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NEWS RELEASE

JPMORGAN SIGNS HANCOCK SMA OUTSOURCING DEAL

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JPMorgan has added a deal to a relatively quiet year for outsourcing, netting a contract to administer \$1.6 billion in separately managed accounts (SMAs) for John Hancock Private Client Group. The firm will handle middle- and back-office operations out of its Boston office for 5,000 accounts.

JPMorgan will take over the gamut of account services for John Hancock, including reconciliation, rebalancing, trading, reporting, performance and composite management.

"The whole premise behind outsourcing is that we've got a highly experienced group of folks here that come from the industry, believe in their work and are able to demonstrate and show time and time again that we can do this more efficiently for a multitude of client than they can do on their own," says **Scot Knight**, v.p. and product manager for JPMorgan's Managed Account Solutions Group.

This is JPMorgan's first announced SMA outsourcing deal in 2007. The firm announced a partnership of similar size with Charles Schwab Investment Management in May 2006, as well as a deal with **Modern Asset Management** in December. In 2005, JPMorgan announced deals with Gartmore Global Investments and Lee Munder Capital Group. "We are working with a multitude of different asset managers," says Knight. "Some of them haven't been announced."

The firm also provides middle- and back-office outsourcing for institutional managers and SMA platform sponsors.

Market-wide, 2007 has proved slow for outsourcers, although firms like Citi, SEI and PFPC remain industry leaders. Citi announced a \$1 billion and 5,000 account deal with Management last week and one with Roosevelt Investment Group in May. SEI announced deals with Robeco Investment Management and Harris Investment Management in February. As previously reported¹³ in *FUNDfire*, Citi has 12 clients and more than 75,000 accounts, while SEI clocks in with 10 clients and 70,000 accounts under middle- and back-office administration.

Most outsourcers have been projecting about 15 deals a year, says **Daniel Seivert**, CEO and managing partner of Echelon Partners, an investment bank and consulting firm in Manhattan Beach, Calif. Year to date, the industry is off this pace by about 30%.

"Outsourcing deals have slowed down and I think the pipeline is definitely not as robust as vendors would like," says Seivert.

"Typically when times are tough and assets aren't flowing and growing, firms focus on managing costs, particularly in the back office," he says. "But when times are good, the strategic priority is on sales, marketing, and portfolio management. The pendulum was strongly on the side of these elements in the first half of 2007. Should the market remain flat to down over the next two quarters, it would be natural for the pendulum to swing back."

The market could also see an influx of new startups as professionals break away from wealth management firms. “I really think because of all the merger activity we’ve had that there are going to be a non-trivial number of unhappy portfolio managers and research teams swimming in organizations that are larger or less people friendly than they desire,” says Seivert.

Startups have been a traditional source of business for outsourcing providers. But small firms are not their first preferences, says Seivert. “Vendors sometimes look at startups with a jaundiced eye because they want the big deals where they’re going to get 10,000 or more accounts in a conversion, even though these smaller firms have been easier to deal and may prove to be a good way to invest in the future.”

JPMorgan’s Knight says outsourcing will help John Hancock grow at a significantly lower cost than it could achieve on its own. “It allows them scalability without having to put in any upfront core investment,” he says. “This also allows them to expand into new product lines more easily and on a shorter time scale.”

The firm also brings its own technology suite to the table, with applications built on Vestmark’s SMA software platform. Other applications include a compliance workflow auditing component and JPMorgan’s VIEWS portfolio reporting system.

Some outsourcing clients – although Knight could not say which – choose to trade through JPMorgan’s brokerage unit, as well. “If they want to follow the norm, which is back to the sponsors, that’s fine – we provide them that connectivity,” says Knight. “But again, we offer them an option. And through **JPMorgan Securities**, they can trade as well as take advantage of the services they offer, such as algorithmic trading or access to dark pools of liquidity.” Those clients also have access to one-on-one “high-touch” broker services and block trading.

Knight says John Hancock did an extensive search. But it helps that the Managed Account Solutions Group is based out of Boston. “Being in Boston is certainly a plus and is going to help both of us work tightly together,” he says.

Representatives from John Hancock were not available for comment.

ABOUT ECHELON PARTNERS

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as “investment product developers and distributors” (IPDADs). Since that time, ECHELON’s professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON’s business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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