

Patchwork Doesn't Work Anymore

Moving Forward With a
Streamlined Investment Platform

THOUGHT LEADERSHIP

Perhaps this scenario sounds familiar. An emerging alternative fund management firm wants to control overhead as it seeks to gain traction in the market. It's running lean. Therefore, the fund minimizes its initial technology investment, on the assumption (or hope) that it will be able to build out its platform and add functionality as it grows. For many emerging firms, this means tracking investments on spreadsheets, or starting out with limited accounting and reporting software.

Over time, the firm grows, taking on more investors, assets, and investments, and perhaps diversifying strategies. With growth comes more complexity and the need for more technology in order to scale. So the firm implements different systems to handle different phases of the investment process: portfolio management, trading, accounting, compliance. Before long, the firm finds itself with a patchwork infrastructure of disparate, single-purpose systems that weren't designed to communicate with each other. They may even come from different vendors. Enabling them to share data requires manual re-keying or costly, cumbersome integrations that are anything but seamless; it's inefficient and carries a high risk of errors. What's more, it is driving up operating expenses—the very thing the firm has tried to contain.

Overcoming chaos

Fragmentation of an organically grown operational platform is a common problem among asset managers of all types and sizes. The most serious consequence is inconsistency of data among systems—for example, the risk that the trading desk and the accounting office are working off stale position and P&L data that informs performance and risk. Constant checks and balances are needed to keep everyone on the same page. Another capacity drain is that each system needs to be individually maintained. At a time when investors are more rigorous in operational due diligence than ever, and funds are subject to more complex regulatory demands, a lack of integration and automation across a firm's

investment workflows poses serious and consequential risks.

The good news: emerging fund managers have the opportunity to avoid this scenario by leveraging a forward-looking tech-stack at an early stage. A sound technology infrastructure is a competitive necessity in today's alternative marketplace. Emerging firms need to match the capabilities of more established players right out of the gate. The advantage: these firms are not burdened with legacy systems struggling to keep pace with advancing technology. What's needed is a modern, flexible, scalable and comprehensive investment platform that can elevate operations today and support growth over time.

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The opportunity for a single platform

A single platform integrating all core operational functions can vastly simplify operations and help an emerging firm gain its competitive footing quickly. It eliminates the need for expensive integrations among multiple and often disparate systems, while streamlining front-to-back and back-to-front processes and data flows. Perhaps most importantly, it ensures firmwide data consistency—a single book of record or “source of truth” that portfolio management, trading, and operations teams can all rely on to be current and accurate.

Combining such a platform with modern cloud technology brings further advantages. Security issues that slowed the investment industry’s migration to the cloud have largely been addressed through private cloud options, strong data encryption, and rigorous security controls. Firms are increasingly comfortable taking advantage of the cloud to gain scale and reduce their internal IT infrastructure. A true cloud-native solution—one designed and built expressly for cloud deployment, analytics services and scalable architecture—affords greater flexibility to add or upgrade functionality as needed and to scale according to business needs and volume.

With cloud deployment in a managed services model, responsibility for keeping the platform up to date falls to the technology provider, relieving firms of an onerous burden. What’s more, leveraging the cloud enables access to the platform from anywhere with an internet connection—a critical consideration in the new age of hybrid workplace models.

What to look for in a comprehensive investment platform

A cloud-native, front-to-back platform should encompass and seamlessly integrate the key components of your investment process, with functionality that supports:

Portfolio management: The ability to track fund performance and gain real-time visibility into market values, positions, P&L, and exposures to make informed decisions

Trading: End-to-end visibility across the trading lifecycle, from order management and routing through execution and settlement, with on-the-fly strategy-level allocation tools and trade analytics for insights into results

Compliance: Automated, customizable pre- and post-trade checking for adherence to client mandates, investment policies and industry regulations

Fund accounting and reporting: A solution that supports complex fund strategies and structures, provides a centralized book of record, enables timely and accurate NAV calculations, and delivers ILPA-compliant reporting

Investor accounting and servicing: The ability to accurately allocate P&L among investors and calculate fees

Operations: Automated connectivity with custodians and prime brokers to streamline and accelerate back-office processes, including daily reconciliation

Solving everyday accounting issues

In fund accounting, the details matter. The accounting component of an end-to-end platform needs to be especially robust to address everyday issues that back-office teams encounter. Digging deeper into specific functionality to look for, the accounting engine should incorporate such capabilities as:

Flexible journal entries: The ability to debit or credit any non-trading financial account directly within the general ledger, and to settle all outstanding payable accounts to cash at month end with a single entry, instead of having to book multiple entries

Simple onboarding: Native capabilities for importing free receipts and free deliveries, in addition to historical P&L and ROR providing

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top level historical transparency when onboarding an existing fund

Trial Balance Transparency: A transparent view to drill down and substantiate the numbers across all categories including Owner’s Equity, Assets, Liabilities, and Income/Expenses—key components of trial balance and essential data for month-and year-end reconciliation

Multi-period reporting: The ability to view and analyze month-, quarter- or year-to-date fund performance for any historical point in time without having to run multiple reports

Granular NAV and P&L detail: The ability to break down overall P&L into components such as unrealized price gain or loss, capital gains, dividend income, stock loans or other criteria in order to gain a complete and accurate picture of fund investments

Managed Services: Freedom to focus on your business

Along with a forward-looking tech strategy, firms at an early stage of growth need to plan for increasing operational complexity. In recent years, many investment managers have experienced attrition in operations and a shortage of

experienced, qualified people. That is one reason more firms in the alternative sector are turning to a managed services model. By partnering with an outside provider that knows your systems and your business, you can augment your in-house team with experienced operations specialists that have performed similar services for dozens of other firms, and that know best practices and compliance requirements.

Managed services offerings have become more flexible and attractive over the past decade. A qualified managed services partner offers you the ability to selectively co-source certain operations, maintain

some workflows in-house when it makes sense, and change the mix of services as your business grows or your needs change.

While reducing your internal staffing requirements, the real advantage of managed services is the ability to adapt quickly to changes in the marketplace, including launching new strategies or bringing new products to market. It further enables you to scale your operations to accommodate growth of your assets, investor base and transaction volume.

Combined with a cloud-delivered, fully supported front-to-back technology

infrastructure, the managed services model frees you to focus on investment strategies and investor relations, without the distraction of IT or operational issues. With the right partner, it also gives you an infrastructure that stands up to investor due diligence and regulatory demands.

The decisions you make at an early stage are critical and will have far-reaching implications as you grow your fund. Set yourself up for long-term success with a flexible and scalable tech stack that will support your firm as you grow and serve your business over the life of your fund.

ABOUT EZE ECLIPSE

Eze Eclipse is a born-in-the-cloud solution focused on the needs of start-up and emerging hedging funds looking to expand their business capabilities, optimize operational efficiency and minimize total cost of ownership. Eclipse supports the full investment process within a single, unified platform accessible through a secure web browser interface. Learn more at ezesoft.com.