

## CASE STUDY: RIA - Mutual Fund/Private Wealth Manager

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### SITUATION

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A Registered Investment Advisor with AUM of \$7B managing a large mutual fund (over \$4.5B), numerous separately managed accounts (SMA's), and hedge funds needed to upgrade their investment operations environment. Their existing environment included outdated technology and inconsistent controls related to reconciliations and verification of data. Due to this, the operations team was challenged to appropriately manage the required controls surrounding the data across various investment products including over 2,500 SMA's. Senior Management acknowledged the deficiency and reached out to Smonik to provide a series of reconciliations, primarily related to cash and positions, however, due to the flexibility and rich functionality of the Smonik tools, the scope was broadened to include data verification, data enrichment and analysis.

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### CHALLENGE

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There were many challenges to implementing this asset manager right from the start. With the recent addition of a new COO many, much needed, changes were underway. Upon commencement of the implementation the priorities were shifted almost immediately as an urgent need surfaced to address commissions being charged to clients. Two, somewhat related yet independent, projects were born. First, a daily control was required to check the commission charged per transaction to the commission amount that should have been charged per the account-specific agreed upon commission schedule. If the account was overcharged, any overage would need to be reimbursed. A second request was also made regarding commissions, which was to produce a pro-forma commission revenue projection based on different commission rate schedules. Management was attempting to assess the impact to firm revenue based on different commission rates.

The next priority required adding a control whereby security transactions were monitored to see if any employee, or related, accounts were transacting in "Restricted" securities. The firm's Investment Committee would from time to time designate certain securities as "Restricted". This meant the security could not be traded by any employee, or employee-related, account during a specific Restricted period. Trading found to violate this policy needed to be flagged and reviewed by management.

In addition to implementing a tool for automated reconciliation and data verification, a new trade management system was simultaneously being implemented. The need arose to perform a reconciliation each day to ensure the data being loaded to the trade management tool agreed to the existing portfolio recordkeeping system. This lot-level reconciliation posed a challenge due to the volume of lots to be reconciled.

With multiple systems you quickly identify the need for consistent master-level data. With securities processing it becomes essential to keep static data the same across every system; sourcing it from the

same repository if possible. When it was noticed that data such as security identifiers, descriptions, etc. were not consistent across systems, or missing, a process was required to populate this data from one source across all systems.

Two underlying challenges across all of the reconciliations were the volume of data being processed, and/or reconciled, and developing efficient views for the large amounts of data. Almost 2 million records per day are required to be processed/reconciled and they need to be completed timely. Trying to review large amounts of data, across over 2,500 accounts, requires up-front planning and flexibility with reports, dashboards and real-time views of the data.

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## SOLUTION

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Smonik entered into a software license and implementation agreement with the asset manager in July 2017 to implement a series of reconciliations. Initially, most deliverables were for reconciliations related to positions, cash balances and cash transactions between internal systems, administrators and custodians. However, once the implementation began, the priority changed to focus on the commission analysis. Utilizing the powerful data transformation logic in Smonik, a process was implemented where security transactions are loaded to Smonik daily and a re-calculation of the commission, per trade, is performed. The tiered commission schedule was created in Smonik and a reconciliation of the actual commission charged versus the re-calculated commission is performed.

The client was then trying to determine the appropriate commission rates to be charging their investors. Again, Smonik was used to run models depicting the impact on overall commission revenue at various rates. Not only was Smonik able to handle the commission schedule calculations, but the analysis spanned multiple years, resulting in very large volumes of data. To complete the analysis Smonik quickly developed reports to display both summary and detail level comparisons.

Upon completion of the commission analysis focus turned to another control issue for the client; monitoring restricted trades. Periodically the client's Investment Committee will designate a security as "restricted" for a specific date range. During these dates no employee, or employee related account, is allowed to trade in this security. Working with Smonik, a process was created where securities deemed to be restricted, and the corresponding restricted dates, are maintained within a table in Smonik. Security transactions are loaded daily and evaluated to see if they meet the criteria for a restricted trade. The process is monitored by specific staff at the client and available for management to review. An on-line function is utilized by the users and managers to both review, and sign-off, on each day's reconciliations.

To help ensure the proper loading of data from the existing portfolio recordkeeping system into a new trade management system a daily security position and cash balance reconciliation was implemented. This reconciliation had to be performed at both a tax-lot and position level; which added complexity to how the data being imported was configured. Even with the large volume of lots/positions to be reconciled, Smonik completed the reconciliations timely and accurately.

A security position and cash balance recon, as well as a separate cash activity recon, were also implemented where positions and transactions from the internal recordkeeping system are reconciled

to files from 21 different custodians. File receipt is completely automated and monitored in Smonik's Control Center; the file acquisition dashboard. Unmatched items and recon breaks are effectively managed using approval functionality, adding notes and an extensive cross-referencing capability.

In addition to the various reconciliations and data verifications deployed using Smonik, a process was also implemented to import security master level data from Bloomberg. A straight-through, completely automated, process was developed to request specific data characteristics (such as CUSIP, ISIN, Sedol, Issue Country, etc.) for a file of symbols/security identifiers. Bloomberg fulfills the request and returns a completed file, which is consumed by Smonik. Then, using Smonik's data management tools, the data is formatted according to client specific requirements, and saved to a folder where downstream systems can access it. This process not only saved significant time manually managing security master level data but also added significant controls.

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## BENEFITS

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The primary benefit of implementing the Smonik tools to this asset manager include the addition of consistently applied controls. The various reconciliations and data verifications described above have significantly improved the control environment while also making their staff more efficient. The level of true partnership between Smonik and the client prompted the COO of the asset management firm to quote, "Thank you so much for all of your hard work. You are terrific! We so appreciate our Smonik partners."