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Financial basics

Understanding managed accounts

Generally made available to high-net-worth investors — those with at least $100,000 to invest — managed accounts allow you to tap the expertise of a large, experienced money management firm while still investing through a portfolio that is tailored to your unique needs.

By the numbers

Assets of managed accounts continue to grow. At **$1.9 trillion** in 2010, assets are projected to reach **$3.59 trillion** by year-end 2014, according to Cerulli Associates as of November 2010.

What is a managed account?

In a managed account, you may obtain many of the benefits that mutual funds offer — professional management, diversification, and liquidity — but without pooling your money with other investors' money. Instead of owning shares of a mutual fund, you actually own the securities that the management team selects for your portfolio. That individual ownership may provide you with control, flexibility, and potential tax benefits that mutual funds and other pooled investment accounts cannot.

A customized approach to investing

With a managed account, you have some say about what securities are owned in the portfolio. For instance, you may

- exclude securities you feel you already own enough of that make up part of your other portfolios or personal investments
- exclude securities you may have a moral objection to, such as tobacco industry stocks
- incorporate securities you already own into your professionally managed account

How much input you can provide will vary, as each firm that offers these accounts determines its own level of customization. Your financial advisor can help you choose the right separate account manager for you and also help you determine what level of customization will best serve your needs.

One clearly defined objective — yours

In a pooled account, your investment experience can be affected by other investors. For example, a mutual fund may maintain a percentage of its assets in cash in order to fund the distribution requests of other participants. In a managed account, other investors' decisions will not affect you because you independently own each of the securities in your portfolio.

Key points

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Managed accounts offer investors

- a personalized investment strategy
- more control over individual investments
- the potential for greater tax efficiency
- customized reporting
- service and consultation

This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.

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Greater tax efficiency

Generally, pooled accounts are not managed for tax efficiency and may distribute their capital gains annually without regard to whether an investor was part of the portfolio when gains were realized. When you first invest in a managed account, your cost basis in any of the shares the portfolio owns on your behalf is based on their value the day you made your investment. Your cost basis in securities subsequently purchased for the portfolio will be their value on the date those securities are purchased. You will incur capital gain taxes only when individual securities are sold at a gain. You may also have some flexibility in determining when to incur those gains. For example, if you expect a substantial capital gain tax, you may be able to ask the portfolio manager to realize some capital losses to offset your taxable gain. You may also be able to ask the manager to delay the sale of a security if the delay could potentially shift the gain into the following year or make the profit realized from the sale a long-term gain, which is taxed at a lower rate than a short-term gain. How much a separate account can be managed for tax efficiency varies, again depending on the firm that offers the account. Some firms limit the flexibility account owners are granted with tax decisions because putting too much emphasis on tax issues can adversely affect the account's performance.

Key features

Asset-based fees: With products offered through private portfolio managers, investors pay an annual fee, generally based on the average daily net assets of the account. The fee covers the cost of the expertise delivered by your financial advisor and the investment team, and it also pays for the expenses associated with administering and servicing your account. Ask your advisor about other expenses that may be charged, such as custody fees, for the programs you are considering.

Extensive due diligence: All financial advisors must make diligent efforts to understand the products they recommend to clients. Firms that offer managed accounts generally make extensive efforts to meet these due diligence requirements. Firms that market this product — including brokerage firms, financial planning organizations, and financial institutions such as banks — do research before admitting an investment management firm and its particular portfolio managers into their managed account programs. This research does not end once a firm has been admitted. The sponsoring firms generally monitor the performance of each investment management team. Ask your financial advisor about the due diligence practices for the program you are considering.

Reporting: Mutual funds issue annual and semiannual reports to update shareholders on holdings and performance and also post portfolio holdings to their Web sites on a quarterly basis. With a managed account, firms often can provide customized reporting for various time periods that is tailored to your specific holdings.

How your financial advisor can help

While the features and benefits of managed accounts may appeal to you, your financial advisor, if he or she has not done so already, will want to conduct a thorough analysis of your needs before recommending a particular product. To perform this needs analysis, your financial advisor may ask you to complete a questionnaire about your goals, your risk tolerance, and your current financial circumstances.

Contact your financial advisor or visit mfs.com for more information.