

Separately Managed Accounts

Why a separately managed account may be right for you and your cash investment needs.

What is a Separately Managed Account?

A Separately Managed Account (SMA) is a portfolio of assets that offers customization in investment strategy, approach, and management style. The customization of SMAs allows investors to build a portfolio of securities that is specific to their liquidity needs and risk tolerances. SMAs are also structured to provide diversification, transparency, and safety of principle among other attributes. It can be an important tool for corporate cash investors and an alternative to using only bank deposits, sweeps and money market funds.

How Do SMAs Operate?

Unlike mutual funds and other comingled investment vehicles, an investor owns the underlying shares in their SMA directly. Investments, often held in a custodial account in the investor's name, are actively managed by professional managers—typically, a registered investment advisor, such as Capital Advisors Group, acting in a fiduciary capacity in the best interest of the client. Investment decisions are guided by an investment policy statement agreed to by the client. Managers typically have discretionary authority over investment decisions but are bound by requirements and limitations set forth in the client's investment policy. Some advisors like Capital Advisors Group charge a fee based on a percentage of the client's assets under management while other managers charge performance-based fees.

How are Separately Managed Accounts Risk Adverse?

Every investor faces unique circumstances and has unique portfolio needs. SMAs are structured to provide a more tailored risk management approach. Investors are able to set specific guidelines that govern the key risk control metrics of their portfolios, such as maturity limits, eligible investments, concentration limits, minimum credit ratings, and liquidity requirements. This level of control also allows investors to adopt new investment policies when their preferences or goals shift. In addition, acting as a fiduciary, investment advisors are required to disclose any conflicts of interest and the fees clients are charged. In addition to periodic statements and other reports, clients typically have direct access to their portfolio manager who may provide an additional level of day-to-day transparency.

What are Some Other Advantages of Separately Managed Accounts?

Income Protection: Most active managers, like Capital Advisors Group, forecast and position portfolios for various interest rate environments with the purpose of protecting client portfolios. For example, in a rising rate environment managers will often position portfolios to mitigate unrealized losses while in a declining rate environment they may look to lock in yield, with the goal of protecting a portfolio's income potential.

Return Potential: Under certain conditions, SMAs may provide higher return potential than a typical money market fund. Generally speaking, money market funds are limited in their ability to buy securities longer out on the yield curve. The Securities and Exchange Commission mandates certain liquidity ratios and the weighted average maturity of the fund's portfolio, which may limit their ability to capture higher yield offered by longer duration maturities. For investors that do not require overnight liquidity, especially in a rising rate environment where the yield curve reflects the likelihood of future rate hikes, SMAs may provide higher potential yield opportunities for corporate cash investors.

“Hot Money”: One of the difficult realities a commingled fund manager faces is the movement of “hot money” from fund to fund by certain investors attempting to take advantage of favorable yield. Other than funds that may be invested in a money market fund as a sweep vehicle and for daily liquidity purposes, investments held in SMAs are not commingled, and therefore, are able to mitigate exposure to risks associated with the cash inflows and outflows of other investors. SMA investors can work with managers in response to upcoming cash flow changes weeks or months ahead of time by structuring the maturities of the portfolio’s investments. Such collaboration can be a valuable tool in helping to accomplish the client’s investment goals, including maximizing risk adjusted returns for their portfolio.

Versatile Reporting: In addition to risk and return considerations, the manager of the SMA may often be able to provide clients with customized reporting that is not available from managers of commingled vehicles. For investors concerned with performance measurement, corporate governance, audit oversight and operational efficiency, reports can often be customized to meet the investor’s preferences.

Learn More about Setting Up an SMA

As an independent SEC-registered investment advisor, Capital Advisors Group has over 32 years of experience managing SMAs with the primary objectives of capital preservation and liquidity management. We manage SMAs not only for large corporations with cash in excess of what is needed for day-to-day operations, but also for early-stage venture-backed companies who need liquidity to fuel their product-development burn rates. To learn more about SMAs, their uses, and their advantages, please contact us at info@capitaladvisors.com

About Us

Capital Advisors Group, Inc. is an independent SEC-registered investment advisor specializing in institutional cash investments, risk management, and debt finance consulting. Our clients range from venture capital-funded startups and emerging growth companies to Fortune 100 companies.

Drawing upon more than a quarter of a century of experience through varied interest rate cycles, the firm has built its reputation upon deep, research-driven investment strategies and solutions for its clientele.

Capital Advisors Group manages customized separately managed accounts (SMAs) that seek to protect principal and maximize risk-adjusted returns within the context of each client's investment guidelines and specific liquidity needs. Capital Advisors Group also provides FundIQ® money market fund research; CounterpartyIQ® aggregation and credit analysis of counterparty exposures; risk assessment on short-term fixed income securities and portfolios; and independent debt finance consulting services.

Headquartered in metropolitan Boston, Capital Advisors Group maintains multiple U.S. regional offices.

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