

# Managed Accounts and Scalable Implementation of Model Portfolios

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# Agenda

- Portfolio implementation options available to advisers
- Why an advised advice model cannot deliver scalable model portfolio implementation
- Managed account introduction
- Business model, portfolio management and cost considerations in implementing a managed account solution

# About managedaccounts.com.au

- Sydney based company founded in 2005, previously known as Investment Administration Services or IAS
- Listed on the ASX in June 2014 with market cap ~\$30m (ASX: MGP), cash flow positive and profitable
- A specialist managed account provider enabling advisory firms to implement a Managed Discretionary Account (MDA) solution without the need for advisory firms to have a MDA Operator authorisation
- \$1.5bn in FUA as at April 2015
- Does not provide investment management or personal advice
- Providing solutions to over 30 boutique advisory firms, all differentiated from each other through branding, portfolio design and fee approaches

# Managing Model Portfolios Without Discretion is not a Scalable Approach

- Creative solutions across portfolio construction and administration, some more robust than others, all driven by a desire to lower raw cost of delivery by the adviser

Stock Selection and Portfolio Construction	Administration
Adviser Driven	Wrap
Practice or Dealer Model Portfolios	Inhouse Off Platform
Broker Model Portfolios	Broker Administration Service
Research House Model Portfolios	Outsourced Administration Provider
Professional Manager Model Portfolios	Broker Trading Records
Broker bespoke Portfolios	Managed Account

# Conclusions on the Advised Model

- Compliance Risk – adviser is providing the same personal advice as if they were selecting the stocks themselves, not to mention corporate events
- Practice Efficiency – additional RoA's for portfolio changes and corporate actions across a growing client base can significantly impact on practice efficiency
- Portfolio Management – client portfolios cannot be managed in line with a model due to compliance requirements, adviser and client availability and implementation timeliness which leads to different performance and risk outcomes for different clients
- Reduction in cost to client – potentially, but does that take into account implementation risk ?
- Scalability – every business running portfolios without discretion will have a scalability issue at some point

# What is a Managed Account ?

A portfolio of assets that are owned by an investor, managed by an investment manager in accordance with an agreed investment strategy or mandate, and administered by a professional administrator

- Advice is at the strategy level not at the individual asset level
- An investment manager (which can be a practice or outsourced) manages portfolio with discretion
- Integrated administration, investment management and custody

# Managed Accounts Can Provide a Solution For Any Practice Business Model

Adviser Value Proposition	Approach
Are you a Strategic adviser?	Outsource asset allocation and investment selection
Are you an Investment adviser?	Control asset allocation but outsource investment selection
Are you a Portfolio manager?	Control investment selection and investment selection



# Portfolio Design Is Not Just About Equities

- Misinterpretation that managed accounts are only about equities
- True if you are using some solutions but not all
- Managed accounts are about discretionary portfolio management across the assets that needed to generate a client solution
- Different for different practices – no right or wrong. Can be managed funds only to direct assets only

# Case Study Investment Options

Diversified Direct	MMP Conservative Portfolio	Diversified Options
	MMP Conservative Pension Portfolio	
	MMP Balanced Portfolio	
	MMP Balanced Pension Portfolio	
	MMP Growth Portfolio	
	MMP Passive Conservative Portfolio	
	MMP Passive Moderately Conservative Portfolio	
	MMP Passive Balanced Portfolio	
	MMP Passive Growth Portfolio	
	MMP Passive High Growth Portfolio	
Diversified Managed Fund	MMP Conservative MF Portfolio	Asset Class Options
	MMP Moderately Conservative MF Portfolio	
	MMP Balanced MF Portfolio	
	MMP Growth MF Portfolio	
	MMP High Growth MF Portfolio	
Fixed Interest	MMP Diversified Fixed Interest Portfolio	
Australian Equities	MMP Australian Equities Income Portfolio	
	MMP Australian Equities Growth Portfolio	
	MMP Australian Equities Smaller Companies Portfolio	
	MMP Takeover Target Portfolio	
International	MMP International Equities Portfolio	
Property	MMP Property Securities Portfolio	
Miscellaneous	MMP Tailored Portfolio	

# Case Study Balanced Investment Option

## MMP Balanced Portfolio

### Portfolio Description

A diversified portfolio which includes both defensive assets such as cash and fixed interest securities and growth assets such as Australian equities, property and international equities with an emphasis on growth assets over defensive assets. The Portfolio is managed based on the assumption that income and capital gains generated are subject to tax.

### Investment Objective

To provide income and capital growth through exposure to a diversified portfolio of investments.

### Performance Objective

To outperform the average annual rate of Australia's Consumer Price Index (CPI) by at least 3% over the long term.

### Suggested Minimum Investment Timeframe

5 years

### Risk

Medium

### Investor Suitability

Investors who:

1. Require a diversified balanced portfolio
2. Are seeking moderate growth over the investment timeframe with a moderate level of income
3. Accept a moderate degree of volatility associated with a relatively higher exposure to growth assets
4. Are prepared to invest for the minimum investment timeframe
5. Accept the risk of price fluctuations particularly over periods less than the minimum investment timeframe and that capital preservation is not guaranteed
6. Understand that withdrawals from this Portfolio may be delayed due to the fixed terms of maturity for some fixed interest investments such as term deposits
7. Understand that in some circumstances, some defensive assets may fall in value due to changes in prevailing interest rates

# Case Study Balanced Investment Option

## Asset Allocation

Asset Class	Range	Indicative Allocation
Australian Equities	0-60%	45%
Property	0-10%	5%
International Equities	0-20%	10%
Fixed Interest	20-60%	35%
Cash	2-100%	5%

## Authorised Investments

Term Deposits

Bank Bills

Government and Semi-Government Bonds

Corporate Bonds

Exchange Traded Funds (ETFs)

Listed Investment Companies (LICs)

Registered Managed Investment Schemes

Unregistered Managed Investment Schemes

Australian Real Estate Investment Trusts (A-REITs) and Property Related Securities

Listed Income Securities

Australian Shares

Initial Public Offerings (IPOs)

Cash and Cash Equivalents

# Portfolio Management Considerations

The screenshot displays the GWP (Global Wealth Platform) interface. The main window shows the 'Security Model' configuration for 'Nucleus Balanced Super'. The table below lists the securities included in the model:

Default Security Code	Ticker	Issuer	Issue - Description	Target %
ACQ	ACQ	ACORN CAPITAL INVMT FUND LTD	ORD f.pd. (LIC)	1.687
AMP	AMP	AMP LIMITED	ORD f.pd.	2.93
AHY	AHY	ASALEO CARE LTD	ORD	0
ANZ	ANZ	AUST & NZ BANK GRP LTD	ORD f.pd.	2.83
BENPEZZ	BENPEZZ	BENDIGO & ADELAIDE BANK LTD	CPS2 Reinv/Gen Offer	1.62
BHP	BHP	BHP BILLITON LTD	ORD f.pd.	4.4
CBAPDZZ		COMMONWEALTH BANK OF AUST LTD	PERLS VII Applicns	3.7
CPU	CPU	COMPUTERSHARE LTD	ORD f.pd.	2.23
CSL	CSL	CSL LTD	ORD f.pd.	2.48
EHEIPO	EHEIPO	ESTIA	ESTIA IPO	0.75
HSO	HSO	HEALTHSCOPE LTD	ORD	0
IJH	IJH	ISHARES TRUST	CORE S&P MID-CAP CDI	1.71
IVV	IVV	ISHARES TRUST	S&P500 CDI 1:1	2.52
MBLPAZZ	MBLPAZZ	MACQUARIE BANK LTD	BCN Holder/Gen Offer	3.15
MGE0001AU		Magellan Asset Management Ltd	Magellan Global Fund	2.02
MVB	MVB	MARKET VECTORS AUSTRALIA	AUSTRALIAN BANKS ETF	2.51

Summary statistics at the bottom of the table:

- Cash: 21.34%
- Total: 100%

# Portfolio Management Considerations

- Model approach – a number of providers work on a money invested today is fully invested tomorrow approach, and that new and existing money is rebalanced against one model, other providers have a discretionary approach able to be adopted by the portfolio manager – this can have a major effect of portfolio performance for new clients
- Model based vs client tilts – modelling tools are very sophisticated to achieve infinite outcomes but there is a trade off between maximum efficiency and client outcomes
- Asset coverage – the modeling tool and provider you select must be able to support all of the assets you intend to run through client portfolios with discretion for you to gain maximum efficiency
- Execution – don't have the provider do this, this is a manager function so work with a provider that allows this to occur

# Portfolio Management Considerations

- Corporate actions – some provider make all corporate actions available including Share Purchase Plans, others not
- Corporate actions – some providers allow decisions to be made across all investors or can you take into account individual client circumstances
- Voting – is this important to you now and in the future ? If so, choose a provider who enables this

# Not as Expensive As You Think ?

- Managed accounts using an outsourced investment management solution are not as expensive as you think –

Fee	Wrap	Managed Account
Administration	\$1,000	\$625
MER	\$2,000	\$250
Portfolio Management Fee		\$750
Total Fee	\$3,000	\$1,625

- A \$250k Balanced client invested in managed funds on wrap vs a managed account



# Managed Account Value Proposition

- Compliance risk reduction – no need for advice on individual securities with personal advice at the strategy level rather than security level, no no RoA's necessary for ongoing portfolio changes and corporate actions
- Portfolio Management – client portfolios are actively managed and implementation is centralised using sophisticated modelling capability through wholesale broking arrangements
- Cost effective – integrated solution across administration, portfolio management and advice with administration from 25bp and outsourced portfolio management from 30bp
- Practice efficiency – reduced advice document generation and outsourced administration
- Practice profitability – potential for practice margin into investment management cost with reduced cost to deliver advice and administration

# Summary

- Portfolios cannot be managed effectively without discretion
- Managed accounts are the most effective way to managed client portfolios across any asset type under any market condition
- Managed accounts reduce risk and provide for an enhanced compliance structure in a practice
- Managed accounts can underpin any business model
- Managed accounts are a way to systemise your existing business to maximise profits and the capital value of your business