

New Player Enters Managed Acct Outsourcing

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A new outsourcing provider is coming to the \$889 billion separately managed account (SMA) industry as technology firm [Market Street Advisors](#)¹ has announced its first full-service deal.

The Edison, N.J.-based firm will be handling back- and middle-office functions for San Francisco-based [Forward Management](#)², a mutual fund manager looking to rapidly grow its high-net-worth and institutional separate account businesses.

Launched in 2000, Market Street competes with [CheckFree Investment Services](#)³ and [Vestmark](#)⁴ as a technology provider to SMA managers and sponsors. With roughly \$1 billion in assets under administration, the firm has made steady inroads with small to mid-size money management firms.

In launching a full-service outsourcing practice, Market Street is moving in a different direction than rivals CheckFree and Vestmark. The two latter firms are content with their current business models, which involve vending technology to managers and sponsors who run SMA programs as well as potential outsourcing partners.

Bevin Crodian, Market Street's CEO, says the firm's foray into the outsourcing market – which some industry followers contend is too crowded – was an organic development that resulted from Forward's desire to partner with one single technology platform, and not a host of providers.

"We are not going to turn away a business because someone wants full service...If they want technology only, we can accommodate them. If they want technology and people, we can accommodate them as well," Crodian says. Although Market Street's brand is not that well-known, Crodian believes his firm's functionality, intellectual capital and pricing outshine any name recognition issues.

Hilary Fiorella, v.p. at leading SMA technology provider CheckFree, says her company explored starting an outsourcing business but found the strategy would be a poor fit for CheckFree's growth plans.

"We have gone through an examination and have decided that it seems to be a market that is well served by the existing players," Fiorella says.

Murtuza Vasowalla, v.p. of product marketing at Vestmark, sees his firm's marketplace role as providing technology resources to the full-service providers, not competing with them. For now, Vestmark has no plans to be a direct competitor to outsourcing firms.

"The operations outsourcing business has been growing steadily and has been particularly successful for our partners and for us," he says in a statement.

"It is not surprising that Market Street Advisors wants to enter the operations outsourcing business. However, Market Street will be competing with well-established service organizations with access to significant capital and resources," he adds.

Forward Management's decision to embrace outsourcing largely stemmed from its desire to grow a lucrative SMA practice without having to hire back-office personnel.

In selecting Market Street, Forward cited how the firm's technology can help support derivatives and other alternative-oriented strategies. The fact that Market Street's senior management has decades of collective industry experience also helped seal the deal.

"We liked Market Street Advisors' technology and its accessibility to derivatives," says **Jim O'Donnell**, chief administrative officer at San Francisco-based Forward. "If we were to have gone with the existing vendors in the space, we would have put ourselves in the corner ...in terms of bringing our own platform up to speed with new types of products."

Forward's managed account business is comprised of a micro-cap equity strategy and a real estate investment trust (REIT) run by [Forward Uniplan Advisors](#)⁵, a Wisconsin-based operation in which Forward has an equity stake. Account minimums for the micro-cap product start at \$100,000; the REIT's minimum begins at \$250,000. Forward has more than \$500 million in assets under management in those strategies.

In the coming months, Forward will seek to add a high income total return strategy to its SMA line-up. The firm is also developing new small- and mid-cap strategies. Forward Asset Management has approximately \$2.3 billion in assets under management, with the bulk of the holdings in mutual funds.

Market Street's entry comes at a time when the SMA outsourcing industry is experiencing contraction in terms of the number of the marketplace players. Overall, the number of deals dropped from 13 in 2005 to eight in 2006.

Last year, the [Bank of New York](#)⁶ opted to leave the space to focus more on institutional clients. Another service provider, [BISYS](#)⁷, is expected to be integrated into [Citi Global Transaction Services](#)⁸ following the latter company's purchase of the former.

The changes leave Citi, [SEI](#)⁹, [PFPC](#)¹⁰, [JPMorgan](#)¹¹, [State Street](#)¹² and [Mellon](#)¹³ as the main service providers. [Ironically, Bank of New York will inadvertently be returning to the space because of its merger with Mellon.]

A central challenge facing outsourcing firms is the tendency of large managers to keep their back-office operations in-house in order to build scale, says **Alois**

Pirker, senior analyst at [Aite Group](#)¹⁴ in Boston. Large manufacturers have a hard time believing that a third-party can do a better job at squeezing back-office costs, he says.

Until outsourcing providers can convince top firms to join their cause, the market is likely to experience incremental growth, Pirker says. "Firms with scalability have little incentive to outsource. They don't want to pay their margins to third-parties when they believe they can do it cheaper in-house," the analyst explains.

But Crodian believes Market Street is protected from certain marketplace pressures because the firm owns its own technology and is not obligated to send a portion of its revenue back to a corporate parent. Additionally, he argues that many small- to mid-size firms like how Market Street operates more like a boutique than a wirehouse.

"Forward Management is one of a number of fast-growing firms that has recognized the value of having an experienced managed account team sit on the same side of the table with them. They are our partners, not our customers," Crodian says.