

Supercharged SMAs

For the managed accounts industry, 2009 will go down in history as the year of breakthroughs.

For a start, it marks the first year that separately managed accounts (SMAs) can be rated like managed funds by more than one research firm after S&P joined Lonsec last month in launching an SMA ratings scheme.

Second, a *Financial Standard* analysis of all managed account-related news in the past 12 months highlights landmark deals that would have been impossible only a few years back, partly because of technology, compliance hurdles or market resistance.

But the biggest development – and one that has far-reaching consequences – is how 2009 also marks the first time that former investors can access SMAs to their superannuation contributions whereas historically, SMAs were tailored for non-super money only.

“I expect that several of the major superannuation platforms will use an SMA facility as part of their offering to service active sophisticated investors – just as these groups are already using direct share facilities,” said Andrew Keevers, associate director of research at Rainmaker Information.

True, the introduction of an SMA facility would only be an extension of the thinking behind the “direct equities” investment option already available to many super fund members.

What is different is that while a direct equities option gives members either a single share exposure or an index exposure (e.g. an ASX200 option), SMAs allow super fund members to tap into the portfolio.

New kids on the block

SMAs are investment vehicles that look and feel like managed funds but have the extra flexibility that comes with owning the shares directly. Under the SMA bonnet are one of two things: a number of

equities personally selected by the investor or a choice of “model portfolios”, replicas of the same portfolios run by managed funds.

For example, an Ausbil Dexia model portfolio will have the same equity investments as the Ausbil Dexia managed fund. The differences between the two are the legal, admin and tax structures, which have their own pros and cons.

While the local MA industry has come a long way, it's still a nascent sector when compared to the US. Available since the 1970s, US-style managed accounts are far more advanced and established, predicted to reach US\$3.4 trillion by 2011 based on Cerulli research.

However, compared to the handful of big players and small outfits providing managed accounts five years ago, the sector has attracted a record number of new providers this year.

AMP, one of the biggest fund managers in the country, fired the starting gun in January when it announced it will roll out a managed account service, the AMP Personalised Portfolio, to its network of advisers.

Paul Sainsbury, AMP product manufacturing director, said at the time of the launch that they developed the product following adviser feedback.

“This is a long-term play for us ... so while it's not a particularly great time for discretionary money, it's a good time to learn how investors see these platforms,” he said back in January.

AMP joins BlackRock Global Investors, MLC and BT Financial as the top-tier funds that have made a push to the sector. It also joins other specialist firms including Linear Managed Accounts and Next Financial in the fray.

Meanwhile, many of these outfits either develop the technology in-house or are increasingly signing deals with the technology providers, which allow them to

white-label the service. Leading the charge are Praemium, SS&C, OneVue and Financial Simplicity, to name a few.

The list of MA providers continues to expand – intensifying competition and offering more choices to investors.

For example, Commonwealth Bank-owned Avanteos flagged last October that it is on its first phase of offering an Individually Managed Account (IMA) and will develop an SMA next.

Just before the Christmas break, Aviva (now part of NAB/MLC) also reported that they will launch their own SMA – but with an offering unique to the market.

In fact, since last year, the industry has started behaving like a beehive. Last June, Financial Simplicity launched what it called an ‘Open Edition’ toolkit that allows platforms to have custom-made SMAs, enabling the company to win deals with Vivid Financial and Netwealth.

Then firms that have never provided managed accounts before including First Prudential Wealth Services, Wealth Within, Dalton Nicol Reid (DNR) and Henderson Maxwell pushed into the market in a big way.

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Fast forward to July this year, Oasis Asset Management, one of the country's top three platforms according to brandmanagement, said it would offer SMAs as an extension of its direct shares offering to planners. The group's managing director, Wayne Lowe, flagged the move less than a month after it completed a \$1 billion transition of the records of 13,000 investors on to its platform.

"In recent years, there has been a significant shift from retail products to wrap and master trust solutions, with over 80 per cent of investment going through these vehicles."

"This has only heightened the need for flexibility to move between wrap and master trust platforms, which has created an increasing regulatory drive to ensure that there is consumer choice and flexibility," he said at the time.

Removing barriers to adoption

It is this drive to offer choice over a single platform that spurred Aviva to create an entirely separate SMA division with the mission to create what looks to be the next wave of SMAs.

One of the roadblocks to the mainstream adoption of SMAs is that it forces many advisers to use an extra portfolio system that have to run separate to their existing system – an inefficient and costly process that opens client portfolios to er-

rors and potential mismanagement.

"The big barrier to date has been the fact that it's been somewhat a challenge to incorporate SMAs efficiently into their business structure," said Stuart Fechner, Aviva's distribution development manager, investment products.

"Ours is different for two main reasons: it is fully integrated into our platform and second, it's available for superannuation investment. These are big reasons that will change the landscape of SMAs going forward," he said.

The numbers back his predictions. According to Rainmaker Data as at March this year, the managed funds market is more than \$600 billion. The superannuation sector is far bigger than that at around \$1 trillion.

"If you're talking about ordinary mum-and-dad SG contributions, which represents nearly two thirds of the industry, SMAs aren't available for that at the moment. It's almost as though this product is opening SMAs up to a whole new two thirds of the market place," said Fechner in a previous *Financial Standard* article.

Casting the SMA net wider is a win-win for both the investor and the model portfolio manager (or the equivalent unit trust manager). Industry estimates place savings of using an SMA over their unit trust equivalent as ranging between 10 to

20 per cent.

This means investors slash their investment costs while fund managers can more than compensate for lower fees through larger contracts (assuming their model portfolio is included in their client's super fund).

In other words, Aviva does away with the previous argument that SMAs cannibalise the fund manager's existing unit trust business.

"We believe that SMAs and managed funds have distinct roles to play for our clients and for this reason, we have offered both services for a number of years," said Dion Hershman, head of Australian Equities, Asset Management at Goldman Sachs JBWere, and one of Aviva's model managers.

The next wave of SMAs

The twin themes of Australia's home equities bias and the rise of self-managed super funds will only accelerate the use of SMAs for both super and non-super (personal) investments.

"Unlike the US where the big stockbroking firms pushed SMAs forward, it's taken a while for the technology to come together here. People definitely want more involvement and control as witness by the explosion in SMSFs and, aside



lios of top-ranking fund managers but with the added benefit of housing their money within an SMA structure.



The time is ripe for super funds to use separately managed accounts (SMAs) as a springboard to better management of their cash and equities portfolios, writes MICHELLE BALTAZAR.



from the technical advantages, I see these two factors as the big positives," said Brian Thomas, head of retail funds management at another Aviva model provider, Perennial.

And while the focus has largely been on Australian equities, SMA providers are already working on providing a broader range of options outside this asset class, including international equities, fixed income and alternatives.

"I think managed accounts should be treated or regarded as the next evolution in the admin platform cycle. Why? Because they actually integrate advice, investment management and investment administration into one vehicle," said Brett Marsh, head of transition strategy at OneVue, a financial services technology and admin services outfit borne out of the merger of DirectPortfolio Services Limited (DPSL) and Pen-tafin in May last year.

"And rather than go through this product versus service argument, I'd like to consider it a service because really, what you should be trying to achieve through a managed accounts structure is tailoring the structure for yourself and I put that in the service bracket," he said.

Perhaps that thinking helped OneVue win a deal in July with BGL Financial Services (BGLFS), a company that offers

services to the do-it-yourself market, self-managed super funds (SMSFs).

OneVue struck an agreement to provide the managed accounts technology for SMSF Invest, a white-labelled MA product that BGLFS will make available to its accounting firm clients and more than 250,000 SMSFs.

Not that OneVue won't face stiff competition from other providers angling for the lion's share of the market. Besides Aviva offering an SMA that can easily be used by the advisers already familiar with their platform, Praemium has also established its foothold in the UK while continuing to win contracts locally, including with latest MA entrant Powerwrap.

No doubt the education process that started in early 2000 has helped the industry inform the investing public about the advantages of MAs; namely lower costs, more control and more transparency. This year, it resolved the biggest hurdle of all – accessibility – either for super investments and, for advisers, inclusion on their Approved Products List (APL).

"We know that in the retail space advisers operate, or the dealer group licenses they operate under, work with APLs hence, the importance of getting our model portfolios rated by S&P," said Fechner.

While it is still early days, Aviva predicts that SMAs will account for around

10 per cent of the Australian equities investment market by 2015, based on opinions canvassed from local fund managers.

Even if the sector only achieves half that market penetration rate in six years, it will still have an impact on industry competition and the flow of money.

And with more providers making it easier for investors to manage both their super and non-super money through tax and cost-effective vehicles like MAs, it will only be a matter of time before SMAs becomes mainstream. ●

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