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SEI Report: Despite an Inconsistent Definition, Middle Office Can Be a Hidden Source of Competitive Advantage

Technology and New Products Among Main Drivers of New Investments; Increased Interest in Outsourcing

OAKS, PA -- (Marketwired) -- 06/22/16 -- An asset management firm's middle-office functions, despite not having a consistent industry-wide definition, has emerged as a critically important operational component and a largely untapped source of value, according to [SEI's](#) (NASDAQ: SEIC) report "[Middle Office: A hidden source of competitive advantage](#)." In late 2015, SEI's Investment Manager Services division, in collaboration with FSO Knowledge Xchange (FSOkx), responded to the industry's desire to extract value from all aspects and functions of their firms by conducting an industry survey that served as the basis for the report.

"Our research backs up our belief that the middle office has emerged as a critically important operational component of investment firms globally whether they manage long only, alternative or hybrid strategies," said Stephen G. Meyer, Executive Vice President of SEI and Head of SEI's Investment Manager Services division. "Sophisticated managers are looking beyond the status quo to transform their middle offices from being mere support functions to a source of long-term strategic organizational value."

According to the report, despite a definitional disconnect among participating managers, middle-office functions clearly play a vital role in an investment firm's operations, with many firms dedicating a considerable percentage of overall operational expenses to the area. Survey results indicate that 1 in 4 asset management firms now devotes 20 percent or more of total operating expenses to middle-office functions. Another 37 percent of respondents spend between 11 and 19 percent of their total operating costs on middle-office expenses, with diversified investment managers spending slightly more than strictly alternative managers. Additionally, about 91 percent of survey respondents expect to spend more on middle-office technology over the next 12 to 18 months.

The confluence of many factors is driving the transformation of the middle office, leading to a newfound emphasis on operational efficiency. Expanding product lineups include more esoteric asset classes, complex investment strategies and geographic breadth. Fee

pressure is resulting from the continued growth of indexing, greater demands for transparency and more assertive investors. An evolving regulatory environment is placing additional compliance demands on managers.

The survey cited regulatory compliance as one of the biggest operational challenges for asset managers. However, data management is often seen as the single most important challenge, followed by legacy IT systems and complex investments. And, the historic underinvestment in middle-office functions has left personnel shortages that indicate that the emphasis has generally been on transactions rather than strategic decision support.

Challenges, including a more competitive business climate, heightened regulations, growing investor demands, stronger competition, and complexities associated with the globalization of products are prompting managers to re-evaluate their operational capabilities. Many are entertaining outsourcing arrangements, and are adopting more sophisticated middle offices to support evolving and increasingly complex investment operations.

The new report examines the new frontier of operational challenges and provides insights to help asset management firms better understand middle-office trends, challenges and opportunities. Of the 80 respondents, half were operations managers and chief operating officers. For full details, download the complete report at: seic.com/MiddleOfficeSurvey2016.

About SEI's Investment Manager Services Division

Investment Manager Services supplies investment organizations of all types with advanced operating infrastructure they must have to evolve and compete in a landscape of escalating business challenges. SEI's award-winning global operating platform provides asset managers with customized and integrated capabilities across a wide range of investment vehicles, strategies and jurisdictions. Our services enable investment managers to gain scale and efficiency, keep pace with marketplace demands and run their businesses more strategically. SEI presently partners with more than 300 traditional, alternative and sovereign wealth managers representing over \$15 trillion in assets, including 32 of the top 100 managers worldwide. For more information, visit seic.com/ims.

About SEI

SEI (NASDAQ: SEIC) is a leading global provider of investment processing, investment management and investment operations solutions that help corporations, financial institutions, financial advisors and ultra-high-net-worth families create and manage wealth. As of March 31, 2016, through its subsidiaries and partnerships in which the company has a significant interest, SEI manages or administers \$684 billion in mutual fund and pooled or separately managed assets, including \$265 billion in assets under management and \$419 billion in client assets under administration. For more information, visit seic.com.

About FSO Knowledge Xchange and TurtleBay Advisory Services

FSO Knowledge Xchange (FSOkx) is a TurtleBay Advisory Services (TBAS) company that provides industry analysis and marketing solutions serving the global banking, insurance, and capital markets industry. FSOkx provides a collaborative platform for the industry experts to come together and share knowledge and best practices through various forums on topical themes. TBAS is a management consulting firm that has a team of subject matter experts with deep operations and technology, transformation, and marketing experience. TBAS supports its client's business and technology transformation challenges by leveraging their industry expertise, innovative technology tools, proven methodologies and research capabilities to deliver sustainable operations/IT process change, optimal operational risk control, transparency and regulatory compliance.

Company Contact:

Dana Grosser

SEI

+1 610-676-2459

dgrosser@seic.com

Media Contact:

Josette Robinson

Prosek Partners

+1 212-279-3115 x212

jrobinson@prosek.com

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