Example for FASEA

Recommending a Managed Account

Emily is a director and major shareholder in Fandango Financial Planning (**Fandango**), an advice business with its own AFSL, a broad APL and over 1000 clients. Fandango began offering multi asset class, multi manager managed accounts five years ago because it found that when they changed the recommendations for any type of portfolio as a result of changed market conditions or to change investment recommendations, the delays in implementing those changes in individual portfolios across their whole client base meant that the benefit of the recommendation could be substantially reduced or lost for many clients. Fandango has developed a strong investment philosophy and its advice, whether delivered through individual recommendations or a managed account, reflects that.

The managed account service is managed by an Investment Committee which comprises an internal Chief Investment Officer, two analysts providing manager research, two independent members and uses external research house reports and external resources including asset allocation advice from an asset consultant. Fandango regularly compares the performance of its portfolios to equivalent alternative investments. Over the five years since establishment, the portfolios have generally performed in the top half of the universe of equivalent managed funds and managed accounts.

Fandango explicitly measures and assesses the total cost of each portfolio including its own fees, underlying investment costs and rebates compared to equivalent multi asset class portfolios such as unit trusts or platform SMAs.

Fandango offers its managed accounts through a platform and regularly tests the market to ensure the platform fees are comparable to others.

Fandango charges advice fees in exchange for personal financial advice. Where a client utilises the managed account, Fandango charges a portfolio management fee of 0.20% per annum in exchange for the portfolio management service. However, this is substantially offset by the rebates they negotiate with fund managers which are passed on to clients in full.

Fandango also offer a traditional, non-discretionary service based on identical portfolios with recommended changes implemented via ROA/SOA on an ad hoc or annual basis. Fandango charges a higher advice fee for this service to account for the increased time and daily management required.

George and Fiona approach Emily for personal financial advice on a range of matters, including investment advice. Emily ensures she understands George and Fiona's current circumstances, long term goals and likely future circumstances. Their investments are individual retail super accounts on the same platform on which Fandango operates its managed account. George and Fiona established these accounts based on advice they received from an adviser who they stopped using some years ago. The portfolios comprise cash, some funds and individual shares and the portfolio has not been adjusted since they terminated the relationship with the adviser, so may no longer reflect their risk profile. They also have a commercial property that they wish to retain.

Emily investigates George and Fiona's tolerance to risk, thoroughly researches their existing investment holdings and performs a detailed comparison of those against Fandango's managed account offering and an external managed account. She also considers the benefits of transferring George and Fiona's investments to an alternative superannuation platform. Through her research and analysis, Emily concludes that the Fandango managed account and the current platform offer the following benefits and advantages to George and Fiona versus their existing investments, the external managed account and the alternative platform:

- Greater control and investment flexibility (compared to unit trusts);
- The ability to incorporate assets such as property into the asset allocation;
- The benefit of fund manager rebates;
- A tailored asset allocation that is better suited to their risk tolerance and long-term investment goals;
- Equivalent or better costs compared with the external managed account; and
- Equivalent or better after tax costs compared with their existing superannuation fund.

Based on her research and analysis, Emily recommends an investment portfolio based on one of Fandango's standard portfolios, retaining some of the existing shares but with an asset allocation adjusted to take into account the property held outside the portfolio. Considering the property is evidence that Emily is taking into account the "broad effects" of her advice. Emily understands that her recommendations must be consistent with the clients' long term goals and likely future circumstances.

Emily explains that George and Fiona have two options. They can choose to have their investments administered manually at a higher ongoing cost or they can opt for discretionary management through the Fandango managed account. Emily recommends the managed account for their portfolio as she believes George and Fiona will receive better value in this way and their investment returns have a higher probability of meeting their goals. Emily obtains George and Fiona's express written consent to the collection of the portfolio management fee and ensures that they understand that transactions will occur in their portfolio without their explicit instructions in advance.

As a shareholder in Fandango, Emily will benefit from the success of Fandango both in the form of dividends (if any) and any increase in the value of the company. The portfolio management fees are largely offset by the costs of operating the Investment Committee, however Fandango aims to retain a small margin. Therefore, each client that invests in the managed account will potentially increase the profitability of Fandango to the extent that portfolio management fees are greater than the costs of operating the Investment Committee.

Guidance

Emily has not breached Standard 3 because her remuneration, which is obtained solely through salary and advice fees, is not affected (and is in fact lowered) by the decision to recommend the managed account instead of manual administration of the portfolio.

Although there is a potential conflict between her interest in Fandango and the recommendation to the client, Emily has managed this conflict by ensuring that the recommendation is *demonstrably* in the best interests of her George and Fiona and by complying with all other Standards and Values in the Code of Ethics.

Emily's recommendation was based on what she reasonably believed to be appropriate for, and in the best interests of, her clients. In arriving at this conclusion, Emily considered a number of relevant factors including:

- The higher probability that the portfolio would achieve the clients' goals in their timeframe;

- The clients’ broader interests, for example incorporating the commercial property into the overall asset allocation; and
- The total cost compared to alternative investment options.