

SMA Ops Outsourcing Deal Stirs Sleepy Market

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A quiet year in the market for separately managed account operations outsourcing is being shaken up with the announcement of a new deal. One leading SMA outsourcer has signed on with a new technology provider – and in its first announced deal using the new system, it has snagged an asset manager client from a main outsourcing competitor.

[PNC Managed Investments](#)¹ – the newly renamed arm of the SMA outsourcing business that used to go by the PFPC brand – has announced that its latest client is [Aston Asset Management](#)², a Chicago-based manager with about \$6 billion in assets that has largely focused on the mutual fund space, but is aiming to build up its SMA business. Aston had switched its \$160 million book of SMA assets over the summer from its prior outsourcer, [Citigroup](#)³'s [Global Transaction Services](#)⁴ arm, which is one of the SMA outsourcing market's largest players.

In signing Aston, PNC also is making public a new arrangement in which the outsourcer is using portfolio accounting technology and back office systems of [Market Street Advisors](#)⁵, an upstart provider in a market dominated by [Fiserv](#)⁶ – formerly known as CheckFree – and [Vestmark](#)⁷, another sizable competitor.

The deal kicks some life into a market in which outsourcers help asset managers with the technology needed to distribute SMAs to wealth management sponsors. After several years of strong growth earlier this decade, when about a half dozen rivals were jockeying to sign on money manager clients, the market flattened out last year and appears to have hit a wall this year.

But PNC appears to have gained some momentum from its decision to open up its outsourcing business to offer the accounting platform of Market Street, which now stands on the menu next to the outsourcer's existing relationship with Fiserv. PNC expects to soon announce other manager clients using Market Street's technology, says A.J. Harper, head of PNC Managed Investments. He says his division won the SMA business from Aston, a firm that already tapped PNC for its mutual fund administration service, thanks largely to the Market Street connection.

"Using an alternative accounting platform was a key element for Aston," Harper says. "That's why they had originally chosen Citi, because it used the Vestmark system."

A Citigroup spokeswoman declines comment.

PNC now has six SMA outsourcing clients and runs \$16 billion in assets across more than 45,000 accounts for them. That puts it in the middle of the pack based on data from earlier this year, when Citigroup counted about a dozen SMA manager clients and [SEI Investments](#)⁸ reported having 16 clients, including a quartet of managers it won after [State Street](#)⁹ bowed out of the outsourcing business last year.

Another outsourcing player is [BNY Mellon Asset Servicing](#)¹⁰, which over the summer announced it had been hired by [Mesirow Financial](#)¹¹, a Chicago-based asset manager, to handle its SMA book. BNY Mellon also had about a half dozen clients in recent tallies. It appears that its last public announcement of a new SMA manager client before Mesirow was in 2007.

[JPMorgan](#)¹² also has an SMA outsourcing business with a few clients, but it does not appear to have announced a new manager client since late 2007.

The last SMA outsourcer player, interestingly, is Market Street Advisors itself. It has been one of the most active firms since it broke into directly providing outsourcing services to managers in 2007, and is now up to nearly a half dozen SMA clients itself. But unlike its competitors, Market Street uses its own back-office systems to run its outsourcing business, while the others rely on Fiserv or Vestmark for the core accounting.

So now, with PNC signing on to use Market Street's underlying technology, the firms are essentially agreeing to partner while also technically being competitors for SMA outsourcing assignments.

Harper says the arrangement is not a concern for PNC because the firm has a "heritage" of being an open platform of outsourcing options for its manager clients, as well as for clients on the wealth management sponsor side of the business. "We use different accounting technologies for different lines of business," he adds.

But there also will probably be minimal conflict, because PNC is likely to go after managers seeking larger-volume distribution options, while Market Street's direct SMA outsourcing business is especially suited for managers seeking more customized distribution capabilities through private wealth boutiques and institutional investors, Harper says.



The deal provides benefits in both directions because either party can introduce a new client to the partnership, says Market Street CEO Bevin Crodian. He says Market Street's direct SMA outsourcing tends to appeal to managers with special needs, such as very large scale, customized portfolios, or complex investment types – all across the sponsor spectrum and institutional investor world. And he says Market Street can gain access through PNC to managers that only want to hire a larger outsourcing brand.

Crodian says the deal especially helps PNC make an "enterprise sale" to offer a manager the ability to handle many types of accounts – from mutual fund through institutional separate accounts, whereas Market Street focuses solely on the separate account market.

Aston appears to be an enterprise deal of sorts, because PNC already handled its mutual fund accounting, custody, and transfer services. Now, Aston is tapping PNC and Market Street for SMA-side portfolio management, accounting, performance measurement, data warehousing, automated operations and workflow.

Harper says he believes Aston was especially drawn to the Market Street system's relational database and flexible user functionality. Aston is using the Market Street technology for its existing business and will also bring new business onto the system, Harper says. An Aston spokeswoman says the firm has about 800 SMA accounts and recently won approval from another sponsor's SMA platform. It also is under review for two others.

Aston's core business entails partnering with existing SMA and institutional managers to package and distribute them as mutual funds, with Aston co-branding the funds and providing all of the wholesaling resources.

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