

FOCUS ON

# MANAGED ACCOUNTS

Jean Baram of Innocap discusses what makes a successful managed account platform



## Jean Baram

is managing director, business development and investor relations, at Innocap. Baram joined the firm in 2007. In his current role, he co-heads the business development and investor relations team. After graduating in 2002 with a Bachelor's degree in finance from HEC Montréal, he held several roles within the Treasury Department of the National Bank of Canada. Baram is also a Chartered Financial Analyst and a CAIA charterholder.

**HFMWEEK (HFM): WHAT TYPES OF MANAGED ACCOUNT HAVE YOU SEEN THE MOST INTEREST IN OVER THE PAST YEAR?**

**JEAN BARAM (JB):** The reduced level of transparency and lack of independent governance of manager-governed funds (fund of one and commingled flagship fund) have led investors to deploy their capital into investment infrastructures addressing these concerns more effectively. Looking for more customisation, sophisticated institutional investors are opting out of pooled fund vehicles and investing into dedicated accounts.

In a trend that began last year, interest for dedicated managed accounts continued to grow, mainly driven by large institutions looking for customised solutions that can fit their evolving needs. Nowadays, the demand from these clients is not only for dedicated accounts but for dedicated structures customised to their needs.

**HFM: WHAT ARE THE DRIVING FORCES BEHIND INCREASING INVESTOR INTEREST IN THE MANAGED ACCOUNT MODEL?**

**JB:** Improved transparency, ownership of assets and enhanced liquidity have historically been the main factors explaining investors' interests for managed accounts.

These days, investments into managed accounts are also the result of board level decisions advocating for enhanced governance. Thus, whether operated by the investor or by a managed account platform provider, investors are looking for independent oversight over the investments and valuation, and more control over the mandate, selection of counterparties and service providers. Lastly, they look for control over the assets and cash movements. Asset owners are also seeking to take advantage of other features of managed accounts such as notional funding, which allows them to be more cash efficient.

**HFM: WHICH FACTORS UNDERPIN A STRONG AND EFFECTIVE GOVERNANCE MODEL?**

**JB:** In our sense, regulatory initiatives of the past two years (such as Volcker or the AIFMD) have put governance at the forefront of alternative investment business models and have significantly changed risk taking.

In that context, experienced people evolving in the hedge fund industry must not only have a clear understanding of operations and risk but, given the new regulatory frameworks within which the hedge fund industry now operates, must also have a thorough understanding of their regulatory environment.

In our view, the separation of risk taking and risk management (now required under the AIFMD) is inherent to the managed account platform model. When such separation is coupled with tight asset control and valuation, hedge fund investors are more likely to benefit from strong and effective governance.

**HFM: WHY IS IT INCREASINGLY IMPORTANT TO PROVIDE FULL TRANSPARENCY AND HOW CAN THIS BE ACHIEVED?**

**JB:** Transparency allows investors to make informed investment decisions and have the tools to have a meaningful discussion with hedge fund managers. While many investors now require full transparency on a daily basis, others will agree to less frequent transparency knowing that someone else, such as their platform provider, is overseeing their allocation on a daily basis and will advise them of adverse situations.

As too much information is like not having enough, receiving data in a structured and interactive manner may be more interesting and valuable for investors. As managed account platforms usually receive full transparency from independent sources, they are able to compile, clean, enrich and aggregate information providing the end investor with different views of their investments via static reports, data feeds to their systems or dynamic customisable dashboard tools.

**HFM: DO YOU EXPECT THE INTEREST MANAGED ACCOUNTS HAVE GENERATED OVER THE PAST YEAR TO CONTINUE?**

**JB:** We expect the growing interest for managed accounts to continue. In a market where large institutions are expanding their allocation to hedge funds and where regulatory frameworks are constantly evolving, managed accounts offer asset owners peace of mind as they address key concerns, such as independent governance and control over assets.

For those not willing to put their balance sheet at risk or who simply wish to externalise this process, a managed account platform will be an option assuming such a partner will not only structure the investment vehicle but will provide independent governance and oversight of assets.

**HFM: WHAT CHALLENGES WILL THE MANAGED ACCOUNT SPACE FACE IN THE NEXT 12 MONTHS?**

**JB:** While the hedge fund industry's size is continuously growing, poor performance is certainly an issue. Lacklustre returns could hurt the industry in general as it could lead to a shift towards other risky assets.

Without a doubt, one of the biggest challenges of the space is education on what constitutes a managed account. As interest for managed accounts grows, new providers are emerging and new vehicles presented as managed accounts are being offered to investors. Implementing and operating a managed account requires expertise and, most importantly, a seasoned operator. Demystifying the different offerings will help investors assess what they need and what they are paying for. ■