FINASTRA

MEET THE FOUNDER INTERVIEW

ActiveAllocator

ActiveAllocator is a digital asset allocation platform with technology-enabled customized advice capabilities. It is the world's first portal that seamlessly integrates traditional, illiquid and alternative investments within portfolios. It helps investors analyze existing allocations, discover inefficiencies and create bespoke portfolios in minutes. Finastra sat down with Sameer Jain, Founder of ActiveAllocator to find out how the company was formed, what ActiveAllocator does for its customers and what is next on the horizon.

Sameer Jain,
Founder
ActiveAllocator

Sameer, please tell us a bit about yourself,
I grew up in India and immigrated to the United States. The typical immigrant story I guess. Prior to starting ActiveAllocator I had a 25-year international investing career within the financial services industry where I was a Managing Director on Wall Street. I served as Chief Economist at AR Capital and before that I headed Investment Content & Strategy at UBS Alternative Investments.

At UBS, as a capital allocator I was responsible for investment research and all illiquid investing including fund manager selection and due diligence across the platform. Prior, I headed product development & investment research at Citigroup Alternative Investments. Before that I was with Cambridge Alternative Investments and SunGard (System Access) where I travelled to over 80 countries for work across Europe, Asia, Middle-East and Africa. I was nerdy – but that was in my youth - and have written over 30 academic and practitioner articles on alternative investments with thousands of downloads at SSRN, presented at over a hundred industry conferences and have coauthored a book, Active Equity Management. I received multiple degrees in engineering, management, public administration and policy and am a graduate of Massachusetts Institute of Technology and Harvard University.
I received the Alfred Sloan Fellowship when I was a lot younger.
And subsequently another one which led to a Fellow of Public Policy and Management at the Harvard Kennedy School of Government for a year where I delved into the intersection of business government regulation and public policy.

What inspired you to start ActiveAllocator?
During meetings with over 100 broker dealer and Registered Investment Advisor firms I came to realize that people needed financial advice now more than ever. Financial firms can't provide quality advice to everyone profitably, few customers want to pay for it, and many investors don't trust financial advisors.

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Traditional forms of asset allocation advice are costly, impersonal and inefficient. We estimate that retail investors lose more than $400 billion annually in advisor fees and portfolio inefficiencies. This value destruction is both explicit in typical 1% or higher advisory fees charged and implicit in 0.5% or more asset allocation inefficiency. Moreover, these costs are in addition to other contracting frictions, product commissions and costs. To increase efficiency and serve a broader audience, advisors put investors in "model portfolios," which commoditize and marginalize advisor service and expertise.
Model portfolios also fail to adequately account for personal investment views, preferences and limitations.
Worse still, clients rarely know how inefficient their allocations really are and have no objective means to measure and value advisor performance.

How did you get into this business?
I left a pretty hot shot Wall Street job with the career, security and money that comes with such trappings. I figured there was this huge opportunity to reshape the wealth management industry by resetting advisor and investor expectations about investment management and asset allocation advice, including where the best advice comes from, what it should cost, and how it is delivered. I didn't and still do not see another firm driven by an authentic mission like ours' is: to increase expected returns for 33 million investors by eliminating the loss that's built into the way the financial advice and investment management industry is currently structured. I figured we could build something enormously disruptive where technology could remove the deadweight costs, one individual portfolio at a time.

How did you meet your co-founders?
I have worked with them for many years. We can complete each others' sentences in fact! Between us we have US, Middle East and Asia covered.

Give us a high-level pitch for ActiveAllocator?
Let's start with "How Inefficient is Your Portfolio?". ActiveAllocator is a digital asset allocation platform with technology-enabled customized advice capabilities.

What solutions does ActiveAllocator offer?
ActiveAllocator helps individual investors, financial advisors, and asset managers analyze existing allocations, discover inefficiencies, and create optimized bespoke portfolios - in 10 minutes, in 10 clicks and at 10 percent of the typical cost. ActiveAllocator allows users to

- aggregate investment accounts and holdings across 15,000 financial institutions;
- search, recognize and automatically map over 4 million financial products and securities to granular 50 asset sub-classes;
- compare and validate their own market views with capital market assumptions from 10 Wall Street firms;
- personalize investing preferences across 10 dimensions;
- optimize and construct bespoke portfolios; and,
- seamlessly execute rebalancing trade orders across a choice of brokerages.

What specific problems are you solving today?
I have long believed that affluent investors should consider intelligently adding alternative and illiquid asset classes to their portfolio. Until now there has not been a model to systematically allocate among a larger set of traditional asset classes and between traditional and alternative investments. The widely used assumptions used in Modern Portfolio Theory are often violated by alternative investments which can be less liquid, widely disparate in their characteristics and may have poor or inconsistently recorded historical performance data. We have developed a unique method and system for asset allocation that optimizes across virtually all investable asset classes, whether liquid or illiquid, traditional or alternative.

One can seamlessly combine over 50 sub-categories of hedge funds, liquid alternatives, alternative mutual funds, managed futures, private equity, private real estate, alternative credit structures, with traditional stock and bond classes in client portfolios. It is a novel, disciplined approach to understanding how an entire range of investments can be included in portfolios. It is a way for investors to consider all their investable assets in a unified framework and make informed, intelligent decisions about how much of each is appropriate for their objectives.

Our system builds on, and optimizes upon, what an investor already owns. In seconds it analyzes a client's existing portfolio on a forward-looking basis. Our algorithms are predictive rather than backward looking. We generate numbers and metrics and make recommendations to reallocate or add new sub-asset classes to complement and enhance existing holdings. An advisor can thus collaboratively generate an implementable client proposal for long-term strategic asset allocation.

And who are you selling to?

Our addressable market is large and growing but highly fragmented, served by thousands of firms in the form of asset managers, wirehouses, regional wealth management firms, independent broker-dealers and registered investment advisors (RIAs) and hundreds of thousands of advisors. In the U.S alone our prospective customers include individual self-directed investors, enterprise white label customers, a subset of 30,000 RIAs and 200,000 independent financial advisors at small and mid-sized broker-dealers, and advisors attached to employee model captive channels (i.e., community and regional banks, etc.). Outside the U.S. we are in trials with investment management firms, private banks and a very large insurance company in South Africa.

Our differentiators come from a combination of held-away investment accounts aggregation, translating financial securities held to appropriate asset sub-classes, providing ways for an investor to validate investment views with Wall Street on the fly, deep personalization, multi-dimensional optimization algorithms, as well as multi-brokerage execution at low cost. We have created barriers to entry and competition through

- our choice of advanced technology stack and proprietary algorithms
- our deep investment knowledge
- research driven investment innovation and intellectual property
- our ability to serve the sophisticated high net worth investor
- our intimate RIA and broker-dealer relationships
- innovative approach to active portfolio construction.

What are the biggest challenges you face when building with innovative technologies? How have you overcome, or are you overcoming these challenges?

We have multiple PhD's work on developing our system using modern technologies that befit a digital disruptor. Our key decisions to arriving at choice of technology stack included: security, maturity, stability and ease of development to quickly add new features in the future. So in describing our technology stack briefly, our server provides RESTful API and is based on the Django REST Framework.

This API easily supports B2B integration and allows for adding new 'clients' such as mobile apps. Our database is stored in PostgreSQL. Only relevant data is being saved, both for security and for performance purposes. The database can be easily tuned to support tens of thousands of simultaneous users.

Our entire server side (back-end) is written in Python. We base our security on strict standards implemented using common verified tools and libraries, which are frequently updated to protect our servers against new risks. We use SSL encryption, modern authentication standards, object level permissions and more to protect our users from malicious attacks.

On the client side, our web client is a single page web application based on the React & Redux stack. So, you can see we took prudent decisions, made thoughtful choices and haven't had technology challenges till now.

What have been your biggest lessons along the way?

I thought we had a category killer app and would compete head on with established financial institutions. I have enormous pride of ownership and I guess an outsized ego too! I quickly realized that its isn't about how good you are but about customer intimacy, the trust that established brands have with their customers and rather than be head on disruptive and competitive it was more sensible to be collaborative with incumbents.

Another painful realization has been how heavily regulated the financial services sector has been in the US. We went to the country's most prestigious ERISA law firm and got an opinion of counsel that provides a lot of comfort to our clients and prospective customers. The other learning was to, as the cliché goes, put ourselves in the customer's shoes in helping financial advisors move away from a traditional product provider orientation to becoming true investment counselors. We figured out ways to help firms attract and retain assets and grow their practices. We provided, for the first time ever in our niche, a way to utilize disruptive technology driven personalization and mass-customization.

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Anything you'd like to share with us on ActiveAllocator funding?
We took a decision early on and decided to postpone immediate gratification for larger gains. I decided not to dilute the firm by seeking VC funding. I have along with my cofounders invested our own capital – probably close to $2 million, not counting the cost of lost opportunity. A year ago we admitted some friends and family money too at a modest valuation of $ 8 million. I expect our valuations to climb by multiples of this as we execute on our plan and create revenue.

How do you see the future of your industry?
The future of our space will be shaped by a bunch of industry and macro trends. The WealthTech disruption from newer forms of digital advice and fulfillment platforms. From regulation-driven changes from rules intended to eliminate conflicts of interest in financial advice. Also, the birth of technology-driven personalization across many industries including in financial advice will be a huge driver. Another thing I see is the increased adoption of alternative investments by affluent investors.

At least in the U.S we see financial advisor migration to independence from wirehouses and captive channels. Pretty much across the board is the new propensity to buy vs. build in-house by mid-size financial firms; and of course, major technology shifts, including cloud-based services, usage of low cost and open source software development tools as well as partnering across the digital ecosystem through APIs - something we see reflected in our relationship with Finastra.

What's the most important thing you're working on right now?
In a startup I guess all things are urgent and important at the same time. Probably the priority remains product development as the edifice of our business is our intellectual property, our algorithms and further sharpening the technology infrastructure. Close on heels is go to market by extending our distribution foot print and creating specific country/ market asset allocation models, including for emerging markets. We also require early stage financing in phased manner to build upon our early success, invest in product development, in gaining market traction and demonstrating revenue growth.

What's next for ActiveAllocator? Any upcoming milestones you can share?
We've achieved much but I guess we can't sit on our laurels. Over the past two years we have formed our team, validated the market potential, built an enormously sophisticated end-to-end software product engine, developed valuable intellectual property, exhibited thought leadership, participated in industry events and have entered complementary product and partnering sales alliances.

We have had success with trial customers and are being used to manage large amounts of investor capital. We are beginning to attract industry attention and were featured by FT Partners, a leading FinTech investment bank, as an emerging WealthTech disruptor. We will continue to enhance our asset allocation product engine, develop complementary product alliances, expand our team, and invest additional capital to execute on our business plan.

About Finastra

Finastra unlocks the potential of people and businesses in finance, creating a platform for open innovation. Formed in 2017 by the combination of Misys and D+H, we provide the broadest portfolio of financial services software in the world today – spanning retail banking, transaction banking, lending, and treasury and capital markets. Our solutions enable customers to deploy mission critical technology on premises or in the cloud. Our scale and geographical reach means that we can serve customers effectively, regardless of their size or geographic location – from global financial institutions, to community banks and credit unions. Through our open, secure and reliable solutions, customers are empowered to accelerate growth, optimize cost, mitigate risk and continually evolve to meet the changing needs of their customers. 48 of the world's top 50 banks use Finastra technology. Please visit **finastra.com**

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