

Separately Managed Accounts

Understanding Separately Managed Accounts

Separately Managed Accounts (SMAs) are very similar to mutual funds in the sense that they tend to be highly diversified investments (they invest in many different individual companies) and invest with a particular focus (for example, the XYZ Technology Fund or XYZ Large Cap Growth Fund). This is typically where the similarities end as a portfolio manager for a SMA actually buys individual stocks for each client's account and not for a general fund (such as a mutual fund). As an investor in a mutual fund, you buy into the fund (pool of stocks) itself and do not actually own the individual stocks within the fund.

Benefits of a Separately Managed Account

Because you own individual stocks in your account, you have the ability to know exactly what you own and avoid extensive overlap in your portfolio. For example, many people own several different mutual funds within their brokerage account(s) and, although those mutual funds may be marketed under different names, they often hold the same issues of stock. Essentially, a client may believe they are diversified because they own 10 different mutual funds but, if all the funds hold many of the same stocks, they are actually not very diversified at all. Split Rocks SMAs make every attempt to have little to no overlap between portfolios. Because we aspire to have little to no overlap within our holdings, you can be rest-assured that you are truly diversified within your Split Rock separately managed account.

An SMA is very nimble in the sense that if the portfolio manager feels that the market is due for a correction or wants to exit a position for any reason, they can execute trades in a very timely manner. Mutual funds, inherently due to their large size, are usually very slow when unwinding



from their positions. It may take several weeks for a mutual fund to exit a position because of the fear that they will drive down the price of a stock they own if they try to jettison it all at once. Often times, even if a fund wants to exit a position in a single day it is not possible as there always has to be as many buyers as there are sellers on a transaction.

SMA's can profitably invest in smaller companies while larger mutual funds cannot. For example, in our Bakken & U.S. Energy Shale Model, we often come across small exploration and production companies with small market caps that present exciting long-term growth opportunities. As a smaller and more nimble manager, we can take a stake in those names without the fear of driving up the price of the stock as we are buying. A large mutual fund could never take a meaningful stake in these companies as they would be their own worst enemy bidding up the price of the stock as they were trying to create a position within their fund. In addition to bidding up the price and having to pay more for the stocks they are purchasing, they also would probably only be able to acquire a very minimal position compared to their overall fund size.

Our SMA Process and Strategy

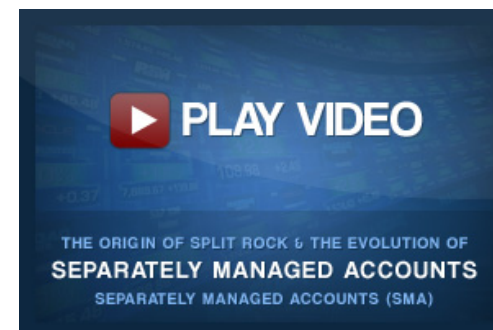
Our Research and Portfolio Management staff work feverishly to continue to provide and maintain the performance of our SMA portfolios. Our performance creates a great sense of pride in our individual managers and Split Rock Private Trading as a firm, and as such, settling for mediocrity is not an option. We spend countless hours each week researching and reviewing existing companies within our portfolios using both fundamental and technical analysis. Reading various SEC filings, listening to conference calls, and even making on-site visits to the companies we invest in, or are thinking of investing in, are all part of the norm here at Split Rock Private Trading. If we feel there are better opportunities in companies other than our current holdings, we will not hesitate to make tactical moves to potentially provide better upside. If we feel there are no good alternatives to a position we want to exit, we are not afraid to liquidate that position and sit in cash until a buying opportunity presents itself.

Our SMA Investment Portfolios

Bakken & U.S. Energy Shale - [Learn more](#)

Equity & Commodity Rotation - [Learn more](#)

Equity Income & Dividend - [Learn more](#)



SMA - Frequently Asked Questions

What is a separately managed account (SMA)?

An SMA is an individually managed investment account typically offered by brokerage firms. They are usually managed by independent investment management firms (often called money managers or portfolio managers) and have varying fee structures. With such a broad definition, many types of accounts might fit the definition of an SMA. There is no official designation for SMAs but there are common characteristics that are represented in all SMA programs. These characteristics include an open structure or flexible investment security choices; multiple money managers; and a customized investment portfolio formulated for a client's specific investment objectives or desired restrictions.

How is an SMA different than a traditional mutual fund?

When individuals invest money into an SMA, they actually own all the securities in their own account. With a traditional mutual fund, investors simply own shares of the mutual fund itself and not any shares of individual stocks. There is 100% transparency with SMAs so clients know what they own. A mutual fund is more of a "pooled" investment vehicle where a client's money is combined with other investors' money to buy and sell stocks.

Why should I switch from a mutual fund to an SMA?

Mutual funds have served their time well and will continue to do so individuals with modest funds to invest. For the high net worth individuals, surviving 2000 through 2002 and 2008, when the average mutual fund decreased in value and increased in capital gains distributions, was a wake-up call. With some mutual funds, your position can actually decrease in value (lose money) and net you a taxable gain because of the transactions that took place inside the fund. Therefore, SMAs - with the benefits of tax efficiency, asset control, customization, lower fees, and services of a professional money manager - can be a great alternative to a traditional mutual fund.

How much will I pay annually to have an SMA?

Unlike mutual funds, with numerous fees and charges, you will pay an annual management fee for the servicing of your separate account. The annual management fee is usually between 1.25% and 1.75% of total assets managed (based on the total dollar amount of the account).

How do I handle my taxes if I invest in an SMA?

Unlike mutual fund investors, separate account investors hold stocks in their own name. In mutual funds, investors are shareholders and have no control over the taxation of their funds. At the end of any given year, new shareholders have to pay taxes on the same capital gains as

investors who have been shareholders since January 1st of that same year. SMA managers do "tax harvesting" - offsetting gains with losses to deliver a higher after-tax return than mutual funds - for their clients. Investors get personalized tax documents based on the actual trades that were executed within their account.

Will I get a statement for my SMA?

Yes, because the SMA model is attached to your individual account, you will get a monthly/quarterly statement as well as be able to login to an online system to view your account.



Invest in Separately Managed Accounts

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Wealth Preservation Mgmt.
Asset Stability Mgmt.
Growth & Stability Mgmt.
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IRA - Traditional | Roth | Sep | Simple
Trust - Individual Account Owned by Trust
Coverdell Education Savings

[Strategic Investment Portfolios](#)

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