

Client Profile

Redgum's new MDA solution sparks restructure

Financial advisory firm, Redgum Wealth Group will transition to a new business model over the next 12-18 months, with a clear separation between its strategic planning services and its asset management and portfolio administration services.

Under this structure, traditional financial planning services will be based upon a retainer model, with fees referenced to hourly rates for advice. Asset management and portfolio administration services will be delivered through fully owned subsidiary, Nucleus Investment Management under an asset based charging structure.

Nucleus Investment Management was established in 2013 and provides specialist portfolio services through a wholesale managed discretionary account (MDA) solution.

The aim is for Nucleus Investment Management to become a fully-independent investment management business with a remuneration model and performance track record easily comparable with other wholesale funds managers. The group's investment capabilities could be made available to other advisory firms.

According to Mark McLennan, Redgum Wealth Group managing director, asset-based fees are suited to money managers, however, hourly fees more accurately reflect the type of service traditional financial planners provide.

"It's not going to be easy to separate strategic advice and implementation because the two are so entrenched but it's important for us to have two discrete and distinguished offerings," he said.

"Because of its history, financial planning bundles a number of products and services under one asset-based fee. That has worked to a point, however, some of the underlying parts, such as financial advice, haven't been priced properly."

"As a result, advisers are typically underpaid for strategic and investment advice."

McLennan established the current entity Redgum Wealth Group in 2004, but the core business has a history dating back to the early 1990's. The original business has been self-licensed since the mid-1990s, after a period aligned to AXA Financial Planning. It has over \$200 million under advice with nine staff including four advisers.

One of its main goals is to deliver above average long-term returns, which McLennan believes has been successfully achieved.

Over the decade to February 28, 2014, Redgum's core model portfolio is estimated to have outperformed the average balanced super fund index by 5.3 per cent annualised. It has delivered an estimated 12.5 per cent per annum after fees compared to the benchmark's 7.2 per cent.

The group's four in-house advisers and senior broker at Bell Potter Securities Patrick Cody sit on its investment committee. The committee meets formally once a month but also interacts informally on a daily basis. McLennan chairs the investment committee and is also chief investment officer.

If "product salespeople" are at one end of the financial advice spectrum then Redgum is firmly at the other, according to McLennan.

"We see ourselves as sophisticated asset managers who provide a financial planning overlay."

McLennan predicts the industry will become increasingly polarised. At one end, bank planners will produce basic financial plans for the mass market while at the other end full-service boutiques will aim to add real value in the areas of holistic advice and portfolio management.

"Traditional financial advice is fast becoming a commodity. That doesn't mean it's not technical and involved but that space is becoming very crowded and commoditised. "In contrast, people will always pay for genuine skills in money management, and that's where our primary focus lies."

The average financial planner doesn't have a deep knowledge of portfolio construction, and I don't think the industry will evolve that way but rather there'll be a sharp distinction between the two."

Redgum Wealth Group (and preceding businesses) has been building tailored investment portfolios since the early 1990s. It was one of the first groups to use Perth-based individually managed account administrator APA, which was later sold to OneVue. In 2009, the group built its own proprietary managed accounts system using Xplan Technology before appointing specialist managed account provider, managedaccounts.com.au in 2013. After eight months of preparation and development, it started rolling out its new MDA solution in January 2014. The business has already started to see efficiencies with a reduction in back office administration allowing for more time and resources to be spent on enhancing its investment research and portfolio management capabilities.

"When we look back on the strong performance we've been able to generate over the last two decades, the bulk of our client outperformance has been driven by intensive research efforts, and being nimble and able to take swift advantage of opportunities," McLennan said.

"However, with the additional layers of legislation introduced in recent years, we cannot be as nimble as we have been in prior market cycles. This loss of flexibility inevitably leads to reduced investment returns in client portfolios.

“Moreover, we were starting to experience growth constraints because of the mounting administration burden.”

McLennan anticipates that the new MDA platform will deliver greater flexibility and efficiencies, allowing the business to continue growing at a steady pace. Most importantly he anticipates that these efficiencies should flow through to improved risk-adjusted returns in client portfolios.

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