



INVESTMENT SERVICES



CASESTUDY

www.stpis.com

HOW OUTSOURCING OPERATIONS FUELS GROWTH



The long-term success of asset management companies, especially emerging and mid-sized managers, depends on two key factors: generating alpha for investors and effective cost controls. While alpha (revenue) generation and client retention are the primary responsibilities of investment management teams, cost management is a complete organizational effort requiring constant vigilance.

To combat increasing costs associated with middle and back office operations, more and more firms outsource these functions. This allows firms to focus on core competencies and higher value-added activities including attracting and retaining assets. The trend is accelerating, as asset managers are increasingly looking at outsourcing as a full toolkit that provides an end-to-end solution. Noting this trend, John Brazier of Waters Technology noted this trend in a recent article, *'The Asset Management Middle Office Muddle'*, in which he examined outsourcing choices for buy-side firms.

Data management, investment performance measurement and attribution analysis, client reporting, reconciliation and compliance are among the many functions managers

outsource. These key middle office tasks require functional expertise that forces asset managers to recruit, train and manage additional staff and technology. With this additional staff comes rising overhead expense and a potential drain on bottom line growth if revenue doesn't keep up.

"Having an outsourcing partner has been key in our business growing and maturing from our early days as an emerging asset manager by allowing us to forecast costs and focus on our core competencies."

- Cynthia Tusan, President, Strategic Global Advisors



Rather than face a variable cost environment associated with managing middle office functions in-house, asset managers look to service providers for assistance with lifting out these tasks. This is especially true for emerging asset managers with limited resources and mid-sized asset managers whose continued growth is often constrained by increasing operational requirements.

Finding an outsourcing partner who is willing to forgo traditional pricing by offering flexible pricing models with AUM-based fees is a daunting, yet financially rewarding task. A pricing schedule based on AUM tiers has lower initial fees based on a firm's AUM. Fees will increase as the firm's AUM increases from one tier to the next. This creative pricing model helps emerging and mid-sized asset managers obtain critical operational expertise at a lower cost than flat fee programs offered by most software vendors and outsourcing firms. Doing so allows emerging and mid-size managers to focus on core competencies: generating alpha and managing client relationships.

Since the financial crisis, investors have increasingly demanded more control and greater clarity over their investments. They also recognize the need for enhanced risk management and independence with respect to performance measurement, client reporting and other key operations tasks. By outsourcing middle and back office functions, firms demonstrate operational independence and, in turn, allay any investor concerns. *In recent news, GAM, a \$121 billion asset manager, decided to outsource its middle and back office functions in a move to bolster its distribution and investment teams, both of which represent core competencies.*

At the cross roads of the “Buy vs. Build vs. Maintain” conversation is the decision to “Buy” (outsource), “Build” (ramp up staff) or “Maintain” (continue/expand resource costs). Firms that choose to either “Build” or “Maintain” tend to encounter choppy waters when trying to determine best how to ramp up staff or expand resource costs. A key component underpinning the decision-making process for firms: finding a competent, strong partner. With many outsourcing service providers available, whittling down the list of potential partners is challenging. Compared to “Build” and “Maintain” choices, outsourcing models (“Buy”), scale far more efficiently than adding resources simply to manage increased volumes.

“STP offers an end-to-end, comprehensive toolkit of investment management services that allows asset managers to get up and running quickly, while minimizing business impact.”

- Dan Schlossberg, VP, Relationship Management & Business Development, STP Investment Services

About STP



STP is a trusted outsourcing partner to the asset management industry, offering a complete, turnkey end-to-end outsourcing solution that extends an asset management firm's servicing capabilities. With scalable and efficient expertise covering all middle and back office functions including investment accounting, performance measurement and attribution analysis, reconciliations, corporate actions and client reporting, STP is the best-in-class outsourcing partner for forward-thinking banks, investment firms, plan sponsors and asset managers. To help emerging and mid-sized asset managers acquire much-needed operational expertise, STP uses an innovative “Grow With You” model that provides a lower entry point that increases as the firm grows.