



# ECHELON

## PARTNERS

Visionary Advice. Execution Excellence.

## NEWS RELEASE

### EPOCH LOOKS TO MELLON FINANCIAL FOR OUTSOURCING

#### Mellon to Run Ops for Managed Acct Entrant

June 18, 2007

Originally Published By Scott Johnson, Fund Fire

A year into its managed account venture, Epoch Investment Partners is looking to an industry giant for help with operations. The \$5.3 billion manager has selected Mellon Financial to outsource the majority of its middle- and back-office services, including account opening and maintenance, transaction support, custodian reconciliation and performance measurement.

Mellon will also provide Epoch with an imaging and workflow tool, which the firm says will improve operational efficiencies. Epoch, formed in 2004 by former Credit Suisse Asset Management chief Bill Priest, has made waves in the institutional space, with assets under management more than doubling from \$2.3 billion in 2005 to \$4.4 billion in 2006, almost entirely from institutional clients.

The announcement rounds out a good first half of the year for Mellon's Asset Servicing group. In April, it landed a \$2.5 billion separately managed account (SMA) mandate from Bear Stearns Asset Management. While Epoch has just \$55 million in assets in its 12-month-old SMA program, Mellon says the deal is one of several in progress, some of which will not be made public.

That's indicative of a quickening industry pace, especially in the last two years, says Mellon's Shaun Flavin, director of U.S. business development. Interest in outsourcing expensive infrastructure is robust among managers striking out into a new investment arena where they might not have the benefits of scale. "Even larger institutions are looking to expand their product offerings," says Flavin. "It's not necessarily just new firms."

The list of firms offering back-office outsourcing services is short, largely because it is a traditionally low-margin business of scale. Success requires "cross subsidization" from firms for three to seven years, says Daniel Seivert, CEO and managing partner of the consultancy and investment bank Echelon Partners. Mellon's competitors include State Street, PFPC, SEI, JPMorgan Chase, BISYS and Citigroup. BISYS will soon be part of Citigroup. And two months ago, Market Street Advisors also stepped into the arena.

Stephen DeAngelis, a managing director in PFPC's account services unit, says the challenges of the outsourcing market are unique. "This is not like the asset management industry, where literally an equity manager can have a couple of billion in assets and really be a player – where you don't need a lot of scale to be an effective player," he says. "That's not the case when you're talking about being an outsourced provider either on the sponsors' or money managers' side."

But the industry is still relatively young. Mellon made the first outsourcing deal in the early 1990s, but it took until 2002 for the industry to take hold. Echelon, formerly known as 3C Financial Partners, counts 34 outsourcing deals in the last five years, with only two prior. And with 400,000 of the industry's 2.7 million managed accounts currently under outsourcing – or roughly 15% – there is still plenty of room for growth

So far, 2007 has seen four public deals, including Epoch's. PFPC started the ball rolling in January with a \$600 million SMA outsourcing deal with SeaCap Investment Advisors. SEI scored twice shortly thereafter with Harris Investment Management and Robeco. Citigroup – an industry leader – got the nod from Roosevelt Investment Group in May.

Still, 2006 and 2007 have trended below expectations of outsourcing providers, who were expecting a breakout period, says Seivert. "Instead it has been a continuation of the same pace of eight to 12 deals per year," he explains. That's largely because operations and technological priorities tend to be overlooked relative to other objectives in a bull market. "I think what typically happens is that when times and business are good, the strategic priorities are to generate alpha from the portfolio managers and maximize the acquisition of new assets from the sales professionals."

When business begins to slow, firms often move aggressively to preserve margins and explore cost reduction through outsourcing, says Seivert. There is always a flow of emerging managers, whether business is good or bad. Altogether, about 80% of SMA outsourcing clients are incumbent firms, he says, with the other 20% of business coming from startups.

Mellon's clients include Clover Capital, Dreyfus, Old Mutual, SunGard Advisor Technologies, Bear Stearns and a New York broker-dealer. Flavin says Mellon's market appeal is as much about service culture as technology. The firm takes a consultative approach to every deal to tailor its services to the diverse needs of clients. "It's not a one-size-fits-all situation," says Flavin.

That philosophy seems to sit well with Epoch. President and COO Tim Taussig says Epoch interviewed "most of the major outsourcing players" before following the lead of one of its managed account sponsors, which has hired Mellon for a similar service. "That familiarity was helpful in the overall decision-making process," says Taussig.

Providers "all approach the SMA outsourcing business a little differently but for the most part in a similar way," he says. But that may soon change if vendors begin to move away from CheckFree Security APL, which Taussig describes as the dominant technology protocol in the industry. Flexibility is crucial, he says. "I think once that happens, once that gains traction, I think there will be some fairly significant differences among the providers."

## 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.

**Daniel Seivert**  
Managing Director  
dseivert@echelon-group.com

**Tyler Resh**  
Principal  
tresh@echelon-group.com