



Understanding Managed Accounts – Part 1 of 3: The Investment Policy Framework

Financial Standard has teamed up with State Street Global Advisors to publish a three-part video series on managed accounts. PART ONE: THE INVESTMENT POLICY FRAMEWORK is available to watch on www.fsitv.com.

Before you choose a managed accounts solution that is right for your business, it is important to establish the right investment policy framework at the outset.

A robust investment policy and governance structure can help financial advisers achieve their client goals in a way that keeps business culture and investment decisions consistent despite changing market conditions.

A five-step formula can help any practice define their investment policy statement in more explicit terms.

The first step is defining a unique investment philosophy; this will serve as your North Star (Step 1). This simple statement should set out why you are investing and how you aim to achieve your goals.

A good investment philosophy is reflective of the culture a practice is looking to achieve and will serve as to differentiate you from other businesses.

Once you've decided on a philosophy; you can build out an investment strategy to serve as the compass to your approach (Step 2).

A concise strategy articulates the layers of your investment approach; spelling out your risk objectives, return objectives and portfolio constraints.

These factors may change from client to client but you can refer your idea to a “typical” client to understand why your strategy works to reach their goals.

The practical implementation of your strategy will be through your asset allocation (Step 3); essentially the course navigation to client objectives. Here you want to choose an asset mix that balances your client's expectations of risk and return over the long term.

You should ask yourself what weights and choice of assets are fit for these goals and take time to consider the use of alternatives.

Of course, as with any investment, it is impossible to predict the future but you can put plans in place for when turbulent conditions arise. Beyond a fair-weather assessment of assets, a strong investment plan incorporates dynamic asset allocations. With a flexible mandate you can determine beforehand what events will trigger a dynamic allocation, whether they are to be configured to reduce risk or improve returns, and if the decision is made manually or established in advance.

With a philosophy, direction and strategy in place it is time to select a manager and implement an appropriate portfolio (Step 4). Here it



The quote

A strong policy will help you weather the storms and select the best portfolio structure to reach your client's goals.

is important to make a qualitative and quantitative assessment.

A qualitative assessment may review the quality of people, the alignment of their philosophy to yours and how disciplined their process appears to you as an observer. Your quantitative assessments can then take into account return history, appropriateness of fees, risk exposure and portfolio consistency over time.

Once a framework is in place, the last step to ensuring its long-term effectiveness relies on implementation into your corporate governance. To manage a successful “crew” there should be regular investment committee reviews with clear lines of responsibility to each aspect of investment research and decision making.

When organising a committee meeting; members should represent a variety of thinking and expertise, opportunities should be given to debate ideas, and every member should have a clear set of goals in the process.

Creating a strong investment philosophy and governance structure is key before embarking on any investment strategy (Step 5). A strong policy will help you weather the storms and work better towards meeting the goals of your client. **FS**

Part Two: Portfolio Construction

In the next issue out on August 6, we publish the second installment of this video series, Part Two: Portfolio Construction, also in partnership with State Street Global Advisors.

For more on managed accounts, register for the annual one-day event, the Financial Standard Best Practice Forum on Managed Accounts, to be held on the 11th of September at the Crown Promenade in Melbourne. www.financialstandard.com.au/managed_accounts_forum

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