

# One investor, one fund, one vision.

Seb Wright, Investec - Fund Solutions

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Separately managed accounts (SMA) mean investors get a tailored service and can have far greater influence in all aspects of the fund. For general partners (GPs) of course, that can sometimes create headaches. So when you're offering a standalone fund, it pays to have a fund adviser who can think outside the box to develop optimal hedging solutions.

The private equity market shows no signs of slowing on innovation. On the fund management side, we've seen developments such as the increased use of long-hold funds, which can run for 20 years or more. But investors haven't been slow to innovate either, and an increase in the use of SMAs is one such development.

With 20 or 30 limited partners (LPs), a GP can generally call the shots – with one investor, the relationship has to be more consultative. A greater number of LPs also means more flexibility on capital as banks will often offer credit lines based on the wide investor base.

In a SMA, as there is a perceived concentration risk of only one investor, many banking counterparties are unwilling to offer credit intensive, uncollateralised hedging lines. This could force GPs to use investors' money as collateral, creating a cash drag on the investment returns.

At the same time, SMAs represent desirable access to some of the biggest and most influential names in the investment community, and so GPs want to accommodate them where possible. By working in partnership with an innovative and creative specialist fund solutions provider GPs can almost always find a way to meet these large bespoke investors' needs. Whether that's hedging the underlying fund investments (portfolio hedging) or the LPs' investment in to the fund (share class hedging), trading counterparties who can see things differently will often be able to help find a solution.



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#### Why separately managed accounts (SMAs)?

Large investors with the clout to persuade funds to create an SMA for them like the freedom that individual accounts provide. These investors – often multi-national pension funds and sovereign wealth funds – usually want to tweak some aspect of the fund to match their underlying investment guidelines or to negotiate on fees. An SMA allows them to have what is effectively a bespoke version of their chosen fund.

Some require exclusions, such as tobacco or arms, as they have strict investment criteria guidelines. Others need their account to be held in a particular domicile – for example, a US investor may require a Cayman Islands-based account. LPs may even want to have the final say on a proposed investment, and SMAs offer increased access to the GP research and decision making process. Whatever the reason, these LPs need a version of the fund that reflects their own prescriptions.

#### Tied up in knots?

Demand for SMAs is on the rise and no GP wants to turn down a sizeable capital allocation, which is why it's vital to work with a counterparty that understands these accounts and can develop solutions accordingly.

The answer is to work with a more flexible provider that considers each case individually and through its own detailed analysis can extend lines of credit on a case-by-case basis. At Investec Fund Solutions, we are always prepared to look at bespoke transactions, our credit knowledge and fund expertise grant us the freedom that box ticking analysis just doesn't allow.

The key is to build a case around both the investors in a fund and the investment manager in order to decide the right approach – and to set bespoke parameters that meet all parties' needs. The closer we can get to the investors, the more we find we can often help where other banks with a more rigid approach cannot – or will not.

This is particularly important for an SMA where there is only one investor, as banks will often have strict minimum diversity requirements that can needlessly exclude accounts without truly understanding the case-by-case merits.

### Going the extra mile

As the PE market evolves, SMAs are becoming more common. Creating effective solutions for investors that want SMAs requires both imagination and application. Above all, it requires an individual approach. By their nature, SMAs are bespoke; the solutions applied to them must be bespoke too. At Investec Fund Solutions, we have the specialist knowledge and appetite for research to help develop a solution.

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**Joseph McKenna**

+44 207 597 4645

joseph.mckenna@investec.co.uk



**Devonshi Mody**

+44 207 597 5341

devonshi.mody@investec.co.uk



**Michael Slane**

+44 207 597 3684

michael.slane@investec.co.uk



**Seb Wright:**

+44 207 597 5543

seb.wright@investec.co.uk

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