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Jason Komadina is director, managed accounts at MLC Asset Management and is responsible for managed account strategies. Jason has over 20 years' experience in financial services, specialising in wealth management. Prior to joining MLC, Jason held the role of General Manager, Product and Investments at Perpetual Private. He has a deep understanding of advice and the role of investment solutions in the advice process.

Realising the benefits of managed accounts

Jason Komadina

Introduction

Making the most of introducing managed accounts into a financial advice practice will take a journey of two to three years. It's a process that involves defining the firm's value proposition, reimaging what you want the business to look like, as well as re-engineering business processes to support the firm's new business structure.

Firms that undertake this process methodically, strategically and carefully have the potential to reap substantial benefits, including higher profits, improved client relationships and greater efficiencies across the practice. This paper looks at the steps needed to realise the benefits of managed accounts.

A step-by-step approach

A step-by-step approach involves the following:

1. re-imagine your value proposition
2. re-engineer processes
3. bring clients along the journey
4. take a new approach to client service.

1. Re-imagine your value proposition

The first part of the process to introduce managed accounts into your business is to define or re-define your value proposition. This involves thinking through the value your business delivers customers, the need it meets or the problems it solves. Then it is important to link this value to your service offering.

2. Re-engineer processes

It is essential to re-engineer your process to fully realise the benefits of managed accounts. Importantly, in most practices it will be necessary to transition the entire client base to managed accounts. This is because having a foot in the traditional advice world and the managed account world will only result in a duplication of work and the firm will miss out on the managed accounts' efficient efficiency dividend.

Lane Financial is one practice that has transitioned clients to managed accounts and appreciates their advantages for the business and its clients. "We benefit from lower record of advice (ROA) requirements, having to buy only one asset and less form filling," says senior financial adviser Morgan Collins.

This is important for the business, given its resources are constrained, as Collins is the practice's sole adviser, it doesn't have a paraplanner and it has only limited administrative support.

Paul Bourke, a director of ID Accounting & Wealth Solutions agrees that holding managed accounts on a platform delivers administration benefits. "It also frees up our time so we can focus on strategic advice and implementation." ID Accounting & Wealth Solutions has been providing managed accounts for five years. Its practice focuses on providing strategic advice to retirees.

Aside from re-thinking the administration side of the business, part of the process of introducing managed accounts is identifying new partners with which the business wants to work, including new platforms and investment managers. It will be important to assess a number of different options, weighing up which provides the best value and cultural fit.

3. Bring clients along the journey

Because clients have a more transparent view of their assets, that leads to more trust and engagement. Equally important, the more personalised outcomes that managed accounts deliver allows you to build better relationships.

Paul Bourke, ID Accounting & Wealth Solutions, explains, "Being able to directly hold assets delivers taxation benefits and flexibility. It also means greater transparency and ease of discussion around identifying over and under performance within a portfolio."

Morgan Collins agrees that managed accounts also mean enhanced client relationships and engagement for his practice. "Communication is really targeted at the core benefits for clients in terms of what you've achieved and what you're doing."

Additionally, as clients are the beneficial owners of the assets in their fund, they are able to achieve more nuanced tax outcomes. As an example, let's say the client has achieved a significant capital gain and is facing a substantial capital gains tax bill. Managed accounts more easily allow the client to respond to this situation by being able to offset any capital losses.

Given that clients have much more control over the direct shares they hold in the portfolio, they are also able to better tailor their assets to their circumstances. Let's say a client is a director of a company and is unable to buy more of its stock. A managed account will mean that they can manage this exposure.

This is in contrast to a managed fund, in which an investor has to accept the exposures decided by the fund managers. Alternatively, investors may have particular views about investing, such as in a socially responsible manner. A managed account can allow the flexibility to substitute stocks with undesirable characteristics that an investor doesn't want to be exposed to, such as gaming or tobacco, if the product provider has the functionality.

"Clients are not exposed to the behaviour of other investors in the same way as they would be if they were in a pooled investment like an industry fund. Directly holding your assets means you can manage your own assets and manage your own tax," says Collins.

What are managed accounts?

A managed account provides investors with access to portfolios created and monitored by a professional investment manager via model portfolios.

The issuer of a managed account is typically a platform provider, who implements the model portfolios on behalf of investors based on the investment manager's advice.

This also leads to estate planning benefits, says Bourke. "It gives beneficiaries more flexibility with the ownership structure to separate assets or the underlying components of the portfolio. This in turn may provide access to beneficial taxation strategies and more streamlined distribution of wealth."

Ultimately, says Bourke, managed accounts are about giving clients a professional portfolio that is efficiently handled. "They also ensure advisers can provide better strategic advice, which is the ultimate goal for a client."

The business has received a lot of positive feedback from clients as they have transitioned to managed accounts. "Before we introduced managed accounts, clients would often become frustrated trying to understand their portfolio given they often held a mixture of asset classes across various platforms, such as direct shares held on one platform and managed portfolios on another."

Since introducing managed accounts, clients have enjoyed being able to watch the live asset allocation within their managed account portfolios. This is especially the case recently, when the value of active management has been so apparent as managers have rebalanced model portfolios as market conditions have rapidly fluctuated.

"Clients log into one platform and see how their assets are performing, giving them extra comfort and educating them on the investment process. This in turn gives us a better relationship with clients," he adds.

Without time to ride through market cycles or contribute to their portfolios to make up losses, Bourke notes that retirees have been especially concerned about the performance of markets this year. "Retirement is a daunting transition, regardless of wealth. I see how much anxiety it causes, and now we have a pandemic to consider as well. Clients in managed accounts often tell me how grateful they are to have so much transparency over their assets," he adds.

Above all, Bourke says clients appreciate advisers bringing in experts in the field. "Using a professional portfolio management solution provides the client with confidence and, more importantly, allows the adviser to work on strategic financial planning, which is what ulti-

The quote

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mately provides greater outcomes for the client than simply relying on returns."

Additionally, because managed accounts are so efficient, he can spend much more time giving clients a very personal service. "Efficiency is a significant positive for all parties. But the human, face-to-face relationship is equally as important."

4. Take a new approach to client service

A more engaged client means a better, two-way flow of communication, which also requires a re-think of processes. Some clients will have more questions about how their assets are managed, which means that advisers need to spend more time with them.

This is more than achievable, because the adviser's time is freed up given there is no longer the requirement to make individual trades to rebalance the portfolio, as this is the responsibility of the investment manager. Advisers also no longer need to issue a statement of advice (SOA) each time a change to the portfolio is required, which also means they can spend more time with clients, helping to understand their investments and how they meet the client's goals and long-term aspirations.

Collins says that switching to managed accounts has delivered a range of benefits in a variety of circumstances. For instance, one client recently requested exposure to the tech sector. He was able to let the client know that the managed account in which he was invested had a position in a NASDAQ ETF. This also addressed any of Collins' compliance concerns about providing specific advice in response to this request; something that is not well understood by clients.

He also notes the benefits of managed accounts in the current climate. "I've got a client who turned down a managed account because he didn't want to swap products. But his returns are significantly behind our equivalent managed account on a 12-month basis because it's not as easy to change his exposure as it is with a managed account."

Managed accounts also help Collins to manage assets for clients located overseas, which has been important given some have been able to return home during the pandemic. "They are also useful for clients and trustees who are more difficult to engage or who don't have substantial knowledge of financial markets. You can put in place a quality solution that requires minimal ongoing input," he adds.

The upshot, says Collins, is a greater ability to win new clients. "We can more easily communicate the business as a large, integrated entity."

Bourke concurs managed accounts makes it easier to win business. "Client and adviser confidence in the delivery of service leads to stronger referrals. We have seen a significant uptick in referrals from existing clients in the last five years. Our existing clients refer well over a third of all new business, which is fantastic."

End game

Managed accounts require a transformative mindset in a practice. It will take time and patience, as well as substantial stakeholder management.

But there are significant rewards for firms that get this right. These include:

- administrative efficiencies
- better client relationships and engagement
- more referrals
- higher profits.

This process is a journey, one that will result in a more engaged practice and client cohort, supporting better outcomes for everyone in the value chain. **FS**