

Driving productivity in the front office

An overlooked opportunity?

WHITEPAPER

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Considering the record numbers coming out of the financial markets recently, you might think these would be Champagne days for asset and wealth management firms. Success, however, has a way of breeding its own kind of pressure.

A number of factors are driving asset management firms to rethink their front-office operating models. Chief among them are financial concerns. Even as the markets' momentum is reportedly bolstering asset managers' operating margins, increased competition and questions about fees continue to put pressure on their underlying revenues, while escalating costs are eating into profitability. As one global fund manager told Forbes magazine, "Investors don't want to pay as much. There is competition for their business."

There is also competition for good portfolio managers. Recruiting and retaining talent, and providing them with tools to keep them productive and satisfied in their work, are key priorities.

Managing a more complex asset mix

Coupled with the fee pressures firms face is the proliferation of passive investment strategies, notably ETFs. As Barron's reported in September, 2017, "2017 Will See The Most Money Shift To Passive Investing, Due Largely To Fees." Clients are shifting en masse to index-based funds." According to the Investment Company Institute, net issuance of ETFs set record highs in 2017, outpacing the prior year in just the first three quarters. In addition to looking for ways to diversify their products, discretionary asset managers continue to be pressured to either reduce or rationalize fees in order to compete with passive alternatives in the marketplace. This requires the asset managers to offer more products while controlling the cost of doing so.

Speaking of ETFs, they are just one example of the increasing diversity of instruments and products investment managers' are building these days. Firms need solutions that can support escalating trading volumes in an expanding array of new, often complex investment vehicles, as well as geographic markets. In response to changing client demands, asset managers are trying to diversify the products they offer to remain competitive, with varying degrees of success.

Demographic and digital transformation

In the wealth management world, shifting demographics are foreshadowing fundamental changes in the industry. A recent Cerulli report characterized the wealth management industry as "aging baby boomers serving aging baby boomers." The profession faces a looming talent shortage as more and more advisors opt for retirement. Meanwhile, the emerging generation of wealth accumulators places less value on hand-holding than on instant access to information. The surge in automated investment platforms ("robo-advisors") has not been the earth-shaking disruptor many advisors feared, but it has forced traditional firms to figure out how to use technology more strategically to compete in a changing market.

The common need across both asset and wealth management is the ability to handle growing transaction volume, increased complexity and competitive challenges while containing costs—meaning various operational costs including staff and labor. During the previous decade's financial crisis, when staff cutbacks were prevalent, this was often described as "learning to do more with less." In today's less volatile but more competitive environment, it's more a matter of empowering people at all levels to be as productive as possible.

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Shifting the focus

Firms have made substantial investments in technology to increase productivity, reduce manual processes and manage complexity without significant additions to headcount. Most of these investments, however, have been focused on back- and middle-office operations that lend themselves easily to automation. In light of today's pressures, it's time to look at the front office, where the revenue is actually generated, and find ways to optimize the productivity of a firm's most highly-valued talent, namely its portfolio managers and advisors.

In order to derive the benefits of increased productivity in the front office through automation, firms need to recognize which aspects of the portfolio manager's job can be automated and identify technology gaps in the workflow between investment decision-making and trade execution. Portfolio managers are hired for their investing acumen and strategic thinking, yet much of their work day is taken up with laborious manual tasks.

Analyzing portfolios for strategy drift, for example, often involves running reports from the portfolio accounting system and eyeballing each position in each portfolio. Once a portfolio is deemed out of line with its stated strategy, the manager needs to make trading decisions that will rebalance the portfolio and bring it back into line. Managers are often reliant on spreadsheet-based calculations to help make these determinations. Trade

instructions must then be communicated to the trading desk for input into the OMS.

The opportunities for automation and integration become readily apparent. Automating workflows around portfolio modeling, portfolio construction, rebalancing and trade creation offers the opportunity to increase the portfolio manager's productivity while making more effective investment decisions and implementing them in a timely manner. As profitability is being squeezed, stronger integration across systems is a way to streamline front-office processes and keep both labor and technology costs in check.

Active capabilities for passive times

There are, of course, technology solutions on the market for portfolio modeling and construction, asset allocation and rebalancing. Usually these are stand-alone systems that require manual intervention or a high degree of custom integration to complete the process from decision to execution. This is less than ideal and can create latency in the trading process.

In today's changing environment, many firms are pursuing a mix of passive and active management strategies in order to diversify their offerings and sustain a competitive edge. Much of the appeal of such vehicles as ETFs is that they are by nature easier to manage and lend themselves to automation. Many existing, stand-alone solutions on the market can handle portfolio construction and

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rebalancing for passive strategies against models. However, they may lack the sophistication to support more complex, customized portfolios for institutional and ultra-high net worth investors. Moreover, markets and investment trends can be cyclical. Firms may find their existing solutions are inadequate for a more volatile market that places a premium on active, alpha-generating strategies.

Portfolio management and trading systems must evolve to handle the growing complexities and increasing volumes of today's market, while positioning firms to be prepared for whatever challenges lie ahead. What's needed is a single, robust and scalable solution that closes the gap between portfolio construction and trade execution, allowing firms to drive productivity and efficiency, reduce latency, minimize operational and compliance risks, and take advantage of market opportunities in a timely fashion.

The future of the front office

Advent Genesis® is a cloud-based portfolio construction and rebalancing platform built specifically for front-office users with a simple implementation process that doesn't involve disruption of your business. This solution provides portfolio

managers and advisors with real-time views of their positions. It automatically identifies portfolios drifting out of line as well as the sources of drift, enabling exception-based management and eliminating the need to review each portfolio manually. It further optimizes rebalancing workflows and streamlines trade creation, allowing the portfolio manager to delegate the process to team members and simply check and approve portfolios in a rebalance session. Others can approve securities across portfolios in a block trade, which are then seamlessly transmitted to the trade order management system for execution.

Genesis is designed to support complex, highly customized portfolios requiring active management across multiple asset classes and geographic markets. It also supports passive strategies. It has proven capable of rebalancing well over 1,000 accounts per minute, making it one of the fastest solutions on the market. With the potential for even higher volumes in the near future, Advent Genesis dramatically accelerates the process from trading decisions through trade creation to trade execution. More to the point, it enables portfolio managers and their teams to manage the growing volume and complexity of portfolios, assets and transactions with less time and effort,

driving greater productivity and freeing managers to focus on higher value, revenue generating activity.

Asset and wealth managers have invested heavily in technology that helps streamline operations, and reaped the benefits in the form of greater back- and middle-office productivity. The front office is the next frontier of productivity enhancement. Leveraging technology that more closely integrates portfolio management decisions with trade creation and execution, firms can master the complexity of today's market and further differentiate their offerings from the competition.

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