

Separately Managed Accounts and Mutual Funds: The Differences³

FEATURES	SEPARATELY MANAGED ACCOUNTS	MUTUAL FUNDS
Management	Provide ongoing, personalized access to professional money management services.	Provide access to professional money management services.
Customization	Portfolio can be tailored to address each investor's specific needs.	Portfolio structured to meet the fund's stated investment objectives.
Ownership	Investors directly own the individual securities in their portfolio, allowing for tax management flexibility. ⁴	Shareholders own shares of the fund and cannot influence buy and sell decisions or control their exposure to incurring tax liabilities. ⁵
Liquidity	Managers are not required to hold cash to meet redemptions. Accounts can be fully invested at all times to maximize the potential for realizing gains. However, it may take up to six months to become fully invested in a separately managed account.	Mutual funds must hold some cash at all times to meet redemptions.
Tax Efficiency	Because securities can be bought or sold to harvest gains or losses, separately managed accounts allow you to address specific tax concerns. ⁴	A mutual fund's investment decisions are made without regard to individual investor's tax situations. Also, if a fund experiences high redemptions, it may be forced to sell securities, potentially causing taxable events and negatively impacting returns.
Minimums	Significantly higher minimum investments than mutual funds. Generally, minimums range from: \$50,000-\$100,000 for equity accounts; \$100,000-\$250,000 for fixed income accounts; and \$100,000-\$250,000 for multiple style accounts.	Initial investment minimums as low as \$250. Systematic investment program minimums as low as \$25 per month.
Fees	Investors generally pay an asset-based fee that includes ongoing advice; portfolio manager's fee; trading fees; and custody services for securities left in the account. Fees vary, but are generally higher for equities and lower for fixed income.	Shareholder costs include annual operating expenses (expense ratio), sales charges, if applicable, and asset-based fees for ongoing advice from a financial professional, if desired.

For a more complete discussion of the expenses with a separately managed account, please see the manager's ADV, which is available from your Financial Advisor. Please read it carefully before investing.

³ This is not a complete list of the features of SMAs and Mutual Funds. Your Financial Advisor can help you consider all the features and limitations of each before you make an investment decision. In addition, your own investment objectives, time horizon, and risk tolerance must be considered.

⁴ Please see page 18 of this brochure for important tax information.

⁵ While mutual funds do not generally provide the same level of tax management capabilities that managed accounts allow individual investors, certain mutual funds may seek to offer tax advantages. For example, certain mutual funds employ "tax aware" investing techniques designed to minimize the impact of taxes on an investor's returns. Other funds invest with the objective of generating income that is exempt from local, state and/or federal income taxes. Ask your Financial Advisor for more information.

WHY CONSIDER A SEPARATELY MANAGED ACCOUNT?

Affluent investors and financial consultants are becoming increasingly attracted to separately managed accounts because of the special advantages they offer. They provide wealthy investors like you the opportunity for personalized tax management and access to services that are typically reserved for large institutions. Individual ownership of the portfolio's securities can offer tax advantages not available through a mutual fund.

What Is a Separately Managed Account?

A separately managed account is a customized investment vehicle designed to focus on your investment needs and managed by a professional investment manager. Typically, separately managed accounts are best suited for investors with considerable assets who require investment flexibility and the expert guidance of a financial consultant. A single asset-based fee covers all of the managed account services. The fee-based arrangement allows financial consultants to develop individual plans that focus on their clients' total financial picture and directly ties their incentive to the clients' overall performance.

Key Features of Separately Managed Accounts

Portfolio Customization. Accounts can be customized to your unique investment needs—focusing on your risk tolerance, savings goals and tax concerns. Additionally, you may transfer securities in kind and restrict purchases of securities or classes of securities (such as tobacco stocks, alcohol stocks) that do not meet your personal needs.

Tax Advantages. A separately managed account permits personalized tax management of your investments and the flexibility to limit your tax exposure through tax-loss harvesting.

Professional Management. Individual accounts are managed by experienced investment managers who will work with your financial consultant to customize a portfolio to your investment needs. Managers buy and sell securities on your behalf, based on your stated investment strategy.

HOW SEPARATELY MANAGED ACCOUNTS WORK

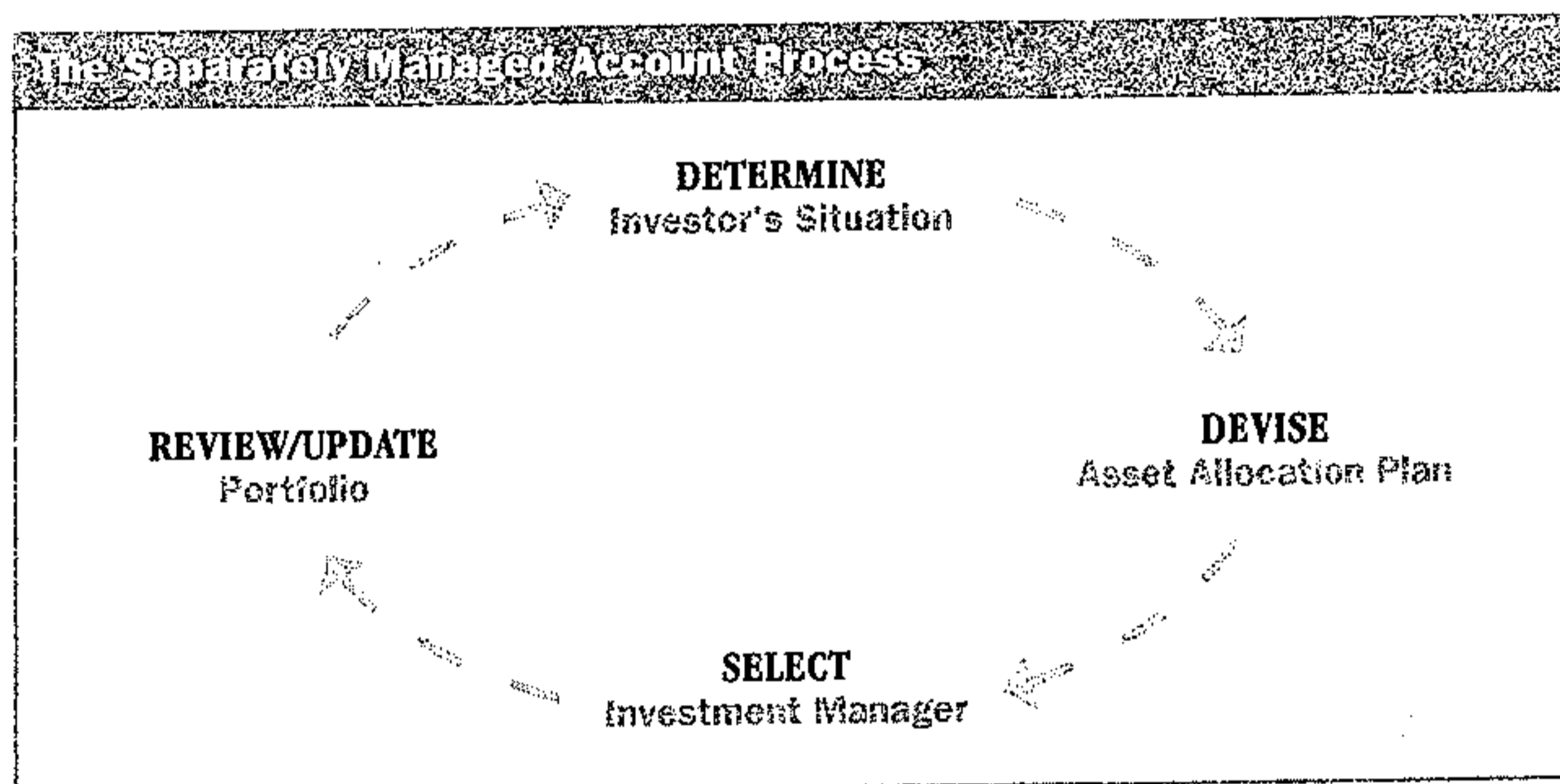
Separately managed accounts are available through brokerage programs that provide professional money management along with financial consultant services.

The Financial Consultant's Role

The financial consultant has active, day-to-day oversight of an investor's assets.

Services include:

- Determining the investor's particular situation—focusing on objectives and constraints—and helping to devise an investment policy.
- Developing an asset allocation plan.
- Helping the investor to evaluate potential investment managers—and then hiring one for each asset class and style.
- Reviewing the portfolio regularly, updating as needed and systematically evaluating how well the investment manager is performing.



Fee Structure

A single asset-based fee is charged, generally on a quarterly basis, and may be tax deductible. The costs for services are clearly disclosed and there are no hidden charges. The fee usually includes:

- Client profiling
- Investment management
- Continuing advisory services
- Portfolio style selection
- Trading
- Account rebalancing



Frequently Asked Questions



Q: What is a separately managed account?
 A separately managed account is an investment portfolio of stocks, bonds, cash, and other securities that is tailored to meet specific investment objectives.

Q: What are the benefits of separately managed accounts?
 SMAs can offer the following characteristics: individualized portfolios, professional management and oversight, flexibility, transparency, diversification, tax efficiency¹, and asset allocation, among others.

Q: What types of investors own separately managed accounts?
 Each individual client has different needs that change over time. Your Financial Advisor can help you decide whether separately managed accounts are appropriate for you based on your current financial situation, investment objectives, time horizon, risk tolerance and other factors.

Q: What's the difference between a single style and multiple style managed account?
 A single style account usually requires a minimum investment of \$50,000 to \$250,000 and may be appropriate if you want to invest in a distinct equity, balanced or fixed income style, such as, multi-cap or large-cap growth equities, or taxable and tax-exempt fixed income. A multi-style account usually requires a larger minimum investment (roughly from \$100,000

to \$250,000) and is suitable for investors looking to participate in a number of different investment disciplines in a single account.

Q: What investment strategies are available?
 Managed accounts are offered in a wide variety of asset classes and investment styles, including large cap, mid cap, small cap, multi cap, value and growth, taxable and tax-exempt fixed income, and international.

Q: What is the role of your Financial Advisor after a managed account is opened?
 After your Financial Advisor helps you identify and select your investment options, he or she continues to be your primary relationship manager. Financial Advisors take on a consultative role with you by helping you work with the portfolio management team to discuss any changes in your situation and to help you determine whether your current investment strategy is appropriate. Your Financial Advisor also helps you evaluate investment performance.

Q: How do I stay informed of my portfolio's performance?
 Regular communication from your portfolio management team is an essential tool in keeping you and your Financial Advisor informed. Among the tools that are usually provided: quarterly performance reporting, monthly investment commentary, and on-line portfolio information.

¹ Please see page 28 of this brochure for important tax information.

Q: What is the difference between a managed account and a mutual fund?

Unlike an investor in a mutual fund, separately managed account holders own the individual securities in their accounts. Although investment managers oversee hundreds of accounts, as a separately managed account investor, your account is "separate" from that of any other investor, which gives you the ability to direct the manager to customize the portfolio based on your personal and financial needs and goals. For example, you may request that the portfolio include or exclude a particular security or sector, or that some holdings be sold to produce capital gains or losses.

Q: What if I have special requests?

Separately managed accounts allow investors to impose reasonable stock, sector, or other preferences and restrictions on the management of their accounts. For example, if you own your employer's stock in your retirement savings plan, you and your Financial Advisor may decide not to invest additional assets in the company.

Q: How much input do I have in the stocks that are chosen for my portfolio?

You and your Financial Advisor will want to have an initial consultation to discuss your specific objectives, risk tolerance, time horizon, and goals. Depending on the separately managed account you choose, you may have the ability to impose reasonable investment restrictions on the management of your account. Some SMAs offer more flexibility than others, usually based on the amount you invest.

Q: What are the minimum investment requirements for separately managed accounts?

A single style managed account usually requires an investment minimum of \$50,000–\$100,000 for equity accounts, and \$100,000–\$250,000 for fixed income accounts. A multiple style managed account usually requires a larger minimum investment, generally \$100,000–\$250,000.

Q: How do separately managed account fees work?

Investors generally pay one asset-based fee that includes ongoing advice; portfolio manager's fee; trading fees; and custody services for securities left in the account. Since all of the various managed account products are different, however, you should contact your Financial Advisor for more information. Ask your Financial Advisor for Form ADV Schedule H for more information about expenses and fees associated with any particular separately managed account. Please read it carefully before investing.

Q: What is the Form ADV Schedule H?

A form that contains critical financial information about separately managed accounts' objectives and expenses.

Q: Are there risks associated with separately managed account investments?

Yes. All investments involve a certain amount of risk, including the possible loss of the principal amount invested, which varies depending on the security selected. For example, investments in small- and mid-sized companies tend to involve more risk than investments in larger companies. Consult your Financial Advisor for more information about risks.

HOW YOU COULD BENEFIT FROM A SEPARATELY MANAGED ACCOUNT

Separately managed accounts offer investors with considerable assets advantages that are not available in a mutual fund. With the help of your financial consultant, you could take full advantage of these opportunities and benefit by having:

- **Individual Security Ownership.** You own the securities in your individual portfolio. Money managers invest on your behalf and taxes are only paid on individual realized capital gains—which could significantly enhance the prospects for after-tax returns. In comparison, mutual fund money managers invest on behalf of the fund's shareholders. As a result, shareholders are subject to the tax distributions of the fund and may be required to pay capital gains on stocks purchased before buying into it.
- **No Impact from Other Investors.** Your long-term investment will not be impacted by the actions of other investors. In contrast, a shareholder with a long-term investment in a commingled product (mutual fund) could be impacted by the short-term decisions of other shareholders. While a mutual fund has the ability to rebalance its positions tax free when its investors are net purchasers of the product, conversely, managers may be forced to sell securities to meet liquidation demands. These sales create transaction costs and may put pressure on the mutual fund's capital gain exposure.
- **Greater Control over Your Tax Status.** Separately managed accounts permit personalized tax management—which could give you greater control over your tax liability. Working with your financial consultant, you could make specific requests to recognize capital gains and losses.
- **Realized Losses that Count Now.** You could potentially obtain immediate tax benefits for losses incurred. Mutual funds are required to distribute at least 98% of the net realized capital gains to investors at the end of each year. Net realized losses in mutual funds must be deferred and carried forward to offset gains in subsequent years.
- **Favorable Treatment of Short-Term Gains.** A separately managed account provides the potential for your investment to be offset by losses from investments in other portfolios. In comparison, mutual funds treat short-term gains distributions as ordinary income. They are usually taxed at higher rates and cannot offset other capital losses.