO TYPES of managed accounts: **individually managed accounts** (IMAs) and **separately managed accounts** (SMAs). Unlike managed funds, both types invest in shares through a non-unitised structure. This means that instead of buying units in a managed fund, an investor is paying fees to access a portfolio, called a **model portfolio** in SMA speak. In both cases, the investor taps into the investment expertise of fund managers and research houses. The difference is that the managed account (MA) allows control over the underlying securities, which comes with the additional benefits of added tax effectiveness, transparency and flexibility. For more information on the detailed benefits of SMAs, see the *Easy Guide: SMAs vs managed funds vs direct equities* at the end of this guide.

Broadly speaking, an IMA is a modern version of the discretionary portfolios run by stockbrokers and private wealth managers. But because IMAs are highly-tailored, the one-on-one relationship can take a lot of time and, in some cases, cost more than is necessary for those who may not need the added services. SMAs are effectively another version of IMAs, but benefit from SMA providers using scale and new technology to keep fees down.

One way to contrast the two without going through the details is that an individual with only $1000 to invest can easily sign up to an SMA whereas it won't be worth the time and effort to set up an IMA for the same amount.

Whether or not an SMSF trustee chooses an SMA or an IMA, the driving force behind the move to managed accounts is that SMSFs invest 56 per cent, or more than half of their assets, in equities.[1] Rather than holding a disjointed set of individual shares, they can maximise their earnings, lower their tax and other expenses, by using managed accounts.

The catchphrase here is **better control**. SMSF trustees have traditionally preferred investing in shares directly because it means they know exactly what they own, the transaction costs and track the performance as and when they choose. It also means they can manage the tax position associated with those equities. All of these **control** buttons are lost once the trustee invests in a managed fund.

Under these same parameters, an SMA can offer an alternative solution where the trustee still gets similar control, flexibility and transparency as they had when those same shares were bought or sold directly. The difference is that there are additional cost and technology benefits using an SMA, and this would become clearer as you read through this guide.

Crucially, an SMA solution uses the intellectual property of investment experts who, presumably, have already incorporated their own diversification strategy to their portfolio. This helps the trustees meet their own diversification objectives.

As you read through this guide, you will find out why SMAs are beneficial from a technology perspective (page 11) and from a dollar cost averaging perspective (page 14). And to truly understand why they are a particular fit for SMSFs, it is worth looking at the importance of a solid investment strategy to build and sustain retirement wealth. This will be explained in the next chapter: **SMSF investment strategies: The past, present and future.**

Table I. SMAs vs IMAs

Separately Managed Accounts (SMAs)	Individually Managed Accounts (IMAs)
Financial product	Financial service
Client has beneficial ownership of shares	Client has beneficial ownership of shares
Client can tailor SMA to have a more tax-effective portfolio	Tailored to suit the client's tax profile
Made up of 'model portfolios'	Made up of individual shares
Does not require individual transaction reports	Full transaction reports required
No ASIC requirement for personal equities advice	Adviser must provide personal equities advice and therefore needs accreditation
No ASIC requirement for continuing personal advice	Every 13 months or less, the adviser must confirm that advice remains in the best interest of client (subject to legislative changes)

Source: DirectPortfolio Services, Financial Standard, iMap

1 ATO SMSF Asset Statistics, 1 July 2007.

SMSF INVESTMENT STRATEGIES: THE PAST, PRESENT AND FUTURE

By Grant Abbott, SMSF Strategies

Background

SMSF INVESTMENT STRATEGIES are the key to delivering long term multi-generational wealth in a SMSF. They are at the core of a SMSF. Yet, too often they are taken lightly by trustees, auditors and SMSF administrators. The lack of attention to what is an investment strategy and its place in a SMSF can have serious consequences not only on any technical strategies employed by an adviser but on the short- and long-term wealth and retirement/estate planning aspirations of the SMSF members.

Considering the legal side of the equation, if an investment strategy is not developed and implemented according to the Commissioner of Taxation's requirements, a breach of the *SIS Act 1993* occurs. Where the trustees do not come up to the Commissioner's investment strategy standards, he has every right to take action including declaring the fund a non-complying SMSF. This has drastic financial consequences for the members of the fund as the trustee is required to bring in as deemed income the market value of all of the fund's assets as at last balance date. With a non-complying SMSF being taxed at 45 per cent this can seriously erode the fund's assets.

In terms of the Commissioner's actions in the SMSF arena, ATO statistics show that in the 2005/06 income year, the ATO conducted 1000 audits and of those wound up 13 SMSFs, disqualified 15 trustees and made seven funds non-complying. Expand this ratio to the 350,000 plus SMSFs on the Commissioner's books and there could be more than 10,000 SMSFs with serious compliance and investment strategy problems.

SMSF investment strategies – the ATO practice

In terms of SMSF investment strategies, the ATO has published the following minimum guidelines:

- The trustees of a SMSF are solely responsible and directly accountable for the prudential management of their members' benefits. They can use an adviser but in the end it is their responsibility.
- As part of their prudential responsibility, the trustees of a SMSF are required to prepare and implement an investment strategy or strategies for the superannuation fund.

Using an SMA not only makes it easier to comply with the Commissioner's investment strategy requirements but also ensures the long term success and viability of the fund. — Grant Abbott

GRANT ABBOTT is a principal of SMSF Strategies and is one of Australia's leading experts on SMSFs. For more details, email him on info@smsf.tv

- **The strategy or strategies must reflect the purpose and circumstances of the fund and have particular regard to the membership profile, benefit structure, tax position and liquidity requirements of the fund.**
- An investment strategy should set out the investment objectives of the fund and detail the investment methods the trustees will adopt to achieve those objectives.
- It is the trustees' duty to make, implement and document decisions about investing fund assets and to carefully monitor the performance of those assets.
- The trustee cannot take into account the investments of members residing outside of the superannuation fund. The fund's investment strategy or strategies must be specific to the circumstances of the fund not the members.
- The trustees must ensure all investment decisions are made in accordance with the investment strategy concerned.
- Breaches of the investment strategy requirement may result in the trustees being fined or sued for loss or damages. In addition, the fund could lose its complying status.

SMSF investment strategies – the reality

Let's take a look at the realities of SMSF investment strategies. From a macro perspective, Table 2 highlights the latest SMSF investment and asset allocation figures. The asset allocation shown across the SMSF investment industry is a far cry from the non-SMSF industry where portfolios are managed by experienced asset consultants. This can be seen in Table 3, which shows a typical superannuation fund balanced portfolio. Comparing the two – it is clear that in SMSFs, cash is too high, overseas investments non-existent, there is no fixed interest or alternative strategic investments. **Australian shares are king**.

But we are not talking about a diversified portfolio of Australian shares. If you drill down to a micro level, you will find that of the $161.9 billion outlaid by SMSF trustees in Australian shares, the majority of it would be invested in no more than 20 stocks. Clearly, some major blue chip companies are benefiting from the SMSF industry. It would be interesting to check the share registries of the big four banks, Macquarie bank, BHP, Woolworths, Coles and a couple of other notables and see SMSFs investments of $100 billion.

Table 2. SMSF investments statistics – July 2007

Investment	SMSF investment ($m)	% of SMSF investments
Cash	63,517	22%
Loans	1,837	1%
Equities	161,895	56%
Property	30,325	10%
Overseas	**2,019**	**1%**
Life policies	367	0%
Managed funds	19,146	7%
Other	8,625	3%
Total assets	**287,730**	**100%**

Source: ATO SMSF Asset Statistics – 1 July 2007

Table 3. Balanced investment portfolio

Investment	% of investments
Cash	**5%**
Australian equities	30%
Property	10%
Overseas equities	**25%**
Alternative strategies	10%
Fixed interest	20%
Total assets	**100%**

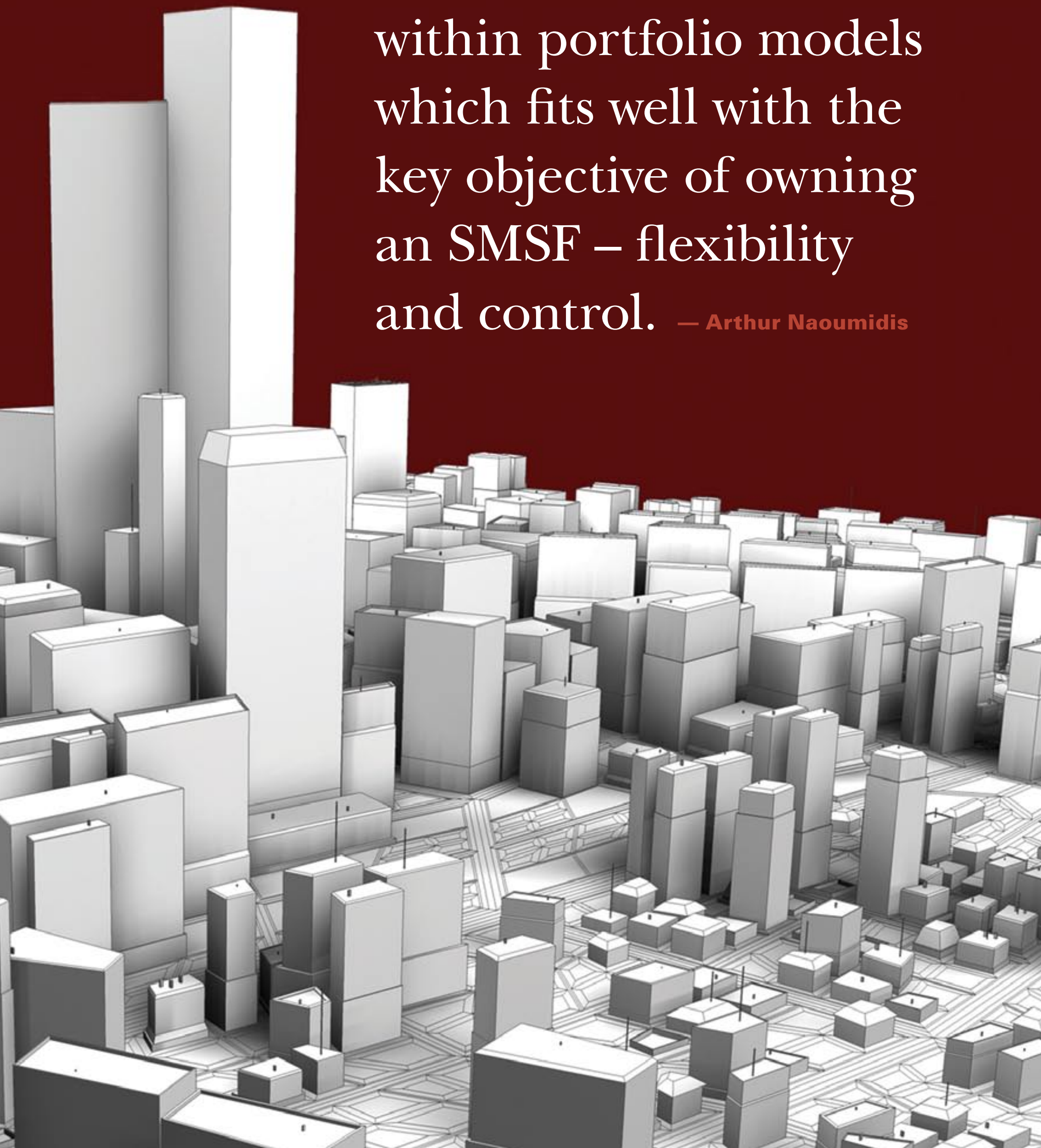
Source: ASX

SMSF investment strategies – the future

As an industry, SMSFs will at some point in time follow the lead taken by their much larger cousins – the industry, retail and employer superannuation funds. These funds have professional asset consultants choosing firstly an appropriate asset allocation for the fund and then the fund managers or brokers able to deliver commensurate value in those sectors.

To date it has been difficult for SMSFs to match the big players but with the latest SMAs appearing on the scene, the time is right for a change. Using a SMA not only makes it easier to comply with the Commissioner's investment strategy requirements but also ensures the long term success and viability of the fund.

Trustees and advisers are able to screen and substitute individual stocks within portfolio models which fits well with the key objective of owning an SMSF – flexibility and control. — Arthur Naoumidis



TECHNOLOGY:
BUILDING THE CASE FOR SMAs

Sponsored statement by Praemium Ltd

Arthur Naoumidis
Managing Director, Praemium Ltd

As the SMSF market gains momentum, the focus is shifting towards compliance and cost efficient methods of establishing, investing and administering them. This growing market currently represents close to 400,000 funds with over $300 billion invested.

Specialisation is the new order with a growing number of financial advisers and SMSF administration practices emerging. Support services are also on the rise as is industry representation through the Self Managed Superannuation Fund Superannuation Professionals Association (SPAA) whose SMSF Specialist Accreditation has been designed to raise the standard of advice within the SMSF industry.

Through advances in technology, separately managed accounts (SMAs) have also emerged to deliver a refreshing and exciting investment alternative to traditional managed funds and platforms, that are right up the SMSF trustees' alley.

So what makes SMAs an attractive proposition for SMSFs?

SMAs offer a professionally managed solution that complements the flexibility and control that SMSF trustees seek. They deliver far greater visibility and improved detailed reporting of transactions, corporate actions and performance. A SMA enables the trustee to own the underlying stocks in their account rather than opaque units in a trust structure. This further enables the use of tax parcels to optimise capital gains tax. The managed investment scheme (MIS) structure of a SMA also eliminates the tax burden of inherited CGT liabilities found in the unitised environment. And the technology gives the adviser and trustee 24/7 viewing access to the portfolio.

SMAs also offer lower transaction costs – again a technology advancement – enabling netting of buy/sell transactions before any market placement occurs. Cost is further reduced or eliminated when transferring between managed accounts or managed account models as in specie transfers do not trigger CGT events, providing greater portability than other traditional investment vehicles such as wrap platforms. And there is no doubling up of management and custody fees within SMAs, as is the case with managed funds under a wrap platform umbrella.

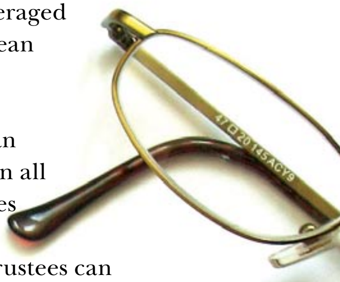
Furthermore, trustees and advisers are able to screen and substitute individual stocks within portfolio models (provided the investment strategy is maintained), which fits well with the key objective of owning an SMSF – flexibility and control.

SMAs clearly have a strong psychological fit with the SMSF trustee; one of flexibility and control, disciplined investment with professional management, lower cost, quality reporting and a slightly improved tax result. Surely the choice is obvious.

LEVERAGE AND CAPITAL PROTECTION

SMSF TRUSTEES can also use SMAs to invest in leveraged products, if that meets the scope of their investment objectives, or use SMAs to protect their capital during a downturn.

For example, SMSFs can enter into leveraged swaps or notes through a SMA because the SMA provider can pool the underlying shares of all the SMA portfolios it runs to mimic a large trade done by an institutional investor. The SMA provider can then break down this large trade into small units, which makes its way to the portfolio of the individual SMA portfolios. While leveraged swaps or notes may not necessarily be ideal for everyone, it does mean that SMSF trustees now have the ability to broaden their investment horizon to more exotic investments.

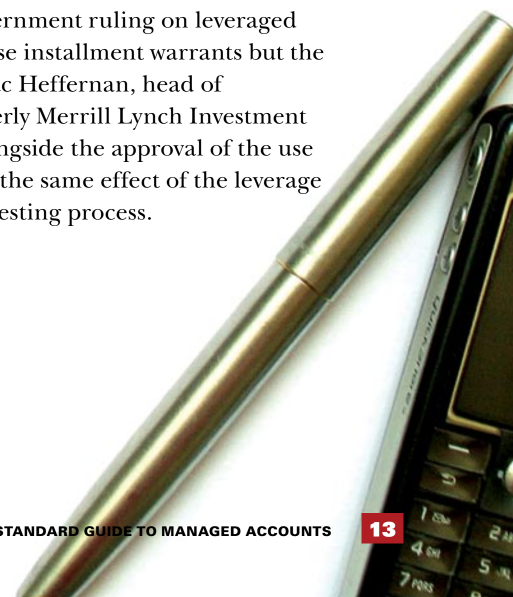


In the same vein, SMA providers can offer a feature akin to an institutional option overlay strategy. Again by scale, or by pooling in all the SMA portfolios, the provider can make the trades at insto prices and spread the cost and options across the individual SMSFs.

While using options is a form of capital protection, SMSF trustees can also avail of constant proportion portfolio insurance or CPPI. While they can avail of CPPI through managed funds, the difference with SMAs is that they still retain the beneficial ownership of the shares.

Many investment houses also offer some form of capital protection offering and could charge anywhere around 1 per cent for it. Merrill Lynch, for example, can offer rolling protection so that the SMA could move from being protected to not being protected.

A new development is the reversal of a government ruling on leveraged products. Previously, SMSFs were not allowed to use installment warrants but the government has since reversed that ruling. Cormac Heffernan, head of customised portfolio services at BlackRock (formerly Merrill Lynch Investment Managers) Investment Management, said that alongside the approval of the use of these 'exotic instruments', a SMA can replicate the same effect of the leverage of installment warrants but simplify the actual investing process.



PROFESSIONAL SHARE PORTFOLIOS FOR SMSF TRUSTEES

Sponsored statement by BlackRock Investment Management

HAVING A PROFESSIONALLY managed portfolio of direct shares has traditionally been viewed as the domain of high net worth investors. However, the advent of separately managed accounts (SMAs) is leveling the playing field for investors with smaller amounts to invest, including large numbers of SMSFs with less than $1 million to invest in Australian shares.

Cormac Heffernan
Head of Customised Portfolio Services
BlackRock Investment Management

In these volatile markets, two of the biggest issues SMSF trustees and their advisers face is their ability to time the market and maintain a strict asset allocation during both accumulation and withdrawal phases. Without focus on these two elements the SMSF may be left overweight in cash, which possibly will have enhanced returns in recent markets but may increase the long-term risk of the fund being unable to fund the beneficiaries through retirement.

One of the most effective strategies for long-term investing is dollar cost averaging. However, dollar cost averaging into a portfolio of shares can be difficult due to the costs and administration involved for the adviser and their client each time they invest (see the case study: Dollar cost averaging).

CASE STUDY

DOLLAR COST AVERAGING

In these volatile markets, a SMA with a direct contribution plan offers SMSFs a disciplined approach to investing. In this climate, investors may be understandably nervous about the prospect of putting their money into shares. However, studies by global investment research group, Russell, show that long-term investors should ignore isolated incidents of market volatility, stay invested in the markets over the long-term and refrain from trying to time investments. The research shows that the most significant risk for long-term investors is actually being out of the market when it has bottomed out because this is when potential future returns are at their greatest.

This is where an investment strategy such as dollar cost averaging – investing consistent amounts into the market on a regular basis – (via superannuation contributions) can eliminate the temptation to try and time the market.

Table 4 shows an example of an investor investing $10,000 into Tabcorp shares over a one year period, with the investment made in four equal quarterly investments of $2500.

Instead of investing one lump sum, the investor used a dollar cost averaging strategy to average out the cost of their investments and provide some insulation against market fluctuations:

Table 4. An illustration of dollar cost averaging.

Date	Amount invested	Invested price	Purchased	Share cost
31/12/06	$2500	$16.85	148	$16.85
31/03/07	$2500	$16.49	152	$16.67
30/06/07	$2500	$17.15	146	$16.82
30/09/07	$2500	$15.15	165	$16.37
	Total $10,000	**$16.41**	**611**	**$16.37**

The example shows that the average cost of Tabcorp shares during the year was $16.37 per share which – in three out of the four quarters – was less than the actual share price at the time of investment.

The best time to invest of the four dates was on 30 September 2007, given the share price was at its lowest. However, the problem is that it is incredibly difficult to predict low or high points for individual share prices or the market. Dollar cost averaging avoids this issue altogether by making investments at regular intervals – giving the investor a potentially better outcome than attempting to time the market.

Dollar cost averaging can be an effective strategy that instills investment discipline and avoids the emotional aspects of investing. Combining this strategy with the benefits of owning stock directly can be a powerful investment solution for clients.

While dollar cost averaging is generally acknowledged as an effective investment strategy, it can be costly and difficult to implement when investing into a portfolio of direct shares.

Why might advisers be discouraged from regular contribution strategies into direct share portfolios?

Brokerage

The impact of minimum brokerage on small regular investment amounts can make dollar cost averaging into direct shares a costly exercise. For example, even a $20 minimum brokerage on a regular investment amount of $1000 a month equates to a brokerage cost of 2 per cent that adds up over the course of year.

The SMA solution: With some SMAs, there is no minimum brokerage per share and even small trades benefit from wholesale execution and brokerage rates – with some services offering brokerage from as low as 0.05 per cent per transaction.

Diversification

For those with regular investment amounts of $1000 or less to invest, it may not be practical to purchase more than one or two companies' shares each time, as minimum brokerage is applicable each time a stock is purchased. Therefore, maintaining a truly diversified portfolio can be difficult and costly to achieve.

The SMA solution: SMAs offer clients an investment in one or more model portfolios. The model portfolios offer different levels of risk and return, ensuring a diversified portfolio.

Administration

Investing regularly into a portfolio of shares can result in significant amounts of paperwork just keeping all relevant documentation in order and dealing with corporate actions alone. In addition, for the majority of advisers, providing advice on direct shares requires them to obtain their client's approval for each trade and provide confirmation to them of any advice provided.

The SMA solution: Within a SMA, all administration and paperwork normally associated with a direct share portfolio is taken care of by the SMA provider. In addition, it is easy for advisers to move existing shareholdings into a SMA via an **in specie transfer**, and for the trustee to add to their investment via direct debit or BPAY. Using the internet, trustees and their advisers can monitor the performance of a SMA and, at the click of a button, get an up-to-date report on their account at any time.

Tax reporting

There can be a substantial amount of work involved at tax time for the adviser and the trustee, particularly where there is a trail of regular purchases as part of a dollar cost averaging, or regular contribution, strategy.

The SMA solution: As the SMA provider transacts on the trustee's behalf, the tax base of the shares held for the client automatically adjusts with each trade and all dividend payments are recorded and paid to the client's account at the end of each day. Automated reports are available via the internet at any time at the click of a button.

Compliance

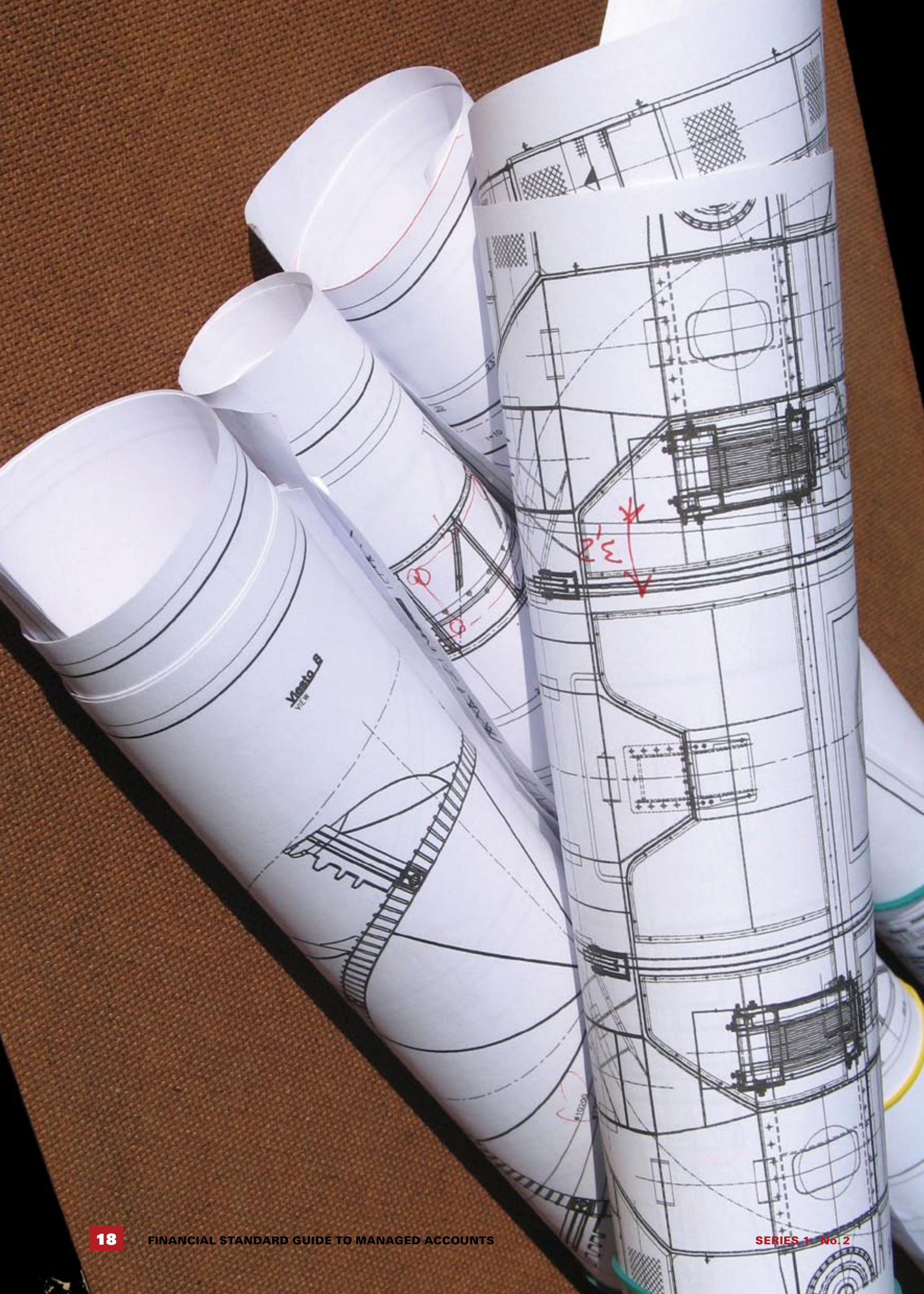
Some advisers are not licensed to give direct share investment advice.

The SMA solution: Some SMAs operate as managed investment schemes, meaning they have the same legal structure as a managed fund, and as such, can be offered by financial advisers who aren't licensed to offer direct share investment advice.

Summary

One of the most effective strategies for long-term investing is dollar cost averaging. However, dollar cost averaging into a portfolio of shares can be difficult due to the costs and administration involved for the adviser and their client each time they invest.

SMAs offer a practical solution to adopt this strategy, even for those who have small amounts of money to invest. The advantages of SMAs as an investment tool, used in conjunction with proven wealth creation strategies, make them an extremely attractive investment option for SMSFs.



LEGAL AND COMPLIANCE RULES

AS MENTIONED in the early section of this guide, SMAs are another tool to meet the investment strategies of a SMSF. However, it is worthwhile pointing out the basic compliance rules surrounding SMSFs as a breach could cost the trustee as much as a 45 per cent tax penalty.

The critical thing is that SMAs are managed investment schemes, which means that by law, they have the same legal structure as managed funds.

Daniel Butler, lawyer and principal of DBA Butler, has looked at the BlackRock SMA (the BlackRock Customised Portfolio Service) product disclosure statement (PDS) and said there are no special conditions within it that require additional compliance by a SMSF. But he does highlight the top five general legal issues for a SMSF as below:

1. Make sure the trust deed is appropriate and allows SMAs.
2. Make sure the fund's investment strategy is consistent with the investments being made. The investment strategy should be reviewed and revised regularly (say quarterly, but at least annually).
3. Make sure the trustee is still reviewing all their investments including managed investments, etc, and taking ultimate responsibility for investment decisions. Trustees should not delegate the responsibility (to the fund manager of the SMA model portfolio) and are ultimately responsible for investing the fund's assets for proper retirement purposes.
4. Make sure the investments comply with the various superannuation rules including the sole purpose and arms length tests and that investments are not used as security for any borrowing unless specifically permitted by law.
5. Any managed account or similar investment product should be closely scrutinised to ensure it is appropriate and in compliance with the law.

THE COST OF USING SMAs

AEGIS is an equities research company that provides model portfolios borne out of their own research and recommendations.

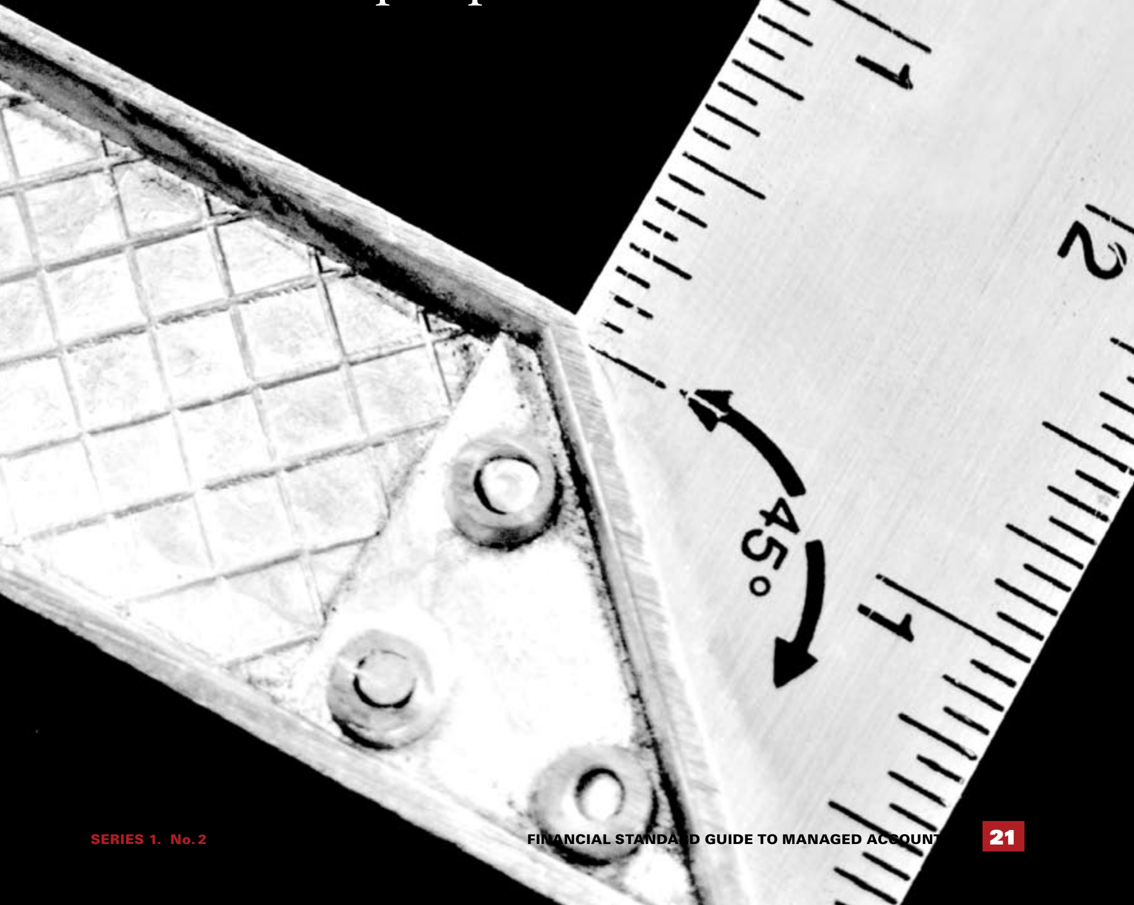
According to Aegis group executive David Heather, the sector has improved markedly since he started working in it five years ago. Costs for example have come down. “If you are comparing the cost of a model portfolio via a SMA against a managed fund via a wrap, it is fair to say that the SMA solution will come in cheaper,” he said. For example, one leading fund administrator provides a managed account service that has an administration fee of 25 basis points (excluding GST) which on top of the average model fee of say 40 to 50 basis points provides a total cost of less than 80bp, he said. By contrast, a wholesale managed fund could incur a management expense ratio (MER) of say 90bp on a wrap with an administration fee of say 60bp, with an all up cost of 150bp. The gross cost differential can be significant.

Then there are the added tax benefits of using a model portfolio that will vary from one trustee to another. These include:

- No embedded CGT in the entry price.
- No wrapped up unit pricing intra distribution periods.
- Any gains or losses on stocks in a model portfolio are to the benefit of the client as against held in the fund.
- Client gains full benefit of all franking credits.

And again, the fact that the trustee holds the beneficial ownership to the shares means they can switch between managers without crystalising capital gains across all the shares in the portfolio.

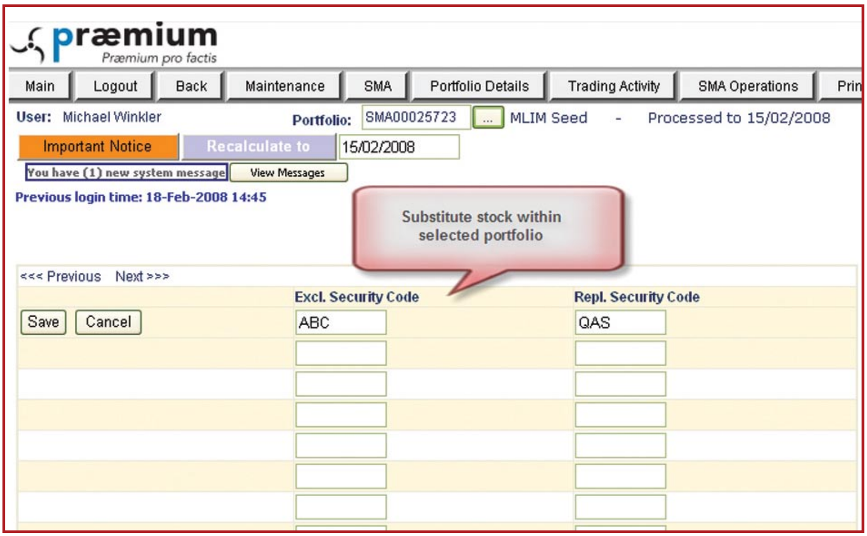
Trustees should not delegate the responsibility (to the fund manager of the SMA model portfolio) and are ultimately responsible for investing the fund’s assets for proper retirement purposes.



END OF YEAR ACCOUNTING AND SHARE TRADING THROUGH SMAs – AN ILLUSTRATION

HOW MUCH TIME and resources will a SMSF trustee need to incorporate a SMA into an existing system? It will vary depending on who your SMA provider is and the software system you are running. But broadly speaking, the adoption of a SMA can be seamless. For illustration purposes, here are selected screenshots of BlackRock's SMA and BGL's SMSF software solution to show how easy it is to add a SMA or switch to a SMA from an existing set of managed funds or

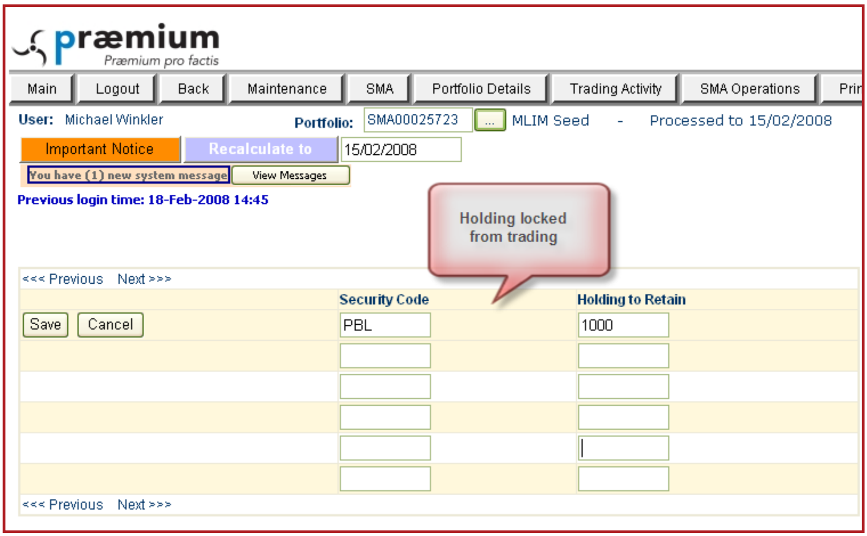
Ability to substitute one share with another.



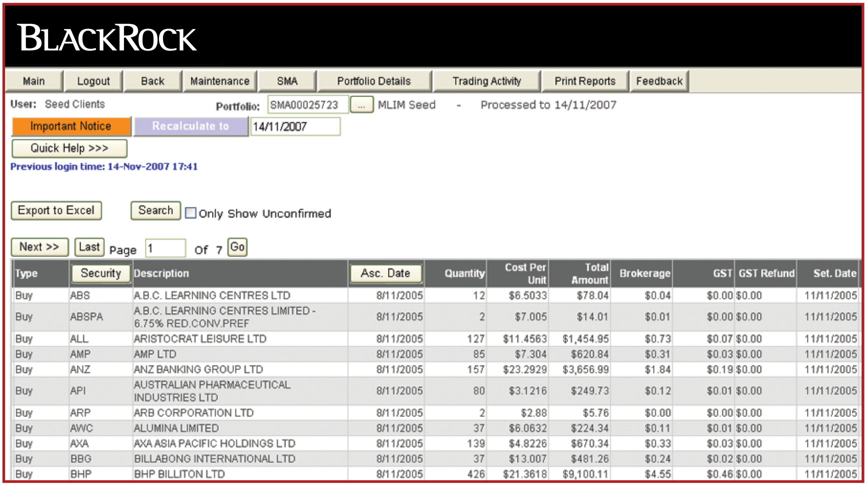
directly-owned shares. The screenshots will also highlight what the portfolio would look like during the end-of-year accounting process.

Worth noting is that the screenshots will also highlight additional features of SMAs that the SMSF trustee won’t benefit from when investing in a managed fund.

Ability to “hold” shares within the model portfolio if you don’t want the underlying portfolio manager to buy or sell those shares.

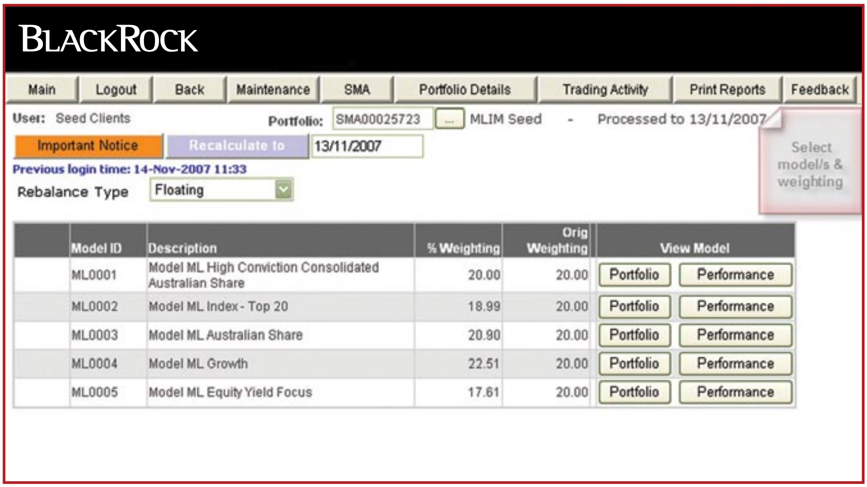


Ability to save on brokerage and see cost per unit.



Type	Security	Description	Asc. Date	Quantity	Cost Per Unit	Total Amount	Brokerage	GST	GST Refund	Set. Date
Buy	ABS	A.B.C. LEARNING CENTRES LTD	8/11/2005	12	$6.5033	$78.04	$0.04	$0.00	$0.00	11/11/2005
Buy	ABSPA	A.B.C. LEARNING CENTRES LIMITED - 6.75% RED.CONV.PREF	8/11/2005	2	$7.005	$14.01	$0.01	$0.00	$0.00	11/11/2005
Buy	ALL	ARISTOCRAT LEISURE LTD	8/11/2005	127	$11.4563	$1,454.95	$0.73	$0.07	$0.00	11/11/2005
Buy	AMP	AMP LTD	8/11/2005	85	$7.304	$620.84	$0.31	$0.03	$0.00	11/11/2005
Buy	ANZ	ANZ BANKING GROUP LTD	8/11/2005	157	$23.2929	$3,656.99	$1.84	$0.19	$0.00	11/11/2005
Buy	API	AUSTRALIAN PHARMACEUTICAL INDUSTRIES LTD	8/11/2005	80	$3.1216	$249.73	$0.12	$0.01	$0.00	11/11/2005
Buy	ARP	ARB CORPORATION LTD	8/11/2005	2	$2.88	$5.76	$0.00	$0.00	$0.00	11/11/2005
Buy	AWC	ALUMINA LIMITED	8/11/2005	37	$6.0632	$224.34	$0.11	$0.01	$0.00	11/11/2005
Buy	AXA	AXA ASIA PACIFIC HOLDINGS LTD	8/11/2005	139	$4.8226	$670.34	$0.33	$0.03	$0.00	11/11/2005
Buy	BBG	BILLABONG INTERNATIONAL LTD	8/11/2005	37	$13.007	$481.26	$0.24	$0.02	$0.00	11/11/2005
Buy	BHP	BHP BILLITON LTD	8/11/2005	426	$21.3618	$9,100.11	$4.55	$0.46	$0.00	11/11/2005

Ability for the adviser or SMSF trustee to rebalance portfolio when it suits them, not when it suits the portfolio manager.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Main | Logout | Back | Maintenance | SMA | Portfolio Details | Trading Activity | Print Reports | Feedback

User: Seed Clients   Portfolio: SMA00025723 ... MLIM Seed - Processed to 13/11/2007

Important Notice   Recalculate to   13/11/2007

Previous login time: 14-Nov-2007 11:33

Rebalance Type   Floating

Select model/s & weighting

	Model ID	Description	% Weighting	Orig Weighting	View Model	
	ML0001	Model ML High Conviction Consolidated Australian Share	20.00	20.00	Portfolio	Performance
	ML0002	Model ML Index - Top 20	18.99	20.00	Portfolio	Performance
	ML0003	Model ML Australian Share	20.90	20.00	Portfolio	Performance
	ML0004	Model ML Growth	22.51	20.00	Portfolio	Performance
	ML0005	Model ML Equity Yield Focus	17.61	20.00	Portfolio	Performance

Ability to view tax summary including CGT figures when required at the click of a button.

Tax Summary

Portfolio: - SMA00025723 MLIM Seed

From 1 Jul 2007 Through 13 Nov 2007

Realised CGT Summary

Open Amount	Indexed Cost	Close Amount	Gross Gain	Discounted Gain	Indexed Gain	Other Gain	CGT Gain	CGT Loss	Total CGT Gain/Loss	Non CGT Gain/Loss
13,700.22	13,972.65	14,594.48	1,516.86	605.32	0.00	1,486.19	1,486.19	-622.60	863.00	30.67

Unrealised CGT Summary

Adjusted Cost	Indexed Cost	Market Value	Gross Gain	Discounted Gain	Indexed Gain	Other Gain	CGT Gain	CGT Loss
87,894.73	88,563.63	120,286.36	34,686.37	28,104.40	0.00	34,686.37	34,685.37	-2,293.76

Income Summary

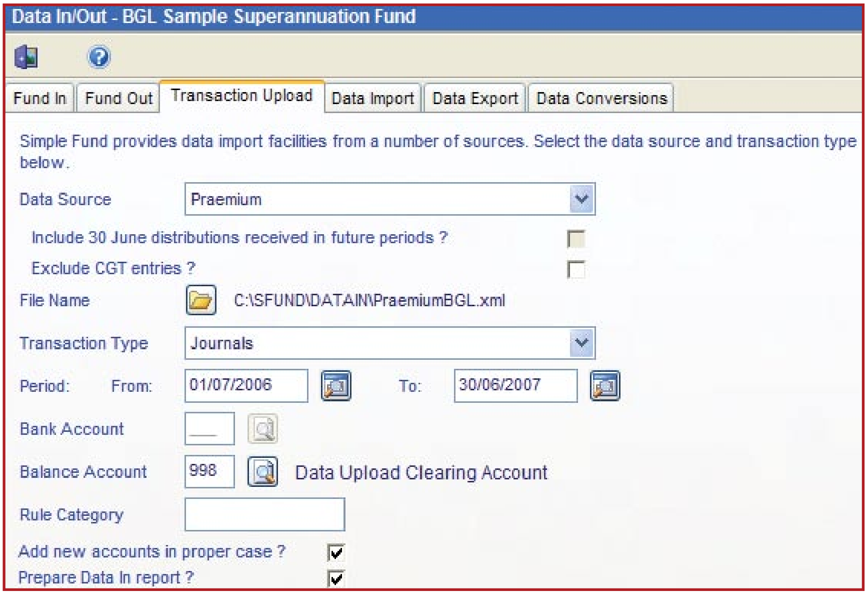
Total Income Amount	Unfranked Amount	Interest Amount	Franked Amount	Tax Free	Tax Deferred	CGT Gains Non Assessable	Distributed Discounted Gain	Distributed Non Discounted Gain	Foreign Income	Traditional Income
1,790.93	277.27	76.73	1,406.27	0.00	0.00	0.00	0.00	0.00	23.64	30.67

Rental Income	Tax Credit Discounted Gain	Tax Credit Non Discounted Gain	TFN Withheld	Tax Credit	Foreign Tax Credit
0.00	0.00	0.00	0.00	590.88	0.00

Expenses Summary

Total Expenses Amount	Total GST Amount
518.22	47.11

Data importing from Praemium.



Source: BGL Corp.

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IS PROUDLY SUPPORTED BY

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BGL Corporate Solutions was established in 1983 as a consulting firm to assist accountants and small businesses to gain more value from their computer systems. In 1989, BGL expanded its traditional consultancy business by adding a software manufacturing division.

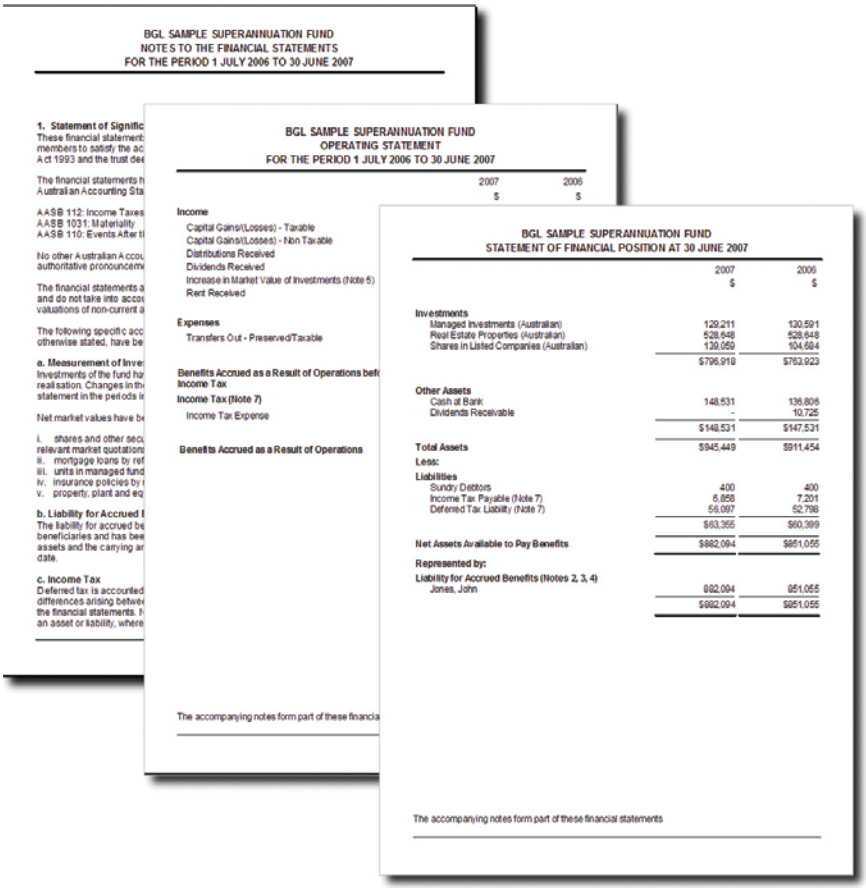
Over the ensuing period, BGL has grown to be the largest supplier of superannuation management, corporate registry, asset management and general ledger software solutions. BGL's SMSF compliance software Simple Fund is used by over 4,000 clients to maintain more than 275,000 SMSFs with assets in excess of $90 billion.

BGL sample superannuation fund investment summary.

BGL SAMPLE SUPERANNUATION FUND
INVESTMENT SUMMARY REPORT AT 30 JUNE 2007

Investment	Units	Ave Cost	Mkt Price	Cost	Market	Unrealised Gain/(Loss)	Percent Gain/(Loss)	Percent Total
Cash/Bank Accounts								
Cash at Bank		148,531.00	148,531.00	148,531	148,531			15.71%
				148,531	148,531			15.71%
Managed Investments (Australian)								
FSF0013AU - Cfs Mif - Imputation Fund	32,169	3.42	4.02	110,174	129,211	19,037	17	13.67%
				110,174	129,211	19,037	17	13.67%
Real Estate Properties (Australian)								
+IP-001 - Unit 7, 270 Grange Road, Toorak	1	250,000.00	528,648.00	250,000	528,648	278,648	111	55.92%
				250,000	528,648	278,648	111	55.92%
Shares in Listed Companies (Australian)								
AWC - Alumina Ltd	4,000	4.30	7.79	17,189	31,160	13,971	81	3.30%
BHP - Bhp Billiton Ltd	800	9.22	35.03	7,375	28,024	20,649	280	2.96%
BSL - Bluescope Steel Ltd	180	2.46	10.34	442	1,861	1,419	321	0.20%
CML - Coles Myer Ltd	586	4.98	11.42	2,919	6,692	3,773	129	0.71%
SEV - Seven Network Ltd	6,175	6.87	11.55	42,406	71,321	28,915	68	7.54%
				70,331	139,058	68,727	98	14.71%
				579,036	945,448	366,412	63	100.00%

BGL financial statement as at year end (June 2007).



BGL SAMPLE SUPERANNUATION FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 1 JULY 2006 TO 30 JUNE 2007

1. Statement of Signific
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The financial statements h
Australian Accounting Sta

AASB 112: Income Taxes
AASB 1031: Materiality
AASB 110: Events After t

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a. Measurement of Inve
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i. shares and other secu
relevant market quotation
ii. mortgage loans by ref
iii. units in managed fund
iv. insurance policies by
v. property, plant and eq

b. Liability for Accrued
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assets and the carrying ar
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c. Income Tax
Deferred tax is accounted
differences arising betwe
the financial statements. N
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BGL SAMPLE SUPERANNUATION FUND
OPERATING STATEMENT
FOR THE PERIOD 1 JULY 2006 TO 30 JUNE 2007

	2007	2006
	$	$
Income		
Capital Gains/(Losses) - Taxable		
Capital Gains/(Losses) - Non Taxable		
Distributions Received		
Dividends Received		
Increase in Market Value of Investments (Note 5)		
Rent Received		
Expenses		
Transfers Out - Preserved/Taxable		
Benefits Accrued as a Result of Operations befo Income Tax		
Income Tax (Note 7)		
Income Tax Expense		
Benefits Accrued as a Result of Operations		

The accompanying notes form part of these financia

BGL SAMPLE SUPERANNUATION FUND
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2007

	2007	2006
	$	$
Investments		
Managed Investments (Australian)	129,211	130,591
Real Estate Properties (Australian)	528,648	528,648
Shares in Listed Companies (Australian)	139,059	104,684
	$796,918	$763,923
Other Assets		
Cash at Bank	148,531	136,806
Dividends Receivable	-	10,725
	$148,531	$147,531
Total Assets	$945,449	$911,454
Less:		
Liabilities		
Sundry Debtors	400	400
Income Tax Payable (Note 7)	6,858	7,201
Deferred Tax Liability (Note 7)	56,097	52,798
	$63,355	$60,399
Net Assets Available to Pay Benefits	$882,094	$851,055
Represented by:		
Liability for Accrued Benefits (Notes 2, 3, 4)		
Jones, John	882,094	851,055
	$882,094	$851,055

The accompanying notes form part of these financial statements

GLOSSARY

Beneficial ownership	When an investor has a vested and indefeasible interest in the assets held in their personal portfolio.
Blending	When an investor chooses a number of model portfolios, in the proportions of their choice, to construct their personal portfolio.
Compulsory cash component	The percentage of cash held within the account to facilitate trading and payment of fees.
Corporate actions	An action taken by an entity for the purpose of giving an entitlement to holders of a class of the entity's securities.
Fixed model portfolio weighting	When the SMA provider makes trades during rebalancing to ensure the proportions of the personal portfolio, attributable to each model portfolio, remain as originally selected.
Floating model portfolio weighting	When the model portfolios perform differently from each other, relative to the proportion of their personal portfolio, and move (float) away from the model portfolio weights that were originally selected and are not adjusted by the SMA provider.
Holding lock	When an investor transfers an existing stock holding into the SMA and fixes this holding at a level of their choice. When the investor's personal portfolio is rebalanced, the nominated stock holding is maintained at, or above, the selected level. This is often used to protect tax parcels.
Individually managed account (IMA)	A managed account where the professional investment manager manages investment portfolios and implements different investment decisions across the accounts based on the personal circumstances and objectives of each investor.
iMap	Institute of managed account providers. The industry body representing managed account professionals set up in 2006. See www.imap.asn.au
Inherited tax liabilities	When an investor purchases a pooled unitised fund, they also buy the realised and unrealised gains. Accordingly, a portion of the price may be attributed to previously derived Capital Gains Tax (CGT) income. The investor would then be entitled to a distribution of this income which would be taxable.
***In specie* transfer**	When an investor's existing stocks are transferred into their personal portfolio.
Intellectual property	From an SMA perspective, this is the stock picking strategy of the model provider.
Managed discretionary account (MDA)	An umbrella term used to refer to any services where the clients hand in their money or other assets to the MDA operator and give that operator the discretion to manage those assets on their behalf.
Managed investment scheme (MIS)	Also known as "managed funds", "pooled investments" or "collective investments". It is a scheme where money is pooled together with that of other investors in exchange for an interest in the scheme.
Minimum trade size	When securities in a personal portfolio are only traded if the trade size meets the specified size. It is the smallest trade that can be done in a personal portfolio.

Model portfolio	An investment strategy selected by the adviser and managed by a model portfolio manager on an ongoing basis.
Model portfolio manager	The manager of the model portfolio (referred to as the model portfolio adviser, model provider or the fund manager).
Netting	When buys and sells are matched and off-set against each other. Can be done at both portfolio and scheme level.
Nominated representative	Generally a financial adviser, or professional adviser, who will provide all instructions to the SMA provider on behalf of the investor.
Non-beneficial ownership	As opposed to beneficial ownership. Usually when the clients invests in shares within a unitised managed fund.
Personal portfolio	An investor's account into which their investments are allocated within an SMA. A personal portfolio is generally constructed using a selection of model portfolios and a compulsory cash component.
Rebalancing	The process where a client's actual holdings are compared to the updated model portfolios and changed accordingly.
Rebalancing date	Usually each business day before the market opens.
Responsible entity	The licensed entity or body that operates a managed investment scheme or separately managed account.
Sell-down	When securities are sold at the client's discretion.
Separately managed account (SMA)	A portfolio made up of securities that are beneficially owned by the individual investor and managed by professional managers or model portfolio managers. Unlike investing in a managed fund, an SMA investor can add, delete or "lock" shares in an SMA.
Substitution	When an investor substitutes an individual security with another ASX listed security, cash, or pro-rates across the other securities in the personal portfolio.
Unified managed account (UMA)	Comprehensive portfolios of individual separate accounts and packaged products, such as mutual funds and exchange-traded funds (ETFs), with a complete asset allocation in a single account.
White-labelling	Also called "badging". When a party, independent to the SMA provider or responsible entity (such a dealer group, accountant or broker) badges the SMA service as their own service (eg. the third party can choose their own name for their service, the model portfolios they wish to offer, and fee structure).

Source: This glossary is compiled from definitions provided by the Australian Securities Exchange (ASX), Australian Securities and Investments Commission (ASIC), IMAP and BlackRock.

EASY GUIDE

A comparison of SMAs vs managed funds vs direct equities

FEATURE	SMA	MANAGED FUNDS	DIRECT EQUITY
Professional fund management	✔	✔	✘
Immediate application and redemption of funds	✔	✔	✔
Traded every day	✔	✔	✔
Wholesale execution	✔	✔	✘
Low minimum investment	✔	✔	✘
Corporate actions administered	✔	✔	✘
Tax reporting	✔	✔	✘
Access via a PDS	✔	✔	✘
Fee transparency	✔	✔	✔
Ability to view underlying shares	✔	✘	✔
Equitable performance fees	✔	✘	n/a
Minimise CGT when switching	✔	✘	n/a
In specie transfers	✔	✘	✔
Avoid embedded CGT	✔	✘	✔
Automatic tax optimisation	✔	✘	✘
Netting of transactions	✔	✘	✘
Blended individual portfolio	✔	✘	✘
Select minimum trade size	✔	✘	✔
Exclude stocks from portfolio	✔	✘	✔
Download tax parcels to accountant	✔	✘	✘

Source: 2020 DirectInvest

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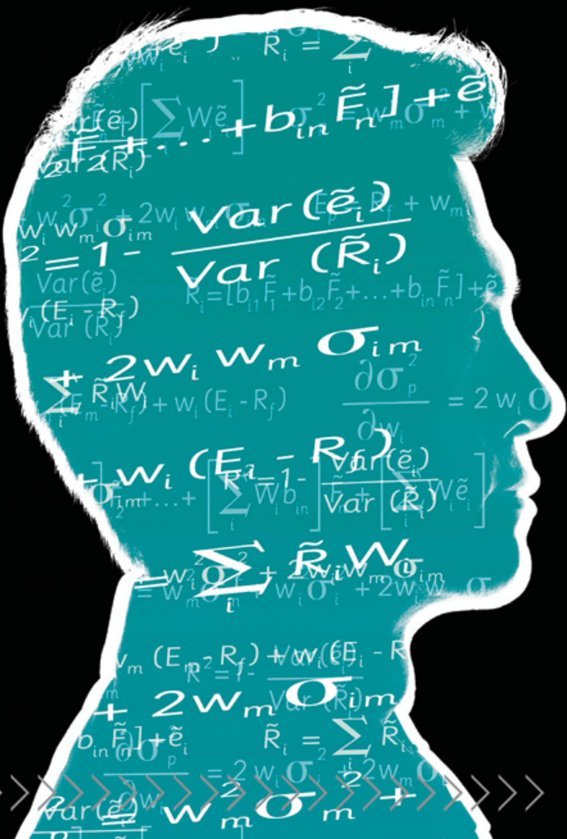

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