

HF managed accounts may not be no-brainer. May require quarter - maybe half - a brain after all.

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With the notable shenanigans perpetrated by some hedge fund managers, managed accounts seem like a no-brainer. After all, who wouldn't want to be in full control of their own private hedge fund? You could redeem whenever you wanted, get real time position-level transparency and even do your own valuations.

But as we have [suggested](#) in the past, the situation is not quite this simple. Unfortunately, no managed account is an island. The legal separation of assets does not sever the fund's destiny from those of other similar (especially *parri passu*) managed accounts and funds. If the managed accounts are not *parri passu* (for example, if each investor overlays their own risk management rules) then this problem would be solved. But it would open up another issue: each fund would be different and would have no appropriate track record.

This is one of the points raised in a slide deck being circulated by due diligence company SwissAnalytics. One of the slides in the presentation (available [here](#) at Barclayhedge's website) contains the following helpful summary of the pros and cons of managed accounts:

Managed Account Platforms	
Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Position Transparency ▪ Ownership of underlying investments ▪ Increased Liquidity ▪ Possible to Alter Investment Guidelines ▪ Reduced Risk Related to: <ul style="list-style-type: none"> ▪ Misappropriation ▪ Misrepresentation and incorrect pricing ▪ Trading outside of the operating mandate 	<ul style="list-style-type: none"> ▪ Monitoring Requirements ▪ Dependence upon Managed Account Platform Manager ▪ Complex Trade Execution ▪ Unequal Treatment of Investors ▪ Increased Costs ▪ Order Execution System Forced on Manager ▪ Operationally More Complex for Manager ▪ Conflicts of Interest (Kickbacks, etc.) ▪ Decreased Transparency with regards to: <ul style="list-style-type: none"> ▪ AUM ▪ Reliability of True Track Record

But one of the best articles on this topic is probably Edhec’s 2005 paper subtitled “[The Benefits and limitations of managed account platforms](#)” although author Jean-René Giraud stops short of using the term “disadvantages” - opting instead for the more innocuous “limitations”.

Managed accounts clearly addressed a number of issues...

	Traditional private partnership	Standard custodial account	Prime-brokerage custody	Basic managed account	Advanced managed account
Segregation of assets			✓	✓	✓
Privileged redemption conditions				✓	✓
Elimination of misrepresentation risk		✓ ¹⁸		✓	✓
Elimination of misappropriation risk			✓ ¹⁹		✓ ²⁰
Elimination of mispricing risk					✓
Mitigation of other operational risks					✓ ²¹

But despite the fact that managed account platform provider Lyxor sponsored the paper, Giraud wrote:

“Managed accounts are often cited as the panacea when it comes to investor protection, but one should not overestimate the benefits of such platforms as the extent of the protection is highly dependent on the nature of the platform and the infrastructure supporting the trading activity.”

So what used to be a no-brainer may require, say, *half* a brain now in order to navigate some of the potential pitfalls.

(For more on the pros and cons of managed accounts and of Lyxor’s platform in particular, [see my interview](#) with Tris Lett of Lyxor’s Canadian partner, Integra Capital.)