

Building the business case for a Private Label Managed Account

What to consider when establishing your
private label managed account

Netwealth Investments Limited

Level 8, 52 Collins Street
Melbourne, VIC 3000

Freecall 1800 888 223
Fax +61 3 9655 1333
Email contact@netwealth.com.au
Web netwealth.com.au

ABN 85 090 569 109
AFSL 230975



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Introduction

Momentum continues at a rapid pace in the adoption of Managed Accounts, the days of them being a niche service offered by only limited advisers is long gone.

One of the drivers of growth are dealer group licensees and advice practices using managed account services to efficiently implement their investment proposition and 'industrialise' their model portfolios.

Commonly referred to as a "private label" managed account solution, these differ from the managed accounts available on retail managed account menus that are typically managed by traditional investment (or fund) managers.

A private label solution allows advice practices or licensees (hereafter referred in the collective as 'advice businesses') to construct managed account models that reflect their own investment philosophy, style and unique client base needs.

Managed account platforms, such as Netwealth, are being used to efficiently administer these bespoke managed account models saving advisers significant time administering client portfolios.

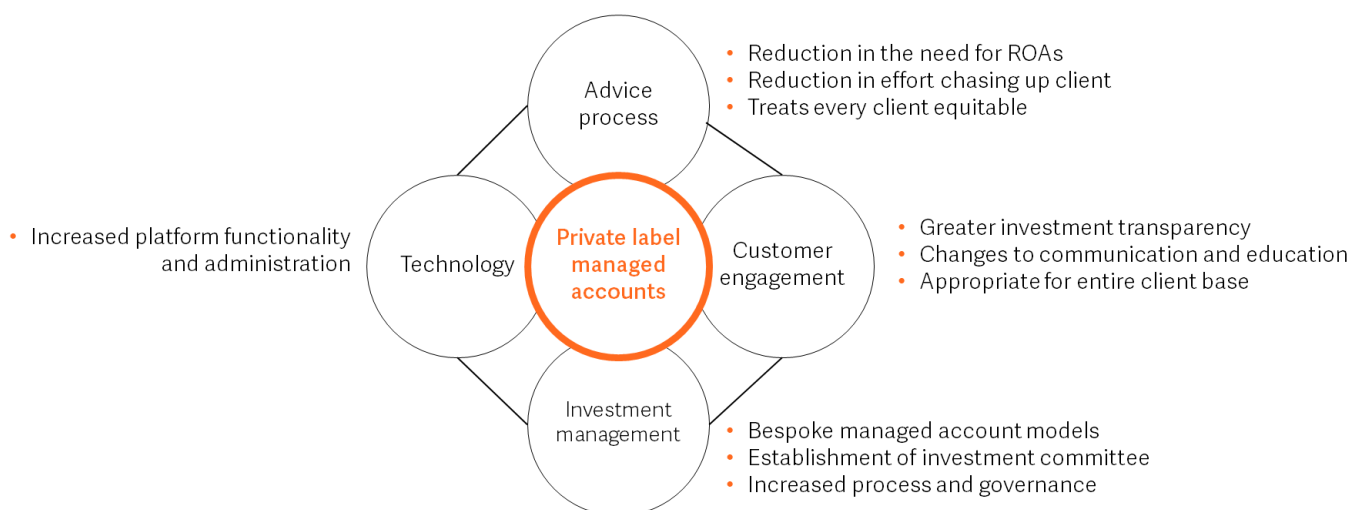
The benefits of private label solutions can be significant through tailored client outcomes and increased efficiencies.

Specifically, as managed accounts treat all clients equally, there is the opportunity to save significant time in not having to administer a 'model portfolio' and allow corporate actions to be implemented efficiently and immediately for all investors.

However, a transition to a private label can be a significant undertaking, as it is a "whole of business" solution that looks to bring together advice, investment management, technology and most importantly the client experience.

At Netwealth, we have worked with over 25 businesses in setting up their private label solution. This paper looks to draw on these collective experiences to help guide you through the considerations, requirements and some traps to be aware of when transitioning your business to a private label managed account.

A whole business transformation solution



Building the business case

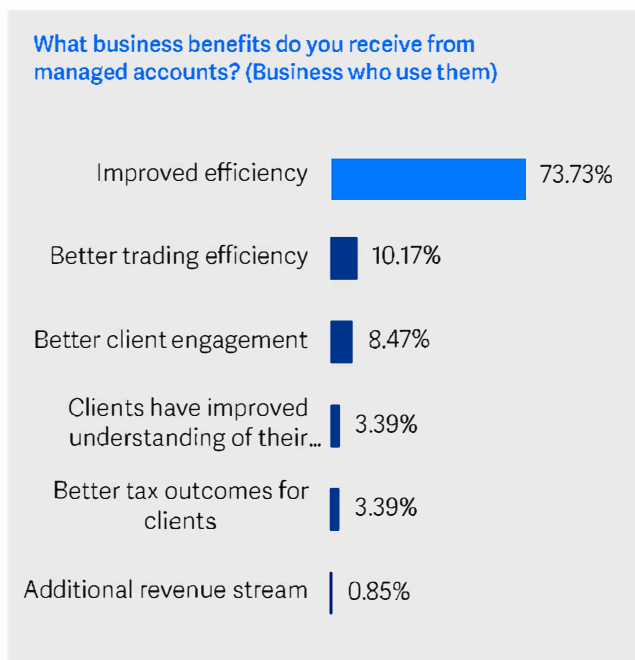
From experience, the implementation of a private label managed account represents a whole of business transformation that can take many months (if not years) for advice businesses to fully transition clients and recognise the true business benefits.

For many the business benefits are huge, but before embarking on such a project an examination of your entire business is required and the development of a sound business case should be the starting point.

The business case itself will look to justify the private label in terms of its expected commercial benefits. Each business will go about this differently pending the investment philosophy, complexity of portfolios and internal resourcing to support, but there are some questions or considerations that are fundamental and should be examined as part of the business case.

Question 1 – What benefit are you looking for in a managed account service?

According to the 2018 Netwealth AdviceTech report, of those that use managed accounts, 73.73% indicate the key benefit they derive is improved efficiency.



But what is efficiency in terms of business case? How much time savings can you expect? Is it one hour a day or multiple hours per day? You will need to do a close examination of your advice process and how will it change, especially regarding the time advisers spend administering client's model portfolios.

Feedback from some managed account adopters has indicated that advisers can save over one day per week through not having to rebalance portfolios manually, switch assets, advise on corporate actions etc.

Another key business benefit to advice businesses is the improved ability to more fairly manage investment portfolios, which may translate into more satisfied clients.

Managed accounts can provide an improved fiduciary outcome for clients as all portfolios are implemented and managed simultaneously. With model portfolios, changes are usually implemented at the clients' annual review and hence clients' portfolios can generate very different return outcomes. This problem is removed under a managed account structure.

Other often cited client benefits are an improved client experience through improved tax optimisation and portfolio transparency which itself can lead to improved financial literacy.

A private label managed account may allow you to lead to service more clients through a more automated, scalable, repeatable and systematic investment process, with the ultimate business benefits a larger more profitable client base.

Lastly, managed accounts can also provide a revenue stream to offset the costs to the advice businesses in establishing and managing the private label managed account portfolios. Given professional portfolio management requires time, governance and use of investment experts, a fair and equitable model fee could be charged to offset these costs.

In short, when managed accounts are viewed as a whole of business solution, there are numerous benefits that should be examined and quantified as part of the business case.

What customers are best suited to managed accounts?

A private label managed accounts can be suitable for most clients pending how the advice business sets up its models. Managed account models have been established for a diverse range of clients:

- Accumulator portfolios using long term asset allocation and underlying passive strategies
- Retiree portfolios with an income bias employing dynamic asset allocations
- High net worth portfolios investing predominantly in ASX and global listed securities with a tactical asset allocation overlay.
- Direct Australian and international securities portfolios that can be tailored pending the individuals existing assets and tax situation (commonly referred to as an 'individually managed account').

The bottom line is that the choice is broad in terms of what clients maybe suitable for managed accounts.

Question 2 – What partners do you need to run your private label?

A private label requires you to have a structured and resourced investment management offering coupled with a robust technology platform inside your business.

Every advice business is different in their use of internal and external resourcing and in the systems they use. So, the decision to skill up internally, partner or have a hybrid becomes an important consideration.

From experience, a rigorous RFP (request for proposal) process based on your key requirements is a good tool to help you identify your ideal partners – both for investment expertise and technology.

Your investment management capabilities - Buy, build or partner?

For a private label, investment management experience typically means embedding the investment value proposition through documented governance and resourcing.

Many advice businesses underestimate the level of resources required to develop an investment grade managed account, so that the portfolio results are repeatable, robust and likely to meet the managed account model objectives.

The ability to properly construct, manage, monitor and report on performance is beyond the resource structure and level of expertise for many advice practices. Further, being prepared for the scrutiny and heightened compliance is often underestimated.

To deliver an "investment grade" private label an advice business needs to employ the necessary resources. Whilst not exhaustive, this includes:

- Having the discipline to develop and clearly document an investment philosophy and investment process.
- Establishing an investment committee (IC) that approaches the investment process with focus and clarity. The IC will document agendas, minutes and actions and in many cases, act as the portfolio manager of the managed account.
- Having a team with a broad level of experience including governance, asset allocation and funds and/or securities selection.
- With the growth and popularity of dynamic asset allocation, a clear process needs to be documented including how capital markets are analysed and priced and how these insights result in changes in the asset allocation weighting ongoing.
- The ability to research and analyse a large proportion of the funds and securities investment universe, as this not only uncovers potential alpha opportunities but also gives a degree of insight on the processes of managers on your preferred list.

A thorough investigation as to whether you buy, build or partner is a necessity in developing your business case as it will impact your value proposition and the cost structure of the offer.

- Using systems and structures to enable consistent decisions based on facts, rather than gut-feel, and that supports 'what if' analysis. These systems should house and monitor your portfolios and their asset allocation and act as an important support to external analyst research.
- A documented conflicts policy that address all the real and perceived conflicts that arise when running an investment management program.
- Report on performance of assets across the managed account and non-managed account assets using internal rates of return calculators.
- Offer efficient trading to ensure transaction costs do not adversely impact performance and monitor this ongoing.
- Can in-specie assets on platform or off platform directly into your managed account.

These skills and experiences may exist in your advice practice or you may choose to hire external experts. There are many asset consultants who you can partner with to deliver an investment grade managed account solution.

Identifying the right technology partner

Deciding on your technology/platform partner is extremely important as there are a lot of things that happen behind the scenes.

You should consider a technology partner that has experience rolling out private labels for other clients and continues to invest in its technology. You should be looking for a platform provider that:

- Has technology that can manage the calculation of many managed account models which contain up to hundreds of underlying investments and thousands of investors.
- Provide investment options that cover your portfolios investment universe including all the main asset classes: Australian listed securities, international securities and managed funds. In addition, it is essential that the platform can quickly add assets onto their investment menus.
- Offer the ability to blend several managed account models together, including the ability to blend managed account and non-managed portfolio together across managed funds and Australian & global listed securities.
- Allow for the customisation of individual client portfolios with rules and exceptions such as 'don't buy' and 'don't sell' rules. This allows an underlying investor with a unique need to be catered for.
- Makes available the managed accounts within both a super and non-super account.
- Size the minimum investment amount to balance proper implementation of the managed model along with consideration to the target client, i.e. minimise tracking error of the model to the underlying investors actual portfolio.
- Has a legal structure that is low risk and can easily be explained to your clients.
- Has a resourced investment team that work with you in a collaborative and consultative manner.

When partnering, with a technology platform, you want to ensure they have a robust and scalable service. The platform needs to offer some flexibility given every advice business is different and be able to adapt to your needs, whilst still having a client-focused organisational structure and a strong financial position.

Question 3 – What is the cost in establishing and managing your private label?

Cost should be measured in terms of the additional costs to offer the ‘investment grade’ managed account service. These costs typically are driven by the need to dedicate additional resourcing and employ external consultants such as an asset allocation expert or an independent Chair of the Investment Committee.

As there are several moving parts and partners it is important to carefully examine the costs, resources and effort required to establish a private label.

It is undoubtable that the advice process changes because of a private label – through the elimination of several tasks, such as the need to issue SOAs and ROAs when rebalancing a portfolio or making changes too it. However, many new tasks are created, for example, due to increased governance and the additional documentation required in running the IC.

Some advice practices have also changed the way they communicate to end clients due to the transparency managed accounts offer, which has resulted in additional costs.

Because the fiduciary and regulatory responsibilities are high, the obligations on an advice practice are to provide a professional investment program. This can mean that businesses need to commit to additional obligations, including increased compliance and reporting, and ongoing management of the investment program.

Training is also critical to a successful implementation of a private label solution. Explaining the product in detail to your advisers, and then supporting them with ongoing education helps alleviate any apprehension.

All these additional resources and costs need to be examined thoroughly in light of the business benefits. This is the time where you should determine whether the benefits outweigh the costs and you can make a ‘go’ or ‘no go’ decision to your private label managed account.



Question 4 – What is your sales and marketing plan?

No business case would be complete without clarity on how to explain the private label managed account to existing or new clients. This is how you commercialise the project. This is your sales and marketing plan.

Having been involved in over 25 private label managed accounts, one thing that continues to stand out is that without a well thought out marketing and communications strategy, the service is likely to fail.

Likely you will be looking to transition your client base, or a substantial amount of them, across to the private label managed account. At this time, they will be required to understand a new value proposition, complete new application forms and potentially agree to new fee arrangements.

Fees

Your business model will dictate what fees are to be charged for your private label and who/how the fees are to be paid. Most platforms, including Netwealth, will facilitate the required fee payments to multiple parties.

Some groups charge a model fee commensurate with the resources and investment in the ongoing management of the private label models, whilst other groups choose not to charge a fee due to an existing fee structure in place.

When establishing your revenue and fees structure, in our experience, advice businesses consider the following:

1. Are the fees FOFA compliant? That is, will any of the fees for investment management activities benefit those providing personal advice, either directly or via distributions and dividends?
2. What is the specific purpose of each fee? That is, are they for advice or are they for specific investment management related activities? If for the later, can these be easily quantified?
3. Is the quantum of fees in line with market expectations for the same or similar services? For example, a fee of 35bps for running a quarterly investment committee process would most likely be viewed as excessive.

4. Have you got multiple parties to pay fees to, such as asset and/or compliance consultants? Are these third parties to be paid out of fees received from clients for the model or via another mechanism?

As fees can take many forms and types, it is important to ensure that each fee type is fully explained and disclosed as to the quantum and who receives the benefit of the fee/s. Make sure that they are clearly articulated in your advice documentation (e.g. SOAs and ROAs) as well as in your customised private label PDS.

Recent experience is that more and more private label managed accounts are not charging any fee as their advice fees include investment management.

Marketing and communicating your value proposition

The roll-out decision is largely based on how quickly you want or need to realise the benefits of managed accounts.

Some businesses take a steady approach, so the roll out to clients happens slowly almost organically over time in line with the periodic client review. Whilst others have used the services of their platform's transition team to roll it out quicker. Others have provided their advisers with clear targets and training to implement a transition plan over a defined period.

A necessity is a sales and marketing plan that clearly articulates the benefits of any change to pricing or fees.

Another issue to consider includes the name of your private label models. Do you want to have unique branding or is it simply aligned with your current business branding? In some cases, we have seen the transition to a private label that includes a full rebrand of the business, particularly where they have overhauled the entire investment and advice proposition. However, for most, the private label solution is an extension of the current advice proposition and hence requires little or no change to your overall brand execution.

On the next page we highlight some key marketing and sales considerations for your private label solution.

Key marketing and sales considerations

Highlighted below are some important learnings from several of our private label clients:

- Advisers and clients need to be brought into the process as early as possible to gain an understanding of what you are trying to achieve in transitioning to a managed account. Your advisers must be able to clearly articulate the features and benefits of your managed account proposition to clients and why it is appropriate to their needs.

We have seen some very effective transitions to a private label from groups who include the advisers on the journey to help them with the development of their proposition and become advocates for the transition amongst their peers.

- Managed accounts bring transparency to the investment strategy and hence advisers need support when communicating with their clients, with a focus on fees and the trades that happen within the portfolio.

The dialogue often changes from a performance discussion to a portfolio construction one, with questions about assets being traded, fees and timing. Be prepared to respond in a consistent manner to your clients.

- It is important that each party involved in the managed account program have a clear understanding of their role as it relates to communication. Whether they be your advisers, the investment committee, investment managers, platform partners or others.

Wording and tone as well as style are important elements to ensure consistency in the way your investment proposition is delivered. You may even require different communication outcomes for different segments of your client base based on their specific needs.

- Communication should be clear, consistent and concise to create and maintain clients' expectations.

This can often be a challenge when utilising external parties for parts of the investment process, where they provide information in a different format to your own.

It is important for you to ensure this information is repurposed and reissued in a form that is consistent with your own communication framework.

- Your investment philosophy and proposition is likely to be more transparent as a result of a private label. This may include (subject to your business model) greater information on managers, assets selected and their rationale for selection, model performance and the drivers of out/under performance and discussion of the broader market and opportunities. For many, communicating this information will be very new. Be prepared.
- The important documents to focus on are your SOA documentation and other associated marketing materials. That is, those documents that clearly articulate the benefits of your managed account proposition enabling your advisers to have quality conversations with their clients.

So how long does it all take?

With so many different private label business models available it's difficult to categorically provide a view on how long it takes to establish a private label managed account.

Our experience has been that given the advice process, technology and customer experience transforms, it can take many months (if not years) for advice businesses to build the business case and then establish their investment governance structure and fully transition their client-base to the private label managed account.

To this end, implementing a private label is not a decision that should be rushed, and we encourage you to discuss in detail the above requirements with your chosen platform partner. This will also provide you with a good understanding in how seriously the platform treats governance but the broader support that you and your business can receive.

With that said, private label managed accounts are providing many of our clients significant business benefits.



6 questions to ask yourself

Managed accounts are a 'whole-of-business' solution that may add consistency and reliability to your entire business, transforming the way you do business.

Is the timing right for you to consider a managed account solution for your business? To determine this, there are at least six things you will need to consider:



01. What are your business objectives?

A managed account is more than just an investment option. It is a whole of business solution addressing a number of business needs. It can offer you the ability to attract & retain clients, increase business efficiency and even generate new revenue streams.



02. Who are your customers?

Identify which of your client base is suitable for a managed account based on their attitudinal profile. Demographic profiles are sometimes misleading as life stage is not always an indicator of appropriateness.



03. What is your investment philosophy?

Having certainty and clarity on your business's investment philosophy is critical in determining whether a managed account solution is suitable for you and your clients. This includes understanding the key drivers for asset allocation and portfolio construction for your clients and your approach to segmenting your investment approach for your clients as managed accounts may not be suitable for them all.



04. What types of managed accounts should you consider?

You will have plenty of options for running your investment strategies: MDA, IMA, SMA, model portfolios, managed funds, etc. How do you make sure you understand the pros and cons of each for your business?



05. Should you establish a private label managed account?

It is important that you properly understand the implications of establishing your own private label and resultant requirements to your business model such as resourcing, processes and costs. Setting up a private label is not for everyone.



06. How to choose your managed account solution provider?

To be truly beneficial to advisers and their clients, it is important that the solution or platform provider has a simple yet robust procedural and administration structure. There are a lot of things that happen behind the scenes that make running a managed account seamless experience for advice practices and dealer groups, that are important to understand.



Netwealth Managed Account: A whole of business solution

Take advantage of Netwealth's robust and fully-featured managed account platform that is both powerful and flexible enough to meet the evolving needs of your business.

Scale and grow the profitability of your business



Greater flexibility for your clients

In the age of the Internet, transparency is a given. Managed Accounts offer your clients greater control and transparency, giving them a tailored investment experience, all in a tax efficient investment vehicle.



Improve your business efficiency and profitability

You have more and more things to do, but less and less time to do them in. Managed Accounts can make managing client investment portfolios more efficient because there is less time spent on ROAs, SOAs, and associated paperwork.



Access to a wide range of investment managers

Netwealth has made choosing a managed account provider easier by carefully selecting a range of sector and diversified investment managers for you to use with your clients.



Your private label managed account solution

With more and more pressure on margins, advice practices, licensees and private offices are looking at new business models. Netwealth's private label managed account solution makes this opportunity a reality by offering a fully branded investment solution.

Not all managed account technology is equal



Impressive computation power

Consider the computation power and sophisticated algorithms required to manage our Managed Account models with their many underlying investments, rules and exceptions used by thousands of investors.



A robust legal, admin and support structure

To be effective a managed account must run seamlessly for advice practices, licensees and private offices. We set ourselves apart by not only focusing on our technology, but on ensuring a robust legal, administration and support structure.



Easy to use online access

Simply login to your Netwealth account to view a client's current investments, allocation to Managed Account models and suite of integrated reports. Buy and sell online and update investment preferences or suspend rebalances.



Integrated with non-managed account assets

We provide you access to both managed account and non-managed account investment options from an individual super or investment account, helping to make portfolio management, performance reporting and client engagement easier.



Efficient investment trading

With our Managed Account, implementation is quicker and cost effective with same day trading, account level netting of trades and floating model capability. We specialise in minimising investment implementation risk and reducing tracking error.



Customise with rules and exceptions

With our investment parameters and rules, you and your client can exclude, lock or substitute investments and set minimum trade sizes and holding amounts.



A broad variety of investment models

Options available include ASX 200, small, mid-cap and income models as well as diversified and direct international securities models from a range of managers and asset consultants.

I GIVE MY
PARENTS
MONEY
ADVICE,
I'M A 
BANQER
KID



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Email contact@netwealth.com.au

Web www.netwealth.com.au

