



A NEW PARADIGM FOR INVESTMENT PERFORMANCE MEASUREMENT

**INSIDEOPS: INSIGHTS FOR
OPERATIONS LEADERS IN
ASSET MANAGEMENT**

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Performance measurement is an area within investment operations that is ripe for innovation, and here is why. The typical asset manager's operating model for performance measurement is generally fragmented.

Additionally, there are significant challenges in data management and information delivery. These challenges have only intensified with the recent digital revolution, which has created the expectation of higher quality information, delivered near real-time and neatly packaged for instant digestion. Investment performance measurement is not immune to these new demands, and the average investment manager is struggling to satisfy them.

Both internal and external stakeholders of asset management firms are starting to require higher quality performance data with varying methodologies by stakeholder. They seek information that is more flexible and timely.

To meet all of these evolving demands, firms should take a fresh look at their enterprise-wide performance measurement process with the goal of identifying opportunities for improvement, which may include:

- Refining data management
- Redesigning operating models
- Enhancing technology applications

...FIRMS SHOULD TAKE A FRESH LOOK AT THEIR ENTERPRISE-WIDE PERFORMANCE MEASUREMENT PROCESS.

NEW DEMANDS

New products, investment approaches, asset types, regions and delivery platforms are creating increased demand for performance measurement data.

Now, production of “fit-for-purpose” deliverables must support a matrix of stakeholders, methodologies and quality requirements. For example, some external consumers require the use of industry standard methodologies such as Global Investment Performance Standards (GIPS), while an internal portfolio manager may want a custom view, such as performance without cash drag or fund expenses. The quality standards may vary as well; clients need the numbers to be perfect, while a portfolio manager may not require the same level of precision.

The digital age has radically altered our expectations of how information should be delivered. Intuitive, interactive interfaces are now the norm. These expectations are spilling over into performance measurement. The days of paper-based, static and stale reports are quickly coming to an end and being replaced by demands for flexible views, including views by:

PRODUCT	MARKET
ACCOUNT	ENTERPRISE
MANDATE	PORTFOLIO MANAGER
ASSET TYPE	TRADER
GEOGRAPHY	TEAM

The table below highlights some of these differing attributes:

	STAKEHOLDER	MEASUREMENT METHODOLOGY	QUALITY REQUIREMENT
INTERNAL	Front-Office	Custom	Varies by Use
	Executive Suite	Custom	Varies by Use
	Human Resources	Custom	Varies by Use
EXTERNAL	Clients	Standardized and Custom	Exacting
	Regulators	Standardized	Exacting
	Marketing/Sales	Standardized	Exacting

DATA MANAGEMENT

The need for multiple views of performance information requires the aggregation of data from many sources prior to calculating returns or attribution.

This aggregation layer can present a major challenge for performance teams due to complexity and manual processing, which increase effort and errors.

In fact, performance professionals cite data aggregation as the most challenging aspect of their job. Our experience shows that performance teams encountering data aggregation problems often lack a central repository for their data. The lack of this tool makes capturing information from upstream data providers cumbersome. At a minimum, creating a central repository for performance data could help alleviate this common pain point.

While data aggregation is a challenge that may hinder a firm's scale, efficiency and control, there's an even larger issue for many institutions; the quality of data. Data quality resides at the atomic level. It can encompass such granular details as security reference data and the tagging of certain data sets with characteristics that determine how they should be incorporated into performance calculations.

The ability to maintain custom fields or elements that enable the tagging of metadata greatly eases the consumption and utilization by downstream users. Examples include defining which securities are in "emerging markets", or how front-office investment teams track a "theme" trade across several asset classes or products. To address these challenges, the performance measurement team must have a clear understanding of the requirements of their stakeholders. They also must actively participate in the enterprise-wide data governance process to ensure they receive the highest quality information possible.

OPERATING MODEL

The operating model, as it relates to performance measurement, must enable three primary functions: production, delivery and client service.

Multiple models can achieve this, including:

- **DECENTRALIZED:** This model utilizes teams that reside in several departments. It has the advantage of closely aligning the performance team with each stakeholder and also allows each to focus on more targeted deliverables for a lower volume of clients.
- **CENTRALIZED:** Alternatively, a centralized model provides the opportunity for greater efficiency and scale. It also enables firms to get the most out of their performance experts by allowing them to straddle performance calculations for relevant consumers. However, there is a risk that this approach makes it more difficult for teams to build rapport with clients.

Regardless of the model, utilizing standard processes and controls is mission critical. Executing on these activities is dependent on staff with the appropriate skill set for the allocated tasks. Successful performance measurement models thoughtfully align people to process and reserve highly skilled and highly compensated performance subject matter experts to higher value functions while leveraging administrative staff for data gathering, formatting and foundational production activities.

Client service is a primary, somewhat unappreciated function of performance measurement; it too must be defined in the operating model. Due to the complexity and breadth of stakeholders' demands, performance professionals must have deep knowledge of stakeholders' business requirements. More importantly, they need a full understanding of how stakeholders intend to use performance information. For example, when a portfolio manager requests a daily performance calculation for a portfolio, the performance team should know how that information will be used. If it is for internal purposes only and is used as a preliminary check for the portfolio manager, then the level of accuracy can potentially be sacrificed in the interest of time. Conversely, information that is externally distributed, such as direct client reporting, requires stricter quality controls.

The client service function can also act as the conduit between the stakeholders and production process. Understanding and anticipating stakeholders' needs supports an operating model that can employ a robust demand management framework which will serve clients well without overburdening the performance function. This allows the performance function to allocate resources to the most appropriate tasks and deliverables while building capacity as required.

TECHNOLOGY

To aid in addressing the new demands placed on performance teams, many firms are electing to build or buy applications to streamline the process. These tools cut down the time to produce performance deliverables by automating and standardizing processes.

They should also leverage a central repository to obtain fit-for-purpose data. As with all such investments, there's a pathway to success. It hinges on clearly defining business requirements and then matching them to the technology's functionality. These steps are critical for performance measurement because of needs that are specific for firms. With that in mind, off-the-shelf applications are robust and improving. However, firms are also still willing to build custom applications to fit their unique internal requirements.

Information delivery mediums are evolving rapidly and having an impact on performance measurement. Stagnant, one-dimensional, paper-based reporting no longer meets the demands of many stakeholders. The digital revolution has set new and higher expectations regarding information and data delivery. Performance

measurement models must embrace this new reality; they need to provide dynamic information that is fit-for-purpose in a digital framework. This can include customizable stakeholder dashboards with drill-down capabilities or even custom fields with tagging capabilities for performance attribution.

Additional delivery functionality may include data extracts to allow users full transparency into source data and calculation methodologies. Lastly, providing a self-service wrapper will create an empowering user experience while allowing performance measurement resources to remain focused on client service and production.

**AS WITH ALL SUCH INVESTMENTS,
THERE'S A PATHWAY TO SUCCESS.**

CONCLUSION

Room for improvement exists in the performance measurement space. As the industry continues to move toward a more demanding environment, many asset management firms are redesigning their performance measurement process to address the rapid changes.

Performance teams are being impacted by increased stakeholder demands, data management challenges and legacy operating models and technology. However, what has not changed are the core functions of the performance measurement process: client service, production and information delivery. As such, key activities should be to:

- Enable core functions with enterprise-wide data governance delivering the highest quality data
- Investigate digital delivery options
- Design an operating model that can help ensure performance expertise is fully utilized

A thoughtful look at these core issues is warranted to allow the performance function to align with the needs of stakeholders while taking advantage of advancements in technology. The end goal is to help ensure this mission critical process continues to provide value to the organization and its stakeholders in a cost-effective manner.

CONTACTS

Girard Healy

Managing Director

girard.healy@accenture.com

Ross Tremblay

Senior Manager

ross.tremblay@accenture.com

Anthony Massimiano

Management Consultant

anthony.massimiano@accenture.com

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