

2015 Investment Management Outsourcing Survey

IMP Consulting and TSAM Joint Survey



INTRODUCTION

The upward trend in relying on managed services has prompted a paradigm shift in how project implementations are managed across all areas in the financial services industry. Many investment managers and technology teams are facing a difficult time with the transition - specifically with how to “manage” their service providers and control costs. To further explore these challenges - IMP Consulting and TSAM joined together to conduct the Investment Management Outsourcing Survey. This report summarizes the data and provides further analysis, opinion and recommendations.

DEMOGRAPHICS

The results of the survey are based on the voluntary responses of participants representing the areas of traditional Asset Management firms and Hedge Funds. Of the total responses, just over 8% of the respondents were hedge funds (Figure 1). The responding hedge funds were the bigger players; all of them were over \$500 MM in AUM, and 75% were over \$1 billion.

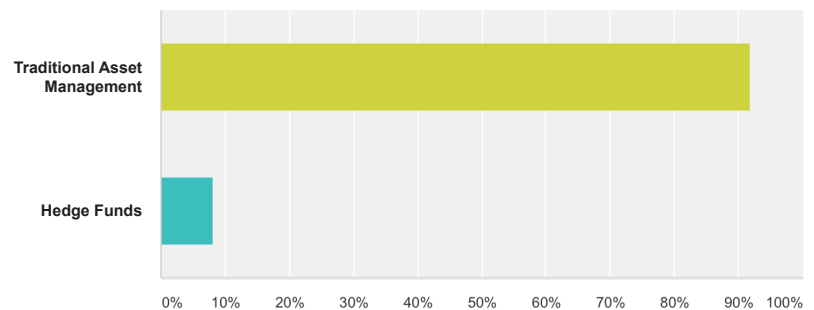


Figure 1: Breakdown of survey participants by investment type

The responses from traditional asset managers also tended to skew towards the larger firms, although it was a bit more balanced, with over 86% of the firms over \$50 billion in AUM and about 14% of the firms with AUM in ranges of \$1 billion to under \$50 billion and 60% over \$100 billion.

TOP AREAS FOR OUTSOURCING

While it is true that outsourcing has been steadily clawing its way to the front office, the most mature areas for outsourcing according to responses from the survey are the middle and back office.

- 46% of those responding reported that they had been live on their back office outsourcing solution for more than a year, with nearly 34% responding that they had been live for more than five years.

- 30% percent of the firms that use SaaS for their OMS have now been live for over 3 years, with 24% having a 5-year history.
- Only a small number of firms (12%) reported that they had a long history of outsourced compliance and/or risk, with an additional 9% in the 1-3 year range, and 9% currently implementing projects.

DRIVERS OF OUTSOURCING

Regardless of the system, cost continues to be a key driver for outsourcing solutions.

- 65% indicated “Long-term savings in staff and infrastructure” as one of their top reasons.
- Over 40% of respondents noted “Ease of implementation.”
- Nearly 35% cited better technology and solutions from the vendor as their reason for outsourcing.

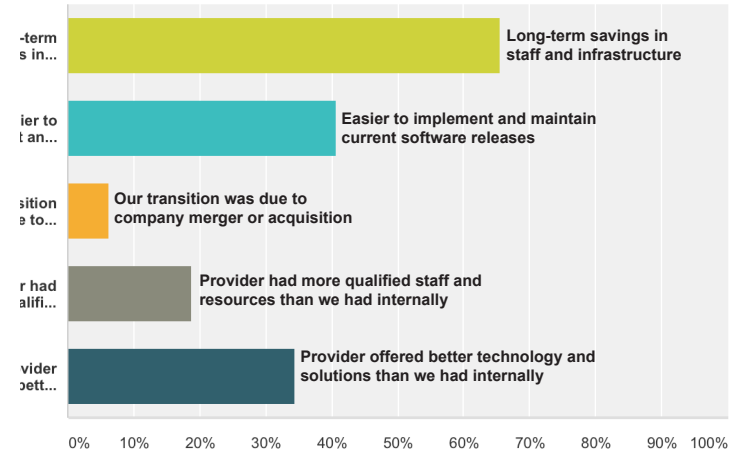


Figure 2: Breakdown of outsourcing drivers

CHALLENGES IN OUTSOURCING

Although a vendor may discuss their years of experience as a firm, the biggest impact on the project is often the experience of the team members provided by the vendor. Not surprisingly, the biggest challenges were reported as follows:

- Nearly 44% of the respondents reported that getting experienced resources for the project was among their biggest challenges.
- 32% faced challenges with staying within the original budget, while 35% had trouble staying within the timeframe that the provider had planned.
- 53% faced challenges in managing functionality expectations with end users.

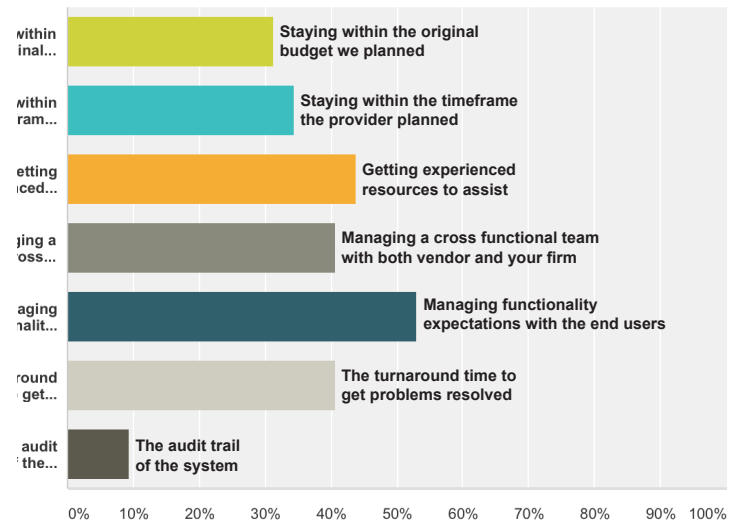


Figure 3: Top challenges in outsourced solutions

ADVICE FROM THE OTHER SIDE OF IMPLEMENTATION

Unfortunately, despite the best intentions, not every outsourcing project crosses the finish line as a success. IMP and TSAM asked survey respondents what they would do differently if they could do it over again. Not surprisingly, most responses had one key theme in common: firms would conduct a more thorough requirements analysis of their own needs; in conjunction with conducting a more in depth validation of the vendor's capabilities, including the vendor's resources and qualifications.

Most notably, 50% of respondents said that they would conduct a Proof-of-Concept (POC) before signing the contract.

Conducting a POC can seem like a waste of time and money; but in reality, a POC can save time and money by ensuring that the firm is entering into a key vendor relationship with their eyes wide open. Many times, vendors will promise expertise across multiple areas in order to make the sale. Implementing SaaS products generally include a bigger team of specialists than the one or two implementation specialists for a system that you are installing and hosting internally. For example, when implementing a hosted trade order management system there will be data, architecture, interfaces, compliance, trading & portfolio management workflow specialists, and more assigned to the team.

It's rare to have a dedicated team assigned long term to an installation. Thus, it becomes critical, and noted loudly and clearly by survey respondents, to interview each and every member of the team. Ask them about their background and qualifications. Review their profile and ask if they have implemented similar clients. Explore how they think through problems and develop solutions.

As one respondent noted in an open-ended response to vendors, "Be transparent and upfront on capabilities and skillsets...don't promise the moon."

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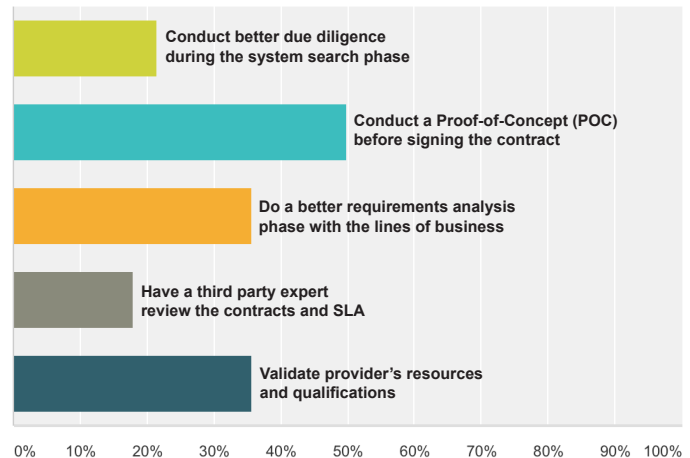


Figure 4: What survey respondents would do differently

FUTURE OF OUTSOURCING

Looking ahead to future of outsourcing, survey respondents weighed in on which areas of their business have an opportunity to be outsourced in the next five years. It's no surprise to see the middle office listed as one of the most popular areas for outsourcing but it's interesting to see compliance and performance systems fall alongside it in the top three. The breakdown is as follows:

- 48% Performance System
- 37% Middle Office
- 30% Compliance or Risk System

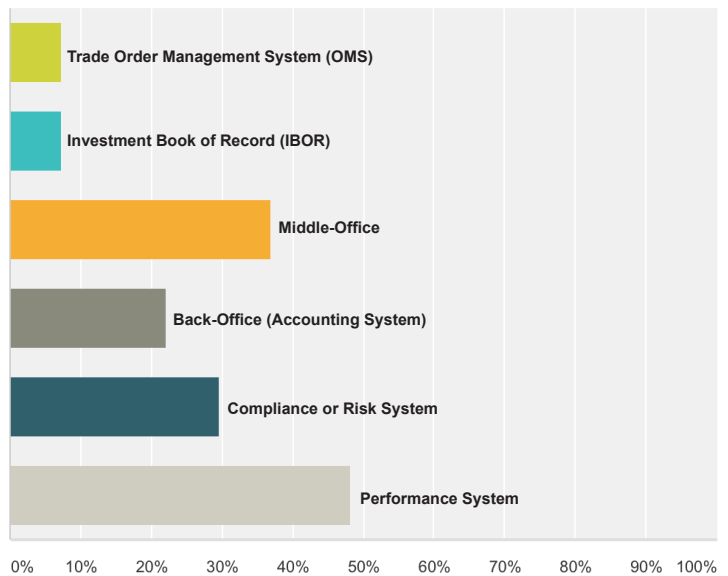


Figure 5: The predicted future of outsourcing

CONCLUSION

The flux of vendors providing managed services and software will continue to grow as long as the market continues to have an appetite for the risk and the long-term cost savings. The good news is that these new services and products are getting much more creative, affordable, efficient, and improving conditions for many investment managers. It's allowing firms to off-load things that they no longer want to manage themselves, and putting it in the hands of firms that are beginning to really specialize.

ATTRIBUTION

Portions of the data from this survey may be shared with the following attribution - Source: "IMP Consulting and TSAM – 2015 Investment Management Outsourcing Survey."

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