PERSONAL FINANCIAL SERVICES
SINCE 2001

What is a Managed Account?

A managed account is a portfolio of investments managed on an investor's behalf by a professional portfolio manager. The underlying investments of a managed account are made up of various fund managers across different asset classes. As each managed account provides a different exposure to risk, a financial adviser can recommend a managed account suited to a client's objectives and appetite for risk.

Managed accounts are reviewed by the portfolio manager on a quarterly basis. During these reviews, underlying investments are re-balanced to ensure the original risk exposure of the managed account is maintained.

How do Managed Accounts work?

Below is a diagram summarising the different roles and responsibilities when a managed account is established:

Investor

- Goals and objectives
- Situation

Advisor

- Develops strategy
- Recommends a Managed Account based on client's goals, objectives and risk profile
- Implements advice strategy and establishes managed account

Managed Account

- Managed fund A
- Managed fund B
- Managed fund C
- Managed fund D
- Managed fund E

Platform Provider

- Set target asset ranges for each portfolio
- Reviews and implements portfolio changes recommended by the Licensee's Portfolio Manager
- Quarterly re-alignment of investor's portfolio to portfolio weightings

AU Licensee

- Builds licensee managed account portfolios with different risk profiles and thresholds
- Regularly review the portfolios and recommend changes
- Communicate and disclose performance and portfolio changes to advisers

Portfolio adjustments

Using a managed account allows efficient and timely implementation of any adjustments required (usually within 5 business days). The reason a portfolio adjustment may need to be made, can include:

- Changes in asset prices resulting in adjustment to asset class allocation essentially allowing the portfolio to move away from expensive asset classes before prices correct.
- Significant changes to underlying investments such as downgrade from a research house, or resignation of key personnel.
- Changes in economic indicators and investment markets such as changes to the official interest rate, inflation, duration of bond yield etc.

In contrast, if you are in a portfolio being managed outside of a managed account, it could take weeks sometimes months for the same changes to be made, particularly if you are not available to authorise your financial adviser's recommendation due to holidays or work commitments. This delay can mean missing out on potential opportunities. The difference in process is summarised below:

Managed Fund

Portfolio changes required

Licensee Portfolio Manager contacts platform provider to make the adjustments.

Changes made across all Managed Accounts clients of the licensee. (Generally completed within 48 hours)

Clients will receive confirmation letter from the platform advising of the changes.

Traditional Portfolio

Portfolio changes required

Adviser contacts you to communicate change

You meet with your adviser for review meeting

Adviser produces Record of Advice

You review the RoA and provide Authority to Proceed

Adviser contacts platform provider to implement the change

Platform provider implements the change

Benefits of using a managed account

1. Over time, asset classes and managed funds produce different returns which can influence the overall risk and return of a portfolio. The automatic review and re-balancing of a managed account ensures the portfolio maintains its asset allocation overtime.
2. A managed account will be monitored on a regular basis by experienced and qualified portfolio management professionals who specialise in the selection and maintenance of suitable investments. This specialised knowledge enables informed and timely decisions to be made on an investor's behalf.
3. Any adjustment to the portfolio can be done in a timely and efficient manner. This ensures that you won't miss out on opportunities or be unexpectedly exposed to riskier assets. For example, adjustments such as those noted above can be implemented automatically without the need for your adviser to take any action or for you to respond. adviser to take any action or for you to respond.

What are the disadvantages of using a managed account?

Every quarter the portfolio will be re-aligned to the nominated managed account portfolio (to reflect the original risk and return objectives). If you wish to change the investments in the portfolio, you will need to opt out of the managed account.

Generally, if a managed account is applied, no other investment with the exception of a term deposit can be included in the account. It is also not possible to retain higher balances in the cash account, for instance, to fund future pension payments.

Managed Accounts are therefore not suited to everyone – and your Financial Adviser will only recommend one when it is appropriate to your circumstances and goals as you've explained them to your adviser.

What if I change my mind?

You can choose to opt out of the managed account at any time by either contacting your financial adviser or the platform provider directly.

Once you terminate the managed account, your holdings in the underlying investments will remain, however the automatic review and realignment services will cease.

Are there any tax implications when my managed account is re-balanced?

The tax implication will depend on the structure the Managed Account portfolio is held through.

For example, if a managed account is held in 'superannuation accumulation phase', the Fund is subject to maximum tax of 15%. Trustees of that fund will pay CGT on realised capital gains incurred as result of portfolio re-balance.

Capital gains tax are calculated at the fund level and incorporated in the unit prices of each investment option meaning it is shared amongst all members in the same investment option.

Managed accounts held in tax-exempt 'retirement phase pension', ensures income or capital gains are not taxed.