INSIGHTS

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MARCH 2025

SEPARATE WAYS

BEHIND THE EVOLUTION OF MANAGED ACCOUNTS

EXECUTIVE SUMMARY

Separately managed accounts (SMAs) have become an increasingly significant component of the hedge fund investment landscape. While not a new concept, their adoption and evolution have accelerated markedly in the last decade and even more in recent years, with our survey data showing that nearly half of hedge fund managers now offer SMAs, with an additional 10% planning to implement them within the next 12 months. This growth has been particularly pronounced among larger and more established funds, with all of the surveyed managers with assets under management exceeding £10bn offering SMAs.

New regulatory pressures, investor demands for transparency and technological advancements seem to have collectively driven this expansion in SMA adoption. As investors seek greater control and customisation of their hedge fund allocations, managers are responding by developing more sophisticated operational infrastructure to meet these demands.

But how should managers structure SMA offerings? Which operational functions can be efficiently outsourced and what role can technology play? How can managers balance customisation demands with operational efficiency?

This data-driven report, sponsored by SS&C, provides essential context on the evolving SMA landscape. Based on a survey of over 100 global hedge fund managers, it delivers actionable intelligence on key industry trends. Parts I and II examine market adoption across different AUM ranges and regional variations between the US, Europe, and the rising popularity in the APAC region. Part III addresses operational considerations—from technology implementation to service provider selection. While nearly three-quarters of managers run SMAs pari passu with their main strategy, the report highlights how operational complexity remains a significant challenge when managing individual accounts.

MANAS PRATAP SINGH
HEAD OF HEDGE FUND RESEARCH

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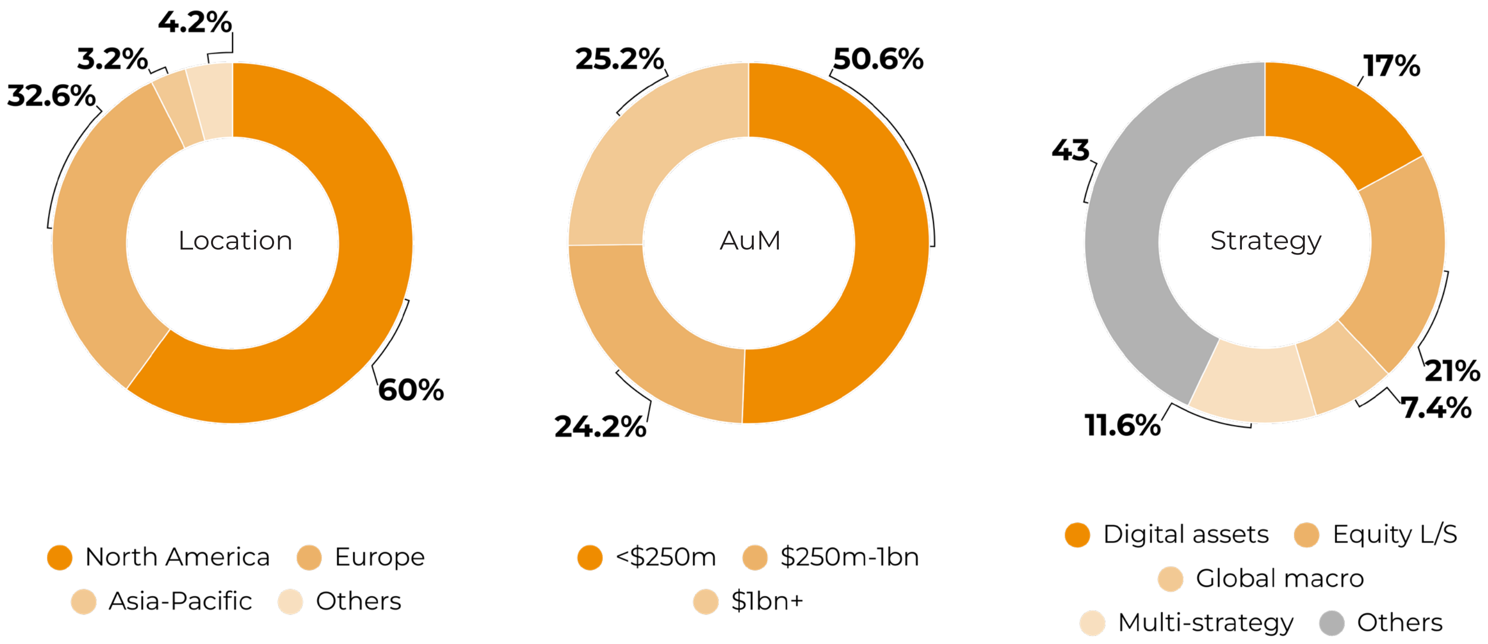


A key source of data in this report is the results of our Hedge Fund Separately Managed Account Survey conducted in Q1 2025. The survey collected responses from 102 hedge fund managers globally, spanning various AUM ranges, strategy types and geographic regions.

Further insights in this report were gathered during interviews with industry experts, including representatives from SS&C Technologies, Arb Asset Management, Borealis Strategic Capital, Quonota Investments and selected managers who asked to not be named.

The survey captured a diverse range of fund sizes, from emerging managers with less than £25m AUM to established players managing over £10bn. Strategy types represented include multi-strategy, CTA, equity-focused, macro, event-driven, fixed income/credit, relative value, insurance-linked securities, digital assets, and volatility strategies.

Regional distribution of respondents provided transatlantic perspectives, with 60% of participants from North America and 33% from Europe, enabling meaningful comparisons of SMA adoption trends and practices between these key markets.

KEY FINDINGS

1

AUM drives SMA adoption

Larger funds are significantly more likely to offer SMAs, with all of the funds over £10bn AUM offering them compared to just 40% of funds under £25m. The correlation between size and SMA offering is clear, with three-quarters of funds in the £1-5bn range and 90% of those in the £500m-£1bn range providing SMAs. This highlights the operational capacity and resource requirements needed to effectively manage separate accounts alongside flagship funds.

2

Regional disparities emerge

Survey data shows 63% of North American managers offer SMAs versus 54% of Europeans. More revealing is the growth trajectory: Three times as many North American managers not currently offering SMAs plan to launch within 12 months, compared to Europeans. Meanwhile, market interviews indicate SMAs are rapidly gaining traction in APAC. These regional variations suggest underlying regulatory or market structure differences influencing adoption patterns.

3

Transparency drives investor demand

Enhanced transparency was identified as the primary motivator for investors seeking SMAs, with 49% of the respondents highlighting this factor. Direct ownership of assets and customised investment guidelines followed as key drivers. This reflects the post-2008 trend towards greater investor control and visibility into underlying investments.

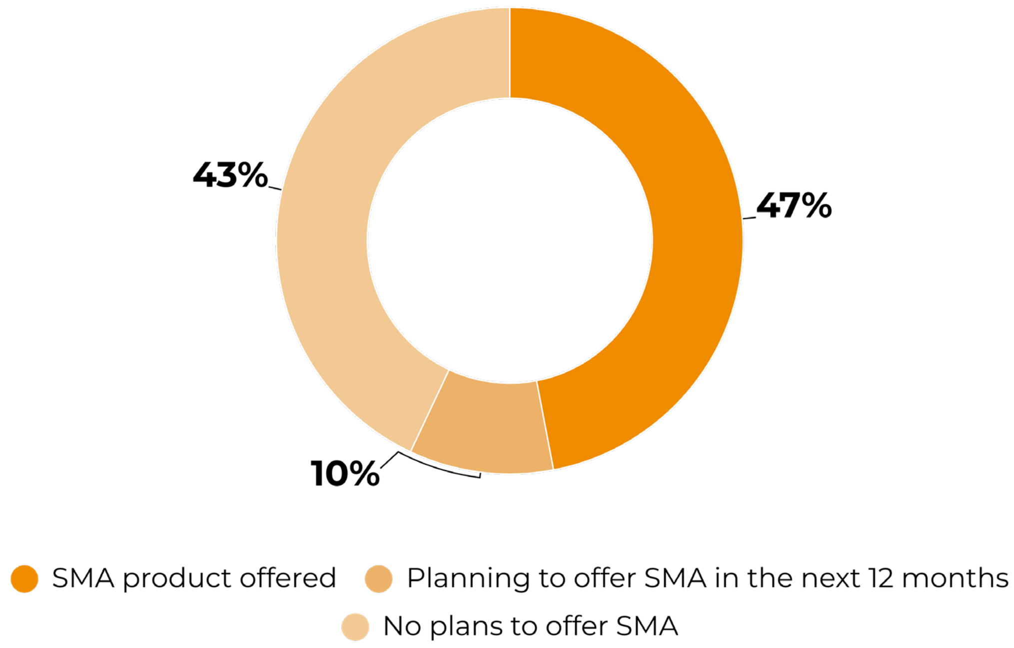
4

Technology and service provider selection critical

Market reputation ranked as the most important factor when selecting service providers, with 28% of the managers ranking it as their top consideration. However, existing relationships and technology capabilities also featured prominently, with 44% and 38% of the managers ranking it as either their first or second most important factor respectively, highlighting the critical role of familiarity of product and technological infrastructure in efficiently managing multiple separate accounts.

SEPARATELY MANAGED ACCOUNTS – THE NEW NORM?

Chart 1 SMA offering by distribution



Source: Hedgeweek 2025 Investor Survey

The growth in separately managed accounts reflects a significant shift in how institutional investors and high-net-worth individuals are choosing to allocate to hedge fund strategies. Our survey data reveals a landscape where SMAs are increasingly becoming standard offerings, particularly among established managers.

Nearly half (47%) of surveyed hedge fund managers currently offer SMAs, with an additional 10% planning to launch SMA capabilities within the next 12 months. This trend appears to be accelerating, particularly among younger funds seeking to attract institutional capital.

And it is here to stay, with JP Morgan expecting 58% of new launches over the next 12 months will be done in SMAs, while Goldman Sachs envisages the SMA space to grow by $400bn+ by 2027.

Among funds less than five years old that don't currently offer SMAs, 41% plan to introduce them within the next year. This compares to just 13% of more established funds (older than five years) that don't currently offer SMAs but plan to do so. This suggests that newer managers see SMAs as an important competitive differentiator when raising capital in today's environment.

The strategies showing strongest demand for SMA implementations include multi-strategy (73%), macro (71%), credit (67%) and relative value (67%).

Daniel Harris

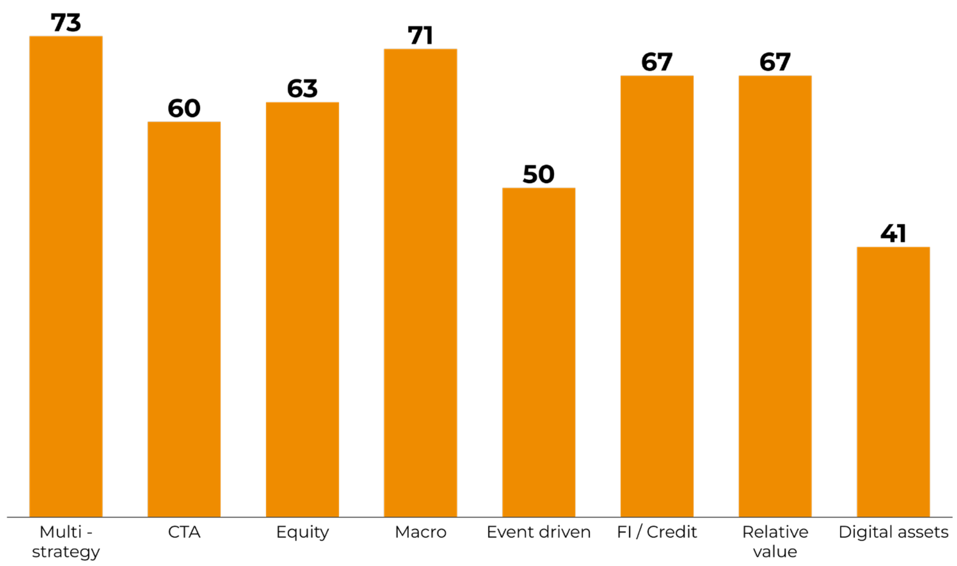
Principal and Investment Committee Member, Borealis

Borealis is a seed capital provider solely focused on backing early-stage hedge fund managers.

"We've observed that SMAs continue to become more common and feasible for early-stage managers executing select strategies, aligning with your survey finding that two in five early-stage managers plan to launch SMAs in the next 12 months.

- **Improved infrastructure:** Enhanced resources, technology, and infrastructure from both prime brokers and SMA platform providers have made implementation more accessible.
- **Investor demand:** Increasing demand for customisation, transparency, and capital efficiency continues to fuel SMA growth.
- **Capital raising environment:** SMAs provide flexibility for emerging managers to secure commitments outside traditional fund structures, particularly valuable in challenging fundraising conditions.
- **Technology democratisation:** New platforms have reduced operational burdens, making SMAs viable even for sub-$100M managers who previously lacked the infrastructure."

Chart 2 SMA offering by strategy



Source: Hedgeweek 2025 Investor Survey

Chart 3 SMA offered (age of fund)

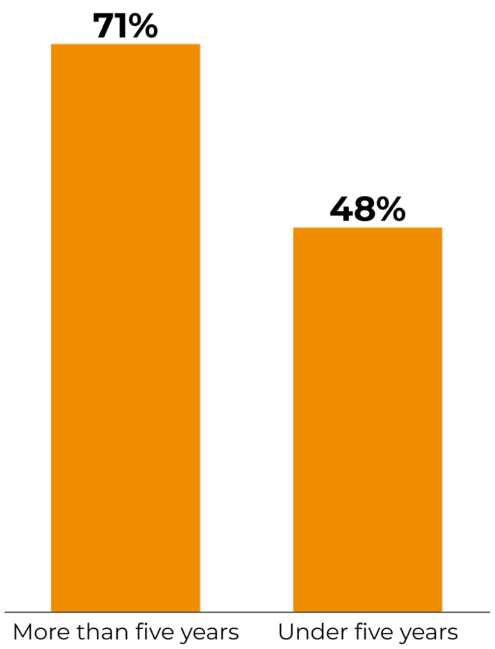
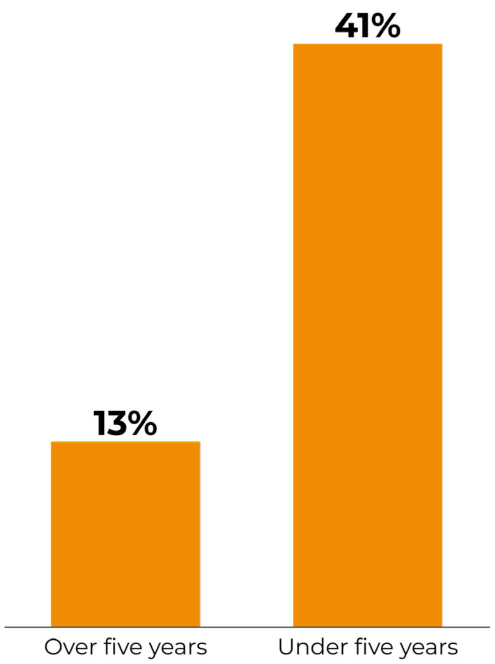


Chart 4 Planning to offer SMA in the next 12 months (age of fund)



Source: Hedgeweek 2025 Investor Survey

"I think there are a number of principles driving this trend," says Sam Vogel, Director at Arb Asset Management. "The first one is just that SMAs can be customised and controlled. Obviously, the investor can set limits, they can set the assets and so on to fit what their needs are specifically. So it's a highly bespoke vehicle."

Vogel also points to transparency as a key factor. "The landscape is changing from one of 'black box' with no look-through at all to people realising that it is best to be transparent with investors if you want to raise money. Asset raising for some of the medium and smaller guys has become a lot more difficult, and with that, the power has shifted towards allocators."

SCALE AND SOIL SHAPE SMAS

SIZE MATTERS: AUM DISPERSION

Hedgeweek survey data reveals a clear correlation between fund size and SMA offerings. There appears to be a threshold at which the operational capabilities and resource requirements necessary for managing multiple separate accounts become viable.

Among the largest managers (over £10bn AUM), SMA offerings are universal, with 100% of respondents in this category offering separate accounts. This percentage decreases gradually with size:

- £1bn-£5bn range: 75% offer SMAs
- £500m-£1bn range: 90% offer SMAs
- £250m-£500m range: 66% offer SMAs
- £100m-£250m range: 50% offer SMAs
- £25m-£100m range: 58% offer SMAs
- Below £25m: 40% offer SMAs

This pattern suggests that operational considerations play a significant role in whether managers can efficiently offer SMAs. For smaller managers, the additional operational burden may outweigh the potential benefits of attracting SMA capital.

"We're seeing the market shifting towards smaller players, with costs notably decreasing," says Sam Vogel. He explains that minimum thresholds vary significantly by strategy and investor type. "There's growing demand from smaller entities and more typical family offices that don't have the capacity to write hundred-million-dollar checks."

When asked about the minimum viable AUM for an SMA programme, the majority of managers (70%) indicated that under £100m was sufficient, though some specified that the threshold depends significantly on the strategy employed. This suggests that while there are economies of scale in managing SMAs, the barriers to entry may be lower than commonly perceived.

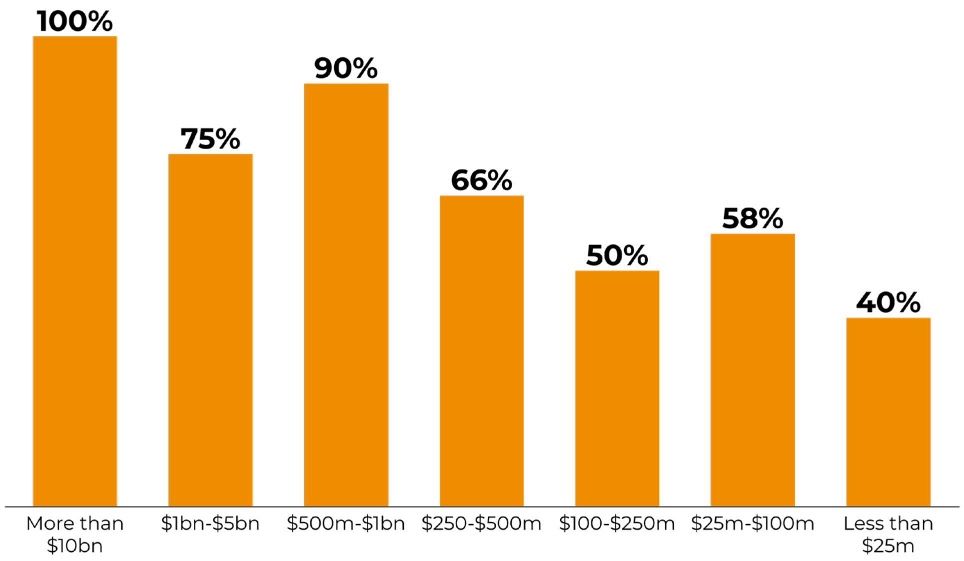
"Enhanced SMA technology and infrastructure have made SMAs more feasible and common for all managers," explains a representative from Borealis Strategic Capital, "but managers with larger AUM, resources and teams continue to have advantages implementing additional products and structures, including SMAs."

REGION MATTERS: US VERSUS EUROPE

Regional differences in SMA adoption are notable. North American managers are a bit more likely to offer SMAs (63%) compared to their European counterparts (54%). Perhaps more telling is the growth trajectory: 20% of American managers not currently offering SMAs plan to launch them within 12 months, while 6% of the surveyed European managers indicated such plans.

Sam Vogel, who has recently returned from an industry event, says of his recent experience: "The feedback was that European investors are noting that whereas US institutions are going full ahead into SMAs, the European side still lags."

Chart 5 Current SMA offering (AUM analysis)



Source: Hedgeweek 2025 Investor Survey

Chart 6

Firms offering SMAs by region

North America | Europe

63% | 54%

Chart 7

Firms without SMA offering, planning to launch in the next 12 months

North America | Europe

20% | 6%

Source: Hedgeweek 2025 Investor Survey

SMAs Gaining Traction in APAC?

SMAs also seem to be gaining momentum across APAC markets, multiple sources have told Hedgeweek. According to the survey data, 50% of the respondents from the region offer SMA structures to investors, with this figure projected to increase according to regional market participants.

Singapore-based Noviscient's CIO Scott Treloar confirms this trend, noting that Asian investors are increasingly drawn to SMAs for their "direct control and transparency" benefits. However, he cautions that operational complexity remains a challenge for both investors and managers.

Treloar adds that this trend is simultaneously driving interest in alternative structures like 'Fund of One' which he describes as offering "similar transparency benefits with reduced operational burden" - potentially positioning them as the next evolution beyond traditional SMAs.

Analyst Note: *As APAC respondents constitute just 3.2% of the total survey sample, readers should interpret these findings with appropriate caution.*

Share of Asian hedge funds offering SMAs

Vogel recounts multiple conversations highlighting the regulatory challenges: "We had three or four meetings where a European allocator said to us, 'I understand SMAs and their pros. We're trying to convince our boards and the actual regulators.' I think the regulatory barrier for SMAs in the USA is far, far lower than it is in Europe."

Several factors may explain this regional divergence:

Regulatory differences — The US regulatory environment may make SMA structures more attractive, a fund manager offering SMAs in the US told Hedgeweek on the condition of remaining anonymous. This, they pointed out, may be particularly true for certain institutional investors with specific requirements under Employee Retirement Income Security Act (ERISA) or other regulatory frameworks.

Market maturity — The US alternative investment market's relative maturity may contribute to greater adoption of sophisticated investment structures like SMAs, another fund manager based in London said.

Operational infrastructure — The same London-based fund manager added that availability of service providers experienced in handling SMA structures may be more developed in the US market.

The fund age data further illuminates regional trends. Among established funds (over five years old), 71% offer SMAs, compared to just 48% of younger funds (under five years). This suggests that building SMA capabilities remains largely the domain of more experienced managers with established operational infrastructure.

POWER SHIFTS: DEMAND, DESIRE, DESIGN

MASTAN MOMIN

Managing Director, EMEA Hedge Fund Services
at SS&C Technologies

Our survey shows nearly half of the funds already offer SMAs, with another 10% planning to launch within a year. What driving factors have you observed behind this growth trajectory, and do you expect it to continue?

We have seen demand for SMAs increasingly from institutional investors and family offices seeking transparency, control and customisation. Unlike traditional funds, SMAs provide real-time visibility into positions and don't require waiting until month-end or quarter-end for reports. Investors can customise their accounts based on risk appetite and adjust leverage accordingly. Another major driver is capital efficiency – traditional hedge funds require full capital funding upfront, which can lead to cash sitting idle. SMAs, on the other hand, allow for notional funding, cross-margining and smarter financing, generating "structural alpha." This kind of efficiency can boost returns by 1-2%. In today's market, where every basis point matters, it's a meaningful edge.

How do operational requirements differ between family offices and institutions?

Institutional investors and family offices approach SMAs with a very different mindset than commingled fund investors. The key difference? They're not just looking for returns; they are looking for control, customisation and risk management at an institutional level. While control and customisation are common priorities, family offices often have multi-jurisdictional tax, estate planning considerations and direct control over investments. These requirements call for working with specialised tax teams to optimise entity structuring, withholding tax and regulatory compliance. Institutions benefit from enhanced transparency, risk management and capital efficiency. SMAs aren't just an investment vehicle – they are operational and governance solutions for family offices and institutions.

Market reputation and existing relationships ranked highest in provider selection criteria, while cost ranked surprisingly low. Does this align with your experience in competitive situations?

When managing institutional capital, the priority isn't finding the lowest-cost option. Managers look for trust, reliability and expertise, especially from their administrator. With SMAs running hundreds of millions or billions, managers can't afford operational errors, compliance lapses, or weak infrastructure. They seek partners who can scale, adapt and deliver consistently. While cost matters for returns and performance, investors are willing to pay a premium for quality service and expertise. They want service providers who bring more than just administration capabilities – they want providers to enhance operational efficiencies and provide better risk management and compliance frameworks.

Why does operational infrastructure become crucial during geopolitical uncertainty?

SMAs are structured to fit an investor's risk appetite, liquidity needs and portfolio objectives. In uncertain times, control matters. Hence, strong operational infrastructure provides a competitive advantage for managers navigating volatile markets. Investors require daily transparency to monitor exposures and third-party risks, allowing them to adjust allocations when crises hit. The liquidity control element of SMAs enables investors to set their terms and adjust risk exposure without fund-level gates or lockups. Additionally, given current geopolitical tensions, there's heightened awareness around counterparty risk. SMAs facilitate counterparty diversification across custody, prime brokerage, and execution venues, reducing reliance on single institutions during uncertain times.

THE THREE WS: WHO, WHY, WHOM?

In the evolving world of alternative investments, something fundamental has changed since the 2008 global financial crisis. Investors are no longer content to be passive participants, writing cheques and hoping for the best. SMAs has emerged as one of the many powerful tools for those seeking more than traditional fund structures can offer – a way to gain unprecedented transparency, control and alignment with specific investment objectives.

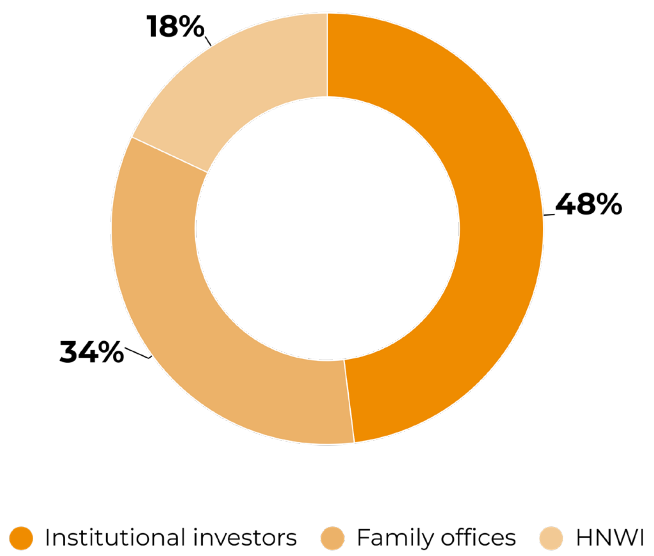
Behind this shift lies a complex interplay of motivations, technological capabilities and changing investor expectations. Who are the primary drivers of this trend? What fundamental needs are SMAs addressing? And how are managers and service providers responding to this growing demand?

WHICH INVESTOR PROFILES WANT SMAS?

Our survey data provides clear insights into which types of investors are primary drivers of SMA demand. Institutional investors lead the charge, with half of the respondents identifying them as the primary source of SMA requests. Family offices follow closely (36%), with high-net-worth individuals comprising the third significant group (18%).

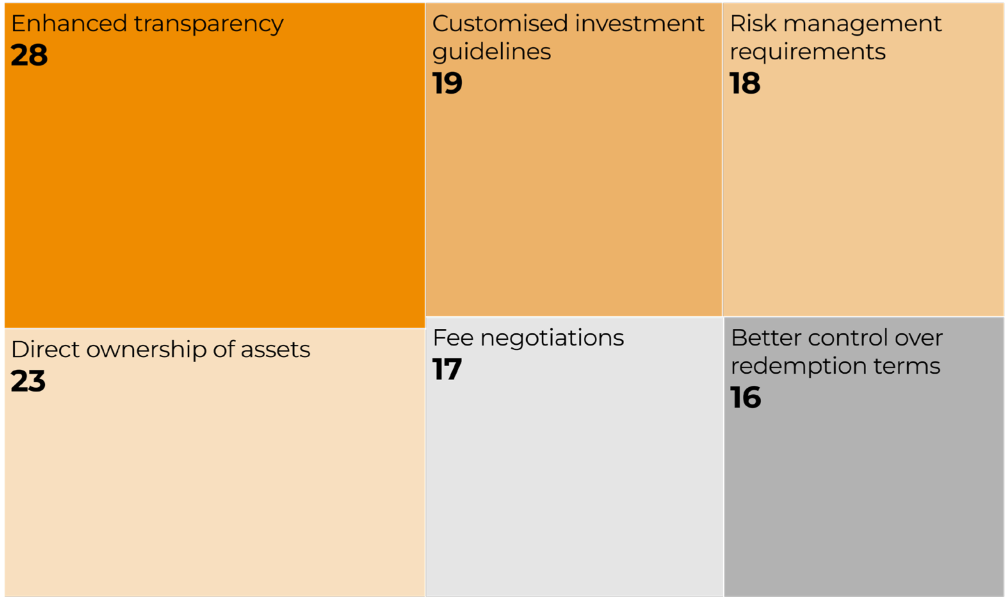
This distribution reflects the broader trend of institutionalisation within the hedge fund industry. Larger investors with sophisticated

Chart 8 Who is driving the SMA demand?



Source: Hedgeweek 2025 Investor Survey

Chart 9 What is driving investor demand for SMAs? (Rank top 3)



Source: Hedgeweek 2025 Investor Survey

operational requirements are increasingly seeking tailored solutions that offer greater control, transparency and alignment with their specific investment parameters.

AIMA's recent industry analysis notes a similar trend, highlighting that "leading institutional allocators continue to embrace these tools, with the rest of the industry increasingly following suit." Their report also indicates that this approach has become particularly popular with many of Canada's Maple 8 pensions, suggesting a structural shift driven by limited partners determined to extract the greatest value from their hedge fund allocations.

"I think the main aspect is the ownership, which is relevant for both traditional and crypto investments," says Vladimir Vishnevskiy, Partner at Quonota Investments, drawing on his experience with family offices. "It may be a bit more important in crypto because it's higher risk."

Vishnevskiy highlights the risk differentiation: "It's one thing to trust someone for investment expertise, but it's another if you just have a fund, because then it's a completely different set of risks – operational risk, mismanagement risk. If it's in a segregated account with the bank, you're much more comfortable as your only risk is then with the manager."

Do SMAs unlock capital's hidden potential?

One particularly compelling aspect of SMA structures that has gained significant momentum in recent years is the capital efficiency they provide to investors. This has become especially valuable in the current market environment where maximising returns across asset classes is challenging.

Our 2025 survey data shows that 78% of respondents now cite capital efficiency as a key consideration in their SMA implementation decisions, ranking it third among primary motivators behind transparency and control.

Recent AIMA industry analysis confirms this trend has accelerated dramatically, with improved capital utilisation emerging as "potentially the most impactful advantage of SMAs." As they note:

"Traditional fund structures often require full funding of the committed capital upfront, which can lead to idle cash and sub-optimal returns. By contrast, SMAs can employ notional funding and cross-margining techniques to reduce the amount of idle collateral. When combined with today's higher interest rates, the savings can be meaningful."

This "structural alpha" has become increasingly important in today's market environment. AIMA reports that allocators have "savedms by optimising cash usage and financing costs through enhanced margin efficiency and improved financing conditions," with even a 1-2% improvement in return achieved purely through better capital optimisation being "too large to ignore."

"In our sphere, we basically only use about 10% margin to capital, so there's massive cash efficiency to SMAs," explains Sam Vogel, highlighting how significant these benefits can be. "If an investor goes into a fund and allocates £100m, they have that £100m allocation. For an SMA, they would likely only need to put down £10-15m to have the same exposure. Then the other £85m goes into money market instruments, and they're yielding another two, three or 400 basis points, depending on what access they have."

Vladimir Vishnevskiy points to additional fee benefits: "When you do SMAs, your counterparties will always treat you as one entity. So whoever is managing the money, you have a lot of economies of scale and a much better bargaining position than if you're just one individual client who came to a bank."

He adds: "That allows you to lower the costs, and then you probably split the difference somewhere in the middle with your clients. So it's cheaper than having a Cayman fund, it's cheaper for the client, and it's a win-win situation.

WHY DO INVESTORS WANT SMAS?

When asked to select all the possible motivators they think are behind investor demand for SMAs, managers chose these three dominant factors:
Enhanced transparency (cited by 49% of the respondents) – Investors want greater visibility into underlying portfolio positions and activities.

Direct ownership of assets (cited by 40% of the respondents) – The ability to maintain legal ownership of securities rather than holding partnership interests.

Customised investment guidelines (cited by 33% of the respondents) – The flexibility to tailor investment parameters to specific needs or restrictions.

Secondary motivators included risk management requirements (31%), fee negotiations (29%) and better control over redemption terms (28% respondents).

These findings illustrate the post-2008 shift towards investor empowerment. Following the financial crisis and high-profile fund gatings, investors have increasingly prioritised structures that offer greater control and flexibility.

"Having access to the account daily for yourself is very important," emphasises Vishnevskiy on the transparency point. "All the stories of Madoff, etc., were actually about auditing issues. So having that kind of access to the account yourself every day is crucial."

The transparency provided by SMAs offers real-time visibility into portfolios and the ability to monitor trade activity and counterparty risk exposures in real-time. AIMA notes that this control feature is "proving invaluable in today's geopolitically-tense world," allowing investors to instantly quantify exposures and act decisively during global events.

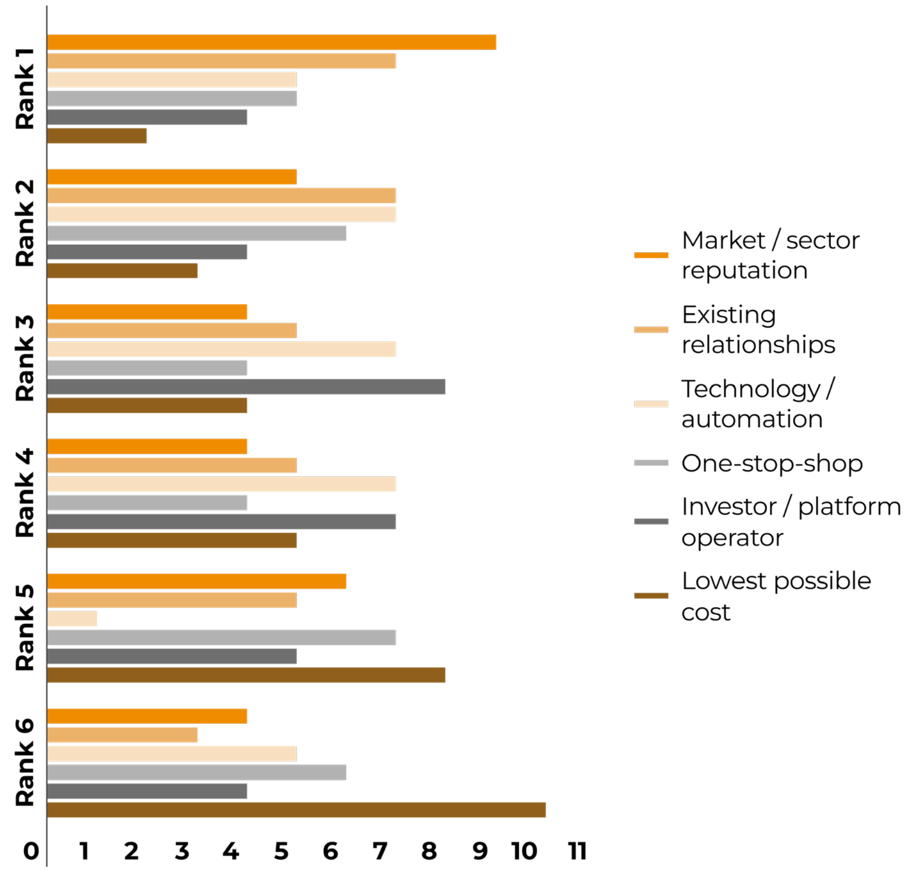
WITH WHOM DO MANAGERS ESTABLISH SMA INFRASTRUCTURE?

Service provider selection emerges as a critical consideration in successfully implementing SMA capabilities. When asked to rank factors in selecting service providers, managers prioritised:

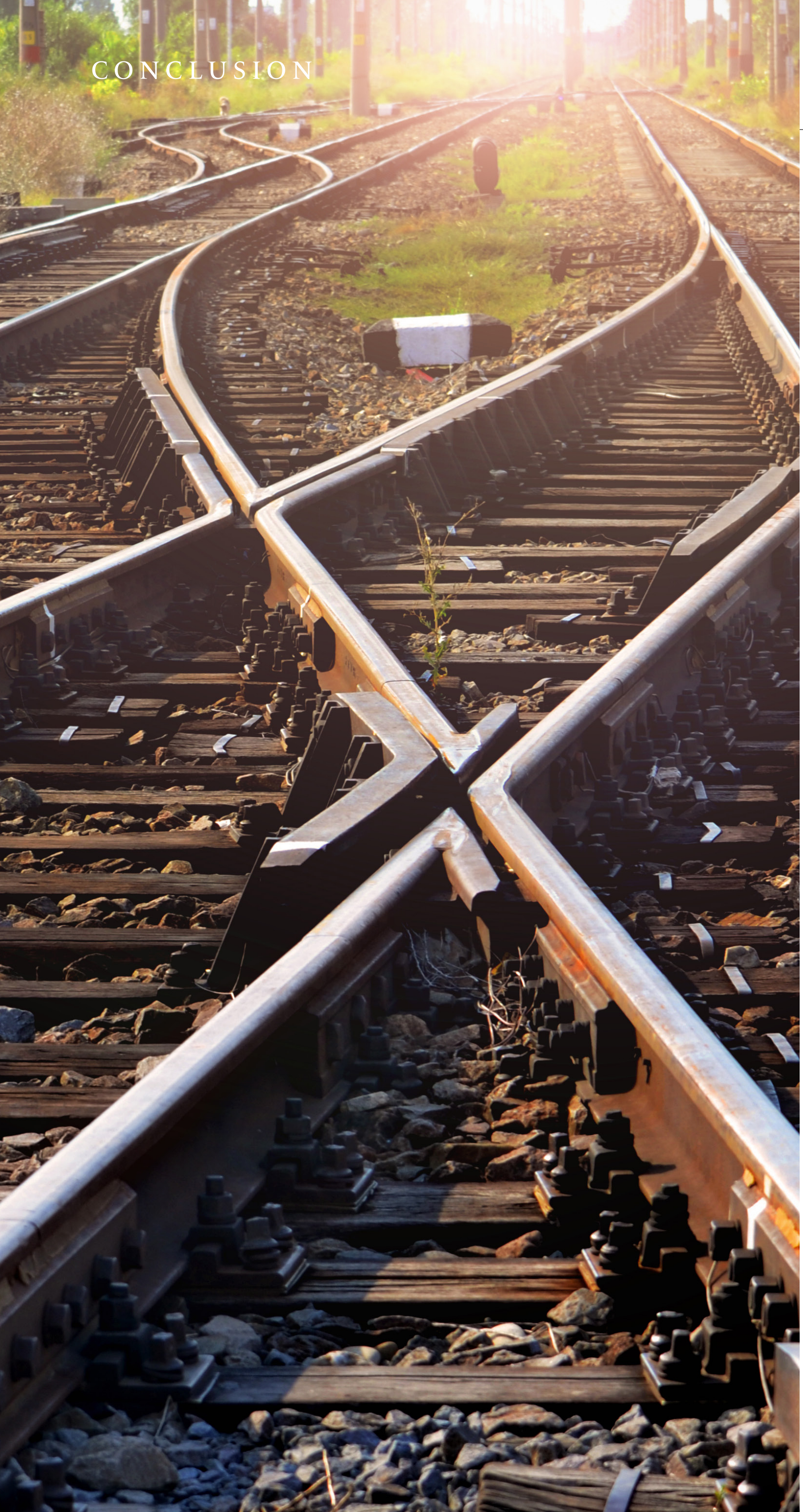
- Market/sector reputation (28% of managers ranked this first)
- Existing relationships (22% of managers ranked this first)
- Technology/automation capabilities (16% of managers ranked this first)
- One-stop-shop service offering (16% of managers ranked this first)
- Investor/platform operator preference (13% of managers ranked this first)
- Lowest possible cost (6% of managers ranked this first)

When evaluating the top two ranking positions together, technology capabilities emerge more prominently, with 38% of managers placing it in either first or second position. This highlights the growing importance of robust technological infrastructure in efficiently managing multiple separate accounts. ■

Chart 10 Funds rank top factors that influence service provider selection for SMAs



Source: Hedgeweek 2025 Investor Survey



CONCLUSION

The growth of separately managed accounts in the hedge fund space represents a fundamental shift in how sophisticated investors approach alternative investments. No longer content with the standardised parameters of commingled vehicles, investors are increasingly demanding the transparency, control, customisation and capital efficiency that SMAs provide.

Our survey data demonstrates that this trend is particularly pronounced among larger, more established managers, but is rapidly spreading to mid-sized firms as technological solutions reduce the operational burden of managing multiple separate accounts. The disparity between US and European adoption rates suggests there may be regional factors at play, but the overall trajectory is clear — SMAs are becoming an essential offering for managers seeking to attract institutional capital.

“The landscape is changing from one of ‘black box’ with no look-through to people realising that it is best to be transparent with investors if you want to raise money,” says Sam Vogel. “Asset raising for some of the medium and smaller guys has become a lot more difficult, and with that, the power has shifted towards allocators.”

The compelling benefits of transparency, direct asset ownership, customisation, capital efficiency and improved margin utilisation seem to outweigh the significant increase in work required to implement a hedge fund SMA programme successfully.

“We expect this trend to continue in the years ahead,” the Borealis representative adds, “though managers should recognise that while SMAs offer advantages, they come with important considerations for both allocators and managers.”

For managers yet to develop SMA capabilities, the message from our survey is clear: investors increasingly expect these structures, and firms that cannot offer them may find themselves at a competitive disadvantage when raising institutional capital. For investors, SMAs represent an opportunity to gain more tailored exposure to hedge fund strategies, with enhanced control and transparency that can significantly improve their overall portfolio management.

The era of growth for separately managed accounts appears set to continue as technology advances further reduce operational friction and investors become more sophisticated in leveraging the benefits these structures provide.

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