

insights:

SCALING SUCCESS: THE CRUCIAL ROLE OF OPERATIONS IN SHAPING SMA GROWTH

As the asset management industry continues to evolve, managers today must take proactive steps to take advantage of new tools that can power their growth.

While investing in Separately Managed Accounts (SMAs) has gone in and out of favor over the years, it appears that we are currently experiencing the next level of SMA growth. From their inception 50 years ago to the sophisticated landscape of today, SMA offerings have not only kept pace with market demands but have often anticipated and shaped those demands. In fact, in the last two years, SMA assets increased by 21.1%, even as many other types of investment accounts have seen outflows.¹

Driven by continued investor demand for transparency and **personalization** as well as distributors' desire to offer strategies in a variety of investor-friendly wrappers, managers are clamoring to bring new SMA strategies to market. As we look ahead to a year that promises fast-paced innovation, it may be helpful to consider the critical role of investment operations in the growth of SMAs and its ongoing impact on the industry's future.

THE DAWN OF SMAS AND UMAS

While some think of SMAs as a relatively new investment product, they have been around since the mid-1970s, when they emerged as a response to the need for more tailored and scalable investment solutions. Retail investors sought alternatives to traditional mutual funds, desiring a more individualized approach to wealth management. This era witnessed the birth of SMAs and, later, Unified Managed Accounts (UMAs). SMAs



allowed individuals to have their portfolios managed by professional advisors, providing a level of customization and control not previously available with traditional investment options.

They also offered transparency, tax efficiency, and the ability to tailor investments based on individual investors'

¹ Advisory Solutions Quarterly: A research partnership with Money Management Institute and Cerulli Associates, 3Q2023.

preferences. Building on the foundation laid by SMAs, UMAs integrated various investment vehicles, such as mutual funds, exchange-traded funds (ETFs), and individual securities into a single, consolidated account. UMAs brought increased flexibility, enabling advisors to implement a diversified investment strategy across multiple asset classes seamlessly.

OPERATIONAL CHALLENGES LEAD TO OUTSOURCING

As asset managers began to launch these new products to meet the evolving demands of investors, they were confronted with a myriad of operational challenges. One of the primary hurdles was outdated technology, which posed significant obstacles to managers looking to accommodate the increased volume of retail accounts. Likewise, operational teams, accustomed to handling a limited number of institutional accounts, found themselves ill-equipped to address the substantial volume of retail accounts. While an early solution was to add new systems, asset managers increasingly found that outsourcing operational functions such as trade execution, reconciliation, and reporting was a better alternative when looking to grow their SMA offerings. Outsourcing enabled asset managers to continue to deliver these strategies while remaining focused on their core competencies like portfolio construction, client relationships, and strategic planning, while increasing efficiencies.

Specifically, outsourcing investment management operations brought several benefits to the table:

- **OPERATIONAL EFFICIENCY:** By outsourcing routine tasks, such as trade settlements and portfolio accounting, firms could streamline their operations, reducing costs and potential errors.
- **SCALABILITY:** As the popularity of SMAs and UMAs grew, outsourcing provided the scalability required to manage a larger number of accounts without compromising service quality.
- **RISK MANAGEMENT:** Outsourcing partners often specialize in specific areas of investment operations, bringing expertise that helps mitigate operational risks.
- **TECHNOLOGICAL ADVANCEMENTS:** Outsourcing partners invest heavily in technology, providing access to cutting-edge solutions that are otherwise cost-prohibitive for individual firms.

TECHNOLOGY DRIVES PERSONALIZED INVESTMENTS

In recent years, the industry has seen many technological advancements that have transformed the landscape of SMAs. The integration of digital platforms and trading algorithms allow for greater efficiency, enhanced portfolio customization, and real-time monitoring. **Artificial intelligence** creates increased efficiency and speed to market, while **advanced data solutions** ensure that managers have or easily access the information they need to identify trends, make decisions, and measure success.

In the current landscape, where investors are increasingly in search of portfolios optimized for after-tax returns, greater control over factor exposures, and alignment with their values, technology is revolutionizing how asset managers respond to these demands. Technology has enabled personalization at scale with significantly reduced day-to-day manual efforts, marking a transformative shift in the industry. We are seeing an array of managers, from global institutions to smaller boutique firms, that have experienced the benefits of SMAs and are now **expanding into model portfolios, direct indexing, and multi-sleeve accounts**, for a full suite of personalized investment offerings.

THE PATH AHEAD

SMAs and UMAs have evolved from basic portfolios to highly sophisticated, personalized strategies to meet the diverse needs of investors in an ever-changing market. Looking ahead, the future promises even greater innovation. The integration of machine learning, AI technology, and further advancements in data analytics are poised to – once again – reshape the SMA/UMA landscape. In the years ahead, we expect operations to continue to be a key part of bringing new investments to market, and we look forward to partnering with our clients as they navigate the new opportunities ahead.

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