



A guide to separately managed accounts



Not FDIC Insured | May Lose Value | No Bank Guarantee



Separately managed accounts (SMAs) play an important role in providing investors choice in how they access professional investment management. They also offer the flexibility to tailor a portfolio that is responsive to the needs of high-net-worth individuals.

What is an SMA?

An SMA is an investment vehicle composed of stocks, bonds, cash or other individual securities overseen by a professional money manager. The unique structure of an SMA provides the flexibility to customize the portfolio to address clients' personal preferences and investment objectives.

With an SMA, investors benefit from direct ownership of securities, versus investing in a mutual fund or exchange-traded funds (ETFs), where your money is pooled with that of other investors. This difference is key to understanding the many advantages of an SMA, and what SMAs offer.

SMA's offer:

Customization

There are a number of ways to customize an SMA. It can be structured to exclude investments due to concentrated, single-stock positions (e.g., holding too much of one's company's stock), or the desire to avoid investing in certain product areas (e.g., tobacco).

Greater tax efficiency

Unlike a mutual fund, where capital gains are passed on to all investors, an SMA investor is only taxed on realized gains in his or her specific portfolio.

Because an SMA contains individual securities, capital gains can be offset by instructing your manager to sell investments that will produce a capital loss through tax-loss harvesting.

Transparency

With an SMA, you receive regular comprehensive reporting. Your account statements show the securities you own, number of shares and many other details to help you understand how your investments are performing.

Professional management

Knowledge and experience are often the two most important qualities that professional money managers possess. Most investment managers work in teams that perform rigorous research and analytical exercises in an effort to make the best, most informed decisions for their clients.

A personalized approach

Building a separately managed account is just the first step in an ongoing, consultative process. Together, you and your financial professional will work to help ensure your portfolio is on track to meet your investing goals. In addition, with certain highly customized portfolios, you may gain access to the professional managers who actively manage your account.

An exchange-traded fund, or ETF, is a security that tracks an index, a commodity, or a basket of assets like an index fund, but trades like a stock on an exchange. ETFs experience price changes throughout the day as they are bought and sold.

Separately managed accounts are not suitable for everyone. Other types of investments may provide the same or similar benefits as separately managed accounts, possibly at a lower cost. Work with your financial professional to determine whether or not an SMA is appropriate for you.

How an SMA can work for you

Customization appeals to SMA investors for a number of reasons, depending on their personal circumstances. Here are just a few examples.

Overexposed to company stock

- **Challenge: Large, concentrated position in company 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 lack of diversification, and potential security overlap with investments held in other portfolios.

- **How an SMA helps:**

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

A taxing issue

- **Challenge: 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.

Values-based investing

- **Challenge: Environmental, social and governance considerations**

Many investors want their portfolio to reflect their values by investing in companies that integrate best practices when it comes to the environment, social issues and corporate governance.

- **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.

Consider the options

SMA's are emerging as the vehicle of choice for more and more investors. They offer some key advantages that may play an important role in helping investors build a portfolio that is responsive to their needs.

| | 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 or discipline | Professionally managed investment vehicle that pools money from many investors for the purpose of investing in securities according to a specific style or discipline, and 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 a fund, which in turn owns the individual portfolio securities |
| Typical Investment Minimum | \$50K-300K | \$1,000 | Investors pay the price of one ETF share on an exchange |
| Funding | Portfolios may be funded with existing securities and/or cash | Shares in mutual funds are purchased with cash | Shares of ETFs are purchased with 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 | Most ETFs have the ability to use in-kind trading mechanics which may allow the fund to mitigate passing on capital gains to the investor |
| 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 characteristically less than those of mutual funds given fewer embedded marketing costs and the externalization of portfolio management transactions |

An SMA for every need

In general, there are two types of SMAs: single-style and multiple-style. Your financial professional can help you determine which type is most appropriate for you, based on your current financial situation, investment objectives, risk tolerance and other factors.

Individual-strategy

An individual-strategy typically requires investment minimums of \$50,000 to \$100,000 for equity portfolios and \$100,000 to \$250,000 for fixed income. This account may be suitable if you want to invest in a distinct style.

Please note that minimums vary according to firm and money manager.

Multiple-strategy

A multiple-strategy is invested across asset classes and/or managers, with a single manager overseeing all investments. Investment minimums generally range from \$100,000 to \$300,000.

Creating a single, diversified portfolio helps avoid the securities overlap and overly concentrated positions that often occur when you combine investment styles without the benefit of a multiple-style SMA.

FAQs

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.

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.

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.

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.

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 professional 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 professional after a managed account is opened?

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

WHAT ARE THE RISKS?

All investments involve risk, including possible loss of principal. Diversification does not guarantee a profit or protect against a loss.

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(800) 342-5236
franklintempleton.com