

Managed accounts

During volatility and beyond

Understanding the role managed accounts play in enhancing your client value proposition





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*Ratings based on Investment Trends May 2020 Planner Technology Report and December 2019 Platform Benchmarking Report.

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Introduction – the rise of managed accounts

As of 30 June 2019, the managed accounts sector in Australia was worth over \$71 billion in funds under management. During the six months to that date, the sector grew by 14.9% or \$9.26 billion, compared to the 7% or \$4.43 billion growth in the previous six-month period.¹

This increasing trend in the adoption of managed accounts has continued unabated throughout 2020, even in the midst of the COVID-19 pandemic.

Managed accounts were once the exclusive domain of high net worth advisers and their clients. However, with improved technology and the entry of new, sophisticated platforms, exposure to all elements of the financial advice community has increased dramatically.

“We’re seeing strong support across the board,” says Damian Holland, Netwealth’s Head of Distribution.

“According to our latest AdviceTech Report, more than half of all advice firms currently use

managed accounts or intend to use them over the next 24 months.”

A common theme as to why businesses adopt managed accounts is the extra level of business and portfolio efficiency derived and the greater ability for advice practices to align their investment philosophy with a solution for their clients.

Because less time can be spent on records of advice (ROAs), statements of advice (SOAs) and the associated paperwork, managed accounts can take the stress and some of the burden off managing client investment portfolios.

“Let’s be honest. It’s a challenging time to be a financial adviser right now,” says Damian.

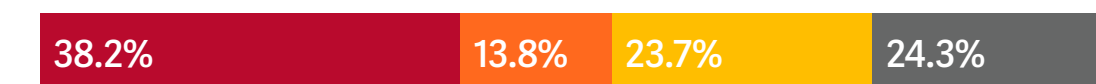
“There is an increasing compliance burden. There are training requirements. There is legislative change. As a result, advisers crave efficiency. This is where managed accounts may help.”

Perhaps even more significant is the ability managed accounts give to advisers to respond to violent changes in the market, as we saw in March 2020 at the beginning of the COVID-19 pandemic in Australia. Advisers using managed accounts were much better placed to quickly

Do you use a managed account (SMA) solution for at least some of your clients?

- Yes, already using them
- No, but planning to use within the next 24 months
- No, but considering them
- No, not interested in them

2020



adjust client portfolios to take advantage of buying opportunities and/or de-risk them.

By bringing together the best of technological innovation and superior operational administration with financial advice, managed accounts can offer unparalleled benefits to clients as well as significant operational business benefits.

In this special report, we talk with Vincent O’Neill from Stanford Brown, James Meade from Evidentia Group, Tanya Hoshek from Russell Investments and Brad Akkerman from Principal Partners, to understand how managed accounts deliver improved client benefits. We also explore what the future may hold for managed accounts.

¹Institute of Managed Account Professionals (IMAP), ‘Managed accounts record strong growth’. <https://www.imap.asn.au/perspectives-summer-2019/101-perspectives/perspectives-summer-2019/925-managed-accounts-record-strong-growth>.

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Driving superior client outcomes with managed accounts

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Driving superior client outcomes with managed accounts

Managed accounts are not, of course, a solution for all advice and investment situations. However, they are an attractive option as they often deliver superior client outcomes in the form of personalisation, transparency, consistency (treating all clients equally), improved communication, peace-of-mind and cost benefits.

There is also the potential for better performance outcomes, specifically in relation to meeting clients' individual needs and objectives. In fact, managed accounts can offer the best of different worlds, combining a degree of beneficial ownership with the professional management of assets.

Vincent O'Neill, Stanford Brown's Director of Private Wealth, says that his firm is careful in its selection of clients for whom a managed account is the most appropriate solution.

"Managed accounts are not always right for all clients, or right for all of their funds," says Vincent.

Some investors, for example, may not be interested in direct share ownership and prefer something more simplistic. Certain clients may want an even greater input into portfolio construction than a managed account offers and are therefore unwilling to hand over a high level of discretion and trust. Others may have legacy-type assets that have large, unrealised capital gains positions that they don't want to disturb.

"A managed account is potentially the best solution for a core of an investor's money management approach, assuming that 1) they are comfortable with handing over a portion of control, 2) they like a more hands-off approach, and 3) they can see the benefits of a timelier implementation of trades," Vincent says.



Consistency and timeliness

Managed accounts add a level of consistency and reliability to the investment management process in ways that previously were not as easy or cost-effective.

With managed accounts, clients know what to expect and are clear about the investment proposition. All clients are also treated equally, without regard to the size of their investment. For example, during a period of volatility – when advisers need to provide timely advice to all of their clients and may need to change all of their portfolio positions quickly – there would traditionally be a starting point. Some advisers might work through their wealthier, more valuable clients first, before addressing the needs of the broader client book.

For an advice business that has hundreds of clients, this is not possible to achieve in a short period of time. However, with managed accounts, all clients are treated equally from an investment perspective, irrespective of their wealth. The advice firm can provide a consistent investment experience to each client.

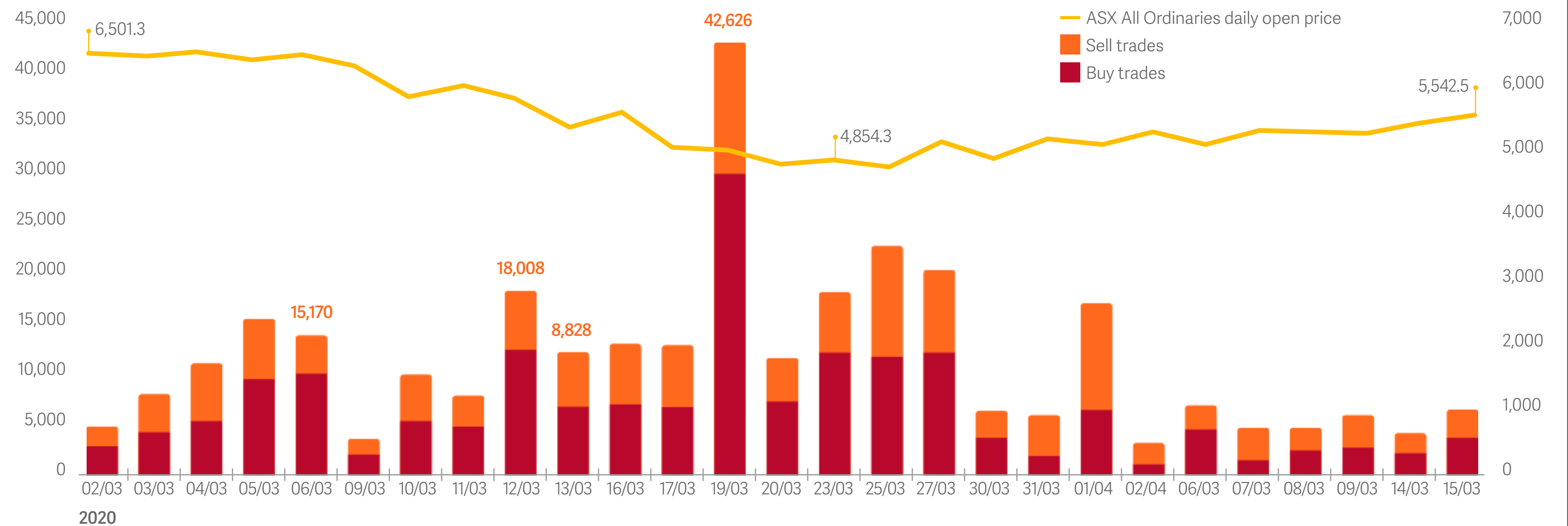
According to Vincent O’Neill, managed accounts enable Stanford Brown to implement investment committee determinations through to client portfolio positions quickly and consistently.

Case study – managed accounts in times of volatility

Periods of social, economic and financial volatility, such as the one experienced in 2020 with COVID-19, can be challenging for financial advisers and their clients. James Mantella, Netwealth’s Head of Managed Investments Products, says, for example, that the number of transactions processed by Netwealth increased exponentially at the beginning of the COVID-19 crisis.

“During January/February 2020, we averaged around 2,000 trades a day. In March, we did over 42,000 in a single day,” says James.

Netwealth Managed Account daily trade volume (buy/sell) March/April 2020



“In normal times, it could depend on when your review meeting occurs,” Vincent says.

“That’s the time when your changes are made, or it may depend on how available clients are to review and respond to the recommendations that go out to them.

“In the managed account sphere, clients all essentially get the same outcome. If we want to make a change at a certain point in time, the clients get that together in one group, so we achieve consistent client outcomes that we can talk to, report on, and communicate to them, rather than a broader range of outcomes under the traditional methods.”

Likewise, James Meade, a Partner with Evidentia Group, says that managed accounts help portfolio construction to move from a ‘product-based’ activity to an ‘advice-based’ activity.

“When a change needs to be made, every client gets the benefit of the change straight away,” James says.

“It’s not a case of which clients get it first. This supports FASEA standard 3 – ‘treat all clients equally’. Managed accounts provide advice firms with the ability to build institutional-grade portfolios that are purpose-built for their strategic investment advice.”

A managed account is a powerful tool that enables clients to realise they will immediately be notified of any changes to their portfolio, as opposed to waiting for the adviser to get around to them after contacting more valuable clients on their list.

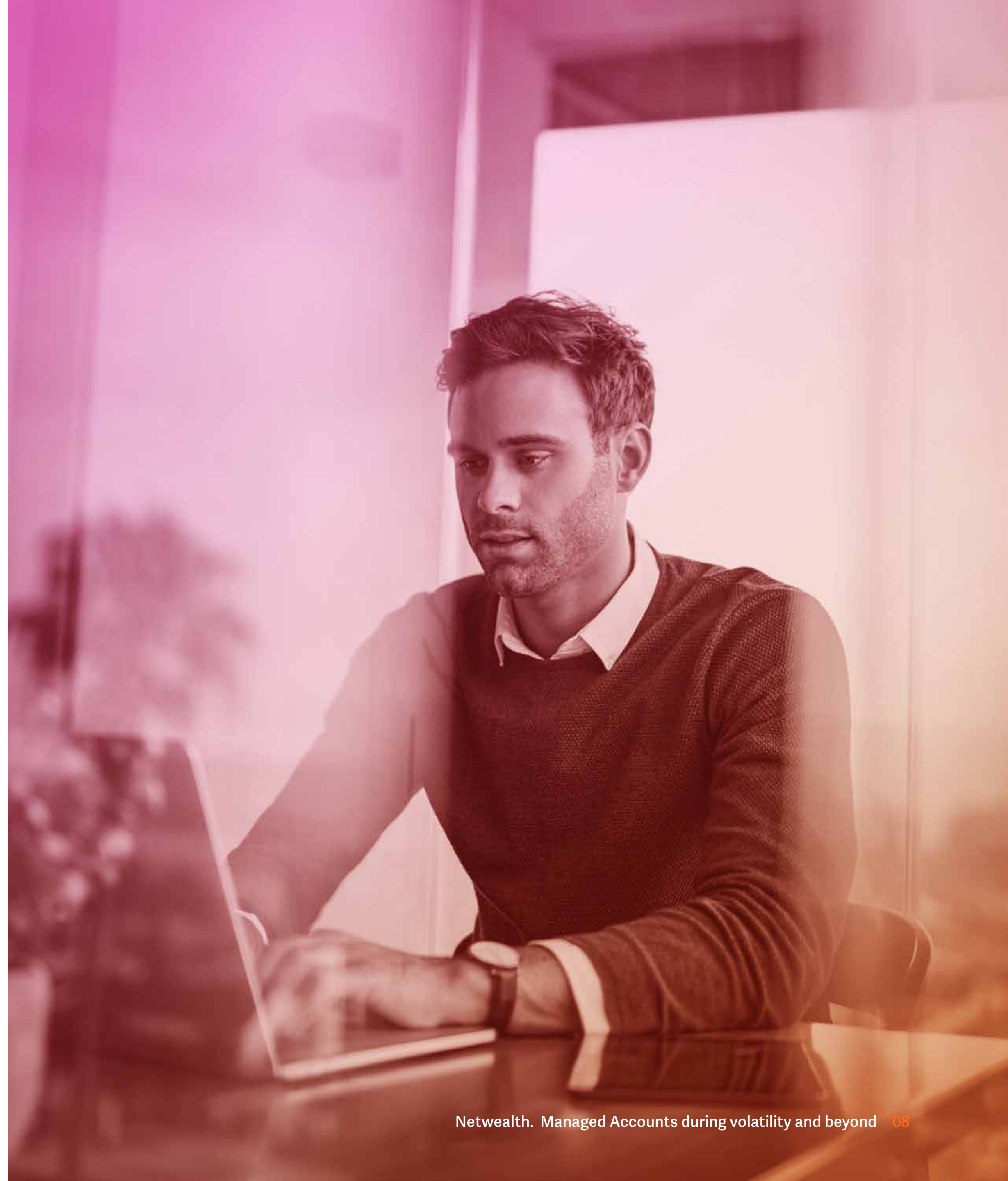
Tanya Hoshek, Head of Distribution at Russell Investments, agrees.

“Advisers with clients that have smaller portfolios and less interaction or engagement should consider a managed account. It provides benefits for both the client and the adviser,” Tanya says.

“Managed accounts can allow advisers to gain leverage over their time, building scale, consistency and efficiency in their business. With a managed account, a client will see their portfolio automatically rebalanced quarterly, compared to what may have been once or twice a year. That’s a better outcome for everyone.”

In circumstances of crisis and rapid change, advisers appreciate the ability to achieve fast investment execution at scale. They need to be able to respond immediately to market fluctuations to help investors take immediate advantage of opportunities and exit from risky positions. Here lies a key advantage of managed accounts.

Brad Akkerman, a Director of Principal Partners in Melbourne, says managed accounts enabled the redirection of clients’ investments within the space of 24-36 hours at the beginning of the COVID-19 pandemic, all with guidance from an independent, external investment committee.



“Imagine if, in February 2020, I said that Victorians wouldn’t be able to enter another state, you’d be allowed out for one hour a day for exercise and food, and I’d be talking to you through a mask, with toilet paper being the most sought-after commodity – not gold, not US dollars,” Brad says.

“But all of that was COVID-19. It happened overnight and permanently wounded some business models. Effective investment was no longer about time in the market.

“In these circumstances, we needed to adapt, exiting certain businesses and exposures immediately. We had to redirect wealth elsewhere, because certain sectors were struggling all of a sudden, while others were benefiting.

“Running a managed account enabled us to flip that switch overnight, to transition the asset base in line with the risk profile for every single client, then and there.”

James Meade says the volatile market environment caused by the pandemic presented significant investment opportunities for clients as the market sentiment led to panic selling.

“Active rebalancing of portfolios at appropriate times saw clients benefit from the significant market rally,” says James. “This would not have been achievable without a managed account.

“Furthermore, as the liquidity crisis threatened to reduce client liquidity and there was a significant increase in bid/offer spreads, swift action to redeem certain investments saw client funds protected and freed up cash to go into oversold



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Brad Akkerman, Principal Partners

liquid assets that benefited from this relative value trade.

“Without a managed account, it would have been impossible to move quickly enough to rebalance clients or to take advantage of the opportunity.”

Tanya Hoshek saw similar investment opportunities at Russell Investments.

“The market movement we saw for most of March was highly volatile,” says Tanya.

“We were able to capitalise on that in real time. For example, one of the best trades we had during that period involved buying Australian shares when the ASX was trading at 5000. That was on the day the Reserve Bank injected further liquidity into the financial system, and the market rallied 10% within hours.

“Having the ability to be able to respond quickly and insightfully within our managed portfolios provides a great benefit for clients that may be missed in a traditionally constructed investment portfolio.”

Vincent O’Neill says that Stanford Brown moved to managed accounts in anticipation of a situation such as the COVID-19 pandemic, so the firm was much better prepared to make changes to client portfolios quickly during a rapidly changing situation.

“When we were thinking of establishing managed account arrangements, one of the things we had in mind was what we had been through during the GFC, when certain assets – such as some fixed

income assets – were not what we wanted to hold into the future,” Vincent says.

“The only process we had to get our clients out of those assets was to send out bulk communications to 200-300 family groups, request their authorities, get them back and then manually place the trades. We realised that would not be ultimately successful for everyone.

“In the recent circumstances, there was a period when we wanted to reduce some of our equity exposure, and we were able to do so very quickly and efficiently for those clients, within 24 hours.

“Also, we wanted to adjust some of our fixed income positioning, which again we were able to do in a very quick timeframe for those clients who operated under the managed account.

“For clients operating outside the managed account environment, the changes could take five to ten days, depending on the availability of those clients to go through the changes, and on the timeframes involved in preparing recommendations, sending them out, getting them signed off, coming back and implementing the changes. In bulk, it’s a time-consuming process.

“There may have been as much as one to two weeks’ difference in implementing the trades for clients operating under discretion, compared to other clients, because of the efficiency the managed account brought.”

Personalisation

An important feature of managed accounts is that they can be personalised and tailored to an investor's individual goals, needs, risk profile and account balance.

According to Russel Investments Tanya Hoshek, clients are now used to the personalisation of many everyday transactions, via online providers such as Netflix and Amazon.

"They are also increasingly demanding more personalised investment solutions," she says.

"Advisers need to be able to provide this personalisation in an efficient and scalable way. That's where managed accounts really come in.

For example there might be some clients who have strong environmental, social and governance (ESG) beliefs. For them it is possible to add or remove specific assets in their managed account to help them achieve their goals.

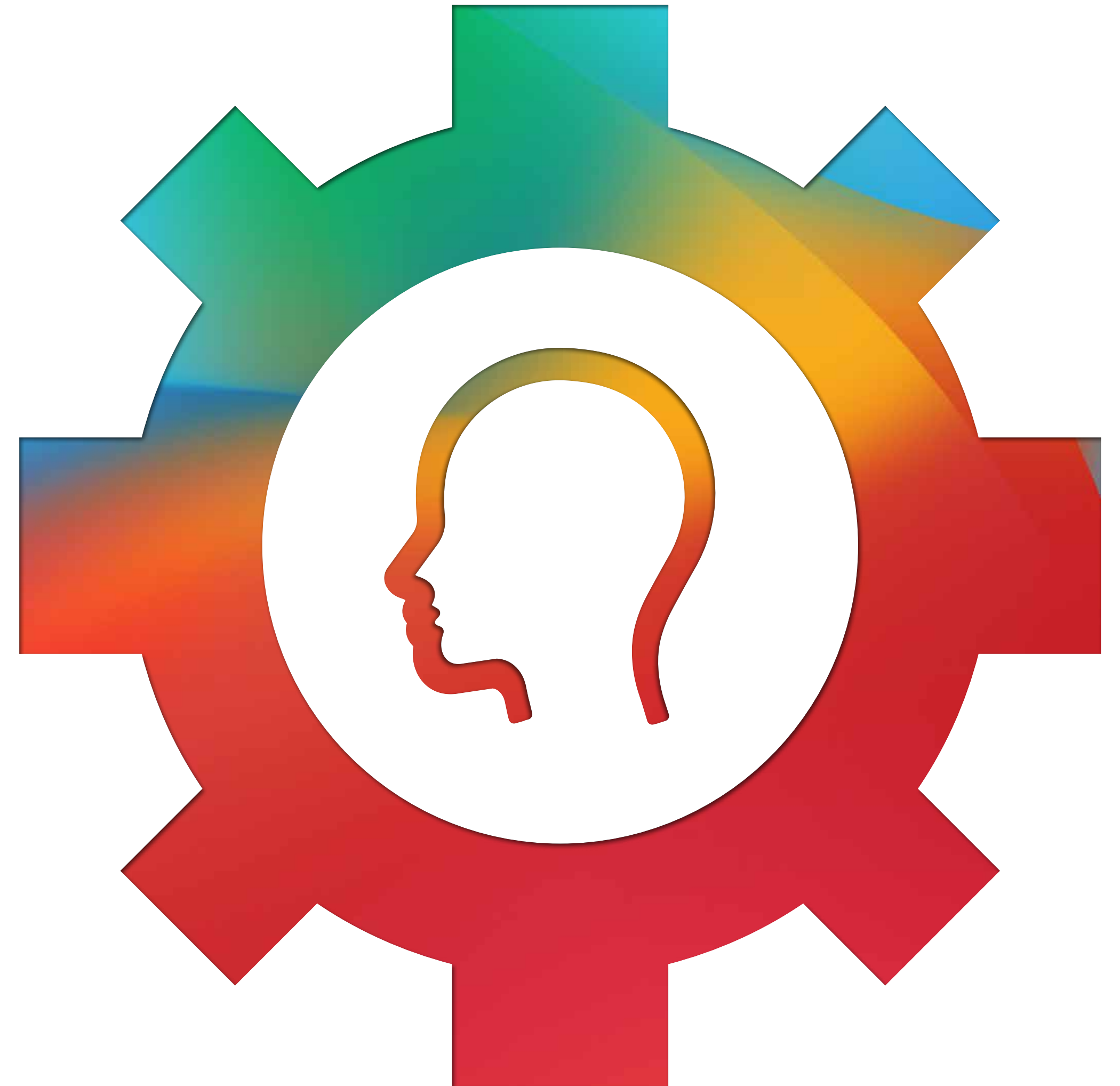
Netwealth's James Mantella agrees.

"Clients might not want to invest in a certain strategy or a certain type of investment," he says.

"There's also the scenario, which happens quite frequently, where you might have a director of a

listed company who cannot trade in the stock of their own company. With a managed account, we can exclude certain holdings to ensure they're meeting their obligations as a director."

It is important to note that personalisation options differ between technology platforms and some are more feature rich than others. Also, by overlaying client specific personalisation rules to the managed account, its portfolio construction as designed and implemented by the investment management is being changed, which may lead to additional costs and inefficiency.



Transparency

People's trust in government, media, big business and the wealth industry (due largely to the Royal Commission and the resulting negative media coverage) has diminished. As a result, they are demanding greater transparency from all businesses, including advice firms.

The consistency in the managed account investment execution process (as detailed above) should give clients more knowledge and new levels of transparency in the process.

Clients should have a clear understanding of how their portfolio is constructed, by whom but and the process in which the portfolio is rebalanced and changed overtime. They can see exactly when a trade has been made and why.

Further, with clients enjoying beneficial ownership of their portfolio's underlying assets, a managed account gives clients much greater visibility over the assets, including the portfolio composition and weightings.

"From a transparency perspective, and the ability to execute, it's very difficult to think of another structure that offers the same benefits," says Principal Partner's Brad Akkerman.

Supporting this is research from Investment Trends, found that across the range of benefits, advisers who have adopted managed accounts believe their clients most valued transparency (64%) and then diversification (59%).²

Another advantage that some receive is that a managed account provides an opportunity for investors to engage more closely with their portfolios and their assets.

During this process, clients and their advisers often learn to collaborate in a closer, more efficient way.

As detailed in the Netwealth special report, What life really looks like with managed accounts, transparency is increasingly becoming a prerequisite of a strong advice offering. It's not just an additional or peripheral benefit.

According to Investment Trends' Director of Research, Recep Peker, as quoted in the report, transparency is particularly important for clients he classifies as 'validators' or 'self-directed'.

"Validators are keen on the education piece and financial coaching, they like to know where their money is going and why things are changing," says Recep.

"Self-directed investors are highly engaged with where their money is going. They don't always use advisers, but they do have unmet advice needs, and you need to be able to show them what their money is doing to win them over."

²Source: 2018 NAB/Investment Trends Managed Accounts Report

Communication, education and peace of mind

For advice firms that have the majority of their clients' assets in a managed account program, an important benefit is improved adviser/client communication and a greater ability to educate.

As part of the service offering, advice firms can build a scalable education and communication process, as there are no longer many different, bespoke client portfolios with different investments that need to be managed (and discussed).

Brad Akkerman says that new clients, in the early stages of working with Principal Partners, will frequently log in to their account for information on their managed account portfolio.

As the level of trust increases with time, however, internet traffic reports indicate that they log in much less frequently. They are happy to wait for their quarterly reports or their six-monthly list of transactions.

"A managed account frees up a client's time to focus on the things they love to do," says Brad.

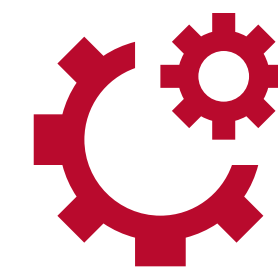
"With us running the majority of their assets in a managed account, the client can feel safe and is left in peace. They're not being hassled, day-in or month-in, with requests such as 'We need to make this or that adjustment'. It's a seamless transition."

Stanford Brown's approach to client communication is similarly streamlined. When the firm first introduced managed accounts, it focused on communicating with clients as thoroughly and regularly as possible.

"We were of the view that a significant number of our clients might not be comfortable allowing discretion in trading," says Vincent O'Neill.

"We went through an extensive process, explaining the advantages they might derive by going with this approach, to offset what may be perceived as a loss of control.

"We were surprised by how positively that message was received. Clients understood it. They could see the advantages of it, and they knew that they ultimately still had control, in that we could stop changes at any time and retain the assets without any negative outcomes to them.



"With us running the majority of their assets in a managed account, the client can feel safe and is left in peace. They're not being hassled, day-in or month-in, with requests such as 'We need to make this or that adjustment'. It's a seamless transition."

Brad Akkerman, Principal Partners

"Once they understood that, they were happy to allow us to do what they were paying us to do –to get on with managing and keeping them up to date."

Today, Stanford Brown writes to their clients weekly with an update on a broad range of economic, legislative and other issues going on in the world.

"It's a balancing act. There's only so much that most clients want. We have lists of the clients that want a greater level of detail, and we share that with them. Some, however, just want the big picture, and we concentrate our communications with them accordingly," Vincent says.

Costs

In many cases, the increased efficiencies achieved from implementing a managed account solution result in considerable cost savings to the advice practice.

These savings can improve the practice's ability to increase the number of clients it serves, which in turn leads to either higher profits or the capacity to reduce client fees.

Vincent O'Neill says that one advantage of a managed account is that Stanford Brown is given the ability to negotiate certain fund manager rebates for clients.

"This is something that Netwealth has been particularly efficient in implementing for us," he says.

"Netwealth passes the savings straight through to the clients, in terms of rebates going into their accounts as line items.

"Stanford Brown operates on a retainer arrangement with our clients. Clients pay a flat fee that is reviewed annually, depending on the complexity of their situation and several other factors. In using that approach, we believe that clients using the managed account should see the benefit of a lower retainer fee than they

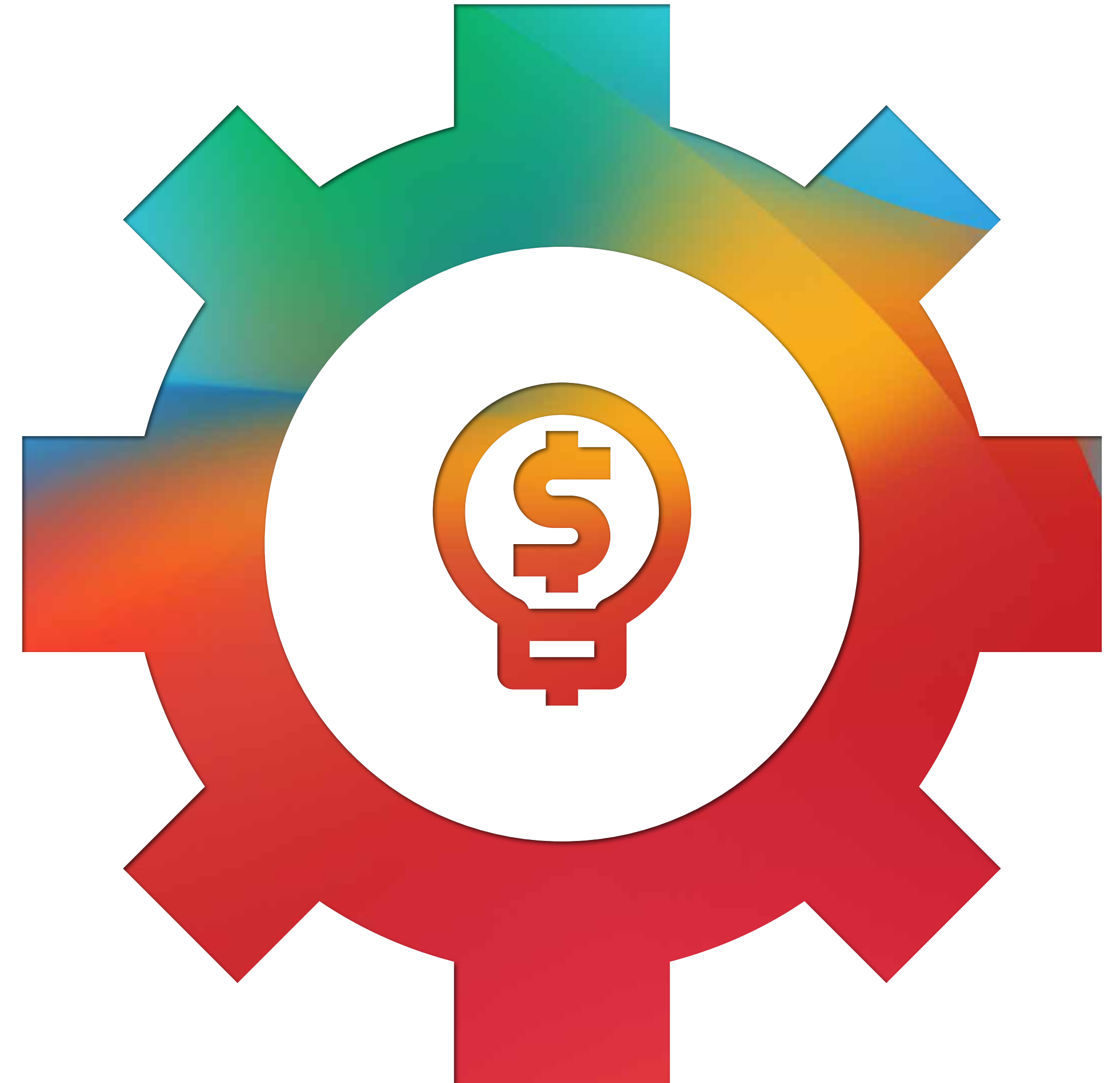
would otherwise pay for the traditional approach, because it provides certain efficiency savings to our business."

In any situation, the cost of a managed account to a client should not be higher than that of another investment vehicle, as Brad Akkerman attests.

"The actual cost for a managed account is no different to the client than if their assets were invested outside a managed account," says Brad.

"The major cost of running a managed account is having an independent, external investment committee. This, for Principal Partners, is the integral aspect. It's where all the heavy costs are that we pay directly.

"We just have to make sure that, as an advisory base, we have a big enough scale to cover those costs without passing them onto the client base, and thankfully we do."



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The future of managed accounts

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The future of managed accounts

As the popularity of managed accounts grows, so do the number of potential benefits they offer. Advisers are challenging businesses like Netwealth to evolve the technology and build out greater investment options, making the solution increasingly institutional.

Netwealth has made significant changes to its managed account structure in recent years, providing access to investment options that were previously unavailable to retail clients.

Netwealth has also explored different types of investments, such as fixed interest, wholesale funds and other illiquid securities, as well as additional asset classes.

“The majority of our managed account model portfolios are now multi-asset managed accounts,” says Damian Holland.

“If you look back, even five to ten years, most managed accounts were sector-specific and focused on Australian shares.

“They are now becoming more of a whole-of-wealth solution for advised clients.”

An evolving solution

The complexity of managed account investing is increasing dramatically, in terms of the types of assets included and how they’re implemented.

Brad Akkerman believes managed accounts will continue evolving to incorporate more assets within them.

“They’re going to have to evolve to allow currency positions, derivatives, probably unlisted assets and private debt,” says Brad.

With increasing pressure on margins, advice practices, licensees and private offices are looking to transition to new operating models, such as fully branded, private label managed account investment solutions. This is a trend that sees dealer groups and/or advice practices working hand-in-glove with asset consultants to co-develop in-house managed accounts programs.

“I see managed accounts being more widely used by advisory firms who want to offer a professional investment service to their client base,” Brad says.

Brad suggests that, in some instances, advisory firms should focus on their core skills where they can add value, such as tax flow management, debt reduction techniques, superannuation and pension strategies, Centrelink and aged care guidance, gearing and insurance solutions.

Case study – corporate actions in managed accounts

An example of the importance of people support is seen with placements or IPOs, explains James Mantella, Netwealth’s Head of Managed Investment Products.

“During the turbulence experienced throughout March because of COVID-19, many businesses took the opportunity to raise capital through placements and other corporate events,” James says.

“These opportunities were generally at a significant discount to the prevailing market prices, providing an immediate opportunity for managers to add value to client portfolios.

“Generally, some institutional placements wouldn’t be available to retail clients, but we were able to work with our investment managers to offer the opportunity to bid for allocations within some of the managed account models.”

In this example, the Netwealth managed account operations team worked closely with investment managers to undertake detailed modelling and to understand the size of the allocation and required exposures in each managed account model, while ensuring mandates were not breached. The operations team then worked with internal teams – corporate actions, settlements and custody teams – to settle the allocations received in client accounts.

“With each of these teams being internally resourced, it provides us with full control over the end-to-end process, giving us greater flexibility to allow managed account model managers to maximise the value they provide to the client,” James says.

They should then consider outsourcing the asset management side to providers of managed accounts.

“Operating a robust, independent external investment committee containing industry professionals is a costly exercise. Some financial advisers won’t be equipped to offer an in-house solution, nor should they. That’s where they will need to partner with asset consultants or existing investment managers offering managed accounts.”

In the future, further customisation will also be important, with options that include overlaying solutions for ESG, sustainable investing and retirement, as well as continually dialling the active versus passive componentry up or down.

A preferred option

According to Evidentia Group’s James Meade, managed accounts will become increasingly mainstream across the industry and will be the standard vehicle for investment advice delivery.

This is because they can be tailored to the strategic advice offered, thereby driving better client outcomes. They also support advisers with improved compliance and risk management.

“Tailored managed accounts will be a critical enabler of the way businesses deliver their value proposition to clients, with better compliance and governance structures and a clear way for advisers to meet FASEA standards,” he suggests

“Last year, ASIC released Consultation Paper 325 on design and distribution obligations,” says James.

“We think this will be significant for managed accounts to move ahead in this space. Managed accounts can be purpose-built, using the best thinking. Products must be designed with the end-client in mind. If mass produced, that gets left behind.”

From a technology perspective, Stanford Brown’s Vincent O’Neill believes there will be additional ways in the future for clients to interact with their portfolios and with their investments.

“They will get more information, via client portals and other technology solutions, allowing them to delve deeper and to understand what holdings and allocations exist within managed accounts”, he says.

From an investment perspective, we are likely to see asset or investment managers offering things like international direct equity portfolios within managed accounts, targeting the cohort of clients that would like to see international names in their portfolios.

“From a business perspective, an increased number of options for investment managers to potentially use within a managed account would

Case study – trading assets with similar underlying securities in managed accounts

Another example of people effectively supporting the technology was when a managed account model manager wanted to transfer out of a managed fund to an equivalent ETF that held identical underlying assets.

A model manager contacted Netwealth on the morning of the trade, asking whether we could execute the sale of the managed fund and the purchase of the ETF before 1pm that same day so the underlying assets would be transferred, resulting in no buy/sell spread to the underlying client.

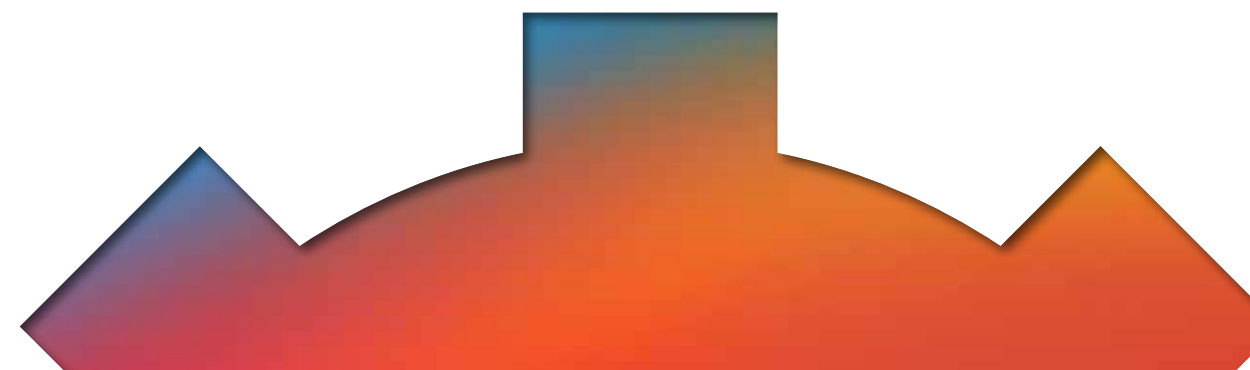
“In this example, the benefit to the client was clear – lower transaction costs”, says James Mantella.

Trading on such a timeline would normally not be possible by just relying on the technology alone. That’s where people can step in. By having internal specialists controlling the process from start to end, Netwealth was able to avoid a buy/sell cost spread for the client.

“Being told at eight in the morning, and having to implement it all by 1:00pm, would not normally be achievable if we relied on technology alone,” James says.

“We were able to achieve this by segregating certain client accounts for a separate rebalance from the standard process.

“Netwealth’s managed accounts operations team worked with our internal custody team to organise a one-off separate order to the fund manager and worked directly with the issuer of the ETF and our brokers to ensure that settlement was effectively managed outside the standard automated operation procedures.”



help to build out the sophistication of what we're able to offer to clients," says Vincent.

Not just about technology

"Even though technology is evolving, the human component is always going to be important. It's about bringing both together to create exceptional outcomes," says Russell Investments' Tanya Hoshek.

Most platforms now have a managed account offering in some form, and it is becoming increasingly commoditised. Netwealth recognises that having superior technology is a must, but it also invests heavily in the human side as well, as this is critical to the provision of superior service and marketplace differentiation.

Effective people support can be seen in the quality of service provided by the four different teams involved in the delivery of Netwealth's managed account solution.

The business's managed account operations team works closely with advisers and managers on a day-to-day basis to deliver the service to end-clients. This is the team that provides the rigour that Netwealth's partners need to live up

to their managed accounts value proposition in the eyes of their clients. Team members work with managers, rebalance client portfolios and ensure their portfolios are always true to the investment manager's mandate.

Netwealth's product team looks at new business and other areas it might develop to expand the managed accounts solution.

The investment management and research team partners with investment managers, asset consultants and private label managed account suppliers to ensure the mandate and the investment rigour is always met and supported with a strong governance process.

There is also, of course, an IT team that supports the ongoing development of the managed account technology.



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Netwealth – delivering on the managed account promise

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Netwealth – delivering on the managed account promise

Netwealth was one of the first platform providers to move into the managed account space. In any review of platform awards and benefit trends, the Netwealth managed account has always been one of the market leaders.

Netwealth's journey with managed accounts started in 2014, when it began building the capability, before launching its managed account solution to the market in 2015. Since that time, this solution has evolved significantly.

It took time, of course, to develop engagement. The first billion dollars of funds (FUM) were built in almost 3 years, however it has rapidly increased to more than \$5.8 billion.³ Now, managed accounts are an important part of Netwealth's adviser proposition and growth strategy.

Netwealth offers managed accounts in several flavours. For example, it offers managed account models via its public menu. It supports independent managed account providers with its

technology. It also works with dealer groups and advice practices, supporting their white-label, private label offers.

"We offer the ability to customise and tailor solutions," says Damian Holland, "working hand in glove with advice firms, licensees and asset consultants."

"For instance, roughly two-thirds of our managed accounts are through private labels – complete investment solutions married to a licensee's investment philosophy."

Technology at the core

As Tanya Hoshek from Russell Investments attests, Netwealth's technology offering is second to none.

"We've worked closely with Netwealth for a long time," Tanya says. "They're one of the top technology partners in the marketplace, and they've certainly seen a lot of growth."

"We recently launched our managed accounts with Netwealth, and they undertook a rigorous due diligence process, as you'd expect from a quality business."

"Platforms like Netwealth enable us to have a tailored approach to investing, so we can work with our individual clients, whether they be advisers, institutions, not-for-profits or other types of investors, to help them to achieve their goals."

"The Netwealth user experience is simple and positive. As part of that, we are able to quickly and easily communicate with clients and make the changes we need."

Evidentia Group's James Meade is likewise impressed by the technology underlying Netwealth's managed account offering.

"Great technology drives better client outcomes, greater practice efficiency and risk management, and more cost-effective solutions," James says.

"Each of these gives financial advice practices the time and the client proposition to grow their businesses more effectively. Technology leadership provides a virtuous cycle of innovation, making it hard for competitors to catch up without a significant capital and time investment."

Principal Partners' Brad Akkerman says the main benefit of having Netwealth as a partner is that

it provides the software, the responsible entity oversight and the custodian arrangements to run a managed account.

"Also, having the balance sheet strength of Netwealth gives our clients great confidence, knowing their investments are at least somewhat safeguarded," Brad says.

"Netwealth is not responsible for the movements of BHP or RIO, or anything like that. But we can explain that, while Principal Partners acts as the investment adviser, the client's money is on a specialised platform such as Netwealth."

"Netwealth provides additional oversight and governance, ensuring that the Principal Partners investment committee makes and implements decisions in line with the agreed investment mandate. If any structural changes occur at Principal Partners, the client's assets remain unchanged and are still there via the Netwealth platform. Netwealth is a very well-known name these days."

"Clients can gain a lot of confidence knowing that, if they were to retire today or sell their

³Netwealth, ASX release, 18 August 2020, 'Netwealth delivers 24.8% underlying EBITDA growth'. https://yourir.info/resources/3929695d306a6404/announcements/nwl.asx/3A547183/NWL_2020_Full_Year_Results_ASX_Announcement.pdf



business tomorrow, or if an adviser were to leave and they had to start with a new one, the integrity of their investment portfolio would remain unchanged.

“It’s always a good story to tell clients that their investment strategy is further protected by having a custodian approach and a responsible entity of the size of Netwealth providing additional oversight and governance.

“It gives our client base great confidence, knowing that Principal Partners provide the investment solutions and a listed company provides the software, the RE, the custodian and the services that make it a streamlined approach.”

People supporting the core

James Meade has also offered an example of how Netwealth’s people-centred approach to managed accounts has benefited Evidentia Group.

“A client of ours wanted to use an external responsible entity,” he says. “Netwealth had not done this in the past. But we worked with them and the responsible entity from December 2019 and were able to launch within only 3 months in March 2020.

“It was an incredible piece of work from Netwealth. They continue to engage with us and our clients on future developments. They are very clear on the future strategy and business and a lot of this is based on a culture of getting things done.”

Likewise, Vincent O’Neill spoke in detail about Netwealth’s support when Stanford Brown developed its managed account for its clients.

“We ran an RFP and were certainly impressed by Netwealth’s expertise in this space,” says Vincent.

“They have a detailed, hands-on approach to helping establish a managed account arrangement.

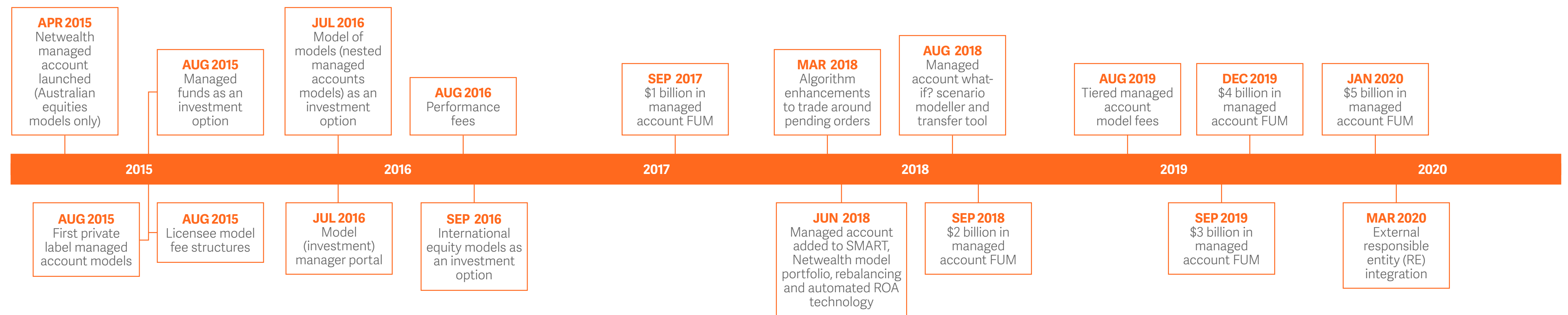
“Businesses need to plan and understand what’s required to find the right partners and to resource correctly. For us, there’s no doubt, back when we were establishing our first managed account via Netwealth, that we picked a partner that helped guide us through the process.

“We made the decision about what we wanted to do, but we still had quite a bit to learn. Netwealth helped to bring us through that, and through the early months and years of operating it. It helped to make sure we had a clear understanding of what was possible and how to do it most efficiently.

“Netwealth conducted significant, ongoing due diligence on the investment capabilities we had in our investment committee to make sure we had adequate resources in place.

“This was an extra comfort and reassurance to our clients – that there was extra scrutiny, that the expertise was genuinely there, which might not always be the case with smaller operations.”

Netwealth’s managed accounts timeline



4

Company profiles

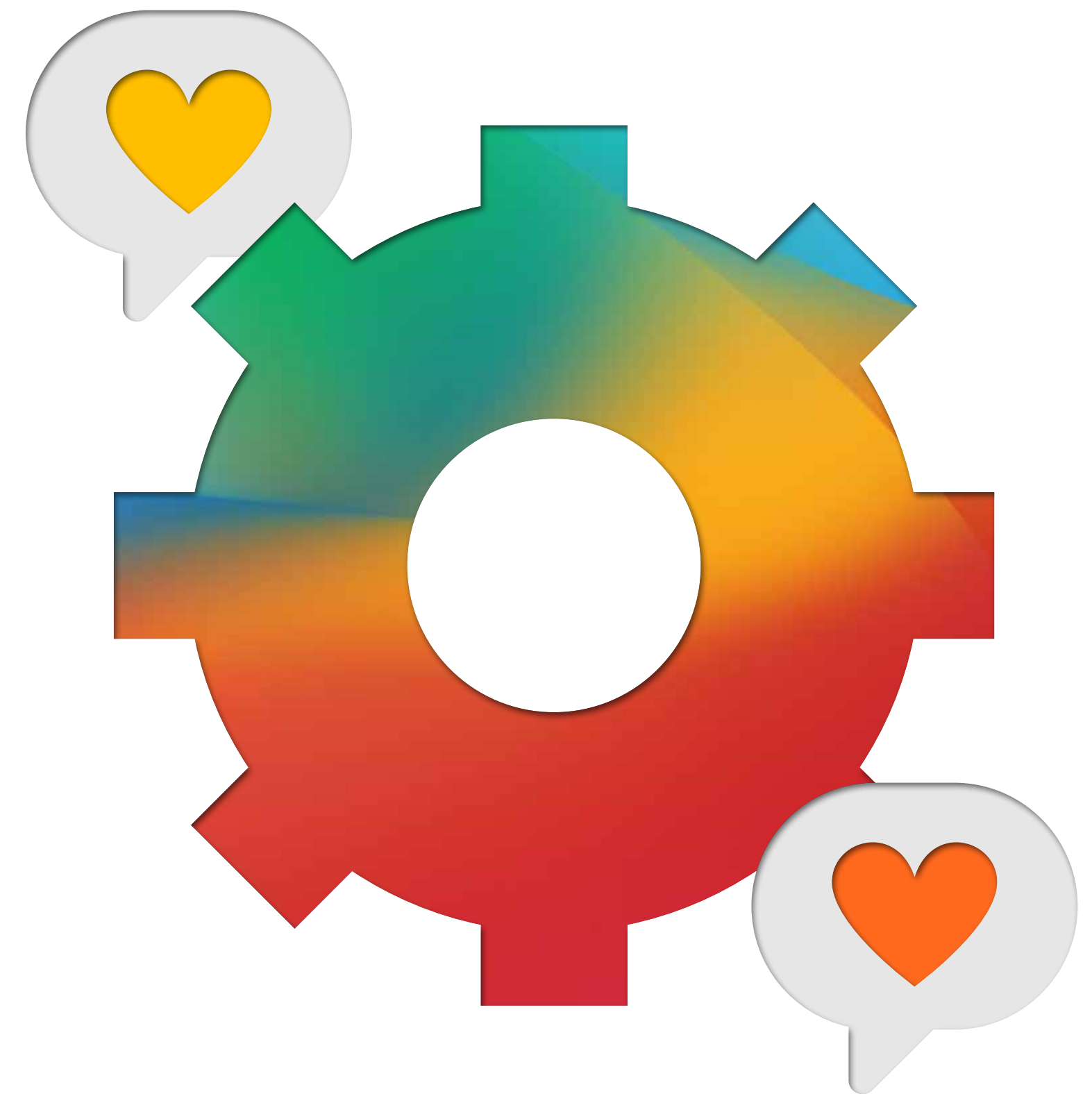
For this report, we interviewed senior representatives of the following firms – Evidentia Group, Russell Investments, Stanford Brown and Principal Partners. These are advice, asset consulting or investment management businesses that have successfully developed and delivered managed accounts to their clients.

21 Evidentia Group

22 Russell Investments

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Evidentia Group

Evidentia Group is a boutique asset consulting firm that comprises industry professionals who have deep experience in asset management and financial planning.

The firm is privately owned by the partners working in the business. Each of these partners work with private wealth firms to design, build, implement and manage tailored investment portfolios.

Evidentia was granted a wholesale AFSL in March 2019 and its first managed account went live in December 2019.

The partners and advisory committee members are based in Brisbane, Sydney, Melbourne and New York, and have significant experience with leading investment firms in managing money and in product design and implementation.

To complement this asset management capability, three of the founding partners have experience in running large licensees, with deep expertise in financial planning, practice management and corporatising high-performing, self-licensed private wealth firms.

The firm is highly selective with regard to the clients it works with, focusing on advice

firms that provide high-quality strategic investment advice that drive best-practice client experiences and compliance through a highly-corporatised structure.

Partner James Meade says Evidentia Group currently has five clients running managed accounts, with another under construction. These clients manage combined funds under management of over \$4 billion.

“We work closely with our clients to understand their client segments, their advice philosophy and their strategies,” says James.

“We then design and build managed accounts tailored to the strategic advice.

“We believe that designing a portfolio specifically to deliver strategic advice moves managed account portfolio construction from being ‘product based’ to ‘advice based’.

“The reason we believe managed accounts are the technology to foster this change is that managed accounts provide advice firms with the ability to create institutional-grade portfolios, at a low cost, that are purpose-built for their strategic investment advice. That is, the portfolio constructor moves from an asset management institution to an advice firm that knows more about the ultimate consumers of the portfolios – the end-clients.”

“We work closely with our clients to understand their client segments, their advice philosophy and their strategies”

James Meade, Evidentia Group



Russell Investments

Russell Investments began in 1936 and has since evolved into a global investment manager with a focus on helping investors reach their long-term goals.

Headquartered in Seattle, Washington, in the United States, Russell Investments now has offices in 20 countries and offers investment solutions in 31 countries. It manages over A\$413 billion in assets and advises on around \$3.6 trillion dollars in assets (as of 30 June 2020).

With just over 1,300 permanent employees, 340 of whom are investment professionals, all of Russell Investments' teams work closely together, and are not siloed in different countries.

Sixteen investment staff members are based in Australia and they all work in global teams. Although headquartered in the US, Russell Investments is not just an US-focused business.

According to Head of Distribution, Tanya Hoshek, the firm has a comprehensive suite of investment solutions that includes managed funds, real return funds and managed accounts.

"We have investment solutions for all different types of clients," Tanya says.

"We launched managed accounts over twelve months ago, taking our time to look at the market and make sure we were talking with advisers and dealer groups about what type of solution would work.

"We didn't want to just build a 'me too' offering. It needed to be something that combined the investment philosophies and principles that would enable us to launch our first four risk-profile portfolio options in June 2019.

"Part of the feedback we had from the market was that advisers were looking to combine an active component with some passive, and with direct equities – a diversified, actively-managed portfolio solution offered at a reasonable price point.

"We built the portfolios with three core components – direct shares, multi-asset strategies and a combination of ETFs.

"The direct shares component involves a concentrated portfolio of around 25-30 stocks, derived from research into the drivers of share market returns or factors. The factors are incorporated into this benchmark and momentum and value at 35% and 30% respectively, with a bit of low volatility at 15% growth and quality growth at 10%.

"We reconstitute it semi-annually, because we are conscious of not creating a portfolio where there is high trading, because high trading leads to higher costs and potentially higher taxation implications for the end-investor.

"The ETF component enables us to control costs and to intelligently incorporate our market views. For example, we can use this with international equities and can also manage between hedged or unhedged currency versions, so they play a more powerful role than just cost minimisation, in terms of how we've incorporated them into the portfolio."

"We built the portfolios with three core components – direct shares, multi-asset strategies and a combination of ETFs"

Tanya Hoshek, Russell Investments



Stanford Brown

Stanford Brown is a financial advice firm established in 1987. It now has over 40 staff based in North Sydney, with a team of highly educated personal advisers who provide proactive advice and 'tough love' to clients.

The firm serves around 700 family groups in the high net worth space, predominantly along the eastern coastline of Australia.

Stanford Brown assists clients with a broad range of financial issues. While this often begins with arranging effective insurance or the management of investment portfolios, it also extends to other aspects of their financial lives.

The firm's expertise lies in seeing the complete picture of clients' lives – their long-term goals, their financial situation and their evolving life circumstances – to help them confidently plan for the future.

Director of Private Wealth, Vincent O'Neill, says, "Historically, we operated like many other businesses under the record-of-advice, statement-of-advice regime for making any investment changes, and we could see the multiple flaws in that."

"It wasn't the most efficient way to do it from a business perspective or for generating the best client outcomes, so we knew we wanted to make changes.

"We spent around twelve months, in 2016/2017, going through an RFP process to identify how to best tackle that problem.

"We went out to the market to find out the different mechanisms or tools, the different structures and the different providers available, and narrowed it down to a shortlist of four. Then we went through the RFP process, while starting to build our first managed account with Netwealth.

"We now operate a variety of different managed accounts.

"One contains a mix of active and passive investments. Another contains purely ETFs and passive index funds. We also still operate a traditional approach to managing money, which may be appropriate for certain clients and their circumstances."

"We spent around twelve months, in 2016/2017, going through an RFP process to identify how to best tackle that problem"

Vincent O'Neill, Stanford Brown



Principal Partners

Principal Partners is a privately-owned financial planning firm that has a hands-on approach to wealth management.

The origins of the firm date back to 1980. Then, in 1999, a joint venture was formed with BDO (previously Horwarth) to provide wealth management solutions to its clients. In early 2012, Grant Thornton acquired the BDO accounting practice in Melbourne.

This enabled the directors of Principal Partners to acquire the BDO wealth management arm and implement their business vision with greater clarity.

According to Director, Brad Akkerman, Principal Partners is a small firm by choice.

"We choose not to go out and conquer the world and have only about 150 active clients with close to \$300 million under direct management," he says.

"We're very choosy about who we partner with and work with. They're predominantly private individuals who seek assistance, guidance and solutions to manage their private and passive wealth.

"We are very fortunate in that in excess of 80%

of our client base fits within the 'sophisticated wholesale' definition.

"We only work with clients to whom we can add value and who add value to us. We don't answer every opportunity that comes our way, because it might not be a mutual fit.

"We specialise in providing asset management solutions to our client base with an additional focus on property-related opportunities.

Brad says the firm first launched a managed account in 2012, in the form of a limited managed discretionary account (LMDA), before transitioning to a fully-fledged managed account in 2017, with Netwealth as the responsible entity.

"Managed accounts are a necessary part of doing business for us," says Brad.

"Part of our value proposition involves the resources we bring to the table to help run the managed account, with an independent and external investment committee, to deliver traditional assets in a professional manner.

"The managed account has enabled a lot of the clunky work, behind the scenes, to disappear. We no longer fill in individual share trades for clients. The ability to manage asset allocation is a lot easier. We can do it at a

holistic level with the software to filter down for all the individual clients.

"In excess of 90% of our client base are in a managed account now. And new managed account clients are referred by existing clients.

"That's how the business has been structured, because we now consider managed accounts as the easiest, most efficient, most effective and most professional way to run a proper asset management solution."

"We only work with clients to whom we can add value and who add value to us. We don't answer every opportunity that comes our way, because it might not be a mutual fit"

Brad Akkerman, Principal Partners



Recommended reading



Executive guide to managed accounts

Understand the role managed accounts can play in your business and the important factors to consider prior to their implementation.

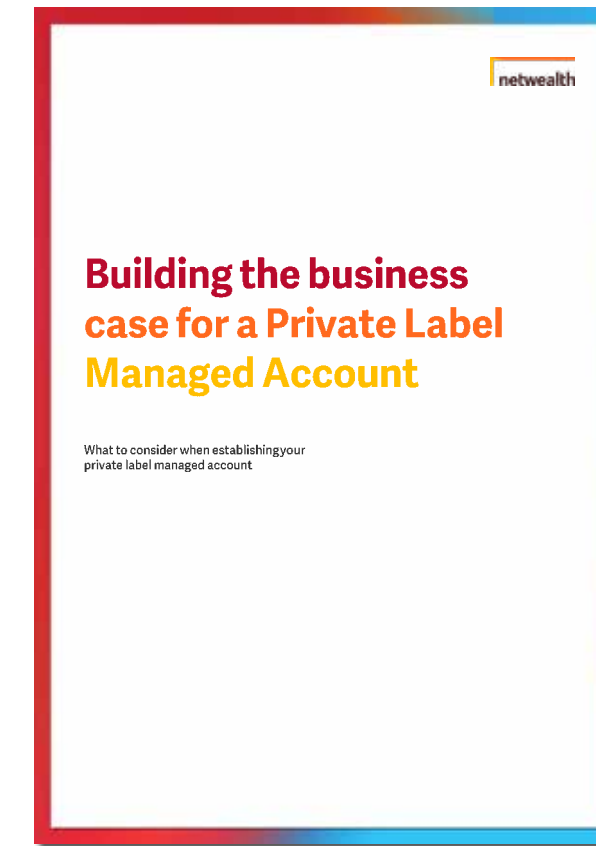
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We speak to advisers and experts as to how managed accounts are transforming advice.

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Building the business case for a private label managed account

What to consider when establishing your private label managed account.

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Managed accounts: A business transformation solution

Understand the role managed accounts can play in your business and the important factors to consider.

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Speak to us

Netwealth

Netwealth provides a suite of Investment, Super and Managed Account solutions designed to drive better financial outcomes for you, and importantly, your clients. Contact us Netwealth today to discover why Netwealth they are is Australia's #1 platform* and how we they can assist you now, and in the future.

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