

## CITI WINS MANAGED ACCOUNT OUTSOURCING CLIENT

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Citigroup's fledgling managed account outsourcing business has won a new client.

Vontobel Asset Management has outsourced the back-office operations service of its separately managed account (SMA) business to Citigroup Global Transaction Services.

"We just want to be prepared for growth," says Fredy Nyffeler, Vontobel's CFO. "We couldn't continue to do it manually. It just becomes impossible."

Vontobel entered the SMA space about three years ago and has about \$120 to \$130 million in SMA assets, only a fraction of its overall business. But the U.S. arm of the Zurich-based Vontobel Holding AG, plans to grow in the SMA space as its U.S. value products grow. "When our value products will or should outperform, then we have a good chance to get into other platforms," Nyffeler says. Currently, Vontobel's products are offered on the Credit Suisse First Boston platform.

Outsourcing their back-end operations will help them grow, Nyffeler says. "They have specialists in processing. We have specialists in selecting stocks," he says. Nyffeler says that once Vontobel made the decision to outsource it "didn't look in detail at other [outsourcing] firms."

Nyffeler says the level of comprehensive services offered by Citigroup, along with their name recognition in the industry played a part in the decision. "It's a well organized firm with a very good product," he says. "We assessed that they'll remain in that space which is also important."

Citigroup started offering outsourced back-office services in December. While the firm would not list other clients or assets in its outsourcing services, a spokesman says Vontobel is not their first client. "We feel very confident we'll be able to succeed in this business," says Andrew Clipper, the director and product manager of Asset Manager Solutions for Citigroup Global Transaction Services. He adds that Citigroup's outsourcing business is "growing at a healthy clip."

The firm did not say how it will charge fees to Vontobel, but Clipper says Citigroup is flexible in its fee structure, based on the clients' needs. He claims Citigroup can base fees on assets, total number of accounts or a flat fee structure.

Clipper says an experienced staff recruited from leading investment managers will help Citigroup stay on top in the back-office outsourcing field. "We come from the perspective of 'how do we run this like an asset manager, not a back-office service provider'," he says.

Consultants in the SMA industry say firms have been slow to outsource back-office operations, but they predict growth in the next three to five years. "People are a little apprehensive in giving up control," says Steve Gesing, the principal of the consulting firm Gesing and Company.

But fees for SMA management have gone down, which means managers will need to find ways to cut costs. Many will find outsourcing their operations for SMAs as a viable cost-cutting method. "Anyone who wants to go to scale will realize they need a more expensive back-office system to operate," Gesing says. "To build the system is costly and to not have the system and do it manually is costly."

Daniel Seivert, the managing director of 3C Financial Partners, says there are about 230 SMA managers and only about 5% of those managers are outsourcing. In the next four years he predicts that number will go to 25% as more firms see giving up control of back-office operational costs as a significant cost saver. He points out that the outsourcing of mutual fund recordkeeping, and administration for retirement plans or mutual funds grew at a similar rate.

By Seivert's reckoning, there are eight outsourcing service providers right now, and across those eight providers there have been about 14 deals involving retail managed accounts, though the outsourcing firms may claim more clients by counting institutional managed account firms as clients. Outsourcing growth is slow right now because management firms "just don't understand what the economics are in their back office," he says.

Rivals for Citigroup in the outsourcing space include JPMorgan Chase, Bank of New York, BISYS, Mellon Financial, PFPC, SEI and State Street.

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**Daniel Seivert**

Managing Director

[dseivert@echelon-group.com](mailto:dseivert@echelon-group.com)