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Asset Raising Implications For Choosing Your New Fund's Format & Target Audience



Choosing how to bring to market a new investment offering is one of the first business decisions an emerging manager has to make: launch with a conventional pooled limited partnership vehicle or begin with offering separately managed accounts, or SMAs.

For emerging managers who do not yet possess a long, live track record of outperformance, or lack the pedigree of having been an employee at a large, well respected investment firm, or do not have soft commitments to invest from a contacts list of pre-existing relationships with institutional investors, winning allocations into a pooled account vehicle has been getting harder and taking longer.

The SMA Good News

The use of SMAs in hedge funds, for example, is not some minor or temporary market phenomenon. While it has been around for years, and a vehicle of interest to many family office investors, recently released Goldman Sachs research points to a substantial and growing institutional market — including plan sponsors and multi-strategy, multi-manager platforms. As Reuters wrote in late Q3 2026, Goldman Sachs' Prime Insights and Analytics team reported that hedge fund SMAs totaled \$255 billion at year-end 2025, representing a 20% increase from 2024. Goldman also found that SMA-managed hedge fund assets have grown at approximately 13% annually over the past decade, compared with approximately 5.5% annual growth for the broader hedge fund industry. SMAs now account for 7.4% of industry assets, and about half of hedge fund managers run at least one SMA.

But the same market development contains an important warning. The SMA is popular with allocators partly because it gives them greater control. The emerging manager needs to understand precisely what is being exchanged for gaining that early access to capital.

What The Manager Gains

The SMA format offering can attract prospective allocators with a means to get their feet wet with a new portfolio manager and product without having to jump into a pool shared with strangers and be potentially committed to a longer lock-up period.

Emerging managers may find a shorter asset gathering selling cycle by offering investors their own ‘fund of one’ with negotiable terms. This is an important potential upside because the sooner firm owners can build up a management fee revenue stream the sooner they will be able to cover their operating costs, reduce business risk for themselves and their early allocators and begin to build a documented track record of portfolio management for outside clients.

What The Allocator Gains

Unlike with a conventional pooled LP fund where the manager establishes the investment mandate, fund terms, liquidity provisions, reporting framework and the like, an SMA shifts more of the relationship, and the ability to customize those elements, to the allocator’s side of the table. That can be attractive to an allocator for several reasons, from greater transparency to potentially lower fees and better liquidity terms. They appoint or influence the custodian selection, may impose investment restrictions, negotiate liquidity provisions, get to observe the portfolio in far greater detail, and can require enhanced reporting.

For the emerging manager, such control can be the price of admission to relationships that might otherwise be unavailable. A family office, multi-manager platform or other sophisticated investor may be prepared to seed or anchor a portfolio manager’s investment strategy in an SMA format when it would otherwise decline to become an early limited partner in a new pooled fund.

Revenues And Expenses

Launching an investment boutique with an SMA offering can provide a young manager with an opportunity to manage more assets earlier than would be possible through pursuing a conventional pooled-fund launch. Yet managers should resist perceiving SMA assets as being identical to fund assets. They are not identical economically, operationally or strategically.

The fee issue alone deserves more attention than it often receives. An emerging manager may understandably focus on the headline AUM figure attached to an SMA mandate. But \$100 million of SMA capital at compressed fees, plus the cost of operational servicing requirements, broad transparency and short effective duration will likely not have the same economic value as \$100 million of diversified pooled-fund capital on more stable terms. So, the emerging manager should not confuse an impressive initial SMA allocation or two with a strong, ongoing business model.

Therefore, the investment firm owner should run the numbers to better understand what taking the SMA relationship route would look like before deciding to follow that path. What would the net management fee revenue look like after legal, administration, technology, reporting, compliance and personnel costs? What would happen if the investor reduces the account by 25%, 50% or more? What are the incentive fee structure scenarios that have the potential to align the manager and allocator appropriately? Are there high-water-mark, loss carryforward, hurdle or crystallization provisions that could affect cash flow, and how so? (And yet, going the SMA route may prove to be the far better alternative than shopping an LP vehicle that might attract fewer prospective allocators as quickly.)

Back office service providers can be a good source of counsel to help model these operational costs.

The Next Decision: Which SMA Buyer?

If a manager decides that launching an SMA offering is sensible, the next decision is where to direct scarce business development time. Broadly, there are two very different buyer categories.

The first is the multi-strategy, multi-manager platform. The second is the single family office or a similar long-term sophisticated allocator willing to use an SMA structure.

Neither is automatically better. The right choice depends on the manager's investment strategy, capacity, operating readiness, personal pedigree, performance history, sales resources and tolerance for business volatility.

The platform path can look especially tempting. A multi-manager platform may have large capital resources, sophisticated infrastructure and immediate interest in external investment talent. A manager who gains such a mandate can quickly establish managed assets, institutional operating experience and a body of live results.

But that route can also be a gamble.

The platform's capital is bound to be less sticky than an emerging manager would desire. It may be reallocated in under a year if performance fails to meet the platform's ongoing expectations, if drawdowns exceed tolerance, if volatility becomes inconsistent with the mandate, if the platform's internal priorities change, or if another manager appears more attractive. The emerging manager may have won an allocation, but not necessarily won a durable client relationship.

So, a young firm should not build its entire fixed-cost base, hiring plan or business assumptions thinking around the expectation that one or more performance-sensitive platform mandates will be ongoing revenue streams.

In contrast, focusing on the family office buyer generally calls for a different kind of patience. Sophisticated single family offices can take longer in their due diligence vetting because they will want to understand the manager's investment process. They will not just be won over by recent performance or reading a prominent firm name on a manager's resume. Importantly, investors for whom it is a priority to understand and buy into a portfolio manager's investment process are the ones most likely to become sticky asset allocators to the manager. This is the best of all types of customers for an investment firm, no matter the wrapper of their product offering.

Focusing on this audience can work to the advantage of the emerging manager.

A family office that is conducting in depth investment strategy due diligence will be asking substantive questions about methodology, the source of an edge and strategy implementation. That's a good thing. But it also means managers must recognize they could face a more rigorous selling cycle.

The Marketing Challenge Does Not Disappear

It would be a mistake to view the SMA product offering decision as only a financing or legal-structure issue. There is also the communications and sales marketing challenge.

Prospective allocators are not merely deciding whether to subscribe to a strategy; they are deciding whether to place assets in an account over which they expect considerable visibility, influence and negotiating power. The manager must make the prospective client comfortable with both the investment process and the firm behind it.

While many managers are capable of discussing individual stocks, bonds, macroeconomic themes, data sets or trading models, far fewer can readily explain how their particular investment process is differentiated, repeatable and suitable for the allocator's needs.

That gap matters even more for emerging managers without an elite pedigree or a current top-quintile track record. They must work harder in several specific ways. They have to make their investment process understandable, both verbally and in print, demonstrate the process they explain and not just describe it, and make clear the risk management protocols built into the methodology and strategy implementation.

Building Toward A Pooled Fund Offering

For some emerging managers, the most attractive outcome is not an SMA-only business. It is using their SMA vehicle offering for several years as a stepping stone to build an institutional operating record, demonstrate investment performance, develop reporting and compliance credibility, establish allocator relationships and create the foundation for a future pooled LP vehicle.

That sequence can make strategic sense.

For the managers who can run SMAs successfully, they may later be able to approach prospective LP investors with a stronger case.

But the transition should not be assumed. An SMA manager needs to think early about whether the current account agreements permit the future launch of a commingled vehicle, how trades will be allocated fairly, how conflicts will be managed, whether strategy capacity can support both account and fund clients, and whether existing SMA investors will view the pooled vehicle as complementary or competitive.

The manager should also plan ahead to avoid the trap of allowing a highly customized SMA to redefine the strategy so completely that there is no coherent pooled-fund product left to offer later.

This is where seeking business strategy counsel from the emerging manager's law firm about this before taking action can prove to be a valuable investment. They have seen more of these situations than managers have. So, they can help emerging managers think ahead as well as not paint themselves into some corner with initial SMA account subscription documents that could significantly impede their move to add an LP down the road.

The Business Plan Decision

LP or SMA — The answer depends on the emerging manager's economics, appetite for transparency, infrastructure, ability to accommodate customized terms, target client profile, and expectations for capital durability. It also depends on whether the firm is willing to do the difficult communications and sales marketing work required to survive a long selling cycle and win over sticky assets.

The manager who makes that decision as part of an integrated investment, operations, communications and sales marketing plan will be better placed to turn an early SMA opportunity into a lasting investment management firm.

The current rise of SMAs provides a real opening.

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About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 39-year-old financial communications and sales marketing consultancy that helps financial services firms create brand identities for their organizations and develop and implement effective new marketing strategies and programs. Frumerman & Nemeth's work has helped money management firm clients attract over \$7 billion in new assets, yet they are *not* third-party marketers.

The firm has decades of experience as professional storytellers, content strategists and content creators. Frumerman & Nemeth is internationally recognized for its work in crafting for clients the beyond-the-numbers story of how they invest — content that investment committees actually discuss, debate and vote on behind closed doors when considering firms on a short list for potential investment. Importantly, this is required due diligence content that cannot be communicated in pitchbook format.

The firm's work also includes providing strategic consulting on product and strategy-specific branding, crafting the required strategy-specific content detail and designing and producing the marketing tools needed to make it through the two-month to two-year institutional selling cycle. Clients also employ Frumerman & Nemeth to help promote the intellectual acumen of management — helping them get speaking opportunities, write and give speeches as panelists or stand-alone speakers at industry conferences, and through media relations marketing services.

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