

Drilling down to stock level

MARTYN INGRAM EXAMINES HOW SEPARATELY MANAGED ACCOUNTS ALLOW INVESTORS MORE CONTROL OVER STOCKS IN THEIR PORTFOLIOS

For most UK-based investors, simply having access to their own wrap accounts is a relatively new experience. It's likely most of these investors will appreciate having some of the many facilities that today's wrap accounts offer, such as access to online valuations of their portfolios and the online investment allocation tools that can help them with fund selection.

Perhaps the most important benefit of all is that by using wrap accounts, they've removed a layer of unnecessary administration: all of their investments are held in nominee names, so when they want to sell holdings they don't have to worry about finding paper certificates or electronic records of their current fund or share holdings.

If Praemium have their way, another layer of unnecessary administration will be removed for many of these investors. Praemium, which until recently has been keeping a low profile in the UK, is a company that provides online portfolio administration services and separately managed accounts technology. Separately managed accounts will eventually gain prominence in the UK wrap market, and Praemium has set up an office here to take advantage of that.

Many financial advisers, and some of their clients, like to be able to analyse portfolios in depth. So, for example, a stock such as BP will be heavily-owned in many UK investor portfolios, but it is difficult for advisers and their clients to

know what the level of exposure actually is.

Tools, including those available from data businesses such as Morningstar, provide moment-in-time analysis at the underlying fund level, but on occasions, the data can be anything up to a year out of date. At fund level, the information may be useful, but at the portfolio level, such inconsistencies in information can be a real problem for anyone who is serious about identifying the true exposure of portfolios to individual stocks.

In time, the data providers will be able to provide much more reliable up-to-date information, but for investors using separately managed accounts, this problem is already avoidable. This is



Ingram: analyse portfolios

because separately managed accounts enable investors to have wrap portfolios that own the same underlying securities

that their fund managers would buy, but without the fund wrapper, so portfolio valuations at the securities level are accurate and complete.

Investors who have separately managed accounts can invest in the holdings held in funds or they can choose to have some fund holdings excluded. I highlighted the fact that BP is a major holding in many UK investor portfolios. The reason why BP is in portfolios for most UK investors is simple enough – BP is a major FTSE 100 constituent. BP's stock is held by most UK-based investors regardless of their view on the merit of the stock, in terms of performance expectations. Most UK investors who have equity portfolios will automatically

end up with significant exposure to BP.

Investors who have separately managed accounts can limit their exposure to certain stocks. They can also choose to include or exclude specific stocks from their portfolios, so they are not subject to the herd-mentality forces that can impact heavily on shorter-term performance returns for many investors. And they can achieve all this while gaining an administrative advantage over many other types of investors. Separately managed accounts remove another layer of unnecessary administration as there is no need to buy funds.

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