Brett Mennie, HUB24

Brett Mennie, Head of Managed Portfolios, HUB24, has over 30 years' experience in the Australian financial services industry, predominately in senior executive distribution roles across asset and licensee management, working across the broad spectrum of the Australian wealth management industry.

Brett's deep understanding of the industry comes from varied roles across distribution, sales, strategy, marketing and key account management with leading organisations, including J.P. Morgan Asset Management, Vanguard Investments Australia, Perpetual Investments and the AXA Financial Advice Network. Having practiced as a financial adviser, Brett has an affinity with advisers and practice principals.

Supporting client outcomes during market volatility

Managed portfolios

Brett Mennie

The rapid change in investment markets and economic conditions since March 2020 has tested the ability of financial advice business models to manage and support client outcomes effectively and in a timely manner during times of extreme market volatility.

What has become clear is that the innovative technology available on platforms such as HUB24 enables advisers to tailor an outcome for their clients and unlock value through leveraging functionality available on the platform. In doing so, advisers can adapt, pivot and swiftly change portfolios to add timely value to their clients and, in many cases, preserve value in their clients' portfolios.

Technology driving value

Technology sits at the heart of managed portfolios, providing the flexibility to create and build value beyond investment returns.

In volatile markets, the ability to rebalance client portfolios in a timely and efficient manner is essential, and this has been critically important in enabling advisers who are using managed portfolios to deliver a client experience that is seamless and with minimum disruption.

Financial advisers tell us that having this capability makes them feel more in control; they are able to implement their advice across all client accounts in a seamless and effective manner, ensuring that no one is left behind and that all their clients can experience the best timely advice that the practice has to offer.

The most recent Investment Trends Managed Accounts Survey found that the time saved by an advice practice using managed portfolios is highly significant—on average 13 hours per week [Investment Trends Managed Accounts Report, 2020].

This equates to 1.5 to 2 days back in the hands of practitioners to do what they do best—advise. Key areas where practices saved substantial time included researching investments, investment administration and preparing records of advice.

Enhanced benefits for their clients are a significant driver for advisers to begin using managed portfolios. The report found that advisers greatly valued the visibility that managed portfolios gave underlying shares, as well as direct beneficial ownership. This means that because clients own the underlying assets rather than units, it allows clients via their adviser to strategically manage their capital gains more effectively.

Advisers also reported operational efficiencies as another attractive feature of managed portfolios. They included efficient implementation and reduced risk and compliance burdens. Ease of articulating their value proposition to clients and support in meeting the best interests duty were also sighted.

While modern technology enables advisers to provide a mass customised experience, tailoring individual client portfolios around client preferences is becoming paramount and further demonstrates how advisers can add value to clients via managed portfolios.

Managed portfolios drive outcomes

Managed portfolios drive outcomes, but not all solutions are the same. Growth in managed portfolios has increased competition in this space, making it perhaps easy to assume that they are all offering

the same capability. This could not be further from the truth; in fact, no two managed portfolio solutions available on platforms are the same.

Tax optimisation tools, such as HUB24's, bring together good technology with great advice to build value for clients so that they can optimise client tax outcomes when selling down portfolios.

This means the platform can automatically select the best tax parcel to sell from across a client's whole account to meet the required tax outcome—First In, First Out (FIFO), minimum or maximum gain. This is a more holistic approach to portfolio management as some alternative platforms only provide FIFO tax outcomes and only within a managed portfolio, not across a client's whole account.

Further, the ability to estimate tax scenarios under the minimum gain, maximum gain, or FIFO methods, enables advisers to implement the most effective strategy for their client, providing significant tangible benefits for clients.

The managed portfolio functionality on HUB24 provides additional benefits when rebalancing portfolios or switching portfolios. For example, by only buying or selling the stocks that are different across portfolios, saving on transaction fees and potentially capital gains tax (CGT). These savings can then be reinvested to create additional value.

While innovation in managed portfolios over the past few years by providers such as HUB24 have continued to push the boundaries on their capabilities, HUB24 has also provided more choice for clients and advisers by offering a large number of investment options across all asset classes, assisting in diversification and tailoring a portfolio to a client's needs.

Adviser support is strong and growing

In the wake of the Hayne Royal Commission, the departure of institutions from wealth management and the further break down of the vertically integrated business model, the move to specialist platform technology providers and managed portfolios has continued its momentum.

There is a strong appetite for change that supports advice practices in a technologically advanced, sustainable and efficient manner, and offers them a way to provide a repeatable, reliable and valued client-focused outcome.

The Investment Trends Managed Accounts Report found that 40% of the 900 financial advisers interviewed between January and February 2020 used managed portfolios. Just four years ago in 2016, the same survey found that 22% of the financial advisers were using managed accounts.

Further, managed account assets are projected to grow by 50% by the end of 2023—more than ETFs, which are projected to grow by 30% while unlisted actively managed funds are projected to shrink by 20%.

The take-up of managed portfolios is driven by advisers' desires to find a better solution that best meets the needs of their clients while also creating efficiencies in their business.

Challenges advisers faced during COVID-19

The months of global uncertainty and the impacts resulting from the COVID-19 pandemic has created a challenging operating environment for advice practices across Australia, and will continue to do so for some time.

As said, managed portfolios can assist financial advisers in helping them to confidently manage portfolio changes, tax implications, transaction fees and compliance, all with a high level of efficiency.

For example, financial advisers have said that their former method of rebalancing their clients' model portfolios was outdated, arduous, time consuming and a lengthy exercise, often spanning weeks or even months. As a result, the investment strategy being rolled out becomes less timely and relevant. There can be a sense of frustration due to these delays, ultimately resulting in a feeling of lacking control.

What financial advisers are telling us is that in times of volatility, they need the ability to rebalance portfolios in a quick, decisive, effective and efficient manner so that they can spend their time focusing on client engagement, communication, advice, strategy and keeping their clients' goals on track.

Case study: TownsendCobain Private Wealth Partners

During the recent market volatility, TownsendCobain Private Wealth Partners has continued to experience the benefits of transitioning to managed portfolios, while seeing first-hand the value they can generate under pressure.

TownsendCobain is located in St Kilda, Melbourne. It has approximately 110 to 115 clients with $250 million funds under administration. Three years ago, they started to look for an alternative investment management approach that would allow it to 'to bring the best advice to all their clients'.

The business includes co-founders Tim Townsend and Rob Cobain and has two support staff. Rather than employ more staff, the business was looking to operate more efficiently and to make changes to its investment model.

Townsend said through talking to other financial advisers who used managed portfolios, the transformational capacity managed portfolios could have on a business was clear.

"However, I was quite surprised that the act of introducing managed accounts meant doing some things very differently. Suddenly someone who had multiple levels of investment management had moved to direct assets. This concerned us as we value our investment philosophy and wanted to ensure that we utilised the managed account opportunity to enhance our philosophy, not replace it."

What Townsend recognised was that managed portfolios gave businesses great scope to extract value for their clients, a service they valued, and which was aligned with the practice's commitment to improve the outcome for the client.

The quote

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The quote

Advisers also reported operational efficiencies as another attractive feature of managed portfolios.

Eighteen months ago, the business began transitioning to managed portfolios with HUB24, which it investigated and nominated as its platform provider. Each client was issued with a new statement of advice as well as having a personal meeting which took them through a SWOT analysis on managed portfolios.

The thinking behind this was if the practice did not admit to the shortcomings of what they did now, why would they be coming up with an alternative?

Townsend also chose to personally communicate to clients exactly how he felt—that it was a challenge to meet with clients and implement an investment philosophy in a timely and efficient manner. Further, technology was changing and to stay on top of best practice and what was available, managed portfolios made sense.

"We have been able to be highly proactive for all our clients, not just a select few. This has given us a heightened 'peace of mind' in knowing that our clients have all benefited from our actions." Townsend said that clients have also expressed greater reassurance that their assets are being managed effectively.

"While only time will tell the effectiveness of our decisions, this perceived pro-activeness has certainly enhanced our client's perception of us and our services," said Townsend.

Managed portfolios in uncertain times

As the Australian managed portfolios market evolves, the value that they are providing to advice businesses and their clients is clear.

Technology, and the role it plays in building and adding value to client portfolios, is the key differentiator. The right managed portfolio solution provides financial advisers with considerable scope to create and add value, and to work with clients to enhance investment outcomes. **FS**

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