A Guide to Separately Managed Accounts (SMAs)

Standards Board for Alternative Investments

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EXECUTIVE SUMMARY

Separately Managed Accounts (SMAs) are increasingly being used by institutional investors, including pensions, sovereign wealth funds, endowments, and family offices, to access alternative investments. This guide summarises key features of SMAs, their advantages and limitations, comparisons with other fund structures, and practical considerations for their use.

SMAs can provide direct asset ownership, mandate customisation, transparency (usually on a T+1 basis), and greater investor control. Investors may be able to negotiate investment guidelines, liquidity terms, fees, and operational protocols directly managers – features which are attractive in a landscape where investors have greater expectations for alignment and flexibility.[1]

While SMA adoption is rising, barriers remain. Misconceptions, limited familiarity, and the need for organisational understanding are all challenges that need to be addressed through advocacy and educational initiatives. SMAs may also be impractical for smaller mandates or certain strategies where the full benefits of SMAs may not be attainable. This guide aims to support informed decision-making by demystifying this structuring option and offering actionable and practical guidance on effective implementation.

KEY TAKEAWAYS

- SMAs can provide direct ownership of assets and allow mandates to be tailored to specific objectives, including ESG integration, risk limits, or liquidity preferences.
- They may provide position-level transparency, supporting oversight and risk aggregation (usually on a T+1 basis).
- Investors may be able to unlock operational alpha through features such as cross-margining, cash and collateral optimisation, and notional funding to improve capital efficiency.
- Effective implementation requires strong internal governance, legal negotiation capability, and operational readiness to exploit the full benefits of SMAs.
- Some managers, particularly those running capacity-constrained, commingled, or complex strategies, may not offer SMAs. Access can be limited by minimum investment thresholds.
- Managed Account Platforms (MAPs) may offer a more scalable entry point, though this is not unique to smaller allocators as some of largest global investors also prefer this approach.

These takeaways underscore that while SMAs can be powerful tools for achieving alignment, oversight, and customisation, they are not one-size-fits-all. Successful adoption requires a deliberate evaluation of internal capabilities and long-term investment goals.

[1] Investors may also be able to achieve favourable fee, liquidity and transparency outcomes through fund of one or commingled fund structures. However, this will be largely driven by the ability to write large allocations.

01 DEFINING SMAs & KEY STRUCTURES

Traditionally, institutional investors have accessed alternative investments through commingled funds, which pool capital from multiple investors in one investment vehicle which is then invested according to the marketed investment strategy by the investment manager. Separately Managed Accounts (SMAs) represent a material shift in the relationship between investor and manager.[2]

Industry stakeholders tend to use the moniker 'SMA' to refer to several products or structures, but there are material differences in these concepts. A SMA is a dedicated limited liability investment fund or vehicle established for a single investor, in which the underlying assets are owned directly by that investor and managed by an investment manager. Investors take on an active governance and operational oversight role, assuming full responsibility for mandate implementation and coordinating the administration and operation of the fund either internally or by partnering with external service providers.

It is also important to note what should not be considered an SMA – for example:

- A long-only managed account in which an asset manager is given trading authority over a brokerage or custody account on the allocator's balance sheet as an SMA.
- 'Synthetic SMAs' are SMA-style portfolios that deliver customised investment exposure primarily through derivatives (most commonly total return swaps, futures, or options), rather than by directly owning the underlying securities in a specially structured client account.

In the examples above, the use of leverage and short selling by alternative managers can result in liabilities which exceed the amount of investment and may expose the investors balance sheet to additional, unplanned liabilities. Similarly, for synthetic SMAs, a range of additional risks are created (counterparty risk, settlement risk, leverage, etc.) by entering such structures.

A variation which is important to define and understand is the role played by Managed Account Platforms (MAPs). These platforms act as intermediaries, performing a range of tasks and responsibilities on behalf of the investor. In addition to structuring the investment vehicles they may provide additional services, including risk monitoring, compliance surveillance, reporting, and operational support.[3] Some MAPs may operate in a fiduciary capacity, delegating investment decisions to an investment manager. This frees the investor to focus on identifying and accessing interesting investment strategies while outsourcing the complexity of direct SMA oversight.

The following table highlights some of the key differences between common investment structures.

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[2] Hedgeweek Insights Report 2025 - JP Morgan expecting 58% of new launches over the next 12 months will be done in SMAs, while Goldman Sachs envisages the SMA space to grow by $400bn+ by 2027.
[3] Structural Due Diligence, Operational Risks, and the Evaluation of Managed Account Platforms - Ranjan Bhaduri – Bodhi Research Group - 2022

Attribute	Comingled Fund	Fund of One	Separately Managed Account (SMA)	SMA overseen by a Managed Account Platform (MAP)
Underlying Asset Ownership	Indirect – pro rata ownership interests via shares or units	Indirect – Similar to a commingled fund, although only one investor has access to the vehicle	Direct ownership	Direct ownership
Number of Investors	Multiple investors	Single investor	Single investor	Single investor
Customisation	Low	Medium - High	Very high	Very high
Transparency	Low - Dependent on managers willingness to be open and transparent. In most cases, detailed underlying portfolio data would not be shared.	Medium – High – Subject to negotiation.	Full – Data may be available on T if operational infrastructure can support it, most likely T+1 full transparency.	Full – Platform provider will typically provide aggregated reporting on T+1.
Control Over Investment Strategy	None	Some customisation may be possible through negotiation	Full – agreed and governed via the Investment Management Agreement (IMA) between the parties.	Full – agreed and governed via the Investment Management Agreement (IMA) between the parties.
Liquidity Terms	Defined by fund liquidity terms in prospectus/offering memorandum.	Some customisation may be possible through negotiation. Although unlikely that the terms would differ materially from the comingled fund.	Typically, no restriction except for underlying asset liquidity. Manager may wish to impose some restrictions which are typically heavily negotiated.	Sometimes, no restriction except for underlying asset liquidity. Manager may wish to impose some restrictions which align with liquidity terms of pari passu commingled vehicles. Variations to notice periods or redemption terms are typically heavily negotiated.

Attribute	Comingled Fund	Fund of One	Separately Managed Account (SMA)	SMA overseen by a Managed Account Platform (MAP)
Fee Negotiability	Low – Medium, variations can be negotiated via side letters for sizeable allocations or reputable investors.	Low – Medium, variations can be negotiated via side letters for sizeable allocations or reputable investors.	Subject to negotiation. Management and performance fees can be negotiated. Expense passthrough agreements offer the opportunity for much heavier customisation.	Subject to negotiation. Management and performance fees can be negotiated. Expense passthrough agreements offer the opportunity for much heavier customisation.
Minimum Investment Size	Subject to minimums.	Typically, $50m+	Typically, $50m+	Typically, $50m+[4]
Legal & Regulatory Protections	Depends on structure/jurisdiction	Depends on structure/jurisdiction	Adviser fiduciary duty; contract-based protections	Adviser fiduciary duty; contract-based protections
Counterparty Selection	Selected by manager	May be negotiated; usually manager-controlled	Typically selected or approved by investor	Investor-selected or via platform framework
Service Provider Selection	Set by manager (admin, auditor, custodian, etc.)	Negotiable for large clients	Investor may select or approve providers	Investor-selected or pre-approved by platform
Risk Management Responsibility	Manager and fund board	Manager (as GP/fiduciary), possibly board	Primarily investor's responsibility; manager reports risks and exposures	Investor/platform shares oversight responsibilities
Operational & Accounting Responsibility	Manager and fund administrator	Manager or third-party admin	Investor/custodian/third-party (manager provides data feeds)	Shared across investor, platform, and manager

[4] 2025 UBS Business Consulting Survey – Hedge Fund SMA Study reported that 43% of starting SMA ticket sizes are below $50 million, a further 39% of starting SMA ticket sizes are between $50-$100 million.

02 SMAs: ADVANTAGES & DISADVANTAGES

While SMAs offer a range of benefits that appeal to institutional investors, such as transparency, control, and customisation, they also come with structural and operational considerations. This section outlines the key advantages that make SMAs a preferred vehicle for some sophisticated allocators, as well as the potential drawbacks and complexities that investors should carefully evaluate before implementation.

Advantages	
Investor Ownership & Customisation[5]	• Investors own the structure and assets, enabling a tailored setup and choice of service providers. • Can be established in multiple jurisdictions and under various structures (Cayman, Delaware, UCITS/AIFs, etc.). • Investors can impose bespoke restrictions (exclude instruments/sectors/counterparties) while maintaining alignment with objectives. • Well-suited to sustainability/responsible investing (ESG criteria, ethical screens). • Bespoke leverage and risk limits/thresholds can be implemented as added protection. • Advanced customisation can include a bespoke internal multi-strategy “sleeve” structure under a single fund umbrella, allowing multiple managers/strategies within one account.[6]
Transparency	• Significantly greater transparency than traditional fund structures (visibility into holdings, exposures, transactions). • Improves risk oversight, compliance monitoring, and integration into broader portfolio reporting/governance frameworks.[7] • Helps explain performance contribution and return drivers. • Can increase dialogue between investors and managers.[8]

[5] J.P. Morgan Capital Advisory Group Institutional Investor Survey 2019 – Customisation was the fourth most important reason to invest in hedge funds throughs SMAs (54% of respondents).
[6] Hedgeweek Insights Report 2025 - The strategies showing strongest demand for SMA implementations include multi-strategy (73%), macro (71%), credit (67%) and relative value (67%).
[7] J.P. Morgan Capital Advisory Group Institutional Investor Survey 2019 – Increased transparency was the most important reason to invest in hedge funds throughs SMAs (75% of respondents).
[8] J.P. Morgan Capital Advisory Group Institutional Investor Survey 2019 – Uses of the increased transparency from hedge fund SMAs.

Advantages	
Governance	• In a DMA model, investors may appoint independent directors to the structure's board (not universally available). • Bespoke IMA negotiations can provide notification rights uncommon in commingled funds (except via side letters). • Timely notification of material events can improve decision-making and risk responsiveness (for investors and/or board members).
Operational Alpha Capture	• Potential to capture operational alpha via cross margining, notional funding, and cash optimisation.[9] • Cross-margining can consolidate margin requirements across managers/strategies within the same legal structure (e.g., master account with sleeves). • Can reduce collateral demands as gains in one position offset losses in another. • Cash/collateral optimisation can reduce excess cash buffers and improve liquidity efficiency.[10] • Notional funding can provide full market exposure with only partial upfront capital, freeing liquidity for other uses. • For taxable investors: potential tax efficiency via loss harvesting and gain deferral.
Operational Improvement	• Particularly through a DMA, can act as a structural risk mitigant and incubation vehicle for emerging/aspiring managers.[11] • Enables allocation with enhanced oversight to managers who lack infrastructure/controls/funding to launch a standalone fund.

[9] Goldman Sachs - Separately Managed Accounts - The evolution of the landscape and recent developments for allocators and managers June 2023 - The most popular forms of customisation are to do with portfolio construction: most often the use of additional leverage or notional funding to achieve greater capital efficiency on the allocators' part, with changes to the concentration or net exposure of the reference fund also being common.

[10] J.P. Morgan Prime Finance Calculations as of September 2019 - In a hypothetical $2 billion diversified hedge fund portfolio, the multi-manager SMA structure has the potential to lower financing costs by 22% and free up an additional 24% of capital, which could result in a more favourable IRR when compared to the ring-fenced SMA structure.

[11] With Intelligence – Hedge Fund Outlook 2025 - We see an uptick in the use of SMAs driving a new round of emerging managers, offering investors greater flexibility on fees and liquidity terms, while giving PMs a cheaper and quicker way to get up and running.

Advantages	
	• Supports transition from incubation to institutionalisation: controlled environment to build track record, refine operations, and demonstrate scalability.
Manager Alignment	• IMA enables deeper engagement and alignment; negotiations can create terms materially different from commingled funds. • Investors can negotiate bespoke fees/expenses to better align incentives.[12] • Ability to hire/terminate managers without liquidating underlying assets. • Short termination notice periods increase agility/control versus commingled funds. Note: bespoke fee/expense terms can sometimes also be achieved in fund-of-ones/commingled funds for larger allocations/strategic partnerships.
Liquidity & Contamination Risk[13]	• Avoids fund-level liquidity terms (lockups/gates/redemption suspensions) that apply in commingled funds. • Reduces exposure to other investors' redemption activity during market stress. • Provides asset-level liquidity: reallocate/access capital based on liquidity of underlying holdings. • Assets held in the investor's name (not pooled) reduce contamination risk from other investors/strategies' losses or operational failures.[14] • However: where multiple managers run "sleeves" within one investment fund structure, contamination risk may exist.

[12] With Intelligence – Hedge Fund Outlook 2025 - While there will continue to be dispersion of fee structures and arrangements, investor demands for lower management fees from established managers has also started to play out in the increase in SMA allocations, where there has been a willingness to pay higher incentive fees for performance, but less for overheads.
[13] J.P. Morgan Capital Advisory Group Institutional Investor Survey 2019 – Improved liquidity was the third most important reason to invest in hedge funds throughs SMAs (62% of respondents).
[14] J.P. Morgan Capital Advisory Group Institutional Investor Survey 2019 – Page 10 - Structural decisions for SMAs: Ring-fenced or multi-manager

Disadvantages	
Operational Complexity & Oversight Burden	• Requires active governance/monitoring by the investor or appointed intermediaries. • Investor may need to coordinate legal, operational, compliance, and reporting functions typically handled by a GP/administrator in commingled funds. • Burdensome for smaller institutions without dedicated infrastructure. • Using a fiduciary intermediary/platform introduces obligations to diligencing and monitoring the platform itself. • Extra transparency can create unwanted responsibilities if the investor must intervene to correct adverse actions or address contractual breaches. • Without an intermediary between parties, monitoring/management burden falls more heavily on the investor.
Viability & Scalability Concerns	• While fund-level expenses may fall, investors may bear new direct costs (custody, legal, reporting, compliance monitoring).[15] • Potential loss of scalability if unable to use centralised/common service providers across all SMAs. • MAPsDMAs can consolidate providers, but not always possible (strategy-specific needs; managers may prefer existing relationships). • In a DMA model, platform provider typically charges variable fees based on complexity and AUM level. • For smaller accounts, added costs may outweigh savings from removing fund-level fees. • SMAs are generally more cost-efficient above a certain AUM threshold.
Accessibility	• Some strategies/managers may be difficult to access via SMAs (capacity constraints or need pooled execution, e.g., HFT, activist investing).

[15] Structural Due Diligence, Operational Risks, and the Evaluation of Managed Account Platforms - Ranjan Bhaduri – Bodhi Research Group - 2022

Disadvantages	
	• Strategies trading highly liquid public instruments typically suit SMA benefits best.[16] • Cross margining/notional funding less relevant for niche strategies (e.g., litigation funding). • Some managers unwilling/unable to offer flagship strategies as SMAs (operational complexity or IP concerns).[17] • High minimums (often $50m+), limiting access for smaller allocators. • Some managers may not want to cede control and prefer commingled mandates.[18]
Liquidity Constraints	• SMA flexibility doesn't make illiquid assets liquid. • Private/thinly traded holdings can still create exit delays or fire-sale risk. • If a manager runs commingled funds pari passu with an SMA in thinly traded instruments, SMA liquidation could adversely affect commingled fund investors.
Risk Aggregation Challenges	• DMA can consolidate risk data for total portfolio oversight; standalone SMAs create data aggregation burdens. • Significant work needed to gather/process/enrich data from multiple parties before it's usable for risk reporting. • Building infrastructure can be prohibitively expensive.

[16] Goldman Sachs - Separately Managed Accounts - The evolution of the landscape and recent developments for allocators and managers June 2023 - Overall, the proportion of managers that currently run at least one SMA has risen from 40% in 2020 to 46% today. From a strategy perspective, the greatest increases have been within macro (88% of managers, with a skew towards systematic macro and CTA), multi-strategy (albeit still the lowest proportion overall at 24%) and equity L/S (43% of managers, with a skew towards low net / market neutral strategies).

[17] Goldman Sachs - Separately Managed Accounts - The evolution of the landscape and recent developments for allocators and managers June 2023 - The rationale for refusing SMAs seems to have become predominantly commercial in nature, with operational concerns and other philosophical hesitations (such as those related to transparency and alignment) receding somewhat, suggesting that in many cases it is primarily a business decision not to take on SMAs at this point.

[18] Hedgeweek Insights Report 2025 – AUM drives SMA adoption - larger funds are significantly more likely to offer SMAs, with all of the funds over £10bn AUM offering them compared to just 40% of funds under £25m. The correlation between size and SMA offering is clear, with three-quarters of funds in the £1-5bn range and 90% of those in the £500m-£1bn range providing SMAs. This highlights the operational capacity and resource requirements needed to effectively manage separate accounts alongside flagship funds.

Disadvantages	
	• Mature programs often include multiple fund structures, making consolidation of exposures challenging.
Operational Infrastructure Requirements	• Trade execution/allocation conflicts can arise when managers run commingled funds and SMAs concurrently. • Without strong allocation policies, SMA investors may receive worse execution/partial fills if flagship funds are prioritised. • Requires thorough operational due diligence (allocation procedures, OMS, conflicts policies) and ensuring these are captured in the IMA. • Ongoing monitoring and post-trade reviews are important to ensure fair treatment/execution quality. • Risks often higher with smaller/emerging managers lacking systems; manual processes may increase operational risk. • For investors, building an internally dedicated MAP is highly time-intensive and expensive, requiring significant organisational support.
Performance Comparison Challenges	• SMA performance may diverge from benchmark or manager's commingled fund (tracking error) due to structural factors. • Bespoke restrictions can deviate from the manager's standard strategy. • Notional funding, broker relationships, cash management, hedging, and tax arrangements can affect returns. • Trade timing and allocation procedures may also create differences. • As customisation increases, tracking error can become harder to interpret. • Investors should understand divergence sources – especially how their preferences drive outcomes – when benchmarking vs a flagship fund.

03 KEY INVESTOR CONSIDERATIONS

Adopting an SMA or DMA model is a decision that goes beyond preferences for investment vehicle structuring. It is a strategic approach to investing that requires a high degree of institutional readiness and investment. Investors must assess not only the benefits of control and customisation, but also their ability to govern, operate, and maintain these structures over time. A clear understanding of internal capabilities, trade-offs, and long-term portfolio goals is essential to making the SMA/DMA model work effectively. Here are some key considerations for investors:

Goal/Objective	***Key Criteria & Considerations***
What are you trying to achieve with an SMA/DMA?	• Define primary objectives: transparency/control, custom mandate implementation (e.g., ESG, risk, liquidity constraints), and/or operational alpha (e.g., cross-margining, cash optimisation). • Prioritise objectives (some goals may trade off against each other, e.g., customisation vs ease of benchmarking).
Are you seeking to incubate emerging managers, or access established managers?	• Clarify whether the goal is incubation/institutionalisation support vs access to established/flagship strategies. • Recognise established managers may be less willing to offer SMAs.
Is the target strategy implementable in an SMA?	• Assess compatibility of the strategy with SMA execution/operations. • Illiquid strategies (e.g., PE, VC) may be less compatible or require hybrid structures.
Should you use a DMA via a MAP to outsource operations, or run a standalone SMA with internal support?	• Compare operating model options: outsourced platform (DMA/MAP) vs internal standalone support. • Consider governance, operational burden, scalability, and dependency on third parties.
Does your organisation have the internal resources and skills to handle direct oversight of an SMA?	• Evaluate internal capability across legal, ops, compliance, risk, reporting, and ongoing monitoring. • Identify gaps requiring hiring, external advisors, or a platform solution.

Goal/Objective	*Key Criteria & Considerations*
Do your governing bodies support the added complexity and customisation?	• Confirm governance appetite for bespoke structures, added oversight, and decision-making requirements. • Ensure approvals, reporting, and escalation paths are workable.
Is the ticket size large enough to justify the fixed costs of an SMA?	• Estimate fixed and variable costs (set-up, custody, admin, legal, reporting, platform fees if applicable). • Determine break-even AUM threshold vs commingled alternatives.
Are you prepared to model and track full, bottom-up expenses across service providers?	• Ability to measure and monitor true total cost across prime brokers, administrators, custodians, legal, platform, etc. • Establish cost governance and ongoing reconciliation.
What protections do you wish to seek from managers, and what key negotiation points should be reflected in an IMA?	• Define required protections/rights (e.g., restrictions, leverage/risk limits, reporting, notifications, transparency, termination rights). • Translate priorities into clear IMA terms, monitoring obligations, and remedies for breach.
Under which jurisdiction should you structure your SMA?	• Consider regulatory requirements, tax implications, investor eligibility constraints, and operational convenience. • Align jurisdiction choice with service provider availability and manager preferences.
Which service providers and trading counterparties do you prefer to work with?	• Confirm preferred providers/counterparties and the operational implications of enforcing them. • If no preference: assess whether you can manage added complexity from multiple provider stacks. • Check whether the manager will work with your preferred providers or requires different ones to implement the strategy.
Will your preferred managers offer SMAs?	• Identify manager willingness, minimums, and operational constraints. • Decide if you are willing to invest via commingled funds where SMA objectives can't be achieved.

Goal/Objective	***Key Criteria & Considerations***
	• Confirm the SMA can support desired customisation (leverage, shorting, hedging, market exposures) aligned to your risk appetite.
Does your manager have the operational infrastructure needed to manage an SMA?	• Evaluate systems/processes for SMA implementation (trade execution, reporting, controls). • Confirm the manager can demonstrate fair trade allocation between SMA and commingled fund clients (policies, evidence, monitoring).

04 REGULATORY & COMPLIANCE CONSIDERATIONS

There is no dedicated or specific, prescriptive regulatory framework that governs the operation of SMAs in isolation. Managers who advise SMA mandates are subject to many of the same rules and obligations they would be for managing comingled funds. Under the Investment Advisers Act of 1940, advisers owe their clients a fiduciary duty, which includes both a duty of care and a duty of loyalty. This means they must act in the best interests of each client, avoid conflicts of interest where possible and mitigate conflicts that cannot be avoided, and fully and fairly[19] disclose all material conflicts.

Some Key Best Practices for Management of Conflicts of Interest Include:

- Conduct a conflicts inventory specific to your business that considers all the key conflicts that could arise between comingled funds and SMAs and between SMA clients of the adviser.
- Disclose conflicts in plain language such as in the Form ADV Part 2A (Brochure).
- Implement policies and procedures to identify, mitigate, and monitor conflicts.
- Train staff to understand and escalate conflict risks.
- Review best execution, allocation, and fee practices regularly.

[19] 'Full & Fair' - In recent guidance (e.g., 2019 Fiduciary Interpretation and Form CRS requirements), the SEC emphasised: Disclosures must be specific enough that a client can understand the conflict and make an informed decision. Vague disclosures like "may" or "might" are often inadequate. Advisers cannot simply disclose a conflict; they must also mitigate or eliminate it if it creates significant risk to the client.

SUMMARY: CONFLICT CONSIDERATIONS FOR SMA MANAGEMENT

Conflict Area	Conflict Description	SEC Focus / Requirement	Best Practice / SMA Impact
Trade Allocation & Aggregation	Favouring certain clients (e.g., higher-fee accounts, limited investment opportunities such as IPOs) in trade execution.	Written policies for fair trade allocation.	Allocate investment opportunities using a pro rata or rotational method. Have policies and procedures that document a method that is consistent and objective.
Principal Transactions & Cross Trades	Transactions between client accounts or the adviser/an affiliate transacting with a client.	Blanket consent is acceptable for cross trades; Client consent required for principal transactions.	Must ensure transparency when facilitating trades between SMAs or between adviser and SMA client.
Fee Structures	Varied fees can incentivise favouritism toward higher-fee clients.	Fee-based conflicts must be disclosed clearly and specifically.	Disclose how fees are structured and how they impact adviser decisions.
Soft Dollars / Research Payments	Using client commissions to pay for research that benefits the adviser or other clients of the adviser.	Using benefits generated by one client account to benefit another client and/or the adviser.	Disclose how soft dollars are used and who benefits.
Allocation of Investment Opportunities	Prioritising limited investment opportunities (e.g., IPOs) to favoured clients.	Fair and documented allocation practices required.	Avoid favouring one client over another, e.g., hedge fund vs. SMA client.

CUSTODY CONSIDERATIONS

The Custody Rule (SEC Rule 206(4)-2 under the U.S. Investment Advisers Act of 1940, as amended) holds particular significance for SEC Registered Investment Advisers (but not Exempt Reporting Advisers (ERAs)) managing SMAs in a delegated or discretionary fashion, where clients entrust advisers with authority over account activities.

When an adviser manages an SMA and the adviser has authority over client funds or securities the adviser may have "custody" as defined by the SEC, even if the adviser never physically holds client funds or securities. This may lead to specific disclosure obligations and surprise examinations by independent auditors. Even though client assets in SMAs are typically held at qualified third-party custodians, advisers with custody must:

- Ensure a qualified custodian maintains client funds and securities.
- Notify the client of any accounts the adviser opens with a qualified custodian on the client's behalf.
- Have a reasonable belief that the qualified custodian sends account statements directly to the client (at least quarterly).
- Ensure the client account undergoes an independent verification (i.e., surprise exam) at least once each calendar year.

The adviser is responsible for ensuring transparency and client awareness, even if assets are held elsewhere.

MARKETING CONSIDERATIONS

The SEC Marketing Rule (Rule 206(4)-1 under the Investment Advisers Act of 1940, as amended in 2020) has a significant impact on investment advisers who manage SMAs, especially those actively marketing for new SMA mandates, using performance advertising, or using promoters or endorsers to help bring in new mandates. SMAs often involve tailored portfolios, and advisers may wish to market their investment prowess. Under the Marketing Rule they need to be mindful of the following requirements:

- Gross Performance - Must be accompanied by net performance.
- Hypothetical Performance - Subject to strict conditions, including disclosures and audience controls.
- Extracted Performance - Must disclose what it was extracted from and the relevance to the audience.
- SMA Performance – Must be shown over specific time periods (i.e., 1-, 5-, and 10-years or since inception).

05 CONCLUSION

DMAs have become increasingly important tools for institutional investors seeking greater control, transparency, and alignment in alternative investments. These structures offer direct asset ownership, bespoke mandate design, and operational flexibility, addressing many of the limitations of commingled funds.

However, the benefits come with increased complexity. Successful implementation requires robust governance, operational readiness, and a clear understanding of the objectives to be achieved by structuring investments in such a way. Not all strategies or managers may benefit fully from SMAs, and investors must assess their internal capabilities and strategic goals before adopting this model.

As the use of SMAs continues to grow, they are becoming a mainstream solution for sophisticated investors. Their success hinges not only on structural advantages but also on the preparedness of both investors and managers to manage them effectively.

APPENDIX

Bodhi Research Group provide the following useful advice to institutional investors who wish to evaluate the quality-of-service provision of a DMA platform provider[20]:

Governance

- Is the SMA platform acting as a fiduciary?
- Is the SMA platform independent and conflict-free in selecting service providers (administrator, custodian, prime brokers, auditor)?
- Is there a strong board for the existing fund structure(s) of the SMA platform?
- Ideally, the SMA platform should have no competing business lines with its investors. What is the strength and reputation of the leadership (i.e., management committee)?
- What is the firm's culture?

Business Viability and Management Strategy

- What is the history of the organisation, and how much experience does it have?
- What is the state of accounting (cash flow analysis; strength and health of balance sheet; etc.)?
- How much diversity of revenue does the firm have?

Risk Management / Risk Measurement / Risk Monitoring / Risk Reporting

- What are the risk processes for the preboarding and onboarding of managers, and the ongoing risk processes?
- What is the strength and depth of the risk team?
- How strong are the risk analytics and quantitative risk techniques?
- Does the risk team have an understanding beyond numbers and statistics?
- How much interaction does the risk team have with operations and compliance?
- What is the ongoing monitoring from the risk lens?
- Is there a 24-hour risk desk? (And if not, why not?)

Operations

- What is the quality of the onboarding of managers?
- Does the onboarding process retain rigor and speed?
- Does the SMA platform follow EDIME ("every day is month-end")?
- Do the daily operations of the SMA platform include a reconciliation among the prime broker, administrator, and trading manager?

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[20] Structural Due Diligence, Operational Risks, and the Evaluation of Managed Account Platforms - Ranjan Bhaduri – Bodhi Research Group - 2022

What kind of operational oversight of managers is there from the operations lens?

- How rigorous is monitoring the cash cushion and margin consumption (alongside the risk team)?
- Are there strong internal controls for cash controls?

Legal and Compliance

- How much legal expertise is there in-house?
- What kind of network of global legal relationships does the firm have?
- Does the firm have a culture of compliance, including its existing policies and ongoing education?
- How skilled is the crafting of legal agreements?
- How good is the ongoing monitoring of the trading managers from the legal/compliance lens?

Technology

- Ideally, technology should support the firm's different functional units (risk management, operations, legal and compliance (example: compliance calendar), client services/client reporting). In addition, the technology should be able to run the business (secure storage, encrypted email, and databases).

Client Reporting / Client Services

- Is there a secure web portal for reporting to clients?
- Does the firm provide quality reports, conference calls, and regular meetings to its clients?
- Is there excellent client service and responsiveness?
- Is there a willingness to customise for each client and be a good partner?

Research

- How rigorous is the due diligence on managers?
- What is the ongoing monitoring from a research lens?
- How good are the origination and the sourcing of manager ideas?
- How advanced and innovative is the fee analysis?