

Money Fund Intelligence



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ICD Talks Portals, Bear, Clearwater, and More

Institutional Cash Distributors, or ICD (www.icdfunds.com), is one of the largest players and earliest entrants in the **online money market trading “portal” space**. Crane Data recently interviewed the principals of the company to discuss the genesis and state of the portal marketplace, to discuss recent liquidity events, including since-assuaged concerns over Bear Stearns, and to discuss several new initiatives underway at ICD.

Co-Founders **Ed Baldry**, **Jeff Jellison** and **Tom Newton**, like many in the money market fund portal industry, once worked at a company called **Concord Financial**, which was perhaps the earliest multiple fund distribution platform.

While Concord faded into history after being purchased by **Bisys** (now a part of **Citi**), the promise, and rewards, of multiple fund distribution stuck with the diaspora. Baldry & Newton went on to run sales for **Scudder** (now **Deutsche**) institutional money market funds, and Jellison worked at early pre-portal multiple fund family distributor, **MidAtlantic** (which eventually launched www.moneymarkettrader.com and was later purchased by **SunGard**).

Jellison says, “Tom, Ed, myself, and Mason went to different places during that period for a few years. We then realized that there was a tremendous need in the marketplace to not only

bring front-end product to the client but, more importantly, to consolidate all of the trading and all of the statements for the clients. So [we envisioned] a fully-consolidated method which, of course, is [now] called a portal. So that’s how we differentiate between a multiple distribution strategy and a portal. It’s the ability to consolidate trading and reporting.”

Bear Stearns Connection

Then, Baldry says of 5 years ago, “Bear Stearns at that time had some \$50 billion dollars that was going out across all these funds, so they were virtually every fund’s biggest client. We went in and said, ‘What if?’ They were representing the hedge fund communities, securities lenders, futures commodities merchants, etc. We said we want to build a front end that’s designed for, and by, the corporate treasurer. We’d like to introduce them into this platform of funds. We’d like to get access to all these funds with one application, one wire and one statement. Bear came back to us very quickly and said, ‘That’s a great idea; you’re on.’

Thus ICD was born.”

How did clients react to the recent near-death experience at Bear Stearns?

Jellison says, “We were able to get information to our clients right away, and provide them with detailed information on how their assets were segregated through **Bear Stearns Clearing Corp.** (BSSC) and never at

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ICD is an internet based institutional money fund portal that offers its clients the ability to invest in over 120 different institutional money funds in multiple currencies.

Clients investing through ICD pay no additional cost for their investments than if they were to invest in the funds directly. ICD was created on the premise that its clients could receive the best performance available to institutions, while enhancing your short-term investment process.

ICD exists in order to maximize selection and create operational efficiencies.

Selection

The ICD model was developed to meet the needs of the institutional corporate treasury office. Selections from over 120 funds in multiple currencies can be based on:

Rate of return
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Credit quality and/or diversification needs

Unbiased suggestions based on your guidelines and differentials in portfolio strategy

Operational Efficiency

Regardless of the number of funds utilized, ICD brings distinct advantages:

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One wire settles all of your trade allocations
One statement consolidated for your entire portfolio

Global menu of funds across multiple currencies
No additional cost for investing through ICD directly

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Customized reporting
Trade method flexibility

FX and time deposit investment capabilities and straight through processing at the treasury workstation level
Local sales representatives attend to your needs

Over 50 years combined combined experience in institutional client service
Non leveraged based environment

Institutional Cash Distributors’ website (www.icdfunds.com).

risk. Our corporate treasury customers are very diligent and understood that clearing and custody broker dealer’s like BSSC are highly regulated and frequently audited. We just needed to provide more detailed information on **SIPA** (securities investor protection act) and **Rule 15c3-3** which governs asset segregation. BSSC is examined by the SEC, NYSE, FINRA and provides an annual SAS 70 report. All of us at ICD worked through the weekend to make sure our customers had as much detailed information as possible. At the end of the day, everyone just wanted to confirm what they already knew—that their money was segregated and safe.

Mason Martin, Director of ICD Operations, offered an analogy: “For example, if ABC Fund Advisor were to go bankrupt, what would happen to the shareholders of ABC Prime Fund? Well, obviously, the money funds themselves are independent investment companies, or standalone mutual fund companies. So those shareholders are protected from any balance-sheet activity of the parent.... They own shares of the actual investment company. Similarly, our portal

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- ICD’s Jeff Jellison

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client assets have always been protected under the segregated clearing model, separate from the clearing agent's parent."

Clearwater Analytics Reporting

ICD recently launched an alliance with **Clearwater Analytics** to provide portfolio reporting to clients. Clearwater's accounting and compliance "will greatly improve ICD clients' Sarbanes-Oxley management processes." **Clearwater and ICD are also pushing a transparency initiative to obtain daily or weekly portfolio holdings from money market mutual funds.**

Baldry tells us, "The marketplace condition is driving the need for transparency, because we live in a client-driven universe. Our whole mantra is to get them what they need and evolve in the most rapid fashion as a company. It's one of the advantages of a small company without a massive bureaucracy."

On subprime, Jellison says, "We've found ourselves basically back in 1993, when you had to explain what a money fund was.... Now with all the recent instability in the credit markets, our clients have requested more detailed fund information than ever before. This is one of the main reasons we established the partnership with Clearwater Analytics.... Our customers will now have visibility into their money market funds and managed investment portfolio's from a single location on their desktop."

Baldry says, "We believe that transparency is going to be demanded by the industry. We look at it as like the AAA rating of the future. There are going to be a handful of fund companies that are going to do it out of the gate. The other ones are going to be at a disad-

vantage, because the pioneers of transparency are going to be able to show their holdings on a weekly/daily basis.... I think it's just going to take a few of the major players to embrace this model."

Flight-to-Quality, Back-to-Basics

On Treasury funds, Martin says, "Certainly we're looking at a product that only a handful of clients used in their management of treasury cash before the subprime and credit crisis. We've always had governments, Treasuries, Treasury-only, and government-only products in our lineup. But few clients used them. Now almost every client uses them in some capacity. We are very upfront with our clients regarding the advantages of those portfolios, and the disadvantages."

"We're in constant dialogue with our clients and the funds, keeping the lines of communication as open as possible so that everybody is satisfied with the relationship. Even those clients who know Treasury funds and look through them, simply because they have to assure their senior personnel, are still asking us for the portfolio holdings.... They need to have that in their file. But we see a change in the use of those kinds of products. Their size has increased dramatically."

"Very Unsentimental System"

Baldry says, "Our system is very unsentimental, so you can add and drop names without any fanfare. We've certainly seen people restack their lineup. For example, if you had a fund show up in *The Wall Street Journal* a little bit too often ... then people voted with their feet. But that really is a tribute to our model, which allows customers to move fund families or asset classes without

any additional paperwork or pain and suffering."

Martin adds, "ICD's model is being an independent provider, where we don't have our own funds. We're completely agnostic as to which funds our clients choose and always have been. We think we were the first independent out there — we know there are others now — to allow our clients make their decisions based on whatever their own criteria are."

Have problems with direct money market securities helped money market funds? Baldry says, "In my opinion it has certainly bolstered our assets under management.... I think people's level of comfort buying direct issue investments has greatly diminished. They're certainly comfortable with AAA-rated money funds, or a government or Treasury fund. I've definitely seen people getting away from yield and become entirely concerned about stability and principal of liquidity. I don't think yield is exactly in bloom right now."

Jellison adds, "Investing in a prime fund, that's primarily top-tier corporate debt, is still a great place for people to go, and we've seen that. There's a tremendous [yield] fall-off between prime and government and certainly down to Treasury funds. So we're still seeing people that are weighing things out and coming to the conclusion that a prime fund still offers the best liquidity and risk return on their investment dollars."

Martin adds, "The environment not only has headline risk and credit issues, but a declining interest rate environment, which all benefit our industry.... This is an extraordinary window, and clients have taken advantage of that. Of all our hundreds of clients, we've only had one sitting on the sidelines from money funds as a whole, saying money funds aren't where they want to be right now. The rest recognize the value and efficiency that money funds and money fund portals bring to the table" ♦