DEDICATED MANAGED ACCOUNTS

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Hedge fund investing has become a very popular topic among institutional investors, and a lot of that is driven by the pressure they face to try to deliver consistent stable returns, and the best way to do that is through a well-diversified portfolio. We actually recently gathered with a number of BNY Mellon's largest institutional investors and asked them specifically about how they're using hedge funds in their portfolio today and what they see over the next five years, and what we have seen is a real increase in the use of hedge funds, almost all investors have hedge funds in some portion of their portfolio, but what the trend is, is now moving from the single digit allocation into the double-digit allocation or more. Actually if you look at the statistics over the next five years, it is expected that most of our clients will start to have that north of 10, 15 even 20% allocation to hedge funds.

The challenge has been that if you look in the marketplace, we're seeing an increase in correlations across both asset classes and even globally, where the idea of diversification through spreading out your investments into other markets has actually become harder. As a result, it has put a lot of attention on those strategies that can deliver consistent returns, lower volatility and especially lower correlation.

As investors are increasing their allocation to hedge funds, they're confronting a number of issues. In a typical hedge fund investment, you're actually allocating to a manager who now takes control over your assets, has total control over the governance of that fund, and that really creates many issues for investors, it means that there is poor governance, it means that there is poor control over the assets, your assets are commingled with other investors' and so you have some issues associated with, again, their actions can impact you in a negative manner. For many investors, they are trying to say, hey, I want the hedge fund strategies, but really concerned with the nature of investing in a manager vehicle.

At BNY Mellon, we now have an offering to really address these issues; it is what we call Dedicated Managed Accounts. In a dedicated managed account structure, what we'd do is we now, as an investor, you hire the Hedge Fund Manager specifically just to trade the portfolio and all of the non-investment functions are handled by BNY Mellon.

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The dedicated managed account offering actually provides a number of advantages to the investor, and it starts with the segregation of the assets. Now, total control over the cash and securities is actually removed from the Hedge Fund Manager, greatly mitigating or even eliminating any fraud risk. The next piece is, by having control of the assets, it goes to the governance in terms of the investor really having oversight and control over the investments; get to see what is actually happening on a day to day basis. One of the key aspects with that is what we would call, Transparency, and it goes to actually being able to see the actual securities and be able to report on those. One of the key pieces as well becomes the ability to now aggregate your hedge fund exposures with your more traditional long-only exposures, and have a real view on what we would call that Total Plan Profile.

As we look forward, we really see this trend of using dedicated managed accounts as really accelerating. We recently sat down with many of our clients and asked them how they saw investing in hedge funds and more and more we really see that trend into dedicated managed accounts. Close to half of our clients said that as they look forward over the next five years, they really see investing through these dedicated managed account vehicles. BNY Mellon is well-positioned to help clients with these implementations. We have gathered the appropriate staff, we have the expertise and we have the technology really to help on that implementation. In particular, as a customized tailored solution, we look forward to sitting down with each of our clients, understanding their needs and really tailoring something that works best for them.

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