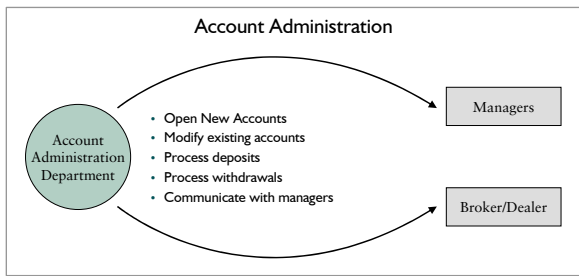


SEPARATELY MANAGED ACCOUNT OPERATIONS: INTERNAL STAFFING AND OUTSOURCING OPTIONS FOR THE BACK-OFFICE

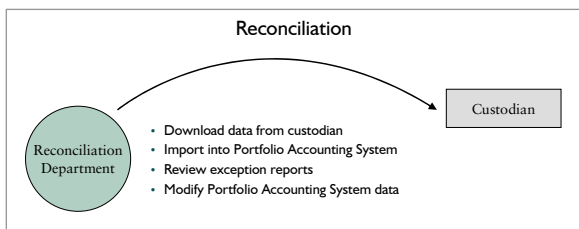
By Prima Capital Holding, Inc.

Back-office operations are an important part of a complete Separately Managed Account (SMA) platform. The processes that most often fall under this category are account administration, reconciliation, client performance reporting, and account billing. These processes rely on information stored in a portfolio accounting system. Before deciding how to set up the back-office, it is helpful to have a high-level understanding of what each process entails.



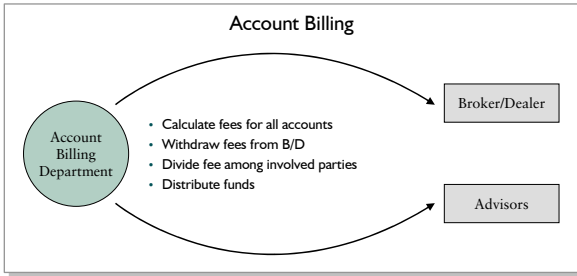
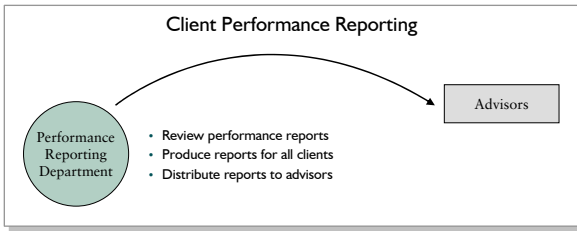
The **account administration** process consists of entering client and account data into the portfolio accounting system, ensuring the account information is delivered to the broker/dealer and custodian, and communicating the information to the managers. This process occurs when opening a new account, modifying an existing account or closing an account. An important part of account administration consists of processing additional account deposits or client withdrawal requests.

Trading is performed by the money manager once notified by the account administration department that an account is ready. This occurs outside of the sponsor’s back-office processes, but is worth mentioning to fully understand the sequence of events. The manager places trades for the account with a broker-dealer, either a specific broker-dealer used in the SMA platform, or one which can provide best execution for the client. These trades are recorded with the account’s custodian firm. The custodian firm maintains the official books and records for transactions and position balances in an account. Therefore, it is important for any accounting system to reflect the same data as the custodian’s records. A portfolio accounting system will download new transactions from the custodian on a nightly basis.



Reconciliation is the daily process of ensuring that the trades and balances in the portfolio accounting system match the custodian’s records. Most portfolio accounting systems provide assistance with this process by automatically comparing the systems, and generating an exception report which displays the differences.

Several times a year, often after each quarter end, **performance reports** are created for each client using the information in the portfolio accounting system. Generally, as part of this process, an analysis is performed to verify consistency of performance across similar accounts.



The **billing** process can occur quarterly or monthly, depending upon the billing schedule established for the SMA platform. It consists of calculating the amount a client owes and withdrawing the fee from their account. In “wrap” programs, the total fee is withdrawn from the client’s account in a single transaction. The portion of that fee due to each participant, the advisor for example, is then distributed.

When putting together a SMA platform, the firm sponsoring the platform must decide whether it will hire an internal staff to run the portfolio accounting software program, or outsource the back-office processes to one of several available vendors. The advantage of employing an internal operations staff is that a sponsor firm controls all aspects of the back-office. There may also be an advantage to having direct access to the portfolio accounting system’s data for integration with other systems, although many outsourcing providers will work

with a firm to provide any data required. However, the cost associated with the internal staff combined with the cost of the portfolio accounting system software can be significant. The advantage to outsourcing these functions is that a firm can leverage the service company’s experienced personnel instead of spending time finding and retaining qualified people to run the back-office. This allows a firm to dedicate resources to other areas such as servicing clients and gathering assets.

Internal Staff Options

Advent Software

301 Brannan St.
San Francisco, CA 94107

Contact: (800) 727-0605
info@advent.com

Website: www.advent.com

System: Axys®

Advent has the second largest market share among portfolio accounting systems used in SMA programs. Over 4,500 firms, ranging in type from smaller financial advisor offices to larger product manufacturers, use the Advent system to manage over \$5 Trillion in assets. Advent was established in 1983 specifically to offer an outstanding portfolio accounting system. It allows any type of security to be held within an account, and provides pricing through Interactive Data Corporation. Positions in each account are tracked at the tax-lot level, allowing managers or program sponsors to track the tax consequences of activity in the account. The Report Writer Pro™ feature in Axys allows firms to generate customized reports using account data stored in the system. The Advent software is run by the sponsor firm, on the sponsor’s hardware.

CheckFree Investment Services

10 Exchange Place
23rd Floor
Jersey City, NJ 07302

Contact: (201) 332-2020

Website: www.checkfree-cis.com

System: CheckFree APLSM

APL has the largest market-share in U.S. separate account programs. The portfolio accounting system tracks positions in each client account on a tax-lot level, including the cost basis and purchase information for each tax-lot. Each account and security position has commonly used and user-definable fields that allow tracking of virtually any piece of account and position information. The system also contains around 100 standard reports that can be used to show information about a client account. The APL software is run on hardware maintained by and located at CheckFree. It is accessed over a secure internet connection through emulator software running on a user's machine. APL's service based model uses powerful IBM servers which support a very high volume of accounts and transactions. CheckFree is in the process of improving its set of features and functionality with a web-based product called EPLTM, which will be available in the near future.

Integrated Decision Systems

335 Madison Ave.
Suite 815
New York, NY 10017

Contact: Lisa Williams
(212) 490-4261
lisa.williams@idsnet.com

Website: www.idsnet.com

System: Global Investment Manager®

Global Investment Manager (GIM) was initially designed in 1991 to provide multi-currency portfolio accounting for a UK based company. It has been expanded to offer functionality for portfolio accounting, trading, decision support, and performance reporting. The multi-currency features can track up to 5 different currencies for the base currency, client reporting currency, trading currency, settlement currency, and exposure currency. The system tracks each tax-lot for the account positions. It has links to many custodians as well as several pricing systems including Interactive Data Corporation that update the accounts and security master each night. Over 100 firms throughout the world use the GIM product, including SMA program sponsors, and several very large broker/dealers. While some broker/dealers have a very large volume of accounts, a large SMA program sponsor has managed as many as 120,000 accounts on the system. GIM can either be run at the sponsor firm, on the sponsor's hardware or remotely through a secure connection to servers maintained by IDS.

Outsourcing Options

JPMorgan

522 Fifth Avenue
New York, NY 10036

Contact: Steven Smith
(718) 242-9087
steven.a.smith@jpmorgan.com

Website: www.jpmorgan.com/investorservices/

Service: Investor Services Managed Account Solutions

JPMorgan has recently entered the outsourcing marketplace. Building upon its back-office experience as an investment manager, additional staff has been hired that previously managed operations for sponsor firms, and a strategic alliance has been formed with Vestmark to provide back-office software solutions. The features offered include account administration services, reconciliation and management reporting tools.

Mellon

Mellon Financial Corporation
One Mellon Center
Pittsburgh, PA 15258-0001

Contact: Marc Filipkowski
(617) 722-7187
filipkowski.ms@mellon.com

Website: www.mellon.com/assetservicing/productsservices/managedaccounts.html

Service: Managed Accounts Backoffice Outsourcing

Mellon was one of the first firms to offer an outsourcing solution for back-office processes, and today processes 65,000 managed accounts representing \$26 billion in assets for managers as well as program sponsors. Mellon has a proven track record of providing account administration and daily reconciliation for SMA accounts. Several solutions for performance reporting and client billing can be arranged if required. A relationship with Russell/Mellon, a premier provider of portfolio analytics and performance measurement, can be leveraged to meet a sponsor's performance reporting needs. Mellon will also work with the sponsor to provide any additional required services such as mailing welcome letters or copies of a Form ADV to investors. The sponsor communicates information, such as details about a new account, through a web-site. This site is part of a sophisticated workflow system used by Mellon to ensure that each step of a process is handled correctly and in a timely manner.

State Street

State Street Financial Center
One Lincoln Street
Boston, MA 02111

Contact: Mark Drinkwater
(617) 537-3246

Website: http://www.statestreet.com/capabilities/investment_servicing/overview.html

Service: Investment Servicing Managed Account Services

State Street can provide an outsourcing solution that covers account administration and reconciliation. They can also assist in the area of performance reporting, and client billing. These features can be combined with additional features that assist a firm with compliance and risk mitigation. State Street has been providing these services to investment managers and is branching out to assist program sponsors as well. A sponsor firm can also take advantage of additional services, such as trust accounting, offered through State Street's Wealth Management solutions.

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