

Case Study

“Outsourcing key operational and technical components to an organization that can add incremental resources as we grow is a great advantage.”

Gerry Moore, Chief Operating Officer, First Trust Direct Indexing

PROFILE

Client: First Trust Direct Indexing

Location: Boston, MA

Description: Asset management affiliate specializing in direct indexing strategies

AUM: \$1.1 billion as of 03/31/2023

BACKGROUND

- Firm began as a small start-up specializing in direct indexing
- Did not have the systems or resources to manage daily reconciliation for multiple SMAs
- Did not want to dedicate IT resources to system maintenance

SOLUTION

- Advent Managed Services
 - Managed Applications: Cloud delivery of their core investment management technology platform
 - Managed Operations: Daily reconciliation as a service with access to the Console for control and transparency into workflows
- Moxy for trade order management
- Advent Portfolio Exchange (APX) for portfolio accounting and reporting

In recent years, direct indexing has gained traction as an alternative for investors who want to replicate the performance of a specific index, but exercise greater control over the holdings in their portfolios. First Trust Direct Indexing (previously Veriti Management LLC prior to its acquisition by First Trust Capital Partners LLC in 2022) was one of the early specialists in this growing subset of asset management and use their proprietary software to implement their direct indexing strategies.

Since its inception in 2018, First Trust Direct Indexing has relied on SS&C Advent for investment management technology and operational support. The firm’s platform today encompasses a combination of SS&C Advent cloud hosted and supported solutions for portfolio accounting and reporting, trade order management, trade affirmations, custodial data, and billing. Additionally, the firm utilizes Advent Managed Services for their daily reconciliation.

“The Advent Managed Services Console is an integral part of our process, helping us make sure we know what we can trade any given day.”

Advent Managed Services frees up in-house resources

Before establishing their operational infrastructure, the firm’s founders reviewed several technology providers, and ultimately gravitated to SS&C Advent. Chief Operating Officer Gerry Moore cites a few of the reasons in SS&C Advent’s favor:

Ability to support multiple SMAs:

“We have a lot of separately managed accounts for different clients,” Moore explains. “That’s different from having one or two commingled accounts. We needed a solution that can handle multiple accounts and portfolios.”

Custodial coverage: “Our clients have different custodians, so we have about 14 custodians that we deal with. With some of the other providers the costs went up exponentially when you started going above one or two custodians. One of the factors that steered us to Advent was the ability to handle a large numbers of custodians at a reasonable cost.”

Reconciliation as a managed service:

“We were a small startup team and didn’t have the resources to do daily reconciliation, especially with so many accounts and multiple custodians. Using Advent Managed Services for daily reconciliation was another deciding factor.”

Similar thinking went into the decision to have the technology platform deployed in the cloud rather than on the firm's servers. "Again, it's a resources issue," Moore says. "We want our IT people spending time on developing our direct indexing product and strategies, not on system maintenance and updates. It's easier just to outsource it."

Having a single provider for technology and operations support is also a benefit, Moore says. "It makes it easier that it's all in one place. Our reconciliation team has access to all our trades, our accounting, and the data flows. It's all integrated and very smooth."

The Managed Services Console gets each trading day started

Advent Managed Services is all about freeing firms from operations and system maintenance burdens without giving up control over their operational workflows. The Managed Services Console is designed to give in-house operations teams full transparency into their workflows and a real-time communications channel with their SS&C Advent counterparts.

"We're probably one of the heaviest users of the Console," says Moore. "We use it every day. Most of our accounts are taxable where we are doing tax-loss harvesting, so we need to have an accurate cost basis for each account every day before we can trade it."

Our operations team uses the Console every morning to check for reconciliation breaks and resolve any issues before trading."

Unlike a passive, index-tracking ETF, direct indexing entails fairly active trading to ensure that portfolios stay in line with both the performance of the index and the client's tax strategy. "There are always going

to be some irregularities," Moore explains. "The Console gives us a dashboard of the issues for the day. If we see an issue with a certain security, we can put it on hold and not trade it until things get resolved. Or if there's a break within an account, we can tell the portfolio managers to hold off trading that account until it's resolved."

The Console also enables the in-house team to engage the reconciliation team on issue resolution. "When we see an irregularity, we can just click right on the Console and send a message to the Advent data ops person asking about it. We use that feature."

The Console, Moore says, is "an integral part of our process, helping us make sure we know what we can trade any given day."

Scale and room to grow

With Advent Managed Services, firms have greater flexibility to scale their operations as business conditions warrant, and the agility to pursue growth without operational or system constraints. First Trust Direct Indexing is a case in point. "We have ambitious growth targets," Moore says. "Right now, we have a few hundred accounts, but if meet our growth expectations we could easily be over 10,000 accounts in a few years. We're also investing only in equities now, but over time we'll want to move into fixed income as well."

Moore agrees that the relationship with SS&C Advent supports the firm's growth ambitions.

"We were a small startup team and didn't have the resources to do daily reconciliation. Using Advent Managed Services was another deciding factor."

BENEFITS

- Firm can dedicate IT resources to their direct indexing strategies of system maintenance
- Transparency of daily transaction and position reconciliation across multiple accounts prior to the start of the trading day
- Managed services model gives firm scale and agility to pursue growth plans

"Outsourcing key operational and technical components to an organization that can add incremental resources as we grow is a great advantage," he says. "We'll have to build out some infrastructure, but not as much as we would without Advent. It's helping us scale more efficiently."

The managed services model also make it easier for First Trust Direct Indexing to take advantage of additional capabilities as the business grows. "We selected SS&C Advent initially because of the multiple custodians and the reconciliation support, and the relationship has grown over time. We've expanded and we're going to continue it expand. It's all meeting our needs and working well."