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Beyond the Back Office

Technology's Role in Wealth Management

Bob Stewart

Executive Summary

High net worth investors with \$1mm or more in discretionary assets remain the most elusive segment in the wealth management space. While investment firms of all types and size have aggressively pursued the market, most find that conventional business and marketing strategies are expensive and fall short of capturing significant market share.

A growing number of successful firms are going above-and-beyond traditional tactics through the introduction of advisor-facing technology. These firms recognize that front office automation has a profound impact on employee productivity, client satisfaction, and bottom-line profitability. Technology that enables a better, broader, more consistent view of accounting and performance data—brought to life with integrated tools that simplify common and complex advisor tasks—creates a ripple of positive results.

For some, front-office automation is not a new effort. Many previously applied client/server technology solutions to certain pain-points like client reporting, portfolio management, or CRM. Yet, these disparate solutions address only the most pressing needs, and carry extensive integration, training, deployment and support costs.

Today, leading firms have taken the next step in the evolution of front office technology. The approach they embrace—called a Portfolio Management Overlay System—uses secure web-based technology to unleash back-office data. Further, it provides wealth managers with powerful features for analyzing, organizing, and reporting on complex, high-value accounts.

Critical components of a Portfolio Management Overlay System include:

- Portfolio Management features for organizing and analyzing account data
- GIPs[®]-compliant Performance Measurement tools for analysis and reporting
- Compliance Monitoring features for asset-level portfolio tracking
- Trade Automation for tax optimization, account rebalancing, trade evaluation, and trade release
- Client Reporting tools that generate timely and accurate account, holdings, and performance presentations

Should You Read This?

Maybe! Beyond the Back Office is geared toward mid-size to large investment firms with a focus on high net worth investors. The objective is to examine key trends in wealth management, and the role technology plays in successful firms. Ask yourself:

- Are you part of the investment group at a regional bank, trust organization, wealth management firm, brokerage firm, or commercial family office?
- Are your firm's assets under management greater than \$1 billion?
- Are high net worth (HNW) clients and fee-based revenues critical to your business strategy?
- Are you looking to scale your business but realize headcount isn't the answer?
- Is productivity lessened by day-to-day tasks like portfolio monitoring, performance measurement, client reporting, account rebalancing, compliance monitoring, account reviews, and data reconciliation?
- Is your firm's approach to investment technology disconnected—a system for this...a system for that?
- Would your firm benefit from improved internal efficiencies that better utilize employees' time and skills?
- Are clients less than satisfied with the quality and timeliness of the reports they receive?

If you answered “yes” to most or all of these questions...keep reading.

Yes No

Yes No

Yes No

Yes No

Yes No

Yes No

Yes No

Yes No

FOLLOW THE MONEY

When apprehended for the last time, outlaw Willie Sutton was asked 'why he robs banks.' His infamous response: 'Because that's where the money is.'

Fast-forward 50 years and ask any investment manager why his or her sights are set on investors with \$1 million or more in discretionary assets and you're sure to get a similar response. Unprecedented numbers of wealthy households and significant increases in net assets per family make the sector an obvious choice.

However, as countless regional banks, trust organizations, commercial family offices, independent financial advisors, and brokerage firms have discovered, identifying the target is the easy part. The real challenge is to acquire, support, and retain wealthy investors who share common traits: Complex portfolios, high expectations and a growing number of options.

There have been many well documented approaches to capturing the hearts and minds (and wallets) of the rich. Most are based on tactics like:

- Strengthening relationships with existing clients to gain a greater percentage of their assets
- Adopting an open-architecture, fee-based business model
- Providing specialized family-office services to create differentiation
- Sharing information across business lines within the organization
- Partnering with other firms in the wealth management continuum
- And when all else fails...adding the term 'Wealth Management' to the company home page!

While these methods are proven to produce short-term results, they are costly, difficult to scale, and don't add lasting value. But most of all, they fail to take into account the most valuable and strategic tool at the disposal of any investment firm. Technology.

BEYOND THE BACK OFFICE

Applying technology to wealth management processes has a profound, positive impact on every key business measure (see sidebar). But not all technology is created equal...so what does 'the right technology' look like?

Let's start with the back office, where custodians and providers of portfolio accounting systems, trust accounting systems, brokerage systems, and the like have long-since figured out how to accurately track accounts, positions, assets and transactions. However, most employ a 'black box' approach that provides minimal value to the day-to-day activities of client-facing advisors.

Beyond their core functions, the real value of books-of-record systems is their ability to feed information to the front office where it can be analyzed and applied. After all, employees represent the largest cost for investment firms, and the front office is comprised of the largest number of highly paid employees. Technology that enables a better, broader, more consistent view of accounts—brought to life with integrated tools that automate both common and complex tasks—creates a ripple of positive results extending all the way to the client.

Within the mid office and front office, myriad solution-specific tools exist to enhance the advisors' workflow and productivity. Examples include systems for portfolio management, performance measurement, client reporting, portfolio optimization, financial planning, trade management, market data, relationship management, compliance monitoring, data aggregation, and risk management, just to name a few.

While each of these front-office categories undoubtedly includes some top-notch solutions, employing a best-of-breed approach is impractical for most financial services firms. The cost of deployment, support, and training forces them to spend limited I.T. budgets on only the most pressing needs. Meanwhile, unless additional resources are applied to expensive integration, advisors quickly become disenchanted with a tool for this...a tool for that...yet no unified system that delivers a holistic view of their accounts or includes the features they need to truly transition from selling products to providing fee-based asset management.

The Technology Effect

Cohesive front-office technology has a positive impact on key business measures:

Scalability

- Increases assets under management without adding head-count
- Increases the number and size of accounts each advisor can manage

Productivity

- Automates time-intensive tasks that distract advisors from gathering assets
- Streamlines information to one system for most all investment tasks

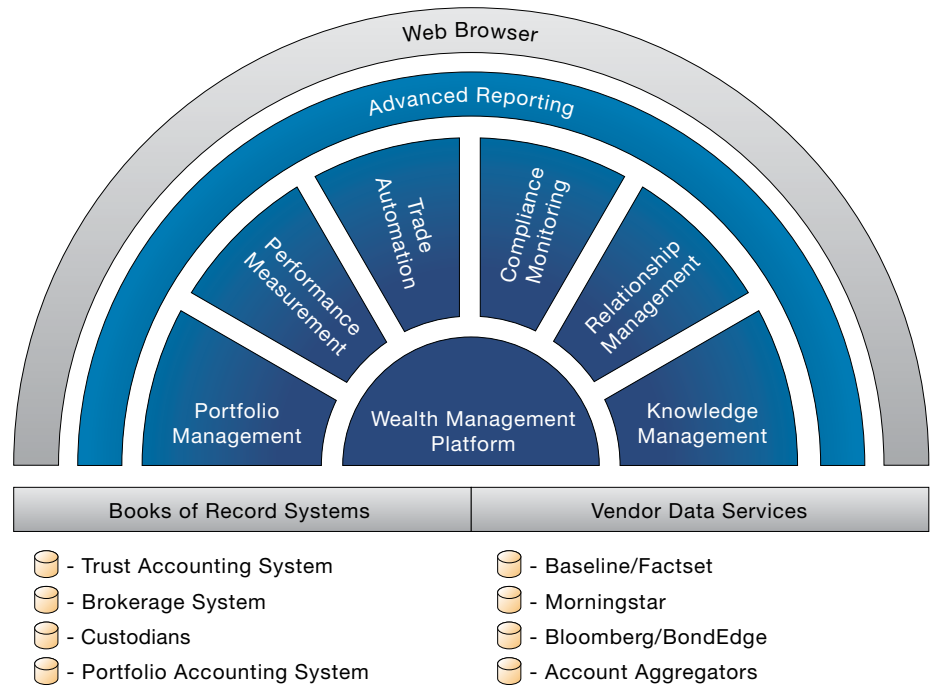
Profitability

- Replaces costly disparate systems with a consolidated platform
- Reduces operational errors (performance, reports, rebalancing, etc.)

THE OVERLAY APPROACH

Today, industry leaders utilize a consolidated technology platform that normalizes, consolidates, and presents books-of-record data to the desktop of advisors. Equally important, their technology makes the data actionable through tools that automate complex tasks like risk analysis and performance calculation, as well as simpler but time-consuming tasks like account rebalancing and compliance monitoring.

The approach these firms embrace—called a Portfolio Management Overlay System—is a fresh way of thinking about technology's role. It transforms advisors into true wealth managers with immediate access to all of the data and features required for success.



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Portfolio Management

Portfolio management features provide a variety of screens for organizing and analyzing data originating from custodians and books-of-record systems:

- Account Data (account number, name, objective, gains, etc.)
- Securities Data (CUSIP, price, category, sector, capitalization, etc.)
- Positions Data (number of units, position type, tax cost, etc.),
- Transaction Data (transaction type, settle date, market value, etc.).

Daily extracts with built-in normalization and auditing routines ensure accurate presentation of the books-of-record data. Firms may also require data from outside sources to augment the asset master. In these cases, third-party feeds from data vendors such as Morningstar[®], BondEdge[®], and Factset[®] are utilized for asset attributes.

The consolidated and scrubbed data enables detailed drill-down views. High-level information such as market value, allocation, gains, cash and fees is readily available, as is more detailed information such as the account's allocation, holdings by asset category, subclass, etc. In addition, individual accounts or groups of accounts can be accessed based on the assigned manager, account type, location, or other attributes, as well as across the book-of-business.

As noted, the true value of organizing the information is realized with tools that make the data actionable. For example, the ability to manage accounts with models with comparisons to indices is critical. Based on the account's policy, tools compare current allocations vs. targets with alerts where variances exceed defined parameters. Other key features to look for include tools for grouping or subdividing related accounts for analysis and reporting, as well as methods for recording held-away assets.

Performance Measurement

GIPs performance calculation methodologies are the gold standard for wealth management. Daily extracts including account, asset, holdings, and transaction data complemented with data vendor feeds facilitate performance calculation at the asset level for analysis and reporting. Asset-level performance also enables returns to be rolled-up into performance category returns; e.g. Equity Sectors, Equity Style, Asset Class, Asset Subclass, etc.

With daily performance calculation, investment managers have immediate access to historical rates of return to meet virtually any analysis and reporting need. Past and present performance data is readily accessible for any time horizon (current, previous month, YTD, etc.) and can be easily compared to any number of benchmarks and indices.



"InvestEdge categorizes and presents data in a consolidated format that is extremely valuable to our investment team, officers and administrative staff."

Scott Neff

Principal

Glenview Trust

Additional performance-related features of value include the ability to exclude certain holdings from performance calculations, as well as tools to apportion accounts into sub-accounts for analysis and reporting.

Compliance Monitoring

In today's highly scrutinized investment marketplace, automated compliance monitoring tools are an essential component of any wealth management platform. Exception-based compliance monitoring provides real-time, pre-trade analysis of portfolio holdings to ensure alignment with customer mandates, firm policies, and government regulations.

Successful compliance strategies are intertwined within the daily workflow of investment firms with up-to-the-minute, asset-level portfolio monitoring. Advisors require the ability to create and maintain business rules, which when violated, trigger alerts (such as holdings in excess of target allocation ranges, securities not on an approved list, concentrated positions, etc.). The rules should be able to monitor all accounts on the system, as well as tailored to individual accounts.

Through automation, investment professionals receive instant notification that an account is out of compliance. Corrective measures can then be immediately taken to bring the holdings back into alignment. Meanwhile, the firm's compliance department has ready access to reports that provide a real-time snapshot of all flagged issues. The exceptions can be viewed on a firm-wide basis, or by individual manager.

Trade Automation

While many firms have automated some aspects of trading, the most efficient approaches are woven into day-to-day portfolio management processes. Through a single interface, investment professionals are able to automatically produce proposed buy/sell lists, compare potential trades to restricted holdings lists, evaluate the impact of transactions on portfolios, and release trades to an integrated order management system without re-keying data.

For example, advisors require the ability to generate proposed trade lists through automated rebalancing against models or other portfolios. The system should compare a portfolio's holdings to a target to match every holding in the model on a pro-rata basis. Likewise, the ability to rebalance portfolios to match targets by Asset Class, Asset Subclass, Equity Holdings, and Sector are critical.



"Consistency is the key. From the way our advisors manage portfolios—to how we monitor compliance—our goal is to standardize our processes as much as possible. More and more, technology is the key to making it all come together."

Ken Edwards

Asset Allocation Product Manager

Wilmington Trust

In addition, the system must include portfolio optimization features to consistently and intelligently manage tax-sensitive equity portfolios. Front-line investment managers require automated tools for monitoring portfolio risk, optimizing portfolios to models with minimal turnover and capital gains, and evaluating the implications of potential trades.

To support straight-through-processing (STP), APIs to leading trading and brokerage systems are also a must. The system should pass trade orders directly to a trading system, which in turn executes the trades to the broker of choice. The transactions are then automatically affirmed and posted back to the books-of-record system.

Client Reporting

Last but certainly not least, the ability to quickly produce high-end, personalized client reports is essential. After all, reports are one of the few tangible things high net worth clients receive from any investment firm, and they must be of the utmost accuracy and quality.

Leading systems instantly combine account, holdings, transactions and performance data into a consolidated report package. The systems are able to create reports on demand, or on a predetermined schedule. They even automate simple, but time-intensive tasks like inserting page numbers and a table of contents.

Most of all, report customization is critical. In addition to conforming to your brand, report content must be easily modified based on the requirements of the firm. Further, the system should enable customizations at the client level by enabling advisors to select or exclude specific reports for each package, as well as the individual content for each report.

Report delivery is also an important consideration. The system should enable finished reports to be printed in-house, sent to a professional printer for distribution, or made available electronically. However, for security purposes, reports should never be emailed to clients. Rather, be sure the platform facilitates report access through authenticated client sign-on via a restricted website.

GREYCOURT

“Our performance reports are the best in the industry. They are not only accurate and timely; they put our clients’ results in perspective.”

David Lovejoy
Chief Operating Officer
Greycourt and Co.

GETTING STARTED

Making use of web-based wealth management technology may appear daunting. However, results such as increased productivity, improved profitability, and higher client satisfaction make the effort well worth the challenge.

Take the first step today. Contact InvestEdge, the leading provider of wealth management solutions. We'll be happy to assist you in your evaluation.

For more information:

Call: 800-830-1839

Email: info@investedge.com

Visit: www.investedge.com

INVESTEDGE

About the Author and InvestEdge, Inc.

Bob Stewart, President and CEO

Bob Stewart has over 23 years of experience in the financial services industry. His background includes 18 years with a top-five wealth management firm where he worked closely with the company's trust, brokerage and investment advisory teams. During this time, his responsibilities included investment technology, quantitative analysis, performance measurement, trading, and research sales.

In 2000, Bob and co-founder Roland "RC" Collins launched InvestEdge, Inc. with a clear focus on providing investment firms with front-office technology to improve productivity, increase assets under management, and simplify the IT environment. The resulting wealth management platform quickly gained acceptance from leading investment firms including Wilmington Trust, Deutsche Bank Alex. Brown, Glenmede Trust, Greycourt and Co., and many others.

As a result of these successes—and the support of a high-performance team—InvestEdge has emerged as the industry leader in wealth management solutions. The rapidly growing company maintains an extraordinary level of customer satisfaction, and continues to pioneer technology's role in wealth management processes.

For more information:

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