

## The Rise of DMAs Prior to 2020: A brief refresher

Over the past decade, institutional investors have increasingly adopted dedicated managed account (DMA) structures as a preferred means to access the hedge fund asset class. DMAs are typically single investor funds established for the exclusive use of an institutional investor, such as a public plan or a fund of funds. DMAs allow an investor to maintain greater control over its assets, receive full position-level transparency and customise all aspects of the managed account including the fund structure, governance model, fee structures and investment guidelines. A managed account platform provider is often hired by the allocator to build and operate the DMA platform and to provide risk and performance analytics and investment guideline monitoring services to the investor.

The increasing shift to DMA structures began with, and was largely borne out of, the 2008 financial crisis. The crisis exposed many of the inherent challenges in the traditional commingled hedge fund structure. These challenges include co-investor risk, lack of asset control and lack of transparency, amongst others. On the most extreme end of the spectrum, the 2008 financial crisis exposed the Madoff fraud. In other cases, investor redemptions were gated or suspended leaving investors frozen in certain funds and without access to their assets. Many funds were forced into fire sales of securities and fund liquidations as they experienced a “run on their fund” that left them no choice but to quickly sell positions to meet redemptions. Throughout the industry, investors struggled to obtain information from their underlying investment managers on their exposures as they looked to adjust their portfolios and answer questions from their investment committees and boards.

The difficulties that hedge fund allocators experienced during the 2008 financial crisis lit the spark for investors to consider whether there was a more effective way to access the hedge fund asset class. The answer was a definitive “yes” – Dedicated Managed Accounts.