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Managers to Win \$10T in Trust Assets: Study

by Tom Stabile

Half of the trust companies nationwide will move investment management to outside providers by 2017, according to a new report from Celent. And all \$1.5 trillion of the trust assets in "agency accounts" held by high-net-worth investors will be the first and fastest to move to outside money managers, says Robert Ellis, Celent's senior v.p. of wealth management and the report's author.



The trust providers collectively control about \$20 trillion in trust assets, though about half of those are housed in accounts that are legally too restrictive to ever move to outside managers, Ellis says. But the vast majority of the other \$10 trillion in assets will eventually move as the trust industry adopts open architecture for investment management.

In addition to the 50% of trust banks and companies that will outsource investment management, 33% will outsource technology and operations, the "Trust Company Outsourcing" report asserts. Those trends would coincide with a consolidation of trust providers from the 1,856 today to 1,200 by 2017, Ellis says.

Such outsourcing will also mark a significant change from 2008. "Today, it's under 5% of trust companies outsourcing investment management," Ellis says.

The "agency account" trusts, which are the closest to investment management-style accounts in structure and belong to individual clients, could easily be moved to outside money managers, Ellis says. Other trusts pertain to defined benefit plans, community organizations and churches, and other types of institutional investors, though some are in formats that also could move to outsourcers, he adds.

About 10% of the "agency" trust monies, or \$150 billion, already use some sort of professional third-party money management, but the other \$1.35 trillion is likely to shift faster than other types of trust assets to outside managers, Ellis says. "That's the [trust business segment] most directly competing with wirehouses and [independent registered investment advisors]," he adds.

The report forecasts that many trust providers will turn to intermediaries that provide turnkey investment platforms, rather than to the third-party money managers themselves, and names six firms as the market's most prominent - PNC's Church Capital Management, Concord Wealth Management, Fortigent, GlobalBridge, SEI, and Wright Investors' Service. Ellis says that nearly \$80 billion in trust assets would flow to those types of firms by 2017 from the smaller trust banks and companies that are most likely to tap outsourcers.

The expectation of a large-scale shift of trust assets to outside investment managers - and particularly to separately managed accounts (SMAs) and unified managed accounts (UMAs) - is the backbone of Concord's business, says Nicholas Mariniello, the firm's executive managing director.



"The shift [to outsourcing platforms] has definitely gained traction and the momentum is building," he adds. "Five years ago, the number one conversation was whether we do open architecture. Now, it's 'How do we do it?'"

The Celent report states that most trust companies today remain reluctant to embrace open architecture or outsourcers for investment management, largely because of a culture that has been built on closely controlling client investments. "Celent believes that these types of excuses will rapidly fall by the wayside," the report states.

Ellis says most banks are "warming up to" the concept of open architecture investing - and the notion of using outsourcers to package the products - due to several factors, including competitive pressures from brokerages and independent advisors that may offer better performance and asset allocation diversity.

"The pressure might not be just from the market," Ellis adds. "It could be from the bank's own clients, or it may be the CEO of the bank itself."

Ellis says the smaller community banks will be the most likely to use outsourced platforms, along with "second-tier" national banks such as Comerica and Zions Bank, which are likely to be able to move faster than the largest banks nationally.

Concord's Mariniello says firms already focused on offering outsourcing to banks have a significant edge over others providing investment management platforms. "You need the flexibility to interact with many different types of data feeds and portfolio accounting systems," he says. "And the culture is vastly different from the brokerage and the [independent advisor] world. It takes a while to build the systems and to learn how to interact with those people, because they have a different approach and philosophy and history of managing money than in the brokerage world."

While banks have fallen behind other wealth managers in terms of adopting SMAs, Mariniello says he expects the vast majority of banks that shift to open architecture will make the leap directly to UMAs, the latest generation of managed products that consolidate vehicles such as SMAs and mutual funds into a single client account.

"They were definitely a decade behind," he adds. "Now they're stepping onto the same playing field."

Ellis says he hopes banks will adopt UMAs, though he says some may opt for SMA-only platforms because they are cheaper options.

The Celent report also states that SEI appears to be unique in that it is a leading outsourcer for both investment management and technology systems, and that it is providing an integrated package of those services to the bank market. It outlines how that integration could be attractive - by simplifying transactions and custody - as well as a turn-off, because banks might view having a single outsourcer as a "significant loss of leverage" and control over client accounts.