Funds flow into managed accounts as investors look for transparency

State Street’s Meaghan Victor and Michael Blomfield of Investment Trends at Barangaroo in Sydney. Picture: Hollie Adams

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The big banks’ exit from financial planning and the fallout from the Hayne royal commission will change the investment landscape, including boosting the number of independent advisers and demand for more transparent products.

A new report by Investment Trends and State Street Global Advisors (SSGA), that surveyed 760 planners about the post-Hayne environment, has found the flow into managed accounts is set to rise as investors seek out more transparent fund options and planners look to spend less time on compliance.

Managed accounts are a personalised investment account owned by an individual who has direct holdings in assets such as shares, and is overseen by a manager. The benefits are that the investor owns the shares, unlike having exposure to a managed fund, allowing some choice in the portfolio, and clearer tax management.

Last year the industry association IMAP estimated there was $60 billion invested in different types of managed accounts in Australia.

The 2019 Managed Accounts Report, to be released today, found managed accounts represented about 31 per cent of planners' funds under advice, and this is expected to rise to more than 50 per cent in 2022.

About 46 per cent of independent planners use managed accounts for customer investments, compared to 26 per cent of advisers that are aligned to a bank or large network like AMP, the survey found.

Investment Trends chief Michael Blomfield said part of the industry's woes centred on many financial planners falling into "a trap" of not focusing enough on how investors should spread their funds across asset classes.

After the royal commission exposed shortcomings in financial advice practices "the notion of a client's best interest needed to be much more holistic", Mr Blomfield added, emphasising that fees shouldn't always be the primary focus.

Some in the market caution, though, that investors should be mindful of differences in transaction costs for managed accounts because they vary depending on the broker and the investment platform used.

Hamilton Wealth managing partner Will Hamilton notes his firm has seen increased demand for managed accounts, but for investors seeking exposure in offshore markets extra fees may outweigh any benefits.

"We do see demand increasing," he said. "This is client driven as well as structural.

"We are concerned with many of the international SMAs we have looked at. This is around costs.

"Staggering an allocation into the market is a general practice that is followed when markets are volatile or as valuations reach extreme levels, as it lowers market timing risk, however this approach becomes unfeasible when using an international SMA as small changes to weightings incur large transaction fees, therefore cost and efficiency are issues."

The online survey undertaken by State Street and Investment Trends also found that transparency and direct ownership of shares were the key benefits cited by clients to their planners of managed accounts.

SSGA's Meaghan Victor said advisers said managed accounts reduced the time planners spent on administration and compliance, which were among the "biggest headaches" for the industry.

New educational requirements in the domestic planning sector provided an opportunity for advisers to "step up" and act more like a financial coach to investors.

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