

How can investment managers supercharge their alpha?

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The financial turmoil followed by the European debt crisis sparked an urgent search within the investment management sector for alternative strategies. Declining market valuations leading to decreased assets under management, new demands from regulators for greater transparency, and the increased presence of online broker platforms have all converged to drive down management fees while operational costs continued to rise.







These developments combined have had a huge and negative impact on organizational profitability and returns for the entire sector. Furthermore, over the same period, investment managers have faced continued challenges regarding their off-the-shelf trade management solutions. The implementation and configuration of such solutions can only be done with the support of an expensive vendor consulting force, whose knowledge and focus is limited to the one component of the overall trade cycle. The objective of achieving a fully integrated and seamless trade management solution becomes ever more elusive.

As markets have slowly recovered, there is momentum for the investment management sector to redefine the course of the future

The investment manager must be satisfied with the consultant knowing their own system by heart whereas in reality the vendor specialist will fall back on the specific knowledge of the platform available with his colleagues. Furthermore, these systems, first developed in the early nineties, have become legacy and even obsolete from the current technological perspective. As markets have slowly recovered, there is momentum for the investment management sector to redefine the course of the future. Validation of the organizational mission and strategic goals will be essential in a world that has changed drastically.

Market responses still did not solve the challenges encountered

In order to respond to the challenges investment managers face today, market participants try to gain a greater level of efficiency in several ways. Investment managers have frequently outsourced their support functions and highly-commoditized operational functions to specialized partners. Often this means that technical and back office functions are outsourced to a service provider. Effectively, this means that nothing will change or improve; only the location of the proceedings has been transferred. The regulator also outlined that the investment manager remains responsible for all activities as a whole in all situations.

Consequently, outsourcing does not reduce operational and financial risks: core problems are not solved and additional reconciliations are required, causing increased and unneeded complexity.



Investment managers move also away from reactive, tactical cost-cutting toward more strategic, forward-thinking initiatives. These cost-intensive initiatives consume a massive amount of time plus budget through the whole organization.

The investments in these programs, although planned and forecasted intensively, often end in extensive overruns. Furthermore, this approach has to be supported by expensive vendor consultants who are inadequate in achieving significant, durable improvement for the investment organization as a whole. This lack of improvement is caused by the limited focus of these consultants: they are only working towards their own product offering and are mostly technical driven with no value chain perspective. This has resulted in the situation where fundamental functional knowledge of the trade cycle is wholly unknown by vendor consultants, creating increasingly tough challenges for operational excellence.

Technology available nowadays causes massive challenges

Market challenges from the business and functional perspectives have already put a remarkable pressure on the organization as a whole. The dynamics of the investment manager's organization even change drastically the instant that technology is being discussed at the table. Considering technology enables another view on the paradoxical world of investment management.

Current reactive development strategies applied by vendors, currently considered as top-tier software companies, create overall dilemmas from a trade cycle management perspective. This means that relatively valuable clients ask for feature requests based on their specific situation and their specific trade management cycle.

This defines new functionalities for the whole community. Other clients, with their specific situations, must comply with this new module or must create workarounds to fulfill their specific requirements. The vendors that try to avoid this situation have created their adjustments as add-ons instead to rebase the core functionalities. This means that the modules and add-ons will grow organically without an overall understanding of the platform behavior, missing out on chances of integration and optimization.

In case of urgent operational issues the investment manager will not be serviced properly. The lack of specific organizational knowledge on the side of the vendor or due to implementation decisions causes workarounds and inadequate processing. Furthermore software licenses and maintenance fees these days are considered to be sky high and unacceptable, yet necessary since there are no alternatives available. Implemented trade cycle management software solutions, however, generally only support a (small) part of the operational process. This consequently results in a squared cost result (also database, operating system, and other related systems).

From a technical perspective, well-known systems are only vertically scalable and therefore encounter severe performance challenges, causing operational risks in the trade cycle management process. This is solved using extra expensive hardware, memory and CPU, which in turn brings extra unforeseen and unintended costs with downside pressure on company financial results. Also, this extra technical capacity is constantly available but not continuously required.

Besides these difficulties, investment managers nowadays are confronted with the fact that available trade management cycle solutions are not able to build, evolve, and scale new functionalities and requirements in an agile, modular, and accelerated manner. Huge financial and time-consuming investments in implementation, upgrading and testing are required to keep up with these developments.

Basically the lack of functionalities and capabilities within the platforms currently available are financially compensated by the vendor's clients. Our experience taught us that whenever the investment manager's target-operating model is not controlled adequately, then operational costs become excessive, even so far as to put the organization as a whole at risk. The target-operating model reaches from portfolio management up to risk and performance management.

Instead of a client-supplier relation, investment managers are best equipped for the challenges ahead in case they partner with a reliable, humble, yet forceful and passionate software partner

How to supercharge investment managers' alpha?

The market is in an urgent need of a software partner that realizes that the investment management sector has fundamentally changed. A partner that understands the business challenges ahead, supports the investment manager in the changing market environments, understands new technological developments and increased investor's demands, which require adaption of the investment managers, instantly. Because it seems that in the current situation the available well-known software vendors are finding it extremely difficult to anticipate required change and to adapt their off-the-shelf solutions accordingly. This is being expressed in the complex version upgrades that are planned over several months. This situation is accepted in a world where continuous agility is the new norm and is already adopted in other markets with great success.

Therefore the investment managers should focus on partnerships with companies that really encompass expert investment management business knowledge in combination with an in-depth understanding of the newest technological developments. A fusion should take place, a long-term software partnership that is able to assess the investment manager's current and future needs based on continuous integration and development.

Since the recent market turmoil, there have arisen an increasing number of start-ups that are here to optimize the financial results and investment decisions and to enable the investment management organizations, allow them to become fully focussed on their key objective: meeting their client's (financial and pension) needs.

These start-ups are standing up in order to supercharge progressive, result-focused and authentic investment managers to reach alpha, combined with absolute investment returns in an ever-changing environmental landscape, now and in the future.



Nevertheless there are no investment managers or software partners that have the complete overview and expertise necessary to operate peerlessly in this complex and volatile market. The investment management sector must realize now that they are in a need of intensive support from “allies” on a “tour of duty.” Together with their allies, the investment manager is capable of developing new, fresh insights and staying widely connected with technological, environmental, and financial challenges ahead. These allies may enable key competences and keep them focused, enabling the investment manager to deliver above market expectations.

Fierce product offerings will enter the market (soon)

New platform developments are rising within the financial sector. Specifically, new SaaS based trade cycle management solutions are entering the investment management sector. With a lack of legacy these product offerings will fundamentally improve the behavior and experience of software for the investment management sector.

Innovative platform solutions will rival the current software offerings, which will lead to positive change for market participants. Solutions that are fundamentally fast, real-time, scalable, flexible, responsive, and easily customizable in a matter of hours. These initiatives have been fully designed based on forward thinking that better empowers the business towards the future.

Also, the new developments concerning integrated workflow capabilities will enable portfolio managers, traders, and downstream operational staff to work based on exceptions only. Experiencing an exceptional result in the straight-through processing rates compared to the current standards.

These solutions are complementary, functional, and top of the class. From a technical perspective, these new initiatives also have the upfront opportunity to outperform the de facto standard of current well-known software vendors. These new initiatives leverage the momentum of several high-profile open source projects and apply them based on micro-service architecture. This approach prevents language and framework lock-ins and enforces solution-driven technique choices. Micro-service architecture, realized upon containers, delivers a consequent development pipeline through the entire DTAP flow, combined with solid integration testing per micro-service: this provides confidence to push out multiple releases per day without interrupting users and without harming the quality of the innovative platform.

Conclusion

Investment managers will be supercharged with product offerings that will make the difference—a difference in the world with their investment strategy, the blazing experience and increasing freedom for structuring their portfolios and model investments—all in favor of the benefits of their clients, the pension contributors, and other investors from all around the world. Investment managers have the possibility to choose from highly automated and optimized system solutions that are measured and optimized for the trade cycle management processes of today. Instead of a client-supplier relation, investment managers are best equipped for the challenges ahead in case they partner with a reliable, humble, yet forceful and passionate software partner. This will give the investment manager the best chance to succeed in the complex landscape that forms the investment manager sector today and tomorrow.

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To the point

- The investment management sector is in urgent need of a software partner that understands their needs in detail and will find the optimal functional and technical solution that benefit their investment objectives. In the current approach, software vendors offer hosting services without changing the fundamentals of their platforms and do not deliver the needed results
- Within the market start-ups are supercharging progressive, result-focused, and authentic investment managers to reach alpha. Alpha combines with absolute investment returns in an ever-changing environmental landscape, now and in the future
- Investment managers have to collaborate with allies that enable direct open access to expert market insights. The current functional and technological fragmentation force investment managers to co-create solutions together with a software partner as one collaborating community containing visionaries and practitioners, all with a passion for investment management
- There is a strong development within the SaaS based software platforms. These solutions are fast, agile, secure, and support trade cycle management functions across asset classes. All are based on current standards without the dissatisfactions that are experienced today

