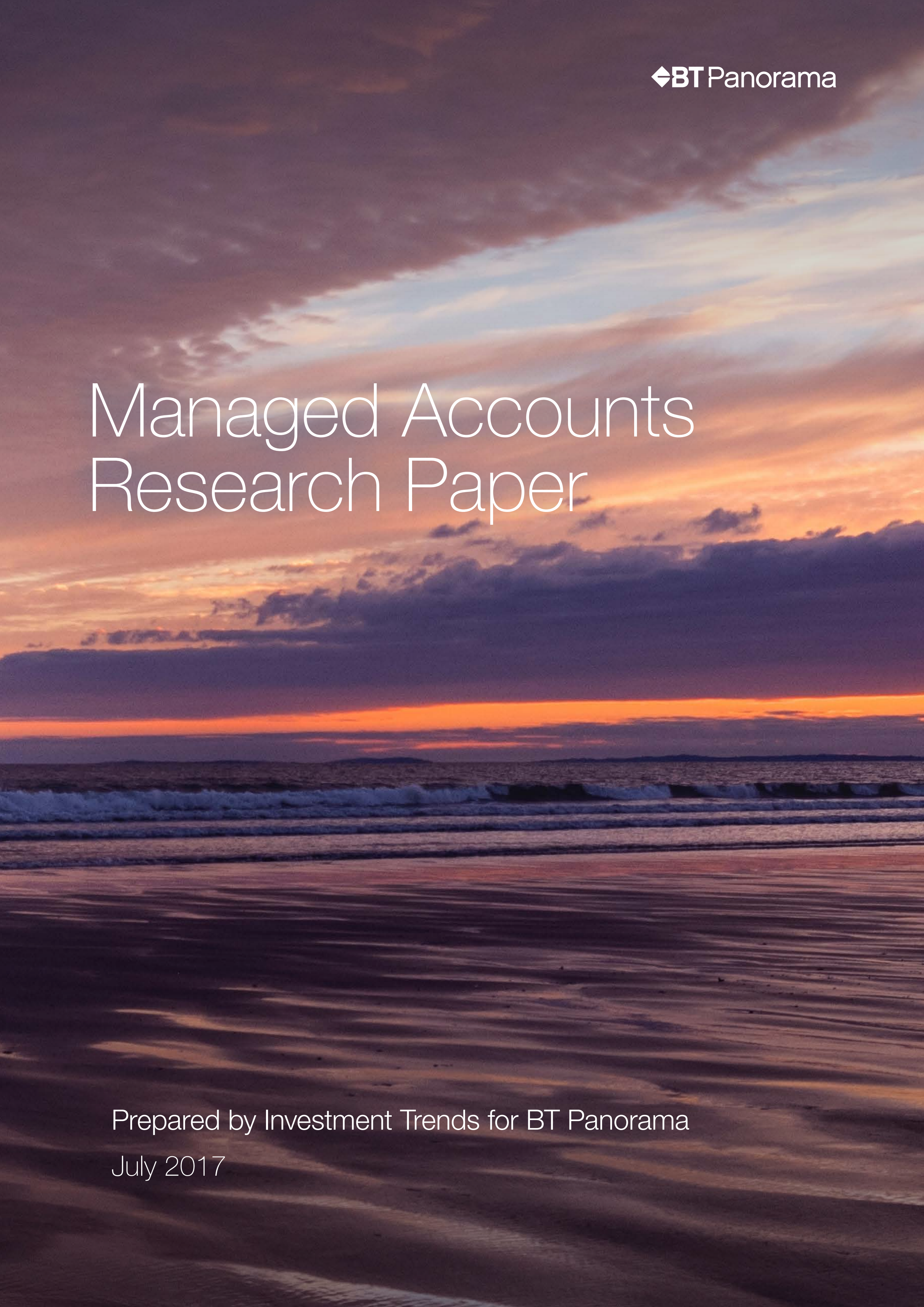


BT Panorama

Managed Accounts Research Paper

Prepared by Investment Trends for BT Panorama

July 2017

Methodology

The BT/Investment Trends Managed Accounts Research Paper details the results of a short quantitative online survey of financial advisers conducted between 5 and 17 July 2017. The survey examines the impact of using managed accounts on financial advisers' businesses.

Total responses after data cleaning and validation: n=233 financial advisers, including RG146 compliant accountants and principals/business owners who personally provide advice. The maximum sampling error (centre of the range) at the 95% confidence interval for this sample is +/-6.4%.

The breakdown of the total 233 respondents are as follows:

- Managed accounts users: **85 financial advisers**
- Non-users: **148 financial advisers**

Note that analysis of smaller subgroups will have a higher sampling error. Not all respondents were required to answer all questions. Some questions, therefore, have a small sample size for some segments.

Where relevant, we have drawn insights from a wealth of syndicated Investment Trends research, including the 2017 Planner Business Model Report and the 2017 Planner Direct Equities & Managed Accounts Report.

Executive summary

Financial advisers' use of managed accounts continues to grow from strength to strength.

The perceived suitability of managed accounts continues to broaden, with more advisers saying they see these solutions to be appropriate for both their HNW and lower balance clients.

Those who recommend managed accounts experience tangible benefits of doing so:

- Time savings of 14.4 hours per week, on average, in admin and compliance work
- Higher levels of FUA and a larger client base, which translates to additional revenue of $45,000 p.a. in ongoing client fees
- Extra 4.8 hours per week freed up and devoted to long term revenue enhancing activities

Advisers increasingly see managed accounts as a whole-of-portfolio solution. The continued growth in adoption of managed accounts will be heavily influenced by non-users realising the benefits of these solutions to both their clients and their practice.

saving

14.4

hours per week

Introduction

Financial advisers are facing increasingly challenging business conditions in 2017.

Not only are advisers shedding both active and passive client relationships (resulting in a decline in average Funds Under Advice per adviser), fewer are also reporting a year-on-year growth in practice profitability[1].

This challenging business climate is pushing many advisers to evolve the way they run their planning practice, notably by adopting a more client-centric approach. To grow practice profitability, financial advisers recognise the need to service their existing clients more effectively and expand the pool of clients they serve.

The top focus areas of advisers in 2017 relate to:

- ongoing client engagement (61%)
- building efficiencies in the practice (53%)
- client acquisition/prospecting (45%).

Advisers seek to unshackle themselves from repetitive or mundane tasks that could otherwise be automated or outsourced. The goal of developing greater efficiencies in the practice is to free up time to focus on areas that matter to their clients.

Many advisers believe managed accounts bring them closer to accomplishing these priorities, fuelling the growth in use of these solutions in recent years.

61%

of advisers cite client engagement as a key focus for 2017

Q. What are the key priorities for your business in 2017?
(Multiple responses permitted) Among financial advisers [n=233]

1. Source: Investment Trends May 2017 Planner Business Model Report

Financial advisers' use of managed accounts continues to grow from strength to strength

Financial advisers' use of managed accounts continues to grow, with usage increasing for the fifth consecutive year[2]. Over a quarter of advisers (26%) now recommend these solutions to their clients, up from 22% in 2016 – the largest year on year increase observed. Looking forward, a further 20% intend to begin recommending managed accounts in the near future.

The rise of managed accounts corresponds to a decline in adviser appetite for recommending direct shares. A growing number of advisers acknowledge that stock picking is not their area of specialty, and more also find the work involved in monitoring stocks to be time consuming.

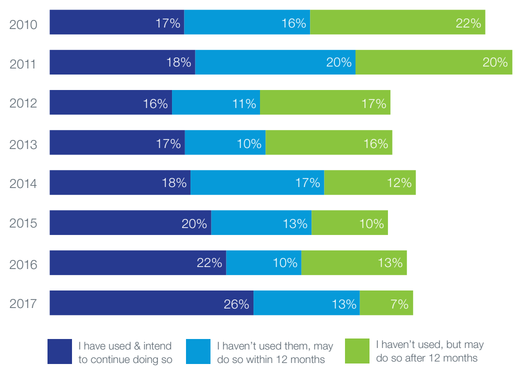
Across the wide range of reasons for recommending managed accounts, advisers are most enthusiastic about the solution's ability to provide:

- investment transparency (64%)
- greater practice efficiency (62%)
- access to professional investment managers (46%)

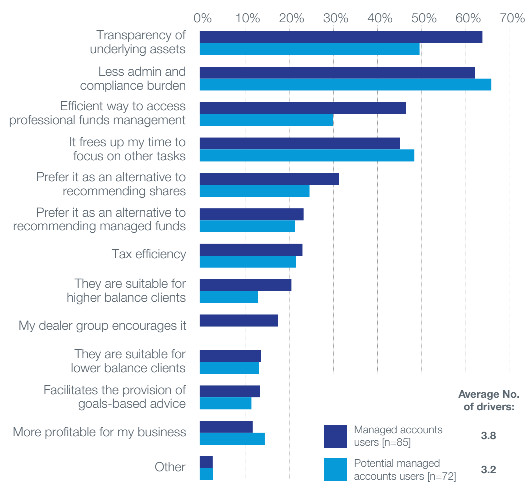
Those who intend to begin recommending managed accounts (potential users) are more likely to see the benefits as reduced admin and compliance burden (65%), and freeing up time for other tasks (48%).

Managed accounts users tend to recognise a wider range of benefits for using these solutions compared to potential users (3.8 benefits each, on average, vs 3.2), reflecting the stronger belief that users have in these solutions. Equally, potential users have yet to fully realise the extent of benefits these solutions provide, highlighting the importance of alleviating knowledge gaps in the industry.

Q. Have you used managed accounts for your client investments? Among financial advisers



Q. Why do you recommend (or intend to recommend) managed accounts? (Multiple responses permitted) Among financial advisers



2. Source: Investment Trends April 2017 Planner Direct Equities & Managed Accounts Report

The perceived suitability of managed accounts continues to broaden, with more advisers saying they see these solutions to be appropriate for both their HNW and lower balance clients

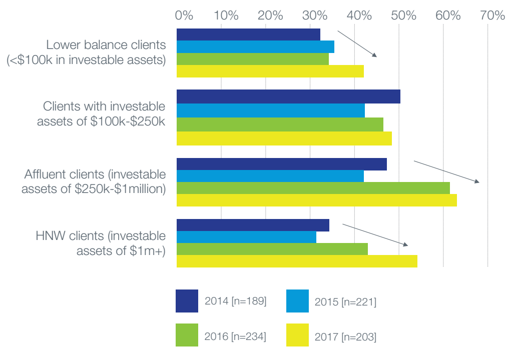
In addition to rising adoption of managed accounts, there is a growing recognition that managed accounts are more suitable than a portfolio of direct shares across a broad spectrum of clients. Compared to 2016, more advisers see these solutions to be appropriate for HNW (54%, up from 42% in 2016) and lower balance clients (42%, up from 34%)[3].

The wide range of managed accounts solutions currently available – from Separately Managed Accounts to Managed Discretionary Accounts – provide advisers the flexibility to implement the service most appropriate for their clients.

When recommending managed accounts to their clients, **the benefits advisers most often communicate relate to cost effectiveness (74%), transparency (71%) and access to professional management (69%).**

When we surveyed investors who use managed accounts, these three factors also featured prominently among the benefits they recognise[4].

Q. For which of these client groups do you see managed accounts to be more appropriate than a portfolio of individual direct shares? (Multiple responses permitted) Among advisers who recommend managed accounts or intend to do so

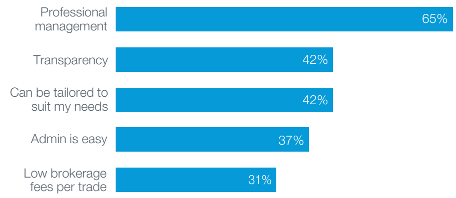


Planner view:

Top benefits of managed accounts that financial advisers communicate to their clients

Investor view:

Top drivers for using managed accounts among high net worth investors



3. Source: Investment Trends April 2017 Planner Direct Equities & Managed Accounts Report
4. Source: Investment Trends 2014 High Net Worth Investor Report

Those who recommend managed accounts are in strong agreement with the tangible benefits of doing so

The benefits of managed accounts extend beyond clients, and encompass the entire planning practice.

On average, managed accounts users experience time saving benefits across 8.6 tasks in their practice. Since many of these tasks are performed not just by advisers themselves, but with the help of support staff, **the time efficiency gains from using managed accounts benefits the planning practice as a whole.**

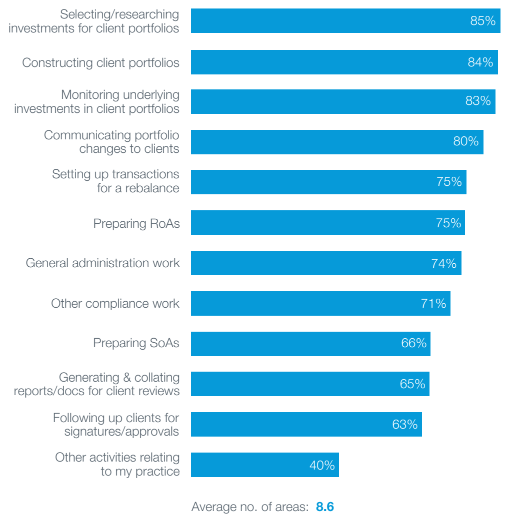
The most commonly cited time savings are selecting/researching investments (85% of users spend less time on this), constructing portfolios (84%) and monitoring underlying investments (83%).

saving
14.4 hrs
per week

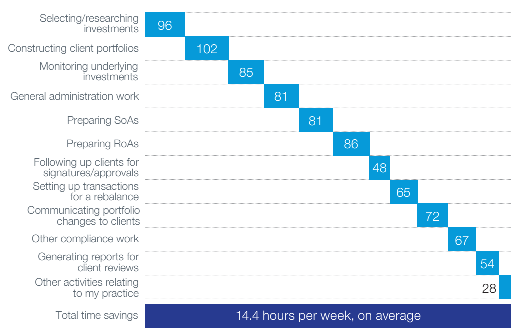
The efficiency gains from implementing managed accounts is significant. On average, advisers (and their support staff) experience time savings of 14.4 hours per week as a result of using managed accounts over other investment approaches.

The tasks where advisers experience the greatest time savings are constructing portfolios (102 minutes less per week, on average), selecting/researching investments (96 minutes) and preparing RoAs (86 minutes). Other notable areas where less time is spent include monitoring underlying investments (85 minutes), general admin work (81 minutes) and preparing SoAs (81 minutes).

Q. Proportion of advisers who experienced time saving benefits from using managed accounts (in each area shown) Among advisers who recommend managed accounts [n=74]



Q. In a typical work week, approximately how much LESS time do you spend on the following tasks as a result of using managed accounts compared to other investment approaches? Averages among advisers who recommend managed accounts (in mins) [n=74]



Get more time with clients

As a result of using managed accounts, advisers are directing time normally consumed by back office-related functions towards more productive activities. The use of managed accounts has allowed advisers to spend more time across 4.3 different activities each, on average.

Managed account users most often say they spend the additional time:

- meeting new and prospective clients (59% of users spend more time doing this)
- ongoing client engagement (59%)
- practice development/ management (58%)

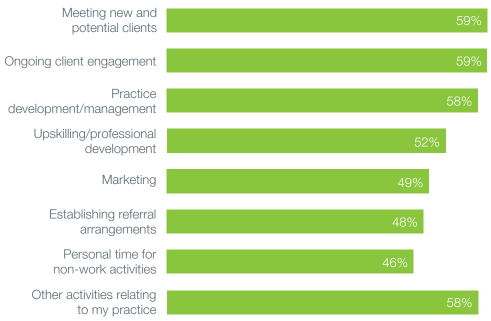
More than half (52%) say they spend extra time enhancing their personal skill set, while 49% spend more time on marketing activities.

On average, managed account users are devoting an additional 4.8 hours per week to revenue generating activities. This additional time is most often spent meeting new and prospective clients (66 minutes more per week, on average), on ongoing client engagement (53 minutes) and practice development/management (47 minutes).

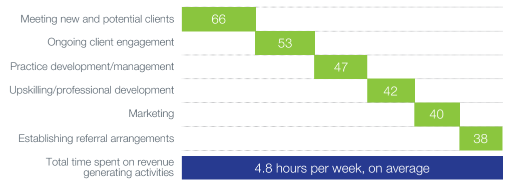
an extra **4.8** hrs for clients & revenue

This extra time spent on client facing activities, marketing and professional development is a positive contribution to planning businesses – in servicing a wider range of clients, building stronger client relationships, and potentially, greater profits.

Q. Proportion of advisers who spent more time in each area shown as a result of using managed accounts. Among advisers who recommend managed accounts [n=74]



Q. In a typical work week, approximately how much more time do you spend on the following tasks as a result of using managed accounts compared to other investment approaches? Averages among advisers who recommend managed accounts (in mins) [n=74]

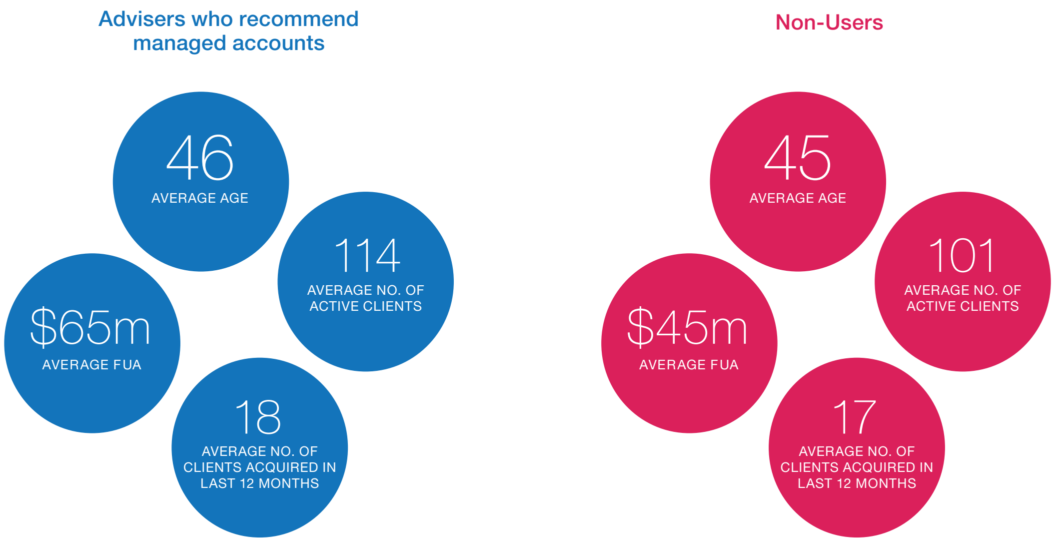


The opportunity to spend an extra 4.8 hours per week (or 250 hours per year) on revenue enhancing activities can have a compounding effect on earnings

There are vast differences in practice dynamics between advisers who recommend managed accounts and those who currently do not. **Managed accounts users tend to have higher levels of FUA** ($65m, on average, versus $45m for non-users) **and service a larger client base** (114 active clients, on average, versus 101).

Servicing a larger client base leads to higher income. In this case, managed accounts users are potentially generating an additional $45,000 per year in revenue (based on the average adviser charging $3,500 p.a. per client in ongoing fees[5]).

While these revenue gains are substantial, the opportunity to spend an extra 4.8 hours per week (or 250 hours per year) on revenue enhancing activities can have a compounding effect on earnings – extra time spent on marketing and prospecting increases the likelihood of more new clients, while time spent on professional development increases the quality of service provided to clients.



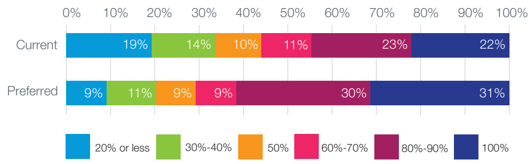
5. Source: Investment Trends May 2016 Planner Business Model Report

Advisers increasingly see managed accounts as a whole-of-portfolio solution

Advisers are recognising managed accounts as a viable whole-of-portfolio solution. Among those who recommend managed accounts, 22% say they use it for the entire client portfolio, and 31% say they would prefer to do so.

Even advisers who intend to recommend managed accounts in the future recognise its all-encompassing potential – 41% say they would prefer to use managed accounts for the entire client portfolio.

Q. Thinking about the clients for whom you use managed accounts, approximately what proportion of their total investable assets do you currently [and would you prefer] to allocate to managed accounts? Among advisers who recommend managed accounts [n=86]



The continued growth in adoption of managed accounts will be heavily influenced by non-users realising the benefits of these solutions to both their clients and their practice

Even though managed accounts have been available in the Australian market for well over a decade, a lack of knowledge about these solutions still persists with 32% of non-users saying this is a barrier to recommending managed accounts.

It is, therefore, vital for the broader planning community to learn about the potential benefits of managed accounts not only to their clients, but also in lifting efficiency within the planning practice.

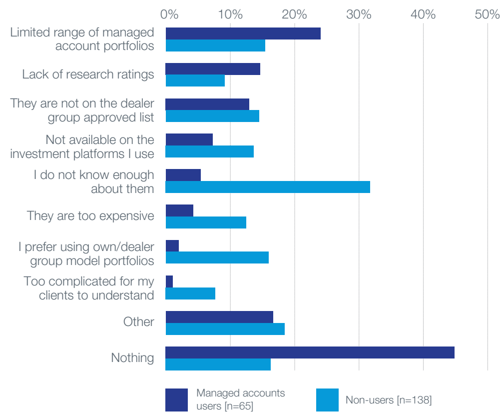
Other key barriers holding non-users back include a preference for own/dealer group model portfolios (16% cite this), limited range of managed account portfolios (15%) and lack of availability on their APL (15%).

For advisers who recommend managed accounts, the top barriers to using these solutions more extensively include a limited range of managed account portfolios (24%) and a lack of research ratings (15%).

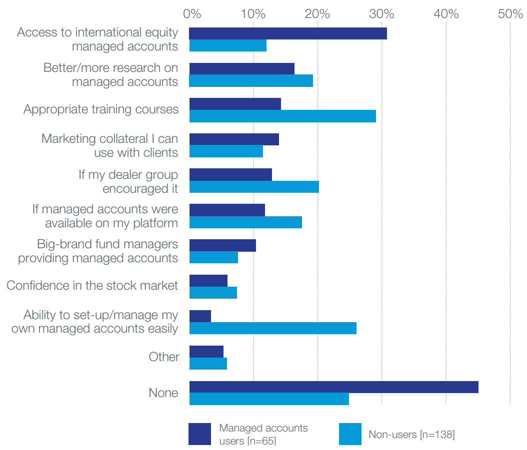
More optimistically, **the majority of non-users (75%) can be encouraged to start using managed accounts.** These advisers most often seek further education through training courses (29% cite this), and want guidance on setting up/managing their own managed accounts (26%). Dealer group encouragement would prompt a fifth of non-users to implement managed accounts in their practice.

For managed accounts users, 55% can be encouraged to use these solutions more extensively. The top catalyst are access to international equity managed accounts (31%), better/more research (16%), training courses (14%) and client facing marketing collateral (14%).

Q. What prevents you from placing (or placing more) client investments in managed accounts? (Multiple responses permitted) Among financial advisers



Q. Which of the following would prompt you to start/increase your involvement with managed accounts for clients? (Multiple responses permitted) Among financial advisers



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