

Understanding separately managed accounts

A process for investing featuring professional money management

What is a separately managed account?

A separately managed account (SMA) is an investment portfolio of stocks, bonds, cash and other individual securities, managed by a professional money manager, that can potentially be tailored to meet specific investment objectives — such as tax efficiency and the exclusion of certain securities from your portfolio. In a SMA you own individual securities and have the freedom and flexibility to tailor the portfolio to address your personal preferences — making your account “separate” and distinct from all others.

Managing your investment portfolio can become more challenging as your income and assets grow. While there are a number of ways to build a diversified portfolio — including individual stocks and bonds, mutual funds, and unit investment trusts — new potential investment opportunities become available to you as you accumulate more assets. Separately managed accounts (SMAs) may offer unique advantages compared with other investments because they provide a level of service and sophistication that is generally available only to large institutions and very wealthy investors.

The separately managed accounts difference

Separately managed accounts are typically offered within a consultative process that includes setting specific objectives, developing an investment plan, selecting investment managers, and monitoring your plan. SMA investors generally are attuned to the key SMA attributes of communications, visibility and access, which provide better insights into the investing process.

Some of the most attractive features provided in a separately managed account include:

Direct ownership of securities. You own the securities purchased for your account. Your money is not pooled with that of other investors as in a mutual fund. Direct ownership enables you to customize your account to address specific needs, including:

- **Managing tax consequences.** The cost basis for each security in your portfolio is established at the time of purchase, so you are not subject to gains earned by other shareholders as you might be in a mutual fund. This enables you to coordinate year-end tax management with your tax professional.*
- **Customizing your portfolio.** You may request that your investment manager exclude certain securities from your portfolio, such as companies in which you already have a large exposure or those that you would prefer not to invest in at all.

Ongoing due diligence. Investment managers, in programs such as Wells Fargo Advisors’ Diversified Managed Allocations (DMA) and Masters, typically undergo a thorough screening process, and are required to adhere to a specific investment style or objective. Once chosen for a separately managed account program, investment managers are reviewed on an ongoing basis and must meet and maintain defined standards.

*Wells Fargo Advisors does not provide legal, tax or accounting advice. Please consult your tax advisor regarding your situation.

Is a SMA right for you?

Because separately managed accounts offer a higher level of service, investors are usually required to make a minimum investment of \$100,000, depending on the asset management company. Separately managed accounts may be more appropriate for investors who do not have the time, experience, or inclination to manage their own portfolios, and value the capabilities and experience that a professional investment manager and their financial advisor have to offer.

Comprehensive quarterly reports. You will receive a detailed quarterly report that not only covers the progress of your investments, but also gives you insights into how that performance was achieved and how it relates to your specific goals.

A single asset-based fee. You pay one annual fee to cover investment management, transactions, ongoing expenses and the advice of your Financial Advisor.

This does not apply to the Private Advisor Network program, where the manager's fee is separate from the FA fee and is based on the manager's stated fee schedule on the contract.

Separately managed accounts versus mutual funds

	Separately managed account	Mutual fund
Ownership	Individual securities within the investment portfolio are owned by the investor.	Investor owns shares in a pool of securities. Assets are co-mingled with those of other investors.
Typical minimum investment	Masters & PAN ¹ : \$100,000 DMA: \$150,000 Wells Fargo Compass: \$50,000 - \$200,000 Allocation Advisors: \$25,000 - \$50,000	\$500 - \$2,000 per fund
Funding	Portfolios may be funded with existing securities and/or cash.	Shares in funds are purchased with cash.
Tax efficiency	The cost basis of each security is established at time of purchase. Potential for investor and his/her Financial Advisor to manage taxation of gains and/or losses.	Cost basis may include embedded capital gains that predate the investor's purchase of shares. Tax management is under the sole control of the portfolio manager.
Portfolio holdings	Investor can request the exclusion of specific holding from the portfolio, e.g., securities in which he/she may already have a large exposure.	Holdings are under the sole control of the portfolio manager – no flexibility for the individual investor.
Level of service	Tends to include a higher level of individualized service, consultation, and performance analysis.	Varies by financial advisor and client.
Portability	Investor can generally transfer existing securities out of the portfolio. ²	Investor must liquidate shares of the fund for cash.
Fees	Annualized wrap fee based on assets under management (billed quarterly in advance).	Possible sales charges on purchase or redemption (load funds), in addition to ongoing management fees and operating expenses.

¹Private Advisor Network (PAN) minimums subject to money managers' minimum account requirements

²Due to investment manager restrictions, some securities may not have portability

SMA programs at Wells Fargo Advisors

Wells Fargo Advisors offers a number of separately managed account programs to meet investors' individual needs.

Diversified Managed Allocations (DMA)

Professionally managed series of Optimal Blends and Customized portfolios consisting of separately managed portfolios featuring asset allocation, diversification and risk-based portfolio management to investors with a minimum investment of \$150,000.

The fees for the Diversified Managed Allocations (DMA) program are assessed quarterly in advance. The fees include Advisory services, performance measurement, transaction costs, custody services and trading. The fees do not cover the fees and expenses of any underlying mutual funds in the portfolio. There is a minimum client fee requirement of \$500 per calendar quarter to maintain this type of account. Advisory programs are not designed for excessively traded or inactive accounts and may not be suitable for all investors. Please carefully review the Wells Fargo Advisors advisory disclosure document for a full description of our services, including fees and expenses.

Masters

A Masters program portfolio is a professionally managed, separate account where the client pays an all-inclusive fee that covers a package of services including portfolio management, custody of assets, all transaction charges, consulting and advisory services, research, and monitoring. Our Masters program offers you access to more than 70 of the nation's top institutional money managers and nearly 150 investment styles. Minimum investment of \$100,000 required.

The fees for the Masters program are assessed quarterly in advance. The fees include Advisory services, performance measurement, transaction costs, custody services and trading. The fee schedule, which is negotiable, is based on account size and an assumed active equity portfolio. There is a minimum fee of \$375 per calendar quarter to maintain this type of account.

Wells Fargo Compass

A fully discretionary, separately managed account platform designed to pursue specific investment objectives. Managed by Wells Fargo Advisors' Advisory Services Group, this program offers two equity-model portfolios and one equity/fixed-income blend portfolio. Also available within the Wells Fargo Compass program are asset allocation portfolios and ETF Portfolios (asset allocation strategies constructed primarily of exchange-traded funds [ETFs]). Minimum investments vary by program.

The fees for the Wells Fargo Compass program are asset-based and assessed quarterly in advance. There is a minimum fee of \$250 per calendar quarter to maintain this type of account. Fees include advisory services, performance measurement, transaction costs, custody services and trading. The fees do not cover the fees and expenses of any exchange-traded funds, closed-end funds, or mutual funds that are purchased in these programs. The minimum account size for this program is between \$50,000 and \$100,000 depending on the strategy selected.

Allocation Advisors

A discretionary separately managed account program comprised primarily of ETFs, with a number of portfolios constructed by Wells Fargo Advisors research and third-party model providers. Allocation Advisors provides access to professionally managed portfolios with strategic, tactical, cyclical and global asset allocation. By investing primarily in ETFs, clients receive the diversification and cost benefits that have traditionally been associated with indexing. Minimum investments vary by program.

The Allocation Advisors program is not designed for excessively traded or inactive accounts and may not be suitable for all investors. Please carefully review the Wells Fargo Advisors advisory disclosure document for a full description of our services. The minimum account size for this program is between \$25,000 and \$50,000 depending on the strategy selected.

Private Advisor Network

Professionally managed, separate accounts where you pay an asset-based fee or commission that covers a package of services: trading, professional management, performance reports, consulting services, and the advice of your Financial Advisor at a minimum account size of \$100,000 (subject to managers' account minimum).

The Wells Fargo Advisors fees for the Private Advisor Network program may be either asset- or commission-based, and are assessed quarterly in advance. WFALLC fees include performance measurement, transaction costs, custody services and trading. There is an additional fee, billed separately, for the outside money manager's advisory services. Fee-based accounts are not designed for excessively traded or inactive accounts and may not be suitable for all investors. During periods of lower trading activity, fees may be lower in this program if the investor selects to open a commission-based account. Please carefully review the Wells Fargo Advisors advisory disclosure document for a full description of our services, including fees and expenses. There is a minimum fee of \$375 per calendar quarter to maintain this type of account.

Talk to your Financial Advisor

Your Financial Advisor can help you decide whether the personalized, professional approach of a separately managed account is appropriate for you based on your current financial situation, investment objectives, time horizon, risk tolerance and other factors.

Advisory accounts are not designed for excessively traded or inactive accounts and may not be suitable for all investors. During periods of lower trading activity, fees may be lower if these programs were commission-based. Please carefully review the Wells Fargo Advisors advisory disclosure document for a full description of our services, including fees and expenses.

Professional money management might not be suitable for all investors. Since no one investment program is suitable for all types of investors, this material is provided for informational purposes only. We need to review your investment objectives, risk tolerance, and liquidity needs before we can recommend suitable programs for you.

Investment and Insurance Products: ► NOT FDIC Insured ► NO Bank Guarantee ► MAY Lose Value

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