



Compiled by  
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# HOW TO CHOOSE THE BEST WRAP ACCOUNT and eliminate unnecessary adviser fees

If you only read one of my columns in 2011, make it this one, as it will explain how to save thousands of dollars in unnecessary fees. In this article, some of the most popular investment administration platforms (WRAP accounts) will be reviewed, comparing their fees and showing you how to eliminate unnecessary fees. However, superannuation and pension versions of these WRAP accounts are also available. If, like me, you made a New Year's resolution to pay more attention to your finances then the first step is to understand your options and evaluate the fees and charges associated with your investments and superannuation.

During 2010, the markets staged a recovery with the Australian market as measured by the S&P/ASX 200 Accumulation Index returning 1.6%. The MSCI which measured the performance of global markets returned 11.8% but the strong appreciation of the Australian dollar reduced this to -1.9% for Australian investors.

The strong returns in the last bull market masked the high fees associated with adviser driven WRAP accounts but the GFC has shone a spotlight on commissions and the government is proposing new legislation that will eliminate commissions from investment products as of 1 July 2012.

WRAP accounts have many advantages but how you access them is vitally important. Paying upfront commissions and high ongoing percentage based adviser fees make WRAP accounts very expensive which offsets those advantages. Paying total fees of 2.5-3.5% each year when you are losing money or earning single digit returns is ludicrous.

Recommendations by financial planners usually involve using a WRAP account or investment platform to administer investments. The popularity of WRAP accounts has exploded with more than 75% of new investments going into a form of investment platform. Using the wrong WRAP account can prove expensive if you are not careful to avoid unnecessary fees. As always, I recommend separating your advice regarding strategy from the execution of transactions and paying a dollar based (hourly fee) for your advice rather than a percentage based fee. Therefore, it is important to use a WRAP account that allows you to transact whether or not you have an adviser as this gives you the independence required to negotiate the best fee for service advice deal.

Advantages of WRAP accounts include:

- Consolidate all investments in one place – WRAP accounts allow access to managed funds, shares, cash and margin lending and provide online access to view reports on consolidated holdings at any time. A single consolidated tax report is provided each year which saves on accounting fees.

- Diversification – All available investment choices allows the creation of a diversified portfolio across asset classes thus reducing risk.

- Access to wholesale funds – Many wholesale funds as well as 'boutique funds' are not available to retail investors as the minimum investments range from \$500,000 to several million. WRAP accounts can pool investors money to allow access to these funds.

- Simple switching – once a WRAP account is opened buying and selling managed funds can easily be undertaken without completing a new application form every time.

- Tax deductibility of fees – Some platforms administration fees may be tax deductible.

A WRAP account revolves around a central cash account. These can be online bank accounts, cash management trusts or a full featured bank account with a cheque book facility. Usually, investors are required to maintain a minimum cash account balance to pay their administration fees. Typically, this is \$1,000-\$5,000 as a minimum and buy transactions for shares and managed funds can only be executed if the cash is available in the cash facility.

Like all investment products the fee structure of a WRAP account is of critical importance. Investing in some platforms can be more expensive than just buying a comparable retail fund but establishing exactly what fees you are paying can be a challenge.

Fees associated with WRAP accounts can be broken down into the following categories:

- Account administration fees – WRAP accounts administration fees are charged by the platform operator. Most platforms charge on a tiered basis with administration fees declining as account balances increase. Others like Macquarie WRAP charge administration fees on a per investment basis (Table 1).

- Investment management fees – When investing in managed funds, the underlying investment fund chosen will have their own management fees in addition to the WRAP account administration fees. Typically, these are wholesale fees which are about half the retail fund equivalent. As platforms gain more and more market share they are able to negotiate additional fee rebates from fund managers. Some platforms like Asgard eWRAP and Personal Choice eWRAP pass these rebates back to the investor in the form of cash rebates while others like BT WRAP pass on only a portion of the rebates and retain a portion to increase their profitability. Table 1 shows a range of investment management fees but the

➤ majority of wholesale Australian share funds have an Investment Cost Ratio (ICR) averaging about 0.90% per annum. No investment management fees will apply if you invest in direct shares.

- Transaction fees – Some platforms charge transaction fees for buying and selling investments and investors can also incur additional fees such as the buy sell spread when transacting in managed funds. This buy sell spread ranges from 0–1.5% but can be higher. Share trading also incurs a brokerage fee either from the default platform broker or the investor's chosen broker from the available panel of brokers. Typically, brokerage costs about 0.11% with a minimum of \$30 applying before advisers add their mark up or additional fees.

- Establishment or entry fees – These can be up to 5% and like retail funds these go to your adviser. However, you can negotiate and pay a professional hourly fee for advice and execute your own investments. Although, with WRAP accounts it is often difficult to bypass the adviser as most WRAP platforms will not deal directly with clients.

- Adviser service fees – The renewed focus on commissions and the fact that you can switch between investment options have made it more difficult for advisers to charge percentage based commissions. However, advisers are a resilient bunch and they have created a new type of fee (often percentage based) called the adviser service fee or portfolio review fee. Nowadays adviser service fees ranging from 0–2% have become commonplace in WRAP accounts. These adviser service fees are in addition to other platform fees and can be a significant portion of your overall fee. Investors should avoid percentage based adviser service fees and instead pay a professional hourly fee or a flat fixed dollar amount for ongoing advice and service if and when it is required.

By now readers may be thinking: With all of these fees why would anyone use a WRAP account to invest? Some of the best investment management talent is not accessible in any other way. Most new funds and some boutique managers are only available on investment platforms. As well, many investors are devoting a larger share of their portfolio to direct equities and a WRAP account greatly simplifies the administration of direct share holdings. As the value of your portfolio increases the administration fees decline significantly. The key is to educate yourself about the fees and charges in WRAP accounts so you can determine which fees are optional and what represents value for your money.

Table 1 compares the fees and charges of the largest operators of WRAP accounts (BT Portfolio Services, Macquarie WRAP, Asgard, Oasis Asset Management, MLC Custom, MLC Navigator and AXA Summit) as well as a white labelled or private labelled version of Asgard eWRAP called Personal Choice eWRAP. These WRAP account operators represent some 90+ badged versions of these products and it is important to note that some of the dealer group white labelled versions differ dramatically in their fee structure.

Now that you are aware of the fees, the following is a list of the potential traps that should be avoided:

- How do you access the WRAP account? – Does the platform require access to the WRAP account via an adviser? If so, entry fees may apply on any new money added until 1 July 2012 as well as high percentage based adviser service fees. Make sure access to the platform is either direct or there is the option of transferring to another platform without incurring capital gains tax. Transfers can be achieved in many cases via an in specie transfer (covered later in this article). Transferring assets in specie means you can transfer your underlying investments without having to sell them and incur

capital gains tax.

- Advice is important – Investing, particularly in superannuation, is a complex area and accessing professional advice is invaluable. You may need advice to assist in creating an investment strategy and to undertake periodic reviews of your portfolio. However, how you access and pay for advice can make a big difference in your returns. Pay only an hourly professional fee for advice and avoid percentage based adviser service fees as they effectively reduce the performance of your investments. However, using an adviser should not be a requirement of being able to place and monitor investments and investors should be able to access WRAP accounts with the option of using an adviser.

- Avoid 'nil entry fee' or deferred entry fee options – Some WRAP accounts offering 'nil entry fees' or deferred entry fees options are to be avoided as they often come with a nasty sting in the tail in the form of higher annual management fees.

- Upfront commissions are optional – Some investors still pay up to 5% commission when placing investments. Smart investors negotiate to pay flat dollar fees for advice and have the upfront fees waived or at least reduced or choose to use a platform that allows direct access.

- Consider potential conflicts of interest and compare available options – Not all WRAP accounts are created equal. With nearly 70% of advisers linked to institutions there is a tendency to offer only an employer owned WRAP account. Ask your adviser to explain the number of WRAP account options available and carefully compare the fees and charges. Better still execute your own investment transactions in a WRAP account that you can access directly and pay for advice separately.

- Consider the cost of trading shares in a WRAP account – Most WRAP accounts allow access to shares but the value for money aspect needs to be considered. Purchasing shares in a WRAP account incurs administration fees on the share portfolio. If you have a significant share portfolio you need to determine if the tax reporting and ease of administration is 'value for money'. Alternatively, share transactions can be executed through a discount share broker and maintain your own tax records. Remember that the reduced administration fees on larger balances could result in lower fees on the direct share portion of your portfolio if you also have significant managed funds investments.

- Compare different badged versions of the same product – Most operators of WRAP accounts allow adviser dealer groups to create their own 'brand' or white labelled version of a WRAP account with their own pricing. Therefore, not all badged versions of the same product have identical fees and charges. The fee structure for a badged WRAP account is often determined by the selling organisation and can differ dramatically. Some products require the use of an adviser and this can increase the costs dramatically among groups. You are free to pay someone to transact your investment decisions but you need to be aware of the effect of the fees on your returns.

### HOW DO I GO ABOUT CHANGING WRAP ACCOUNT PROVIDERS AND REDUCE MY ANNUAL FEES?

This is the question I am most often asked. Most investment WRAP accounts are custodial services and you can in specie transfer from one WRAP account to another which means holdings can be transferred without incurring capital gains tax as the ownership remains unchanged. Compare the lists of available investment options to ensure that the funds you have are eligible for transfer into the new platform. You are also responsible for providing accurate cost basis information to the new WRAP account to ensure

TABLE 1 – FEE COMPARISON INVESTMENT WRAP ACCOUNTS

COMPARISON OF FEES IN POPULAR WRAP ACCOUNTS JANUARY 2011								
Product Name	BT WRAP	MACQUARIE WRAP	WEALTHTRAC PORTFOLIO SERVICE (OASIS ASSET MGMT)	MLC NAVIGATOR INVESTMENT PLAN	ASGARD eWRAP	PERSONAL CHOICE eWRAP*** ASGARD private label	MLC MASTERKEY CUSTOM	AXA SUMMIT
Investment Minimum	\$50,000	\$50,000	\$25,000	\$20,000	\$100,000 recommended	\$100,000 recommended	No minimum	\$20,000
Fees – Administration								
0-\$100,000	0.79%	0.67%*	1.23% (0.87%**)	1.85%	0.820%	0.801%	\$100 per month	1.00%
\$100,000-\$250,000	0.70%	0.67%*	1.08% (0.72%**)	1.85%	0.615%	0.596%	1.03%	0.60%
\$250,000-\$500,000	0.23%	0.67%*	0.87% (0.51%**)	1.75%	0.308%	0.308%	0.70%	0.35%
\$500,000-\$750,000	0.23%	0.67%*	0.46% (0.10%**)	1.65%	0.308%	0.308%	0.51%	0.35%
\$750,000-\$1,000,000	0.23%	0.67%*	0.46% (0.10%**)	1.65%	0.103%	0.103%	0.43%	0.35%
\$1,000,000+	0.09%	0.67%*	0.00%	1.10%	0.103%	0.103%	0.37%	0.12%
Investment Management Fees~	0-6.0%	0-8.08%	0-3.74%	0-2.50%	0-2.40%	0-2.40%	0.10-4.61%	0-4.64%
Adviser fees								
Establishment/Entry fees	0-5.0%	Negotiable – no set limits	0-5.00% (Nil through 2020)	up to 4.0%	0-5.0%	0-5.0% (Nil through 2020)	0-5.0%	0-4.0%
Adviser Service fees~~	0-2.0%	Negotiable – no set limits	0-1.54% (0.10%through2020)	0-1.0% and up to \$110 per share trade	0-5.0%	0-5.0% (Nil through 2020)	Negotiable – no set limits	Up to 2.69%
Access directly (adviser optional)	No – adviser only	No – adviser only	Yes through 2020 DIRECTINVEST only	No – adviser only	No – adviser only	Yes through 2020 DIRECTINVEST	No – adviser only	No – adviser only
Potential total fees on \$300,000 portfolio'''	2.55% – \$7,655	2.57% – \$7,710	3% – \$8,985 through adviser 1.64% – \$4,905 if bought directlythrough2020 DIRECTINVEST	3.73% – \$11,200	2.53% – \$7,596	1.52% – \$4,549 if boughtdirectlythrough 2020 DIRECTINVEST	2.6% – \$7,800	2.59% – \$7,775
Source – PDS	PDS – 1/09/07	PDS – 31/07/2010	PDS – 21/06/10	PDS – 2/10/2010	PDS – 31/05/2010	PDS – 16/08/2010	PDS – 1/11/2010	6/21/2010
<p>~ Average equity investment management fees are approximately 0.90% -- investors need to check eligible investment lists for exact figures.                      * Macquarie charges on per investment basis with 0.67% for the first \$50,000 per investment and 0.10% for amounts above \$50,000 per investment.                      ** Wealthrac Portfolio Service is available through 2020 DIRECTINVEST with direct access and reduced administration fees and no transaction fees.                      *** Personal Choice eWRAP is available directly through 2020 DIRECTINVEST with minimal transaction fees and no adviser service fees.                      Note: Administration fees are calculated taking into account the Reduced Input Tax Credit (RITC) for GST- Share investments are not eligible for RITC.                      Establishment fees and adviser fees shown are exclusive of GST.                      Deferred entry fee options are to be avoided as they result in higher annual management fees.                      ''' Assuming 0.90% investment management fee and 1.0% adviser services fee where applicable.                      ~- Typical fee around 1% up to 2%.</p>								

accurate tax reports. Sometimes when transferring to another badged version of the same WRAP platform the transfer can be completed very easily as the operator already has all of the required information. For example, if you invested in Asgard eWRAP through an adviser you could easily migrate to the Personal Choice eWRAP product because the investment lists are almost identical and the process relatively straight forward. Asgard is one of the few providers that allow investors in their older expensive products (Asgard Master Trust and Asgard Elements) to transfer to Personal Choice eWRAP without incurring capital gains tax. This also applies to Asgard Super and Pension products when transferring to Personal Choice Super/Pension.

For superannuation WRAP accounts with other providers an 'in specie transfer' is not available as the assets in a super fund are owned by the Trustee of the fund so you will need to sell the investments in one platform and buy them in the new account. You need to consider the costs of doing this against the potential savings.

I hope this article has enlightened you as to the advantages and disadvantages of WRAP accounts. If you have an existing WRAP account, talk to your adviser about establishing a professional dollar based fee for advice and eliminate any percentage based adviser service fees. Alternatively, if you are considering investing in a WRAP account or already have one consider changing or choosing one that lets you control the transactions so you can pay for advice separately when it is needed. Fees really do matter and each dollar of fees comes straight off your return. A saving of 1% per annum (no adviser services fee) over a 25 year investment horizon on a \$300,000 balance could result in total savings of over \$470,000\*. By separating your advice from your WRAP account you will benefit from these savings. Consider this fact when you think that changing now is all

too hard. Next month, I will compare the costs of setting up your own self managed super fund versus using a superannuation WRAP account as an alternative.

## 2020 DIRECTINVEST

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For more information or any questions please contact Michael Lannon on 1800 352 021 or visit 2020's website [www.2020DIRECTINVEST.com.au](http://www.2020DIRECTINVEST.com.au)

\*Assumes an annual return of 9.0% versus 8.0% with 1.0% adviser service fee.

## Unwrap yourself from high wrap fees

### 2020 DIRECTINVEST

If you have a wrap account you're probably enjoying access to wholesale managed funds, direct shares, cash and term deposits in a single account. You're probably also paying unnecessary adviser service fees of 1%-2% p.a. that undermine the cost effectiveness of a wrap account.

Unwrap yourself from high fees by paying a separate fee for advice and access all the benefits of a wrap account directly, without entry fees, exit fees or ongoing adviser service fees.

Find out how, call 1800 352 021 or visit [www.2020directinvest.com.au/ewrap](http://www.2020directinvest.com.au/ewrap)