Understanding Separately Managed Accounts and What Customization Actually Means

Introduction

Institutional real estate has evolved from a relatively narrow allocation, historically concentrated among large pension plans and a limited group of specialist managers, into a broadly established institutional asset class. The NCREIF Property Index was developed to provide a consistent measure of property level investment performance. Over the following decades, reporting conventions, governance practices, and market infrastructure continued to develop. The public REIT market, first created in 1960 under the REIT act, experienced further expansion in the early 1990s, helping broaden access to institutional commercial real estate.[1,2]

As the private real estate market matured, commingled funds became a common way for institutional investors to obtain diversified exposure through a standardized vehicle. Separate accounts developed alongside them as a more customized structure for investors with sufficient scale and governance capacity. Today, both structures are well established, and the appropriate choice depends less on which is superior in the abstract than on the investor's objectives, portfolio construction needs, resources, and desired level of control.

This brief compares the structural characteristics of separate accounts and commingled funds across five dimensions: customization, transparency, economics, control, and fiduciary relationship. It also identifies areas in which commingled funds may offer advantages, outlines the terms that can be customized in a separate account, and discusses practical considerations for investors evaluating whether a dedicated mandate is appropriate.

How the Structures Compare

Customization

Investors in a commingled fund generally participate under a common investment mandate and do not control the composition of the underlying portfolio. A separate account can instead be structured around investor specific objectives, including risk tolerance, geography, property type, leverage, concentration, and governance requirements. This can be particularly useful when an investor is seeking to fill specific portfolio gaps or avoid exposures already represented elsewhere in the real estate allocation. The tradeoff is that greater customization generally requires more work at formation and sufficient commitment size to support a dedicated mandate.

Transparency

Commingled fund reporting is generally designed for the vehicle as a whole. A separate account can provide direct transparency into the underlying investments, with reporting requirements established bilaterally. The NCREIF-PREA Reporting Standards were created to promote transparency, consistency, and informed decision-making across institutional real estate reporting.[3] A separate account may also provide negotiated audit, inspection, valuation, and expense-allocation rights, subject to the governing documents. These rights can support more granular portfolio analytics, but they also place greater responsibility on the investor to determine what information is useful and how it will be monitored.

Economics

Commingled fund economics are established for the vehicle and shared across a pool of investors, with limited ability for any one investor to alter the fee structure. Separate account fees are negotiated bilaterally and typically

become more favorable as the account scales in size. Based on Ascentris' experience, base management fees for separate accounts have often been approximately 10–25% below those of commingled funds pursuing a comparable strategy.[4] This observation is not a market-wide benchmark: fee differentials vary materially by strategy, commitment size, services provided, and incentive structure.

Control

In a closed-end commingled fund, the manager generally determines when committed capital is called and when proceeds are distributed, subject to the fund documents. In an open-end vehicle, subscriptions and redemptions may be subject to queues, notice periods, or liquidity limits. These features are integral to pooled portfolio management, but they reduce an individual investor's control over timing. A separate account can provide greater influence over investment pacing, leverage, hold periods, and dispositions within the mandate. That flexibility can improve coordination with an investor's broader portfolio, although the degree of control retained by the investor will depend on the discretion delegated to the manager and the agreed governance process.

Fiduciary Relationship

The legal and governance distinction between the two structures is important but should be stated carefully. Managers owe a fiduciary duty to their clients under the Investment Advisers Act framework. For a commingled fund manager, the fund itself is generally the client for purposes of that federal fiduciary duty; the adviser therefore manages the vehicle for the fund and its investors collectively, subject to the fund documents and applicable law. In a separate account, the client relationship is directly with the investor, allowing the mandate and governance framework to be organized around that investor's specific objectives.[5] This bilateral relationship can reduce the potential for competing investor objectives within a single vehicle, although the manager may still manage other accounts and must address conflicts across clients.

Table 1. Structural comparison and principal tradeoffs.

Dimension	Separate account	Commingled fund
Customization	Mandate can be tailored to investor specific exposures, limits, and governance.	Common mandate provides standardized access with less design work.
Transparency	Reporting and transparency can be negotiated at the investment level.	Standardized vehicle reporting can be efficient but is generally not investor specific.
Economics	Fees and incentive structures can be negotiated and may become more favorable as mandate size increases.	Shared vehicle economics can be efficient for smaller commitments, but terms are less customizable.
Control	Potential for greater influence over pacing, leverage, hold periods, and dispositions.	Manager controls portfolio decisions and capital flows within fund terms, reducing investor oversight burden.
Diversification	Can be designed to target portfolio gaps; may be more concentrated at the account level.	Typically provides immediate diversification across a broader pool of assets.
Governance burden	Can be calibrated through delegated discretion, but requires greater upfront structuring.	Generally simpler to underwrite and monitor once the fund commitment is made.

Note: The comparison is illustrative. Actual rights, reporting, liquidity provisions, and economics depend on the governing documents and negotiated mandate.

What an Institutional Investor Can Customize

Customization is the feature that most clearly distinguishes a separate account from a commingled vehicle, but the term can describe a wide array of terms and conditions. The relevant question is not whether an account is labeled "customized," but which terms are actually negotiable and how directly those terms reflect the investor's portfolio objectives. The dimensions below are among those most commonly addressed in a separate account mandate.

Table 2. Illustrative dimensions of a separately managed account mandate.

Dimension	Illustrative investor-specific terms
Strategy and objectives	Core, core-plus, value-add, or other strategy parameters; return objectives and risk tolerances.
Geography and property type	Markets and sectors to target, limit, or exclude based on the investor's existing exposures.
Leverage	Portfolio level and asset level leverage parameters, including limits and approval thresholds.
Fees	Management fees, incentive structures, hurdles, and other economic terms negotiated bilaterally.
Reporting and transparency	Reporting cadence, asset level detail, valuation methodology, audit rights, and other look-through requirements.
Discretion and governance	Delegated authority, investment committee rights, approvals, consultation rights, and escalation procedures.
Concentration limits	Minimum or maximum exposure by asset, market, sector, operating partner, or other portfolio characteristic.
Liquidity and term	Investment pacing, expected hold periods, reinvestment provisions, disposition parameters, and mandate term.
Termination	For-cause and, where negotiated, no-fault termination rights, manager replacement provisions, and transition mechanics.

Note: The dimensions shown are illustrative rather than universal. The scope of customization depends on mandate size, strategy, manager capabilities, legal terms, and the level of discretion retained by the investor.

Practical Considerations for Investors

Governance and Staff Resources

A separate account generally requires more investor engagement during formation than a subscription to an established commingled fund. Investment guidelines, reporting, delegated authority, approval rights, legal terms, and operating procedures must be established at the outset. The ongoing time commitment needed by the investor, however, can vary considerably. An investor can delegate broad investment discretion within agreed parameters and establish a reporting cadence comparable to other external manager relationships, or it can retain more active approval and consultation rights. The relevant consideration is therefore not whether a separate account requires more governance in every case, but whether the investor has the resources to design the mandate and monitor the rights it chooses to retain.

Diversification

A separate account may be less diversified than a commingled fund when measured solely at the vehicle level. For an institutional investor, however, the more relevant question is often how the mandate affects diversification across the entire real estate allocation and, ultimately, the broader plan. A separate account can be designed with concentration limits by asset, market, sector, or other exposure, and it can intentionally target areas that are underrepresented elsewhere in the portfolio. In that circumstance, a more concentrated mandate may still improve portfolio level diversification. Conversely, an investor seeking broad exposure from a single commitment may be better served by a commingled fund.

Scale and Implementation

Separate accounts are not equally efficient at all commitment sizes. A dedicated mandate must be large enough to support portfolio construction, manager attention, administrative requirements, and reasonable diversification within the chosen strategy. Smaller programs may obtain better implementation efficiency through commingled

funds, particularly when immediate diversification and limited internal governance are priorities. The scale at which a separate account becomes attractive will vary by strategy and manager rather than conforming to a single market threshold.

Establishing a Separate Account

In practice, forming a separate account generally involves three stages. The first is mandate definition: investor and manager establish strategy, target exposures, risk parameters, leverage, concentration limits, and portfolio construction objectives. The second is documentation and governance design: reporting, compliance, approval rights, delegated discretion, valuation practices, and economic terms are negotiated and documented. The third is implementation: capital is deployed within the mandate, with reporting and oversight calibrated to the governance framework established at formation.

This process requires more upfront design than committing to an established fund, but that is the mechanism through which customization is created. Over time, a successful relationship can also support additional mandates and capital commitments as an investor's portfolio needs change, although each mandate should be evaluated on its own strategic and economic merits.

Conclusion

Separate accounts and commingled funds are complementary tools for institutional real estate portfolios. Commingled funds can provide immediate diversification, standardized implementation, access to established strategies, and a relatively limited governance burden. These attributes can be especially valuable for smaller allocations, new programs, or investors seeking broad exposure through a single commitment.

Separate accounts become more relevant when an investor has sufficient scale and governance capacity to benefit from a dedicated mandate. Their principal structural advantages are the ability to customize exposures and governance, negotiate economics, obtain more direct transparency, and exercise greater influence over capital pacing and portfolio decisions. Those advantages are not costless: they require upfront structuring, adequate commitment size, and a governance model capable of using the additional rights effectively.

The decision is therefore best framed as a portfolio construction question rather than a choice between a superior and inferior vehicle. The appropriate structure depends on what the investor is trying to accomplish, what exposures already exist in the portfolio, and whether the incremental customization and control of a separate account are valuable enough to justify the additional complexity.

About Ascentris

Ascentris is a Denver-based real estate private equity firm built around a single conviction: institutional investors deserve a real estate program designed specifically for them.

The firm invests through customized separately managed accounts, each built around the investor's objectives, risk parameters, and portfolio needs. Its strategies span core, core-plus, and value-add investments across the major property types and markets throughout the United States, and every account is structured so that its objectives complement, rather than conflict with, those of the firm's other clients.

For more than two decades, Ascentris has followed a consistent investment philosophy: a best-ideas approach that rotates capital as markets evolve combined with managing each property actively with an ownership mindset focused on long-term value. Its cradle-to-grave model dedicates a single accountable team to each investment from origination through sale, delivering the transparency, control, and continuity a separately managed account is meant to provide.

As a privately held, management-owned, SEC-registered investment adviser[1], Ascentris aligns its structure and incentives with a single priority: putting the investors' interests first.

[1]*Registration does not imply any level of skill or training.*

Sources and Notes

1. NCREIF, NCREIF Property Index. NCREIF states that the NPI dates to 1978 and was developed to provide historical measurement of property-level returns and support understanding of real estate as an institutional investment asset class.

2. Nareit, The History of REITs. Nareit outlines the establishment of the U.S. REITs, identifies the 1991 Kimco Realty IPO as the beginning of the modern REIT era, and documents the subsequent expansion of the public REIT market.

3. NCREIF, NCREIF PREA Reporting Standards. NCREIF describes the Reporting Standards as an industry initiative intended to facilitate transparency, consistency, and informed decision-making in real estate reporting.

4. Ascentris internal experience with institutional separate account and commingled fund fee structures. The 10-25% range is an observed firm experience, not an industry-wide benchmark, and actual fee differentials vary by mandate size, strategy, services, incentive structure, and negotiating leverage.

5. U.S. Securities and Exchange Commission, Commission Interpretation Regarding Standard of Conduct for Investment Advisers (June 5, 2019), together with SEC materials regarding private fund advisers and fiduciary obligations.

Methodology note. This brief is intended as a structural comparison rather than a survey of all market practices. Statements regarding rights, liquidity, governance, and fees are general observations; actual terms are determined by governing documents and bilateral negotiation.

Disclosure. This brief is produced by Ascentris and is provided for discussion purposes only. It does not constitute an offer, an investment recommendation, legal advice, or an assurance of future performance. Market practices and fund terms vary by manager and governing documents. Third-party information is believed to be reliable but may be revised. Legal and compliance review should precede any external distribution. Portions of this paper were drafted or refined with the assistance of AI-based tools; the author reviewed, edited, and takes full responsibility for the final content.