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The impact of AI and machine learning on the hedge fund industry

By James Williams

Data re-use is likely going to become a critical feature of the industry, moving forward. Not only will fund managers want to be able to access data in a consistent fashion, they will also want to make sure it is accurate across different reports as regulators pay ever closer attention.

Rather than spend numerous man hours organising data to complete mundane tasks, the funds industry stands on the cusp of an exciting new era; one that will see increased use of machine learning and AI technology taking over such tasks, freeing up managers to hone investment strategies, and build investment solutions that more closely match investors’ needs, based on understanding their behaviour.

Everywhere one looks, blockchain technologies are sprouting up. Goldman Sachs, for example, has filed patents for various blockchain technologies including SETLcoin. Another example of this is CORDA, a bitcoin variant developed by R3, a consortium of banks that are pooling resources to research the potential of blockchain.

Indeed, the immutability feature of blockchain is what makes the ability to look at information and perform reconciliations in real-time, for example, really exciting. It has the potential to revolutionise the financial industry by removing reliance on intermediaries to clear and settle accounts and introduce significant cost savings. One survey by Bain & Co, estimates that total savings to global financial markets could reach anywhere from USD15 billion to USD35 billion.

On 28th June, RBC Global Asset Management (RBC GAM) announced the establishment of a new RBC GAM Innovation
Lab, an in-house technology hub to incubate digital capabilities and drive innovation.

Leveraging the network of technology and innovation capabilities across RBC, the RBC GAM Innovation Lab will focus on developing and executing next-generation initiatives to enhance the experience and outcomes of investors and advisors.

“The culture of RBC Global Asset Management revolves around innovation, continual learning and harnessing the power of human and machine,” said Damon Williams, CEO, RBC GAM. “Our new Innovation Lab is a reflection of this philosophy.”

RBC GAM has committed initial funding of USD20 million over the next five years to establish the Innovation Lab and fund its initiatives.

Ajantha Ganeshalingam heads up RBC GAM’s Innovation Lab. He says that the team is looking at various capabilities from portfolio creation through to digital communication between portfolio managers, advisors and clients. “Then there are the analytics capabilities, which is an area we are actively trying to grow; generating insights, understanding customer behaviour and much more.

“In terms of AI and machine learning playing a role, we want to be able to plug in behavioural finance as an input to assist a client in their selection process. Rather than asking someone what their risk appetite is, with respect to investing, how might we use insights about a client’s behaviour such as spending habits or what they like and talk about online to help them evaluate their risk profile and make more informed financial decisions,” says Ganeshalingam.

The Innovation Lab’s strength is that it has a helicopter view on where it wants to go, whether be to develop internal machine learning solutions or develop more niche areas with respect to fund products.

It is only in the early stages of road mapping what that end state could look like. “The exciting part over the coming months will be looking at what are all the different capabilities currently being built and researched within RBC’s ecosystem and to see what we can leverage in the investment space. Can we provide portfolio managers or product owners with better insights on clients, and comparisons with other similar fund products in the marketplace to influence RBC’s decision-making process? “In financial services the balance of power is shifting; information and insights on financial products has always been kept in the hands of the financial firms but I think that is slowly shifting.”

Ajantha Ganeshalingam, RBC GAM

“In financial services the balance of power is shifting. Information and insights on financial products has always been kept in the hands of the financial firms but I think that is slowly shifting.”

Ajantha Ganeshalingam, RBC GAM
To reach your potential, you need the right technology

Today's markets demand top-performing investment technology. More than 2500 investment firms worldwide rely on Eze Software to grow their business.
Optimising the investment process using technology

Interview with David Quinlan

With so much change happening in the funds industry, it is imperative that technologists keep pace to help hedge funds optimise operations. In that regard, Eze Software has been busy developing new functionality across the Eze Investment Suite, with MiFID II as a big focus.

In Q1, Eze Software partnered with OTAS Analytics to integrate advanced market analytics capabilities into its execution management system (EMS) blotter to support MiFID firms seeking to meet best execution requirements under MiFID II. It also increased access to liquidity sources from the EMS and added BIDS and POSIT crossing networks to its suite of routing destinations. Multiple MiFID-focused upgrades to enable transaction and trade reporting are happening across the suite, including order management and portfolio accounting applications.

David Quinlan, Executive Managing Director, EMEA, notes: “After gathering assets, the next biggest concern for most managers is how to best deploy technology and systems to optimise their operational alpha and build scalable businesses. Some of those tasks they are looking to automate reside in the investment decision-making process. Some are using AI-based technology to access new sources of public information and filter it to build new insights.”

Ultimately, says Quinlan, the aim is to integrate those systems with tools such as Eze EMS and Eze OMS. “Once the portfolio manager makes a decision on what to buy or sell, we take it from there. We can take that investment idea, run it through our Eze Compliance engine to automate all the pre-trade compliance, manage the trade order to provide the portfolio manager with real-time P&L on the portfolio, before ultimately using that data to do the investor-level accounting tasks,” explains Quinlan.

The idea, he says, is that clients want to make it as much of a “closed loop process” as possible: all the way from initial idea generation to trade execution, accounting and reporting.

One of the more recent examples of strategic partnerships has been with PortfolioScience, whose RiskAPI solution is a leading real-time risk solution. The Eze Compliance engine interacts dynamically with RiskAPI and checks quantitative measures—in this case, risk measures—to ensure risk parameters are considered at the pre-trade compliance stage.

“We have to have the right API tools to communicate dynamically with these different engines and make sure they work properly. We are pushing to make things as seamless as possible, to make it less people-intensive and cost-intensive for the manager; that’s the ultimate goal,” asserts Quinlan.

Quinlan says that the more Eze Software applications clients use, the better able they are to standardise data in terms of how they view it and use it, but concedes that this remains a huge challenge for large asset managers, who tend to use multiple data warehouses.

“When you talk about data management with these entities, it is a challenge because they might have multiple databases using different data formats. That said, I think the concept of a single, giant data warehouse concept is something they will try and stick with. I think they will try to eventually pull all of their multiple systems into one data hub.”

If so, the investment process will likely become more dexterous, allowing firms to optimise their decision-making across strategies, geographies and asset classes.
“Of course, this technological revolution has not been lost on fund managers. One high-profile example is New York-based Protégé Partners, one of the industry’s leading seed investors. As part of its roadmap to look for tomorrow’s future talent, Protégé established a separate entity named MOV37, whose modus operandi is to invest in what it calls Autonomous Learning Investment Strategies (ALIS).

Jeffrey Tarrant, CEO and Founder of MOV37 and CEO, CIO at Protégé Partners, explains how he arrived at the Eureka! moment: “A couple of years ago when I was at a Ted Talk in Vancouver, I heard Jeremy Howard speak on the future of Artificial Intelligence and how computers were already on the cusp of surpassing human performance in many tasks. Shortly thereafter, I met a fund that was modelled after Graham and Dodd’s value investing philosophy but was able to analyse every public filing, such as 10Qs and 10Ks since inception. This further confirmed my belief that this was the future of investing.”

In a fascinating white paper – The Intelligent Investor in an Era of Autonomous Learning – Tarrant details the rapid arc of AI capabilities, which culminated last year when AlphaGo, an AI system developed by Google DeepMind, beat Lee Sedol, the world’s best Go player, demonstrating an incredible ability to not only think like a human being, but surpass one.

The idea behind ALIS is essentially that the coming together of man, machine and data science is set to create the ‘third wave’ of investment management. The first wave were fundamental discretionary investors, says Tarrant. The second wave were computational science, systematic quantitative managers who used hypothesis-driven programming and structured financial data.
COMPREHENSIVE COVERAGE FOR BUY-SIDE SURVEILLANCE REQUIREMENTS

With over 20 years of experience as the industry benchmark for cross-market surveillance platforms, Nasdaq SMARTS technology powers surveillance and compliance for 45+ marketplaces, 17 regulators and 140+ market participants with coverage spanning 139 markets globally.

For the buy-side, Nasdaq’s technology meets specific data needs covering all points on the trade lifecycle, from parent order through child order to trade execution, helping provide transparency for potential manipulative behaviors at every angle.

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Ask buy side firms about the areas where they are most vulnerable to legal action, and they will likely put insider trading on the list. In the last few years, regulators around the world have shown their willingness to investigate and prosecute insider trading cases, and levy severe fines and penalties. Importantly, the firms involved have suffered significant damage to their reputation.

To successfully prosecute an insider trading case, regulators generally need to prove that the person was in possession of the information, and that the person then acted on it. Each region takes a unique approach to insider trading. In the US it has traditionally centred on the violation of a fiduciary duty, for example, whereas in the EU the approach is much broader.

Buy side traders often come into possession of price-sensitive information in their interactions with companies. They need to be able to control that information and ensure that it is quarantined. Yet, a February 2015 review of surveillance in buy side firms conducted by the UK's Financial Conduct Authority (FCA) showed that standards need to be improved. According to the FCA, firms particularly need to pay more attention to the possibility of receiving inside information through all aspects of the investment process and take steps to manage this risk.

Given the high stakes, buy side firms need sophisticated technology to monitor for insider trading. These systems have algorithms that look at activity in a security around the time of price-sensitive announcements. They also monitor specific accounts, as well as activity done by an individual trader or group of traders.

An alert may be generated if, say, an individual normally trades a few thousand shares a day in Company A, and then a few hours before an announcement that person trades several times that amount. Setting up a new account with a different broker could raise a red flag because someone who is planning to trade on inside information typically will not deal through an established account. The type of instrument being traded may generate an alert as well. For example, buying out-of-the-money call options very close to the expiration date could be suspicious.

A holistic surveillance solution monitors market data such as orders, amends and cancels as well as electronic communications. Ideally, it should leverage machine intelligence to understand and decipher electronic communications, and link it to trading alerts. That is because collusion often occurs through emails and chat rooms, and certain language may be used to mask the activity. The solution should be able to visualise both the parent order within the market context as well as related execution quality analytics for each executing broker, trader or portfolio manager.

Ultimately, surveillance is a cost of doing business nowadays. The penalty for not preventing and detecting insider trading would likely far outweigh the necessary investment in technology. The good news is that solutions are scalable, so buy side firms of all sizes can monitor their trading activities cost effectively.

For a full list of buy-side surveillance recommendations, please download Nasdaq’s recent whitepaper Inside Out: What buy side firms should know about monitoring for insider trading.
“The third wave are ALIS managers who use machine learning, which is typically data (rather than hypothesis) driven and unstructured and non-financial data (rather than structured financial data).

“The first wave was run by MBAs, the second wave was run by PhDs in finance and the third wave is run by PhDs in science, machine learning, robotics, computer science and other similar fields.”

Michael Weinberg is Chief Investment Strategist at Protégé Partners and a Partner at MOV37. He says that the key reason investors should be excited about ALIS managers, is because they are for the first time “viable now”.  

“It is a confluence of five factors that makes these strategies possible and these factors didn’t exist previously. First, the massive growth in unstructured data. Second, the field of data science. Third, the record decline in data storage and processing costs. Fourth, machine learning is working better than it ever has over prior decades. And fifth, we are in an era that is not conducive to fundamental managers getting better information. Now, systematic strategies have an advantage to fundamental, discretionary ones.”

“Our team has spent the last two years going around the world meeting with approximately 135 ALIS managers. For context, one of the preeminent database providers only has approximately 25 such managers in its database,” outlines Weinberg.

This is just one example of how the funds industry might start to embrace AI systems to create centaurs; humans and machines joining forces to produce the third way of investing referred to above.

The best managers have robust systems that are in fact learning, using unstructured non-financial data, and derive their profit over multiple securities, market regimes, sectors and on both the long and short-side.

“We do not tend to invest based on back-tests, hypotheticals or pro-formas. These managers also generate returns that are alpha, not beta, driven and have little to no, or even negative, correlation to the hedge fund and long-only indices,” adds Weinberg.

There are concerns, perhaps legitimately, that AI systems, left unchecked, could use their powers for malign reasons. In a portfolio management context, one example often cited by Elon Musk is that an AI system could go long defensive stocks, short consumer stocks, and initiate a global conflict to maximise profits; there would be no human empathy involved.

Ganeshalingam concedes that AI will cause human roles to changes but not too drastically. People will be equipped with better tools with which to make better decisions, whilst achieving operational efficiencies along the way.

“It’s a complementary service, at least in the near term. In the long term, it will depend how the technology evolves.

“At the RBC GAM Innovation Lab, we are more focused on applied innovation i.e. looking at existing capabilities within the business, and working out how to better position RBC to be a better positioned with clients in the marketplace.

“We want to spend time understanding the capabilities of existing technologies, and design a strategy around applying the internal AI research in parallel to understanding the challenges in the investment management space. The short of it is RBC is investing significant resources and capital to be a leader in the AI and machine learning space,” concludes Ganeshalingam.

Sources:
Let us help you put your organization on a path to positive disruption.

We’re inspired by great innovators who came before us, the ones who believed it was possible and then proved it. That’s why our clients count on Confluence in today’s unpredictable regulatory reporting world.

Unity NXT™ Regulatory Reporting

Confluence re-imagined and developed one platform to address current and future regulatory requirements. **Unity NXT Regulatory Reporting** is our strategic, data-centric regulatory reporting platform.

Powered by Synapse™, **Unity NXT Regulatory Reporting** enables asset managers and asset servicers to deliver multiple post-trade regulatory filings through one system, finally empowering them to respond to constant regulatory change.

With Unity NXT Regulatory Reporting, your data works for you – not the other way around.

- Integrate, aggregate and re-use data to eliminate redundant processes
- Consolidate business operations across European jurisdictions
- Deliver solutions across the asset class and liquidity spectrum
- Reduce the constant maintenance of processes across disclosures

“In the middle of difficulty lies opportunity.” – Albert Einstein

RegTech Positive Disruption

Let your data work for you, not the other way around.
Confluence, one of the investment management industry’s leading reporting, data management and analytics companies, delivers technology as a solution to enhance the operational efficiency of its clients. The platform supports a vast array of clients globally running mutual funds, ETFs, alternative investments, institutional portfolios and UCITS funds, as well as eight of the 10 largest global fund administrators.

With regulation becoming such a burden on investment managers, technology has needed to up its game and deliver automation where possible. In that regard, Confluence is well placed. Its Unity NXT™ Regulatory Reporting platform handles clients’ post-trade reporting requirements in a single environment and allowing them to remove much of the regulatory complexity.

Crucially, the Unity NXT platform is ready to start supporting clients’ data integration and reporting needs under the SEC’s latest regulatory introductions, Form N-PORT and Form N-CEN.

"Form N-PORT and the liquidity rule under SEC Rule 22e-4 have added a ton of pressure to the US registered investment management community," says Thomas Pfister, Global Head of Regulatory Reporting Solutions. "They’ve never had to do this level of reporting, to this scale, on this frequency, before. Firms will need to provide new data points that weren’t included in any of their previous business reporting processes and source those data points. As a result, they need new infrastructure, new teams, new expertise and new technology that previously wasn’t designed to handle or facilitate thousands of different disclosures every single month.”

This places a lot of pressure on investment firms, who are pushing through the demand for innovation onto their technology partners. Pfister estimates that if firms spent an hour or two reviewing each of the disclosures under Form N-PORT “it would cost the industry in the region of USD25 million per year”.

Most investment firms cannot justify that cost. As such, Confluence and others have to be able to provide the technology that empowers their clients to do this activity as quickly and efficiently as possible.

In simple terms, Form N-PORT is a portfolio reporting form that impacts all US ’40 Act mutual funds and ETFs. Each US registered fund will need to provide portfolio-wide and position-level holdings and file within 30 days, every month, to the SEC.

The form will require data on the funds investments, including:
- Data related to the pricing of portfolio securities;
- Information regarding repurchase agreements, securities lending activities, and counterparty exposures;
- Terms of derivatives contracts.

“The report has a number of different data points on positional risk information, portfolio risk information, some ledger-based accounting information and static information, which the SEC wants in order to facilitate its systemic risk monitoring activities.

“The final rule was introduced last October. At that time, the initial challenges were: Where am I going to source this extra external data from? What are the data gaps? What technology will I need to use to do this?

“Today, the biggest challenge, and one
that people still haven’t yet addressed, is:
How is this actually going to work? How
are teams going to function? How are they
going to interact with external and internal
reviewers? If you’re using a third-party
service provider, how will that provider
interact with the investment manager
to ensure the filing is done accurately and on
time? And what will the oversight model look
like in that arrangement?” explains Pfister.

These questions all relate to the central
crux of the issue: namely data management.
How are investment managers going to
report on thousands of funds in an efficient
way, every month, without having to hire an
army of people?

“We have the infrastructure in place.
Firms don’t want to have to hire 50 new
accountants. They want to depend on
technology to push their process automation
capabilities, which in the future likely includes
a rise in robotic process automation (RPA).

“We see clear benefits to machine
learning and RPA. Both are in alignment with
our long-term technology strategy. We are
delivering the initial piece of this right now:
large-scale, cloud-based data management
for our clients.

“That allows us to learn user activities, to
learn process routines and other redundant
activities. It’s really a shift away from
on-premise, piecemeal solutions, to a more
comprehensive platform-based solution
that delivers bigger predictive data sets.
That is the direction we are heading in,”
outlines Pfister.

Platform technology has become, in many
ways, the saviour to investment management
firms. The volume and complexity that
firms have to handle on a daily basis today
has grown exponentially over the last
five years. Firms cannot be expected to
bear the burden of that data management
challenge internally from a technology
perspective. Which is why technology groups
like Confluence, who have the scale and
infrastructure to future proof against further
regulation in years to come, have become
key partners.

Pfister confirmed that Confluence has
just released a solution that will centre
around task-based automation, initially
targeted at the production of recurring
financial statements. The aim, he says, is

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Thomas Pfister, Confluence

for the system to begin to take over a lot
of the manual tasks our clients have to
do in relation reporting and monitoring. In
conjunction with RPA, we think this will be
the future. That’s where you will start to
see real gains (and a reduction in repetitive
manual tasks).

Not only is the sheer volume of data to be
reported on expanding at a rate of knots, the
time in which firms have to respond is getting
shorter and shorter. And in Pfister’s view, the
timeframes are only going to get tighter.

“I see no reason why the opposite would
be true,” he says. “We are trying to help
clients get to the point where they can do
an efficient exception-based review, as
quickly as possible, so that they’re not doing
spreadsheet gymnastics as might have been
the case in the past. We are helping them to
automate as many tasks as possible.

“We are already making inroads on this
with our regulatory reporting solution, which
will support Form N-PORT. It’s a long journey
though, and we’re only just in the early
stages but it’s an exciting time.

“Our offerings include a whole host of
shareholder communications-based solutions
that deliver the right data to the client (and
their clients) within the right timeframe. The
automation in our platform builds efficiencies
to help clients lower their IT footprint and
focus more on what they do well, which is
maximising value to their investors.”

Pfister concludes by observing that
technologies like blockchain are still in
the early stages but are showing some
encouraging results, as is the case for
robotics and machine learning: “Some of our
clients are using this technology in their front
office. It hasn’t trickled down into the middle
and back office yet but we fully expect
it to over the coming years and we plan
to be there, right at the forefront of those
developments.”
Hedge fund managers are leaning on their technology partners more than ever as they seek to automate the investment management lifecycle, front through back. With regulation such as MiFID II just around the corner (it comes into effect 3rd January 2018), European firms in particular will need to address gaps in their IT infrastructure to ensure they adjust to the regulation as seamlessly as possible. As we reveal below, robotics and AI could solve many of the complexities of managing data in this complex regulatory environment.

This March, Eze Software released a new Trade Importer feature for Eze OMS, to improve the ability to import trades captured in Excel and provide fully integrated pre-trade compliance and position checking. In January, Eze Software improved its Reconciliation Summary dashboard for portfolio accounting, to give users a daily summary of reconciliation status by broker and fund, an at-a-glance view of unreconciled cash balances by broker and currency, and the ability to sort data.

In addition, it added the IDC Remote Plus data feed. This means that users can now download global financial data for pricing for all security types, benchmark yield downloads and corporate actions.

David Quinlan is Executive Managing Director, EMEA at Eze Software. Talking RPA technology and AI will enhance hedge fund client relationships

By James Williams
In June this year, Peter Salvage joined BNY Mellon in the newly created role of Global Head, Hedge Fund Services. Prior to this he worked for SS&C Technologies Hedge Fund Services where he was Managing Director. As part of his mandate to grow BNY Mellon’s hedge fund services business, Salvage will be involved in the enterprise-wide delivery of comprehensive solutions to the marketplace.

In his view, the technological impact over the last few years has been limited compared with what is about to come. The real jump, says Salvage, will come “in the next few years” with widespread usage of machine learning and artificial intelligence as each leaves the proving stage and goes into production. “We’ll see cost and error rates come down and delivery times speed up. We’ll see meaningful mining of middle and back office big data with real insights into operational performance and investor behaviour,” comments Salvage.

BNY Mellon is taking inspiration from FinTech to support its hedge fund clients. Its new data delivery platform, Nexen, delivers data faster and more flexibly to clients, displaying the results with an advanced user-centric design. “We’ll see cost and error rates come down and delivery times speed up. We’ll see meaningful mining of middle and back office big data with real insights into operational performance and investor behaviour,” comments Salvage.

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The convergence of fund administration and FinTech

By Robin Bedford

As the rate of change in the fund administration industry continues to increase, the ability to remain nimble becomes of critical importance. In a period of active industry consolidation, failure to remain ‘relevant’ results in being absorbed into a stronger more dynamic competitor.

Opus was born at the start of the global financial crisis and after a decade of significant investment, we have transformed the fund administration world. Hedge funds and their investors have been a major beneficiary of these changes, with increasingly sophisticated services delivered at a fraction of the historical cost.

Opus has embraced the disruptive nature of FinTech to sharpen operational efficiency and respond to the demand for more innovative services. We have driven down cost to service by focusing on a repeatable, scalable process driven by technology, not headcount.

The forces shaping industry change demand that the role of the fund administrator increasingly needs to also be that of a technology services firm, rather than simply a provider of financial services. The influence that FinTech is having on the fund administration industry is growing and the long-term demands will be even greater.

Whilst disrupting business models of legacy administrators, Opus also disrupts our own operations by introducing a culture where everything is challenged. Opus uses the vast amounts of data collected from over 450 clients to challenge innovation inside Opus. This culture of innovation allows us to bring solutions to market quickly, such as our recent OpusNotes™ product release for the marketplace lending space.

Whilst much of our competition relies on off the shelf solutions, we operate under the assumption that this stifles the innovation process. The inherent operational hurdles of off the shelf technology are a cost driver, as many of the required processes are manual and cannot be overridden. Administrators must fit their processes around the technology. Whereas Opus can build technology to fit our exact needs, which ultimately provides a better client experience at a lower price.

Prioritising the innovation process has been key for Opus given the opportunities and benefits of focusing on FinTech innovation. Allocating considerable capital to initiatives that leverage new technology development allows us to respond to the ever-changing demands of our clients and their investors. Opus has focused on hiring and retaining people with the necessary skill-sets needed for innovation, resulting in a rich culture of innovators within the company.

The rapid evolution of the fund administration industry is a major barrier to entry which will result in further consolidation over the next five years. Whilst fund administration has traditionally been slow to change, new managers entering the market expect the same level of service and innovation that they get from the innovative companies in other sectors/industries. It doesn’t take 20/20 vision to see that only those players nimble enough to meet these standards will survive the decade.

Opus fully leverages our proprietary platform ensuring it is customer-centric, technologically up-to-date, and supportive of internal and external innovation efforts. To remain a leader, innovation is embedded in our culture and strategic agenda. At our company, we are constantly asking ourselves what can we do to ensure that we continue to disrupt the industry.
“We are designing this whole client experience working together with our clients. We are getting a lot of new energy from the set of global innovation labs that BNYM built in the last few years.

“Working directly with leading FinTechs is also a key part of our strategy. Nexen will be similar to an App Store for the middle and back office of hedge funds. We plan to make a collection of technology from across the industry available to our clients, not just BNYM developed services,” outlines Salvage.

Earlier, reference was made to regulation. The sheer volume of data points and variety of reports that middle and back-office teams have to work with, either internally, or by relying on third parties to organise and cleanse the data for consistency, is enormous.

Any automation that can be introduced to make this task less onerous is to be welcomed.

One firm that is particularly focused on supporting their clients with regulation like Form N-PORT is Confluence. With thousands of reports across the industry being filed every month, machine learning and robotic process automation (RPA) could really come into its own to help ease these reporting challenges, according to Thomas Pfister, Global Head of Regulatory Reporting Solutions.

Asked what managers should look for when determining what cutting-edge technology looks like to handle these reporting tasks, Pfister provides the following thought: “First, it should separate the actual deliverable from the data so that you don’t introduce redundant processes and complexity downstream. If you separate those two with technology, you have a huge opportunity to optimise your downstream business processes.

“A second key feature I would look for is a platform that integrates all my employees and my external stakeholders into the same operating environment. Because regulations like Form N-PORT ask for information from across the organisation and from external parties, you need a way to bring all that together to review quickly, and do all the necessary reporting activities in a straightforward way.

“The idea of emailing a spreadsheet attachment to drive efficiency in one’s
More Intelligent Portfolio Management, Risk and Trading Solutions

Front-to-back office solutions for investment managers from risk through portfolio accounting

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What started off as a niche trend, whereby start-up fund managers would pick more suite-based technology solutions because they lacked the capital, or manpower, to operate multiple systems, has widened out in recent times.

According to Eric Bernstein, President of Broadridge Investment Management Solutions, “What we observe is that now mid-sized and larger hedge funds are also going best-of-suite instead of best-of-breed, for similar manpower and cost reasons. They are looking more closely at the cost of maintaining multiple systems because their margins are getting squeezed.”

The logic is that if they can get multiple functions from a single product, that gives them one source of truth, eliminating a lot of the inefficiencies that come with plugging multiple systems together and hoping that the data arrives in a consistent fashion.

“Another trend we are seeing, which I think is correlated, is a stronger desire to outsource manpower to firms like Broadridge to take care of reconciliation, reporting and so on;” says Bernstein, who expands on how to define best-of-suite: “What I mean is products that have multiple functions supporting multiple user types within an organisation, and which enable organisations to fulfil the investment management cycle. Everything from front-office idea generation and execution through to the back-office for clearing and reconciliation could be considered a cycle, and that cycle could consist of four or five different best-of-breed systems. In the best-of-suite scenario, it’s made up of one.”

Organisations that choose a best-of-suite solution get two clear advantages, says Bernstein.

“Firstly, whether I’m managing it internally or outsourcing it to a company like Broadridge, it’s still a single application that is much easier to maintain, with respect to the technology infrastructure. You have no risks associated with having to do upgrades for four, five different systems.

“Secondly, the fact that I can pass things easily across the chain, from order creation in the front office to checking position limits with compliance, through to the data warehouse for the middle office to do reporting – without ever leaving the infrastructure – is hugely advantageous. It means that everything is in real time. If you have workflows built in for checks and balances, compliance rules, etc, it all runs seamlessly in the background.”

Using disparate systems for compliance tasks and trade execution, one has to make a number of assumptions, the most important being that both systems have the exact same data. By not using a best-of-suite solution, it introduces risk because the data in the compliance system might not be the same as that in the PMS/OMS system.

By having all of the data stored in a single system, however, the compliance rules are based on the very same data used by the front office trader, which is also the same data used by the back-office accounting team.

“Our platform supports clients front through back. They have the ability to start their day by viewing the P&L in real time, their trading operations – everything from order origination through to drop copies sent back from counterparties – monitoring pre- and post-trade compliance, and pushing end-of-day position data to the back-office and to their respective counterparties.

“That whole chain of events is happening in a single database system, hosted and monitored by us,” concludes Bernstein.
organisation simply no longer applies in today’s regulatory environment.

“Also, you need a system that pushes efficiency and can adapt as new regulation is mandated and as changes to existing regulations are introduced. Both are growing exponentially, existing regulation changes and so you need a flexible system that is capable of evolving at the same time.”

One of the benefits of bringing greater automation into the middle- and back-office is that it will allow fund managers to streamline their data management workflows and begin to use consistent data for re-use in other tasks: such as reporting for Form-PF, Annex IV, CPO-PQR, etc.

Pfister agrees that there should be some re-usability of a manager’s operational streams. “If you are filing N-PORT every month, it’ll make other forms like CPO-PQR easier, Form PF will be easier because they will be sharing a lot of the same data points. Fund managers won’t need to solve these problems individually in silos, they will be able to take a more strategic approach using the right technology,” suggests Pfister.

Broadridge’s Bernstein confirms that RPA is the next area of focus, confirming that some pilot work in this area is already being conducted, “Where we are training robots to do traditional, mundane tasks; processing reconciliations, data and error handling, etc. The robots will be trained to act as an extension of the human side of the Broadridge business.

“Fund managers won’t need to solve these problems individually in silos, they will be able to take a more strategic approach using the right technology.”

Thomas Pfister, Confluence

“The aim is to take mundane tasks away from managers and allow them to focus on managing money. Going forward, we think robots could benefit us, as a firm, in the same way. It will lower our total cost of ownership in how we manage and maintain our clients, and allow us to pass those savings on to our clients.

“We think it is going to transform the way we interact with our clients by giving our staff the time to focus on more complex tasks,” suggests Bernstein.

To conclude, BNY Mellon’s Salvage says that one exciting trend emerging relates to asset flow data. BNY Mellon is using data mining to examine the big data it has access to as a large custodian and its relevance to hedge funds.

“The data tells us from where and when flows are moving in and out of the hedge space. Hedge funds can utilise this data to benchmark themselves and look for opportunities to raise capital that may otherwise pass them by.

“Another area is reconciliation. There is a lot of cost in our industry wrapped up in reconciling different views of the same data. We’re experimenting with robotics and machine learning to automate those tasks. The algorithm can study historical break data and learn the patterns that lead to breaks. It can be deployed to tell us exactly why breaks are happening and route them directly to teams that fix them. We’ve found that the accuracy rates are impressive and better than we predicted,” concludes Salvage.

As technology advances become AI and RPA-focused, asset owners and servicers alike could find themselves freeing up valuable time to grow their businesses and enhance client relationships.