



## UBS, Citi Expand SMAs in Charitable Funds

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By **Tom Stabile**

**UBS Financial Services** and **Citigroup**'s wealth management divisions are rolling out donor-advised fund structures that could send more assets to separately managed account managers. UBS launched its first in-house donor-advised philanthropy fund last month and Citigroup is planning upgrades to an existing program.

The moves may signal a new era for the two-decade-old donor-advised funds market, which was dominated for years by providers using proprietary mutual fund products but is tilting toward open architecture investing, and more products options.

The funds allow individuals to donate assets into what is essentially a holding vehicle to issue grants to qualified charitable organizations at a future date, offering a tax break up front without requiring the donor to decide what cause or organization gets the money right away. While the individual technically loses control over the assets, which belong to the sponsoring organization running the funds, most are structured to allow the original donor to have virtual control by "recommending" where to distribute the monies, how fast to spend down assets, and to some extent how to invest them.

The increasing use of non-proprietary managed account products by the fund sponsors isn't expected to produce an avalanche of new business for SMA managers, in large part because donor-advised funds are essentially designed to help clients give away assets. But the opening still could help managers deepen business relationships with big financial services distributors.

"I'm not sure that I see it as a fast-growing area for managers," says **Ben Poor**, a director at **Cerulli Associates**, a Boston-based research consultant. "I see it as an area of opportunity but probably one that is baked into the larger relationship with a [distributor]."

Offering wider investing options could also attract clients to the donor-advised fund structure. That was the thinking at UBS, which responded to feedback from donors, says **Bill Sutton**, head of philanthropy for the firm's U.S. wealth management arm. It chose to partner with the **National Philanthropic Trust** (NPT), a charity that helps to operate donor-advised funds.

"We were able to see what has been successful and what has not been successful," Sutton says. "Most donor-advised funds have been single-fund families, and we wanted to offer many more options. And on top of that, there is no UBS product here. It is all non-proprietary."

The program launched on Nov. 1 and already has dozens of donors. Sutton says the firm hopes to grow assets up to \$500 million from hundreds of UBS clients over the next several years.

The program aims to stand out to donors by going beyond the typical investing options, offering

global charitable destinations, and accepting a wide range of donated assets, Sutton says. Donors can start a fund with \$25,000 that allows access to a slate of exchange-traded fund (ETF) investments. Funds with \$250,000 can add access to a selection of mutual funds, and at the \$1 million level, they can tap into SMAs. At the \$5 million level, the funds can access any investment available to UBS financial advisors, including alternatives, funds-of-funds, commodities, and other options.

Sutton says there are about a dozen managers available for each type of investment on the product menus, with the SMA roster including strategies such as **Marsico Capital Equity**, **Eaton Vance Value Fund**, **Boston Trust & Investment**, **JP Morgan International**, and **PIMCO Total Return**. UBS hopes to expand the roster of SMA strategies available to donor-advised funds as it builds up the program, he adds. In most cases, the funds will follow allocation guidelines determined by the amount of assets and the donor's preferred gift distribution rate.

The Citigroup program is heading in a similar direction. It originally used only in-house mutual funds, but several years ago expanded to a wider selection of third-party SMA and mutual fund products, says **Melanie Schnoll-Begun**, managing director for philanthropic services in the firm's global wealth management unit, which includes **Smith Barney** and **Citi Private Bank**. Now, Citigroup plans to expand access for all donor-advised funds by the end of the year to its recently launched SelectUMA program, which has a large roster of SMA, mutual fund, and ETF investing options.

"The platform will also allow us to offer much more choice at a reduced cost," Schnoll-Begun says. "We're just in the process of moving clients over."

The overall donor-advised fund market has been growing quickly in assets in recent years, says **Andrew Hastings**, v.p. for external affairs at NPT, who just completed a new report on the sector. As of last year, there were 152 groups sponsoring donor-advised funds, including 38 run by "national programs" such as financial companies or charities like the NPT. The \$27.7 billion in donated assets at the end of last year was up 21% from a year earlier, and more than doubles the \$12.9 billion from 2003, the report says. The average fund size is \$225,875.

The report states that professional advisors are driving most of the growth in creating donor-advised funds, largely through the 38 national programs. Hastings says the largest in the marketplace are also among the oldest – the **Fidelity Charitable Gift Fund**, the **Vanguard Charitable Endowment Program**, the **Schwab Charitable Gift Program**, and NPT's own program, which includes assets from partner firms such as **JPMorgan** and **Morgan Stanley**. Other large ones are run by **Goldman Sachs**, **Merrill Lynch**, and Citigroup.

But while the top programs have done well in collecting assets, new fund launches have been less common than they were about six to ten years ago, says **Eileen Heisman**, president and CEO of NPT since 1998. During one 13-month stretch from October 2001 to November 2002, FundFire reported on new donor-advised programs rolled out by **SEI**, **Bank of America**, **Northern Trust**, **Franklin Templeton**, **Fred Alger Management**, Goldman Sachs, Citigroup's Smith Barney, Morgan Stanley, and the **Calvert Group**, among others.

"Everybody had the idea that it was going to grow as fast as Fidelity's, and when a lot of folks saw it wasn't growing at that speed there were cold feet for a while, where they shelved it or didn't invest in the programs," Heisman says.

Firms that didn't succeed were the ones that latched onto the funds as a "me-too" or defensive move, adds NPT's Hastings. "There are clearly market leaders and market laggards," he says. "You can't think, 'If we open it, money will pour in.' You have to market it like any offering you have, and you need a lot of advisor and donor education."

In its 12-year history, NPT has given grants totaling \$715 million to charitable institutions, and currently has \$670 million in donated assets. Citigroup's program has \$430 million in contributions and has made about \$160 million in grants.