

Workflow Magazine

INDUSTRY INSIGHT AND VIEWS FROM THE STATPRO
BLOG AND CONTENT LIBRARY

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INTRODUCTION

The return of volatility

Volatility has returned to the markets in 2018 and we reflect this in some of our content in this edition of Workflow Magazine.

We discuss how the days of single digit volatility are over in our *Global Risk Outlook* series. We also talk about how during this time of increased volatility, it is critical to maintain the timeliness and accuracy of performance and risk data for the increasing number of middle office stakeholders.

Delivering portfolio analytics in the right format, for the right people, at the right time is something we discuss in detail this quarter. Being able to tailor the presentation of complex analyses for various audiences is key method of enhancing middle office reputation amongst stakeholders.

Such advances in analytics distribution allow asset managers to move towards a self-service strategy, enabling greater levels of efficiency and a reduction in ad hoc reporting requests.

We hope you enjoy this edition of Workflow magazine.

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NEIL SMYTH,
MARKETING & TECHNOLOGY
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GLOBAL RISK OUTLOOK: VOLATILITY IS BACK

The days of single digit VIX are over

The week of February 5th 2018 definitively answered the question of when volatility would return to global markets.

Most market observers had the intuition, correctly, that the return of volatility would coincide with a fall in equity markets.

On January 11th 2018 when we published the first piece in our *Global Risk Outlook* series, titled *Measuring the impact when market volatility returns*, the VIX was hovering around 10, closing at 9.88 that day. The VIX ended the week of February 5th at 29, after seeing levels as high as 50 intraday during the week.

To predict future, or ex-ante, levels of volatility we can look to option markets where the prices paid for options imply a future level of volatility at the horizon of the option maturity. This is called implied volatility and is precisely what the VIX measures with respect to near-term options on the S&P 500 index.

The impact of this volatility resurgence is yet to be determined. February 6th 2018 saw the short volatility trade and equity bull gain back a significant share of the losses, and most market insiders see the past few business days as healthy volatility instead of a panicked correction.

However, losses to the *Global Risk Outlook* portfolio over the period demonstrate the importance of monitoring portfolio stresses, scenarios, betas, and correlations along with performance to ensure that your portfolio risk framework reflects market realities in changing regimes.

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ACCURATE, TIMELY, AND INDEPENDENT ANALYSIS IS KEY

Why the right middle office systems are critical for accuracy in the front office

The role of the middle office has come to the fore in recent years, with emphasis placed on its ability to provide accurate and timely data to a widening variety of stakeholders, both within and outside the firm.

The original stakeholder is the front office. Without access to middle office data and analysis, the front office runs blinkered and has to rely on disparate data silos and processes.

The front office may be one of the most demanding middle office clients and as a key component of business critical operations, it needs the right information, at the right time, shown in the right way to be of value.

The more information the front office has about its positions, and the potential impact of events on those positions, the greater the potential performance gains it may be able to make through informed decision-making.

For the front office, legacy middle office month-end processing is simply not quick enough. They need in-depth analysis in the form of daily data to improve performance and steer the portfolio away from potential hazards.

A middle office that can share the Performance Book of Record (PBOR) from a single system with controlled, reconciled, and timely analysis to the front office helps simplify many processes and reduce operational risk. The front office can get the independent analysis they need, and the middle office can make sure the data is correct and available to the right people.

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NEW SCHOOL RISK MANAGEMENT

For the new school asset manager, a proper risk framework is indispensable

Good asset managers can speak in depth about the return expectations of their portfolio in the scope of the current macro-environment.

However, fewer managers can express themselves in the same depth about the associated market risk expectations of their portfolio. New school asset managers understand that risk and return are two sides of the same coin and therefore employ risk frameworks that allow them to express the risk/return trade-offs of their portfolios in a multifaceted way.

To be effective, a good market risk framework needs to be more than just a collection of analytics placed into a PDF report. A good risk framework needs to be a vehicle which facilitates conversations both internally with stakeholders and externally with investors.

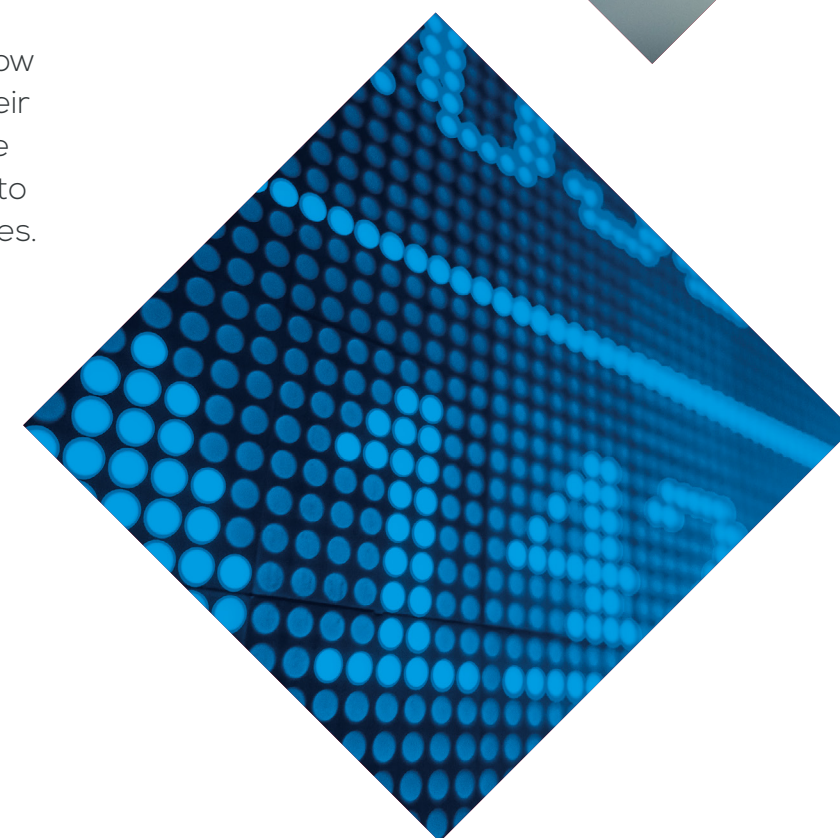
Internally, a risk framework should force a manager to continually monitor for all potential risks facing a portfolio and assess whether each portfolio return source remains warranted for the level of risk taken. It should also serve as a basis for conversation around how the manager plans to react in stressed markets or in market regime changes. The added structure that this brings to the portfolio management process can be a route to improved performance.

Externally, the same type of conversations should occur with investors. Investors have a wide array of preferences which vary across how they perceive risk, as well as what types of risks they do or do not want from a product.

For the asset manager the ability to not only quantify the risks of their product for an investor, but to also potentially offer the ability to tailor a portfolio to an investor's specific preferences can be a strong differentiator from a client service standpoint.

A proper market risk framework can allow a manager to be more structured in their own investment process, and also serve as a basis for discussion with investors to understand their investment preferences. Ultimately this will allow a manager to drive home their unique value proposition and prove that their product is superior for the investor's portfolio.

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INNOVATION IN ASSET MANAGEMENT:

How can the middle office enhance its service levels?

A middle office serves much more than 'just' the front office. It provides analysis and reports for multiple stakeholders across the business, from sales and marketing to compliance. Its list of clients – and therefore its data output – is growing.

With an ever-increasing list of stakeholders demanding different services from the same data, a middle office needs the right systems to constantly meet expectations.

Accurate, complete and scalable analytics production is just one element of the middle office process. Distributing data and analytics to the right people in the right format is key to raising service levels.



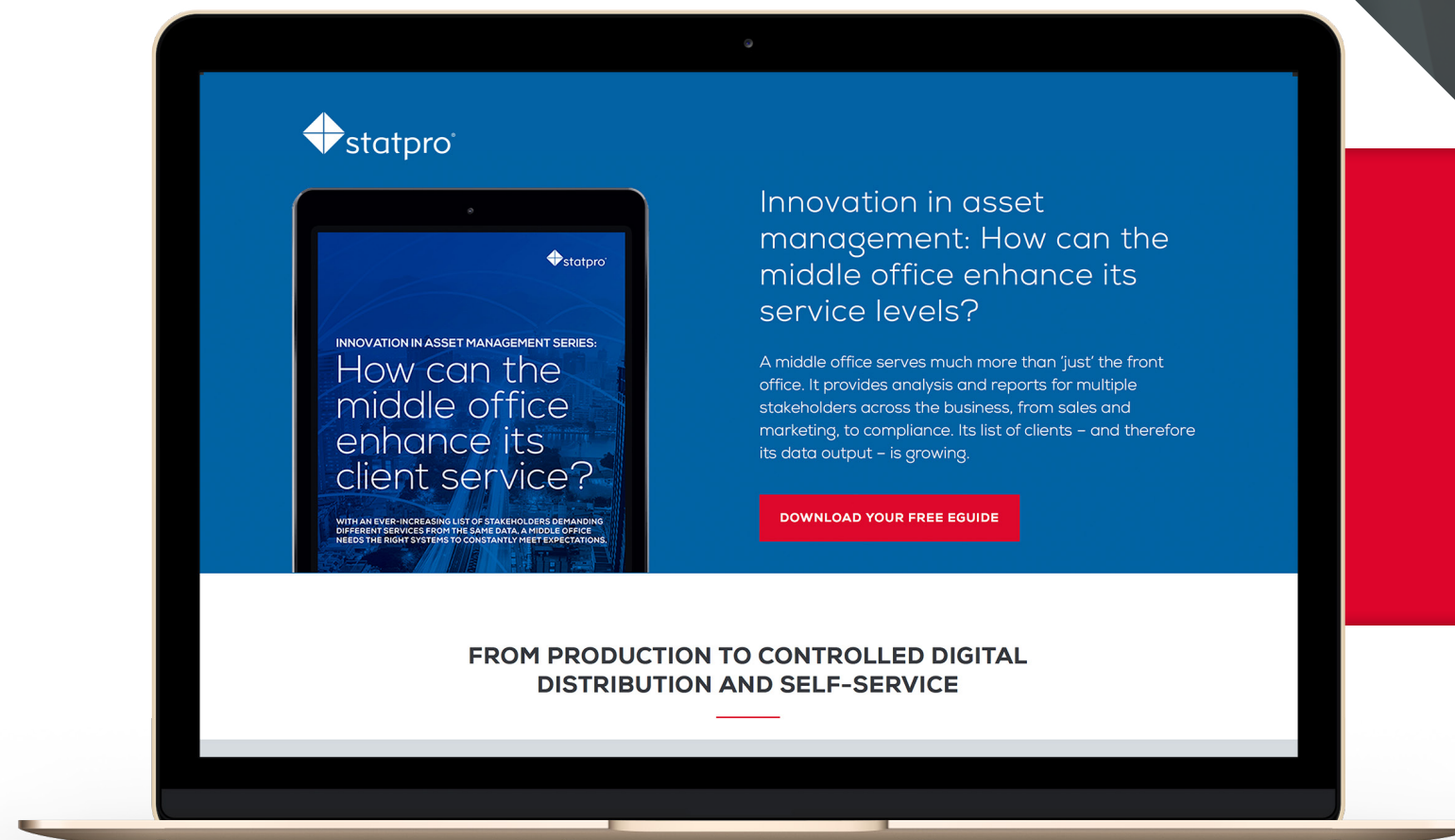
The rise of self-service analytics allows stakeholders to access information they need, when they need it



Providing a single accurate data set for performance and risk analytics is more efficient and reduces operational risk



Flexible interfaces and custom dashboards provide an ideal user experience and enhances middle office reputation



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THE RISE OF SELF-SERVICE PERFORMANCE AND RISK ANALYTICS

How the self-service revolution is making the middle office more efficient

In today's society, customers expect an always-on, on-demand service. This cultural shift in expectations has seen industries change the way they deliver services.

For example, in years gone by viewers would have to wait until the TV shows they wanted to watch were scheduled for transmission. Viewers had no control and the broadcasters would dictate what shows could be watched and when.

But the rise of services like Netflix has turned this on its head. Consumers can now access the entertainment they want on-demand, through a self-service platform. What's more, this service is personalized according to each viewer's preferences and requirements.

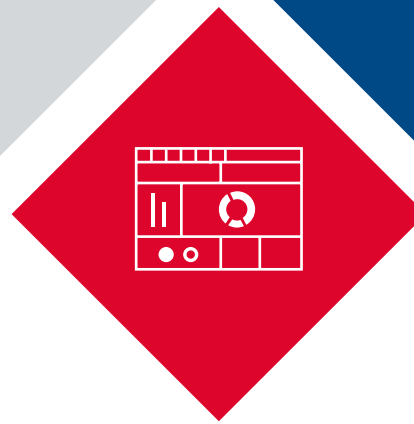
The self-service revolution can also be extended to the asset management industry. In fact, it is a crucial part of a middle office digital distribution strategy. Giving middle office stakeholders access to what they want, when they want it is a smart way to reduce ad hoc requests and increase service levels. In a complex world, this simple strategy makes sense.

The secret lies in the flexibility of the system and the interface it presents to users. The onus is on the middle office to bring in the data, process it, and make it available to all stakeholders as quickly and as accurately as possible.

There also needs to be high-quality governance and transparency around the workflow and analysis so that end users can identify what they are looking at and understand the process and methods that have been used to arrive at that point in time.

The self-service play is all about moving towards a centralized processing and management workflow. When the middle office provides accurate data through customizable and easy-to-use dashboards, it allows stakeholders to get the details they need and get on with doing their job. And because they are no longer receiving multiple ad hoc requests, the middle office can focus on delivering better analysis and more accurate data.

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THE ULTIMATE IN USER INTERFACE FLEXIBILITY

Personal Configurable Dashboards

READY TO SEE FLEXIBLE, CONTROLLABLE AND CUSTOMIZABLE ANALYSIS DASHBOARDS?

Self-service analytics means providing users with configurable dashboards, so they can see portfolio analysis the way they want to see it. Create unique and controllable user interfaces for anyone.

Available in Revolution today, Personal Configurable Dashboards allow you to create custom user interface layouts and menu options for any user in your account. Want to provide your compliance team a custom user interface designed specifically for them? Or give your sales and marketing team access to performance and attribution analysis in exactly the way you want to? Now you can.

THE ULTIMATE FLEXIBILITY

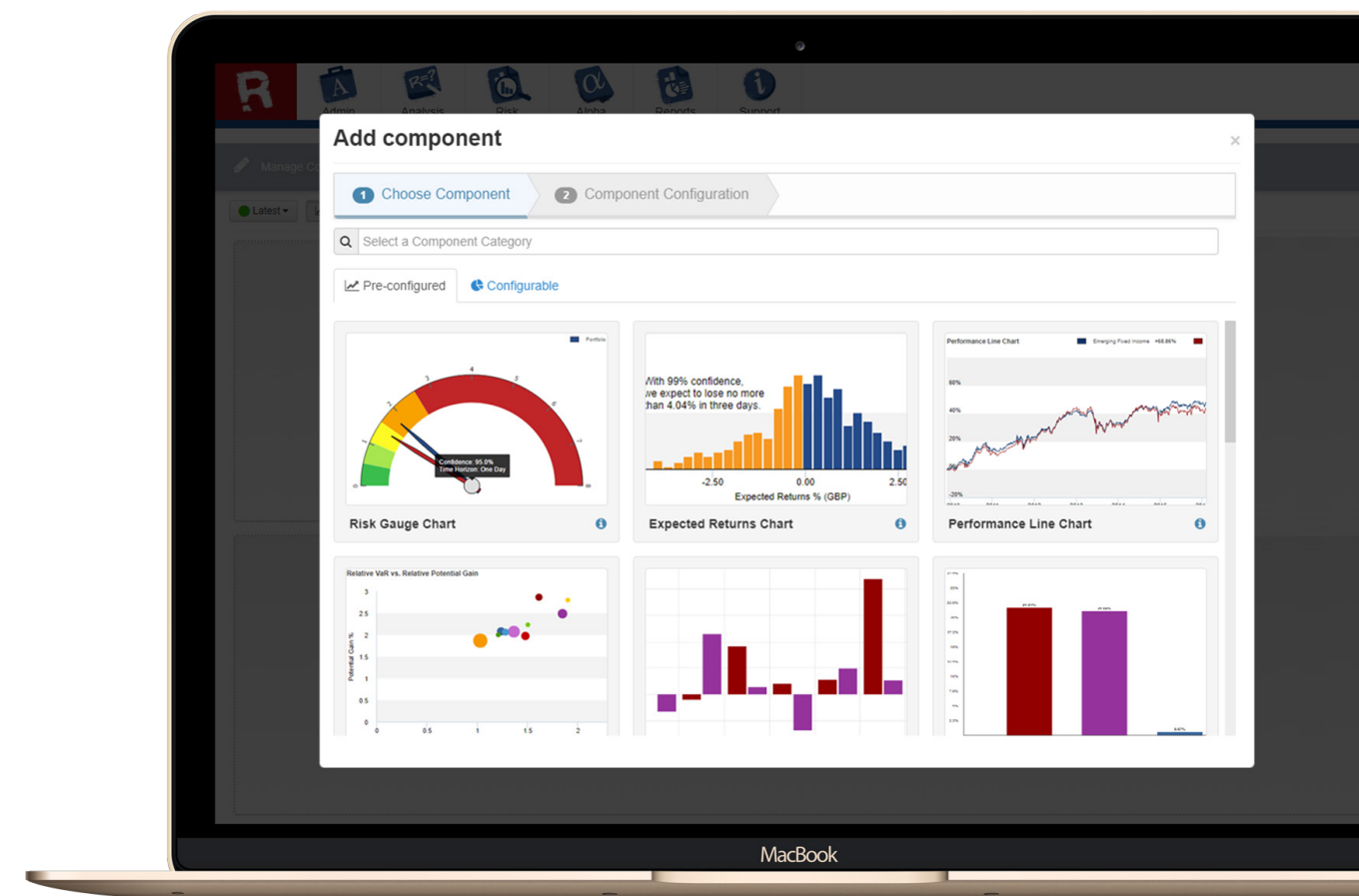
Revolution already allows you to add as many users as you wish. Now you can create custom analysis dashboards for each user profile in your account. You can design dashboards showing the analysis that is perfect for any role. Dashboards can be organised into menus that you then add to user profiles. When members of that profile log in, they will see the menu structure and dashboards you have assigned them.

Being able to provide self-service portfolio analytics to any stakeholder is an essential part of any digital strategy and demonstrates a mature performance and risk analytics process. Clients of any size can now move away from the constant distraction of ad hoc reports and provide a tailored user experience to anyone needing controlled but dynamic portfolio analytics.

CUSTOMIZED VISUAL DASHBOARDS

Providing customized visual dashboards for performance, attribution and risk analysis allows you to extend the value of Revolution to all stakeholders. Users of all kinds can now log in to a single platform but see analysis layouts that have been designed specifically for them. This level of user experience customization allows you to provide self-service analytics across your business with complete control. For example, you can provide front office users with signed off performance book of record analytics, but in a layout and format that is perfect for them.

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MIDDLE OFFICE STAKEHOLDERS: KNOW YOUR CLIENTS

Growing list of stakeholders

A growing list of stakeholders means the middle office has to provide a range of flexible analysis and distribution services.

In every industry, the customer is always right. In today's marketplace of higher customer expectations, that means more personal services, bespoke requirements, and individual needs.

The impact on the middle office is greater, simply because the number of stakeholders that the middle office serves continues to grow.

Previously, the middle office was expected to provide month-end data to a small number of internal clients. Today, it is expected to provide reams of in-depth analysis across all asset classes to a large and growing number of stakeholders – both internally and externally.

But who are the main stakeholders when it comes to middle office data, why do they need this information, and how do they need it presented?

WHO ARE THE MAIN STAKEHOLDERS?

- **The front office:** The front office is the traditional client of the middle office for daily and month-end reporting
- **Sales and marketing:** Being able to tell the story of the portfolio in a clear and visual way is essential, especially in times when performance or risk isn't what it should be
- **Compliance:** Be able to prove that the firm has operated within regulatory limits
- **Senior management:** Robust overview of all the portfolios and positions, risk and compliance, and an understanding of how things have changed or are going to change

Different stakeholders need the middle office to provide them with something slightly different from the same data set. This is nigh on impossible without a platform that has the agility and flexibility to provide accurate, efficient, automated, solid process governance and therefore be able to bend and flex as and when required to customize output.

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