

Praemium tempts British advisers with 'son of wrap'

Published: 07:00 Tuesday 18 July 2006

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Advisers could knock 40 basis points off clients' annual costs and increase the margin pressure on fund managers if Praemium, an Australian portfolio administration provider, succeeds in bringing what it calls the next stage of wraps to the UK.

Praemium is one of a growing number of Australian firms offering separately managed account (SMA) technology. SMAs are seen as successors to wraps in the US where they are now widely used.

Like wraps SMAs are pooled custodial structures allowing investment in managed funds. The key difference from wraps is that rather than having beneficial ownership of the units of a fund, the SMA investor has direct beneficial ownership of the actual shares held by the fund.

Praemium founder and managing director Arthur Naoumidis said his SMA technology enabled investors to get daily portfolio updates direct from fund managers, which they would then apply to their portfolios.

Naoumidis conceded this model of buying fund managers' intellectual property rather than investing in their funds would pose a fundamental challenge to investment groups. But he said it would eliminate double layers of custody charges, reducing overall client charges from 1.5% to 1.1%.

Praemium has contacted 50 UK firms, including IFA networks and life offices, in the hope of generating demand for a white-labelled service and to overcome potential opposition from fund managers. It is in final negotiations with research provider Synaptic.

Naoumidis said: 'Ultimately the writing is the wall for fund managers because they don't control the distribution. We just need a few big IFAs to switch over.'

However, he said SMA would make it easier for fund managers to charge performance fees. It also enabled clients to customise fund manager portfolios, which might appeal to ethical investors.

Fund managers have proved adaptable to SMA. Merrill Lynch, a leading SMA provider in the US, currently has exclusive rights to Praemium's technology in Australia. Praemium floated on the Australian Stock

Exchange in April, raising A\$18 million (£7.3 million), to fund its UK launch next year. It recently won a renewed contract for its portfolio administration service from Asgard, an Australian wrap provider.