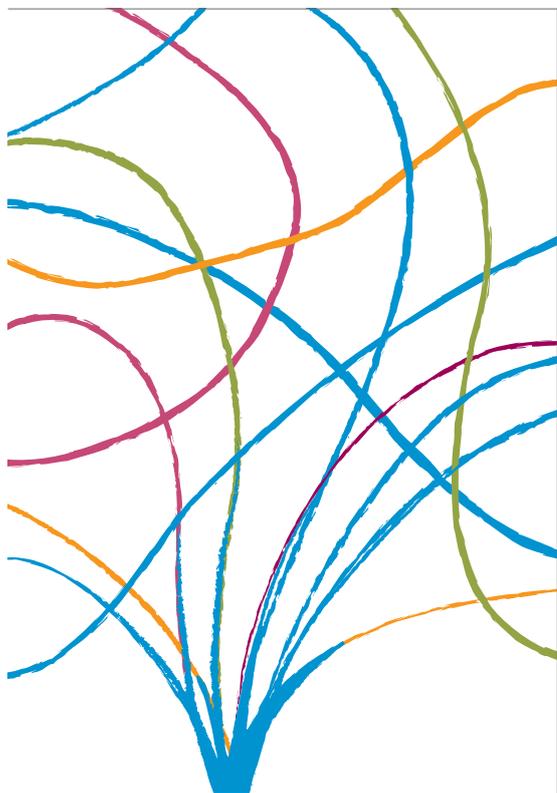


Index & Benchmark Data Management

How Should Buy-Side Firms Be Structured To Meet The Unique Challenges Of Managing Benchmarks?

RIMES Forum Series **London**



RIMES hosted its latest London forum in November, entitled *How Should Buy-Side Firms Be Structured To Meet The Unique Challenges Of Managing Benchmarks?* This was one of 25 RIMES buy-side forums scheduled worldwide during 2012. The overall aim of the forums is to discuss ways in which the industry can develop a best practice approach to the management of index data and benchmarks.

ATTENDEES

Aberdeen
Aerion Fund Management
BNP Paribas Securities Services
F&C
Schroders IM
Invesco AM
Investec AM
JO Hambro IM
JP Morgan AM
JP Morgan Chase Custodians
M&G
Marshall Wace
Mondrian Investment Partners
Old Mutual Global Investors
Royal London AM

EXECUTIVE SUMMARY



The forum considered the findings of independent research conducted by Cutter Associates. The Cutter research contains similar findings to earlier research conducted by Investit. Both studies identify some of the unique challenges of managing an increasing volume of index data and benchmarks. And both make similar recommendations for improvement.

In practice, the challenge of managing index data and benchmarks is similar for all investment management firms globally and the problem is getting worse. Data volumes are increasing and so is data complexity. This is a pressing problem and Cutter suggests that firms must act soon to prevent greater difficulties later.

A number of the participants at the London forum showed an increasing awareness of the challenges of managing index data and benchmarks. Moreover, some have taken positive steps to improve data governance, such as adopting a more systematic approach to data management or using a managed data service.

There is also growing awareness that data governance cannot be achieved in isolation: it is the concern of all within the firm and success requires sustained executive commitment. Some firms have begun actively managing data sources and evaluating alternatives; others have established index committees to improve communications and increase transparency.

Good data governance is more akin to a journey than a destination. Getting started is not easy and firms are at different stages of the adoption process. Over time, firms that invest in good governance will realize quantifiable benefits through good data governance: reduced costs, increased business agility and mitigated operational risk.



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THEME 1 INDEX DATA AND BENCHMARKS - INDUSTRY CHANGES AND CHALLENGES

⇒ A study by Cutter confirms that index data and benchmarks are pervasive to the investment value chain.

⇒ Over time, they are bound to continue to increase in both volume and complexity.

The industry is driven by both supply and demand factors: index vendors launch new products almost every day; clients become more demanding, and investment techniques more sophisticated:

“The vendors themselves are pushing out new indexes, sometimes they’ll push something up, the fund manager sees it and says, ‘Actually, that’s a good idea, maybe I’ll build a product based on that.’”

All firms are experiencing an increasing demand for custom indexes and blends:

“It’s driven by the clients but it’s also driven by our marketing side because that’s how you get an edge, by doing something slightly different... and it is increasing our costs.”

Cutter predicts that indexes will continue to become more difficult and costly to manage. Forum participants confirmed this:

“It’s getting worse from my perspective. Clients are getting increasingly bespoke demands, where they don’t want three countries out of one index so we’re having to slice and dice much more.”

Firms must find more efficient ways of managing large volumes of increasingly complex data.

THEME 2 DATA COSTS AND COMPLICATIONS

⇒ Cutter suggests that benchmarks are characteristically different from other data sets.

⇒ Index data and benchmarks have different users and management requirements.

It is difficult data to manage, calling for specialist skills and practical know how. Investment management firms are caught in the middle: they have to meet the increasing demands of clients but this leads to spiraling costs.

Most index data challenges manifest themselves as increasing costs and decreased business agility:

“It’s a double whammy, the costs you pay directly to the provider of the index data then the internal costs to handle bespoke benchmark calculations, data management.”

It was noted that a fragmented approach to data management could impair business agility and increase operational risk. A worst-case situation exists when data is sourced, customized and stored locally in desktop applications:

“So you end up customizing or using a performance analyst’s favorite tool, Excel, which comes at a cost and a risk.”

Participants agreed that costs escalate for several reasons. There is often a lack of flexibility in the data itself, as well as the license agreements governing its use. It was suggested that index vendors could offer more in the way of index customization and flexible licensing terms.

For many firms, data errors are a burden on the whole investment value chain. It



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is often necessary to contact the index vendor to do so, which takes time:

“Ultimately it’s going to come down to the amount of time the vendor takes to fix it and then the amount of time your aggregator takes to get that to you.”

Some firms acknowledge the severity of the issue and are solving the problem using managed services.

THEME 3 BUILDING THE RIGHT STRUCTURE TO MANAGE INDEX DATA AND BENCHMARKS

The Cutter study makes specific recommendations to improve the management of index data and benchmarks:

⇒ **Centralize the data operating platform and take an enterprise view of the data.**

⇒ **Rationalize benchmark sourcing and actively manage data supply.**

Cutter recommends that firms adopt an enterprise view of data management to rationalize data management and remove data ‘siloes’.

Although there are merits in adopting a more structured approach to data management, building a central data warehouse can delay data delivery and compromise business agility. There can be a trade-off between control and flexibility. A more practical interpretation of centralization is to have a central record of all data being used by the firm, by whom and for what purpose. Some forum participants already do this:

“We have index meetings, on a bimonthly basis and we discuss different parts of index strategy with different areas of the business.”

It was agreed that managing the supply of new indexes and benchmarks was a big challenge. New sources are often brought on at short notice, and often there is no alternative:

“The client services team deal very much with the benchmark mandates that we’re receiving from our clients and what they’re instructing us to use.”

All parties must be aware of the costs of using specific indexes before they are acquired. Plan sponsors should also be made aware of data sourcing and management costs and, if appropriate, alternative benchmarks.

There is a growing awareness that the cost of managing index data and benchmarks cannot be ignored. There is a need for greater transparency of the cost of managing data as well as the obvious license costs. Firms must be aware of the costs and consequences of supporting particular mandates:

“It’s just being clear really what the consequences of that decision are, so the P&L decision on those clients - sales is supported all the way through...The challenge isn’t just the cost of a custom benchmark, it’s that internal cost.”

It was concluded that it could be difficult to calculate the total costs of individual data sources before they are onboarded:

“You have to keep making them aware at an early stage to consider that as part of their costing process when they’re thinking of initiating a new fund.”



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THEME 4 RATIONALIZE SOURCING AND ACTIVELY MANAGE SUPPLY

The discussion considered the benefits of rationalizing benchmark sourcing to improve data governance and aligning data acquisition and management more closely with the business. A few participants reported good progress and have produced detailed profit and loss calculations that included data costs. However, all agreed that this is difficult and time consuming, because it is difficult to get at the underlying data and information. Overall, awareness and ownership of the challenge is gradually moving up to COO and CIO level.

The final recommendation from Cutter was about firms actively managing the index data supply, to build a more rationalized data platform. Some firms, most notably Vanguard, have successfully switched index providers but forum participants agreed that this is seldom possible:

“I’ve approached our investment teams about reducing costs through rationalization and they’ve said to me, ‘We’re not interested, we’ve got a multimillion mandate so we’ve only got a few thousand a year in index costs.’”

Rationalization of sources cannot be achieved easily but firms must strive to ensure that index data and benchmarks are acquired once but available for use by many throughout the firm. This is only achievable by implementing a strong data operating platform and good governance to monitor usage.

CONCLUSION – PROGRESS IS BEING MADE

The London forum shows that most firms have identified the problems of managing an increasing volume of index data and benchmarks that are also increasing in complexity. There

is an increased understanding of the challenges and participants agree that this will get worse over time as indexes proliferate and their use becomes more complex.

Many firms acknowledge the importance of good data management and some are adopting a more strategic approach to data governance. Measures include:

- **Centralizing the management of index data and benchmarks.**
- **Achieving a single sightline from index data sourcing to data usage to increase transparency throughout the firm.**
- **Using managed services to provide a more effective operating platform; rationalization of sourcing, and taking a more enterprise-wide view of data.**

RIMES noted that many firms are making good progress on the road to improved data governance. This suggests that the forums are fulfilling our goal of improving standards through industry collaboration. We thank all forum participants for their enthusiastic contributions and look forward to further debate during 2013.