The Decommission of POINT

January 2017
About a year ago, we learned that Bloomberg was to buy Barclays Risk Analytics and Index Solutions (BRAIS), which used to provide benchmark and strategy indices, portfolio analytics, risk and attribution models, and portfolio construction tools. As a result of that deal, the BRAIS intellectual property would be incorporated into PORT, Bloomberg’s multi-asset portfolio risk and analytics tools, and Barclays’s product, POINT, would be decommissioned.

Although it was no surprise that Barclays would want to sell its index business as part of its major restructuring, the deal sparked a big change in the investment management community, with about 200 investment managers across the world forced to make a big decision: transition to Bloomberg PORT or seeking alternatives.

And since Barclays announced it would end support for POINT 18 months after the deal closed on August 24, 2016, that decision has a tight deadline attached to it.

While certainly a headache for the industry, POINT’s decommission could be a golden opportunity for firms to reassess their data strategy, key business functionalities and the overall impact it may have on the future of performance measurement teams.
Introduction

Historically, portfolio managers have based their understanding of the return achieved, according to the choices they made regarding active exposure to risk factors. These managers have also been the sole users of fixed-income attribution systems and information. But in recent years, we have seen a shift in the need for transparency, not only by portfolio managers, but also by investors. While portfolio managers remain the primary consumers of the information, fixed-income attribution is becoming more and more geared toward clients, consultants, investment strategists and marketing teams. Accordingly, fixed-income attribution systems are seeing broader use across the enterprise.

Higher transparency requirements also mean more consistency and accuracy in the results, but how can the performance measurement providers achieve higher standards if the most widely used benchmarks for measuring the evolution of prices are not widely available anymore?

It is clear that the retirement of POINT will have a critical impact on the firms’ ability to support the business and investment process going forward and, as a result, many firms are reassessing front-office, fixed-income support. It is, therefore, a great opportunity for performance measurement teams to step in and become a strategic partner to the front office.

Barclays/Bloomberg Deal

- Deal closed August 25, 2016
- POINT will continue to operate for 18 months after the closure of the deal to help clients transition to other providers, including to Bloomberg’s PORT product
- Included in that deal was the intellectual property of POINT, Barclays’ portfolio analytics solution
- Barclays will, however, retain its quantitative investment strategy index business, with calculation and maintenance of its strategy indices outsourced to Bloomberg
- Bloomberg stressed ownership of the benchmarks and terminal sales
- Bloomberg will migrate most of the POINT functionalities and calculations to PORT
- Clients of POINT are currently reconsidering their future system landscape and whether to use PORT or other vendors for their risk analytics, performance attribution, portfolio management, scenario analysis, asset allocation and optimisation
The Chance to Change

When market structure changes, the need for innovation is greater than ever. The decommission of POINT gives firms the opportunity to take a step back and see if and where they can do things differently.

A recent Barclays POINT user survey conducted by Citisoft found that 80 percent of firms plan to initiate a search to select an alternative and 70 percent plan to do so immediately.¹

While some firms are looking at like-to-like replacements and might want to stick with Bloomberg PORT, others are considering a best-of-breed solution in the attribution or risk space and even possibly segregating the data as a firm-wide initiative toward data governance.

A best-of-breed approach allows the firm to identify specific functional needs and to select the best system available to meet those needs, but it also increases the size of the project drastically.

An all-in-one solution can allow the firm to address several problems at once while being very scalable, but it is unlikely that it will be the best solution across all functional needs.

It is paramount to understand the impact that the decommission of POINT will have on the business and investment process and thoroughly assess the current state of the firm before jumping on new shiny pieces of technology.

The Citisoft survey also revealed that risk analytics (92%), performance attribution (82%), and scenario analysis (75%) are the most used capabilities for POINT. But where do you stand?

Selecting the right technology partners and the best combination of fit-to-purpose solutions their needs is a complex task involving a lot of logistical and technical considerations. What are the weaknesses of the retiring system? What should be improved and what is left to achieve? How and who was using POINT? Is there any functionality that can be taken in-house?

Finding the best replacement option also means knowing what it is you want and need. Once this is done, it will be much easier to find the perfect match.

The Opportunity to Reassess Your Business Model

Choosing wisely when replacing an attribution tool is critical. If the models are comprehensible and the results validated and accurate, performance attribution contributes greatly to the investment management value chain.

The first question that needs to be addressed is: “Is it really necessary to calculate attribution for everything?” When it comes to fixed-income attribution, doing less is often best. If you are doing attribution for every single portfolio, but don’t actually need to, it might be a waste of technical resources—something you might want to put an end to.

Another consideration is the availability of market data and indexes. With POINT, the majority of the indexes are Barclays’ indexes, while the rest need to be sourced. The migration to Bloomberg will not solve this issue, so it is important to make sure that the market data will eventually feed into the system.

You also need to think about the audience. Who are the primary users of the system and output? The sole users of the system are not always the performance team. For example, the portfolio managers or, in some cases, employees from the marketing team have access to the system to retrieve content for RFPs. In this case, prospects might be asking for attribution breakdown that differs from the investment process. Does the system provide the flexibility to adapt to its different users and quickly switch the categorisation of assets and the breakdown?

And, finally, take a minute to think about what happens to the historical data. If you have been using POINT for a few years, you certainly have accumulated attribution results that may not be transferrable to your new system, or perhaps the new system won’t have the same level of breakdown. In that instance, it is important to reassess whether it is best to start from scratch or to bring historical data together with new data from your new system.
The Opportunity to Become a Strategic Partner to the Front Office

Any new project is a big opportunity for the performance team to step in and improve the value of its services. For fixed-income attribution, there is strong evidence that performance measurement teams should be considered a strategic partner, helping and supporting the front office.

First and foremost, fixed-income attribution is an oversight process. It is a management control tool that should be independent from the portfolio management team in order to accurately measure the risks and returns associated with it.

Performance teams are experienced in data validation and control and can perform quality control on the results. If the focus is on consistency and accuracy, it is only logical that the same desk calculates performance returns as well as attribution. Segregating the two can create discrepancies in the results, and investors are often presented with two different returns, one issued by a front-office tool and another issued by the middle office and validated by the performance measurement team. As clients are focusing on transparency, it is more important than ever to provide that consistency between performance returns and attribution.

The retirement of POINT and the re-evaluating of the business models create a golden opportunity to merge these responsibilities and empower performance measurement teams, to become the strategic business partners of the front office.

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Driver for a Unified Data Solution

Fixed-income attribution is known to be a data-hungry functionality. POINT covers the full spectrum of asset classes within fixed income and, subsequently, had the analytics to support them. With this single source going away, firms have the chance to reconsider their data strategy and aim to establish a more unified data solution. Firms have focused their search in two key areas as they are searching for alternatives: data and system functionality.

It is important to have a good data governance strategy in place that includes trusted and validated data coming into the system. Otherwise, attribution results can be skewed.

Some firms have already achieved this data governance through a central data warehouse that not only aggregates market data, index data, analytics and portfolio data, but also normalises and validates the data. For these firms, integrating best-of-breed solutions is going to be easier.

Decoupling the provision of index data and analytics from attribution tools provides a better alignment of the attribution results with the investment process. With the increase of multi-asset strategies where the benchmarks cover a number of index families, the idea of independent market data provisioning is making more sense.
Conclusion

The decommissioning of Barclays POINT is a source of frustration for the fixed-income community. Its looming retirement leads many users to opt for a like-to-like alternative as quickly and seamlessly as possible, but the lack of clarity around the takeover is creating uncertainty, and users fear that some critical functions will be severely impacted.

But in every market change lies an opportunity to reassess and rethink current systems. POINT’s decommissioning could be the chance to become more efficient as a firm.

Replacing risk analytics and performance attribution, the two most-used functions of POINT, is not going to be easy, but it doesn’t have to be a daunting task. Assessing the current state of the firm will help tremendously in choosing the perfect replacement system and, at the same time, improve data governance.

Involving performance teams will also help achieve better results: the growing complexity of measuring risks and associated returns means that some discrepancies can be found in the results, which subsequently alter the decision-making. Asking the performance measurement team to step in will ensure consistency between performance returns and attribution, and improve the overall performance and risk measurement functions of your firm.
Notes
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