

INSIGHTS • OCTOBER 2026

Separately Managed Accounts – What Are SMAs?

In this video, Lord Abbett Product Specialist Stephen Hillebrecht explains the basics of separately managed accounts (SMAs), including the three main potential benefits for investors.



Steve Hillebrecht
Managing Director,
Portfolio Specialist

Steve Hillebrecht: Separately Managed Accounts, or SMAs, have seen rapid growth in recent years. Total assets in SMA are expected to reach \$3.6 trillion by 2027. But what are they? That's where we come in. This is Lord Abbett Explains: SMAs.

Today, we're diving into the first in our series on SMAs, what they are, and how they might benefit investors.

What Are SMAs?

Essentially, an SMA is a portfolio of individual securities managed on your behalf by a professional money manager. These accounts were developed in the 1970s to bring institutional-quality investment management to the individual investor. Before that, professionally managed portfolios of individual securities were available only to those with enough money to meet very high institutional minimums. But thanks to advancements in technology, minimums have dropped. That's contributed to the rapid growth.

Much like mutual funds, SMAs offer a diversified portfolio of investments managed by a professional money manager, who can adjust the portfolio based on what's happening in the market. Where they differ is in how you own the portfolio. With a mutual fund, you own shares of the fund. With an SMA, you own the underlying securities directly—you are simply hiring a professional to manage the portfolio

on your behalf. This direct ownership gives you more control and flexibility when it comes to customizing your portfolio—and making it more tax efficient.

What Are Some of the Benefits of an SMA?

Because you own the securities outright, SMAs can offer:

- **Transparency:** It allows you to see every holding, every day.
- **Customization:** It gives you the flexibility to direct the manager to limit exposure to certain industries or even specific securities.
- **Tax efficiency:** It allows you to choose when to take gains or losses, potentially helping you keep more of what you earn after taxes.

Should I Invest through Mutual Funds or SMAs?

The answer really depends on your situation. For many investors, mutual funds are a great choice. They're a simple way to get professional management, institutional-quality research, and broad diversification. But in some cases, the flexibility of direct ownership can be a real benefit. Like, for example, take an investor who has a concentrated stock position they want to exclude from their portfolio. Or the investor who wants more say in how gains and losses are handled for tax purposes. That's where an SMA can come in handy.

Let's Recap

So, what are the main takeaways here?

1. A separately managed account is a portfolio of individual securities managed by a professional.
2. With SMAs, you own the securities directly.
3. The benefits of SMAs are transparency, customization, and tax efficiency.

Thanks for watching.

Be sure to check out the next video in our Lord Abbett Explains: SMAs series, where we take a closer look at customization and tax efficiency.

GLOSSARY OF TERMS

A **separately managed account (SMA)** is a portfolio of assets managed by a professional investment firm. SMAs offer the opportunity for more customization in investment strategy, approach, and management style than traditional mutual funds do. SMAs offer direct ownership of securities and tax advantages over mutual funds.

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