Hedge fund managed accounts 2011

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Insistence on position-level transparency has been de rigueur since day one says Lisa Fridman, Head of European Research at PAAMCO, a major institutional FoHF firm established in 2000. She says that whilst they weren’t using managed accounts in the early years emphasis on transparency was paramount in the team. By logical extension, the firm then decided to create its own MAP in 2005, way before the global meltdown in ’08 prompted investors to seriously consider managed accounts.

“We have a preference for structuring our investments in a managed account or a fund-of-one format. On a separate funds platform PAAMCO is the investment adviser and the hedge fund managers are the sub-advisers. With a fund-of-one structure, the manager is the adviser but the fund is only open to PAAMCO investors,” explains Fridman, adding that she’s hearing of more FoFs structuring their investments in a managed account format.

One of those is EIM, a behemoth FoHFs founded in 1992 by Arpad Busson. The firm runs approximately USD7 billion in assets and like PAAMCO caters to a large institutional audience - 98 per cent are institutions. In June 2010 it launched its own MAP – LumX Dedicated Fund Platform. Deutsche Bank
we were closely involved in the set-up and SS & C were chosen as the administrator with BNY Mellon acting as cash custodian. Deutsche performs the risk management function once SS & C has reconciled all portfolios so the whole operation is very robust and an example of what big investors can achieve when they create their own customised solution.

“We looked at how we could create our own system for controlling what was in portfolios and quickly saw that the managed account route was the most sensible for doing that. For us it was important to get transparency and control on the offshore funds but the managed account platform was the best way for us to be entirely comfortable,” explains the firm’s CIO, Eric Bissonnier.

EIM also uses a risk platform for its offshore funds called RiskMetrics. This gives additional control that perhaps investors in other commingled funds don’t enjoy, but the big difference, and one of the main reasons investors choose managed accounts, is that managers have their money tied up in commingled funds. No matter how rigid the operation, investors are exposed to the manager’s whims. If he decides to do something that’s unacceptable there’s little an investor can do - on a managed account, though, you can simply fire the manager.

Bissonnier says the platform currently supports 15 managed accounts totalling around USD1billion. Investors that decide a managed account is the right solution to meet their fiduciary needs can then have their investment objectives met by EIM constructing a bespoke FoHF's portfolio. A wide range of strategies are available apart from global macro. “We will have one by early next year,” says Bissonnier. “We have CTA managers, equity I/s, credit I/s and a multi-event manager so we’ve got a pretty broad range of managers. It seems there’s more interest in global macro given they’ve made money this year.”

Some managers might be tempted to go down the managed account route because of the obvious benefits of attracting new assets and a diversified class of investor. But less liquid strategies such as private equity-type products don’t necessarily work - often a lot of the book is carved out to improve liquidity and bears little resemblance to the reference fund. That could then lead to tracking error issues.

Man GLG operates one of the largest MAPs in the industry. Home to 71 managed accounts and some 10 infrastructure managed accounts, current assets total around USD7.4billion and as Stephen McGoochan, a MAC Senior Analyst at Man Group, explains: “We select managers we have conviction in. We don’t want to buy a product that we then carve into pieces unless it’s to ensure the manager is focusing on what we believe is their core competency. We put some restrictions on managers in a way that ensures the risk is reduced to our investors and us but which allows them to do what they’re good at.”

Bissonnier agrees: “We want to access talent and allow managers to develop their strategies without constraining them in any adverse way. We’re not looking to make more liquid versions of flagship funds. What we’re looking for is more control and transparency.”

The issue of whether liquidity in managed accounts should be the same as the reference fund is interesting and one that divides opinion between managers.

London-based Dalton Strategic Partnership has taken on its first two managed accounts this year confirms CEO Magnus Spence, but there were a few conditions attached. Namely that there would be no distinction in investment objectives between the reference fund and managed account and ideally that the investors used the same prime brokers as Dalton to streamline the account’s objectives with that of the commingled fund. On liquidity, Spence says: “We wanted the liquidity preferential position in the SMA to be minimised as much as possible. It’s important that our fund investors don’t feel marginalised.”

“We believe that in addition to enhanced control of assets, managed accounts provide more flexibility and nimbleness on the investment side.”

Lisa Fridman, PAAMCO
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Informational benefits

By Tyler Kim

Institutional investors could be easily overwhelmed by the volume of data that originates out of their managed accounts programs. To avoid this, they require information systems that aggregate position data across multiple managers, consolidate information on a ubiquitous dashboard, and produce meaningful analytical reports. Data accessibility and robust reporting capabilities are key to extracting the informational benefits intended from managed accounts.

The type of reporting done for managed accounts is setting a new standard for portfolio information synthesis. Applying the “managed accounts approach” to reporting across all assets is an emerging trend we’re seeing among institutional investors, and something that we believe will continue as institutional investors begin to implement increasingly sophisticated investment strategies requiring a higher level of oversight.

Through our experience in administering managed accounts programs, we observe that institutional investors are consistently interested in a few select details distilled from the massive data set that is accumulated within our portfolio accounting system. As their administrator, we have been asked to provide our clients with tailored solutions that cut through the clutter, and provide investors with insight both across and within their managed accounts program that allows them to demonstrate strong monitoring and control.

Following are five examples of the types of information that investors want:

**Asset allocation:** Institutional investors want to see portfolio values and exposures (e.g. notional value of derivatives positions) by manager, strategy, and instrument-type.

**Performance:** Investors want to know how they did and want to view performance attribution across different dimensions. Manager performance correlation is also of interest as allocators attempt to achieve optimal diversification mixes.

**Risk (volatility):** Understanding risk-adjusted rates of return has become increasingly important. Additionally, ‘what if’ and sensitivity analysis are needed to demonstrate what would happen if portfolio exposures were different, or portfolio shocks were experienced.

**Liquidity:** Liquidity management at both “tactical” (cash positions, cash projections) and “strategic” levels (exposures to illiquid assets, portfolio liquidity profile based on holdings) is required.

**Qualitative assessment:** Institutional investors seek a third-party analysis that provides a condensed summary of how the portfolio is doing along with key observations. For example, it would be important to highlight anomalies in the portfolio, such as a manager’s style-drift or spikes in volatility. This type of qualitative assessment is something that requires both robust information systems and professional expertise.

While these five needs are commonly and consistently observed, differences in each investor’s nomenclature, definitions and perspectives can complicate the delivery of this information. It is in accommodating these differences that “one size fits all” solutions – such as package-based systems and standard report packages from custodian banks – fall short. Knowledge of industry leading practices coupled with client-specific feedback are critical in the design and execution of truly effective reporting solutions. Consequently, a high-touch, consultative approach to bespoke solution development will result in the most usable and valuable results.

The needs addressed by information solutions developed for managed accounts are not specific to them; the same technology and expertise can provide institutional investors with deeper insight across all of their assets. Managed accounts have shown the industry “what good looks like.” Meeting the higher standards for portfolio transparency and insight set by managed accounts will enable institutional investors to serve their beneficiaries even better.

Tyler Kim, CIO, Maples Fund Services
Derek Doupe, Director of Marketing at The Cambridge Strategy, says there’s no requirement for investors to share the same liquidity terms as its Cayman fund: “Sometimes tailored portfolios want to be slightly different from the benchmark portfolio. We’re happy to accommodate clients as they have fiduciary duties. Also we have no lock-ups or gates on our pooled funds.”

Given that TCS is a leading currency manager, Doupe says that the benefit of investors using managed accounts is that they can fund positions on margin rather than being fully invested in a commingled vehicle. Consequently, unlike other hedge funds over 80 per cent of the firm’s assets are in managed accounts. Quite how investors go about this inevitably varies given the choices available. Doupe says that some clients choose public MAPs, others move managers across into their own bespoke platforms. “We also have some pension fund clients who come to us and decide they want to do a mandate with their custodial bank sitting in the middle,” adds Doupe.

Pricing is a key issue when considering the options.

Liongate Capital Management, another large hedge fund investor, currently runs around USD1billion in managed account mandates says the firm’s co-founder, Jeff Holland. Around one third of the firm’s assets are in single client funds. Some investors choose to use Liongate’s service providers in a structure that closely mimics the commingled vehicle whilst at the other extreme other clients appoint their own service providers and have full control of custody.

“Typically our single client funds use our own service providers. There’s a pricing advantage to doing this. Doing it themselves is a big cost burden. However, it is an optimal solution because it gives them complete control and flexibility if they want to move the mandate,” explains Holland.

Quality of data is vital in managed accounts. EIM chose SS & C as its administrator because “they’re extremely efficient in providing data to all parties including our own risk systems and Deutsche Bank’s own internal risk monitoring tool. We get a daily feed on all our positions in a format we can exploit. It sounds simple

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Eric Bissonnier, EIM

but there are few administrators that can do that,” says Bissonnier.

Hedge fund managers are becoming more accepting of managed accounts. This is perhaps easier for firms like Dalton Strategic Partners that already run a number of managed accounts for long-only funds. Spence thinks that because the supply of capital has decreased post ‘08, managers are much less picky. “Investors can call the shots now. Managers are less sceptical of managed accounts, we understand large investors want them and want to directly negotiate fees with prime brokers and, if necessary, close down a manager at the click of a finger.”

CTAs like Winton Capital have been running managed accounts from day one: in Winton’s case, 1997. Spokesperson Robin Eggar alludes to how the managed account space is growing by confirming: “In 2008 the Winton Diversified Program had a 50/50 split between the Winton Futures Fund and managed accounts. Now approximately two thirds of the WDP is held in managed accounts.”

Not all investors are choosing to use FoHF platforms, however. McGoohan says that Man Group’s biggest mandate this year was an infrastructure mandate – that is, helping set-up a platform for the investor. In this case it was BVK, Germany’s largest public pension fund. A second mandate for USS (Universities Superannuation Scheme) in the UK was also won this year.

Says McGoohan: “We helped BVK launch their first managed account in July. Three managers have launched and four more are due to launch before year-end. They’re effectively running a fund of external funds themselves but switching to managed accounts because they recognise the benefits. As well as the launch and structural effort, they rely on us for a risk monitoring overlay to support the significant data coming through, and for consolidated
reCAPTCHA reporting to them. These types of clients are very important to Man because they challenge us to constantly review and improve our model.”

Fridman says that one of the benefits of managed accounts that PAAMCO tries to exploit is the chance to work more dynamically with managers. “For example, if a manager sees an interesting trade that they cannot overweight in their commingled fund, given the investor guidelines, we are still able to discuss the attractiveness of the idea for the PAAMCO portfolio. We believe that in addition to enhanced control of assets, managed accounts provide more flexibility and nimbleness on the investment side.”

“We’re looking at it from an investment manager’s viewpoint not a product viewpoint. For us it’s an extremely powerful tool to access hedge funds both in terms of governance and flexibility that is far beyond what you can do on an offshore basis,” adds Bissonnier. He highlights the bespoke potential of SMAs by confirming that EIM is putting together an SRI (Socially Responsible Investing) offering, a topic of some significance in the pension fund world. “With a MAP there are many ways you can efficiently support an SRI offering with great managers and which complies with institutions’ needs.”

It should be said, however, that improving regulation and transparency in the hedge fund industry is strengthening the arm of commingled funds. It’s not correct to say that every new pension fund will automatically choose a managed account.

“There are other important initiatives in the industry like the Opera initiative to standardize transparency reports that investors receive, helping them to aggregate data and manage their portfolios. So I think there are other ways that institutional investors can get the transparency they require and still invest directly into commingled funds,” says Citco’s Oliver Scully.

“If your portfolio goes illiquid the fact that it’s in a managed account doesn’t necessarily help you,” adds Tim Pearce of Simmons & Simmons.

New platforms are emerging that offer a level of flexibility and control that could become an attractive alternative to SMAs. Just recently, Morgan Stanley launched FX Gateway to provide portfolio diversification in the FX space. Although not a MAP per se, it does support managed accounts if investors choose not to invest through the platform. “We have 5 managers that are live, another 3 that will be live in a month. They’re all very diversified. We’re probably only going to have 10 to 15 managers in total,” confirms James Rogers, executive director and head of the Gateway platform.

The Cambridge Strategy was one of the first managers to be onboarded. “If you want to invest in several managers, going via a platform has to be a more efficient way of doing that unless you’re investing billions of dollars. You can get into 10 managers under one agreement and change those managers if you need to. The way FX Gateway is set up you can still achieve segregation and asset control and choose whether to invest in a funded or unfunded way,” adds Rogers.

Holland thinks there are geographic preferences for investing in managed accounts. “The MAP story is very much a European one. There’s limited interest in the US and even within Europe there’s less interest in the UK relative to the continent, in particular France.”

“This may be so, but Man Group’s McGoohan thinks the benefits of an SMA are never going to be challenged. “We’re confident that more of the bigger institutions will move into managed accounts over the next couple of years. From Man’s perspective they have and always will be a central part of our FoF offering. Managed accounts are a very powerful product.”

“Investors can call the shots now. Managers are less sceptical of managed accounts, we understand large investors want them and want to directly negotiate fees with prime brokers and, if necessary, close down a manager at the click of a finger.”

Magnus Spence, Dalton Strategic Partnership
Hope for the best, prepare for the worst

By Stefan Keller

Recent market turmoil has understandably made people nervous. I believe we’re going through a once-in-a-generation period of uncertainty. The ongoing sovereign debt crisis in Europe has spilled over to the banks, pushing up credit and market risks and disrupting bank funding markets. Counterparty risk, then, is back on the table.

Our Lyxor Managed Account Platform uses open architecture. This enables us to manage risk by working with 10 different prime brokers, 15 OTC counterparties and three administrators. This year we’ve been very active, launching more than 20 new funds on our platform. There are virtually no mono-counterparty fund launches anymore.

With transparency such a key issue, I’d like to share some thoughts on how Lyxor, hedge fund managers and investors are responding to these challenging markets.

Risks to financial stability have increased for the first time since ’08. Knowing your risks and understanding the positioning of hedge fund managers is vital. To address this and enhance professional investors’ access to transparency, Lyxor launched a new website in September to help optimise portfolio construction. The website allows investors to track their investments within our universe of 100+ managed accounts, giving them access to literally hundreds of risk indicators. The ability to view aggregated risk figures weekly, by rating, by region, by sector, is an important tool for investors when making asset allocation decisions.

In a nutshell, hedge fund managers’ response to this year’s crisis has been to hope for the best, prepare for the worst. Looking at country exposure, the entire platform has a couple of basis points to Greece, whilst collective exposure to Italy, Portugal, Spain, Ireland totals just a dozen basis points. Clearly, managers have recognised the political risks and avoided placing significant bets.

At the sector level, data shows that equity L/s managers have an overall defensive position. Between mid-June and mid-September, net exposure to basic materials fell from 9 per cent to under 6 per cent, industrials from 7 per cent to 4 per cent and energy plummeted from 9 per cent to just over 1 per cent. Managers moved early into defensive positions before this summer’s turmoil took hold.

Figures on equity beta directionality confirm this; we’ve seen a large reduction. The platform hosts a diversified range of funds across all strategies. We measured equity beta exposure for each portfolio, produced a fund ranking and then picked the median exposure. Median equity directionality peaked at 37 per cent in May. As of 11 October, that number had fallen to 1.26 per cent. By June it was already at single digit levels. Strategies like CTAs and global macro did a good job of managing net exposure and this has helped provide protection and drive performance.

Investors have also reduced equity directionality. Looking at weekly flows we see that March was the last month they added more beta to their portfolios. Clearly, since spring there’s been a rotation, strategy-wise, from directional strategies into more arbitrage strategies. We’re not seeing any significant asset outflows. If there’s an out-of-favour strategy, investors can simply switch into those they prefer. We’ve launched 20 new funds in 2011 and now offer access to multi-strategy managers, which is a major innovation and helping attract new assets. Gross inflows are more than USD3billion this year.
As the number of managed account platforms (MAPs) increases, seemingly in response to the growth in institutional investors entering the realm of hedge funds, one might assume that managed account AUM is following a steep upward trajectory. Platforms like AlphaMetrix have done well attracting assets, and a survey of the top ten platforms earlier this year by an industry publication showed that their combined AUM had risen from USD41.3 billion in 2010 to USD52.8 billion. However, the much-predicted post '08 deluge in assets hasn’t materialised, giving way instead to steady growth in AuM.

A J.P. Morgan 2011 Investor Sentiment Report found that last year only 29 per cent of respondents planned to invest in separately managed accounts (SMAs), whilst in 2009 of the 40 per cent of respondents who intended to allocate, less than 20 per cent did so. There’s no doubting their growing popularity but to suggest commingled funds have suddenly fallen out of fashion would be folly.

“We haven’t necessarily seen a big ramp-up in the number of platforms that we support but we are definitely seeing increased activity across the board in those existing platforms,” confirms Oliver Scully, managing director at Citco Fund Services. Administrators like Citco, who’ve long served hedge fund managers, are seeing their client base broaden as big institutions opt for managed accounts. It’s becoming a case of servicing one investor, multiple manager mandates as well as one manager, multiple
investors in the commingled world. “What you’re also now seeing is an increased desire for daily NAVs, shorter liquidity terms etc,” adds Scully.

Investing in its systems to serve managed accounts and provide a wide range of additional services to both the investment managers and underlying investors is important to custodian bank BNY Mellon because “our clients expect nothing less” says CEO of Alternative & Broker Dealer Services, Brian Ruane. “We’re making a considerable year-on-year investment in our systems’ capabilities reacting to market developments and pre-empting future changes. It’s investments such as these that keep us at the forefront of the fund servicing industry.”

The level of interest in SMAs from pension funds is apparently one of the biggest trends right now says Martin Fothergill, managing director dbalternatives Hedge Fund Platform, Deutsche Bank: “It feels like the business has changed. These are big investors, they’re a new client base. I think what’s changed is the desire of many investors to move their hedge fund investments wholesale into managed accounts.”

Caelim Parkes is a director at MSS Capital. Part of the firm’s expertise is providing advise to service providers into how they can rearrange their current operations to support SMAs. He says that asset control is an important reason for investors wanting segregated accounts. “Part of our work lately is looking at how you integrate a FoHF/hedge fund-related business into asset management businesses with a broader long-only operation. The system operating environment for hedge funds and long-only products differ substantially and it’s essential that suitable platforms are established to control data and information across differing product lines,” says Parkes.

Another reason for wanting asset control is because as institutions’ knowledge of hedge fund strategies deepens, so their willingness to move into more complex areas increases. Global macro and CTA strategies are now attracting interest with Fothergill confirming: “We’ve seen a fairly broad spread of strategies but CTAs have been the biggest theme in our business this year. Knowing how they perform in difficult markets has probably been the main driver of interest.”

Citco’s Scully adds: “Investors are getting into more complex product areas which puts greater strain on risk systems, they require different skills sets and high calibre staff in operational teams. As they get into multi-strategy, global macro funds etc there will be greater exposure to OTC instruments.”

Whether an investor chooses to join an existing MAP or go it alone depends on the size of its assets. For a USD50billion pension fund building a customised platform is realistic, for a USD1billion fund perhaps less so. With counterparty risk back on the table, partnering with best-in-class service providers is essential. Platforms such as the dbalternatives Hedge Fund Platform use multiple prime brokers and administrators and can capitalise on strong balance sheets when attracting new assets. An obvious downside to this is that public MAPs use a “one shoe fits all” approach. The investor has less control over which service providers are used but up-front costs are lower and speed to market is far quicker.

“Of course there are upfront costs but customisation allows an investor to build a product that fits its needs with the right service providers for the right assets.”

Caelim Parkes, MSS Capital
“Hedge fund start-ups are having to accept managed accounts in order to get new assets. That’s been a real change in the last couple of years.”

Oliver Scully, Citco

have the balance sheets, deep pockets and systems designed for high volume/sophisticated businesses. The current crop of public platforms such as Innocap and Deutsche have done well raising assets and use service providers best suited to their needs. Whether these providers are the ‘best’ is up to the users to determine,” says Parkes.

Deutsche’s Fothergill says that total AUM on dbalternatives is just over USD7 billion. Over the past year it’s grown by USD2.5-3 billion. “We’re an open-architecture platform. We work with four administrators and seven or eight prime brokers and plug them straight in providing an end-to-end service for investors. The reason investors are coming to Deutsche is because it’s a mature platform, almost 10 years old. We have a lot of experience and of course access to the best managers.”

“What we’ve seen is a lot of investors coming to the conclusion that when you look at the amount of staffing, infrastructure etc to do it in-house, it’s attractive to go to an existing platform like ours where everything is set up already. It’s a more robust solution and doesn’t require the investor to take operational risk and sometimes fiduciary risk. It’s important they have a strong counterparty.” Fothergill further adds that bigger sophisticated managers are talking to different platform providers and assessing who has the best operational infrastructure. This is good for investors because MAPs are being kept on their toes, constantly looking for ways to improve and win market share.

BNY Mellon is actively capitalising on its triple-A credit rating to grow the business and take on more institutional managed account mandates. In Ruane’s view, ‘service’ quality is only one half of the equation: ‘financial’ quality is equally important.

“Clients and their underlying investors are paying increasing attention to the financial robustness of their service providers. With our outstanding financial ratings and well-capitalised balance sheet clients know that when they contract with BNY Mellon they’re doing so with a stable organisation,” comments Ruane.

Scully says that one of the areas in which administrators are being pushed is the provision of more advanced risk capabilities. “There’s more pressure for stress testing, scenario analysis and enhanced transparency reports. Investors want to see counterparty risk analysis,” says Scully.

Coming from a long-only environment where segregated accounts are commonplace, institutions could conceivably be carrying that mindset into alternatives. “From my own experience investors like managed accounts because they want their money invested through a structure that suits them in terms of the control and transparency. Whether it’s because they’re coming from a different starting point is a very good question,” comments Tim Pearce, a partner at law firm Simmons & Simmons.

Those with significant assets and fiduciary responsibilities need to decide whether the up-front costs of creating a bespoke private platform are outweighed by the benefits of having total control and superior governance. The majority of DB Alternatives’ investors sit on the commingled public platform but Fothergill confirms “we run a number of private platforms for large investors”.

Typically, the AUM threshold to go down this road – cherry picking service providers and giving an investment manager a mandate – is USD100 million.

Customisation is an area that some people like MSS Capital’s Parkes would like to see evolve. “If an institution can spend three to six months looking at different options it can build a platform without needing to pay away the likes of 80+ basis points.”

“Clients and their underlying investors are paying increasing attention to the financial robustness of their service providers.”

Brian Ruane, BNY Mellon
points annually by being on one of the current public platforms – 80 basis points on USD10 billion over 10 years is quite a lot of return it could be giving back to its investors. Of course there are upfront costs but customisation allows an investor to build a product that fits its needs with the right service providers for the right assets.”

A Preqin survey in September 2011 found that 75 per cent of investors regarded liquidity as an important issue. It suggested this was driving growth in managed accounts. However, as a percentage of total hedge fund assets they still represent a small figure: around 3 per cent.

There are various reasons why we haven’t seen the expected explosion in AUM post ’08. For some, the operational burden isn’t worth it. For others, there’s the possibility of tracking error. Andrew Rubio, chief executive of Throgmorton the outsourced back office service provider to the asset management industry, says: “We’re not talking about tracking errors that you sometimes get in UCITS funds versus Cayman vehicles but there could be some performance drift depending on the size of the investment.” He also thinks one of the challenges facing managed accounts is the tension between investor and manager. “Some managers want to do things their own way without somebody breathing down their neck. They want investors to trust them to do their job without constantly questioning what they’re doing and why.”

Pearce picks up on the tracking error point: “In my experience if you ask managers what is the number one issue with managed accounts they spend their time dealing with they all say tracking error: minimizing it, explaining it to the client. If you’re running a USD20 million managed account and a USD2 billion fund you’re going to have rebalancing issues. Also, there may be certain trades a manager wants to execute that are too big for the managed account. Some managed accounts don’t use the same brokers as the manager and can’t necessarily get the same credit lines. Tracking error is an operational issue as well as in investment issue.”

Ten years ago, few hedge fund managers would have entertained the idea of taking on a managed account. That’s now changing.

“Some managers want to do things their own way without somebody breathing down their neck. They want investors to trust them to do their job without constantly questioning what they’re doing and why.”

Andrew Rubio, Throgmorton

Managers have much greater awareness of the investors available to them on MAPs. Scully points out that start-up funds will invariably have a managed account on day one: “Hedge fund start-ups are having to accept managed accounts in order to get new assets. That’s been a real change in the last couple of years.” Rubio believes it's horses for courses. Some managers aren’t interested but he agrees with Scully, adding that start-ups who don’t have a track record “might bend over backwards to get AUM under their belt even though it’s not ideally what they want to do”.

Fothergill has seen a two-step change in manager sentiment. Firstly, post ’08 managers became more amenable to doing managed accounts because they were looking to raise assets and widen their investor base having suffered mass redemptions. Client concentration was a problem. Secondly, he suggests that managers are hearing from major investors that they’ll only invest through an SMA. “We’re fielding a lot more calls from managers wanting to get on our platform because they’re hearing from investors who don’t want to invest through their regular commingled fund. We’ve seen a significant build-up in manager interest over the last three years.”

With the pursuit of alpha firmly on the agenda, BNY Mellon’s Ruane is bullish on the growth of managed accounts: “We see this as one of many growth areas for the investment management industry, and, of course, BNY Mellon.” Scully is slightly more downbeat, however: “I don’t think we’ve necessarily seen the extent of growth that some commentators had predicted. The trend will continue but I don’t think it’ll rocket.”