



Separately Managed Accounts

A detailed look at a professionally managed investment program for higher net-worth clients.

RAYMOND JAMES | INVESTMENT MANAGEMENT



Executive Summary

Get access to professional money managers.

Receive higher levels of individualized account reporting and client service.

Own the individual securities in the portfolio, not just shares in a fund.

Customize a portfolio and gain flexibility with tax-planning strategies.

Separately managed accounts (SMA) and mutual funds are two of the most popular methods available to access professional investment managers. Both offer investors a professionally managed portfolio of securities. Separately managed accounts and mutual funds are similar in some respects, but they are two distinct vehicles with advantages and disadvantages. Determining which approach is more appropriate depends on an individual investor's needs.

Professional Account Management

A separately managed account (also known as an individually managed account or private account) allows an individual to tap the expertise of a professional investment manager while having his or her assets segregated from the assets of other clients. Separately managed accounts can be tailored to meet the unique needs and objectives of the individual investor. The account minimums are typically at least \$100,000. Meanwhile, the minimums for many mutual funds may start at just \$500 or \$3,000, depending on the fund company, share class, etc. (although systematic-purchase plans can reduce the minimum even further).¹

This larger account size of an SMA allows a portfolio manager to diversify without pooling the account with the assets of other investors. Individuals with private accounts own the securities directly vs. owning shares in a fund. That individual ownership provides the investor with flexibility, control, and tax-planning benefits unparalleled by pooled investments. The portfolio manager has complete discretion and follows a stated investment strategy

that the client and financial professional have determined is appropriate.

Direct Ownership of Securities

Since an individually managed portfolio is separate from other accounts, an investor may specify certain industries, businesses, or specific securities in which they do not want to invest because they find them objectionable. Mutual funds provide investors with the list of securities they own, but the fund does not allow them to select specific companies in which to invest.

Mutual funds provide investors with the list of securities they own but the fund does not allow them to select specific companies in which to invest.

¹ Source: Yariilet Perez, "What Is the Minimum Amount For Investing in a Mutual Fund?", August 31, 2022

Flexible Tax Planning

For individuals who have taxable accounts, having the flexibility to better manage their tax bills is often an important distinction of a private account.

Since investors with private accounts own securities directly, they have an individual cost basis for each security in their accounts. Therefore, they only pay taxes on the capital gains they actually realize. Fund clients may have to pay taxes on capital gains embedded in the fund regardless of how long they have held fund shares.

Private accounts also provide the flexibility to do year-end tax planning. In an attempt to reduce their tax liability, clients can work with their tax and financial professionals to implement tax strategies. These strategies include directing their portfolio manager to realize gains or losses in specific securities to potentially minimize the tax liability of the account or from other investments.

The Service Differential

For some investors with private accounts, the service provided is considered an advantage. At the top of this list is the regular reporting clients receive. Customized reports are typically provided on a quarterly basis and detail the status of the account.

Clients also typically receive quarterly updates from the portfolio manager that review current strategy and outlook regarding specific securities or the market as a whole. Mutual funds make some information available on a quarterly basis while other data may be available only on a semi-annual or annual basis.

The Role of the Financial Professional

As the saying goes, change is the only constant. This applies to all areas of life, including finances. In order to manage change in a prudent and professional manner, most investors use the services of a financial professional. Financial professionals help investors develop and adapt investment plans that will meet their needs and navigate them through this dynamic area of their lives.

Because investors have different needs, we believe that an investment manager should be retained to manage the client's assets whether they invest in a private account or a mutual fund. Financial professionals typically have relationships with various investment managers and an understanding of their investment disciplines: growth vs. value; large cap vs. small cap; international; fixed income, etc. Therefore, the professional can guide the selection of an appropriate manager for the client.

Once an investment manager is hired, the professional acts as the client's advocate. If a manager is not adhering to his or her strategy or performing poorly relative to his or her peers, the professional can communicate with the manager to understand the reason for the change and advise the client as to what action is needed, including whether it is prudent to select another manager.

The increased flow of information can motivate some financial professionals to direct their clients to private accounts. In addition to more comprehensive reporting than a mutual fund, private-account

Some of the information provided includes:



a list of positions (categorized by industry)



cost basis and market value



income generated



schedule of realized gains or losses



investment performance

managers are often available to professionals either at investment conferences or via telephone calls. This added level of communication may allow the professional to do a better job monitoring the account and serving as the client's advocate.

The Cost of Service

One of the reasons some clients choose private accounts is the cost structure. Instead of paying a commission and other expenses (as in the case of some mutual funds), clients pay the investment manager an ongoing periodic fee for service. Private-account fees are deducted automatically from the client's account and a statement of those costs is provided to the client. As with any other service, costs for private accounts will vary and – unlike the costs associated with a mutual fund – may be negotiable. Mutual fund costs can typically be reduced based on the amount invested.

These ongoing fees for equity accounts generally range from 1.0% to 3.0% of assets and are often negotiable and may be reduced incrementally as the size of the account increases. Therefore, for a \$100,000 to \$500,000 equity portfolio, total fees may range from 2.0% to 3.0% annually (or sometimes more frequently) and are all-inclusive, including trading costs. A fixed-income portfolio with \$100,000 to \$500,000 invested may have transaction fees typically ranging between 0.5 % and 0.75%. The total annual fees for such a fixed-income portfolio may range from 1.0% to 1.25%.²

The Final Analysis

Clients who want a greater degree of individual attention and can afford the higher investment minimums may prefer a private account. These accounts provide more service, control and flexibility, and individuals who work with a financial professional should also consider the cost differences, among

other things, between private accounts and mutual funds. Both private accounts and mutual funds offer different advantages to investors, depending upon their individual needs, goals, and risk tolerance. Your investment professional can assist in determining this information based on your circumstances.

Clients who want a greater degree of individual attention and can afford the higher investment minimums may prefer a private account.

² Source: Katrina Lamb, "Should You Have a Separately Managed Account?", January 14, 2022

Differences between Managed Accounts and Mutual Funds

| | Separately Managed Accounts | Mutual Funds |
|--------------------------------|---|--|
| Ownership | Investors own individual securities. | Investors own shares in a pool of securities, commingled with assets of other investors. |
| Portfolio Holdings | Based on an investment strategy that can be designed specifically to meet the needs of the investor (may exclude certain businesses, industries, or specific securities at the request of the client). | Identical for all investors based on the objective of the fund chosen (some funds may exclude certain businesses, industries, or specific securities from their objective, as per the prospectus). |
| Expenses | An ongoing periodic asset-based wrap fee covers all managed account services (money management, trading, and custody) and may be negotiable. | Depending upon the fund, share class chosen and amount invested, may be subject to a front-end or back-end sales load and ongoing distribution and servicing (i.e., 12b-1) fees. An investor may buy shares of a load fund based on a commission-based fee structure or a no-load mutual fund. |
| Minimum Account | Typically \$100,000 or more for equities, often higher for fixed income, and the minimum may be negotiable. | Typically ranges from \$500 to \$3,000 per fund and periodic investment plans may be much lower. Institutional class share minimums will often be higher. Minimums are usually not negotiable. ³ |
| Reporting | Provide detailed statements that include account activity and performance. Investment advisors also report certain information through their Form ADV that is available upon request. Depending upon the SMA or firm, the investment performance may or may not align with Global Investment Performance Standards (GIPS) set forth by the CFA Institute. | Investors typically receive in-depth monthly or quarterly statements showing account activity and performance. Investors receive annual and semi-annual reports showing full fund information and disclosures as well as the prospectus and statement of additional information with complete information and disclosures. All investment performance reports for mutual funds are standardized across the industry. |
| Governance | Primarily under the Investment Adviser Act of 1940 and other rules/regulations. | Primarily under the Investment Company Act of 1940 and other rules/regulations. |
| Risks | Subject to the risks applicable to the particular securities held by the client. | Subject to the risks applicable to the particular securities held by the fund. |
| Tax Basis | Begins when individual securities are purchased for the investor. An investor could receive K-1 tax forms from certain SMA holdings should they apply. | The fund's tax basis may include embedded capital gains that go back months or years before the investor bought shares. An investor would not receive K-1 tax forms even if the fund invested in such applicable securities. |
| Tax Management | Potential for client and his/her investment professional to manage taxation of gains by offsetting them with capital losses; however, this can lead to diminished loss-harvesting opportunities over time due to portfolio lock-up. In addition, purchases are temporarily limited during tax-loss harvesting due to the "wash sale rule." | Under sole control of the portfolio manager, although some funds are managed for tax efficiency. |
| Asset Flow | An investor can be fully invested and is not required to hold cash. | May carry certain cash levels to meet potential redemptions, the amount of which may depend upon the fund. |
| Liquidation | Typically takes 3-5 days but may be more depending upon the security being liquidated. | Shares of the fund are liquidated at the closing price on the same day the request is received and distributed the next day. |
| Portability of Holdings | Yes, provided the adviser accepts the holdings that are requested to be ported. | Not usually |

About Raymond James Investment Management

Raymond James Investment Management is a global asset management company that combines the exceptional insight and agility of individual investment teams with the strength and stability of a full-service firm. Together with our boutique investment managers — Chartwell Investment Partners, ClariVest Asset Management, Cougar Global Investments, Eagle Asset Management, Reams Asset Management (a division of Scout Investments) and Scout Investments – we offer a range of investment strategies and asset classes, each with a focus on risk-adjusted returns and alpha generation. We believe providing a lineup of institutional-class portfolio managers, spanning a wide range of disciplines and investing vehicles, is the best way to help investors seek their long-term financial goals.

Definitions

A K-1 tax form is an Internal Revenue Service (IRS) tax form issued annually for an investment in partnership interests. The purpose of Schedule K-1 is to report each partner's share of the partnership's earnings, losses, deductions, and credits.

A wash sale is a transaction in which an investor sells or trades a security at a loss and purchases "a substantially similar one" 30 days before or 30 days after the sale.

A front-end sales load is a commission or sales charge applied at the time of the initial purchase of an investment.

A Back-end sales load refers to the money a mutual fund charges to a client for withdrawing money.

A 12b-1 fee is an annual marketing or distribution fee on a mutual fund. The 12b-1 fee is considered to be an operational expense and, as such, is included in a fund's expense ratio.

The expense ratio measures how much of a fund's assets are used for administrative and other operating expenses. An expense ratio is determined by dividing a fund's operating expenses by the average dollar value of its assets under management (AUM). Assets under management (AUM) is the total market value of the investments that a person or entity manages on behalf of clients.

A No-load mutual fund refers to a fund that charges no sales fees either on the front end (when you buy fund shares) or back end (when you sell fund shares).

Disclosure

The investment return and principal value of both separately managed accounts and mutual funds will fluctuate and sale proceeds may be worth more or less than the amount invested. Past performance is no guarantee of future results. The risks associated with either separately managed accounts or mutual funds will vary based on the particular account or fund considered and should be reviewed carefully before investing.

This is not a comprehensive list of the differences or similarities between separately managed accounts and mutual funds. The investments you choose should correspond to your financial needs, goals and risk tolerance. For assistance in determining your financial situation, please consult an investment professional.

Neither separately managed accounts nor mutual funds may be suitable for all investors. The costs and services related to both may differ and there is no evidence to support that one is superior to another for any particular criteria. The views expressed in this material are those of Carillon Tower Advisers and may change at any time. They are for informational purposes only and should not be relied upon as a recommendation to purchase, sell or hold any security or as a solicitation of investment advice. This material should not be considered as legal, tax or accounting advice. You should obtain your own independent advice based on your particular circumstances.

GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Contact us for more information on our active investment solutions.

Financial professionals: 800.521.1195 | Investing public: contact your financial professional | [RJInvestmentManagement.com](https://www.rjinvestmentmanagement.com)

RAYMOND JAMES | INVESTMENT MANAGEMENT

880 Carillon Parkway | St. Petersburg, Florida 33716 | RJIM22-0147 Exp. 12/31/2024

©2022, Raymond James Investment Management, Inc. All rights reserved.

Not FDIC Insured | May Lose Value | No Bank Guarantee