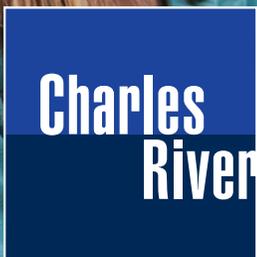


VIEWPOINTS

A Charles River Conversation

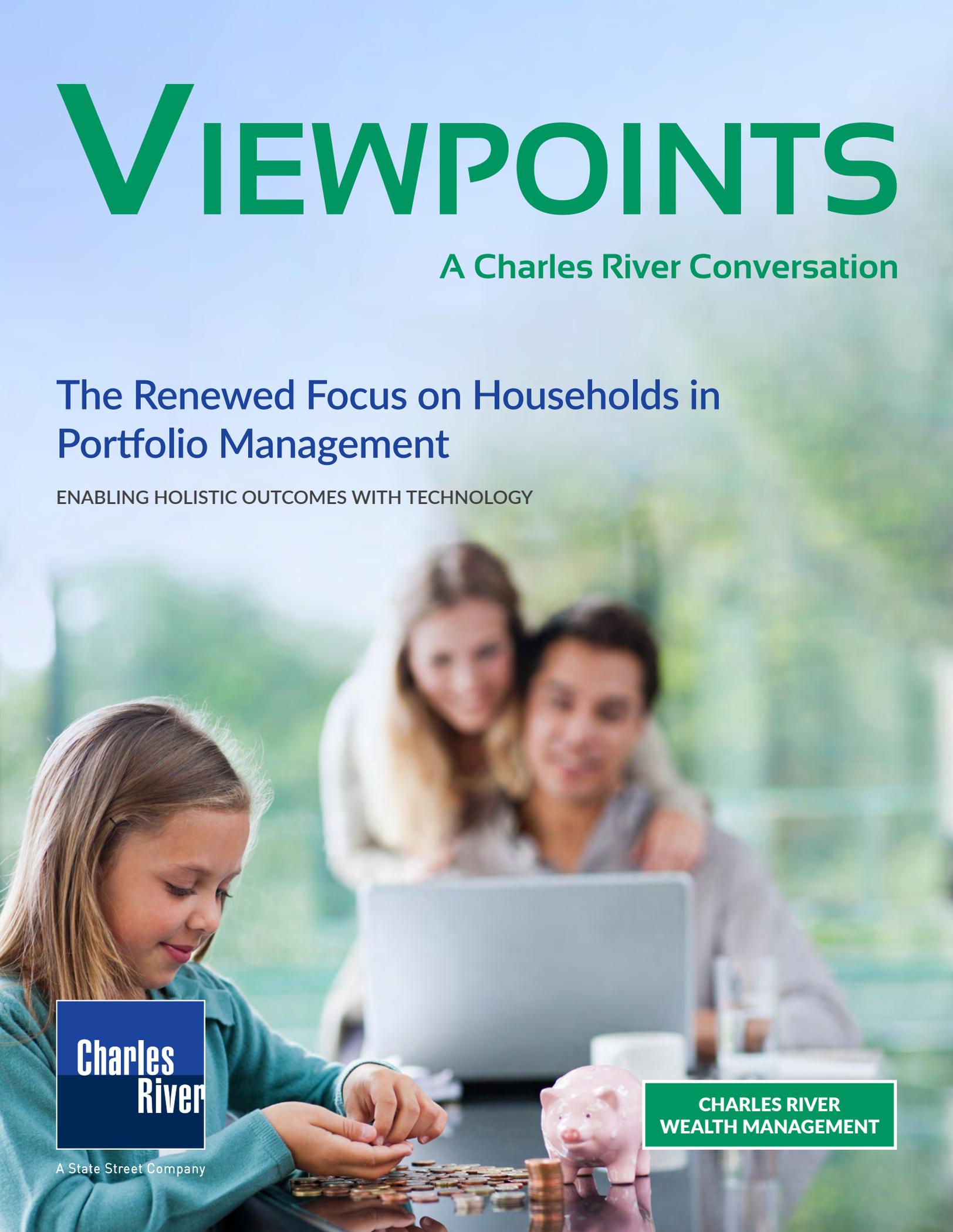
The Renewed Focus on Households in Portfolio Management

ENABLING HOLISTIC OUTCOMES WITH TECHNOLOGY



A State Street Company

CHARLES RIVER
WEALTH MANAGEMENT



THE ABILITY TO OFFER HOLISTIC, HOUSEHOLD LEVEL SOLUTIONS THAT HELP IMPROVE INVESTOR OUTCOMES

is an increasingly important differentiator for financial advisors and wealth management firms. Key to satisfying both advisor and investor needs is balancing automation and scalability with mass portfolio customization. Technology platforms that support investment management integrated with goals based planning are well positioned to serve wealth and advisory firms looking to offer these services to their clients. Charles River convened a panel to discuss the growing demand for household-level solutions, and technology requirements and deployment options for firms evaluating platform providers.



PAUL AHERN

*President and Founding Principal
Winslow Capital Group, LLC*

As President & Principal of Winslow Capital Group, Mr. Ahern has orchestrated the firm to become a leading institutional consulting firm providing counsel on how to achieve scale and grow AUM in the bank / RIA wealth management channels. WCG provides assistance on crafting a strategic vision and guidance at the detailed level of a tactical implementation. WCG clients span proprietary bank-based investment management; Registered Investment Advisers; and, bank-based, broker-dealers that are seeking to achieve consistency of process and product, at scale.

PA



CEM ER

*Director, Product Management
Charles River Development*

Cem leads Charles River's private wealth product management team and provides direction for wealth management-related functionality, including modeling and optimization. Cem has been with Charles River for over 11 years and is involved in many parts of Charles River Investment Management Solution, including the portfolio management and FX trading areas. Before joining Charles River, Cem was a Head Trader and Portfolio Manager at Cobblestone Capital Advisors. Cem holds an MBA in Finance and Statistics from Rochester Institute of Technology and is a CFA charterholder.

CE

What's currently driving change in the wealth advisory industry?

PA Firms are challenged by margin compression, and it impacts every advisor, bank trust division, and broker dealer in the wealth space. Advisors are looking at low cost investments like ETFs and indexing. They're also facing historically high market valuations and the uneasy feeling that revenue lines won't be sustainable in a downturn. As a result, organizations are starting to look at what is required to scale their businesses, eliminate manual processes and move towards automation in how the investment management process is assembled and distributed. The end goal is to gain cost efficiencies by manufacturing a robust and repeatable investment process.

At the other extreme, but equally important, is the ability to support portfolio customization that provides clients with an individualized experience and addresses their financial goals and needs.

CE Echoing Paul's assessment, margin compression is a growing challenge across the industry. In response, more advisors are offering value-added services, like household-based portfolio management and financial planning. The challenge Paul alluded to is offering portfolio customization at scale. Balancing those competing initiatives is difficult.

Clients increasingly demand and expect a customized, individualized experience from their advisors. However, whether an advisor has 100 or 1,000 clients, the ability to offer customization at the client level is all but impossible without technology.

What client needs or challenges are institutions focused on solving, and what solutions are they delivering?

PA Clients increasingly demand and expect a customized, individualized experience from their advisors. However, whether an advisor has 100 or 1,000 clients, the ability to offer customization at the client level is all but impossible without technology. Therefore, whether the driver is margin compression or client demand, institutions need to individualize the customer/client experience across the investment process.

CE A common theme for this discussion is the growing amount of data that can be leveraged across a household given the additional accounts and positions. The ability to consume this amount of data in a very efficient, repeatable way is a challenge that technology vendors are tasked with. In order for advisors to offer value-added services, our basic challenge is dealing with this data on a go-forward basis and making it seamless for the top market participants so that additional services can be added at little or no cost.

Let's define the concept of household-based solutions and "householding".

CE "Householding" refers to a group of accounts connected through a family relationship. It could be multi-generational, it could be single generation. My wife, my kids, my own accounts, could be one household. If it's multi-generational my parents' accounts could also be included. The whole point of householding is to bring a broader perspective into wealth management by looking at this larger entity in a more holistic way and from every possible angle so that goals are achieved, and the impact of the decision-making is assessed in a more accurate fashion.

Are household-based solutions nice-to-have or must-have capabilities?

PA In 2019, it's a must-have. Although household-level wealth management has been around for years, the financial crash of 2008 stopped most organizations from focusing on anything other than survival. When the markets and general economy stabilized, technology firms resumed the evolution process of their businesses. Now organizations don't have a choice but to reassess how they create capacity by modifying and reassembling the investment management and end client experience.

Think of what automation did to the automobile assembly business, or what Netflix did to the local Blockbuster store. Netflix fundamentally changed how the client experience was assembled and distributed and it put Blockbuster out of business. While I don't think it will put an end to advisory firms, at least in the near term, coming to terms with the impact of technology in creating scale and customization simultaneously will be key to remaining competitive.

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CE Householding technology as an enabler is ready for scale. It's no longer a pipe dream, for the simple reason that computing power has increased significantly as hardware prices fall. Massive volumes of data can be analyzed quickly, and connectivity can be established with multiple vendors and multiple entities including custodians.

Do you think that the evolution of technology has ramped up that need, and increased the volume of adoption?

PA Certainly. As overlay and householding solution providers gain traction in the marketplace and change the nature of the manufacturing process, and the underpinnings of the business model, adoption will continue to increase. Organizations will face increasing competitive pressures from their peers that have retooled and achieved scale and are able to deliver mass portfolio customization.

By way of analogy, if a small town had one restaurant, a modest number of guests might be expected to visit, but if you had 10 good restaurants, that town could become a destination for foodies. I think it's the case here, too; as multiple vendors launch new technology it changes the nature of the financial industry manufacturing on the whole, and in turn will increase the speed of adoption across the wealth advisory community.

Empowering the advisor and/or portfolio manager with the ability to easily “slice and dice” information into consumable formats for their clients’ use is critical. At the heart of this is the assumption that the financial advisor is the quarterback of this relationship.

What foundational requirements must a solutions provider support in order to offer a holistic, household-oriented portfolio management solution?

CE Architecturally, it would be great to have all accounts comprising a household in one place, but that’s not reality. So, having an open architecture that supports data aggregation across multiple data sources is at the top of the list. Once you aggregate the data, data visualization is important as well. Those are mostly the architectural considerations.

Aggregating data and making it easily consumable by the advisor is the objective. As a general statement, this is because you’re dealing with larger dollar amounts from an AUM standpoint and you’re dealing with different strategies that are not typical in a wealth management environment. More complex investments like hedge funds, private equity, and other alternative investments all have idiosyncrasies that must be handled and integrated correctly. Not every portfolio management solution supports those asset classes. This larger pool of assets requires more sophisticated risk monitoring, surveillance, and portfolio tracking against the preset goals codified in an Investment Policy Statement (IPS).

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PA It’s about automating the complexity that currently relies on manual processing, whether that’s data aggregation or smart technologies that deliver tax management, asset allocation and timing of asset sales. One of the key challenges in the industry is to make sophisticated technology accessible and understandable to our marketplace and the clients that use it.

What challenges do wealth solutions providers face in providing efficient, scalable, household-based solutions to a marketplace that is increasingly demanding it?

CE There are definitely big obstacles when dealing with households as far as what to do with these assets, how to make decisions in the presence of multiple options, where assets can go, where sales can be executed, how cash is raised, and accordingly in which accounts the purchases can be placed.

Underscoring what Paul said, the most critical part is asset allocation and investing in-line with an investment policy statement across multiple taxable and tax-exempt accounts.

This also requires data aggregation across multiple custodians. The ability to transfer assets between custodians is also part of the new paradigm, which presents a unique challenge for vendors. Tax management across multiple accounts, as opposed to doing it in a single account adds further complexity. These are all key requirements for a portfolio management solution.

OVERLAY AND HOUSEHOLDING CAPABILITY IS A POSITIVE, TRANSFORMATIONAL TECHNOLOGY. THIS IMPARTS THE FUNCTIONAL EQUIVALENT OF A BUSINESS MODEL RESTRUCTURING INSIDE THE WEALTH MANAGEMENT ORGANIZATION.

PA I also see clients realizing that they need to deal with the business model impact of technology and the resulting changes it imparts. Overlay and householding capability is a positive, transformational technology. This imparts the functional equivalent of a business model restructuring inside the wealth management organization. Again, all for the good, because it changes even areas which you might not think about, like your investment policies and procedures.

It alters how you talk about your investment process to clients and prospects and it can potentially increase margins and profitability. It's a far-reaching and broad repositioning of the wealth management business model, with great potential upside.

CE The business model comment is a really good point. Not all of these challenges are technological in nature. Here at Charles River, for example, we're pulling in other teams like legal and business development to negotiate commercial agreements for interfacing with other solution vendors.

How does Charles River plan to continue enhancing its household management capabilities?

CE We're already tackling the data aggregation component, enabling clients to bring different types of non-native data into the platform, and building a data visualization solution to help advisors gain insights from their data. We are also building out our communication hub which lets managers and sponsors exchange account data and models in a streamlined manner. Additionally, detecting wash sales and gauging the impact of asset sales across the household are both on our roadmap.

Because our wealth management solution is built on an institutional platform, we have broad asset class and strategy support, but adding new instruments and geographies to the platform is an ongoing task.

How are funds considering solving this need - with standalone, point solutions, or integration with other systems and platform providers?

PA In general, organizations are rightfully wary about taking on too much. Large organizations might have a need to reconsider a core system of record, an overlay technology, and an investment management platform technology to help scale their investment manufacturing. I've never seen an organization take on all of that at once and be able to continue running their business well.

In my experience, organizations with over \$8B assets under management in their wealth affiliates usually opt for a point solution. Smaller firms, certainly those with under \$2B in AUM in their wealth complexes, almost always look for a one-stop shop. The embedded overlay technology likely won't be best of breed, but small organizations tend to sacrifice excellence in any one-point solution for the sake of convenience.

Is this viewed as a solution implemented by a central overlay team or functionality that's needed at the advisor level? How do you see these capabilities coming together, and what types of services are we trying to embed in the configuration of a core application?

CE I think the financial adviser is still the quarterback, doing all the legwork and putting the plan together. But the analysis and overall implementation of the final product can either be done by the financial advisor or a centralized entity doing lots of implementations across multiple financial advisors. We make the analysis tools available to both financial advisors and a centralized group.

Based on our conversations with clients and prospects, we've seen the financial advisor's role migrate towards relationship management, setting investment boundaries and goals, putting the plan together, but having "the experts" implement the solution. We also have financial advisors using the solution in its entirety.

PA Larger organizations tend to implement with an internal advisor, a centralized advisor team, while allowing some degree of freedom for the advisor in-line with predefined boundaries. Smaller firms, say below \$8B in AUM, are increasingly looking at outsourced CIOs to run the overlay technology and householding capability on their behalf.

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Final thoughts?

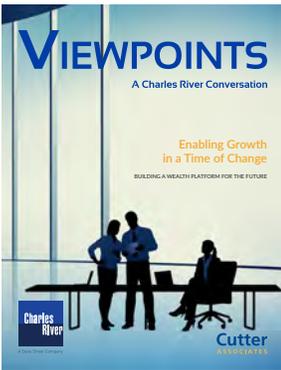
CE Household level solutions are increasingly table stakes, based on what we are seeing in RFP's, technology searches and prospect conversations.

PA Flexibility in the deployment and configuration of technology platforms is key to success. There's no one-size-fits-all solution. The ability to work with vendors who have flexible deployments, who have configuration options to meet your business requirements is increasingly critical.

THE ABILITY TO WORK WITH VENDORS WHO HAVE FLEXIBLE DEPLOYMENTS, WHO HAVE CONFIGURATION OPTIONS TO MEET YOUR BUSINESS REQUIREMENTS IS INCREASINGLY CRITICAL.

NEXT STEPS: Contact us to [schedule a demo](#) or visit [crd.com](#).

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