



In providing a full service outsource to Aviva, IFDS has demonstrated that it can service Aviva's book of business efficiently and at low cost. Equally importantly, reflects Hudson-Lund, it has delivered standards of service that match, or even step beyond, those which the asset manager can meet internally. From a cost-management standpoint, the virtues of the deal are obvious. In supporting Aviva's retail transfer agency functions, IFDS can offer economies of scale that are unattainable for an asset management company that keeps its record keeping functions in house. While the latter is forced to invest in costly upgrades to technology and operational procedures simply to support its own book of business,

initial contract and built in regular check points along the way where they could review the deal if it was not delivering targeted benefits.

Hudson-Lund suggests that we are now stepping into a different phase in the evolution of the outsourcing marketplace. Several prominent asset management companies have recognised advantages, in terms of stability, pricing and service continuity, through building a long-term relationship with an outsource partner. The process carries less risk than it did a decade ago and many are keen to avoid the disruption of re-tendering their business every 3-4 years. As the market matures, the contract horizon

For distributors thinking of releasing collective investment funds in the Distributor Influenced Funds (DIFS) regime, the launch of IFDS Managers was opportune – and this customer segment has provided the primary source of new business onto the programme with 11 fund sponsors now utilising IFDS' hosted funds service.

IFDS can offer market-leading technology to the customer while diffusing the development cost across its sizeable group of asset management clients – which includes over 40 groups such as M&G, Schroders, Aberdeen, St James's Place and Old Mutual.

### **A maturing marketplace**

But this is well-trodden ground and FSR readers will be well versed in the potential merits and shortcomings of client administration outsourcing. Perhaps more interesting are Simon Hudson-Lund's observations regarding how the outsource marketplace is developing. The industry has seen some strong and contented partnerships formed over the past 10-15 years, though commonly it has been the mismatches and painful separations that have attracted the red-top headlines.

Ten years ago the market for investment administration outsourcing was still at an early stage in its development and asset management customers were taking watchful steps as they acquired experience in selecting and working with a suitable outsource partner. Typically, the early movers were reluctant to commit for more than 3-5 years in the

is extending and some asset management clients are now looking to discuss service contracts of 10 years' duration or longer.

Equally importantly, the pool of potential customers is becoming progressively wider. According to Hudson-Lund, all bar a handful of UK-based investment houses are now weighing up the options provided by outsourcing their transfer agency and customer servicing to an established and well respected third-party provider. We do see notable exceptions – with Fidelity International perhaps the most resolute in their preference to retain their client administration and investment operations in house. But few UK investment houses have Fidelity's internal scale or technology budget – and, as such, many smaller players will feel that it is a good time to be reconsidering their options.

There are several drivers for this. One is the progressive advance in standards of customer service offered by leading outsource partners. Until recently there was a belief within many asset management houses that they could handle the client administration end of their business better than any service partner. However, this view is changing

as the outsource service model matures. This is exemplified, for example, by IFDS's service relationship with M&G Investments. When M&G first outsourced to IFDS, this was purely a processing relationship and M&G handled their distribution support and customer servicing internally. When they renewed the contract in 2008, M&G also elected to outsource their contact centre, drawing on the proven service quality that IFDS could offer in this area. The fact that M&G and IFDS have extended their service association until 2016 reinforces our point

as well as its specialist TA platform and distributor servicing solution to help the US asset management giant promote its fund range in the UK market. IFDS' distributor servicing solution supports more than 80 fund platforms and large distributors via a single point of contact, as well as offering online reporting and market information to more than 1000 IFAs via IFDS' Distributor Online Web portal. In turn, State Street will support Vanguard UK through providing custody, fund accounting and fund depositary services for its range of UK OEICs.

Prominent asset management companies have recognised advantages, in terms of stability, pricing and service continuity, through building a long-term relationship with an outsource partner. The process carries less risk than it did a decade ago and many are keen to avoid the disruption of re-tendering their business every 3-4 years. As the market matures, the contract horizon is extending and some asset management clients are now looking to discuss service contracts of 10 years' duration or longer.

that contract horizons are getting longer and asset managers are recognising the value of a long-term service partnership.

Second, the cost pressures that fund managers have faced over the past two years has accelerated firms' decisions to outsource TA and client service. When financial conditions were vibrant and profits were high, fund managers were in some cases willing to retain their legacy administration and client service arrangements in order to keep their business rolling. However, a sharp change in the economic climate has removed that option. Profits are no longer sufficient to carry inefficiencies within the business. As a result, many asset managers are prepared to set all options on the table, including a full or partial outsource of their investment support activities.

Third, as global asset management companies extend their reach into new locations, they are in many cases seeking a specialist local service partner to help them distribute their fund products. In June 2009, IFDS was appointed to provide a range of integrated transfer agency services to Vanguard Investments UK. In doing so, IFDS will provide a UK customer call centre,

### ACD business

In June 2008, IFDS launched a host management service for financial services companies wishing to market collective investment products but which lack the systems, capital or fiduciary expertise to host their own funds. Serving as Authorised Corporate Director (ACD) for open-ended investment companies (OEICs) under FSA regulations, IFDS Managers – a separate corporate entity that the company has established to manage this ACD service – will take care of administration and regulatory compliance, thereby leaving the customer to focus on optimising investment performance and building its distribution network.

For IFDS, this ACD service represents a natural extension to its suite of client record keeping and TA functions that it has developed since inception. However, in taking on the fiduciary obligations of an asset management company, IFDS is stepping onto new ground – and, for this reason, it engaged in a detailed risk review process prior to launch to ensure that the IFDS Managers' governance structure and contracts with suppliers were robust.

Though IFDS Managers has been successful



in attracting a healthy pipeline of new customers to its ACD service since its launch last year, Hudson-Lund is candid that the timing of release – which coincided with a pronounced downturn in European equities market valuations – has made the sales conversation somewhat difficult with some client segments. Fund sponsors that already use a hosted solution may wait for market conditions to improve before they review their ACD arrangements. Consequently, this has put a temporary brake on IFDS Managers' efforts to attract business from existing ACD managers.

In contrast, for distributors thinking of releasing collective investment funds in the Distributor Influenced Funds (DIFS) regime, the launch of IFDS Managers was opportune – and this customer segment has provided the primary source of new business onto the programme with 11 fund sponsors now utilising IFDS' hosted funds service. Distributor-influenced funds are funds that individual intermediary firms set up in conjunction with product or fund providers and in which the distributor firm takes a more active role than in a wholly independent fund. In essence, DIFs will allow an IFA firm to build its own house fund range through an OEIC structure, with the IFA having a hand in the fund governance but where fund management and administration are out sourced to an ACD specialist. Some observers anticipate that the UK Retail Distribution Review (see further in FSR Q1 2009, pp 12-5 for example) will stimulate IFA appetite for launching funds under the DIFs umbrella.

With approximately £900 million assets under management at the current time, IFDS Managers currently ranks sixtieth in the Investment Management Association's (IMA's) league table of fund managers. However, the company has set its sights on surpassing the £21 billion AUM hosted by Capita, which currently sits in sixth place in the IMA rankings.

### Global reach

Looking globally, IFDS continues to extend its global transfer agency support strategy into Asia, in liaison with State Street Corporation as one of its major shareholders. In early November 2009, it announced the launch

of Singapore transfer agency representative services. This came roughly two years after the release of its Hong Kong transfer agency centre, which provides regional distributor support and client servicing for global asset management customers that distribute Luxembourg and Irish domiciled fund ranges into the Asian markets, as well as for a range of Hong Kong domestic funds.

More broadly, Simon Hudson-Lund indicates that India and China are at the top of IFDS' plans to broaden its service capability in Asia. IFDS has been reviewing opportunities to extend its presence in the Indian market for a number of years, building on the capacity that it already has in Mumbai through its partnership with State Street. As asset flows into collective investment funds in India continue to grow, IFDS maintains a close dialogue with its customers and shareholders in order to time its expansion in this key South Asian market. China, suggests Hudson-Lund, is a long-term play. State Street Corporation and DST continue to extend their business relationships within China and IFDS will monitor these developments closely with a view to advancing its global transfer agency activities in that market when appropriate.

### Building on the Joint Venture

The IFDS joint venture between State Street Corporation and DST Systems is now stepping into its thirty-sixth year. The partnership has worked well, notes Hudson-Lund, because the shareholders have a common interest in the core business that IFDS operates around the world. Moreover, there is little danger that the joint owners will weaken that commitment: DST systems will continue to develop leading shareholder record keeping systems; and investor services will remain central to State Street's core business. Many senior figures in State Street and DST have passed through the joint venture in the course of their careers – with Jay Hooley, recently named as successor to Ron Logue as State Street's Chairman and Chief Executive, a prominent example. As such we can expect IFDS to continue to expand its presence worldwide to support the global transfer agency, record keeping and client support requirements of its asset management customers. ■