

Investment Managers on SWIFT

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Scaling up with SWIFT

Markus Ruetimann is group COO of Schroders, a global asset management company with GBP 130.6 billion under management. Here he explains how SWIFT is helping him meet the operational challenges of a multi-asset, multi-location investment strategy.

What do you see as the main operational challenges for Schroders in today's environment?

We are extensively diversified in terms of investment products and geographic footprint, supporting our clients through 37 offices in 28 countries. Increasingly sophisticated products, such as liability-driven investments and 130/30 funds, are driving the need for greater specialisation. Greater specialisation accentuates the need for specialist staff and expertise and increased IT spend to service new investment instruments as well as to develop new operational practices.

Creating economies of scale and a seamless way of delivering services to our clients and business partners remains a constant challenge. Our aim is to upskill our resources and technological solutions thus moving from the back office to the forefront of supporting financial engineering.

The other main challenge is effective data management on client, portfolio, instrument and market levels. Supporting over 160 distinct investment products and over 1000 mutual funds across numerous asset classes represents a huge challenge. Business and regulatory requirements for time-sensitive, intra-day, on-demand information continue to increase.

How has SWIFT been helping you meet these challenges?



Markus Ruetimann

We have engaged actively with SWIFT during the past three years. Essentially, we invited SWIFT to assist Schroders in standardising or optimising parts of our processes in various operating hubs. This leveraged SWIFT's internal knowledge beyond its perceived *raison d'être* as keeper and promoter of messaging standards.

We have introduced significant changes as a result, taking advantage of the possibilities offered through reuse of the SWIFTNet 'single window', both for internal and third-party messaging.

We have configured SWIFT's MT (FIN) and MX (XML) messages into our IT architecture.

We aim to connect with more distributors who wish to automate investment fund processing using either message protocol. Extending the use of XML message types to 'statement of holdings' and 'NAV price reports', we create efficiency gains for ourselves and our distributors across the world.

Do you use SWIFT internally between offices?

We operate from four major hubs in London, Luxembourg, Singapore and Zurich. Integral to the *modus operandi* of all these offices is the extensive use of SWIFT capabilities for trade instructions, foreign exchange transaction matching, asset



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servicing, as well as for the reconciliation of cash and securities positions.

About two years ago, we undertook a joint review with SWIFT looking at ways of improving efficiencies in our biggest operating hub in London. Frankly, I was a bit sceptical in the beginning, but it was great fun and we’ve made a number of process improvements as a result.

SWIFT has become increasingly more entrepreneurial and is finding ways to reach out to this difficult and complex community called fund management.

To what extent have you succeeded in achieving the efficiency targets you set yourself?

Our key aim, as I indicated, is to take maximum advantage of economies of scale and the expertise of third-parties in our sourcing strategies. We substantially outsource many aspects of custody, fund accounting, transfer agency and IT Infrastructure to a number of external providers. The aim is to convert fixed into variable operating costs and to take advantage of other providers’ core competencies with respect to services and/or technology.

Despite outsourcing much of our operating model, we have recently implemented a new portfolio accounting system in our London hub. This system is the prime book of record for all our activities, regardless of whether the function is outsourced or not.

In a federated operating model like Schroders, economies of scale continue to be slow in emerging. Responding to our clients’ needs, our product offering is generally supported by numerous investment centres, legal structures and countries of fund registration across many languages. Our investment process is global but the client support is typically local in nature.

The ripest areas for economies of scale are actually those we have outsourced

– the mature processes – which tend to be location-agnostic. Market-facing activities lend themselves more naturally to consistency and standardisation. Client-facing activities will remain broadly bespoke to specific client segments.

Given that you see SWIFT as being more entrepreneurial, what would you like them to do next?

SWIFT could take a more leading role in creating operational efficiencies between fund managers and distributors. The *modus operandi* surrounding order processing remains clumsy and inefficient.

SWIFT should more actively support industry-led initiatives, such as the ISSA (International Securities Services Association) project, that aims to gradually reduce barriers to operational efficiency in pan-European cross-border funds processing.

SWIFT ought also to take a more aggressive stance towards encouraging the remaining client-appointed custodians to use SWIFT thus eliminating ‘Jurassic’ ways of operating.

In terms of asset servicing, we would like to see SWIFT messages comprehensively covering areas such as receiving event notices, instructing non-mandatory events and receiving instruction confirmations and entitlement receipts.

Perhaps more controversially, SWIFT’s image among the fund management community warrants some attention. SWIFT is perceived as often embracing the past rather than opening up opportunities for future operational efficiency gains beyond its current key shareholders.

Beyond being the “gatekeeper for messaging standards”, such an approach would require a willingness to challenge the *status quo* and to lead debates on how our industry can become more efficient for the benefit of all our clients. SWIFT no doubt has the resources, technology and intelligence to do so.

How can SWIFT help you?

Investment managers are facing ever-increasing pressure to improve performance, reduce costs and reduce operational risk. As global markets fluctuate, so too does the volume of trading. Investment managers cannot, however, maintain the additional resources required for processing high trade volumes during periods of relatively low activity.

SWIFT provides simple solutions to these issues. Automation is the key to cost reduction.

What we offer

- Standardised messaging across the trade and asset servicing lifecycle
- Lower costs through STP and channel rationalisation
- Reduced operational risk through increased control, security, and reliability
- Improved ability to comply with industry initiatives and regulations such as Giovannini and MiFID.

SWIFT’s solutions for investment managers

Accord

Enables real-time matching and exception handling for foreign exchange, money market and derivative confirmations.

Corporate Actions

Enables and improves event communications between public companies and their stakeholders.

FpML

Enables automation for OTC derivatives transactions.

Funds

Covers account management, order flows, transfers and reporting messages on prices and cash forecasts, statements of holdings and statements of fund transactions. Major community initiatives are under way in hedge funds, pension funds and the Australian market.

SWIFT portfolio updates

Solutions

More than 200 firms are now registered to use the Funds solution, over half of which are either live or in test and training mode.

Messaging

The Simulation Testing and Qualification System (STaQS) for Corporate Actions is now available. It allows you to test your Corporate Actions Notification and Confirmation messages (MT 564 and 566) for market practice compliance.

Connectivity

Alliance Lite is designed for firms exchanging fewer than 200 messages per day and is being formally launched at Sibos 2008. The Internet-based service provides a direct, secure and low cost access to SWIFT. You do not have to install SWIFT-specific connectivity products at your premises. Instead, you can access Alliance Lite using a standard Internet connection.

At the other end of the connectivity spectrum, the latest release of Alliance Access can handle one million messages per day. The main benefits of this new interface for firms with high volumes are: scalability, availability and better integration with your back office. Alliance Access is available now.

Services

Our Training team are currently running two courses tailored to the needs of investment managers: *Understanding SWIFTNet Funds messages and flows* and *SWIFT messages for investment funds distribution*.

For details, please visit www.swift.com

MiFID Transaction Reporting

Following the completion of the development of ISO 20022 transaction reporting messages, further work is under way to raise regulator and market awareness of the new standards and of SWIFT as a secure delivery channel.

Proxy Voting

This solution covers the entire proxy voting lifecycle, delivering STP-ability between the issuers and the beneficial owner, and through all intermediaries such as custodians, exchanges, and proxy agencies.

From the back office to the forefront of financial engineering

Welcome to the inaugural issue of *Investment Managers on SWIFT*.

You are a vital part of the financial services ecosystem and therefore part of a hugely important customer group for SWIFT. Investment managers are at the forefront of almost every securities transaction.

As the credit crunch continues to bite and economic conditions globally become ever more challenging, many of your firms are no doubt applying renewed focus to the issues of cost reduction, risk mitigation and enhanced customer service.

At SWIFT, we're convinced we can help. We know that by using our secure and resilient electronic messaging, by participating in the creation of industry standards and market practices, and by having access to a single, low cost way of communicating with all your counterparties, you can dramatically reduce risk, improve scalability and enhance your bottom-line. But we also know that there are still large parts of the buy-side community who are not yet convinced about the full benefits of being on SWIFT.

So, this publication's objective is to demonstrate how you can get the very most out of SWIFT. And you'll hear it not from us but from our customers, investment managers like you.

In this issue, we speak with Markus Ruetimann, the Group COO of Schroders, a global asset management company with GBP 130.6 billion under management. He explains how SWIFT is helping him meet the operational challenges of a multi-asset, multi-location investment strategy. Markus has a great turn of phrase which I believe summarises SWIFT's own ambitions. As he explains, his aim is to move "from the back office to the forefront of supporting financial engineering."

To achieve that, we need to be much more than just a supplier of secure messaging services. As a community-inspired co-operative, founded by and for the financial services industry, SWIFT also acts as the catalyst that brings the financial community together to work collaboratively to shape market practice, define standards and



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consider solutions to issues of mutual concern and interest. In this issue, you'll read about some of the many things we are doing in this regard. On page 4, for example, we cover the launch of our Funds Advisory Group, a very productive first meeting for leading specialists in the funds distribution space who are looking for safer and more efficient ways of doing business. You'll also read about a recent conference we co-hosted in Helsinki with the Finnish Mutual Fund Association. If you are not already doing so, I would encourage you to actively take part in such events. Three of the most important ones this year are still ahead of us. In London on 12 June, we'll be hosting our fifth annual SWIFT Funds Conference; in July we'll be participating in Fund Forum in Barcelona; and of course, in September, at Sibos in Vienna, we'll once again be mounting a series of conference sessions and networking opportunities specifically aimed at investment managers and their counterparties. I look forward to meeting you there.

I hope you enjoy this first issue and, please, don't forget to let us know what you think. You can join the dialogue in the Investment Managers on SWIFT community at www.swiftcommunity.net/IMonSWIFT or, if you prefer to email us directly, please do so at: IMonSWIFT@swift.com. We're keen to hear your views.

Jean Sonnevile
Head of Investment Managers Market

First SWIFTNet Funds Forum for Helsinki

On 28 April, the Finnish Mutual Fund Association hosted a SWIFTNet Funds Forum in Helsinki to promote greater standardisation and automation in the investment funds industry. Featuring presentations from market participants and from SWIFT, the event attracted 50 people representing more than 20 institutions and was the first of its kind in the Nordic region. Similar events will follow in Sweden, Estonia and the UK.

Markku Savikko, managing director, the Finnish Association of Mutual Funds and a member of the board of the European Fund and Asset Management Association (EFAMA), opened the conference with an exploration of trends in the Finnish mutual funds industry. Representatives from SWIFT then explained the broad organisation of the cooperative and outlined new initiatives within the SWIFTNet Funds Solution. These include the Hedge Funds Pilot, the aim of which is to re-use ISO 20022 standards;

the business case for the Fund Processing Passport central database; and the new Alliance Lite connectivity for funds, which will be available at the beginning of 2009.

Representing the investment funds industry in Luxembourg, Gary Janaway, head of Luxembourg Fund Services, Schrodgers, illustrated the business case for automated and standardised communication. He also presented Findel, a group of European investment managers active in promoting the use of best practices and ISO 20022 in the funds industry.

Kjell-Ivar Moe, director, VPS, the Norwegian central securities depository, set out a regional initiative for the handling of investment fund orders. VPS offers the advantages of a centralised system combined with the use of standards, thereby allowing the market to re-use the same infrastructure for both cross-border interaction and domestic transactions.



Rounding off the event, Olli Kahkonen, manager of strategy and infrastructure at Nordea Bank, Finland, and Finnish SWIFT User Group chairperson, stressed the importance of market practice as the basis for collaboration and interoperability between market players in the industry. He encouraged the community to create a market practice group on funds.

SWIFT launches Funds Advisory Group

In late April, SWIFT invited fund and investment management specialists from around the globe to join together in providing strategic guidance to the cooperative. The aim is to establish a number of Fund Advisory Groups that will offer specialist advice on key market initiatives, improve SWIFT's focus on the specific needs of key customer segments and define a more holistic approach to solution development.

"In the fund industry, we all have common objectives of wanting to process our clients' business in an efficient, timely and error-free way," says Mike Boardman, managing director, Retail Operations EMEA AP, Blackrock Merrill Lynch Investment Managers. "By working with industry participants, SWIFT can prioritise its work to bring in new standards and efficiencies, particularly based around its secure messaging infrastructure."

As well as helping to define and validate customer needs in the investment

funds domain, the advisory groups will provide input on the formulation and scope of SWIFT's strategy and business development plans for the funds industry.

At an initial meeting in late April, participants examined the SWIFT securities strategy and investment management ecosystem. There was broad agreement on the priorities for SWIFT's Funds solution going forward: order flows; reconciliation; and price/transfers. The timetable for migration to ISO 20022 was reviewed as was the ability of Alliance Lite, SWIFT's new connectivity solution, to address the needs of small players involved in investment managers' custody and fund distribution flows.

"The Funds Advisory Group is the ideal forum for gathering and discussing industry requirements," comments Kathy Shackle, director, B2B Automation Programme, Fidelity Investments, Luxembourg. "The value of such a global group of participants

is the rich and varied input that can be provided as each member brings to the table the business practises and requirements from their own region."

Meet SWIFT

- 10-12 June 2008, New York: Exhibiting and speaking at SIFMA 2008 Technology Management Conference & Exhibit
- 12 June 2008, London: Hosting the SWIFT Funds Conference 2008
- 1-3 July 2008, Barcelona: Exhibiting at FundForum International 2008
- 15-19 September 2008, Vienna: Hosting the Fund and Investment Management Forum at Sibos 2008