

# Managed accounts: A whole of business transformation solution

Six questions to consider  
when implementing  
a managed account solution



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Technological progress isn't going away - but neither is the fundamental value of financial advice. Managed accounts could be the perfect way to bridge that gap.

In this eBook Netwealth explores the role managed accounts can play in your business and raises some important points to consider prior to their implementation.

Matt Heine  
Joint Managing Director  
Netwealth



# More time for clients, what adviser doesn't want that?

I have a passion for looking at how businesses operate and what drives their growth. I also have a passion for technology and how it can deliver unwavering consistency and reliability to customers ultimately becoming a competitive advantage and a growth engine for their businesses.

Managed accounts represent a new wave of platform technology for advisers and dealer groups. They can also deliver consistency and reliability to the investment management process in ways that previously were not so easily and cost effectively available.

In using managed accounts you are not only creating a consistent process with a reliable business model, you are creating an environment in which your clients know what to expect from you, are clear about your value proposition and thus more likely to be advocates.

In this eBook we introduce managed accounts and explore some

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**Businesses that view managed accounts as a whole-of-business solution rather than a mere investment product will truly reap their benefits.**

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important points to consider when implementing them in your practice or dealer group. Finally, we investigate GPS Wealth, a dealer group which has successfully implemented managed accounts into its business for advisers and their end-clients.

Matt Heine  
Joint Managing Director  
Netwealth

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Graham Evans from GPS Wealth suggests the real value of a managed account is that: “By giving clients a new comfort level through empowerment, it encourages them to explore strategies that they probably wouldn’t have previously explored because they didn’t understand them”.

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# A quick introduction to managed accounts



# Managed accounts have come a long way

Managed accounts have figured significantly in US market for some decades – Indeed, recent research from Cerulli, one of the longest-running managed accounts researchers, estimates the sector will grow to US\$6.7 trillion in assets under management by 2017. Access to managed accounts in Australia, however, was traditionally limited to high-net worth individuals through niche providers and a select number of financial advisers. Advances in technology have changed all that, and investment and superannuation companies including Netwealth are now offering managed accounts to more investors.

In fact, the rising demand domestically is difficult to ignore, especially considering how infrequently managed accounts were

discussed (and used) just 10 years ago. Morgan Stanley in its ASIA Insight (June 22, 2016) forecast FUA (funds under administration) in Australia to reach A\$60 billion in 2020 based on the fact that they are better at meeting customer needs.

Managed accounts come in many forms and are promoted under a variety of names which typically reflect the legal structure they are governed by. The most common structures include Separately Managed Accounts – SMAs or Individually Managed Accounts – IMAs. But for the purpose of this eBook we will refer to all structures simply as managed accounts.

## A quick introduction to managed accounts

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Rather than just a new way for clients to structure their investments, managed accounts can also be means of revolutionising how your advice business operates.

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Despite their rising prominence in Australia much of the discourse around managed accounts focuses on their utility as an investment product. They are frequently compared to managed funds, and the conversation tilts towards describing products that are similar to traditional managed funds, but with greater transparency and direct or beneficial ownership of underlying assets - a portfolio of Australian equities, for example, but where the investor is an owner rather than a unitholder.

While managed accounts can be viewed this way, it's worth exploring how their broader utility can increase back-office efficiency in advice businesses, enable better scalability and drive much higher levels of client engagement than more traditional approaches.

# Enhancing the client experience

A managed account gives an investor the ability to invest into one or more professionally managed investment models which are then actively reviewed and rebalanced based on the decisions of the chosen investment manager.

Investment models may be comprised of domestic equities, exchange traded funds (ETFs), managed funds, international equities or a combination of asset types. Typically, these investment models reflect the investment themes, strategies, skills and experiences of the investment manager.

Managed accounts and investment models are normally available to investors and advisers through superannuation and investment platforms, like Netwealth.

Typically, a managed account (and its investment models) can sit alongside other super or non-super investments so they can be monitored, reported and reviewed in a single online environment.

## The benefits to your clients

The legal and ownership structure of a managed account creates a number of important benefits for the investor:

- They can see exactly where their money is invested and what investment decisions have been implemented on their behalf
- This in turn makes it easier to see the performance of specific assets which make up the portfolio and how each asset contributes to investment performance
- They are able to set investment parameters and rules around how their portfolio is managed, including investment exclusions and substitutions, trade sizes and tax preferences (for example an investor can choose to substitute Rio Tinto for BHP or remove non-ethical stocks from their portfolio)
- They get the full benefit of any franking credits
- They do not buy into any embedded tax liability which is often the case if they are invested in a managed fund.

## A quick introduction to managed accounts

The general differences between managed accounts, managed funds and investing directly in shares.

	Managed accounts	Managed funds	Direct equities
Professional investment management	✓	✓	
Ongoing rebalancing to ensure portfolio reflects investment managers position	✓	✓	
Transparency to view underlying assets	✓		✓
Ability to exclude stocks from the portfolio	✓		✓
Avoid embedded capital gains tax	✓		✓
Ability to net-off trades in your account	✓		

## A quick introduction to managed accounts

### The two sides of managed accounts discussion

Account Holdings						
by Investment Type -						
ITEM	CODE	UNITS	PRICE	VALUE	MOVEMENT	%
<b>Cash account</b>				<b>\$9,902.49</b>		<b>20.93%</b>
Pending	-	-	-	\$0.00	-	0.00%
Minimum cash	-	-	-	\$500.00	-	1.06%
Available for investment	-	-	-	\$9,402.49	-	19.87%
<b>International Equities</b>				<b>\$4,185.46</b>	<b>\$402.63 ▲</b>	<b>8.84%</b>
Alphabet Inc. Class C	GOOGL2	2.000	\$1,011.088	\$2,022.18	\$600.85 +	4.27%
Apple Inc	AAPL2	7.000	\$141.921	\$993.44	(\$168.70) -	2.10%
Tesla Motors Inc	TSLA2	4.000	\$292.459	\$1,169.84	(\$29.52) -	2.47%
<b>Managed Funds</b>				<b>\$4,914.66</b>	<b>\$894.80 ▲</b>	<b>10.39%</b>
netwealth Active 50/50 Balanced ...	NET0006AU	6.405137	\$0.767	\$4,914.66	\$894.80 +	10.39%
<b>Managed Models</b>				<b>\$28,321.68</b>	<b>\$652.95 ▲</b>	<b>59.85%</b>
UBS HALO Australian Shares mo...	MACC000006	-	-	\$28,321.68	-	59.85%
<b>Total: Personal Super</b>				<b>\$47,324.28</b>	<b>\$1,950.38 ▲</b>	

Aggregating investments at an asset class or investment type level allows you to have a strategy discussion with your client.

Australian Equities							\$27,192.48	\$652.95 ▲	57.48%
AGL Energy Limited	AGL	108.000	\$18.840	\$2,034.72	\$290.96 +	4.30%			
AMP Limited	AMP	270.000	\$5.400	\$1,474.20	(\$180.36) +	3.12%			
APA Group	APA	55.000	\$9.515	\$523.33	\$26.48 +	1.11%			
Australia and New Zealand Bank	ANZ	79.000	\$26.890	\$2,124.31	\$87.07 +	4.49%			
BHP Billiton Ltd	BHP	24.000	\$21.080	\$505.92	(\$213.64) +	1.07%			
Brambles Ltd	BXB	45.000	\$12.825	\$577.13	\$79.12 +	1.22%			
Caltex Australia Ltd	CTX	28.000	\$35.250	\$987.00	\$20.51 +	2.09%			
CYBG PLC	CYB	64.000	\$4.605	\$294.72	(\$66.63) +	0.62%			
Harvey Norman Holdings Ltd	HNH	168.000	\$5.315	\$892.30	\$126.30 +	1.80%			
Insurance Australia Group Ltd	IAG	195.000	\$5.659	\$1,107.75	\$20.29 +	2.33%			
James Hardie Industries PLC	JHX	46.000	\$22.530	\$1,036.38	\$340.98 +	2.19%			
National Australia Bank Ltd	NAB	20.000	\$27.800	\$556.00	(\$19.76) +	1.17%			
Oil Search Ltd	OSH	229.000	\$7.050	\$1,614.45	(\$120.61) +	3.41%			
Origin Energy Ltd	ORO	189.000	\$5.460	\$1,031.94	\$38.29 +	2.18%			
Santos Limited	STD	125.000	\$4.465	\$558.13	\$64.58 +	1.18%			
Suncorp Group Limited	SUN	107.000	\$12.840	\$1,373.88	\$79.56 +	2.90%			
Tatts Group Limited	TTS	397.000	\$4.030	\$1,438.71	\$81.21 +	3.04%			
Telstra Corporation Limited	TLS	469.000	\$5.260	\$2,467.26	(\$10.80) +	5.42%			
Westfarmers Limited	WES	80.000	\$43.619	\$3,489.52	\$52.38 +	5.53%			
Westpac Banking Corporation	WBC	128.000	\$30.420	\$3,893.76	(\$45.87) +	8.23%			
<b>International Equities</b>							<b>\$4,185.46</b>	<b>\$402.63 ▲</b>	<b>8.84%</b>
Alphabet Inc. Class C	GOOGL2	2.000	\$1,011.088	\$2,022.18	\$600.85 +	4.27%			
Apple Inc	AAPL2	7.000	\$141.921	\$993.44	(\$168.70) +	2.10%			
Tesla Motors Inc	TSLA2	4.000	\$292.459	\$1,169.84	(\$29.52) +	2.47%			
<b>Multi Sector</b>							<b>\$4,914.66</b>	<b>\$894.80 ▲</b>	<b>10.39%</b>
netwealth Active 50/50 Balanced ...	NET0006AU	6.405137	\$0.767	\$4,914.66	\$894.80 +	10.39%			
<b>Total: Personal Super</b>							<b>\$47,324.28</b>	<b>\$1,950.38 ▲</b>	

Looking through to the individual investments which make up the managed account models allow you to have a more detailed discussion with your client.

**“Some practices see about  
40% more clients as a result  
of implementing a managed  
account solution.”**

- Dan Miles, Managing Director and Co-Chief Investment Officer of Innova

# A whole of business solution

## Tidying the back office

In Australia much of the discourse around managed accounts still focuses on their utility as an investment product. But it's worth exploring how their broader utility can also increase back-office efficiency.

Within a managed account structure advisers can provide clients with access to a diversified range of assets. Advisers can integrate and blend any number of different strategies to suit a client's diversification needs and risk appetite without many of the traditional administration headaches associated with monitoring and updating the portfolio over time.

Given the more consistent and systematised approach of managed accounts as a portfolio management tool, there are also fewer compliance issues to deal with across the business.

As a small business operator, if you are looking to continue to charge the same fees, to the same customer, for the same services that are being offered by automated systems, then you may find that technology will erode your customer base and profits.

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“You may have a client who thinks they're Warren Buffet and they want to go and buy stocks on the ASX. So you might allocate a proportion to a managed account, but exclude Australian equities, and then prorate up the rest of the portfolio. That way the client can go and pick their stocks if they want, but you're not doubling up on that Australian equity exposure. You can't do that in a unit trust. You can only facilitate that in a managed account structure.”

- Dan Miles, Innova

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If you can innovate and look to leverage these new technologies to provide new services, then you should be able to come out stronger and more profitable than before.

## A quick introduction to managed accounts

The benefits of a managed account to advisers and dealer groups include:

- Changes to portfolios by the investment manager can be implemented across some or all clients as frequently as required, without the need for individual ROAs or SOAs, saving implementation leakage as well as significant work by the adviser
- No MDA license need be held by an adviser to initiate changes to client portfolios
- Investment models can be tailored to meet an adviser or their client's requirements
- New clients can be easily allocated to an existing model or mix of models and implementation is efficient and immediate
- Managing corporate actions is more time efficient
- Clients receive a better experience.

### Managed Discretionary Account versus managed accounts

Advisers operating under an MDA license share some of the benefits of a managed account as they do not require individual client approvals to proceed, thereby removing the requirement to produce individual ROAs or SOAs each time assets are bought or sold.

However, under a MDA, and depending on the systems being used, changes often need to be manually implemented across assets, with consideration to any specific rules or exceptions on a client- by- client basis.

With a managed account, this is simplified often saving considerable and valuable administration time that could be spent on other important areas of the business.

## The magic ingredient: rebalancing

Whether an investor or adviser wishes to use direct equities, hybrids, ETFs or managed funds, a managed account can provide a highly efficient investment solution which benefits the investor and the adviser delivering value all-round.

The act of rebalancing is one of the driving reasons for this.

Rebalancing is when the investment manager chooses to change underlying assets in the investment model, providing instructions to the managed account provider (e.g. Netwealth) to buy or sell those assets for each investor who holds that model.

Rebalancing is the process that implements all necessary changes across all assets the adviser's clients or investors hold in that investment model. A rebalance will take into account the rules and exceptions that may be specified by the investor or the adviser (on behalf of their clients).

These rules may include, for example minimum trade size and minimum holdings, as well as individual exceptions such as excluding particular assets from purchase or sale.



## A quick introduction to managed accounts

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Rebalancing managed accounts is a simple two-step process:

1. Investment manager notifies changes to the model
  2. Platform or managed account provider rebalances all clients immediately taking into account all rules and exceptions
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The benefit of this process for the adviser and investors is that investment models and underlying assets are constantly monitored by the investment manager and changes are made as and when appropriate. All investment portfolios are updated by the managed account provider without the need for investor or client authorisation. For advisers, this saves considerable administration and for investors it saves delays in implementation.

The benefits of the managed account become even more evident when wanting to combine multiple investment models or when using models with a large number of underlying assets which need to be rebalanced regularly.

**The different  
flavours of  
managed  
accounts**

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## Regardless of your approach, a managed accounts solution can be tailored for you

When setting out to establish a managed account solution for your business, you need to be aware that there are different flavours or business models that managed accounts can support.

These ranges from basic off-the-shelf managed account models, where the managed account is something similar to a managed fund investment solution but with greater client transparency and businesses efficiencies, all the way through to a private label managed account solution. In this instance, the managed account can provide a number of innovations to your business, from business model innovation through to improved operating processes and enhancements to your supply-chain arrangements.

In this section we explore a number of the different flavours of managed accounts offered by Netwealth.



# Off-the-shelf managed account

Netwealth has constructed a range of carefully selected multi-asset sector and diversified managed accounts for advisers to use with their clients. In essence this provides the benefits of managed accounts but is off-the-shelf. The key elements of this solution are:

- Managed accounts are available to all clients within super (Super Accelerator) and investment wrap (Wealth Accelerator) accounts – so they can be used for super, SMSF and non-super monies
- A hand-selected choice of leading investment managers and investment strategy options ranging from ASX 200 shares, small and mid cap shares, Australian fixed interest, diversified dynamic portfolios, high yield Australian equities and international equities
- Clients can experience the full benefits of a managed account structure including full look-through to underlying asset holdings, tax advantages by not investing in/out of managed funds and the cost benefits of netting off.

## Pro's

- Enhanced value proposition for clients via improved transparency.
- Increased efficiency to your advice practice.
- Superior risk management over adviser directed portfolio management.
- No additional regulatory or compliance administration for your business (as the managed accounts are constructed under the Netwealth license).
- Can be accessed without additional cost to your business.

## Con's compared to a private label solution

- No ability to utilise your own investment expertise or outsource to preferred investment managers.
- No opportunity to move up the value chain and generate investment manufacturing margin.
- Limited ability to leverage your own brand as part of the managed account value proposition.

# Private label managed account

Netwealth's Private Label managed account solution offers your business a fully branded investment solution without the additional regulatory overheads. The key elements of the solution are:

- Netwealth utilises its Responsible Entity (RE) license
- As RE, Netwealth will effectively outsource the development of managed account investment models to your business, and if you like, you can then work with an asset consultant to construct and manage a suite of managed account models
- The managed account models would then be available as discretionary investment options for advisers within the Netwealth platform
- As RE, Netwealth will conduct full due diligence on the investment manager and perform all other regulatory requirements associated with offering a managed investment scheme.

## Pro's compared to an "off-the-shelf" solution

- You control the investment products offer (with agreed RE mandates).
- You are able to generate investment manufacturing margin for the construction and ongoing investment management of the managed account models.
- Managed accounts will be delivered through your own branded platform experience.

## Con's compared to an "off-the-shelf" solution

- Additional business costs associated with the implementation and ongoing management of the managed account investment models.
- Longer implementation cycle due to a higher due diligence requirement by the RE.

## Other portfolio management solutions

Apart from managed accounts there are other mechanisms for you to manage your clients' investments via the Netwealth platform. These include:

01. Directly buying and selling investments for specific clients;
02. The creation of model portfolios either established by the adviser business, dealer group or utilising Netwealth's model portfolios for a group or segment of clients where our SMART™ technology rebalances a number of client portfolios at once; and
03. Utilisation of managed funds to access professional managed investment capabilities.

Regardless of the solution you choose to manage the investment implementation, the benefit of working with a full-service platform provider is that the technology is flexible for you and your clients' needs.

6 questions to consider  
when implementing  
a managed account  
solution

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# It all starts with an examination of your business

Managed accounts can be an excellent solution for advice businesses wanting to increase administrative efficiencies and find better ways to engage with their clients.

They offer more control, particularly for clients who want more transparency and better access to the assets in their portfolios. And they provide flexibility that allows you to individually tailor and customise the portfolio to better suit each client's needs.

If you are considering managed accounts in your business, rest assured that there is no right or wrong decision. But understanding the different areas that you need to work through should help you make the right decisions and to know why you need to make them in the first place.

By undertaking an examination of the appropriateness of managed accounts for your business you will likely be clearer about the outcomes you are trying to achieve for your clients and the areas of efficiency that you are seeking.

In this section we outline six areas that should be considered before implementing a managed account solution in your practice.

# 01.

## What are your business objectives?

Start by asking why you are contemplating a managed account solution. These are the conversations that happen in the board room and involve looking at your business as a whole.

All are very good reasons to consider a managed account solution for your business, and they cannot be looked at in isolation. The beauty of a managed account solution is that sometimes you can achieve a number of these business benefits concurrently.

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Is it about improving back office efficiency?

Is it about outsourcing non-core capabilities so that you can spend more time with clients?

Is it to achieve greater consistency in your offer?

Is it to improve customer engagement?

Is it to achieve better client outcomes in general?

Is it to rely more on professional investment managers who have similar strategies to your own?

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## 02. What customers are best suited to managed accounts?

Managed account customers are often defined by characteristics that are largely attitudinal and not easily determined by life-stage or demographic. They are not just high net wealth, nor are they SMSF trustees or Millennials wanting to use their mobile phone to invest.

Managed account customers typically want to have a sense of control while acknowledging that they are not experts. Additionally, they often want to have a connection with their investments rather than having a portfolio that lacks transparency due to the mechanics of the investment model. Managed funds, for example, do not often provide a full list of assets within the portfolio and hence are seen to lack this.

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Does your existing or future customer base share these characteristics?

Do you have a practice that wants to have customers engaged in the investment process?

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## 6 questions to consider when implementing a managed account solution

To illustrate, Neal Dunne from Moore Stephens tells the story of one family office client whose usage of managed accounts allowed for a seamless transition to the next generation.

“By taking the mantle of investment decisions away from the father and replacing it with a managed accounts solution, we allowed the next generation to come in and say, ‘we know what the structure is, we know who the key investment managers are, and Dad doesn’t have to make all of the investment decisions anymore.’ Which means the children can get involved even if they don’t necessarily have their father’s in-depth financial experience.

“We’ve also been able to shift the relationship we have with the father from a very hands-on situation to one where he can step back and take a helicopter view, which empowers the next generation to take a more active role in the process.”

This was, Dunne adds, never going to work with a managed fund structure, because even though they can be useful, “the client had traditionally been involved in the buying and selling of investments so a move into a unit trust was just not going to happen. The client was used to full transparency of the assets he owned and control over certain aspects of tax, which a unit trust structure could just not offer.”

## 03. What is your investment philosophy?

Managed account solutions provide access to a broad range of investment models and managers offering a variety of strategies and options for you and your clients such as access to ASX 200 shares, small and mid cap shares, Australian fixed interest, diversified portfolios and international models.

Regardless of whether you are looking to select a managed account off- the- shelf or develop your own private label offer, the questions you need to consider are the same. That is, you still need to have certainty and clarity about your investment philosophy.

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Is cost a key driver in selecting your clients' investment portfolios?

What is your approach to passive vs. active management?

Do you believe in dynamic, strategic, or tactical asset allocation?

How do you define return and risk, and how do you benchmark them?

Do you have strategies that cannot be replicated by a managed account?

Have you got preferred investment managers and do they have a managed account offer?

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## 6 questions to consider when implementing a managed account solution

The benefit of managed accounts today is that you do not have to be constrained by your investment beliefs. Modern managed account providers can offer you investment managers who provide mainstream options, boutique flavours, diversified strategies, different asset classes, exposure to both Australian and international markets, and so on.

Another consideration is that regardless of your investment philosophy, the reality is that if your practice does not have investment automation or at least investment discretion, implementation is time consuming, difficult and potentially non-compliant.

## 6 questions to consider when implementing a managed account solution

### Do you pick stocks for your clients?

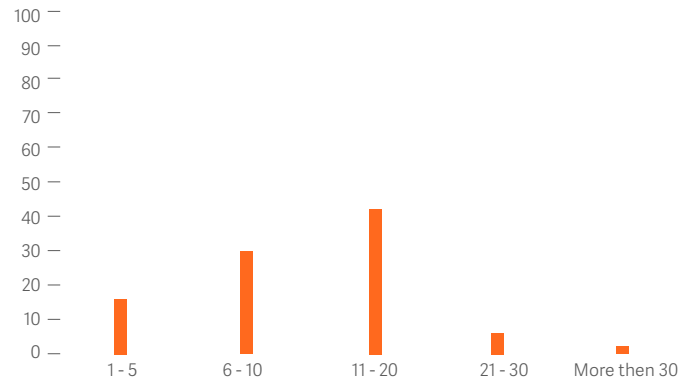
Research indicates that advisers who create direct equity portfolios for their clients outside of a managed account or model portfolio solution hold on average between 6 to 15 stocks.

High-conviction managed funds or managed accounts normally hold between 25-30 stocks. A standard diversified managed fund holds around 80 stocks.

So if you are picking stocks for your clients, you need to ask yourself whether the portfolio is really diversified and in the best interest of the client?

### Is there diversification risk in your clients' portfolio?

Q30 Thinking about the last new client you invested in direct shares, approximately how many shares/companies do they hold based on your advice? Among planners who advise on direct shares [n=328]



Source: Investment Trends 2015 Planner Direct Equities & SMA Report

**“Using managed accounts has led to a business that had a lot more consistencies in it, which is efficient and cost-effective. And because of its systematised approach, I can also save on staff members as well, so I’m not running a huge number of staff dedicated to administration. We can choose to have staff who are more focused on the front-end with the client, rather than the back-office.”**

- Neal Dunne, Moore Stephens Director, Wealth management

## 04. What structures should you consider?

There are so many acronyms for all of the different structures that fall under the classification of a managed account. They include SMA, IMA, UMA, and MDA, among others.

Though the list is quite extensive, these are typically marketing terms which describe the various legal structures and functionalities within that particular managed account.

A MDA, or Managed Discretionary Account, for example, is an ASIC-defined term to describe a compliance regime whereby a client hands over the discretion responsibilities for that portfolio to an MDA operator. The list continues; an SMA is a Separately Managed Account, and so on.

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Each type of managed account has a slightly different structure that you should familiarise yourself with before deciding upon the right solution for your business. You will need to investigate the administrative requirements, legal consequences and cost implications of the different managed account types to ensure they align with your required outcomes.

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## 05. Buy, build or partner?

In Section 2, we discussed the different flavours of managed accounts.

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Depending on the size and internal investment expertise of your business, a key decision is whether you should utilise the managed account investment models available on your chosen platform's menu.

Alternatively, should you establish your own private label managed account using internal resources and/or by outsourcing parts of the process?

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These questions are largely dependent on your internal capabilities and skills, your access to capital and the speed in which you want to go to market with your offer. Setting up a private label takes time, experience and a financial commitment. It also takes dedication towards continued integration and roll out of managed accounts in your business, which can involve training staff and improving processes. It is not the ideal solution for every advice business.

Read the GPS Wealth case study in Section 4 to understand how one dealer group went about deciding whether to buy, build or partner for its managed account solution.

## 6 questions to consider when implementing a managed account solution

### Buying off the shelf

If you do decide to buy off the shelf from your platform provider – it is important to work through the process of evaluating the underlying managed account model managers.

Given managed accounts are relative new compared to the managed fund industry, you will come across investment managers who may seem to be boutique and operating quite differently to the big brand managers.

Although the provision of managed account research is relatively new, the availability and breadth of information is rapidly expanding as the market develops.

Advisers seeking additional information beyond the traditional investment research houses should refer to the several asset consultant groups reviewing and reporting on manager capability, investment strategy and risk management.

The key points to consider when selecting a model manager are:

01. The people who manage the money
02. The processes they use to manage money
03. The performance of the model
04. The price.

## 6 questions to consider when implementing a managed account solution

### Building and partnering

If you are going to establish an in- house managed account solution the key decisions are:

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Will you do your asset allocation in- house? If not, who will you partner with to deliver this for you?

Who will manage the governance, compliance of the solution?

What partners, systems and/or technologies will you use for implementation? Do you want to do the trading in house, including all mechanics of rebalancing? If not, what platform can you partner with to meet your business requirements.

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The considerations for a dealer group are a little greater as they need to take into account the needs of many advice practices, not just the business model and processes of one.



## 06. How to choose your managed account solution provider?

To be truly beneficial to advisers and their clients, it is important that a managed account provider has a robust legal, administration and support structure.

There are many behind-the-scenes procedures to make running managed accounts seem seamless for advice practices and dealer groups that are important to understand when you select a platform provider.

Some questions to consider include:

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Can your solution provider manage the calculations effectively?

What is their rebalancing engine like?

Do they consolidate and net trades?

Will the provider cater to the investments you want?

Can you blend different model managers?

Can the model be customised at the client level?

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## 6 questions to consider when implementing a managed account solution

Efficient trading is also important. You can lose a lot of performance and efficiency by poor implementation. And there are obvious benefits to being able to tell a client exactly when a trade has been made and why.

The quality of reporting offered for your managed accounts is another point to consider when choosing a provider.

Finally, you need to think about super and the integration the provider's broader platform offers. Does the managed account provider you are considering offer an integrated, seamless, scalable superannuation and investment solution that is supported by great service and ongoing development?

## Checklist: Choosing your managed account provider

Can your managed account platform provider:

01. Manage the calculation and implementation of numerous investment models which contain hundreds of underlying investments and are utilised by thousands of investors?
02. Make investment options available that include a broad variety of asset classes?
03. Offer the ability to blend several investment models?
04. Provide the ability to tailor the model for individual clients with rules and exceptions?
05. Have capability to report on performance of assets across the managed account and non-managed account assets?
06. Have efficient trading to ensure that transaction costs do not adversely impact on performance?
07. Offer managed accounts within superannuation accounts?



# GPS Wealth Case study: Industrialising your investment philosophy

(Source: Financial Standard  
Managed Account Journal, 2015)



# Introduction

GPS Wealth is on a growth mission. In 2012, the directors embarked on building a licensed dealer group based on a vision and set of philosophies learned from over 80 years of collective experience.

As Managing Director, Graham Evans had to work with the other directors to answer questions such as: how can we provide clients with a portfolio that reflects the group's investment philosophies? And, how do we develop an efficient method for advisers to execute and manage the investments of their client base?

GPS Wealth considered a number of options for its investment structure - model portfolios, individually managed accounts (IMAs), separately managed accounts (SMAs), and so on. But eventually the group settled on a private-labelled SMA (hereafter referred to as a managed account). This was largely because it provided a structure that could reflect the investment philosophy that had been developed by founding Director, Rob McGregor. As well, it was easy to implement and maintain; and provided their clients a great experience with asset transparency, tax efficiency, and the means to provide the strategy at a low cost.

"Managed accounts just ticked all of the boxes," says Evans.

As testament to the GPS Wealth team, after only three years, they are a thriving independently-owned dealer group with over \$1.4bn in Funds Under Management, and over 100 advisers as well as 22 accountants with limited authorities.

Prior to deciding on a managed account solution, GPS Wealth advisers were tasked with the administrative chore of applying the GPS Wealth investment philosophy through many individual platform transactions. This was a time consuming task. Furthermore, advisers faced the inefficient process of producing, distributing and getting instructions on the many ROAs for their clients. These inefficiencies were repeated each time investment transactions were placed. This was a time-inefficiency that needed to be resolved.

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To find the best structure for their advisers and clients, the GPS Wealth Directors considered a number of options before deciding upon a private-labelled managed account solution with Netwealth.

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To begin with, the team investigated the creation and roll out of model portfolios. However, model portfolios only provided part of the solution. Unlike a managed account, these model portfolio structures still require advisers to produce ROAs for their clients - something which Evans says is a laborious process that can inhibit the implementation of the investment philosophy.

## To IMA or SMA?

Evans adds that the team also considered implementing their own IMAs but one of the challenges associated with them he says, is that clients don't often understand the difference between IMAs and managed accounts.

"The IMA is really your own account, and people often ask 'can you tell me what the investment performance has been for the last 1, 3, and 5 years?', but because it is an individually managed account, success is highly dependent on an investor's individual circumstances – when they came in, when they went out, how much money they had in the account, and so on.

"The sequence of money movement would determine an investor's performance so the IMA didn't really do it for us."

Netwealth's Managed Accounts Team Leader, Stephen Dear, elaborates, "when using an IMA, the adviser would have to examine the nuances of that client's account instead of giving the dealer groups insights about the managed model portfolio."

Steve Thomas looks after Distribution and Strategy at Netwealth. He explains, "IMAs and SMAs are both types of managed accounts though some people put them into the same category. The important thing to remember is that they are delivered through different legal structures which make the licensing requirements quite different."

## GPS Wealth Case study

### A 14 year investment philosophy worth embedding and scaling

Though simplicity of implementation and ease of operation were both highly important factors, they weren't the only issues that GPS Wealth needed to solve. One of the main reasons for wanting to use a managed account structure was to embed an investment philosophy with its advisers that had been developed over a 14-year period.

"The philosophy's been tried and tested over a long period of time, making it a strategy that we were very comfortable with," Evans says. "We simply wanted to industrialise it because when the philosophy was developed, it was developed for an accounting and financial planning practice with a smaller book of clients. However, once GPS Wealth established its own license and had other people wanting to use the strategy we had to make the process both robust and easier to apply to more people's portfolios."

Evans strongly believes that as a dealer group, GPS Wealth has a responsibility to ensure advisers don't cause any damage or disorder with client portfolios. The licensee role is to put together portfolios that are designed to take the client on an investment journey with a measured risk and reward profile that is designed to get them to their outcomes.

With the investment philosophy embedded within the managed account, much of the decision making work is already done for the client through the adviser. This means that the adviser's role is more about determining client outcomes and actually working out their risk tolerance and risk profiling.

# The process of setting up a private-labelled managed account

After carrying out all of the necessary research and assessment, GPS Wealth entered into an agreement with Netwealth to produce a private-labelled managed account that would be accessible to its advisers via the Netwealth platform.

Out of all of the available options, a managed account structure presented itself as the best option to solve GPS Wealth's challenges. That said, switching to a managed account structure was initially off-putting to the team as it believed it may have substantial implementation barriers.

GPS Wealth started the journey towards setting up its own managed account in December 2014 and launched the product with Netwealth on 31 July, 2015.

To begin with, Netwealth's investment committee conducted its own

rigorous due diligence on GPS Wealth's investment governance, philosophy, capability and process.

A key finding of this evaluation was that GPS Wealth's governance would benefit from the inclusion of external, independent experts on its own investment committee. The addition of these experts to the committee compliments GPS Wealth's existing investment capability.

It also assists with the initial investigation and ongoing monitoring and oversight of GPS Wealth's managed accounts, ensuring they are developed and run in a manner consistent with the investment philosophy and that they are truly scalable and reputable.

This didn't provide too many hurdles, as the philosophy had been developed and perfected over a 14-year journey and had been used for many clients over that period.

## GPS Wealth Case study

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“We believe an investment strategy should be boring - delivering an efficient and effective outcome at a low transparent cost. Our CARE strategy does just that. We believe in an exciting life with boring money, and not the other way around,” says McGregor who developed the investment strategy.

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For this reason, GPS Wealth didn't believe that outsourcing the investment management involved in running the managed account was an appropriate option. However, outsourcing the investment selection is something that other dealer groups looking to set up their own private-labelled options may contemplate.

Evans points out that because the fiduciary responsibilities are so high, the obligations on a dealer group considering its own managed account are higher than those for just an advice business. This means that the business directors must commit to additional obligations – from compliance checks and reporting, to regular reviews of the investment program, and so forth.

# Educate your advisers, so they can educate their clients

An important component of GPS Wealth's managed account implementation process was spending time educating its licensed advisers on the strengths and benefits of the new managed account, how to use it, and just as importantly, how to inform their clients about it.

"It is absolutely essential that advisers are trained and educated on every product available to them – if an adviser doesn't understand the product, they should not sell it to their client," says Evans.

Ensuring that the investment process can successfully make it through a due diligence check by the managed account provider is another part of the process for the licensee.

"The provider, which in this case is Netwealth, is responsible entity so Netwealth went through its own due diligence process in relation to both GPS Wealth's investment process and the people running it. That's another key aspect and it takes a lot of time" says Evans.

## To private-label or not: Some important considerations

There are some key points the directors of GPS Wealth suggest any dealer group seeking out their own private-labelled managed account should take into account.

The first is that setting up a managed account as a means of generating extra revenue is something they believe all licensees should avoid. Evans says those considering their own managed account should make sure they're doing so for the right reason: to enhance client outcomes.

He says that there must be a true need for the model, and that the client's best interests must always come ahead of efforts to increase profit.

As well, the GPS Wealth's leaders suggest seeking external assistance in verifying the investment philosophy and process – no matter how confident the licensee is about their philosophy and process for delivering it.

"I would encourage anybody who has a philosophy that can actually stand the test of time to get some external help and assistance in reviewing it so that they really understand exactly what they're doing and the upsides and downsides," says Evans.

Another consideration is to determine how many clients in a dealer group's books the managed account will suit. The GPS Wealth group encourages its advisers to ensure that the product is suitable to their clients' needs. It is sure to remind advisers that a managed account is not designed to be a 'one size fits all' implementation nor a strategy that needs to be applied to the entirety of a client's portfolio.

## GPS Wealth Case study

### Greater transparency has led to positive client benefits

There have been clear benefits and lessons for all parties involved in GPS Wealth's managed account launch. Most importantly, clients have been pleased with the transparency that this new option offers them.

Being able to see the holdings within their managed accounts and having been educated on the processes involved has given clients more knowledge and understanding about their portfolios and the ability to work more closely with their advisers.

The managed account structure also provides flexibility to suit individual investor needs, for example, if a client wants to substitute out a particular stock for ethical considerations. Such flexibility is an attractive feature for many managed account users.

The team at the dealer group believes also that this increased client engagement has helped advisers to work more closely with their clients on riding out recent market volatility.

Overall, the feedback from clients of GPS Wealth has been positive.

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**“By giving clients a new comfort level through empowerment, it encourages them to explore strategies that they probably wouldn't have previously explored because they didn't understand them,” Evans says.**

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They have described circumstances in which they feel more educated about the processes and, therefore, more confident in sticking with their long-term strategies rather than panicking and trying to unnecessarily compensate for a volatile market.

Further to this, many clients can experience greater tax effectiveness from the use of a managed account due to the rebalancing process that occurs within the model.

## A partnership of equals

There are many obvious benefits for advisers of having a more engaged client base. Inevitably it encourages a stronger and more trusting relationship allowing advisers to help their clients with more areas of their wealth management strategy including superannuation and retirement strategies, thus creating a more holistic advice offering.

A weighty workload is lifted from the shoulders of an adviser using the model given that the investment manager looks after portfolio research and decisions about rebalancing and the platform looks after prompt implementation of rebalancing and trading. Time saved can be spent working for new business and on other practice efficiencies.

As a dealer group, GPS Wealth has experienced benefits from compliance aspects of the managed account model. By taking control of the investment process, the dealer group can ensure all portfolios under the model have had all changes and decisions reviewed by an expert.

Evans says that this process significantly improves the chance of adviser success with client portfolios and increases the ability of the dealer group to ensure advisers remain compliant.

Although the process of researching, understanding important requirements and implementing a private-labelled managed account is not one that should be considered simple or quick to enact the benefits and positive outcomes for GPS Wealth and its licensed advisers have been noticeable.

A managed account can solve a number of practice inefficiencies for those licensees that are willing to spend time working through compliance, structure and due-diligence processes.

When it came to choosing a provider for the managed account, GPS Wealth chose to partner with Netwealth because it recognised congruence in the platform provider's dedication to providing high quality investment products in an independent marketplace.

With both parties in this private-label deal committed to ensuring a high quality and compliant product designed to assist advisers and clients in achieving their financial goals, this will be a partnership that continues to focus on success and reliability for everyone involved.


# Thank you

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