

THOUGHT LEADERSHIP FROM TECHNOLOGY LEADERS

# Trends Reshaping Asset Management: There's Nothing "Traditional" About It. Are You Ready?

**An asset management veteran who left the business as recently as 10 years ago would have trouble recognizing the landscape today.**

By most accounts, the industry is in the midst of a profound transformation, buffeted by intense competition, relentless regulation and market forces that have only recently come into play. From the products in their portfolios to their fees to their operating models, asset managers are compelled to reassess virtually every aspect of their business and figure out how to get ahead of the wave. Technology investments are certainly part of that process. The decisions firms make today could well determine whether they are positioned for sustainable growth in this changing environment.

From analyst reports, industry surveys and conversations with asset management clients, several key trends emerge as the chief drivers of change in the industry.

## A Changing Product Mix

The convergence of "traditional" and "alternative" asset management is not new news, but the distinction has now blurred to the point where the former is less and less useful as a descriptor.

In the quest for better returns, mainstream institutional and high net worth clients are increasingly interested in gaining exposure to the alternative marketplace through such vehicles as hedge funds and private equity. Asset managers, in turn, are diversifying their product offerings. In a 2019 report on the state of asset management in North America, McKinsey & Co. identified "An intensifying search for yield and diversification" as one of the key themes driving structural transition in the industry, noting that investors are less satisfied with "public market beta," driving demand for "yield-generating assets such as credit, as well as for private market investments."

The infusion of institutional capital into hedge funds helps explain why fund assets have continued to grow in recent years, in spite of wide swings in fund performance. Similarly, private equity continues to attract institutional investment, even though some observers consider private company valuations on the high side. In order to stay competitive and capture a share of these allocations, asset managers need the expertise, capabilities and tools to manage and account for a broader range of investment vehicles and strategies.

## The Global Imperative

Again, investing overseas in search of diversification and higher total returns is not a new phenomenon. What's different

today is the greater demand for and expectation of global capabilities. And the global environment is more challenging than ever, due primarily to the myriad regulatory regimes firms must confront when they venture into international waters. Compounding the complexity are the wide variances among accounting standards, tax codes, trading and settlement practices, and market infrastructures. That's not to mention the market, country and political risks that are inherent in the global marketplace.

As with the diversification of products, asset managers need the capability to manage complex multi-asset, multi-currency strategies in a diversity of markets.

## Pressures on Profitability, Costs and Fees

Asset management firms are looking across the business for ways to contain costs, while at the same time facing pressure to rationalize their fees. These goals are often at cross-purposes. Consider the rise of passive strategies. At a time of comparatively strong markets, ETFs are enjoying a surge in popularity, with inflows of \$300 billion in 2019, according to McKinsey. For asset managers, ETFs are very cost-effective operationally, and comprise a growing portion of their business. Yet investors are asking what value they are getting from their

discretionary, active managers when passive strategies can produce fairly reliable returns. Figuring out the right active/passive business model and adjusting fee structures accordingly are among the bigger challenges facing the industry.

Firms are also scrutinizing operations for opportunities to streamline processes and systems, drive greater efficiency and eke out incremental profitability. More stringent and complex compliance and reporting requirements make this a particular challenge.

## Data Governance

As in so many other industries, asset management firms are trying to leverage the vast stores of data they accumulate in new and different ways. Many are looking to apply big data analytics and artificial intelligence to their strategies to enhance returns and generate alpha. Making effective use of these technologies starts with clean, organized and easily accessible data. Yet firms are challenged to ensure the integrity and reliability of the data flowing into their systems from multiple sources, internal and external. Most firms spend an inordinate amount of time trying to validate data quality and resolve discrepancies manually using tools such as offline spreadsheets.

Data governance and management have risen from the realm of “housekeeping” to a strategic focus, as firms seek to ensure the quality and integrity of their data so they can apply it more effectively in their business. Systems that allow fast access to and visualization of data are essential for making timely decisions in a fast-moving market.

## Emerging Technologies

Asset managers expect to benefit from the rapid rise of artificial intelligence and machine learning—provided they can figure

out what, where and how to incorporate these emerging technologies into their operations. AI has made some inroads in security selection and portfolio construction, but the more immediate opportunity is in automating routine and repetitive operational processes. AI and ML can also assist with resolving data governance issues, enabling systems to sift through vast volumes of data, learn to identify data anomalies, and “suggest” remediation measures more quickly, efficiently and accurately than human analysts.

## Technology Implications

In view of these and other trends that are reshaping the industry, asset managers are rightly reevaluating whether their core portfolio management systems will continue to support them. Legacy systems may lack the scalability, depth of functionality and breadth of asset coverage this new environment calls for. A patchwork approach, with multiple single-purpose applications, bolt-ons and workarounds, is a drag on efficiency and invites significant operational risks.

What’s needed is a single portfolio management system capable of accounting for and reporting on a broad range of asset classes, from fixed-income to equity to exotic alternatives, as well as new types of products as they come on stream. The system should also have the ability to aggregate data from multiple sources through ease of integration and automated connectivity, and to update data across the entire system with a single change.

With comprehensive asset class coverage, SS&C Advent’s Geneva® platform provides a highly scalable, single solution for consolidating multiple investment strategies, managing complex, global fund structures, and accounting for highly diversified portfolios. Geneva makes it easy to monitor portfolios in real time,

with customizable dashboard views of gains and losses, performance, exposure, forecasting and market data. An optional data governance tool, Advent Lumis™, leverages artificial intelligence to help operators quickly identify and resolve data discrepancies that can affect downstream system performance.

Well established in the global alternative marketplace, Geneva is quickly making inroads into asset management firms that have historically focused on traditional equity and fixed-income instruments and SMAs. Geneva enables asset managers to expand their offerings into hedge funds, private equity and other pooled vehicles, as well as complex swaps and other derivatives. Many firms also look to Geneva as their investment book of record (IBOR) solution that provides a comprehensive, accurate and timely view of portfolio data across an entire firm.

As firms look for ways to increase efficiency and control costs, many are considering varying degrees of outsourcing to reduce their IT footprint and operational overhead. Geneva can be deployed on premise or delivered via the cloud, along with a customizable bundle of middle- and back-office operational services.

## Change Demands Flexibility

As the asset management industry moves deeper into uncharted territory, “flexibility” is the watchword of the day. Firms need a technology that will allow them to pivot and adapt quickly as the landscape shifts. Whether or not asset managers choose to fully embrace this changing environment, they should be able to make strategic business decisions based on their objectives, not on technology constraints. The right solution will be one that removes barriers to growth and allows a firm to chart its own path.



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