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Four New SMA Outsourcer Deals Bury a Slow '09

By Tom Stabile

Barely one month into the New Year, four new separately managed account operations outsourcing deals suggest this market has more life in it than all of 2009, when announced deals were few and far between. It's unclear, though, whether the new deals are merely a fleeting spike in activity or a long-awaited wave of SMA managers handing over distribution technology matters to specialists.

Two firms that are now leaders in the space – Citigroup's Global Transaction Services unit and Market Street Advisors – have grown their client rosters, and one of the deals stole from another major rival. Citigroup's outsourcing unit announced that it has added RiverFront Investment Group, an SMA manager in Richmond, Va., that launched in 2008 and had used SEI as its outsourcer until now. And Citigroup says it already has two other SMA outsourcing deals in 2010 with other managers that it can't announce yet.

Meanwhile, Market Street signed up Tactical Allocation Group (TAG), a manager in Birmingham, Mich., for a broad deal covering SMA, private wealth and institutional account outsourcing.

Citigroup and Market Street also were the SMA sector's most active outsourcers, at least in terms of public announcements, in 2009 compared to their four main competitors – SEI, PNC Managed Investments, BNY Mellon Asset Servicing and JPMorgan. But no one had a blockbuster year, and the Wild West atmosphere from earlier this decade – when a slightly larger pack of rivals scrambled for what they all expected to be a big business – is now a tamer environment.

One opportunity that may be perking up, however, is the move of SMA managers from one outsourcer to another. Including Citigroup's poaching of an SEI client, at least six of the announced deals in the last 18 months involved managers swapping outsourcer horses, a phenomenon that was rarer before, mostly because the SMA outsourcing business only took off in 2002 and 2003 with managers that were all new clients.



Chandresh Iyer

Citigroup now has 13 SMA market outsourcing clients and three more SMA market deals in implementation, says Chandresh Iyer, global head of custody and investment administration.

The firm won three new SMA manager clients in 2009, though one of the deals was for more limited services than usual from Legg Mason. Another was for Calamos Investments and stretched from SMA to institutional business. Citigroup declines to name the third client.

About half of Market Street's 20 clients are in the SMA and private wealth markets, though most of its business is for managers that span across multiple channels, including institutional investors, says Bevin Crodian, the firm's CEO.



Bevin Crodian

Market Street last year had two SMA market deals and a third in the private wealth market, which essentially is for managers that provide their strategies to boutique advisory shops serving high-net-worth individuals but not to the broader SMA market dominated by the wirehouses and other big brokerage sponsors.

“In this business, if you can close one deal a month, you’re blowing the doors off,” Crodian says. “Through the first half of 2010 at least, we’re on track to do that.”

Two other players – PNC and BNY Mellon – announced adding SMA managers in 2009, but another, JPMorgan, does not appear to have announced a new client since 2007.

Informal tallies show Citigroup, SEI, and Market Street have hit the double-digit mark in clients – none above 20 – while the other three are still under 10 clients.

Citigroup’s Iyer says he sees a new driver for managers to seek SMA outsourcers – beyond the classic motivation of trying to offload the expense of managing technology needed to deliver investment strategies to a big scale brokerage and hundreds or thousands of clients. “The next wave of outsourcing is being driven from more of a growth-enablement standpoint, not just to reduce costs,” he says. “Some of the smarter asset managers are looking at trading capabilities and other features, such as better risk management and compliance, that can allow them to grow and differentiate themselves.”

Iyer says Citigroup is preparing to publish a white paper that will detail how efficiencies in investment operations from outsourcing can help managers “capture 150 to 200 basis points in performance improvement for the end client.”

But a desire to escape the high fixed cost of managing distribution technology remains a big factor in managers selecting outsourcers, especially with projections for a flat stock market, and therefore stagnant asset management revenue, says Market Street’s Crodian. “You’re seeing a dramatic increase in interest from many quarters – startups, spinoffs, firms that were doing it all in-house,” he adds. “Not everybody is signing up, but the level of interest is very high now.”

Both Citigroup and Market Street say they’re also seeing more managers trying to consolidate their operations outsourcing across channels with one provider that helps to distribute their strategies to SMA, institutional and other markets.

Crodian says the TAG deal cuts across multiple channels. The firm manages about \$244 million in assets, according to its most recent Securities and Exchange Commission filing.

In Market Street’s announcement of the deal, a TAG representative cites anticipated growth of new business as its motivation to look for an account management outsourcer.



Andrew Clipper

Citigroup’s Riverfront deal entails a fast-growing SMA firm that now has \$1.5 billion in assets across 4,000 accounts in less than two years of operation after its principals exited from Wachovia Securities, as previously reported.

“We ran into them at one of the conferences and had a chat,” says Andrew Clipper, director in the Investment Administration Services division of Citigroup’s global transaction unit. “They indicated they were growing very rapidly and were looking for more modern capabilities associated with order management and account servicing and trade-away capability.”