Survey Report

The Buy Side and the Cloud—Time to Make the Leap

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Contents

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Introduction

There is little doubt that cloud-based technologies and services are now on buy-side firms' radars more so than at any point in the past. And for good reason: they offer faster time to market than if they were to develop the technology in-house; they more often than not offer firms better functionality than in-house-developed, proprietary applications; and in most cases they can significantly reduce the total cost of ownership of the technology or service being consumed. Clearly, the global asset management industry has never been better served than it is right now from third-party technology providers offering a range of cloud-based tools and services.

But while appreciable numbers of asset managers have already taken the plunge by subscribing to cloud-based technologies, applications and services, security issues persist for many, as do concerns about unforeseen costs and establishing and maintaining yet more vendor relationships. That said, now is as good a time as any for firms to either start their cloud journeys, extend their fledgling forays, or finally throw in the proverbial towel and move towards using cloud-based services for all aspects of their day-to-day business and operations that do not offer them the opportunity to carve out a competitive advantage.

The findings from this 13-question survey are based on responses from 50 senior technology and operations staff at primarily buy-side firms across a variety of locations. Respondents from *WatersTechnology*'s database were invited to participate in the study and were not hand-picked according to size, function, which side of the industry they sit on, or location, to avoid confirmation bias.

In some questions, respondents were asked to select all options that apply. Most would therefore have selected multiple options. Percentages in some tables and graphs may not total 100 due to rounding.

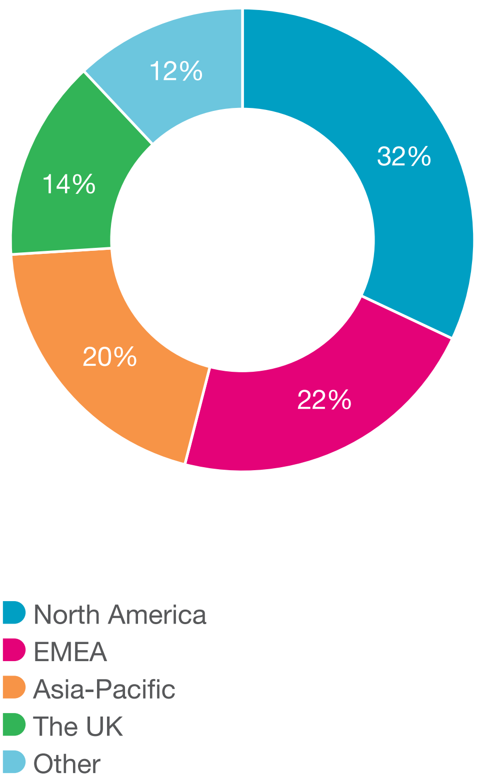
Key Findings

- Marginally less than three-quarters of respondents (74%) to the survey are associated with the buy side (traditional asset managers, institutional investors, hedge funds and private wealth managers).
- More than one-third or respondents (38%) have mature cloud strategies where they access the bulk of their technology and services via the cloud, while just under one-third (30%) already have a cloud strategy in place but are looking to add additional technologies/business processes/services to it. Only 12% of respondents do not have a cloud strategy, although they report it's on their to-do list.
- The vast majority (80%) of respondents are actively exploring the option of increasing their use of cloud-based services or technologies.
- Time to market (60%) and access to technology firms couldn't develop in-house (48%) are the two primary benefits cited by respondents of accessing and consuming cloud-based applications and services.
- Security issues (64%) and unforeseen or hidden costs (46%) were cited as the two primary drawbacks associated with cloud-based applications and services.
- In terms of the business processes respondents would consider taking as part of a cloud-based or managed service, data acquisition and management (74%) and risk management and compliance (66%) were the two most popular.
- The three business processes firms would least consider outsourcing or moving to the cloud are client reporting (36%), portfolio accounting (34%) and portfolio management (32%), indicating the extent to which they see those functions as being core to their business and offer them the opportunity for carving out a competitive advantage.
- When vetting potential cloud-based/managed service providers, most respondents (30%) value the breadth and depth of a provider's offering (with respect to ancillary technologies and services), followed by its flexibility and culture (24%), and pure technology considerations, including functionality (22%).
- Most (38%) respondents are looking to rationalize the number of relationships they have with cloud providers, while a further 34% are happy with the number of relationships they currently have.
- Half of all respondents have either a third-party-provided (28%) or proprietary (22%) platform to effectively manage all their trading-related communication, irrespective of asset class, location or method of communication.
- Just over one-quarter (26%) of respondents have already deployed a single, integrated, multi-asset class front-office platform, while a further 42% are actively working towards developing one.

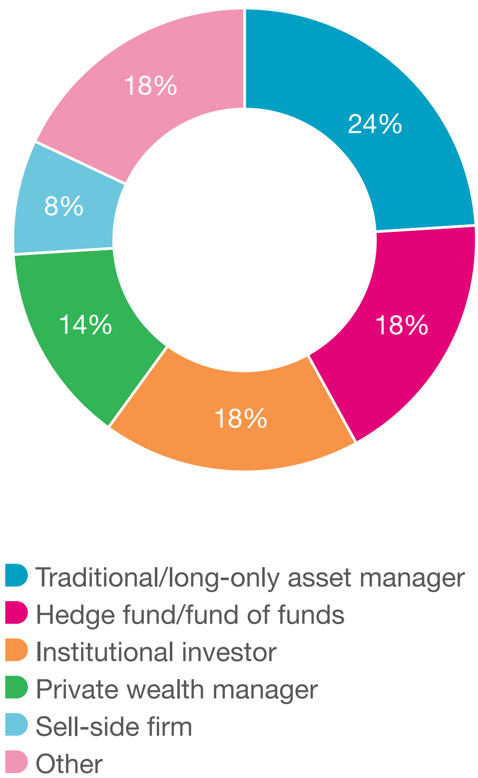
Respondents

Questions 1 and 2 of the survey focused on respondents' locations and the types of firms they represent. Just under one-third (32%) were based in North America; while 22% were based across Europe, the Middle East and Africa (EMEA); 20% were based in the Asia-Pacific region and 14% were based in the UK. Traditional (long-only) investment managers were the largest constituent, comprising a shade under one-quarter of respondents (24%), while hedge funds and funds of funds, and institutional investors (pension funds, sovereign wealth funds, insurance firms and treasury departments) were also well represented, with each group accounting for just under one-fifth (18%) of respondents. Initial analysis of all 50 respondents to the survey shows that marginally less than three-quarters (74%) represent what most would consider the buy side, while the sell-side constituent is statistically modest at only 8%.

1 Where are you based?



2 Why type of firm do you represent?

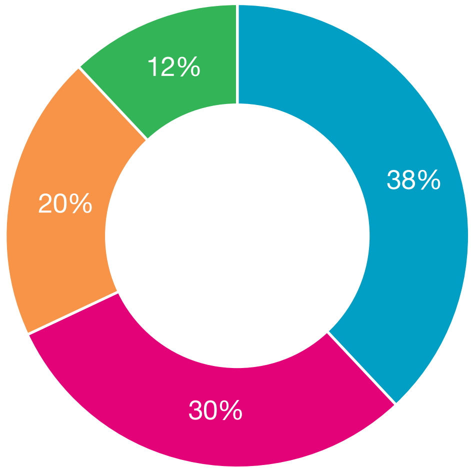


Cloud Journeys

Question 3 sought to gauge where the industry is right now with respect to firms' cloud journeys and the extent to which they currently consume cloud-based technologies, products and services. The findings show that 38% of respondents have mature cloud strategies where they access the bulk of their technology and services via the cloud, while just under one-third (30%) have mature strategies, although significantly they are looking to build on their existing arrangements by evaluating additional business processes to move to the cloud. A further 20% of respondents have just started their cloud journeys. These findings are significant for two reasons: first, they underline the extent to which the buy side has embraced the cloud—almost 90% of respondents have some form of cloud strategy already in place—and second, it illustrates the extent to which firms are looking to move additional business processes/functions to the cloud, with half of all respondents reporting that to be the case.

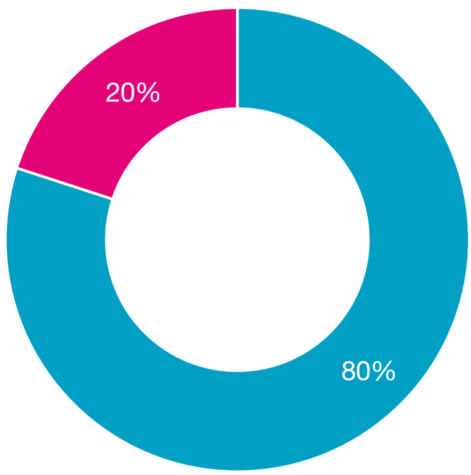
Question 4 continues the theme of firms extending their cloud strategies by moving additional business processes to the cloud or consuming additional cloud-based technologies and services, with 80% indicating that they are currently already exploring that option. This finding is consistent with all the research and surveys conducted by *WatersTechnology* and its partners over the past 18 months, driven largely (but not exclusively) by the Covid-19 pandemic and the operational challenges it posed firms on both sides of the industry, especially during the first few months of the pandemic.

3 How developed is your firm's cloud strategy?



- Mature—we access most technology/services via the cloud
- Mature—we are evaluating which processes to move to the cloud
- Fledgling—we are figuring out which services to move to the cloud
- We don't have a cloud strategy, but intend to develop one

4 Will your firm increase its use of cloud-based services/technologies?

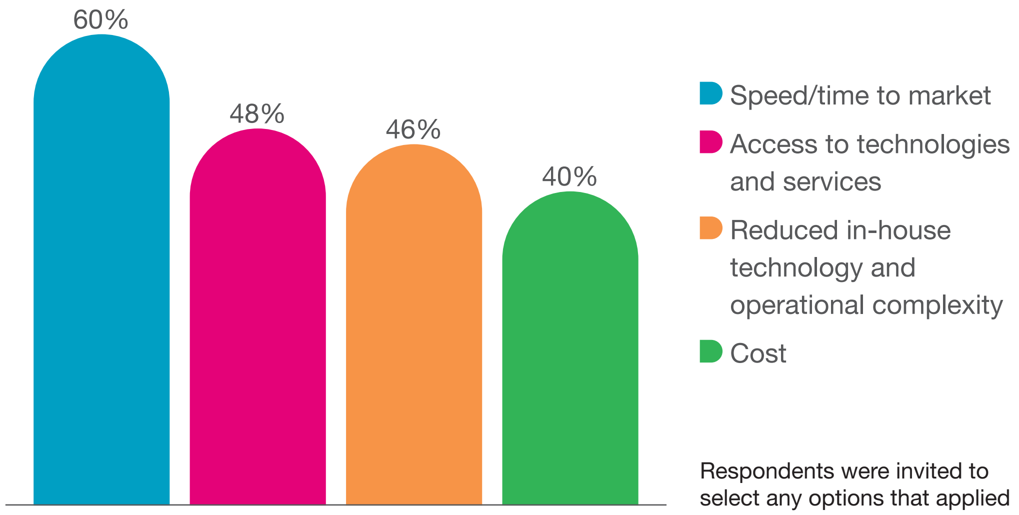


- Yes
- No

Primary Benefits

Question 5, the first of five “select all options” questions, asked respondents about what they consider to be the primary benefits of accessing and consuming cloud-based applications and services. Unsurprisingly, 60% of respondents cited time to market with new technologies, services and applications as the primary benefit offered by cloud-based services, while 48% cited access to technologies and services they wouldn’t ordinarily be able to develop in-house, with a further 46% citing reduced in-house technology and operational complexity due to not having applications residing in their technology domains, thus reducing operational complexity and ongoing maintenance issues. Bear in mind that respondents were able to select as many options as they believed were applicable to their organization, which is why the aggregate percentages exceed 100. If anything, time to market is fast becoming the single most important driver firms consider when evaluating the cloud option—if it isn’t already the case. Yes, the cost of developing applications and tools in-house is still an important factor, as is the sheer engineering complexity of developing such software, but increasingly there is an expectation from firms to be up and running as soon as operationally possible with any new functionality/application/service they have opted for, an issue the cloud delivery model addresses both elegantly and efficiently.

5 What are the primary benefits of accessing/consuming cloud-based applications and services?

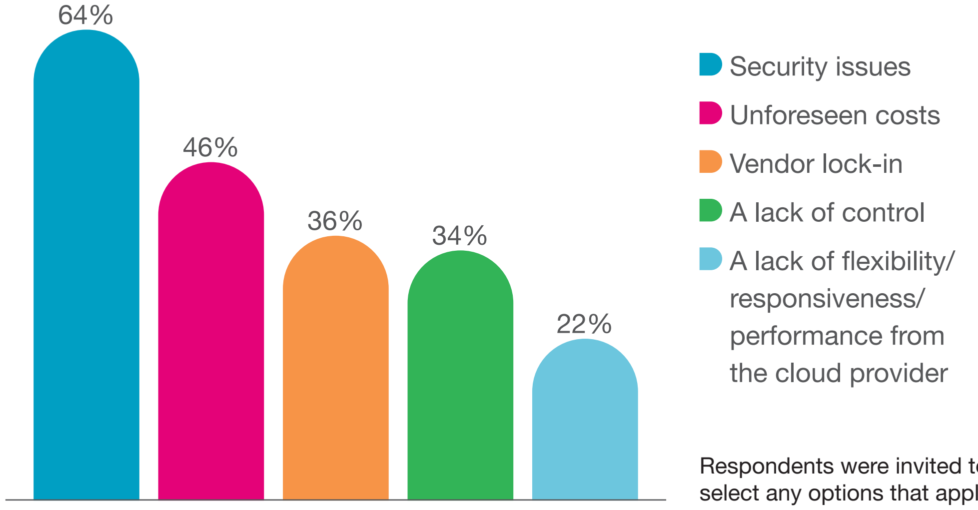


Respondents were invited to select any options that applied

Challenges

Question 6 dealt with what respondents see as the primary drawbacks they associate with cloud-based applications and services. Respondents were asked to select all options that they believed apply to their firms, and unsurprisingly, security issues related to them placing sensitive client data in the cloud was their primary concern (cited by 64% of respondents). It's an issue that has (rightly or wrongly) been long associated with the cloud model, and while firms are becoming more comfortable with the notion of placing client data in the cloud due to improved security protocols and encryption technology, it is still an issue that needs to be satisfactorily ameliorated by third-party providers. The second most popular option was that of unforeseen costs associated with the cloud model, which an increasing number of firms are discovering or have discovered to their chagrin. What is clear is that it is often costly for firms to assume that consuming cloud-based products and services will reduce their operating costs as a matter of course. That is not a given and in fact sometime the opposite is true: the cloud model can turn out to be more expensive than on-premises applications, although the other benefits of the cloud model—time to market, frequent and seamless software releases and, in many cases, paying on a use or consumption basis—make the cloud a compelling proposition.

6 What are the primary drawbacks of cloud-based applications and services?

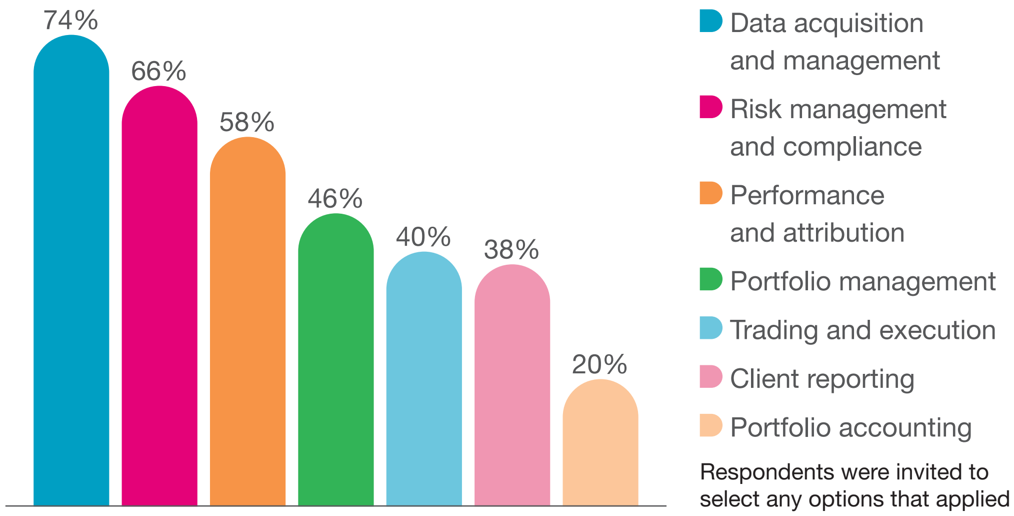


Respondents were invited to select any options that applied

Specific Services

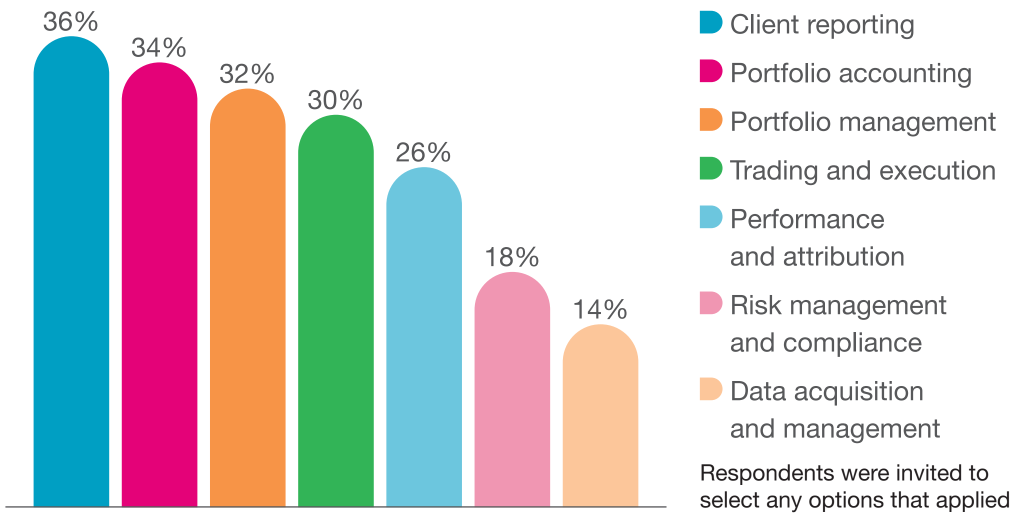
Question 7 drilled down into the specific types of cloud-based services respondents would consider using at some point in the future, with data acquisition and management (74%) coming in at number one. This finding is in line with all the other data-related findings *WatersTechnology* has gleaned over the past 18 months. It is an area that can be complex and laborious, and significantly large numbers of buy-side firms believe it does not offer them the opportunity for gaining a competitive advantage. In other words, the technology and operational processes underpinning data acquisition and management are largely commoditized and so buy-side firms would be happy to access them as part of a cloud-based service rather than managing them in-house.

7 Which types of cloud-based services/ technologies would your firm consider using?



Respondents were invited to select any options that applied

8 Which functions would your firm not consider outsourcing/moving to the cloud?



Respondents were invited to select any options that applied

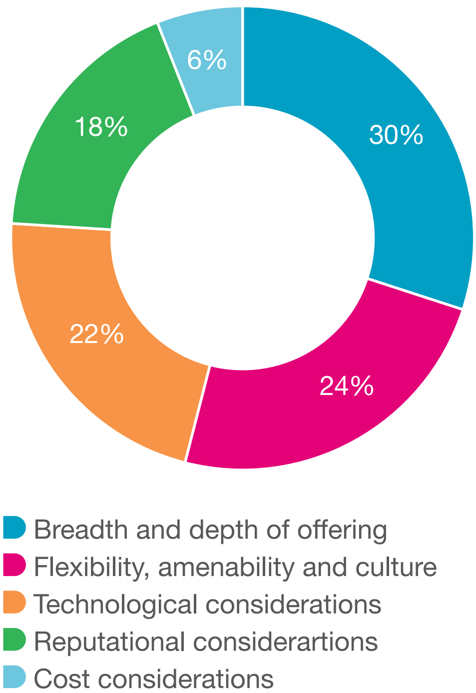
In the same vein, it is becoming increasingly difficult for buy-side firms to justify the time and expense of developing, implementing and maintaining in-house risk management and compliance technologies, performance and attribution tools, and even portfolio management platforms. Yes, those business processes are core to the investment management industry and are therefore critical for all buy-side firms to manage optimally, although the location of the technology itself that underpins those business functions is largely inconsequential to their performance and efficacy. The question therefore remains: if the technology itself and its location and delivery mechanism do not offer firms the ability to differentiate themselves, how can they justify deploying and managing it internally?

Reluctance

Question 8 examined the other side of the outsourcing/cloud coin—the functions respondents would not consider moving to the cloud—with client reporting the most popular (36%), followed by portfolio accounting (34%) and portfolio management (32%). Clearly, client reporting is a function that buy-side firms would like to retain control of, given that it is a means of direct client contact supporting the customization of client reports and so must be managed accurately and efficiently. The same argument can be made for portfolio management, given that it is such an integral part of buy-side firms' day-to-day operations and arguably their primary means of competitive differentiation, although this finding does somewhat fly in the face of the findings from question 7 where 46% of respondents indicated that they would be happy to outsource their portfolio management platform/technology or manage it via a cloud-based platform. As for portfolio accounting, a complex and often laborious and expensive function to support by way of an in-house platform, it makes business and operational sense for buy-side firms to look to minimize their reliance on in-house-based technologies and tools to manage.

Question 9 changed tack and asked respondents about the qualities they would look for in a provider of cloud-based services. Unsurprisingly, the most popular response (30%) focused on the breadth and depth of the provider's offering, which, when added to the third most popular response—pure technology considerations, selected by 22% of respondents—emphasizes just how important the quality and extensiveness of technology and other services are to respondents, with more than half indicating this to be the case. Interestingly, the second most popular option had nothing to do with technology: the provider's flexibility, amenability and culture, selected by one-quarter (24%) of respondents, illustrating just how important 'soft' qualities are to buy-side firms when contemplating crucial, long-term relationships.

9 What are your firms's prerequisites in a provider of cloud-based services/ technologies?

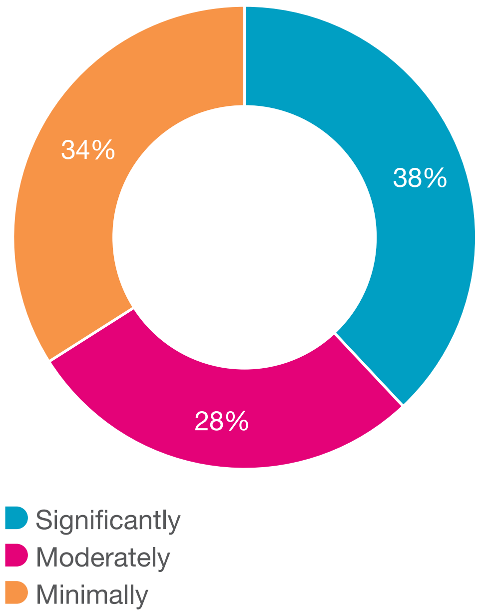


Relationships

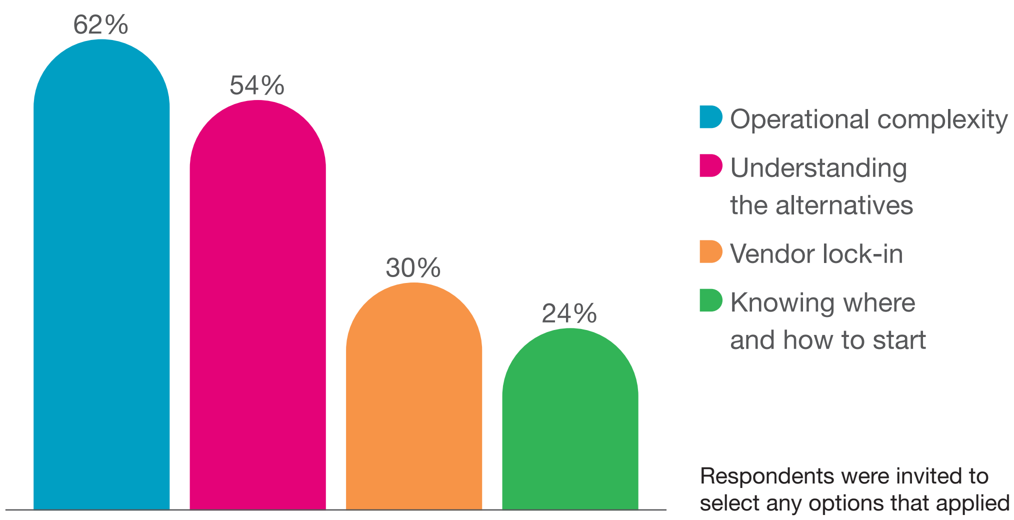
Question 10 focused on the extent to which respondents might look to consolidate the number of relationships they have with providers of cloud-based services as a means of reducing their day-to-day operational complexity, while accessing additional services from fewer providers. *WatersTechnology* has focused on this issue over the course of the past 18–24 months and has found consistently over that time that firms on both sides of the industry are looking to reduce the number of relationships they have in favor of retaining fewer but deeper partnerships. This trend is reflected in the findings from question 10, where 38% of respondents are looking to significantly reduce the number of relationships they have, with an additional 28% looking to moderately rationalize their relationships.

In terms of what firms need to be wary of when looking to wean themselves off existing relationships, as outlined in question 11, operational complexity was the most popular answer, the irony of which will not be lost on the readers of this whitepaper: firms are looking to reduce their operational complexity where possible by minimizing their vendor relationships, but the issue they most have to be aware of is… operational complexity.

10 To what extent is your firm looking to consolidate relationships with cloud-based services/ third-party vendors?



11 What challenges must be considered when embarking on a rationalization strategy?



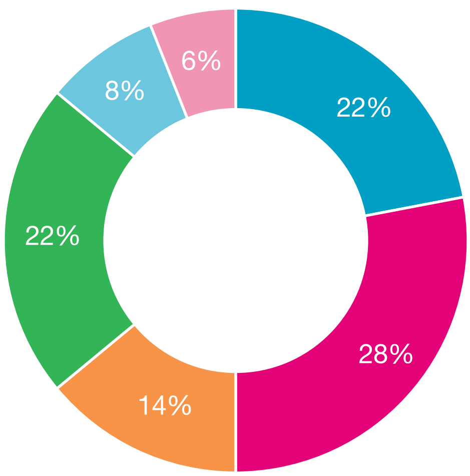
Respondents were invited to select any options that applied

Unpicking relationships tends to be fiendishly complex, characterized by the emergence of unforeseen technical and operational 'issues' at every turn. However, in this context, the long-term gain is worth the relatively short-term pain.

Question 12 focused on firms' abilities to satisfactorily manage all their trading-related communication for the purposes of monitoring employee behavior and complying with various regulatory mandates. The results show that exactly half of respondents believe they have the technology to manage those functions optimally: 28% use a third-party system, while 22% use a proprietary platform. A further 36%—22% using third-party systems and 14% using proprietary tools—reported that they are able to manage those functions moderately well even though they believe there is room for improvement, indicating just how complex such undertakings tend to be for buy-side firms.

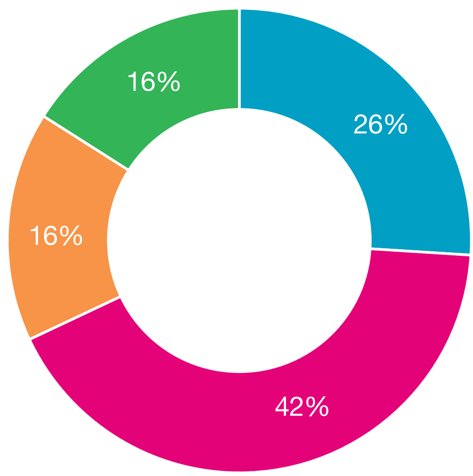
The final question of the survey sought to establish the appetite from the buy side for developing or implementing a single, integrated front-office platform. More than two-thirds of respondents either already have such a platform in production (26%) or are actively moving in that direction (42%). Had this survey been carried out just a few years ago, it's likely that those numbers would have been significantly more modest, given the complexity, time and money associated with the development and implementation of such platforms, although the business benefits by way of transparency, simplification, information sharing and operational efficiencies are similarly significant.

12 To what extent is your firm able to handle trading communication?



- Significantly (proprietary platform)
- Significantly (third-party platform)
- Moderately (proprietary platform)
- Moderately (third-party platform)
- Minimally—we don't use a platform to manage those tasks, but intend to
- Minimally—we don't use a platform to manage those tasks

13 Is developing a multi-asset class front-office trading platform feasible?



- Yes—we use one
- Yes—we are working towards that
- Yes—but we have no plans to develop/implement such a platform
- No

Conclusion

When contemplating the findings presented in this whitepaper, it's important to bear in mind that the survey underpinning it did not have a buy-side focus even though so many buy-side firms chose to complete it. Respondents from *WatersTechnology*'s database were invited to participate in the study and were not targeted by size, function, which side of the industry they sit on (buy side or sell side) or location, to avoid confirmation bias. Respondents were also not incentivized to complete the survey. It is, therefore, reasonable to conclude that the questions and issues raised in the survey appear to have struck a chord more with the buy side than the sell side, even though a number of the key findings apply to both constituents. For example, a significant number of firms already have mature cloud strategies in place and yet 80% of respondents to the survey are looking to increase their use of cloud-based services, emphasizing the extent to which the industry as a whole sees the cloud and managed services as the future. Clearly, the days of internally-developed, on-premises-deployed applications and platforms are numbered.

Similarly, the time-to-market factor is a significant one for all firms—large and small, buy side and sell side—given that they have now come to expect minimal delays between signing contracts and accessing services and technologies. If anything, this issue will become even more important as business, technology and service consumers worldwide become used to instant access, satisfaction and gratification, driven largely by their mobile/cell phone experiences. In this respect, cloud-native applications will, in time, come to dominate the industry.

Without delving into the business processes/functions respondents are looking to take as part of a managed/cloud-based service, the other big takeaway from the survey is just how important the twin-pronged security and hidden cost issues are for firms—again, this is not an issue specific to the buy side. Any cloud-based/managed service provider would do well to acknowledge those challenges, which they absolutely must address satisfactorily to meet the expectations and demands of their target market.