



Evolution of a Managed Discretionary Account Service

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June 2014

What has changed?



Early 1990s:

- Advice and investment via same adviser
- Retail funds and listed securities
- Difficult to scale business
- Client relationship paramount

Mid 1990s to now:

- Specialisation of role
- Broad investment offering
- Scalable business
- Client relationship still paramount

Step one: circa 1993

- Custodial Management Service
- Efficiencies at level of;
 - broker
 - custodian

BUT..

- Non-discretionary
- Wealth adviser still investment adviser
- HNW advisers with legacy retail clients



Step two: mid 1990s

- Full discretion over portfolios
- HNW advisers and retail advisers
- High touch service – quarterly reviews
- Labour intensive, individual reporting



Step Three: early 2000s

- Advice arm and separate investment arm (corporatised)
- Asset allocation committee
- External and independent expertise
- FSRA requires pooled custody
- Purpose-built software to pool trades
- Beginnings of institutional presence, but bespoke service



Step Four: circa mid 2000s to now



- Acquisition by Centric Wealth
- Investment committee structure to APRA model
- Advisers offered voting rights on investment committee and rejected offer
- Contract to investment specialists
- Panel of brokers plus financial engineering
- Upgrade IMA modelling software to allow SMA for smaller clients
- CLIENT RELATIONSHIP STILL PARAMOUNT

Outcomes



1. Adviser viewpoint

- Eliminate transaction time and risk
- Massively reduce SOA burden
- Investment performance 1 step removed
 - Adviser on SAME side of table as client when querying performance
- Strong client relationship:
 - funds “sticky” in GFC
 - reviews based on strategy, not stocks
 - service more clients, more easily
 - IMAs allow tailoring eg ethical exclusions, escrowed stock, or skewing portfolios to allow for non-MDA assets in holistic asset allocation

Outcomes



2. Dealer viewpoint

- Business now scalable
- Reduced compliance risk
- Institutional support for smaller players with robust model
- Sale multiple captures funds management arm
- Time-based advice fee and FUM-based management fee allows:
 - profitable clients with complex affairs but low FUM
 - capture advice fee on high FUM where only part is on MDA

Overcoming Objections



1. The “DIY” client

- Client objection on move to discretion
 - allay security fear
 - demonstrate specialisation
- Clients who want advice-only
- Clients who want investment-only
- Differentiate cost vs value of full service

Overcoming Objections



2. The “DIY” Adviser

- Adviser objection on losing “investment adviser” mantle
 - will my clients respect me? Will my clients still pay me??
- Your profession is **ADVICE**, not funds management. Free up your time to advise!
- HNW clients esp. are used to paying fees for advice. You, as trusted adviser, levy a fee to:
 - project manage their entities and structures, cash flows, risk exposure, debt, estate planning, insurances
 - tell them honestly you **ADD** value in providing an MDA as a core component of their structure
 - demonstrate the benefits of bringing investment expertise to the table

War Stories



1. Take the Journey with the Client – case study 1

- Compensation claim awarded to paraplegic girl. Client since 1991
- \$1.9 million invested. Has to last her lifetime...
- \$3.3 million drawn from portfolio to date
- Portfolio still worth \$1.4 million (ex-property)
- Assisted her with:
 - positively geared investment property
 - comprehensive estate planning outcomes
 - financial stress transferred from her to us

War Stories



2. Clients across generations – case study 2

- \$12 million client. Affairs in a mess
- Consolidate on MDA:
 - establish cost bases
 - use IMA to preserve high CGT parcels and manage tax outcome
 - simple tax summary to accountant
- Concurrently, project manage her REAL concern – estate planning
 - lawyer engaged, Family Provision Statements built
 - advice relationship built with next generation (POA holders)
- On death of client, seamless transfer of wealth to children
 - those testamentary trusts still in our MDA 4 years later
 - Trust portfolios and strategies tailored to individual trustees

War Stories



3. Clients across generations – case study 3

- HNW exec retired 1996.
- His initial involvement with portfolio **high**. Value-added **low**
- “I could do this myself but I am here so you look after my family”
- Trust built.
- Value seen in a complex world
- Review focus now more family than investment

The Ideal MDA Client



- Knows you offer a service, not a product
- Differentiates between *cost* and *value*
- Is someone you can openly tell “we got this call wrong”
- Will give feedback: eg Centric Client Advice Group:
 - rated security and trust above fees and returns
 - want advisers to focus on strategy
 - want best of breed investment solutions via specialists
- Agrees that the Client / Adviser relationship is paramount

Will Clients and COIs Love Your MDA Offering?



- Clients will enjoy the MDA experience subject to outcomes:
 - outcomes are dependant on quality of inputs
 - inputs to be best of breed investments and personal advice
 - if quality low, an MDA is just a more efficient way to lose clients money
- Communication / reporting easy if MDA well structured
 - complaints arise if expectations not met. Communicate often!
 - model portfolios enable ONE message to inform all clients re asset allocation shifts or thematic change.
- COIs refer key clients to **YOU**, but are aware of key man risk. Hence:
 - demonstrate the investment expertise standing behind you
 - time formerly spent watching markets now devoted to COI contact (both client strategy and marketing your business)
 - include COIs in your regular client communications

Conclusion



- The MDA works at a practical level for:
 - Advisers
 - Clients
 - Licensees
- Value proposition extends beyond ease of management to:
 - Better investment outcomes
 - Smoother intergenerational wealth transfer
 - Client peace of mind. Stress (and admin) outsourced to experts
- Foundation stones:
 - Trusted adviser relationship
 - Expertise in all disciplines

McDonald

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