

Two roads to a single destination

How should licensees and advisers choose the managed account that best meets their business objectives and client needs?

Prepared by IMAP for BT Panorama

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Summary

The amount invested through managed accounts is growing strongly but as a method of investing, managed accounts are still not well understood. The differences between types of managed accounts are often blurred and this is compounded by a prolific use of jargon.

Managed accounts have some generic defining characteristics

- Recognised legal structure
- Personal advice
- Discretionary management of investments
- Model based, centralised controls, systematic approach to portfolio management
- No pooling of investments
- Centralised & efficient administration

There are two primary strands of managed accounts emerging –

- **Managed Portfolios**, also called separately managed accounts or SMAs. Panorama's BT Managed Portfolios are a leading example of this type of product,
- **Managed Discretionary Accounts (MDA's)**. BT offers a custody service and tool-kit to MDA providers wanting to operate their MDA service through Panorama.

But there are other legal structures that have been developed to meet a similar need.

The investor needs that managed accounts, and the advice that supports them, aim to satisfy generally include:

- A portfolio of investments that is aligned to the investor's personal objectives and may take their personal constraints and preferences into account.
- Confidence for the investor in knowing that their portfolio is being regularly reviewed and actively managed, even if the underlying investments themselves happen to be "passive".
- Sufficient flexibility in their portfolio so that, in the event their circumstances change, the portfolio can be easily modified to meet their changed needs.

To be successful, a managed account program has to meet the needs of a number of parties, principally:

- The investor, through satisfying their investment objectives.
- The adviser, in meeting their requirement for practice efficiency and flexibility in serving many clients and ongoing communication and support from the managed account provider for enriching the client experience and maintaining close client relationships.
- The licensee, in their aims for control over their advice service offering, risk reduction and potentially portfolio management revenue where they have the relevant investment management capability.
- The managed account provider in running an effective, compliant, profitable and systematic service.

The two primary types of managed accounts – Managed Portfolios and MDAs – can be operated on platforms to meet these needs in different ways. Which version of managed account is best suited to a particular licensee or adviser will be determined by the objectives, resources and service model of each organisation.

This paper examines those issues in more detail.

About managed accounts

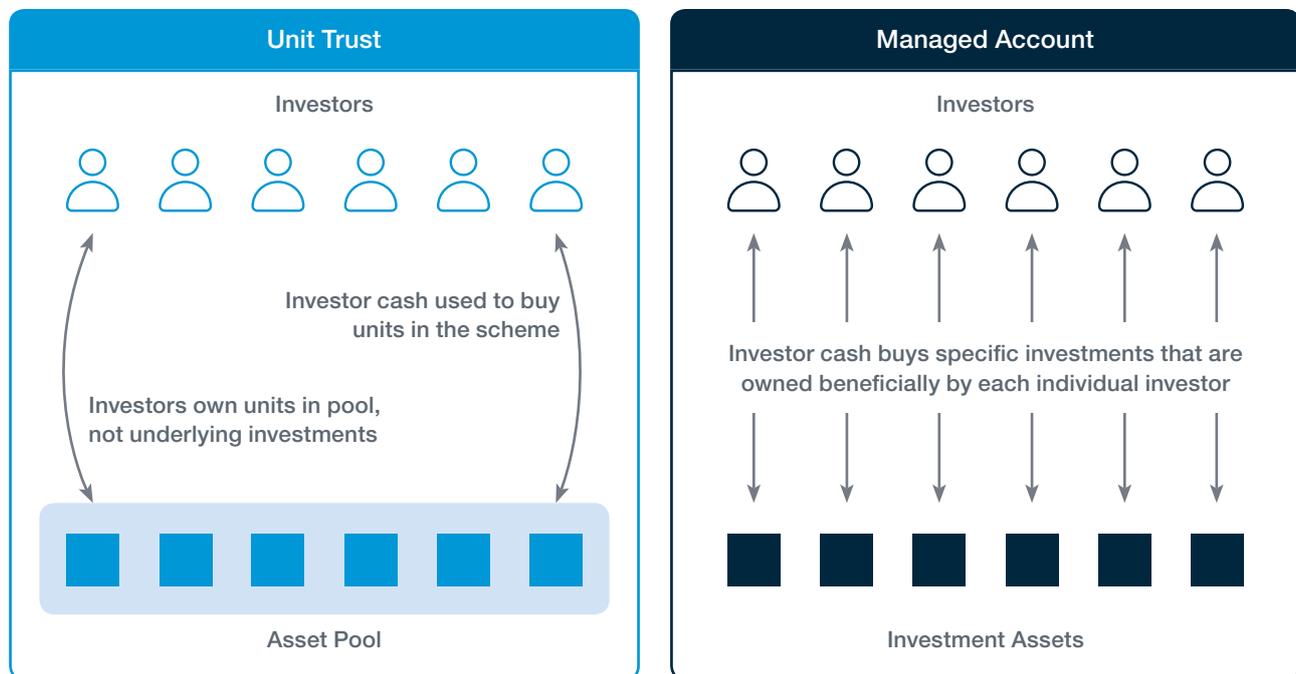
ASIC determined in the initial issue of the Managed Discretionary Account Class Order CO 04/194, that managed accounts met the test under the Corporations Act of being deemed a Managed Investment Scheme (MIS). However, ASIC allowed them to be operated in two ways, like Panorama's BT Managed Portfolios, as a conventional MIS with a product disclosure statement, or with specific reliefs as MDAs under an agreement structure between the operator and the investor.

The defining characteristics of managed accounts are:

- > The investor either grants discretion to a third party to manage the investment portfolio on their behalf or invests in a model portfolio operated by a third party manager. Investor consent is not required when making and implementing investment decisions;
- > The portfolio is run in accordance with a standard model, which may include customisation options to the extent these are supported by the portfolio management technology, where the model is developed by a central investment team or an investment manager;

- > Most transaction initiation and corporate action processing is removed from advisers' offices and handled centrally by the managed account operator, and;
- > Each investor has direct or beneficial ownership of the individual underlying investments in their portfolio, rather than taking a share of a pool of assets via issued units. The investor therefore enjoys transparency over their holdings and the tax advantages that direct ownership offers relative to the unit trust structure¹.

The most common underlying investments held in managed accounts are listed securities, managed funds and a cash account. The difference between unitised structures used in managed funds and non-unitised structures used in managed accounts is shown conceptually in the diagram below.



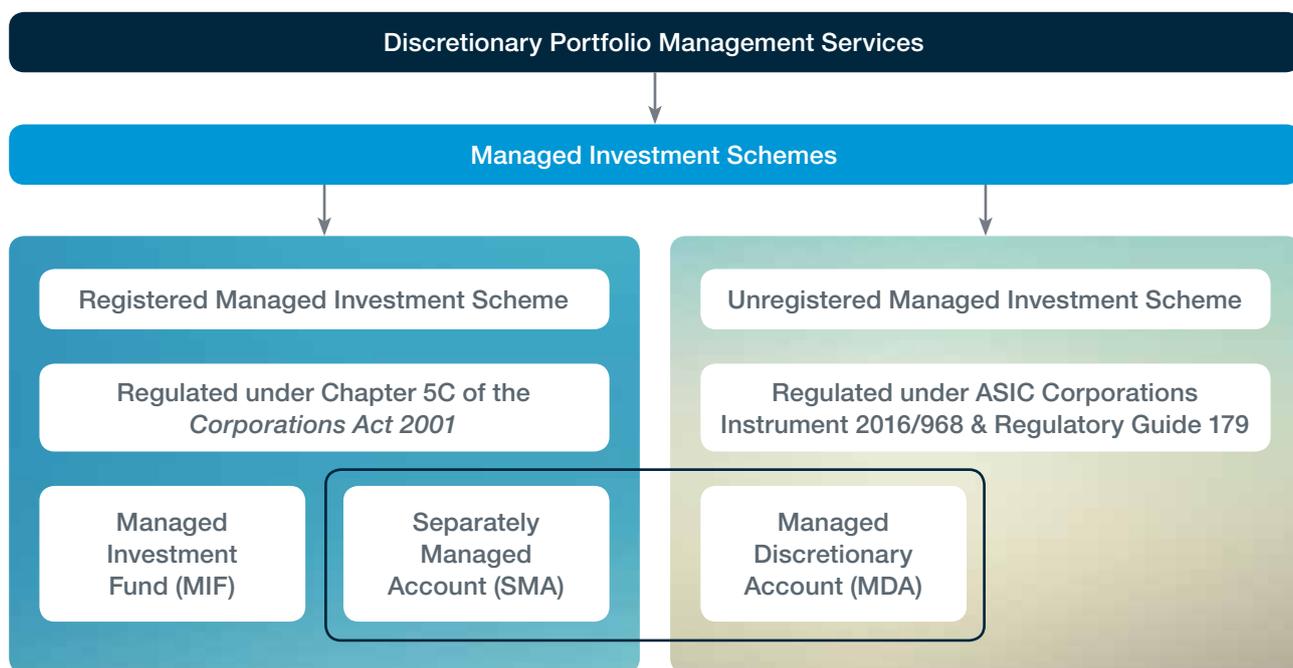
¹ When an investor buys units in a trust the unit price generally contains components of accumulated income and realised capital gains. This turns part of the new investor's capital into taxable income and gains. On an ongoing basis, where the unit trust manager sells investments to fund redemptions, this can also generate taxable gains for the investor that is not leaving the unit trust.

Unit trusts, Separately Managed Accounts (SMAs) and Managed Discretionary Accounts (MDAs) are all Managed Investment Schemes in the eyes of the law. However, the regulation of them varies somewhat, as does their structure. This has implications for the investors' experience and what the "best use" for each is.

Where managed accounts fit relative to unit trusts, and the different regulatory framework for SMAs and MDAs is shown in the diagram below.

Despite the differences between Managed Portfolios and MDA's, both can be operated on conventional platforms.

The benefits that platforms provide such as administration, custody, reporting, online transacting, tax reporting, fee collection, online access are available in either structure.



- Registered Managed Investment Scheme (includes unit trust and 'Managed Accounts' offered under a PDS).
- Managed Discretionary Account (MDA) per ACI 2016/968 offered under a contract.
- Services described by Philo as a 'managed account'. Does not include unitised investment offerings (managed funds).

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Why managed accounts on platforms

Platforms, such as BT Panorama, are a key tool of most advice practices. The many benefits which BT Panorama offers deliver efficiencies for advisers and clients and include:

- One place to access an integrated service for all your investment, SMSF and super clients
- Easy access to key information with intuitive dashboards and flexible real time reporting
- Intelligent design streamlines key administrative tasks
- Central cash hub for all investments
- Access to a wide range of investments including wholesale managed funds, ASX listed securities and term deposits
- Centralised reporting including tax and performance reporting
- Easy access for investors, advisers with a mobile app

But what makes a platform, such as BT Panorama, a natural administration vehicle to deliver or enable managed account services? As we've discussed, since 2004 the regulator has viewed managed accounts legally as Managed Investment Schemes which could be provided as a:

- Product – in the form of a Managed Portfolio with a PDS and responsible entity or as a;
- Service – in the form of MDAs with a client agreement and operated by a licensed MDA provider.

Since their launch, platforms have provided the tools that enable advisers and licensees to run efficient, profitable businesses. Managed Portfolios or MDA's are the next generation of tools helping improve advice businesses.

MDA Services

The September 2016 update to the Class Order² recognised that MDA's might be operated in a variety of ways including:

- on platform or using investments held in the client's own name
- where custody is provided as part of the service or provided by an external custodian
- where the MDA provider is an investment manager or outsources this to another AFSL
- where reporting is part of the MDA provider's service or included as part of the platform reporting

For organisations wanting to offer MDA services to their investor clients, following the update to regulation, the regulator explicitly recognised the role that platforms can play in the efficient delivery of MDA services. Centralising the administration of "managed assets" held in an MDA, alongside "advised assets" where the adviser continues to be responsible for transactions and investment recommendations offers real practice efficiency, but allows the adviser to retain oversight of the entire client portfolio and importantly not relinquish the client relationship by outsourcing/delegating everything to the managed account provider.

Managed Portfolios

Access to wholesale unit trusts has been a key benefit for advisers in using a platform since the development of platforms in the 1980s. Other asset types such as ASX listed securities and term deposits, were later additions to the investment menu offered by platforms. Along with the convenience of access to these other asset types came the disadvantages of managing similar transactions for many clients, with the need for more frequent ROAs and the problems of responding to corporate actions in a timely manner across the adviser's entire base.

Managed Portfolios represent a natural development for BT Panorama to enable advisers to offer professionally constructed portfolios of assets held on the platform that are competitively priced with full visibility of the underlying investments but without the attendant workload for advisers.

² ASIC Corporations (Managed Discretionary Account Services) Instrument 2016/968 and Regulatory Guide 179

Key differences between Managed Portfolios and MDAs delivered through BT Panorama

While both Managed Portfolios and MDAs are intended to achieve similar benefits for investors, advisers and licensees, the differences between them can be critically important in ensuring that the service offered:

- fits the licensee and adviser's service proposition
- is precisely fitted to meet the investor's goals and constraints
- compensates the licensee for the value created through the portfolio construction and management process

The table below picks out the principal differences between these two types of managed accounts.

	BT Managed Portfolios	MDAs offered on BT Panorama via Tailored Portfolios
Issuer	Responsible Entity. Westpac Financial Services Ltd (WFSL) in the case of Panorama's BT Managed Portfolios.	MDA provider who may be the advice licensee or 3rd party MDA provider.
Managed account offer document	BT Managed Portfolios PDS. Investment Options Booklets.	MDA Agreement and Investment Program are included in SOA.
Types of investment which can be included	Cash, managed funds, ASX listed securities.	Cash, managed funds, ASX listed securities and/or other investments supported by BT Panorama.
Advice required	Yes for initial investment, no for additional obligations on regular reviews.	Yes for initial investment, no for ongoing investment changes, corporate actions elections and rebalancing/trading. An annual review is required. MDA treated as an ongoing advice service so FDS and renewal notices required.
Licensee portfolios	At the discretion of the Responsible Entity and dependent on the investment management capability of the dealer group.	Available for any AFSL with MDA provider AFSL authorisation, including 3rd party MDA providers.
Fee structure	Investment Management fee for BT Managed Portfolios includes Responsible Entity fee and underlying investment manager component. May include an advice fee in relation to managed portfolios constructed and managed by a dealer group. Platform fee is charged as normal.	Portfolio Management fee is the MDA fee on Panorama and it typically includes MDA provider fee and investment manager fee. Adviser and Licensee fees may also be charged on the portion of the Panorama account managed through an MDA using Tailored Portfolios.
Branding	Generally branded "Manager/Licensee ABC Managed Portfolio"	May be presented as part of advice service or explicitly branded for advice business e.g. "Adviser ABC Portfolio Management Service".
Rebalancing/Trade execution	BT Portfolio Services Ltd	MDA provider using the BT Panorama Tailored Portfolio capability (via BT Portfolio Service Ltd)
Client fee consent/direction required	No, PDS sets out applicable fees*	Typically yes and included as separate item in SOA

* If a Licensee model has a component of the Fee payable to the Licensee then this conflicted payment will require additional client consent prior to BTPS remitting that fee component to the Licensee on behalf of the investor. The following sections examine the differences between these options from the point of the Licensee and Adviser.

Making the right choice – licensees

The Licensee approves any managed account service that is added to their APL. Apart from the compliance obligation to manage the APL, the best choice will be one which:

- > Fits with the service they want their advisers to offer.
- > Is consistent with their investment philosophy.
- > Provides risk management to avoid inappropriate investment recommendations.
- > Makes best use of their internal capabilities or those of their chosen service providers such as a research house or panel of investment managers.
- > Meets their commercial objectives.
- > Is supported by their AFSL authorisations and is suitable for the Licensees target clients.

The choice made does not necessarily need to be between a Managed Portfolio or an MDA, as BT Panorama offers the flexibility for Licensees to choose to utilise both types of managed accounts for different client segments and also depending on the specific client needs.

It's the next layer down that the Licensee needs to make a decision depending on the objectives of the business. This choice is between delegating the portfolio construction and ongoing management to a professional 3rd party (the IMs in BT Managed Portfolios or the External MDA provider issuing a 3rd party MDA Service) or committing to operate an Investment Committee / Management process, which enables the organisation to deliver Licensee Portfolios (as an IM in BT Managed Portfolios) and/or MDA services to clients as an MDA provider using Tailored Portfolios on BT Panorama.

The table below sets these considerations out in more detail:

	BT Managed Portfolios	MDAs offered on BT Panorama via Tailored Portfolios
Authorisation	<p>WFSL acts as the Responsible Entity for all investment options available through BT Managed Portfolios.</p> <p>Advice AFSL needs only be authorised to provide personal advice on managed investment schemes.</p>	<p>An AFSL with an MDA provider authorisation can operate MDA services on BT Panorama, after completing standard agreements with BT Portfolio Services regarding matters such as client authority, fee collection and custody.</p> <p>An AFSL may instead choose to appoint a 3rd party MDA provider who can also provide MDA services on BT Panorama to investors under instruction from advisers.</p>
Choice of professional portfolios	<p>There is a growing menu of BT Managed Portfolios provided by leading investment managers and researchers.</p>	<p>The portfolios offered can exactly reflect the AFSLs investment philosophy and preferred investment models.</p> <p>There is scope for external managers to provide model portfolios for incorporation into 3rd party MDA portfolios.</p>
Licensee portfolios	<p>An AFSL who wants to offer their in-house models as standalone investment options within BT Managed Portfolios must comply with the Responsible Entity's due diligence standards.</p> <p>Payments to the Licensee out of the client's portfolio for advice and related services in relation to the Managed Portfolio require client consent/direction.</p>	<p>An AFSL who wants to offer MDA portfolios will need to have MDA services approved by ASIC on their AFSL with adequate compliance procedures, business processes and controls in place to meet their AFSL compliance requirements if they are the MDA Provider or to satisfy their advice AFSL requirements if recommending investors into a 3rd party MDA Provider service via an SOA.</p>

	BT Managed Portfolios	MDAs offered on BT Panorama via Tailored Portfolios
Revenue	Payment of any share of Managed Portfolio fees to an AFSL are subject to the requirements of FoFA and conflicted remuneration legislation.	An MDA provider is entitled to charge and retain portfolio management fees but is subject to requirements of FoFA and conflicted remuneration legislation and specific best interest obligations. Many AFSLs include a specific client consent to payments being received by an AFSL in SOAs.
Branding	Offered through a PDS issued by WFSL and generally branded “Manager/Licensee ABC Managed Portfolio”.	AFSL has considerable latitude whether to position this as part of the advice service i.e. “implemented advice”, or as a standalone service. MDA Agreement, Investment Program and FSG can be incorporated into the SOA or presented separately.
Advice compliance	As BT Managed Portfolios are Managed Investment Schemes, advisers will be subject to best interest and suitability requirements in the ordinary way with regards to recommendation to invest in a Managed Investment Scheme. No additional obligations on annual reviews.	There are specific advice requirements for MDA services which include not only ordinary best interest obligations with regards to advice but also specific requirements relating to MDAs including as to suitability and ongoing monitoring and annual review.

Making the right choice – advisers

Managed accounts, whether BT Managed Portfolios or MDA services, offer advisers a number of significant advantages in operating their practices and serving their clients:

- > The efficiency of not needing to generate ROAs for every transaction or corporate action (although this is dependent on client circumstances).
- > Delegation of investment decisions.
- > Often, the ability to offer more cost effective solutions through fund manager rebates and low cost execution.

	BT Managed Portfolios	MDAs offered on BT Panorama via Tailored Portfolios
Efficiency	After the initial recommendation to invest, the adviser is not involved in any requirement for recommendations in relation to portfolio changes within the BT Managed Portfolio outside of the ongoing services arrangement.	After the initial recommendation to invest, the adviser is not involved in any requirement for recommendations to portfolio changes within the MDA portfolio, but there is an annual review required of the investment program and suitability of the MDA.
Choice of portfolio	BT Panorama has a growing list of BT Managed Portfolios from which an adviser can build a portfolio.	The portfolios offered by the MDA provider, who may be the adviser's Licensee, can be developed to reflect the models which an adviser would otherwise manually implement themselves on BT Panorama.
Customisation	The adviser can impose a preference to exclude specific investments from within the BT Managed Portfolio, with the choice between allocating the target weight (if any) to remaining investments pro-rata or to the cash allocation of the Managed Portfolio.	The adviser can impose exclusions of specific investments from within the MDA Portfolio by applying a preference on the relevant Tailored Portfolio. Where a customisation is common but not universal, for example many clients have an SRI preference, a model can be duplicated which incorporates this degree of customisation for a number of investors. Alternatively, a model excluding an allocation to Australian property could be developed for those SMSF investors that already hold direct real estate investments.
Cost to client	In addition to the BT Panorama administration fee, investment management fees are charged for the BT Managed Portfolio and there may be underlying fund or ETF fees depending on the managed portfolio. Transaction Fees are generally lower than for adviser initiated transactions as there is no minimum transaction cost.	In addition to the BT Panorama administration fee, portfolio management fees are charged for the MDA service. Where the investments held in the MDA portfolio are managed funds, the MDA provider will often use wholesale funds or may be able to arrange other methods to reduce the overall cost. Transaction fees are generally lower than for adviser initiated transactions as there is no minimum transaction cost.
Support for client relationships	The client has the confidence that their adviser has selected an appropriate portfolio and that this is being reviewed on a regular basis. Monthly fact sheets. Online performance reporting.	If the service is presented as "implemented advice" then the continuity of service between adviser and MDA portfolio manager is very supportive of the adviser/client relationship. Online performance reporting.

BT Panorama managed accounts choice

BT Managed Portfolios (Professional IMs)	BT Managed Portfolios (Dealer Groups)	Tailored Portfolios (MDA Custody)	Tailored Portfolios (MDA non-Custody)	Tailored Portfolios (3rd Party MDA Provider)
Product or Service				
Product with PDS	Product with PDS	Service with FSG	Service with FSG	Service with FSG
Client Type				
Retail	Retail	Retail/Wholesale/ Sophisticated/Bespoke	Retail/Wholesale/ Sophisticated/Bespoke	Retail/Wholesale/ Sophisticated/Bespoke
DG Licensing Required				
None – Use BT as RE	None – Use BT as RE	AFSL with MDA Capabilities	AFSL (no MDA)	AFSL (no MDA)
Ability to determine Platform investment menu				
	Possible mix of BT and DG menu	Dealer Group menu		
Authority to construct models/stock selection				
	Can be outsourced to an IM, or performed in-house			
Advice documentation required				
None on direct assets	None on direct assets	Initial SOA, annual SOA review	Initial SOA, annual SOA review	Initial SOA, annual SOA review
Authority to rebalance/trade/corporate actions				
Active tax management at the client level				
Via stock preferences/model choice		Active individual tax mgmt		

- No control
- High DG control
- Full DG control

About IMAP

IMAP is an Industry wide organisation which exists to provide

REPRESENTATION

INFORMATION

EDUCATION

for Managed Account Professionals.

Managed accounts have become a key part of the delivery of retail financial advice, with about 5% of platform assets now invested in this way. With this has come substantial changes to the way advice is prepared and to the role of advisers, dealer group researchers, dealer principals, investment managers, platforms and the managed account providers.

This change means a need to deepen understanding of the potential and implications of this type of advice among regulators, senior management and advisers and IMAP is central to the development and delivery of the training and engagement needed if managed accounts are to continue to develop.

IMAP organises a number of leading industry events including:

- > Portfolio Management Conference – Through the Managed Account Lens.
- > InvestTech – Portfolio Construction Technology Expo.
- > Adviser Roadshow in Brisbane, Sydney and Melbourne.

IMAP coordinates representation to regulators and other external parties.

IMAP organises training and education events relevant to managed accounts.

IMAP coordinates key interest groups with common concerns –

- > Dealer Investment Forum.
- > MDA Providers' Forum.

IMAP collects and disseminates industry statistics and information.

IMAP brings together all the organisations with an interest in managed accounts. This includes:

- > Dealer Principals;
- > Advisers;
- > Investment Managers;
- > Platforms;
- > Managed Account providers, administrators and custodians;
- > Licensee and independent researchers and portfolio construction teams;
- > Technology companies;
- > and other organisations actively involved in offering or supporting managed accounts.

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