Managed Accounts and the Evolution of Wealth Management in Asia

Segregated managed accounts (SMAs) are tailored, transparent investment vehicles for individual wealth clients. The market is now worth well over USD5 trillion in the US alone, but Asian investors are only beginning to understand their advantages. Chris Ryan, Chief Executive Officer of Axial Partners, offered delegates at the Hubbis Independent Wealth Management Forum background on SMAs and explained how, in a world where mutual funds are of less and less interest to HNWIs, Asian investors are warming to the advantage SMAs offer in support their private wealth management objectives.

RYAN BEGAN BY EXPLAINING THAT HE WOULD EXPLORE TWO MAJOR THEMES, attracting new wealth management clients and offering the best solutions to wealthy clients.

"Looking ahead to the next decade, and from my viewpoint in the fund industry for some three or more decades," he reported, "you must all pay more attention to management accounts. The typical mutual funds are offering less diversity, high costs and greater administrative complexity these days, and it will get worse."

But, Ryan elaborated, advisers can offer better strategies using a completely different mechanism, which results in the client having an individualised stock portfolio that might, for example, look exactly like the underlying portfolio of a fund. But controlled by the investor or their dedicated manager.

Advisors seeking stable revenues

Ryan observed that wealth managers increasingly focus on generating recurring income, and to help achieve that goal, both greater engagement and enhanced personalisation are vital.

"We no longer want off-the-shelf," he remarked, "we want something slightly different, and we want control, we want

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transparency, information, the ability to control. We therefore have to offer our clients more personalised outcomes. And at a lower cost, as the days of easy fees are gone - remember for example the days when Australian government bonds offered an 18% yield, well, it was easy then to charge one or two points, clients hardly noticed."

But 1% or 2% fees today need to be thoroughly justified and with such low risk-free returns available will cut aggressively into most portfolio returns.

HNWIs and families seeking more customised solutions

Ryan noted that there are also new client segments, with family offices the fastest-growing segment of wealth management today. "The baby boomers of my generation, we have benefited from inflation, rising real estate prices, resulting in the lack of affordability that our children now worry, so everyone needs more individualised solutions, and that cannot be achieved easily, as it is difficult; not every client is well suited to a Cayman fund, or a UCITs fund, or a Hong Kong unit trust or a Singapore unit trust. And creating a viable portfolio out of all those things is becoming more and more complex from a regulatory point of view."

Moreover, Ryan pointed to what he terms operational efficiency. "Clients want their own reports, and they want them on a very regular and timely basis," he noted. "They want it as part of the fees they are paying, they expect it."

Axial's offering

He then highlighted the Axial segregated managed account (SMA) solution for HNW and UHNW clients. "We have the capabilities and the technology to create portfolios that can be individually accounted for, individually reported on, individually styled for any particular client or around any particular segment."

Axial Partners is an independent platform to provide an open architecture service for wealth managers to offer individual investors access to managed accounts in Asia. Based in Hong Kong, Axial is a Type 9 investment manager licensed by the Securities and Futures Commission.

And Axial is partnering with investment advisors and wealth managers in Hong Kong, Malaysia and Singapore and expanding to cover as much of the Asia region as possible.

Axial encourages managed accounts for a wide range of investors. It is not only the ultra-HNW or HNW segments that should consider managed accounts, as they are ideal for modest size portfolios from USD500,000, right up to almost institutional scale portfolios.

Ryan explained that the Axial platform enables wealth managers to manage assets in their client's own managed account, using investment strategies from leading asset managers at compelling low account minimums of USD500,000 or even below, whereas if an investor were to go to an asset manager directly and seek a managed account the minimum might be USD20 million, for example.

A la carte investment

He added that client accounts can be invested through Axial into a menu of global equity, global fixed income, ASEAN, APAC and other

regional equity and fixed income strategies as well as multi-asset class portfolios. Each account can be tailored, with full beneficial ownership, up-to-date transparency of holdings, and customised multi-currency reporting, resulting in a more institutional investment experience.

The managed account, therefore, allows for the investor's requirements to be set by that client, while using best thinking from world-class asset managers. The portfolio is wholly owned by the client on a beneficial basis, and all the underlying holdings and transactions and positions are known precisely to the client at all times.

"From the Axial platform," Ryan elucidated, "we therefore work with the investment advisors, well-known names, including many of our shareholders such as BlackRock, Credit Suisse, or Morningstar, or other third-party managers who provide their model portfolios for our clients, including Baillie Gifford Capital Group, Lazard, and other famous names. But you can choose your own managers. Then Axial does all the hard work of bringing all that together and providing the wealth manager with individual client level reporting and, to a certain extent, stylised portfolios."

Cost-effective

A managed account also makes the question of fees a little less complicated and transparent. Ryan cited the example of a mutual fund, where the fee is expressed through the purchase price and is deducted from the fund's performance. That lacks transparency, he observed, as the client does not necessarily know exactly what the fee is, or it is difficult to work it out.

"But the managed account," he reported, "has a fixed fee agreed as part of a discretionary arrangement between the client and the wealth manager, and based on the portfolio size and the investment requirements and is agreed on upfront."

Ryan closed his talk by highlighting some sample strategies that Axial is currently using on its platform. "The chosen manager gives us the model portfolio, and then our investment team does the implementation of that and then rebalances every time the portfolio is changed," he reported. "The result is customisation, control, transparency and operational efficiency. And that is why more and more advisers and their clients in Asia are shifting to these solutions." ■