

The journey to tomorrow's buy-side operating model

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Executive summary

Today's buy-side leaders know they need a clear, compelling vision to stay competitive. Balancing the challenges in pursuit of that vision is not a trivial task. Attracting new assets, providing transparency and value, meeting growing regulatory demands, empowering people with efficient processes and tools, managing costs and maximizing performance are all essential.

The road to success is increasingly linked to three key factors:

Prioritizing their future

A well-defined target operating model (TOM) is increasingly essential for sustaining competitive operations and differentiating a firm's ability to thrive. A TOM serves as a statement of operating goals, enabling firms to identify the transformations required to reach their destination.

A data-driven strategy

Senior executives of leading asset management firms are creating TOMs for their firms that place data and analytics at the center of their technology strategy. Centralized data and efficient operating models help organizations scale for growth and complexity.

A fast(er) way to get there

Firms are partnering with buy-side technology partners that can do more to ensure provision of a suite of solutions that empower efficient workflows across the organization and enable a firm to put multiple paradigms of data together. Only then can a firm harness the capabilities of streamlined communication across departments, extract data required by regulators and begin to unlock second-stage analytics like machine learning.

In Bloomberg's experience helping asset management firms worldwide meet their operational goals, we have identified four paths firms can take: Specialization, Expansion, Front-to-middle consolidation and Firm-wide alignment. For some firms, one path is all that's needed to reach their destination; others will take multiple paths to meet their desired state as their goals evolve.

Asset management firms are faced with the dilemma of minimizing systems fragmentation and managing costs while providing a robust investment process. Partnering with experienced buy-side technology providers that can provide a house-view of risk, performance, real-time portfolio analytics, market events and news throughout the trade life cycle, combined with pre-integration with other technology providers, will enable firms to implement their TOM effectively.

The data transformation process is never truly complete. As buy-side firms embark on their journey, operating models will evolve and new technologies and datasets will become available. To maintain an edge in a competitive investment landscape, buy-side leaders need to evaluate their TOM to ensure it's sturdy enough to meet their long-term strategic goals.

As the asset management industry evolves to address current challenges and take advantage of new opportunities, many firms find that their legacy operating models and technology are no longer sufficient to support growth at today's rapid pace of change.

Multiple trends that have developed over the past few years have put downward pressure on performance industry-wide, driving investors to seek higher yields and income at a lower cost. The industry has become more fee-sensitive and faces mandates of increased transparency and efficiency from regulators, clients and internal stakeholders. These factors have contributed to a shift away from traditional core asset management products toward more specialized approaches that are concentrated in four investment categories: passive strategies and ETFs, multi-asset class strategies, active specialties and alternatives.

Data: dilemma or deliverance?

Asset managers concentrated in passive strategies and ETFs, multi-asset class strategies, active specialties and alternatives are finding that the timely and consistent acquisition, analysis and application of data for decision support are more critical than ever before. But selecting what's needed from the vast – and ever-growing – amounts of available data isn't easy. Fast-clustering algorithms process millions of data points every millisecond, end-of-day downloads have been replaced by real-time streams of global market activity and news events and every facet of the trading workflow is digitally captured – from communications and price quotes to positions and transaction metadata.

All this information can offer a competitive advantage or be a distracting burden. For those firms still saddled with fragmented technology, incompatible applications and disparate data views, the benefits are hard to grasp. But for those that have established centralized data sources and efficient operating models for unfettered access and actionability, data can present endless opportunities.

Asset managers that position strategic data management at the core of their target operating models can lay claim to growth drivers that lie in emerging markets, nascent datasets and new asset classes. They can supply the firm's investment book of record (IBOR) and accounting book of record (ABOR) with centralized, real-time data and applied analytics that enable quick investment decisions and use internal data for continuous business process and workflow improvements.

Developing a data-driven operating model

For asset management firms that are adopting data-driven operating models, there are four imperative considerations, each with a unique set of factors and questions for the decision makers.

1. Evaluate existing systems, sources & processes

Many asset management firms have accumulated portfolios of multiple technology solutions, with the intent of outfitting each department with best-in-class software for each specialized need. This causes operational processes to become fragmented due to lack of integration, legacy software limitations and varied data sources. In this environment, common tasks – such as calculating performance on a group of funds, determining exposure to an issuer or broker-dealer across assets or multiple desks and providing comprehensive investment oversight and market-abuse surveillance across the firm – can become difficult, if not impossible.

Questions to ask:

- What factors are necessary in considering whether existing systems and current processes will support a more holistic workflow?
- How many different systems make up our technology portfolio? Where can we consolidate these?
- What is our system upgrade process, and how much does it cost us to stay current?
- How much work and investment would be needed to integrate our systems across departments for a consistent view of data and streamlined workflows?
- Which data points are essential to our investment strategy? Which data providers are necessary to maintain operational efficiency? Are our sources reliable?
- Are we experiencing inefficiency and incurring costs because of fragmented investment operations systems and/or processes?

2. Determine internal priorities across stakeholders

Chief information officers, heads of operations, chief investment officers, data officers and technology officers may have shared firm-wide objectives but are focused on different departmental priorities. Considering all of these will help the firm develop a TOM that can address a wide variety of concerns.

Questions to ask:

- How do we measure the success of data and technology transformation?
- What regulatory and internal compliance mandates must we meet (e.g., centralized oversight of global exposures and performance)?

- How important is cross-firm visibility to monitor trades, positions and compliance exposures across the investment life cycle?
- How should we measure data quality? How can we ensure the right data is in the right place at the right time?
- Will our operating system need to support the launch of new funds, the addition of new asset classes and the integration of new acquisitions?
- What short-term needs might delay or compromise our long-term transformation goals?

3. Choose your partner(s) wisely

Independent research has shown that, increasingly, asset managers are turning to outside technology partners for critical and complex systems such as those for order and execution management, portfolio risk and analytics, and data management.¹ Many firms find that legacy in-house systems cannot scale to support new initiatives and that the costs of maintaining and updating them have become prohibitive. Firms with multiple third-party products struggle to prioritize and coordinate frequent upgrades – for which most cannot even measure the costs.² Once a clear set of internal priorities has been agreed upon, it's time to consider how an external partner can help.

Questions to ask:

- Which systems, data and processes absolutely must remain in-house?
- Where can we realize cost efficiencies, such as through consolidation, hosted solutions or outsourcing?
- Which technology and data providers are known to be trusted partners for our industry?
- How important is pre-integration of multiple system components?
- What benefits can we gain from leveraging vendor adoption of innovative technologies?
- How much implementation support will we require?

4. Agree on an actionable road map

No TOM is complete without a road map for success. In Bloomberg's broad experience, firms that have thoughtfully planned their transformation are most successful in bringing their entire organization together to achieve this common goal. A road map also serves as an opportunity to secure external partners invested in a firm's process and to set expectations on partner participation.

Questions to ask:

- What is our timeline for implementing our TOM?
- What milestones and dependencies will we have?
- Who else needs to be involved internally?
- How will we engage external partners in developing and executing the road map?
- What obstacles might we face, and how can we overcome them?
- How frequently should we review the road map and consider revisions?
- How will we socialize progress and successes?

¹ "Buyside Goes Outside for OMS/EMS Platforms," Greenwich Associates, May 2017.

² "Driving Innovation Throughout Software Development," Greenwich Associates, February 2018.

Four paths to buy-side data transformation

While helping asset managers around the globe achieve their operational goals, Bloomberg has identified four paths most buy-side firms travel on their data and technology transformation journey: Specialization, Expansion, Front-to-middle consolidation and Firm-wide alignment. For some firms, one journey is all that's needed to reach their destination; others will take several as their goals evolve.

Specialty-focused path

The asset manager specialized in a particular strategy, seeking to be nimble as a primary TOM focus but needing to upgrade technology systems to support rapid growth.



Firm-wide alignment path

The manager seeking to centralize and overhaul all operating systems as part of business transformation, with the TOM of securing the golden source of data powering a global OMS, and further considerations to install a centralized Accounting book of record, an agnostic data utility and management tool across all locations, a centralized in-sourced or outsourced middle office and/ or multi-asset execution desks..



Expansion-focused path

This asset manager has a TOM centered on local clients, but is expanding into overseas markets and needs a global order management platform for visibility of operations at a group level.



Front-to-middle consolidation path

This firm aspires to align its investment professionals across the investment life cycle through a single front and middle office, with a TOM of achieving a centralized model for data consistency.

Specialty-focused path



Starting point

Mid-size asset managers or hedge funds that have embraced a market-leading investment strategy often face a difficult choice when considering transformation goals: scale, specialize or do both.

Challenges

Investors reward specialty-focused firms not only for their performance, but also for their investment philosophies. Therefore, specialty-focused firms need the ability to remain nimble in order to quickly seize market opportunities across asset classes and meet evolving regulatory needs while expanding. Historically, specialty firms might outfit their organization with multiple technology providers each for a particular function – trading, compliance and portfolio management, for instance. As a result, data centralization is compromised, thus preventing best-in-class analytics. Further, as the specialty firm's asset mix expands, decision makers need to reconcile existing workflows in order to sustain their agility and competitive advantage.

Path progression

Many specialist firms focus on making quick, targeted upgrades, speeding up their ability to take on new strategies and workflow-streamlining technologies with minimal business disruption. For these asset managers, a hosted solution can be the most cost-effective way to deploy innovations – such as machine learning to better inform decision making – and reduce the burden of system maintenance. Consolidating technology partnerships can deliver optimal value and service, keeping systems connected and current as needs evolve over time.

Expansion-focused path



Starting point

These asset managers are expanding their international presence through acquisitions, strategic partnerships, joint ventures or hiring local talent. Pursuing a "global and local" strategy, these firms develop TOMs focused on customized solutions for local clients and needs.

Challenges

Creating a robust way to manage a local investment portfolio with oversight at the global level is especially difficult when firms are growing through acquisitions and alliances. These firms inherit different operating models alongside local technology systems, complicating integration of workflows, technology and data. Thus, expansion-focused firms often lack real-time visibility – at the parent or group level – into their investment processes, performance and compliance mandates. Even internal collaboration on TOM goals is a challenge as stakeholders are added across multiple geographies, languages and regulatory environments.

Path progression

Expansion-focused asset managers can adopt a global buy-side platform to gain transparency and consistency of enterprise-wide operations. A scalable platform with pre-integrated order management, portfolio analytics, performance management, matching and real-time data reduces the need for ongoing maintenance of disparate systems. A global technology partner with customer support in multiple time zones can help with integrating new systems as expansion continues while addressing local customer needs and preserving autonomy of investment books. Initiating this partnership while in the expansion stage may help asset managers forestall a more complex consolidation project later on.

Front-to-middle consolidation path



Starting point

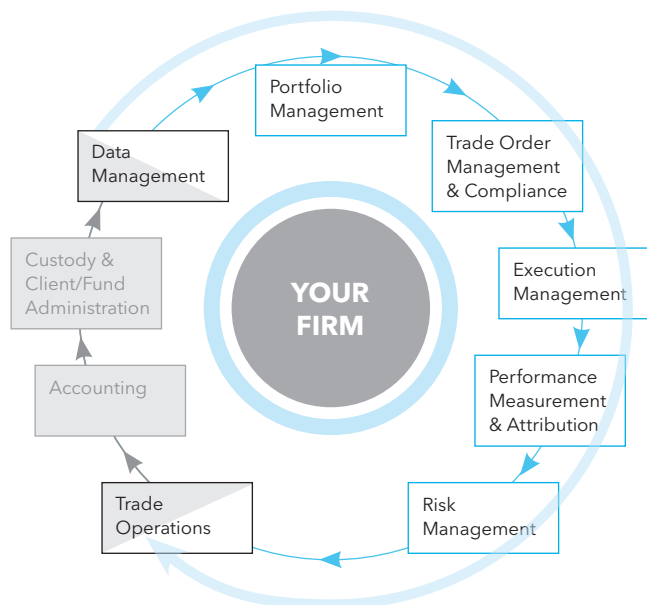
These asset managers have successfully expanded but, consequently, have amassed fragmented legacy systems and diverse operating models through organic growth or acquisitions. They now need to align investment professionals across the entire investment cycle through an enterprise-wide front office, compliance and middle office solution with consistent data underlying the entire process.

Challenges

Incompatible systems and inconsistent data complicate critical initiatives such as timely regulatory compliance and launching into new assets. A fragmented system often requires additional resources to capture exposures and P&L at the firm level, driving up technology and human capital costs. Simultaneously, pursuing a centralized investment operations accounting system is costly.

Path progression

Front-to-middle consolidation empowers each department to work on the same platform in a rapid timeline, rather than changing the entire central operating model. Optimizing front-to-middle offices often requires creation of a global middle layer, which will result in an investment book of record (IBOR) for senior stakeholders. Front office, operations and compliance also benefit from a centralized model that delivers data consistency, matching, trading and compliance and that enables seamless communication across the enterprise – resulting in greater transparency of global performance, risk and compliance.



Firms that have grown over time and have accumulated multiple solutions, providers and processes at each stage in their organization will often seek to consolidate across the investment life cycle in the front-to-middle consolidation path.

Firm-wide alignment path



Starting point

These asset managers are committed to overhauling operational processes and managing costs vigilantly. They intend to align and consolidate systems and outsource or insource operations. Very often, a technology partner has been selected to manage this transformation.

Challenges

Firms are unable to scale their systems for growth, manage and monitor data usage and costs, streamline operational and front office processes, perform sound governance and performance management or achieve measurable workflow efficiencies. Operational dysfunction is seen to be negatively impacting productivity, profitability and performance. Senior management recognizes both the need for a complete transformation of the operating model and that it cannot accomplish this without significant help from an external partner.

Path progression

Asset managers that are successful on the firm-wide alignment path invest a significant amount of time understanding all local nuances end-to-end, plan to implement changes on a large scale and ensure there is firm senior-and middle-level buy-in across the whole organization.

They prioritize getting the “golden source” for multiple paradigms of their data – third-party, in-house, real-time, historical, static and derived – to be managed by a robust







Firms that are evaluating a complete transformation will make a host of choices, including technology solution consolidation, organizational structure and introduction of efficiency across the entire investment life cycle in the firm-wide alignment path.

The journey to tomorrow's buy-side operating model

enterprise data management utility. They deepen partnerships with trusted technology providers that can ensure system integration, stability and scalability across all business functions, including order management, analytics, matching and settlement and accounting.

Following the consolidation of varying systems onto one platform and workflow, these firms will often rely on a global

in-house or external operations team to fully manage and coordinate middle office (matching and settlement, start-of-day and end-of-month processing) and investment operations (data governance needs and accounting) processes. Completion of this transformation journey enables asset managers to compete in global markets with aligned synergies.

	 Specialty-focused A mid-size asset manager or hedge fund specializing in a particular investment strategy.	 Expansion-focused A firm that is expanding overseas through acquisitions, partnerships or organic growth by hiring local talent.	 Front-to-middle consolidation A firm that has already expanded across geographies and has fragmented systems, data and processes.	 Firm-wide alignment A firm that outsources or insources operations and has selected a technology provider to manage its transformation.
Their goal is to...	Scale or specialize in an investment strategy or do both	Manage investment portfolio at the local level with firm-wide oversight at the group level	Align investment professionals, compliance and middle office. Ensure data is aligned across investment cycle	Consolidate systems and processes and centralize data for efficiency and quality
Their challenges include...	<ul style="list-style-type: none"> Identifying and providing best scalable tools for front office Growth through new or select asset types, geographies and workflows, while adhering to local settlement conventions Managing costs affiliated with their growth 	<ul style="list-style-type: none"> Disparate operating models that are difficult to integrate Lack of real-time global purview of performance at the group or global level Managing costs of local technology systems 	<ul style="list-style-type: none"> Disparate operating models that prevent seamless communications Lack of consistent global purview of performance, real-time and historical data causing confusion, inefficiency and inability to meet regulatory requirements quickly Managing costs – a centralized investment operations accounting system would be too costly 	<ul style="list-style-type: none"> All challenges faced by specialty-, expansion- and front-to-middle consolidation firms Centralizing accounting book of record and post-settlement process Providing a global platform that serves needs across investment professionals
Their approach to overcoming challenges includes...	<ul style="list-style-type: none"> Adopt a buy-side platform that is scalable and provides real-time information Upgrade systems to be efficient and compliant in order to deal with due diligence reviews and regulation Focus on being nimble to achieve TOM 	<ul style="list-style-type: none"> Adopt a global buy-side platform that provides cutting-edge investment technology at the local level and oversight and efficiency at the parent level Leverage one platform across regions for consistent data and ability to scale 	<ul style="list-style-type: none"> Adopt a single global front office, compliance and middle office platform Adopt an in-house middle layer for one point of integration – supported to better connect to local accounting systems Create a centralized investment book of record 	<ul style="list-style-type: none"> Refine end-to-end processes from trading, compliance disciplines and operational workflows Deepen partnership with select technology partners in order to support a global buy-side business Need to make a decision to insource or outsource operations Establish a unified platform with aligned synergies Create a centralized investment book of record and accounting book of record
Key takeaways	<ul style="list-style-type: none"> Consider a hosted solution since speed and costs are key Work with a few strategic technology partners instead of spending time and budget across many providers Operate on one robust workflow 	<ul style="list-style-type: none"> Consider a global portfolio, order management and execution management for transparency at a group level while addressing local needs. As new jurisdictions are added, they can be easily adopted on a global buy-side platform 	<ul style="list-style-type: none"> Consider creating a global middle layer for a centralized book of record Consolidation of front office, operations and compliance delivers data consistency, matching, trading and compliance 	<ul style="list-style-type: none"> Consider deepening partnership with only a few strategic providers across front office, compliance, operations and technology divisions Get buy-in across the firm and understand local nuances end-to-end Take a data-driven approach and one-house vision

Conclusion & summary of takeaways

Asset managers who succeed in their journey understand the importance of aligning key stakeholders across the organization, charting progress, appointing change advocates and deepening technology partnerships. Partnering with experienced buy-side technology providers that can provide a house-view of risk, performance, real-time portfolio analytics, market events and news throughout the trade life cycle will enable firms to implement their TOM effectively.

The technology and data transformation journey is never truly complete – operating models evolve with the goals of organizations. Beginning and continuing on the journey are not easy, but the alternative – maintaining fragmented systems, inconsistent data and inefficient operations – isn't an option. If buy-side leaders of tomorrow want to remain competitive, they need to establish a future operating model and leverage data as a strategic asset.

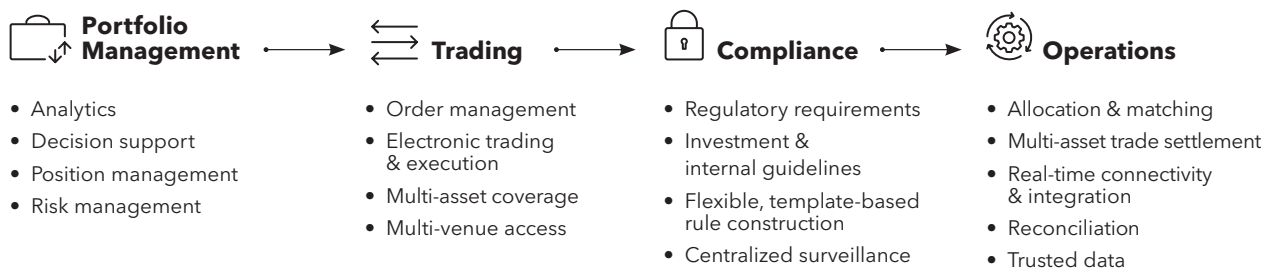
Bloomberg for the buy side

Bloomberg provides multi-asset order and execution management solutions and investment cycle analytics that enable buy-side firms to turn their trade and order data into a competitive advantage. Whether you are focused on achieving alpha, reducing portfolio costs, managing risk and compliance or optimizing execution, Bloomberg provides solutions that meet critical business needs across the entire trading workflow. For buy-side firms, Bloomberg AIM delivers global, multi-asset solutions for portfolio management, trading, compliance and operations. AIM is designed to offer the most scalable asset management technology in the market – one that allows AIM clients to grow assets on existing investments and to quickly expand into new asset classes, markets or investment styles without disruption.

Bloomberg delivers AIM on a hosted platform, thus eliminating the need to have dedicated workstations or servers on your premises – so you can lower your total cost of ownership. We take on the development inherent with changing markets, instruments and technologies, including infrastructure build-outs, version upgrades, data sourcing, continual tuning and system maintenance.

Bloomberg for the buy side

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Our contributors

Steve Ioannou

Global Manager of AIM

Philippa Thompson

Regional Manager of AIM

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Beijing
+86 10 6649 7500
Dubai
+971 4 364 1000
Frankfurt
+49 69 9204 1210

Hong Kong
+852 2977 6000
London
+44 20 7330 7500
Mumbai
+91 22 6120 3600

New York
+1 212 318 2000
San Francisco
+1 415 912 2960
São Paulo
+55 11 2395 9000

Singapore
+65 6212 1000
Sydney
+61 2 9777 8600
Tokyo
+81 3 3201 8900