BlackRock

How managed accounts will look in 2025 and beyond

As managed accounts edge toward $200 billion in assets under management, advisers are demanding more from their providers in an increasingly competitive landscape. BlackRock Head of Strategy for Multi-Asset Strategies and Solutions, Katie Petering, looks at the three key trends that could define the managed account of the future.

From a niche product to an essential part of many advisers' business model, managed accounts have come a long way in a decade. According to Investment Trends data, advisers now place 25% of new client flows on average into a managed account, up from 4% in 2015.[1]

At the end of 2023, managed account funds under management had swelled to over $194 billion[2] – just under the $199 billion in assets under management in the ETF industry as of 30 June.[3] Managed accounts have followed a similar trajectory to ETFs, being rapidly embraced by advisers and investors for their convenience, efficiency and flexibility.

Investment Trends' latest Adviser Product and Marketing Needs Report placed managed accounts just below ETFs and managed funds as advisers' preferred investment product for core portfolio allocation. As advisers look for ways to reduce regulatory red tape, automate portfolio functions and spend more time on high-value client conversations, managed accounts can be a useful solution to modernise their practice.

With around 56% of the adviser market now using managed accounts, there's now a critical mass of advisers who understand the essential benefits they provide.[4] Yet for a sector which offers more than 1100 investment options, there's also a highly concentrated selection of 'winners' that advisers prefer. According to Investment Trends data, advisers use just 19 different managed account options for clients each year on average.[5]

So what is setting these winners apart, and how might the market evolve to take account of what advisers want?

Thinking outside the (60-40) box

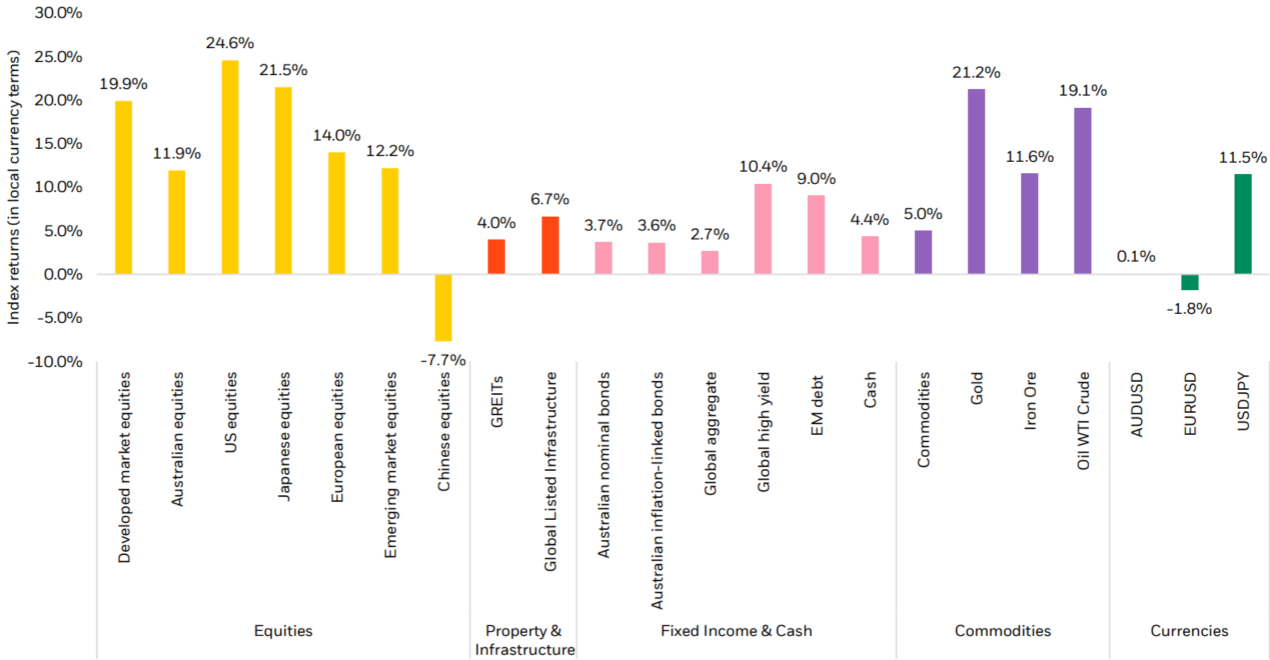
Investment Trends' latest Managed Accounts Report reveals that the majority – 68% - of model portfolios recommended by advisers in the last year were multi-asset. This indicates that 'all-in-one' solutions may be the most convenient for advisers and clients - where the client is appropriately diversified across all asset classes, and the adviser can spend less time monitoring allocations and more time talking to clients.

Within the new post-pandemic economic regime – characterised by 'higher for longer' interest rates, sticky inflation and an uncertain growth outlook – a diversified multi-asset approach becomes even more important for clients. As seen in the chart below, returns across and within asset classes have exhibited significant divergence, meaning a simple 'buying the market' approach, or even a traditional 60-40 allocation across equities and fixed income, may no longer be appropriate to meet client investment goals.

1 Source: SPDR/Investment Trends Managed Account Report 2024.
2 Source: Institute of Managed Account Professionals data as of 14 March 2024.
3 Source: ASX data as of 30 June 2024.
4 Source: SPDR/Investment Trends Managed Account Report 2024.
5 Source: SPDR/Investment Trends Managed Account Report 2024.

Asset returns over the 23/24 financial year

HEIGHTENED DISPERSION ACROSS AND WITHIN ASSET CLASSES



Source: Bloomberg as of 30 June 2024. Index returns are in local currency terms. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance is not a reliable indicator of future performance.

The best of the best

Unsurprisingly, a majority of advisers choose their preferred managed account based on performance, with 68% saying they recommend a model to clients based on how it has performed in the past. While ETFs may have risen to popularity primarily based on their low cost, it seems advisers are not as fee conscious when choosing a managed account – only around 50% of advisers cited fees as the key factor influencing whether they recommend a model portfolio.[6]

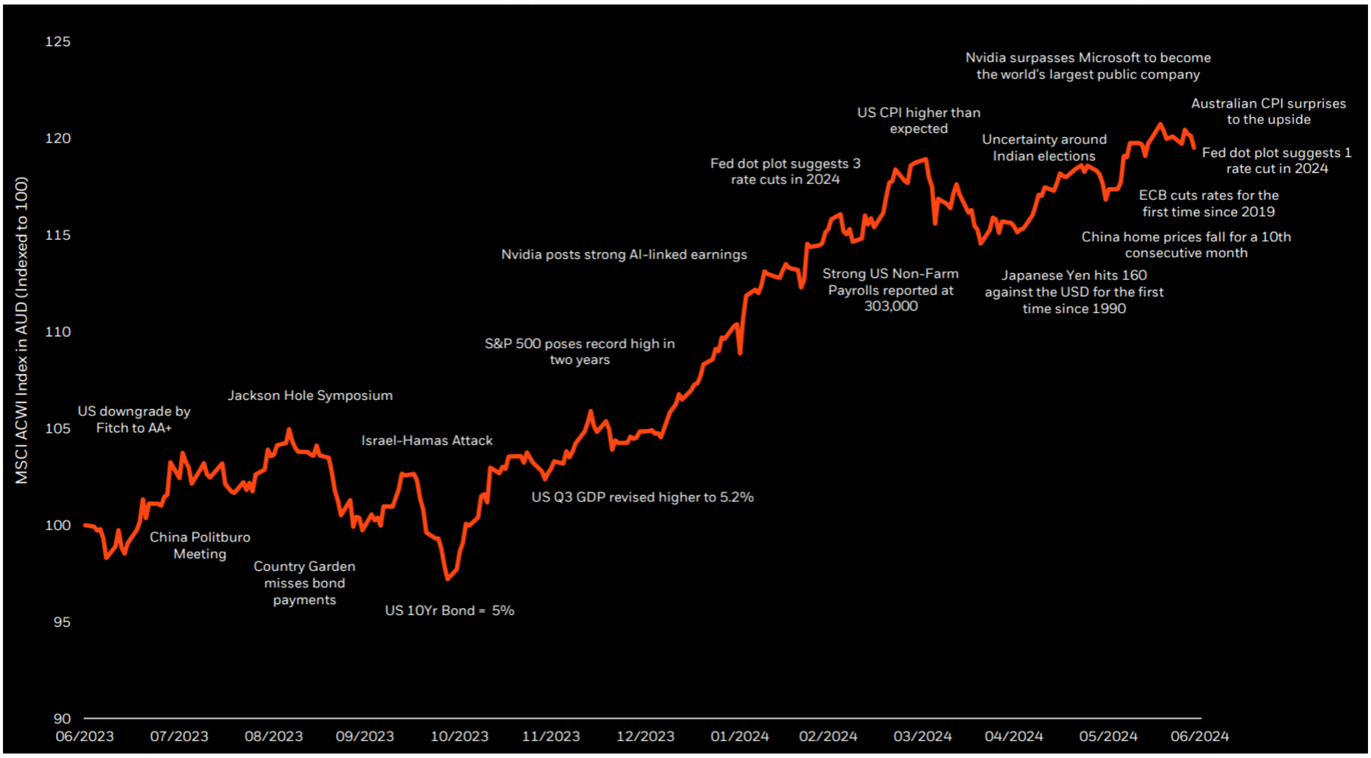
While costs are obviously an important part of the overall consideration process, advisers may prefer a model that takes a bespoke approach to add value to client outcomes even if there may be slightly higher associated fees – particularly if there is a variable performance fee component. This is backed up by BlackRock data indicating that most adviser practices are now looking to private label managed accounts that take an active approach, and are increasingly moving away from off-the-shelf index-based solutions.

This may be because the traditional 'set and forget' approach is becoming less suitable for the new economic regime. The ability to take an active approach and respond quickly to new information and market shocks is paramount in today's markets – as seen in the chart below, equities in particular have been incredibly responsive to short-term shocks in the past year.

6 Source: SPDR/Investment Trends Managed Account Report 2023.

2023/24 Financial Year in Review

GLOBAL EQUITIES MARKET MOVEMENTS VS GEOPOLITICAL/ECONOMIC DATA



Source: LSEG Datastream as of 30 June 2024.

Your own personal portfolio manager

Through the last 10 years of experience in managing model portfolios at BlackRock, we often hear advisers say it's difficult to be a great adviser and a great portfolio manager at the same time. And clients are increasingly demanding more holistic services from their advisers beyond portfolio management – while 87% of advised clients say their goals are investment related, 84% say their goals relate to budgeting while 83% say they are focused on retirement planning and aged care.[7]

This is where the best managed accounts can help advisers to outsource the portfolio management process - out of the 22 hours per week of work that managed account users say they save, the largest proportion of that time saving comes from the investment research and selection process.[8] It's not just at the execution level that outsourcing becomes important, but also the "surround sound" support required to explain investment decisions to clients, from regular commentary to in-person manager meetings.

According to Investment Trends data, around a quarter of advisers say managed accounts helped them to distance their value proposition from investment returns. This shows their preferred managed account providers are allowing them to focus in on those more specialist areas like retirement and financial coaching where they can add consistent value over and above market movements.

As the managed account market continues to mature, and advisers increasingly turn to their preferred providers, we believe it's these features – performance, support and a dynamic approach across asset classes – that may set the winners apart from the rest.

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7 Source: Netwealth Advisable Australian Research 2024.

8 Source: SPDR/Investment Trends Managed Account Report 2023.

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