



INVESTMENT MANAGEMENT PLATFORM PROVIDERS

**ARE PLATFORM PROVIDERS READY TO ADDRESS ASSET MANAGERS'
EMERGING BUSINESS AND OPERATIONAL NEEDS?**



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Before the health crisis of 2020 threw global markets into turmoil, asset managers were already grappling with systemic changes in their industry and were conducting a detailed review of their product suites and operating models. In many ways, COVID-19 has brought the impetus for change to the fore, but the main themes still remain: margins are under pressure from the rising prevalence of passive management and cost pressures remain strong due to increasing regulatory demands.

As competition intensifies, asset managers will face increasing pressure to consolidate in order to achieve scale across profitable strategies while shedding non-core products. In-line with multiple high profile mergers within the asset management space, asset servicers are also expanding

their functional offering in order to appeal to a wider audience of managers by servicing the mosaic of needs created from these mergers.

An added evolution is the fact that alternative investments are playing an increasingly important role in even 'traditional' strategies,

requiring a higher level of integration with systems and processes—and not every asset manager is well-equipped to face these changes alone. However, one vital piece of their infrastructure provides the means to strategically orient their firms: the Portfolio Management System (PMS).

Asset managers are responding by adapting their operating models

In December 2020, Deloitte produced a survey covering the market’s leading PMS providers. The objective of the survey was to investigate PMS’ ability to meet asset managers and asset servicers’ business and operational needs along the front-to-back value chain. The PMS underpins every aspect of an asset manager’s operations, from originating trades and managing portfolios, to supporting risk management and client reporting. Having a clear, long-term, strategic view is essential when considering PMS selection, as well as the spectrum of functionality within the various platforms. Many asset managers are revamping their data-warehousing and servicing models to position themselves for future growth opportunities by pivoting away from on-premise legacy systems—which weaves in demands from the PMS itself. We see a main trend towards managed services with an overall emphasis, but not exclusivity, on application service providing (ASP) and software as a service (SaaS) models due to the technological and operational advantages of that service. While some PMS providers still service clients with on-premise installations, they strongly advocate for new clients to accept ASP/SaaS offerings. As such, a fundamental change to the target operating models involves time and resources. Offering additional managed services is a useful facilitator for on-premise clients; addressing cost (both for client and provider) on the

one hand and preparing for SaaS transformation on the other. Some PMS providers also position business process outsourcing (BPO) solutions as a way for asset managers to outsource non-core operations, while ensuring that these operations are supported by the underlying data and infrastructure of the PMS.

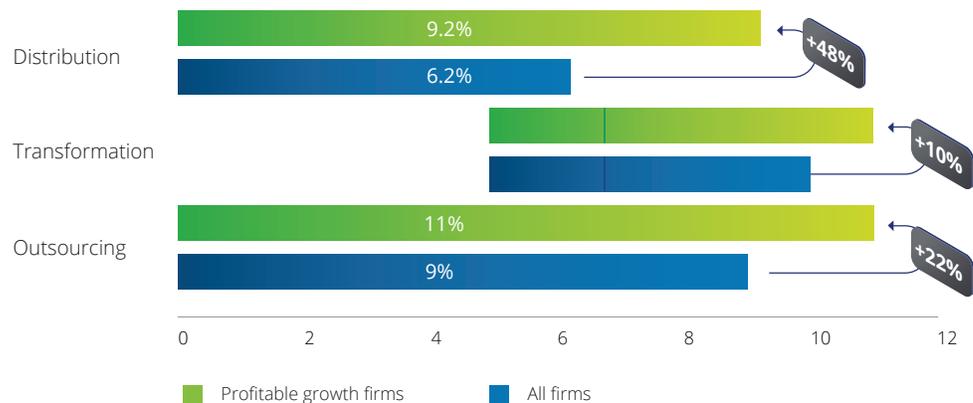
Asset managers are increasingly shifting to cloud-based services as they concentrate their resources on servicing their core mission and PMS is no exception. Even though PMS offered through the cloud appear to have become an overall standard, the level of applied cloud technologies and the maturity of related architecture varies between providers. Managing end-points in commercial clouds is important to integrate with cloud-savvy customers, while native investment management participants provide their PMS solutions within a private cloud, making the hosting aspect less relevant.

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Asset managers are also consolidating service providers across the value chain to streamline operations and reduce expenses. They increasingly value specialized skillsets that match the scope of their products. The PMS serves as a conduit to integrate front-to-back office operations, provides one single source of truth and improves the overall investment decision-making process. By moving away from an ecosystem which encompasses multiple best-of-breed applications towards a target operating model (TOM) with integrated PMS functionality, asset managers are able to reduce recurring expenses and the complexity that arises from managing

multiple vendor relationships. Transformational shifts such as these motivate asset managers to reinforce their data capabilities. While data may be structured or unstructured and may come from non-traditional sources, a key differentiator is the ability to aggregate and normalize the data. PMS providers are acutely aware of this, with four of our survey participants offering separate data management solutions. Ensuring the flow of data across the PMS and other specialist systems is crucial in facilitating smooth daily operations—allowing managers to focus on getting the most out of their funds.

Figure 1
Profitable growth investment managers make greater strategic investments into distribution, transformation and outsourcing



How Portfolio Management Systems fit in

Let us take a closer look at how aligning the correct PMS with the asset manager's unique needs unlocks value. First, the PMS provides a bedrock of data management capabilities across the Order Execution Management (OEM), Investment Book of Record (IBOR) and Accounting Book of Record (ABOR) systems. The OEM is a core functionality and a universal must-have that clients don't want to spend time questioning. The depth of pre-integrated brokers and venues is a point of interest, as well as the ability to add further connectivity post-deployment. The IBOR serves as the single source of truth on which all other functions are based. All PMS providers have a data-centric approach and allow for the enrichment of the data model with additional customer-specific data. The ABOR is not a universal offering, as accounting functionality is occasionally outsourced to MO/BO actors.

When it is a native option, it is fed data by the IBOR.

For most solutions metadata administration functionality is provided, however the level of coverage varies. Sophisticated solutions implement a fully-fledged data framework that can cover the flows alongside the whole value chain and can interrogate data at all levels. Apart from a large library of existing checks, any client-specific requirement could be integrated. PMS leaders come up with an enterprise-wide metadata driven data model. Authorization and configuration management seems to be a common focus, whereas the provision of relationships and calculation dependencies is an extended approach. All PMS have data quality checks in

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place, but not all vendors allow customers to modify the rule sets. BPO-oriented vendors are able to take care of the data correction on behalf of the client.

Risk management has arguably never had a more important seat at the table of asset managers' steering committees. The PMS permits managers to not only test the impact of hypothetical trades on their live portfolios,

but to slice and dice their strategies' holdings across new risk metrics ex-ante. We found that native risk analytics and customizable stress tests are limited in most PMS (though select leaders have a robust offering of historical and customizable tests built-in).

Existing calculations are rudimentary (yield curve, spreads, market volatility,



inflation) although the spectrum varies. Most solutions prefer to populate risk figures via external engines through APIs. Another key problem for asset managers is understanding their cumulative exposures to a sector, asset class, volatile security, etc. Aggregate views vary in quality and depth and the ability to provide this insight is a key differentiator. Once live portfolios are being monitored, compliance workflows based around notifications and breaches vary in completeness and synchronization—differentiating solutions in their ability to provide timely reports. The best solutions offer clean visualizations of current and past incidents so that risk officers can partner with portfolio teams to identify recurring issues and correct processes in short order.

Due to the increasing regulatory burden faced by investment management actors across numerous geographies, PMS focus a great deal of attention on the depth of their compliance functionality. The ideal state is to offer an engine which permits asset managers to rapidly adapt their compliance protocols for any jurisdiction where they currently do business, or where they might plan future distribution of their funds. As such, leading PMS allow compliance officers to set and modify rules directly in the PMS without any programming knowledge. All providers have recognized this approach is a “must have” as asset managers focus their risk staff on their core roles and dual risk-programming profiles are exceptionally rare.

When it comes to managing strategies, portfolio managers require flexibility around key functionalities to adapt the PMS to their needs. This includes customization of different views and analytics. Pivoting from portfolio view to trade to risk, for example, should be a seamless experience. Among the PMS on the market today, dashboards and aggregated graphical depictions of the portfolios vary in style and functionality, with a focus on the ability to customize and save “views” after initial set-up. It must be mentioned that the user experience within different PMS varies widely: tabular designs, Excel-based systems and even terminal connections are a few examples of these frameworks.

Portfolio managers increasingly rely on look-through functionality to provide a means to further scrutinize funds, alternative investments and securities by their underlying constituents; however, this leading analytical approach is not available across all providers. Leading offerings also provide the same tool for cash flow analysis—with a focus on liquidity within and across strategies. Cash forecasting and liquidity management are growing in importance among asset managers as a means to better understand their liquidity risk in volatile markets. In this context, few providers offer fully integrated solutions providing historical and projected cash positions, as well as reinvestment capabilities.

The ambition of PMS providers is to integrate all key front, middle and back office functions in one solution. All providers understand the importance of data apart from a pure operational data store perspective and either have an enterprise wide consistent data management solution in place as an integral part of their solution or offer their own additional data warehousing modules with different scopes. All PMS offers reviewed by Deloitte include integration with the operational data store, allowing for an easy data synchronization with the core product(s). Furthermore, the inclusion of external sources

is mostly offered, as solutions facilitate the downstream usage of data (e.g. for system feeds, reporting tools). In some cases, the upstream application(s) can leverage the EDM capabilities and use it as a proxy for data feeds, data quality and integration. An interesting consideration for CIOs is that some EDMs are source system agnostic and could provide additional benefits and synergies within the overall IT architecture of the asset manager.

PMS providers’ future success

The proposed solution’s success is dependent on

Figure 2
Asset Managers and Servicers are reconsidering their business and technology models



integrating appropriate modules and furnishing robust data to execute the client's portfolio strategies. Four focus areas in particular are likely to predict the future success of PMS providers.

Deloitte found that five out of six PMS providers believe clients prefer integrated solutions. All six surveyed providers believe that an open architecture model where modular functions are seamlessly integrated into the client's operational process is the best approach. A software system with modular design is aimed at subdividing a system or operating model into smaller divisions. Independent interchangeable solutions for these separate components are provided and integrated, which, together, serve the desired system. The advantage of this method is that standard capabilities can balance and support out-of-the-box connectivity. To help clients achieve this ideal operating model and to offer them a sample of their platform's capabilities, four PMS providers in our survey offer "sleeves" or modular components of their integrated solution—allowing for a smoother transition from one system to another.

Secondly, data visualization will provide insight in what information is available, possibly by using web-based tools, without the need of external engines. Data analysis is used to provide context from the data, but also in finding the common threads. Intuitive, customizable visuals embedded in the user interface are not yet universal, however they go a long way in allowing

portfolio managers to gain insights as they run their various investment strategies.

By combining the previous components with agile data delivery, a continuous flow of relevant information is provided to ensure high-quality insights for customers. Not only are data flows streamlined, but the physical implementation of the PMS is delivered in an agile format as well. Agile delivery not only ensures learning from the data and the correct prioritization, but also provides agility when the client environment changes and lessons learnt need to be applied. Reprioritization of backlogs can be optimized by applying agile data delivery.

The fourth area is the integration of the PMS by providing an easy-to-use system for the clients' core operation. This ensures a system where the modular designed components of different providers and/or asset servicers collaborate, increasing the use of pre-integrated systems to offer a smoother onboarding experience. With a unified core PMS in place, asset managers are better able to focus on their core activities of responding to market activity and developing their pipeline of products.

Partnership and teamwork are at the center of the strategy of platform providers. The collaboration between asset managers and asset servicers are evolving along three trends. First, the asset servicers now go beyond the back office activities and offer services for middle and some front-office activities.

The servicers also develop technologies themselves or cooperate through strategic partnerships. As such, asset managers increase focus on portfolio management and outsource an increasing share of front- and all middle- and back office functions to reduce fixed costs. Asset servicers leverage these strategic PMS partnerships to unlock added synergies and value for their asset management clients by unifying workflows between the two agents within the same

system. The third trend involves asset managers bringing in new technology and advancing the cooperation of internal infrastructure with vendor systems, as well as optimizing efficiency and effectiveness of management of operations. As PMS providers establish more strategic partnerships with asset servicers, they demonstrate the depth of their systems' capabilities and more easily lock clients into their ecosystem.

Deloitte PMS Survey

Aladdin by BlackRock
Bloomberg AIM
IHS Markit
Profidata
SimCorp
Alpha by State Street

Holistic analysis of the entire Investment Management value chain including both functional dimensions and technical capabilities.

Deep-dives

Strategies | Partnerships | Trends | Solution Roadmaps



TO THE POINT

- To cope with reshaping trends, platform providers plan to reinforce their focus on data, risk and portfolio management.
- From a technology standpoint, BPO and SaaS have emerged as clear trends and cloud offerings have become the overall standard.
- Platform providers' future successes depend on their focus on modular design, data visualization, agile delivery and integration.