

Market Street and the state of SMA-ops outsourcing

Thomas Coyle - 15 August 2008



Polen Capital Management has selected **Market Street Advisors** to provide middle- and back-office support for its nascent separately managed account (SMA) program. Market Street says the win bolsters its standing as a significant competitor to big-name players in the SMA-processing space.

Boca Raton, Fla.-based Polen is a 29-year-old U.S. equity manager that invests \$400 million across 300 accounts for high-net-worth and institutional investors. But the firm is expecting a dramatic increase in assets and accounts as a result of a new retail SMA mandate from a wirehouse; one it declines to identify.

Choices

Managers entering the retail SMA space -- a business with \$1.5-trillion in assets at the end of September 2007, according to the **Money Management Institute** -- have to decide whether to run processing capacity themselves or outsource it.

For Polen, the idea of farming out a chunk of its SMA operations was attractive for two reasons.

First, letting someone else handle the processing side of things leaves Polen free to stick to its core competencies: managing money, bringing in business and keeping its clients happy, says COO **Stan Moss**. In addition, he adds, the firm's location in southeastern Florida would have made recruiting ops personnel difficult.

Firms that opt for the outsourced approach can turn to SMA-processing units run by **Bank of New York Mellon**, **Citigroup**, **JPMorgan**, **PNC**, **SEI**, **State Street**, and Market Street.

Polen picked Market Street because it's "of a size to be interested in the *potential* of our growth," says Moss -- something, he adds, some of the bigger outsourcers didn't show much evidence of.

Besides that, Moss points to a cultural affinity with Market Street. "We're a boutique, entrepreneurial firm that's poised for growth, and we like the fact that [Market Street is] also a boutique, entrepreneurial firm that's poised for growth."

Big guns

Market Street is competitive on pricing too, according to its founder and CEO **Bevin Crodian**. That's because it's a full-service outsourcer *and* an account-processing and connectivity ASP provider that owns all of its underlying technology. Its bigger-name rivals have to work with account-processing and connectivity providers like **Fiserv's CheckFree Investment Services**, **Advent Software** and **Vestmark**.

Without the need for a middleware mark-up, Crodian says Market Street can charge less than its full-service competitors and still be profitable.

Ownership of the technology also means that Market Street can be flexible in terms of service offerings: for some of its clients it's an ASP pure and simple; for others it's a full-service processor; and for a third group -- for more than half of its 15 institutional clients, as it happens -- it's what Crodian calls a *hybrid* provider, offering a combination of outsourced and ASP services. For example, its processing set-up for Polen lets the asset manager maintain total control of trading for its retail SMAs.

Market Street, which was founded in 2000 and has been in production since 2004, looks to be outmatched by a bevy of deep-pocketed rivals on both the ASP and the outsourcing sides of the SMA-processing business.

On the ASP side, CheckFree's APL is old but it's an SMA-industry mainstay -- and its acquisition last year of order-management provider **Upstream** has the potential to make EPL, APL's the long-awaited replacement, more attractive to managers who might otherwise jump ship.

Vestmark seemed to have gained an edge over Market Street a few years back when it won positions in the innards of several outsourcers' operations -- specifically those of Citi, JPMorgan and **Bisys**, an erstwhile player in the space.

Loss leaders

Market Street looks even punier next to its full-service competitors.

That business is in flux, however. Last year, Citi acquired the investment-processing unit of Bisys. In 2006, the **Bank of New York** got out of the game ahead of its merger with **Mellon**, a firm that hasn't announced a new SMA deal in years. In 2004, State Street declared that it would stop funding its SMA-processing unit.

About 40 SMA-processing deals have been made public in the past 13 years, with more than half of them announced since early 2005. Looking at deal flow through early 2007, it would seem that SEI and Citi had pulled ahead of the big-name pack with JPMorgan running third.

Since then though, Market Street -- the only SMA processor whose offerings aren't ancillary to larger mutual-fund, institutional-account and hedge-fund operations -- says it has set the pace. Polen is its twelfth win in the past 15 months, according to Crodian.

"To varying degrees our competitors are all loss leaders for fund complexes," says Crodian. "For most of them, if they're ever forced to stand on their own P&L, it's clear what would happen."

Edison, N.J.-based Market Street processes (or is in the process of installing) about 20,000 accounts. It has approximately \$5 billion in assets under administration. -FWR