

ELSTON
Customised Financial Solutions

The Rise of Managed Accounts

Elston Adviser Services

August 2018

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Agenda



History and
overview



Benefits and
challenges

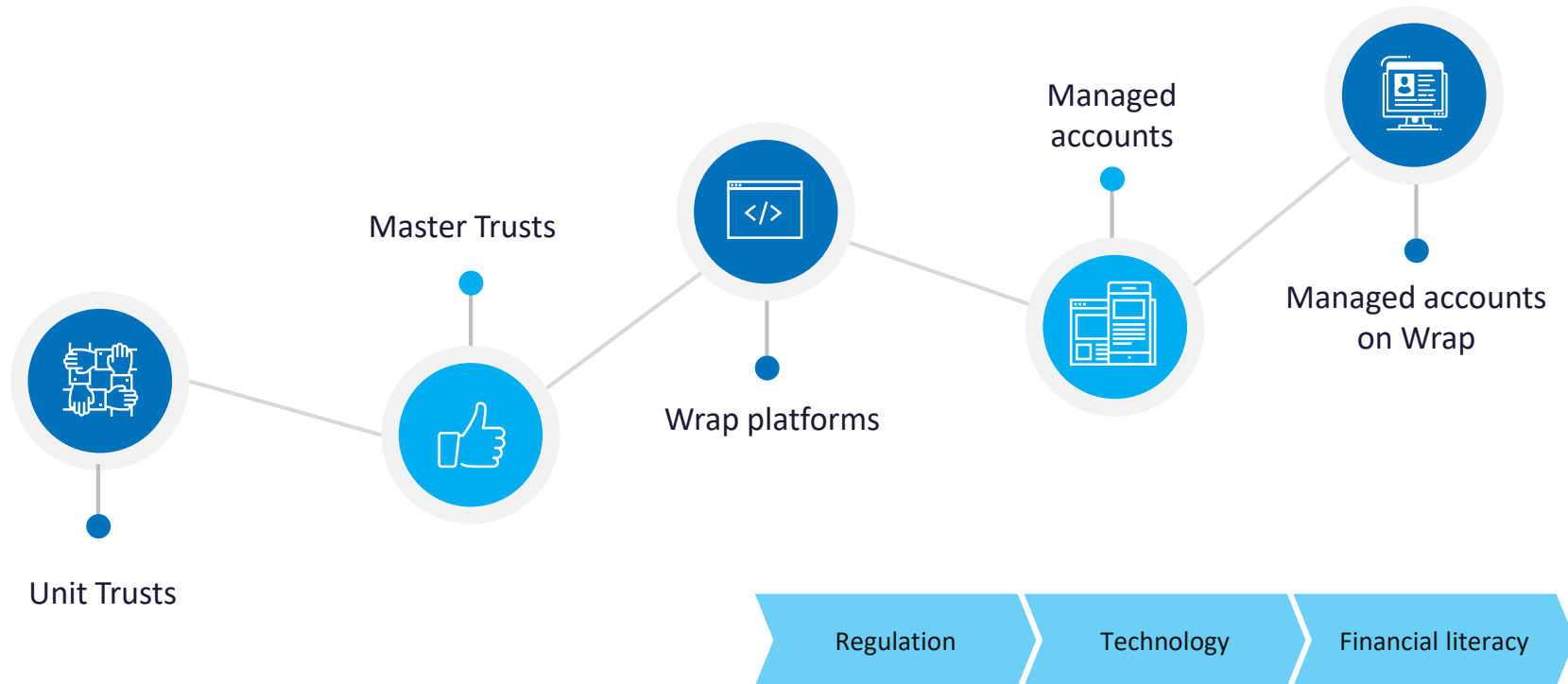


Buy/ partner/ build?



Discussion

The journey to managed accounts....



Acronym overload!

MDA- Managed Discretionary Account
license used to run a discretionary
investment portfolio

SMA- Separately Managed Account structure
run via a MIS on platform

IMA- Individually Managed Account:
structure run via a MDA or POA,
tailored to individual client

SMA, MDA, IMA,
UMA/GMA

**UMA/GMA- global view of a
portfolio including
debt/investments/tax
management**



The origin of managed accounts

Managed Fund

Buys \$100,000 worth of units
in XYZ Share Trust

Client Account

Unit Trust

ANZ BHP MQG WPL etc.

Investment
Manager

XYZ Funds
Management

Managed Account

Invests \$100,000 in XYZ
Managed Account


















Client Account

ANZ BHP MQG WPL etc.

Benefits

- Beneficial ownership
- Control
- Transparency
- Cost
- Tax Efficiency
- Customisation

Managed funds vs managed accounts

	Unitised	SMA	IMA
Individual portfolio construction			
Customisable		Limited	
Direct legal and beneficial ownership			
Are individual trades possible?			
Individual tax management		Partial	
Trade execution	N/A	At market	Managed
Corporate actions managed	By fund	By model	Individually
Manager contact		Limited	
Integrate/segregate existing holdings		Limited	

What's driving the growth of managed accounts today?



Platform and investment
costs (Total Cost to Client
Equation)



Scale issues
(Investments)



Compliance risks
with outlying assets



FDS/Opt-In



RoAs



Investment
communication



More time needed to
service growing
client base



Swift portfolio
implementation

Benefits of managed accounts



Managed accounts- the challenges

Transparency

- Double edged sword- can cause short termism behavior
- Potential increased transaction activity through rebalancing

Tax efficiency

Not all managed account models are tax efficient eg managed fund SMAs still have embedded CGT issue



Model execution

- Platform functionality varies
- Underlying managed account model constituents can cause issues with rebalancing eg small cap holdings, thinly traded stocks

Fees

- Can introduce new level of fees Needs to satisfy best interest duty.



Client communication is critical



Transparency of managed accounts requires a greater degree of client communication- yearly updates won't suffice.



Efficiency gains can be quickly lost as clients view and question investment decisions on a real time basis.



Communications should reinforce the link between the investment activity and the models stated objective.



Provided further touchpoints for advisers to engage with clients.



Client communication resources

Elston Balanced SMA Model Portfolio

March 2018



About the Portfolio

Investment Style: Active (Style Neutral)

Investment Strategy:

This is an actively managed diversified portfolio of securities and managed funds across both growth asset classes such as Australian equities, property and global securities; and defensive oriented asset classes, such as cash and fixed interest securities. In general, the portfolio will have a long-term average exposure of around 70% in growth assets and 30% in defensive assets. However the allocations will be actively managed within the allowable ranges depending on market conditions.

Portfolio Objective:

The portfolio aims to exceed the investment returns of the Composite Benchmark over a five-year period.

Benchmark:

The Composite Benchmark is an index calculated as the weighted average of the indices selected as benchmarks for each asset class.

Investment Process:

The Elston investment process encompasses six stages:

1. quantitative screening and ranking;
2. valuation and expected return;
3. qualitative assessment;
4. portfolio construction;
5. momentum screening and portfolio execution; and
6. ongoing rebalancing



Asset Allocation vs Range %

Asset Class	Asset range*	Strategic allocation	Tactical allocation
Australian Equities	27 - 57%	47%	50%
International Equities	0 - 24%	14%	18%
Fixed Property	0 - 15%	9%	6%
Growth Assets	90 - 94%	78%	74%
Fixed Interest	10 - 40%	20%	19%
Cash	3 - 30%	10%	7%
Defensive Assets	28 - 50%	30%	26%

*Historical data as of March 2018

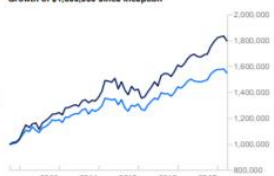
The portfolio manager does not target a particular strategic asset allocation. The long-term asset allocation represents the portfolio manager's intention to target long-term average asset portfolio. Portfolio allocation may differ from platform to platform due to functionality and distribution of assets. Please refer to the appropriate platform EPS for further information.

The table above sets out the investment performance targets for the investment management team of 2.4% p.a. to 3.4% p.a. for the investment management team. The performance targets are based on the performance of the investment management team. The performance targets have been calculated on a daily basis taking into account leverage costs, and are not intended to be a guarantee of performance. The performance targets are not intended to be a guarantee of performance.

Performance

	YTD	1 Year	3 Years	5 Years	Since inception*
Elston Balanced Portfolio	-1.49	8.11	6.47	9.70	11.25
Balanced Benchmark	-2.10	3.29	4.13	8.08	9.06

Growth of \$1,000,000 since inception*



*Elston Balanced Portfolio *Balanced Benchmark

Top 10 Portfolio Holdings

Asset	Portfolio Class Weighting %
Macquarie Income Opportunities	Fixed Income 11.40
Macquarie Asia New Stars No 1	International Equity 8.08
Janus Henderson Tactical Income Fund	Fixed Income 7.80
Vanguard FTSE Europe ETF	International Equity 5.53
Cash	Cash 5.50
Tactical Cash	Tactical Defensive 4.90
iShares S&P 500 (AU)	International Equity 3.40
Macquarie Group Ltd	Australian Equity 3.06
Origin Energy	Australian Equity 2.82
Woodwards Limited	Australian Equity 2.70

Asset Allocation Exposure



Elston Balanced SMA Model Portfolio



Snapshot of the month

- The S&P/ASX 300 Accumulation Index declined 3.7% while the MSCI World ex Australia NR Index (AS) ended 0.5% lower. The AS weakened 1.7% against the USD and 2.0% on a trade-weighted basis.
- The Bloomberg Australia Composite 5-Yr Index gained 0.2%.
- The best performing sectors domestically were REITs, Utilities & Industrials while Telcos, Financials ex-REITs & Materials underperformed.
- On a total return basis, the best performing stocks in the S&P/ASX 300 were Granco (4.3%), Evolution Mining (+5.9%) & Domosa Pizz (+5.9%). The worst performers included BOC (13.2%), Fortescue Metals (-12.2%) & Qube (-11.1%).
- All major global equity markets finished the month lower as escalating trade tensions between China and the US raised fears of slowing global growth. While the direct impact on GDP from tariffs announced to date should be relatively minor, the impact on sentiment has been more significant given concerns of increasing protectionism.
- Domestically REITs were the only sector with positive returns on a total return basis, likely supported by falling yields on long-dated bonds. Regulatory concerns continue to weigh on the financial sector in the wake of the Royal Commission into misconduct, while resource companies were dragged down by sharply lower iron ore prices.

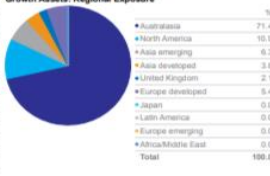
Portfolio update

- The only model portfolio change was the purchase of Coca-Cola Amstel, funded from the sale of Resmed within the Australian equity component.
- The model portfolio outperformed its benchmark as both the Australian and international equity components added to relative performance, partly offset by the fixed income component which underperformed.
- In the Australian equity component sector positioning added to relative performance while stock selection detracted from it. The primary positive contributors from sector positioning were the underweight to Financials and overweight to Energy. The primary detractors from stock selection came from holdings within the Energy & Industrial sectors.
- In the international equity component relative outperformance from both the Macquarie Asia New Stars No 1 Fund (-0.3%) and Vanguard FTSE Europe Shares ETF (+1.1%) more than offset the negative contribution from the iShares Core S&P 500 ETF (-1.0%).
- In the fixed income component the Janus Henderson Tactical Income Fund (+0.1%) returned marginally less than the benchmark and the Macquarie Income Opportunities Fund (-0.1%) underperformed as floating corporate rate bonds suffered from widening credit spreads and enjoyed little benefit from lower yields which resulted in duration being the major contributor to benchmark returns.

Growth Assets: Sector Exposure



Growth Assets: Regional Exposure



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Strategic & Tactical Allocations

	Conservative	Moderate	Balanced	Growth	High Growth	Australian Equities
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Strategic Asset Allocation

	Conservative	Moderate	Balanced	Growth	High Growth	Australian Equities
Growth	30%	50%	70%	85%	97%	97%
Defensive	70%	50%	30%	15%	3%	3%
Australian Equities						
SAA	19%	5%	47%	56%	63%	9%
TAA	23%	33%	40%	58%	63%	80%
International Equities						
SAA	5%	18%	16%	20%	26%	0%
TAA	5%	18%	17%	22%	26%	0%
Fixed Property						
SAA	6%	9%	9%	9%	8%	6%
TAA	4%	6%	6%	6%	6%	6%
Fixed Interest						
SAA	55%	38%	20%	12%	0%	0%
TAA	60%	47%	19%	7%	0%	0%
Cash						
SAA	15%	12%	10%	3%	3%	3%
TAA	8%	9%	9%	7%	5%	5%

Tactical Asset Allocation

QAA/Tactical Allocation Overview

In the diversified models that include an allocation to fixed income, we remain overweight both Australian and international equities as we continue to see decent value on a relative basis despite steadily rising interest rates. We had however been slowly moving to a more neutral position in recent months as equity markets moved higher. This is being implemented via the periodic rebalancing of holdings across portfolios. While this may result in crystallising some capital gains for investors, consistent with Elston's focus on after-tax returns, this will be managed across the rest of the financial year with a view to maximising after-tax returns.

While the losses experienced recently across global equity markets are certainly unsettling, it should not be forgotten that heading into February global equity markets were nothing up record highs, volatility was at record lows and investor sentiment was very buoyant. While it is near impossible to determine market direction in the very short term as changes in sentiment can cause over-reactions, at this stage it does however not appear to be the start of a sustained bear market which are typically caused by recessions. The global economic expansion is increasingly synchronized, financial conditions remain accommodative and company EPS revisions are running at the highest and most positive pace in over 20 years.

We do expect inflation will pick-up as economic activity continues to accelerate, an environment historically consistent with more muted but still positive equity market performance. Full but not excessive valuations should allow equities to absorb higher yields.

Domestically the current reporting season is expected to provide some reassurance on company balance sheets, highlight the strength of company profits and focus attention on still very attractive dividend yields and possible share buybacks from companies with high levels of cash generation.

Real time communications



Proactive Adviser Communications & Resources

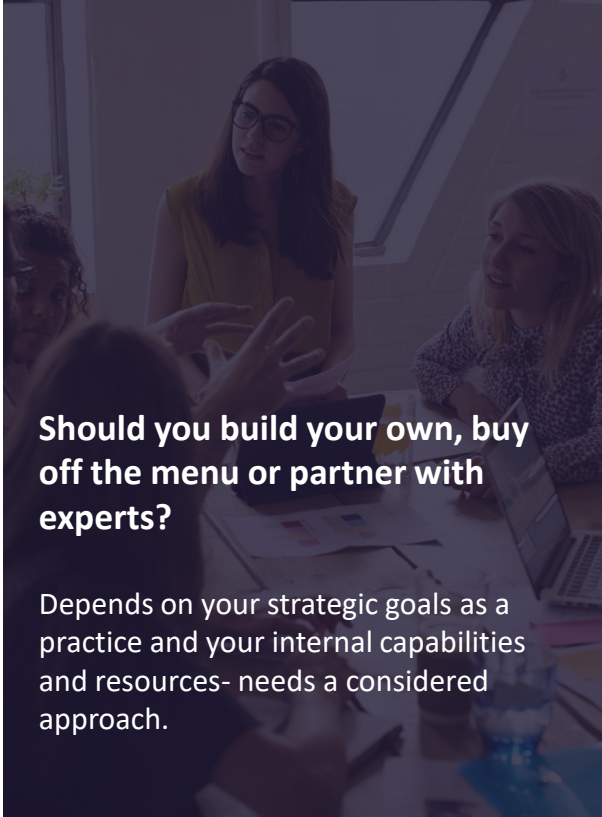
	Model positions change confirmation & rationale	Forecast Portfolio Yields	Model Factsheets	Composite Performance Summary Report	Company Snapshots	Investment Review & Portfolio Attributions	Investment process & market update presentations
Frequency	At time of change	Monthly	Monthly	Monthly	Monthly	Bi annual	Bi annual
Information provided	Notification of trade along with rationale of sale and purchase with company snapshots	Forward 12 & 24m yields based on consensus forecast dividends	Monthly snapshot and updated portfolio allocation & performance data	Model returns vs the composite benchmark. Risk adjusted returns vs the composite benchmark	Company bull and bear points along with supporting qualitative and quantitative data	Analysis of current investment themes and the portfolio implications and positions	A run through of Elston investment Philosophy, Policy & process for all new clients
Suitable for	Advisers & investors	Advisers	Advisers & investors	Advisers	Advisers & investors	Advisers	Advisers & investors
Method of notification/delivery	Text Message and/or email	Email notifying update to information center	Email notifying update to information center & Hard copy	Email notifying update to information center	Email notifying update to information center	Onsite or via webinar	Onsite or via webinar (pre recorded available)

How do I implement managed accounts?



BUY, PARTNER OR BUILD?

Managed account options for practices



Should you build your own, buy off the menu or partner with experts?

Depends on your strategic goals as a practice and your internal capabilities and resources- needs a considered approach.



Managed account option 1

Benefits



- Speed to market
- Lower cost
- Low complexity
- Credibility
- Track record
- Arms length engagement

Challenges



- Transparency issues and communications
- Single or multi-manager?
- Passive/active or both?
- Investment philosophy alignment

Buy “off the shelf”

Managed account option 2

Benefits



- Work with an expert
- Investment philosophy fit
- Customisation and branding
- Relatively quick to market and limited paperwork

**Partner with an
investment
manager/ asset
consultant**

Challenges



- Time and resources in developing a strategy
- Input regarding investment selection
- Ongoing maintenance
- Platform and consulting costs

Managed account option 3

Benefits



- Total control
- Ultimate flexibility
- Customisation and branding
- Pricing

**Build your
own**

Challenges

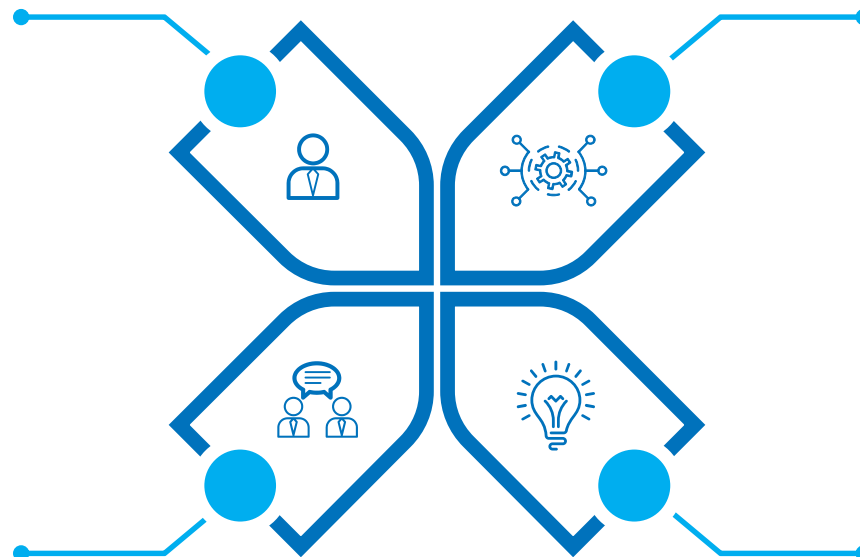


- Time and resources in maintaining a strategy
- Document investment and research process
- Setup costs
- Upfront and ongoing due diligence
- Investment Communications

Managed accounts have the potential to deliver significant benefits for both clients and advice businesses however:

Focus should be on improving
outcomes for the client

Needs a considered approach
to implementing effectively



Communications is key to
ensuring successful client
engagement

Change management required-
not a silver bullet solution

The journey of managed accounts....

- **\$57bn and growing 45% year on year***
- **39% of advisers are using managed accounts, expected to hit 61% by 2020****
- **Average time saving per week for managed account users = 12.2hrs*****



*IMAP Dec 2017

** Netwealth Advice Tech Report 2018

*** Investment Trends