Managed Accounts
Can Provide a Better Return than Mutual Funds

Mutual funds broke new ground in the investment industry, particularly gaining recognition in the 1980s and 1990s as a way for the retail investor to access active institutional money managers. The industry has continued to grow but has seen a significant challenge arising out of ETFs partially due to rising interest in passive investing and different structure characteristics.

Mutual funds have been an integral part of the investment industry for decades, providing investors a seemingly simple vehicle to access a portfolio of underlying securities. While there have been significant developments in mutual fund industry, open-ended mutual funds still price on the close, are subject to higher tax implications than similar investment solutions, and can have significantly higher fee structures than other vehicles. Investors often cite expense ratios as a core filter when considering these mutual funds, but the reality is that, according to the Forbes.com article "**How Much Do Mutual Funds Really Cost?**",[1]

> There are also loads, purchase fees, redemption fees, exchange fees, and account fees. There are also the less obvious costs associated with mutual fund investing, such brokerage costs and the bid/ask spread

– a profit that goes to the dealer incurred on an existing mutual fund investor when someone else enters or leaves the fund. In other words, because assets are commingled and people are constantly entering and exiting the fund, the fund has to keep buying and selling shares, thereby incurring these costs on

1 Kim, Kenneth. "How Much Do Mutual Funds Really Cost?", Forbes.com, September 24th, 2016

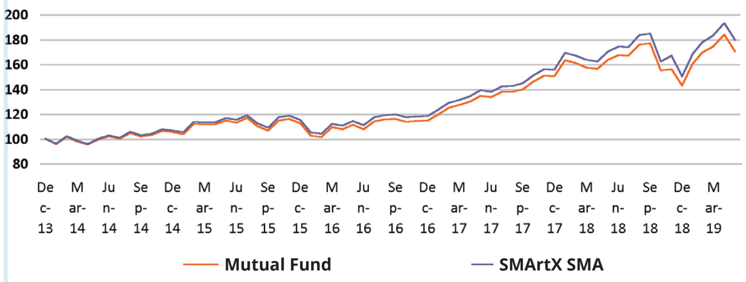
existing holders of the fund. Outside of direct costs, there are opportunity costs such as the inability to tax-loss harvest the holdings of a mutual fund and tax inefficiencies that negatively effect investors. For example, a mutual fund may purchase a security at $80 per share. Six months later a new investor purchases the mutual fund and the same security on that day is now at $120 per share. Fifteen days later, the security drops to $100 per share, and the mutual fund decides to liquidate the position at a gain of 25%. While the mutual fund will post a realized capital gain of 25%, the new investor actually sees a loss of 16.66%, but is subject to the tax burden associated with the gain of the stock.

> When combined, it is estimated that these costs drive the price of mutual funds up to as much as 3.73%.[2]

Below is a real example of a firm who offers a large cap growth strategy in a mutual fund and the same strategy on SMArtX Advisory Solutions via UMA. The line chart illustrates how the UMA version outperforms the mutual fund over the time frame January 2014 – May 2019, posting an annualized cost saving of 1.07%. In terms of actual dollars, this equates to a yearly cost savings of $19,189.78 for every $1,000,000 invested.

Large Cap Growth Strategy in Mutual Fund vs. the Same Strategy on SMArtX via UMA

"MANAGER A" LARGE CAP GROWTH
Mutual Funds vs. SMArtX SMA
JAN 2014 —MAY 2019



"MANAGER A" LARGE CAP GROWTH
Estimated Average Cost Savings by Investing on SMArtX Platform
JAN 2014 —MAY 2019

INITIAL INVESTMENT	MONTHLY	YEARLY	TOTAL
$ 1,000	$ 1.60	$ 19.19	$ 91
$ 10,000	$ 15.99	$ 191.90	$ 912
$ 100,000	$ 159.91	$ 1,918.98	$ 9,115
$ 1,000,000	$ 1,599.15	$ 19,189.78	$ 91,151
$ 10,000,000	$ 15,991.49	$ 191,897.82	$ 911,515

"MANAGER A" LARGE CAP GROWTH
JAN 2014 —MAY 2019

MUTUAL FUND Annualized Return		SMArtX SMA Annualized Return		Annualized Cost Saving If Investing In SMArtX SMA
10.29%	VS.	11.35%	=	1.07%

Calculated returns are based on the Investor Class.

2 Kim, Kenneth. "How Much Do Mutual Funds Really Cost?", Forbes.com, September 24th, 2016

SMArtX
ADVISORY SOLUTIONS

Accessing managed accounts through **SMArtX Advisory Solutions**' advanced technology platform helps to provide investors with:

- **Cost Reduction:** Accessing strategies via an UMA platform often means lower costs than a mutual fund, even when you factor in the price of the platform, the strategy, and trading costs.
- **Tax Efficiency:** Securities traded in an account over the course of a year typically generate unrealized short term and long term profits and losses. These can be analyzed and realized via tax-harvesting tools to generate better after-tax returns.
- **Transparency:** A complete listing of all the underlying securities in an account means investors can understand their exposure to sectors and securities across their entire portfolio. This can help to mitigate unknown concentrations to any one stock, sector, market cap, or region.
- **Low Minimums:** The scalability of a platform eliminates the high administrative cost of running SMAs, giving more access to retail clients.
- **Liquidity:** Unified Managed Accounts on **SMArtX** can be allocated to at any point during the trading day.
- **Security:** Each UMA is opened by and held in the investor's name. While an UMA operator can trade the account, money cannot be moved in or out without the investor's knowledge and prior consent.
- **Trading:** All trading is being done by the UMA operator, meaning investors do not receive a trade file that they then have to go out and trade. This reduces the operational burden of accessing strategies, especially actively traded strategies, and reduces the expenses associated with running an investment advisory firm.
- **Customization:** Modern UMA platforms provide the ability to access third party investment strategies and complement the account with individual securities at a custodian of your choice.

For more information on how **SMArtX Advisory Solutions** can provide you with a UMA solution and all the benefits of investing through managed accounts, visit www.smartxadvisory.com or contact us.

SMArtX