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## Joint venture develops a lower-cost SMA

F-Squared, Smartleaf also plan to market directly to investors

By **Sue Asci**  
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Two Massachusetts companies have created a separately managed account program that carries manager fees as low as 0.26%.

In a joint venture that begins today, F-Squared Investments LLC, a quantitative-oriented investment manager based in Wellesley, has taken its 18 indexes of actively managed mutual funds and created a series of model portfolios that are used by overlay manager Smartleaf Inc., a Cambridge-based technology provider.

The total cost of the product to investors, including sponsor and adviser fees, ranges from 1.26% to 1.46%, which is below the average SMA fee of 1.61%, as compiled by Cerulli Associates Inc. of Boston. The minimum investment in the account is \$50,000.

Creating the model portfolios involves examining the holdings of each fund within an index, said Howard Present, chief executive of F-Squared.

"We look at any publicly disclosed holdings, which could be holdings filed with the [Securities and Exchange Commission] or other forums," he said.

Holdings and return data are run through proprietary software that "figures out the right way to blend the stocks together to give an accurate representation of the track record of the index," Mr. Present said. This information is given to Smartleaf weekly or biweekly.

"Because the funds are selected by third-party consultants, what we are providing is embedded due diligence," while Smartleaf provides overlay customization and tax management services, Mr. Present said.

Although the venture partners will concentrate on the adviser-sold market, he said, the pair also plans to market its managed-account product directly to investors through online securities firms.

"We think the retail SMA is an untapped market," Mr. Present said.

Some advisers said they have not seen an SMA offered by an overlay manager directly to investors.

"For the retail investor, it could be appealing, but it's not a simple product," said Jeff Bernier, managing director of TandemGrowth Financial Advisors LLC of Roswell, Ga., which has \$75 million in assets under advisement. "I think there's a high level of communication involved in a product like this."

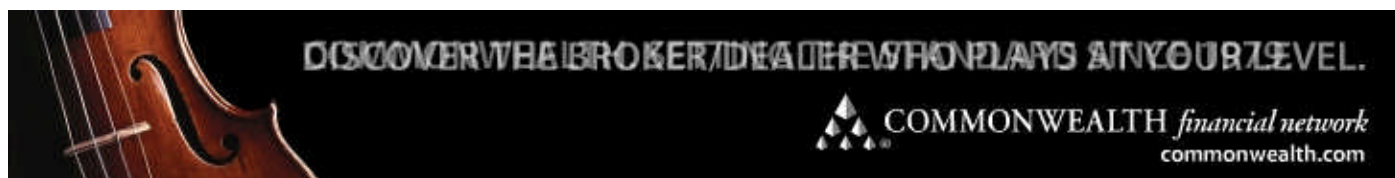
SMA's also have tax advantages the retail investor may not realize without the help of an adviser, Mr. Bernier said.

"Advisers also sometime act as behavior modifiers," he said. "We advise clients not to unravel their investment at the wrong time, and keep them from getting greedy at the wrong time."

The fees for the direct retail product are expected to be between 0.6% and 0.7%, Mr. Present said. This would include the cost of investment models, overlay activities, customization, tax management, trading and custody.

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