

Managed accounts:

Going the distance

The complete guide to how an advice firm can implement managed accounts to improve client outcomes, generate efficiencies and build scale.



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Section 1

Moving from an idea to reality

Introducing our managed accounts
experts and why they made the switch

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Moving from an idea to reality

While managed accounts were seen as niche not so long ago, they are steadily pushing into the mainstream. Funds under management in managed accounts was \$144.5 billion¹ as of December 2022, growing from less than \$20 million in 2015².

“If we look back five or 10 years back to when managed accounts entered the market, they were seen as a vehicle mostly for high-net-worth clients to access direct equities. But quickly, that formed into a whole of account solution, supporting advisers to deliver their broader investment philosophy,” says James Mantella, Netwealth Strategy and Development – Adviser Transactions at Netwealth.

“First and foremost, managed accounts are a tool to improve the value proposition and outcomes to clients. However, they’re also a way to build efficiency in practices, which can hopefully help close the advice gap which we know exists in Australia.”

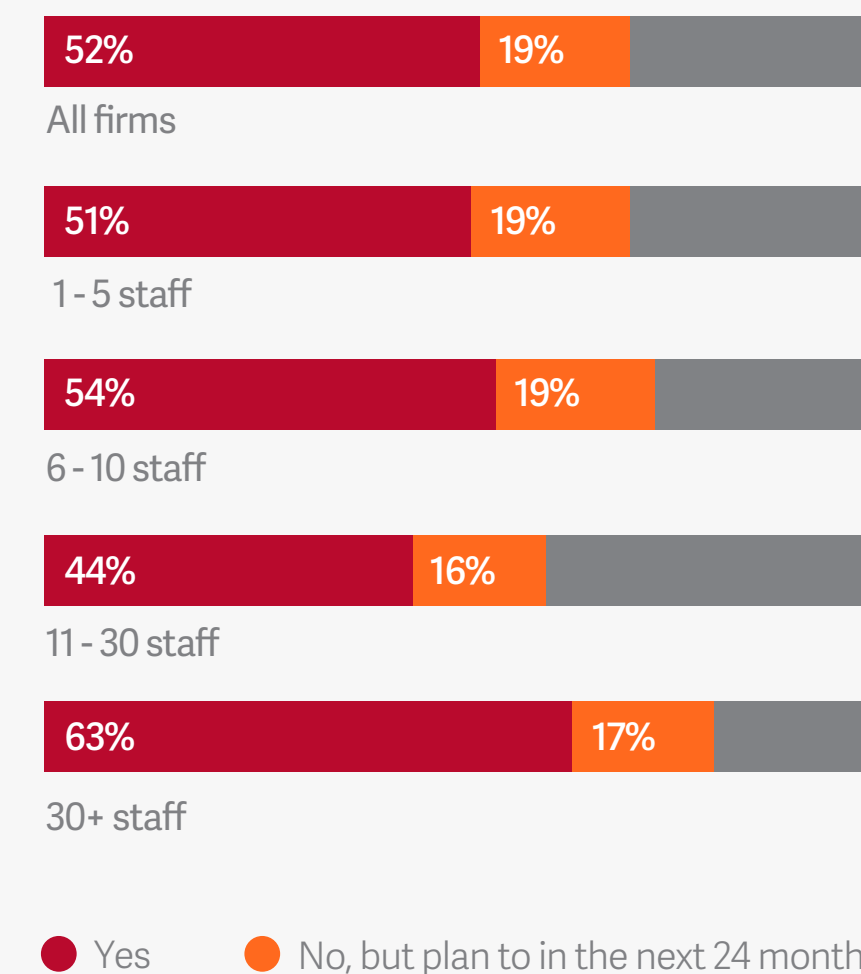
However, despite many advisers seeing the benefits, implementation is a clear hurdle.

Netwealth’s 2023 AdviceTech Report shows while 52 per cent of firms are using managed accounts today, only 37 per cent of these use them for more than half of their client base – meaning many are missing out on the full scale and efficiency benefits.

To help advisers with the process of implementation, Netwealth interviewed several experts spanning advice firms, asset consultants and Netwealth’s own team around all aspects of implementing managed accounts; from articulating a clear value proposition to successfully getting staff and clients on board.

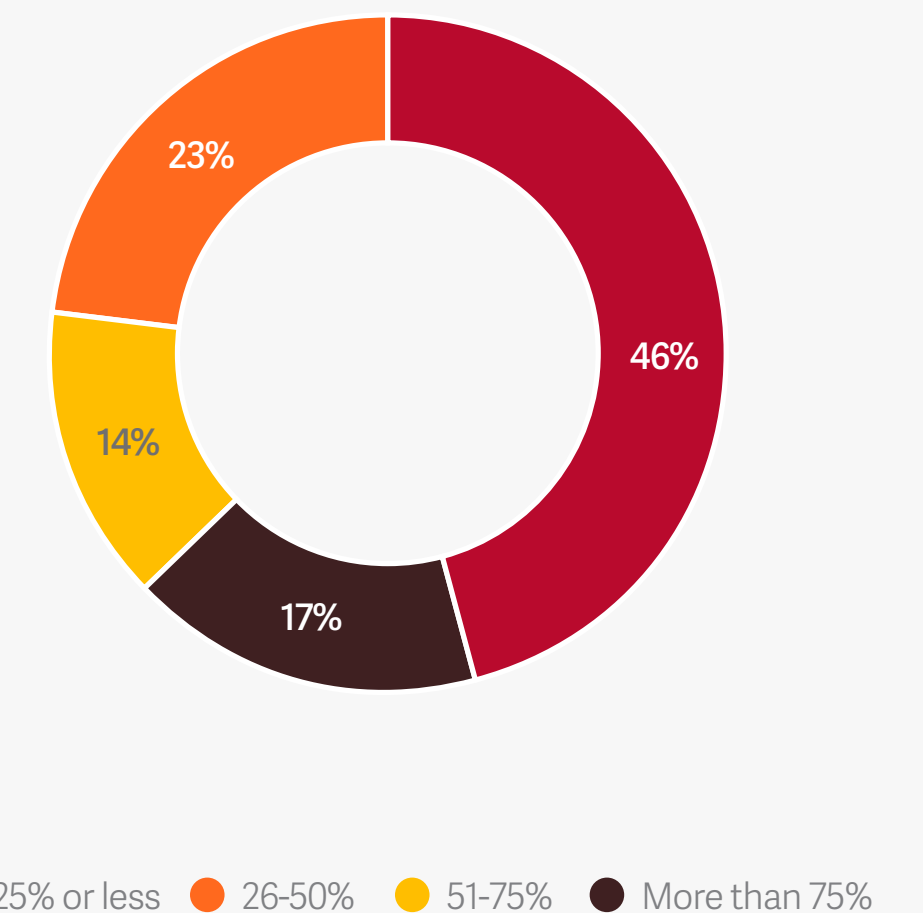
We hope this paper acts as a comprehensive guide for firms wanting to take full advantage of the benefits managed accounts offer.

Use of managed account solutions for at least some of your clients



Source: 2023 Netwealth AdviceTech Report

What percentage of your client base do you use managed accounts for? (AdviceTech Stars)



Source: 2023 Netwealth AdviceTech Report

¹ <https://www.imap.asn.au/publications/perspectives/114-perspectives-autumn-2023/1117-imap-fumcensus-dec-2022.html>

² <https://imap.asn.au/component/content/article/112-perspectives-spring-2022/1088-imap-fumcensus-june-2022>

Meet the managed account experts

Meet our team of managed account experts, spanning advice firms, asset consultants and platforms.



The advice firms

Paul Cox: Founder and Director of Libero Capital Wealth Management.

An advice firm which has been running for 13 years and services around a hundred family groups.

Vincent O'Neill: CEO of Stanford Brown.

A private wealth business based out of Sydney, but servicing clients across the eastern seaboard of Australia. They work with approximately 800 family groups and assist them in managing about 2 billion of assets.

Chris Gunther: Director / Senior Financial Adviser at Wahlstrom Financial Services.

The firm has been in existence for around 30 years, based on the Gold Coast, and provides holistic advice services.

Anne Graham: CEO and Senior Financial Planner at Story Wealth Management.

The firm's focus is on helping people plan for retirement, so their client base is probably predominantly pre and post retirees.



The asset consultants

James Meade: Partner at Evidentia Group.

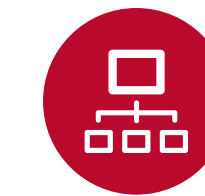
A privately-owned company builds tailored managed accounts—also known as private label managed accounts. Their approach ranges from being very hands-on to full delegation. Their range of experience allows them to bring institutional grade investment solutions to boutique advice businesses.

John Burton: Head of Sales at Lonsec.

The firm has services in research, investment consulting, and managed accounts. They also build tailored managed accounts for dealer groups and platforms.

Brendan Tully: Managed Account Consultant at Lonsec.

He works with advice firms to provide them with clarity and confidence around managed accounts, focusing on planning, executing and implementing managed accounts into their existing business model.



The managed account platform provider

James Mantella: Head of Strategy and Development – Adviser Transactions.

Having joined Netwealth in 2019, James has responsibility for the strategy and development of Netwealth's managed account solutions.

Why did you take up managed accounts?

Four advice firms share the rationale behind their decision.

Chris Gunther from Wahlstrom Financial Services (WFS) says they had been considering the managed account structure for some time, and “there was never a doubt that a managed account was going to be substantially better for clients and for the firm”.

For them, the process started with setting up their own licence because their existing AFSL was unable to support them to build a customised offering.

“The main drivers of the self-licence was to be able to take greater control of the AFSL compliance framework and approach to governance, while also delivering a better, more cost-effective wealth solution to our clients and giving us a little bit of a competitive edge,” he says. With an investment committee and robust investment philosophy already in place, WFS were able to go about selecting an asset consultant early in the process.

Anne Graham from Story Wealth Management says their decision was driven by a confluence of factors, including a desire to change their platform provider, but more importantly to shift into more scalable investment processes and enhance their client proposition. They moved to a self-licence, which allowed them to deliver a bespoke investment philosophy and enhance their advice delivery.

“We were reviewing our platform offering and we just decided to review the way we invest. So managed accounts became a focus. And it was to provide the efficiencies, not having to rebalance manually, and making sure that if there was an investment decision that needed to be implemented, it was done there and then.”

Vincent O Neil from Stanford Brown said they we could see the significant inefficiency in the traditional way of doing things. For example, making changes to portfolio at times when things changed very quickly such as during the global financial crisis (GFC).

“We’d have to email a communication out to 200-300 clients and say, ‘We are no longer comfortable with this investment. Please reply to confirm your authority’...and of course some people were on a cruise ship or they were camping in the bush and some people just didn’t get back in time.”

Paul Cox from Libero was running a MDA operation and says they had some concerns about the sustainability of their processes and operations – such as whether professional indemnity costs were going to become prohibitive under their existing advice structure.

“You have the key-man risk that sits within potentially small firms running MDAs. Then you’ve got to layer onto that the risk that firms take with transactions... while we had very rigorous checks and balances in place, it’s still a risk. And then there’s extra resources and time that go into making sure rebalances happen in a timely, fair and efficient manner.”

Why managed accounts now?

The growing popularity of managed accounts is no coincidence – they present a way for advisers to tackle some of their biggest challenges, such as providing additional value and enhanced outcomes to clients, affordability of advice, and rising compliance and other burdens.

For clients, benefits of managed accounts include greater control over tax outcomes through beneficial ownership, additional flexibility and transparency, less paperwork (individual RoA's or SoA's) when portfolio changes are needed and additional expertise backing their portfolio. Moreover, managed accounts have the power to democratise investing for everyone, ensuring all advice clients are treated equally and consistently.

And for advice practices, managed accounts have the potential to create efficiencies and increase the reliability of their investment management and compliance processes, which can give them capacity to build scale.

Together, this ultimately means better advice can be provided to more people.

Paul Cox from Libero says he suspects managed accounts will eventually become the norm.

"It's hard to get staff, so there is a lack of experienced people to run the portfolio and take care of all the rebalancing work," he says.

The benefits of managed accounts

What business and client benefits do you receive from using managed accounts?

Improved efficiency	69%
Better trading efficiency	60%
Better client engagement	50%
Clients have improved understanding of their investment portfolio	37%
Better tax outcomes for clients	34%
Additional revenue stream	11%
Other	5%

In what areas are you getting improved efficiency from using managed accounts (those that get improved efficiency)?

Time savings	88%
Reduced paperwork (ROAs)	77%
Scalability	61%
Expert investment assistance	57%
Consistent portfolio returns	40%
Better tax efficiency	29%
More cusomisation	20%

Source: 2023 Netwealth AdviceTech Buyer's Guide

Better for business and better for clients

One of the key reasons advice firms see managed accounts as a good option is that clients are treated more equitable.

Chris Gunther from WFS says that the managed accounts model allows them to be more responsive to changes in the economic environment and investment markets than they were under a traditional model portfolio structure, and to execute changes across all clients equally efficiently.

“Under the traditional model portfolio structure, due to the compliance requirements, investment changes can be time consuming to execute, often to the detriment of some or all clients.”

By the time all clients have been contacted, records of advice prepared and presented/issued, and then clients contacted again before changes are actually executed, the timeframe from start to finish can be inhibitory to capitalising on short to medium term opportunities.

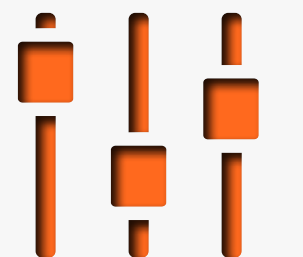
While it was possible to make changes more efficiently for some of their 400-odd clients, this meant some clients benefited more than others due to timing, which didn't sit comfortably with the business.

“What we know is under the managed account structure, you're able to pivot a lot quicker, which allows greater opportunity to take advantage of such scenarios. Further, the structure allows for this to be done across all clients at the same time, ensuring a more equitable outcome for all.” Says Chris.

Vincent O'Neil agrees: “Even for a critical change that we make as quickly as we can, you just cannot guarantee it for everyone – even with a mass communication and immediate action. It cannot possibly happen as cleanly or as quickly as it can under a managed account scenario”.

“What we know is under the managed account structure, you're able to pivot a lot quicker, which allows greater opportunity to take advantage of such scenarios.”

Chris Gunther Director / Senior Financial Adviser at Wahlstrom Financial Services.

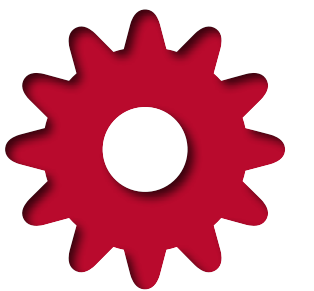


Section 2

Setting up your managed account

Considerations so you can start
from a strong base

2



From idea to reality: A six step process

Before venturing into managed accounts, firms must first consider a range of factors. Client value proposition, investment philosophy and governance all need to be taken into account as firms embark on the journey.

To help, we have identified six key steps to building a managed accounts portfolio.



Step 1

Define your business case and client value proposition

High level thinking around the 'why'



Step 2

Articulate your investment philosophy

Who are your clients and what do you solve for them?



Step 3

Understand different managed account structures

What structure is right? Is private label or retail best suited?



Step 4
Select an asset consultant

Look at their credentials and check for alignment



Step 5
Construct your managed account models

How many models do you need for your client base?



Step 6

Implement a strong and robust investment governance process

The 'how' of working in the firm and with the asset consultant

Step 1: Define your business case and client value proposition

When starting down the managed accounts journey, the experts say to take a step back and begin with high-level thinking around the 'why' for both client and business.

"If I had to name one thing for a successful move to managed accounts, it's having the commitment as a business. We've gone into many practices and asked: 'So what's the strategy here, guys? What's the plan over the next five years?'" John Burton from Lonsec says.

Often, practices are at capacity, too busy dealing with day-to-day issues to look at the broader opportunities for their business, he explains. Managed accounts can be a solution – however it takes a whole of business commitment to realise the full benefits.

"Managed accounts can enable them to make a leap in their efficiency and really start to scale and grow their business. But if they don't have a flag on the hill for the business to head towards, they might not have the commitment to push through to full execution, and get the outcomes they are seeking," John says.

Lonsec's Brendan Tully recommends advisers start with thinking about problem solving and unrealised opportunities. In his experience, these tend to fall into three main buckets. The first is wanting to create efficiencies – build greater capacity to service more

clients, reduce the costs to deliver advice, or other drivers. Secondly, there's profitability and business valuation, and the third is compliance and risk reduction/management.

If you ask Paul Cox about their shift from being an MDA provider to managed accounts, his rationale covered all these buckets.

For the MDA, they needed to consider whether the professional indemnity cost was going to become prohibitive. He also cited that with being a smaller AFSL, there were the continuity issues to consider.

"You have the key-man risk that sits within potentially small firms running MDAs. Then you've got to add onto that the risk that firms take with transaction risk, because as an MDA provider you are taking on the responsibility of trade execution in a lot of cases," Paul says.

"Now while I think we had very rigorous checks and balances in place, it's still a risk, and it's extra resources and time that have to go into making sure rebalances happen in a timely and fair and efficient manner."

James Meade from Evidentia believes there are three key areas of focus for the business case, that is consistency, efficiency and productivity and corporate governance.

He says: "In a nutshell, managed accounts aren't just an operational tool, they're a strategic asset that if used correctly aligns perfectly with the goals of a corporatised advice business."

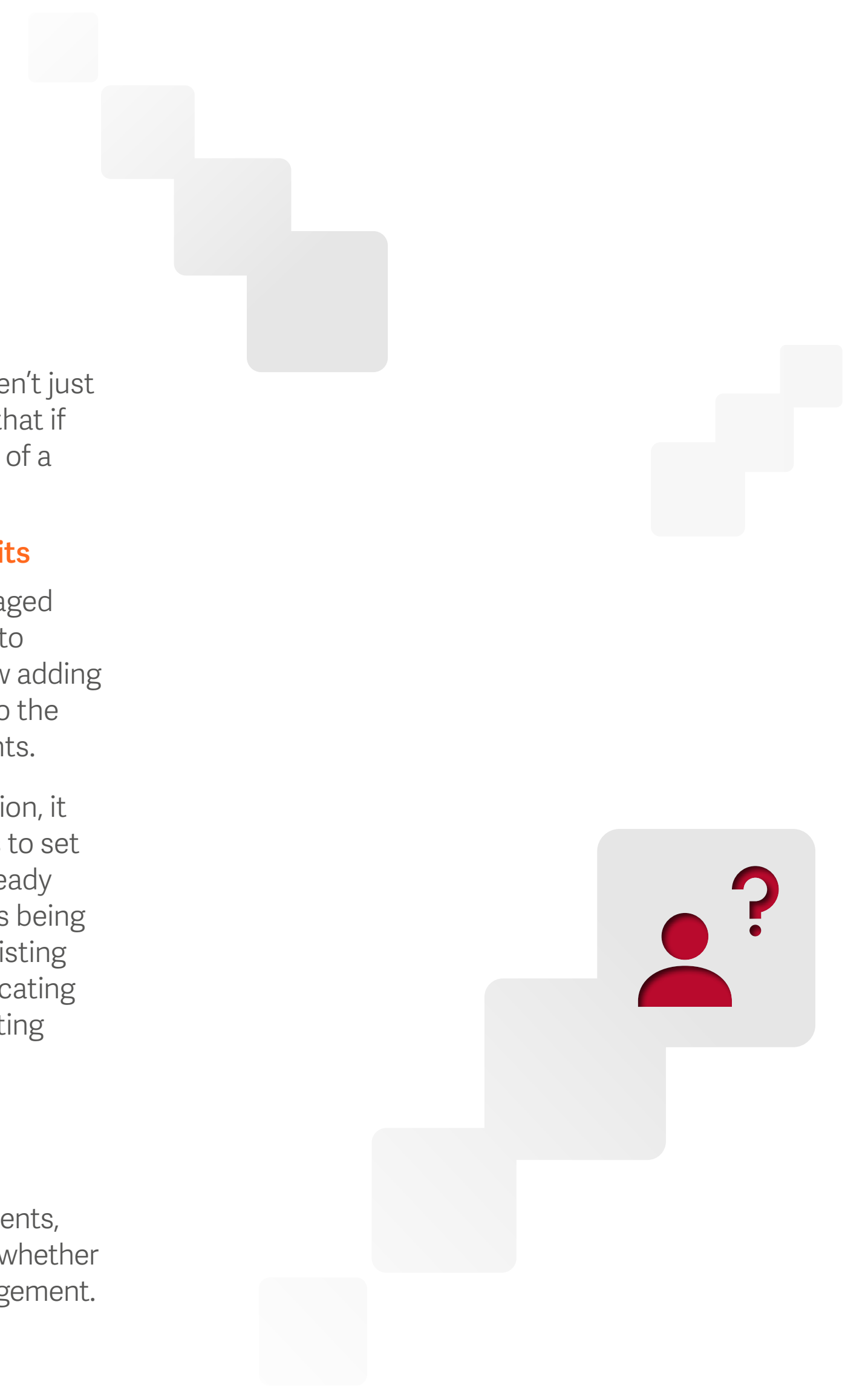
Making sure your client value proposition fits

Alongside the business rationale is how managed accounts may improve the value proposition to clients. Advice firms will need to consider how adding managed accounts will strengthen and add to the already existing value that is delivered to clients.

For firms without a clear client value proposition, it can be useful to employ a structured process to set this out. This can draw on what the firm is already doing, such as the type of advice and services being offering to clients. It's also useful to review existing messaging, such as how the firm is communicating with clients, or the wording on current marketing materials and the website.

Does outsourcing investment management matter?

As they're defining their value proposition to clients, firms are likely to come across the question of whether it's alright to outsource their investment management.



As long as it's aligned with the firm's operational model and value proposition, then firms need not think of outsourcing as a downside. The fact is, it's difficult to create internal capability to do this effectively, and so firms can think of outsourcing investment management as a positive process that involves leveraging their business and partnering with specialists to deliver their investment philosophy to their clients.

Paul Cox from Libero says in his opinion, partnering is a good way to go.

"If something goes wrong or amiss, then it gives you the option to approach the responsible entity and say 'we would like to consider a change,'" he says.

Plus, there are other benefits to outsourcing, such as better governance and freeing up time to do other tasks for clients.

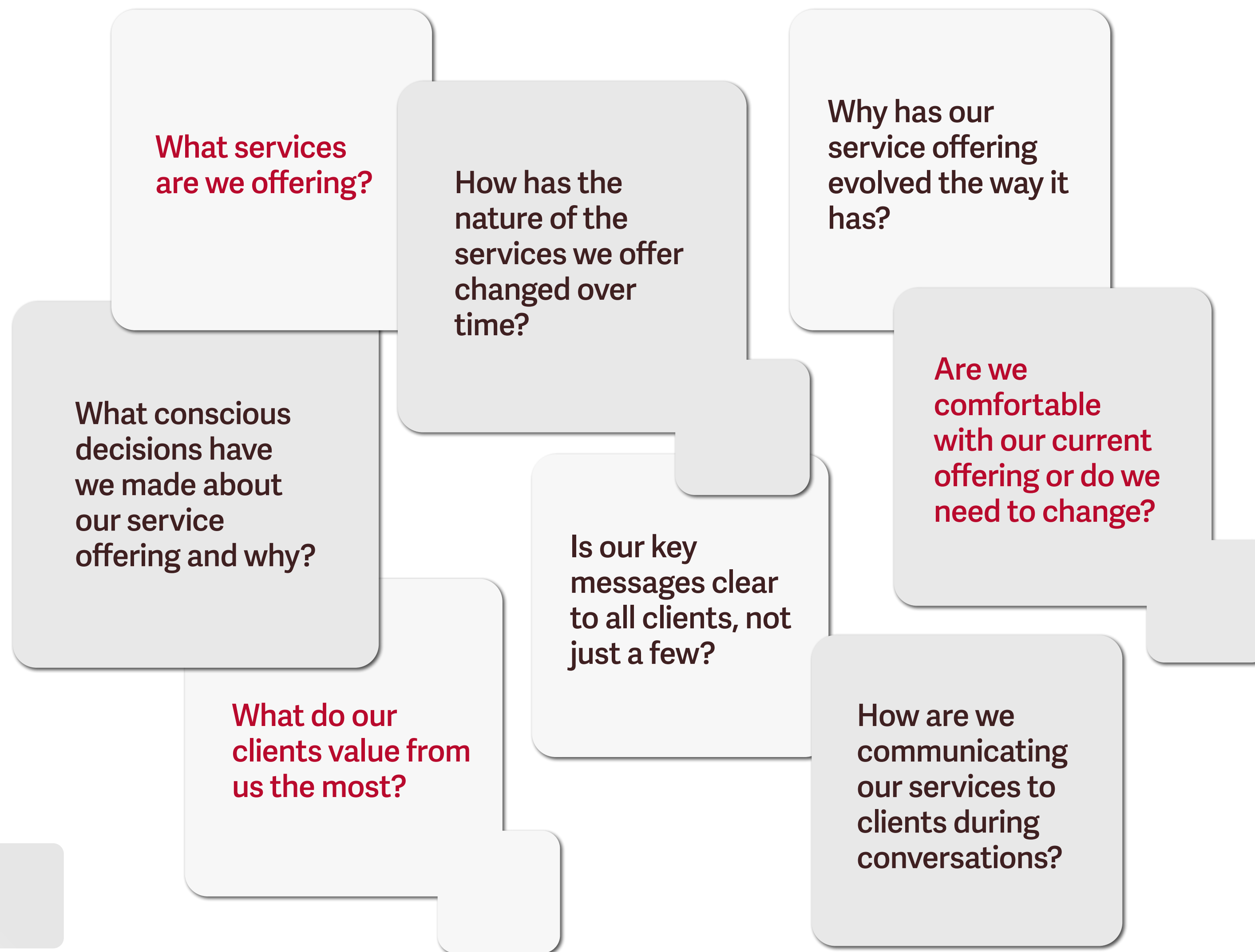
In fact, if a firm's core value proposition is not investment management, then outsourcing it means they have more time to spend on the tasks that their clients really value.

"We're still helping them make those decisions about what is the right managed account to achieve their target compound return. And that's where we want to spend our time," Paul says.

"It's not that we are completely out of it – we are very across it. We're just removing all that noise and friction."

James from Evidentia says: Outsourcing is a funny concept. We view it as "insourcing" investment capability, rather than "outsourcing" it. This is an important distinction for the business to consider."

Brainstorming map: defining your client value proposition



Step 2: Articulate your investment philosophy

The next step is to focus on investment philosophy. This should consider factors like investment beliefs, attitude to risk/return, views on active vs. passive, and asset allocation approach.

James Meade from Evidentia shares how they work through the process with advisers to make sure it is all clear and decided upfront.

“When building Managed Accounts, we always start with identifying the problem that the business is trying to solve for the client, understanding the advice strategy the business uses. Then, we work closely with the business to design portfolios that work for both the client and the business,” he says.

“We believe that client problems are never solved by a product alone; the real solutions can only be achieved at the advice level.”

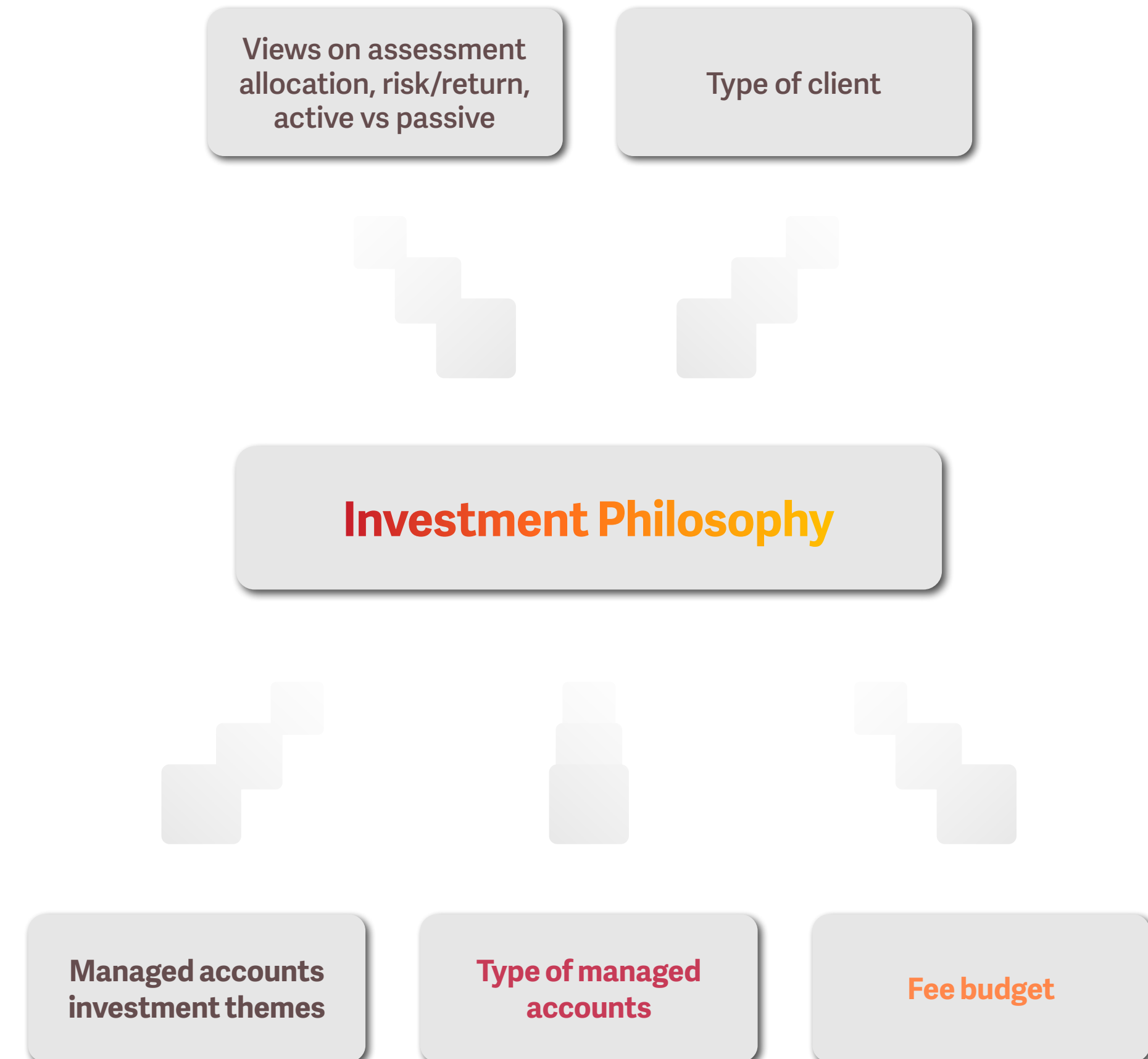
For example, a retiree in a balanced fund faces significantly different market risks than an accumulator does, even if they have a similar risk profiling score.

James from Netwealth also illustrates this point: if a firm has lots of high-net-worth clients, the clients might be less concerned about fees and more about the latest thinking - perhaps something like private markets or responsible investing. Or if a firm has a lot of clients building retirement portfolios, they might need to consider areas like sequencing risk as part of their philosophy.

Brendan from Lonsec points out that while a lot of businesses follow an investment philosophy on a subconscious level, it’s not always a consistent conscious decision, nor fully articulated or documented.

“It’s about turning it into a conscious decision that everyone in the business can align with, have some insight into, and turn into a real value-add from a client education and engagement perspective,” he says.

Building your investment philosophy



Why an investment philosophy really matters

Paul Cox from Libero Capital Wealth Management says in his experience, having a good sense of the investment philosophy takes a lot of the noise out of the decision making and transition process.

“Identify your investment philosophy, and maybe start working with a managed account provider to do some alignment before you make the big switch,” he says.

He describes their firm’s philosophy as a “bionic portfolio approach” because they leverage machine learning, data analysis and other technology to drive better decision making, but ensure the all-important human element remains in that process.

“The best way to describe it is both quant and then fundamental. Or ‘quantumental’ for our clients,” he explains.

Chris from Wahlstrom Financial Services says they already had a clear investment philosophy, around areas like valuations, pricing and quality. Therefore, it wasn’t such a big step for them to sit down with their asset consultant to adapt and develop this to managed accounts.

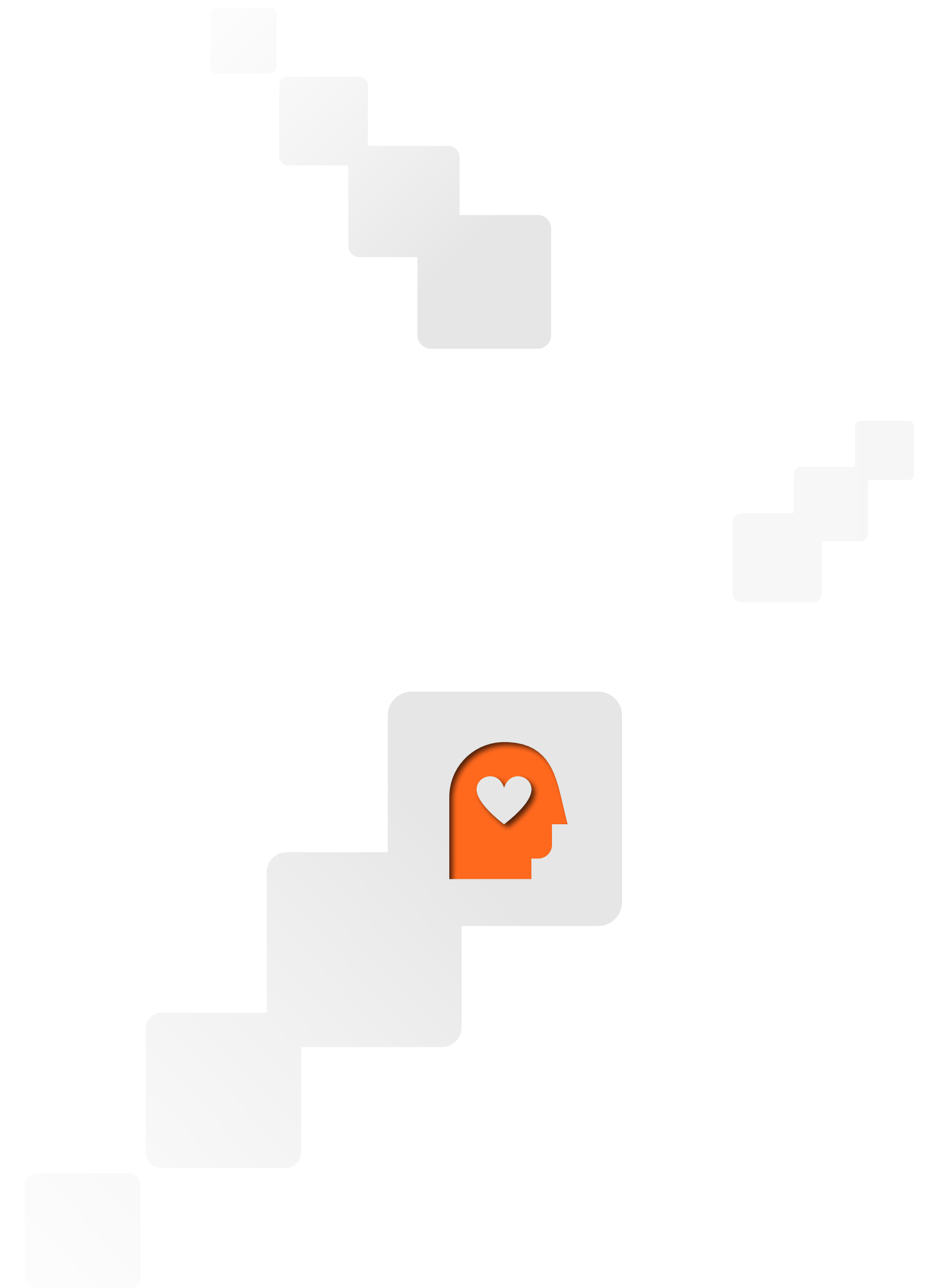
“We’ve now got a different structure in place, but underpinning it was our philosophy... it probably took about two or three months of going back and forth, just fine-tuning it to get to a place where it resonated really well with the advice team,” he says.

And Vincent from Stanford Brown says their investment philosophy places a strong emphasis on asset allocation as being more important than investment manager selection.

“So much fixation is about stock A versus stock B, or fund A versus fund B. Really, asset allocation is a much bigger decision, and we’re providing leadership there,” he says.

“If clients have strong views on active versus passive, then we can implement that one way or another.”

He says that they still have a preference for an active over a passive portfolio – and one of the biggest reasons for this is active portfolios make it easier to allocate to alternatives, as there’s not a lot of passive alternative indexes.



How to think about pricing your managed accounts

Whether to recoup costs or not is something firms need to consider as part of their investment philosophy.

Around 10 per cent of managed account users (according to Netwealth's 2023 AdviceTech Report) charge an additional fee for their managed account service.

Whilst there are additional costs that must be considered when running a managed account solution, for example the overhead associated to the construction of an investment committee, RE services and professional consultancy or management, some of these costs will be offset by other savings that are generated through the scale created by the managed account, in the form of reduced administrative overhead and improved business efficiency and capacity.

Vincent from Stanford Brown, who runs a private label managed account, says they "negotiate very heavily with the managers in terms of the rebates that we're able to achieve for clients within those structures" and "as a result, it's able to help us offset a meaningful portion of that cost for the client".

Importantly, from a client best interest perspective, this cost conversation must be considered against the range of benefits delivered through the managed account which drive improved outcomes to clients.

Chris Gunther from WFS explains that they needed to consider the costs incurred in building the solution and the ongoing overheads associated with running a robust investment committee process.

"In order to avoid any perceived conflict of interest, we decided that we would not add an additional cost to the managed account; however, we have increased our adviser service fee in the last 12 months to counteract increasing costs to serve more broadly," he says.

He says that explaining this increase in advice fees to clients was a simpler approach because they could articulate several enhancements their clients were receiving, which of course included many of the benefits of a managed account.

Anne Graham from Story Wealth says price was an important consideration when they rolled out their managed accounts in 2021, during a highly volatile market. As a result, they created a hybrid model, where they used managed accounts at the core with some 'satellites' such as ETFs to keep the costs lower.

"We tweaked those satellites a little bit more to bring down the price so it was more competitive. People are very conscious of price, especially in volatile markets. If markets were positive and going up when we rolled this out, I don't think there would've been such a focus on cost."

She said they explained price by telling clients what they were getting in return, such as functionality and not having to sign as many documents.

Stanford Brown takes an alternative approach and has a separate price for their 'private label' managed account. As Vincent explains, there is significant additional workload in running a private label, so they took the approach of coming up with a price that essentially adequately reflected this, but also made sure that there was a value add to the end client when the managed account was implemented for them.

"We tweaked those satellites a little bit more to bring down the price so it was more competitive. People are very conscious of price, especially in volatile markets."

Anne Graham CEO and Senior Financial Planner at Story Wealth Management.



Step 3: Understand different structures

You have several options to consider when implementing managed accounts, ranging from bespoke portfolios to manager-led options.

There are three popular paths that an advice firm can go down. Both have pros and cons, and both require different levels of expertise.

1. Establish a 'private label' managed account on your preferred investment platform – where your firm will construct bespoke models that reflect its own investment philosophy and style. Typically, the platform is the responsible entity.
2. Use the investment platform's retail (or public) menu of managed accounts models – where you firm will look to match its investment philosophy with an existing managed account model or models. Netwealth's James Mantella says your investment value proposition will partly guide this decision.
3. Set up a managed discretionary account (MDA) service and continue to use your preferred platform if it supports the operation of your investment models.

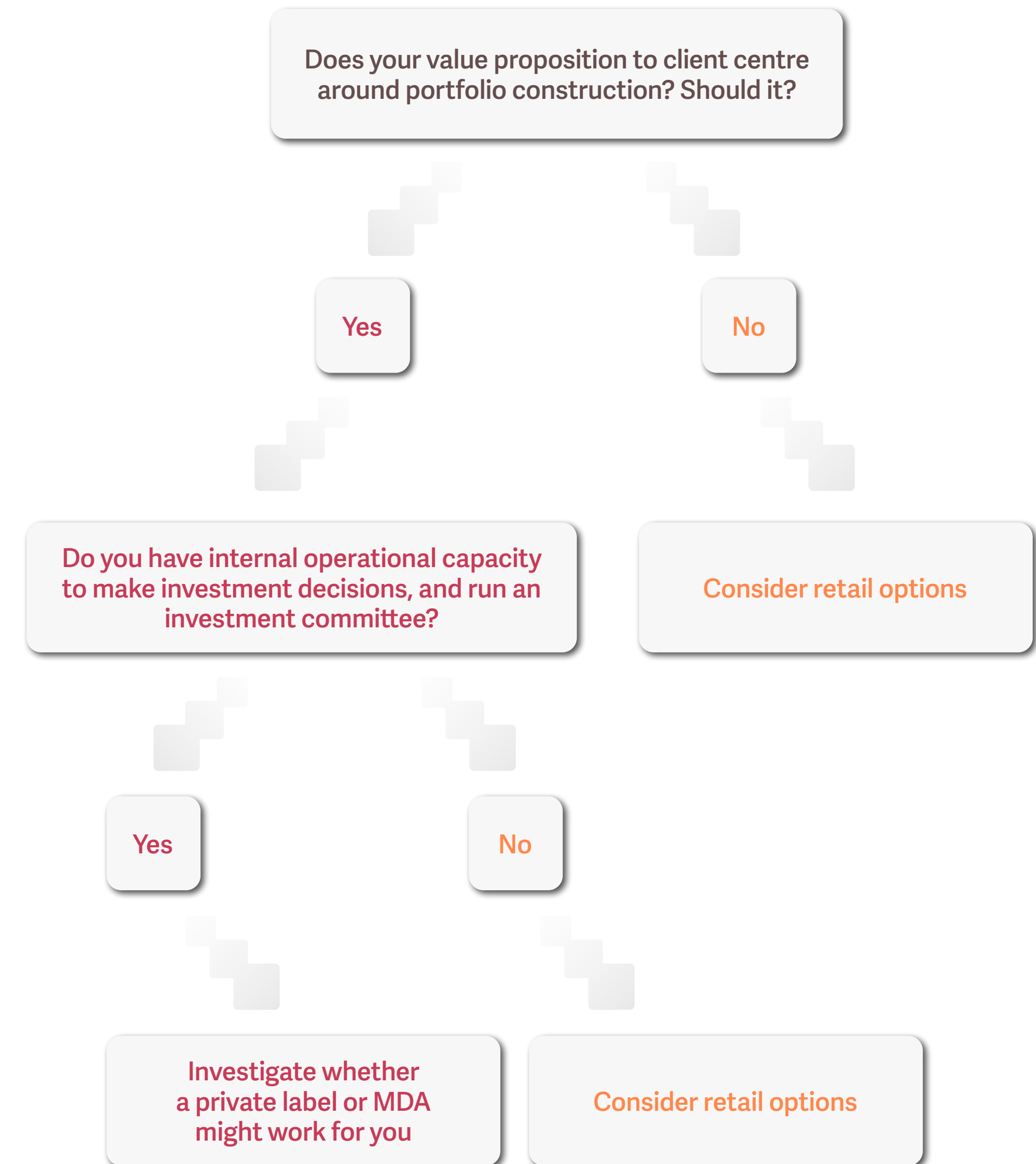
Netwealth's James Mantella says your investment value proposition will partly guide this decision.

"If your value proposition is selecting and blending investment managers, then a solution which enables you to develop investment portfolios with the best ideas of leading investment managers at its core would be ideal for you.

"Whereas, if your value proposition includes building bespoke portfolio management and asset selection, then you may consider a private label managed account or a MDA," he says.

The other guiding factor will be the level of investment and resources your firm wants to commit to. With 'private label' managed accounts, there are additional setup costs, such as a significant due diligence process with the platform. This due diligence process includes an assessment of your operational and governance capability around making investment decisions, your research process and the model construction itself. For many firms, this step is actually a positive as it ratifies their strategy.

Retail vs private label vs MDA: Which is right for you?



The case for retail managed accounts

“We looked at private label, but we decided we didn’t want to be asset managers. We only have so many hours in a day, and we didn’t want to spend our time doing that as well,” says Anne Graham from Story Wealth on her reason for going down the retail route.

For those practices whose value proposition does not hinge on investment expertise, a retail option can free up time for delivering more strategic advice to clients through a partnership with an investment professional who develops portfolios and manages the investment decisions and governance on behalf of the practice.

This is why, as Lonsec’s John Burton explains, private labels are typically used by larger advice practices, while smaller firms tend to choose leveraging options from leading investment managers.

The case for ‘private label’ managed accounts

On the other hand, Paul Cox from Libero explains their journey when setting up their ‘private label’ managed accounts which involved partnering with a specialist private label manager, Resonant Asset Management, to act as the investment manager of their private label.

“We had a fairly clear investment philosophy, and robust process about how we did rebalancing, investment selection and asset allocation. And we felt that we were doing most of the legwork already,” he says.

For them, the effort was worth the reward. When setting up their private label they needed to consider various things, such as: licensing, how they allocate resources into running the managed accounts, their governance structures, the documentation of their investment decision making process, and how they were going to manage conflicts as well as their compliance obligations.

The case for a managed discretionary account (MDA) offer

As an MDA service provider, you have greater control over the investment proposition and the underlying assets you offer to your clients. However, you will take on the additional responsibilities of being the MDA provider, which may include some increased risk that may even impact Professional Indemnity Insurance.

A primary reason for advice firms wanting to take on an MDA solution is that they feel they need more flexibility in managing client portfolios than they can get from retail or private label managed accounts. This is particularly the case where they have smaller client bases, with bespoke, and sometimes unique, investment needs.

Step 4: Select an asset consultant

Regardless of whether you go down the retail or private label path, having an asset consultant to support your journey can really help design your offering.

When selecting an asset consultant, it is important to scan the market and find one which is a good fit for your advice practice and your clients.

There is a broad range of quality investment consultants in the market who offer bespoke services and solutions, so it's worth meeting a few to try and understand their key strengths, areas of expertise and above all, their fit with your organisation.

James from Evidentia says he recommends assessing an asset consultant as if you were selecting a partner who you will work with for the rest of your career.

He says, "It is imperative to find a consultant that offers flexibility. You will also need to scrutinise their risk analytics capabilities and ensure they have strong governance processes in place."

Finally, James suggests that as this is still a people reliant industry, you need to meet the team to make sure you are comfortable with them.

However, all these things are not enough on their own - philosophies around investments and portfolio construction must also be aligned, says Lonsec's John Burton.

"If you believe in the philosophy of the asset manager that you're choosing, then you're going to be aligned with the investment decisions," he says.

From an adviser perspective, Paul Cox from Libero also says that while people, governance, transparency and performance are important, that's not all.

"You have to ask yourself if you can work with them – because you're going to have an ongoing engagement with them, you want to be able to converse openly and set expectations around what your practice needs in order to deliver on its value proposition," he adds.

WFS's Chris Gunther agrees. "We put together questionnaires and did meet and greets to find out if they had various different things that we required, and also to get an idea of their skill sets and whether they were on board with the structure of the way we want to run things."

He adds some other things to consider: their compliance committee and how they manage compliance, their track record and their expertise.

What to expect when working with an asset consultant

It's also important for firms to have a clear idea of how to work with their asset consultant in order to drive the best outcomes.

James says Evidentia has quite a hands-on approach to working with advice firms. He says engaging a consultant should be viewed as a mix of insourcing and delegation, where your team retains strategic control while benefiting from external expertise and efficiencies.

"Expect full transparency; you should understand the reasoning behind every portfolio decision," he says.

"Should anything happen or need to happen within that quarterly investment cycle, we have the conversation. And if changes are required, we can make them on behalf of the client," he explains.

Lonsec's Brendan adds that for them, working as an asset consultant is about giving the advice firm the confidence and clarity to act on their strategy.

"When a business transitions to managed accounts, one of the things they value most is client education. We provide that through several avenues...we also focus on bespoke material which might leverage the client's existing value proposition."

Services offered by asset consultants can include:

Support and development of investment proposition

Portfolio construction and asset allocation

Outsourced model management

Dynamic and tactical asset allocation

Investment selection (model manager and direct equities)

Development of Investment Committee and Committee Charter

Ongoing performance monitoring and portfolio updates

Client content and education

Step 5: Define your manage account models

Once you have an investment philosophy and have selected your asset manager – whether that be an in-house team, outsourced entirely or a hybrid – it's time to define your models. This means deciding how many to use and the purpose of each for different segments of the client base.

One of the biggest benefits of a managed account solution is that it offers plenty of flexibility depending on a firm's investment beliefs and how they segment clients. This means they can choose from various models, or a mixture of managed accounts, or other investments.

James Mantella from Netwealth says that, for example, a practice with high-net-worth clients who are looking for a bespoke solution and require different exposures, often use a managed account to manage the core of the client portfolio (50-70 per cent), then surround this with satellite exposures. This might include access to non-custodial assets, such as private debt, to build to the client specific needs.

"This ensures that whilst it is still tailored to the client, the largest part of portfolio is still being managed in a highly efficient manner," James says.

Brendan from Lonsec suggests they typically see a firm use between two and four managed accounts in order to get the right mix tailored to their client base and investment objectives. This can then extend across the various risk profiles and asset allocation mixes to suit client needs.

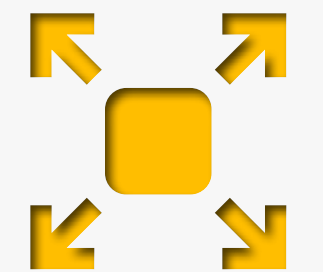
Chris from Wahlstrom says they have six models to represent different risk profiles ranging from Moderate to High Growth.

"On top of that, because we've got a number of clients that are not risk-averse and like to have a bit of gearing, we have an accelerated growth option in there."

He says each of those options were constructed individually, based upon risk appetites of each particular sector, and involved a lot of consultation with their asset consultant, Evidentia.

"Because we've got a number of clients that are not risk-averse and like to have a bit of gearing, we have an accelerated growth option in there."

Chris Gunther Director / Senior Financial Adviser at Wahlstrom Financial Services.



With that said, because of their client base, Chris says, the predominant models they use are from balanced to growth or high growth.

“For the mums and dads it fits the bill really, really well. But once you start getting up to some of the higher net worth clients, it can sometimes be a combination of a managed account with direct equities or other investment vehicles that might sit in the unlisted space,” he reflects.

Vincent from Stanford Brown says they have also taken a risk profile-based approach to running their models and have three main cohorts – an active model, a passive model and a foundation model.

“We’ve created models across your main standard risk profiles from conservatives through moderate balanced growth and high growth,” he says.

Within each of these, they have two versions – one is a mix of active and passive, with a tilt towards active, and the other purely passive, done through indexes. Having this passive option is good for clients that have less of a strong belief in the value added by fund managers, and also those who want a lower price point.

He says their philosophy is that managed accounts are not appropriate for everyone, nor any one person’s entire portfolio.

“Usually, we will use the managed account to create a core part of that portfolio, and that could be an active or passive blend core or just a pure passive core, and then we start to usually complement it out with other assets that might be appropriate for them.”

And while that doesn’t necessarily mean every client ends up with a completely different portfolio, what it does mean is that certain levers are adjusted depending on the client’s needs, such as liquidity, cashflow, and investment sophistication.

“The investment committee’s obviously fully controlling what’s going on within the managed account and is creating the house rules and guidelines around when you are blending managed accounts with non-managed account assets, how that should work and what it should look like.”

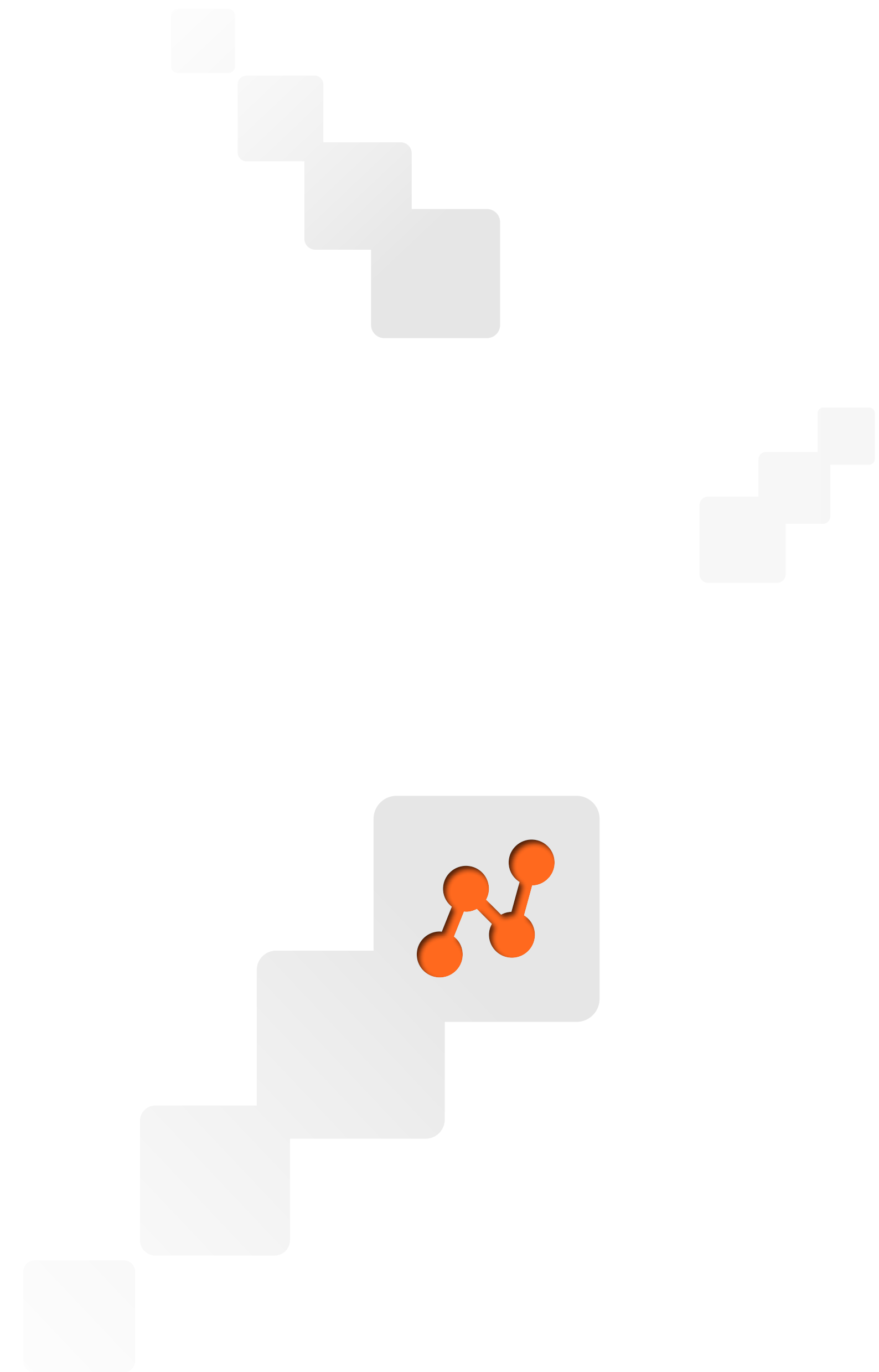
And finally, Anne from Story Wealth also describes how they mix their managed accounts. They have a few predominant models – balanced growth and high growth, a sustainable Aussie equities managed account for people who like direct equities and a predominantly index-focused managed account for clients who are more conservative and want more competitive pricing.

Around these predominant models, they have ‘satellites’ such as ETFs.

“So the satellites we’ve included are actually still funds that are in the managed account model – it’s just adding a bit of a tilt.”

She adds that this also helped with the transition.

“Because we were transitioning a whole bunch of clients over, we didn’t want to make a wholesale change in terms of asset allocation. So by adding the satellite funds, the asset allocation mirrored what they were already in more or less,” she says.



Step 6: Lay down strong processes and governance

The next step is to define strong working processes, investment processes, governance structures, risk management systems, and, if needed, how the investment committee will be appointed and run.

For example, Vincent from Stanford Brown says they have a professional investment committee, which includes their own in-house chief investment officer, as well as himself and another director. They complement this with external expertise.

“We are a believer in having an institutional research partner as part of that process, so we use our asset consultant as a member of our investment committee, and we also have a number of independent consultants on our committee,” he explains.

For Stanford Brown, the investment committee meets monthly, and rebalancing is done quarterly, unless something needs rebalancing in the interim. And at that meeting they discuss the economic outlook and what it means for the assets in their portfolio – for example, what impacts will an inflationary environment have on the fixed interest exposures they hold. They might also have higher-level discussions, such as what exposure they should have to listed versus unlisted assets.

Paul Cox from Libero says they have an internal investment committee at Libero that meets before their quarterly investment committee meetings with their investment manager, Resonant. This means the senior internal experts can raise any questions, concerns, performance queries or asset allocation topics to the manager before they meet.

They have regular communications with Resonant, although they rarely meet outside of the quarterly meetings.

“If they’re making any tweaks to the models month-by-month or week-by-week, we get an update. So we’re well-versed on what’s happening inside the portfolios,” he says.

James Meade says Evidentia has a very “hand-in-hand” approach to building out their governance structures.

“We typically start with an investment policy statement, and then the Investment Committee Charter.”

They then look to hold quarterly investment committee meetings, which all members attend, and also have a monthly update.

“Should anything happen or need to change outside these cycles, we have trading policy that allows us to implement and rebalance portfolios, so the committees best thinking is always present.” He explains.

Case studies: Setting up a retail managed account



Brendan Tully from Lonsec used two real-life examples of practices to demonstrate the process of setting up a retail managed account solution.

Case study 1

The first was an advice practice that had two different driving forces behind changing their business model – on one hand, an experienced adviser seeking to transition out of the business over time, and on the other, an ambitious younger adviser wanting to change the business model and reduce risk.

At the time they decided to move to managed accounts, the practice was manually creating and implementing portfolios, and any portfolio changes were generally made around review time.

“They didn’t have a good understanding or a structured process around their investment philosophy, so that’s where we began,” he explains.

“Their client base was predominantly retirees, so we started by identifying their key investment beliefs and principles. We facilitated an exercise to uncover what their investment philosophy was, and then we worked turning that into a value add for their clients.”

From this, the advice practice recognised they wanted to outsource the portfolio construction and management process, particularly as their largely retiree clients leant towards a more conservative model.

“They wanted to partner with an asset manager that had an emphasis on downside protection rather than return at all costs,” Brendan says.

The firm decided to primarily use Lonsec retirement portfolios that had both an income and capital growth objective, and was broadly diversified to reduce risk. They further blended managed accounts portfolios, combining retirement portfolios with exposure to direct equities to provide additional growth opportunities for the clients.

Case studies: Setting up a retail managed account

Case study 2

The second business was a less mature practice that was experiencing exponential growth from referrals.

As a result, their client demographic was changing – they were increasingly dominated by self-employed professionals whose needs were more sophisticated and complex.

“They recognised that they wanted to put structures in place so they could scale and grow, achieve efficiencies, as well as manage any risk and governance requirements that might arise as a result of that growth,” Brendan says.

Again, the firm needed to blend some of Lonsec’s managed accounts in order to meet their clients’ needs. To do this, they went through an ‘investment matrix’ process.

“They effectively mapped out, for instance, if we had someone present to us that was quite cost conscious, another client that was more complex and sophisticated, what are the potential universal solutions?”

The firm ended up with a core mix of managed accounts based around their clients and their investment philosophy that can easily be tailored to individual needs.

“I think the other piece that was interesting about this business is they were quite open that we were not the only asset manager that they were talking to. We would obviously encourage businesses to undergo their own due diligence as its imperative that their philosophy and beliefs are supported by the end solution,” Brendan says.

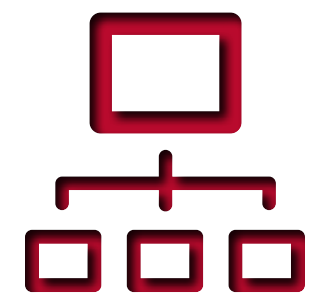


Section 3

Managing the transition

Helping staff and clients transition
to manage accounts

3



Transitioning staff, clients and your business

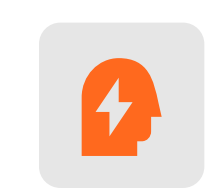
While having 100 per cent of clients in managed accounts is not realistic nor appropriate, one expert, Lonsec's John Burton says the 75 – 80 per cent mark is where they see "a huge lift in efficiency."

Once a firm has put in the groundwork for a move to managed accounts, then the next challenge is the transition for staff and clients.

To make the process easier, try following the following checklist around four key pillars of transitioning to managed accounts:

1. Training staff
2. Communication strategy to existing clients
3. A solid plan for transition
4. Marketing to new clients

Checklist: Managing the transition



Train staff

- What are the benefits for them, the firm and clients
- How to operate the managed account platform (advisers and back office)
- How to talk to clients



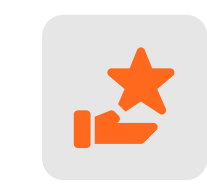
Positioning managed account to clients

- Develop messaging around the 'why'
- Position it as an evolution to clients
- Prepare communication materials and leverage those provided by your asset consultant
- Practice conversations and prepare answers to tricky questions
- Introduce key concepts to clients before the transition where possible, for example during regular update meetings



Plan for the transition

- Decide which clients to target and when
- Plan the rollout of the investment execution
- Set KPIs for the transition to stay on track
- Build out advice documents
- Lean on your platform provider for support during the transition.



Selling to new clients

- Educate new clients on managed accounts – different messaging is required to existing clients
- Present them with an option but still give them a choice

Training staff: Technical aspects are important, but so is the 'why'

Of course, the first port of call in any major transition like this is training staff – and it is crucial this covers both the benefits of managed accounts and what that means for the adviser and their clients, as well as technical aspects of operating the platform.

Chris Gunther from WFS says their training had two prongs:

- 1. The why** – a clear articulation of the reasons for the shift (away from their previous model portfolios) and what it meant to the business and the clients
- 2. The how** – how to use the managed account technology platform and how it differed from previous functionality

"We made up presentations, and training modules for both the advisers and the back-office staff. The staff picked up the differences very quickly," he says.

"It took a bit longer to get there in terms of how they were to position it to clients... we did some scripts and structured talking points which also helped both administration staff and advisers," he says.

Vincent O'Neill from Stanford Brown says the single biggest focus should be staff communication – particularly if there is concern about advisers feeling disempowered.

"We're probably fortunate in that we didn't have advisers who saw themselves as Warren Buffetts, making investment calls.

"Because our value proposition as a business is the client's whole world, we were able to tell our staff that while investments were an important part of that, they weren't the only part," he says.

The benefit of proper communication aided their advisers as they could easily see the practical benefits of a managed account, such as having the investment committee and internal efficiency gains. This meant they were much better positioned to articulate these benefits to clients as well.

"Because our value proposition as a business is the client's whole world, we were able to tell our staff that while investments were an important part of that, they weren't the only part,"

Vincent O'Neil
CEO of Stanford Brown



Positioning managed account to clients

It is important to present your managed accounts to your clients offer as an evolution rather than a revolution.

How firms communicate to clients is a critical piece in the changeover. Advice firms need to be clear on their messaging and then have the appropriate materials to help them explain.

"You have to present it as an evolution of the process you already have, otherwise you run the risk of it coming across as 'I've washed my hands of it, outsourced it to someone else', says James Meade from Evidentia.

Paul Cox from Libero says their message focused on how the management of portfolios (their philosophy) had not really changed, but how they'd raised the bar on governance, guardrails and efficiency, which led itself to a better continuity outcome for clients.

"We wanted to improve the governance of the business. We thought we had a fairly robust approach, but we believed managed accounts would take that up a whole level. And that's because you've got an RE that sits across the top of these things that's going to make sure that things happen," he says.

"And I think that there are real benefits that can be explained and presented to clients. When we put it in that context to clients, we had basically a hundred percent take up to the managed account," he says.

He continues: "We spent a lot of time inside a PowerPoint presentation, would you believe? Working through things like the costs, the friction points for clients, the benefits for them, explaining the rationale."

Anne Graham from Story Wealth says they found that some clients were happy with the change as it meant they didn't have to keep signing documents, while others wanted to know more.

"We'd get a lot of people asking: 'if Lonsec's managing our account, why do we need you?' So we'd have to explain our different roles."

Leverage your partners

If working with an asset consultant, keep in mind that they have likely done this with other clients, so have the ability to help with key messaging and what to say when handling objections.

John from Lonsec acknowledges that a move to managed accounts is a naturally challenging process for any business.

"You often don't get it in one go, and we recognise that. That's why we have consultants on the ground, videos to watch and places to dial in to help businesses get through those challenging concepts - from value proposition and investment philosophy through to planning it out and getting it done," he says.

Practice makes perfect

Firms should accept that their messaging is not going to be perfect from day one, so it's worthwhile starting with a few 'friendly' clients, clearly monitoring their feedback, and then adjusting any aspects of the messaging that are not resonating properly. Another option could be internal role playing.

Anne from Story Wealth says if she had to go back and do it again, "they'd practice more role plays internally so they could hone the messaging for various scenarios."

"It helps if you're prepared to anticipate questions," she advises.

Chris from WFS agrees: "Once you've done it four or five times with clients, you're a lot more comfortable with it. Once you've done it 20 times, it's just become part of you."

Vincent from Stanford Brown says when they first started, they made sure to go over the detail first and understand how it all worked before they moved forward with clients. This went as far as trying it with their own money first.

"We wanted to make sure we were very comfortable and able to articulate it to clients the right way," he says.

He adds that you "only get one crack at it" and so they were conscious of preventing clients from having a bad experience early on and therefore turning them off the idea forever.

"We wanted to really try and make sure that we avoided that client outcome," Vincent says.

Planning the transition: which clients to target and when

Your client base will dictate how quickly you can roll out your managed account solution to them, so build a plan and even develop a clear set of KPIs to meet.

Things to think about when transitioning your client base include: Do you start with some first? How long should this transition last? What does success look like?

Anne from Story Wealth says they were strategic in which clients they chose to transition first—particularly as they were all still learning, and wanted to start with those who would be most sympathetic.

“The better, more aligned clients were approached first. And the first few conversations were hard because we weren’t used to explaining the benefits of a managed account,” she explains.

She also suggests you need to think about things like whether the client is in pension or whether they might need some money in the short-term, as the transition process may take a bit of time.

Now, about half of Story Wealth’s client base has transitioned to managed accounts, and the goal is to eventually switch most.

“We take the opportunity to introduce managed accounts to existing clients when there’s a change happening anyway, such as a re-contribution strategy or a structural change,” Anne says.

Anne also suggests to those worried about timing to remember that markets are always going to go up and down.

“If you wait for the markets just to be good to move to managed accounts, it may not happen for a number of years. So what you need to do is build a plan on when to move your clients and thoroughly assess the book.”

Brendan Tully from Lonsec says they work with their clients to put in a structured change management process to help them, and, anecdotally, it is typically a 12 month to two-year process.

“We certainly know that the first 12 months is the hardest in this change process.”

“It’s about getting the structural pillars right to begin with, and then turning the motivation into momentum,” he says.

Brendan also points out that while it is normal for the transition to take time, firms must also remember that from a fairness perspective, advisers should be conscious of offering the same opportunity to all clients. It’s not just new clients that should be exposed to these opportunities because often the existing client base can drive the greatest benefits to the client and business.

Tips for planning a client transition

- ✓ Train staff and prepare client communications
- ✓ Have a plan for which clients to target first
- ✓ Set a time frame for implementation
- ✓ Have a spreadsheet or other tool to track progress
- ✓ Consider set KPIs for how many clients will transition each month
- ✓ Use annual reviews and other events to flag upcoming changes and have conversations
- ✓ Don’t try and time your entry into the market – you will always be wrong

Plan the rollout of the investment execution

When it comes to what implementation looks like, advice firms need to understand and plan the rollout and investment execution.

On one end of the spectrum, this can be quite basic; as simple as opening an account, making an investment selection and getting started.

However, it can often be more complicated, such as where you have to roll over an income stream, or sell down an investment portfolio to move to another platform. In this case, it might take a while to sell down the portfolio, convert it to cash and put it into the new platform. Another example of a more complicated execution might be where there's a rollover of a large balance. In that case, it might have to be done in tranches.

"You might sell down a quarter, roll it over, invest, sell down a quarter, roll over, invest," Anne from Story Wealth explains.

"Then you've got to work out what proportion you are going to put into the portfolio each time. Are you going to do it on asset allocation? Or are you just going to say, "We'll put the first tranche into the managed account."

She says that it's these "conscious decisions" around the implementation and timing are the tricky part, rather than the actual mechanics of the implementation itself.

Give yourself KPIs and targets

Chris from Wahlstrom says they didn't transition everyone at once, and were strategic in their approach, for example, considering how being out of the market for periods of time might impact certain clients.

He also suggests giving yourself KPIs – their goal was to transition roughly 80 per cent of those they'd identified as being better off within managed accounts within 12 months. It stayed relatively on track, even if the firm found it a bit uncomfortable at the start.

"It did take a little bit of thinking time at first. We used a spreadsheet to work through where and when so that we are not putting too much pressure on teams, especially the advisers."

He says a lot of the transitions were done around annual reviews - and it helped that they introduced the managed account concept with clients six to 12 months beforehand, while they were waiting for their licence to come through. This ensured advisers had time to build trust with the clients and support them through the change.

"That gave us a bit of a head start to have those conversations during reviews and get a feeling for whether clients like and want this," he says.

Seek help from a platform provider

Your platform provider can help with the transition and minimising any disruption to clients, so remember to lean on them as part of the client transition process.

Story Wealth says during a client transition, they work closely with Netwealth to ensure everything gets done, particularly if the client is more complex and there's elements like going to another platform, rolling over an income stream or superannuation, or selling down an investment portfolio.

In that case, they'll give their platform provider instructions so they can make sure the transition sticks to the plan that's been agreed with the client.

"We have to know what to tell the platform provider. We put together a spreadsheet that details the investments being moved or bought/sold, and the timing of when funds are being moved in tranches. And then they follow it," she explains.

And Chris from WFS says they also leaned on Netwealth, particularly in the early days. When there were big issues – of which they only had about a dozen – they were able call on Netwealth for help.

"Even when the issue was caused by us not yet understanding how the process works to the ninth degree, they were very good at helping us get it resolved quickly and making sure clients weren't adversely affected."

Building out advice documents

Any switch to managed accounts must come with solid, compliant advice documentation. So how much do existing documents need to change when making the shift?

Liberio's Paul Cox says they engaged a law firm to sit down and evaluate what needed doing from a compliance perspective. He says in their case, because they were moving from an MDA to a managed account, it was easier than they had initially thought, as they already had clients who were used to a discretionary arrangement and automatic handling of trades and rebalances. However, he says getting legal advice was "well worthwhile".

"We've now got a very streamlined compliant advice document, that we can use with all clients. It was a good investment," he says.

Liberio's careful planning of their documentation switch-over meant they were able to transfer their entire book almost immediately as planned – creating a smooth client experience. To do this, they had legal sign-off for their template, met with their clients prior, and then distributed the documents to clients electronically via DocuSign.

Meanwhile, Anne explains that their advice documentation "didn't really change a whole lot".

"All we did was include some detailed explanations around what a managed account is, why is it a better option than we currently use, and of course fee disclosure," she says.

On the other hand, Vincent from Stanford Brown says they had to change their advice documents quite a bit.

"The expectation was that you'd have to give a much higher degree of disclosure around all cost charges and things of that nature," he says.

"We've now got a very streamlined compliant advice document, that we can use with all clients. It was a good investment,"

Paul Cox Founder and Managing Director of Liberio Capital Wealth Management.



Selling managed accounts to new clients

While transitioning existing clients is an involved process, it is important at the same time to consider what to say and offer to new clients.

There are two key considerations here: how to educate new clients, and how to present the benefits while still giving them an option.

Talking to new clients about managed accounts is a different conversation entirely to educating existing ones. However, it still requires a significant degree of client education.

“It depends on their degree of sophistication and understanding of investments. Some of them will come to you with experience and understanding, so you’ll just talk to them about the different choices and cost,” says Vincent from Stanford Brown.

For those who are less sophisticated or knowledgeable about managed accounts, it is necessary to take them through the concepts thoroughly during onboarding.

“There’s a huge amount of information you need to gather and share with the client to take them through the choices, not just in terms of investments or products, but also strategies that are open to them. And ultimately, it all comes down in the statement of advice, which is all provided to them, which gives those same choices back to them,” Vincent adds.

Chris from WFS says their process for new clients starts with the traditional discovery process leading to a discussion document with a focus on what is important to the client and how it may be potentially addressed.

“At all times strategy comes before product,” he says.

Only after this will they talk through options, such as more traditional portfolio structures/model portfolios, versus managed accounts.

Giving clients an option

Firms also need to be cognisant of putting the decisions in the new client's hands.

"As a licensee, you need to be careful of because of licensing compliance, especially from a professional indemnity point of view," says Vincent.

Story Wealth's Anne agrees that for new clients, presenting an option is important.

"Whether they're existing or new, they've generally got a portfolio and it might be a non-managed account structure. So we say 'Here's what you've got, here's what we're recommending, and here's maybe a third option,'" she explains.


Part of this discussion involves explaining that managed accounts can be more expensive in return for their increased functionality. To combat this, Story Wealth provides a variety of models at different price points.

"We tell them: maybe you want to drive around in something fancier than a Hyundai, but you don't want a Mercedes either, so go for something mid-price like our managed account hybrid model," she says.

When Chris and the WFS team sit in front of clients, they take the time to thoroughly educate their clients about different options that may be available to meet their goals and objectives. By properly educating the client, Chris believes they will often lean towards a managed account approach because of the clear advantages it provides.

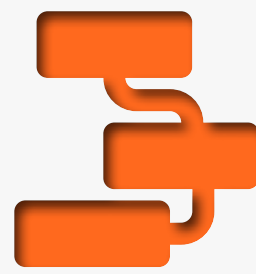
The discussion revolves around the different investment preferences of the client, including, the importance of cost effectiveness, whether their best ideas and the ability to pivot depending on market conditions are important. Chris suggests this helps to highlight the core benefits of a managed account solution.

By asking questions, Chris believes clients will often lead themselves to a managed account approach in many instances. Question to ask clients about their investment preferences may include: Is cost-effectiveness important? Are my best ideas more important? Is the ability for us to have more flexibility important? Is it important that we have the option of being able to pivot quickly in different environments?



"We tell them: maybe you want to drive around in something fancier than a Hyundai, but you don't want a Mercedes either, so go for something mid-price like our managed account hybrid model,"

Anne Graham CEO and Senior Financial Planner at Story Wealth Management.



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