

Investment operations outsourcing

As investment managers re-examine their business model, focus on product innovation, and pursue higher levels of investment performance, achieving operational efficiency becomes even more essential. A new wave of operational outsourcing is emerging to take in high value-added activities and requires a new client solutioning approach.

Following the financial crisis, we have seen major shifts in the financial markets which have and will continue to cause investment managers to reconsider their business models, as they look to maximize the opportunity to successfully adapt for the future.

Regionally and globally, declining asset values have caused a significant reduction in revenue for investment managers. As a result, many investment managers are reviewing their product range, their operational model and the infrastructure used to support their business.

Review of the product range may include closing funds that are no longer considered economic due to reduced asset values or combining funds where strategy permits. It may include launching new investment vehicles, such as hedge funds and private-equity funds; or new products that take advantage of innovative investment ideas, including the use of complex derivatives or investing in new and emerging markets.

From a customer perspective, investment managers may be looking at amending fee structures to provide lower investment costs to investors or structuring fees to be in line with investment outperformance, with the expanded use of performance fee

calculations. Investment managers are also responding to regulatory changes including short selling restrictions. Finally, investment managers may be reviewing their operational infrastructure for efficiency and suitability to support new and complex investments.

Streamlining operational processes

As investment managers introduce increasingly complex products and alternative fee structures and review their business model, we have noticed a significant change in the types of requests we receive from our investment management clients. No longer do they come to us with a specific requirement, but instead, clients prefer to discuss business opportunities more broadly, and leverage Citi's experience, product knowledge, and investment administration suggestions to create a tailored operational solution that fits their business.

Today, the dialogue is shifting to what middle- and back-office support systems and operations can be outsourced, and by so doing, will free up the investment manager to focus on what's driving their company's success – building revenue and meeting the needs of their clients.

By offloading non-core support

functions to an expert, investment managers can gain the flexibility to focus on building underlying value. With Citi's modular solutions for middle- and back-office, investment managers can standardize control processes and leverage state-of-the-art platforms for product flexibility. A new operational model based on utilizing best-of-breed platforms characterized by modular and flexible services with custodians is emerging.

Investment Administration Services

Integrated within Citi's Securities and Fund Services, Investment Administration Services (IAS) provides innovative middle- and back-office solutions for investment manager clients around the world. IAS integrates best-of-breed systems into a global operating platform, standardizing operational processes and providing timely and comprehensive data to client systems and decision processes.

Citi's IAS operating platform includes specialist applications for trade operations, valuation reporting and data management that feed into workstreams including cash management, corporate actions, compliance monitoring and performance and attribution.

Citi's IAS platform is unique in that we

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provide consistent global platforms, regional services, local reporting and worldwide time-zone coverage. Through our 'centers of excellence', Citi's global processing infrastructure delivers scale and efficiency, a robust control environment, and globally consistent processes and procedures.

Our regional securities processing center in Singapore supports our clients' middle office operations with confirmation and settlement processes for all Asia Pacific trades executed by clients in any country globally. Citi can support clients' middle office trade support in any location, wherever they want to invest and in a consistent manner, with local staff in each geographical region using a 'pass the book' process with a 24 monitoring service for trades.

The trade operations module combines with comprehensive valuation reporting and administration services which can be tailored to the client's requirements, supported by a flexible customer service model to ensure timeliness of information to the investment manager and the various requisite workstreams.

Citi has also expanded its capabilities in hedge fund and private equity administration. We recently introduced hedge fund middle office services as specialist products to support alternative investments. These expanded services can be combined with Citi's banking products to provide investment managers with the best available investment servicing solutions to allow their business to grow.

Combined with Citi's Securities and Fund Services' processing infrastructure and the industry's largest proprietary network, we offer globally consistent services tailored for local markets, powered by global technology platforms. We leverage our global network and deep local knowledge to provide comprehensive yet flexible solutions, ranging from clearing and settlement to administration of complex investments.

A new approach: client solutioning

At Citi, we recognize the importance of guiding clients through the available options. Through a global strategy of "integration over manufacturing", we combine our proven, modular technology with robust integration capabilities to deliver a customized solution to our

CITI'S CLIENT SOLUTIONING APPROACH

When designing a solution for an investment manager, Citi's Client Solutioning approach will include:

- Understanding the investment manager's current business footprint: levels of automation, resource requirements, control processes, specialized products, transaction volumes, and manual processes
- Their strategic business objectives: launch of new products, new investment markets, new distribution channels, growth opportunities
- Their operational objectives: costs, new product features, control framework, time to market, new information requirements, system replacement
- Citi's solutions to help the client maximize the current experience and provide the platform to contain costs as well as enable growth

investment management clients. Solutions frequently combine a range of products and markets, stretching from broking, custody, hedge funds, private equity, middle office, distribution, fund administration, prime broking, futures clearing, and cash management.

In recognition of the complexity and the scope of services clients increasingly require, Citi globally introduced in early 2009, a Client Solutioning approach within the Securities and Fund Services business to develop and deliver the seamless integration of services into clients' own processes. The basis of Citi's Client Solutioning approach is to understand each client's unique requirements and develop tailored solutions for the client's middle- and back-office with the goal of enhancing the investment manager's growth through innovative, open-architecture solutions.

Summary

In today's rapidly changing global marketplace, success requires an unwavering commitment to achieving your business and investment objectives and those of your clients. Increased market expansion, new and complex investment vehicles and a myriad of regulatory and compliance issues not only bring about opportunity but significant challenges. Meeting your business objectives – whether it be market expansion, product innovation, improved client service, or risk mitigation – requires significant capital investment and a high level of technological and operational support.

At Citi, our approach is to support our

investment management clients with their various business objectives with innovative middle- and back-office solutions, and working together to achieve the best results. With Citi as your business partner, we can design the correct blend of solutions to enable you to meet your business objectives.

Citi was named Best Middle Office Service Provider in Asia Pacific in AsianInvestor's Service Provider Awards in 2008.

Citi's Securities and Fund Services

Citi's Securities and Fund Services infrastructure is defined by the industry's largest proprietary network, with branches now spanning 57 markets worldwide, including 15 markets in Asia Pacific. We are the largest custodian of cross-border assets with nearly \$11 trillion of assets under custody and trust. ■

CONTACTS

Kay Sprague

Asia Pacific Head of Client Solutioning,
kay.sprague@citi.com

Harle Mossman

Asia Pacific Head for Investors,
harle.mossman@citi.com

For more information, please visit
www.transactionservices.citi.com