

What is a Separately Managed Account?

A separately managed account (SMA) is an investment vehicle composed of stocks, bonds, cash, or other securities overseen by a professional investment manager. SMAs offer flexibility and personalization that is responsive to the needs of clients while also improving transparency.

Asset owners often choose to hire active managers for their ability to adapt to changing market dynamics with creativity while staying true to an overarching investment process. Additionally, the unique structure of an SMA provides managers the flexibility to customize the portfolio to address clients' personal preferences and investment objectives. As a result, SMAs are emerging as the vehicle of choice for more and more investors.

With SMAs, investors benefit from direct ownership of securities versus mutual funds and exchange-traded funds (ETFs) where money is pooled with that of other investors. The difference is key to understanding the many advantages of SMAs as outlined in the table.

	SMA	Mutual Fund	ETF
Definition	Professionally managed investment portfolio of securities directly owned by the individual investor and managed according to a specific style or discipline.	Professionally managed investment vehicle that pools money from many investors for the purpose of investing in securities according to a specific style, discipline or outcome.	A security that typically tracks an index, commodity or basket of assets like an index fund, but trades like a stock on an exchange.
Ownership	Investors directly own the individual securities in their portfolio.	Investors own shares in a fund, which in turn owns the individual portfolio securities.	Investors own shares in an ETF, which in turn owns the individual portfolio securities.
Typical investment minimum	\$100K+	\$1,000	The price of an ETF share.
Funding	Portfolios may be funded with existing securities and/or cash.	Cash	Cash
Customization	Portfolio can be tailored to address each investor's specific needs.	None	None
Tax efficiency	Investors have the ability to manage taxation because securities can be sold to harvest gains/losses.	Limited. While in-kind transactions could limit the possibility of involuntary capital gain distributions, this is operationally challenging and rarely used in mutual funds.	ETFs have the ability to minimize portfolio capital gain payments. The in-kind redemptions allow the fund to mitigate tax impacts.
Fees	Investors typically pay one asset-based fee based on assets under management (either billed quarterly in advance or arrears).	Shareholder costs can include sales charges on the purchase and/or redemption of a fund, including any ongoing operating expenses (i.e., expense ratio).	Fees will vary by ETF but are typically cheaper than those of mutual funds due to lower administrative costs. Also, transaction costs are reduced due to in-kind subscriptions and redemptions.

	Key Differences		
Strengths	<ul style="list-style-type: none"> · Customization · Potential tax efficiency at security level · Cost savings over mutual funds · Transparency 	<ul style="list-style-type: none"> · Ease of executing complex strategies · End-of-day liquidity at NAV · Lower investment minimum 	<ul style="list-style-type: none"> · Potential tax efficiency at portfolio level · Cost savings over mutual funds and SMAs · Intraday liquidity · Transparency
Weaknesses	<ul style="list-style-type: none"> · High account minimums · Limited strategy availability 	<ul style="list-style-type: none"> · Limited tax efficiency · Generally higher administrative costs 	<ul style="list-style-type: none"> · Bid/Ask spreads · Commissions

How an SMA Can Work For You

Separately Managed Accounts (SMAs) appeal to investors because they are flexible and customizable for a variety of circumstances. Here are just a few examples.

Scenario 1: Overexposure to employers stock

Employees who work for the same firm for a long period sometimes develop large concentrated positions in the company's stock. This can result in a lack of diversification and potential security overlap with investments held in other portfolios.

How an SMA helps:

A customized SMA enables investors to exclude company stock they already own, reducing concentration risk.

Scenario 2: High tax bracket/tax considerations

Investors in a high income tax bracket are often concerned about tax-sensitive investing. They gravitate toward tax-efficient investment vehicles in order to minimize unexpected tax liabilities.

How an SMA helps:

A customized portfolio that allows for the harvesting of taxable gains and losses may provide greater control over an investor's tax situation.

Scenario 3: Socially responsible investing

Many investors want their portfolio to reflect their values by excluding companies in industries or with practices that do not reflect their beliefs.

How an SMA helps:

With customization, investors can request special screens aligned with their personal values; for example, to avoid tobacco, alcohol or gambling stocks.

Why 1035 Capital Management?

1035 Capital is an 100% employee owned independent investment manager based in St. Louis, MO. Our independence means that you can trust we will always do what is right for you, our clients, because we don't have conflicting loyalties. Using SMAs, our investment professionals are able to customize our strategies to fit your individual circumstance and goals as well as adapt to ever-changing market conditions. Our founder, Chris Abbott, used his own capital to start the company and is fully invested alongside clients in the model portfolios.

Investment Philosophy

At 1035, our investment philosophy is to target companies undergoing fundamental business improvements that should drive future stock returns. These positive changes, or catalysts, are hard to identify and analyzing their impacts can be time consuming. This creates the conditions for under-followed and mispriced assets in the market. Our passion is to uncover these opportunities before the ramifications of a positive catalyst become evident to the majority of investors, a concept we call "front running the black box." [Learn more about our investment philosophy.](#)

Current SMA Strategies

Small Cap Core

The Small Cap Core (SCC) fund's investment objective is to seek total return on investment with capital gains an important component of that return.

The SCC product aims to create a portfolio of specific growth and value names to create a core portfolio with better than Russell 2000 growth metrics.

High Yield Preferred

The High Yield Preferred (HYP) fund's investment objective is to seek total return on investment with dividend yield an important component of that return.

The HYP product targets preferred stocks of companies that have stable to improving balance sheets and as a result the preferred stocks yield too much for the credit risk.

SMA Frequently Asked Questions (FAQs)

Q. What are the features of separately managed accounts?

A. SMAs can offer customized portfolios, professional management and oversight, flexibility, transparency, diversification, tax efficiency and asset allocation and more.

Q. What types of investors own separately managed accounts?

A. SMAs are best suited for individuals seeking a professionally managed, customizable portfolio that offers enhanced flexibility, transparency and comprehensive communications, versus a mutual fund or ETF.

Q. What investment strategies are available?

A. SMAs are offered in a wide variety of asset classes and investment styles, including large-cap, mid-cap, small-cap, multi-cap, value and growth equities; and taxable and tax-exempt fixed income, both domestic and international.

Q. What if I have special requests?

A. Separately managed accounts allow investors to impose reasonable stock, sector or other preferences and restrictions on the securities in their accounts. For example, if you own your employer's stock in your retirement savings plan, you may decide not to invest additional assets in the company.

Q. How do I stay informed of my portfolio's performance?

A. Regular communication from your portfolio management team is an essential tool in keeping you and your financial advisor informed. Among the tools that are usually provided: quarterly performance reporting, monthly investment commentary and online portfolio information.

Q. What is the role of the financial advisor after a managed account is opened?

A. After your financial advisor helps you identify and select your investment options, he or she continues to be your primary relationship manager. Your advisor takes on a consultative role, helping you determine whether your current investment strategy is appropriate and helping you evaluate investment performance.

All investments involve risk, including possible loss of principal. There is no guarantee that investment objectives will be achieved. Investors should consider their objectives, risk tolerance and time horizon before investing. Diversification does not ensure a profit or protect against market loss. Separately managed accounts (SMAs) are investment services provided by 1035 Capital Management LLC, a state registered investment advisor. These materials and any tax-related statements are not intended or written to be used, and cannot be used or relied upon, by any such taxpayer for the purpose of avoiding tax penalties or complying with any applicable tax laws or regulations. Tax-related statements, if any, may have been written in connection with the "promotion or marketing" of the transaction(s) or matter(s) addressed by these materials, to the extent allowed by applicable law. Any such taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor. Any information, statement or opinion set forth herein is general in nature, is not directed to or based on the financial situation or needs of any particular investor, and does not constitute, and should not be construed as, investment advice, forecast of future events, a guarantee of future results, or a recommendation with respect to any particular security or investment strategy or type of retirement account. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies should consult their financial professional.