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Speaking of Alpha

Platforms, Ecosystems and Interoperability: A New Paradigm for Investment Managers

A conversation with Swati Verma and Michael Beattie

Open architecture platforms that support interoperability with a diverse ecosystem of third-party solutions have the power to drive transformational value for institutional investors and wealth managers by delivering fit-for-purpose applications and services across the investment life cycle.

Our Speaking of Alpha series features insights and commentary from State Street Alpha℠ experts on data, operations, technology and services.

Institutional investors and wealth managers face significant challenges, driven by margin compression as investors embrace low-fee passive ETFs and increased regulatory reporting requirements. Additionally, many firms grapple with legacy technology that no longer supports the complexity of today's investment portfolios, and a need to capture and manage rapidly growing volumes of data to drive better decisions and insights.

In 2018, State Street launched State Street Alpha to help address these challenges. Built on an open architecture, the platform enables interoperability with a vibrant ecosystem of global liquidity venues and third-party analytics, data and technology providers.

Alpha helps drive efficiency by delivering the services and solutions that enable firms to manage products and business lines on a single platform, and lowers technology spend and operational complexity by eliminating the need for multiple-point solutions and legacy systems.

This in turn unlocks new functionality for clients and improved connectivity with their own client base, while promoting data and integration standards for the industry overall.

Technology platforms have long been a mainstay of the corporate landscape, providing an operating environment for applications, systems and processes that support a firm's business model, products and services. In the asset management industry, platforms have traditionally been single-vendor solutions, with little ability to incorporate third-party applications and services.

Open architecture platforms provide an alternative to traditional monolithic, closed solutions, helping institutional and wealth managers better address the significant challenges of margin compression, growing regulation and increasing portfolio complexity.

We continue the conversation with **Swati Verma, Chief Commercial Officer, State Street Alpha** and **Michael Beattie, Director of Product Strategy at Charles River Development**, focusing on Alpha's third-party provider ecosystem and the value it provides to investment managers.

Platforms, Ecosystems and Interoperability: A State Street Alpha℠ Conversation

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Give us an overview of the Alpha ecosystem.

Swati: Our ecosystem is a community of third-party providers whose products, services and content are directly accessible from the Alpha investment management platform, coupled with State Street's business services. Alpha's ecosystem spans the institutional and wealth investment process: portfolio and risk analytics, liquidity venues, data providers, TCA/trade analytics, trade settlement utilities, regulatory reporting mechanisms, and a broad range of applications, from data visualization to accounting.

Much like ecosystems in the natural world, technology ecosystems constantly evolve and adapt to external forces. In our case the ecosystem is adapting to investor preferences, regulations and capital market structure. Three core principles governing our platform and ecosystem are choice, interoperability, and connectivity.

How does the ecosystem benefit our clients?

Michael: Viewed through the lens of the three core principles, investment firms increasingly rely on a broad range of service and solution providers to support their investment process and product mix. They want seamless interoperability with those products and services from a single desktop, without relying on siloed systems, spreadsheets or

manual workarounds. Connectivity via FIX, SWIFT and other means with an ever-growing landscape of liquidity venues, clearing facilities and regulatory reporting utilities is key to frictionless operations. Interoperability further enables investment managers to incorporate their internal intellectual property (IP) into the platform.

Swati: For clients grappling with disparate solutions and legacy technology, an end-to-end platform that integrates with their preferred third-party providers helps them reduce technology spend and operational complexity. Investment professionals typically have preferences when it comes to risk and analytics providers, data sources and messaging apps. Forcing them to give up their preferred tools and learn new ones is often a non-starter, lowers productivity and incurs training overhead.

What's the motivation for platform vendors and third-party providers to create ecosystems?

Swati: By enabling partnerships with both established and emerging third-party providers, ecosystems allow platform vendors to provide their clients with innovative solutions in an operationally efficient manner, while also providing a proven alternative to traditional build or acquire options.

Building new platform capabilities in-house can be prohibitively expensive and time consuming. Acquiring third-party providers outright and then integrating their IP on the platform has capital and shareholder value constraints, and is often not feasible without mutual deal interest. The ability to quickly empower investment managers with the latest capabilities, regardless of provider, is often the preferred and only option. The platform vendor can also contribute their own IP. In the case of Alpha, our expanding in-house capabilities include our risk analytics solutions, BestX transaction cost analysis and collateral management.

Michael: Third-party providers benefit by exposing their products, content and services to a larger audience of investment firms than they would likely reach on their own. This is especially true for promising startups that don't have the name recognition and marketing budget that more established competitors enjoy. Participating in an ecosystem also provides partners with feedback from investment managers that can help shape their roadmap.

What measures are required to support a thriving and beneficial ecosystem?

Michael: Platform vendors need to establish clearly defined terms of engagement for providers to gain entry to the platform. Platform end-users should have expressed an interest in having that provider's product or service accessible on the platform. Critically, platform vendors need to rigorously validate the new offerings to ensure their interoperability with existing platform products and services.

Seamless end-user support is also critical to success. Whether that's handled by the platform vendor or the third-party provider needs to be documented in a service-level agreement..

As products grow in complexity, how does the portfolio and risk analytics ecosystem benefit investment managers?

Swati: Multi-asset investment products incorporating both physical and synthetic securities across public and private markets, shifting asset class correlations, and increased use of derivative-based yield enhancement strategies require increasingly sophisticated analytics to help firms understand their current positioning and potential market scenarios.

It's not uncommon for investment managers to deploy models from multiple vendors, depending on their asset class mix, geographic footprint and portfolio manager preferences. For clients accustomed to interacting with disparate, unconnected systems, being able to access those models directly from Alpha workflows across the investment lifecycle is a game changer.

"Alpha's ecosystem spans the institutional and wealth investment process."

— Swati Verma, Chief Commercial Officer Alpha Platform State Street

The notion of an "**analytics arms race**" is no longer hyperbole for managers looking to differentiate their value proposition and retain assets. The right combination of analytics is critical, whether to surface and exploit new sources of alpha, produce superior risk-adjusted returns or minimize drawdowns.

What's driving buy-side demand for more robust trading venues, especially for less liquid fixed income and alternatives markets, and how is that supported in the Alpha ecosystem?

Michael: As dealers pared back their inventories after 2008, the opportunity to capture buy-side order flow drove a proliferation of electronic trading venues. These venues offer alternatives to traditional trading protocols and provide facilities for transacting smaller trade volumes than dealers typically support.

Although e-trading offers fixed-income desks new opportunities to access liquidity and pricing information, traders don't have time to explore each new trading venue before placing a trade, nor are they looking for yet another system to take up space on their desktop.

To address the competition for desktop space while supporting choice, Alpha's Inventory Hub aggregates inventory across the dealers and venues in the ecosystem. Traders can view this inventory in the Alpha order and execution management system (OEMS), receive updated indications of interest and quotes from dealers,

and place orders for a full range of products and asset classes.

Primary market support is another growing component of our ecosystem as we onboard sell-side providers and consortiums, bringing greater efficiency and transparency to the arcane and opaque issuance process.

How does the Alpha ecosystem address the need for data management solutions that provide real-time intelligence on pricing, volumes and exposures?

Swati: Investment management is a data-intensive business requiring high-quality reference, pricing, benchmark, index and corporate actions data. No single data provider covers every asset class, instrument and geography; our data ecosystem presented an early example of how a community of data vendors can provide our customers with complete data coverage to support their investment process.

The search for operational efficiency combined with emerging technologies that improve data delivery present new opportunities for innovation. The State Street AlphaSM Data Platform leverages the Snowflake data cloud to help investment managers capture and analyze the volume, velocity and variety of structured and unstructured data, whether generated internally or acquired externally.

What role does the ecosystem play in supporting regulatory reporting and the emerging collateralization mandates?

Michael: Regulations such as Dodd-Frank and MiFID II have significantly increased buy-side compliance costs and workloads. MiFID II requires firms to report trades and transactions across all asset classes to Approved Reporting Mechanisms and Approved Publication Arrangements. A number of new industry utilities provide these services, and they are a natural addition to our ecosystem. By providing connectivity between the OEMS and these utilities, clients can choose the service provider that best supports their reporting obligations.

Swati: The Clearing Mandate for standardized swaps, and collateralization requirements for uncleared OTC derivatives have spawned a number of collateral management services. By managing the entire collateral lifecycle on Alpha, from pre-trade analytics and exposure calculations, to margining and reconciliations, managers gain visibility into encumbered collateral and can select the optimal clearing venue based on pre-trade margin estimates and fees. Emerging regulations around trade surveillance, ESG compliance and Uncleared Margin Rules (UMR) will benefit from a vibrant ecosystem of service providers specializing in these areas.

What are the foundational technology enablers underpinning platforms and ecosystems?

Swati: Cloud computing, terabyte-scale data management, extensive application programming interfaces, and connectivity to FIX, SWIFT and other networks are key to providing the extensibility needed to easily onboard new ecosystem vendors. The platform vendor must also serve as the digital gatekeeper, ensuring that third-party providers comply with security, performance, interoperability and other guard rails. Adopting data and integration standards is critical to realizing benefits for the overall ecosystem.

Internally generated data is a key component of many firm's investment process. The Alpha Data Platform enables firms to capture the data generated by their investment operations and research teams.

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— Michael Beattie,
Director of Product Strategy
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The ability to retain and curate massive amounts of historic data is central to using machine learning and other technologies that help customers surface new investment ideas, trade smarter and manage risk more proactively.

Final thoughts on the current and future state of platforms and ecosystems?

Michael: Institutional investment and wealth managers are increasingly ill-served by monolithic legacy technologies that lack interoperability and fail to support a third-party ecosystem. Platforms promote choice and level the playing field between established vendors and emerging startups, creating a virtuous meritocracy between investment firms, third-party providers and platform vendors.

Alpha enables analytics providers, data vendors, liquidity venues, software developers and post-trade utilities to demonstrate their value to investment managers. As we aspire to become the desktop platform customers are using across their investment lifecycle, we continue to add new providers to our ecosystem and strengthen interoperability among existing partners. Alpha itself leverages third-party providers including Microsoft Azure® and Snowflake® as key components of our technology infrastructure.

Swati: It's increasingly likely that institutional investment managers can also expand their role from data consumers to producers, offering high value, anonymized fund flows, securities on loan and other data as participants in the ecosystem.

By providing connectivity between segment participants themselves, in addition to their vendors, Alpha helps firms fully leverage the ecosystem benefit. For example, the Charles River Wealth Hub utility facilitates connectivity between institutional investment managers and their wealth sponsor firms, driving significant efficiencies for Separately Managed Account programs and model-driven portfolios.

The ecosystem will continue to grow in importance as investment managers demand the agility necessary to quickly launch new products, expand their geographic footprint and comply with shifting regulatory obligations. By offering diverse and differentiated sources of liquidity across asset classes, the ecosystem supports a resilient symbiotic relationship between investment firms and sell-side liquidity providers.

To learn more, visit:
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