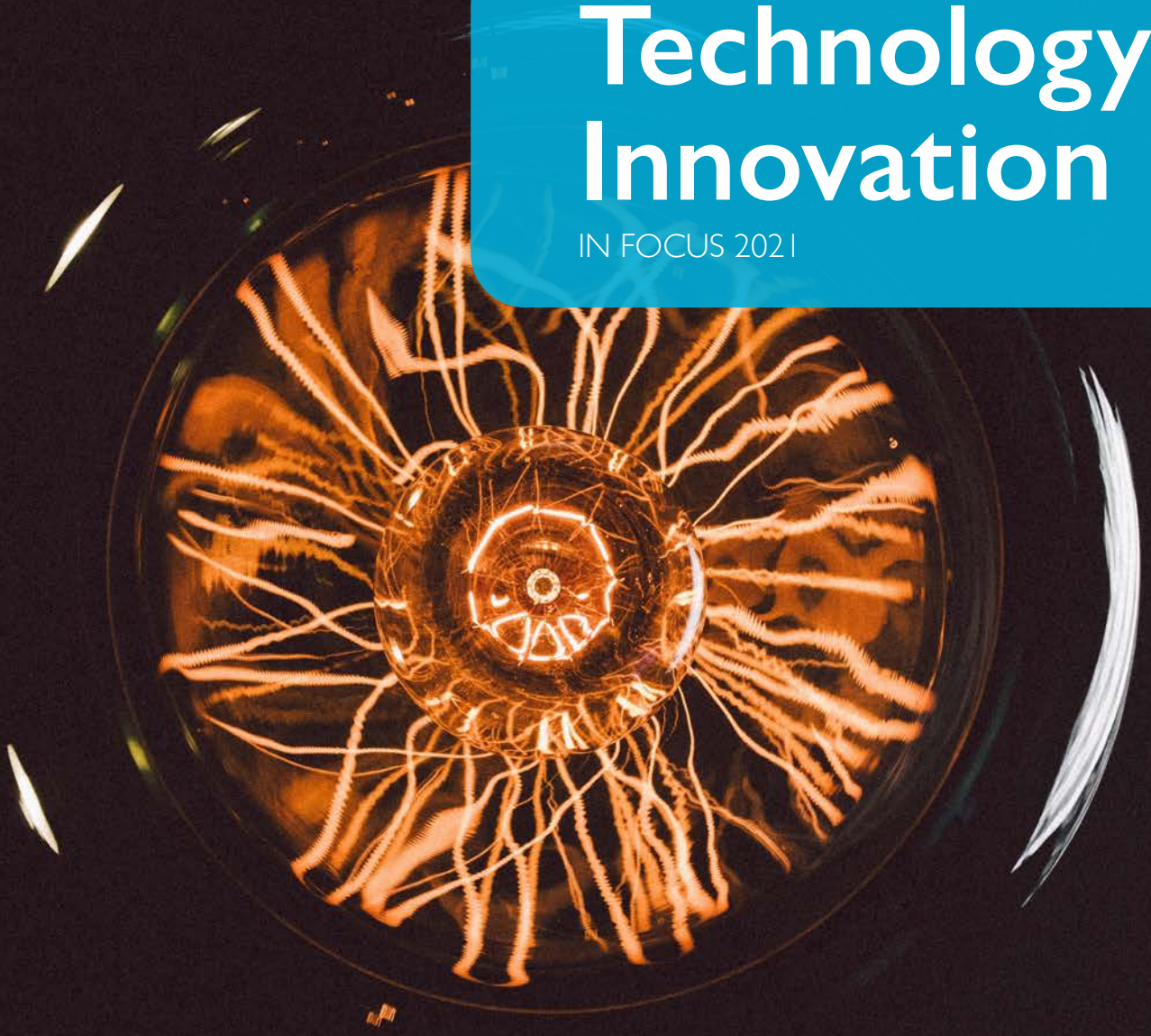
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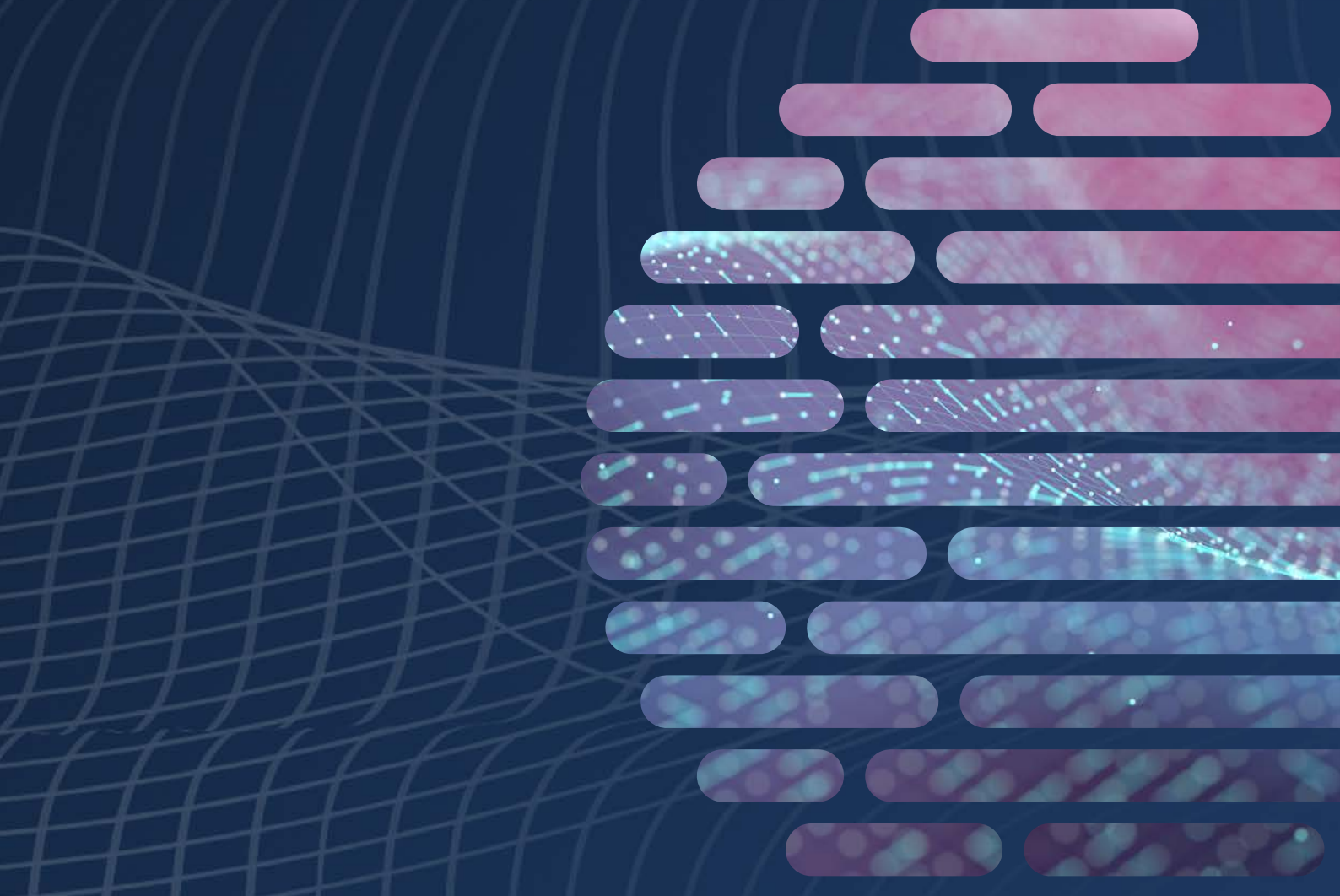
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Published by: Institutional Asset Manager, 8 St James's Square, London SW1Y 4JU, UK
www.institutionalassetmanager.co.uk

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Connecting the dots between technology and insight

By A. Paris

Asset managers are capitalising on the power of technology across their whole organisation – from the investment perspective, where artificial intelligence and alternative data can support trading decisions, to the operational dimension to improve efficiency, transparency and consistency in monitoring, processing and reporting.

"To improve the client experience, asset managers must place technology at the centre of their distribution strategy," a whitepaper by Deloitte stresses. The consulting firm finds that 34 percent of distribution leaders label technology investments as their top priority.

The whitepaper also argues that asset management firms which place technology at the centre of their distribution strategy can enjoy dramatic improvements in distribution efficiency across multiple metrics. The definition of a technology centred firm was measured by them having made above-average investments in data, analytics, and client experience applications.

AI assisting analysis

According to F. Norrestad at Statista, in 2020, more than 50 percent of hedge fund managers classified as alternative data market leaders. This means they use seven or more alternative data sets globally. However, the majority of this group, 85 percent, make use of two or more alternative data sets. The Alternative Investment Management Association (AIMA) on the other hand defines market leaders in the space as those managers which have been using alternative data for more than five years. In a study called Casting the Net: How Hedge Funds are Using Alternative Data, AIMA states 13 percent of respondents could be classified as market leaders, by the association's definition.

Winton Capital Management is a firm which has embraced the use of alternative data and artificial intelligence. In an insight piece debating research methods in relation to different trading strategies, the firm writes: "The rapid recent increase in the amount of data available in just about every sphere has created new possibilities for predictive modelling. For example, a traditional equity analyst might read every report produced by or about the companies they cover and may in the past have known every relevant fact or figure about a specific company

when making an earnings forecast. The data used in an earnings forecast today, however, could include satellite imagery, credit card spending information, logistical details of every product on every truck, and much more besides."

There is no doubting there has been a sharp increase in the amount of data analysts need to contend with. Although the use of machine learning and AI is often linked to high frequency trading strategies, Winton has also found these methods useful in strategies trading at a slower pace: "Our data requirements can often be significant, particularly if we want to perform a lengthy backtest. By way of example, consider a trading strategy that analyses the text of quarterly company reports.

"To perform a 40-year backtest on the largest 1,000 US companies, we would need to analyse 160,000 reports. And any change to algorithms using the data would require all the reports to be analysed afresh. This task is beyond a group of individuals. Machine learning methods are appropriate instead."

Social media networks

The growing power of social media networks also means these platforms can provide a source of data for investment managers, with the caveat of taking an informed and discerning approach. Lasse Heje Pedersen, a Danish financial economist and principal at AR Capital Management details the growing trend which sees financial market participants using social media as a source of information.

Following the infamous GameStop surge, the data generated and collected via these networks has, understandably, come under scrutiny. In a working paper entitled Game On: Social Networks and Markets, Pedersen says: "an investment idea can propagate through a social network and generate a trading frenzy with high turnover, a bubble in the price, and high price volatility."

His paper posits this environment results in four types of investors trading securities – naive investors who learn via a social network, "fanatics" possibly spreading fake news, rational short-term investors, and long-term investors.

Pedersen concludes: "The GameStop event reinforced some old lessons: demand moves prices and can be irrational; shorting stocks can be risky, and predatory trading can be a price-destabilising event. It also taught us some new lessons regarding the power of social media and innovations in information technology. We hoped that more information sharing might lead to better decision-making and improved outcomes. However, the influx of information could also cause more confusion, which could cloud decisions and more negatively impact outcomes."

Elsewhere, startup firms like Quiver Quantitative are also making this information available to retail investors. Founded with the goal of bridging the gap between Wall Street and non-professional investors, Quiver's raison d'etre is to, "allow retail investors to tap into the power of big data, and have access to actionable, easy to interpret data that hasn't already been dissected by Wall Street."

Embedding technology

For asset managers themselves, technology has broader applications beyond just investment decisions. The adopting of data and technology needs to be fully embedded within a firm. According to Accenture, to compete and win in the future, asset management leaders need to commit to a strategic data-driven culture. "It's not enough to have the right tools and technologies. Firms should 'connect the dots' between insights and technologies, have a broader vision on how to apply them and ensure end-to-end integration," note Mike Kerrigan, Darrin Williams and Keri Smith, all managing directors at Accenture.

Deloitte also underscores that deploying the necessary technology, "only works in concert with enterprise-wide initiatives designed to transform the entire distribution organisation, including a new distribution talent model, processes that support more rapid innovation and deployment, and a change management programme that builds confidence and attracts clients."

The relevance of this has been thrown into sharper relief against the background of a global pandemic. Joseph El Gharib, head of business development at Amundi Technology, outlines: "The Covid crisis is certainly a catalyst for switching to robust and low operational risk technologies and this is a trend continued because asset managers cannot afford anymore large investments on pure commoditised platforms."

El Gharib also considers the use of technology in the context of the growing appetite for ESG investments: "The crisis, combined with the green wave already engaged, has accelerated the move to solutions which enable impact investment, mainly through ESG capabilities. Investors are looking closely to comply with this ESG structural evolution through strategic allocation solutions and active control of tactical portfolio management."

Elaborating on the role of AI in ESG investing, S&P Global highlights: "AI can help sustainable investors process mountains of data that hold essential information for ESG investing. Investment managers are coming under increasing pressure to measure ESG criteria in their portfolios. However, a lack of data is making it hard for banks to assess long-term risks and rewards. Here, AI is the answer: technologies will filter essential data that investors currently lack, acting as the catalyst for sustainable investing at scale."

Looking ahead, El Gharib anticipates asset managers deploying more intelligence in their decision-making tools and looking for scalability to support the pressure on margins and costs: "In finding the balance between customisation and industrialisation, open and robust technologies play a key role to propose flexible and modular operating models." ■

Collateral management as a catalyst for innovation

Tapping into cloud can drive efficiency, reduce cost and risk, says Stuart Connolly

Managers who have embraced the transition to cloud-based collateral management have been rewarded. Their teams are focused on mitigating risk (operational, counterparty credit as well as reputational) and increasing efficiencies. Automation enables them to address exceptions rather than tying up staff with manual processes prone to error or with expensive, time-wasting updates to legacy, on-premise technology. Therefore, those with the vision to adopt a cloud-based approach are saving money, time and risk firm-wide. This has implications not only for the back office but for the front office as well.

"Overall, collateral management infrastructure remained largely unaffected by the increased volumes brought about by the pandemic; the technology did its job," observes CloudMargin CEO Stuart Connolly, noting this was also the case for CloudMargin itself. "What was exposed, or re-exposed, is that this remains an operational people-based process. Therefore, there is still room for improvement. Ultimately, operational teams had to put in the hard yards to bridge the gaps in automation which CloudMargin is solving for the industry."

Firms which have shifted to a virtual collateral management platform can see all their collateral in one place, giving them the power to use it much more effectively. "In some cases, we have seen clients using the newest optimisation tools to analyse collateral management, collateral used and the cost of collateral to impact the pre-trade process and trading decisions," Connolly notes.

Mindset shift in the cloud acceleration

In Connolly's experience, firms are increasingly taking a holistic, longer-term view and using the transformation of the collateral management process as a catalyst for further change and use of the cloud: "Collateral management is central to the post-trade process for OTC derivatives," he said. "Managers who recognise this can help spearhead a broader digital transformation across the post-trade chain, as long as existing silos with conflicting priorities don't interfere."

A prime example of this is Deutsche Bank, which two years ago chose to migrate its capital markets related collateral activity to CloudMargin's platform as part of its global transformation programme. This project is providing significant cost savings and improved its client experience through a networked solution, in addition to bringing enhanced transparency, reduced operational risk and simpler processes.

From its perspective, CloudMargin has seen progress in companies' sentiment toward these solutions. Connolly outlines: "During our first few years in business, we spent significant time explaining cloud technology and demonstrating the high levels of security and robust nature of the platform. Over the years, we've seen a mindset shift – eliminating the resistance to cloud technology we used to see.

"The past year has proven this even more, with many financial firms even accelerating their plans to move tech and operations to the cloud. Firms embracing change are prepared to partner with fintechs like CloudMargin that have a long track record of moving other financial firms to the cloud to help them achieve their long-term strategic goals." CloudMargin was the first and still is the only collateral management platform specifically designed for the cloud.

Culture change

Moving to the cloud involves a shift in people, process and other technology. It's a broader

change, but if done right, it can position the firm as an agile operation. It can drive down costs, mitigate risk, run efficiently and provide critical data for the back-office operations that can also help the bottom line in the pre-trade process.

"All of this hinges on forward-thinking leaders willing to drive the process. Increasingly, we're seeing collateral managers who didn't think of themselves as a transformational leader recognise that they can play this critical role in transforming their organisation," Connolly highlights.

The building blocks for a successful collateral management transformation project include breaking down silos and establishing an integrated new operating model. This starts with cultural change, Connolly comments: "The industry is fragmented, and sometimes we see departments within an organisation unnecessarily compete against each other.

"A cloud-based platform with out-of-the-box integrations with all the relevant fintech providers, critical market infrastructure and APIs can help teams connect to any up- and downstream internal system. Such a solution can bring it all together to meet the firm's goals, comply with regulations, maintain best practices and more."

Cost as a catalyst

When it comes to the cost of making this transition, CloudMargin finds it is not a barrier but rather a driver toward deploying a platform like the company offers.

"We estimate that firms, depending on the set-up of their current collateral management programmes, can save up to 70% annually by implementing CloudMargin. A web-based, SaaS approach can significantly drive down costs for market participants, be they asset managers, pension funds, insurance companies, hedge funds or large global banks. Enabling clients to lower costs, increase efficiencies and reduce risk is exactly what we set out to do," Connolly says.

Evolving regulatory requirements, competitive pressures and the need to reduce cost, increase operational efficiencies and lower risk are all catalysts to drive firms along this transformation path.

"The uncleared margin rules (UMR) have been a huge driver for asset management firms that will continue to come under scope until 2022. These firms will continue to make changes that will position them to meet the requirements and simultaneously gain substantial efficiencies through automation, empowering them to do more with less.

"Operational strategists can use this transformation to give internal teams the ability to see everything firm-wide in one place. This gives them the opportunity to optimise collateral and make informed decisions that can positively impact trading decisions as well as facilitate straight-through processing," Connolly states.

Standardisation on the horizon

Looking ahead, CloudMargin expects even more centralisation and standardisation to take place. Connolly says: "We envision a truly networked solution that enables firms to centralise on a single utility offering for collateral management, with further automation and exception-led processes.

"The commoditised nature of collateral processing and ancillary actions means the industry doesn't need to support dozens of different, and in many cases archaic, platforms but rather can coalesce around a single-networked platform – potentially saving the industry hundreds of millions of dollars while reducing credit, operational and counterparty risk. We also anticipate a further increase in the diversity of asset usage beyond traditional cash and government bonds. Optimisation – on a pre-trade and post-trade basis – will remain an important component of collateral management for a long time to come." ■

Start making change today

CloudMargin created a Tool for operational and collateral management leaders and innovators to get started in transforming collateral operations. **Access the tool here.**



Stuart Connolly
CEO, CloudMargin

Stuart Connolly joined CloudMargin as CEO in June 2019, after serving as Group CEO for TriOptima AB for more than two years. A seasoned leader in fintech, OTC markets, collateral management, banking and prime brokerage, Stuart was a long-time Managing Director at Goldman Sachs, where he led several key areas for the global firm, including EMEA Derivatives Clearing Services FXPB in the Securities Division and Derivatives Prime Brokerage, covering interest rates and foreign exchange products.



Beyond conventional economic metrics

Interview with Howard Rees

The pandemic and the resulting economic recession have made it abundantly clear that macroeconomists need to look beyond conventional measures to assess the economy in real time. The use of nowcasting and increased application of alternative data has been further accelerated by this global crisis, highlighting the need to ensure data is accurate, timely and relevant.

"The Covid-19 pandemic made the traditional measures of economic performance, which are backward looking and subject to large time lags, less relevant. The biggest challenge for our customers was being blind-sided by Covid since it made it close to impossible to assess the economy in real time," observes Howard Rees, chief commercial officer, Macrobond.

The firm delivers a comprehensive source of economic intelligence for financial professionals, together with analytical tools to help them quickly find, analyse and visualise relevant data.

In its response to this shifting environment, Macrobond succeeded in sourcing and offering a range of Covid-related data that helped clients make portfolio decisions and allocations easier. These datasets included novel Covid, data mobility indices and stringent indices available from different countries.

In addition to data requests directly related to Covid, Rees outlines an upsurge in demand for high-frequency data such as retail footfall, airport passenger numbers, mobility trackers, weekly job claims, etc. as well as renewed interest in market sentiment data.

This trend appears to have set the stage for times to come. Rees comments: "While the specific data requirements may change, we don't think the need to complement economic models with higher frequency indicators will disappear. The challenge with data is rarely the availability of it, it is ensuring that it is accurate, timely and relevant."

Workflow integration

Macrobond's strength lies not just in its global reach when acquiring new and esoteric data,

but also that the firm makes it easy for users to integrate this data into their workflow.

Discussing the continued evolution of the firm's offer, Rees says: "We are adding millions of high-frequency and alternative data points that our customers can incorporate into their existing workflows. We are also developing new products that will allow our users to better combine traditional and alternative data. One involves taking any traditional macroeconomic time series and generating a nowcast based on proprietary algorithms, which are fed by high-frequency and alternative data sets."

The firm's success has been built on addressing the challenges of manually downloading, organising, analysing and visualising data and then making it available to colleagues, clients and other stakeholders. "By automating routine tasks and simplifying workflows, we enable users to spend less time organising data and more time producing valuable analysis and commentary. In addition, with Covid, the collaboration tools we had originally built to help people communicate with one another globally, suddenly became vital for teams that went from sharing an office to working from home in unexpected silos," Rees notes.

Macrobond has invested heavily in products aimed at quants, such as desktop and enterprise APIs. "It is these customers who have traditionally tended to be the quickest adopters of new data sets. However, now that we've added this type of data to our core platform, we have seen increased adoption by a much broader set of customers. These are professionals who are also keen to gain insights from these products but may previously have struggled to add them to their workflow. Consumers of financial products are becoming increasingly sophisticated and firms that don't adapt quickly enough run the risk of getting left behind," Rees underscores.

The firm offers instant access to timely, accurate macroeconomic and financial time-series data from over 2,500 global sources – more than any other data provider. Its powerful suite of integrated analytical tools allows customers to rapidly analyse and visualise this wealth of information, transforming it into actionable insight which can be easily shared with colleagues and clients, enhancing enterprise-wide collaboration and improving productivity.

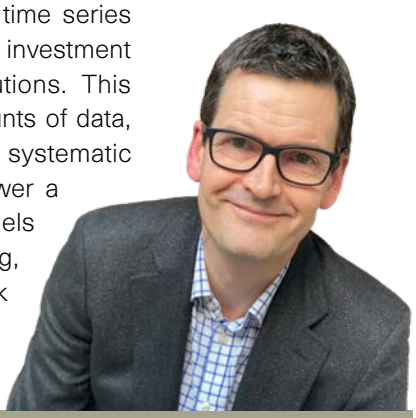
Integrating new data sources into a client's workflow is critical, despite the difficulties inherent in measuring its impact. Rees comments: "One of the hardest things for a business to measure is the cost of inefficient workflows and communication bottlenecks. Anecdotally, we have had customers tell us that their efficiency has increased dramatically by adopting our tools. This is because analysis that once took hours in Excel is now being produced in mere seconds thanks to our point-and-click tools.

"Also, by providing them with a central hub of research for their organisation, we removed additional inefficiencies and significantly reduced any reputational risk that poor version control can bring to client-facing materials."

Striving to innovate

According to Rees, successful innovation is innovation that originates consistently across diverse individuals and teams rather than from a handful of mavericks. It requires robust, formal processes that can capture a wide range of ideas and analyse performance and other data. This then enables them to create, design or refine a solution.

He concludes: "The investments we have made to understand customer workflows and enhance our services to suit their changing needs have been among our most valuable. An example of this is our web API, which gives Macrobond customers instant access to hundreds of millions of feedable time series they have already built into their investment processes via our desktop solutions. This allows them to extract huge amounts of data, including point-in-time data, in a systematic way. It is now being used to power a new generation of financial models including forecasting, nowcasting, as well as more traditional risk models." ■



Howard Rees
Chief Commercial Officer, Macrobond

Howard Rees is the Chief Commercial Officer of Macrobond Financial, a leading provider of macroeconomic and financial time-series data for financial professionals. He oversees all commercial-related activities including new business sales, customer success, strategy, operations, and marketing. Most recently, Howard served as Head of International Sales at Burgiss, where he led the US private-equity data and analytics provider's expansion across key markets. Prior to that, he held multiple senior leadership sales roles at Bloomberg LP globally.

The evolution of investment management

New technology for a digital age: Interview with Pierre Mendelsohn

Strong forces are reshaping Investment Management: customers want more digital engagement, more customisation and regulatory requirements are evolving towards greater transparency. This requires fresh new thinking which places technology at the front and centre of the corporate agenda. We spoke with Pierre Mendelsohn, founder and CEO of ALPIMA, about how firms can respond.



What are the main industry issues?

Investment management is facing a perfect storm fuelled by powerful forces. There is industry-wide digital acceleration and a growing demand for hyper-personalisation, combined with ESG considerations becoming core. The industry faces an unprecedented macro environment with low rates for longer, which challenges traditional asset allocation frameworks. Firms need to comply with evolving regulatory requirements, whilst adapting to new ways of working which have been accelerated by the pandemic.

Investment Managers must evolve from a product model to a service model to deliver Investment Management as a Service. Technology is the key to delivering the kind of service demanded by both customers and regulators. Simply put, customers and regulators are saying: become truly client-centric or die. This is a game changer, as many teams across the industry are still using 20 to 30-year old technology to go about their business and serve their customers.

ALPIMA was created to address this challenge.

What does ALPIMA do?

ALPIMA is the B2B SaaS platform for investment management and product design.

We are a fast-growing team of engineers, applied scientists and capital markets professionals with one mission: to harness the latest advances in data science and technology to help our clients adapt to the digital age.

Focused on the front office, we help our clients design investment solutions, construct portfolios, manage money, and serve their customers.

Our cloud-native, modular platform integrates with existing systems. It seamlessly connects multiple user types (research, structuring, PM, CIO, sales, advisors, and in some cases end-customers) on a single white-labelled platform.

This enables our clients to deliver true customisation at scale. It increases end-customer engagement and improves client service. Other benefits include a faster product cycle, more transparency and far greater efficiency.

What are the benefits?

Our clients are banks, investment managers, consultants and other financial firms. Using ALPIMA they design, build, test, optimise and implement personalised, solutions in seconds (vs days, weeks or months), transforming the way they engage with their customers from pre-sales to after-sales. We also allow Wealth Managers to manage client portfolios by linking them to Strategic and Tactical Asset Allocation (SAA and TAA) guidelines.

In summary, we enable the transition from a product model to a service model – focused on the end customer.

What is Object Oriented Investing™?

This is the core idea at the heart of ALPIMA. We treat each portfolio, or investment strategy, as a digital object with a clear code, or programme, that can be observed, modified, tested and optimised before it is implemented, very much like a digital version of an aircraft or a building before it is built. ■

Pierre Mendelsohn
CEO & Founder, ALPIMA

An engineer at heart, Pierre Mendelsohn founded ALPIMA in October 2014 to give professional and institutional investors a new service focused on rule-based investing and asset allocation.

Previously Pierre worked for two decades with leading investment banks in New York, London and Hong Kong in global markets, focusing on quantitative investment strategies (QIS) and derivatives, in origination, structuring, sales, management and senior management roles. With his teams, Pierre has launched numerous investment products and systematic strategies which, in total, collected tens of billions of dollars from institutional and HNW clients globally.

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www.cloudmargin.com/book-a-demo

CLOUD MARGIN

ALPIMA

ALPIMA is a new generation B2B SaaS platform for investment management and product design. Focused on the front and middle office, ALPIMA helps clients to leverage the latest advances in data science and technology to help them design investment strategies, build portfolios, manage money, and better serve clients.

ALPIMA combines the latest advances in technology, data science, and Artificial Intelligence with decades of industry experience to help institutional clients compete in the digital age.

www.alpima.com

Contact: info@alpima.com

CLOUDMARGIN

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MACROBOND

Macrobond is a leading provider of global economic, aggregate financial and sector time-series data for professionals including economists, analysts, quants, strategists, portfolio managers and asset allocators. Founded in Malmo, Sweden in 2008, its flexible SaaS solution delivers timely macroeconomic data from more than 2,500 sources, supported by the most comprehensive metadata in the industry. Macrobond's integrated analytical tools enable customers worldwide to quickly find, analyse and visualise relevant data. Automated workflows empower users to instantly share their insights, enhancing enterprise-wide collaboration and improving productivity.

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