

Guide to

Buying an Investment Management Software

For Business

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Introduction

Portfolio Management System (PMS), Investment Management System, Asset Management System, Wealth Management System, Fund Management System... A beloved child has many names. No matter what you call it, you can probably agree that it is the heart of your wealth management business.

Financial services today are extremely dependent on efficient IT solutions in order to stay competitive. It is no longer possible in practice to stay profitable if you have to perform too many manual tasks. The reason for this is the combination of fee compression and dramatically, continuously increased compliance requirements.

An up-to-date IT solution providing you with as much automation and controls as possible is a key element to survive and grow. With the right solution, small players can outmanoeuvre the elephants with regard to profitability and control. This way you can avoid having to sell the business to a major player just because outsourcing and compliance was too expensive or inefficient.

A modern PMS solution should integrate to all your actors and counterparties with minimal manual intervention, freeing time for tasks where humans still excel. Employees should be able to concentrate on

value-generating tasks while technology manages the manual burden.

Nowadays an increasing amount of asset and fund managers face the need to change their PMS as their old system cannot handle the efficiency requirements and regulatory changes while serving the customers in a modern way. This limits their business. A modern and reliable system enables efficiency and automation in the right place and serves as a growth enabler rather than a growth inhibitor.

Very often we come across companies struggling with similar questions and therefore wrote this guide to help you to get the maximum value from acquiring a new Portfolio Management System.

The process to select and go live with a new PMS solution typically involves a number of phases that you need to understand. On high level, they include the following:

- A. Problem definition – what do you want to achieve?
- B. Selecting the solution – define criteria
- C. Project execution – deployment, testing, and Go Live

Problem definition

Before contacting any vendors, clarify your need. Why are you considering a new solution? No matter whether you manage the PMS acquisition project fully in-house or use an external consultancy, defining the problem is important either way.

When you have a working solution in place – why replace it? Is it because the current solution is not sophisticated enough, or it is not of adequate quality, or too expensive to support? Will it cease to exist in the foreseeable future, or stop being developed further? All of the above can of course threaten your existing business model, as well as possibly prevent you from growing it efficiently.

If your current solution is not sophisticated enough, the issue can be solved by a change in the business model. For instance, you can stop working with derivatives altogether, and instead only keep funds under management. But a new solution that provides an adequate level of automation could allow you to preserve the business model and support a broader range of investment types.

Security of the solution is also a very important concern in today's financial environment, when for instance in EU countries leaking customer data may have near catastrophic consequences.

It could also be that support and maintenance of your old solution turns out to be too expensive. This is a common scenario, especially when you are one of few customers of the solution within your segment. Such issue can also arise if your current supplier has lost interest in the product or customer segment you belong to, for example as a result of the supplier getting purchased by another player – a private equity fund or a larger competitor. In this case, it is very important to have a realistic understanding of where the development of your solution is going, and does it still fulfil your business needs.

If you are facing one of the problems outlined above or any other issue that limits your growth with the current solution, it becomes clear that you should invest in a new Portfolio Management System.

Once the need is established, it is a good idea to prepare a simple pitch so that the reasons and goals of the project can be easily understood by people inside your company as well as by the vendors you will be contacting. This will also help you down the line to keep the focus on the original purpose and scope of the project.

When putting the pitch together, ask yourself, what are the problems you want to solve? Which specific processes would you like to be handled more efficiently by the

newer, more modern solution?

Consequently, what kind of functionalities do you need? What is the level of automation you are seeking to achieve? Ask these questions also from your colleagues working in different functions to view the problem from multiple perspectives.

There are some additional details you can estimate already at this stage to simplify the selection process. What project timeline do you have in mind? What is the approximate budget for the purchase, including project fee and monthly service fee?

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Selecting the solution

Preparation

There are a number of things that are crucial to think about before you invest in a PMS.

1. **Define business you are conducting today, and what you want to have the possibility to do tomorrow.**
 - 1.1. **Define instrument types you are using and foresee which you might be using in the future**
 - 1.2. **Define client types and quantity (Private/Institutional/Partners)**
 - 1.3. **Define your offering (Fund management/Single portfolio management (Family or Foundation)/Discretionary management/Combinations)**

Understand where you want to go tomorrow. Do you intend to grow into new areas/geographies, or is your business more static? If the latter, think if any outside events could disrupt your current business model. Even for a “static” business like a pension fund manager, outside requirements may cause new demands.

If you are seeking a long-term solution, the key is flexibility. The system should adapt flexibly to different financial instruments and asset types, currencies, fee structures, portfolio structures, tax environments, and user rights definitions. The solution should not only fulfil your current needs, but also

adapt to growth in the future. Ideally, it should also be easy to tailor the tool to your changing requirements without advanced programming skills.

2. **Define the stakeholders – with whom do you interact, in what way?**

What is your report output to various actors, including clients, authorities, board of directors, trading counterparties, etc?

3. **Define the dependencies & flows – must one thing be done before the other can be done?**

Besides standard workflows, we also recommend creating “use cases” or “user stories” for each flow. At this stage, they can be general and schematic. They are meant to help you define a specific requirement list for the potential solution providers when you start contacting them. An example could be “New customer signs up online”. In the demo phase with your potential providers, it is advisable to put these on the agenda and check how the processes would work in each PMS you are considering, before committing to any solution.

4. **What are your tasks today to perform this? What would need to be done if you expand scope?**

If you already have a functional solution today, you can start defining the tasks you are performing in it. Document the must-haves for your business to include them in the “minimum requirement” for the PMS solution, and also some nice-to-haves that could help you work even more efficiently.

When these points are clarified, you have come a great way in understanding what you are looking for in the new PMS.

What is important to consider at this point is how much time your organization has to spare for both the selection process and for the deployment process. When estimating the timeline, be aware that implementing a new business-critical IT solution is a task not to be taken lightly. This decision will impact all processes in your organization. Future-proofing your business comes with a major effort, and enough time needs to be allocated for adjusting to the new solution across departments.

Selection

Now it's time to get out there. No need to reinvent the wheel, use a standard process for finding options: search the web, ask around, go to conferences to educate yourself on what is available. Connect with professionals who recently changed their PMS as well. They could share valuable insight into the overall process and the possible pitfalls, and they might also be able to give you information about the solutions they evaluated before making the final

decision. It can also prove useful to browse through relevant directories such as Bobsguide and Capterra.

Once you have found a few options, put together a long list of solutions (5-10), or directly a short list (2-3) – whichever works best. It is always good to discuss with more than one provider to be able to compare functionalities and prices and to find the best deal for you.

If you are choosing to start with a long list of 5-10 potentially suitable solutions, you cannot afford to spend much time on each. That is why at this stage we recommend setting up an online demo, which is easier to organise than a physical meeting, and keep it an hour in length, at most. This should be enough to get a glimpse of each solution and go through 3-4 features which would be essential for your business in a PMS. Do not forget to ask for references and talk with the vendor's existing customers.

After the first evaluation and an initial discussion with several PMS providers, narrow down your choices and request a meeting with the successful candidates. Ask for a physical meeting, where you can dig deeper into specific use cases you have prepared. After 1-2 workshops with the vendors on the shortlist you should have a good idea of what each solution can and cannot do for your business.

Make sure all your critical use cases covering must-have functionality are discussed with each PMS provider. Pay

special attention to correctness of calculations within the system and smoothness of crucial processes. Also look for sufficient automation and integration to required 3rd parties. Insist on a live demonstration of each important feature so you can evaluate how processes work in practice.

Here are some more criteria to be on the lookout for:

1. Stated typical clients of the solution

Is it a good match with where you are today and where you want to go tomorrow?

2. Scope of the solution

Does it fulfil all your requirements or only a part? This will determine whether you will need multiple solutions or a single solution for the whole organisation.

3. Modern/old technology

When was it first released? Of course, you are looking for something that is modern enough, but still sufficiently tested. Make sure that the core is modern as well, to avoid costly adaptations down the line. Many older systems look modern due to regular face-lifts, but their cores are becoming

increasingly outdated, which makes them expensive and cumbersome to maintain in today's shifting environment.

4. Solution pricing

Does the vendor charge a monthly fee only or an upfront license fee plus an annual fee?

5. Database structure

How many databases are used? If multiple, what additional costs and maintenance does it incur?

6. On-premises vs. Software as a Service (SaaS)

If the former, you should ask yourself if you are ready to provide the necessary in-house IT resources to make it work. If the latter, make sure that future upgrades and customer support are included in the contract and that the solution is fully GDPR-compliant.

The main differences between developing a PMS solution as an in-house project vs. buying a PMS as a standalone product are outlined in an infographic on the following page.

Buying a Software

PROJECT VS **PRODUCT****SOFTWARE DEVELOPMENT**

Part of the project:
Development starts from a scratch



Ready-made product:
Development is already done

MAINTENANCE

On customer's responsibility (IT personnel,
equipment, licences) or bought separately



On software provider's responsibility,
included in monthly fee

FUTURE DEVELOPMENT

Not included: Customer pays separately
for any post-project development



Included: Provider constantly develops its product
to satisfy evolving customer and market needs

SOLUTION FLEXIBILITY

Project company will build everything
as customer requests



Customer might face limitations
due to product limitations

CUSTOMER SUPPORT

How to ensure high-quality support
of complex tailor-made solutions?



Standardised support services,
strong product support available

INTEGRATIONS AND INTERFACES

All integrations are
built during the project



A number of product integrations already built,
custom integrations built during implementation

CUSTOMER AND AUTHORITY REPORTING

All reports are
built during the project



Standard set of reports included,
custom reports built during implementation



Smart asset manager goes cloud

Many vendors offer both on-premise installations and cloud-based solutions. Which should you choose, then? Large companies usually have their own IT departments, which can possibly take on the role of managing the PMS development process. However, small companies rarely have such luxury, but they do have the same need – to develop a comprehensive Portfolio Management System that fits their needs.

If you want a customised PMS but you cannot pour a lot of human resources into its in-house development, private cloud is the solution to your problem. No need to buy a license – you “rent” the software with an ongoing monthly fee. This way, you gain access to the software features you need, and the PMS provider is taking care of installing, configuring, upgrading and solving issues for you.

There are three important reasons why we think lean asset managers should choose a cloud solution:

- **Focus on your core business**

Asset managers are not IT experts, nor do they need to be. Why should you hire in-house IT personnel for tasks that are not your core business? With a cloud solution, the only essential IT requirement is an internet browser.

- **Keep your data safe**

Information security is one of the largest concerns when it comes to cloud computing. Many think that cloud is vulnerable, which is incorrect. Modern cloud service providers take safety very seriously, since it is an important hygiene factor in keeping their product offering competitive. Cloud technology supports a variety of security settings, such as IP-limitations, encrypted connections, and modern authentication methods which prevent unauthenticated usage of the system.

- **Ensure constant development**

Keeping your PMS up-to-date is a resource-heavy task to do in-house. With cloud solutions, you can get new functionalities that help you stay on top of regulatory and client requirements with each update – just make sure the updates are included in the package when you buy it.

Of course, an in-house solution can possibly offer more targeted development that closely fits your needs, but it unavoidably requires running a long and costly development project. With a cloud service, on the other hand, software development not your concern, and you still benefit from the newest releases without disruptions to your daily routine.



Project execution

Once you have made your choice in favour of one vendor, start discussing a preliminary project plan with them. Allocate sufficient resources internally into the transition project and agree with the selected PMS provider on deliverables as well as milestones. Make sure they are realistic and flexible enough to adjust to changes along the way. This is also a good time to agree on a specific change management plan within your organisation.

Before beginning the project, check all the details of the contract. What is the pricing structure and how does it react if your business grows or needs a change? What are the contract terms: how long will you be tied to the solution and if things do not go as planned, what are your rights and guarantee?

For the best possible results in implementation, changing PMS is all about cooperation. The project requires a team from your side for specifications, testing, and steering – how ready is your organization for this? You should also get to know the project team on the vendor's side: how experienced and knowledgeable are they, especially when it comes to your

business and needs? Furthermore, project teams from both sides should know each other well: the better they work as a team, the better results you can expect from the project!

Last but not least, a plan is a key tool to guide a project and keep it on track in order to achieve the set goals. However, a plan should not define the entire project, and plans can always be revised.

We definitely recommend doing some planning beforehand, but do not plan too tightly or in too much detail, as things will most likely change during the project. It is also good to listen to the vendor on how to do certain things as the vendor has seen many kinds of businesses and use cases for their software. They should be able to help you on how to make things more efficient.

After all, the most important thing is the end result – how well the final solution fulfils the needs and solves the problems defined at the beginning – not how meticulously you followed the project plan.

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Beyond Purchase - Information required for scoping an Implementation Project

1

Number of Portfolios

How many portfolios and sub-portfolios do you have?

2

Number of Users

What kind of different user types or roles do you need?

3

Data Migration

How many sources, how long history?

4

Connectivity Needs

Trading, Market Data, Custodians, Payments, ...

5

Fee Structures

When and how fees are collected?

6

Model Portfolio Mgmt

Y/N? How many models?

7

Fund Management

Y/N? How many funds?

8

Compliance Monitoring

Pre-trade and post-trade compliance rules

9

Authority Reporting

Local taxes, MiFIR, CRS, FATCA, ...

10

Stakeholder Reporting

Real-time online reporting, custom static reports

Thank you for reading

We want to thank you for spending time with this guide and hope you found it valuable. As the guide includes a lot of information, we put together a concise checklist on the following page that both summarizes the topics discussed in this guide and provides you with an organized framework for acquiring a new Portfolio Management Software for your company.

In case you have any feedback you would like to share, or you want to know how FA Platform can help modernize your company's portfolio management processes, please contact the crew at FA Solutions, the publisher of this guide. For more interesting content, visit the FA Solutions blog at www.fasolutions.com/blog.

If you are eager to dive deeper into the world of investment management systems, we have some links to share with you:

Bobsguide

Asset Management Systems Insights

www.bobsguide.com/insights/asset-management-systems

Capterra

Lists Investment Management Software providers. Compare product reviews and features to build your list.

www.capterra.com/investment-management-software

The Wealth Mosaic

Discover relevant solutions, solution providers and knowledge resources for your business needs

www.thewealthmosaic.com

Guide published by:

FA Solutions Ltd

Efficiency in investment management

www.fasolutions.com

Buying an Investment Management Software

CHECKLIST



DEFINING YOUR NEEDS

- ✓ Define your need: What is the problem that you want to solve?
- ✓ Pitch the need within your company for feedback
- ✓ Consider certain determinants (budget, schedule, etc.)



SCREENING MARKET OPTIONS

- ✓ Screen through vendors in the market (search engines, directories, industry colleagues)
- ✓ Which of these vendors could fit my need?
- ✓ Contact 3-5 most suitable vendors



VENDOR EVALUATION

- ✓ Arrange software demonstrations
- ✓ Get to know the vendor's business and long-term plans
- ✓ Which of these vendors provide the best fit for your company and needs?



THE SOLUTION

- ✓ Prioritize functionalities and connectivities (must-have vs. nice-to-have features)
- ✓ Does the solution fulfil the need and solve the problem you defined?
- ✓ Does the solution adapt seamlessly into your workflows and processes?
- ✓ Does the vendor provide support for the software usage?
- ✓ Is there any additional costs or licences involved?
- ✓ What are the pricing model and the contract terms?



SOLUTION IMPLEMENTATION PHASE

- ✓ Form a project team from your side and contact vendor's project team
- ✓ Provide required information for successful project scoping
- ✓ Prepare a project plan in cooperation with the vendor