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ARCATAUR CAPITAL

Arcataur Capital Management LLC
A Registered Investment Advisor

High Quality Investment Management
For Individuals and Institutions

Benefits of a Separately Managed Account

Investors have been the beneficiaries of an extraordinary change in the investment management industry – the increased availability of separate account management for "retail" accounts. By individually managing their portfolios, investment managers can provide experienced, expert portfolio management complemented by a new level of service. Individual investors can now discover what institutional investors have known for a long time – individually managed accounts offer enhanced investment control and flexibility.

What are individually managed accounts? Basically, individually managed accounts offer a step up from a typical mutual fund portfolio solution. They provide you with a customized solution specifically tailored to meet your goals and objectives. Unlike mutual funds, they do not commingle or pool assets. Rather, they provide you with direct ownership of the securities in your portfolio.

What makes separately managed accounts different and what are their benefits? Essentially, a separately managed account can be tailored to meet your individual needs, taking into account factors such as retirement planning, risk tolerance and social constraints. The primary benefits include:

- **Greater control** - *The investment strategies implemented using a separately managed account can be as individual as you are. Since you own the underlying securities, we can customize a solution that suits your needs. In a market characterized by greater volatility and tax implications, having a greater degree of control is essential. Furthermore, since accounts are managed separately, the investment manager's strategy cannot be undermined by the cash-raising pressures of a herd as in a mutual fund, nor will investors following long-term buy and hold strategies find themselves thwarted by the cash flow demands of others.*
- **Tax efficiency** - *With a separately managed portfolio, you have control over when you want to realize capital gains, allowing you to better manage your gains and losses. With mutual funds, it is impossible for you to harvest losses on your timetable. In addition, there is a second major tax benefit of separately managed accounts compared to mutual funds – with managed accounts, there are no inherited capital gains, and the cost basis is established by portfolio construction and subsequent decisions between the client and advisor.*
- **An investment strategy that reflects your personal values** - *Specific stocks and/or sectors can be excluded from your portfolio at your request. You may want to pursue a socially responsible investment strategy, or carve out certain sectors and companies from your portfolio holdings. A separately managed account can provide for this.*
- **Better able to manage concentrated positions and avoid overlap** - *Many investors have substantial holdings in one stock – through company-sponsored retirement programs, stock options and even inadvertently through mutual fund holdings – that can be more effectively managed, held and/or sold off on your timetable and at your choice.*
- **Customization** - *A separately managed account can allow you to designate sector investing, credit quality minimums, duration parameters, geographic restrictions and individual company parameters.*

Benefits of a Separately Managed Account

- **Provides a visible and accountable portfolio view** - *Separately managed portfolios are tracked in real time. You will always know which securities you own. You also will know what your account parameters are, and how the account performance and composition are tracking with these parameters. This promotes accountability on the part of your investment manager, and provides you with an up-to-date view of your portfolio, its composition and its performance.*
- **Fees** - *Fees create a difficult comparison. Generally, fees fall into two categories – sales and/or referral charges and operating expenses. Both mutual funds and separately managed accounts can have sales charges, or loads, and/or referral fees. All mutual funds have operating expenses that are deducted from fund earnings, and usually consist of investment management fees, administrative service fees and distribution expenses. All separately managed accounts typically have investment management fees, and may have custodial fees and expenses which may or may not be a part of a separate account manager's fee.*

The greatest benefit of a mutual fund is that it can offer access to institutional quality money managers at lower invested amounts. However, offsetting this advantage are the following drawbacks:

- **Excessive Trading** - *Excessive trading can reduce returns by 1.5% to 2.0%.*
- **Herd Mentality** - *Approximately 70% of mutual fund trades are influenced by inflows and outflows. During market declines, mutual fund managers may be forced to sell securities at undesirable prices to raise sufficient cash to meet redemption requests. In contrast, separately managed accounts are not affected by the decisions of other investors who use the same manager.*
- **Flow Shock** - *There can be extreme liquidity demands, which can result in negative "flow shock" performance.*
- **No Individualization** - *Mutual funds are a "one size fits all" solution. They offer very little control over your portfolio, and are not custom tailored for your investment needs.*

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