Investing through a managed account

Managed accounts are tax-efficient portfolios of assets directly owned by an investor that are managed by a professional investment manager. Managed accounts combine the simplicity and scalability of traditional managed funds with the beneficial ownership, transparency and tax effectiveness of direct shares.

Like managed funds, the portfolio manager can make investment decisions without the need for client consent. Unlike managed funds, managed accounts are not unitised or pooled investments – all underlying assets are held in the beneficial name of the client.

Individual beneficial ownership means the client knows exactly what investments they hold. It also means clients receive all dividends, franking credits and distributions without inheriting existing capital gains. This allows clients to plan individual tax outcomes based on their transactions only.

Types of Managed Accounts

A managed account can come in the form of a:

- separately managed account (SMA),
- individually managed account (IMA), or
- managed discretionary account (MDA).

Separately managed accounts (SMAs)

SMAs operate under a Registered Management Investment Scheme legal structure, with a portfolio managed by a professional investment manager. Each client receives the same underlying investments but of varying value, depending on the time of purchase. SMAs offer a more 'one size fits all' approach than MDAs or IMAs, with resulting cost savings and a lower minimum investment. SMAs are constructed on a 'model portfolio' basis by an investment professional and any changes in the model portfolios will result in corresponding changes to the client's portfolios.

Individually managed accounts (IMAs)

Typically operating as unregistered Managed Investment Scheme, IMAs offer greater customisation than SMAs and can be fully tailored to each client's needs. They offer the highest degree of individual tailoring, with the flexibility to include or exclude shares or other investments based on client preferences. This makes them especially suitable for high net worth clients who may already have significant holdings of particular shares or market sectors, and professionals who need to exclude shares of companies they work for or deal with. The minimum investment in an IMA is $500,000.

Managed Discretionary Accounts (MDAs)

MDAs operate under a different legal structure to SMAs and IMAs, which requires the operator to hold an Australian Financial Services Licence. An MDA is a client portfolio of assets that are managed on an individual basis by another person (MDA provider) at the MDA provider's discretion, subject to any agreed limitation. Following initial agreement with the client, the MDA operator takes on responsibility of the investment selection and on-going portfolio implementation without requiring on-going client approvals.

How do managed accounts differ from managed funds?
Managed funds are a very common form of investment vehicle that most people are invested in – either personally or through their superannuation fund. A managed fund is one type of 'managed investment scheme' where your money is pooled together with other investors. An investment manager then buys and sells shares or other assets on your behalf. You are usually paid income or 'distributions' periodically. The value of your investment will rise or fall with the value of the underlying assets. The investment manager may be called a 'fund manager' or 'responsible entity'.

The best way to think of a managed account is that it is an alternative investment vehicle to a managed fund.

While a few similarities existing between managed accounts and managed funds, they differ in some fundamental ways:

- assets within a managed account are held directly (or beneficially) by the investor, they are not pooled;
- direct equity holdings can be transferred to a managed account; and
- investors are not subject to any embedded tax liability that may exist in pooled investment vehicles.

Feature	IMA	SMA	MDA	Managed Fund
Professional Fund Management	✓	✓	✓	✓
Customised portfolio construction	✓	✗	✗	✗
Client retains beneficial ownership	✓	✓	✓	✗
Minimise portfolio rebalancing	✓	✗	✗	✗
Offered via Product Disclosure Statement	✓	✓	✗	✓
Low minimum investment	✗	✓	✓	✓
Corporate actions administered	✓	✓	✓	✓
Tax reporting	✓	✓	✓	✓
Ability to see underlying investments	✓	✓	✓	✗
“In specie” transfers of investments	✓	✓	✓	✗
Avoid embedded capital gains tax	✓	✓	✓	✗
Exclude specific investments from portfolio	✓	✓	✓	✗
Tax efficiencies	✓	✓	✓	✗

Benefits of managed accounts

A managed account can have a number of key benefits including:

- **Convenience** – You agree to an investment objective with your adviser and the portfolio can be rebalanced without having to provide additional advice.

- **Tax efficiency** – Managed accounts are not pooled investments; each investor is typically the underlying owner of their assets*. This means investors do not inherit existing tax positions like other pooled structures (such as managed funds). Instead, the investor's tax position is their own.
- **Transparency** – You and your adviser can view the underlying securities (which you can't do in a managed fund). This ability to track the performance of the holdings can increase engagement with the client and give advisers more opportunities to discuss the portfolio.
- **Agility** – managed accounts offer the advantages of dynamic asset allocation, allowing managers to take advantage of emerging opportunities and manage risk.

Consequences

- A Managed Account is an investment portfolio which is actively managed by investment professionals. There are fees associated with active management which can be higher than a passively managed portfolio.
- The investments in your Managed Account are based on the decisions of an Investment Manager. These decisions can be subjective and while Investment managers are required to exercise reasonable care and diligence, like most investments, there is a risk that a manager's investment decisions will result in the model not achieving its objectives.
- Model mismatching: the actual asset holdings in your Managed Account are unlikely to perfectly match the holdings of your chosen portfolio or "model". This can be caused by the implementation of the minimum trade sizes and minimum holding sizes, the required allocation to cash, differences in timing and prices achieved for trades and any personal investment preferences. As a result, the investment performance of your specific portfolio may differ from the reported outcomes of the managed account portfolio.
- Trading costs: the amount of trading associated with rebalances will have an impact on your trading costs and investment performance. Trading may be caused by investment decisions of the investment manager as well as by changes you make to your Managed Account such as additions, withdrawals and investment allocations. The application of minimum trade sizes, minimum holding sizes and your investment preferences may also cause more frequent trading to occur as part of the rebalance, particularly on smaller account balances.
- Manager risk - there may be changes to an investment manager that you have chosen, such as loss of significant staff, or that a manager may not apply their stated investment philosophy, or other changes may occur that affect the model and the way your money is invested.
- Suspension of rebalances - if rebalances are suspended then your managed account may not reflect the most recent investment decisions made by your chosen Investment Manager, which may not be implemented in your managed account. This means you may miss out on investment gains or you may incur losses on assets that have been sold down in your portfolio while your rebalance is suspended.
- Trading delays - during the rebalance process it is possible that the completion of a trade may be delayed by more than a day. This means that you may be 'out of the market' and you may not experience gains from a particular asset or market whilst trades are incomplete.
- Operator and systems risk - A Managed Account usually operates through an administration platform (such as a Wrap account) and operation of your Managed Account often relies on the administration platform provider's systems and processes to effectively and efficiently establish and rebalance the managed account model portfolios. If the administration platform provider

experiences an interruption or fault in its systems this may cause the establishment of your managed account or a rebalance to be delayed or not occur, in which case trades may not be implemented in your managed account on a timely basis and your managed account may not reflect the most recent investment decisions made by your chosen Investment Manager/s.

- Investment Manager information - operation of your managed account relies on the Investment Manager providing the administration platform provider with updated information regarding investments on a regular basis. Any failure by the Investment Manager to provide accurate, complete or timely advice to the administration platform provider in receiving and acting on that information, may result in poor performance or capital loss.
- In respect of a Managed Discretionary Account (MDA), your Investment Manager has the discretion to make investment decisions without your consent. While there is an MDA Contract which does prescribe the investment rules (or mandate) that the investment manager will work within, they will not contact you when making specific investment decisions within that mandate. You need to be comfortable with this.

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