



# INDUSTRIALISING YOUR INVESTMENT PHILOSOPHY – SCALING YOUR BUSINESS WITH MANAGED ACCOUNTS

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netwealth

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## Introduction

GPS Wealth is on a growth mission. In 2012, the directors embarked on building a licensed dealer group based on a vision and set of philosophies learned from over 80 years of collective experience.

As Managing Director, Graham Evans had to work with the other directors to answer questions such as: How can we provide clients with a portfolio that reflects the group's investment philosophies? And, how do we develop an efficient method for advisers to execute and manage the investments of their client base?

GPS Wealth considered a number of options for its investment structure - model portfolios, individually managed accounts (IMAs), separately managed accounts (SMAs), and so on. But eventually the group settled on a private-labelled SMA (hereafter referred to as a Managed Account). This was largely because it provided a structure that could reflect the investment philosophy that had been developed by founding Director, Rob McGregor. As well, it was easy to implement and maintain; and provided their clients a great experience with asset transparency, tax efficiency, and the means to provide the strategy at a low cost.

"Managed Accounts just ticked all of the boxes," says Evans.

Testament to the GPS Wealth team, after only three years, they are a thriving independently-owned dealer group with over \$1.4bn in Funds Under Management, and over 100 advisers as well as 22 accountants with limited authorities.

## Getting started: Removing an inefficiency

Prior to deciding on a netwealth Managed Account solution, GPS Wealth advisers were tasked with the administrative chore of applying the GPS Wealth investment philosophy through many individual platform transactions. This was a time consuming task. Further, advisers faced the inefficient process of producing, distributing and getting instructions on the many ROAs for their clients. These inefficiencies were repeated each time investment transactions were placed. This was a time-inefficiency that needed to be resolved.

To find the best structure for their advisers and clients, the GPS Wealth Directors considered a number of options before deciding upon a private-labelled Managed Account solution with netwealth.

To begin with, the team investigated the creation and roll out of model portfolios. However, model portfolios only provided part of the solution. Unlike a Managed Account, these model portfolio structures still require advisers to produce ROAs for their clients - something which Evans says is a laborious process that can inhibit the implementation of the investment philosophy.

## To IMA or SMA?

Evans adds that the team also considered implementing their own IMAs but one of the challenges associated with them he says, is that clients don't often understand the difference between IMAs and Managed Accounts.

“The IMA is really your own account, and people often ask ‘can you tell me what the investment performance has been for the last 1, 3, and 5 years?’, but because it is an individually managed account, success is highly dependent on an investor’s individual circumstances – when they came in, when they went out, how much money they had in the account, and so on.”

He continues, “The sequence of money movement would determine an investor’s performance. So the IMA didn’t really do it for us.”

netwealth’s Managed Accounts Team Leader, Stephen Dear elaborates on this, “when using an IMA, the adviser would have to examine the nuances of that client’s account instead of giving the dealer group’s insights about the managed model portfolio.”

Steve Thomas looks after Distribution and Strategy at netwealth. He explains, “IMAs and SMAs are both types of ‘managed accounts’ though some people put them into the same category. The important thing to remember is that they are delivered through different legal structures which make the licensing requirements quite different.”

### **A 14 year investment philosophy worth embedding and scaling**

Though simplicity of implementation and ease of operation were both highly important factors, they weren’t the only issues that GPS Wealth needed to solve. One of the main reasons for wanting to use a Managed Account structure was to embed an investment philosophy with its advisers that had been developed over a 14 year period.

Evans says “the philosophy’s been tried and tested over a long period of time, making it a strategy that we were very comfortable with. We simply wanted to industrialise it because when the philosophy was developed, it was developed for an accounting and financial planning practice with a smaller book of clients. However, once GPS Wealth established its own license and had other people wanting to use the strategy we had to make the process both robust and easier to apply to more people’s portfolios.”

Evans strongly believes that as a dealer group, GPS Wealth have a responsibility to ensure advisers don’t cause any damage or disorder with client portfolios. The licensee role is to put together portfolios that are designed to take the client on an investment journey with a measured risk and reward profile that is designed to get them to their outcomes.

With the investment philosophy embedded within the Managed Account, much of the decision making work is already done for the client through the adviser. This means that the adviser’s role is more about determining client outcomes and actually working out their risk tolerance and risk profiling.

### **The process of setting up a private-labelled Managed Account**

After carrying out all of the necessary research and assessment, GPS Wealth entered into an agreement with netwealth to produce a private-labelled Managed Account that would be accessible to its advisers via the netwealth platform.

Out of all of the available options, a Managed Account structure presented itself as the best option to solve GPS Wealth’s challenges. That said, switching to a Managed Account structure was initially off-putting to the team as they believed it may have substantial implementation barriers.

GPS Wealth started the journey towards setting up its own Managed Account in December 2014, and launched the product with netwealth on 31 July, 2015.

To begin with, netwealth’s investment committee conducted its own rigorous due diligence on GPS Wealth’s investment governance, philosophy, capability and process.

A key finding of this evaluation was that GPS Wealth’s governance would benefit from the inclusion of external, independent experts on its own investment committee. The addition of these experts to the committee compliments GPS Wealth’s existing investment capability.

It also assists with the initial investigation and ongoing monitoring and oversight of GPS Wealth’s Managed Accounts, ensuring they are developed and run in a manner consistent with the investment philosophy and that they are truly scalable and reputable.

This didn’t provide too many hurdles, as the philosophy had been developed and perfected over a 14 year journey and had been used for many clients over a substantial period of time.

“We believe an investment strategy should be boring - delivering an efficient and effective outcome at a low transparent cost. Our CARE strategy does just that. We believe in an exciting life with boring money, and not the other way around,” says McGregor who developed the investment strategy.

For this reason, GPS Wealth didn’t believe that outsourcing the investment management involved in running the Managed Account was an appropriate option for them. However, outsourcing the investment selection is something that other dealer groups looking to set up their own private-labelled options may contemplate.

Evans makes the comparison that because the fiduciary responsibilities are so high, the obligations on a dealer group considering its own Managed Account are higher than those for just an advice business. This means that the business directors must commit to additional obligations – from compliance checks and reporting, to regular reviews of the investment program and so forth.

### **Educate your advisers, so they can educate their clients.**

An important component of GPS Wealth’s Managed Account implementation process was spending time educating their licensed advisers on the strengths and benefits of the new Managed Account, how to use it, and just as importantly, how to inform their clients about it.

“It is absolutely essential that advisers are trained and educated on every product available to them – if an adviser doesn’t understand the product, they should not sell it to their client,” says Evans.

Another part of the process for the licensee is to ensure the investment process can successfully make it through a due diligence process from the Managed Account provider.

“The provider, which in this case is netwealth, is responsible entity so netwealth went through its own due diligence process in relation to both GPS Wealth’s investment process and the people running it. That’s another key aspect to the process and it takes a lot of time” says Evans.

### **To private-label or not: Some important considerations**

There are some key points the directors of GPS Wealth suggest any dealer group seeking out their own private-labelled Managed Account should take into account.

The first is that setting up a Managed Account as a means to generate extra revenue is something that they believe all licensees should avoid. Evans says those considering their own Managed Account should make sure they're doing so for the right reason: To enhance client outcomes.

He says that there must be a true need for the model, and that the client's best interests must always come ahead of efforts to increase profit.

As well, the GPS Wealth's leaders suggest seeking external assistance in verifying the investment philosophy and process – no matter how confident the licensee is about their philosophy and process for delivering it.

"I would encourage anybody who has a philosophy that can actually stand the test of time to actually get some external help and assistance in reviewing it so that they really understand exactly what they're doing and the upsides and downsides," says Evans.

Another consideration is to determine how many clients in a dealer group's books the Managed Account will suit. The GPS Wealth group encourages its advisers to ensure that the product is suitable to their clients' needs, and is sure to remind advisers that a Managed Account is not designed to be a 'one size fits all' implementation for all clients, nor a strategy that needs to be applied to the entirety of a client's portfolio if it does not suit.

### Greater transparency has led to positive client benefits

There have been clear benefits and lessons for all parties involved in GPS Wealth's Managed Account launch. Most importantly, clients have been pleased with the transparency that this new option offers them.

Being able to see the holdings within their Managed Accounts, and having been educated on the processes involved has given clients more knowledge and understanding about their portfolios with which they are able to work more closely with their advisers.

"By giving clients a new comfort level through empowerment, it encourages them to explore strategies that they probably wouldn't have previously explored because they didn't understand them," he says.

The Managed Account structure also provides flexibility to suit individual investor needs such as if a client wants to substitute out a particular stock for reasons such as personal ethical considerations. The ability to have this portfolio flexibility is an attractive feature for many Managed Account users.

As well, the team at the dealer group believe that this increased client engagement has helped advisers to work more closely with their clients on riding out recent market volatility.

Overall, the feedback from clients of GPS Wealth has been positive. They have described circumstances where they feel more educated about the processes and therefore more confident in sticking with their long-term strategies rather than panicking and trying to unnecessarily compensate for a volatile market.

Further to this, many clients can experience greater tax effectiveness from the use of a Managed Account due to the rebalancing process that happens within the model.

### For advisers, a more trusting client relationship

For advisers, there are many obvious benefits involved with having a more engaged client base - inevitably it encourages a stronger and more trusting relationship to prosper which allows the adviser to help their clients with more areas of their wealth management strategy including superannuation and retirement strategies, creating a more holistic advice offering.

With the investment manager looking after portfolio research and decisions about re-balancing, and the platform looking after prompt implementation of rebalancing and trading there is weighty work-load lifted from the shoulders of an adviser using the model. This time can be spent, then, working for new business and on other practice efficiencies.

As a dealer group, GPS Wealth has experienced benefits from compliance aspects of the Managed Account model. By taking control of the investment process, the dealer group can ensure all portfolios under the model have had all changes and decisions reviewed by an expert.

Evans says that this process significantly improves the chance of advisers having successful outcomes with client portfolios and increases the ability of the dealer group to ensure advisers are remaining compliant.

### A partnership of equals

Although the process of researching, engaging on important requirements and implementing a private-labelled Managed Account is not one that should be considered simple or quick to put into action, the benefits and positive outcomes for GPS Wealth and its licensed advisers have been noticeable.

A Managed Account can solve a number of practice inefficiencies for those licensees that are willing to spend time working through compliance, structure and due-diligence processes.

When it came to choosing a provider for the Managed Account, GPS Wealth chose to partner with netwealth because they recognised congruence in the platform provider's value for providing high quality investment products in an independent marketplace.

With both parties in this private-label deal committed to ensuring a high quality and compliant product designed to assist advisers and clients in achieving their financial goals, this will be a partnership that continues to focus on success and reliability for everyone involved. **FS**



#### The quote

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