



Investment Performance Is a Data Management Challenge

SUMMARY

Investment Performance transformation projects are notoriously difficult. Why? Investment Performance is, at its core, an enterprise data function in disguise. Its role in enterprise data management is so prevalent that the maturity with which a firm's Investment Performance function manages this data functions is typically a bellwether for the operational efficiency of the firm generally. Performance and analytics, done well, consume an astounding array of internal, external sources and often a combination of the two. In addition, you'll be hard pressed to find any department in the firm that doesn't want to consume its outputs and scrutinize its conclusions. Investment Performance transformations are difficult because they necessarily require evolution for the firm's enterprise data assets and can impact nearly every department.

The term Performance Book of Record, (PBOR) has become a popular way to reference the Investment Performance dataset. But many don't really understand its import from a data standpoint. A Performance Book of Record, PBOR is a superset of all the data that enables performance analysts to answer the tough questions of lineage, explain small differences across accounting basis (ABOR vs IBOR for example), and uncover the true sources of alpha for a given strategy. Doing so forces it to tackle normalization, cleansing, and filling important gaps that make each organization unique.

This multi-part series of papers explores the important intersection of Investment Performance and Data Management. We'll tackle concepts including a Business Case for Starting Data Governance Programs with Performance and Reporting, Leading with the Data in Performance Transformation efforts, The Importance of KPIs to Measure Data Activities and What Performance Teams could Learn from the Chief Data Office. We'll also explore the potential of using better tools including an AI-based Application called Zengines to accelerate change projects. At Meradia, Accounting, Investment Performance, Market Data, and the associated reporting and distribution challenges are core to our DNA. This is evident in this multi-faceted collaboration of consultants that have contributed to this series.

INVESTMENT PERFORMANCE SERVES MANY MASTERS, EACH WITH UNIQUE DATA NEEDS

Investment Performance serves many masters, arguably, servicing more points of view than any other function in an asset management organization. Portfolio Management represents the investment management POV. Compliance and Legal make sure rules are followed. Marketing and Sales leverage data to attract and win new business. Client Reporting serves the needs of sometimes radically different client requirements. Firm management wants to understand the trends and performance returns relative to competitors. Investment Performance serves all these masters. Each comes with nuanced, specific flavors of supporting data. To accomplish this feat, the investment performance function and the technology that supports it will consume, clean, process, and disseminate a mind-boggling amount of data. In fact, it is not uncommon to find more than half of the combined effort of a typical Performance team devoted exclusively to data management activities.

PERFORMANCE MATH HALO DOES IT A DISSERVICE

Many performance analysts find the data part of the job both disappointing and exhausting. The allure of a career in finance seems to delude some into believing Investment Performance is, at its core, a mathematical exercise; and consequently, belittling the data management jobs. Performance Operations lament the work involved in scrubbing, normalizing, checking, or augmenting the data to get it ready for unforgiving, fussy performance calculation logic.

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PERFORMANCE MATH HALO DOES IT A DISSERVICE (CONTINUED)

Why do performance professionals (by and large) resent the data management bits so much?

- 1) Tedious, manual work that can have tough-to-find errors.
- 2) Feeling that the data “issues” should be addressed upstream.
- 3) Like the daily grind of the postal delivery, it is a seemingly endless, repetitive cycle.
- 4) Data issues can lead to stressful situations.
- 5) Performance analysts are driven by an interest in finance and investing, not data science.

Yet, this effort is critical as Performance departments play an incredibly important part in the quality and completeness of organizations’ core investment data assets. So much so that Investment Performance departments ought to rename themselves “Middle Office Data Management and Investment Performance” as the department title simply referring to the group as “Investment Performance” belies the true importance, role, and potential of the function.

PERFORMANCE IS A PROXY FOR ENTERPRISE DATA MANAGEMENT

We did some work for a Large, Active Asset Manager who was looking to enhance its Accounting-based (IBOR) security master set to include ABOR as well as the un-held universe of securities included in its benchmarks. To solicit requirements from the larger organization they went knocking on all the doors of the big departments... Portfolio Management, Client Reporting, Marketing, Compliance, Risk and of course Performance. They could have started and stopped with the Performance department as the Performance function and the technology team that supported it had been maintaining a security master for years. They had to. How can performance calculate bottom-up relative performance contribution without first normalizing the accounting and benchmark view of security identification? Embracing the idea that Performance is a proxy for enterprise data challenges norms. At the same time, it would result in better outcomes as performance departments look not for mathematical genius but instead for people with a true passion for the data itself. Likewise, it would change the conversation about the best tools for the jobs at hand instead of looking for aspirational tools for the job we think it is.

Another example of Performance as a proxy for enterprise data usage is with account and product reference. Performance reports must show the clients results the way the client prefers them to be shown, which is another example of where performance silently augments core assets to improve usefulness. While a firm’s account master may serve the primary needs of accounting or, client reporting the use cases demanded by Performance still takes it up a notch. Remember, Accounting and Client Reporting represent some use cases but not all. Marketing and GIPS requirements, for example, are often not handled well or completely by most account masters which are missing key fields like “Strategy Termination Date” or “Investment Vehicle Sub-Type” or the “Tax/Withholding Status” used in composite inclusion logic. In addition, bespoke client requirements unsupported by the account master will still be solved by Performance Reporting. Once again, performance fills holes left by core systems and has the most complete view of the use cases in the organization. Isn’t that what it means to be enterprise data?

CONCLUSION

Like the story of the Dutch boy saving Holland by putting his finger in the dike, it is the performance department that keeps the operational dam intact. Understanding the holes that Performance fills is the key to understanding how a firm’s enterprise data still needs to mature and where the opportunities lie. It is also what makes Performance Transformations complex as these legacy systems hide organizational workarounds that need to be understood, preserved, or changed.

PBOR is important NOT because it represents the Performance Outputs. PBOR is important because it represents the enterprise data superset required to support a mature Investment Performance Operating Model along with all its powerful analytics. PBOR is the ultimate intersection of some of the most important parts of a firm’s data infrastructure and changing it is tough.

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In this series that explores the performance/data intersection, we discover various topics.

- [Jose Michaelraj, CIPM, CAIA](#) describes how performance transformations can derive greater value through a data-led approach.
- [Andrew Jacob, CFA](#) proposes a new strategy to begin data governance, using Performance as the base use case in lieu of traditional use cases in front office, or human resources.
- [Clay Corcimiglia](#) explores the power of data-first Key Performance Indicators (KPIs) in improving performance departments' data stewardship role.
- [Jose Michaelraj, CIPM, CAIA](#) expands on his initial data-led transformations paper with a case study where we used Zengines (an AI-powered conversion tool) to accelerate outcomes.

Stay tuned for these insightful papers in our series on Investment Performance Transformation, where each author delves into their respective topics and provides valuable insights into the intersection of performance and data management.



Laurie Hesketh, CIPM, PMP,

is a Managing Director who oversees strategic engagements for Meradia's clients. Laurie leads and advises on the complex nuances involved in transformation projects from a change management perspective. She is an expert in investment performance as well as the accounting and market data inputs that drive meaningful analytics. A seasoned consultant, Laurie has served many organizations including asset managers, asset owners, wealth managers, service providers as well as key industry vendors. Having started her career in technology as an application developer and then application architect, she has a strong understanding of the technological underpinnings that are necessary for large-scale transformation and repeatability.