Understanding Separately Managed Accounts (SMA's)

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Separately Managed Account (SMA) portfolios are a way for you to invest directly in shares, while maintaining the benefits of professional investment management. With all the features of investing in a managed fund, and the transparency of direct share ownership, there are plenty of reasons to include an SMA within your portfolio.

The benefits of SMA portfolios for you include:

- Access a range of investment managers and investment styles.
- Investing in shares with the added benefit of professional investment management
- The ability to view the individual shares held within their portfolio
- Lower brokerage costs than they would pay if trading shares directly
- Their tax position is unaffected by other investors as an individual cost base is established for each investor
- No capital gains tax events and they avoid buy/sell spreads and broker fees when they transfer commonly-held shares into an SMA and between SMA model portfolios

How SMAs work

You choose from a list of available SMAs which are provided by a range of investment managers. Your chosen SMA(s) will be held as an investment option through a Wrap account.
The SMAs available will typically invest in direct shares (including Exchange Traded Funds, known as ETFs), managed funds and cash. Investment managers buy and sell investments within your chosen SMA(s), as required, to implement their investment decisions in line with the investment strategy of the SMA(s).

For SMAs with direct share investments, investors benefit from any associated tax advantages, such as franking credits and individualised CGT outcomes (as opposed to pooled outcomes for managed funds).

An SMA may be funded by cash, by in specie transfer of an existing portfolio of direct shares (including ETFs) or managed funds (IDPS only), via a margin loan, or a combination of these.

The main advantages of investing in a SMA are:

- Professional management of an equities portfolio;
- Transparency and portability of the portfolio;
- Beneficial ownership of the securities is with the investor, who gains tax advantages associated with holding directly;

- Where model portfolios are available, investors can customise their portfolio (however, the variety of equity SMA strategies is limited); and,
- Consolidated reporting.

Disadvantages of the structure include:

- The investor is unable to direct the manager to customise the securities selection in the portfolio (although some providers may allow an investor to filter certain securities);
- The model portfolio is already constructed before investing, hence performance of portfolio may suffer or capital may erode if existing securities have already realised their growth potential;
- There may be difficulty gaining adequate diversification across good quality managers, especially on smaller SMA platforms;
- Execution risk: i.e, delays in manager decisions being implemented on a timely basis within the model portfolios;
- Portfolio drift, causing the portfolio to differ from the model portfolio.

If an investor is looking to gain exposure to Australian shares directly within their portfolio, then a SMA would be a better approach, particularly in volatile markets.

What are the Risks and Implications?

- The balance and return of your investment are not guaranteed – the value of your investment will rise and fall with market movements;
- SMAs are only available through limited investment platforms;
- The returns from SMAs are reliant on investment manager skill. SMAs can underperform the market, or create a loss, if poor investment decisions are made.