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## NEWS RELEASE

### HALF MANAGED ACCT COMPANIES LOOK INTO OUTSOURCING

#### Managed Acct Outsourcing Still Under Review

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Cambridge, Mass. -- Managed account managers continue to weigh the pros and cons of outsourcing their back-office operations. Although few have actually taken the plunge, speakers at a recent industry conference say the review process itself is well worth the effort.

About half of all managed account manufacturers have looked into outsourcing, says Tom McKee, a senior v.p. with outsource provider State Street Corp. and a participant in a panel discussion on the topic at the Financial Research Associates' *Managed Accounts Summit* in Cambridge, Mass., earlier this week. But so far that interest hasn't meant much in terms of names on dotted lines.

In eight years only 10 deals have been done in a universe of 215 managers, says Dan Seivert, managing principal of Los Angeles-based investment bank 3C Financial Partners and moderator of the outsourcing panel.

Outsourcing's advocates see it as a way for managers to streamline costly and time-consuming tasks like account opening, reconciliation, trading and reporting. Shifting those functions to outsourcers frees managers to jettison back-office staff and, possibly, put money to better use in bolstering mission-critical functions like research and marketing.

That kind of flexibility is advantageous in an era of shrinking fees. 3C's Seivert figures that sponsor fees to managers will average 36 basis points through the next six years, down from an average of 42 basis points last year. Nor is sheer asset volume likely to offset those losses: most managers are constrained to hire a new back-office worker, and so increase costs, for every several hundred or, at best, every 1,000 new accounts.

Despite the apparent benefits of outsourcing, however, managers are having a hard time committing to a process that can't easily be undone.

But panelists say managers should take the trouble to review outsourcing options all the same. At the very least, says Joseph Walker, managing director of financial software maker UNAPEN, it could help them come to grips with the high costs of running their own back offices.

"The ultimate ramification of outsourcing is to get rid of operations altogether," says Walker. And though he acknowledges that such stark reduction might not suit every manager, he questions the business priorities of those "who see their technology infrastructure as one of their accomplishments."

Steven Semple, a senior v.p. with manager JPMorgan Fleming, says there are important lessons to be learned from talking to outsourcers even if the conversations come to nothing in the short run. Though his firm recently came up empty in a search for an outsourcer, Semple says the interviews gave Fleming the opportunity to probe the "state of the industry" with a view to discovering if "we can make [our operations] cost less" through outsourcing or as a result of purely internal economies.

Despite the lack of deals, the outsourcing space is crowded. In addition to State Street, the choice of outsourcing providers runs to Mellon Financial and PFPC -- firms that recently announced contracts with, respectively, managers Old Mutual and Neuberger Berman --as well as JPMorgan Chase, the Bank of New York, BISYS and SEI.

Charles Kadlec, a director with asset manager J. & W. Seligman, suggests why these suitors are meeting with such resistance. "One of the biggest challenges is on the emotional level," he says. "You worry about your business [suffering]." In fact though, Seligman is one of the few managers to have pulled the trigger. It outsourced most of its back office to State Street several years ago.

As a result, says Kadlec, his firm has enjoyed greater scalability of its operations -- scaling up, as he and his colleagues had hoped, as well as down, when business slowed unexpectedly during the recent recession. Outsourcing also let Seligman concentrate on what it does best, according to Kadlec. "Our value proposition isn't operating computers, it's managing money."

On the way to streamlining operations through outsourcing, however, Kadlec says it's vital to get existing back-office personnel on board. In succeeding in that task, however, Seligman was aided by the fact that State Street ended up hiring "99%" of the staff Seligman fired as a result of the outsourcing deal.

To quell fears of things falling apart once an outsourcer takes over, it helps "to really take the time to delineate who's responsible for what." says Kadlec. "You want to have a real concrete sense, contractually, of that."

### 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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