

# VIEWPOINTS

A Charles River® Conversation

## Portfolio Customization in Wealth Management

The Innovative Power of Tailored Portfolio Solutions



Information Classification: General

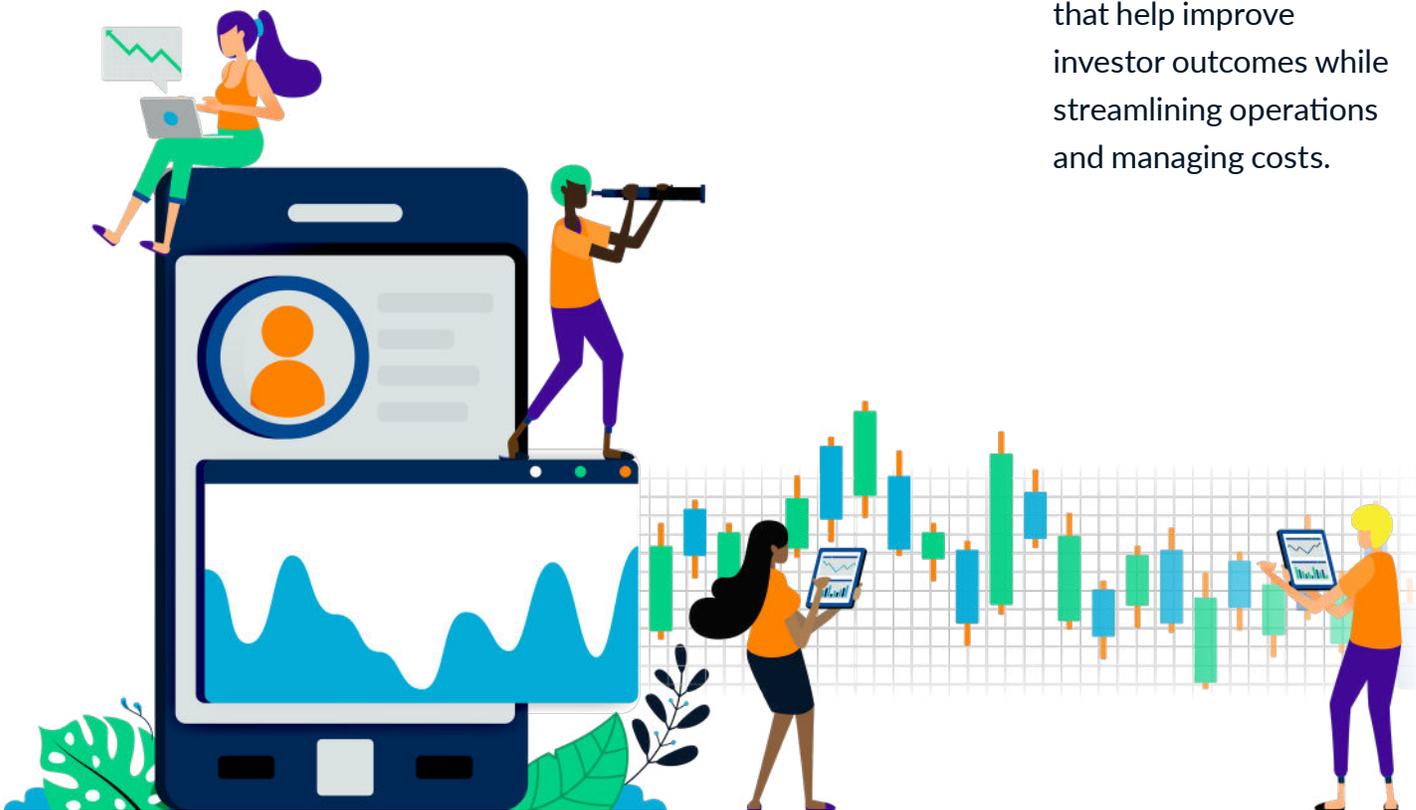
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Demand for customized portfolios among individual investors is growing and the industry has responded with sharp increases in acquisitions and product offerings in the marketplace.

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Charles River convened a panel to discuss the industry drivers leading to this surge in adoption, past obstacles to portfolio customization, and how wealth and asset managers can best leverage technology to provide customized portfolios that help improve investor outcomes while streamlining operations and managing costs.





## Randy Bullard

Global Director, Wealth Management,  
Charles River

Randy Bullard leads and oversees the Charles River Wealth Management business including revenue and growth strategy along with client retention efforts across the globe. Randy will also shape the direction of future product offerings and is responsible for attracting and retaining high-value associates and growing the Wealth Management organization globally.

## Nick Diodati

Wealth Management Product Strategy,  
Charles River

Nick is responsible for the development of Wealth Management related product strategy at Charles River. Nick brings 25+ years of experience working with wealth management organizations, institutional asset managers, family offices, private banks, private client groups, and registered investment advisors to this role with Charles River.



## Chris Canova

Global Head of Customer Experience,  
Qontigo

Chris is responsible for leading the Customer Experience team at Qontigo. Chris's global team of product experts works closely with clients to evaluate, implement, and ensure high levels of success in leveraging Qontigo Solutions to the fullest potential.

## Walid Bandar

Senior Solutions Specialist,  
Qontigo

Walid is a senior specialist for partnerships and strategic accounts at Qontigo. Walid is focused on leading direct indexing initiatives which bring together Qontigo's expertise in indexing, ESG and factor investing with analytics and optimization.

## What's behind portfolio customization's surge in popularity?

### NICK

We're seeing three main trends supporting the movement toward portfolio personalization. First, consumers increasingly expect to have experiences tailored to their preferences, from news to music to shopping. Those expectations apply to their investment portfolios, and the wealth industry is responding by providing digital experiences that are easy for retail investors to navigate.

Second are the broad, fundamental shifts happening in the industry. Customized portfolios have typically been offered only to high-net worth investors through separately managed accounts (SMA), which were historically complex and costly to administer at lower asset thresholds. However, the recent availability of fractional shares and \$0 trading fees have removed those barriers, opening the door for personalized portfolios on a larger scale.

Finally, rapidly advancing technology is providing the infrastructure to bring customization to the market. Cloud-native technology with the scalability to process large volumes accompanied by analytics-driven approaches to portfolio construction enable managers to operate custom portfolios at scale in a cost-effective way.



## How are you seeing these shifts impacting individual wealth managers?

### CHRIS

You touched on some critical points that reflect what we're seeing in the industry and among clients. They're familiar with customization; but there is significant complexity in implementing and operating these portfolios. For example, balancing risk tradeoffs while implementing a number of constraints into the portfolio or optimizing for tax considerations can be complicated without the right tools.

Streamlining that complexity in the portfolio construction process requires a powerful optimizer that can accommodate the scale needed to manage the volume of retail portfolios. Cloud-based and scalable technology is crucial to offering personalized portfolios. These capabilities that have been available for institutional use cases for a long time are more available for a greater number of market participants in a sustainable way, which is really exciting.

The next step is financial advisor adoption – they need the right optimization settings and features that are intuitive and efficient without creating additional costs or operational headaches, barriers they have often faced with customization in the past.

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Financial advisors understand customization, but adoption among financial advisors comes down to practical questions around practice management.

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**Can you shed some light on some of those challenges around financial advisor adoption?**

**NICK**

Financial advisors understand customization, but adoption among financial advisors comes down to practical questions around practice management. Advisors have typically approached customization in one of two ways: outsourcing to a third party with that expertise or choosing to do it themselves in-house with their own proprietary applications.

Outsourcing requires the advisor give up control to the third party, necessitating a level of trust that the desired customizations will be correctly implemented. In-house customization helps advisors retain control but can introduce additional costs, risk, and inefficiency into their practice. If advisors take on customization themselves, the tools they're using often do not have the scalability needed to operate these portfolios efficiently and in a cost-effective way.

In order to adopt customization, advisors need greater understanding and visibility into the portfolio construction process. Education is also an important component to help advisors better understand the value of changing their approach and relinquishing control. It's also a mindset shift where the advisor needs to know what's going on with each end investor – these portfolios reflect each and every individual. It's no longer a single portfolio that gets homogenized across a set approach or asset allocation guidance.



## Can technology help to overcome these barriers?

### WALID

The right technology tools can certainly overcome barriers. Wealth firms and advisors want a sophisticated solution that not only allows them to trade off losses, model or benchmark drift, and risk, but also offers personalization. Having easy to consume trade rationale, attribution, and analytics capabilities are also important. They want to know the rationale behind why certain trades are being made. Accomplishing all of this at scale with manual processes is very difficult.



## What are some considerations for managers considering portfolio customization from a technology perspective?

### WALID

There are certainly many factors that go into adopting customization, whether you build a solution in-house or acquire a platform provider. Many firms are most concerned with speed to market. Acquisition might enable you to go to market with a product more quickly, but there is a tradeoff when you consider an in-house solution that's flexible and integrates with your internal systems environment seamlessly. However, these solutions are a big lift to build. The question is managing that tradeoff between speed and a purpose-built solution.

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An open architecture solution enables the integration of internal and external datasets, allowing firms to leverage the data that would help them achieve their goals.

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**On top of that, there are many customization offerings in the market right now. How should firms differentiate between those products?**

#### WALID

Firms may not want to build in house or acquire a platform. Technology providers are trying to solve for that by creating a technology offering that avoids the downsides of build vs. buy. There's no need to acquire a technology provider nor is it necessary to take on a time-consuming and costly IT project. Technology solutions can offer the best of both worlds while still allowing for a flexible solution that integrates with your environment and allows you to go to market quickly.

Of course, there is variability among technology offerings and their level of capability. For wealth firms, scalability is a crucial feature – you want a solution that can handle the volume requirements of large, enterprise firms as well as the customization requirements across thousands of accounts.

Another component to look for is interoperability. An open architecture solution enables the integration of internal and external datasets, allowing firms to leverage the data that would help them achieve their goals. These facets are very much “under the hood,” and certainly, user experience and ease of use are extremely important. The key is to ensure that the underlying technology provides a powerful engine and doesn't limit the customization capabilities.



## From a technology standpoint, how are firms evaluating how customization fits into their own portfolio construction process?

### CHRIS

One of the common trends we see in the firms we work with is the necessity to look at their portfolio construction and operational processes when adopting portfolio customization. Within the portfolio construction process, managers have to balance incorporating their best ideas with the stated portfolio customizations and constraints, whether it's tax optimization or ESG values. This adds more complexity to the process and we consult with firms to help them understand the changes that might be needed, walking through workflows and identifying challenges and potential solutions. For example, when adopting personalized portfolios, they may want to consider an optimization-based process instead of a rules-based process.

## Do separate account managers have different factors to consider?

### NICK

There has been significant interest in portfolio customization in the separate account space and they struggle with the same challenges as wealth managers and advisors. For these use cases, leveraging a technology solution with optimization capabilities will allow them to overcome those challenges by allowing them to achieve the efficiency and scale needed without additional headcount.

Their portfolio management process becomes simpler because the portion that was previously so complex – the customization – is handled by the optimization engine, accomplishing this step far more efficiently than before. The technology now does the heavy lifting.

### RANDY

Another way to think about portfolio customization in the separate account space is as a countervailing force against the industry trend toward models. While model distribution is efficient and simple to operate, the fees are lower and the value is lower.

With separate accounts, firms see the opportunity to distribute their intellectual property in the form of alpha signals, capital market assumptions, or assumptions about risk, ESG datasets, and put that intellectual property or data into a personalized portfolio strategy.

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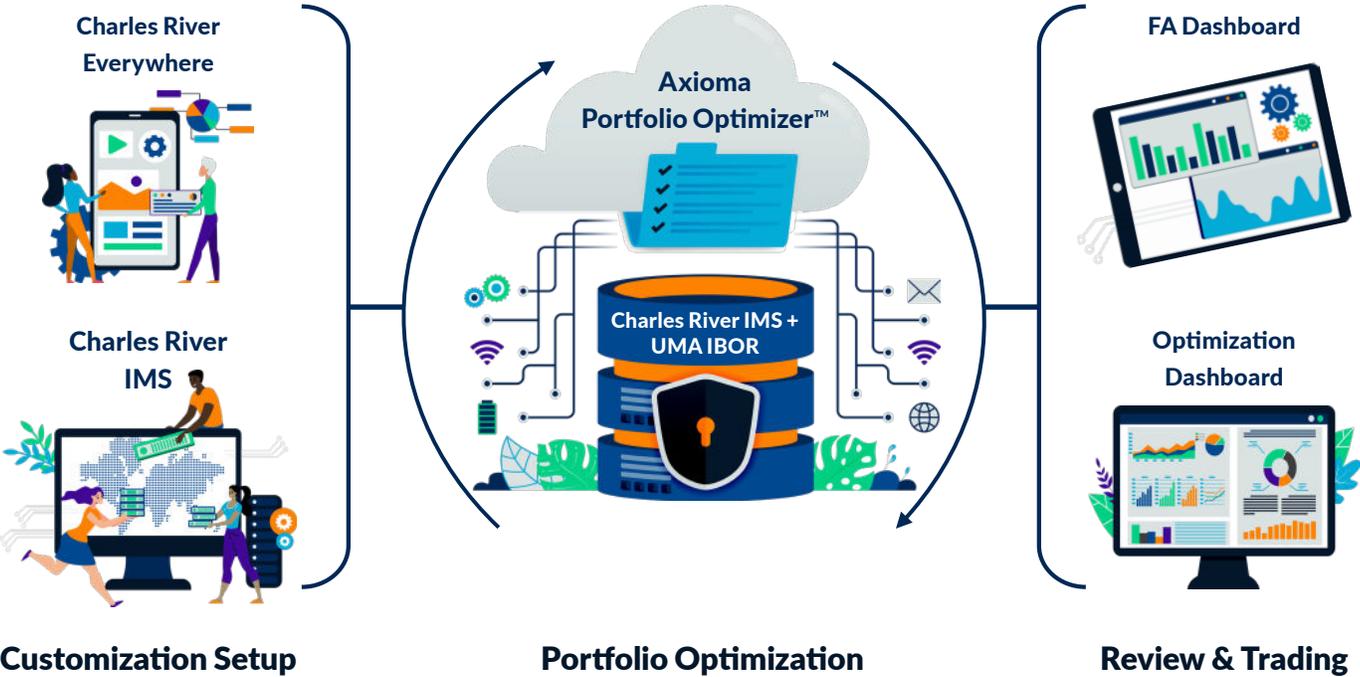
In partnership with Qontigo, we have built a technology offering, Tailored Portfolio Solutions, that provides a flexible, open, and scalable workflow for portfolio customization.

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**In light of what we have discussed here today, how is Charles River addressing the demand for customized portfolios?**

**RANDY**

In partnership with Qontigo, we have built a technology offering, Tailored Portfolio Solutions, that provides a flexible, open, and scalable workflow for portfolio customization. One of the differentiators of the solution is embedding the Axioma Portfolio Optimizer directly into Tailored Portfolio Solutions's workflow. Combining Charles River's open architecture platform with a powerful optimization engine allows the manager to incorporate both proprietary and third-party data sources for customization, with the efficiency and scalability to implement those customizations across large numbers of accounts, capital market assumptions, or assumptions about risk, ESG datasets, and put that intellectual property or data into a personalized portfolio strategy.



## Any final thoughts for firms that want to offer custom portfolios?

### CHRIS

The wealth industry is in the middle of a dynamic shift and it's exciting to see the market embracing new technologies and the speed of that change. Portfolio customization for retail investors is taking off and the next few years will be dynamic as different solutions and products come to market, showing the outcome of many of the topics we've discussed today. **Stay tuned.**



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