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PORTFOLIO MANAGEMENT EFFICIENCIES 2018

AN UPDATE ON SINGAPORE'S WEALTH AND ASSET MANAGEMENT INDUSTRY

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INTRODUCTION

This paper updates a 2017 *WealthBriefingAsia*/SS&C Advent research report examining Singapore's portfolio management landscape in the round.

Now, as then, we aim to identify key areas of inefficiency (and risk) common in the portfolio management activities of wealth and asset management (WAM) firms based in the leading Asian hub. We also draw out special characteristics of that market that WAMs need to be aware of when formulating their strategies and technology set-ups.

As was found last year, portfolio management is commonly carried out via a multiplicity of systems in Singapore, as elsewhere. This can lead to a highly frustrating (and expensive) level of manual or offline workarounds being necessary, something that may be greatly exacerbated by clients in this market tending to be demanding in performance terms and attracted to alternatives.

Add in high salaries, headcount reductions and an ever-increasing compliance burden and it is clear that many of Singapore's WAMs urgently need to upgrade their systems for constructing, managing, monitoring and reporting on clients' investment portfolios.

As our expert commentators argue, better technology will be a huge part of investment management institutions achieving the efficiencies *and* quality improvements they seek in this core area of business.

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MANAGING PORTFOLIOS IN SINGAPORE: TEN KEY TAKE-AWAYS

1. "EARLY DAYS", BUT TECHNOLOGY INVESTMENT IS ACCELERATING

Last year's study found that 36% of Singapore's professionals were dissatisfied with their firm's portfolio management systems, with fewer than one in ten being very happy.

WealthBriefing/SS&C Advent research for 2018 indicates that inadequacies remain widespread: only 23% of Singapore/Hong Kong respondents see their firm's technology set-up as largely satisfactory, while most believe bolt-on developments - if not wholesale overhauls - will be necessary in the coming years[1].

According to Mats Berggren, there has been a general lack of technology investment across Asia which means most firms in Singapore are still relying on systems that have been built in-house. All too often, this has resulted in "a jumble of systems connected together by manual processes", in his view; and, while they can have a deleterious effect anywhere, he sees technological inadequacies in portfolio management as being perhaps the most damaging of all.

"Portfolio management is at the heart of all investment management activities," said Berggren. "Any manual workarounds - with all the inefficiencies, potential errors and risks they bring - can therefore lead to all sorts of problems, from ill-informed investment decisions to inaccurate client reporting and compliance failures."

Will Trout agreed that "we are still in the early days of investment" into portfolio management technologies in Singapore, although increasing competitive, compliance and cost pressures are inevitably driving change.

"Firms are slowly coming to the realisation that efficiency is key, particularly as the portfolio management process becomes more and more commoditised," he said. "Cost and regulatory pressures mean the need for scale is paramount, and technology is the lever to achieve this scale."

2. A TREND TOWARDS UNIFIED PORTFOLIO MANAGEMENT PLATFORMS

Firms have tended towards a best-of-breed approach to address the specific needs of Singapore-based investors, in Trout's view. Indeed, our original study found that over two-thirds were using three or more systems to construct, manage, monitor and report on investment portfolios.

Then, only a tenth were using just one portfolio management system, but Trout believes "the trend is now definitely towards unified platforms" as institutions seek to minimise the inefficiencies and potential risks a plethora of systems entails.

There is certainly a great need to minimise manual work: last year, two-thirds of executives estimated that over 30% of total portfolio management work at their institution was being completed manually; an unlucky 8% were carrying out 51-60% "by hand".

3. EAMs CRYING OUT FOR BETTER BANK INTEGRATION

Recent *WealthBriefingAsia*/UBS research has highlighted a rapidly-expanding External Asset Manager sector in Singapore[2].

Trout also sees EAMs moving away from the piecemeal approach to portfolio management systems typical historically, noting that "the ability to work with multiple custodians and across multiple asset classes, including alternatives, will be key".

That 43% of Singapore's EAMs are working with six or more custodians creates particular challenges, as many portfolio management systems don't offer the required bank connectivity[3].

> *"Not only is manually entering every trade into a portfolio management system very time-consuming, it probably also means a high error rate ."* - *Steve Knabl, COO and Managing Partner, Swiss-Asia Financial Services*

"Many EAMs are attempting to integrate off-the-shelf software into their processes, but the usage of these systems is uniquely manual due to a lack of integration with custodian banks," said Steve Knabl. "Not only is manually entering every trade into a portfolio management system very time-consuming, it probably also means a high error rate."

Many EAMs have resorted to extensive proprietary software development to connect with a large number of banks, but this is not without its own pains, our experts pointed out.

"Direct data feeds are not available with all the banks; manual work is still often required," said Lucie Hulme. "There isn't much on the market for us, so proprietary builds are common - however that kind of development is complicated and takes at least a year to implement."

Berggren confirmed that efficient connectivity, to ensure seamless data flows between EAMs and their custodians, remains a significant pain point for many firms – and a gap that SS&C Advent has long worked hard to bridge.

"We've developed automated daily data-feeds with more than 800 custodians, so that at the start of each day users have ready access to consolidated and standardised account-level

information through a single, secure internet connection," he said. "This saves hours of work, minimises the risk from manual errors, and frees staff to focus on more productive activities."

4. PAY AND HEADCOUNT PRESSURES ARE MAKING EFFICIENCIES EVER MORE ESSENTIAL

As last year's research highlighted, WAM professionals' time is a particularly precious commodity in Singapore. Remuneration reflects its international status and has been increasing by around 5% each year.

Personnel will have also been under increasing productivity pressure. Two-thirds of banking institutions were not expected to increase headcount in 2017, with the sector also having the highest proposed reductions in Singapore[4].

Against this backdrop, it is especially undesirable to have employees' (expensive) time eaten up by manual work that could be minimised, if not eradicated. "The high salary scale in Singapore means the costs of human intervention will be significant, said Trout. "It is crucial for firms to maximise automation to reduce the number of touchpoints in the back-office."

"Singapore is renowned as a sophisticated, forward-thinking market where the onus is on delivering service excellence, and this means advisors will need to devote unstinting attention to their clients' high and growing demands if they are to achieve and retain a competitive edge."- Mats Berggren, Vice-President, EMEA and APAC, SS&C Advent

As in other leading jurisdictions, a lack of talent means wealth management and the trust industry are still employees' markets in Singapore, reflected Britta Pfister. "Competition is stiff, which spirals salaries upwards," she said. "People also tend to leave for an incremental raise, so there's the loyalty side of things to consider too."

Importantly, *WealthBriefing* research has shown poor technology provision to be a very significant factor in advisor recruitment and retention (and likely even more so when employees are under particular pressure to perform)[5].

Berggren said: "Singapore is renowned as a sophisticated, forward-thinking market where the onus is on delivering service excellence, and this means advisors will need to devote unstinting attention to their clients' high and growing demands if they are to achieve and retain a competitive edge.

"But that can be time-consuming and expensive, unless advisors are equipped with the right tools for the job. For us, that means an easy-to-use CRM system that makes it easy to personalise customer interactions; fingertip access to up-to-date position, transaction and performance information, ideally across a client's entire holdings; and customisable, on-demand reports."

5. DISTINCT INVESTOR PROFILES TO CATER FOR IN PORTFOLIO MANAGEMENT

Clients' investment tastes, risk appetites and performance expectations create specific challenges for organisations managing portfolios in Singapore. Furthermore, those serving a mixed client base may have to accommodate significant differences between Asian and international investors.

Taking first the similarities, according to Mike Buffini, firms need to be prepared for a significant leaning towards Asia-Pacific markets in portfolios, irrespective of client nationality.

"Portfolios tend to be skewed very much to Asia-Pacific options, which for Western investors still seem to be high-risk areas," he said. "However, most expats see a portfolio of predominantly Asia-Pacific holdings as not being very high risk, as they are familiar with the region and feel these markets are straightforward to understand."

However, our experts held it very much to be the case that Asian clients have far higher return expectations and a greater appetite for risk.

In Buffini's experience, expat clients generally want to "safely accumulate and not risk too much chasing high returns, with most being content with 6-8% per annum if that can be achieved."

In contrast, he sees Asian clients in Singapore who are relatively experienced desiring more aggressive opportunities to achieve high returns that are "double digit at least".

6. ALTERNATIVES ACCOMMODATED VIA MANUAL WORKAROUNDS

Amid low interest rates, increasing allocations to alternatives has been a marked global trend.

Asian clients' higher return expectations translate, in turn, into an even greater interest in non-traditional assets. "Asian clients do seem much more confident about diversifying into private equity and other alternative asset classes," Buffini said.

According to Trout, there is an Asian bias towards active management that is particularly pronounced in Singapore. This, combined with surging interest in non-traditional assets, leads to manual workarounds being prevalent as portfolio management systems are often not very well set-up to accommodate these investment tastes.

"Interest in private equity and direct investment reflects the desire for non-correlated returns," he said. "But effective oversight and management of these asset classes demand specialisation and focus for which many off-the-shelf portfolio management systems are ill-suited."

Alternatives represent a particular pain point. However other issues, not least a tendency towards multiple systems being used for portfolio management activities, means manual intervention is generally a costly problem, especially when it comes to compiling performance reports (see point 9).

Conscious of these issues, SS&C Advent set itself the task of developing a product suite that can deal with clients'

increasingly diverse demands within a unified, end-to-end infrastructure, said Berggren.

"We provide true multi-asset class and multi-currency solutions to support investor interest in different instruments, fund structures, asset classes and geographic markets," he said, noting that best-in-class connectivity to custodians and market data sources have been a real priority to give firms ready access to all the information they need.

7. LEVERAGE IS VERY POPULAR (AT LEAST FOR ASIAN CLIENTS)

WAMs might also need to be prepared for a preference for leverage. Although expats tend to be more conservative, Buffini observes the majority of Asian clients wishing to leverage highly (up to 4x, if not more if possible) in an attempt to achieve higher returns, with even older clients open to leverage for at least a portion of their wealth.

"Many local investors are quite happy to leverage the equity in their properties to then borrow and invest into direct shares and funds; this seems to be quite normal behaviour and something often encouraged by banks," he said. "Most older clients are keen to keep risk down, but are still prepared to use some of their wealth for speculative purposes to target returns of around 9–10% per annum."

As our experts pointed out, "core-satellite" approaches to portfolio management can be particularly problematic without the right systems in place.

Generally, WAMs need to be able to accommodate diverse client profiles and investment tastes as efficiently as possible, but particularly those sitting in a leading international wealth hub such as Singapore.

"Competition is intensifying between domestic and foreign wealth and asset managers for a share of the region's rapidly-growing markets," said Berggren. "The only way to deliver consistently high-quality services to the different client segments, and at a price point that will keep firms competitive, is by progressively improving operating efficiencies and scalability."

8. SUITABILITY STOKING PORTFOLIO MANAGEMENT PAIN

Last year's survey showed initial portfolio construction to be most onerous part of managing portfolios (voted the most manually-intensive activity by 67% of respondents and top-three by 77%). Much of this seems to be attributable to increased oversight, with almost two-thirds (63%) saying that regulatory change has increased the amount of manual work required here a great deal.

In Singapore, and indeed across Asia, there is a trend towards increasingly onerous regulatory requirements around investment suitability and appropriateness to match European ones.

The Monetary Authority of Singapore's Balanced Scorecard framework enforces higher standards of advisory and sales service, and has particular relevance to portfolio construction and monitoring activity, as its audit process encompasses an assessment of how well advisors have tried to understand clients' needs and recommend suitable investments.

As Trout observed, "regulation is a key driver in terms of prompting firms in Singapore to invest in better technology" - both as regards helping them robustly document compliance and allowing them to do so more cost-effectively. As he put it, "high compliance spending is definitely not going away", yet personnel costs mean that alternatives to increasing headcount must be sought.

9. REPORTING REMAINS A KEY PAIN POINT

Performance reporting was also confirmed as a particularly manually-intensive area due to portfolio management activity commonly being spread across multiple systems (accounting, reconciliation, client information and possibly several for reporting) and portfolios often residing outside core systems. "Reporting and consolidation capabilities attract a lot of criticism in the industry and are where people really desire cutting-edge tools," said Pfister.

> *"Reporting and consolidation capabilities attract a lot of criticism in the industry and are where people really desire cutting-edge tools."*
> *- Britta Pfister, Head of Wealth Planning, Asia-Pacific, Rothschild Trust*

The need for investor education is very much more pronounced in Asia due to the relative immaturity of the market, according to Anthonia Hui, and this means "clients often treat investing like trading, rather than giving a structured investment approach time to develop and perform".

Short-termism means clients can view decisions like taking profits from a rising market as mistakes even when managers are later vindicated. "It is the performance snapshot that sticks in their minds," she said. "So, we need to be able to highlight how we were proven right maybe a month later."

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> *- Anthonia Hui, Chief Executive Officer, AL Wealth Partners*

So, there is an urgent need for performance reports to be compiled more efficiently, but also for richer, customisable reporting whereby the value added by advisors can be clearly demonstrated.

As such, SS&C Advent has aimed not only to improve institutions' efficiency in reporting, but also to help them deliver true personalisation in how clients receive information on their investment portfolios.

"Our high-quality, customised reporting, in concert with sophisticated performance analytics, ensures firms can provide investors with the breadth and depth of information they want," Berggren said. "Furthermore, we ensure it can be 'sliced and

diced' in whatever way they like, and delivered how and when they want it."

He also notes that more timely, accurate and detailed reporting is another feature of the evolving regulatory landscape in Singapore, as the Asian hub moves to mirror its European counterparts, particularly Switzerland.

The global tax transparency drive is increasing the laboriousness of reporting in particular, our experts noted, and it hardly needs to be said that here the stakes are especially high.

"It is *critical* that reporting for the Common Reporting Standard and the like is correct or it becomes a risk issue," Pfister added. "At the moment, this is highly manual work."

10. FIRMS SEEKING BUSINESS BENEFITS FROM THE COMPLIANCE BURDEN

Last year it was found that compliance costs had caused many firms to put off technology upgrades. Yet ironically, the regulatory burden means the need to seek efficiencies is increasingly pressing if profitability is to be protected.

"Regulatory changes have definitely made business more burdensome and more expensive in Singapore, particularly the additional requirements for the Balanced Scorecard," said Buffini. He sees many companies – particularly smaller ones – having really struggled, to the extent that some have had to exit Singapore or be bought out.

However, others are said to be increasingly looking at regulatory change as an *opportunity* to refine their business models and are focusing on sophisticated data capture, storage and analysis strategies to gain business benefits from compliance – particularly in portfolio management activity.

As Hui pointed out, "compliance costs are increasing in multiples of double digits every year", while investment managers' profits are not growing by anywhere near the same amount. The capability to make compliance activity contribute to profitability - and client loyalty - is therefore sorely needed. Systems that enhance how investment suitability is determined and evidenced have great potential here, as do those which allow wealth managers to underscore their expertise and infrastructure.

For Berggren, minimising the cost and pain of increasingly onerous compliance responsibilities is just the baseline of what technology vendors should be trying to achieve. Technology enhancements should also drive revenue generation, and help firms understand profitability at a client and product level.

"Naturally, we have designed our portal and CRM tools so that firms can easily capture and maintain the client data they need to meet and evidence their suitability obligations with as much automation as possible," he said. "But firms can also analyse and leverage this data to better segment their client base, identify in-demand products and services, and match those to the different client profiles to optimise the institution's profitability."

CONCLUSION

General under-investment in technology seems to be creating a multitude of challenges for many of Singapore's institutions, particularly as regards portfolio management activities. Firms need to achieve operational efficiencies as a matter of urgency to protect their profitability, but they also have higher expectations from both investors and regulators to contend with too.

Greatly increased investment into portfolio management technology is likely to be an inevitability as firms aims to differentiate themselves from their competitors and reduce costs and risks. It is also easy to see better systems rapidly shaping up to be a key part of attracting and retaining the best advisors in what is very much an employees' market.

Portfolio management sits at the heart of WAMs' business propositions and those content to struggle along with outmoded systems and manually-intensive ways of working seem sure to be left behind. Meanwhile, their more forward-thinking peers will be able to maximise performance across the board, from increasing the amount of time advisors are able to spend on revenue-producing activities to improving the investment results they can achieve for clients.

Singapore is a hugely competitive market, and portfolio management systems are shaping up to be a key battleground for its wealth and asset managers. We look forward to tracking the industry's technological progress in this vibrant wealth management centre.

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[1] "Technology and Operations Trends in Wealth Management 2018", *WealthBriefing*/SS&C Advent, 2018
[2] "External Asset Managers in Asia: New Directions for a Rapidly-Expanding Sector", *WealthBriefingAsia*/UBS, 2017
[3] Ibid
[4] According to figures and analysis from Mercer
[5] "Help or Hindrance? The Link Between Technology Provision and Advisor Productivity" *WealthBriefing*/SS&C Advent, 2015