

Trends in Managed Accounts

Best Practice Series

David Wright – Zenith Investment Partners

Jon Black – Grant Thornton

September 2018

Trends in managed accounts: From research to implementation, manager selection and monitoring

Agenda



Managed accounts – Why do it?



Role of research in establishing managed accounts



Advice business experiences

Managed Accounts Why do it?

Greater business efficiency

Stronger compliance

Higher return potential

All client portfolios treated equally

Less paperwork drag

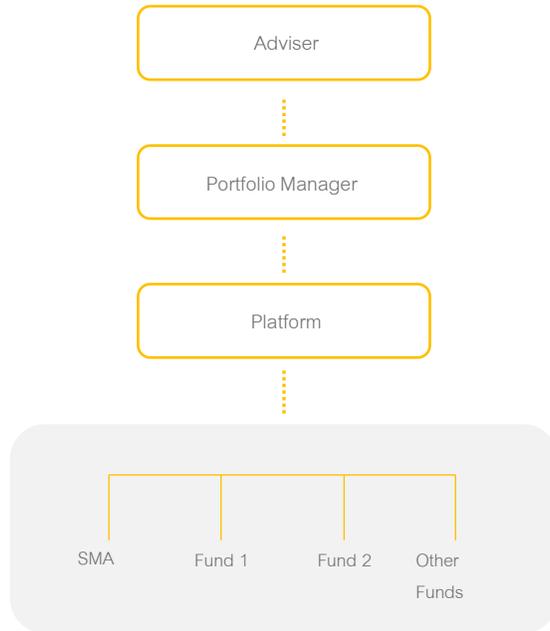
More detailed reporting

Greater transparency

Professional portfolio management

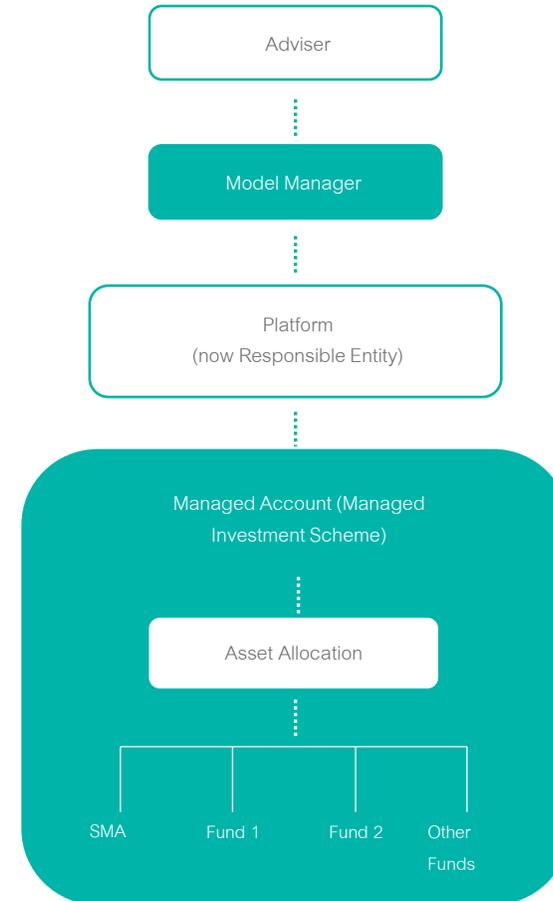
Managed Accounts Structure typical example

Traditional Model Portfolio



Adviser makes portfolio changes (separately for each investor)

Managed Account



Model manager makes changes (for all investors)

Industry best practice Portfolio reporting aligned to stakeholder needs

Stakeholder	Information Need	Report example	Source	Branding
Licensee or Investment Committee	<ul style="list-style-type: none"> High density financial markets update Portfolio strategy Deep dive on performance analytics Detailed report on fund changes, influence on overall strategy Upcoming themes and investment opportunities being considered Meeting licensee compliance and governance requirements 	Quarterly Portfolio Report		
		Consulting Insights & Presentation		
Advisers	<ul style="list-style-type: none"> Medium density financial market update Updates on portfolio strategy and current positioning Overview of changes and current fund strategies Medium density performance analysis Aligning content to meet '<i>know your client obligations</i>' 	Monthly Detailed Portfolio Report		
		Monthly Market Report		
		Portfolio Change Alert (new)		
Investors	<ul style="list-style-type: none"> Low density performance update Portfolio update and changes Low density look through to underlying fund managers 	Monthly Client Report		
		Quarterly Portfolio Change		
		Portfolio Change Alert (new)		

 Investment Committee Meeting
  Website
  Email
  Branding

Enhancing your Portfolio reporting

Quarterly client change report

Portfolio Statistics

Returns (% p.a)

Name	3 Mth	1 YR	2 YR	3 YR	5 YR	Inception
Portfolio	2.32%	8.19%	7.14%	7.20%	8.59%	8.04%
Benchmark	5.04%	10.17%	10.54%	7.78%	9.68%	7.85%
Competitors	4.15%	9.61%	10.12%	7.02%	8.92%	7.00%
Cash	0.49%	1.78%	1.80%	1.95%	2.22%	3.22%

Private Wealth Account - Growth

Investment Update

Despite volatility picking up, this portfolio delivered positive quarterly performance on the back of solid gains from several funds.

Australia's equity market outperformed most other regions, with most underlying sectors up over 10% for the quarter. The Energy sector was the strongest performing sector, up 19.78%, driven by stronger commodity prices. Telecommunications was the only weak sector, driven by Telstra, whose share price has now fallen below \$3. Telstra unveiled its latest plans to shed a quarter of its workforce, split its infrastructure divisions and sell a sizeable portion of its assets. Telstra's share price has now halved over the past 3 years.

Global equities delivered mixed results. US, European and Japanese equities all rose in local currency terms. Asian and Emerging Market equities were poor performers, with falling Chinese equity markets (Shanghai, Hang Seng) a key contributor to this weakness. A stronger US dollar has been problematic for Emerging Markets. Corporate and government borrowing in foreign currency (mostly in US Dollars) is especially prevalent in emerging market economies. This is largely due to the underdevelopment of local capital markets. A rise in the US Dollar therefore results in increased debt levels, placing stress on emerging market economies. In line with *Asymmetric equities*, the Energy sector was the best performing sector globally. Property and infrastructure stocks also performed well. Both domestic and global property (REIT) sectors delivered high single digit returns for the quarter supported by broadly stable bond yields.

Most bond funds performed reasonably well despite enduring bouts of volatility within the quarter due to a combination of factors including: escalating trade tensions between the US and China, the establishment of Italian populist parties; expanded US growth; and, the moderation of economic activity in other parts of the globe. As widely expected, the Federal Reserve raised the US Fed Funds rate by another 0.25% in June. This brings US rates, currently sitting at around 2%, back to the same levels of almost 10 years ago. Other notable developments in recent months include the rising of global credit spreads, reflecting stresses in emerging markets. Rising spreads impacted the recent returns of corporate bond strategies.

Market Indicators

Market	End of Quarter Value	Quarter Change	12 Month Change
Australian Shares			
All Ordinaries Index	6,289.70	7.17%	9.12%
S&P/ASX 200	6,194.60	7.56%	8.27%
Commodities			
US\$ Gold Price	1,251.13	-5.86%	0.62%
US\$ Iron Ore Price	67.00	3.08%	5.51%
US\$ Oil Price - W Texas Crude	74.15	14.24%	57.53%
Exchange Rates			
AUD / EUR	0.63	2.04%	-5.74%
AUD / GBP	0.56	3.49%	-6.72%
AUD / JPY	81.82	0.26%	-5.04%
AUD / USD	0.74	-3.57%	-9.91%
Interest Rate			
10 Year Bond Rate (%)	2.55	0.0%	0.05%
Overnight Cash Rate (%)	1.50	0.00%	0.00%
Property			
ASX 300 Property Index	1,393.91	7.96%	7.58%
Regional Shares			

Market	End of Quarter Value	Quarter Change	12 Month Change
Dow Jones Industrials (US)	24,271.41	0.70%	13.69%
FTSE 100 (UK)	7,636.93	8.22%	4.43%
Hang Seng (Hong Kong)	28,955.11	-3.78%	12.38%
S&P 500 (US)	2,718.37	2.93%	12.17%
STOXX 50 (EUR)	379.93	2.44%	0.15%
TOPIX (Japan)	1,730.89	0.85%	7.38%

Portfolio Enhancements

There were no changes to the portfolio in the 2nd Quarter.

Portfolio Statistics

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Growth of \$100,000



This chart displays the growth of a \$100,000 investment in the portfolio at its inception. This is measured against Cash as represented by the Ausbond Australian Bank Bill Index (a proxy for short term domestic cash investment) and portfolio's benchmark as listed in the Appendix.

Volatility / Standard Deviation (% p.a)

Name	6 Mth	1 YR	2 YR	3 YR	5 YR	Inception
Portfolio	3.14%	3.50%	3.81%	4.73%	4.57%	7.73%
Benchmark	4.83%	4.18%	4.90%	6.54%	6.59%	8.60%
Competitors	4.10%	3.91%	4.44%	6.38%	6.20%	8.21%
Cash	0.09%	0.04%	0.04%	0.07%	0.12%	0.36%

Standard deviation is a measure that quantifies the amount of variation in returns (i.e. a measure of volatility). A higher standard deviation statistic indicates greater variability in returns, a lower statistic indicates more consistent returns.

Enhancing your Portfolio reporting

Quarterly client change report

Portfolio Enhancements

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Grant Thornton
An instinct for growth™

Client Quarterly Update Report

Q2 / 2018

Report as at 30 Jun 2018

Private Wealth Account - Growth

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Most bond funds performed reasonably well despite enduring bouts of volatility within the quarter due to a combination of factors including: escalating trade tensions between the US and China, the establishment of Italian populist parties; expedited US growth; and, the moderation of economic activity in other parts of the globe. As widely expected, the Federal Reserve raised the US Fed Funds rate by another 0.25% in June. This brings US rates, currently sitting at around 2%, back to the same levels of almost 10 years ago. Other notable developments in recent months include the rising of global credit spreads, reflecting stresses in emerging markets. Rising spreads impacted the recent returns of corporate bond strategies.

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Regional Shares			

Client Quarterly Update Report

Page 1 of 2

Enhancing your Portfolio reporting

Quarterly client change report

Equity Holdings Dashboard

Australian Equity Managers Aggregated Top 10 Equity Holdings

Top Stock Positions	Sector	% of Total	% Past Year Return
PACIFIC CURRENT GP.LTD.	Financials (ex Real Estate)	2.39%	0.90%
JN.HEND.GP.PLC.	Financials (ex Real Estate)	2.18%	-0.13%
AUS.AND NZ.BANKING GLD.	Financials (ex Real Estate)	2.16%	3.92%
MACQUARIE GROUP LTD.	Financials (ex Real Estate)	2.13%	46.73%
ALLIANCE AVTN.SVS.LTD.	Industrials	2.05%	106.94%
WESTPAC BANKING CORP.	Financials (ex Real Estate)	1.95%	2.01%
CYBG PLC.	Financials (ex Real Estate)	1.81%	15.25%
ELANOR INVESTORS LTD.	Financials (ex Real Estate)	1.79%	3.65%
COMMONWEALTH BK.OF AUS.	Financials (ex Real Estate)	1.74%	-7.02%
BLACKMORES LIMITED	Consumer Non-Cyclicals	1.71%	52.29%
JB HI-FI LIMITED	Consumer Cyclicals	1.67%	1.31%



1 YR Rolling Standard Deviation



This chart displays 1 year standard deviation (explained earlier) of the portfolio compared to its benchmark (see appendix for description of the benchmark).

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Global Equity Managers Aggregated Top 10 Equity Holdings

Top Stock Positions	Region	Sector	% of Total	% Past Year Return
ALPHABET INC.	United States	Technology	2.88%	27.46%
FACEBOOK INC.	United States	Technology	2.39%	33.62%
WELLS FARGO & CO.	United States	Financials (ex Real Estate)	1.94%	6.78%
MICROSOFT CORP.	United States	Technology	1.65%	51.41%
ORACLE CORP.	United States	Technology	1.64%	-7.33%

Private Wealth Account - Growth

Top Stock Positions	Region	Sector	% of Total	% Past Year Return
KRAFT HEINZ CO.	United States	Consumer Non-Cyclicals	1.60%	-21.12%
VISA INC.	United States	Technology	1.53%	47.61%
APPLE INC.	United States	Technology	1.49%	35.52%
LOWE'S COMPANIES INC.	United States	Consumer Cyclicals	1.46%	30.47%
EBAY INC.	United States	Technology	1.41%	7.80%

This table displays the aggregated top 10 stock holdings of the International Equity fund managers held in this portfolio together with the 1 year return of each stock, its sector and the country it is listed in. Please note, that the stock may not have been held for the entire year by the managers.

Appendix - Benchmarks Used in this Report

Benchmark

To appropriately benchmark the performance of each portfolio, Zenith has created a series of composite benchmarks. These benchmarks are based off average asset allocations of the universe of diversified funds that broadly match the risk/return profile and asset allocation of each portfolio. The average asset allocations are reviewed and updated on an annual basis. The composite benchmark returns are calculated by multiplying these average asset allocations by the relevant benchmark for each asset class. Zenith then compares portfolio performance against the composite benchmarks to determine the value add of the portfolios.

Competitors

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Cash

The benchmark for cash is the Bloomberg AusBond Bank Bill Index.

Disclaimer

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Quarterly client change report

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Portfolio Performance Reporting

Name	Return								Volatility				
	1 Mth (%)	3 Mth (%)	6 Mth (%)	1 Yr (% p.a.)	2 Yr (% p.a.)	3 Yr (% p.a.)	5 Yr (% p.a.)	Since incept. (% p.a.)	1 Yr Vol (% p.a.)	2 Yr Vol (% p.a.)	3 Yr Vol (% p.a.)	5 Yr Vol (% p.a.)	Vol Since Inception. (% p.a.)
Private Wealth Account - Cash Plus													Inception date: October 2010
Portfolio	0.15	0.49	0.92	1.78	1.83	2.08	2.52	3.18	0.04	0.06	0.11	0.18	0.34
Competitor Funds (Median)	0.14	0.51	0.92	2.09	2.32	2.35	2.52	3.25	0.18	0.17	0.20	0.21	0.44
Benchmark	0.15	0.49	0.92	1.78	1.80	1.95	2.22	2.94	0.04	0.04	0.07	0.12	0.32
Cash	0.15	0.49	0.92	1.78	1.80	1.95	2.22	2.94	0.04	0.04	0.07	0.12	0.32
Private Wealth Account - Fixed Interest													Inception date: October 2008
Portfolio	0.14	0.10	0.58	2.01	2.37	3.23	3.99	6.58	0.46	0.81	0.98	1.20	3.04
Competitor Funds (Median)	0.13	0.25	0.46	1.86	2.13	2.90	3.68	5.48	1.25	1.89	2.04	2.00	2.90
Benchmark	0.48	0.82	1.69	3.09	1.66	3.41	4.38	5.69	1.81	2.39	2.46	2.50	2.89
Cash	0.15	0.49	0.92	1.78	1.80	1.95	2.22	3.22	0.04	0.04	0.07	0.12	0.36
Private Wealth Account - Australian Shares													Inception date: October 2008
Portfolio	0.36	2.31	-1.35	8.36	8.16	10.06	10.78	9.38	5.54	6.27	8.41	8.69	12.32
Competitor Funds (Median)	3.17	7.92	4.26	13.08	13.53	9.16	10.32	7.83	7.09	8.19	10.75	10.83	13.06
Benchmark	3.19	8.36	4.27	13.24	13.53	9.15	9.99	7.69	7.04	8.18	10.59	10.79	13.06
Cash	0.15	0.49	0.92	1.78	1.80	1.95	2.22	3.22	0.04	0.04	0.07	0.12	0.36
Private Wealth Account - International Shares													Inception date: December 2008
Portfolio	1.69	3.38	3.39	12.96	14.22	9.37	12.98	11.79	3.88	4.50	7.18	7.55	9.84
Competitor Funds (Median)	1.83	4.67	5.17	14.53	15.13	9.34	14.20	10.13	6.77	7.63	10.11	10.01	10.72
Benchmark	1.23	4.50	4.27	13.98	15.81	10.14	14.07	12.23	5.69	5.84	8.97	8.66	10.12
Cash	0.15	0.49	0.92	1.78	1.80	1.95	2.22	3.14	0.04	0.04	0.07	0.12	0.32
Private Wealth Account - Alternatives													Inception date: October 2008
Portfolio	0.13	0.73	-0.42	3.04	-1.26	0.83	0.32	2.12	6.04	6.02	5.68	5.67	5.94
Competitor Funds (Median)	-0.24	0.71	1.43	4.27	1.13	2.42	4.04	8.55	6.70	8.04	9.41	9.58	6.82
Benchmark	0.15	0.49	0.92	1.78	1.80	1.95	2.22	3.22	0.04	0.04	0.07	0.12	0.36
Cash	0.15	0.49	0.92	1.78	1.80	1.95	2.22	3.22	0.04	0.04	0.07	0.12	0.36

Note that the performance information contained in this report is an estimate based on portfolio allocations at the end of each month. The performance information excludes the Managed Account Fee, the platform administration fee, and any fee rebates provided to the investor by the underlying fund managers.

Portfolio Reporting

International Shares Characteristics

PRODUCT CHARACTERISTICS

Report data: 30 Jun 2018

Managed Funds Held	APIR Code	Weight (% of Sector / % of Model)	Zenith Rating
Antipodes Global Fund	IOF0045AU	23.17 % / 19.35 %	Highly Recommended
Janus Henderson Global Emerging Markets Equity Fund	HGI0008AU	11.11 % / 9.28 %	Recommended
Janus Henderson Global Natural Resources Fund	ETL0331AU	12.56 % / 10.49 %	Recommended
Magellan Global Fund	MGE0001AU	30.16 % / 25.19 %	Highly Recommended
Perpetual Wholesale Global Share Fund Hedged Class A	PER0752AU	23.00 % / 19.21 %	Recommended
Diversification	Portfolio	Benchmark	Difference
Number of Securities	284 (254 Long / 30 Short)	1578	-1294
Top 15 Weighting (% of Portfolio)	23.15 %	15.49 %	7.67 %
Top 50 Weighting (% of Portfolio)	48.16 %	30.52 %	17.64 %
Weighted Average Market Cap (USD)	139.09b	151.80b	-12.71b
Value Characteristics	Portfolio	Benchmark	Difference
Dividend Yield (Gross)	2.16 %	2.35 %	-0.19 %
Dividend Yield (Net)	2.13 %	2.35 %	-0.22 %
Price/Earnings Ratio	20.13	19.60	0.53
Price/Book Ratio	1.98	2.42	-0.43
Earnings Yield	4.97 %	5.10 %	-0.13 %
Growth Characteristics	Portfolio	Benchmark	Difference
Return on Equity	15.16 %	16.56 %	-1.41 %
Sustainable Growth Rate	9.14 %	9.53 %	-0.39 %
Momentum (Past Year)	17.82 %	13.40 %	4.42 %
Risk Characteristics	Std Dev (Portfolio / Benchmark)	Tracking Error	Active Share
Risk Measures (Past Year)	5.07 % / 5.94 %	1.63 %	79.76 %

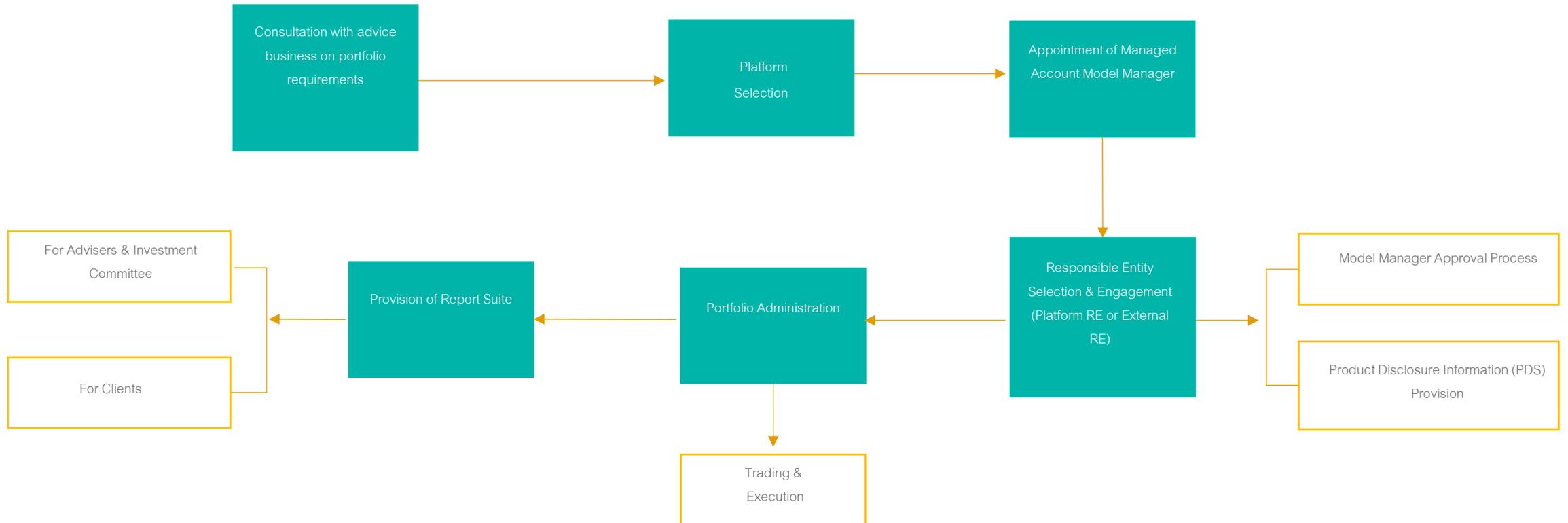
79.76%

You can get much more with a managed account

Work	With Account	Without
Portfolios		
Initial Consultation on portfolio requirements	✓	✓
Construction	✓	✓
Management	✓	✓
Monitoring	✓	✓
Email alerts	✓	✓
Email explanation of fund changes (intra IC)	✓	✓
Reporting		
Portfolio Report (Client)	✓	✓
Detailed Portfolio Report	✓	✓
Client branding	✓	✓
Quarterly Investment Committee Report	✓	✓
Quarterly client change report	✓	✗
Investment Committee		
Quarterly Attribution & Characteristics Report	✓	✓
Quarterly Investment Committee Meetings	✓	✓
Face-to-Face Attendance at all IC Meetings	✓	✗
Quarterly Economic and Markets Presentation	✓	✗
provision of Investment Committee Charter	✓	✗
Mgmt of RE DD work and platform	✓	✗
Platform		
Platform selection assistance	✓	✗

Work	With Account	Without
Responsible Entity Due diligence documentation		
Completion of FSC Questionnaire	✓	✗
Assist with development of Investment Philosophy	✓	✗
Prepare/Participate Annual Due Diligence Meeting	✓	✗
Provision of SOA documentation for transfer to	✓	
Trading & Execution		
Determination of portfolio trading bands	✓	✗
- Asset Allocation	✓	✗
- Growth / Defensive weight	✓	✗
- Fund weights	✓	✗
Portfolio Rebalancing	✓	✗
Website Research access		
Subscriptions up to 20 included	✓	✗
Access to consultant and analysts outside of IC	✓	✗
Additional Services		
PD Day Presentations	✓	✓
Conference Presentations	✓	✗
Adviser Client Presentations	✓	✗
Annual Managed Account Conference	✓	✗
Annual Manager Due Diligence International Trip	✓	✗
Investor MA collateral	✓	✗

Setting up a managed account: A case study





Who Is Grant Thornton?



\$229.2m

National Turnover (FY 2017)



6

Offices Nationwide



151

Partners Nationally



14

Core industries



1,270+

People Nationally



US\$4.8bn

Global Turnover (FY 2016)



Over 700

Offices Globally



Over 130

Countries



4

Integrated service lines



47,000

People Globally

Family Office Services



Separately Managed Account Choices

- Buy from an existing menu
- Partnered SMAs
- Build a SMA

Platform

- Data, Data, Data
- Flexibility
- Costs
- Scalability
- Service

Outcomes

- Business efficiencies
- Cost savings
- Improved client reporting & transparency
- Tax efficiency
- Improved client experience & TRUST

Trust equation

$$T = \frac{C + R + I}{S}$$

T = Trustworthiness

C = Credibility

R = Reliability

I = Intimacy

S = Self-orientation

Source: Trusted Adviser LLC

“Trust has been, and always will be, the single most important thing that has to happen for two people to do business together, especially when it comes to money.” - Bill Bachrach

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Trends in Managed Accounts

Best Practice Series

David Wright – Zenith Investment Partners

Jon Black – Grant Thornton

September 2018