

# Managed Accounts – The Next, Best Thing

John McIlroy –  
Toby Potter –

CEO Crystal Wealth  
Head of Platforms SFG



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# To the Advisers in the Room

If we said to you that there was a way that you could:

- Provide a potentially better client solution,
- Where you could implement investment advice really quickly without SOAs,
- Give clients a direct investment approach,
- Fulfil your regulatory requirements,
- Make more money, and
- Have a more valuable business

Would you be interested?



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# Managed Accounts – The Next, Best Thing

- What is a Managed Account?
- Why would you use Managed Accounts ?
- Understanding Regulatory Models
- Developing your Business Model
- Revenue Models
- Investment Models – the final step
- Why it will grow



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## Bigger than ...

At least \$20BN

Bigger than ETFs

About as big as the LICs

But still miniscule compared to the US

# What is a managed account?

A managed account is a service where a portfolio of investments is maintained for an investor with **discretion** given to an investment manager/adviser to make decisions about that portfolio on the investor's behalf.

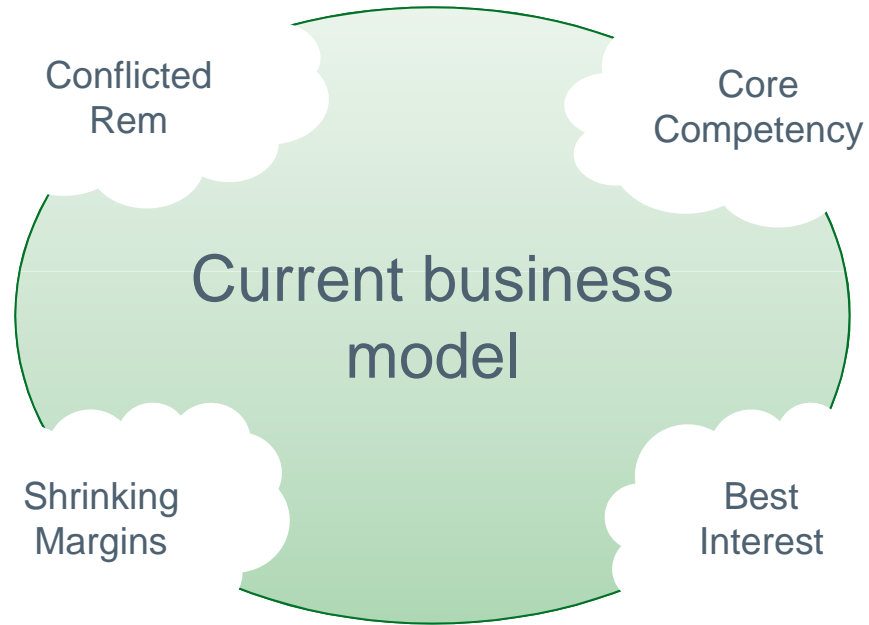
Investors delegate the day to day decision making about their investment portfolio



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# Attacks on the Old Model



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# Why Adopt Managed Accounts ?

## Traditional Reasons

Better client outcomes:

- Direct investment focus,
- Tax planning,
- Transparency
- Portfolio implementation speed
- Good SMSF option

Differentiate the services you offer

Create efficiencies in the practice and over the whole business



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# Why Adopt Managed Accounts ?

## More Recent Imperatives

- Conflicted Remuneration
- Shrinking business margins
- Best Interest requirements
- Risk management



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# Conflicted Remuneration

- Ban on giving or receiving remuneration which might influence:
  - the choice of financial product recommended
  - the advice provided
- Has the effect of banning platform rebates and promoter payments – presumed conflicted
- Doesn't apply on product issuer management fees



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# Evaporating Margins

- Loss of platform rebates
- Vanishing grandfathering
- Low cost investment products such as MySuper, ETFs, naked rate cards, TDs
- Compare the pair
- All lead to
  - Price sensitivity
  - Need for value differentiation



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\$ 202,401

Average Industry SuperFund

\$ 182,342

Average Retail Super Fund

Outcomes vary between individual funds. For more details see our website.  
Past performance is not a reliable indicator of future performance and should never be the sole factor considered when selecting a fund.



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# Best Interest

- Applies to the adviser rather than the licensee
- Licensees have to enable Advisers to meet their obligations
- Is the client likely to be in a “Better Position”
- Applies to each instance of personal advice
- “Any other step” still an issue
- Links more directly from client goals to Investment recommendations



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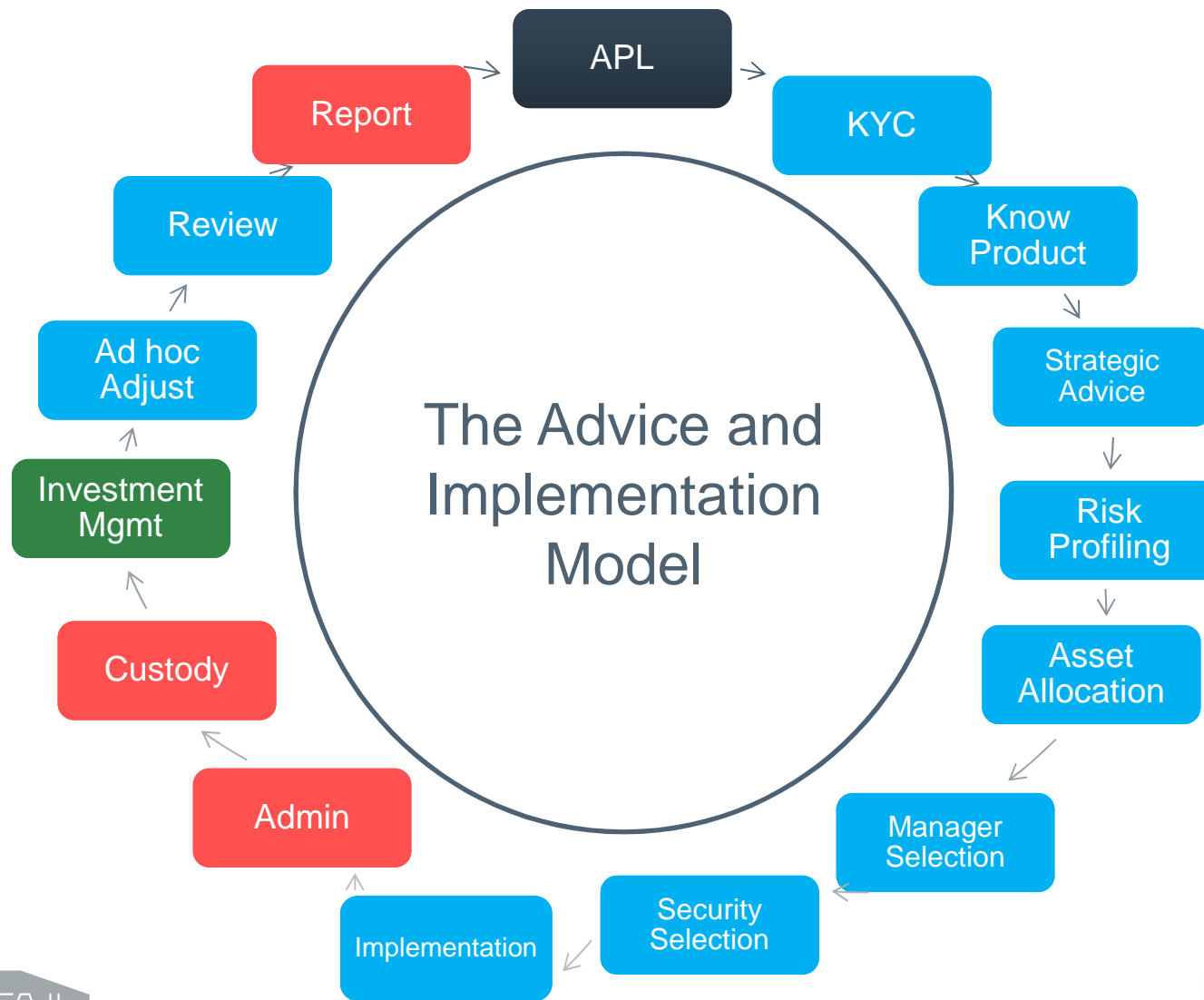
# Risk Management

- Do what you do best
- Better service for clients
- Management of regulation risk
- Substantial reduction in operational risk
  - Implementation efficiencies
  - Oops I forgot to send that in
  - Off the reservation



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# Core Competencies

Advisers - Advise

Portfolio Managers – Manage

Administrators – Administer



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# Working with Regulatory Models - Too Many Options

Managed Discretionary Account - MDA

Separately Managed Account - SMA

Individually Managed Account - IMA

Managed Investment Scheme

Limited MDA

Trustee's discretion in Super

Unified Managed Account – UMA

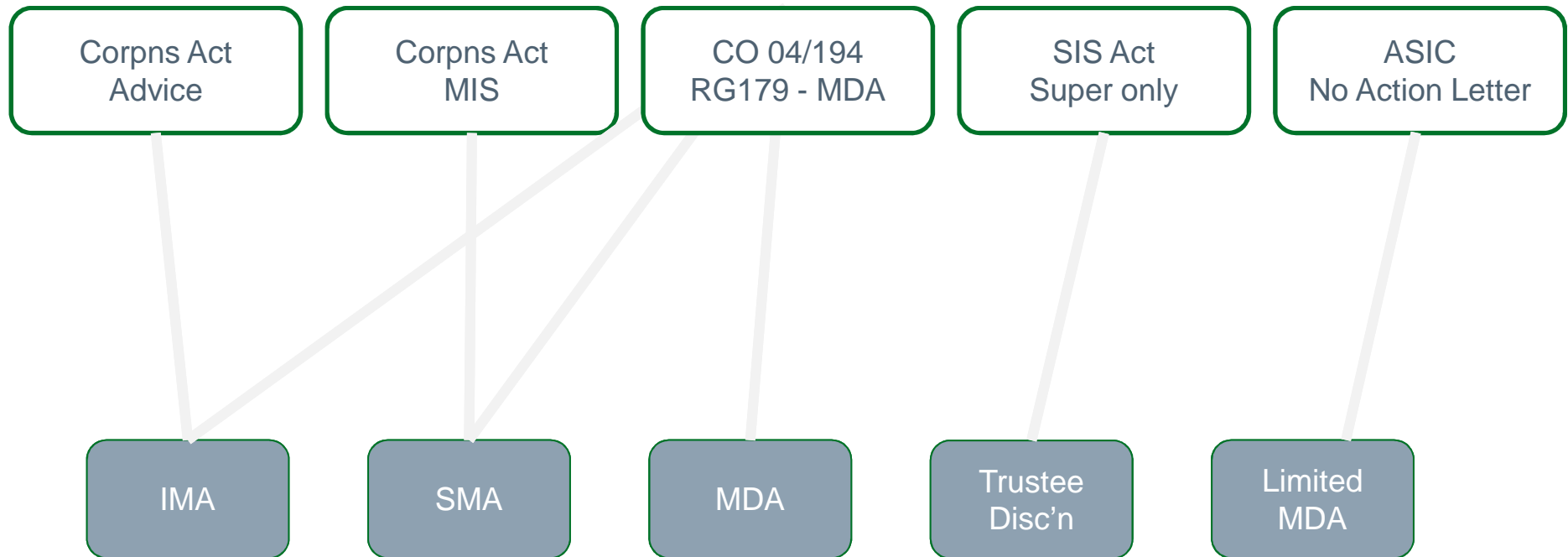
Unified Managed Household - UMH



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# I Fought the Law and the Law Won



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# Potential Managed Account Participants

Adviser

Product offerer

Licensee

Operator / RE

Platform /  
Admin / Super

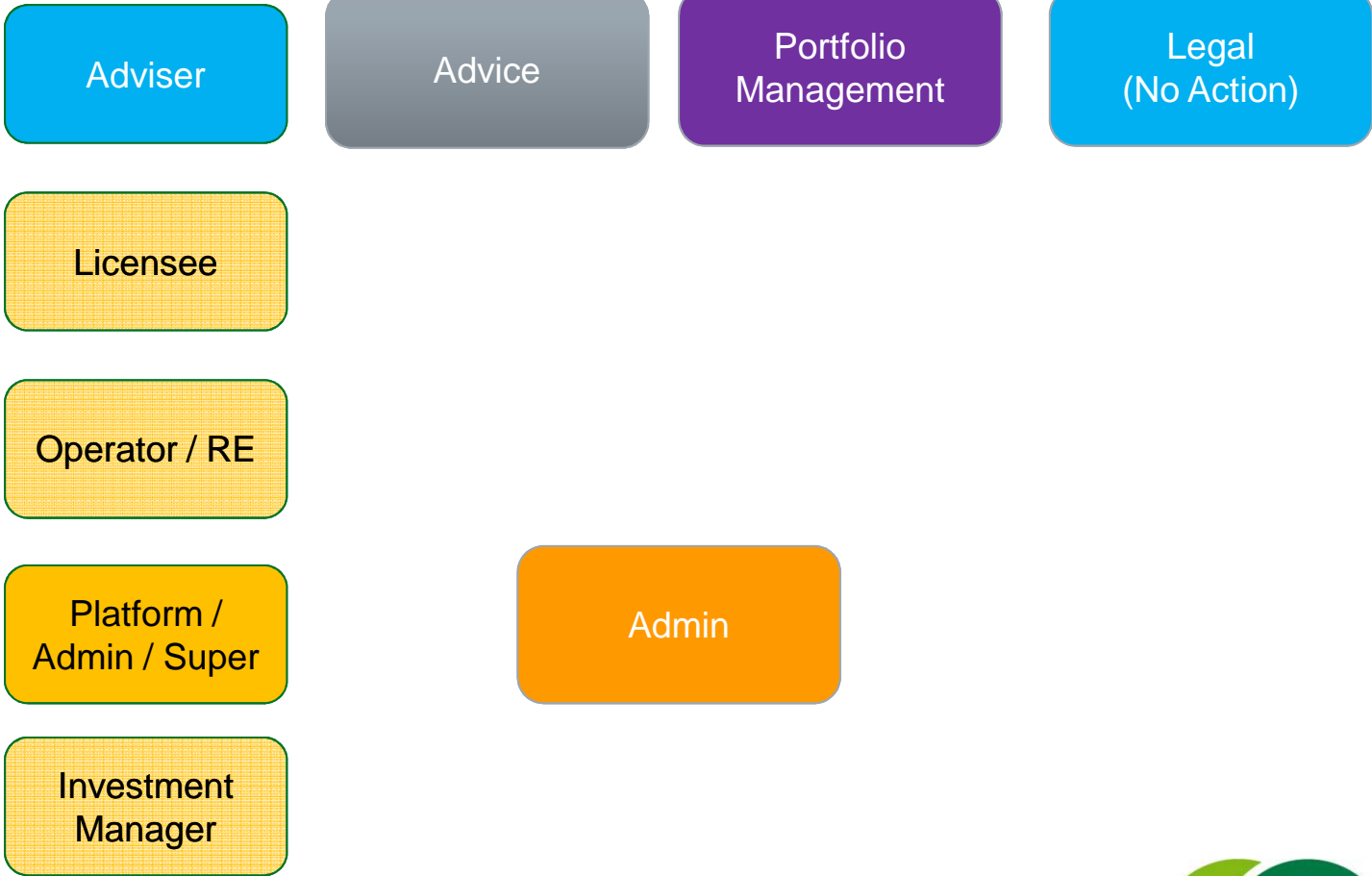
Investment  
Manager



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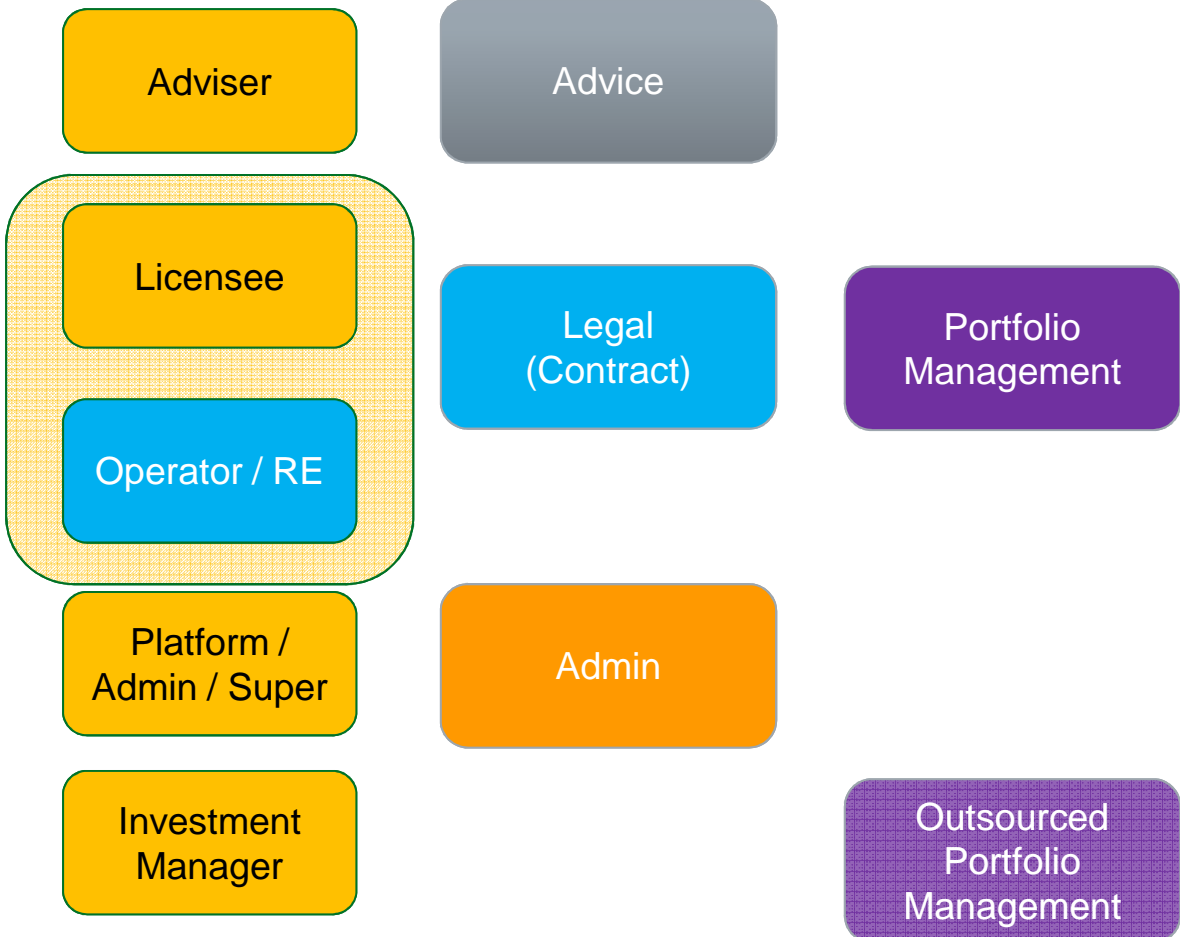
# Limited MDA



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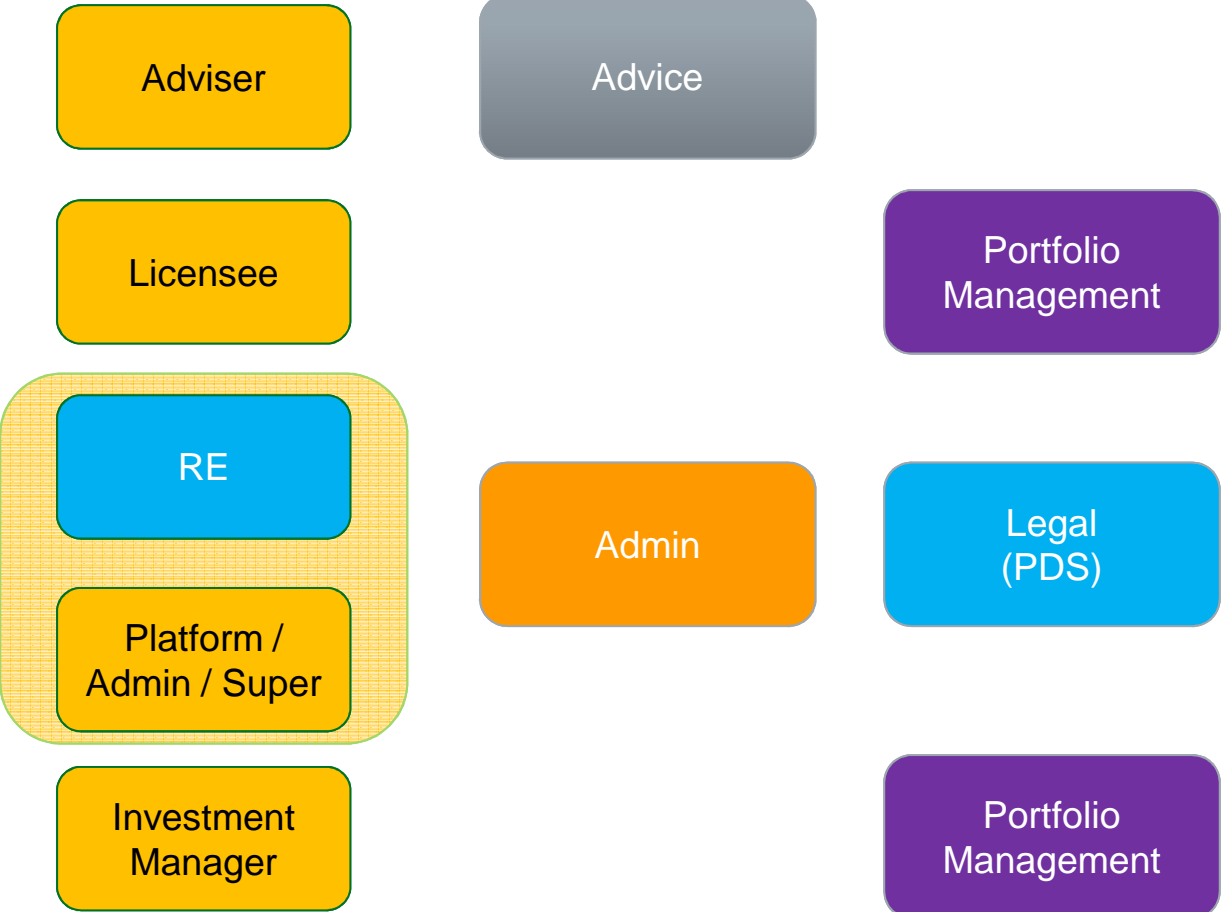
# Dealer Group MDA / MDA on Platform



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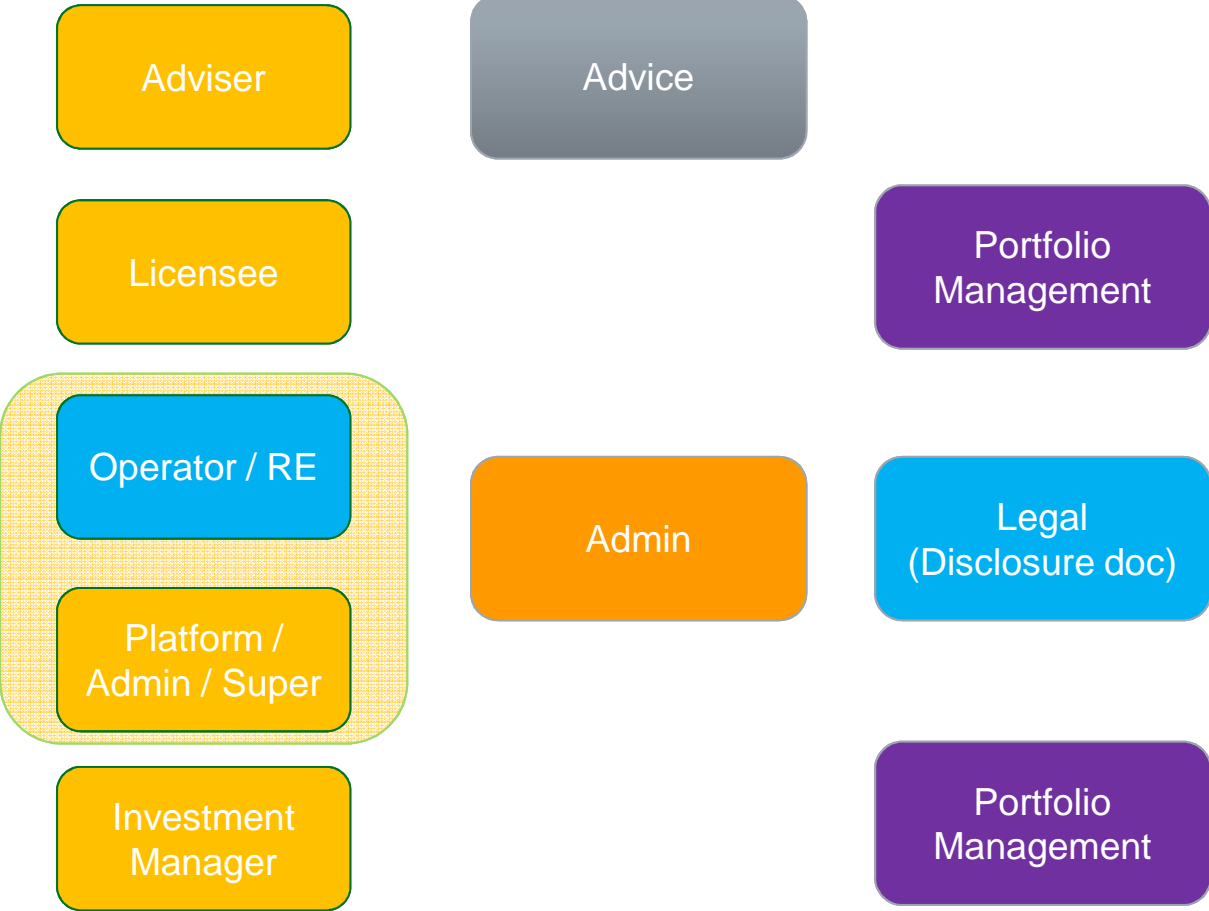
# SMA – Managed Investment Scheme



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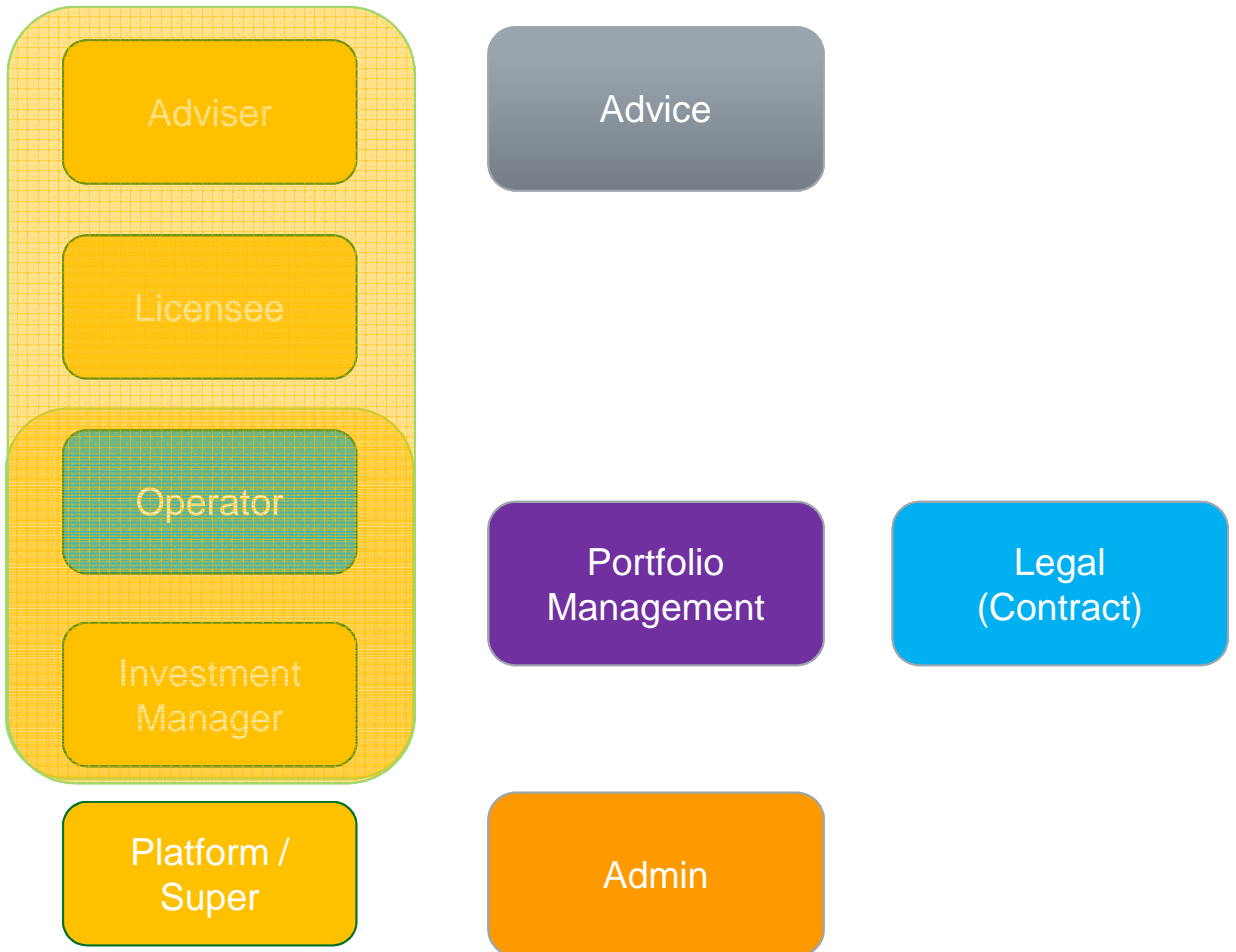
# Managed Account Platform



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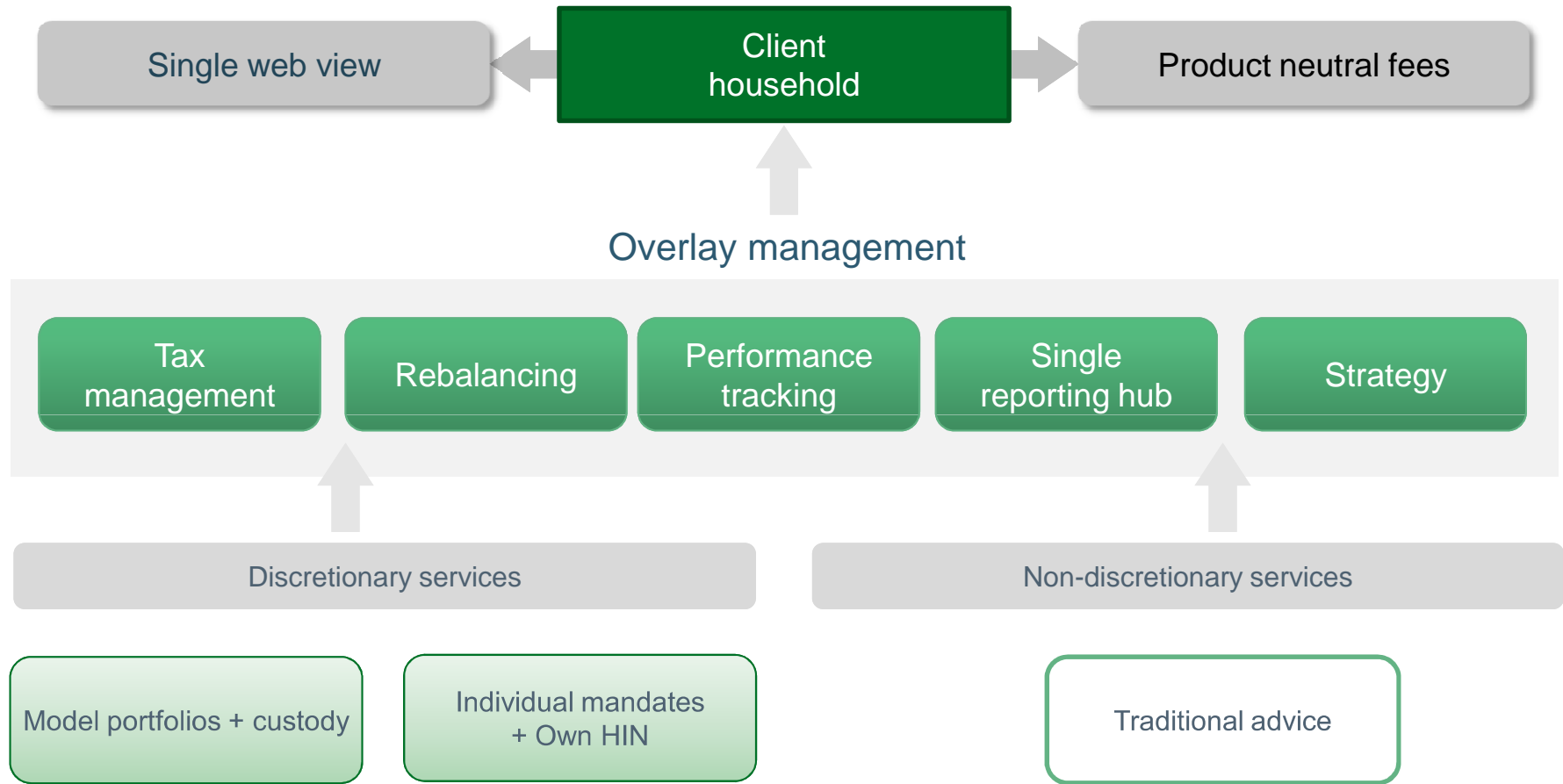
# Managed Account Specialist



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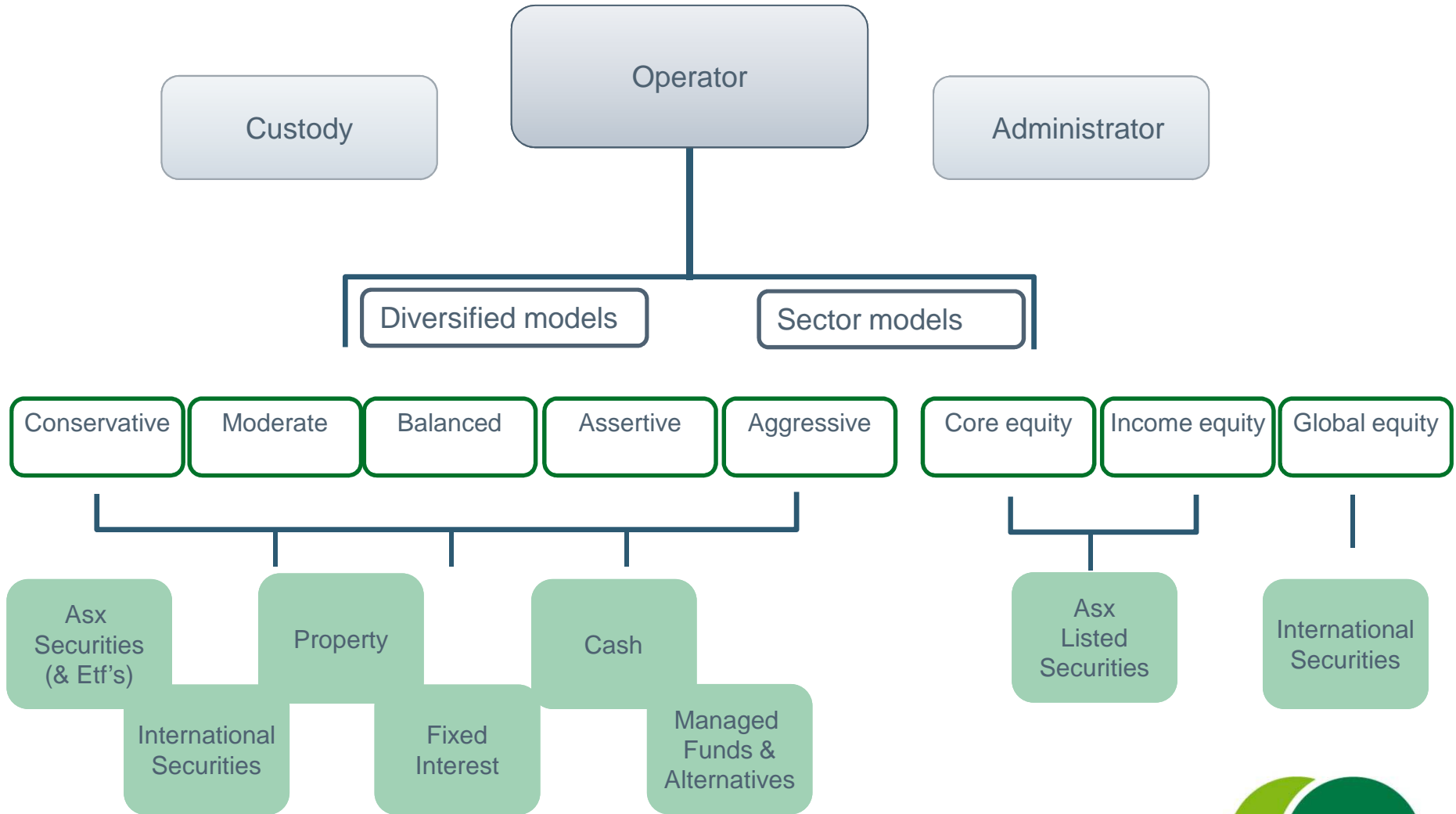
# Operational MDA structure



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# MDA structure



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★ Click on the "Show" drop down to filter your portfolio or show a summary by asset category

console portfolio ▾ member ▾ adviser ▾ forms **current portfolio**

Portfolio **Shadow CWP Balanced** ▾ As At **15/11/2014** ▾ Show **All** ▾  Show Sold  Show Asset %

Asset	Ticker	Asset Category	Units	Price	Price Date	Value
Adelaide Brighton	ABC	Domestic Shares	8,114.00	3.50	14/11/2014	28,399.00
Ancor Limited	AMC	Domestic Shares	2,473.00	12.09	14/11/2014	29,898.57
AMP Capital W/S Australian Property Fund	NML0001AU	Unit Trusts	27,754.00	1.2173	13/11/2014	33,784.94
ANZ Exch Preferred Securities	ANZPA	Fixed Interest Securities	624.00	102.20	14/11/2014	63,772.80
ANZ Ltd	ANZ	Domestic Shares	906.00	32.33	14/11/2014	29,290.98
ASX Limited	ASX	Domestic Shares	552.00	36.78	14/11/2014	20,302.56
BetaShares Australian High Interest Cash ETF	AAA	Unit Trusts	1,083.00	50.13	14/11/2014	54,290.79
Betashares US Dollar ETF	USD	Domestic Shares	3,743.00	11.31	14/11/2014	42,333.33
BHP Billiton Limited	BHP	Domestic Shares	613.00	33.25	14/11/2014	20,382.25
CBA PERLS III Trust	PCAPA	Domestic Shares	244.00	196.26	14/11/2014	47,887.44
Coca-Cola Amatil Limited	CCL	Domestic Shares	1,927.00	9.39	14/11/2014	18,094.53
CWP Balanced Cash Account		Cash				68,534.90
IAG Finance NZ Perp Reset Exch. Notes	IANG	Fixed Interest Securities	554.00	104.40	14/11/2014	57,837.60
IFP Global Franchise Fund	MAQ0404AU	Unit Trusts	42,106.9296	1.9633	12/11/2014	82,668.53
Insync Global Titans Fund	SLT0041AU	Unit Trusts	46,025.5959	1.4565	13/11/2014	67,036.28
Magellan Global Fund	MGE0001AU	Unit Trusts	44,238.9678	1.7671	12/11/2014	78,174.68
NAB Subordinated Notes	NABHB	Fixed Interest Securities	453.00	104.30	14/11/2014	47,247.90

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# Revenue Models

- **Traditional revenue models**
- **FoFA responses**
- **Managed Account revenue models**



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# Options to Recover Lost Revenue

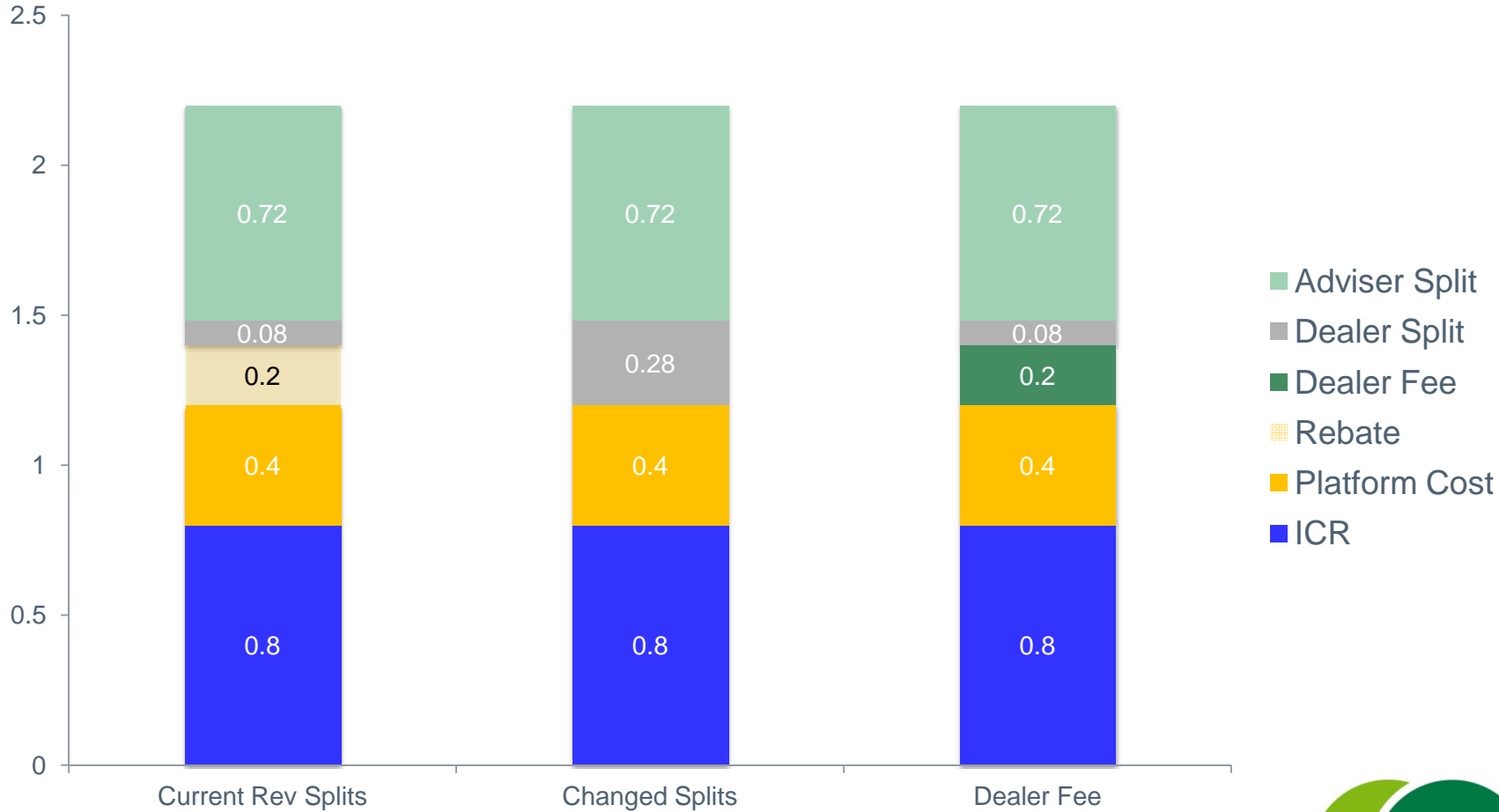
- Increased Adviser Fee / increased split to Licensee
- Licensee Advice Fee / Dealer Fee charged through the platform
- Client directed payments
- Effective Managed Accounts program



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# Changing Fee Models – Generic Examples



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# Practical Difficulties

## Licensee Advice / Dealer Fees

- “ So, I’m paying this fee for what ?”

## Increased advice fees / changing splits

- “The other guy isn’t charging that much for advice”

## Opt out / FDS

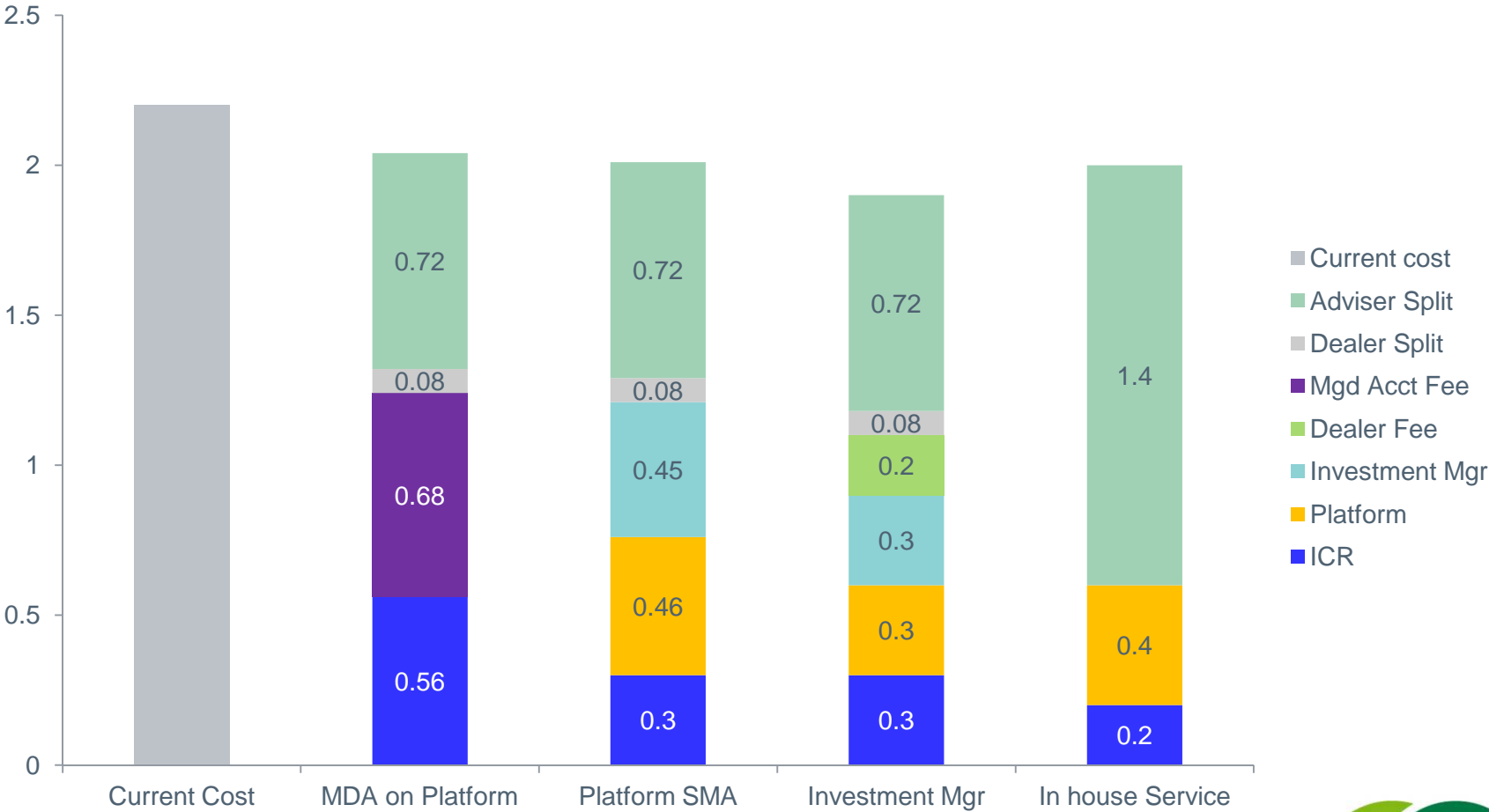


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# Managed Account Fee Models



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# How Do Managed Accounts Help?

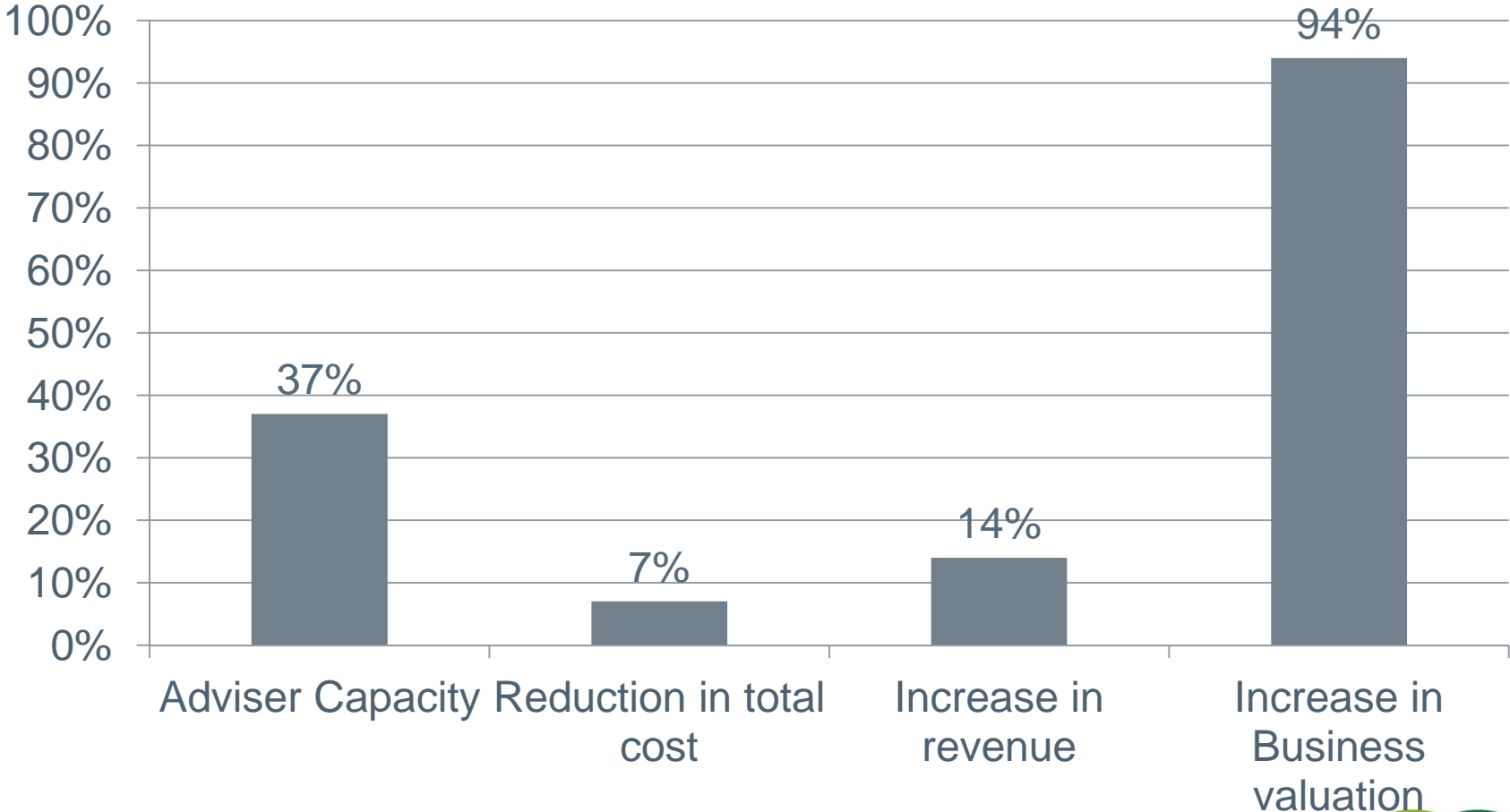
- Different solutions for different capabilities, operating models and scale
- Replacing conflicted revenue with FoFA proof revenue
- Moving fee charging from commodity comparison to a differentiated offering
- Reducing Best Interest risk
- More valuable business



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# Selected Benefits Achieved



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Source: Philo Capital



# Implementing a Managed Accounts Program

- **Decide on your client proposition**
- **Need to decide what role(s) you want to play**
- **Clearer articulation of “what we do and how we do it”**
- **Develop the managed account structure and processes**
- **Changed business processes**
- **Help advisers articulate the new service**



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# In Summary....Why it will grow

- **Deliver transparent and more direct investment experience for clients**
- **Tailored to client needs**
- **SMSF friendly**
- **Professional investment expertise**
- **Differentiated practice business model**
- **More efficient solution for advice and portfolio implementation**
- **Aligns with new regulatory regime**



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# Will there be changes?

**MDA Operators likely to meet enhanced financial requirements**  
**Additional disclosure including outsourcing arrangements**  
**Technology is allowing a build out of investment options**  
**Additional sophistication in line with US experience**



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**John McIlroy**

**Crystal Wealth**

**M + 61 411 592 118 | T + 61 2 8599 1790 | F + 61 2 8599 1799**

**Level 6 Swire House**

**10 Spring St Sydney NSW 2000**

**[john@crystalwealth.com.au](mailto:john@crystalwealth.com.au)**

**[www.crystalwealth.com.au](http://www.crystalwealth.com.au)**

**Toby Potter**

**Head of Platforms – SFG**

**M +61 414 443 236 T +612 9250 1520**

**[Toby.potter@sfg.com.au](mailto:Toby.potter@sfg.com.au)**



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