

# IMAs & SMAs Explained



**Individually Managed Accounts (IMAs) and Separately Managed Accounts (SMAs) enable clients to access direct international and domestic equity portfolios with greater control and transparency, however the differences between and benefits of IMAs and SMAs are perhaps not well understood.**

**Hugh MacNally, PPM Chairman and Portfolio Manager discusses the key differences and benefits of each.**

First, it is important to understand the differences and benefits between an IMA, an SMA, managed funds and other investment structures.

## **An IMA is a service - each investor's portfolio is individual and tailored to their requirements**

PPM is a specialist IMA provider with over 20 years experience in managing client portfolios in an IMA structure.



*IMAs are 'tailor-made to measure' to meet each investors' needs.*

An Individually Managed Account or IMA is a discretionary management agreement whereby clients delegate the day to day investment decisions and implementation of their chosen investment strategy to PPM while retaining the full beneficial ownership of their investments. Their portfolios are bespoke and tailored to meet each clients investment requirements taking into consideration their individual preferences, taxation circumstances and investment objectives.

A client can transfer an existing portfolio 'in specie' without triggering any tax consequences and these will be incorporated into the clients individual portfolio and professionally managed.

PPM offers IMA services to clients with an investment of over \$500,000 or who otherwise satisfy the Corporations Law definition of a "wholesale" investor.

## **An IMA may be described as "bespoke" or "tailored to each client", but what exactly does that mean? How does a Portfolio Manager construct an IMA - an Individually Managed Account?**

The construction of an IMA is a highly personalised service. The Portfolio Manager will initially meet with the client to discuss their investment objectives, then, in consultation with the client's advisers will agree a core investment strategy (including a consideration of growth or income requirements, Australian and/or International equities mix) and their broader investment requirements. Each client will discuss their taxation status, investment restrictions, ESG considerations, and, if any existing holdings are to be included in the portfolio, via an 'in specie' transfer. The Portfolio Manager will then build a portfolio tailored to meet their investment objectives and requirements and actively manage it going forward.

In addition to quarterly and annual reports, the Portfolio Manager will meet with the client on a regular basis to discuss the portfolio(s) and explain any changes to it. Reporting is available online 24/7 via a secure portal on our website.



## IMA examples

The best way to describe how an IMA works, and is tailored to each client's requirements, is to give examples:

### Example 1

**Client Scenario:** The client has an existing portfolio that has large capital gains on securities that might have been held for some considerable time. Maybe they inherited some of the holdings, as such are significant capital gains tax consequences if the holdings are sold. In addition, the client is a senior employee of a listed company and has a large exposure to their employer security through a staff share scheme (ESS). The client may not want additional exposure through their portfolio or superannuation fund to that company.

**PPM IMA Solution:** The PPM Portfolio Manager would construct an IMA portfolio to initially carve out both the ESS company exposure and those securities with large capital gains from the portfolio, and then over time actively manage the bespoke portfolio to give the client a more balanced and diversified overall portfolio.

### Example 2

**Client Scenario:** The client is paying a high personal tax rate and has equity investments both inside and outside their SMSF, for example in a family trust or in their personal name.

**PPM IMA Solution:** It consultation with the client's adviser(s) and Portfolio Manager may structure the IMA portfolio(s), so the family trust holds the securities that are expected to generate long term capital gains and the superannuation fund holds securities that are more likely to generate income (particularly franked). As such the trust might hold the majority of the US securities (as they often generate capital gain rather than income) and the superfund might focus more on domestic securities as they produce more income and maximise the benefit of franking in the superannuation fund. The object being to create for the client a well-diversified Australian and Global equities 'portfolio' with the maximum efficiency from a taxation perspective.

These examples are for illustrative purposes only and each client's individual circumstances will be taken into consideration in conjunction with the advice from the client and their investment advisers - however they demonstrate the individually tailored nature of an IMA and the clear benefits to those clients in the scenarios described.

## An SMA is a product – each investor gets the same portfolio

Under an SMA – a client invests in a model portfolio managed by a professional investment manager, all trading, administration and investment reporting is taken care of for the client by the platform administrator. The client’s financial adviser will assist the client in determining whether an SMA is suitable to meet their investment requirements and which SMA or SMA models to select.



*“You can think of an SMA like buying a quality suit off the rack, every suit is the same, few changes can be made. It is up to you to determine which best suits you.” commented Hugh MacNally.*

There are clear benefits of an SMA for a client. An SMA provides access to a professional manager and its research capability with the benefits of direct share ownership. Unlike a managed fund, each client is able to see exactly what investments are in their portfolio. Tax events and transaction costs are not shared across clients and the cost base of the clients investments will be the date of their investment in the model portfolio. Further, a model portfolio is typically a high conviction portfolio, with the total number of holdings in

the model limited to 20-25 securities whereas in a managed fund the number of securities is typically not specified and is typically much greater. Finally, as an SMA model is administered on a platform, the client does not need to manage the trading, corporate actions or any administrative aspects of their portfolio. Clients receive online access to their model portfolio as well as regular reporting for taxation purposes. The client pays investment management and administration fees.

SMA’s are suitable investment products for clients who want a direct investment portfolio without having to spend time selecting, managing and monitoring their portfolios - as both the investment management and administration are handled by professionals. International SMA’s enable clients to have direct access to international equities without the complexities and costs of managing international trading, custody and currencies.

### PPM offers the Australian Equities Growth SMA and the Global Equities Growth SMA, for both general and superannuation investment.

PPM’s SMA’s are structured under a managed investment scheme with the appropriate disclosure provided in a PDS by the platform provider. All compliance and administration is taken care of by the platform provider. Clients in consultation with their financial advisers can determine what model would best suit their investment requirements and can invest in a PPM SMA with as little as \$20,000 under the Australian Equities Growth SMA or \$50,000 for the Global Equities Growth SMA.

## Clear benefits of IMAs and SMA’s

The advantages of IMA and SMA’s over other available investment structures are clear for clients. The table below details the key features of IMA, SMA and alternative investment structures. Direct ownership, transparency, cost and tax effectiveness are the core benefits IMA and SMA offer for investment management solutions for clients.

### Key features of SMA & IMA compared to other common investment structures

Feature	Managed Funds	LICs	ETFs	SMA’s	IMAs
Tax Efficiency	Poor	Moderate	Good	Good	Excellent
Portability	None	None	None	Good	Excellent
Managed to Particular Tax Outcome	No	Sometimes	No	No	Yes
Transparency	Poor-Moderate	Moderate	Good	Excellent	Excellent
Direct Ownership	No	No	No	Yes	Yes
Embedded Tax Liability	Often	Often	Sometimes	No	No
Capital Losses can be applied to:	Future gains within structure	Future gains within structure	Future gains within structure	Any current or future gains	Any current or future gains
Variety of Investment Options	Excellent	Good	Moderate	Moderate	Moderate
Portfolio Construction	Manager’s discretion	Manager’s discretion	Manager’s discretion	Model portfolio	Manager’s discretion
Tailored Management	No	No	No	No	Yes
Management Fee Tax Deductibility	No	No	No	No	Yes



**PPM is a specialist provider of SMA & IMA solutions**

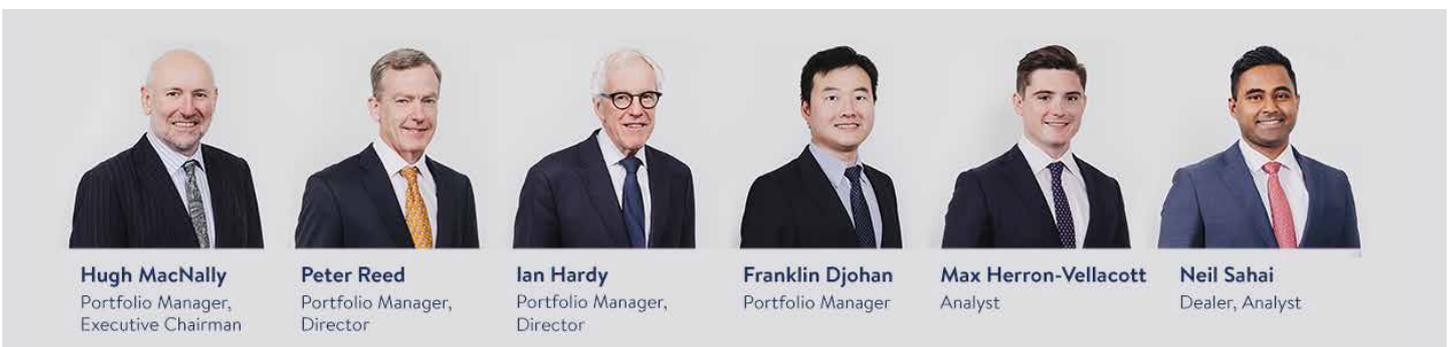
PPM is a specialist IMA boutique investment manager with over 20 years experience in successfully managing individual client portfolios to meet the demands of sophisticated investors who want a tailored investment solution to meet their investment requirements. PPM first developed IMA's in 1995 as a direct actively managed and administered investment solution. In 2017, we launched the Australian Equities Growth SMA and the Global Equities Growth SMA, for both general and superannuation investment, to meet the growing demand for actively

managed direct Australian and international portfolios of clients who either do not require individual portfolio customisation or who do not satisfy the Corporations Law definition of a 'wholesale' investor.

Our clients are attracted to PPM's IMA and SMA solutions as they provide professional investment management, cost effective administrative ease and the transparency and control that astute investors demand.

We would be happy to meet with you to discuss your requirements to determine in conjunction with your advisers whether a PPM IMA or SMA is suitable for you.

**Please contact our team for further information of PPM's service offering on (02) 8256 3777 or at ppmfunds.com.**



This document does not take into account individual's objectives, financial situation or needs. You should assess whether the information is appropriate for you and consider talking to a financial adviser before making any investment decision. Past performance is not necessarily indicative of future returns. The financial service detailed in this document does not represent a deposit or a liability and is subject to investment risk including possible loss of income and capital. Neither PPM nor its directors or employees or any associate guarantee the repayment of capital, payment of income or any fund or Portfolio's performance. The information in this document is taken from sources which are believed to be accurate but PPM accepts no liability of any kind to any person who relies on the information contained in this document. © 2019 Private Portfolio Managers Pty Limited ABN 50 069 865 827 AFS Licence No. 241058