

Eliminate The Barriers To Success

Use this guide to create a sustainable future for your firm.





RISE UP TO MEET TODAY'S INDUSTRY CHALLENGES.

After decades of profitability and growing assets under management (AUM), the asset management industry faces severe challenges. Movement from active to passive management and an increase in fintech firms bent on disruption is compressing fees. Heavy compliance burdens from ever-increasing regulation have become nearly unmanageable using current processes and technology. At the same time, expensive and inefficient legacy technology hobbles firms.

This collective reckoning with change finds the industry in a period of painful consolidation and self-examination. As firms realize that they can't merge, acquire or cost-cut themselves out of this mess, they are turning to more creative and long-lasting solutions to place themselves on a path to a more sustainable future.

Your future requires change through operational transformation. Fortunately, the time is right for collaboration between industry groups, technological partners and professional peers to create standard data and processes. Technological innovation provides the capacity, maneuverability and flexibility to navigate the present and chart a course for the future, letting you focus on your core business: finding alpha, adding new and more complex asset classes, and expanding into new markets.

Streamlining operations relieves your team of mind-numbing repetitive duties so they can focus on value-added strategic initiatives. Through technological innovation, your organization can generate operational alpha: the additional liquidity from operational improvements that can boost investment performance and position your organization for market leadership.



Change doesn't come easily, but this guide will walk you through four innovative transformation steps.

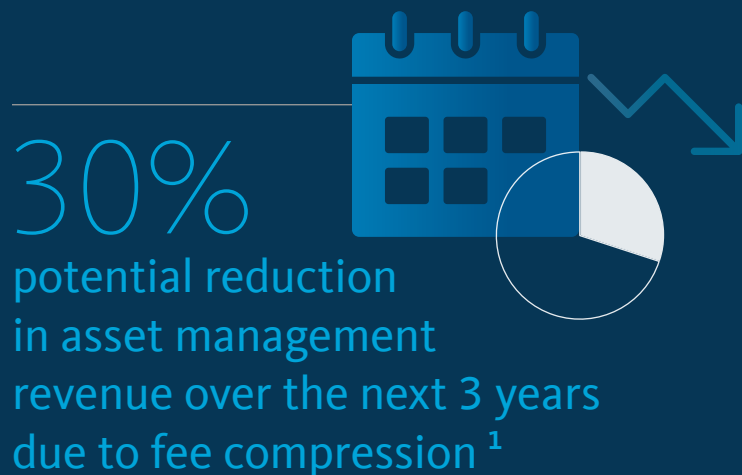
State of the industry

The asset management industry finds itself at a critical juncture, mired in outdated methods, processes and technology at a time when competitive pressures are escalating. At the heart of the problem are stagnant and time-consuming processes that hamstring organization efficiency and effectiveness. It is no longer enough to improve steps in a process. Instead, steps must be eliminated.

The industry is saddled with inflexible cost structures, many tied to lack of data standardization, legacy technology systems and other disjointed industry practices. Settlement and trading timeframes are a prime example. U.S. firms and markets implemented T+2 last year, three years after European adoption.

Legacy technology systems aren't merely outdated — they also lack integration, forcing manual reconciliation of data, wasting staff time and creating a chain of manual errors. A lack of standardized processes plagues the industry and individual organizations. Organizational transformation is impossible when firms on different sides of a trade don't communicate with each other in the same way.

Because of competitive pressures and anti-competitive regulations, collaboration with other organizations is scant. Collaboration is an ideal that many agree with but few actually put into practice, compounding the problem.



¹ Brown Brothers Harriman, "Challenges and Opportunities: A Look at Asset Management in 2017," July 25, 2017.

\$1 trillion
in AUM could shift from
active to passive management
by 2027



STEP 1

Initiate collaboration

Collaboration seems like a great idea in theory — especially if someone else initiates, and your organization can benefit without doing any of the hard work. But it doesn't work that way. For collaboration to succeed, your organization must commit resources in terms of both people and investment.

WHAT DOES COLLABORATION LOOK LIKE?

- **Trade association collaborations:** A joint FIA/SIMFA collaboration on exchange-traded derivatives (ETFs), and OTC-cleared workflows and standardized data fields, is designed to streamline processing and enable electronic messaging.
- **Corporate collaboration:** Goldman Sachs, Bank of America Merrill Lynch, JPMorgan, HSBC, Deutsche Bank, Credit Suisse and many other financial services firms backed Symphony, a single, secure platform for financial services communication, collaboration and sharing.
- **Service provider, utility and technological collaboration:** Utility offerings from Broadridge and DTCC allow firms to publish, manage and communicate around trade exceptions.

The decision to move from observer to collaborator starts with implementation. As an organization, you must determine your goals, provide leadership, dedicate budgets and understand the risks. Perhaps the biggest challenge is instilling the cultural change required for a truly collaborative spirit to flourish.

Whatever project you decide to back must be carefully nurtured. That means starting with one project and creating priorities, locating the right partners, setting timelines and assessing your progress against initial goals.

Finding the right partner is critical. Whether that partner is an industry peer, a group within a trade association or a technology partner depends on your objectives. Your partnership must involve aligning goals, budgets, personnel and outcomes, or it is doomed to fail.

TARGET-RICH INNOVATION ENVIRONMENT

Q: What areas of operations present significant opportunity for innovation?

RANK / ANSWER / PERCENTAGE



(Source: SIMFA Asset Management Group Survey)

STEP 2

Facilitate standardization

Standardization is the foundation that accelerates change — and the biggest challenge facing the industry. It follows that data standardization is a pressing issue because it is the currency that facilitates trading and other transactions that asset managers require. Data standardization has the potential for transformation because, without it, other changes are too incremental to have enough impact.

Consider a world that operates with only standardized transactions. Think about how much time, energy and money your organization could save reconciling data and dealing with inevitable manual errors. More so, complete data standardization would enable a move to T+1 settlement, which would free up capital for investment and reduce counterparty and market risk.

82% of U.S.-based global asset managers stand to benefit from T+1 settlement ²

In fact, South Korea already employs T+1 settlement and China has same-day settlement. Current same-day trading for repurchase agreements, futures and overnight commercial paper shows that it can be done.

For the industry to transform itself, it must standardize data. While no single organization can make data standardization a reality, there are steps that your organization can take to do your part:

- Employ tools that facilitate improved collaboration and interoperability between firms to create common processes
- Develop common platforms to standardize workflows on non-differentiated processes
- Establish collaboration incentives
- Embrace transformation technology like cloud computing, artificial intelligence and distributed ledger technology or blockchain
- Seek outside partners to mutualize costs, risk and development time frames
- Apply new solutions to eliminate unnecessary processes

² SIFMA, *The Future of Operations: Simplify, Innovate and Transform*, December 2017.



STEP 3

Implement technology

Technology has the potential to solve many current industry challenges. In particular, your organization should embrace three key technologies that can facilitate change across the enterprise:

- 1 **Cloud computing** has the potential to reduce costs, increase speed and enhance the client experience.
- 2 **Artificial intelligence**, such as robotic process automation, enables firms to automate and evolve middle and back-office processes.
- 3 **Blockchain** or distributed ledger technology can revolutionize stock exchanges, corporate action processing and more, as well as eliminate countless processes across the industry.

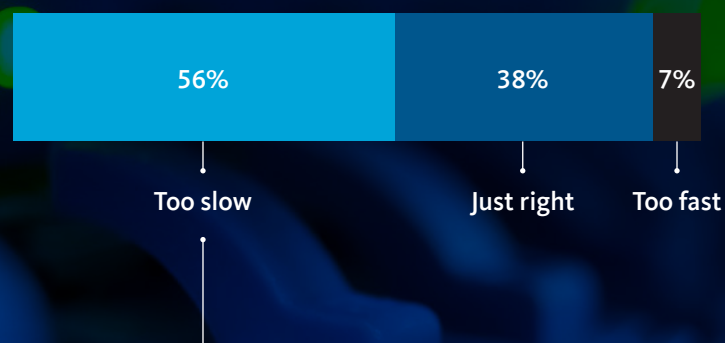
These are big technology transformations that you can't tame in a few weeks. Instead of getting overwhelmed and giving up, set both short- and medium-term goals to ensure consistent progress. Short-term goals should feature collaboration incentives for facilitation of interoperability tools and common platforms. In the mid-term, seek outside partners to extend your reach and continue to eliminate unnecessary steps from processes.

Deciding which technologies to invest in is one of the biggest challenges your organization faces. It's easy to get tempted by the quick payoff. However, technologies with the most promise are more likely to pay off in three, five or 10 years. That being said, don't bite off more than you can chew. You can't, for example, master every aspect of blockchain, if that's what you decide to prioritize. Instead, determine your most important processes and how blockchain might facilitate those.

To pull off this type of technological implementation, don't go it alone. Vet potential partners and qualify those with the most appropriate skill set to expedite the acquisition of your chosen technology. Again, your success will depend on choosing partners that possess expertise in your priority areas, along with objective, goal, budget, personnel and outcome alignment.

GET A MOVE ON

Q: Do you feel the pace of change within operations has been ...



56% of asset managers believe the pace of operational change is too slow ³

(Source: SIMFA Asset Management Group Survey)

³ Ibid.

STEP 4

Find partners

Because reinvention requires time, energy, money and help, finding the right partner is critical. From a top-down perspective, keying into your firm's goals first will illuminate the search for the most appropriate partner. Formulating these goals isn't difficult. It's likely that your firm has and will continue to pursue some mix of these leading objectives for asset managers:

- Gain market leadership
- Introduce new products
- Launch new services
- Enter into new markets

The best way to achieve and maintain market leadership in any segment is with a singular focus on your core business. That means converting prospects to long-term clients and delivering unparalleled service to them. Defining your focus on managing money — and away from non-core activities, such as maintaining technology — is the only way to find success. Anything else is luck or happy accident.

This means enhancing the investment process for clients. As the asset management business becomes more commoditized, your value is not just in the service you provide, but in your differentiated business lines and proprietary data. If you can't provide a product or service extraordinarily well, cut it loose. Sell it to another firm that specializes in it, and acquire products and services that align with your core capabilities.

To support organizational success and focus, simplify and streamline your operations. Get rid of legacy “Rube Goldberg” systems that don't serve all your needs, and invest in integrated technology that fully supports your core business while reducing overall cost structures.

Create a vision of where you want your firm to be and determine how to bridge the gap from where you are today. As part of that process, determine the greatest areas of current inefficiencies and risk. Commit to eliminating non-standard processes and legacy technologies.



Which legacy technologies? All of them. Too many resources have already been wasted keeping these obsolete and inefficient systems going. Think big and find a partner that can help you realize your overall vision and support your growth from today into the bright future your organization imagines.

To start, collaboratively identify the benefits of change and communicate them to key internal stakeholders. Then align firm aspirations with future operational reality and ability to execute.

“A 20% drop in stock market valuations could destroy the business models of many asset managers.”

– CHRIS FEDELE, Senior Director of Global Technology and Operations Management, Broadridge Financial Solutions

The stakes are high, so your organization must vet potential partners carefully and methodically. Use this checklist as you meet with sales representatives and create an RFP:



Alignment of goals
with partner expertise



Global experience



Global alliances/
collaboration/regulatory
mindset



Cultural fit



Financial stability



Wide industry experience
on the buy/sell side



Ability to create infrastructure
around standardized data
and processes



Commitment
to the future



Flexible approach
to technology and
managed services



Reliability

> Create a bright future

When the market is rising, it is all too easy to put off meaningful action that can engineer your organization's future. But it is an imperative.

Competitive pressures, fee compression and the rise of fintech means that you must take this and other threats seriously. The market is going to fall — there is no way to know when or how much. Act now to keep your firm ahead of the curve.

The asset management environment is creating winners and losers this very moment. Your organization doesn't want to be on the losing end of operational Darwinism, where market leadership accrues to organizations that embrace change.

By establishing a collaborative relationship with Broadridge, who will work side-by-side with you to navigate the challenges and opportunities of today and tomorrow, you can take your first step down the path to operational transformation right now.

Create your
short-, mid- and
long-term vision
with asset
management
solutions from
Broadridge.

Broadridge, a global fintech leader with \$4 billion in revenue, provides communications, technology, data and analytics solutions. We help drive business transformation for our clients with solutions for enriching client engagement, navigating risk, optimizing efficiency and generating revenue growth.

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