



The Evolution of the Investment Management Software Industry

In Praise of the Cloud and R&D Investing

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The investment management industry's increasing competition, volatility within global markets, and investors' growing aversion towards fees has resulted in investment managers demanding acute levels of efficiency within their operations for some time. They want processes and systems that will help them generate alpha, while at the same time continually reduce operating costs. The effect has been a squeeze on those trying to do more with less. This trend has been exacerbated by lessons painfully learned from the financial crisis and the ensuing "Great Recession."

Out of this conundrum springs opportunity for technology innovators who can bring new solutions and business models to the table that provide exceptional value.

Gone are the days of investment managers forking out huge sums of capital expenditure in one lump sum for software providers to come in and build a bespoke portfolio management system in-house. For a while now, we have seen customers demanding a variable priced subscription based payment structure for the provision of business critical systems. If the subscription model had been gathering steam prior to the advent of cloud computing, the acceptance of Software-as-a-Service (SaaS) and other cloud services in the investment management

industry have made subscription the norm, with big implications for vendors and, most importantly, their customers.

THE GAME-CHANGING CLOUD

This won't come as a surprise to most of our clients, but last year 80% of Eagle Investment Systems' new contracts related to our secure private cloud offerings. *According to a recent study by TowerGroup, spending on cloud computing in global financial services will grow from \$4 billion in 2010 to over \$27 billion by the end of 2015. What is behind that projected growth?

The early trepidation about security that permeated the financial services sector when cloud computing first took hold in other industries has been vanquished by a greater appreciation of the benefits: cost-efficiency, speed to market and flexibility. The cost reduction benefits, in terms of both the initial capital investment and the staffing costs associated with managing on-premise hardware, have proven to be very appealing. With frequently changing industry regulations around the globe to address and rapidly shifting business priorities, the cloud provides greater flexibility, enabling vendors to deliver changes and updates more quickly with a minimal footprint and reduction of client time and effort.

However, conversations around which systems and applications clients can transition to the cloud still bring about concerns, and security is at the top of the agenda for many. Also, systems like accounting, data management and performance measurement are business critical, where reliability, security and availability worldwide are crucial. In short, downtime is simply not as acceptable as it might be in other industries.

Yet we have seen a realization in the financial services industry that on-premise hardware does not necessarily translate to more security than a cloud solution managed by specialists. Many investment managers are coming to believe that an expert cloud provider may well be safer than relying on training in-house staff on security processes.

With security concerns being resolved by the rigorous standards established and infrastructure managed in a secure private cloud, there has been a confluence of other factors that have made cloud services an imperative within the investment management software industry: economic pressures on our clients, the need to provide extraordinarily flexible solutions, and a significant advance in available computing power, which has made the hosting of even the most sophisticated applications a possibility in the cloud.

Eagle has been at the forefront of these changes. At Eagle, we have embraced the possibilities offered by cloud computing and Eagle ACCESSSM, our secure private cloud. Our cloud platform allows us to continually update software and provide a higher-end service to our customers on a flexible and cost-effective basis.

A CLOUDY FUTURE FOR R&D?

As with all promising technologies, the cloud presents some challenges for vendors. What hasn't changed are some of the core "non-negotiables" that investment management firms seek when implementing a new system. Clients demand 24/7 operability, rapid response to regulatory and market changes and, above all, the highest possible security. The secure private cloud offers improvements in these areas, but in order to compete here it also requires that technology vendors continuously invest in R&D.

Yet the subscription model - introduced before cloud, but firmly cemented since - has challenged the very fabric of investment management software vendors' business models. Traditionally it was not uncommon for a vendor's R&D spend to rely heavily on the sales team winning a chunky, marquee deal. Unfortunately, for many in the industry, sales still drive R&D. Too many vendors have resisted change and are unwilling to consistently invest in R&D without a big cash influx. Maintenance fees alone are just that, they cover maintaining the status quo but without the ability for vendors to continue innovation. Market volatility and

lingering concerns over the global economy caused by prolonged uncertainty in the Eurozone have exacerbated the hesitancy for many vendors to invest still further.

A truly successful cloud strategy for a vendor necessitates an ongoing commitment to R&D to make timely updates regarding regulatory changes and other market driving issues.

That's why Eagle is so whole-heartedly committed to R&D. In fact, 40% of Eagle's employees work in R&D and we are focusing more than ever on continually enhancing and improving the products we offer to help clients to remain competitive and efficiently manage their assets.

We're confident that clients can rely on a company that is reinvesting in their product to stay current and keep pace with the evolution of business - whether that relates to changes in the marketplace or simply a shift in strategy from the investment managers in question. Clients need to align with a vendor that can handle secure cloud services and applications that work continuously for all of their markets across the globe with a product that scales to allow their business to grow.

It has been clear for a while now that the cloud has occasioned a growing expectation of more comprehensive capabilities with better integration services. Investment management firms have become much more comfortable with the cloud and know that it should offer them the highest degree of security, high availability and unparalleled flexibility. Technology providers ought to know that there is no magic wand to providing that on a long-term basis, but rather it requires a dedicated approach to innovation and development.

*CEB TowerGroup, "Destination 2015: Spending on Cloud Computing in Financial Services," by Senior Research Director Rodney Nelsestuen, June 20, 2011. Statistics reused in InformationManagement.com, June 27, 2011.

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ABOUT EAGLE INVESTMENT SYSTEMS

Eagle Investment Systems LLC enables financial Institutions to grow their assets by creating operational efficiencies and delivering award-winning solutions for data management, investment accounting, and performance measurement and attribution, supported by an unparalleled level of service. Eagle deploys its solutions via a secure private cloud, Eagle ACCESSSM, which hosts and provides on-going support of the applications and systems infrastructure, reducing complexity and risk. Eagle Investment Systems LLC is a subsidiary of BNY Mellon. Additional information is available at www.eagleinvsys.com.



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