

LAZARD OUTSOURCES MANAGED ACCT OPS

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Lazard Asset Management has outsourced the operations for its separately managed accounts to Citigroup Global Transaction Services. It's the industry's biggest outsourcing deal to date, according to industry officials.

Citi will service all of Lazard's 40,000 accounts and \$13.6 billion in separately managed account (SMA) assets. Lazard, which is Citi's third deal, is ranked fourth by Cerulli Associates for SMA assets under management.

"We conducted a rigorous review of internal and external servicing options before selecting Citigroup," says Gerald Mazzari, COO of Lazard Asset Management, in a press release. "By outsourcing administrative and operating functions to Citigroup, we can confidently focus on our core competency: delivering superior investment management results and service for our clients."

Lazard has begun the process of transitioning its accounts over to Citi in what will be a three to six month process. A spokesman declines to comment on whether or not its existing operations staff will be displaced as a result of the deal. The asset manager's size could give Citi, which only entered this space at the beginning of the year, the scale it needs to bring on more clients.

"It is common for Citigroup – across all of its businesses – to use its deep pockets and internally-fostered competitiveness to win deals when either it is starting in a space or the space itself is getting started," says Dan Seivert, managing director of Los Angeles-based investment bank and consulting firm 3C Financial Partners. "Once it has an industry leading position in terms of clients and scale it then typically uses savvy cost management and pricing power to pull in industry-leading margins."

Seivert places the total number of outsourcing deals industry-wide dating back to 1995 at 22, with more than half coming this year.

Citi's three clients rank it at the top of the list of providers in terms of deals. The firm has also signed up Janus Capital and Vontobel Asset Management.

Citi's competitors in this space are Bank of New York with two deals, Bisys with two deals, JPMorgan with two, Mellon with three, PFPC with three, SEI Investments with three and State Street Corp. with three.

But the measure of profitability for these firms is the number of accounts they are servicing, which is information that managers often decline to disclose.

Industry sources say that the bigger deals prior to Citigroup-Lazard were ING Managed Account Group choosing Bank of New York, MFS Investment Management and TCW Investment Management going with SEI, and Neuberger Berman choosing PFPC. Most of the rest of the deals have come from new entrants or from existing SMA managers outsourcing only a portion of their business.

Seivert says that the industry is witnessing a flurry of outsourcing activity this year for three main reasons: the “seeds” planted 12 to 24 months ago by outsourcing providers marketing their services are beginning to “bear fruit,” managers that have outsourced are by and large pleased with the result, and an increasing number of managers are recognizing the “attractive economics” of outsourcing.

Managed Account Outsourcing Deals

Outsourcing Provider	Manager	Month/Year
Citigroup	Lazard Asset Management	Oct. 2005
Citigroup	Janus Capital	Oct. 2005
JPMorgan	Lee Munder Capital	Oct. 2005
JPMorgan	Gartmore Global Investments	Oct. 2005
Bisys	Fifth Third Asset Management	Aug. 2005
Mellon	Clover Capital Management	May 2005
PFPC	Chartwell Investment Partners	May 2005
PFPC	Hilliard Lyons Asset Management	May 2005
Bisys	Fiduciary Asset Management	May 2005
SEI	MFS Investment Management	Apr. 2005
SEI	TCW Investment Management	Apr. 2005
Citigroup	Vontobel Asset Management	Mar. 2005
State Street	Brandywine Asset Management	Feb. 2005
SEI	Transamerica Investment Management	Oct. 2004
PFPC	Neuberger Berman	July 2004
Mellon	Old Mutual Investment Partners	July 2004
State Street	State Street Global Advisors	2004
Bank of New York	ABN Amro Investment Fund Services	Oct. 2003
Advantage Outsourcing Solutions*	Henderson Global Investors	Apr. 2003

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Outsourcing Provider	Manager	Month/Year
Bank of New York	ING Managed Account Group	Feb. 2003
State Street	J & W Seligman	2002
Mellon	Dreyfus	2002
Mellon	TCW Investment Management**	1999
Mellon	Provident Investment Counsel***	1995

*Advantage Outsourcing Solutions is a subsidiary of Affiliated Managers Group and Rorer Asset Management.

**TCW switched to SEI in April, 2005.

***Provident is now an affiliate of Old Mutual, which chose Mellon for the rest of its manager affiliates in July, 2004.

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ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as “investment product developers and distributors” (IPDADs). Since that time, ECHELON’s professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON’s business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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