



IN THE LAND OF THE GIANTS

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The outsourced service model for investment managers is now well established in the UK with a well-entrenched list of providers. But is that really a true perspective of the market?.

It could be argued that the model is not the shining, smooth running model that it should be. After all, there remains the constant market “tittle tattle” that some providers have yet to bin their multiple, inherited platforms and provide a single robust operating platform for their clients, delivering efficiencies and economies of scale. There is still a suspicion that behind the scenes there is a spaghetti of legacy systems linked together with a trail of attendant reconciliation issues.

From a business perspective the commercial logic has come to be questioned. The whole rationale for the major custodians for embracing the outsourced service market was that it provided access to juicy fees that flowed from foreign exchange, interest rates and stock lending. However, did they cut their fees too tight for their outsource proposition in their urge to get their hands on the those juicy fees? It could be argued that the increasing transparency of fees earned thrown by the spotlight of specialist benchmarking firms such as Amaces has only increased the downwards pressure on those juicy fees - and so unbalanced the outsourced commercial model.

Finally, just as gorillas need to eat a lot, so the major custodians are only interested sitting down with businesses of real scale!

At the other end of the spectrum the business model for transfer agency is

bust and needs to be completely re-evaluated in the new distribution world. Increasingly fund flows are focussed on platforms that provide the administrative support to the IFA, discretionary managers and the e-enabled investment platforms for the self-directed. The old days of long lists of individual investors appearing on fund registers are long gone. In a sense UK fund registers are increasingly mirroring those that have long existed in Luxembourg. The focus of the service for such registers is now trained on the provision of management information for both the platform and the investment manager, and in particular the accurate and timely management of trail commission – a factor that will persist long after the Retail Distribution Review is implemented. No longer will a simple transaction fee and annual fee per holder be appropriate in reflecting the value of the being provided to the new and concentrated distribution channels. It can be argued that this new concentrated

global custody giants?

Accepted wisdom now is that the world of investment management is bifurcating between the global behemoths and the focussed specialist. No longer is it possible for most investment firms to be all things to all men, unless they have significant scale and reach. Martin Currie is just one recent example of an investment manager who has recognised this dilemma and focussed their strategy on areas where they have demonstrable expertise. This trend in the UK has been underlined by the fact that, as the IMA have pointed out in their recent Annual Review, there is an increasing weight of money being managed by independent firms - firms not owned by major banks and insurance companies. No longer are specialist investment firms merely focussing their attention on hedge funds - the new distribution dynamic and the regulatory acceptance of wider investment powers has meant that new



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world will mean that the emphasis will be on smart service and technology – and not bums on seats.

Modern technology should and can enable the delivery of a service based upon a single database that supports a comprehensive range of securities, and is flexible so that it can embrace market developments. There should be no batch processes, it should deliver very high levels of STP, with attendant stock and cash reconciliations kept to a minimum, and provide reporting on demand, that is user defined.

But is there a market for such services that is not provided by the

market entrants have been able to build businesses in the more mainstream funds world.

As new market entrants, they are not the natural focus of the global custody giants. It is this that has enabled the emergence of specialist service providers with a service proposition that enables the investment manager to focus on their role as investment manager without having to build a large administrative edifice that so often only duplicates the records maintained by their service providers.

In the modern world, there is room for the specialist provider – but I would say that wouldn't I?