WHITE PAPER

CLOUD-BASED VS. ON-PREMISES SOLUTIONS:
WHICH IS BETTER FOR ALTERNATIVE INVESTMENT FIRMS?

The alternative investment industry runs on data and software. Understandably, alternative investment firm executives are very careful about where they choose to put that data and software. For decades, the only option available was to use on-premises infrastructure. Today, the cloud is an increasingly prevalent alternative, but questions and concerns still remain in the minds of some. Here are four common issues frequently raised by alt executives when considering whether to move forward with a cloud vs. on-premises software solution, as well as the insights you need to make a sound decision for your business.

TODAY, THE CLOUD IS AN INCREASINGLY PREVALENT ALTERNATIVE, BUT QUESTIONS AND CONCERNS STILL REMAIN IN THE MINDS OF SOME.

ISSUE #1: LOSS OF CONTROL

Control has been a concern for the alternative investment industry. The perception is that in-house systems give you total control of your data because you don't have to log into a system or comply with any oversight protocols. You can do what you want with the data at any time, without jumping through hoops to do so.

But total control and a lack of oversight, while they are convenient, carry significant business risks. For example:

- **Multiple people in the company can access the data and change it so that it is completely worthless – and if the application is not architected properly, you may never know who did it or what they did to it.**
- **Without the proper administrative controls, data and files can be deleted without your knowledge.**
- **Viruses such as Cryptolocker can overwrite or destroy data.**

Having your data and software located in the cloud will limit your personal control of the data to some degree, but, in return, you can mitigate all of the above business risks. The cloud provides oversight for data protection as well as accountability in the form of a history which documents everyone who touches a file and what they do with it. Automatic and consistent backups offer protection and recoverability against viruses, disasters, and other business interruptions, as well as human error.

ISSUE #2: LACK OF OFF-LINE ACCESS

Off-line access is another personal convenience that can be hard to give up. But, just like total control, off-line access comes with a price tag. Your laptop or mobile device could break, be stolen, or get infected with a virus. If you copied an important file to your device to work on it while off-line, that data could then
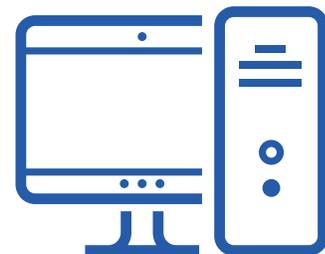
be unrecoverable. Remember, your data is only as good as your last backup copy. If you are working on an important file and the unthinkable happens, you lose all your changes since the time of the last backup.

In contrast, cloud-based data is more resilient against hardware failures, thefts, and viruses that disable laptops or mobile devices. Data is also protected with regular backups so that, if the unthinkable happens, you simply have to pick up another laptop, log in, and you are back in business.

Additionally, there are very few places now where you would not have access to Wi-Fi for more than a few hours. Consequently, whether you're docked in the office, using your laptop in the airport, or working from a mobile device, cloud technology allows you to access your data from any location on any approved device, as long as you're connected to Wi-Fi. You do not have to give up making live changes to data and working on-the-go when you move to the cloud.

ISSUE #3: SECURITY RISKS

Concerns about security typically stem from a fear of loss of control. You don't want your data to be "out there somewhere." You want to know where your data is, who has access to it, and what they might do to it. You want to know about the security controls being implemented and be able to confirm them at any time.

But, ironically, choosing an on-premises route to ensure security can be a self-defeating plan. The reason? Your in-house security is only as good as:

- **What you understand about cyber-risks and security protections**
- **What you can afford to implement**
- **What you know how to maintain**

Suppose you have a small IT staff. These employees are responsible for all the IT concerns, upgrades, maintenance, and initiatives for your firm. They are typically over-worked and under-funded. How much time do they have to keep up with the latest cyber-threats? How much opportunity do they have to research security best practices and innovative software? Do they have the bandwidth to optimize the security program you currently have in place? What if your IT budget cannot afford the security protections you know you should implement?

When you choose a cloud provider, these concerns disappear. Yes, the cloud provider now hosts your data: it is "out there" rather than "right here." But the cloud provider brings you security benefits you might not be able to gain by leaving your data on the premises. For instance:

- **You reap all the rewards of the cloud provider's dedicated security staff: staff whose only job is to keep up with the latest cyber-risks and the security necessary to counter those threats.**
- **You gain the benefit of economy of scale, since the cloud provider makes significant security investments to protect all their clients.**

- **You can rest easy, knowing that security systems are constantly being assessed, tested, upgraded, and improved upon.**

A helpful analogy is to consider your own personal money. Is it safer to keep your money underneath your mattress, or inside a bank? If you keep your money under your mattress, you have to provide security for your entire house – managing every door, every window, and every person who enters and leaves. But if you keep your money in a bank, you are automatically protected through the bank's centralized and rigorous security protocols, systems, and personnel.

The same is true of the cloud. If security is a concern, then the cloud should be viewed as the solution, not the problem.

ISSUE #4: TIGHT IT BUDGETS

The question of costs is always an important one. The challenge is that comparing on-premises costs to cloud costs is comparing apples to oranges – very different costs are involved, and they need to be considered over the long term to gain an accurate picture. Estimating costs over a three- to five-year horizon to determine the total cost of ownership (TCO) is the best way to make a holistic cost assessment.

In-house IT includes costs such as servers, support, operating system licenses, databases, hardware refreshes, and IT staff. In contrast, moving to the cloud:

- **Eliminates the need to buy and install hardware, reducing IT spend.** Hardware is expensive, and requires manual installation. At Backstop, we estimate our average client saves $15,000 - $40,000 per year on hardware and IT services.

- **Provides instant access to updates and enhancements.** Software that lives on the web allows you seamless access to product updates, with no need to download and apply those updates. At Backstop, we estimate the average user saves $10,000 every two to three years by avoiding upgrade fees common to locally-deployed systems.

MORE BENEFITS OF CLOUD-BASED VS. ON PREMISES DATA AND SOFTWARE

The cloud offers additional benefits, as well, compared to maintaining data and software on premises:

- **Immediate support.** Getting new software or updates installed in an on-premises infrastructure can be hampered by your IT staff's availability and workload. You don't have to deal with your internal IT staff's already full plate when you deal with a cloud provider.

- **Faster bug fixes.** With a cloud provider, response times to known bugs and software issues can be as fast as a development cycle (in Backstop's case, this is two weeks). For an on-premises software provider who releases semi-annually or annually, users have to live with known issues for months on end.

- **Compliance assistance.** While cloud providers may not specifically provide compliance solutions, they may supply tools to aid in supporting best business practices such as robust activity tracking, and technology compliance requirements like the automatic replication and backing up of data, audit logs, and familiarity with industry regulations.

WHICH IS BEST FOR YOU?

Can you keep your data and software on the premises? Certainly. But you have to be willing to assume greater risks to your data, possible security breaches, and ongoing and unpredictable costs. None of these are preferable for an alternative investment firm.

In contrast, moving to the cloud protects your data with the latest security measures, provides browser-based access from almost anywhere, and ensures central management of all systems, services, and infrastructure. Such a solution allows you to focus all your energy and expertise on your core business: maximizing the investments of your clients.

IN SUMMARY:

ALTERNATIVE INVESTMENT FIRMS CAN MOVE WITH CONFIDENCE TO THE CLOUD, RECOGNIZING THAT CLOUD SOLUTIONS:

- Provide oversight, accountability, and backup protection for a firm's data

- Are more resilient to hardware failures, thefts, and viruses that disable laptops or mobile devices

- Bring security benefits you might not be able to gain by leaving your data on the premises

- Reduce IT spend for costs such as servers, support, operating system licenses, databases, hardware refreshes, and IT staff

ABOUT THE AUTHOR

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Andy Phillips is vice president of solutions consulting at Backstop Solutions Group where his work focuses on research management globally. Phillips is an industry veteran has worked in the RMS industry for the past 10 years focusing on investment firms' front office groups. Prior to joining Backstop, he held senior roles at SS&C where he led solutions consulting efforts for leading financial firms. Phillips holds a B.S in Computer Science from Lafayette College.

ABOUT BACKSTOP SOLUTIONS

Backstop Solutions Group is the leading provider of a comprehensive cloud-based productivity suite of solutions for the alternative investment industry, including hedge funds, funds of funds, pensions, endowments, foundations, private equity firms, consultants, and family offices. Founded in 2003, Backstop pioneered the industry's first cloud-based software that helps firms in the alternative investment management industry achieve greater business agility. Backstop's comprehensive suite of solutions includes Backstop CRM, Backstop IR, Backstop Research, Backstop Portfolio, Backstop Portal, and Backstop Accounting. With offices across the United States and in Europe and Asia, Backstop now serves over 700 firms worldwide, making it one of the fastest growing software providers in the financial services industry. For more information visit, www.backstopsolutions.com. Or get LinkedIn with us!

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