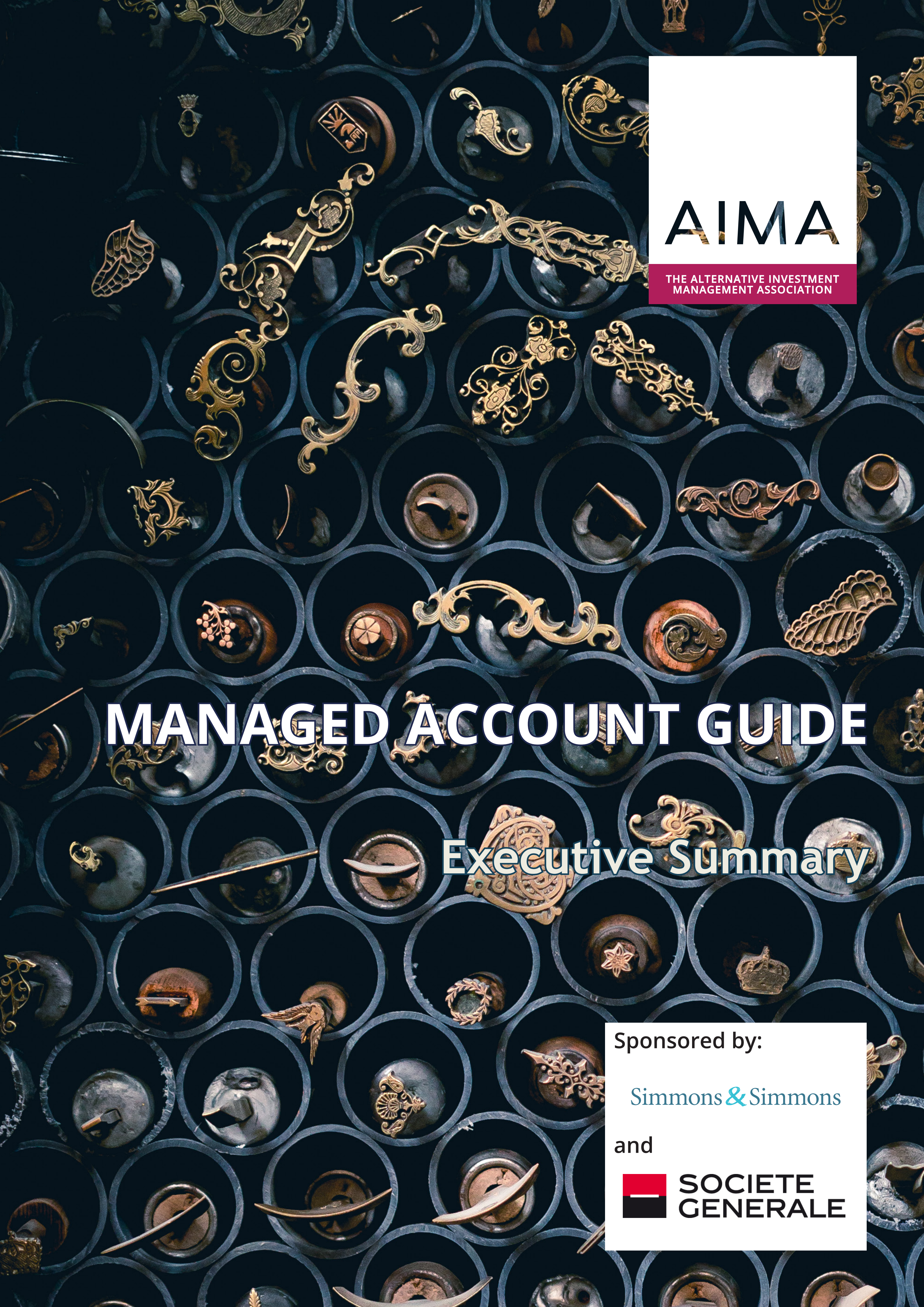

AIMA

THE ALTERNATIVE INVESTMENT MANAGEMENT ASSOCIATION

MANAGED ACCOUNT GUIDE

Executive Summary

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Executive summary

Managed accounts typically offer an investor the ability to invest in alternative investment strategies with greater control over their own assets and greater transparency and flexibility than would be available in a traditional commingled fund structure. Investment managers are increasingly amenable to using managed accounts to diversify their asset raising options.

Investor demand for managed accounts exists because, among other things, managed accounts offer investors:

- Control over how the account is funded, structured and governed;
- Depending on the structure, the ability to select service providers for the account;
- Greater transparency with respect to the assets traded;
- Greater flexibility to negotiate with the investment manager on:
    - Risk management guidelines;
    - Investment parameters, including any divergence from the investment strategy of the reference fund, if applicable;
    - Leverage use;
    - Liquidity and the ability to increase or decrease funding of the managed account periodically;
    - Reporting;
    - Management fee and performance fee amounts and calculation methods;
- Insulation from the types of impacts that investors in traditional commingled fund can have on each other when they subscribe or redeem in large amounts; and
- For certain institutional investors who do not invest in commingled accounts, the ability to invest in certain alternative strategies.

There are also some potential disadvantages to managed accounts from an investment manager's perspective that should be considered (and negotiated with the investor where applicable) before initiating a mandate:

- Increased operational risks from any counterparties and service providers selected by the investor rather than by the investment manager;
- Increased operational and performance risks from trade allocation (e.g., rounding, sub-division of certain types of trades like futures), use of multiple prime brokers, give ups, management of trading errors) where the managed account is trading *pari passu* with a reference fund as every trade will be subject to an allocation;
- Additional or different transparency and reporting obligations than apply to the investment manager's commingled funds;
- Further conflicts of interest;
- MFNs with other clients, which may cause the investment manager to provide any additional benefits negotiated with a managed account investor to any client who already has an MFN in place; and
- Increased regulatory burdens (including AML/CTF/KYC, FATCA, etc.).

For smaller investment managers (and sometimes for larger ones), the increased operational and regulatory burdens do come at a cost. Additional resources are often required and there are inherent risks in expanding the investment manager's reporting infrastructure. For these reasons, investment managers often set large minimum investment thresholds.

The Managed Account Guide explores these topics and more in greater detail.

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Guides and Guidance Notes:

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* *Forthcoming* ^ *Update in progress*

Electronic copies of the full Managed Account Guide are available to AIMA member contacts via the AIMA website. The electronic copies are subject to a limited licence and are reserved for the use of AIMA members only.

For further details on AIMA membership, please contact Fiona Treble (ftreble@aima.org), who will be able to assist you.

About AIMA

AIMA, the Alternative Investment Management Association, is the global representative of the alternative investment industry, with more than 1,700 corporate members in over 50 countries. AIMA works closely with its members to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes, and sound practice guides. AIMA's core objective is to provide leadership to the alternative investment industry, and to be its pre-eminent voice globally. AIMA's team engages proactively and constructively in shaping the financial markets reform debate, drawing upon the expertise and diversity of its membership. AIMA is closely aligned with and promotes the best interests of the alternative investment industry in order to enhance the wider understanding of its function. AIMA has cultivated positive and lasting relationships with regulatory, fiscal and governmental authorities around the world, whilst upholding engagement with the media in order to achieve a more accurate and informed media coverage. AIMA is committed to developing industry skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the industry's first and only specialised educational standard for alternative investment specialists. AIMA is governed by its Council (Board of Directors). For further information, please visit AIMA's website, www.aima.org.

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