

Invest|Pro™ Fund Administration system

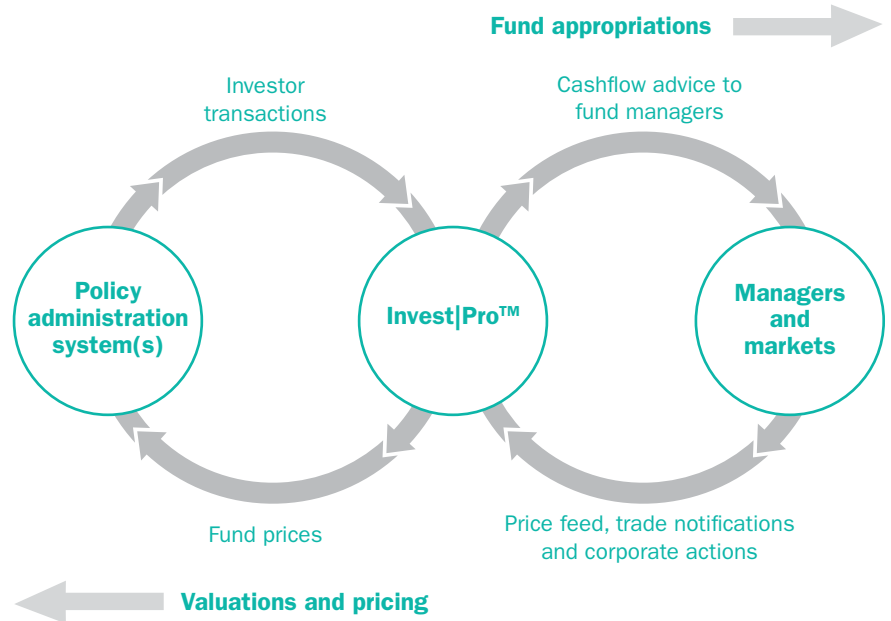
Unitised funds

Invest|Pro™ provides a fully automated solution for the fund administration needs of life companies which administer collective unitised funds. Invest|Pro™ is used by over twenty life companies across Europe to price unitised funds and manage the cash flows between the company's policy administration system, Invest|Pro™ and investment managers.

Key System Features:

- Push button solution for unit pricing;
- Unit matching;
- Fund accounts;
- Cash flow notifications;
- Full charges suite;
- Regulatory returns;
- Supports multiple fund structures;
- Comprehensive reports;
- Fully multi-currency;
- Strong controls with full unit pricing reconciliation;
- Box management;
- Native general ledger;
- Automated dealing functionality;
- Fully integrated with other business systems.

Figure 1. Utilised funds

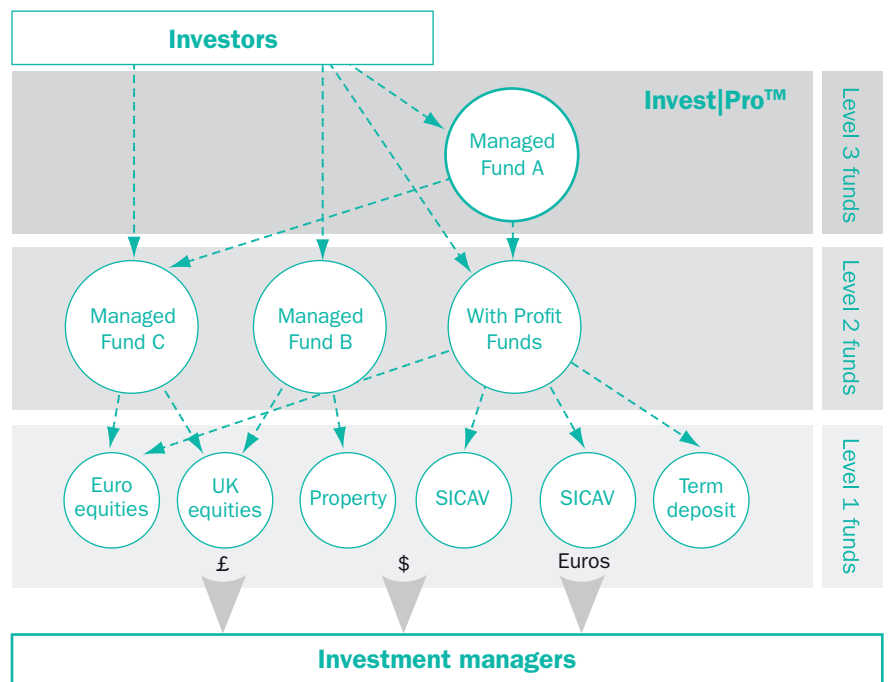


Tiered funds

Invest|Pro™ enables funds to be managed within a tiered structure. This means that a fund can have holdings in one or more lower level funds.

This fund of funds approach is the most efficient way of administering a large number of funds investing into common asset classes. It ensures consistent fund performance between funds with related investment strategies and separates the investment managers from the administration of retail funds. This also allows new retail funds to be launched in very short timescales without the need for seed capital.

Figure 2. Tiered funds



Unit Pricing & NAV Calculations

InvestIPro™ calculates the frequent unit prices for a fund. Security prices, corporate actions data and FX rates are taken from market data suppliers and InvestIPro™ uses this data to determine the unit prices of the level one (see **Figure 2**) funds. The unit pricing process then operates on a cascade-up approach from the level one funds up to the highest level funds. InvestIPro™ also supports a flat level fund structure or a combination of flat and tiered.

The following features are incorporated within the InvestIPro™ unit pricing process:

- Creation and cancellation basis pricing;
- Management of costs of acquisition and costs of disposal;
- Application of rules for rounding charges (stored when a fund is set up);
- Complex fund charging structures;
- Allowance for UK 'I-E' taxation provisions;
- Multi series functionality;
- Automated check that the fund value determined from the primary records matches that calculated from the general ledger records;
- Accounting for asset disposals on either the first-in, first out (FIFO) basis or the average cost basis.

Controls

InvestIPro™ has an unrivalled set of controls to ensure that fund administration operational risks are minimised. The processes take place in the most efficient manner possible.

FRS has developed 'Intelligent Reporting' into InvestIPro™ so that the system itself can spot and report issues before they become problems.

For each fund that has been priced, InvestIPro™ will carry out a reconciliation of the current unit price to the previous unit price. This reconciliation analyses the % change since the last price by the following components:

- Change in value of unit-holdings in underlying funds;
- Income;
- Realised gains;
- Unrealised gains;
- Expenses;
- Costs of Acquisition;
- Gain on unit appropriations (should be nil);
- Change in taxation accruing;
- Change in management charges accruing.

InvestIPro™ also carries out audit controls on data inputs to the system to avoid 'rubbish in – rubbish out' type faults.

- The % change in a security's market price is compared against a user-defined tolerance and all breaches of the tolerance are highlighted;
- The % change in each FX rate is compared against a user-defined tolerance and all breaches of the tolerance are highlighted;
- All stale FX rate and security prices are highlighted;
- Any security prices/FX rates required for a fund valuation which are not in the database are highlighted.

“Life companies can launch new funds with greater ease using Invest | Pro™”

InvestIPro™ also employs advanced benchmarking functionality. This allows the user to specify a set of assets that would be defined as a good proxy to the fund in question. One control report shows the difference between the actual % change in the unit price and the expected % change in the unit price based on the benchmark with exceptions highlighted where movements between the change in the benchmark assets and the change in the fund price exceed user-defined tolerances. A second control report analyses the reasons for the difference between the actual and the benchmark return.

Taxation

InvestIPro™ caters for a number of different taxation regimes, ie, UK 'I-E' tax basis, Irish 'I-E' tax basis and gross funds. The system includes modules for the calculation of tax on franked and unfranked income, realised gains, unrealised gains and deemed disposal gains. It also supports the placing of value on tax losses.

Functionality includes:

- Tax provisions recalculated at every valuation date as part of the valuation process;
- Different methods of calculating book cost and gains, eg, average cost, aggregate indexed book cost (for tax purposes) and FIFO bases of disposal;
- Indexation (if applicable) relief on CGT assets;
- Management of CGT assets and loan relationship assets and the history of an asset's status as a CGT asset or loan relationship asset;

- Separate modules for calculating book cost, unrealised and deemed disposal gains on a 'tax basis', ie, allowing for indexation relief, deemed disposals etc., and on an 'accounting basis';
- Ability to use 'Aggregate Indexed Book Cost Approach' approach for tax basis and a different approach for accounting basis, eg, first-in-first-out;
- Taxes recoverable;
- Tax treatment of franked and unfranked income from UK collectives.

Forecast trading and cash flow notifications

InvestIPro™ imports forecast liability units data (or forecast transactions amount/units) from the policy administration system(s). InvestIPro™ has a comprehensive set of algorithms for converting this data into trade instructions in external collectives (in the case of 'mirror' funds) or cashflow advices (in the case where external fund managers determine stock selection). These algorithms can take account of:

- Existing cash balances;
- Deals in the pipeline which have not reached the 'contract confirmed' status;
- Min/max cash balances to be held by the fund;
- Minimum trade order sizes etc.;
- Offsetting management and tax charge deductions against policyholder cashflows;
- Box management transactions;
- Fund rebalancing.

Unit matching

InvestIPro™ supports four different approaches to unit matching as follows:

Forecast matching

In this approach the valuation point of the external fund, T, at which trades are executed is the same valuation point, T, used to calculate the unit price of the internal fund. Units are matched in the internal fund equal in value to the trades placed at the previous valuation point using the unit price of the internal fund based on security prices determined at valuation point T.

Deferred matching

In this approach units are allocated to policyholders using the price of an internal fund calculated using security prices determined at valuation point T but trades are placed and units matched in the fund (based on the amounts traded) using a valuation point of T+1.

Backdated matching

In this approach units are allocated to policyholders and units matched in the fund using the price of an internal fund calculated using security prices determined at valuation point T but trades are placed using a valuation point of T+1.

Seeded matching

In this approach the shareholder box fund buys a block of assets and creates matching asset units at the same valuation point. Subsequent units allocated to policyholders are effected by sales of units from the box fund to the relevant policyholder fund and no external trade takes place.

InvestIPro™ imports actual liability units data (or actual transactions units) from the policy administration system(s) on a daily basis. InvestIPro™ then carries out the matching process using one of the above (pre-selected in the database) approaches.

“Our purpose-built software is the only system designed to meet the pricing complexities of the UK life industry and its specific tax requirements”

Reports

InvestIPro™ has extensive reporting capabilities for valuation signoff purposes, financial reporting purposes and management information purposes.

Valuation reports include:

- A summary pricing report showing one row per fund which outlines the unit price, change in unit price since previous valuation date, change in benchmark price, change in benchmark price less change in actual unit price, cash balance etc.;
- A balance sheet valuation statement and unit price calculation component;
- A breakdown by security type, eg, equities, bonds, deposits, properties etc., showing book cost, realised and unrealised gains, accrued interest (where applicable) at the valuation date for each individual security held;
- A report outlining the change in tax and charge accruals;
- An analysis of change in unit price report which breaks the change in unit price up into its components, ie, income, realised gains, change in unrealised gains, charges, tax etc.;
- A comprehensive analysis of the change in price versus the change in the benchmark price at individual security level.

High Specification
fund administration
software with
actuarial muscle

Financial reports

Invest|Pro™ has its own multi-currency general ledger. General Ledger reports include:

- Revenue account;
- Balance sheet;
- Trial balance;
- General ledger account listing.

Invest|Pro™ produces fund accounts and FSA forms 43, 44 & 55 and IFSRA returns forms 12, 13 & 14 from the general ledger trial balances. Reports can be generated for single individual funds or consolidated across a range of individual funds.

Reports can be viewed in system currency, individual fund currency or transaction currency.

Management Information Reports include:

- Unit price performance statistics between selected dates and for selected periods of time;
- Audit report on all activity on the database logged by user ID, machine and date stamp;
- Rebate report used to determine the level of rebates due from external fund managers;
- Holding reports for reconciling asset positions with custodians;
- Reports for detailed bank interest calculations and rent accrual calculations;
- Deal status reports;
- Settlement reports.

Accounting valuations

Invest|Pro™ supports the accounting valuation basis approach where the basis used for fund accounts need not be the same as that used for published unit pricing purposes. Invest|Pro™ enables the following to be provided for accounting valuations:

- Specified FX rates;
- Specified market prices of investment securities;
- Specified costs of acquisition/costs of disposal basis;
- Specified value of tax losses basis.

Corporate actions

Invest|Pro™ supports the following corporate actions:

- Dividend accrual and payment processing at asset level (including the processing of equalization on UK collectives). Payments can also be processed as scrip dividends. For UK life companies the tax treatment of dividends from UK equity and bond collectives is also catered for;
- Security transformations and splits;
- Bonus issues;
- Rights issues.

Security transformations/splits

Invest|Pro™ displays all individual funds holding the relevant security at the notification date. The system generates the transactions to reflect the post action position.

Bonus issues

Invest|Pro™ displays all individual funds holding the relevant security at the notification date. For each holding, Invest|Pro™ allows the user to add new units/shares to the holding at zero cost.

Rights issues

Invest|Pro™ produces a report that lists all individual funds holding the relevant security on the given date. The report will include account cross reference, so that the clients can be contacted to request confirmation of action to be taken.

Dealing

Invest|Pro™ manages and tracks the deal status for trades from initial order placement through to settlement. Dealing can be automated using Swift messaging. Trades in the same asset can be aggregated across multiple funds to obtain a single market order. Invest|Pro™ has in-built pre-trade validation, eg, the fund has sufficient cash to purchase a security or sufficient nominal of the security for a sale.

“Managing Operational Risk; Making a unit pricing error can result in huge financial losses and the capital needed to mitigate this risk can be a drain on a company’s resources. It is essential to prevent such errors. Invest|Pro™ is an affordable and robust system for managing all aspects of the pricing process and keeping it error free.”

See the separate Invest|Pro™ brochure on automated dealing and settlement

For further information or for an Invest|Pro™ demonstration please contact: frank.carr@frs ltd.com or joel.fox@towerswatson.com