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The Newsweekly of Insight & Strategies

Fund Ops Awards

Boston Financial, SEI, John Hancock Take Top Honors

By Lee Barney

Boston Financial Data Services, SEI and John Hancock take top honors in SourceMedia's 2006 Fund Operations Awards. Now in its fourth year, the awards program is sponsored by *Money Management Executive* and judged by a panel of leading industry consultants, with the winners cited at this week's **National Investment Company Service Association** general membership meeting in Wellesley Hills, Mass. As in the past, the awards honor industry leaders in three categories: Leadership, Innovation and Efficiencies/Streamlining.

This year's judges include **Geoff Bobroff**, president of **Bobroff Consulting** of East Greenwich, R.I.; **Ian Frost**, vice president and director at **The Boston Consulting Group** of Boston; **Bob Goldberg**, president emeritus of NICSA of Marlborough, Mass.; and **Steven Miyao**, chief executive officer of **kasina** of New York.

Many thanks to these industry experts for giving so generously of their time, and to the companies that submitted entries.



Stephen Hooley, president and chief executive officer of Boston Financial Data Services of Boston, is the winner of this year's first-place award for Leadership.

DST Systems and State Street Corp. nominated Hooley for his excellent client service and penchant for developing relationships with people across all levels of an organization at Boston Financial's clients — but most notably for spearheading a project to publish a resource guide for mutual fund directors.

Hooley joined Boston Financial in

2004 and the following year, in light of the new regulations that the Securities and Exchange Commission has imposed on the fund industry, began work on the guide. Called "Building Investor Confidence: A Guide for Mutual Fund Boards of Directors," the handbook covers a myriad of issues facing today's mutual fund boards of directors, including working with the firm's chief compliance officer. It is based on information issued by the SEC, as well as industry articles and publications, and was written with assistance from DST and State Street.

The first section of the 148-page guide gives an overview of directors' duties, including fiduciary responsibilities, details about specific laws and guidelines on how to work with the CCO. The second section gives in-depth descriptions of a mutual fund's

four key service providers — the transfer agent, custodian, accounting agent and administrator — and specific questions that the board should be asking each of these parties.

Demand for the guide has far exceeded Boston Financial's expectations. The company initially sent 236 copies to CCOs in its first mailing and received requests for nearly 1,000 more. DST initially sent the guide to 57 client firms and eventually sent out another 676 copies. State Street initially issued 90 copies and received requests for 70 more.



Eric Falkeis, vice president of fund administration at U.S. Bancorp of Minneapolis, has won this year's second place for Leadership, for guiding U.S. Bancorp in automating financial reporting for mutual funds. He participated in a research project that enabled Confluence of Pittsburgh to examine the financial reporting workflow processes for multiple mutual fund clients of U.S. Bancorp and, as a result, develop an automated solution to streamline financial reporting.

As a result, the time it now takes an equity mutual fund to prepare a schedule of investments, using the Confluence Clear Portfolio for Financial Reporting software, has been reduced from 12 to 24 hours to an average of four hours, and the

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time it takes a fixed income fund to prepare a schedule of investments is now eight to 12 hours, down from 21 to 26 hours. Even more significantly, the number of errors found in the review process was reduced by 75%.

Before the development of this software, U.S. Bancorp relied on disconnected and redundant processes that caused unnecessary steps in the creation of reports — and a good deal of room for error. In fact, to put together a quarterly report on all funds' schedules of investments, holdings reports and various third-party surveys from start to finish took between four and six weeks. Fund accounting and SIC codes had to be manually typed into spreadsheets and checked against original statements or third-party data, and one-off corrections were then made in those spreadsheets.

Today, U.S. Bancorp collects data from a data warehouse twice a month and imports it automatically into the Clear Portfolio software to create the schedules of investments. Each of these reports can be automatically mapped to meet the needs of a specific client. The bottom-line results are decreased costs, reduced risk, greater scalability, enhanced customer service and better portfolio management.



The transfer agency team of BISYS Fund Services (Ireland) is the winner of the third place, Leadership, for developing a fund accounting, distribution support, transfer agency and compliance support system that is available in nine languages, offers 24-hour service and can be accessed remotely around the world.

Perhaps more importantly, it automates trades using standards from the Society for Worldwide Interbank Financial Telecommunications (SWIFT). SWIFT is the financial industry-owned co-operative that supplies secure, standardized messaging

services and interface software to 7,800 financial institutions in more than 200 countries. It connects banks, broker/dealers, investment managers and their service providers. The SWIFT standard applies not only to direct distributor trading but also to regional platforms.

BISYS integrated the SWIFT model into its transfer agency program in 2005, wholly absorbing the costs and not passing them along to clients. As part of this effort, BISYS developed a new trading model that incorporates SWIFT technology and message programs to support more than 1,000 distributor clients in 50 countries around the world. It also meant the creation of a secure, automated trading environment and a new fee structure to benefit funds as they increase the automation of their business.

As a result, BISYS has automated trading for distributor relationships across Europe, Asia and the United States, helping clients to decrease fund costs through lower servicing expenses, to decrease errors by limiting manual trade input and to standardize mutual fund trading practices across multiple countries.



SEI of Oaks, Pa., is this year's first-place winner for Innovation, being honored for developing a separately managed account platform that is scalable and uses automated processes and standardized practices.

Key features of SEI's SMA platform include using more than 30 digital forms to replace traditional paper formats. These digital records make it easier for managers to reference, store and process information, while reducing the chances for error.

The platform also uses universal straight-through-transaction processing so that it is possible for an investment manager to automatically participate on scores of sponsor distribution platforms and to auto-

matically reconcile records with scores of custodians. The breadth of the platform includes all business transaction processes, including account administration, new accounts, trading, reconciliation, performance, compliance and client service.

SEI's SMA platform also permits managers to create more than 50 data mining reports based on portfolio management, business management, sales management, client service and operations. Users can also access the SMA platform via the Internet, allowing them to view the status of any transaction on the system, along with edits, cycle time, volumes and error rates.

SEI claims that this is the biggest back-office platform available in the SMA industry.



For its Tax-Efficient Lot Selector, State Street Corp. of Boston is second-place winner, Innovation. The application automates tax lot selection for both equities and fixed-income securities, a process that heretofore has largely been manual and that now reduces hours of tracking information via spreadsheets.

The program calculates the tax impact per share for each security based on shareholders' tax rates, as they report them to the fund company. It can then identify the most efficient selection of lots, based on customer-designated business rules, and post them to State Street's multicurrency accounting system to calculate the realized gain or loss.

Fund companies can use the Tax-Efficient Lot Selector to customize business rule and rate selection criteria to meet customers' specific needs, as well as change them when needed. Because the selection process is fully automated and can be integrated with State Street's multicurrency accounting system, customers can rely on State Street's enhanced reporting capabilities, rather than having to create reports in house.

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PFPC of Wilmington, Del., is this year's third-place winner, Innovation. The company is being cited for having developed a product to help brokerage firms comply with the Securities and Exchange Commission's new rule that requires brokerage firms to maintain books and records for all customer positions, even those not recorded on their brokerage system.

The SEC passed this rule, 17a-3(a)(1), which went into effect on May 2, to ensure that investors who qualify for breakpoints are offered these discounts. The rule also requires brokers to send periodic letters to investors confirming address and other demographic data.

To facilitate compliance with this rule, the National Securities Clearing Corp. (NSCC) developed new shareholder data records that can be transmitted to brokers via NSCC's existing network. But last summer, PFPC realized that none of the leading service providers was ready to accept the new data records to capture account data, balances and transactions and to generate trade blotters.

PFPC then realized that its sub-accounting platform was already equipped to store this information, mostly because it already had the ability to collect asset information from multiple fund managers and present it in a unified manner. PFPC's sub-accounting development team then went to work on integrating NSCC's new interfaces, so that the front, middle and back offices of brokerage firms would be able to use NSCC's new service.



John Hancock Signature Services, the transfer agent that services John Hancock Funds of Boston, is this year's first-place winner, Efficiencies.

The company set a goal in 2005 of reducing expenses, increasing automation and continuing to deliver high-quality service to investors. To accomplish this, John Hancock formed a finance working group, which analyzed workflow, researched available technology and looked for ways to decrease manual processes and increase efficiencies.

Over the course of a year, the group saved the funds \$2.6 million, or 11%, by renegotiating contracts with recordkeepers and other third parties, eliminating redundant communications to shareholders along with unnecessary paper reports, and modifying internal workflow processes.



Boston Financial Data Services (BFDS) of Boston is this year's second-place winner, Efficiencies, for having automated transactions in the front office of its transfer agency division. BFDS decided to streamline operations after realizing that each month, staffers in this office open more than 300,000 envelopes representing over 700,000 transactions and 240,000 check investments.

In the first phase, BFDS focused on investors' transaction requests and installed DST's Automated Work Distributor, a scanning system that automatically routes work associated

with documents, phone calls, faxes and other sources through an organization. In the second phase, BFDS installed an interface to scan checks. The company also streamlined check processing by eliminating the need to batch checks and attach stickers on them.

As a result of these efforts, BFDS has improved customer service and been able to have the 29 full-time employees in this division help the company in other areas.



U.S. Bancorp Fund Services, a fund administrator headquartered in Milwaukee, is the winner of third place, Efficiencies, for creating an automated reporting system to calculate a

fund's expense ratio. Previously, U.S. Bancorp would manually run reports each month, cutting and pasting data into spreadsheets and performing manual calculations. Now, that process is completely automated, saving the firm's fund administration department 2,200 to 2,400 hours a year, or 35 to 40 minutes per fund each month.

In addition, to reconcile trade records, U.S. Bancorp has developed several repeatable processes, resulting in 500,000 records being reconciled in an hour. Finally, U.S. Bancorp created a report to compile specific tax elements for all funds. In the past, this monthly function took the fund administration team 48 hours to complete. The report now runs in minutes and can be sent directly to clients.

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