A Business Case for Fractional Performance Oversight

The mix of skills required to oversee investment performance includes regulatory compliance, complex mathematical models coupled with data management, and a variety of technologies. Fractional Performance Oversight is the concept of key elements of oversight and leadership being supported by partial allocated resources or fractional outsourcing. In what situations does Fractional Performance Oversight make sense? Jonathan Boersma and Alicia Spencer consider some scenarios which may warrant a different paradigm.

Investment performance is part performance methodology, part attribution, part regulatory and compliance, part GIPS® compliance, part operating model, and part senior management reporting. Add a complex array of data and technology demands and you have a difficult equation to solve. The different skillsets involved make Head of Performance roles difficult to fill. Even the most experienced, credentialed, well-rounded, cape-wearing professional is not an expert in every area and nuance of performance and all the investment data it entails. In some firms, this experience gap can leave performance operations with inadequate knowledge, guidance, supervision, or mentorship.

IN WHAT SITUATION DOES FRACTIONAL PERFORMANCE OVERSIGHT MAKE SENSE?

For years, investment managers have utilized outsourcing to bolster business functions. Driven by growth (actual or anticipated), pressures to reduce costs, or the need to fill missing competencies, firms leverage outsourced services to augment operations, ranging from limited, discrete activities to entire departments. Most investment management firms originate with and maintain their core competencies in developing and executing an investment thesis, NOT with back or middle-office efficiency. Organizations are left with a decision to build, buy, or outsource functions. The decision often results in insular, sub-optimal solutions marked by outdated technology and unbalanced know-how. Temporary fixes tend to evolve into ingrained, long-term elements of an operations patchwork.

These same challenges can extend from functions to specific roles within an organization. The role of overseeing performance is critical, and it is not uncommon for firms to struggle to fill it.

In our experience, there are several situations where firms find themselves considering Fractional Performance Oversight as a viable and optimal solution.

1. **The firm is growing quickly and unsure of what is needed.** In times of growth (and stress!), gaps in experience and competencies can be more pronounced and visible. Firms can benefit from having a strategic partner with a deep and wide range of expertise. Tapping into resources that have "been there, done that" can prove invaluable.

2. **The firm lacks adequate resources to lead, mentor, and supervise the function.** Organizational structures may propel performance analysts to report to heads of operations who do not have sufficient knowledge or understanding to provide suitable supervision. This is particularly witnessed in small to mid-sized firms..

3. **Key personnel takes a sudden leave of absence, sabbatical, or there is a gap with staff turnover**. Even when planned, staff departures pose a significant challenge. Finding the right replacement can take a long time and there is a need to manage and lead daily operations or important change initiatives in flight

4. **Operations are outsourced but the firm still needs to perform oversight and due diligence.** Even though operational performance functions are outsourced, firms retain their responsibility and ownership of oversight of the function. Often, firms that choose to use an outsourced provider expect to be able to significantly reduce or eliminate their performance staff. (cont.)

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Outsourced vendors, however, still rely on subject matter experts at the asset manager to guide composite inclusion/exclusion rules, oversee and approve production, resolve critical questions, provide insight into methodology, support client relations, and perform analytics and attribution. Without this specialized knowledge and oversight, it creates an operational gap and increased risk of errors.

5. **A merger or acquisition results in a challenging dynamic of systems, data, and methodologies that overwhelm existing staff.** The disparate and, at times, incongruous systems, data repositories, workflows, and methodologies pose a significant challenge for firms involved in mergers or acquisitions. Performance teams may be adequately resourced to maintain day-to-day operations, but the added work related to system conversions, migrations, and implementations, as well as data management and mapping are too much for the existing staff to handle. Bringing in experienced senior resources to orchestrate the transition may offer the best results and prevent extending transition timetables.

HOW MERADIA CAN HELP

1. **INITIAL ASSESSMENT** Meradia starts with an assessment/scorecard of the performance operation, including people, roles, existing oversight mechanisms, GIPS policies and procedures, technology, data, and operating model. Valuable by itself, this scorecard can help firms understand how they compare to peers and enables Meradia to know where to focus resources as we assume the oversight of performance .
2. **CRITICAL SKILLS AND EXPERTISE** Why is performance challenging? It requires specialized knowledge in the changing landscape of rules, regulations, and best practices. Specialized knowledge of the GIPS standards, technical performance, and attribution expertise, keeping up with global regulations, and interacting with the front office and compliance - all of which require skillsets that can be difficult to find in one person. Making matters worse, data, technology, and performance methodology are often unique to various asset classes (Equity, Fixed Income, Multi-Currency, Multi-Asset, Private Investments, and Direct Investments). Meradia offers exceptional breadth and depth across the key aspects of the performance function.
3. **PARTNER** You'll have a dedicated resource on call (with backup, of course) plus the full strength of our combined team of experts. Even the best resources are not experts in everything – but our collective team is. Our team features some of the industry's best minds in performance, attribution, risk, technology, and the GIPS standards. Meradia works alongside Heads of Operations, Compliance, and Front Office – as well as leading outsource providers - to ensure you have the best resources available via our team of senior, technically skilled, and highly respected professionals.

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is a Senior Manager at Meradia and oversees investment performance regulatory consulting services, including pre-verification for firms complying with the Global Investment Performance Standards (GIPS®). He leverages 28 years of financial services experience to guide clients through the complex transformations, and operational preparations required for adopting industry and regulatory frameworks. Prior to joining Meradia, Jonathan led the CFA Institute's ethics and performance standards group, most recently serving as Head of Professional Standards and Executive Director of the Global Investment Performance Standards (GIPS®).

Alicia Spencer, CIPM
brings her long-standing reputation with performance consulting to assist Meradia's clients to establish successful performance practices while solving GIPS® and operational challenges. Alicia has over 19 years of functional and technical experience with performance measurement and the GIPS standards. A recognized industry expert, she has spoken extensively on GIPS standards, best practices for model performance, internal controls for marketing performance returns, preparing for an SEC examination, and performance system considerations. Alicia's knowledge of performance processes stems from her career both as a consultant and a practitioner.

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