

Pension Fund Performance and Risk Analytics Assessment

BACKGROUND

Meradia's client, a top-tier superannuation* fund manager in Queensland, Australia with approximately A\$75 billion (USD \$60 billion) AUM needed accurate, timely and consistent data fit for their analytic requirements. Historically, the operations team generated Performance from raw custodial files. While a substantial portion of the assets are externally managed, the futures, FX and cash portfolios – representing major exposures – are managed and traded internally for the purposes of tactical asset allocation, rebalancing, hedging and liquidity.

With no expected improvement in sight, and facing imminent new competitive market pressures, the Chief Investment Officer retained Meradia to advise and assist on the search for an alternative solution for front office performance, risk and analytics.

ANALYSIS

Meradia's mandate was two-fold:

- Define the future state of performance and risk analytics that would fulfill the current and future requirements of the Investment team.
- Draw the roadmap that would get the front office from its current state to the defined future state.

Initial structured interviews with managers and key personnel across the front office team drove a comprehensive business requirements document. From these requirements, we synthesized a Performance Framework and a Performance Methodology. The Framework comprises a conceptual definition within which performance and risk analytics will be constructed; the Methodology specifies detailed inputs, calculations and results fulfilling all analytic requirements.

A parallel effort analyzed operational performance business requirements: front office and operational performance analytics may differ substantially in purpose and form; however, they must both be derived from the same, gold-copy data source. This investigation uncovered deficiencies in the extant operational data processes. Modern EDM, data warehousing and business intelligence practices and technologies would need to be required to achieve the future state objective.

RESULTS

Meradia prepared a clear set of recommendations including alternates for the project executive team to consider. This included the Framework and Methodology as the definition of the future state of performance and risk analytics as well as plans for a central, gold-copy investment data warehouse architecture. The roadmap guided the client through the selection process for both a performance engine and an EDM platform. The BRD documents were translated into required and desired capabilities against which these selection processes would be measured. Further, the roadmap identified plans to adopt the Business Intelligence tool – already widely in use by the Investment Team – as the enterprise standard for delivery of analytics to consumers.

Meradia was re-engaged to assist the client with the vendor selection processes for each of the recommended solution components and to assist the client with operational and organizational changes to adopt the recommended future-state performance data, analytics and delivery architecture.

* Superannuation funds are roughly equivalent to US pension funds, however they are almost exclusively defined contribution programs. They can be government sponsored, associated with specific labor unions, or in a few cases completely independent. Until recently, most members were captive to a single Super along roughly industry union lines; on July 1, 2017 legislation opened the market to allow members free choice in the matter.