

## NEW ENTRANT TO MANAGED ACCOUNT OUTSOURCING

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JPMorgan Chase plans to enter the managed account outsourcing business. It joins a crowd of vendors keen to have a piece of the projected expansion of the managed account industry through the remainder of the decade. To support its outsourcing initiative, JPMorgan has struck a deal with Vestmark, an enterprise software maker that observers say poses a potential threat to CheckFree's dominance of managed account connectivity and process enhancement.

"JPMorgan's new service provides a cost-effective outsourcing solution that includes account opening and closing, ongoing account maintenance, performance reporting and account reconciliation," the New York-based megabank says in a press release. The company was unable to respond to questions by press time.

JPMorgan is the seventh player to put itself forward as a solution for managers seeking to offload managed account operations. The others are Bank of New York, BISYS, Mellon Financial, PFPC, SEI and State Street— with Bank of America, Citigroup, Northern Trust and Wachovia hinting at joining them, says Daniel Seivert, a managing partner at 3C Financial Partners, a merchant bank and consultancy.

So far, however, only ten outsourcing deals have been struck, says Seivert. Still, some of those already in the game figure "the floodgates will open sooner rather than later" as Marc Filipkowski, a v.p. with Mellon Global Securities Services, puts it, as managers look for help running their middle- and back-office operations.

The outsourcing segment's collective reasoning on that point is straightforward. There were about \$507 billion in managed accounts at the end of 2003, according to the Money Management Institute, a trade group for private asset managers. If the business continues to grow at an annualized rate of 24% — as it did in the years 1995-2003 — then it should be north of \$2 trillion by the end of 2010, Seivert estimates.

Though that's good news for the managed account industry as a whole, growth puts asset managers in a bind. Private-client managed accounts are tougher to administer than institutional accounts because they're smaller. That means managers have to fiddle with more of them to achieve profitability. And more accounts mean more account openings, more customization, more reconciliation, more performance analysis, more record keeping and more reporting.

Companies like JPMorgan and Mellon think compressed margins and the sheer weight of work will force asset managers to give up trying to administer their accounts in favor of outsourcing. According to Filipkowski, the strain is already starting to show. "Managers, very established ones and new entrants, are going through a lot of due diligence right now" with regard to their outsourcing options, he says. "They're in the process of kicking tires and looking under hoods."

As outsourcing becomes more established in the managed account business, Seivert sees an "oligopoly" of companies dominating it. "There will be winners and losers," he says. "Two or three players will end up with the bulk of the business."

But John Axisa, a v.p. in State Street's wealth management services group, isn't sure the latest entrant will be one of them. "There is a lot of dust yet to settle, but the bottom line is experience," he says. "What experience does JPMorgan have in this part of the industry, either as an investment manager or a sponsor?"

If the outsourcing side of the managed account business looks like a focus for intense competition through the next few years, the connectivity segment — companies that help outsourcers, managers and sponsors communicate and improve workflow — seems to be gearing up for a bare-knuckle brawl.

Right now, CheckFree overwhelms the competition. Focusing on investment management, trading, portfolio performance and investor reporting, it allows 39 of the top 50 sponsors and 36 of the top 40 asset managers to communicate with each other in a "straight-through processing environment," according to the company. But the same growth projections that so thrill outsourcers is prompting some companies to take a run at CheckFree.

"There's going to be room for a couple or a few of these guys," says Kevin Keefe, a senior v.p. with BISYS's separate account outsourcing division, which also inked a deal with Vestmark recently.

Two companies tipped as possible sources of disquiet to CheckFree are Market Street Advisors and Vestmark, the connectivity provider JPMorgan highlighted when it launched its outsourcing service.

Bevin Crodian, Market Street's CEO, says his company's chances against CheckFree and Vestmark are more than just good. "You need people in this space who understand it," he says, inviting comparison between his long experience on the sponsor side of the managed account business and the management team at Vestmark's background in non-financial enterprise software. "This business is much more complicated than any tech out there."

But Vestmark seems to be winning converts. The deal with JPMorgan is its second with an outsourcer in two months. It entered into its "strategic alliance" with BISYS in January. In addition, says David Blundin, Vestmark's CEO, the company has reached secret deals with a top-ten separate account manager and a "major" sponsor.

In fact, says Blundin, Vestmark has a "surplus" of deals in the works. "The challenge is to take the deals we have and try to put things off for six months so we can keep up with demand."

Given that kind of reaction and the growth that's in store for the managed account business, he adds, there's plenty of room for his company and for Market Street.

Both companies have the segment leader in their sights, though Market Street has been more vocal about its intention to take business from CheckFree — a stance Blundin questions. "Some people in this business are making a big mistake by going headlong against CheckFree," he says.

However, in response to an invitation to describe the connectivity marketplace as it might appear three to five years hence, Blundin says, "CheckFree will survive if it get its act together and actually sits down and writes some product."

CheckFree's response is cheerful enough. "The rumors of our death are being greatly exaggerated," says senior

v.p. Hilary Fiorella, paraphrasing Mark Twain. "This is a great business that's growing by leaps and bounds and if we all deliver what we promise then there'll be enough accounts for all of us."

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