

Money Management Executive

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Covering Mutual Funds, SMAs, 401(k)s, 529s & More The Newsweekly of Insight & Strategies

At Deadline

Union Calls Mutual Funds Excessive 'Pay Enablers'

By Hannah Glover

The American Federation of State, County and Municipal Employees released a report Tuesday calling AllianceBernstein, Barclays Global Investors and AIM "pay enablers."

Governance

In conjunction with The Corporate Library, AFSCME examined the 2006 proxy voting records on executive pay measures for 29 mutual fund families.

"CEOs should be paid for performance. Investors in these mutual funds should be outraged that their assets are being used to prop up undeserved CEO pay," said

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Double, Double, Toil and Trouble

Disclosure Seen as Antidote to Soft-Dollar 'Witch's Brew'

By Hannah Glover

Despite the hurly-burly set off by Securities and Exchange Commission Chairman Christopher Cox's request that Congress eliminate soft-dollar safe harbors, industry insiders argue that such a change will result in nothing but toil and trouble for retail investors.

The real antidote to what Cox called "a witch's brew of hidden fees," according to a recent survey, is simple disclosure.

But when it comes to what that disclosure might look like, investment managers and plan sponsors alike, are looking back to regulators for the magic ingredients.

"There is a general feeling among

market participants that current 28(e) regulations regarding research and brokerage provides value, but current disclosure practices are ambiguous and inconsistent," said Kristi Wetherington,

Regulation & Compliance

the chief executive of Dallas-based broker/dealer Capital

Institutional Services (CAPIS). "As such, it seems that plan sponsors and many investment managers have come to the conclusion that the disclosure issue is best settled by SEC guidance," according to a white paper published by CAPIS in conjunction with Greenwich Associates, a consulting firm based in

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BlogWatch Page 8

Website Offers Doctors' Insights

Investment Firms Can View Medical Discussions

By Jessica Papini

An innovative new website is bringing fund managers and their research teams to the table—the operating table.

Sermo is giving buy-side firms a peek into the community website it runs for physicians, where they openly trade thoughts on medicine, devices

Ops & Tech



Dan Palestrant

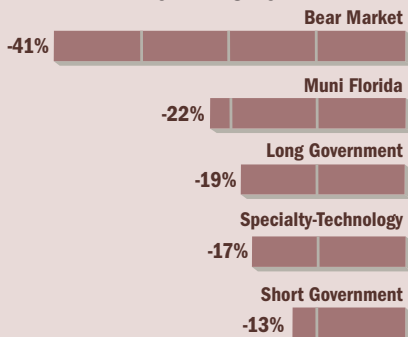
and treatments.

Former surgery resident Daniel Palestrant started the Cambridge, Mass.-based company two years ago. "What is more powerful than a rush of information that you specifically asked for?"

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Data Points

Bottom Five Trailing 12-Month ROA for Long-Term Funds By Category



Return on assets (ROA) is the ratio of net sales to assets which, for public companies, offers insight into the return they are able to generate from existing assets. For mutual funds, it offers some insight into the most efficient sales categories. Bear funds, which was the worst-selling category at this time last year, again falls to the bottom of the ROA measure due to a strong market over the past 12 months. Similarly, government fixed-income products have declined in popularity.

Source: Financial Research Corp.

T. Rowe Price, DTCC, Columbia Win Top Honors in SourceMedia Awards

By Lee Barney

Columbia Funds, T. Rowe Price and The Depository Trust & Clearing Corp. take top honors in SourceMedia's 2007 Fund Operations Awards. Now in its fifth year, the awards program is sponsored by Money Management



Christopher L. Wilson

Executive and judged by a panel of leading industry consultants. The awards honor industry leaders in three categories: Leadership, Innovation and Efficiencies/Streamlining.

Many thanks go out to this year's panel of judges for their time and consideration: T. Neil Bathon, managing director, PMR

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Fund Operations Awards

MEDICAL WEBSITE

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said Palestrant, Sermo chief executive officer.

Sermo's online community database has been likened to a **MySpace** for doctors. It allows any licensed doctor in the U.S. to join for free. Physicians can discuss healthcare issues, post questions and chat on any topic they wish. Healthcare is the largest industry in the nation, and thus far, 16,500 doctors have signed up for Sermo, out of 600,000 doctors in the U.S.

As more and more doctors are working in small two to three doctor offices, the appeal of Sermo is that it allows them to be part of a community and compare and share notes, Palestrant noted.

As Sermo is free, the way it makes money is by allowing investment firms access to the Sermo community of doctors. The company currently has 10 asset management clients, predominately hedge funds, which pay between \$150,000 to \$500,000 to subscribe each year.

Clients typically pay quarterly in soft-dollar arrangements, Palestrant said. The service costs a fraction of what it would cost to sign up for an expert matching service such as **Gerson Lehrman**, he said. A Gerson spokesperson was unavailable to comment before press time.

Gerson Lehrman is an independent research group that pairs experts with more than 400 clients in many different industries. Within the healthcare industry, the company offers GLG News, an online network of 70,000 physicians. Clients are also able to set up interviews with physicians to answer specific questions.

At Sermo, AlphaMD is the name of the front-end screen that clients use. There they can see what doctors are talking about and track specific companies that are of interest to them. Recent messages and the most active

chats are also shown, so investors can figure out what is the latest hot topic in the healthcare community. Clients are able to tell how many doctors viewed a particular post, how many commented and how many voted on an associated poll question. An arrow will indicate if there is an increase in activity on companies or topics that a client tracks.

"It is useful because we are alerted when new comments are posted on a company we cover," stated the director of independent research at a large mutual fund who has been a client of Sermo for six months.

Perhaps the most valuable tool is that clients are able to create and post specific questions to doctors. Typically after a day or two, they will receive 40 comments, Palestrant said. After a week, there are typically as many as 200 comments.

"I'm on the website twice a day every day," the mutual fund research director said. There is immense value to be derived from the site, as there is no other way to reach a mass number of doctors so quickly, she said. "I don't have to take the time to call doctors or schedule interviews now," she said.

"After stress testing the system, as long as a question is well structured and you weed out what doctors you don't want responding to the question, companies can gain useful information," she said. Analysts sift through the data and then forward reports to the firm's portfolio managers, she said.

The system is not without some challenges, however. Sermo needs to understand what investors want most and how to set up a valuable screen on the front end, she said. The biggest challenge may be that there is so much data, and some of the information is not relevant to what you want or need at all,

she said.

Compliance officers at firms are watchful of Sermo, Palestrant acknowledged. Compliance officers find research difficult to manage and audit, he said, but when working with Sermo, everything is in writing and easily trackable. There are no conflicts with the system and it is completely legal, he said.

"It is simply asking a group of physicians how an issue might turn out," he said. What would be illegal is if clients were specifically soliciting physicians involved in a clinical trial or study, and that is not happening, he said.

Palestrant is not launching any major advertising campaign, saying, "Wall Street is driven by the best and fastest services." Companies

will learn about Sermo by word of mouth, he said.

While the concept of Sermo is transferable to other industries such as fashion, IT and real estate, Sermo is only focusing on healthcare, he said.

"Sermo is a great idea and would be valuable for analysts," said **Susan Walton**, director of international research at **Integrity Research Associates** of New York, adding that the service is probably cheaper than other expert matching companies.

Wall Street firms are not the only clients of Sermo.

Recently, the **American Medical Association** partnered with Sermo to tap into doctors' collective wisdom and better serve its members. The two-year deal allows the Chicago-based AMA to survey Sermo's members on hot topics, just as Sermo's Wall Street subscribers solicit doctors' opinions to help guide trading decisions on drug company and medical device stocks.

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