



## Natural Allies: Investment Performance and the Data Office

### SUMMARY

Data is both the solution and the problem; critically essential and challenging to get right. Owners of data range from passionate and possessive to elusive and deflecting. Organizing a firm's data assets and solving for gaps and points of contention is daunting. Thus, the role of Chief Data Officer is one of the most challenging functions in any organization.

In the first paper of our *Performance is Data* series, we make the case that Investment Performance is a proxy for Enterprise Data Management. Investment Performance is a data function; it must first assemble and fill holes in upstream data assets to fulfill its mandate. Performance also serves a variety of consumers, including the front office, accounting, compliance, marketing, sales, management, and clients. Meeting the needs of all these various constituent groups is an immense data management and aggregation task. This paper proposed that Investment Performance was (and in many cases, is) the original Data Office where governance issues come to a head.

If this logic is true, starting a Data Governance effort with Investment Performance takes advantage of a natural ally already positioned to solve those very problems. This natural alliance may be the most efficient mechanism to understand the strengths and weaknesses of an enterprise's existing data strategy and potentially advance efforts to resolve them rapidly.

Starting with that premise, this paper looks at how a new or revamped data governance program would benefit from either starting at the end of the investment value chain - Investment Performance - or by aligning the Data Office and Investment Performance under the Chief Data Officer (CDO). As many Meradia projects intersect Data and Investment Performance, this paper highlights the synergies and overlap between these functions.

### TRADITIONAL PATHS FOR DATA GOVERNANCE

A traditional path for data governance begins in the front office. Governance programs later progress to Middle and Back Offices, Accounting, and Compliance. This approach is logical and pays homage to the business units that generate revenue. It engages important investment stakeholders responsible for strategic decision-making or risk mitigation at the outset.

Another prevalent approach is for Data Governance programs to start with cross-organizational themes that spotlight operational or financial areas of risk that could result in financial or reputational loss. For example, an enterprise-wide look at the use of PID (Personally Identifiable Data) or data assets, controls that resulted in a past trading error. This approach has considerable merit for organizations where incidents have already resulted in significant financial loss.

We work with a variety of organizations that have CDOs. And, while Investment Performance is, of course, on their radar, the impact of improved Data Governance is rarely realized by the Performance function. The traditional paths for Data Governance haven't yet made positive impacts at or for the end of the investment value chain. As such, they miss core end-to-end use observations and neglect the function most closely aligned with its objectives.

#### **This has caused us to raise a few questions:**

What could the CDO learn from Performance?

How could Investment Performance functions benefit from the superior data tools widely used by the CDO?

Why not merge these two functions for their mutual benefit?

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### STARTING WITH INVESTMENT PERFORMANCE IS A NOVEL, BUT EFFICIENT IDEA

Since Meradia is often involved with Investment Performance and its associated Data transformations, we routinely have the opportunity to examine the inputs and outputs of many Investment Performance departments. Our consultant practice has both Data and Performance experts that routinely intersect. Let's examine a small sampling of actual client use cases that reinforce the synergies and opportunities of a Performance-first approach to common Data Governance priorities. These use cases illustrate how a performance-first approach might add value to the core tenets of Data Governance: Centralization, Consistency & Lineage.

#### *Performance security normalization could accelerate organizations' security mastering efforts.*

**Challenge:** Large, retail mutual fund client aims to centralize security master data and combine ABOR and IBOR with an unheld security universe (predominantly securities in indexes that don't yet exist in any internal portfolio).

**Typical Approach:** Survey the organization to gather cross-organizational requirements for security master. Attempt to vision, specify and craft a project to meet them.

**Performance-led Approach:** Investment Performance already integrates data from multiple security masters and across multiple custodians as the data requirements for bottom-up Performance attribution necessitate it. As does ABOR to IBOR return comparisons. If there are holes in coverage for unheld securities, timing differences between ABOR and IBOR security setup, or missing peer funds, Investment Performance already fixes it or can't do its job adequately. Evaluate the Investment Performance technology and manual workarounds that already fill these gaps.

#### *Performance Reporting has critical inputs to drive consistency of Account and Product attributes.*

**Challenge:** Disconnected account and product attributes. Accounting's view does not align with Client Service's view, Compliance, or Portfolio Management. Client names, benchmark names, Client or Internal Aggregations are inconsistent across data domains.

**Typical Approach:** Solicit requirements to extend the CRM (often Salesforce) to include more attributes. Aim for enterprise alignment while asking the respective Sales and Client Service teams to fill gaps they may not fully understand. Repeat this approach with Compliance and Portfolio Management.

**Performance-led Approach:** Regardless of the maturity of an account master or integration with CRM tools like Salesforce, it is often the responsibility of the Performance team to create client-specific outputs that do everything from including a client's preferred way to refer to its Benchmark to how the client prefers to aggregate its investment assets. Enable the Performance team to update key attributes in the CRM so the rest of the organization can take advantage of what Investment Performance already solves.

#### *Arm Performance with data governance tools to fast-track lineage.*

**Challenge:** Accounting and some performance functions are outsourced and supplemented by internal analytics (Bloomberg for Fixed Income, FactSet for Equity, etc.). When there are errors, uncovering where the fix needs to happen takes expensive hours. What is the data lineage? Who owns it?

**Typical Approach:** Today's consistent lineage and gold-copy element tracking exist within reach of only a minority of firms. When errors arise (or are suspected), it takes time to resolve as many stakeholders may be involved. When seemingly simple questions take days to move through the various stakeholders, it erodes confidence and is expensively time-consuming.

**Performance-led Approach:** Arm Investment Performance with better data management and lineage tools. Performance is already aggregating much of the data but with tools meant to calculate, not assign ownership and lineage. They, too, would prefer to track these crucial elements but need more sophisticated mechanisms. Standard data tools like Collibra are available to the entire organization, but Performance is often the last domain to be brought into the fold.

#### *Leading with the end view provides context to a firm's data inventory.*

**Challenge:** Data is siloed, and only some in the organization know about the entirety of data or what is available to whom.

**Typical approach:** Implement a data catalog or launch a firm-wide inventory of databases and data within them are common approaches. Efforts are often slow, and the objective is only partially met due to the long time frames and the need for more resources. Data governance may be stood up while this effort is happening, further straining internal resources, and hampering efforts.

**Performance-led approach:** Allow Performance to cite the sources for their data. They have the treasure map of where the data flows and how it gets to them – and what the data is that is the most useful to them for reporting and answering inquiries. This allows the CDO to reverse engineer the inventory of the firm's data. Creating the inventory from the end forward enables end-to-end insights and promotes a cross-functional view of how the data is used in internal and external narratives. (continued)

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### **Add Market Data Procurement to the CDO/Investment Performance Function.**

**Challenge:** Benchmark data is expensive - More so when the market data providers have a better idea of how an organization uses their data than the organization.

**Typical approach:** Solving this problem is so tricky that we've come across many firms that opt to buy MSCI's global license rather than figure it out how and who uses specific indexes. Others hope they don't get caught or rely on 3rd party vendors like RIMES or FactSet to help govern usage. These helpful tools limit but don't eradicate the issue.

**Performance-led approach:** Besides aligning the Data Office with Investment Performance, consider adding the group responsible for market data contracts under the same umbrella. For far too long the people signing the contracts and the people who best understand how that data is distributed externally have been in different departments. The use cases that create operational risk are when the data leaves the building. So, align contract provisions with the team that creates the narrative and ensure all data is tagged appropriately. Marketing and Client Delivery teams know what can and can't be distributed externally.

### **CONCLUSION**

Investment Performance teams are the original data officers in many firms – negotiating points of conflict and serving the needs of multiple groups with the same data set. Isn't this what we are also charging the CDO to do? Performance teams know 'where the data bodies are buried and can shine a more cohesive light on Governance issues and enable end-to-end enterprise-wide understanding of it. Starting anywhere else allows decisions to be made by the loudest voice with the most organizational power instead of the practical multi-tiered approach that a Performance department would apply.

If the efficiency and completeness of an organization's Investment Performance function is bell weather for the maturity of their data strategy, investing in this vital function has cascading benefits that are difficult to measure. A better way to create operating efficiency is to align Performance and Data Management functions. Organizational re-alignment of Investment Performance and Investment Data functions will make use of these natural alliances to create efficiencies and enable the CDO role to maximize effectiveness.

**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.

**Andrew Jacob, CFA,** brings a well-rounded data management perspective to Meradia's global portfolio of clients. Throughout his career, Andrew has supported constituents across the investment management industry, including retail investors, advisors, wholesale teams and institutional investors. He is a seasoned investment professional with diverse experience in business and entrepreneurship, possessing strong acumen of front office operations, data governance and management, and retail client journeys. Andrew's passion for helping people and driving outcomes aligns with Meradia's principles of Perspective, Passion and Impact.