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Citi Names Head of New ETF Servicing Business

by Luisa Beltran

Citi has developed an investor services business specializing in exchange-traded funds and has appointed Jeffrey McCarthy, a former global ETF product manager at Brown Brothers Harriman, to lead the new business.

McCarthy, 34, joined Citi on March 1 after seven years at Brown Brothers. McCarthy is global ETF product head, a newly created role at Citi's securities and fund services business. He will be responsible for product innovation and market development and coordinating services across trading, distribution and administration.

"My goal is to establish consistent global offerings of ETFs that are geared to cover the whole product life cycle of an asset manager — to provide turnkey offerings globally across multiple domiciles," he says.

McCarthy will report to Chandresh Iyer, Citi's head of global custody and investment administration services. It is unclear how many people McCarthy will oversee. "We are in the process of building out the team," he says.

McCarthy says he joined Citi to take advantage of the firm's diverse global presence and various business lines — including capital markets, private banking, fund services and distribution — and apply them to ETFs. "It was a terrific opportunity to expand my ETF responsibilities in more depth," he says.

Citi, which has over \$12 trillion of assets under custody, competes with top fund service providers such as State Street Corp., Bank of New York, JPMorgan Chase & Co., Brown Brothers and Bank of Ireland. At Citi, McCarthy hopes to capitalize on the thriving ETF market, which has already hit \$1 trillion in assets under management globally. McCarthy expects the U.S. market to reach that level sometime this year. "We continue to see product expansion into new asset classes and domiciles," he says.

Several new providers are expected to enter the thriving ETF market. Eaton Vance recently filed with the Securities and Exchange Commission to offer actively managed ETFs, while JPMorgan filed for permission to offer both index-based and active funds. Goldman Sachs is also looking to offer passive ETFs.

Actively managed ETFs have gained considerable buzz, and McCarthy believes the area is ripe for growth and change. Passive ETFs disclose their portfolio holdings on a daily basis; there are several actively managed ETFs trading and all offer full transparency. In the future, McCarthy expects an asset manager to attempt to launch an active ETF that doesn't disclose its holdings. "Citi is actively engaging the industry on this front," he says.

John McGuire, a partner with Morgan Lewis, doesn't think asset managers will succeed in launching a nontransparent active ETF anytime soon. "The SEC is getting more conservative, not more liberal," he says.

Distribution is the biggest challenge to ETFs, McCarthy says. Exchange-traded products are a natural evolution of traditional mutual funds, but ETFs are distributed differently. They do not pay shareholder servicing fees like mutual funds. There is also an increasing effort to get ETFs on traditional fund and retirement platforms, while financial advisors are boosting their use of ETFs. But traditional fund platforms do not have an incentive to offer ETFs. "It's a challenge because those platforms are built around mutual funds paying servicing fees," he says.

McCarthy pointed to the 401(k) market as another area of growth. However, the recordkeeping platforms needed to support intraday pricing are one of the obstacles holding back ETFs. Recordkeeping platforms were designed to support mutual funds, he says. "The industry is trying to adapt to intraday pricing and characteristics of an exchange-traded product," he says. "These are one of the areas we would like to look at."