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Navigating the managed account maze

The number of advisers using managed accounts in Australia has increased over the past five years with the largest increase coming in the last 12 months¹. It means 26% of Australian advisers now use managed accounts.¹

Interestingly, only 4% of advisers who have used managed accounts in the past said they would not use them in the future¹ which would seem to support the claim that managed accounts are delivering benefits for adviser practices and their clients.

So if you are one of the 20% of advisers who said they would consider using managed accounts, how do you determine the right solution for your practice?

There are a number of factors you should consider:

1. What are your business objectives?

Do you want to outsource portfolio construction for some or all of your clients? Is increasing efficiency in portfolio maintenance a goal for your practice? Does your client's value proposition rely on you being able to individually select every underlying asset or is your value demonstrated in your ability to identify client needs and develop wealth management strategies to help clients meet those needs?

2. Are you willing to obtain your own MDA license or would you prefer not to?

There are solutions for both these scenarios.

3. What is your level of interest or confidence in portfolio construction?

Do you have an investment philosophy? How do you approach asset allocation and investment research? Do you want to select the individual investments within each portfolio or would you rather collaborate with a professional investment manager or consultant? Again there may be options to do either.

4. What is your operational and compliance structure?

Are you happy to accept the compliance requirements of running your own portfolios or would you prefer to leverage a product structure where the issuer is undertaking certain compliance tasks such as establishing and communicating the investment strategy of the portfolio and ensuring that the strategy remains supported.

What are the options?

There are a number of different terms thrown around in relation to managed accounts but regardless, there are some defining characteristics of managed accounts which include:

- A recognised legal structure
- An element of personal advice
- Discretionary management of investments
- Model based, systematic approach to portfolio management
- Beneficial ownership and visibility of the assets held in the client's portfolio.
- Centralised and efficient administration.

There are two primary strands of managed accounts emerging:

- **Managed portfolios, also called Separately Managed Accounts (SMAs)** – Panorama's BT Managed Portfolios are an example of this type of product. This structure operates as a conventional Managed Investment Scheme with a Responsible Entity arrangement in place and a Product Disclosure Statement issued. Investment options (the models) are listed in the PDS, outlining details relating to the appointed investment manager/s, the portfolio strategy, objectives and other key information to support portfolio selection by advisers and investors.

- **Managed Discretionary Accounts (MDAs)** – ASIC describes² an MDA service in the following way:

"An MDA means a facility, other than a registered managed investment scheme (registered scheme) or an interest in a registered scheme, with the following features:

- (a) a person (MDA client) makes contributions;
- (b) the client portfolio assets are managed on an individual basis by another person (MDA provider) at the MDA provider's discretion, subject to any agreed limitation; and
- (c) the client and the MDA provider intend that the MDA provider will use the client portfolio assets to generate a financial return or other benefit for the client."

If you are looking to offer your clients an MDA service you may wish to seek out a partner who can provide a custody service and tailored portfolio tools such as the services BT Panorama delivers to MDA providers wanting assistance to operate their MDA service.

New money or inflows to managed accounts from financial advisers on behalf of clients has all but trebled in the last four years.

As this trend continues advisers are asking more of their investment platforms, making certain that investment selections are being managed professionally and efficiently.

The research indicates managed accounts are truly delivering benefits for adviser practices. The surge in popularity is being driven by the availability of a professional managing the funds, followed by transparency benefits and tailored investment options.

Delivering this and more is BT Financial Group, which has offered managed account solutions for the past 25 years. Through its newly constructed BT Panorama platform the company is well equipped for future growth in the sector.

Michelle Baltazar

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Director of Media & Publishing

For both Managed Portfolios and MDAs, you may wish to outsource the investment selection to a professional investment manager or consultant, or you can opt to create your own portfolios. Be aware if your preference is to construct your own portfolios that there are specific compliance and governance requirements that must be met.

On platform or not on platform?

The next question to consider is whether to offer managed accounts via an advice platform. Since their launch platforms have provided the tools that enable advisers and licensees to run efficient, profitable businesses.

Offering managed accounts via a platform adds to the convenience of being able to access a range of other asset types and also helps overcome the disadvantages of managing similar transactions for many clients such as responding to corporate actions in a timely manner across the adviser's entire client base.

Managed portfolios on a platform such as BT Panorama enable advisers to offer professionally constructed portfolios of assets held on the platform that are attractively priced with full visibility of the underlying investments, reducing the workload for advisers.

Seeking support from experts

The final consideration for navigating your way through the managed account maze is to choose a strong partner. Someone who has experience in the managed account business and has a full range of managed accounts options available. BT is a good example as they have been in the managed account market for more than 25 years and can offer a full suite of both managed portfolios and MDA tailored portfolio tools to support MDA solutions. **FS**



The quote

Managed accounts are delivering benefits for adviser practices and their clients.



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