

Data Management: Today's Challenges Require New Solutions

In today's challenging economic climate, it's more critical than ever for investment managers to have ready access to reliable, relevant data to effectively manage their risk, grow their business and make the right decisions for their clients. Yet it has become increasingly burdensome for firms to allocate the necessary human and technological resources to keep up with escalating demand for transparency, driven in part by institutional investor concerns. Moreover, different systems required to meet the needs of diverse sets of investment products and processes have created vertical silos of data within investment management organizations, which then need to be reconciled horizontally.

The attempt to aggregate and normalize the ever-increasing volume of information being generated can easily turn into a massive undertaking that is beyond the core competencies of investment firms. As a result, more investment managers are turning to their operational outsourcing partner to provide a sophisticated data management solution that frees them to focus on what they do best—managing their assets and servicing their clients.

Defining Data Management

Data management captures critical data generated from a broad range of front-, middle-, and back-end functions spanning the simple to the complex, including fund servicing, client reporting, accounting and custody, and performance measurement, among others. In a fully comprehensive model, all these functions occur as part of a three-step sequence:

- **Aggregation:** Pulling together internal and external data across various independent systems and products, then normalizing (or validating) the data to ensure consistency, thus creating a single data set across the entire firm.
- **Governance:** Quality control stage that involves normalizing internal and external data feeds, ensuring the data is clean and error-free.
- **Presentation:** Delivering data back to authorized parties in meaningful context through various means.

While the first two steps—aggregation and governance—are standard practice, the third step—presentation—is often an afterthought, but it can exponentially enhance or detract from the first two components.

Capture the Benefits

Knowledge is power. Having a meaningful understanding of data across their firm empowers managers to:

- **Compete aggressively in an increasingly complex and challenging market.** Data management enables investment managers to better understand their clients, see the inflows and outflows of their investments, and understand the impact of the decisions they make, thus providing clear insight into what drives their business and performance. This enterprise-wide view is faster and easier to achieve when the data is pulled from a single operating environment. Trying to aggregate data from multiple providers servicing various investment products adds layers of standardization and aggregation issues, and can pose difficulties in capturing a single, holistic view in a timely fashion.
- **Identify and proactively manage risks that can threaten their business.** The recent market turmoil underscores the crucial need to immediately identify portfolio exposure to particular holdings, issuers, regions, currencies or counterparties to be able to respond to risks and concerns, and take appropriate action in a timely manner.
- **Integrate and streamline front-, middle-, and back-office business procedures.** Integrating an efficient data management process streamlines specific front-, middle-, and back-office processing and gives investment managers the ability to analyze all aspects of their business in a uniform format. It also aids data governance, thus ensuring the accuracy of data from initial analysis through trade execution and client reporting.
- **Ensure accuracy and transparency at every point in their business.** There has been a push for greater transparency from compliance and regulatory quarters as well as from investment managers' clients. The

latest market changes have only increased the need for investment managers to have access to tools that will allow them to monitor activity, maintain compliance, and research data related to clients and portfolios with ease.

- **Enhance the investors' experience.** Investors are facing concerns related to understanding their investments and the associated risks. These requirements are driving a need for greater

transparency of the assets within their investments. An overall data management strategy can provide that transparency, assessment of risk and ability to understand client data at a more holistic level for the investment manager. Additionally, a flexible reporting system can allow managers to present different analysis catered to the needs of their various investors.

What to Look For

Managers should consider the following best practices when putting the power of data management to work for them:

- **Ability to handle a range of investment products.** Working with a single provider that can manage investment managers' full array of investment products provides a more integrated operating environment. This in turn helps ensure consistency and standardization, streamlines communications, and means managers can more easily obtain a more holistic and accurate snapshot across their business.
- **A stringent process around data governance.** Without a controlled process for managing data, neither managers nor investors have a reliable basis for making decisions. High-quality data governance programs employ leading-edge technology coupled with tight supervision to check and control incoming information in order to maintain high levels of data quality. An effective data governance process provides the ability to monitor investment risk, allowing a

manager to proactively manage their portfolios, rather than relying on exception-based risk management.

- **Turning data into insight. Neither data nor technology is meaningful in and of itself.** Technology is a tool that gathers, sorts, and delivers data, but human reasoning and analysis are necessary to understand information in context, discern cause and effect, and make intelligent decisions. Reporting needs to capture both high-level trends in a dashboard view, but also provide the flexibility to drill down and slice and dice data in multiple ways. Managers should also make sure to work with experienced, knowledgeable specialists who can present the data in differentiated ways to meet the needs of individual roles within a firm, providing what's most relevant with regard to those working in investment performance, new business, sales and marketing, and other roles.

Looking Ahead

It seems fairly certain that regardless of how quickly the current economic crisis turns around, the complexity of new financial products, increasingly stringent regulatory controls, evolving client demands, and the costs associated with managing data in-house will continue to drive the trend among industry leaders to enhance their data management capabilities in order to respond quickly and competitively to the challenges ahead.

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