

Market St. lands 1st managed acct outsourcing deal

Thomas Coyle - 30 May 2007



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Market Street Advisors is out of the gate as a competitor to separately managed account (SMA) processors like **Citigroup**, **SEI** and **JPMorgan Chase** and **PFPC**. Up till now, it has primarily been an SMA processing *technology* provider in competition with **CheckFree Investment Services** and **Vestmark**.

The change came recently when San Francisco-based **Forward Management** selected Market Street to take over its middle and back offices. This deal, Market Street's sixth overall, is its first mandate as a full-blown outsourced investment processing provider.

Forward Management is the investment advisor to the **Forward Funds** mutual-fund family. Though it also offers a range of niche-oriented SMAs including REITs, equity-income and micro-cap, it is keen to increase its SMA business, which now accounts for about \$600 million in assets under management.

"Market Street's detailed knowledge of the investment business coupled with its flexible service model makes them a good partner with which to approach new markets," says **Rick Imperiale**, CEO of Forward affiliate **Forward Uniplan Advisors**.

Choices

Managers looking to ramp up in the SMA space have to make a choice. SMAs can be trickier to administer than fund pools and institutional accounts because they have to be customizable and they tend to be numerous. So to get into that business, managers either have to build processing capacity or they have to farm it out.

If the manager decides to build this capacity and run its accounts in house, it still has to have portfolio-processing and connectivity with sponsors. That means it needs technology such as CheckFree, Market Street and Vestmark provide.

If the firm opts for the outsourced approach, it can turn to SMA outsourcing operations run by Citi, SEI, JPMorgan, PFPC, **State Street**, **Mellon**, **Bisys** and Market Street -- which is both a full-service outsourcer and a technology provider.

Market Street can play in both fields because it owns all its underlying technology. All the other outsourcers require an outside ASP to function. In practice, most of them use CheckFree as the backbone of their offering. Several of those -- Citi, JPMorgan and Bisys -- say they're also compatible with Vestmark.

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

ASPs

On the ASP side, CheckFree's APL may be long in the tooth, but it's an industry mainstay -- and the company's recent acquisition of order-management technology provider **Upstream** has the potential to make EPL, the long-awaited replacement for APL, more attractive to managers who might otherwise defect to upstarts like Vestmark and Market Street.

Between the two upstarts Vestmark, reputedly a well-funded operation with a brash and compelling story of its founders past successes to lubricate its marketing efforts, seems to have had the edge so far -- mainly as a result of its place in the innards of several outsourcers' operations.

Market Street -- which, says the Edison, N.J.-based firm's CEO **Bevin Crodian**, is well funded by a group of venture capitalists with roots in the SMA business -- has no former agreement to provide technology to any of the other outsourcers.

The effect of Market Street's failure to secure any such deals has been to return it to its original focus on flexibility, according to Crodian. "We started out as an outsourcer, but because we own our technology we're able to provide [it] as an ASP or run the operations of any manager or sponsor as an outsourcer," he says.

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Though it has a lower profile than rival ASP Vestmark and CheckFree absolutely dwarfs it, Market Street looks even punier beside its outsourcing competitors.

That business is in flux, however. In 2004 State Street declared that it would stop funding its SMA processing business. Last year the **Bank of New York** got out of the game altogether. It remains to be seen if Mellon, whose SMA processing business has flagged in recent years, will stay in the business after it merges with the Bank of New York this year. In addition, Citigroup recently agreed to acquire Bisys.

About 30 SMA processing deals have been made public in the past 12 years with more than half of them announced over the past 30 months. Looking at recent deal flow, it would seem that Citi and SEI are pulling ahead of the pack with JPMorgan running a pretty close third.

But there's still a lot of business to be won and plenty of time for today's leaders to falter. The SMA industry is expected to account for more than \$1 trillion in assets by 2009. Late last year **John Alsheski**, head of business development for SEI's investment-processing group, said that about 85 of the top 100 SMA managers have yet to outsource their back offices.

Bottom line

Crodian says that Market Street can compete with the bigger players by zeroing in on smaller SMA managers and new entrants rather than big managers looking for administrative support across multiple investment programs.

In fact, the SMA piece is ancillary to mutual-fund, institutional-account and hedge-fund processing offered by the larger outsourcers. That lets them bundle processing agreements across business lines.

"We're not even necessarily *competing* with the other outsourcers," says Crodian. "The fact is that some managers will want to work with the very big firms, but others *don't* want to; they want to sit across from people, like us, who look a lot like they do."

But **Jim O'Donnell**, Forward's head of new-product development says the selection of Market Street came down to its cost and functionality rather than a desire to work with a small provider.

"No other platform would allow us to support short positions, ordinaries, [Treasury inflation-protected securities] and derivatives at this price," says O'Donnell. ""The total cost with Market Street is very reasonable." -FWR