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RIMES hosted its second California forums this year in Los Angeles and San Francisco during the month of October, as part of a program of 25 RIMES forums held worldwide. Forum attendees included clients and prospects from the buyside, with a wide range of functions represented, including front, middle and back offices. The general aim of the forums is to discuss industry changes and challenges and to foster a collaborative environment that develops a best practice approach to index and benchmark data management.

## ATTENDEES

Mellon Capital Management
Nuveen Asset Management
Osterweis Capital Management
Payden & Rygel Investment Management
Research Affiliates
TCW Investment Management
The Capital Group Companies

RIMES Forums

### Index & Benchmark Data Management

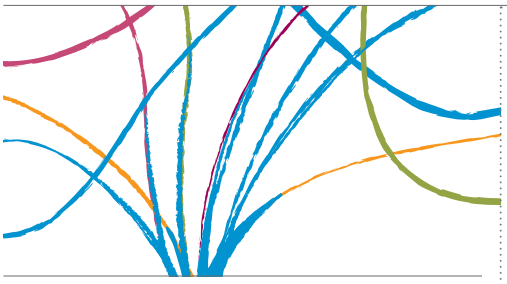
# An Enterprise View of Benchmark Data Management

## RIMES Forum Series California

## EXECUTIVE SUMMARY

A specific aim of the forums was to introduce and discuss an independent study conducted by Cutter Associates who have published their findings in a white paper called: *Benchmarks: not a Word, but a Sentence?* The essence of the paper is that firms should take an enterprise view of index data and benchmarks to improve data management, tighten control and increase efficiency.

Participants at both forums welcomed the prospect of collaborating to develop industry standards and innovative solutions that embody a best practice approach to index data and benchmark management. The forums stimulated lively debate and this synopsis captures the spirit of that discussion. RIMES will continue to chair the best practice debate from its position at the heart of the investment buyside.



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# Index & Benchmark Data Management

## An Enterprise View of Benchmark Data Management

RIMES Forum Series

California

### THEME 1 WHY INDEX DATA AND BENCHMARKS ARE DIFFERENT

The sessions opened with introductions and some general discussion around the management challenges that are unique to index data and benchmarks.

It was agreed that individual groups within a firm use index data and benchmarks for different purposes - including research, portfolio management, performance measurement, marketing and product development. These functions have specific data requirements, often acquire index data and benchmarks directly from index vendors, and frequently store it in local applications or databases throughout a firm:

> **"We have different product groups, and they kind of manage their indexes on their own."**

In particular, individual functions have different requirements regarding data timing and accuracy. Data acquisition tends to be less centralized than it is for other data sets and there is no established best practice approach to data management.

Several participants noted that data storage and quality assurance was performed on spreadsheets, while a few have established data management functions. Inefficiencies often result from data duplication and overlapping efforts between functions and locations.

It was agreed that both centralized and decentralized approaches to data management offered advantages and disadvantages. A centralized function tends to offer economies of scale and improved control, while localized acquisition and management sometimes has the advantage of agility.

One of the fundamental characteristics of index data and benchmarks is that benchmarks have multiple dimensions that are not easy to define: index vendors have their own definitions of geographic regions, for example, depending on where a company is registered, or where its shares are traded. It was agreed that 'judgment calls' are often required. Data governance is of crucial importance to control costs and mitigate operational risk. This cannot be delegated to a third party; however, an experienced partner can help a firm develop a systematic approach.

A recurring concern among forum participants is the lack of choice. In many cases, specific indexes are stipulated as part of a mandate, so investment firms have no choice but to acquire a particular index and to do so quickly. The acquisition process varies enormously between suppliers as vendors have different data standards and charging tariffs. Similarly, data contracts vary between vendors:

> **"Everybody that's touching the data has to know the ins and outs of the contract."**

The forums confirm that index data and benchmarks are characteristically different to all other data sets. Managing index data and benchmarks calls for greater expertise and specialist knowledge. Often senior staff members are called upon to resolve data issues and portfolio performance teams are under constant pressure to deliver more detailed information, more quickly:

> **"Our clients include those people in the investment group who want that real-time information and real-time analytics."**

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Having defined some of the challenges associated with index data and benchmarks, the discussion moved on to industry dynamics.

### THEME 2 INCREASING VOLUMES, GROWING COMPLEXITY

One of the additional challenges of index data and benchmark usage is their continual growth in both volume and complexity. Benchmarks are increasingly being customized and blended: many firms create customs and blends using spreadsheets or desktop applications, which can be a threat to good data governance.

Several forum participants noted problems with data validation and quality. Maintaining data quality is an ongoing challenge because there are so many interdependencies in the construction of benchmarks: if one price is late, it has a knock-on effect throughout the firm. Data errors are difficult to spot early on in the workflow and can be costly to correct later.

Most participants agreed that the twin problems of increasing volumes and complexity mean that firms must run hard just to stand still:

> **"It's tough to kind of keep up and running all the time."**

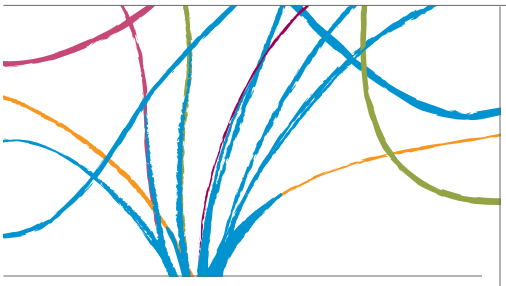
It was agreed that the costs of getting indexes wrong could be substantial, and at worst could lead to brand and reputational damage, which is difficult to reverse.

### THEME 3 DATA QUALITY AND MANAGEMENT METRICS

Most forum participants agreed that there was often a trade-off between data timeliness and accuracy. Maintaining the quality of benchmarks is more difficult than with other data types – simple tolerance checks are of limited use, given the multidimensional nature of benchmarks:

> **"It's not just the price, you've got the constituents and the weights, and then the analytics and so forth."**

Maintaining data quality is an expensive overhead for firms, calling for in-depth



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## An Enterprise View of Benchmark Data Management

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knowledge of each vendor's methodology and how it is applied. Similarly, resolving data queries takes far longer than with other types: only 17% of queries are resolved within an hour, compared to 42% for security reference data. It seems likely that this discrepancy is in part due to the fact that data management processes are better established and mature for other data types.

The data quality issue is often compounded by the fact that problems often remain undetected until spotted by the money manager:

> **"Your observation that the money manager spots something is probably accurate."**

Participants noted a general need for more detailed metrics on data accuracy and errors to show when data was late and how long it took to resolve queries and errors. Early detection of errors is a high priority for most firms. At present, it is often someone in portfolio management who ends up resolving errors, which increases costs considerably:

> **"When you start adding up the cost of a portfolio manager versus the cost of someone in operations...the cost goes up very rapidly."**

Most participants also agreed that, in practice, many of the costs of resolving data errors are hidden:

> **"It's very difficult [to gauge] how much time they're spending, it usually doesn't get counted by firms."**

As a general rule, rectifying data problems is more difficult and costly the further downstream they are detected. The sooner data problems are discovered, the better for all parties.

## CONCLUSION EVOLVING STANDARDS

The discussions concluded that firms are typically less advanced with the management of index data and benchmarks then with other data sets. It was agreed that the industry does not have a deep understanding of the financial impact of poor quality benchmark data, nor of the real size of the problem. There is no established best practice approach nor are there universal data management standards.

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Good data governance is the first milestone on the journey towards a best practice solution. This must include index vendor coordination and ongoing communications. But the real challenge emanates from the large number of relationships and parties involved. There are many providers of index data and benchmarks and licensing terms are getting more onerous.

Investment management firms need to invest in governance to improve data quality and improve efficiency. Good governance extends beyond data stewardship and accurate data, but also understanding how to use the data. Data acquisition and usage must be monitored and managed on an ongoing basis.

Firms can take several steps to improve control of index data and benchmarks:

- **Use a specialist benchmark data service to implement a strategic operating platform for index data and benchmarks**
- **Adopt a holistic, enterprise-wide view of index and benchmark data, and leverage the firm's investment in technology to centralize master and reference data**
- **Strengthen and improve data quality processes, including automated validation checks, defined processes for exception management and data correction**
- **Review wider data governance issues and procedures to monitor index data and benchmark usage, and to ensure that usage is in line with licensing and costs are aligned with overall business strategy.**

The rapidly increasing volume and complexity of specialist data used throughout investment management highlights the need for a best practice approach. RIMES is committed to helping the industry achieve this.


**We would like to thank all participants for their enthusiastic contributions so far and look forward to further discussion on this vital business area.**