NATIXIS
INVESTMENT MANAGERS

Using Separate Accounts to Achieve Investment Goals

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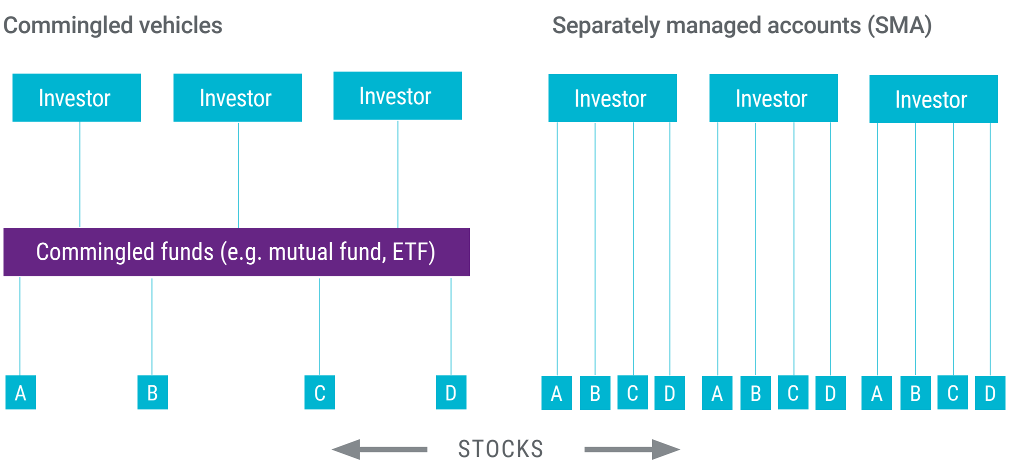
Separate accounts, also referred to as Separately Managed Accounts (SMAs), were once used primarily by large institutional clients. Improvements in technology and reduced trading and operational costs have led to greater adoption of separate accounts by individual investors to help meet their investment objectives.

SMAs defined

Many large institutional clients, such as pension plans, foundations and endowments, have long used SMAs. Historically, individual investors have more commonly used commingled or pooled investment vehicles such as mutual funds and exchange-traded funds (ETFs). That has been changing, however, as SMAs become more accessible. According to Cerulli Associates, more than $1.7 trillion in assets are invested in SMA strategies across advisory platforms.*



In commingled investment vehicles like mutual funds, an investor buys shares in a fund. All of the investors' money is pooled together and used to purchase stocks, bonds or whatever that investment strategy invests in. In an SMA, the investor actually owns the shares of stocks or bonds directly. In some ways it is like a brokerage account where the client has delegated discretion for trading to a professional money manager. SMAs are just another investment vehicle for accessing investment strategies.

Advantages of SMAs

- Customization – Because each client has an individual account and portfolio, there is greater opportunity for customization. This flexibility can be used to avoid investing in companies clients may already have exposure to or to reflect the client's values.
- Direct ownership – By owning shares or bonds directly, clients can avoid the embedded capital gains that may exist in commingled funds.

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- **Transparency** – All of the individual securities held in the portfolio are visible to clients.
- **Tax efficiency** – SMAs present more opportunities to apply tax management techniques to mitigate tax liability and improve after-tax returns.
- **Fees** – For actively managed strategies the management fees associated with SMAs are often lower than the expense ratios for comparable commingled funds.

Advantages of commingled vehicles

- **Lower minimums** – SMAs typically require minimums of around $100,000 or higher, depending on the type of investment strategy. Commingled funds typically have significantly lower minimums.
- **Administrative and operational ease** – Portfolios of multiple SMAs can be more cumbersome to work with, although Unified Managed Account (UMA) programs have helped address this.
- **Fees** – For *passive* investment strategies the management fees for SMAs may be somewhat higher than for commingled vehicles tracking similar indices, though the additional tax benefit may be worth this extra cost.

Types of SMA strategies

There is a wide range of SMA strategies available, covering many traditional segments of the equity markets including large-cap and small-cap US stocks in core, value and growth styles. International and global equity strategies are also available, although in many cases these portfolios may be limited to American Depositary Receipts (ADRs) rather than shares in the local markets, unless the account sizes are quite large.

Within fixed income, traditional core bond portfolios and even core plus or extended mandates are readily available in the taxable bond market segment. There are also a wide variety of municipal bond strategies.

Passive investment strategies that seek to track an index are also available in SMAs, and the term "direct indexing" has been coined to describe these types of SMA strategies. Direct indexing strategies are often very flexible, and besides offering the opportunity for better after-tax returns than index funds or ETFs, can be highly customized to accommodate client preferences.

Certain strategies may be less suitable candidates for SMAs. Strategies that invest in less liquid securities, derivatives or securities denominated in multiple currencies may be better suited to commingled vehicles.

Accessing SMAs

In the past, investing in a diversified portfolio of SMAs entailed a significant administrative burden, as individual accounts had to be set up for each strategy and different agreements had to be signed with each manager. The advent of Unified Managed Accounts (UMAs) has streamlined this process significantly.

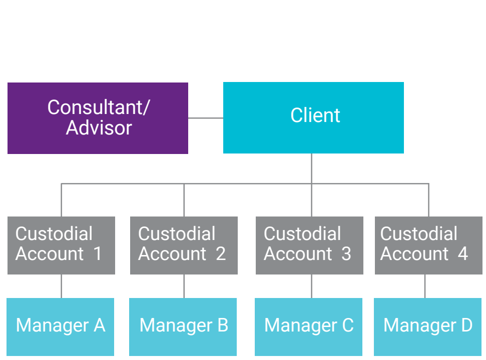
UMA investors can hold several distinct SMA strategies, as well as investments in mutual funds, ETFs and other commingled vehicles, all in a single account.

UMAs require an overlay manager to coordinate the activity across the underlying strategies. The UMA structure also offers more opportunities to enhance after-tax performance, as the overlay manager oversees activity across the entire portfolio. Some overlay managers also bring specific tax expertise to the process.

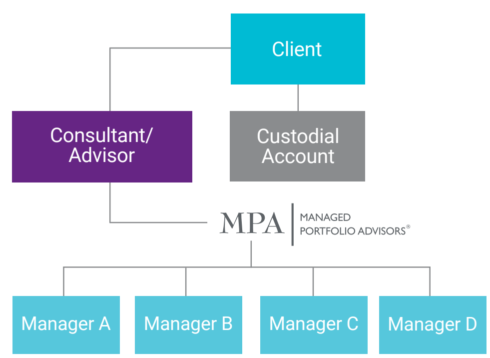
UMAs can also help with risk control. With all assets in a single account, the overlay manager can monitor all of the allocations and act promptly to rebalance the portfolio when asset classes or investments drift too far from their target weightings.

Separate accounts are an increasingly popular tool to help individual investors meet their investment objectives. They can be particularly appealing for clients with assets in taxable accounts, especially those in higher income tax brackets.

Traditional Structure



UMA Structure



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> To learn more, contact us as follows: Visit: im.natixis.com Call: 800-862-4863

*Source: The Cerulli Edge, U.S. Managed Accounts Edition, 1Q 2020 Issue #75, Cerulli Associates.

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