THE CASE FOR SEPARATELY MANAGED ACCOUNTS

In the aftermath of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, the world of financial advice has become a labyrinth of burdensome tasks. From tedious ROAs to the never-ending portfolio review cycle, compliance responsibilities seem to take precedence over meaningful client interactions and portfolio management.

Fortunately, the Separately Managed Account (SMA) offers a way to circumvent the large amount of the administrative rigmarole that comes with providing effective and timely advice. This all-encompassing approach to investment portfolio management provides a streamlined client solution, empowering advisers to efficiently handle their business while maintaining a strong focus on investment outcomes.

Despite their undeniable benefits, many advisers have been hesitant to embrace SMAs, fearing cookie-cutter solutions and client rejection of the approach. In this article, we aim to debunk common misconceptions surrounding SMAs and shed light on some of the often-unconsidered benefits with the structure.

CONCERN 1 - SEPERATELY MANAGED ACCOUNTS ARE TEMPLATED ADVICE

It first must be acknowledged that SMAs do involve a standardized/ templated approach to investment advice, where clients receive a coordinated grouping of investment products. However, before dismissing SMAs, it is important to examine how they provide a more optimised methodology to your current investment process.

Take a moment to consider your own extensive Approved Product List (APL). How often do you find yourself gravitating towards a core group of funds that you default to when recommending investments to clients? This tendency is not uncommon among advisers, who often face time constraints that are insufficient to manage the multitude of client portfolios as thoroughly as strived for. This results in an inherent reliance on familiar funds, succumbing to the mere-exposure effect. Unsurprisingly, advisers often unintentionally adopt an informal SMA investment process by default.

Now, let's explore an alternative approach: formalising your clients' investment process through regular meetings with an external model manager whereby all clients are systematically considered when constructing portfolios simultaneously. By embracing a formal SMA approach, you can streamline portfolio reviews, maximise investment outcomes and focus your free time on delivering strategic outcomes for your clients.

SMAs still allow for dynamic customisation by exposing all clients within the structure to your best-in-class ideas. When it comes to managing the investment, you can adopt a proactive approach to fund manager selection, driven by key factors such as management style, portfolio hedging, geographical positioning, credit exposure, and interest rate duration. Instead of making individualized substitutions at the client level, you can make informed portfolio changes across the board that reflect the broader market dynamics.

While it's theoretically possible to perform this level of analysis for each individual client, most advisers are well aware that a shortage of time makes it nearly impossible within an individually managed portfolio structure.

By leveraging SMAs, advisers can focus on strategic decision-making rather than issuing repetitive Record of Advice (ROA) documents for every client whenever changes occur within the SMA. This frees up valuable time that can be allocated to providing personalized advice and nurturing client relationships.

In essence, SMAs allow you to optimize portfolio management from a top-down perspective, ensuring a holistic approach that benefits all clients. While individualised analysis and substitutions are still feasible, the time constraints often make them impractical within traditional structures.

So, rather than dismissing the templated approach of SMAs, it is important to also consider the opportunity it presents to streamline portfolio reviews, make strategic decisions and provide comprehensive benefits to your entire client base. By embracing the efficiencies of SMAs, you can elevate your advisory practice and deliver exceptional outcomes for your clients without sacrificing the precious resource of time.

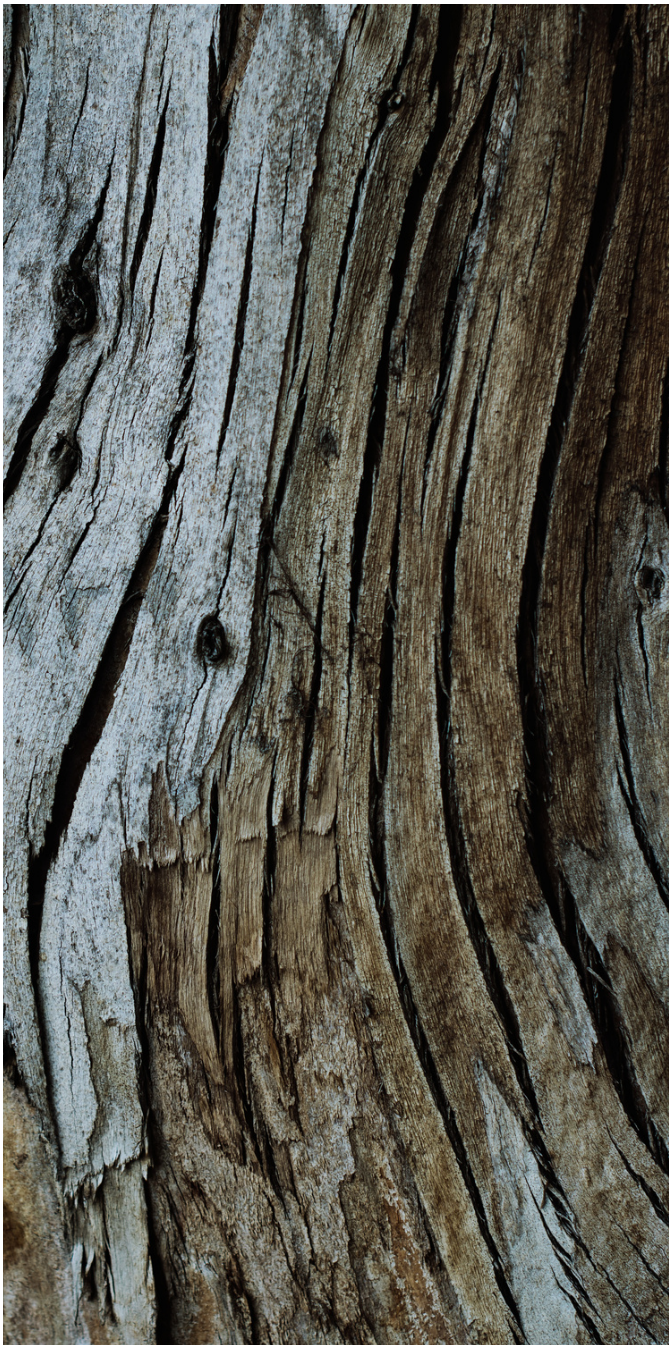
CONCERN 2 - FEES ARE HIGHER FOR CLIENTS

One of the common concerns among advisers when considering SMAs is whether the fees charged by the consultant and platform are justified for their clients, which can be in excess of 0.20% of FUM collectively. As advisers become more attuned to the obligations of their best interests' duty to clients, it's crucial to evaluate if these fees ultimately provide a tangible benefit to your clients.

By utilising an SMA approach the client benefits from access to a consultant's broad coverage of fund coverage, in depth macroeconomic analysis and a more frequent portfolio review cycle, all of which deliver real outcomes to clients. Furthermore, the fees associated with SMAs often cover a range of other valuable services, including robust portfolio analytics, ongoing portfolio monitoring, platform compliance and comprehensive reporting. These services not only save you valuable time but also equip you with the necessary tools to deliver informed investment advice and keep your clients well-informed about their portfolios.

Ultimately, the fees associated with SMAs can be viewed as an investment in delivering superior portfolio management and client service. By ensuring that you have the means to actively select and monitor investments, and by leveraging timely market insights, SMAs can potentially generate better outcomes for your clients in terms of investment returns, but moreover your ability as an adviser to meet the ongoing requests of your clients.

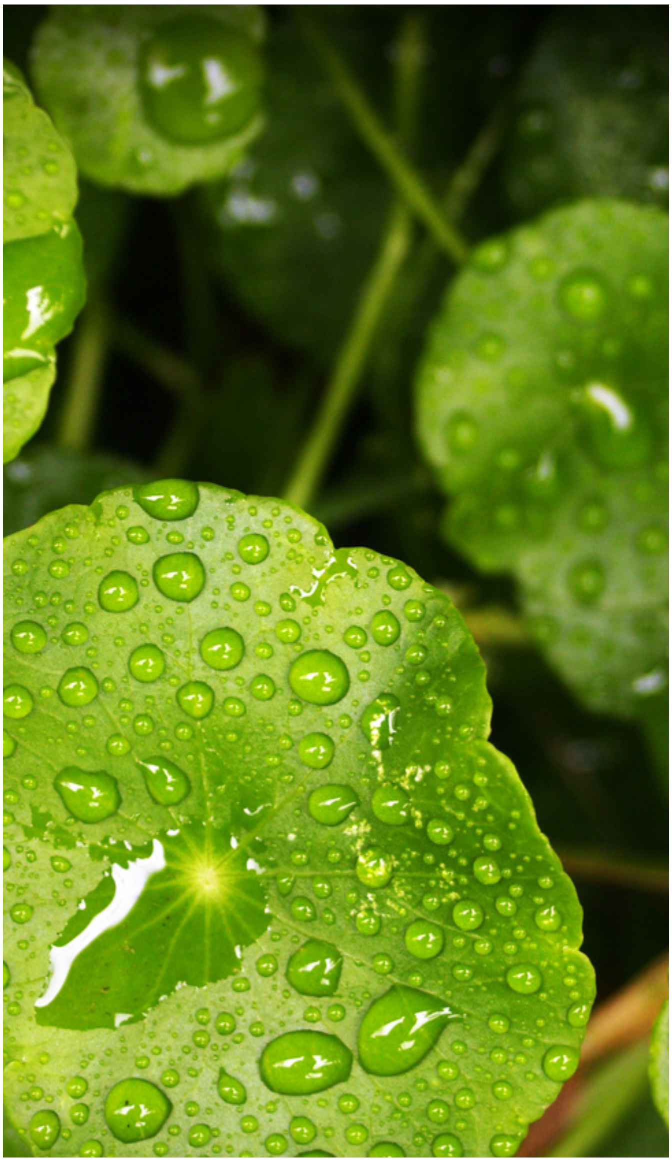
So, while the fees charged by SMA providers may raise initial questions, it's essential to consider the benefits they offer in terms of proactive investment management, improved risk management, and



comprehensive support services. By providing your clients with a robust and efficient investment solution, SMAs can be a worthwhile investment that aligns with the best interests of both you and your clients over the long term.

CONCERN 3 - YOU LOSE TOUCH WITH YOUR CLIENTS PORTFOLIO

One of the common misconceptions about SMAs among advisers in the industry is that they automatically imply a hands-off approach to portfolio management. It's often assumed that all investments within an SMA are handled independently by the model manager, without any input or suggestions from you as the adviser. However, it's crucial to note that this isn't the case for all SMA model managers.



As an adviser, it is well understood the importance of being accountable to your clients regarding the specific investments they are being invested in. It's essential to work with a model manager who actively recognises and shoulders this accountability. While each client is unique and has individual requirements, their desired outcomes can often be categorised within broader risk profiles and return objectives. By focusing your efforts on the identification of these goals and tolerances, instead of the mythical perfectly aligned individual portfolio, there is greater scope to focus on their more intimate goals and objectives that fall outside merely managing their investment portfolio.

Rather than a completely hands-off approach, the ideal model manager will value your insights, suggestions, and expertise. They will actively seek your input into the investment decision-making process, recognising that your understanding of your client bases circumstances is invaluable. This collaborative partnership between adviser and model manager ensures that the investments within the SMA are tailored to meet the specific needs of your clients, while also benefiting from the expertise and guidance of the model manager.

It's important to dispel the misconception that SMAs equate to a complete disconnect of investment decisions. By partnering with a responsive and adaptable model manager, you can maintain your role as a trusted adviser, actively contribute to the investment process, and ensure that the SMA investments align with the goals and objectives of your clients. Remember, while clients may fall into broader risk profiles, the personalized touch and guidance you provide as an adviser is the crucial step to providing for their overall investment success.

THE NAME OF THE GAME IS TIME

How often do you find yourself lamenting the lack of time? Time to thoroughly research investments, time to meticulously prepare documents, time to give clients' portfolios the attention they truly deserve. Time is the ultimate commodity for advisers, and that's where the real benefit of Separately Managed Accounts (SMAs) comes into play. SMAs prioritise investment outcomes at a business level without compromising on real client outcomes, all while providing the financial adviser more precious time to focus on what matters most for clients.

Remember the days when portfolio review meetings felt like a monotonous routine of regurgitating similar investment advice to different clients, based on ever-changing market views and the general suitability of investments? It was a tiresome and tedious process that failed to deliver meaningful outcomes to clients in a timely manner.

Now imagine the advantages of streamlining and coordinating the investment process, effectively reducing compliance and administrative burdens. With SMAs, the focus of client review meetings shifts from mundane reviews to providing your clients with the most appropriate and strategic financial advice to help them reach their long-term goals. And the best part? You, as an adviser, can achieve all of this without compromising on the investment advice your clients receive.
discussions, delve into comprehensive financial planning, and deliver tailored strategic advice that aligns perfectly with your clients' personal circumstances.

Wave goodbye to the days of endless repetition and welcome a new era of efficiency and client-centric advisory services. With SMAs, you can reclaim your time, elevate your practice, and ensure that your clients receive the personalised attention and strategic financial advice they deserve.

evergreen

CONTACT US

(02) 9098 8630
support@evergreenconsultants.com.au

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