MiK | Fund Solutions

Does Data Give Managers Headaches or Make them Addicts?
Solving the Data Dilemma in a Complex Investment Environment

I need a fix cause I'm going down, down to the bits that I left uptown.

The Beatles

Introduction

Today's fund manager is faced with daunting challenges: a difficult global investment environment; increased regulation; greater due diligence by investors; and intense competition. Despite the challenges, funds still must fulfill the mandate to generate alpha regardless of strategy, style, or size. How a manager goes about that exercise has typically been tied to an investment thesis, a philosophy held by an individual or group, frequently based on some model, which monitors and tracks the investment results based on variables external to the firm: global trends, markets movements, asset allocation, etc.

How is one manager in this environment distinguished from another? It is because, even when managers have similar investment philosophies, there is just enough difference (measured by performance) that investors will select one over another. Otherwise, fund management becomes a commodity – any one as good as any other.

In the quest to eke out advantage (which is often at the margins), today's manager needs to think creatively about every avenue and every tool available. One core area is how data is currently used in a firm and how it might be recast to become more than a line-item cost.

Doctor, what's going on: is it a headache or am I a addict?

Despite the fact that firms generate huge amounts of data, the "context" around data, the way the management thinks about data and the utility of data is tied to outmoded ways of thinking, given the current environment. These outmoded ways do not take advantage of structuring and using data in new and different ways. The real question facing a firm's management is: how to think about data and its usage, and from that analysis, how should we deploy data for optimal effect across the firm?

Emanating from the business and regulatory requirements firms face today, data management has become a huge enterprise for a variety of reasons, including report generation to investors and historical tracking data for regulatory requirements. And the result is the data warehouse business. The image alone, of "warehousing", is enough to drive a cost-conscious manager to distraction. Pallets full of information, stored in data mountains, retrievable as required by external mandates but not germane to the conduct of the business.

In this environment, there are currently two models that firms deploy in their data collection, data processing, data warehousing, data structure, and reporting. Neither is optimal and neither is sufficient for the complex challenges faced by managers today.

In the first model, data is seen as a necessary burden, a headache to be handled at the least possible cost. This "build" option means firms reach out to consultants in an effort to make sense and use of data. The consultants, despite adamant representations to the contrary, have a cookie cutter approach. The managers are prey to firms rooted solely in the storage business. But ultimately, like storage businesses anywhere in any industry, these are ultimately commodity models which drain resources that could be applied elsewhere were the storage itself not absolutely necessary.

The consultant approach tends to treat all seemingly "like" firms alike, without nuancing for a deep understanding of the management's approach, strategy and goals. So a firm will part with a substantial amount of money with the goal of having their data as a "once and done" solution. The consultant will typically does not provide ongoing service, focuses solely on middle and back office, and has the goal of getting the firm to a the status of "good enough".

The second approach to data is to "buy" products with a one size fits all model and the hope the product will do what one needs. Here again, the product approach falls short, for the nature of a product itself does not support all the needs of any user community and because the base assumption in creating a product lacks thinking about data as a mechanism for advancing the enterprise forward across all functions. Here the goal is "never enough" with the "never" being the inability to get the product to perform exactly as required. The advantage tilts to the vendor, whose costs are fixed after install. The client may need more service attendant to issues as they arise (regulation, growth, etc.) but the vendor is disincented from providing service except for a price, which eventually may be come prohibitive.

This puts every manager in a “least worst” option situation. And it leaves the manager effectively with a recurring cost that is completely unrelated to performance, except insofar as the least cost option will seemingly be the most attractive.

Thinking Clearly: A Comprehensive Approach for Today’s Management Challenges

Every single approach in the data business is inherently limited because it is a standard solution to what may be a very different set of requirements as needed by the manager. One size does not fit all in this multi dimensional world. This is because such “solutions” do not tap into manager thinking, do not seek to understand the goals of the firm, and do not take into account differing infrastructures.

The simple fact of the matter is that despite investing in the same instrument (say long-short equity), no two fund firms are alike, and it is in the differentiator that they represent themselves to potential investors and differentiate their business.

Enough is not only NOT enough, but misses the entire point of the optimal use of data for the fund’s ability to generate alpha. “Good enough” and “never enough” are not only the wrong categories. They are approaches that fundamentally miss the point in thinking about how data can be ultimately used across all functions in the firm: front- middle- and back- office. This is because they each proceed from a faulty premise.

Rather what is needed is a new approach from a different premise. Here data is neither a headache nor a means to push transactions but can be thought of and leveraged as a mechanism to inform fund strategy and attendant growth.

All of the current models that rely on either build or buy are back office, data centric solutions designed to address a task orientation rather than solve a business problem. Because there is a product resolution orientation, they do not address the fundamental issues faced by managers, including: data sets that are siloed and unable to “speak” to each other; data that are redundant and unscalable; frozen in time; unconsolidated and Excel-based; and ultimately unusable.. The simple fact is that absent a complete client focus the approach will be expensive and less than the manager could otherwise have.

Data tied to the Investment Thesis

CEOs, CFOs, and COOs can take a broader view that moves beyond the current approaches to data. Here, data moves well beyond warehousing and is used as a front-end portfolio monitoring and management tool for real-time decision making. Here, data is out of storage and is actively mined to inform the manager and aid in performance. Data moves from being a spend to an investment. It is a response to the question: what more can I do with this data, now that I have it accumulated? Can it tell me anything? The data question is no longer a necessity with an attendant cost and product solution, but a real-time monitoring tool that actively aids in how managers invest.

Further, such a model moves away from a commoditized approach, recognizing that every manager has a different approach. A chef, a sculptor, and a surgeon would never share knives. How then are portfolio managers expected to use the same tools when plying THEIR trade(s)? Simply put: *brains* build alpha. Since the advantage is often at the margins, and is fueled by information asymmetry, the more intelligent real-time portfolio and market data is, the better and more holistic each incremental decision will be.

This model is enterprise- rather than task- oriented. It marries the data to the investment thesis. Beyond that, it takes the vision of each separate manager, and as would a blacksmith, “trues” the data and the trading strategy for a perfect fit. By mirroring the thought process of the manager’s investment thesis and forging it into the optimized data set, the portfolio management equation is enhanced and the data solution is genuinely customized to the firm, providing incisive analysis, as opposed to a generic “plug and play.”

Such a model is not a product but addresses the business and management issues related to performance and growth. It is not about having data but driving data. Here, the investment thesis itself is enhanced by moving beyond the collection and warehousing of data by applying tools to it that enables managers to act…and to do so in real time.

Data, Real-Time Portfolio Management and the Effect on Performance

The question each manager wrestles with is: how is my portfolio doing right now?

Moving beyond a back office task orientation, on the front end, managers now have the opportunity to move beyond tick data and trading PNL. By using data adroitly, tools are now available that deliver a comprehensive real-time and historical view that includes PNL, risk, attribution, performance, pricing, FX rates, commission, financing and percentages. And to execute on this business task, managers can now be assured that all the data, and all the data sets, converge and perform in concert.

In this environment, managers can look at the terrain from different perspectives including percentages, strategies, idea rankings, risk measure, cost of carry, and time, among others.

The new endstate -- which is continuous because it is real time -- means that a manager can consistently act in an information-rich environment, based on a comprehensive view of where the portfolio stands, with both control and oversight.

Conclusion

In today's hypercompetitive environment, with the global challenges each manager faces each day, no aspect of the firm can afford the luxury of being a pure cost center. When taken from the perspective of performance, data, as the basis for information, has always been seen as critical to analysis, but not always to performance.

That is because data has been locked in a box. By creatively making data as a front-end mission critical exercise rather than a back office necessity, today's managers release data from a cost to an investment…one that aids in and performance.