

As Trust and Wealth Management Converge, Technology Becomes Critical

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Summary

As fiduciaries embrace householding, the personal trust channel is increasingly converging with the agency wealth management business. In order to best complete this transition, fiduciaries need a robust, cutting-edge technology solution capable of taking a holistic view of client assets across multiple accounts, managers and vehicles.

Trust Management Responds to Market Conditions

Like much of the financial sector, the personal trust channel is at an inflection point. While potential tax

changes and disruption of market share during the financial crisis have created opportunities for fiduciaries, capitalizing on these tailwinds hinges upon harnessing the power of technology for integrated wealth management. If technology was previously considered more of a “nice to have,” Citi asserts that truly integrated wealth management is simply impossible without a cutting-edge wealth management technology.

Such an assertion is borne out in both top-line data, and in comments from industry professionals. For example, even as overall personal trust assets actually declined by 16.1% from December 2001 through

September 2010, third-party managed assets rose by 7.1% over the same time period. As a result, the percentage of personal trust assets that is managed by third parties rose from 23.1% in 2001 to 29.4% as of September 2010. This data is proof positive that investors are increasingly demanding best-of-breed solutions, both in terms of selection of outside managers, as well as access to mutual funds, exchange-traded funds (ETFs) and even hedge funds.

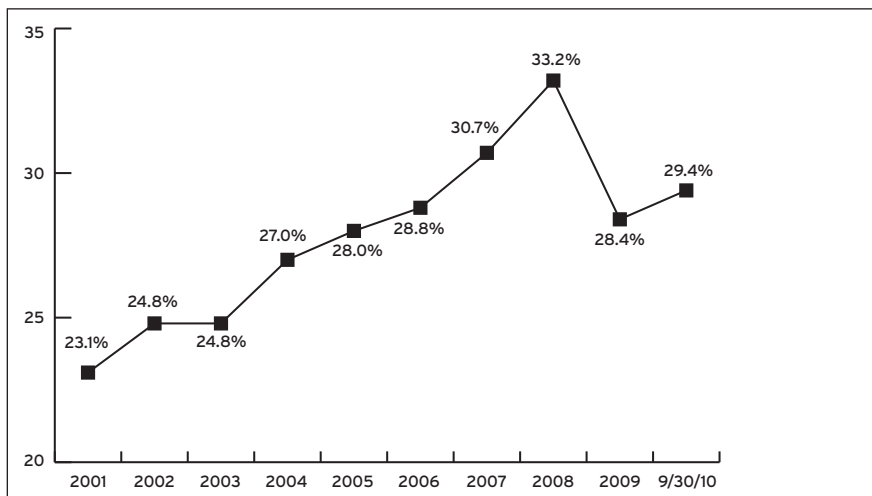
At a broad level, banks have a reputation for being reluctant to spend money on technology, especially beyond the basic requirements for transaction processing and reporting.

In its January 2011 report *IT Spending in Banking: A North American Perspective*, Celent paints the following portrait:

“Byzantine legacy systems pervade banking and are a critical component of operations. Although banks have been working toward improving the ratio of their spending, maintenance still occupies the overwhelming majority of the IT budget.”

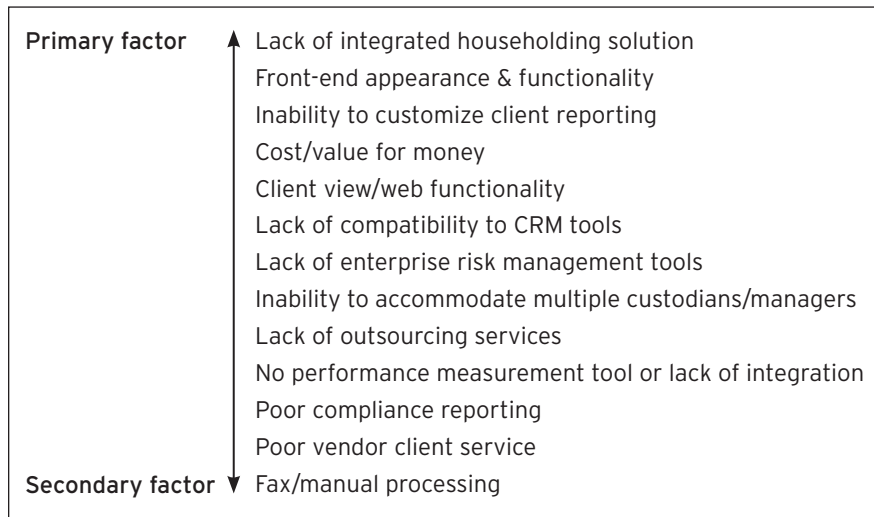
Percentage of Trust Assets Managed by Third-Party Managers, 9/30/2010

Source: FDIC



Largest Sources of Frustration with Current Trust Accounting Solution, 1Q2011

Source: Citi analysis



Meanwhile, Citi's own research on the trust channel reveals that trust professionals are increasingly frustrated with their existing technology. Based on a series of anonymous conversations, trust professionals repeatedly emphasized the lack of true householding technology as a major limitation of their current trust accounting systems. Moreover, some of the secondary limitations of current technology, such as inadequate reporting technology, inability to offer links to multiple custodians and uneven experience between trust and agency business, could be alleviated with an effective householding solution.

Householding: Delivering Holistic Advice

Given the tendency for the term to be tossed around loosely, Citi believes that it is critical to define what householding means. Paul Ahern of Winslow Capital Group, LLC, an institutional consultant providing counsel to the bank-based, wealth management industry, elaborates, "[t]here's a lot of frustration in the wealth space because every provider describes householding differently... you ask ten providers, you get ten definitions, each to suit whatever they're selling." Citi defines unified managed householding as being able to provide optimization across the

whole portfolio, including multiple vehicles (mutual funds, ETFs and individual securities) and all account types (personal trust, brokerage and retirement). Householding can be thought of as an extension of the unified managed account across all of the individuals in one household, or otherwise defined family of accounts.

Moreover, a critical component of true householding is that it must offer wealth managers and their clients the ability to integrate all assets across the front, middle and back office. For example, while unified reporting is clearly an important component of any householding technology, a true householding solution must also be forward-looking. One trust company president told Citi that "We can get pretty good relationship views from our portfolio accounting tool, but we can't change the strategy across the spectrum of accounts. We have to change it a single account at a time." Householding should allow wealth managers to gather information, take the necessary action and report on the results. Hypothetically, if a 200% rise in the price of Stock A triggers valuation concerns, trust professionals need a family-wide view across taxable and nontaxable

accounts, including positions held at accounts managed by outside advisors. Once this information is gathered, a truly integrated offering will allow the advisor to place trades in a more efficient manner, considering tax lots, liquidity needs and other strategic objectives.

In prior decades, trust departments could skate by relying on closed architecture, limited product set, with little regard for “asset location,” or the interaction of chosen investment vehicles and type of account (e.g., taxable) in which they are held. Yet the past ten years have witnessed phenomenal change, including not only two bear markets and a near collapse of the financial system, but also in terms of tremendous innovation in portfolio construction. “The householding function is critical,” explains one trust company executive. “Nowadays, clients expect access to all asset classes, multiple custodians, and multiple managers, with the ability to monitor them in real time.” As the needs of trust advisors change, so must the technology used to empower them. “As our business has changed from being only a fiduciary, to providing

full wealth management,” one senior vice president explains, “that requires a different product set,” which in turn creates pressure points for the trust accounting system. Access to products such as hedge funds will be expected by wealthy clients, yet create headaches for the trust accounting system. “Taxes have become more complicated, with hedge funds issuing K-1s,” explains one trust company founder. “The platform must be flexible enough to receive and process pertinent information from a variety of sources.” More basically, trust officers – just like other advisors – need a holistic solution for considering the entire wealth picture, even if not advising on 100% of a client’s assets.

A final consideration for trust professionals should be just how mission critical an integrated technology solution is for their own enterprise risk management. Fiduciaries can leverage the same technology used to aggregate client portfolios across managers, vehicles and accounts to monitor their own book of business in terms of agency vs. trust, traditional investments vs. alternatives, or other pertinent criteria. Such reporting could not

only improve day-to-day functionality, but offer insight for strategic considerations, such as M&A activity.

Partnering for Trust Solutions

The convergence between the trust and broader wealth management business is undeniable. Making the transition effectively will require fiduciaries to embrace technology solutions that will deliver a truly holistic client experience, and to identify a provider with an aligned vision of growth. Citi’s OpenWealth solution offers award-winning unified managed household capabilities for a front-to-back solution that eases key operational and administrative burdens, allowing managers to focus on building relationships and growing their business. Open Wealth delivers trust accounting on a highly scalable, customizable web-based platform with real-time processing and reporting that supports all phases of the account administration life cycle. With the breadth and depth of Citi’s experience servicing institutional and wealth assets, OpenWealth also offers an exceptional custody service with access to a global network covering

over 92 markets and full operations outsourcing. Through its Securities and Fund Services business, Citi's industry-focused experts provide institutional investors worldwide with tailored solutions delivered through proven global platforms that feature modular, open architecture. With over \$12 trillion of assets under custody and the industry's largest proprietary network, clients can leverage Citi's local market expertise and global reach to extract value across the entire investment value chain.

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