Separately Managed Accounts: Enhancing Transparency, Control, and Flexibility in Cash Management

How CFOs and Treasury Teams Strengthen Liquidity, Risk, and Yield Outcomes

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For many corporate treasury professionals, the default cash management toolkit often consists of bank deposits and money market funds. While both have earned their place on the balance sheet, their limitations became painfully clear during the 2007-2008 financial crises:

- Certain state-owned investment pools froze redemptions
- The Reserve Primary Fund "broke the buck", restricting access to cash for some investors
- Some institutional investors found themselves locked out of assets that had generally been viewed as liquid and safe.

This raises a long-standing debate: should corporate cash reside in commingled pools, or are separately managed accounts (SMAs) a better alternative?

For organizations with the right profile, the answer may well be both—combining SMAs with traditional deposits and funds to optimize liquidity, risk, and returns.

What Is a Separately Managed Account (SMA)?

A separately managed account (SMA) is a portfolio of individually owned securities. Unlike mutual funds, SMAs provide direct ownership of bonds, commercial paper, shares of institutional prime or government money market funds, or other instruments.

Key features may include:

- **Custodial Account:** Assets are registered in the investor's name
- **Professional Management:** Typically managed by a registered investment advisor (RIA) acting as a fiduciary
- **Customized Investment Policy Statement (IPS):** Defines goals, risk parameters, and allowable holdings

- **Fee Structures:** May be asset-based or performance-based

SMAs can eliminate intermediary layers, helping to provide investors transparency control, and accountability over their cash investments.

Where Separately Managed Accounts (SMAs) Fit in Cash Management

Corporate cash generally flows into one of three primary vehicles:

1. **Bank Deposits**
    - Ready access to cash and FDIC insurance (up to $250,000 per taxpayer ID per bank)
    - Excess balances are uninsured, leaving exposure
    - Deposit yields may lag market rates, with low pass-through rate increases
    - Concentration with a few banks may increase risk
2. **Pooled Investment Vehicles (Money Market Funds)**
    - Provide professional management and diversification
    - Government money market funds seek to maintain a stable $1.00 NAV with daily liquidity; institutional prime funds may feature floating NAVs or redemption restrictions
    - Pooled investment vehicles may introduce downside market and liquidity risks during periods of market stress
    - Potential variable NAVs and redemption restrictions may limit flexibility and investor control
3. **Direct Investments (Including SMAs)**
    - High level of customization, transparency, and control
    - Investors set maturity ranges, credit criteria, and risk limits through a customized IPS
    - Access to a broader range of investments may enhance yield potential while supporting liquidity objectives

Six Key Advantages of Separately Managed Accounts (SMAs)

For treasury teams seeking greater control and flexibility, separately managed accounts (SMAs) may offer several distinct advantages over traditional pooled vehicles:

1. **Tailored Risk Management:**
   SMAs are built around your unique liquidity needs, risk tolerance, and investment policy. Parameters such as maturity limits, credit quality, and issuer exposure may be customized—and adjusted as your needs evolve.
2. **Transparency**
   Maintain visibility into:
    - Individual holdings
    - Pricing
    - Maturities

   This level of access helps to support audit, governance, and board reporting, with direct communication from portfolio managers.

3. **Higher Return Potential**
   Unlike money market funds constrained by SEC Rule 2a-7 (which mandates daily and weekly liquidity ratios and imposes weighted average maturity limits), SMAs may:
   - Extend duration further along the yield curve
   - Access a broader range of investments

   For investors without immediate liquidity needs, this flexibility may help capture enhanced yield and market opportunities in certain interest rate environments which might be unavailable in certain pooled vehicles. Because direct purchases are not bound by fund-level restrictions, SMAs may also exploit market inefficiencies that pooled funds may not be able to access.
4. **Insulation from Investor Flows**
   Individual securities held in SMAs are not generally impacted by other investors. Decreasing exposure to sudden inflows and outflows by investors chasing yield differentials, called "hot money" flows, may reduce the risk of forced selling. Because each SMA is held exclusively for a single investor, the individual securities held in the account are typically insulated from the cash decisions of others, helping investors to plan ahead—structuring maturities to maximize yield while meeting future liquidity needs. This helps support more stable, predictable portfolio management and proactive liquidity planning.
5. **Income and Capital Gains Management**
   Portfolios may be actively adjusted based on the interest rate environment—shortening duration to manage risk or extending when seeking to lock in yield—with the objective of supporting stronger income and capital preservation. This flexibility is a key differentiator from pooled money market funds managed by third parties.
6. **Customized Reporting**
   Reporting may be tailored to your needs more so than traditional fund reporting and may include:
   - Performance analysis
   - Policy compliance
   - Audit-ready documentation

→ For a detailed comparison of SMAs vs. pooled vehicles—including differences in transparency, liquidity management, and yield potential—read: Six Advantages of Separately Managed Accounts Over Ultra-Short Bond Funds.

Is a Separately Managed Account (SMA) Right for Your Organization?

An SMA is not a replacement for other cash vehicles—it's a complement. Most organizations benefit from a layered cash management strategy that combines bank deposits, money market funds, and SMAs to balance liquidity, risk, and return.

- **Money Market Funds**: May be more suitable for daily liquidity and operational cash
- **SMAs**: May be more suitable for strategic reserves and may offer greater control, transparency, and potential yield opportunities over a longer period

When Should You Consider an SMA?

An SMA may be a strong fit if your organization:

- Holds substantial cash beyond day-to-day operational needs
- Requires a custom investment policy with defined risk parameters
- Wants direct communication with a portfolio manager
- Seeks to reduce exposure to commingled fund risks
- Needs customized reporting for audit, governance, or compliance
- Seeks to pursue higher yield opportunities while maintaining a disciplined, fiduciary approach

Who Uses SMAs?

SMAs are used by a wide range of organizations, including:

- Large corporations managing balance sheet cash
- Institutional investors seeking greater control and transparency
- Venture-backed companies focused on managing runway and seeking to preserve capital

Separately Managed Account (SMA) Operations: Execution, Oversight, and Infrastructure

Managing an SMA requires more than sound investing—it demands operational precision. Best-in-class treasury teams seek to align front-, middle-, and back-office functions to help support strong controls, transparency, and efficient execution across the trade lifecycle.

While large corporate treasury teams may handle operations internally, many rely on an advisor to manage critical tasks, including:

- **Trade Lifecycle Management:** Execution, capture, confirmation, and settlement of trades
- **Custody and Cash Oversight:** Client assets are maintained with a qualified third-party custodian
- **Accounting and Data Integrity:** Centralized, integrated systems designed to support accurate and timely reporting
- **Reconciliation and Controls:** Daily cash, position, and transaction reconciliation with governance and segregation of duties
- **Risk, Compliance, and Reporting:** Monitoring credit, liquidity, and market risks with investment policy oversight and transparent reporting

Why it Matters

Effective SMA management is supported by:

- Resilient, automated infrastructure
- Accurate data
- Strong controls

- Real-time insights

Helping to enhance liquidity management and investment decisions.

Considerations and Tradeoffs of Separately Managed Accounts (SMAs)

No investment solution is without tradeoffs, and SMAs are no exception.

Key considerations include:

- **Setup Requirements**: Drafting an Investment Policy Statement (IPS), selecting a qualified manager, and establishing custodial arrangements
- **Cash Flow Forecasting**: Portfolios should align with anticipated liquidity events to avoid unnecessary gains or losses
- **Accounting Complexity**: Early security sales may trigger gain/loss recognition
- **Minimum Account Size**: Smaller portfolios may not capture full diversification or scale benefits

Practical Approach

For many organizations, a layered strategy may be more effective—combining bank deposits, money market funds, and SMAs. This approach may leverage the daily liquidity and simplicity of deposits and pooled funds while utilizing SMAs for strategic cash with longer investment periods.

The Bottom Line: The Strategic Role of Separately Managed Accounts (SMAs) in Corporate Cash Management

Corporate cash management has evolved beyond a simple binary choice between bank deposits and money market funds. For organizations seeking customization, transparency, and higher-yield potential, SMAs may offer a compelling complement—not necessarily a replacement—to traditional cash vehicles.

Why SMAs Are Valuable

- **Control and Visibility**: Investors are in the driver's seat — they own and control the underlying securities, often with portfolio management assistance from an advisor.
- **Reduced Pooled Risk**: Helps to reduce exposure to decisions by other shareholders
- **Fiduciary Guidance**: Experienced advisors align SMA strategies with your liquidity needs, risk tolerance, and investment objectives

Key Insight for CFOs and Treasurers

SMAs may offer enhanced transparency, control, and yield opportunity—while seeking to reduce reliance on pooled vehicles and strengthening overall cash portfolio resilience.

Next Step for Finance Teams

Start with a conversation with an independent investment advisor, like Capital Advisors Group, to evaluate whether an SMA aligns with your organization's cash strategy, liquidity needs, and risk objectives.

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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.

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