

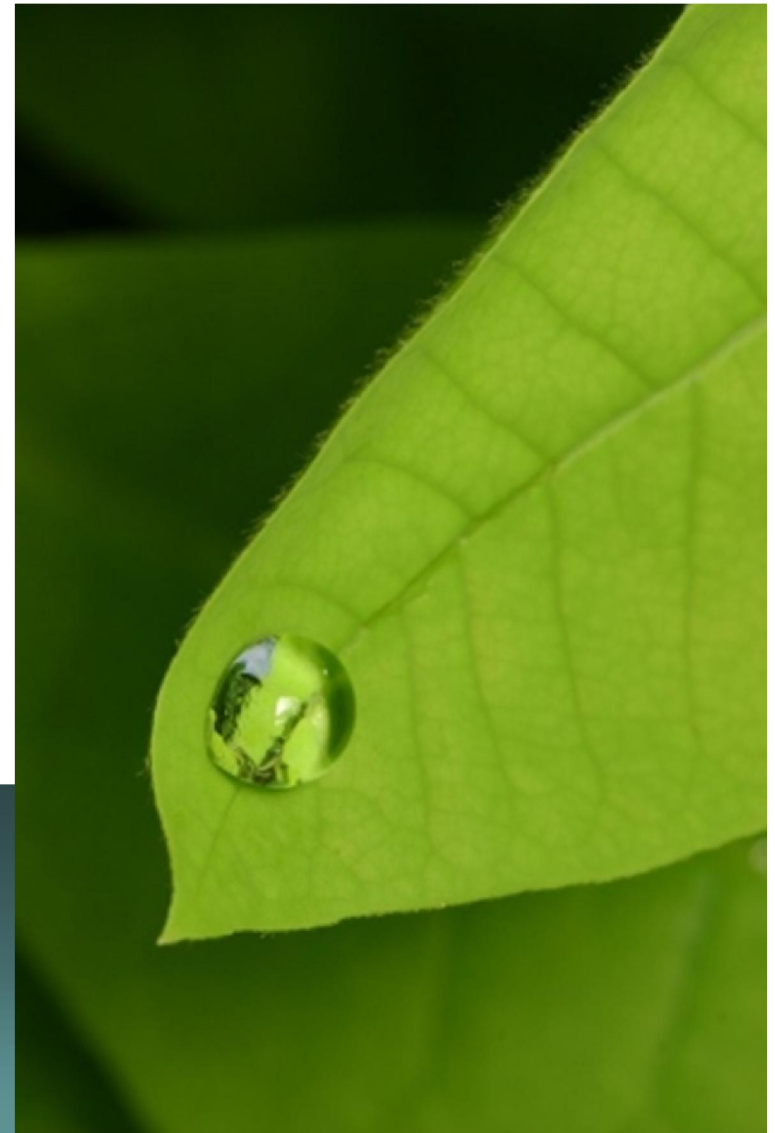
# Fund Accounting Cost Survey 2011

Comparing fund accounting, administration and tax costs across fund operations, while considering operational complexity.

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## Barrington Partners Fund Accounting Cost Survey

### What is difficult about comparing fund accounting operations?

Fund accounting costs differ for many reasons between one fund company and the next. Different amounts of AUM, AUM per fund, number of classes, different types of securities, different locations, out-sourced v. in-sourced. The Barrington survey uses a number of approaches to be able to compare the costs of Fund Accounting, Fund Administration and the Tax Preparation components of the process.

### The Fund Accounting Cost Survey for registered mutual funds is designed to:

- Break down the cost structure of an operation and compare the breakdown across complexes
- Break down the issues that influence the complexity and cost of an operation
- Consider the complexity of types of accounts
- Consider the complexity of the type of securities held in the accounts and the automation of systems in their ability to provide accounting
- Examine costs, staffing and pricing
- Provide firms with a source for comparable analysis of fund accounting expenses

**The survey is provided only to those firms that participate in the survey.** Barrington Partners and all participants have signed an agreement stipulating that the document will not be shared outside each participating firm.

**The cost to participate in the Survey is \$12,000.**

**Each firm receives a customized report showing their data compared to non-attributed data of all participants.**

### **Proposed Schedule for 2011**

<i>February 1st</i>	<i>Final Questionnaire will be provided to all participants</i>
<b><i>April 1<sup>st</sup></i></b>	<b><i>Due date for completed questionnaires</i></b>
<i>April – June</i>	<i>Barrington Partners will confirm/clarify responses with participants</i>
<i>July 31<sup>th</sup></i>	<i>Report release if all participant data received by April 1<sup>st</sup>.</i>
<i>Mid-September</i>	<i>Follow-up call with all participants</i>



# Introduction: Report Organization

- The report is divided into four major sections along with an Appendix.
  - **Executive Summary:** This section provides an overview of the survey results, and points out many of the most interesting findings. This section is intended to present at a high level, with straightforward graphs and benchmarks.
  - **Benchmarks:** This section shows key data points ranking each participant against the group. This approach provides an easy-to-understand presentation of the fundamental measures in the survey.
  - **Summary of Findings:** This section is a much more in depth view than the Executive Summary, with more complex presentations of data that considers correlations of issues and costs..
  - **Detailed Survey Results:** This final section details the answers for each section of the survey, making it possible for participants to easily reference data within the report.
  
- Each firm is measured based on 1 of 5 metrics using data gathered in the survey. These metrics use a combination of the survey results. The survey metrics are:
  - **Volumes:** This metric provides a base in understanding and comparing participant's statistical data.
  - **Automation:** What efficiencies have the participants developed or utilized to support the various functions that are involved in Fund Accounting?
  - **Complexity:** Several factors that drive a firm's complexity are considered and compared. Weightings are used to compare firms on an 'equalized' basis. Factors include type and number of securities, costs and processing volumes related to corporate actions, and reconciliation.
  - **Costs:** This section considers a number of analytics around the costs of operation. A number of measures are used in this analysis, such as the number of portfolios, staff, and/or security types.
  - **Quality:** Given certain levels of Volumes, Automation, Complexity and Cost, what levels of NAV accuracy have participants been able to achieve?

# Introduction: Report Organization

- There are three **Functional Areas** and four **Cost Categories** associated with Fund Accounting that are used throughout the report to analyze the results of the survey questionnaire.
  - **Functional Areas: Costs are provided for the following three functional areas.**
    1. **Fund Accounting Operations**
    2. **Tax Preparation**
    3. **Fund Administration**
  - **Cost Categories: The four cost components covered in the survey are;**
    1. **Operations Salary Costs** includes salaries plus benefits for all staff, including senior management, that are allocated to FA Operations, Tax preparation or Fund Administration.
    2. **Overhead Costs** are related to real estate, furniture, PC's, printers, supplies, health, retirement, etc.
    3. **Technology Costs** are the current steady internal and external costs such as fully loaded payroll, hardware, licensable FA systems costs, proprietary & non-proprietary development and support and Disaster Recovery.
    4. **Corporate Allocation Costs** are allocated by the parent firm to each department where costs are not directly or indirectly related to the daily operation and are outside of the control of or related to the business.

## Participant Overview

- In 2009 the participating firms included both **U.S and Canadian firms**, along with fund accounting service providers.
- Participants had both in-house and outsourced operations representing **\$2.8t in AUM**, or over 28% of the industries total AUM.
- The **11 participants** in the 2009 Survey were:

❖ Bank of New York Mellon	❖ J.P. Morgan Asset Management
❖ Fidelity Investments	❖ Legg Mason Global Asset Management
❖ John Hancock Funds	❖ Northern Trust Investment Management
❖ The Hartford Mutual Funds	❖ Principal Funds
❖ Janus Capital	❖ SEI Investments
❖ Investors Group	

## Internal vs. Outsourced Fund Accounting Operations

- The majority of firms, including the 2 service providers, reported 100% of their costs as internal, while 3 firms reported a hybrid relationship where some of their costs were external (e.g., outsourced).
- The remaining 2 firms reported 90% or more of their fund accounting organization as outsourced.

Internal Firms	Service Providers	External Firms	Hybrid Firms
4	2	2	3

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*This is the Table of Contents from the 2009 Fund Accounting Cost Survey.*

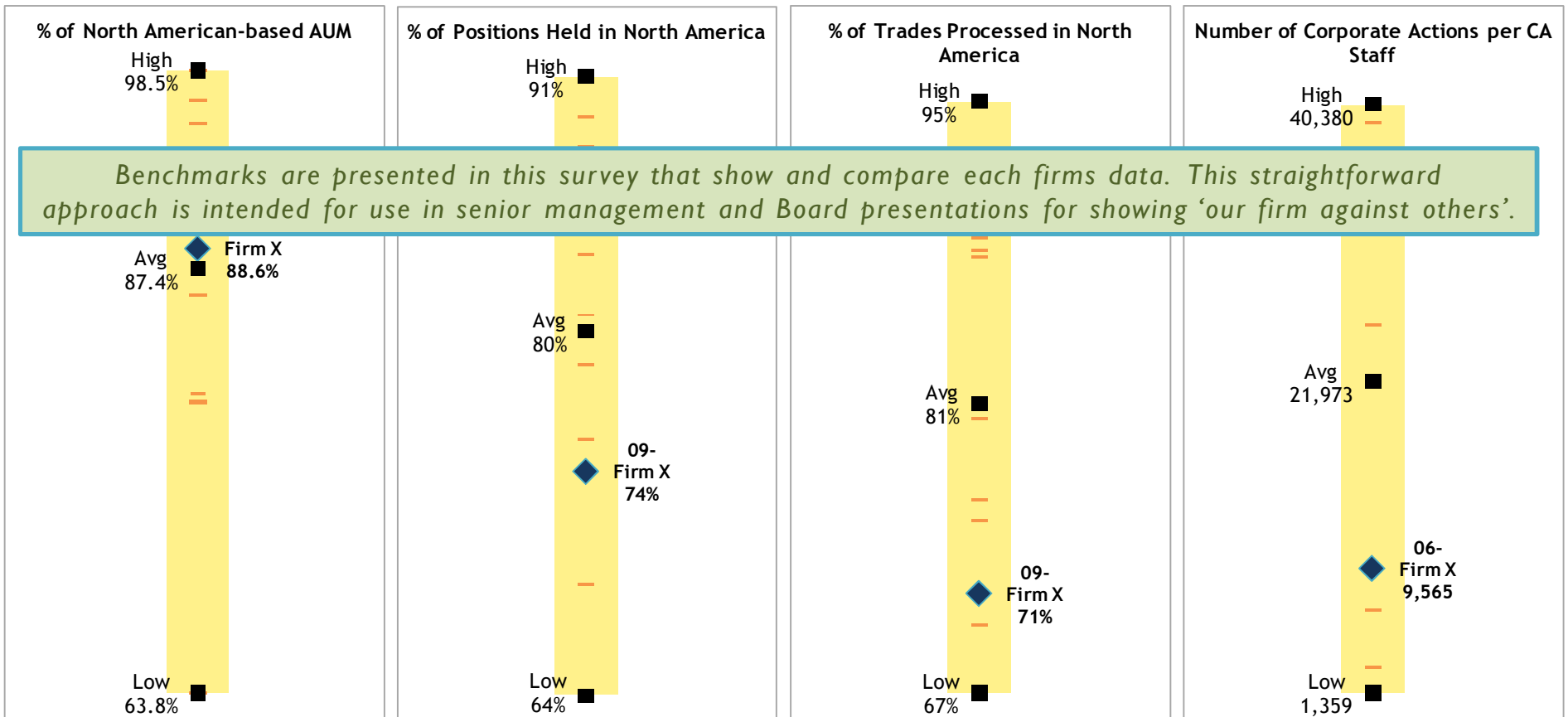


## EXAMPLES OF REPORTING METRICS

1. Benchmarks
2. Summary of Findings
3. Survey Results
4. List of Benchmarks

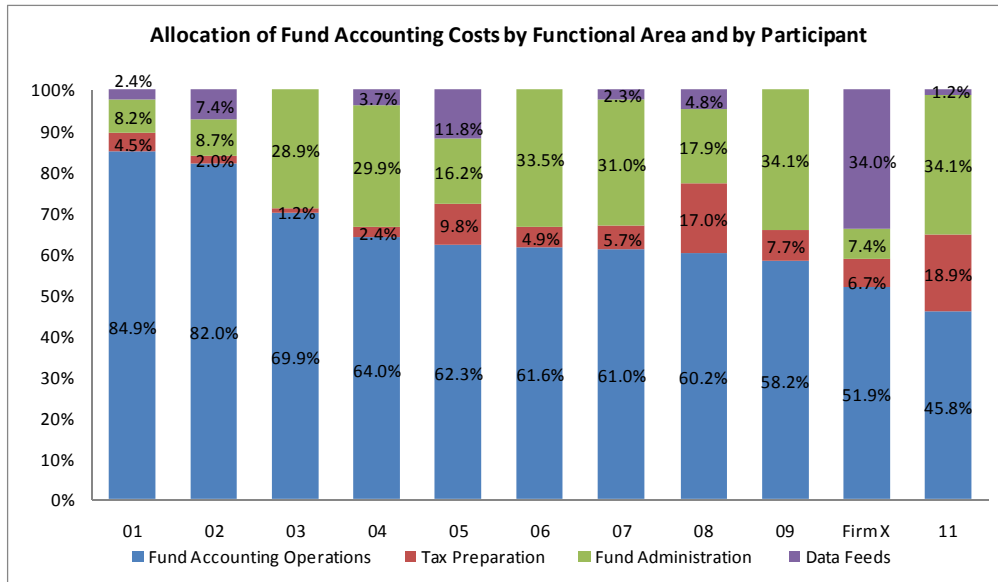
# Volume Benchmarks

The first three benchmarks show the percent of AUM, positions held and trades processed within North America. The last benchmark shows the number of corporate actions processed per CA staff.



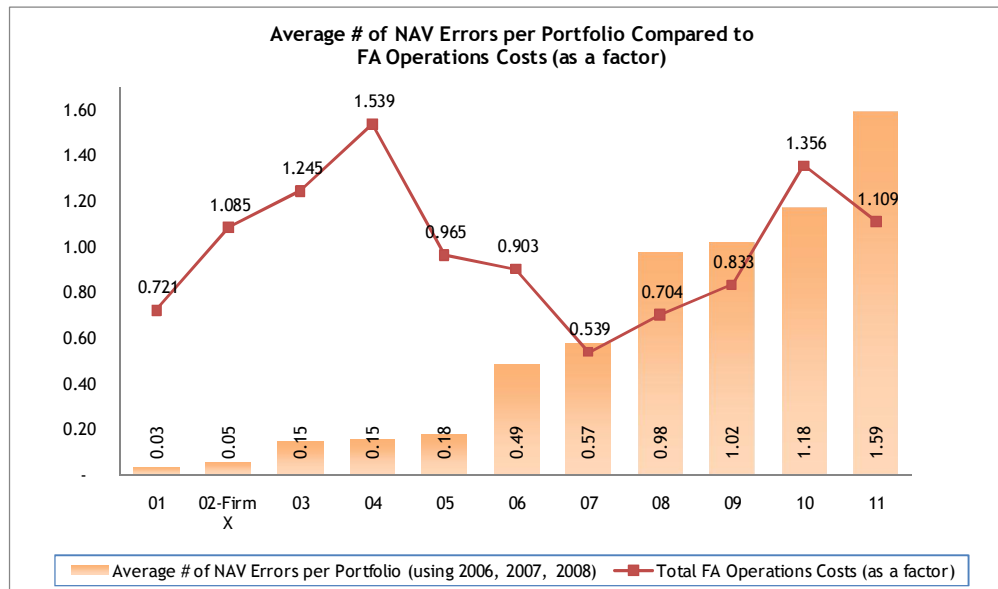
- All but a few firms report the majority of activity based in North America.
- For corporate actions, 9 of the 11 participants were able to provide their CA staffing.

# Summary of Findings



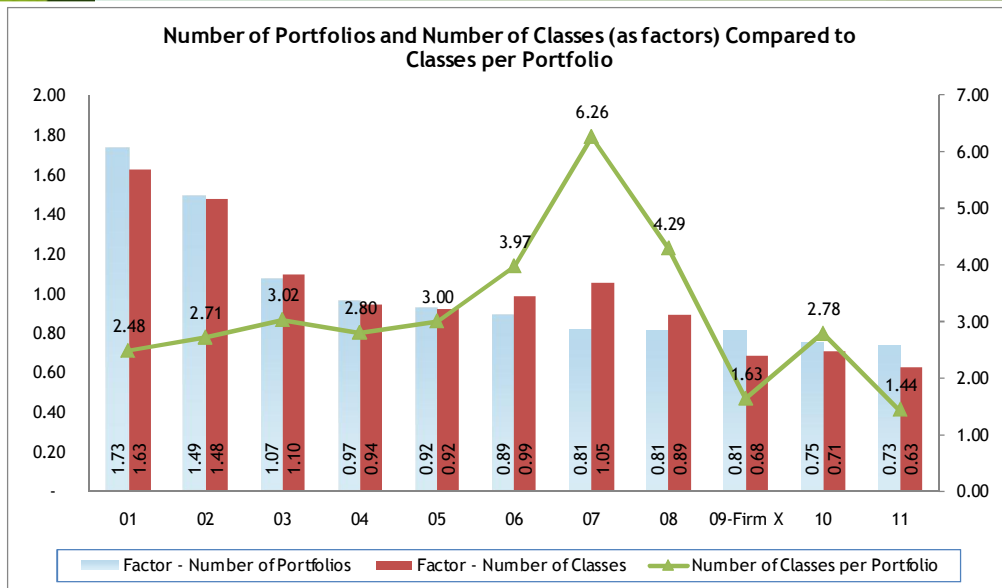
- The largest variations appear in Data Feeds and Fund Administration.
- Tax and Fund Administration appear the most consistent.

*The Summary of Findings section of the report analyzes various factors that contribute to fund accounting costs.*



- This chart considers costs in \$ rather than bp.
- The differences are subtle with the exception of the firm in the 10<sup>th</sup> position.

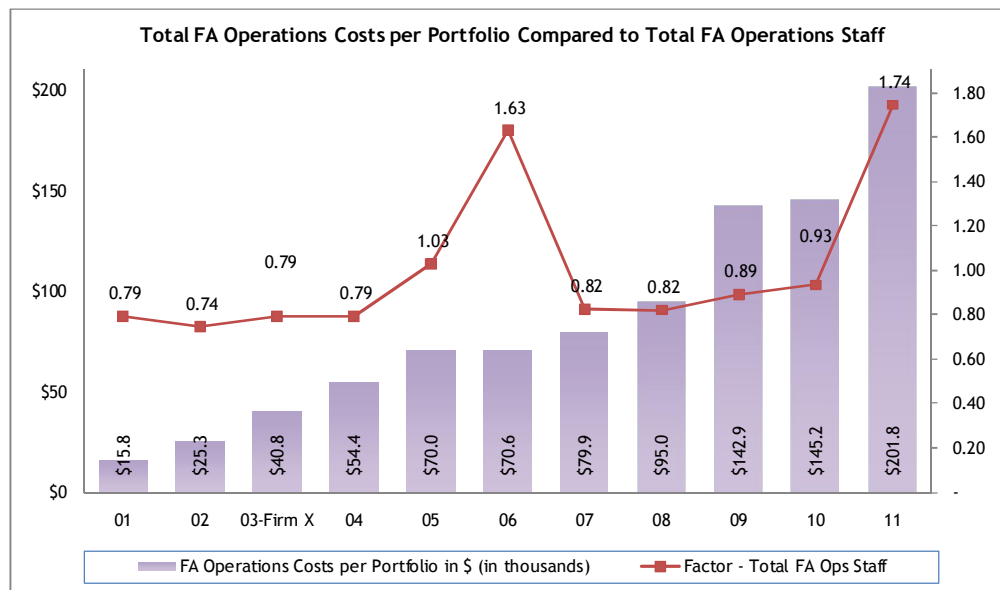
# Survey Results: Question I - Costs



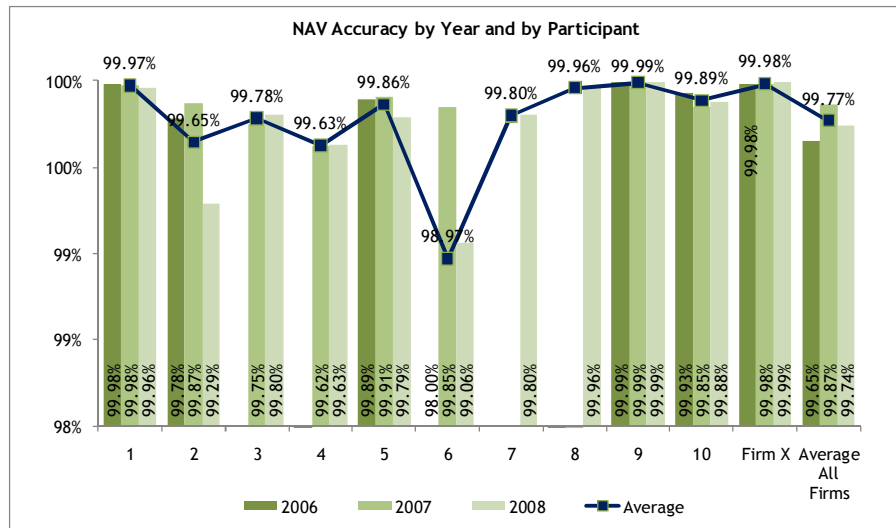
- This chart to the left considers if the firms with the most assets have more classes per portfolio than others.
- In fact, 3 firms (those in 6<sup>th</sup> to 8<sup>th</sup> position) do have higher numbers of classes per portfolio. These groups fall to the lower side of the middle of groups based on the total number of portfolios.

*The Survey Results section of the report includes charts, graphs and/or tables to present specific data based on the results of each of the survey questions.*

- The chart to the right shows the correlation when the FA operations costs are compared only to the staff allocated to that area.
- Total FA Ops Staff stays within a band between 0.79 and 1.03, with only 2 exceptions.



# Survey Results: Question 6 – NAV Accuracy



*This is an example of the presentation of graphs and tables. Participants can see the distribution of data points, not just the averages.*

- The NAV accuracy rates in 2008 for firms 2 and 6 were quite low, yet the average for all firms show that the lowest overall accuracy rate was in 2006 at 99.65%, followed by 2008 with 99.74% and 2007 with 99.87%.
- Averages exclude the firms that could not provide data; these are:
  - 2 firms: no data for 2006 and 2007
  - 3 firms: no data for 2006
- The table analyzes errors by year based on type, volumes, percent attributed and percent change between 2006 and 2008.
- By far, there was a sharp increase in the number of errors from 2006 to 2007 (44%) and again from 2007 to 2008 (34%)
- Ignoring low volume error type, in 2008 Security Master errors increased while Corporate Action errors decreased

NAV Error Analysis by Year:	Number of Errors					Percent of Errors			Percent Change in Errors	
	2006	2007	2008	Average # of Errors	Total Errors	2006	2007	2008	Years 2006 to 2007	Years 2007 to 2008
Accounting	84	150	172	13	406	21%	37%	42%	44%	13%
Allocation/Block Trades	0	4	4	0	8	0%	50%	50%	100%	0%
Cash Projections	0	0	1	0	1	0%	0%	100%	0%	100%
Corporate Actions	149	84	52	9	285	52%	29%	18%	-77%	-62%
Expense Calculations	88	48	94	7	230	38%	21%	41%	-83%	49%
Security Master	9	15	133	5	157	6%	10%	85%	40%	89%
Security Price	163	509	935	49	1,607	10%	32%	58%	68%	46%
System Related	1	35	11	1	47	2%	74%	23%	97%	-218%
Trade	161	316	345	26	822	20%	38%	42%	49%	8%
<b>Total Errors</b>	<b>655</b>	<b>1,161</b>	<b>1,747</b>	<b>110</b>	<b>3,563</b>	<b>18%</b>	<b>33%</b>	<b>49%</b>	<b>44%</b>	<b>34%</b>



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