

Asset Management Technology – “Go 4 IT”

a report by

Markus H Ruetimann

*Managing Director, and Global Head of Operations & Information Technology,
UBS Asset Management*



Markus H Ruetimann is Managing Director and Global Head of Operations & Information Technology of UBS Asset Management, a role to which he was appointed early in 2000, subsequent to his assignment as Chief Operations Officer of Phillips & Drew. He is also a non-executive director of the Board of CRESTCO, London.

Business as Unusual

Institutional and retail clients with market and computer knowledge and ability are taking control of their financial destiny. One of the key reasons for this is the Internet, which provides a transparency of products, capabilities and service quality never before experienced in the financial services industry. In response, the market is shifting its focus from product to client and clearer delineation between ‘manufacturing’ and distribution of products and investment capabilities. This transparency, created in cyberspace, will continue to lower barriers for new providers and put pressure on profit margins, and requires service providers to focus on their core capabilities and will test them in their ability to retain clients.

Particularly on the retail side, the use of the Internet to sell proprietary and non-proprietary products will result in a renaissance of investment advice. The information overload will encourage investors to seek advice about how various products from various providers are best structured to meet their personal lifestyle and longer-term financial needs.

New Skills for a New Era

The complexities of maintaining numerous portfolio capabilities, products and services, operated from various locations and offered through various channels, have transformed the profession ‘fund management’ into a scalable business. Many key players are expanding their global reach, either through organic growth or through acquisitions in the key financial markets. To accommodate these aspirations, investment skills have been extensively supplemented with business management skills.

As a result, information technology (IT) and other support services have been elevated from being a ‘necessary overhead’ to business partners at the heart of delivering new functionality internally and improved connectivity to external clients. To “go 4 IT” has been a common reaction in seeking solutions, in improving proximity to existing and potential clients, in exploiting internal efficiencies and in improving communication between the clients, fund managers

and markets. Modern telecoms technology and new Web tools continue to facilitate these endeavours.

Client Focus

While it is imperative to have a clearly defined investment philosophy and associated investment management processes, client focus is of almost equal importance. Traditionally, IT has enabled many fund managers to improve internal efficiency, but technology has not, until recently, been used much for business development or product distribution.

Many institutional clients now demand realtime access to their portfolio with respect to trade execution and portfolio construction and performance, as well as macro-research information. The human factor in building and maintaining good client relationships will no doubt prevail. Nevertheless, the Internet – seen as the relationship innovation – allows fund managers to develop client proximity through cyberspace. Customised extranets have become the norm, giving mostly institutional clients full transparency about all macro and micro aspects of their portfolios.

Cyberspace also offers unlimited creativity. The sixth generation of browsers, for instance, allows easy transformation of a presentation into a sophisticated animated spectacular, enhanced with, for example, the client’s favourite type of music. Nevertheless, one must assume that a client is mostly impressed by investment rather than presentational performance.

Over the past two years, technology has been used most extensively, and has needed to re-invent itself most often, in retail markets. Particularly in Europe, many opportunities for new distribution channels have been created through significant market growth, the rise in importance of performance in selecting fund managers and general appetite for e-commerce both by providers and consumers. While e-commerce offers many opportunities, it also offers threats. Direct links to institutional and/or retail clients will help to ‘lock in’ clients. Conversely, increasing demands will raise operating and IT costs, at the time when some client segments are switching more frequently and more easily from provider to provider.

**Fund Management –
Differentiation is Key**

IT, if used as a strategic imperative, not only empowers investors, but allows providers to enjoy seamless connectivity between the creation of investment ideas up to the distribution of investment solutions.

‘Global reach with local client delivery’ is one of UBS Asset Management’s (UBSAM’s) key strategic business objectives, and it uses a global Web-enabled investment platform, which includes a research database (intranet with remote access), risks and portfolio analysis systems, as well as portfolio co-ordination and dealing/order management applications. These systems are appropriately interfaced to optimise sharing of information and best use of resources.

Technology solutions used for equity and fixed-income analysis and asset allocation, as well as risk and currency strategies, are at the centre of this global process and are, therefore, proprietary systems. The global research database, for instance, captures in-house company meeting notes and stock recommendations from analysts around the world. It is also capable of supporting the fast and accurate retrieval of such corporate research. Seamless integration with other systems is planned. Importantly, the relevant data held

on the global investment management platform is easily accessible by either fund or client-relationship managers across the globe through their desktops in their offices or via mobile computing. Fund management is very much about capture, creation, analysis, structuring and distributing of information. Without well-placed technological support, the required inter-connectivity would not be possible.

Investment and Fund Administration

The global securities services markets brace themselves for further horizontal integration and vertical disintegration of their industry structure. The expanding ranges of services provided by global custodians and international central securities depositories have tempted, and will continue to tempt, fund managers to consider outsourcing some of their administrative infrastructure. While outsourcing transfers some of the operating risks and sometimes leads to eventual reduction of costs over time, it often adds an additional element of complexity in ensuring that accurate and timely data is available to fund managers. Key to the decision-making process will be whether to “go 4 IT” or not. The smaller and medium-sized fund managers are more likely to opt for outsourcing as the costs of investments in technology to meet client demands and industry changes can be prohibitive.



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The larger, multi-location fund managers are likely to seek an appropriately integrated systems architecture, with consolidated and standardised IT infrastructures, centres of IT development competencies and powerful office automation and communication tools.

e-Distribution – The End Game

Technology is of particular importance in the retail market. The distribution of an ever-increasing range of investment products has enjoyed unprecedented growth in Europe over the past two years or so.

Driven by lucrative profit margins, a few providers with strong products and brands, as well as function-rich, Web-enabled distribution channels, have emerged as dominant. At the same time, service providers have started to share infrastructures, networks and distribution channels when selling these proprietary and, more remarkably, non-proprietary products. This open-architecture phenomenon has completely transformed operating structures, technological developments and management styles. For the consumer, with an ever-increasing range of choices, this can cause a dilemma. One might wonder about a potential conflict between feeding clients new products and fooling clients with a promised 'Nirvana' of ever-increasing profits with little risk.

The emergence of benchmarking and rating agencies is vital to assisting retail investors in investing in the most appropriate vehicles and giving them the ability to compare risk and return profiles and service quality.

There are many electronic client advice and sales support tools in place at UBSAM. It advertises its range of investment funds, displaying the risk profile for each fund and the fund portfolio, as well as assisting potential investors in defining individual portfolios. Also offered is a Web-based distribution platform allowing non-financial intermediaries to distribute funds and offering tailor-made fund ranges as well as technical and administrative support.

Conclusion

The use of technology will accelerate in all areas of client servicing, fund management and product distribution. Success will be enabled by IT, but not caused by it. Crucial ingredients for success remain the same – the quality of people, the quality of services offered to clients, the integrity of the investment processes, the degree of differentiation and branding of investment philosophies and the competitiveness of investment performance. Technology provides the key opportunity to leverage these attributes. ■

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Financial Services Technology Consortium
401 N. Michigan Avenue, Suite 2200
Chicago, IL 60611

Phone: 312.527.6724 • Fax: 312.321.5158
For more info: fstcadmin@fstc.org • Web address: www.fstc.org

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(*source: IBS league table).

Telephone: +27 11 797 6800 Fax: +27 11 797 6801 Email: glotec@glotec.co.za



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