

2011 US Transfer Agency Cost Survey

Transfer Agency Costs compared by distribution channel, average account size, costs by category (in dollars and in basis points), processing metrics and profit margin

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Transfer Agency Cost Survey 2011

What is wrong with industry reporting on Transfer Agency?

US mutual fund companies are not consistent about how they report transfer agency costs. Available industry data underestimates the true costs of operating a transfer agency because all fund firms do not report all transfer agency costs under a transfer agency cost category.

As a result, Fund Boards are left to consider industry data that is incomplete and therefore misleading. This Barrington Partners survey captures data from participants on a consistent and easy to compare basis, or *apples to apples*. Through the assistance of past participants, extensive experience in survey development, and ongoing refinement of definitions, the quality of the data in this survey has strengthened the value of this report over the years that we have produced it.

The goal of this report is to analyze the costs of operating a transfer agency in the following areas:

- ❑ **Transfer Agency and Retirement Recordkeeping** costs broken down into 10 functions.
- ❑ **A breakdown of assets and assets by class** into 7 channels of distribution. Total costs are also broken down by channel into the same 10 functions.
- ❑ **Small Account** issues.
- ❑ **Processing volumes** broken down by channel and processing method: web, automated platform, or manual : staffing, hours, handle time, abandonment rate, compliance time and type of transaction (both recurring and non-recurring, and financial and non-financial).
- ❑ **Profit margin** for the transfer agency, fee disclosures and strategic initiatives.



Survey Overview

This year the Questionnaire looked at transfer agency costs across distribution channels and against transfer agency cost categories and functions. The data gathered for the report follows the definitions contained in the Appendix.

- ❑ There are 7 categories of **distribution channels**:
 1. **Retail – Direct retail business**
 2. **Intermediary – Direct Registered Brokerage (“DRB”) (including check and app business sent by smaller brokers)**
 3. **Intermediary – Network Level 3 (“L3”)**
 4. **Intermediary – Omnibus (one account at the fund level and many accounts at the distributor level)**
 5. **Retirement – Investment Only (“Retirement Plans IO”) (investment only; accounts serviced elsewhere)**
 6. **Retirement - Recordkeeping (“Retirement RK”)**
 7. **Institutional**

- ❑ The survey breaks down costs for **10 different transfer agency functions**, including Retirement Recordkeeping. This breakdown is made in each distribution channel:
 1. **Call Center**
 2. **Transaction and Cash Processing**
 3. **Printing and Postage**
 4. **Internet**
 5. **TA Systems, Platforms and Systems Development**
 6. **Technology Infrastructure**
 7. **Payments to Intermediaries**
 8. **Corporate Allocations**
 9. **Outsourced Services**
 10. **Retirement Recordkeeping**



Survey Overview

- ❑ The full report is provided only to firms that participate in the survey. Barrington Partners and all participants sign an agreement stipulating that the document will not be shared outside each participating firm.
- ❑ Each firm receives a customized report which shows their data compared to non-attributed data of the participants.
- ❑ The cost to participate in the survey is \$6,000.
- ❑ The success of any survey depends upon the comparability of data. Considerable effort is made to define terms and process so that data will be collected in a like manner. Transfer agency costs encompass those costs which are incurred in supporting the shareholder and not the pricing of the portfolio (fund accounting and administration). Based on the definitions in the questionnaire, transfer agency fees recognized in the survey may differ from those in the official accounting for the funds.

2011 Schedule

February 15th

Final Questionnaire will be provided to all participants

June 1st

Due date for completed questionnaires

June – July

Barrington Partners will confirm/clarify responses with participants

September 15th

Report release if all participant data received by June 1

Mid-October

Follow-up call with all participants



Table of Contents

1. Introduction	
Survey Overview	4
Report Organization	9
2. Executive Summary	11
3. Benchmarks	
Transfer Agency Costs	26
Distribution Channels & Share Classes	48
Efficiency & Automation	81
Transfer Agency Profit Margins	88
Account Minimums	90
4. Summary of Findings	93
5. Detailed Survey Results	
Transfer Agency & Retirement Recordkeeping Costs	110
Distribution Channels & Share Class Analysis	131
Call Center & Transaction Processing Statistics	155
Account Options: Small Account Fees & Redemptions, Account Minimums	167
Operations Issues	170
Strategic Initiatives, Fulfillment & Proxies	173
6. Appendix	
Survey Definitions	180
Factor Calculation	187

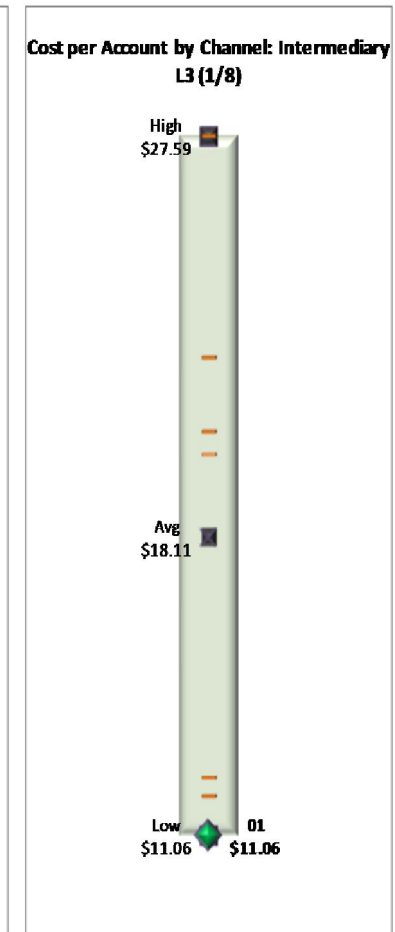
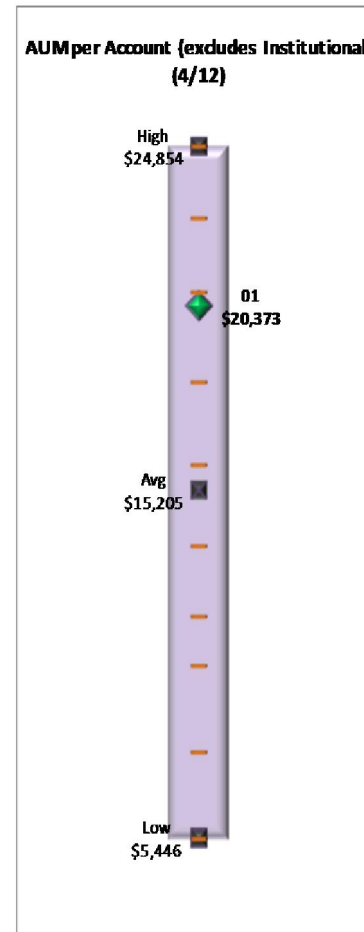
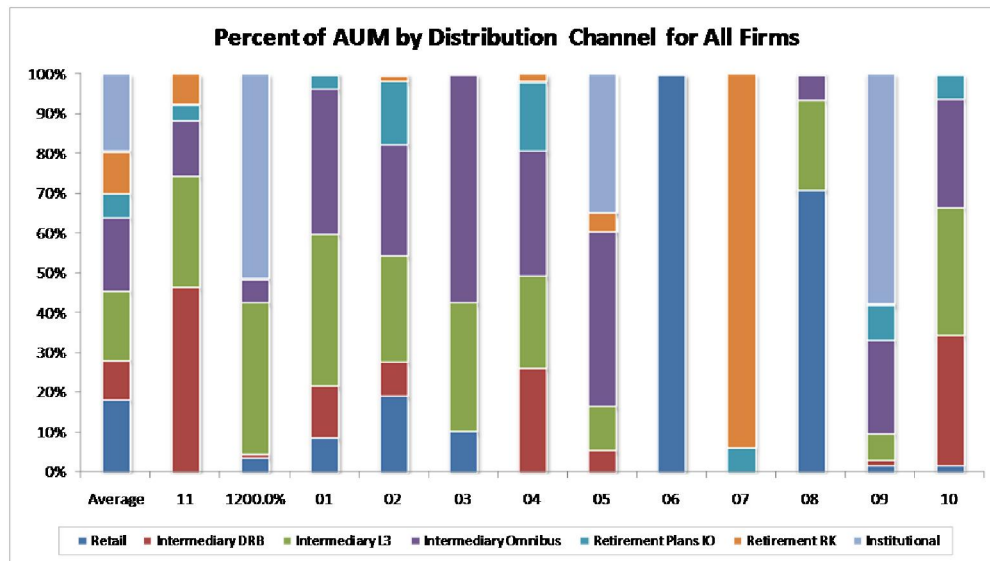
*This is the Table of Contents
from the 2010 Survey Results.*



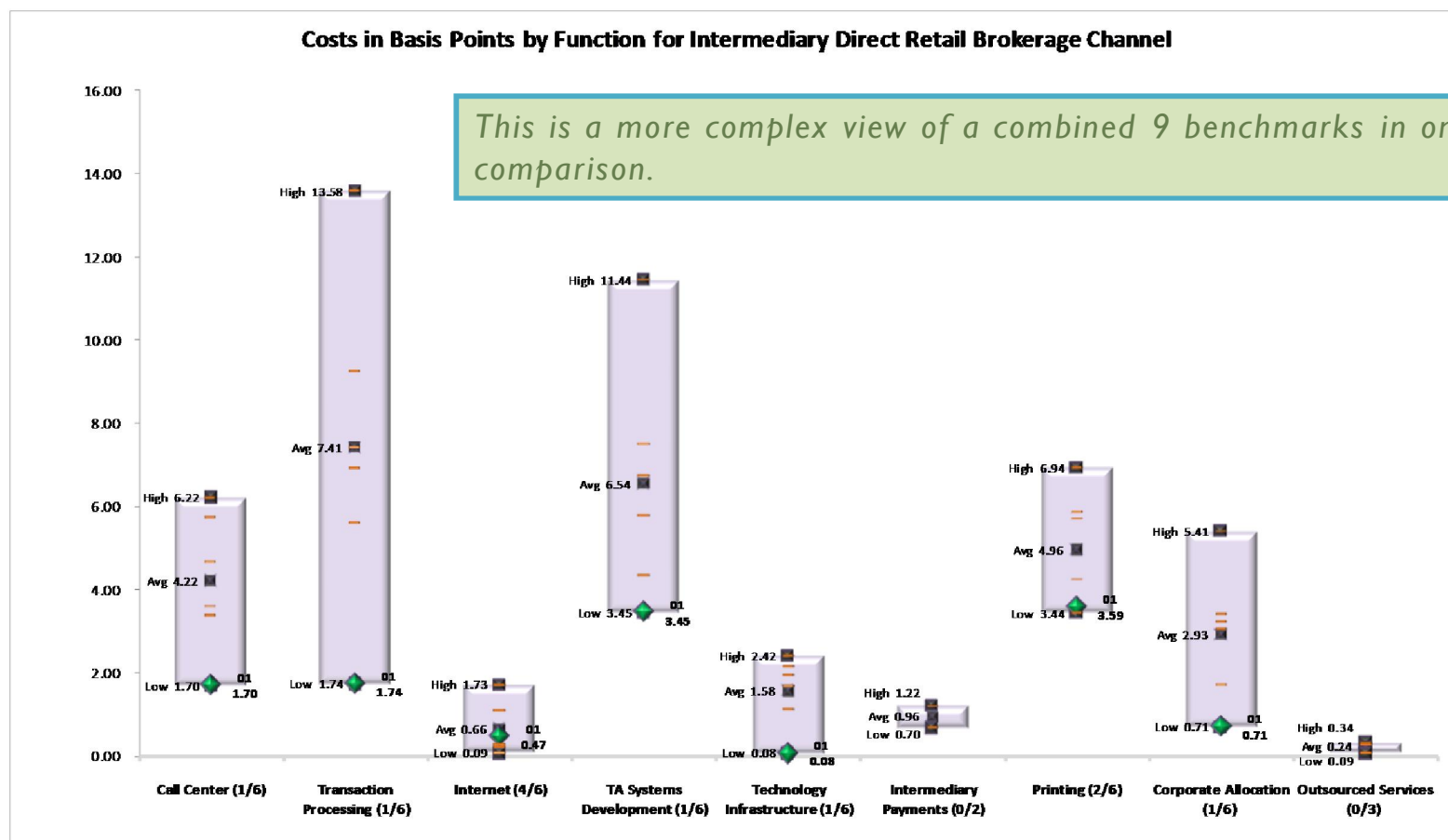
Examples of Reporting Metrics

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

A range of approaches are used to present data that is useful in management and Board presentations.



These benchmarks present the costs in basis points for the Intermediary DRB channel by function.

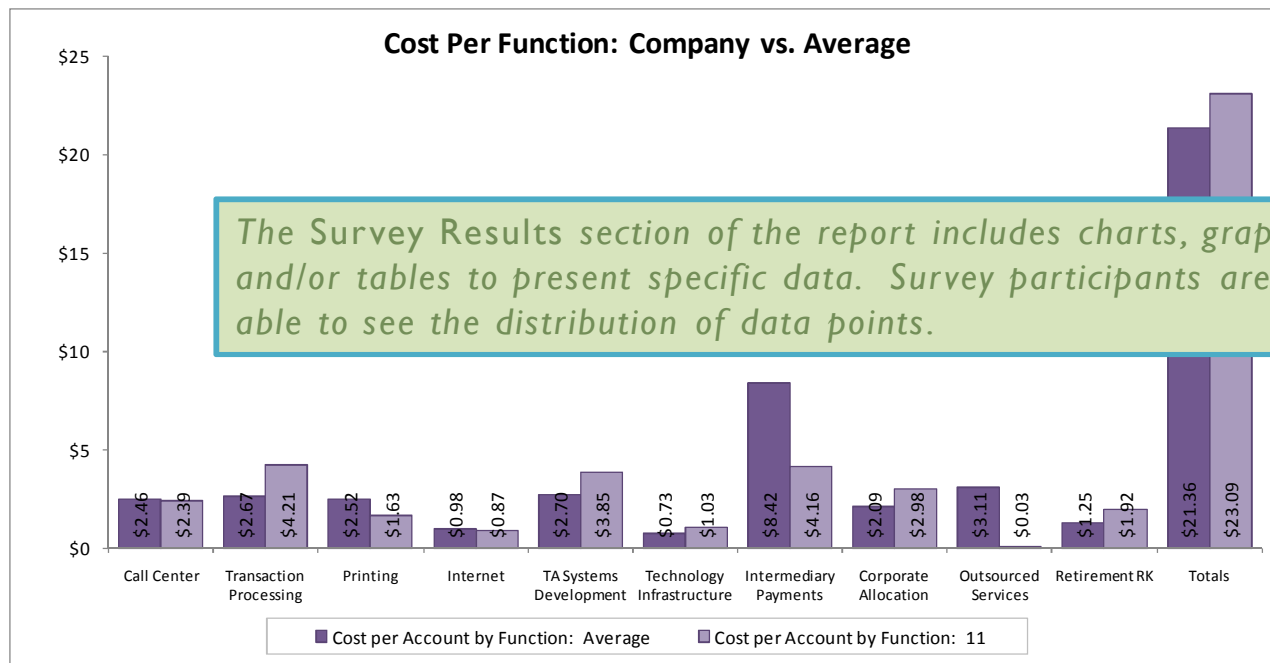


While transaction processing ranked as the third highest contributor to cost in the retail channel, on average it is the number one driver of cost in the Intermediary DRB channel. In second place is TA systems development (same rank as retail), and printing drops to third place (versus first place in retail).



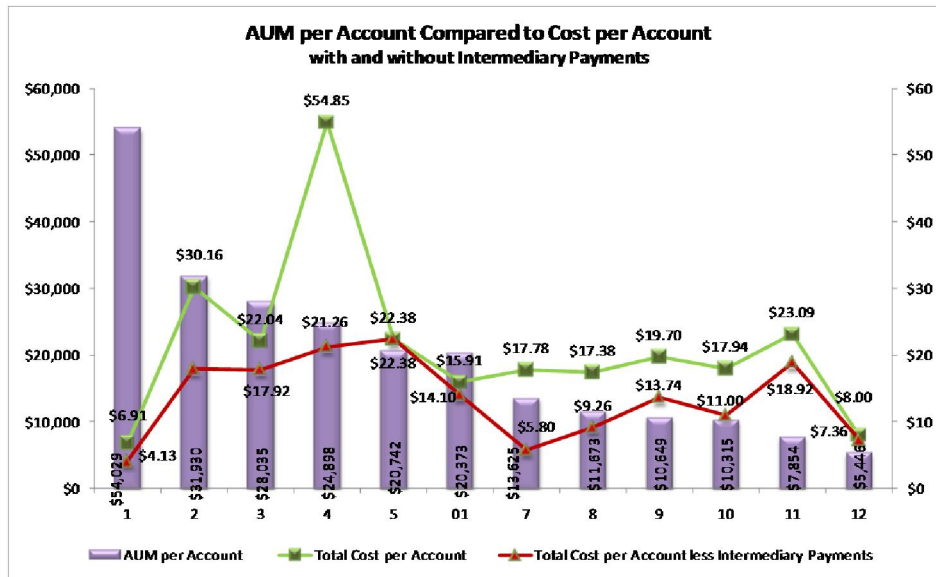
Cost Per Account

□ This chart compares the cost for each transfer agency function and retirement recordkeeping on a per account basis for your firm along with the average for all firms. The table provides the profile data as well as the rank and costs for each firm.



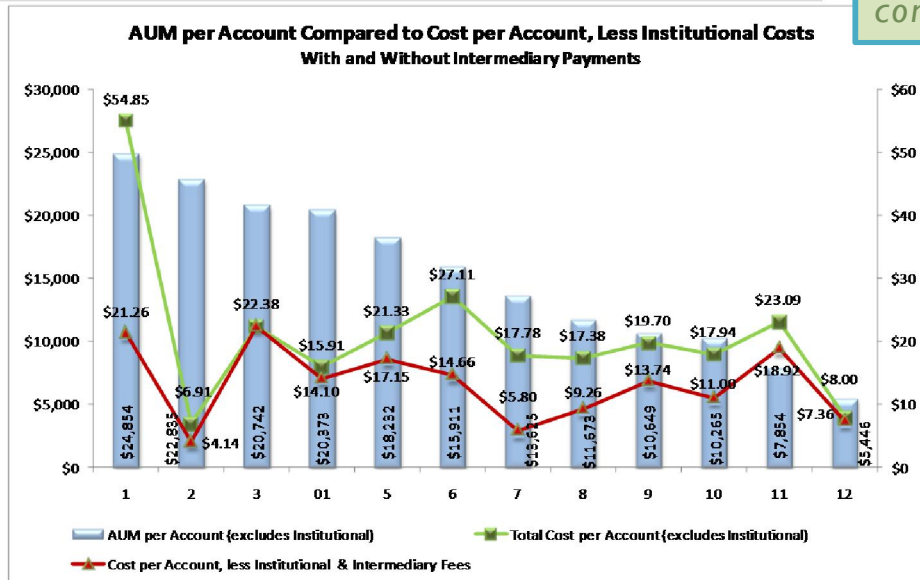
Cost per Account by Cost Category and Function																
	Low	Average	High	Rank	11	12.00	01	02	03	04	05	06	07	08	09	10
Call Center	\$0.29	\$2.46	\$8.89	9/11	\$2.39	\$5.66	\$2.04	\$0.84		\$1.07	\$1.25	\$8.89	\$0.99	\$1.97	\$0.29	\$1.68
Transaction Processing	\$0.31	\$2.67	\$4.89	10/11	\$4.21	\$1.51	\$2.09	\$2.93		\$1.86	\$3.51	\$4.89	\$2.40	\$2.13	\$0.31	\$3.48
Printing	\$0.36	\$2.52	\$6.89	3/10	\$1.63		\$4.31	\$2.51		\$1.66	\$1.96	\$2.06	\$0.36	\$6.89	\$0.76	\$3.05
Internet	\$0.03	\$0.98	\$5.44	9/11	\$0.87	\$0.75	\$0.57	\$0.15		\$0.08	\$0.62	\$1.52	\$0.71	\$5.44	\$0.06	\$0.03
TA Systems Development	\$0.64	\$2.70	\$4.37	6/8	\$3.85		\$4.14	\$1.82		\$2.21	\$4.37	\$0.73	\$0.64			\$3.85
Technology Infrastructure	\$0.03	\$0.73	\$1.93	8/10	\$1.03		\$0.10	\$0.87		\$0.71	\$0.43	\$1.93	\$1.16	\$0.12	\$0.03	\$0.87
Intermediary Payments	\$0.63	\$8.42	\$33.59	4/11	\$4.16	\$12.45	\$1.81	\$6.94	\$11.98	\$8.12	\$4.19		\$0.63	\$33.59	\$2.78	\$5.96
Corporate Allocation	\$0.77	\$2.09	\$4.71	7/9	\$2.98		\$0.86	\$1.62		\$1.12	\$3.33	\$2.37	\$1.09	\$4.71		\$0.77
Outsourced Services	\$0.03	\$3.11	\$10.00	1/6	\$0.03	\$10.00		\$0.10	\$5.80		\$0.05					\$2.69
Retirement RK	\$0.18	\$1.25	\$2.34	3/4	\$1.92			\$0.18		\$0.55	\$2.34					
Totals	\$6.91	\$21.36	\$54.85	10/12	\$23.09	\$30.37	\$15.91	\$17.94	\$17.78	\$17.38	\$22.04	\$22.38	\$8.00	\$54.85	\$6.91	\$19.70

Summary of Findings – Evaluations of Costs



The top chart, which presents AUM per account (with institutional balances) compared with total cost per account and total cost per account less intermediary payments, shows the significant effect of intermediary payments on a firm's cost structure. Intermediary payments account for 40% - 70% of the per account costs for 6 firms.

The Summary of Findings section of the report analyzes various factors that contribute to transfer agency costs.



This chart normalizes transfer agency costs further, by eliminating the effect of institutional assets, accounts and costs, as well as intermediary payments. We would have expected a stronger relationship between AUM per account and cost per account. Total costs include retirement recordkeeping costs for those firms that reported retirement data