InvestOps

by tradetech

Broadridge®

BUILDING A WORLD-CLASS DIVISION WITHIN OPERATIONS MANAGEMENT

“A must attend if you’re looking to streamline your investment operations division, support alpha gains and reduce costs”

Vincent Pasqualicchio
Director, Investment Operations
American Family Insurance

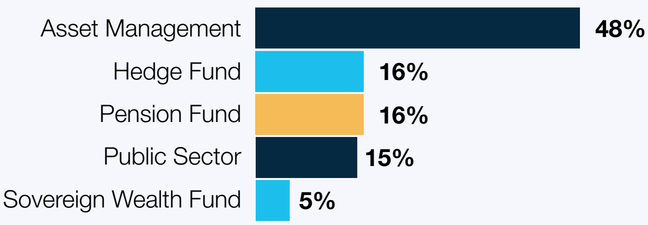
Contents

Methodology

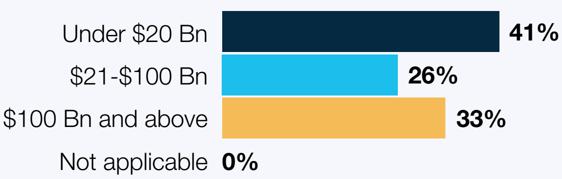
In Q4 of 2019 WBR Insights and Broadridge surveyed 100 Heads and Directors of InvestOps and those of a similar standing across The USA and Canada to find out more about the challenges they're facing, and the innovative solutions being brought to the table.

The survey was conducted by appointment over the telephone. The results were compiled and anonymized by WBR Insights and are presented here with analysis and commentary by the InvestOps US community and Broadridge.

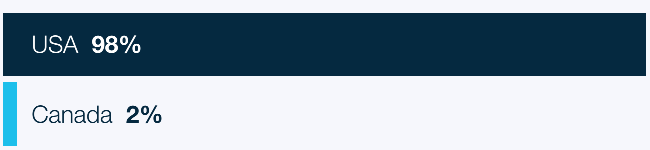
What is your firm's primary business?



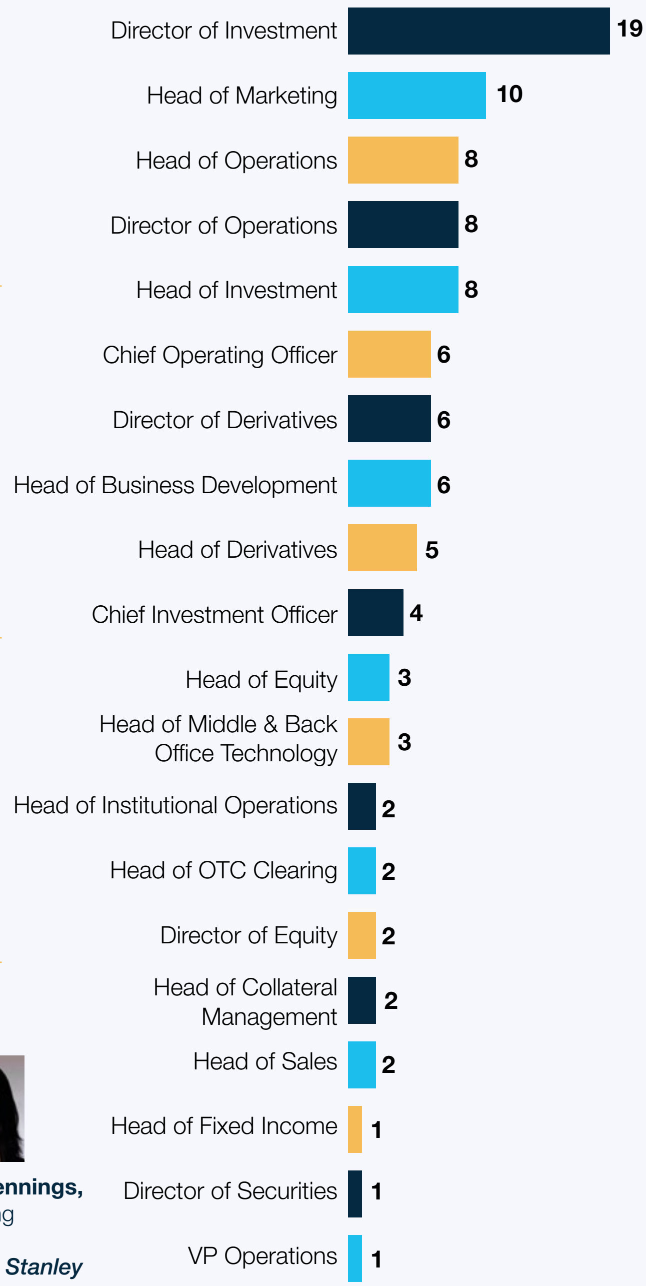
What is the AUM your firm manages?



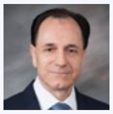
What countries/regions are you operating in?



What is your role?



Contributors



Vince Pasqualicchio, Director, Investment Operations, ***American Family Insurance***

David Easthope, Senior Vice President, ***Celent Group***

Sonal Ghelani Conference Director, ***Invest Ops US 2020***

Eric Bernstein, President, Broadridge Asset Management Solutions, ***Broadridge***

Ekko Jennings, Managing Director, ***Morgan Stanley Investment Management***

Clearing the Way for Alpha in Operations Management

Your World Is Changing

In today's competitive environment, your success relies on the ability to quickly introduce new products and generate superior alpha. At the same time, it's crucial to deliver the service and support investors expect—especially with respect to transparency and information access. Plus, you need to satisfy regulators, all while managing rising costs and dwindling margins.

It's no surprise that, according to this year's benchmarking survey, the top priorities for 2020 are decreasing operating costs and increasing operating leverage. Consolidation through M&A as well as fee pressures continue to weigh on the industry and drive change. To stay in front of these trends, asset managers are pursuing several strategic initiatives, including platform consolidation, process automation and outsourcing non-core capabilities.

Typically, legacy systems at many organizations are outdated and ill-equipped to meet today's challenges. Front, middle and back offices tend to use a variety of discrete point solutions, drawing on disparate data in multiple formats. Fragmented systems require significant investment in support staff for ongoing implementation and maintenance. Compounding challenges, each new asset class, geography and investment strategy adds more systems and more confusion to the mix. These inefficiencies make it extremely difficult and expensive to develop new products, offer unique fee structures or enter new markets.

In addition, isolated data means decision making is often based on incomplete and limited information. Asset managers don't always know existing positions or associated risk, which puts a drag on alpha and invites compliance issues. The inability to access a trusted, single source of data impairs your traders and portfolio managers, while frustrating clients and regulators.

Partner with Broadridge

Broadridge®

In addition to cutting costs, successful organizations find that the path forward is through creating the right architecture for operational systems. By consolidating a single platform, you can tie together multiple applications and associated data. Best-of-breed solutions simplify product creation because they include support for multiple asset classes, markets and fee models. A single architecture also facilitates greater customization, enabling you to configure operations to your unique business requirements. Plus, you can aggregate a golden source of data, giving you more powerful analytics, new insights, and easy data access.

Broadridge can help your firm create the right architecture. Our comprehensive solution includes broad asset class support along with deep functionality, empowering you to quickly create new products and fee arrangements. Scale faster and achieve greater agility with our cloud-based technologies. Gain a golden source of continuously updated data, so you can easily respond to inquiries from all constituents. Proven technologies combined with our hands-on expertise will help you counteract margin pressure, drive greater performance and achieve the level of transparency investors expect.

Talk to us about how to modernize—and future proof—your operations.

Eric Bernstein,
President, Asset Management Solutions,
Broadridge Financial Solutions, Inc.

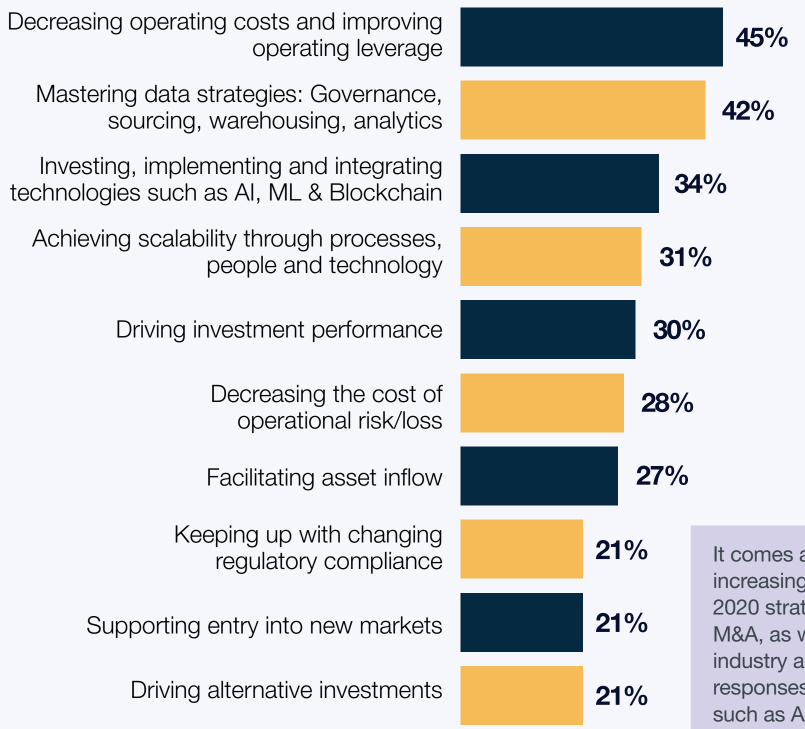
Part One

Operations Management: achieving scalability to gain a competitive edge

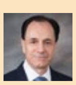
According to our respondents, 45% are looking to decrease operating costs and improve their overall operating leverage as their key strategic priority for 2020. The second highest strategic priority was mastering data strategies including governance, sourcing, warehousing, and analytics at 42%.

Decreasing operating costs and improving operating leverage was the key strategic priority for 45% of respondents in 2020

What are your strategic priorities for operations in 2020?



I think this is due to the pressure on reducing investment management fees and the decline in revenue growth. Also, some businesses have inefficient operating models and are not scalable for adding new businesses or asset classes.



Vince Pasqualicchio,
Director, Investment Operations,
American Family Insurance

Not only have revenues lagged behind asset growth, but costs have grown broadly in line with the revenues, putting the industry in a precarious position should AUM growth stall or fees get squeezed further. I'm also a little surprised that keeping track of regulatory and compliance obligations featured lower down in the rankings here, though many of those projects are related to mastering data strategies as well.

David Easthope,
Senior Vice President,
Celent Group

It comes as no surprise that decreasing operating costs and increasing operating leverage comes in as the top response for 2020 strategic priorities. Drivers such as consolidation through M&A, as well as fee pressure, are continuing to weigh on the industry and drive change. The good news is that the other top responses include implementing new cutting-edge technologies such as AI, ML and blockchain to achieve the first goal.

Evaluating data sourcing, governance, and mastering allow firms to increase operating leverage through platform consolidation and implementing affordable, efficient and scalable operational models. At Broadridge, we partner with our clients to determine the best approach to mastering data and provide a flexible data warehouse solution to curate, store, and visualize firm data and make it accessible to staff across roles and regions.

Eric Bernstein,
President, Broadridge Asset Management Solutions, Broadridge

I'm not surprised that the number one priority is to reduce costs. It makes sense because investment operations want to increase their profit margin and clear their trades as efficiently as possible. The best way they can do this is by reducing their operating costs during the clearing process of the trading cycle.

Part of the keynote session at 08:40 am on Main Day One, Wednesday 18th March, will cover three steps to achieve scalability and how you can achieve generating operational alpha by decreasing your operating costs.

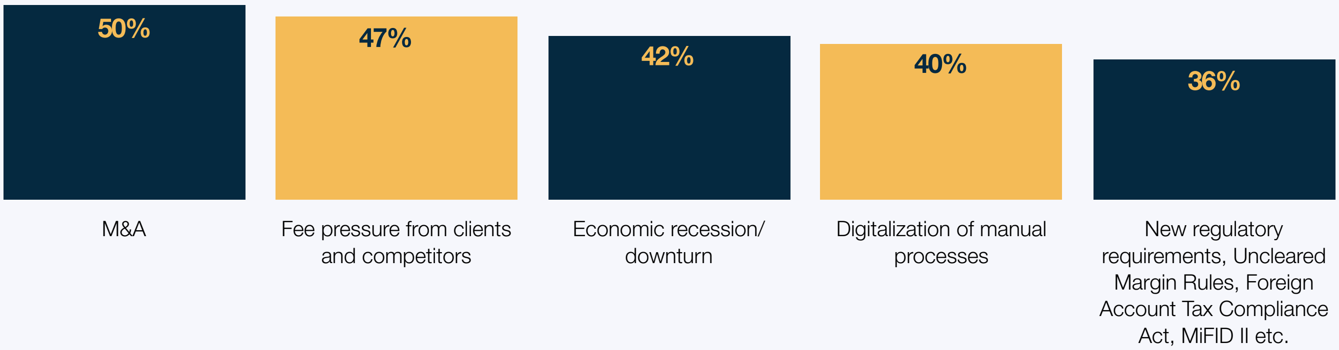
Sonal Ghelani
Conference Director,
Invest Ops US 2020

Some industry trends which are impacting buy-side investment operations, include innovative technology and the equity market downturn. The latter is causing higher margin pressures for buy-side firms with a medium AUM range.

Many buy-side firms are incorporating M&A into their overall operations strategy, as they take advantage of economic downturns to source cheaper deals. 50% of our respondents cited that M&A would have the biggest impact on their business operations in the next year.

Mergers and acquisitions were the trends which would have the most impact on business operations according to 50% of respondents

Which industry trends are going to have the greatest impact on business operations in 2020?



I feel companies will look to acquisitions and mergers to grow the businesses. The challenge is to interpret the people, processes and technologies to gain the leverage and operational efficiencies that are required to support the ROI for the M&A.

Vince Pasqualicchio,
Director, Investment Operations,
American Family Insurance

Looking at the data here, it's a little surprising that M&A was cited as the main area of impact to business operations. It could indeed be the case, especially if you're consolidating core systems and operations which can be quite distracting during an M&A. But, I believe that competitive pressure and the possible return of volatility are also top issues worth taking into consideration.

David Easthope,
Senior Vice President,
Celent Group

These industry trends shape the strategic priorities that asset managers are setting: platform consolidation, process automation, and outsourcing non-core capabilities.

Eric Bernstein,
President, Broadridge Asset Management Solutions, Broadridge

Key trends affecting buy-side investment operations teams in the next five years

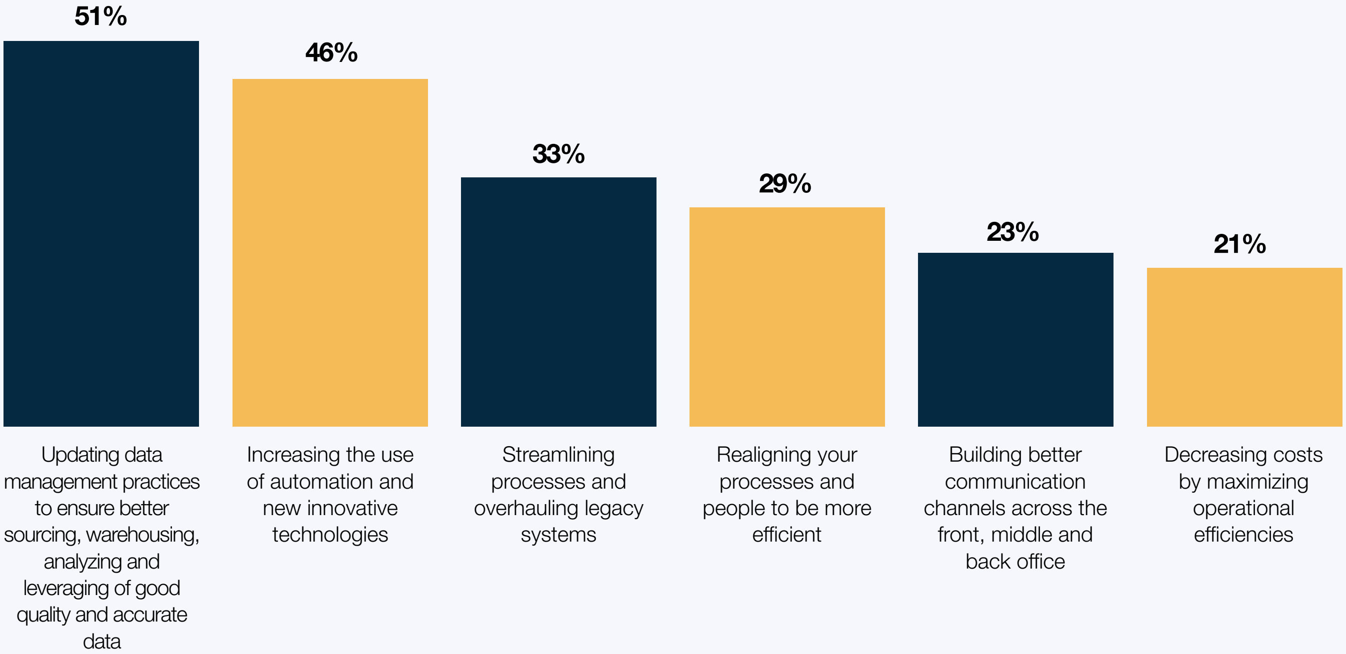
- Increase in the shift from active funds to passive funds including ETFs, alternatives and specialties
- Progression of multi-asset trading and greater depth of available investment asset classes
- Increase in the demand for personalized outcome-driven investment solutions
- Maintaining a level of agile operational management with a streamlined organizational structure
- Technological enhancement through the introduction of next-generation innovations
- M&A capital divestment from established businesses to overseas markets

Many investment operations managers are starting to focus on data management and are adapting their target operating models (TOM) accordingly. By re-organizing how data is managed and processed within their businesses, it is much easier to implement innovative technology and increase productivity.

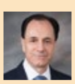
According to 51% of our respondents, updating data management practices is the most challenging area they're facing. This was closely followed by increasing automation by implementing innovative technology at 46%.

Our respondents are most challenged by updating data management practices and increasing automation through the use of new innovative technology

Which of the following is most challenging for your firm's strategy in the next 18 months to 2 years?



This has always been a problem. It takes a long time to effectively implement a data management program with governance, improved data quality and integrity and reporting. Plus, it needs strong sponsorship and a plan to deliver valuable results along a reasonable timeframe.



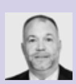
Vince Pasqualicchio,
Director, Investment Operations,
American Family Insurance

It's hard because it involves many different groups such as, multiple back offices which could be affected by silos (asset classes and business lines). This requires an up-front investment of time and C-suite energy as well, which is where some firms can struggle.

David Easthope,
Senior Vice President,
Celent Group

An emerging theme with the survey responses this year revolves around streamlining operations, technology innovation, and data management. As Asset Management firms look to focus on high impact areas of their organization, they are looking to automate routine maintenance tasks, whether it's front middle or back-office operations. Regulators are requiring more reporting on an increasing number of metrics, which increases the demand on firms to produce and house data.

Thus, it comes as no surprise that the top two responses to this question are challenges around data management and streamlining organizations. Increasingly, firms are looking for fully integrated solutions that combine a traditional IBO – which covers position keeping with portfolio construction, trade execution, and risk management functions – with a flexible data warehouse that allows for enhanced reporting. Reporting requirements include those needed to meet regulatory needs and visualization requirements around time series analysis.



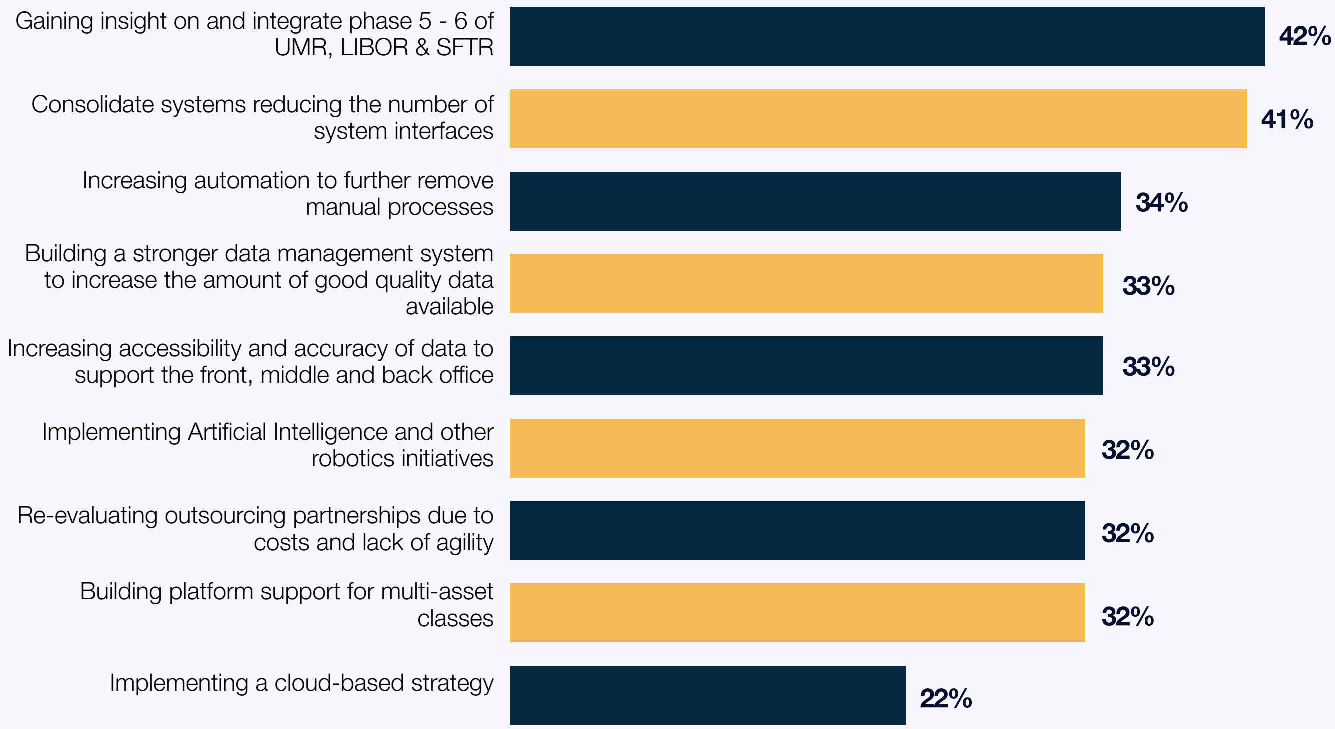
Eric Bernstein,
President, Broadridge Asset
Management Solutions, Broadridge

According to our respondents, gaining insight on and integrating the final phase of UMR, LIBOR and SFTR was the area where firms would need the most help to achieve their strategic priorities in 2020.

However, the recent news that BCBS and IOSCO have allowed an extension of the last phase (5 – 6) of the Uncleared Margin Rules (UMR) will be welcomed by many buy-side investment operations managers.

The majority of our respondents cited integrating recent regulation changes and consolidating systems were the areas where they needed the most help in 2020

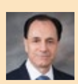
Where do you need the most help achieving your strategic priorities in 2020?



I think that a key challenge is related to having many multiple back offices. which makes change management and compliance difficult. There also tends to be a focus on meeting deadlines over real strategic planning on implementing next generation technology.

David Easthope,
Senior Vice President,
Celent Group

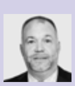
I feel that companies which are struggling with complex and multiple interfaces are experiencing this challenge due to legacy architectures built from a bottom-up model. Typically, these architectures are put together in a piecemeal way rather than designed as an integrated solution. Also, they might be using old technology that's not leveraging the "publish and subscribe" gold copy concept.



Vince Pasqualicchio,
Director, Investment Operations,
American Family Insurance

Whether they are considered active or passive, Asset Managers are continually looking for product innovation. Product innovation for firms can come in the form of expanding into new asset classes or creating new multi-asset class products. Many investment management platforms are single asset class solutions or cannot provide enough coverage across the many security types traded in today's global markets.

Firms are thus looking to providers that can provide support across the multi-asset class spectrum. Furthermore, given the rapid nature of change, firms are looking to cloud-based strategies that allow for faster time to market for new products, as well as rapid build and deployment of new features on these platforms necessary to support these new products.



Eric Bernstein,
President, Broadridge Asset
Management Solutions, Broadridge

Those firms specializing or heavily trading in uncleared derivatives between $8 – 50 billion dollars now have until September 2021 to get their houses in order.

Those firms specializing or heavily trading in uncleared derivatives between $8 – 50 billion dollars now have until September 2021 to get their houses in order, before phase 5 – 6 of these regulations are to be enforced.

All buy-side investment operations managers who will be affected by the new UMR rules are faced with a greater amount of reporting, reconciliation, monitoring, and operational liability.

One way that the operational burden of UMR regulations can be addressed is through the integration of next-generation trading technologies. This can help to unbundle liquidity from credit restraints and help to resolve the amount of administration required during this process.

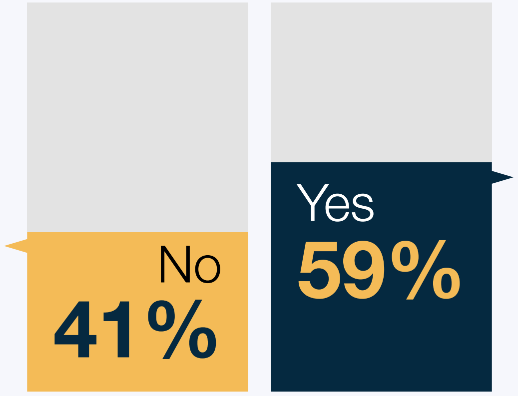
Not only that, but this new technology can also help traders to identify and access all new pools of liquidity which were previously unavailable. This can include non-bank market makers who provide less regulated forms of liquidity and peer-to-peer trading can also be accessed at a greater level too.

To achieve scalability, more buy-side investment operations managers are choosing to use managed services through outsourced providers. 59% of our respondents are using managed services as part of their scalability strategies, compared to 41% who aren't using managed services. There are still some concerns regarding the overall reliability and success of outsourcing to third-parties with regards to how they themselves are operating, as they differ from the more familiar agency brokers.

Of the 59% who answered 'yes' and are using managed services to achieve scalability, 31% cited they're aiming to implement them in the next 12 months. 29% are planning to implement managed services in the next 1 - 2 years and 24% within the next 3 - 5 years.

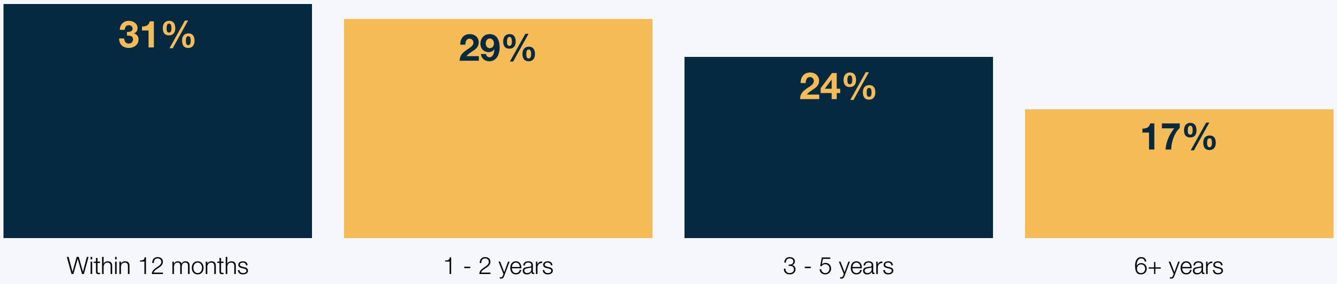
59% of respondents are using managed services as part of their strategic plan to achieve scalability

Are managed services, such as operations outsourcing, part of your strategic plan to achieve scalability?

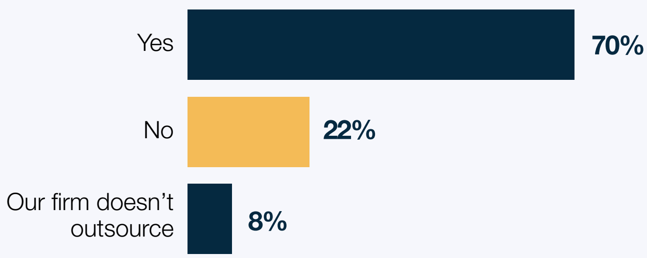


For those respondents who are incorporating managed services into their scalability plan, 31% are aiming to achieve this within 12 months

If answered "Yes" to the previous question, what is your time frame for implementing managed services?



Do you have the right mix of insource/outsource to gain a competitive edge?



70% of respondents think they have the right mix of insourcing and outsourcing within their firms

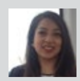
A staggering 70% of our respondents cited that they had the right mix of in-sourcing and outsourcing operations within their firms to maintain a competitive edge. Just 22% answered that this level wasn't able to meet their competition and 8% cited that their firms don't outsource any investment operations at all.

We asked our respondents to explain their reasoning for outsourcing further. Their experiences of maintaining a mix of insourcing and outsourcing include: diversified expertise is more available, cost reduction, uninterrupted services, greater levels of operational resilience, and increased market participation.

On the other hand, those who aren't currently outsourcing at all cited reasons that include, outsourcing is not part of their operations strategy, lack of internal space which can be outsourced and concerns over the lack of control firms have over their outsourced services.

According to our research, a clear trend is emerging that the future seems to hold higher levels of outsourced managed services for buy-side investment operations divisions.

> One of the biggest challenges for investment operations managers is that their firms are finding it difficult to get their outsourcing strategy correct. In some cases, firms have outsourced a lot of their processes are now starting to think about bringing some back to be managed in-house.
>
> It comes down to understanding what works for your business and what the right strategy is that will benefit the company overall. The Buy-Side Keynote 09:00 am session on Day Two of the event will cover this topic in greater detail and is a great opportunity for those to learn how to move from outsourcing to rightsourcing



Sonal Ghelani
Conference Director,
Invest Ops US 2020

When asked to explain their reasoning further our respondents said:

Those who answered **Yes**

- ✔ "We have freed up more space for innovation by outsourcing."
- ✔ "Diversified expertise are generated with the right balance of insource and outsourced activities."
- ✔ "In order to increase the outreach of trading activities we have outsourced certain processes from this year."
- ✔ "Subsidiaries help us provide all-round services which does provide a competitive edge."
- ✔ "There is more focus on outsourcing in order to maintain operations within a certain cost limit."
- ✔ "We remain competitive because of our strategic balance between insource and outsourced activities."

Those who answered **No**

- ✗ "We are losing some of our outsourced activities to automations but that hasn't got us off the competitive hook."
- ✗ "There is no internal space that we feel could be freed-up by outsourcing processes."
- ✗ "The knowledgebase that we possess internally leaves no room to outsource any business activities."
- ✗ "Performance and competitive edge are maintained in the lower middle market that we operate with the current set of internal operations."
- ✗ "We specialize in every department which leaves no room for outsourcing."
- ✗ "More insourcing is increasing the pressure on costs and wages."

The majority of our respondents' firms don't have a single solution for start of day cash and position balances. There was an even split of 47% each between our respondents who are relying on manual processes and spreadsheets and those who are relying on feeds from custodians, fund admin, or third-parties.

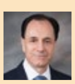
The areas of core accounting, reconciliations and cash and position balances were traditionally timely manual or semi-automated processes for buy-side asset managers.

Increasingly, more third-party providers are offering investment operations manager's new outsourced technological solutions to complete these processes and help them reduce time and costs.

Manual processes such as spreadsheets and feeds from custodians, fund admins and third parties are the most popular methods used in lieu of a single solution for start of day cash and position balances

In lieu of a single solution, how has your firm overcome challenges related to providing accurate and timely start of day cash and position balances?

We have developed an IBOR and ABOR and perform daily recons to insure we have accurate SOD cash and positions. This is an example of how we're using automation to reduce manual processes.

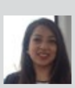


Vince Pasqualicchio,
Director, Investment Operations,
American Family Insurance

The key issue here is data management. It all starts with data. If the data isn't managed correctly then it's much harder to implement innovative technology to help automate manual processes. Then of course, you have to convince the C-suite and re-align silos and legacy systems that can halt progress.

David Easthope,
Senior Vice President,
Celent Group

There will be some sessions at the event which closely look at moving away from manual processes towards incorporating automotive technologies such as RPA. The session on Main Day One is about data which will also cover how data is stored and managed. The data generated as part of the start of day cash and position balances process is naturally sensitive and data breaches and inconsistencies are more likely when this is stored in unsecured, manual spread sheets.

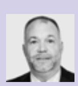


Sonal Ghelani
Conference Director,
Invest Ops US 2020

Two major challenges organizations face when undertaking a large business transformation is getting buy-in across the organization to change the culture, attitude, and outlook as well as securing budget for the transformation.

While both are required to partake in a business transformation, changing internal culture is the most difficult task, and when the culture is not ready or willing to change, then the status quo remains. The status quo is manual processes, spreadsheets, and over-reliance on third-party data feeds. As revenue growth is predicated on AUM growth, there is a point where having primary reliance on these manual and outdated process flows becomes a hindrance to further growth.

Implementing a 'Best of Suite' solution eliminates the need for manual task maintenance in spreadsheets, and centralizes the intake of feeds from Custodians, Fund Administrators and other Third Parties. Once these automated, centralized processes are created and practiced throughout an organization, it will allow the organization to continue to grow AUM and revenue while minimizing pressure on operating margins.



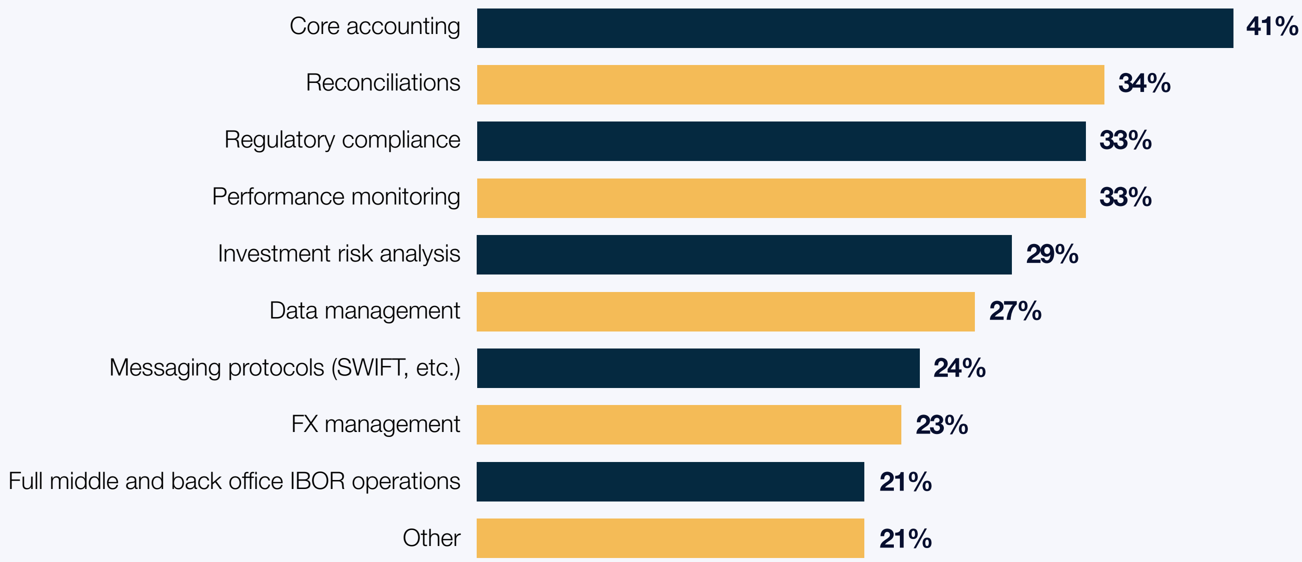
Eric Bernstein,
President, Broadridge Asset Management Solutions, Broadridge

It's clear from our survey data that a large number of buy-side firms that are outsourcing key areas of their operations management to save time and reduce costs.

41% cited they outsource core accounting operations, 34% outsource reconciliations and 33% are outsourcing their regulatory compliance.

Core accounting, reconciliations and regulatory compliance were cited as the areas which were most popular for outsourcing

Please identify the areas of operations that are outsourced at your firm



I think there are many firms providing this service and they can handle the obligatory multiple basis of accounting and the ever-changing regulatory requirements. I think in some business cases it's a cost play or lack of ability to sustain the staff needed to support it. It also frees up the staff to focus on reporting and other high value initiatives. The only question I have is when firms outsource this function and then feel it necessary to perform shadow accounting.

Vince Pasqualicchio,
Director, Investment Operations,
American Family Insurance

Outsourcing will be one of the three key areas which investment operations teams are looking at right now. Whether they're firm is a large-scale asset manager or a small multi-tier firm all firms in some form will need to outsource an area of their operations management.

Many firms are currently outsourcing regulation compliance and accounting because these processes, in particular, are time consuming and require a lot of internal staff resources to deliver and manage them appropriately.

Sonal Ghelani,
Conference Director,
Invest Ops US 2020

I believe buy-side firms are at a point in their outsourcing maturity curve where easier outsourced functions have been implemented. At the same time, there are many innovative Fin-tech firms with customizable end-to-end buy-side solutions for operations and technology outsourcing. Choices abound if you do want to pursue more value-add outsourcing. Factors for success will include how outsourcing solutions can plug into your support platform efficiently without creating excess structural complexities.

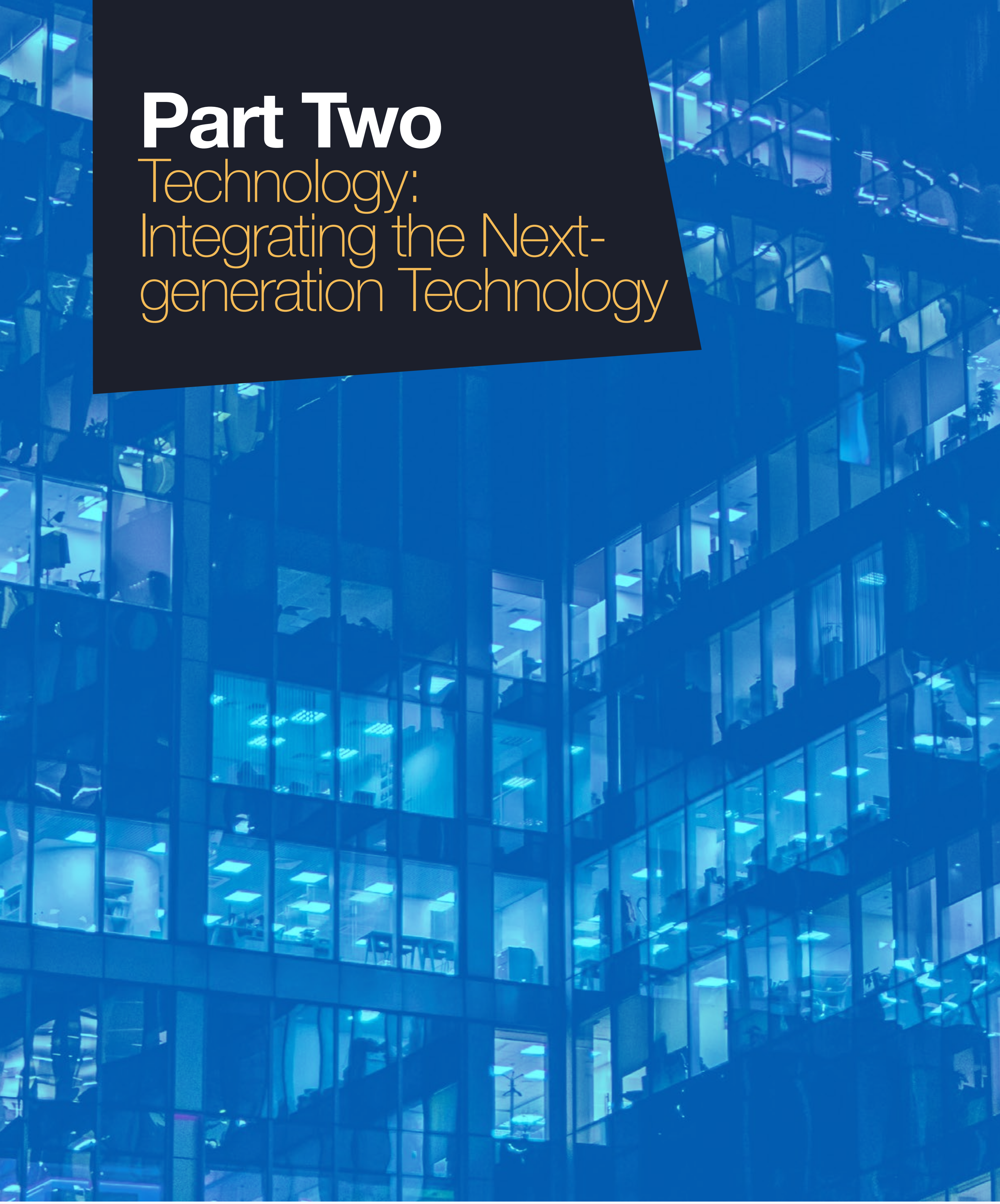
Ekko Jennings,
Managing Director,
Morgan Stanley Investment Management

The availability of external expertise, workflow tools, software vendors and custodians is why I think these are such popular areas to outsource. It's non-strategic really and there are mature vendors available in the market that can provide these services.

David Easthope,
Senior Vice President,
Celent Group

Part Two

Technology: Integrating the Next-generation Technology



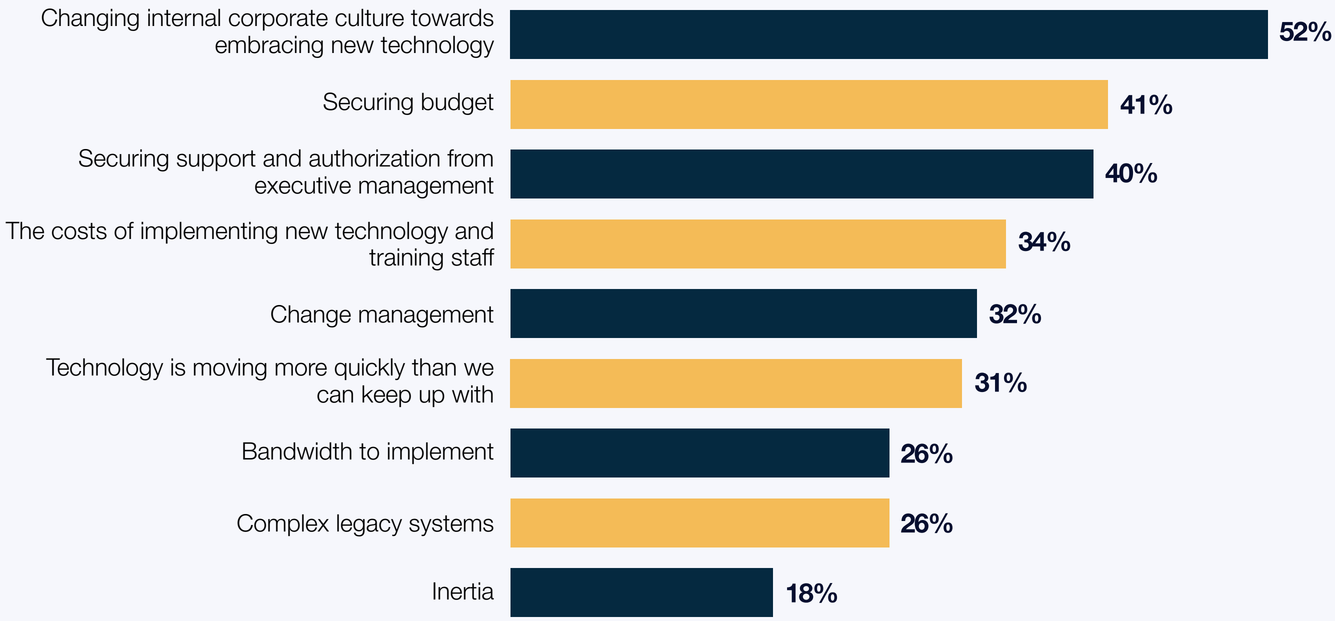
Buy-side firms are placing more importance on data management practices as they increase their use of alternative asset classes and OTC derivatives. With new regulation changes on the horizon requiring increased commission unbundling, the role of the middle-office will become increasingly important in the future.

As the role of investment operations managers is changing to provide more support portfolio managers, risk officers and traders; there is a greater need for storing and sourcing real-time, accurate data. This often requires investing in new innovative technology which can help automate the data gathering process for investment operations divisions.

However, 52% of our respondents cited that the biggest hurdle they face during new technology implementation projects, is changing the corporate culture within their firms towards embracing the benefits this technology will bring to their firms.

> Changing corporate culture and securing budget were cited as the top two biggest challenges to overcome when analyzing or implementing a technology consolidation project

What are the biggest challenges to overcome when analyzing or implementing a technology consolidation project?



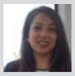
> I feel a company needs to first define the culture it wants and live it every day. If you want a culture to embrace change and be innovative, you need to start with your leadership and consider getting your employees involved in the decision-making process. You will also need to have a sponsor and define business drivers for the change. It's also important to avoid doing too much too soon, overcome the fear of failure, separate BAU from innovation, provide training.

Vince Pasqualicchio,
Director, Investment Operations,
American Family Insurance

> It would be helpful for those firms who are struggling with technology implementation projects, to look towards collaborating with knowledgeable external partners such as systems integrators, vendors or consultants. Definitely don't do it alone, especially if there are serious challenges to the project.

David Easthope,
Senior Vice President,
Celent Group

> It's not surprising at all that these are the biggest challenges firms are facing when implementing new technology. Securing budget is a key challenge because it's not just the cost of purchasing the particular technology, it's also going to involve the cost of implementing and integrating it across the business.
>
> Some senior managers mightn't fully understand how they work and what the benefit of implementing them will bring to the business. This resistance to change can be managed by COO's helping to change their mind-set by explaining the role and benefits the new technology will have in the business operations of the firm.



Sonal Ghelani
Conference Director,
Invest Ops US 2020

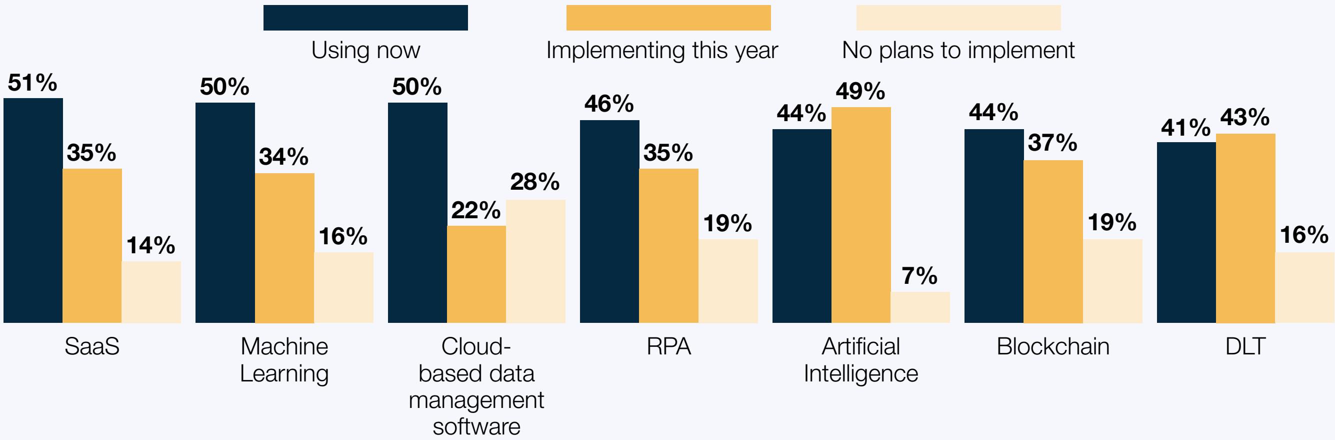
Investment operations managers are responsible for numerous business processes that require a substantial amount of data. From cash and position reconciliation to post-trade reporting for regulatory compliance, data management is of paramount importance.

According to our survey data, AI, DLT, and Blockchain are the most popular technologies that our respondents want to implement in 2020

Increasingly, next generation technology including DLT, Blockchain and, AI has been adopted by buy-side firms to help automate processes and effectively gather, store and manage data. These technologies enable high quality, real-time data as soon as a trade has been initiated, which they can help drive further innovation across the middle-office.

Artificial intelligence, DLT and Blockchain are the most popular next-generation technologies respondents are implementing this year to stay ahead of the curve

Of the following, which next-generation technology are priorities for your firm to implement to stay ahead of the curve?



It's interesting as I would disagree with this, because I don't think that 40% of firms are going to be using true AI this year. It could be that there was a definition issue here that could have led to this overall figure.

David Easthope,
Senior Vice President,
Celent Group

Blockchain and AI have been industry buzz words for quite some time now, so it's no surprise that these next-generation technologies are popular for firms to implement. However, there have been several firms who have already implemented these as well, so for some these won't be a priority. At the event this year we've dedicated the entirety of Track A on Main Day One to innovative technology and the Keynotes after the lunch break will be all about AI, Blockchain, Robotics, Machine Learning and embracing the world of innovative digital technology. It's definitely not to be missed.

Sonal Ghelani
Conference Director,
Invest Ops 2020

Traditionally firms have had clear lines of segmentation across their technology platforms. This was for good reason as historically service providers themselves were very segmented in their offerings: IBORs were not Investment Accounting platforms, and each of these platforms could tap into the very fragmented market data ecosystem.

Asset Managers are not the only industry segment that has faced consolidation over the last decade; in fact, there has been a lot of consolidation, particularly in the Market Data space. While Bloomberg has historically been the most prolific in market data consolidation, other businesses such as exchanges and index providers have recognized the value in their data. They have developed their own highly tailored offerings to Asset Managers.

IBOR and Investment Accounting providers have been combining their offerings as well to meet the needs of the clients. Firms no longer have the appetite to maintain separate systems for market data, IBOR, and Accounting processing, and are focusing more and more on total platform consolidation where they can get a 'Best of Suite' offering. An offering of this type provides for a unified look and feel, intuitive workflows defined by user role, and allows for seamless integration across traditionally separate systems.

Eric Bernstein,
President, Broadridge Asset Management Solutions, Broadridge

Market data and investment accounting are rated as the highest priorities for system consolidation in 2020

Investment operations managers are also responsible for overseeing the middle-office financial consolidation process. Securing reliable market data is crucial for the trading desk. This data is easier to manage if it's stored correctly ready to be consolidated if the financial closing processes are automated, to begin with.

The ability to consolidate market data from numerous locations from across the world into one easily digestible, scalable location is becoming increasingly important for investment operations managers.

According to our respondents, market data and investment accounting were the highest priorities for consolidating systems in 2020.

What are your priorities for system consolidation for your firm in 2020?

> I believe that investment accounting and trading systems naturally lend themselves to consolidation. But market data 'consolidation' to me means that firms are unhappy with the costs and complexity involved and they're not necessarily going to be consolidating aggressively.

David Easthope,
Senior Vice President,
Celent Group

In recent years, there has been an increase in the number of buy-side firms focusing their attention on multi-asset trading, as they seek to diversify their portfolios and meet customers' needs. Today's investors are increasingly looking for customizable, diverse and long-term alpha generation.

According to a recent PWC study, the popularity of alternative investments is set to increase in 2020 by $13.6tn. Including a wider range of asset classes and products they can offer to their customers, buy-side firms can access wider distribution channels than they had access to in the past. To meet this need, the middle-office has worked hard to build more scalable operational platforms that are adaptable for multi-asset trading.

Our respondents cited that alternatives, private equity, and private debt are the most popular asset classes they're interested in consolidating onto a single platform in 2020.

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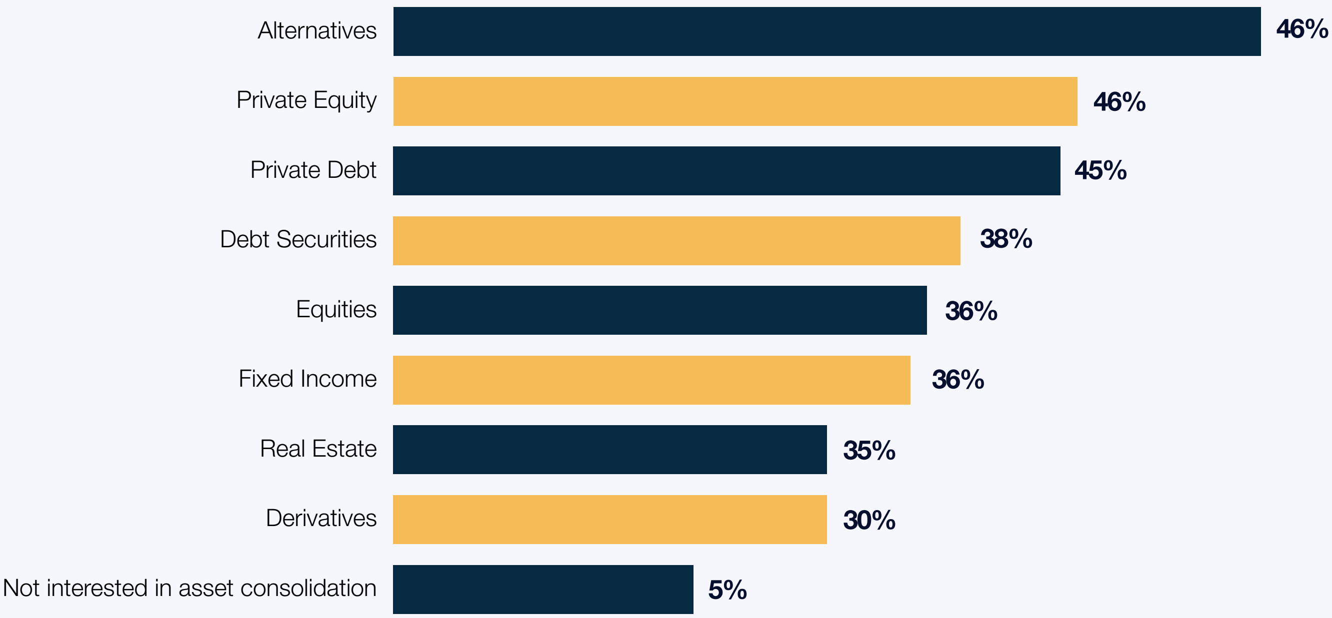
Alternatives, private equity and private debt are most popular asset classes our respondents are looking to consolidate onto a single platform in 2020

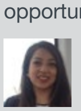
Which asset classes would you aim to consolidate onto a single platform for the front-to-back office processing in 2020?



I think these asset classes are popular because they're not all on a single platform whereas private and alternative assets are all over the place. There is also a desire for firms to gain visibility across asset classes on a single platform.

David Easthope,
Senior Vice President,
Celent Group

I know that asset managers, pension funds and hedge funds are moving towards alternative investments because they want to increase their firm's operational alpha and AUM. By diversifying their asset classes and alternative investments, this opportunity can be realized.



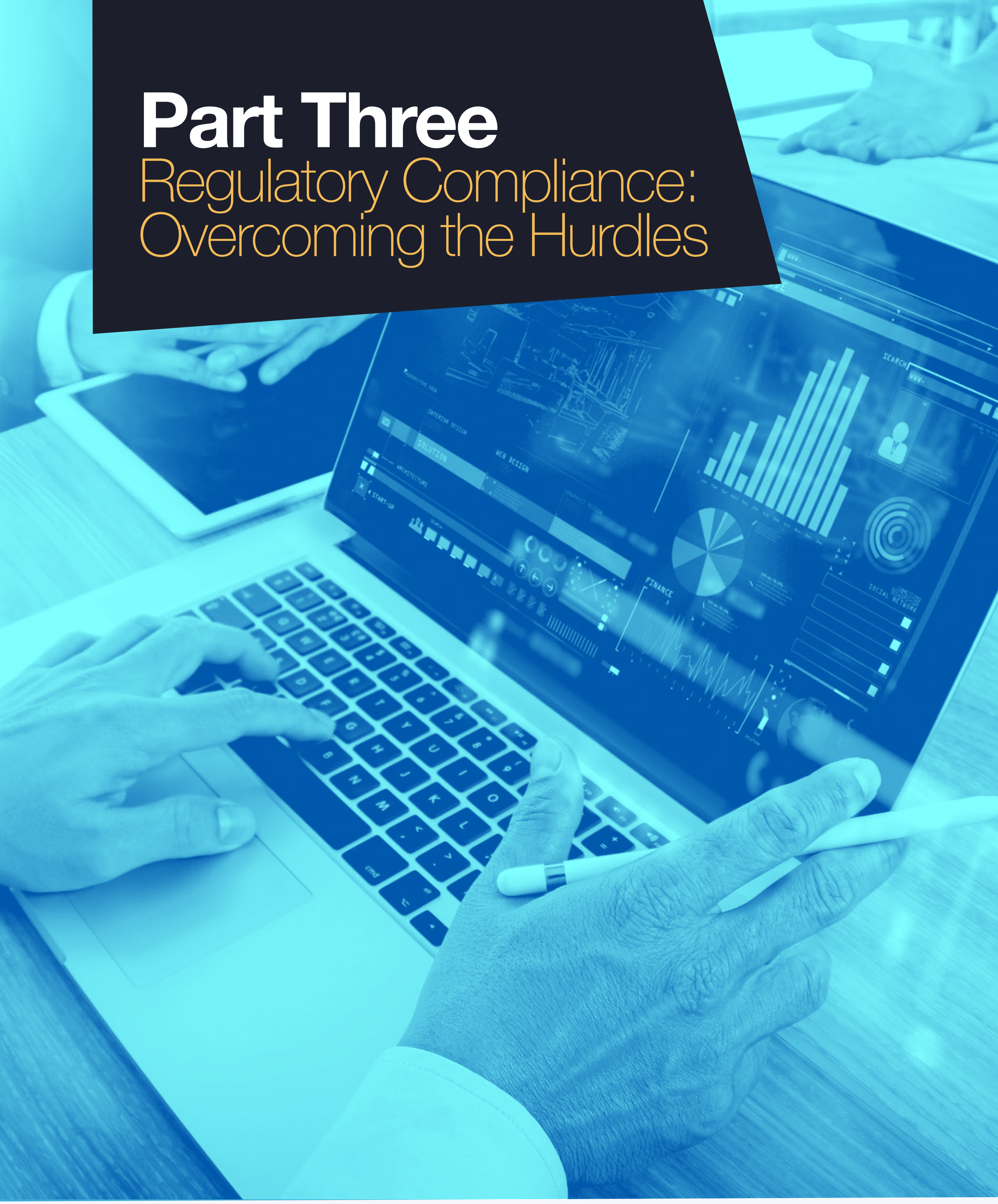
Sonal Ghelani
Conference Director,
Invest Ops 2020

Firms are looking to consolidate the entire investment life cycle on to a platform that can handle all the various asset classes that are invested in by modern firms. The fastest-growing investment area is the private markets: Private Equity, Private Debt, and other Alternative investment strategies.

IBOR providers are building or acquiring expertise in this space to provide the necessary transparency investors require: GP/LP management, committed capital analysis, fund performance, and in some cases CRM capabilities to assist with client communication and management.

Eric Bernstein,
President, Broadridge Asset
Management Solutions, Broadridge

Part Three
Regulatory Compliance: Overcoming the Hurdles

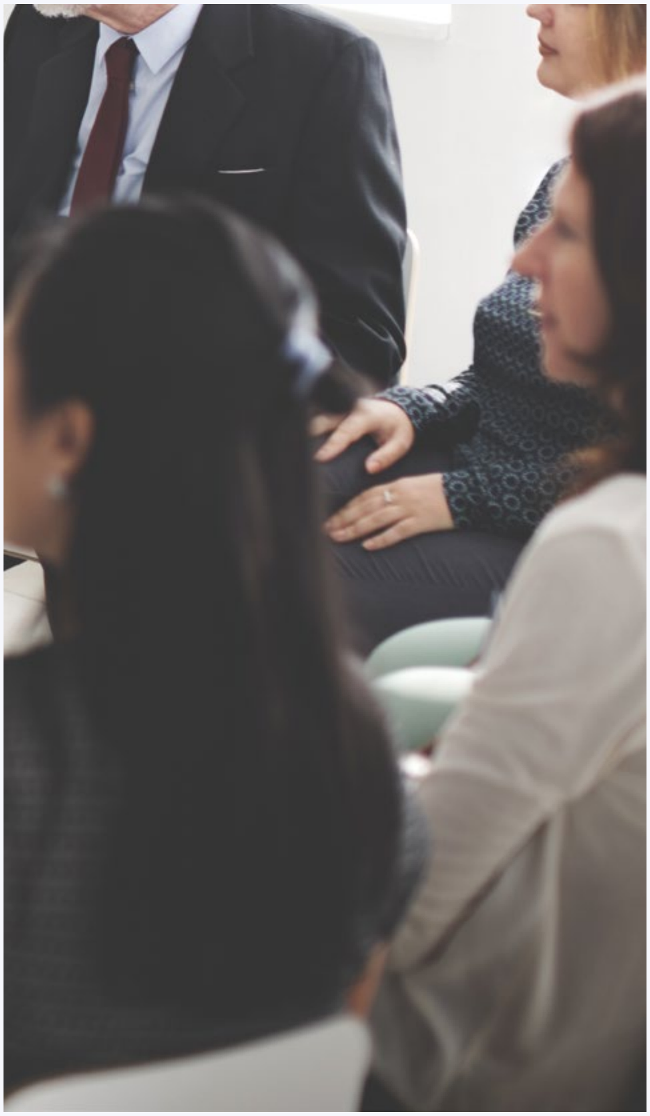


The current US administration believes that the regulations introduced off the back of the 2008 banking crisis have stifled the asset management sector, with some calling for deregulation. As the US presidential election is set for 2020, it will be interesting to see if this attitude will change.

2020 and 2021 will see a new wave of regulations affecting the buy side. SFTR (Securities Financing Transactions Regulation), IM (Initial Margin), UMR (Uncleared Margin Rules), FATCA (Foreign Account Tax Compliance Act) and the continuing impact of both MiFID II and FRTB take hold. Firms using cloud-based data management software will also need to ensure that their data is compliant with the EU's GDPR.

Overseeing internal and external compliance audits are an integral part of the middle-office. Maintaining this is an integral part of implementing next-generation technology and data management platforms, M&As and overhauling legacy architecture.

As regulators require greater levels of reporting on both a domestic and international level, investment operations managers are under increasing pressure. Some buy-side firms have chosen to outsource their regulatory compliance as a result but also to help them stay on top of regulatory changes.



An extension for the last phase 5 and 6 of UMR to be rolled out in September 2021 was recently announced from the BCBS and IOSCO. It's expected that the final phases of UMR will increase the amount of reporting, reconciliation, monitoring and operational workload for buy-side firms.

This will be welcome news for those investment operations managers in firms trading an AUM between $8bn and $50bn. These firms will be affected by the new regulation changes and now have more time to prepare their business before the 2021 deadline.

One way that the buy side can adapt their business processes ahead of this new regulation is by separating liquidity from credit to reduce their administrative burdens. This can be achieved through the implementation of specific liquidity unbundling trading technology.

Those buy-side firms who choose to invest in this technology will be in a stronger position, compared to their competitors, once phase 5 and 6 of UMR is enforced.

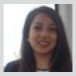
The benefits to the implementation of the final phases of UMR will include increased access to non-bank liquidity providers and greater levels of peer-to-peer trading.

The majority of our respondents feel that their firms are able to positively adapt to new regulatory changes. This is due to either having in-house risk and compliance teams or implementing innovative technology.

Some of our respondents cited that their firms are still facing challenges when implementing new regulatory requirements. Struggling to access information, keeping up to date with new regulatory changes and the need to implement new technology to help automate regulation requirements were most commonly cited.

One of the biggest challenges for investment operations managers is that their firms are finding it difficult to get their outsourcing strategy correct. They might be struggling to identify which areas need to be outsourced, if so, working out if outsourcing the best way to go for this particular business process etc. In some cases, there are firms who've outsourced a lot of their processes but are now starting to think about bringing some back to be managed in-house.

It comes down to understanding what works for your business and what the right strategy is that will benefit the company overall. The Buy-Side Keynote 09:00 am session on Day Two of the event will cover this topic in greater detail and is a great opportunity for those to learn how to move from outsourcing to rightsourcing.



Sonal Ghelani
Conference Director,
Invest Ops 2020

I think firms are struggling the most when it comes to keeping up with regulatory changes. Every six months there will be a new regulation announced by a governing body which firms will have to adapt their business processes to in order to remain compliant. Firms need to be able to remain compliant whilst achieving their overall business goals of achieving operational alpha and scalability.

There will be new changes implemented in 2020 and 2021 which firms will need to ensure they're prepared for, as the industry moves away from LIBOR to the new SFTR regulation and the new Uncleared Margin Rules (UMR) for the derivatives market, stage 5 and 6.

It's not just about on-boarding a new set of regulations, but firms having to go backwards in time to ensure that all of their documentation is fully compliant with them too. This creates a backlog of work which can have a huge impact on the daily investment operations of the business. They will also need to ensure they fully understand the regulations themselves will impact day-to-day business operations which can also take up a lot of time.

Sonal Ghelani
Conference Director,
Invest Ops 2020

We asked our respondents how they would view their firm's ability to adapt to new regulations and regulatory changes, such as Uncleared Margin Rules, Foreign Account Tax Compliance Act, LIBOR, MiFID II etc. in the past year. Some of their answers are listed below.

The majority of respondents overwhelmingly shared **positive** experiences

"No challenges have been registered as most of the compliance activities are now automated."

"Digital innovations have been effective in managing new regulations."

"We always leave enough room to adjust as per new regulations. This year has been no exception."

"These are fairly new regulations and haven't presented significant challenges."

"The compliance and regulatory department haven't reported of any major challenges so far."

"New regulations have been aligned perfectly to the internal regulatory policy and no exceptions have been created."

"These are part of our market development strategy and are always prioritized due to its regulatory importance."

"Compliance and regulatory governance are effective, which makes it easier to deal with any new regulation."

"We have refined our compliance and regulatory policy per the new regulations and the system is now being supported by digital tools."

"We have adopted a highly flexible regulatory approach because of the uncertainty of rules since the past year."

"Disruptive automations have kept us compliant in respect to these new regulations from this year."

"We have adjusted our business and operational models to align perfectly with the regulatory changes."

Those respondents who **still faced challenges** said:

"There were a few grey pockets of some regulations which have been realigned through SME's."

"We are still adjusting to regulatory additions on which we need more insights."

"We have increased the need to monitor these regulations from this year."

"An automated supervisory system is in the pipeline to help with the new regulations."

"The regulatory shift is still in process this year."

"This year our perspective on these new regulations is better than last year."

"With regulations like MiFID 2 highly active from this year we are yet to assess the response but from where I see it there is enough agility to makes these regulations a part of the compliance culture."

"This year we have been able to respond better to these regulations as we now know more about them and their impact."

"The protectionist policies of the market are keeping us guessing on the strategies we have to choose to ease these policies into operations."

I think keeping up with regulatory changes is where firms are struggling the most. Every six months there will be a new regulation announced by a governing body which firms will have to adapt their business processes in order to remain compliant.

There will be new UMR changes implemented in 2020 and 2021 which firms will need to ensure they're prepared for, as the industry moves away from LIBOR to the new SFTR regulation.

It's not just about on-boarding a new set of regulations, but firms having to go backward in time to ensure that all of their documentation is fully compliant with them too. This creates a backlog of work which can have a huge impact on the daily investment operations of the business.

Sonal Ghelani
Conference Director,
Invest Ops 2020

Part Four
Data Management: The New Frontier

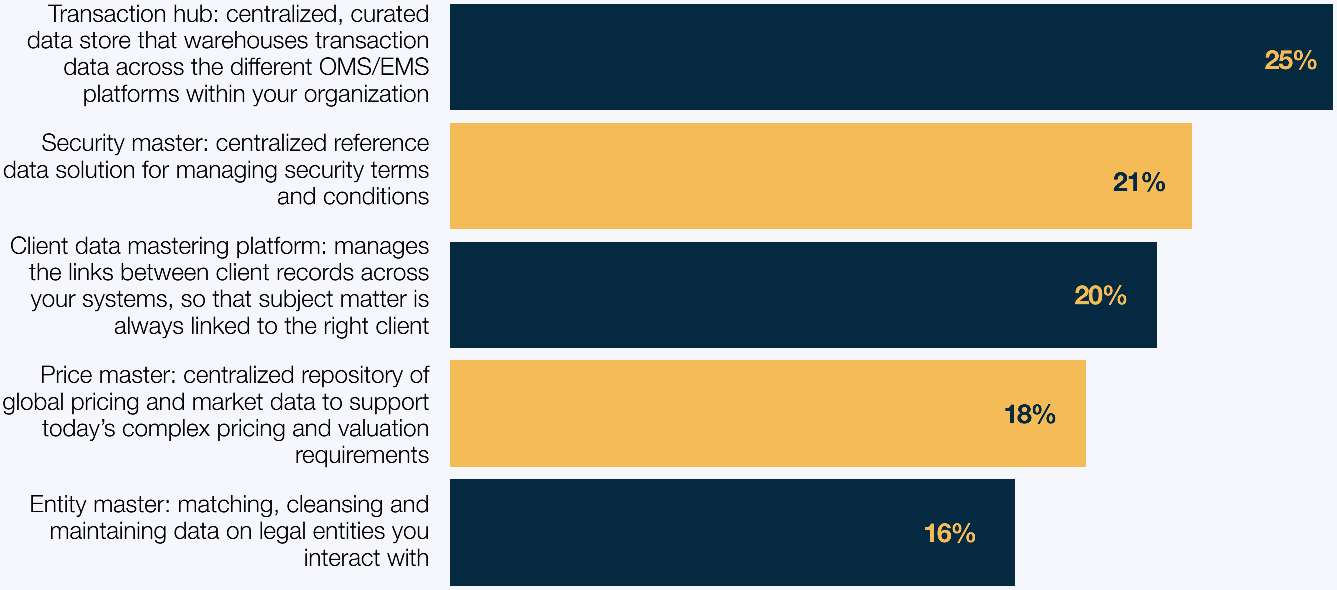
The majority (25%) of our respondents cited that a transaction hub data mastering solution was the most important type of data management platform for their organizations.

Transaction hubs provide a centralized, curated data storage solution that can warehouse transaction data across various OMS/EMS platforms that may already be present within an organization.

Data management is increasingly becoming a key focus for investment operations managers when looking to invest in next-generation technology. Third-party providers are discovering that automation is no longer the key differentiator it once was.

Transaction hub was the most important data mastering solution at 25%

What type of data mastering solution is most important to your organization?



Data solutions are expensive and difficult to implement. I also feel it is hard to get a sponsor and make this a priority over other projects. I think today's investment solutions provide data management services as part of the product and the need to implement a single-source data repository has diminished.

Vince Pasqualicchio,
Director, Investment Operations,
American Family Insurance

This is hard, expensive and requires technical work to implement which is why there isn't a majority of firms who already have this in place. You also need to work with external vendors which can also be a barrier.

David Easthope,
Senior Vice President,
Celent Group

We asked this question this year to gain insight as to what firms were really looking for in terms of data centralization. There has been much interest in centralization and so-called mastering of data; however, this is a bit nebulous, so we wanted to attempt to create a few verticals as to where clients were facing challenges. The top three responses, while not surprising, provide good insight as to where firms are facing the most challenges and where a fully integrated IBOR and Data Warehouse solution can help overcome these challenges.

Although IBORs are expanding their asset class and investment workflow coverage, firms still maintain separate venues for position management, order and execution management across asset classes, which can cause transparency and data issues. Different teams may end up using different security master data sources, and CIOs and CROs may not have the full picture when it comes to a firm's holdings and risk. By implementing a transaction hub and centralized security master, firms can build master records for both reference data as well as aggregated securities holdings across an entire organization.

This implementation, combined with the implementation of reporting and visual analytics tools, provides firms with invaluable insights that have many advantages, from more refined risk management targets to more informed investment decisions.

Eric Bernstein,
President, Broadridge Asset
Management Solutions, Broadridge

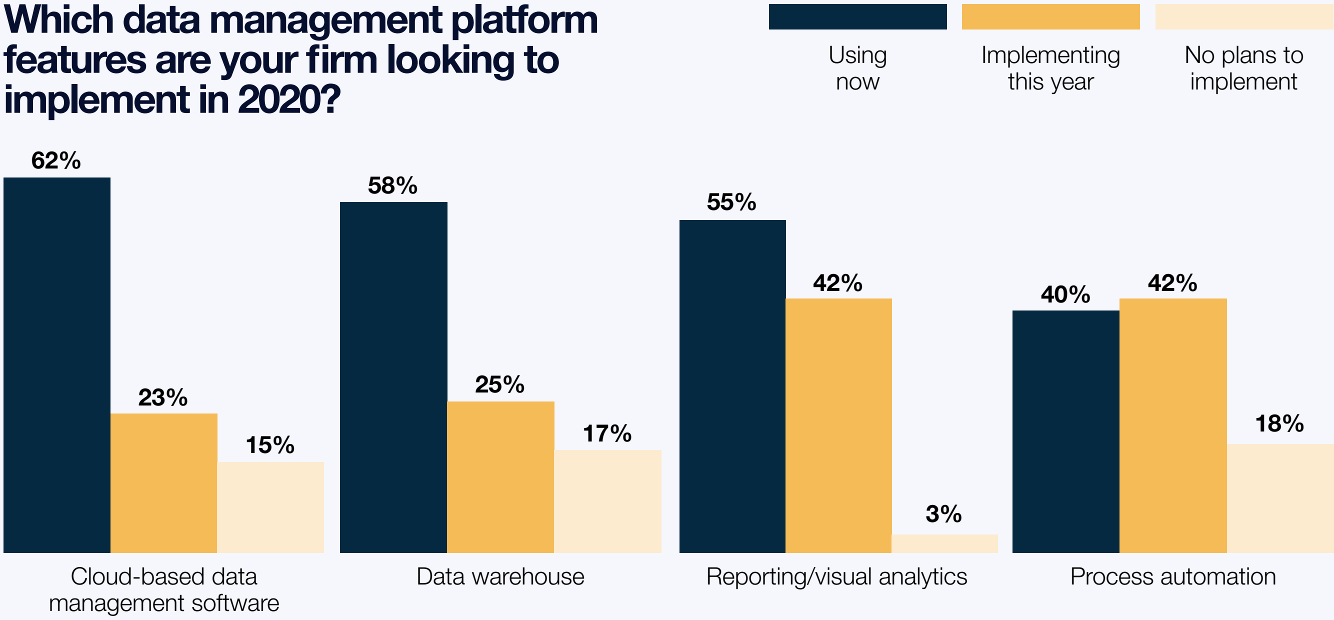
The middle-office is under greater pressure to deliver fast, accurate data that can be analyzed and delivered to regulators and clients quickly.

Automating the middle-office commodities accounting processes and regulatory reporting for certain asset-classes can meet this requirement.

According to 84% of our respondents, data management platforms with reporting and visual analytics or process automation features were the most popular, for implementing in 2020.

Reporting/visual analytics and process automation are the most popular features of data management platforms that respondents want to implement this year

Which data management platform features are your firm looking to implement in 2020?



These platforms reduce cost and complexity. There is also an on-demand need for storage. The ability to utilize a large amount of all types of data and provide enhance analytics and support AI.

Vince Pasqualicchio,
Director, Investment Operations,
American Family Insurance

Looking at this data, to me, there is the near-term implementation of RPA which is going to double to 80% and the rise of reporting and visual analytics.

David Easthope,
Senior Vice President,
Celent Group

We are a part of an industry that has a very heavy reporting burden. Whether it relates to clients, regulators, or internal decision making, various reports are pervasive throughout organizations. Many of this years' survey questions have asked about data and data management, so it comes as no surprise that firms are looking to implement a robust reporting and visual analytics framework to manage the outcome of all of the work to centralize and master various data points.

Historically reporting has been static in nature with limited scope: an investment manager makes an investment decision and gets a performance report the next day to see how the fund performed. A client makes an ad hoc request and is presented with a grid of client holdings. While insightful, these text-based reports give professionals only a limited insight into their decisions or ability to service clients.

Several visualization tools have come to market over the past decade which allows members of a particular organization to take the static data grids and turn them into rich visual stories. Time series analysis is now available at an investment manager's fingertips. Clients can readily get customized visual cross-sections of their holdings and investment performance. With these innovations, clients must look to have visual analytics tools included in any best of suite solution they integrate into their organization.

Eric Bernstein,
President, Broadridge Asset
Management Solutions, Broadridge

Conclusion

71% of our respondents said their buy-side firms have the right blend of in-sourcing and outsourcing middle-office processes. However, 22% felt that this was an area where they were struggling. Just 8% said their firms aren't outsourcing any processes at all.

59% of respondents said they're planning on using managed services to achieve scalability across the middle-office. However, 41% aren't planning on using managed services in 2020.

Of the 59%, 31% are aiming to implement managed services in the next 12 months and 29% are planning on implementing them in the next 1 – 2 years.

Our research shows that some buy-side investment operations managers are still struggling to implement innovative technology within their firms. 52% of our respondents cited that they struggle with changing the internal culture towards embracing the benefits of new technology.

41% found securing a budget for new technology investments was their highest challenge. Whereas 40% struggle with securing support and authorization from the executive level within their firms.

According to our research, investment operations managers are most interested in investing in technology that can deliver data management as well as automation.

Of these, DLT, AI, and Blockchain were cited by our respondents as the most popular innovative technologies to invest in the middle-office for 2020. Our respondents said that market data and investment accounting were the two main areas of the middle-office

Looking ahead to 2020, our respondents said their main priorities for consolidating their middle-office financial processes were market data and investment accounting.

It's become clear that more buy-side firms increase their focus on multi-asset trading to offer new distribution channels to their clients. According to our respondents, the most popular asset-classes to consolidate onto a single platform are alternatives, private equity and private debt.

Our research results show that the majority of respondents are confident that their buy-side firms can quickly adapt to new regulations changes. However, some investment operations managers admitted they're struggling to keep up to date and understand new regulations as well as being slow to adopt reporting technology.

Investment operations managers are coming under increasing pressure to provide accurate and reliable data across the middle-office. 25% of respondents said data management platforms with a transaction hub were the most popular when seeking out third-party providers.

Reporting, visual analytics, and process automation were also valued highly at 84% when looking to invest in a new data management platform. 62% said they are already using a cloud-based data management solution and 58% are using a data warehousing platform.

About Broadridge

Broadridge Financial Solutions, Inc., a $4 billion global Fintech leader and a part of the S&P 500® Index, is a leading provider of investor communications and technology-driven solutions to banks, broker-dealers, asset and wealth managers and corporate issuers. With over 50 years of experience, Broadridge provides an important infrastructure that powers the financial services industry. Our solutions enable Asset Managers to manage everything from portfolios and trading to the data warehouse, reconciliation and billing. Firms around the world rely on our technology and expertise to help them accelerate innovation, create opportunity and maximize long-term growth.

Deploy a single, consolidated technology platform to accelerate innovation, create opportunity and maximize long-term growth.

- Simplify product creation
- Expand your capabilities
- Unlock data insights

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