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STATE STREET BANK IS QUITTING TUCS: COMPETING SERVICE WILL BE LAUNCHED

By Steve Hemmerick



State Street Bank & Trust Co. is withdrawing from the Trust Universe Comparison Service, throwing a double whammy at TUCS.

For starters, State Street claims to be the biggest player in TUCS -- it represents 40% to 50% of the assets in TUCS with about 110 plans, including the \$133 billion California Public Employees' and \$84 billion California State Teachers' retirement systems, according to State Street officials.

But even worse, the bank is launching an Internet-based performance comparison service State Street officials say will be superior to TUCS.

Officials at TUCS, a 20-year-old bank cooperative with 20 members, say they are revamping their paper-based service, and will put it on the Internet early next year. They also disagree that the new State Street Universe will be superior to TUCS.

State Street and TUCS appear to be headed for a wrenching contest that involves 21 giant and regional banks and hundreds of pension funds, endowments and foundations.

The stakes are huge. The banks with the best performance universe will have an edge in getting trust and custody clients and their millions of dollars in fees.

State Street left TUCS because it has the critical mass of assets to develop its own universe, said Laurette M. Bryan, senior vice president at State Street Corp. and head of State Street Analytics.

Twenty years ago, big bank involvement in TUCS "made sense" because no individual bank had enough assets, she said.

Ms. Bryan said State Street contributed in excess of 40% to TUCS.

Robert Raab, a senior vice president at [Wilshire Associates](#), Santa Monica, Calif., which administers TUCS, said State Street accounted for around 20% of the assets.

Ms. Bryan responded: "I know what we contributed and I know what the totals (in TUCS) are."

But William Pryor, manager of investment information services for Mellon Bank Corp., Pittsburgh, said Mellon is the biggest contributor to TUCS, accounting for about 50% of the assets.

Mr. Pryor said Mellon has no plans to drop out of TUCS. But it will offer, beginning in January, a competing performance universe through a joint venture with Frank Russell Co., Tacoma, Wash.

Both State Street's service and the revised TUCS aim to give fund officials more of what they want -- the ability to build finely customized universes.

Pension fund executives long have complained about some performance universes that compare dissimilar pension funds.

State Street's own universe of 160 plans, 5,000 portfolios and \$900 billion in custody assets will be relatively transparent. Users will know a sampling of individual funds used in making up a universe. By knowing the funds' investment profiles, pension fund executives can tailor a universe of funds similar to their own.

In TUCS, pension funds don't know the names of individual funds that make up the universes, although they do know the composite asset allocation, said Todd Brunskill, a vice president at Wilshire.

When TUCS was established 20 years ago, member banks demanded anonymity for clients. But knowing the identity of the funds in the universe is important to many pension funds, including CalPERS and CalSTRS.

Both funds are users of TUCS, and both this year had their consultants build customized universes in which they knew the identity of funds in the universe.

Officials for both California funds complained that data from TUCS and other opaque universes embarrassed them by making them, at times, appear to perform below the median in public fund universes.

CalPERS officials argued they had greater exposures to international equity and private equity than most public pension funds. In recent years, pension funds more heavily invested in U.S. stocks appeared to do better because of the raging bull market.

CalSTRS officials had taken a lower risk profile, with less in equities than some other public funds, and felt unfairly compared to pension funds with higher risk profiles.

Sheryl Pressler, chief investment officer for CalPERS, and Pat Mitchell, CIO for CalSTRS, are aware of State Street's new product and will make a purchase decision at a later date. Both funds are State Street master custody clients.

State Street officials say with their universe, customization will be painless and comparisons fair.

But Mr. Raab said TUCS members might drop some of their secrecy soon. In recent months, TUCS members have developed a new "spirit of cooperation," he said. But how much more information member banks will reveal must be decided by those banks, Mr. Raab said.

If clients request, State Street will provide a sampling of client names in the universe, assuming the clients approve of the release of their names. In no case will performance numbers for any client be made known.

With its new Internet-based product, TUCS will offer composite information on the policy asset allocations of plans in a universe.

The new TUCS service also will make it easier for clients to customize TUCS universes, and the data will arrive faster, he said.

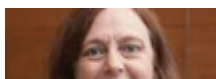
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