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System Provides Control Over Money Managers

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The growth in the use of external money managers by foundations, endowments, and pensions has been accompanied by a need for greater visibility into sub-advised accounts. Unfortunately, technology hasn't kept pace.

While the externally managed and sub-advised industry has ballooned to \$3.5 trillion dollars in assets, organizations have lacked effective controls over their external money managers.

"As the market has grown larger, there's never been a recalibration to provide for optimal structure," Allan Chiulli, CEO of UAT, a systems provider, told Markets Media.

The UAT system addresses this by providing a real-time communications network between sub-advised platforms and their external money managers.

"The many-to-many connections between institutions and money managers can be overwhelming," said Chiulli. "With our system, institutions can be connected to multiple subadvisers, and subadvisers can be connected to multiple institutions, by a single physical connection to our data center."

The system also provides a real-time, rules-based analysis of the expected market impact of all money managers in order to assign discretion over execution of an order to the money manager or sub-advised platform.

"The technology has never existed to provide real-time transparency across an entire investment platform, the external money managers, the underlying accounts or funds and their holdings and activity," said Chiulli. "Our system allows you to view debt, equity and derivative exposures across a model portfolio or an entire program."

Technology has also never existed to provide real-time oversight, yet institutions have a fiduciary and/or regulatory obligation to implement systems, policies, and procedures to properly supervise trading activity and prevent violations by external money managers.

"Existing SEC rules require that you properly supervise assets

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—Allan Chiulli, CEO, UAT




and prevent violations, and while you can outsource money management, you can't outsource supervisory responsibility," said Chiulli.

The UAT system provides real-time oversight through a centralized, real-time pre- and post-trade compliance platform, which identifies and prevents transactions by external money managers that are prohibited, violate regulatory rules, or violate account restrictions.

UAT helps to properly control trading costs incurred by external money managers, which can result in tens of millions of dollars annually in unnecessary costs for larger externally managed or sub-advised platforms.

"There's been a bifurcation of trading into high touch and low touch," Chiulli said. "High touch orders requires a person to be involved, but the fact is that many low-touch orders are routed electronically to trading venues with little or no trader intervention, yet the institution is being charged commissions."

UAT's HiLo Engine enables low-cost trading of easily executed all-electronic orders, creating an opportunity for 5 to 8 basis points in annual savings at organizations that utilize external managers.

"The HiLo engine acts as a receptacle for capturing orders and determining whether they're high touch or low touch," Chiulli said. "If it's high touch, it's sent to a trader, but it routes most of the order flow to low cost execution centers." 



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