BACK IN THE SPOTLIGHT – STILL!

Managed accounts have taken years to bloom, as **Jason Spits** writes, the large players have been waiting to pounce.

FOR BT FINANCIAL Group (BTFG) head of managed accounts Steve Dammerer, the idea that managed accounts are only just beginning to make inroads into the financial services and advice sector seems like old news that has been delivered late.

While BTFG has launched some new managed accounts in recent years, including its BT Elect and BT Aspire products, the group has been running a managed account since the mid 1960s.

This managed account – the BT Private Portfolio Management service – has about $1.7 billion in funds under advice and continues to attract funds, albeit at levels requiring $1 million dollars as an initial investment.

The scale of this fund and that of a number of others operated by large managed account providers begs the question – how big is the 'fledgling' managed accounts sector?

According to the Institute of Managed Account Providers (IMAP), the managed account sector has more than $10 billion in funds under administration, with more than two thirds of these funds administered by four groups: BTFG, Praemium, SFG and Philo Capital. This level of funds puts them on par with another so-called 'fledgling' market – exchange traded funds (ETF), demonstrating that what may be new at consumer end of the market is often well established elsewhere.

Shadforth Financial Group head Nick Bedding stated this $10 billion amount is the tip of the iceberg in what is likely to flow into managed account as more and more planning groups and account providers move into the space.

"The growth is likely to come from areas where advisers and their clients invest directly and will see investments within managed accounts replacing less robust processes that monitor and track investments. As a result increases within managed account balances are likely to be a mix of new and existing money," Bedding said.

> *"These moves are a logical evolution from the first waves of managed accounts and echo the development of platforms and wraps, except the drivers have been events such as the global financial crisis and the growing number of people heading into retirement."*

His comments touch upon the issue of how are financial planners using managed accounts and how is that likely to change as they become more integrated into platforms and desktop planning software.

Praemium commercial director Andrew Varlamos said that early iterations of managed accounts offered to planners and investors were restricted to Australian equities and promoted transparency and tax positions as reasons for their use.

"Over a decade ago managed accounts were first promoted as an equities solution but have since added ETFs and managed funds. Much of this has been driven by self-managed superannuation funds (SMSFs) which can hold assets inside and outside regular structures and are looking for administration and tax reporting tools," Varlamos said.

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According to Bedding these events had provided managed accounts with an opportunity to stake a larger claim particularly among the SMSF sector, where self-directed investors can overlook the discipline provided by advice.

"DIY investors in SMSFs don't always take a disciplined approach and managed accounts can eliminate the risk of overweight positions and failure to rebalance when required by introducing discipline into the portfolio," Bedding said.

"The global financial crisis was a classic example of the need for a disciplined approach and rebalancing and people were hit hard because they were overweight in

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some sectors."

Dammerer said that while planners are still using managed accounts as pure equity plays they are looking at how they can use them with other platforms, with mixed success.

"Managed accounts are often used as an alternative to managed funds in the Australian equities space but planners would like them to be able to be used with other products that are typically offered via a platform or wrap," Dammerer said.

"In some areas they have actually been held back because of their choice of platforms. They are already using ETFs, which work well with platforms because they are listed on the stock exchange but are finding that managed funds don't fit as well within the reporting systems of platforms."

Dammerer said BTFG was looking to integrate two individually managed accounts and one separately managed account offering into its own wrap offering at the completion of a three year redevelopment project dubbed Panorama. This project is reputed to be one of the largest of its kind and emphasises that importance that technology will play in the platform and managed account sector.

However Varlamos believes technology is not just essential for a well-functioning managed account but also to be able to provide scalability and reduced costs to planners and investors.

"Planners need to consider whether a managed account offering is reliant on operating technology or human intervention. They also need to consider whether the managed account is licensed to operate without having to seek confirmation on every action and whether it can scale up its operations as funds and investor numbers increase. If it does not have all three it is still a boutique offering." Varlamos said.

Dammerer said technology changes will continue to play a role but he thought it had yet to be fully played out at the planner level.

"Fund managers and financial planners are embracing the format and structure of managed accounts and are changing them and using them to generate alpha in returns. Despite this the technology card has still yet to be played with the interface at the planner level still missing," Dammerer said.

While a technology arms race has not developed managed account providers with deep pockets will be able to out manoeuvre rivals with smaller reserves of cash according to Zenith Investment Partners director David Wright.

Wright said the move to integrate managed accounts into the platform offerings of institutions would create greater competitive pressures in "is a skinny margin business".

"There needs to be about $1 billion in funds under management to get the cost and administration efficiencies required to run your own funds which many of the groups who came to us found they could access via the use of managed accounts," Wright said.

"Planners have found a happy medium and are moving into managed accounts or managed discretionary accounts if they can get the licensing because it is easier to adjust portfolios and charge asset based fees to clients. However the cost advantages and tax efficiencies can be eroded in the event a portfolio is heavily traded by the adviser or client. "

He stated that the advent of Future of Financial Advice (FOFA) reforms had caused some initial interest from advisers in setting up their own multi-manager funds to control costs and bypass platform fees. However this interest shifted to managed accounts when the mid-sized dealer groups who expressed interest in creating their own funds examined the mechanics and costs of such funds.

At the same time the growing use of managed accounts by financial planners was being driven by concerns around fee transparency within investment products and by efforts to reduce costs paid by clients for investment products and administration according to Wright.

These comments echo those heard at a recent roadshow conducted by IMAP. At the event financial planners in attendance were asked what was driving their interest in managed accounts with IMAP chair Toby Potter stating most responses centred on the ban on conflicted remuneration, the best interest tests and better technology being delivered by the major platforms and specialist providers.

Philo Capital joint chief executive Brett Sanders said these kinds of responses are to be expected as planners come to terms with the FOFA legislation and move away from old business models that have been disallowed or discouraged under the new advice regime.

"FOFA has acted as an encourager to use managed accounts and for planning groups the direction is clear. They need revenue streams that are transparent and sustainable and planning firms who have moved to a managed account basis have reported that it was worth the move," Sanders said.

"I would, however, encourage planners not to see this as a product solution nor as a soft way to move into portfolio construction without a commission. If used correctly if can change a practice and be used to demonstrate the value of advice."

Sanders states this will be important particularly as financial advice shifts to an objectives-based planning model where advisers will be seeking strategies and vehicles to meet advice outcomes.

"Planners have to consider objectives-based planning but they don't have to consider managed accounts. However it does make them more efficient and there is a quiet revolution taking place where the 'investment imperative' that has been part of advice in the past is removed within a managed account structure," Sanders said.

"Managed accounts are not a solution on their own but they do fit into a discussion about what is the right advice and investment philosophy."

"This structure makes advice more efficient, scalable and personable and managed accounts are not a solution on their own but they do fit into a discussion about what is the right advice and investment philosophy." MM