

# MONEY

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## management executive

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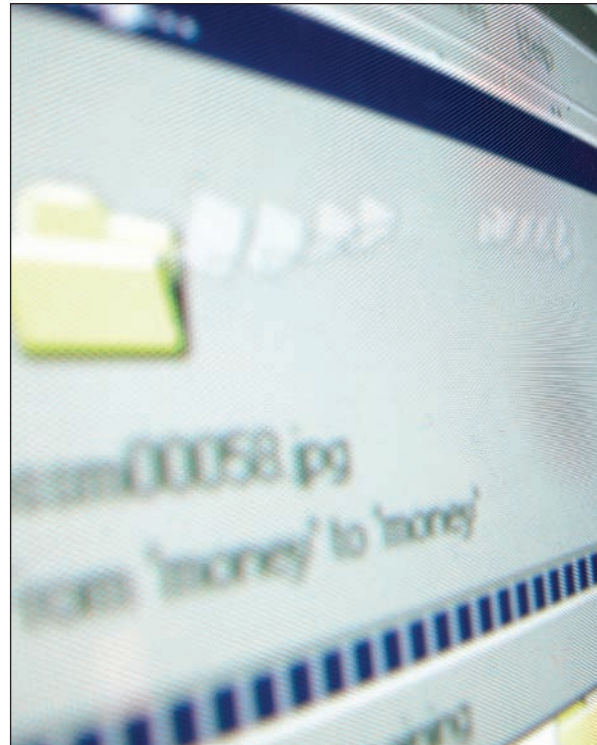
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## XBRL: To Insource Or To Outsource?



By Tom Steinert-Threlkeld

There are 67 days left in the year. Are you ready to meet the next **Securities and Exchange Commission** mandate for mutual funds?

That comes into effect January 1, when the federal regulator says mutual funds have to get interactive. Specifically, that all funds must

**Technology** publish their risk and return summaries in a particular computer-readable format.

With little more than two months to go, many mutual fund complexes are still facing the question of whether to handle the task in-house or job it out. One vendor, **Rivet Software**, says that smaller companies try to keep direct costs down by handling the task with existing staff. But larger companies, with deeper pockets, often go outside, at least initially.

The format in question is known as the eX-tensible Business Reporting Language. This is a series of tags for financial documents that

**XBRL**, *cont. on page 5*

## Older Investors Raring to Go

By Lee Barney

Feeling older and fully realizing they have to get serious about preparing for retirement, investors aged 50 and above are an ideal target for fund companies and their sales intermediaries.

Once a person turns 50, AARP research shows, they begin to grasp their mortality. And they have wealth they want to put to work. "Turning 50 is significant in people's lives," said

**Marketing** **Danielle Holland**, vice president of communications and research at the **Insured Retirement Institute**, speaking during a recent AARP and IRI webinar, "Communicating With Older Cl-  
**OLDER INVESTORS**, *cont. on page 6*

## Nottingham CEO Witness To Greater Transparency, Lower Hedge Fund Fees

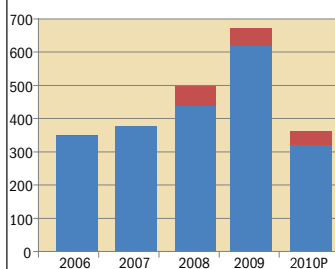
By Lee Barney

**Nottingham Investment Administration** is one of the few fund administration companies that offers highly responsive, customized accounting and reporting solutions for smaller pools of assets. As

**Operations** such, since 1989, Nottingham has been in the unique position to spot trends and have direct knowledge of the top concerns of the 200 mutual fund, hedge fund and separately managed account portfolios it services.

**Kip Meadows**, chief executive officer and founder of **Nottingham Investment Administration**, head-  
**NOTTINGHAM**, *cont. on page 8*

### Product Rationalization



Source : Morningstar Direct MF ETF

After a surge in fund mergers in 2008 and 2009 fueled by steep declines in assets and thus profitability, the number of mutual funds and ETFs being merged or liquidated by firms has returned to more typical levels.

Source: FUSE Research

## NOTTINGHAM

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quartered in Rocky Mount, N.C., recently spoke with *Money Management Executive* about the impacts of the Dodd-Frank bill, tremendous commercial real estate opportunities and the new transparency hedge funds are embracing, even to the point of issuing daily net asset valuation.

**MME: Do you have a broad focus at Nottingham Investment Administration, and**

***“A lot of hedge funds did their own accounting and didn’t necessarily get it audited. Now that is unheard of, because investors want to avoid another Madoff situation at all costs. They are telling managers, ‘You have got to have a second set of eyes involved.’”***

We started out 21 years ago, back in the late 1980s doing nothing but ‘40 Act mutual funds, and then it became 50/50 in the mid to late 1990s as hedge funds became more accepted in the investment world. Five years ago, before the financial crisis of 2008, the inquiries were probably more 75% or 80% for hedge funds and only a few for mutual funds. Then, after the **Bernie Madoff** and **Allen Stanford** scandals and arrests, and the Dodd-Frank bill and Congressmen wanting to show

mutual fund is ideal.

**MME: Are you finding that institutions and endowments are looking for the transparency of a registered fund?**

**Meadows:** We do hear stories about this, and here is a very typical example. In that same time period of 2005 to 2008, when the markets were just go, go, go, many investment advisers were leaving large brokerage firms to start their own fund. It wasn’t hard for even a 26-year-old Wall Streeter to raise \$50 million.

Well, now what we hear is, “In order for me to raise money for this new fund, I have got to have a third-party administrator involved.” A lot of hedge funds did their own accounting and didn’t necessarily get it audited. Now that is unheard of, because investors want to avoid another Madoff situation at all costs. They are telling asset managers, “You’ve got to have a second set of eyes involved, and the fund needs to be audited.” It’s becoming a given.

—Kip Meadows  
Chief Executive Officer  
Nottingham Investment Administration

**as such, does that give you insight into some of the larger trends in fund administration?**

**Kip Meadows:** We focus mostly on mutual funds, hedge funds, foundations, endowments, government investment pools and separately managed accounts.

One of the things we are seeing is whereas five years ago, if an investment advisor wanted to set up a pooled vehicle, they would almost automatically decide to go to a hedge fund model so that it would not be registered under the ‘33 Act and be limited to accredited investors, and so forth.

Those same advisors are calling us now, and saying they are not exactly sure what type of vehicle they want to set up, that while they may originally have thought they wanted to establish a hedge fund, with all the talk of regulations, they aren’t sure how those regulations will end up shaking out, with so much of the potential regulation delegated to the agencies—hedge funds might end up being almost as regulated as mutual funds, and so, they might be more interested in setting up a ‘40 Act mutual fund instead.

their constituents how diligent they are, it has swung back.

Most of the calls we get now are inquiries about what is the most appropriate vehicle for them now.

**MME: What do you normally recommend now in light of the Dodd-Frank bill?**

**Meadows:** Well, it actually depends. We try to take a consultative approach. You learn more by asking questions than by talking. We’ll ask them who their target market is. Where do they expect to raise money for their fund?

If it’s mostly high-net-worth individuals or institutional money, then a hedge fund might be the perfect vehicle. But if they want to be able to offer the product as an option in a 401(k), that is very difficult to fit a hedge fund into unless the 401(k) plan document allows for non-registered investment funds. It would be expensive and time consuming, so a mutual fund would be a much better vehicle.

Or if they’ve got a broker who likes to refer business to them, but the average account size is below the hedge fund minimum, only \$50,000 or \$100,000, then a

**MME: Where does Nottingham Investment Administration come in with some of these services?**

**Meadows:** We calculate the market value of the portfolio, whether it be monthly or quarterly, and in fact we are seeing quarterly valuations become a little bit more rare, as well. And a lot of hedge funds want to go to daily valuations or weekly.

So, we calculate the portfolio value and then allocate it among the participants. If it is a mutual fund, we calculate the net asset value and provide the shareholder recordkeeping, because we are a registered transfer agent. For a hedge fund, we calculate the portfolio value, and because it is typically a partnership allocation, we then figure what percentage of the fund each investor owns and then send out the reports to the advisor and then participants on their respective portion.

**MME: Do you recommend auditors to your clients?**

**Meadows:** Absolutely. That’s not our primary business, of course, but we get asked quite a lot. We almost always have

**NOTTINGHAM, cont. on page 9**

## NOTTINGHAM

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auditors in our office looking at client records at the various fiscal year-ends. We know who is easy to work with. We know what they charge and who offers a good value for their rate.

**MME: One of the areas you have said you are seeing an increasing interest in is real estate? What is driving this?**

**Meadows:** My understanding is that this is driven by the big changes that are driving the banking world, post-2008 when mortgage portfolios started crashing. Of course, the banks are scared to go through that again, which I don't blame them. And they have gotten a bunch of regulations handed down to them. So, banks are much less willing to lend.

Gone are the days when you could get a 120% loan-to-value on your house. In commercial property in decent markets, you could get 80% to 90% financing. What we hear from these guys setting up Real Estate Investment Trusts is that the banks are now only loaning 60% to value.

That creates an opportunity for another way to fund those projects. A developer who needs another 30%, 40% or 50% financing for the project is probably going to pay an above-market interest rate. There seem to be some investment opportunities for firms that can put together those structures.

It's kind of like old 1800's merchant banking or mezzanine financing firms. They had the money, put deals together and took a piece of the pie.

**MME: What about trends among end clients?**

**Meadows:** The investing public is definitely becoming more attuned to costs. They are becoming more educated about what the cost structure of pooled vehicles should be. Whereas hedge funds used to charge 2% annual fees and take 20% of the profits, you don't see that as often. It's more like 1% and 10%.

This could be a lasting trend, unless we get a frothy market again. And this is presenting problems for fixed income

funds, in particular. If the expense ratio is 75 basis points and the gross return isn't a whole lot better than that, there probably will be some pricing pressure.

**MME: You met some colorful people when you got into the business. Could you share one or two of these stories?**

**Meadows:** I started in the investment world as a broker with **Robertson Humphrey**. I was very interested in managed

***“The investing public is definitely becoming more attuned to costs. They are becoming more educated about what the cost structure of pooled vehicles should be. Whereas hedge funds used to charge 2% annual fees and take 20% of the profits, it's more like 1% and 10%.”***

—Kip Meadows

money, and it was a small industry in the late 1980s.

I got to know a number of investment managers, and my dad practices law, with a concentration in trusts and estates, and a number of advisors asked me if my father could create a vehicle to pool these smaller accounts together. So I turned the tables around and started to ask these advisors, “How do you deal with your smaller accounts? Wouldn't it be good if you could pool them together and make them more efficient?”

That's how our out fund administration business got started, realizing there were the **State Streets** of the world that manage huge sums of assets that didn't want to talk to a start-up fund and a lot of advisors who had the need to pool smaller accounts for

efficiency and marketing purposes. They needed a solution but didn't quite know where to start.

The first hedge fund we started was for **Sir John Templeton**. We went down to visit a client of ours who had a mutual fund with us in Atlanta, and after the meeting and I was getting ready to go home, they offhandedly asked me what I was doing the next day, if I would go to Nassau, Bahamas, with them because they were talking to Sir John Templeton about launching a hedge fund and he was going to give them seed money to get it going. That's when hedge funds were in their infancy.

So I flew down there and met with Sir Templeton. He wouldn't see us until 11 a.m. because in his late 80s or early 90s, his daily regimen was to go into the ocean every morning and walk waist-deep through the waves parallel to the shore, using the water as resistance.

And then he came into the office and we had our meeting. Charming, charming man. It was the only time I have had a Diet Coke served on a silver platter.

We started the fund for him, and it was very successful. Even after his death in 2008 we continued to work with his two sons up until this past year when they liquidated the fund and sold it to another firm. MIME

## Regulatory Reform Adds Sheen to Custodians

**State Street Corp.**'s top executive said the company plans to keep a close eye on regulatory reform as it looks to use such development to bolster its growing asset servicing business. **Joseph “Jay” Hooley**, State Street's chief executive officer, said in an interview he doesn't think any of the regulatory reform will specifically target trust and custody banks like State Street, but with “meaningful changes” coming in the financial markets, there will be opportunities to add business.

“More transparency, more independence, more stringent regulation will mean a broader use of third-party clearing firms by large and small companies, even in this market environment,” Hooley said. MIME