BondIT's automated portfolio construction solution helps put customers first

BondIT's Adrian Gostick speaks to Hubbis about how his company's algorithmic bond portfolio solution enables advisors to boost their productivity through automating portfolio construction and related processes in fixed income investments.

Executive summary

BondIT was founded to address complex and inefficient processes in fixed income investments, and inconsistencies in recommendations to clients who are often underserved in terms of having customised investments relevant to their particular profiles, goals and constraints. With BondIT's machine-learning algorithms, an advisor can now deliver a customised fixed income investment portfolio to a client in a matter of seconds.

BondIT provides a SAAS solution to help financial institutions - private banks, fixed income brokers and institutional asset managers - build and rebalance fixed income portfolios with algorithm-optimised solutions tailored to individual client requirements and investment parameters.

Powered by machine learning, the BondIT system helps fixed income advisors make specific investment recommendations, which can enhance client engagement and accelerate trade flows, so that missed opportunities and sub-optimal, inconsistent recommendations become a thing of the past.
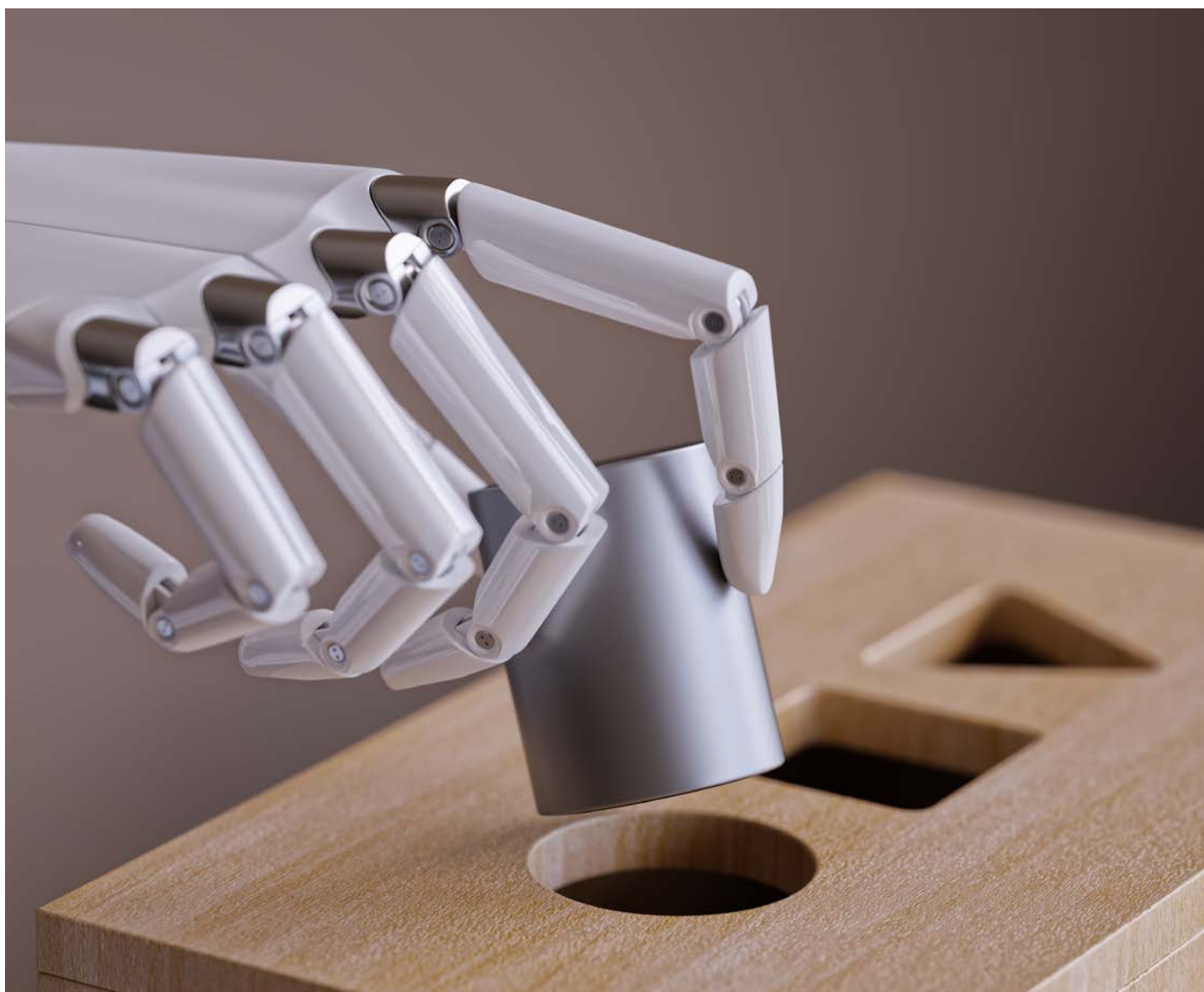
BONDIT'S MANAGING Director & Chief Revenue Officer Adrian Gostick believes that most private banks are presently not really putting their customers at the heart of matters in wealth management, and a much better and more efficient job could be done in terms of helping them invest their money.

According to Gostick, current processes in fixed income investments are still fairly complex and inefficient. Advisors can be inconsistent with trade opportunities and recommendations, while clients are often underserved in terms of having customised investments in relation to their particular profiles, goals and constraints.

In addition to wealth management, BondIT also focuses on the institutional asset management space, where managers are facing pressure from the trend of clients moving towards passive investments and the impact this is having on fees paid. Gostick says: "People have been running active funds, everyone is now looking at how they can use technology to automate the investment processes to reduce the costs. They've done it on the equity markets before, and now they're looking at the fixed income markets."

"All the large asset managers are trying to build teams, they are all trying to build solutions on how technology can be used to automate the fixed income investment process. With increasing availability of data, greater computing power, and new technologies such as machine learning, we will see increasing automation of the fixed income investment process."

Current portfolio building processes

He shares an example of what typically happens when a client approaches a bank. "Let's say,

ADRIAN GOSTICK
BondIT

you are a high net worth (HNW) individual, and you go to a private bank today."

"You tell the bank: I've got five million dollars I'd like to invest into the fixed income market; I'd like to invest in bonds. I'm looking for a certain yield, let's say five percent or six percent. There's cer-

tain geographies or currencies, or types of bond that I'm interested in and I say, please can you build me a portfolio?"

"So, the bank will typically come up with a portfolio by working within their list of approved bonds," Gostick continues. "They'll have an approved universe of bonds, perhaps a thousand or a few thousand instruments. Very simply, they'll look through that and filter ideas. Even in sophisticated banks, we see them looking through PDFs to identify bonds that meet the requirements in terms of the right currency and ratings and so on. And then they'll equally weight

those bonds and come up with a portfolio, and present that to you."

"That process hasn't changed in decades. It's very suboptimal in terms of not getting the customer what they need," Gostick observes. "And, it also takes a long time. Typically, that process can take several hours."

A customised fixed income investment portfolio - in seconds

Using BondIT's machine-learning algorithms and intuitive user interface, an advisor can deliver a compliant, customised fixed income investment portfolio to a client in a matter of seconds.

BondIT provides a SAAS solution to help financial institutions (private banks, fixed income brokers and institutional asset managers) build and rebalance fixed income portfolios with algorithm-optimised solutions tailored to individual client requirements and investment parameters. Powered by machine learning, the BondIT system helps fixed income advisors make specific investment recommendations, which can enhance client engagement and accelerate trade flows, so that missed opportunities and sub-optimal, inconsistent recommendations become a thing of the past.

Gostick explains: "The whole proposition of what we do is around idea generation. If you want to build a portfolio, if you want to come up with some fixed income investment ideas or rebalancing ideas for a portfolio, we use data and machine learning algorithms to come up with those ideas."

The company

BondIT was established in 2012 to tackle the process of building fixed income portfolios and to find solutions for the bond market. 80 percent of its focus has been in the wealth management space, targeted at organisations building portfolios for individuals.

The company comprises 35 people globally, based out of Singapore and Hong Kong, with the bulk of its team in Herzliya, outside Tel Aviv. Most of the company's clients are located in Hong Kong, Singapore and the U.S. BondIT's expertise spans investments, data science and machine learning, and its teams combine market experience from fixed income experts with technical knowhow from researchers and developers. Whereas previously, fragmented data

and limited tools and capabilities made it difficult for portfolio managers to compile meaningful, customised investment advice for each individual client. "We spent three or four years perfecting the algorithms building the first version of the product," says Gostick.

How is it done?

Basically, he says, "What we do is we integrate data. So, we have bond reference data, bond pricing data, we can also look at an organisation's proprietary data - research recommendations, loan to value figures, product risk ratings - and we bring all of this data together on the organisation's approved universe of bonds, and we set goals and constraints for the portfolio."

"So, I could say, for example: I'd like to get a six percent yield, I'd like to have a single A rating for the portfolio, I don't want any sub-investment grade bonds, I only want U.S. dollars," Gostick explains. "You can become very granular around the types of bonds, as granular or as broad as you like. And then we press a button to say go build the portfolio, and about 30 seconds later we'll come up with an optimised portfolio."

"And," Gostick continues, "What we see by doing comparisons with the private banks and how they build portfolios today versus how we do it using data and algorithms, is that not only can we build the portfolio in a few minutes versus a few hours, the quality of the portfolios is better for a given level of risk."

"Typically, we can see 40, 50, 60 basis point improvements in annual yield and again, by using data, we can make sure we comply 100 percent with the requirements of that customer in terms of ratings, currency, whatever other constraints they want to invest within."

Key Priorities

Focusing on growing its core markets in Asia, such as Hong Kong and Singapore, and in China via strategic partnerships to develop services and solutions for the Greater China market. Partners include financial data provider Wind Information in China, and conglomerate Fosun.

Accelerating its activity in the U.S. markets, which employ more advanced electronic trading that creates the data needed to drive BondIT's systems, and provides access to real time inventory.

Major new version release of BondIT's application in next quarter, based on customer feedback in terms of building and rebalancing portfolios. The new re-engineered application will improve workflows, and is written on an architecture that allows rapid scalability, as well as more security and agility bringing new capabilities, new features and expanding functionality.

Everyone wins

In addition to building an investment portfolio that satisfies the customer's own investment profile and goals in a matter of minutes, compared to the current norm of several hours, the private bank utilising the BondIT system has an advantage in terms of scalability.

"For an advisor, it means being able to serve more customers, or come up with more portfolio ideas than he's able to do today." Integration with core banking systems

is another important consideration: "Once you have portfolios within BondIT, the BondIT system can sync with the core banking system," says Gostick. "Typically in Asia, we see systems like AVALOQ or Temenos. In Australia, the customer we are working with is using SimCorp Dimension. We can sync with these core banking systems, and then bring all the portfolios into BondIT."

"After we bring those portfolios into BondIT, we can then set alerts and monitor them. An advisor can set a price alert, for example in case of a price or a deal moving to a certain specified amount, or if there is cash accumulation or a bond maturing or being downgraded. You can monitor the whole organisation's customer base and use algorithms to come up with ideas for rebalancing or to suggest switch trades."

"As an example, if you have a portfolio where a bond gets downgraded and falls outside of the mandate of that investor, we can then use the algorithm to come up with ideas of something else to switch into so as to bring the portfolio back into line."

In terms of efficiency, the BondIT system holds the promise of a vast improvement over previous methods, in terms of proactively monitoring and coming up with ideas on all portfolios within a given organisation. The current reality is that it is simply impossible for advisors and managers to manually monitor all the portfolios for all customers with any real efficiency.

"A typical private bank would have tens of thousands of portfolios," says Gostick. With BondIT, "They can monitor all of their customer portfolios, rather than looking at maybe the top five or ten percent, which is what we typically see today. Many customers

are ignored because their portfolios are not monitored properly. They are being offered portfolios that are not optimal in terms of the yields they can get for the risk that they are taking."
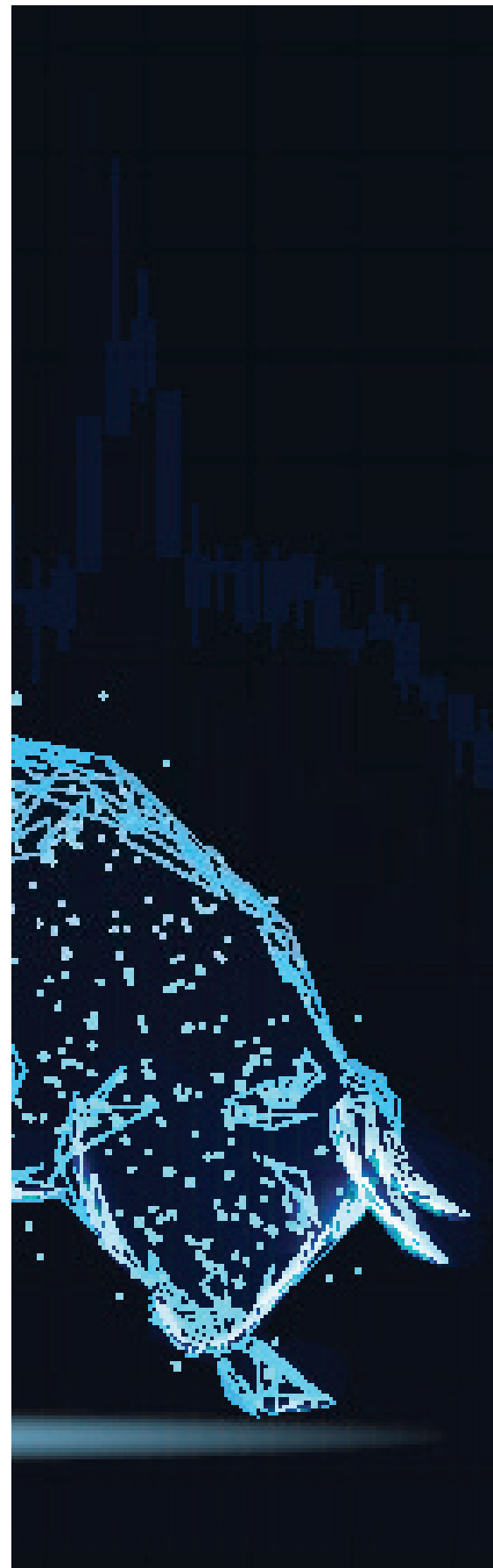
Another important advantage that the BondIT system offers for the financial institution is around compliance. "Institutions have a duty, a fiduciary responsibility, to put the customer first," says Gostick. "We help their teams of advisors to give consistent advice. Because some advisors give much better advice than others, this can cause compliance issues in an organisation. By bringing everyone up to an equal playing field, we are helping them with consistency."

Current activities
BondIT started going to market with its product in 2016, and in this time, Gostick says, the company has worked with top-tier private banks, including in-place pilots with projects either in the process of moving from pilots into full commercial implementation, or already been converted into full implementation.

"For example, Bank of Singapore is one of our early partners that we continue to work closely with to become increasingly integrated in their systems and workflows."

In Australia earlier this year, BondIT signed FIIG Securities, one of the largest fixed income broking companies in the country, on as a client. Gostick says, "They have about AUD10b in assets under management (AUM), and about six thousand customers in Australia. They're going through a big program to upgrade their technology. They've decided to use BondIT for all of their front office users to bring efficiency to daily activities including new portfolio construc-

tion, investment idea generation, relative value analysis, portfolio monitoring and portfolio optimisation for their customer base."

According to Gostick, the company made a 'conscious decision' to focus its activities in Asia. "We've built some good partnerships, in particular with two Chinese institutions. In 2016, we put a strategic partnership in place with financial data provider Wind Information in China, and towards the end of 2017, we entered

a workstation into the advisory community. We're also having conversations with some of the major financial institutions."

In the U.S., he says, organisations provide platforms into the advisory space, and some electronic trading venues have workstations given to the advisory space to try and get the advisors to provide 'flow' into the trading venue. By working with these organisation BondIT can scale business quickly in the US market.

to work with these platform providers to integrate into what they have today, which will get us to a large number of advisors very quickly."

Gostick says BondIT's current activities are less advanced in the U.S. than in Asia; however, "The conversations are very good and, the customers there are making more of an effort to try and find solutions around using data and new technologies to build fixed income portfolios and come up with investment ideas than we're seeing in Asia. Here in Asia, at this stage, some customers see what we do as more of a luxury than a necessity."

Other priorities

Of the company's other priorities, Gostick says: "Until quite recently our core focus has been on selling or partnering with organisations so that they use our actual application. The real value of the company is what I call the 'engine': the algorithms that help you build, or improve, or come up with investment ideas, on a portfolio. Our application provides workflow capabilities that the banks, like Bank of Singapore, are using. FIIG Securities in Australia will also use our application."

> ## "Here in Asia, at this stage, some customers see what we do as more of a luxury than a necessity."

into a strategic partnership with Fosun, a large Chinese conglomerate that focuses on investments in three areas: health, wealth and happiness."

"Both these companies invested into BondIT, and from our perspective, they are both great partners in terms of helping with distribution and with data, particularly for the mainland China market."

'More advanced' U.S. market creates data to drive our system

The next big priority for BondIT, says Gostick, is to accelerate its activity in the U.S.

"The U.S. is a very big market, more advanced market than Asia; there's more electronic trading which creates data, which is what we need to help drive our system," he explains.

"We are working with one of the largest electronic brokering companies in the U.S.," says Gostick. "And we are working with one of the major electronic trading venues, and that provides

APIs For Integration

"There are other platform companies, technology companies, that advisors use. What we see is typically these platforms can be provided to maybe tens of thousands of advisors across multiple organisations. A core strategy for us in the U.S. is to allow an organisation to access our engine via application programming inter-

> ## "The client can come in and use technology to understand what portfolio to build, and then transact that at a much cheaper level through an electronic broker."

faces (APIs) so that they can build into their platform the ability for someone to build a portfolio, or to access the app engine to improve an existing portfolio."

"We will achieve expansion and growth in our U.S. business by allowing somebody to access our engine via these APIs. So we want

Major new release in coming months

"We will be launching the latest version of our application in the next one or two months," reveals Gostick. "This is not merely an incremental improvement on the application that we have today; it is a major new release that is a

bottom-up relook at a lot of the workflows, based on the feedback we've had from customers over the last two years."

"We've looked at a lot of the workflows in terms of how people are building portfolios, rebalancing portfolios, coming up with new ideas, and we've re-engineered a lot of those workflows to improve them," he continues. "But also importantly, the platform is written on an architecture that lets us scale much more rapidly; it gives us a lot more security and also a lot more agility in terms of bringing new capabilities, new features and expanding the functionality of the application."

Delivering on commitments
The final priority, Gostick says, is "Purely to just deliver on our commitments. We're rolling out with FIIG in Australia, and we've got pilots underway here. We've got live customers, so we are making sure we keep the customers happy."

The challenge for private banks
Gostick believes that the most pressing challenge for private

banks currently is to embrace more technology to help their businesses and to serve their customers better. "If the private banks don't adopt technologies and start providing better services," he cautions.

"Then you're going to see the client base shift away from private banking institutions into the electronic brokerages, because they'll use technology to provide the service that the private banks should be providing today."

He predicts: "You will see an increase in electronic brokering companies coming into the space who can use technology to help a HNW individual or even a retail customer understand what they should be buying, without having the requirements of human intervention."

"The client can come in and use technology to understand what portfolio to build, and then transact that at a much cheaper level through an electronic broker."

He also cites the differences in fee structures between electronic brokering companies and private banks as another factor that disadvantages private banks: "The

brokering company is paid on transactions, and the more automated and electronic they are, the lower those transaction fees tend to be."

"The private banking side, on the other hand, have relatively high fees, even for somebody who just wants to transact."

Technology as a survival tool
Gostick reiterates how technology can help private banks not only provide a better service for their clients, but ensure their own profitability: "If you look at a typical, regional private bank that's got USD100b AUM, probably 25 to 30 percent of that will be in fixed income. So let's say that's USD 25 to 30 billion in AUM: if all of that is in portfolios that are underperforming from what they should be doing by 30, 40, 50 basis points, you can see by allocating the funds properly - for the same level of risk and improving the returns - how even a private bank can grow their AUM just in the compounding effect of getting an extra half a percent on the assets that they manage." ■