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Managed accounts: platforms on steroids

by ***Alex Dunnin and Michelle Baltazar***

Managed accounts are expanding their reach into the Australian investment market and will soon be a direct challenge to the dominance of currently more popular, but also more expensive, platforms.

They are starting to make inroads because they are "next generation" in investment platforms not just because they contain lots of managed fund choices, but also because they let investors look inside those managed funds held on their investment menus to customise the stock holdings of those funds to suit their own individual taxation circumstances and preferences. No wonder they are sometimes called "platforms on steroids".

For example, you may be investing in a managed fund that holds a lot of Telstra stock but because of your tax situation, while you may like the rest of the fund's portfolio, you don't like so much Telstra. So with the managed account you just tell your planner - or you do it yourself just as easily - to go into your managed account and swap the Telstra shares for something else you want more of. And because its done inside a managed account the share transactions to make this happen cost almost nothing.

You can even use your managed account to buy and manage your direct share purchases as well. But even better, the technology underpinning these managed accounts is evolving so fast that your taxation position can be calculated almost instantaneously. Even better still, all this extra functionality comes at even lower prices than you are probably paying right now in master trust or wrap fees.

Arthur Naoumidis, managing director of managed account technology provider Praemium Portfolio Services, said: "Managed accounts are really a hybrid of a managed fund and a wrap. They provide a registry function, a custody function and back-office function." This means they simultaneously record your share purchases, hold your assets and do the back-end tax administration for you.

According to Naoumidis, this ability to combine all these functions through technology is why they are cheaper than most regular master trust and wrap platforms that break all these services into separate functions.

Naoumidis said their evolution is the key to why they are so flexible yet so cost effective. "First we had retail trusts charging 1.5 per cent before investment costs, then we had master trusts charging 1.5 per cent, and then we had wraps at about the same price," he explains. But managed accounts deliver even more flexibility and functionality for just 1.1 per cent before investment costs, he said.

Their ability to tailor around each investor's personal tax situation and customise investment portfolios is also why 70 per cent of managed account investment money comes from Self Managed Super Fund (SMSF), said Naoumidis. It's also why 40 per cent of Praemium's managed accounts clients are tax accountants, he said.

Not everyone might agree with Naoumidis' upbeat sentiment on managed accounts, but most agree their better technology gives them a real edge.

Neil Robinson, head of portfolio management at BT, one of the largest platform providers in the country, said managed accounts and platforms are more likely to co-exist than supplant each other. "I don't know if it [managed accounts] is a serious threat . I look at them as providing an alternative for clients. Whether it's a wrap platform or managed account, each will attract a client and financial advisers based on what suits them," he said.

Robinson nonetheless said the managed account technology advantage is hard to beat. "One of the key benefits is the transparency. Clients get quite excited by the level of [that] and the simplicity of managed accounts."

This flexibility combined with their lower costs and ability to customise is why Mark Johnston, principal of research firm Investment Trends, said, "nearly half of all financial planners say it's really likely they'll use them over the next two years."

Another advantage of managed accounts is they help financial advisers free up the time they previously used to spend on admin chores and let them now spend this time providing clients even better investment advice.

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