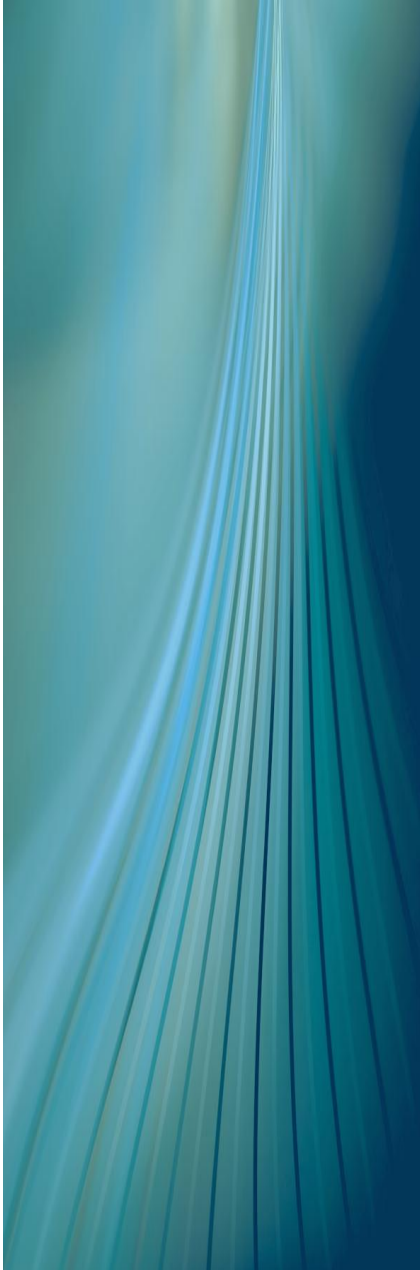


# Best Practices: How Investment Firms Evaluate Middle Office Outsourcing



**Barrington Partners**

**RESEARCH**

**WE KNOW THE DETAILS**

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## Best Practices: How Investment Firms Evaluate Middle Office Outsourcing

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As investment advisors contemplate upgrading and/or replacing their in-house technology, they are increasingly considering an outsourcing arrangement as an option.

It remains unclear whether outsourcing offers long-term cost reduction over in-house services; however, there are other significant (but less quantifiable) potential benefits (as well as potential downsides), which can make outsourcing an attractive alternative.

The need to weigh these non-financial considerations, as well as the Front Office's dependency on the Middle Office services, make the evaluation both complex and critical to the success of the firm.

Barrington Partners surveyed 13 advisory firms who have undertaken a systems/outsourcing evaluation in the recent past. The survey covered the detailed analysis performed, the importance of factors considered in both the decisions as to whether to outsource and in the selection of the vendor, and the decision process.



### THE MIDDLE OFFICE SERVICES

There are many definitions of Middle Office but we have found the following schema quite useful to lay out the key functions:

Trade match/confirm/ settle fail management	Voluntary corporate action Performance & attribution
Investment accounting	Investor (client) reporting
Pricing & corporate actions	Post-trade compliance
Third-party reconciliations	Data access, warehouse/mart
Cash availability	Investor (client) billing



The Middle Office for Institutional Managers has historically been supported in-house using a mix of home-grown and vended technology. Over the last decade, however, a number of leading custodian banks and accounting system providers have developed credible outsourcing platforms and services. The market has been slow to develop, but Middle Office outsourcing is now finding increased acceptance as a viable alternative to vended systems.



## RESEARCH PROCESS

A questionnaire was sent to the 13 Investment Management firms prior to the interviews.

All participant firms had evaluated their Middle Office in the past five years and had included outsourcing as an option.

The interviews were conducted with individuals involved in the assessment and subsequent oversight of the resulting solution.

Results were recorded and passed back to the participants to verify accuracy.

In the report results are shown for each question by participant and where quantitative, such as numeric rankings of priorities, in a series of tables that are accompanied by comments on the findings.

For the more qualitative questions we have summarized each response in a table by participant and have expanded where appropriate in an appended comments section.

Of the 13 participating firms, three we characterized as start ups in that they had no or very temporary infrastructure established. Because of their inherent differences in priorities and approach to the well-established firms, their results are reported as a separate group.



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## INVESTMENT MANAGERS INTERVIEWED

### Established Firms

1. Delaware Investments
2. Dimensional Fund Advisors
3. Graham Capital Management
4. Janus
5. Macquarie
6. Martin Currie Investment Management
7. Nicholas Investment Partners
8. Putnam Investments
9. Rainier Investment Management
10. TIAA-CREF

### Start-Up Firms

1. Clarivest Asset Management
2. Old Mutual
3. Logan Capital Management





## SURVEY STRUCTURE

- **Introduction** provides the background to the research:
  - The methodology used
  - Participant background
- **Summary of findings for established firms**
- **Detailed results for established firms**
  - Issues that initiated the evaluation of the Middle Office infrastructure - the issues are prioritized
  - What was the perceived quality of each Middle Office functions at time of review?
  - What was the process used for evaluating alternatives?
    - Costs: the method used and the costs included when comparing options to keep in-house or outsource
    - Functionality and service: the use of an RFI/RFP, number of vendors included
  - How were you organized?
    - Oversight and decision-making?
    - Who performed the analysis, how were results presented, did you use scoring?
  - What were the key criteria that weighed in your decision to outsource or retain in-house?
  - What were the key criteria that decided your choice of vendor?
  - What happened after you made your decision?
    - For those that did not outsource, what did you do?
    - For those that did outsource:
      - What was the project structure used for implementation?
      - How satisfied have they been with vendor from implementation through current operations?
      - What is the ongoing oversight model for the outsourcing vendor?
  - Are you happy with your decision?
  - What would you recommend to others?





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**BARRINGTON PARTNERS RESEARCH: Systems/Service Reviews**

- 2009 Middle Office Outsourcing Vendors Review
- 2009 Portfolio Accounting Systems Review
- 2008 'Next Generation' Transfer Agency Systems Review

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**BARRINGTON PARTNERS RESEARCH: Surveys & Best Practices**

- 2011 Fund Accounting Cost Survey
- 2011 Transfer Agency Cost Survey (US & Canada)
- 2011 Understanding Intermediary Fees
- 2010 Intermediary Fee Survey
- 2010 Intermediary Fee Payment Recon 'Best Practices'
- Performance Measurement 'Best Practices'
- Global Mutual Fund Markets: Operations & Technology
- The Future of Transfer Agency in the UK

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**BARRINGTON PARTNERS CONSULTING**

- Operations and Service Effectiveness Reviews
- Outsourcing Selection: Middle Office, Back Office, Offshore
- Systems Gap & Functionality Analysis
- Vendor Evaluation & Selection
- Project and Implementation Management
- Research and Development of Product Distribution Strategies
- Development of Business, Product and Market Plans
- Objective Analysis of Board-Level Decision Presentations
- Client Feedback and Satisfaction Surveys
- Fee Negotiations

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**BARRINGTON PARTNERS INVESTMENT BANKING**

- Buy / Sell Side Search and Evaluation (Advisors, Brokerages, Mutual Funds, Hedge Fund Administrators, Service Providers)
- Mergers / Joint Ventures
- Fairness Valuations
- Due Diligence



The price of this “Evaluating Middle Office Systems and Outsourcing Solutions” survey is \$3,000; additional copies to the same firm are \$125.

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