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REPORT

Unified Managed Accounts
the latest technology in investment administration, monitoring and management

By Dan Miles

Never heard of a UMA (Unified Managed Account)?

Not to worry, not many people have. The UMA is set to be the next big thing in investment administration, monitoring and professional investment management. The same way the Master Trust and Wrap account changed the investment landscape for retail clients 15 years ago, the next big shift is towards managed accounts, with the UMA being the most advanced and interesting version. Roughly $1 trillion of assets are being managed in the US via managed accounts, with the greatest growth being in UMAs. Previously only available to the most wealthy of investors, technological advancements and scale are making this tool available for the retail investor.

A UMA is a professionally managed private investment account that is rebalanced regularly and can encompass every traditional and non-traditional investment vehicle by consolidating holdings in individual stocks, ETFs, managed funds, hedge funds, bonds and property, and can be individually tailored for your circumstances and tax position. Every holding plays a role in the asset allocation, and since the platform is agnostic to structure, the structure that results in the best outcomes for clients is achieved. This can include isolating the investor from the trading activities of others and enable portfolio adjustments to be automatically traded in a manner most tax advantageous to the individual – providing additional value when compared to equivalent wrap accounts, managed funds or direct share portfolios. Systematic rebalancing maintains the preferred asset allocation, and the financial adviser's fee-based compensation is product neutral, regardless of what is held in the account.

A UMA is a perfect vehicle for Self Managed Super Funds (SMSFs), specifically in relation to tax efficiencies. In addition, it has the ability to customise investment options, rules and preferences and has a very high level of transparency. Finally it is streamlined, efficient, cost effective and can include all manner of investments, meaning that it works particularly well for the investment portfolio of a SMSF.

What makes a good UMA?

The UMA should act as a one-stop-shop for clients investment assets. It needs to be able to consolidate all a client's investment holdings into one account. This leads to consolidated reporting and removes the need to hold numerous investment platforms.

It needs to be able to access the best professional money managers available, and have a relationship with a professional (and capable!) asset consulting team who can monitor and allocate to those managers and asset classes.

A UMA needs to provide the most tax efficient solution for your individual circumstances. One of the biggest problems with the traditional managed fund environment is that all unit holders are treated as one. When you buy units in the trust, you are buying someone else's capital gains, and you can't release capital losses from the trust. A UMA needs to allow you to own securities in your own name (where possible) to eliminate this problem.

A good UMA can tailor solutions, with each investor not just getting a model portfolio, but a tailored offering to suit their circumstances. Whilst it may be all well and good to have share XYZ in your portfolio, it may be too expensive to buy right now. In a model portfolio, price isn't taken into account, clients just get whatever is in the model. A good UMA prevents this from happening, only allowing holdings to enter the portfolio when they reach a suitable buy range. Your UMA should also allow you to set rules, preferences and constraints, so your portfolio is always optimal based on what you deem most important.

Ideally you can also access risk mitigation tools through the UMA. Having the ability to provide a level of protection on your assets without having to sacrifice liquidity is a huge advantage in a volatile market. We all know we have to take risk to get higher returns, but you should have the option of being able to reduce the impacts of those risks in a bad investment environment. This is similar to buying insurance; it acts as a cost on performance when things are going well and you don't need it, but becomes invaluable if markets fall a long way. Not having that as an available tool means your offer isn't complete.

A UMA needs to provide transparency of your investment holdings. What exactly do you hold, and where do your investments lie? What do you hold directly and what do you hold beneficially? A good UMA should be able to provide you with this information… you won't get this information from your traditional investment sources. In addition, it needs to offer transparency of fees. What (and who) are you actually paying?

Reduced costs and benefits from scale. A UMA should provide investors with a highly efficient solution, so costs should drop when compared to typical retail investment offers. Further, with scale, these costs should continue falling over time. Scale will also allow investors access to a greater array of investment opportunities. Investments previously only available to the mega wealthy and large institutions should now be made available to retail clients.

How does a UMA work?

At its core, a UMA is simply a technology program that directs and reports on money flows. It utilises external service providers and bundles them together into one place.

A UMA account starts with the retail client and their adviser. The adviser and client determine the best asset allocation for the client, what preferences they have, the Capital Gains Tax (CGT) implications of moving any of their money and what level of risk they are comfortable taking. They determine which assets should stay where they are and be reported on, and which assets can be moved to a more efficient structure. Once this is determined, an account is opened in the UMA, and the adviser inputs the rules into the software engine.

The software package takes the rules and notifies the various administrators of the account that an account has been opened and where money is to be invested. In a good UMA, the decision as to where the money is invested should be executed by a capable asset consultant or money manager; however this can theoretically be done by anyone.

When investment changes are proposed, the rules set by you as the investor determine whether the proposed action should be taken or not. The software package decides whether or not to execute the trade, and if the decision is made to execute, the trade requests of all clients in the UMA are bulked up together and netted off against each other (so no unnecessary trades are executed). The required trades are made and the client received the assets purchased. This is all reported and controlled in one place. Easy.

How does that compare to other investment options?

Let's take a look at a few different investment options available to retail clients:

- A portfolio of managed funds administered on a Wrap
- A portfolio of Australian shares managed by a stockbroker
- A multimanager fund (such as an investment in an Industry Super Fund default option)
- A combination of managed funds and Australian shares

How does a good UMA compare?

	Professional money managers	**Professional asset consultant**	**Selection of investments available**	**Transparency of assets**	**Transparency of fees**	**Benefit from scale**	**Tax Efficient**	**Ability to tailor**
Managed funds on Wrap	Yes	Not common	Moderate to High	Low	High	Limited	No	Moderate
Australian Shares managed by a stockbroker	No - Stockbrokers are incentivised to convince you to trade frequently	No	Very Low	High	High	Typically not	Yes	Moderate
Multimanager fund	Yes	Yes	High	Very Low	Very Low	Yes	No	None
Combination of shares and managed funds	Some	Unlikely	Moderate to High	Moderate	High	Limited	No	Moderate to High
UMA	Yes	A good one will	High	Very High	High	Yes	Yes	High

Pricing

In your typical retail offering, the percentage price you pay for administration drops as you increase your investment balance, but typically the investment cost does not. Also, the administration and investment costs don't drop as more people invest i.e. there are no benefits of scale. In a good UMA, both of these prices should drop as more and more people utilise the UMA. So as the investor's collective buying power gets greater, the cost to every client should drop. There aren't many investment structures available where the price you pay drops as more people join you… you don't even need to do anything!

How can this be done?

The concept of increased transparency, tailoring and reduced costs sounds too good to be true. And that is fair enough. But this is how it is achieved:

1. Utilise the administration offering of large scale players already in the market place. There are administration providers available who administer trillions of dollars globally, use their scale. Most retail offerings try to do this themselves and so are more expensive.
2. Consolidate the assets of your investors. The more money and buying power that is combined, the better pricing you can get on both administration and professional money management. This is rarely done at the retail client level and so is another inefficiency leading to greater costs.
3. Use cutting edge technology.

Now, none of that is achievable without a sufficiently large distribution base. Individual investors and self-licenced financial advisers are highly unlikely to be able to achieve this scale. Only those groups that have the client's best interests at heart first and foremost, have large buying power and a consistent and focussed objective will be able to utilise all of the above benefits a UMA can offer.

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Dan has a graduate certificate in Applied Finance and is currently completing his Masters in Applied Finance with Macquarie University where he was awarded the university prize for Risk and Portfolio Construction in 2009. Dan holds a Bachelor of Commerce with Merit from the University of NSW and a Bachelor of Science, also from the University of NSW. Dan is a Responsible Manager for Innova Portfolio Management and Fortnum Private Wealth.

