

Wrap Accounts and Fund Supermarkets

Since we produced the first edition of this briefing note in 1999 things have moved along at some speed in the development of the wrap account/fund supermarket proposition. They are a good thing, and everyone is trying to climb on the bandwagon, even us – more of which below. Consequently we thought it was about time that we updated this note.

What Are Wrap Accounts/ Fund Supermarkets?

Wrap accounts and fund supermarkets are service businesses, which provide access to multiple fund managers through one administration service across all or several product types. At the time of writing (May 2005), we are aware of the following fund supermarkets and wrap accounts.

Abbey Wrap
American Express
Ample
Cofunds
Egg
Funds Network (Fidelity)
www.iii.co.uk (online – interactive investor international)
Pivotal (also a multi-manager fund manager)
Selestia
Seven Investment Management
Skandia (not really a supermarket, more a multi-manager)
Standard Life
Transact (full open architecture wrap service)

And others are in development.

They all offer a range of fund managers and funds, although some are more comprehensive than others. They all offer new and transferred ISA's, transferred PEPs and directly invested unit trust and OEIC accounts. Some also offer insurance bond funds both offshore and on-shore; pensions, through a self-invested personal pension route and as executive pensions.

Transfers In

Because of the large range of fund managers available many transfers into the service can be affected by simple re-registration of fund holdings. If this is not available then interspecies transfers may be possible. Only in the last resort are funds actually sold to affect a transfer. In this way the costs of transfer can be completely annulled or kept to the very minimum.

Features and Benefits of Consolidating your Holdings

Essentially wrap accounts are all about separating the administration of a particular product from the management of the underlying investments and then providing tools to analyse the funds across all the different products. In fact treating all the investors plans as one block of capital.

For example a client owning two PEPs, one of £6,500 current value with Invesco, the other of £7,000 current value with Newton and a Max ISA with M&G could concentrate all these holdings in one account whilst still preserving the individual PEP and ISA identities.

Then if required the portfolio could be balanced against an agreed and suitable benchmark by judicious sales and purchases of funds so that in the end the investor may have holdings with Invesco, Newton, M&G, Merrill Lynch, Sociate Generale, Barings, Investec etc. etc., their choice only being limited by the size of their fund and common sense. In this way if one fund management group failed to perform then it would only affect a small proportion of the overall portfolio. The specific risk of fund manager underperformance would have been reduced.

Other benefits of consolidation are reduced paperwork and, from our point of view, on-line valuation updates enabling us to keep a better eye on your portfolio at a lower cost in both time and resources. This point will also benefit you as it means we are better able to manage your portfolio at a lower cost.

| FEATURE | BENEFIT |
|--|---|
| Diversify Fund Managers | Reduces Specific Risk |
| Assets managed across all products | Allows proper comprehensive asset management which should reduce risk |
| One administration service | Reduces paperwork |
| Easier on-line administration | Reduces paperwork |
| Opportunity to access institutional fund classes | Much lower cost |
| Clear charge/fee structure | You will KNOW what you are paying. |

Security

Are these services safe? Or rather are your funds safe within their service. The simple answer is yes. The fund supermarket does not control your investments. It does not hold the assets and it cannot access your money for its own business reasons. The money is held within a nominee service of which you are the beneficial owner. The underlying manager has a discretionary mandate to run your money but he also does not own it.

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Charges

How do they get paid?

Whilst there is no additional charge to you the supermarket is paid out of the standard annual management charge levied by the underlying fund manager. The amount of this charge is commercially sensitive and probably varies from Manager to Manager. The Skandia Multi-funds service does have an element of double charging. Some fund supermarkets charge for switching or transfers out.

Wrap accounts levy an additional charge. This is set out in the contract you have with them. A true wrap like Transact has the ability to hold all assets (except property) and therefore has the opportunity for us to access lower cost institutional funds. This will mean that explicit fees levied by the wrap service will be offset by reduced fund management charges. This area is still developing but we expect to see major effective price reductions over the next one to three years.

Choices

How many managers and funds are available? The most comprehensive supermarket at the time of writing is Cofunds. It has 50 Management Groups and over 600 funds available. These numbers are increasing all time.

The most comprehensive wrap service is Transact. There is ultimately no reason why all assets (except perhaps property) could not be held through their service.

Virtual Wraps

We have added another dimension to the wrap/supermarket innovation. Our client management software links with all the serious wrap account and fund supermarket platforms. It also links with many insurers extranets and can hold details on nearly every stock, investment, plan, policy, scheme, pension, state benefit or National Savings product that you may have bought. It can also analyse these investments across all the plan types. And then report comprehensively on them. In other words, by the use of technology, we offer a virtual wrap service completely personalized for you. We have established standard asset allocation models that are adjusted for each client and the prevailing balance of value between asset classes. Client's portfolios can then be checked regularly and easily with the intention of reducing the risk.

We have made a decision not to concentrate on using one external wrap provider but to use as many as makes sense, but only where they provide electronic links. This philosophy is designed to preserve choice and to maintain control and to improve your situation.

Our investment in such powerful software means that we are able to do more for you every day, often without additional cost.

Conclusion

We believe that Wrap account Fund Supermarkets and virtual wraps (like ours) will be a boon to investor and adviser alike. They will reduce paperwork and increase choice and access to funds and eventually manager's fees. They also help us to save money and increase our effectiveness. Clients must ultimately benefit.

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Definitions

We have used some technical terms in the text that you might need defined.

Interspecies Transfer

This is a method of transferring funds into the service at low cost when re-registration (see below) is not available. Essentially the investments are sold and rebought but the cost of this transaction has been reduced to the minimum.

Any market for any asset varies in price with sentiment. If all your holdings are in the Technology sector of the market and sentiment moves against it then the value of your holdings will reduce. Similarly if market sentiment improves then the value will increase. Diversification across sectors and geographical areas reduces risk.

This is a method of transferring funds into the service by the re-registration of the holdings from the ceding administrators' nominee service to the receiving administrators' nominee service. This is an entirely nil cost transaction.

The performance of all fund managers varies. It is not unlike teams playing in a league. The fortunes of the teams vary. If you concentrate all your bets on one team, then you have a high chance of a big gain or a big loss. If you spread your bets among several teams (which you have judged against various criteria) you have reduced your risk.

Revised 20th February 2007

The foregoing is Williams Farrall Woodward's understanding of the current situation regarding these types of services. Investors should take professional advice before making any decisions. We cannot be held responsible for actions you take as a result of the information contained in this briefing note. E & O excepted.

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