



# Platform Review

## Powerwrap Investment Account

ISSUE DATE: 13-08-2014

TYPE	THE POWERWRAP SERVICE IS STRUCTURED AS A REGISTERED MANAGED INVESTMENT SCHEME. INVESTORS WILL BE BENEFICIAL OWNERS OF ALL ASSETS IN THEIR ACCOUNT. THE ASSETS WILL BE HELD IN THE NAME OF THE SCHEME BY A CUSTODIAN.	
RESPONSIBLE ENTITY	POWERWRAP LIMITED	
CUSTODIANS	AUSMAQ LIMITED, PERSHING	
BROKER	PERSHING	
ESTABLISHED	COMPANY ESTABLISHED FEBRUARY 2008, SMA PLATFORM AUGUST 2011	
FUA	\$2 BILLION IN TOTAL, OF WHICH APPROX \$200 MILLION IS SMA	
MODEL PORTFOLIOS -		
NO. OF MANAGERS	15	
NO. OF PORTFOLIOS	56	
CASH ACCOUNT	AN APPROVED DEPOSIT-TAKING INSTITUTION	
MINIMUM INVESTMENT	\$20,000	

### What this Rating means

The 'Approved' rating indicates that Lonsec believes the financial product can generate risk adjusted returns in line with relevant objectives. If applicable, the financial product provides an adequate means for investors to gain exposure to the underlying assets.

BUSINESS	●	●	○	○	○
ADMINISTRATION & TOOLS	●	●	●	●	○
INVESTMENT & TRADING	●	●	●	●	○
FEES AND CHARGES	●	●	●	●	○
GOVERNANCE	●	●	●	○	○

### Business

#### Corporate context

Powerwrap Limited (Powerwrap) is one of two boutique SMA platform operators reviewed by Lonsec in our initial review of this market.

Powerwrap is an independent, privately owned financial services company that provides expert investment execution, investment reporting and tax management for financial advisers. There are approximately 170 shareholders, predominantly HNW investors, staff and the Board. The Board and staff own the majority of shares, with the top two shareholders owning approximately 30%.

The Powerwrap platform offers an extensive range of managed funds, separately managed accounts, term deposits, insurance products and direct equities.

Powerwrap employs 35 people in total, split approximately 1/3 operations, 1/3 finance & compliance, 1/6 sales and 1/6 MWH Capital, a financial services company acquired in 2013 which provides experienced investment advisers with the infrastructure and support they need to establish their own businesses.

#### Strategy outlook

Powerwrap shares some history with fellow independent platform operator Praemium Limited. Senior staff and Board members have worked at both organisations and Powerwrap still uses some technology provided by Praemium.

Powerwrap's FUA has increased strongly in the last 12 months and as a technology company operating in the financial services sector, the company is committed to keeping processes and systems at the forefront of the platform industry.

### Finances

Platform or managed discretionary account (MDA) operators are required to have appropriate authorisations under their AFSL. Operators that do not provide custodial and depository services must hold a minimum of \$5 million at all times and a minimum of \$10 million if they do offer these services.

These requirements represent a much higher percentage of assets for a relatively small financial services company such as Powerwrap compared to other institutionally owned platforms.

Powerwrap's profitability has improved over the past 2 years and management is forecasting the company to be profitable for 2015 FY.

### Administration and Tools

#### Manager interface and reports

The Model Portfolio manager interface is facilitated via a website log-in. All trading information and portfolio changes are entered online, significantly reducing any risk of miscommunication. In Lonsec's opinion this is superior to the other forms of trade communication used by some other platform operators.

Powerwrap uses IRESS as its trading platform with execution, usually via Pershing, although there is scope to use other brokers.

#### Advisor / investor interface and reports

Powerwrap facilitates the execution and administration of all client investments online.

There is a high degree of report customisation available. The following can be generated online – transaction, performance, realised & unrealised gains/losses, income

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distributions and franking credits, tax information. Historical information is also readily accessible. In Lonsec's opinion the adviser interface is user-friendly with very good functionality.

Investors are able to select from four tax lot accounting methods and can change methods during the year.

### General support

Powerwrap outsources the technology required to offer Model Portfolios on its platform to fellow technology / financial services company and competitor, Praemium Limited.

A dedicated operations team of ten resources service adviser / investor queries. Appropriate administration service standards are in place.

The 3000 current investors can be adequately serviced with existing resources. There is significant scalability in the platform.

### Investment and Trading

#### Model options and due diligence

Powerwrap's philosophy is based on offering access to a diverse range of investments at the financial adviser's request, through a single superannuation, pension or investment account.

There are currently 15 investment managers with over 56 model portfolios offered on the platform. The philosophy is to offer investors a very broad and diversified range of investment options.

There is an investment committee which is governed by the Powerwrap Investment Policy Statement (IPS). The IPS details the process for evaluating and approving investment options submitted for approval. A quorum for approval is three members.

#### Trade implementation

Trades are generated under three scenarios – new investment, withdrawals or Model Portfolio changes made by managers. These orders are aggregated and then netted off to create efficiencies.

Every Model Portfolio is checked against its mandate on a daily basis.

Third party lending (margin lending) is available. Powerwrap acts on instructions received from lenders without consultation with investors.

Powerwrap operates a pooled-HIN account structure (for SMA assets) which is the most common structure adopted by the SMA platforms reviewed by Lonsec.

Securities lending is not permitted.

### Fees and Charges

#### Fee structures and levels

Scheme Administration Fee	% p.a.
0-\$250,000	0.328
\$250,001-\$500,000	0.226
\$500,001-\$750,000	0.143
\$750,000-\$1M	0.113
\$1,000,001-\$2M	0.051
\$2,000,001-\$10M	0.00

There is an additional administration fee of up to 0.132% payable for any investment in Model Portfolios.

#### Management costs

Vary according to model portfolio manager with most in the range of 0.30% to 1.00%p.a.

#### Typical fees

	\$250K	\$500K	\$1M
POWERWRAP	\$3,150	\$6,045	\$11,345
AVERAGE	\$3,346	\$6,446	\$12,241

Assumes management cost of 0.80%p.a. for Australian equities Model Portfolio. Lonsec notes lower cost Model Portfolios are available on some platforms.

#### Brokerage costs

Currently a minimum of \$10 or 0.07% per contract note. This is under a pooled structure.

Additional adviser fees may apply, as negotiated between each investor and adviser.

### Governance

The Responsible Entity has four Board members, all of which are non-executive. CEO, Cormac Heffernan, reports into the Board.

Powerwrap operates the following committees and memberships - Managed Investment Scheme Compliance Committee, Investment Committee and Risk Committee. These provide an appropriate governance framework.

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#### Date prepared

August 2014

#### Analyst

Michael Elsworth

#### Approved by

Kevin Prosser

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