



INTRODUCTION

TOP OF THE CLASS

Gaining client trust means not only offering excellent portfolio construction and investment opportunities but also a commitment to open architecture

In today's marketplace, open architecture is a necessity for any private bank that aspires to be a client's trusted adviser. Furthermore, open architecture is a competitive requirement for a private bank as today's sophisticated clients demand tailored offerings, customised services and best of breed products.

At its most simple level, open architecture is an offering that combines both proprietary and external products. However, open architecture is much more than a diverse product offering, it is a mentality. It is an approach that changes radically the role of the private bank. Whereas in the past private banks have been seen as distribution

channels as much as product providers, open architecture gives private banks the opportunity to develop their full added value as a client's investment adviser.

» CLIENT SOLUTION

The commitment to best-in-class offerings must be expressed not only in portfolio construction and investment opportunities, but in the way the private banker approaches the client solution.

In today's financial marketplace, the easy investment

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options of yesterday are gone. The constant innovation and transformed depth and breadth of the market present the client with numerous opportunities and challenges, each of which is characterised by complexity. The private banker's role is to be a trusted adviser guiding the client through this maze.

This is determined not only by questions of liquidity, risk management and asset allocation, but just as importantly "how good is this product that we are showing to our client?". For a relationship of trust, both the client and the private banker must be able to answer this question positively. A commitment to open architecture, combined with a rigorous management selection process, makes this much more likely.

The top tier of private banks has moved beyond open architecture as simply a gateway into the marketplace for the client. Institutions are adding value through manager selection and due diligence, offering a best-in-class platform through which the institution puts its offering, fulfilling the role of trusted adviser.

Of course, this means that open architecture can be a double-edged sword: while there are clear benefits, if the process of quality control is not thorough enough, it can fatally weaken the client relationship.

So it is important to understand how the manager generates outperformance. The manager selection process should include a complete look at the firm's culture, leadership skills and the ethics of the investing professionals to ensure that the offering is the right one for high net worth individuals.

» ADDING VALUE

The source of excess returns (or alpha) must be analysed for its sustainability. It is vital to identify managers that can consistently add value while investing assets in line with the client's objectives, preferences, and constraints, whether managed in-house or externally by a niche or institutional manager.

The investment goals of the high net worth client are often different to those of the retail or institutional client. Products that may be right for pension funds, endowments and insurance companies, may not be as attractive for high net worth clients.

Concepts of access, alpha and absolute return are mentioned at least as often as benchmark returns. Private banks must recognise this in their product offerings, showing clients not only benchmark referenced products,

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but also products that reflect the absolute return goals of their client base. Open architecture allows private banks to structure investment solutions on this basis.

Central to capital appreciation is the concept of alpha – manager value-added. True alpha generation is rare, and found only in the very top tier funds. From mutual funds to hedge funds and private equity, the ability to access this top tier of managers is the differential that sets private bank product offerings apart.

Over the past 20 years, US leveraged buy-out funds have returned an internal rate of return (IRR) of 12.4 per cent on average, good returns for an asset class, but compare that with the top quartile of managers that have returned an IRR of 48.3 per cent. The private bank committed to open architecture will be the bank that can bring those top tier offerings to their clients.

At a successful private bank, best-in-class products should be central to client solutions. Combining our global reach and pre-eminent product relationships, we are able to leverage our franchise to bring clients the best products in each asset class.

Our philosophy is to look for managers with the proven ability to generate alpha over three, five and seven years. Underperformance over a quarter, or even a year, is something recognised as a necessary by-product of a manager's pursuit of alpha – to generate returns over the market a manager has to be contrarian in his investment philosophy. If the long-term story and track record of the manager remains strong, so does our commitment.

It is clear that no single institution has a monopoly on best-in-class solutions. It is the role of the trusted adviser to bring the resources of manager selection, portfolio construction and the ability to access these managers together in order to offer the right client solution.

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» CORPORATE STATEMENT

The Citigroup Private Bank, one of the largest private banking businesses in the world, provides personalised wealth management services for clients through 126 offices in 90 cities in 37 countries. The Citigroup Private Bank offers unmatched global reach, coupled with a full range of portfolio management and investment advisory services from Citigroup Asset Management, an array of structured lending and banking services, as well as expertise from the Global Corporate and Investment Bank. Citigroup Private Bankers act as financial architects, designing and coordinating insightful solutions for individual client needs, with an emphasis on personalised, confidential service. The Citigroup Private Bank provides services and products through various Citigroup affiliates. Not all services and products are available at all locations.



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