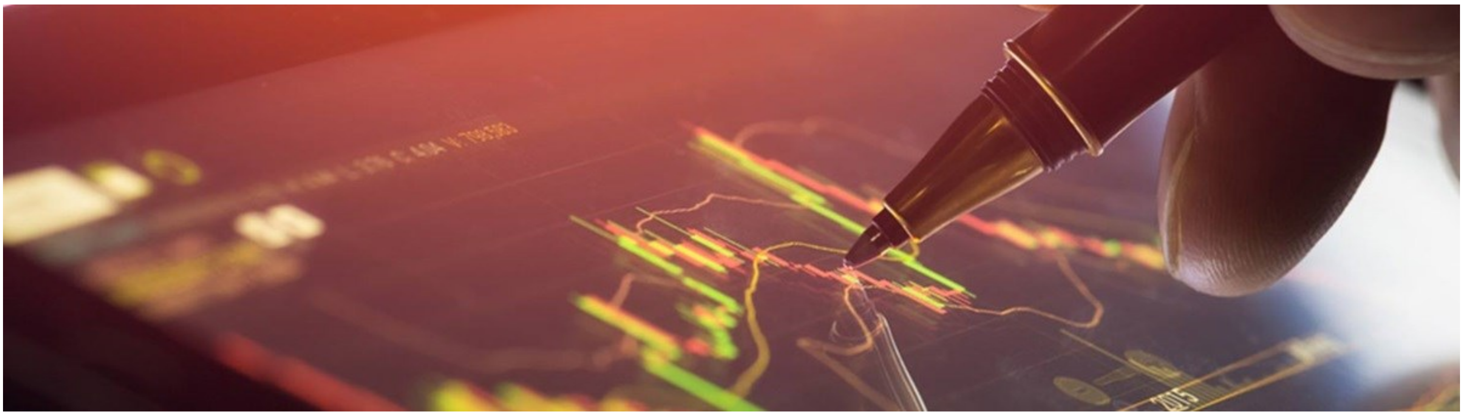
SEPARATELY MANAGED ACCOUNTS SET TO GROW



PERPETUAL CORPORATE TRUST
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A Separately Managed Account (SMA) is a managed investment product, held by retail investors and overseen by a professional investment manager[2]. The Institute of Managed Accounts Professionals (IMAP) estimates that about $60 billion is invested via managed accounts but acknowledges this may understate the true figure. Even so, IMAP estimates that growth will run at about 40 per cent a year for at least the next two years, suggesting the managed account industry will grow to more than $115 billion by 2020[1].

The results from the 2018 NAB/Investment Trends Managed Accounts Report revealed a marked surge in interest in using SMAs, with advisers recognising considerable benefits for their clients, as well as the efficiency benefits in implementing advice recommendations[3].

SMAs can take various forms, including non-unitised managed investment schemes. Like a unitised managed investment scheme, an SMA gives investors access to a single asset class or a diversified portfolio which is overseen by investment professionals, with all the benefits of research, execution and reporting. But, unlike a unitised managed fund, a separately managed account can provide investors with individual, rather than pooled, outcomes on their investments.

Although similar to investing in a regular managed fund, SMA have structural differences which make them unique. For instance, the beneficial ownership of the underlying assets or stocks within the model portfolio are held by the investor versus the pooled unitised investment vehicle.

An ever-increasing number of financial advisers are implementing SMAs in their practices, citing reasons such as cost-effectiveness, operational efficiency, transparency and improved financial outcomes for their clients.

SMAs can offer benefits for investors, including:

- **Simplicity:** With comprehensive, consolidated reporting, fewer personal decisions to make or endorse, and less paperwork to review, SMAs are generally easy for investors to own and administer.
- **Real-time transparency**: Investors, and their advisers, can view their investments in their portfolio at any time, typically via an online platform with extensive reporting capabilities. Full disclosure of stock names and weightings of portfolios are provided and the ability to view every trade and the price at which they occur.
- **Cost-effectiveness**: Execution fees are generally lower, which over the long-term represents a substantial saving. While fees vary, SMAs can offer lower total costs than comparable portfolios with a traditional managed funds structure.
- **Responsiveness**: With an SMA, the investment manager has the capacity to act quickly to reduce risk or take advantage of emerging market opportunities.
- **Tailoring**: Depending on the SMA, investors can benefit from a significant level of customisation, including switching, excluding and preserving investments.
- **Control**: SMAs are personalised investment portfolios. They are designed for the specific needs of the investor, they can see holdings, monitor performance daily and can exit their positions at any time.
- **Tax**: As SMAs are not pooled, capital gains tax liabilities and concessions are for individual investors, not others, using managed funds as a comparison. This enables investors of a SMA to manage their tax position.

Investing in SMAs, like any other investment, does not come without its risks. Different model portfolios carry different levels of risk, depending on the underlying mix of assets that make up those model portfolios. It is therefore important to understand that the value of investments will fluctuate, investment returns will vary, and future returns can be different from past returns.

Some specific key risks of SMAs are:

- **Tracking risk:** Performance of the portfolio may differ from the chosen model portfolio. This can occur if rebalancing trades are not implemented due to the minimum trade value or minimum cash balance requirements not being met. It can also be due to general market conditions, such as liquidity in the investments impacting the timing of rebalance transactions being implemented and if the portfolio is not rebalanced in a timely manner when model portfolios change.
- **Model Portfolio Manager Risk:** Managers of the model portfolios may not always implement the investment strategy and objectives therefore eroding some or all of the benefits. To help mitigate this risk, we choose investment managers based on past success and continuously monitor their performance to ensure they remain appropriate.

Perpetual Corporate Trust is the leading provider of independent Responsible Entity services in Australia supporting global and Australian fund managers with compliance and governance needs as they launch and manage their managed investment schemes. The Trust Company (RE Services) Limited, a wholly owned subsidiary of Perpetual Corporate Trust, is the trustee to a number of model portfolios and Separately Managed Accounts, this includes being the Responsible Entity for the Colonial First State Separately Managed Account.

If you’re looking for help to launch or manage an unregistered investment scheme or holding structure, please contact pctsales@perpetual.com.au.

1.Source: 2018, Hub24, The Future of Managed Portfolios

2. An SMA is different to a Managed Discretionary Account (MDA). A MDA is a facility, other than a registered scheme or an interest in registered scheme, with certain features as outlined in ASIC Regulatory Guide 179. This article only refers to SMA’s structured as a registered scheme.

3. Source: 2018, Winter Perspectives, Report confirms adviser adoption of managed accounts: 2018 NAB/Investment Trends Managed Accounts Report findings