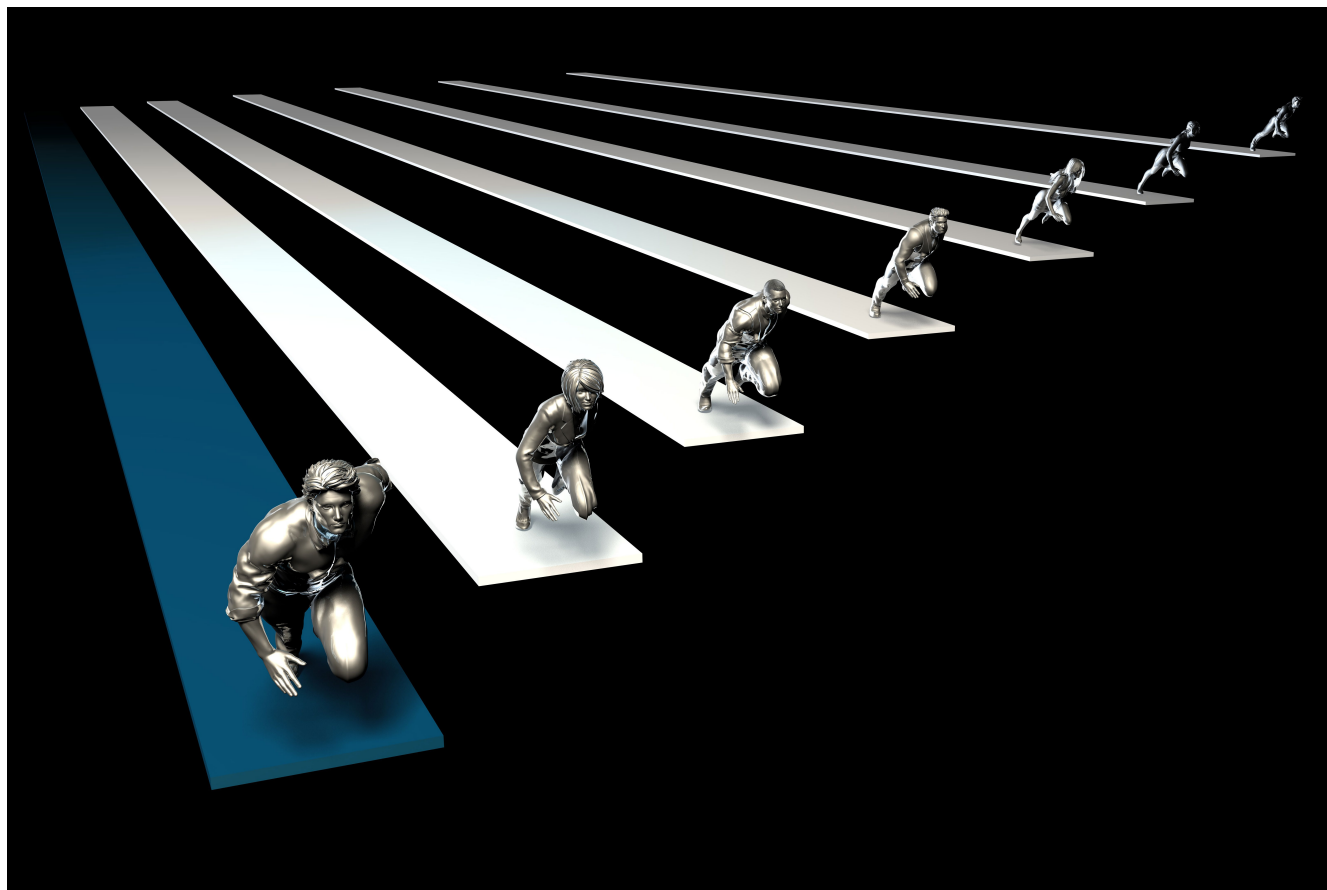


# OCIO Success: Technology Enabled Growth

Essential Reading for CIOs, Portfolio Managers and Investment Operations Teams



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This paper discusses how CIOs, client portfolio managers and investment operations teams within an OCIO firm can become more agile, operationalize their investment processes, and scale their business to sharpen their competitive edge.



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## Competitive Landscape

There has been rapid and substantial growth in the adoption of outsourced CIO services over the last several years. This growth has arisen from both an increasing embrace of that approach by institutional investors, and the number of investment advisory firms that have extended their practice to take on the implementation and fiduciary duties that are part of the OCIO profile.

However, delivering OCIO services requires specialist technology and operational enablement well beyond that required for a firm's investment advisory practice. The success of an OCIO will depend on having capability that supports both advanced investment solutions and enables the firm to control operational risk and cost. Doing so will increase the firm's competitive advantage while bending the cost curve to deliver greater value to both clients and shareholders.

*"Pensions & Investments' data show total worldwide OCIO assets among firms in its database reached \$1.69 trillion as of March 31, up 11.2% from a year earlier. Total U.S. client outsourced assets, meanwhile, reached \$1.15 trillion during the period, a 13% increase."*

*<sup>1</sup> Pension & Investments, Complex portfolios spur increased use of outsourced CIOs, James Comtois • June 26, 2017*

## Establishing an Edge with Technology and Control

Consistent performance is all about the investment process; and, like all processes, when operationalized, it's 'in control' and minimizes the occurrence and impact of random or human error. For experienced investment professionals, this is about capturing and operationalizing investment process – the essence of the firm's investment capability: that which allows the firm to compete and differentiate its services.

Outstanding investment strategies and portfolio managers are key to successful growth, and just as important are their support systems and teams. Experienced and focused investment professionals recognize that the quality of the systems that they use can make a significant difference to their productivity and personal performance. When those systems also capture the firm's investment process – its intellectual property – then the pay-off is tangible competitive advantage.

But it doesn't stop there. The effectiveness of investment operations is tied to their ability to act seamlessly with the portfolio managers to deliver execution on the firm's portfolio strategies.

That effectiveness, too, is about support systems that are purpose built for the needs of both the portfolio management professionals and their investment operations support team.

## Current State for Technology and Operations

Building a business from the ground up relies on using the available skills and tools at hand. In this respect many OCIOs have bootstrapped their investment business using spreadsheets with elaborate macros, and organic PC-databases for client reporting, while relying on emails or file systems to share information across their teams.

These desktop tools work when firms are starting out in the OCIO business, but they do not support growth. In fact, they do the opposite: tools that don't scale impose severe limitations on the firm's ability to execute.

Such 'desktop tools' have a tendency to:

- Create challenges when onboarding large clients with complex assets
- Impede the delivery of new investment capabilities at critical times
- Make due diligence reviews a vulnerability
- Rob product managers of the freedom they need for serious innovation

If the purpose of an OCIO is to undertake a fiduciary asset management role on behalf of their clients, then it stands to reason that the long-term risks associated with weak system controls based on personal productivity tools becomes untenable at some point on that journey.

*"The growth of the outsourcing market stems from increasingly complex and volatile capital markets, regulatory changes, resource constraints, and demand for improved governance," Cerulli explains. "As a result, institutions seek timelier decision-making, deeper manager due diligence, and greater oversight of portfolio risks."*

According to Cerulli Associates, the vast majority (85%) of OCIO providers surveyed expect significant new business opportunities from institutions looking to move from an advice-only advisory relationship to a more discretionary OCIO solution.

*<sup>2</sup> Planadvisor, Larger Institutional Clients Embracing OCIO Service, John Manganaro, November 17, 2016*

## Future State: Convergence across Roles

### Systems and Support for Portfolio Managers

Portfolio managers must monitor clients' portfolios to ensure that they are properly positioned relative to the investment strategy and policy. These managers need tools that enable them to view their clients' portfolios – with alerts to quickly point out which are out of compliance – are critical to the proper, timely and efficient allocation of their time and attention.

That value can be multiplied with integrated systems that enable the portfolio manager to model multiple scenarios in the context of analytical tools, and then place orders without leaving the context of the monitoring and modeling views. In addition, efficiency is increased, and risks are mitigated by enforcing trade compliance rules during order modeling and entry. This is particularly useful for investments that have irregular trading and complex liquidity terms, such as private equity and hedge funds.

### Process Management Control for Investment Operations

Investment operations is the control center for implementing the investment process:

- Collecting and assembling data from custodians, investment managers and other sources
- Preparing and delivering positions to the portfolio managers to enable their modelling
- Administering the order placement process commencing with entry by the portfolio manager and continuing through the review and transaction approval processes
- Monitoring the transaction lifecycle and portfolio liquidity through to settlement

Transaction compliance issues and challenges in managing an order through the complete review, approval and placement process can result in operational 'stress' and – potentially – investment impact. This stress can be heightened when dealing with a wide variety of asset classes. Automation of transaction compliance reduces operational stress and delivers immediate and substantial value to the firm.

In addition to driving efficiency and increasing control, the right technology platform and operating model substantially strengthens the firm's competitive profile in client due diligence examinations. Selecting a platform that is mature, robust and with demonstrated strength in the domain will mitigate the need for future platform changes and serve the longer-term objectives of a firm by avoiding significant change during times of growth: a time when the interruption caused by a technology change is least able to be accommodated.

Professional performance becomes much harder for both portfolio managers and investment operations teams when they work with systems that aren't integrated, or don't share the same data in real-time. When disconnected, portfolio managers and investment operations must exchange critical content – including portfolio analysis and trades – via 'ad hoc' processes, often in the form of spreadsheets and written notes delivered by email. This creates potential points of failure and degrades productivity because of the time it takes to investigate and correct failures when they occur and then implement procedures to prevent further control issues from arising.

### Siloed Design versus Functional Integration

Given the increasing importance and utilization of technology for investment firms, the various roles and functions in the investment process are becoming more tightly integrated. As a result, there is little room for 'silo-based' technology models that do not support convergence of requirements:

- Portfolio management: monitoring, analysis, modelling, and order entry/review/approval
- Investment operations: order management, and the set up and administration of clients' portfolios, products, and static data
- Data management: custodians, investment managers, pricing and reference data, and order status communications
- Control framework: End-to-end investment process monitoring from strategy through to settlement

The outcome sought includes a single positional and transactional view that serves the entire firm across all roles. This model improves execution, strengthens controls, reduces operational risk and creates efficiency, all of which result in competitive advantage and realized business benefit.

Michael Oyster, chief investment strategist at Cincinnati-based consulting firm FEG, says "Investing in the future is going to be a lot harder than it has been in the past," he said. "Complexity of portfolios is increasing, and it has to in order meet expected rates of return."

<sup>3</sup> *Institutional Investor, Cerulli: Investment Consultants' Influence Will Rise in 2017, Corner Office, June 25, 2017*

## Transitioning from past to future state

Many platforms claim full integration of their components. However, closer examination may reveal a loose coupling via APIs rather than a unified architectural design in which portfolio monitoring, analysis and management are truly integrated from data, transactional and functional perspectives. Further examination of how value from one function is leveraged in others, as well as the precision and extent to which data elements are 'understood' and unified, will provide insight to the power and utility of the platform.

It is by these measures that the breadth and strength of any OCIO solution should be assessed as an indication of how far towards a desired future state the platform will take the firm.

## End-to-End, Purpose Built and Proven

There are few end-to-end and 'built for purpose' platforms for outsourced CIO firms. Such a solution is a challenge because every OCIO has intellectual property and investment processes that are unique. A platform to support these needs takes significant time, resources and business knowledge to design and build. While there will always be temptation to undertake a 'custom build' tailored to the firm's requirements, it will be limited to the current specification and will incur unanticipated development costs and risks to meet evolving – and often complex – market expectations. It will also be missing the value that accrues from enrichment in response to industry utilization.

## The Solution

The ideal solution is a technology platform that supports all OCIO stakeholder roles with integration of the various functions and providing a unified view of the operation. It should be configurable to each client's portfolio strategy and implementation, and inherently able to support the OCIO firm's proprietary investment process and approach. That platform will enable the firm to add clients and grow revenue while concurrently mitigating operational risk and decoupling operating cost from business growth.

## References

<sup>1</sup> *Pension & Investments, Complex portfolios spur increased use of outsourced CIOs, James Comtois · June 26, 2017*  
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<sup>2</sup> *Planadvisor, Larger Institutional Clients Embracing OCIO Service, John Manganaro, November 17, 2016*  
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<sup>3</sup> *Institutional Investor, Cerulli: Investment Consultants' Influence Will Rise in 2017, Corner Office, June 25, 2017*  
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