

# Investment Concepts – Managed Discretionary Accounts

A Managed Discretionary Account (MDA) service gives your financial adviser authority to manage your investments in accordance with a pre-determined investment program without obtaining instructions for each transaction. It allows you to delegate the management of your portfolio to your adviser, whilst continuing to receive regular strategic and investment reviews and administrative convenience.

## Features

A Managed Discretionary Account has the following key features:

- (a) You have a dedicated adviser as your central point of contact who will assist you to manage and review your portfolio on an ongoing basis.
- (b) Your portfolio of assets are held via a Regulated Platform.
- (c) Your investment program is established by you in consultation with your adviser. This program will consider your income requirements, investment guidelines and risk strategies. After the investment approach has been agreed upon, you rely on your adviser to only make investment decisions within the guidelines set by you up front. Investments or assets held on the platform can be bought or sold at your adviser's discretion without prior discussion or approval from you.
- (d) We will keep you informed of all the actions within your investment portfolio by sending you quarterly consolidated reports and investment valuations.
- (e) At least every 13 months or when required, we formally review your investment program and strategy, as well as the appropriateness of the MDA contract to your needs, goals and objectives.
- (f) the MDA service relates to the investment transaction approval process on the platform. It does not extend to the following scenarios where personal advice is required from your adviser :
  - make contributions to, or withdrawals from, your portfolio;
  - lump sum withdrawals or pension payment changes;
  - commence or increase a margin loan;
  - investment in any internally geared funds; or
  - transfers from one Regulated Platform to another.
- (g) Beneficial ownership of the assets are retained by yourself or the entity holding the asset.

## Key Documents

There are a number of key documents required when your adviser offers you a Managed Discretionary Service, these are:

- Financial Services Guide (FSG)
- MDA Contract
- Statement of Advice (SOA)
- Investment Program\*
- Understanding Series\*

*\*documents are included in your Statement of Advice*

Your investment program is an important component of the MDA service and it forms part of your MDA contract. Your investment program is fully detailed in your SOA which provides other relevant information on how this service is suited to meet your needs as well as any benefits, costs, risks and fees associated.

## How it works

Managed Discretionary Accounts are offered by utilising the administration services of a Regulated Platform. This platform can be a Master Trust, Wrap Account, Investor Directed Portfolio Service ('IDPS'), IDPS-like scheme or superannuation entity.

There are two types of MDA Services that are used for various reasons depending on your needs.

### *Management Type MDA Service*

A "management-type" MDA service provides authority that enables your adviser to routinely make and action all investment decisions within a Regulated Platform relating to your portfolio between scheduled reviews. This service is usually unrestricted, but may contain some asset allocation limitations.

### *Opportunity Type MDA Service*

An "opportunity-type" MDA service provides a more restrictive authority that authorises the adviser to execute a specific type of transaction only if the adviser first attempts and fails to contact you for approval, or where the offer is not available to the general public.

This type of MDA service encompasses all types of MDA services that do not fall into the Management MDA Service. A Limited or opportunity type service may be limited as to:

- time (e.g. limited to the period a client is overseas);
- client availability for prior consultation (e.g. comes into effect if the client cannot be contacted by telephone);
- dollar value of transactions;
- a pre-determined asset allocation; and/or
- type of transactions (e.g. limited to time sensitive transactions such as floats and opportunities, or excluded offers)

Either of these services are established through an agreement which outlines how we provide you with MDA services (known as the **MDA Contract**). It contains important information about:

- the discretionary services your adviser will provide;
- the adviser's obligations to you in providing these services; and
- your Investment Program, including the reasons your adviser believes the MDA Contract is suitable to your personal needs and objectives.

## Our role in providing the service to you

For a management style MDA service we will collaborate with you to form the Investment Program which will be implemented by your adviser on your behalf. Regular reporting will be provided which will detail the transactions that have occurred. Any changes to your investment program are made in consultation with your adviser.

## Your role

Together with your adviser you set the guidelines for your investment program. It is critical that you advise us if there is a change to your circumstances, needs or objectives as this may impact your investment program.

## Requirements of an MDA service

For an MDA service to be offered there are key requirements that need to be met such as:

- You must receive the current version of your adviser's Financial Services Guide that contains the required MDA disclosure;
- Investments and assets must be held in an approved Regulated Platform;
- Your adviser needs to have a clear understanding of the your circumstances and needs, including any investment preferences or aversions you may have;
- the nature of the MDA service should have been explained to you through an MDA Contract;
- as the client, you need to request an MDA service, or after discussions with your adviser agree to an MDA service;
- Your adviser must prepare a Statement of Advice (SOA) that includes a recommendation for adopting the MDA service and reasons why the MDA Contract is suitable for you, taking into account factors such as your:
  - reason/s for wanting your adviser to provide MDA services;
  - investment portfolio structure;
  - investment knowledge and experience;
  - past responses to short-term losses and recommendations provided by your adviser; and
  - fee-based ongoing service agreement that provides for a formal review of your financial plan at least annually.

## Benefits

Accepting the terms of the MDA Contract will provide you with benefits, such as:

- Administrative convenience and reduced time spent on the management of your investment portfolio/s;
- Ability to take advantage of time-sensitive investment opportunities that would be unavailable if your adviser required authority to make immediate investment decisions on your behalf; and
- your adviser may be able to take advantage of offers of securities available only to restricted categories of investors.

## Risks and Consequences

There are risks in accepting the terms of a MDA Contract:

- Your adviser may make investment decisions that you disagree with. Provided their actions are within the law and the scope of the authority granted, and the adviser has acted efficiently, honestly and fairly, you will have no right of recourse. These are outlined in your advice document.

This means you will have to accept tax consequences, transaction costs and any capital loss resulting from any transaction validly executed by your adviser and any "reversal" of that transaction that you may request.

- If you do not promptly inform your adviser of any changes in your situation, needs or objectives, there is a risk that your adviser may make inappropriate investment decisions.
- We plan to hold sufficient liquid assets to match your income and cash flow requirements, particularly where regular withdrawals or pensions are paid to you. Adhoc withdrawals or contributions may impact this and will need to be reviewed with your adviser so your portfolio can be rebalanced.

- There are other risks with the nature and scope of the MDA's, and the adviser's discretions & strategies including ***asset specific risks, operational and market risks and risks associated with the regulated platform through which the MDA services are being provided.*** These are outlined further in the Understanding Series included with your SOA.

#### **Important**

An MDA Contract may not be suitable if you have provided your adviser with inaccurate information relating to your relevant personal circumstances and may cease to be suitable if your relevant personal circumstances change.

## **How is the MDA service paid for?**

Your MDA Service is charged as a MDA advice fee, and can only be received in connection with your platform account. This fee is part of your ongoing service agreement with your adviser and is charged monthly from your platform cash account. Please refer to your SOA section titled Fees, Costs and Disclosures.

## **MDA Contract review**

Your adviser will be responsible for reviewing the suitability of this MDA Contract (including the Investment Program that forms part of it) to your relevant personal circumstances at least once every thirteen (13) months unless this MDA Contract terminates earlier. In addition, regular reporting is provided, details of which is addressed within the MDA Contract.

## **MDA Contract termination**

A MDA Contract will terminate if:

- you choose to terminate the MDA authority and do so expressly by notifying your adviser or the Licensee in writing; or
- your adviser or the Licensee notifies you (the client) in writing that it wishes to terminate the MDA Contract; or
- ASIC notifies the Licensee that it may not rely on an exemption relating to the MDA services,

whichever comes first. Termination will occur immediately or at the end of the notice period specified in the relevant notice, which may be up to 2 business days.

If the MDA Contract is terminated, your adviser will take the steps to ensure that from the date of termination they no longer exercise any discretion in relation to the portfolio assets. The assets will continue to be held in your regulated platform account, and subject to the terms of the regulated platform.

## **Adviser relationship post MDA termination**

There may be the option to continue your relationship with your adviser. In this scenario your adviser will:

- switch off all fees and where they have been collected beyond the required termination date a refund will be required; and
- provide the client with a new personal advice ongoing service agreement.

Alternatively, if your relationship with your adviser ends, your adviser will:

- Switch off fees and rebate commissions and remove themselves as the servicing adviser;
- Refund any fees collected beyond the required termination date;

- Provide you with written communication that covers the following:
  - Confirmation that fees have been switched off and commissions rebated;
  - The risks involved with not having regular reviews and notification that the adviser is not responsible for loss caused by events after the end of the ongoing service relationship; and
  - A statement that it will be your responsibility to manage your portfolio assets on the regulated platform from the date of termination.

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