

# An introduction to managed accounts (or SMAs)

What are they and why use them?

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# Introduction:

## What are managed accounts?



# History

- Managed accounts, SMAs – around since the 1970s
- Originated with HNWs
- Technology advancement has made them more accessible
- In the US targeting mass affluent with online services
- In Australia, SMFSs, wealth professionals and fintechs are driving growth

**A more mature SMSF segment demands the benefits of SMAs — professional management with transparency, beneficial ownership and less tax leakage.**

**- Morgan Stanley 2016**

# A description

An investment where portfolio management is outsourced to an **investment manager** and execution is typically managed by a **technology platform**.

The important difference between managed accounts and managed funds is that a managed fund investor owns units in fund that in turn owns other investments, whereas **a managed account investor owns the invested assets directly in his own name as a beneficial owner**. This means in a managed account an investors money is not pooled with money from other investors.



# A comparison

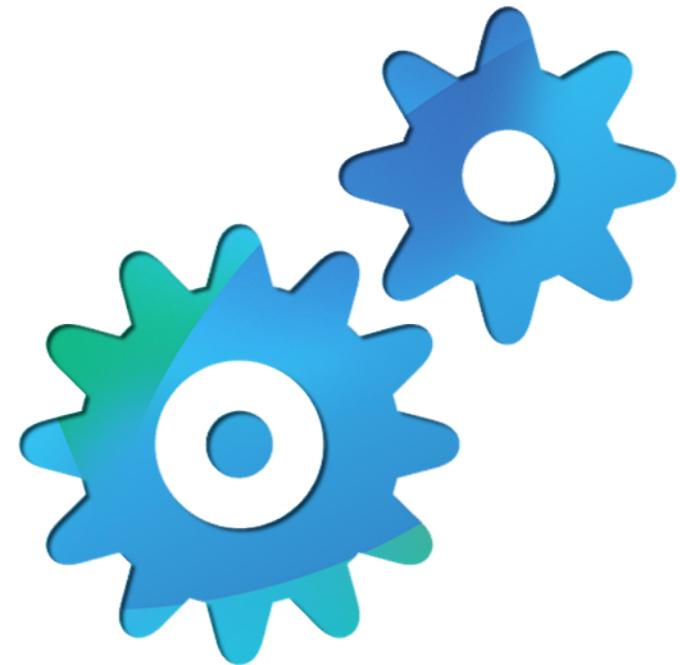
Comparing them to Managed funds and direct equity ownership

A simple non-exhaustive comparison:

	Managed accounts	Managed funds	Direct equities
Professional investment management	Yes	Yes	
Ongoing rebalancing to ensure portfolio reflects investment managers position	Yes	Yes	
Transparency to view underlying assets	Yes		Yes
Ability to exclude stocks from the portfolio	Yes		Yes
Avoid embedded capital gains tax	Yes		Yes

# How they operate

1. Investors selects both a managed account investment manager and a model to invest in (via the managed account platform)
2. From time to time, the Investment manager notifies the platform of changes to the managed account model
3. Platform rebalances the investor's portfolio taking into account any specific investor rules and/or exceptions
  - a. Don't buy RIO (ever)
  - b. Buy BHP instead of RIO (substitution)
  - c. Lock CBA (and don't sell)



The examples expressed in this presentation are for illustration purposes only.

# Benefits and risks of managed accounts



# Benefits

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

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



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# Risks and watch-outs

- The managed account portfolio is already constructed before investing, hence performance of portfolio may suffer or capital may erode if existing securities have already realised their growth potential
- Limited number of managed account investment portfolios, across all asset classes
- There is difficulty gaining adequate diversification across good quality managers, especially on smaller SMA platforms or if an investor does not have adequate funds to diversify across a number of managers
- Unable to customise the portfolio (securities selected) with some managed account providers
- Execution risk, i.e. delays in manager decisions being implemented on a timely basis within the model portfolios
- Portfolio drift, causing the portfolio to differ from the model portfolio
- Some managed account portfolios have minimum investment amounts to ensure low tracking error with the model

# Choosing and accessing managed accounts



# The different flavours of managed accounts

Not all managed accounts are created equal, and not all purporting to be a managed account offer the same level of transparency and portability. Consider these two flavours:

1. Simple robo investment solutions
2. Wrap platform managed account solutions



# 1. Robo investment solutions

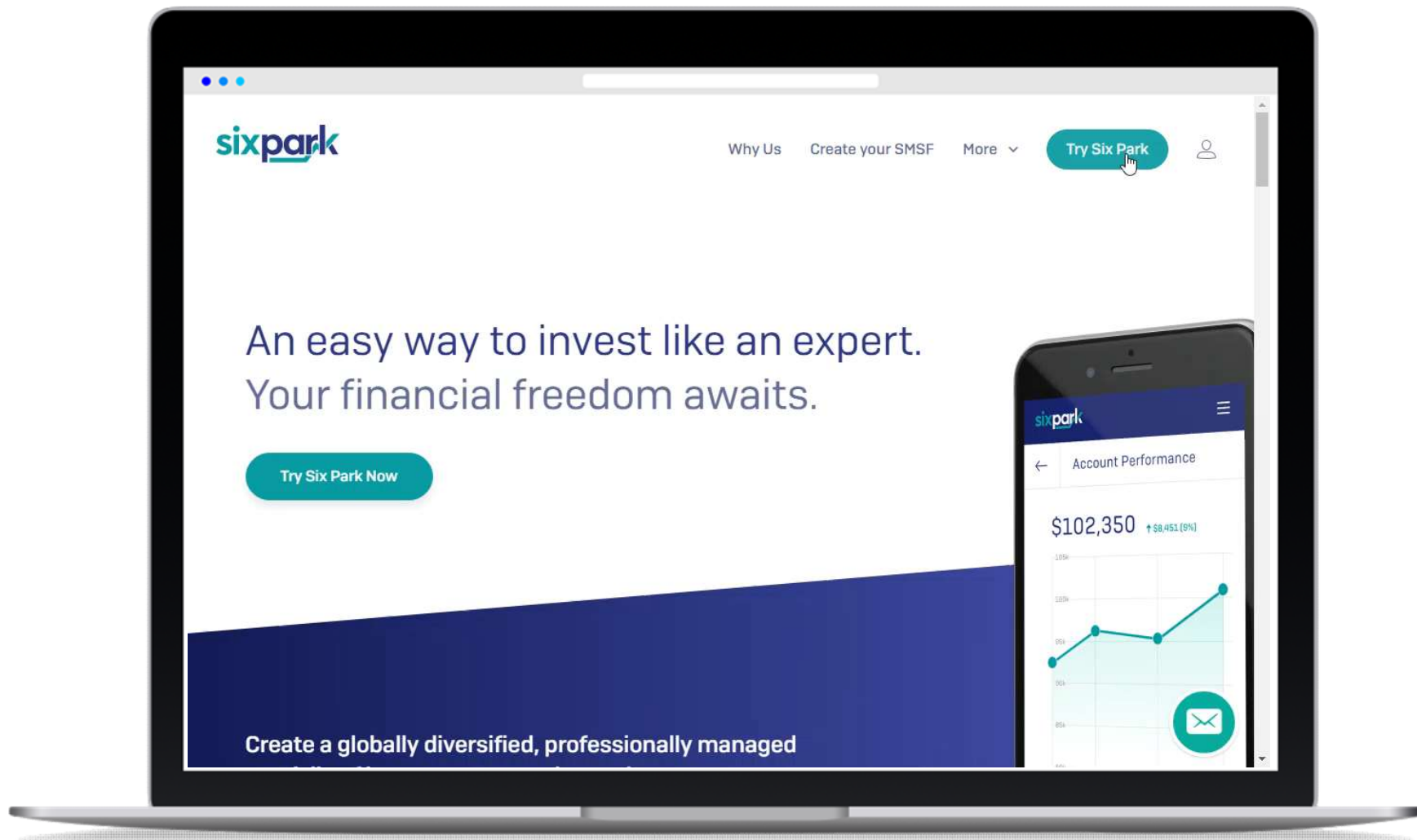
## Simple managed account solution

### Features

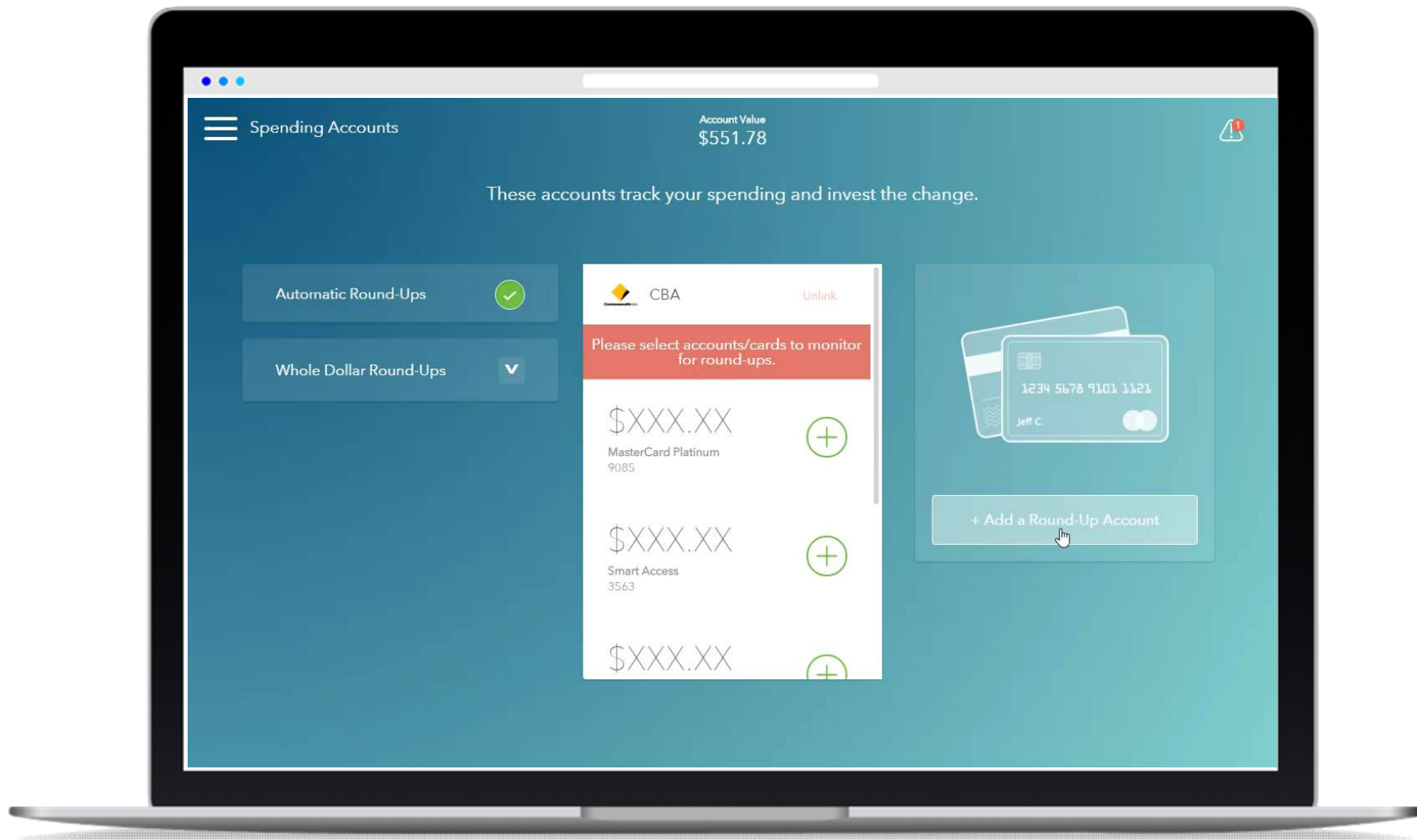
- Typically limited number of investment portfolios to choose from
  - Typically investments are made up of ETFs
  - Investment linked with risk-profile
- Online features
  - Reporting
  - Change portfolio
- Low minimum account balance requirements
- No financial adviser required
- Available through super via SMSF or non-super













## 2. Wrap platform managed account solution

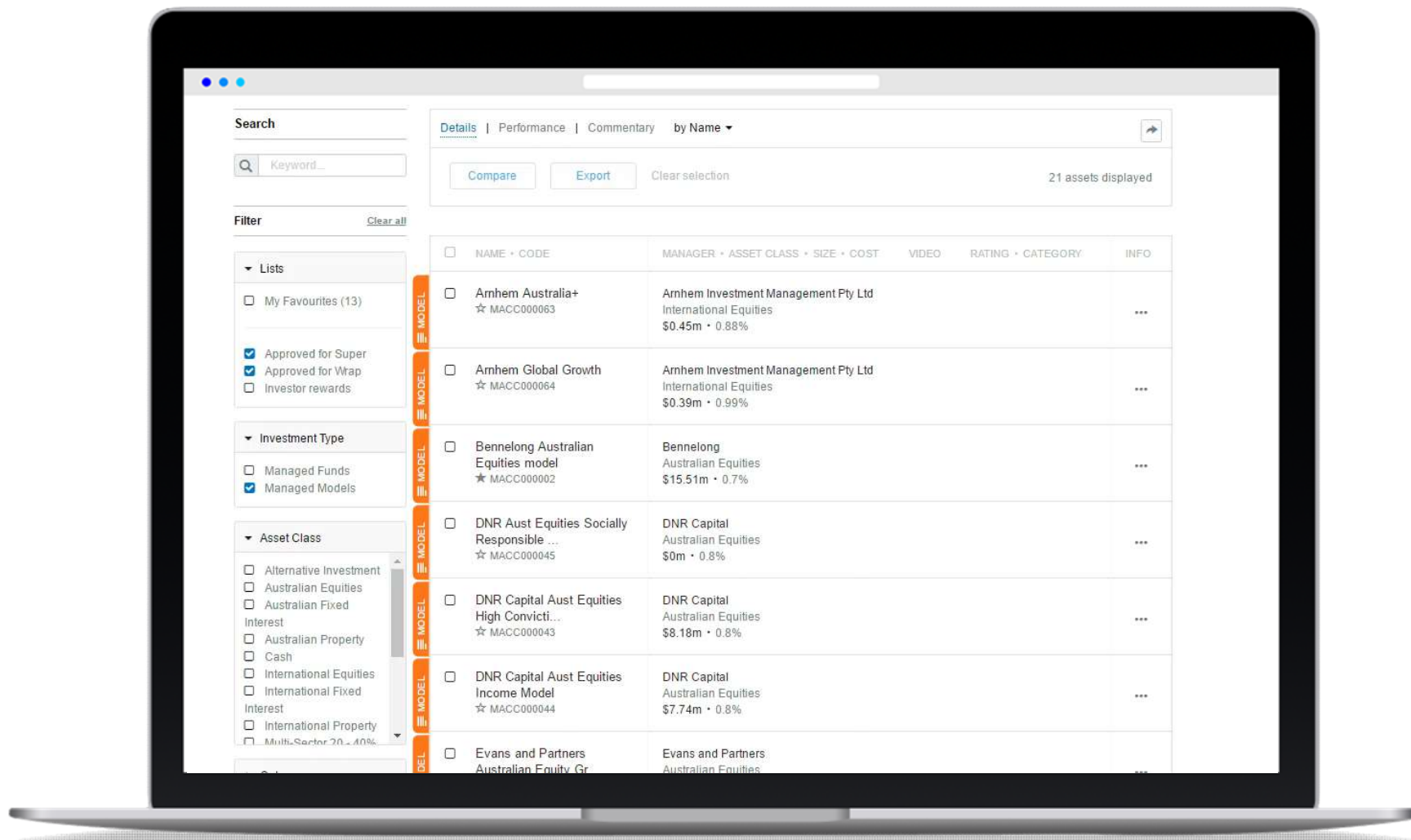
Advanced managed account solution

### Features

- Easy online access
- Typically a range of investment portfolios to choose from
  - Ranging from ASX and international securities, fixed interest, diversified multi-manager
- Online features
  - Reporting
  - Buy/sell investments
  - Customise investment portfolio
- DIY or provide your financial adviser authority to transact
- Available through super via retail super, SMSF or non-super







# Conclusion

1. Managed accounts are not new, but they are now more widely available
2. Managed accounts are an investment option driven by technology advances
3. Managed accounts rely on professional investment managers
4. Managed accounts are accessed by online technology platforms
5. There are different types of managed account platforms



# Thank you

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