

# Investment Manager Outsourcing: Enhancing Your Competitive Advantage

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On a global basis, a very high percentage of asset management organizations spend considerable time and effort reviewing and analyzing their entire investment management process. The reasons include issues related to business flexibility and efficiency; technology and systems modernization; new product and enhanced service requirements; and rapidly changing regulatory and globalization trends. Thus, the question of whether to consider outsourcing becomes not “if” but “when.”

Definitions and perceptions as to exactly what outsourcing comprises vary. From an investment, business-management perspective, outsourcing is defined as the beneficial use of external differences in scale (costs), skill sets, labor productivity, technology and management focus to gain both cost and competitive advantages.

Outsourcing is one of those “pain and gain” business phenomena. One side of the equation is transferring a specific business burden (pain), while the other side of the equation is seeking benefit (gain). To the outsourcing vendor, new business generates an opportunity to expand and maximize existing internal processing activities; systems and technology; human resources and intellectual capital. These resources and services are, in turn, used to address critical back-, middle-, and front-office issues of investment management firms. The vendor’s revenue stream and associated profitability enables continued re-investment in advanced technologies and new product solutions.

## The Case for Outsourcing

Whether measuring investment returns or the bottom line, today’s global business climate demands nearly immediate results, and thus, a proactive focus on the rationalization and modernization of all “back-office” activities. The volatility of the global capital markets has added additional pressure on investment managers who, in many cases, may have rather inflexible legacy systems and disparate internal processing environments that exacerbate an already difficult cost structure. The magnitude of the problem is global in nature and the business implications range from moderately serious to being an issue of business viability. Although there is no quick panacea, outsourcing is now a tried-and-true option that has gained significant credibility over the past several years.

Outsourcing options that address and solve specific client needs and requirements are wide-ranging. In today’s complex business world, one size clearly does not fit all, nor should it. Investment managers may desire to outsource one or more highly discrete activities such as trade automation or performance measure-

ment, or they may desire to outsource the entire back and middle office, thus concentrating almost exclusively on their asset management activities.

To enhance a firm’s competitive advantage, the decision to outsource should enable the organization to:

**Benefit** from the competitive strengths of a third-party vendor (whether systems, knowledge or processing efficiencies)

**Support** or enhance future growth (e.g., facilitating new products and services)

**Reduce or eliminate** technology and legacy systems dependencies

**Implement** an integrated, global back-office capability

**Contain and/or convert** fixed costs into variable costs

**Enhance** client reporting and related satisfaction levels, and regulatory and compliance reporting

## Mellon’s Commitment

During the past five years, Mellon has been steadfastly expanding and enriching its overall outsourcing business, and today has more than two dozen clients with combined assets under administration of \$360 billion. An integrated array of industry-leading capabilities and proven experience are major industry differentiators for Mellon.

Mellon’s investment management outsourcing activities are global in features and functionality, yet local in terms of implementation, service and support. All requisite capabilities, from advanced technology to security level performance measurement, are combined within Mellon’s Investment Manager Solutions group, which was created to address industry and client requirements.

## Client-driven Solutions

The following customer success stories reflect Mellon Investment Manager Solution’s expansive outsourcing capabilities.

In September 2003, a leading pan-European, full-service investment manager entered into an agreement with Mellon Europe to outsource its institutional administration functions. Mellon, which has been providing transfer agency and fund accounting

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services to the customer since 1989, will absorb the company's back-office staff while gradually transferring existing activity onto Mellon's global platform.

For the customer, this solution aims to convert fixed costs to variable costs, while gaining access to cutting-edge technology, advanced systems and solid industry expertise. This initiative will help enable the client to focus wholeheartedly on its main objective of portfolio management. A classic example of full service outsourcing evolved recently when Mellon assumed responsibility for handling an organization's entire back-office investment operation. Full conversion was accomplished in March 2002, including the successful transfer of all associated personnel to Mellon. The customer accomplished its goal of modernizing and enriching its overall business management activities via the outsourcing of its critical path processing and reporting.

The successful implementation of these customer solutions included key variables:

- Creating detailed project plans and associated service-level agreements
- Developing sound project implementation methods
- Implementing a "partnership approach" to all planning and issues-resolution activities
- Initiating and maintaining proactive and highly participatory communications.

*For more information on Mellon Asset Servicing, please contact James Flannery, director of Sales at 1 (215) 553-2301.*

## New Service Combines Investment and Cash Management Services

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Features of Mellon's new Liquidity Management Service include:

- **Account summary page**—Contains a snapshot of current day investment transactions and investment positions as of the prior day in both money market funds and fixed income securities
- **Money fund menu page**—Offers a wide selection of top-performing money market funds available in a variety of different investment-objective categories
- **Securities offering page**—Includes a selection of short-term fixed income securities offerings, such as commercial paper; agency discount notes; short corporate and municipal bonds; auction rate securities; and bank liabilities
- **Transaction report**—Generates an exportable list of LMS transactions for a period defined by the user, up to 12 months
- **Automated investment sweep service**—Maximizes returns on uninvested late-day balances
- **Performance report**—Summarizes investment performance on a month-to-date and monthly basis, versus several standard industry benchmarks

For more information on how LMS can help your business, contact your Mellon cash management representative, or visit our Web site at [www.mellon.com/treasury](http://www.mellon.com/treasury).

*\*Mellon Financial Markets, LLC is a member of the NASD and SIPC. Securities offered through Mellon Financial Markets are not FDIC-insured, not bank-guaranteed and may lose value.*

## Mellon No. 1 on U.S. Banker All-star Team

Mellon Financial Corporation and its Chairman and Chief Executive Officer, Marty McGuinn, are the lead-off and No. 3 hitters on *U.S. Banker's* 2003 All-Star Team, according to the banking industry magazine's November cover story. The All-star Team is an annual ranking of the top banks and chief executive officers in the U.S.

*U.S. Banker* ranked Mellon first among its top five banks this year, noting that Mellon has been a top performer in asset and wealth management. The magazine also reported on Mellon's strategic repositioning, saying it has been successfully morphing into a "consultancy, a back-office payer, [and] a processor."