

MEASURING THE TRADEOFFS BETWEEN MANAGED ACCOUNTS AND LIMITED PARTNERSHIPS

Private Wealth Management Summit

Lori VanDusen

Executive Director

Lori.VanDusen@ConvergentWealth.com

Phone: (585) 267-4900

www.ConvergentWealth.com

June 8, 2010

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WHAT ARE THE POTENTIAL BENEFITS OF MANAGED ACCOUNTS?

- Generally improved transparency and control
- Investment less impacted by the behavior of others
- Better knowledge of counterparty risks and location of collateral
- Clear separation of management and valuation function

2008 REDUX

- Subprime mortgage collapse and exposure to credit
- Gates / Side-Pockets used by 20% of hedge funds
- Lehman failure and Counterparty Risk
- Madoff affair / fraud

TYPES OF MANAGED ACCOUNTS

	Traditional Private Partnership	Separately Managed Account (SMA)	Single Investor Fund (SIF)	Managed Account Platform (MAP)
Transparency	✓	✓		✓
Independent Valuations	✓	✓		✓
Investor Control Assets		✓		
Privileged Redemption Conditions		✓	✓	
Potential Liability Beyond Assets Committed		✓		
Ability to Add Investment Guidelines		✓	✓	
Investor Has Administrative Oversight		✓	✓	

MANAGED ACCOUNTS DISTILLED

- Separately Managed Account
 - Best for investor who is looking for more control, exact position holdings via daily access to prime broker, independent valuation and full responsibility for risk management
 - Suited for large sophisticated investors with deep back office, due diligence teams and associated resources

MANAGED ACCOUNTS DISTILLED

- Single Investor Fund
 - Best for investors with investment guidelines or restrictions
 - Monthly valuations
 - Better transparency than commingled accounts
 - Suited for investors that can make a large initial investment

MANAGED ACCOUNTS DISTILLED

- Managed Account Platform
 - Best for investors that wish to use a segregated account but without the additional responsibility to process the data
 - A Managed Account Platform replicates a hedge fund and provides segregation, independent valuation, independent risk management and enhanced transparency

WHAT ARE THE POTENTIAL ISSUES WITH MANAGED ACCOUNTS?

- Liability beyond assets in account(s)
- Additional monitoring
- Responsibility for risk reporting
- Many managers won't take managed accounts
- Large minimum investment
- Higher fees
- Managed accounts underperform flagship

THE VALUE OF TRANSPARENCY

- Equities:
 - What is the value of position-level transparency?
 - Must have tools and resources to even think of understanding and evaluating the trade rationale
 - Sounds great, but?
- Fixed Income:
 - Much more complex
 - Can you really understand the trades?
- Solution in LP's:
 - New tools such as Measurisk provide needed analytical detail such as:
 - Leverage
 - Sector exposures
 - Concentration risks

LEGAL CONSIDERATIONS WHEN SETTING UP A SEPARATELY MANAGED ACCOUNT

- Structure
- Investment management agreement
- Counterparty agreement
- Third party service providers
- Regulatory and operational issues

TRENDS

- Managed Account Platforms have grown
 - A March, 2009 survey by Deutsche Bank showed that 43% of investors are more likely to invest in managed account strategies to some degree – **but it is currently a single digit percentage of total industry assets**
 - A few heavyweights such as CALPERS and China government funds intend to move there
 - More popular in Europe and Asia than the US

TRENDS

- Generally, a lot of talk and not a lot of movement
 - Often larger, more well-established funds are less interested
 - Smaller funds may offer to set up separate accounts, but these may not be the top managers
 - According to a February 2010 survey by Prequin, 21% of managers are considering offering separate accounts

TRENDS

- As a marketplace response, many hedge fund LP managers are offering more transparency
 - Using tools like Measurisk to give investors what they need without disclosing their short positions
 - Many managers are trading off transparency for longer lock-ups

SUMMARY

- Why Use Separate Accounts?
 - A segregated portfolio managed in line with an agreed mandate
 - A desire for transparency, liquidity, control and governance
- Why not?
 - The benefits don't justify the added costs, administrative and operational complexity, and potential investment limitations

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Disclosure: Not FDIC insured - No Bank Guarantee - May Lose Value.

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