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Hugh MacNally is a Director and the founder of PPM. He has been a full time executive of PPM since 1995 and is responsible for management of portfolios and the analysis of investment opportunities. Prior to founding PPM, Hugh was the Investment Manager at Permanent Trustee Company, where he had responsibility for the management of a large number of portfolios on behalf of estates, individuals and charities, totalling $900 million. Prior to joining Permanent Trustees, Hugh was an analyst and later investment manager at APA Assurance covering Australian and New Zealand equities. Hugh commenced his career in 1984 and has completed the OPM management course at Harvard Business School.

IMAS & SMAS MEET THE DEMANDS OF SMSF TRUSTEES FOR DIRECT INTERNATIONAL EQUITIES PORTFOLIOS

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Individually managed accounts (IMAs) and separately managed accounts (SMAs) enable trustees of SMSFs to access direct international and domestic equity portfolios with greater control and transparency compared to the traditional managed fund options, however the differences between and benefits of IMAs and SMAs are perhaps not well understood and this paper discusses the key differences and benefits of each.

First, it is important to understand the differences and benefits between an IMA, an SMA, managed funds and other investment structures.

An SMA is a product – each investor gets the same portfolio

Under an SMA – a client invests in a model portfolio managed by a professional investment manager, all trading, administration and investment reporting is taken care of for the client by the platform administrator. The client's financial adviser will assist the client in determining whether an SMA is suitable to meet their investment requirements and which SMA or SMA models to select.

There are clear benefits of an SMA for a client.

An SMA provides access to a professional manager and its research capability with the benefits direct share ownership. Unlike a managed fund, each client is able to see exactly what investments are in their portfolio. Tax events and transaction costs are not shared across clients and the cost base of the clients investments will be the date of their investment in the model portfolio. Further, a model portfolio is typically a high conviction portfolio, with the total number of holdings in the model limited to 20-25 securities whereas in a managed fund the number of securities is typically not specified and is typically much greater.

As an SMA model is administered on a platform, the client does not need to manage the trading, corporate actions or any adminis-

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trative aspects of their portfolio. Clients receive online access to their model portfolio and annual reporting for taxation purposes. The client pays investment management and administration fees.

SMAs are suitable investment products for clients who want a direct investment portfolio without having to spend time selecting, managing and monitoring their portfolios - as both the investment management and administration are handled by professionals. International SMAs enable SMSF trustees to have direct access international equities without the complexities and costs of managing international trading, custody and currencies and without the tax consequences of a pooled managed investment.

PPM offers the Australian Equities Growth SMA and the Global Equities Growth SMA, for both general and superannuation investment.

PPM's SMAs are structured under a managed investment scheme with the appropriate disclosure provided in a PDS by the platform provider. All compliance and administration is taken care of by the platform provider. Clients in consultation with their financial advisers can determine what model would best suit their investment requirements and can invest in a PPM SMA with as little as $20,000 under the Australian Equities Growth SMA or $50,000 for the Global Equities Growth SMA.

An IMA is a service - each investor's portfolio is individual and tailored to their requirements

An individually managed account or IMA is a discretionary management agreement whereby clients delegate the day to day investment decisions and implementation of their chosen investment strategy to PPM while retaining the full beneficial ownership of their investments. Their portfolios are bespoke and tailored to each client to meet their investment requirements taking into consideration their individual preferences, taxation circumstances and investment objectives. A client can transfer into an IMA an existing portfolio 'in specie' without triggering any tax consequences and these will be incorporated into individual portfolio and professionally managed.

PPM offers IMA services to clients with an investment of over $500,000 or who otherwise satisfy the Corporations Law definition of a "wholesale" investor.

An IMA may be described as "bespoke" or "tailored to each client", but what exactly does that mean? How does a portfolio manager construct an IMA – an individually managed account?

The construction of an IMA is a highly personalised service. The portfolio manager will initially meet with the client to discuss their investment objectives, then, in consultation with the client's advisers will agree a core investment strategy (including a consideration of growth or income requirements, Australian and/or International equities) and their broader investment requirements. Each client will discuss their taxation status, investment restrictions, ESG considerations, and, if any existing holdings that are to be included in the portfolio, via an 'in specie' transfer. The portfolio manager will then build a portfolio tailored to meet the client's investment objectives and requirements and actively manage it going forward.

In addition to quarterly and annual reports and the portfolio manager will meet with the client on a regular basis to discuss the portfolio(s) and explain any changes to it. Reporting is available online 24/7 via a secure portal on our website.

IMA Examples

The best way to describe how an IMA works and is tailored to each client's requirements is to give examples:

Example 1

Client Scenario: The client has an existing portfolio that has large capital gains on stocks that might have been held for some considerable time, maybe they inherited some of the holdings, as such are significant capital gains tax consequences if the holdings are sold. In addition, they are a senior employee of a listed company and have a large exposure to their employer stock through a staff share scheme (ESS). If this security is a bank, the client may not want additional exposure through their portfolio or superannuation fund to that company.

PPM IMA Solution: The PPM portfolio manager would construct an IMA portfolio to initially carve out the ESS exposure from the portfolio and manage it over time and to give the client a more balanced and diversified overall portfolio.

Example 2

Client Scenario: The client is paying a high personal tax rate and has equity investments both inside and outside their SMSF, for example in a family trust or in their personal name.

PPM IMA Solution: It consultation with the client's advisers and portfolio manager may structure IMA portfolio(s) so the family trust holds the securities that are expected to generate long term capital gains and the superannuation fund holds securities that are more likely to generate income (particularly franked). As such the trust might hold the majority of the US stocks (as they often generate capital gain rather than income) and the superfund might focus more on domestic stock as they produce more income and maximise the benefit of franking in the superannuation fund. The object being to create for the client a well-diversified Australian and Global equities 'portfolio' with the maximum efficiency from a taxation perspective.

These examples are for illustrative purposes only and each client's individual circumstances will be taken into consideration in conjunction with the advice from the client and their investment advisers – however hopefully they clearly demonstrate the individually tailored nature of an IMA and the clear benefits to those clients.

Clear benefits of IMAs and SMAs

The advantages of IMA and SMAs over other available investment structures are clear for SMSF trustees. The table below details the key features of IMA, SMA and alterative investment structures. Direct ownership, transparency, cost and tax effectiveness are the core benefits IMA and SMA offer for investment management solutions for SMSF trustees.

Figure 1. Key features of SMA & IMA compared to other common investment structures

Feature	Managed Funds	LICs	EFTs	SMAs	IMAs
Tax Efficiency	Poor	Moderate	Good	Good	Excellent
Portability	None	None	None	Good	Excellent
Managed to Particular Tax Outcome	None	Sometimes	No	No	Yes
Transparency	Poor-Moderate	Moderate	Good	Excellent	Excellent
Direct Ownership	No	No	No	Yes	Yes
Embedded Tax Liability	Often	Often	Sometimes	No	No
Capital Losses can be applied to:	Future gains within structure	Future gains within structure	Future gains within structure	Any current or future gains	Any current or future gains
Variety of Investment Options	Excellent	Good	Moderate	Moderate	Moderate
Portfolio Construction	Manager's discretion	Manager's discretion	Manager's discretion	Model portfolio	Manager's discretion
Tailored Management	No	No	No	No	Yes
Management Fee Tax Deductibility	No	No	No	No	Yes

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