F2 STRATEGY

In partnership with Vestmark

Bridging the Technology Gaps in Financial Planning and Investment Management Software

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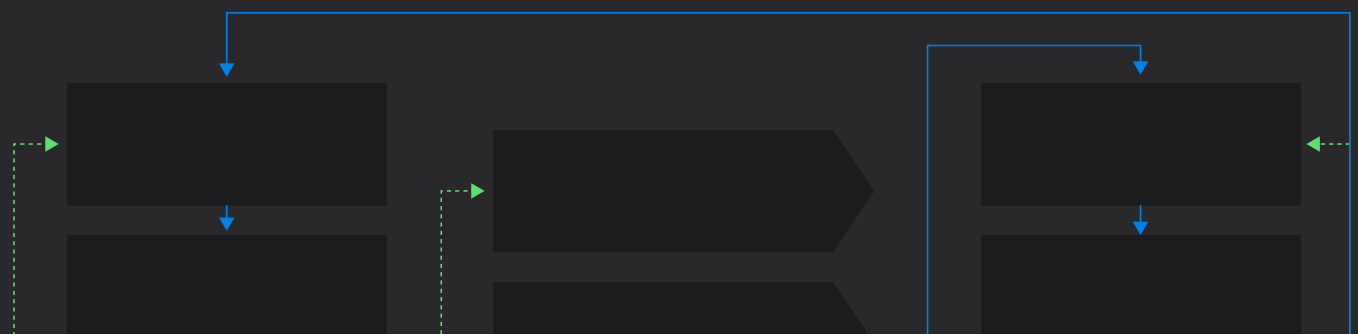


Introduction

> For decades, technology solutions have evolved to help advisors handle the ever-increasing workflow of delivering financial advice and doing so at scale. Technology has also made delivery more accessible to a larger audience. However, the value of our industry, as determined by the consumers of financial advice, changes so rapidly that the current technology solutions strain to keep up with what advisors need to be successful.

In this paper, we focus on what it means to deliver a comprehensive wealth management solution – financial planning AND investment management – and the role technology solutions have played in supporting financial advisors. Through advisor surveys and interviews we explored:

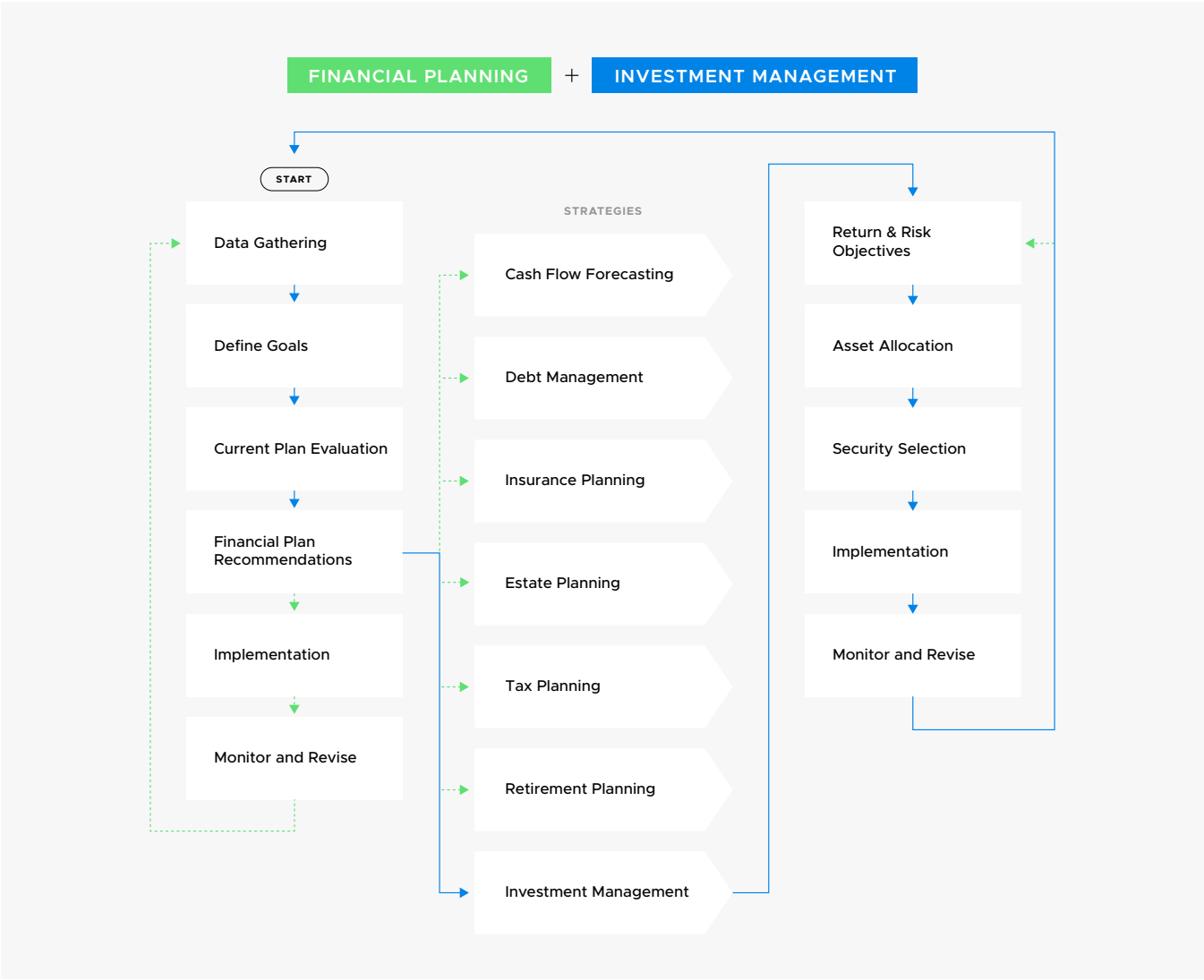
1. **the pain points associated with the current technology solutions**
2. **why these pain points exist**
3. **the challenges that lie ahead**
4. **how firms can respond to implement better technology solutions**

By understanding these obstacles and their causes, firms and their advisors can better leverage today's solutions to deliver high-quality client experiences at scale, operate more efficiently and prepare for tomorrow's challenges.

The Challenge Behind Building a Comprehensive Wealth Management Solution

The financial planning and investment management workflows are complex and time-consuming, but enabled by technology solutions, more advisors than ever can deliver a comprehensive wealth management solution that includes a goals-based financial plan and personalized investment portfolio to a broader clientele.

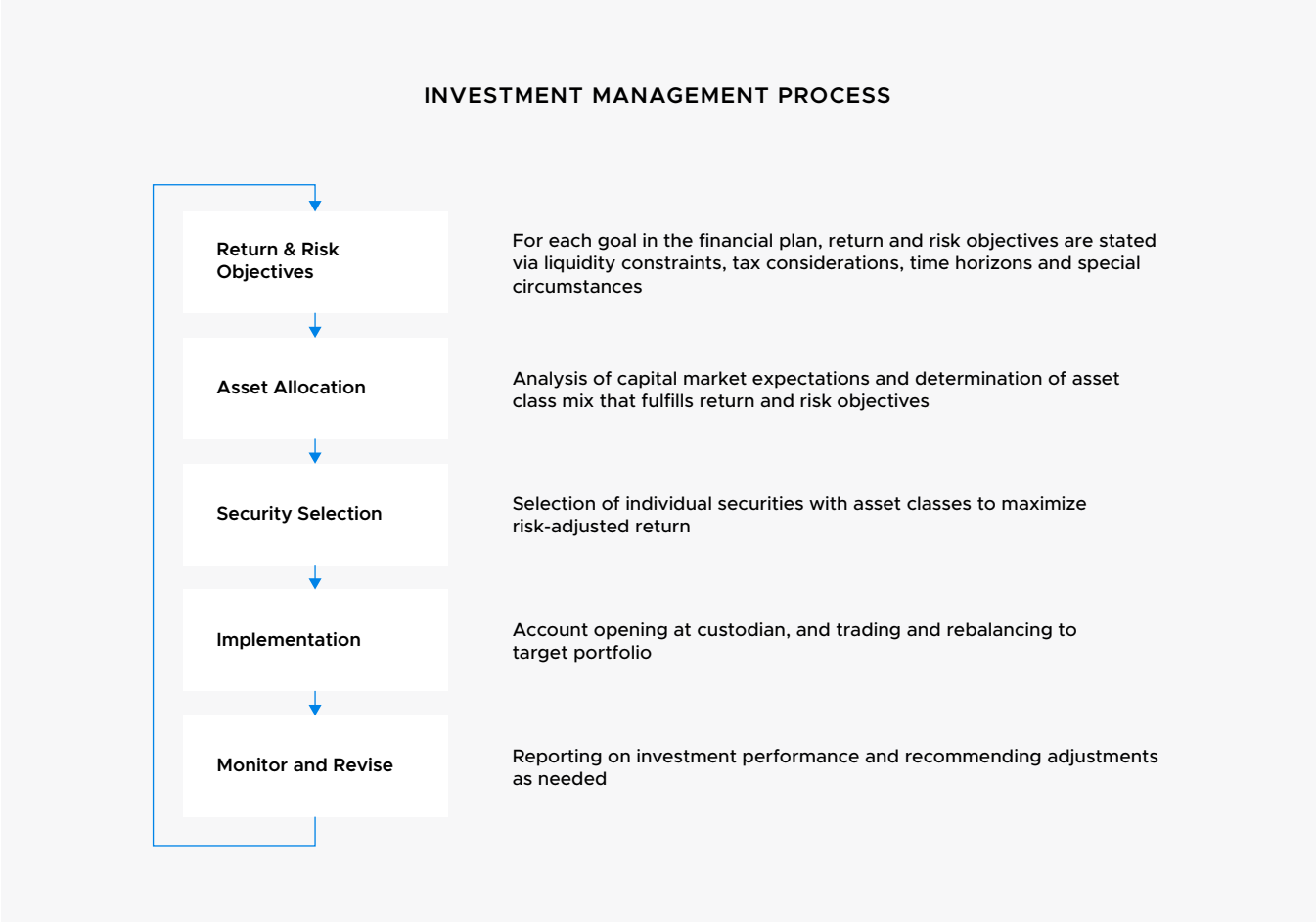
Reviewing the relationship between the steps in financial planning and investment management is key to understanding how existing technologies have been successful and where they still miss the mark in fully automating these workflows.



Both financial planning and investment management are continuous and interconnected processes that rely upon shared data from clients and the markets in order to function. One critical capability of a successful end-to-end technology platform design is identifying, transmitting and updating these shared data points between separate platforms seamlessly.

The objective of the financial plan is to identify a client's goals, motivations, challenges and resources in order to develop and deploy various financial strategies designed to achieve desired outcomes. Specific strategic financial planning categories include: cashflow forecasting, insurance planning, retirement planning, tax planning, estate planning and portfolio construction. All of the client data needed to construct and implement an investment portfolio are typically identified within the financial plan.

Once the necessary client data are gathered, the investment management process can begin with drafting an Investment Policy Statement (IPS) and then expressing the IPS by constructing the portfolio. Below is a step-by-step view of the process:



The operative word in both definitions is "continuous". Think of these processes as feedback loops; this is an important distinction for advisors to consider as they configure technology solutions.

For enterprise firms, this challenge is magnified as they account for multiple advisors designing different client experiences.

Today's Technology Solutions Still Miss the Mark

When it comes to delivering high-quality, scalable wealth management experiences which include a financial plan and personalized investment portfolio, even tech-enabled firms fall short of delivering efficient workflows as advisors struggle through a myriad of pain points with their current technology configurations. Our advisor survey and follow-up interviews identified that these pain points generally fall into two categories:

1. Operations – Advisors want to further the alignment and automation of data moving within their workflows
2. Client Engagement – Advisors want solutions that help them communicate effectively with their clients throughout each step of the process

OPERATIONS

Transitioning from the Financial Plan to Portfolio Construction

Portfolio construction begins with asset allocation, which is widely accepted as one of the most consequential investment decisions. As such, this is an area where advisors dedicate a significant amount of their time and resources. Deciding on an appropriate asset allocation for a client requires consideration of both internal and external data points. Internal data points describe the client's goals and circumstances and are pulled directly from the output of the financial plan and reflected on the investment management side in risk profile, time horizon and liquidity constraints. The external data points refer to global economic and market indicators, or capital market assumptions, that guide investment managers in forecasting risk and returns for asset classes.

When advisors combine these data points, they can use technology platforms to conduct mean-variance optimization of a defined set of asset classes. This is the basis of modern portfolio theory and yields the client specific asset allocation to start the portfolio construction process. Technology solutions that make this process more efficient for advisors must do three things:

- Evaluate all data points together, rather than in a vacuum
- Translate the data points into a customized asset allocation mix designed to achieve the client's goals
- Update them with minimal intervention by the advisor.

Challenges specified by advisors in our survey relate directly to the first two actions described above. The ability to evaluate all data points together is key. As stated earlier, these data points represent both client-specific factors and market factors, which are pulled from a combination of planning, risk profiling, market analysis and investment research tools and then analyzed within one centralized tool to develop the asset allocation mix. Of these tools, risk profilers have made big strides in easing the transition from plan to portfolio by automating the asset allocation decision, but still fall short in their ability to solve the original pain point of matching asset class categories between different platforms.

Implementing at the Client Household Level

A comprehensive financial plan can include several goals which require different strategies to implement. Additionally, each goal may involve different family members and different account types, which makes it optimal for advisors to manage each goal in conjunction with one another. This is why the ability to implement at the client household level is valuable in investment management tools and important to track across planning and investment platforms.

In the simplest sense, householding means providing advice on all of a client's accounts which can include retirement and non-retirement as well as accounts for multiple family members. In practice, this could simply mean an advisor can access and view balances and holdings for all accounts within one single dashboard, usually accomplished using account aggregation tools. While access to balances for all of a client's accounts is valuable to an advisor, leveraging additional data for the holdings within each account, such as tax status and unrealized gains, can tremendously level up an advisor's ability to efficiently steer a client's portfolios towards their goals by making rebalancing decisions that optimize risk-return benefits and minimize costs.

> Without effective rebalancing software, advisors often rely on spreadsheets to do household rebalancing and manually manage asset location in situations such as a draw-down phase.

This has previously made it cost prohibitive – or highly unscalable - to offer this valuable service to clients except at the HNW and UHNW levels. Household level rebalancing capabilities within trading platforms have made it possible to offer this service to more clients, but low adoption of these tools and the lack of deep integrations with other planning and portfolio construction tools means that advisors are still citing this functionality as a blocker to full automation.

Data Entry – Manual and Rekeying

In our advisor survey, entering data manually and rekeying between multiple systems, was the most frequently referenced challenge advisors have in delivering financial planning and investment management services. The main factor driving this was the use of multiple platforms through both workflows. Integrations between two platforms such as a financial planning tool and risk profiler or an investment analytics tool is more straightforward and easier to maintain, but the coordination of common data points throughout the entire portfolio construction workflow – from financial planning to risk profiling to asset allocation to investment research to trading and reporting – and the creation of new data points along the way is a more complex integration exercise. The journey of data and its transformation would need to be mapped out in order to seamlessly create a technology path for advisors to follow.

CLIENT ENGAGEMENT

Given the continued evolution of what constitutes financial advice in the minds of consumers and the complexity of planning and investment services, firms are paying greater attention to delivery of the overall client experience. This increases the need for advisors to communicate effectively – simply and clearly – while also differentiating the value of their services through educational content that is scalable, personalized and compliant. While no one would suggest that there isn't enough content; the challenge of curating content that specifically explains the connection between the plan and the portfolio, and delivering it to the right audience and at the right time is one where technology solutions can play a significant role in elevating the client experience.

> "There used to be too little data, now there's too much data."

> "Everything is cobbled together."

These sentiments from advisors in our survey describe the current status of compiling reports and educational content for their clients. Throughout the financial planning and investment management processes, advisors rely on these deliverables for prospects and clients. Whether it be a proposal, the financial plan, IPS or supporting materials for facilitating a complex conversation, content creation and distribution is one part of an advisor's job that needs improvement. For the advisor to do this, they must research and pull from multiple sources and recreate charts and presentations, which is time consuming and unsustainable.

A related challenge is advisors' responsiveness during a significant market event. Proactively communicating to clients is a critical capability for increasing the probability of success in the overall financial plan. Advisors that are not well-positioned, either through experience, technology or both, to respond effectively to shifts in the market are at risk of losing their client's trust and confidence. Advisors are aware of this risk and on average, may spend three or more hours responding to clients after a market event.[1] To improve this experience for the advisors, platforms must be able to curate the appropriate content for each client at the right time and be able to deliver through their preferred means of communication with minimal intervention by the advisor. While there are tools available to accomplish this, integrating them into the main platform or consolidating the capability into larger platforms is lacking.

Setting Client Expectations and Connecting Results with Goals

A key stage of client engagement is the discussion of portfolio performance – the "how am I doing" question. Performance benchmarks have evolved – they are no longer solely based on index or comparable investment returns – and firms' reporting solutions must evolve too. Client discussions about portfolio performance now incorporate personal values and goals in addition to traditional performance measures. Expectations are also set earlier in the advisor-client relationship, sometimes even before becoming a client. Two key tasks for an advisor seeking to establish a long-term client relationship are understanding what those benchmarks are for each client – progress towards goals and/or return-driven – and connecting the investment results with those benchmarks. To do this, an advisor needs tools that clearly identify their value proposition and help them connect this value with the client's personal benchmarks throughout the stages of their relationship. For instance, an advisor who offers a unique value in managing performance with investment vehicles targeted to post-retirement goals, needs accurate performance reports coupled with educational content to explain the specific performance metrics used in this situation. The content in this example is key to connecting results with a client's expectations and ideally, is woven seamlessly into the reporting solution.

Why Today's Technology Solutions Still Miss the Mark

Technology solutions have come a long way in improving operational efficiency for firms providing an integrated planning and investment experience to clients in a relatively short amount of time, yet still fail to address all the needs of their advisors in providing those services. What are the drivers of these gaps, and can the industry fill them with the next generation of technology solutions?

1. Optionality is a double-edged sword and benefits for platform consolidation exist
2. Advisors Hesitate to Adopt New Technology
3. Integration Capability Falls Short of Needs

OPTIONALITY IS A DOUBLE-EDGED SWORD AND BENEFITS FOR PLATFORM CONSOLIDATION EXIST

Firms have more access to better technology tools than ever before, making it easier for them to build customized platform configurations and create more workflow efficiency. However, making technology decisions in a "point-to-point" fashion means that firms have longer and more complex decision-making processes as they juggle managing multiple vendors and integration points. This complexity grows more challenging for larger organizations seeking scalable enterprise solutions that check all of the boxes for advisors with a wide range of needs. While a significant number of firms are still stringing together multiple tools, the common thread of advisors wanting easier transitions between workflows and easier data entry in tools suggests there are benefits from platform consolidation at the vendor level. A common configuration for firms that we see is integrating a core financial planning platform with a combination of investment management platforms to handle the bulk of the workflow. Options within the core financial planning platforms boil down to a handful of market leaders, making the decision process less time consuming. Though specialty financial planning platforms are growing in adoption, advisors often use these to handle more complex planning cases as opposed to solving integration pain points. Our survey results confirmed that core financial planning platform adoption was high though proprietary technology, referring to customized Excel spreadsheets, was also mentioned with some frequency.

While the entire financial planning process can be completed mostly within one core platform, a challenge unique to enterprise firms is the use of different styles of financial planning – cash-based or goals-based – with clients. Most financial planning platforms excel at only one style; leaving firms in the position of having to adopt multiple solutions. However, change is underway as new entrants in this space allow for advisors to use both styles within the same platform. Consolidating the financial planning platform options is a big advantage for enterprise firms working to scale their operations.

While solutions for financial planning have spanned the entire process, popular solutions for investment management have targeted individual steps in the process, making for a more complex decision-making process to construct a comprehensive technology solution. These "point" solutions typically fit into four categories:

- **Investment Policy Statement (IPS) Generation** – The IPS translates the objectives of the financial plan into an actionable investment strategy. One of the main components of an IPS is the risk profile and while platforms for determining a risk profile are plentiful, the actual generation and recording of the document are not as widely available. IPS generation also struggles with householding – creating guidelines for the overall management of a client's investments and targeted guidelines for individual accounts. For instance, in declaring a time horizon, a client may have multiple time horizons coinciding with different financial goals.
- **Portfolio Construction** – Tools in this category address the Asset Allocation and Security Selection steps of the process. Specific capabilities include market research, investment analytics, mean-variance optimization and portfolio stress testing. Within this category, it's possible an advisory firm may have multiple solutions.
- **Implementation** – This category includes digital account opening tools that facilitate the firm and custodial paperwork process as well as trading and rebalancing platforms.
- **Portfolio Accounting** – These tools include account aggregation, portfolio accounting and client portals, representing another key area where the ability to facilitate views and management at the household level is an opportunity for firms.

"Point" solutions are common with our surveyed advisors. Our survey results for investment management tools reflected the options available in the market and indeed showed there wasn't one clear winner for solution providers. This is where platform consolidation can be a game-changer for firms, making it possible to decrease the complexity of managing and integrating multiple platforms.

> Successful platforms that consolidate these functions need to maintain the flexibility of "point" solutions while providing the depth of integration that achieves data consistency and workflow efficiency.

ADVISORS HESITATE TO ADOPT NEW TECHNOLOGY

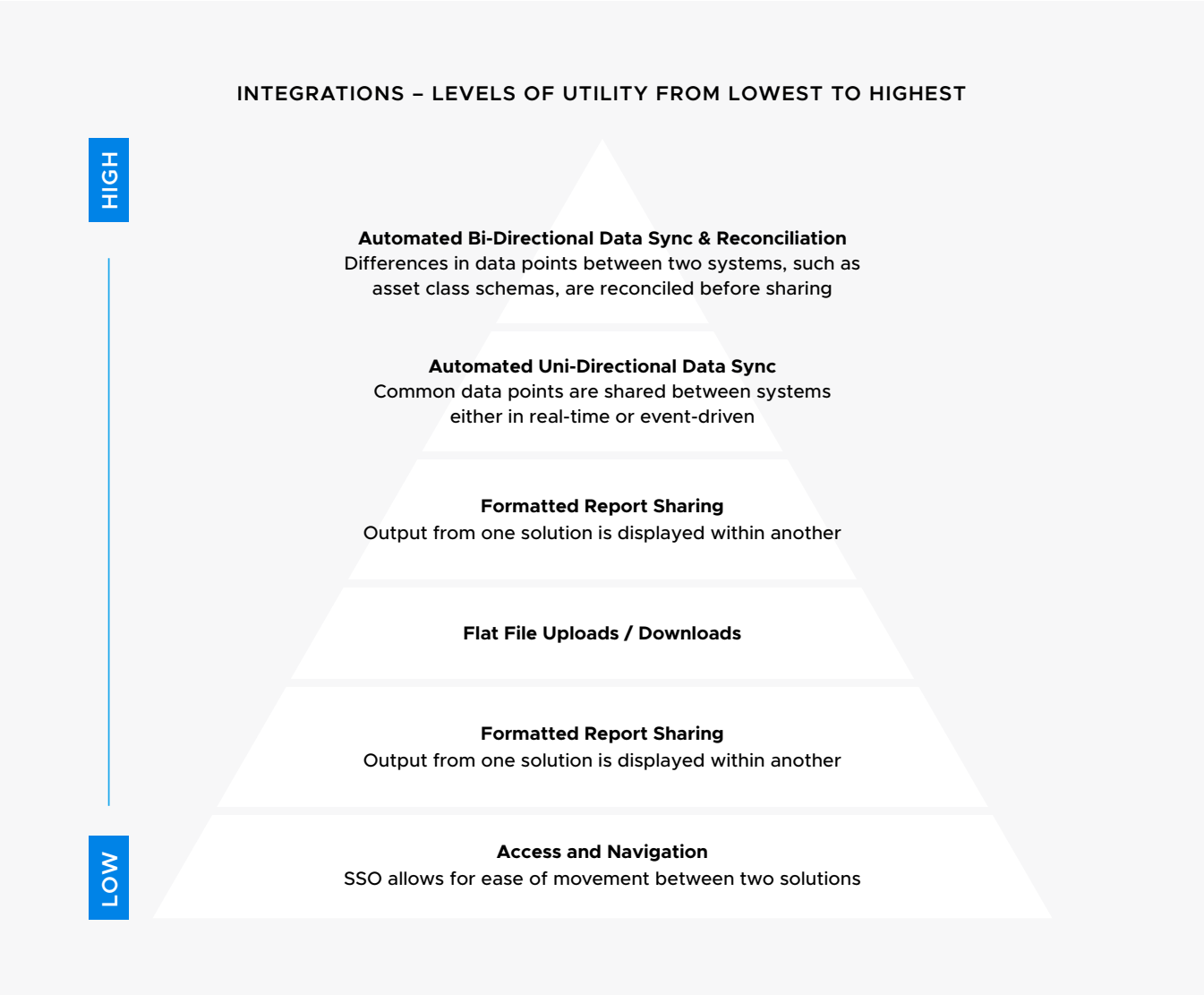
The apprehension towards adopting new technology platforms is perhaps the biggest obstacle facing larger organizations trying to offer a scalable solution that meets the needs of a diverse group of advisors. For the financial planning workflow, most firms we interviewed have one technology solution. For the investment management workflow, that same firm has two to four technology solutions. This means an advisor within the firm must learn and manage up to five technology solutions. Even with highly functioning integrations, this is a time-consuming process. As one advisory team in our study described it, "Adoption is the new innovation." Their struggle wasn't selecting a configurable system of platforms for their needs; it was getting their advisors to adopt these solutions.

As a change management issue more than a technology issue, firms need to spend time developing their desired state of process workflows for financial planning and investment management and evaluate how their current platform configuration is performing these workflows.

Engaging in a gap analysis is a helpful exercise to determine where improvements between the current and desired states may lie. This can result in implementation of training protocols as well as new solutions entirely. Considering the consolidation of platforms could further unlock efficiencies with execution, maintaining data consistency and staff training.

INTEGRATION CAPABILITY FALLS SHORT OF NEEDS

"Integrations" is a key capability that's quick to be mentioned as a solution for all of the workflow pain points described thus far, but the reality is that not all integrations are developed enough to yield noticeable results for firms. In an ideal world, all data points needed to create a financial plan and construct a portfolio would have a standardized format and flow bi-directionally with logic in place to resolve data consistency issues. This level of integration is critical to achieve an optimized financial plan to portfolio workflow. However, current challenges – manual data entry and matching asset class schema, suggest the current environment is not up to task yet.



What's Next? Tomorrow's Challenges

While all firms evaluate how to best solve the current pain points through technology, innovative firms are also considering the next challenges on the horizon. Financial planning and investment management continue to gain in complexity as concepts such as direct indexing, values-based investing and digital assets take hold in the mainstream. The next generations of technology solutions need to be flexible enough to solve immediate pain points, adapt to firms' evolving needs in plan and portfolio delivery and deliver on ever-increasing client expectations around the whole advisory experience.

HERE'S HOW NEW DEVELOPMENTS ARE SHAPING FIRMS' TECHNOLOGY DECISIONS

Direct Indexing

According to a recent F2 Research study with 20 firms representing $7T in AUM:

90%

Have moderate or high awareness of the opportunities and industry impacts of direct indexing

76%

View the most appealing benefit of direct indexing as portfolio customization at scale

Compression of trading costs and capabilities of trading fractional shares has expanded the accessibility of this investing concept from the UHNW markets to mass affluent investors. With customization, however, comes additional work in terms of maintaining investment research, trading and reporting. Advisors without scalable workflows that address this increased workload within existing technology solutions will miss the boat on direct indexing. While adoption of direct index solutions is nascent, tomorrow's challenges will not be far off. The effectiveness of these solutions in challenging market conditions like spiking volatility remains to be seen and advisory firms need to take these challenges into account when solving for their current technology needs.

Values-Based Investing

Building on index-based portfolios, adding greater personalization, broadly recognized as ESG or socially responsible investing, is not a new innovation in the industry, but is seeing greater awareness from retail investors. This consumer-led demand is driving advisors to seek technology solutions that help them deliver values-based investing strategies while maintaining operational efficiency of their current planning workflows. Adding to this complexity is the evolution of product availability for "investing in one's values" from broadly reaching funds to investments that target specific values. Advisory teams that can leverage technology solutions to address not only the growing demand in values-based investing, and deliver the precision investors are seeking, will be well positioned to capture and lead the market.

Digital Asset Management

While cryptocurrency and bitcoin may be the more readily recognized buzzwords, digital asset management describes the broader investment concept and associated workflows that advisors need to think about as they assess their tech readiness for the future. Digital asset management is arguably not new, but like values-based investing and direct indexing, digital assets are now becoming more mainstream which means advisors need to prepare on how and if they offer planning services for these assets.

For advisors evaluating technology solutions, digital asset management presents unique challenges to consider. First, the digital asset landscape is complex and rapidly changing. For example, in cryptocurrency, Bitcoin may be the market leader by far, but according to CoinMarketCap, there are over 10,000 currencies available for public trading. The time required by advisors to follow these markets and educate themselves enough to advise prudently on investment decisions is significant. Advisors will need solutions that educate them on the characteristics of these investments and help them stay informed on the latest developments. A second unique challenge for advisors considering technology solutions for managing digital assets is building in flexibility to stay on top of changing compliance requirements. While cryptocurrency is widely considered a commodity, there is debate over whether it is a commodity or a security and this has implications for how it is regulated.

Conclusion: How Can Firms Respond?

As the technology innovates and evolves, firms don't have to sit back and wait and see what happens next. There are five actions firms can proactively take now in order to establish a technology stack that will help them deliver an appealing client experience and demonstrate their value over the long term.

Voice Their Needs

Advisors should make the pain points they are experiencing now and their vision for future capabilities clear to their vendors. Technology providers plan their product development roadmap based on what clients want most.

Get Comfortable Talking Integrations

We've seen the number of platforms an advisor must use to complete a goals-based financial plan and personalized investment portfolio increase. The current situation is untenable. Integrations and platform consolidation will drive optimization moving forward and firms need to understand what data needs to be integrated and how it needs to be integrated.

Define and Refine the Client Experience

Advisors need to define their client experience in the context of matching clients' value of financial planning and investment management with their platform capabilities.

Develop a Technology Roadmap

Putting a plan in place will help firms stay on track and make strategic technology investment decisions more easily and effectively.

Prioritize Platform Capabilities

Advisors need to evaluate platform capabilities and prioritize their importance based on its value proposition. Capabilities that should be taken into account include:

- Household level portfolio construction and rebalancing
- Data consistency and integrity
- Real-time data and ability to trade intraday to facilitate responses to market events
- Consistency among microservices or apps within platforms

DEMONSTRATED TRACK RECORD OF INNOVATION

> There's no indication that the changing wealth management landscape will slow down. It's only a matter of time before the next new development seeks to disrupt the WealthTech ecosystem. Advisors who are already ahead of the curve with integrated or consolidated platforms that solve their current pain points will be ready for the next twist. For the rest, the time to catch up is now!

Sources

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The Hierarchy of Integration - https://www.f2strategy.com/insight/hierarchy-of-integration

Direct Indexing Shows Promise, But Wealth Management Industry Not Yet Ready to Take Advantage of It - https://www.f2strategy.com/insight/direct-indexing

Questions?

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