

ADVENT®



Portfolio construction and trading

Seven key factors in evaluating
order management systems

STREAMLINE

This document examines the current state of OMS portfolio management capabilities, identifies major challenges and “pain points” that firms encounter, and outlines seven system attributes needed to overcome them.

Increasing Operational Efficiency

Solutions available today are bridging the gap between portfolio construction and trading—creating a seamless workflow from investment idea through trade settlement.

In times of market volatility, increasing operational efficiency becomes especially essential for investment firms. It is the key not only to sustaining profitability, but also to responding quickly to opportunities as they occur and implementing timely decisions. Moreover, with consolidation among asset management firms expected to increase in the near future, greater operational efficiency is a competitive necessity.

One route to greater efficiency is the ability of a firm to scale its business—taking advantage of technology to manage more assets and portfolios without having to add staff. Portfolio construction is a key area of opportunity for scaling. With proper classification schemes and modeling tools, firms achieve not only greater insight for decision making, but also the means to manage more portfolios with less labor. Streamlining the portfolio construction and asset allocation process can help model-driven portfolio management firms increase efficiency while serving clients better.

An obstacle often arises, however, in the workflow from portfolio construction to implementation. The models used for asset allocation typically do not account

for compliance with a firm's stated investment policies, individual client mandates, or regulatory requirements. The need to comply often entails inefficient workarounds outside the core trade order management system, resulting in delays and errors in trade creation and reconciliation.

Today's markets are fast and unforgiving; mistakes and missed opportunities are costly. A cumbersome manual intervention between the portfolio management decision and trade implementation is not merely a drag on efficiency, but also a major business risk. The OMS needs to be proficient not just in trading, but through the entire process.

The good news is that trading technology is advancing. Solutions available today are bridging the gap between portfolio construction or rebalancing and trade execution—creating a seamless workflow from investment idea through trade settlement, all within the OMS.

The growth in model-driven portfolio management, coupled with strict compliance pressures, creates an opportunity for a firm to differentiate

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¹ TowerGroup, "Strategic Update on the Buy-Side Order Management Market: Have Things Really Changed Much?", June 2008.

itself by implementing portfolio construction solutions that incorporate the mission of the firm and its clients' requirements. This document examines the current state of OMS portfolio management capabilities, identifies major challenges and pain points that firms encounter, and outlines seven system attributes needed to overcome them.

Opportunities and Challenges: Portfolio Management in the OMS

A recent report from TowerGroup identifies portfolio management as the area of OMS functionality that has experienced the most advancement lately. This is in response to growing industry demand for "sophisticated portfolio modeling, rebalancing, and asset allocation that can handle thousands of accounts seamlessly."¹ Increasingly, tools designed for use by the portfolio manager—and not just the trading team—are required and expected as part of the OMS core functionality.

What has been lacking to date, however, are solutions that offer scalable and efficient portfolio construction and modeling while allowing for customization for the three key drivers of compliance: client mandates, internal policies, and SEC regulations. To account for multiple rules and restrictions in the portfolio construction and rebalancing process, firms are challenged with maintaining several disparate systems with minimal integration into their overall portfolio management and trading workflow.

Many portfolio managers rely on error-prone, spreadsheet-based, manual systems that hamper efficiency and are insufficiently robust in their restriction-checking capability. That, in turn, limits a firm's ability to take on additional assets or increased trading volume—and may even make it more difficult to service existing clients' requirements and retain assets under management.

Maintaining model hierarchies that can scale across the organization with a single change methodology is crucial to investment firms. There are few end-to-end systems in the market today, however, that can make this possible.

Too often, then, compliance creates an operational hurdle standing in the way of a seamless workflow between the portfolio construction and trading processes. Moreover, without the workflow efficiency of true straight-through processing in an integrated system, firms are encountering delays in getting orders to the market. In these times of increased volatility, that can prove costly.

There are dedicated modeling and rebalancing systems used by portfolio managers today, but they are severely limited in their basic OMS functionality and require custom integration. Portfolio management does not end with asset allocation. As the ultimate decision maker, the portfolio manager needs the assurance that a sound decision will not be undone by faulty execution. What's needed is a true end-to-end solution with a robust portfolio construction tool, customizable for compliance, that unites the portfolio management and trading workflows.

At a time when market volatility is putting added strain on firms and their systems, standard integration between portfolio construction and trade implementation is becoming critical to efficiency and scalability.



Evaluating Solutions: Seven Key Considerations

As noted by TowerGroup, firms considering a new or replacement OMS or solution upgrade are looking beyond the basic trade blotter functionality and evaluating how well the new systems—and their providers—are addressing the larger issues and complexities of investment management. At a time when market volatility is putting added strain on firms and their systems, standard integration between portfolio construction and trade implementation is becoming critical to efficiency and scalability. It is in this area that the differences among systems on the market become wider and more distinct.

For firms seeking greater efficiency in their portfolio management and trading workflow, there are seven key attributes to look for when comparing different providers' OMS offerings:

- 1. Capacity to Manage Volume.** Is the system sufficiently robust to handle ever-increasing asset and trade volume? Today's most advanced solutions are architected for scalability to manage tens of thousands of portfolios, reducing the need to add staff or expand the technology infrastructure as assets grow.
- 2. Asset Allocation Capabilities.** Increasingly regarded as a "must-have," particularly for firms that are model driven or pursuing quantitative strategies, systems vary widely in their asset allocation capabilities. The more robust solutions support multistrategy, multilayered models and offer sophisticated analytics and benchmark tracking. A comprehensive system will also include integrated research management capabilities, allowing portfolio managers fast access to the data underlying their asset allocations and security selections.
- 3. Managing Compliance.** The more sophisticated solutions will incorporate proactive pre- and post-trade rules checking, as well as portfolio composition monitoring, to confirm compliance with regulatory requirements, client mandates, and internal investment policies. The system should be able to perform checks automatically as part of the portfolio construction process, without the need for manual checking. The best solutions will be able to manage both high net worth client mandates and institutional restrictions, which can be numerous and complex, by allowing for the highest level of customization and rules creation.
- 4. Portfolio Drift Analysis.** The system should be able to monitor all portfolios for variance from their respective benchmarks, with tolerances defined on an absolute or relative basis. Portfolio managers will then be alerted to any portfolio that has breached its tolerance target and requires rebalancing. The right solution will allow you to use your own user-created model or a standard benchmark of your choosing.
- 5. Single Change Methodology.** When managing a hierarchy of models that are associated, a portfolio manager may want to make a change to a sub-model (i.e., a sector) that is associated to many models and portfolios. The system should ensure that a change made in any one model is automatically reflected in all associated models.



Make it happen

6. Straight Through Processing. Portfolio construction needs to be properly integrated with trading in order to avoid delays in execution. And once a trade is executed, the exchange of data with counterparties such as brokers and custodians should be automated to ensure timely and accurate reconciliation.

7. Audit Histories. The system should have the capability to provide detailed audit histories on base and multistrategy models, including such data as when changes were made and by whom, asset classification histories, and security breakdowns.

Finding Opportunity Amidst Uncertainty

In times of market uncertainty and stagnation, asset and wealth managers face the combined challenges of retaining clients and assets, maintaining service quality, and delivering results. Operational issues and profitability pressures become distractions. However, with a smooth and efficient investment process that

leverages automation at every step, managers can get back to business, focusing on clients and investment solutions.

Improving workflows around portfolio modeling, construction, and rebalancing offers the opportunity to increase efficiency 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 operations and keep both labor and technology costs in check.

Portfolio management and trading systems have evolved to handle the growing complexities of investing and the changing needs of managers. In today's challenging market, closing the gap between portfolio construction and trade execution is critical for allowing firms not only to gain efficiencies, but also to seize opportunities.

About Advent's Moxy® Trade Order Management System

With over 850 client firms, Advent's Moxy is the most widely used system for portfolio construction and trade order management on the market. Coupled with Advent's portfolio accounting, straight through processing, and research management solutions, the Advent suite of innovative products delivers the functionality required to automate and streamline the entire investment process.

To learn more about Moxy and the complete suite of Advent solutions, visit www.advent.com.



Who We Are

Over the last 30 years of industry change, our core mission to help our clients focus on their unique strategies and deliver exceptional investor service has never wavered. With unparalleled precision and ahead-of-the-curve solutions, we've helped over 4,500 firms in over 60 countries—from established global institutions to small start-up practices—to grow their business and thrive. Advent technology helps firms minimize risk, work together seamlessly, and discover new opportunities in a constantly evolving world. Together with our clients, we are shaping the future of investment management. For more information on Advent products visit www.advent.com.

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