



Linear Financial SMA

Melbourne-based Linear Financial spent more than six years perfecting a separately managed account solution that dares to blow the rest of its competitors out of the water. MICHELLE BALTAZAR writes.

Linear Financial is cooking up a different recipe to help advisers deliver more bang for their client's buck. Last month, Linear launched a separately managed account (SMA) service, a culmination of six years' technology development.

Simply put, an SMA is a portfolio made up of securities, usually Australian shares, that are beneficially owned by the individual investor and managed by professional managers, researchers or 'model portfolio' managers.

The shares being "beneficially owned" by the investor – which is not the case in managed funds – has added benefits. For example, the investor can add, delete or "lock" shares in an SMA. The investors or their financial adviser can also better manage CGT gains or losses depending on their financial situation. Again, something that you can't do in a managed fund where all unitholders inherit embedded capital gains or losses.

The key is that financial advisers, once they dig deeper into how an SMA works, will find that it is a more transparent and more tax-efficient way to manage their client's share portfolio. According to latest Investment Trends research, 18 per cent of financial planners now recommend SMAs with another 48 per cent considering it.

But where Linear aims to differ is that its SMA product can cater for all asset classes, not just Australian equities.

"To date managed accounts have had a somewhat mixed response from financial planners who have not taken them up in any serious way. Our big thing is that in order to get advisers to really look at SMAs, you really have to go out there with a solution that says they're just a handy way to deal with direct equities," said Chris Hipkin, Linear Financial's managing director.

This is why Linear Financial has stepped up to provide more than just Aus-

tralian shares but also international equities, term deposits and fixed interest products, government bonds, indices and synthetic instruments.

Easy access on adviser desktops

Hipkin said the biggest frustration among financial advisers is the lack of a truly integrated desktop where they can manage and monitor their client's portfolio. To the industry's credit, everyone has been working towards this goal but so far there are no clear winners. Hipkin believes that their SMA is a frontrunner towards filling that need.

"If you look at the US experience, there is what they call a 'unified managed account' (UMA). That is best run through an adviser desktop where it brings together everyone's assets. Powering that UMA is an SMA solution. As far as we know, we're the only ones that could integrate in an adviser's desktop," he says.

Hipkin is talking about the group's relationship with IRESS, which owns Visi-Plan and Xplan, and is one of the dominant players in the adviser desktop solutions market.

"As a consequence of recent market events, we are likely to witness clients questioning their advisers about portfolio performance and fees for the first time in a considerable period. Advisers looking to further demonstrate the value of their advice, and the fees charged for that advice, will appreciate the benefits offered under an SMA structure," said Michael Kinens, IRESS' senior business development executive.

Andrew Walsh, general manager at Wealth Management Solutions, adds that Linear is setting a new benchmark by integrating its SMA with existing adviser software. "The Linear SMA represents a significant advancement in the SMA space. By using IRESS' suite of products, the investment manager, the administrator

and the financial planner are finally connected in a fashion which has previously been unavailable."

More applications

Those who have attended educational seminars on SMAs are already well versed with the transparency and tax benefits of using managed accounts. Hipkin highlights CGT management and income/liability management as two things advisers could use to explain SMAs to their clients.

Taking CGT management as an example, Hipkin outlines the process.

"They can either use our system, or they can log on to their own desktop, if they use one of the desktops we support. Through that they can model up which tax parcels they want bought or sold. Use the rebalance button to say this would be the CGT outcome. If they're happy with that, they can hit 'send' and an electronic messaging comes to us as the administrator."

"We can execute on the market, notify the fund manager and the adviser of the trade, and ultimately pass on all that information through to the client and the whole thing takes about ten minutes or less."

But perhaps the least known and under-rated feature of an SMA is income and liability management.

"I think managed accounts have been overlooked from the point of view of how you can manage fixed interest, particularly at the moment where potentially interest rates are at the peak of the cycle." Using term deposits for example, financial advisers can better match their client's income needs through a mix of term deposits.

"If you go into managed funds and there's a run on redemptions, they might come at a loss to all investors yet some investors may not necessarily want to get out of that managed fund. And so from the point of view of the adviser where they've got to match a liability in two years' time – not today – they might as well make the



most of the cycle."

Focus on quality

It's very rare to see exclusive relationships in the investment industry these days. All parts of the value chain – from planner to administrator to the fund managers – prefer to keep the lines open to all. But Hipkin says while there has been a race for some SMAs to be as comprehensive as possible, the group prefers to keep a steady pace and has signed up a select group of fund managers to provide the underlying portfolios.

"For fund managers, we are unique in that we understand the investment processes required to deploy a successful managed account and deliver to quality fund managers a suite of tools that allow them to cost effectively participate in the managed account space. Testament to this is that we have managed to sign a range of fund managers that are simply not available on any other platform."

Linear has also scored a coup when it struck a deal with Standard & Poor's, which will allow Linear SMA clients access to the full suite of Standard & Poor's ASX

indices.

The "quality" theme underpins every strategy that Linear has pursued. "We offer quality of the investment managers, quality of the technology that we use and quality of the admin and the structure of the admin,"

"We've really tried to develop a service to investors that is not going to give them or their financial advisers a nasty surprise in three years' time."

Governance

It's Hipkin's way of saying that SMAs are not in the same space as highly leveraged businesses that have recently collapsed.

"Our structure is such that client assets are held by a third party custodian with clients retaining beneficial ownership. Client's assets are secure as we do not offer stock lending facilities across the entire pool and therefore no charge is placed on anyone's assets – unless they elect to do so."

"This is completely different to the Tricom, Opes Prime and Lift arrangements that allowed for discretionary trading, high LVR's and cross-collateralisation."

In short, all those six years of hard work, research, technology development and adviser feedback help ensure that the Linear SMA provides benefits to all parts of the value chain.

"We have a best-of-breed managed account that provides greater productivity and efficiencies, increased revenues and at the same time, reduced compliance." ■

