

## Middle management option

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Until recently, most people had two investment choices – they could throw in their lot with thousands of other investors in a managed fund, or they could go it alone on a share trading account and a prayer.

Managed accounts are emerging as a halfway house between these two extremes. For investors, they offer higher transparency, lower fees and taxes and as much or as little involvement in investment decisions as they want.

For financial planners, managed accounts give them something useful to do and, crucially, charge fees for now that churning clients through managed funds for commissions is no longer a viable business model.

Managed accounts used to be available only to wealthy individuals, NAB Private Wealth chief investment officer Philip Kimball says. “But technological developments have allowed for scalability and a reduction in cost, making them more available to the average investor.”

Managed accounts come in two main forms: separately managed accounts (SMAs) and individually managed accounts (IMAs).

With a traditional managed fund, investors buy units in a trust that, in turn, owns shares, bonds or other assets, following the fund manager’s investment strategy.

With an SMA, investors retain beneficial ownership of the assets in their individual account but outsource trading to a planner or stockbroker guided by one of several generic or “model” portfolios.

So SMA investors receive the full benefit of dividends and franking credits and do not inherit the tax liabilities of others as they would buying units in an established managed fund. They can also control the timing of asset sales to minimise their income and capital gains tax.

IMAs are similar to SMAs except that the model portfolio is constructed to meet an individual’s specific investment objectives. “In contrast to SMAs, the investment decisions are made in conjunction with the client and the professional manager,” Kimball explains.

The additional customising and consultation of IMAs means planners require investors to have a lot more money to put into an IMA compared with an SMA, he says.

“In theory, each IMA is different as they are customised to individual needs, [so] they are often seen as more labour intensive and typically require a minimum investment of \$500,000 or more.”

Managed account fees vary widely but are usually one-half and, in some cases, as little as one-quarter of the fees charged by an equivalent managed fund.

In the gap, planners spy an opportunity to replace some of the income they will lose when commissions become illegal in 2012.

Two years from now planners are likely to direct one in 10 new clients to managed accounts, market researcher Investment Trends says, which is up from one in 20 last year.

Yellow Brick Road, founded by serial entrepreneur Mark Bouris, is one financial planning company seizing the opportunity.

Last year YBR teamed up with OneVue, which provides planners with the technology to administer managed accounts, to offer what it calls “universally managed accounts”. More recently it chose six fund managers, including Platypus Asset Management and JBWere, to provide model portfolios for clients.

YBR chief operating officer Bryn Nicholson says SMAs are especially suited to today’s uncertain asset markets.

“If we change asset allocations during bear markets or periods of higher volatility, the transparency and low transaction costs of SMA platforms make it easier to respond quickly,” he says. “By contrast, investors are very unlikely to be advised to sell managed funds during market disruptions.”

However, with the SMA market just emerging in Australia, both planners and investors face a limited choice of



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model portfolios in particular. Most are biased toward large cap Australian equities, when part of the appeal of managed accounts is the ability to invest in a wider range of assets than managed funds typically do.

As the market matures, managed accounts are set to become popular alternatives to the collectivist and individualist extremes available today.

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