Workflow Magazine

INDUSTRY INSIGHT AND VIEWS FROM THE STATPRO BLOG AND CONTENT LIBRARY

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Industry insight and views from the StatPro blog and content library

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INTRODUCTION

Productivity is the key

2018 was the year of unpredictability in the asset management world and as we look back on the last six months of 2019, it has not been an easy start to the year.

Markets have been down, geopolitical risks are high and the trend of moving from active to passive investing continues to take center stage alongside fee compression. Against this backdrop, there are still a number of opportunities the asset management industry can leverage to thrive in the future.

Looking at the trends influencing the asset management industry thus far, it is clear to see that productivity is the key to ensuring firms stay competitive in today's marketplace. Central to improving productivity is better data management and successful firms are making use of technology providers to create uniform data platforms that can enhance workforce productivity by improving effectiveness and efficiency while keeping costs low.

As the industry grapples with the new challenges and opportunities they are faced with, asset managers need to evolve and adapt to a new era if they are going to continue to drive organic growth and remain competitive.

We hope you enjoy this edition of Workflow magazine.
To view all our blog content, visit blog.statpro.com

Michelle Earp
Global Head of Marketing, StatPro

ROBUST TECHNOLOGY IS A MUST

The importance of data management for fixed income attribution

With the vast amounts of data firms deal with on a daily basis when calculating FIA, how can firms ensure that the data they are processing is accurate? How can they make sense of it all?

DEALING WITH THE DATA

The importance of performance attribution in fixed income investing cannot be overstated. Portfolio managers use it in both support and defense of their investment strategies. That is why it's crucial for fixed income managers to be working with robust data management and analytics tools.

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Free eGuide

Download your free eGuide to learn how:

- **Accessing the right data points can cause difficulty for many firms**
- **Firms are aligning and making sense out of massive volumes of data**
- **The right technology can make FIA model implementation much easier**

HANDLING THE DATA

Solving today's fixed income attribution challenges

Calculating accurate performance attribution in the fixed income markets is a crucial element to success.

Not only is fixed income attribution vital to inform, support and defend investment decisions, but sales and marketing personnel use the data for client acquisition and retention activities. Clients also rely on fixed income attribution to determine how well (or not well) the firm is enacting their desired investment strategies.

EXPLOSION OF DATA

However, many firms still struggle with generating accurate, reliable attribution data. For one, the explosion of data in financial markets – especially in fixed income – means that generally it is difficult for fund managers to properly analyze and process this information holistically. As reported by Investment News, additional regulatory requirements also have increased the types of data available designed to help investors make decisions. Indeed, as the research firm Celent stated, "we are at the dawn of new era in the history of data."

But legacy technology as well as outdated workflows mean that most firms are unable to fully and efficiently handle the explosion of data today; the sheer volume and complexity of the inputs they need make them unwieldy, slow and limited in nature.

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"We are at the dawn of new era in the history of data"
-Celent

A TECHNOLOGY PARTNER THAT CAN PROVIDE NOT ONLY DATA FROM SEVERAL DIFFERENT INDEX PROVIDERS, BUT ALSO THE NECESSARY RISK NUMBERS TO SUPPORT THE ANALYSIS IS PARTICULARLY VALUABLE TO EFFECTIVELY IMPLEMENT A FIXED INCOME ATTRIBUTION SOLUTION.

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Transaction-based calculations require both holdings and transaction data and this data must be comprehensive and accurate in order to gain any real insight.

WHICH CALCULATION METHODOLOGY SHOULD BE USED?

Transaction vs. holdings-based performance calculations

Whilst performance attribution plays a critical role in the analysis of any portfolio, calculating performance (which is a necessary input to this analysis) plays an equally important role.

Which performance calculation methodology should be used? Is a transaction-based approach the best fit for your firm or does a holdings-based approach make more sense? It's important to understand the pros and cons of each method before making this decision. Let's start with the simpler holdings-based method.

HOLDINGS-BASED CALCULATIONS

Because the holdings-based approach uses less data (the calculations only require periodic holdings data), it is easier to implement when compared to the transaction-based approach. While the thought of an easy implementation may seem enticing, the less stringent data requirements limit the accuracy of this method, which can make drawing conclusions on the portfolio's performance more difficult. However, historically holdings-based performance returns have often been used to provide a preliminary intra-month early view of performance, particularly for the front-office consumption, before fully reconciled valuation data is available.

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FIXED INCOME ATTRIBUTION

Where risk and performance really come together

For many years, investment management professionals have discussed risk and performance as being 'two sides of the same coin' and the convergence of the two functions within asset managers.

Risk is managed in order to achieve performance. Indeed, in many firms, risk and performance professionals now work in the same team and we see both aspects considered together in the analysis of portfolios.

There are many benefits in combining the analysis, for example:

- Much of the data required is broadly similar
- Efficiencies and savings in data management may be possible – for example look-through and portfolio aggregation can apply to both
- There are also efficiencies and savings to be gained in adopting systems that cater for both
- It's logical to apply consistency in the methodologies applied
- The classification breakdown and analysis of risk and performance should be consistent
- It may help to bring the full portfolio analysis function more into the front office and therefore align more closely to the decision making process

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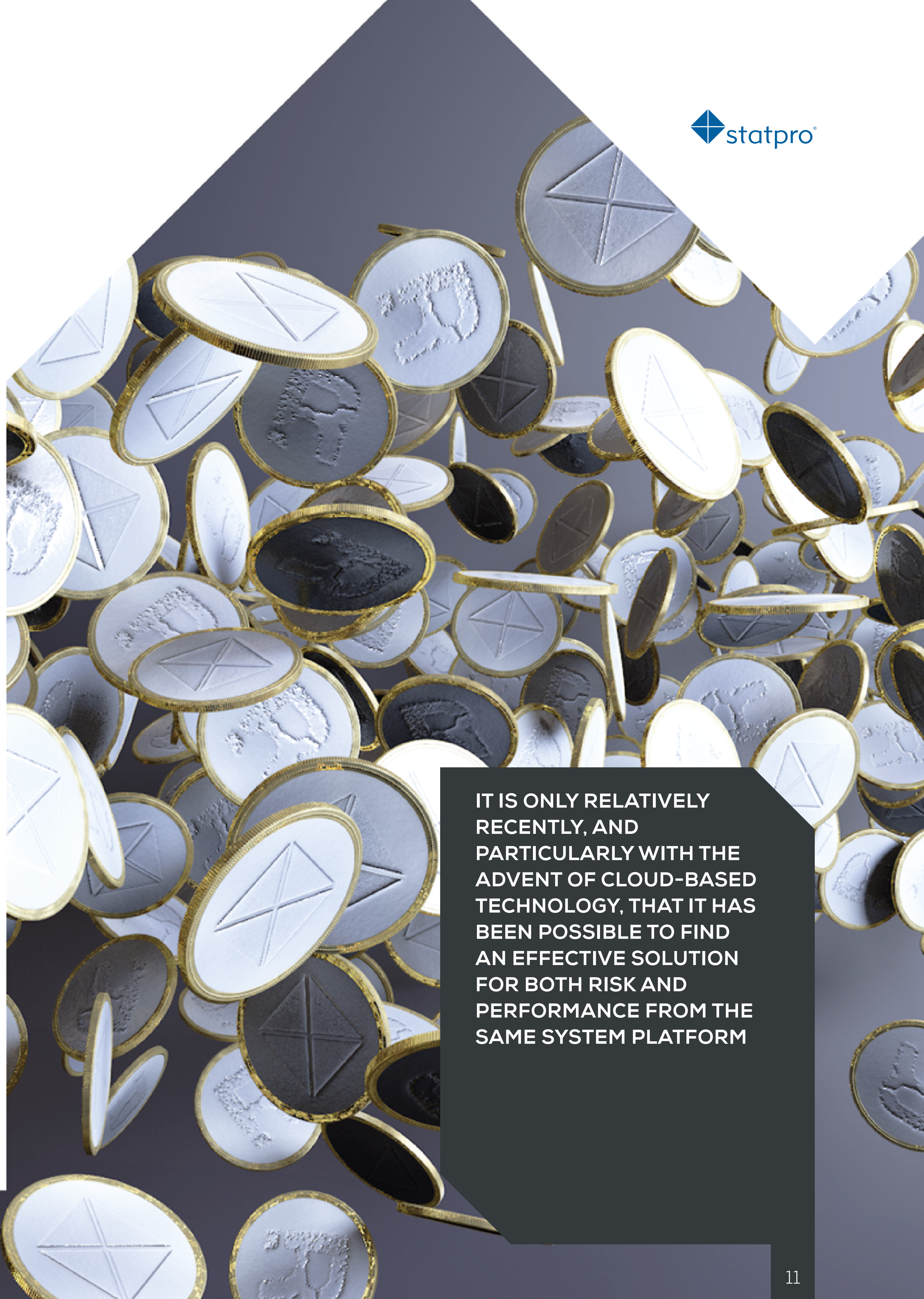
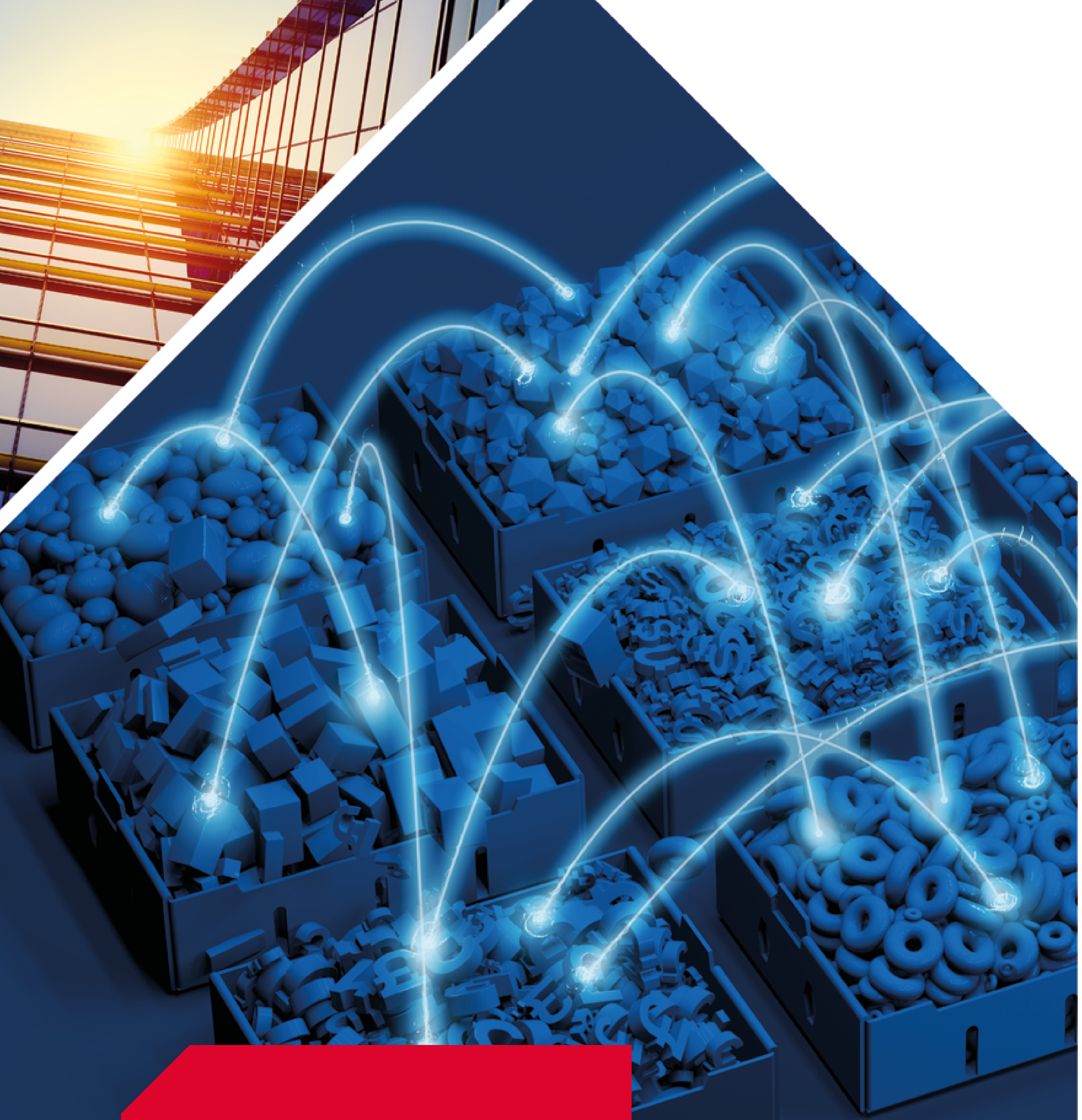


IT IS ONLY RELATIVELY RECENTLY, AND PARTICULARLY WITH THE ADVENT OF CLOUD-BASED TECHNOLOGY, THAT IT HAS BEEN POSSIBLE TO FIND AN EFFECTIVE SOLUTION FOR BOTH RISK AND PERFORMANCE FROM THE SAME SYSTEM PLATFORM



AT THE END OF THE DAY WHAT DEFINES A FACTOR IS EVIDENCE OF A HISTORICALLY DISTINCT RISK PROFILE, WHICH INDICATES THE EXISTENCE OF A COMMON DRIVER SHARED BY A GROUP OF STOCKS.

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GLOBAL EQUITY FUNDAMENTAL FACTOR MODEL

The fuss about factors

The idea that the risk and return characteristics of global assets can be neatly decomposed into common driving factors is highly appealing to today's demanding investors.

Per Ross[1], factor modeling is appealing precisely because "Identifying a small number of factors that influence or describe market returns formalizes our intuitive understanding of the market."

StatPro is pleased to introduce our Global Equity Fundamental Factor Model, which offers clients the ability to decompose equity portfolios into core factor drivers across style, industry, country and currency.

MAKING A FACTOR MODEL

Equity managers implement their investment theses by over/under weighting stocks across industries, countries, and investment styles – such as value, growth or dividend yield. A fundamental factor model allows us to decompose the actions of the manager and understand the risk and return characteristics of isolated bets on each of these industries, countries and styles.

These isolated bets are described by the factors in our model and each has a distinct risk and return profile. The remaining portfolio risk and return not described by the common factors is non-factor, or stock specific risk.

1Ross, S.A. (2017). "Factors—Theory, Statistics, and Practice", The Journal of Portfolio Management

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UNDERSTANDING THE PROS AND CONS

Calculating performance and questions to ask potential providers

There are multiple ways to calculate performance. Which method is right for your firm and what questions should you ask when evaluating performance solutions?

ASK THE RIGHT QUESTIONS

What return methodologies do you offer?

How accurate are your calculations?

How is data managed?

These are just a few examples of questions to ask when evaluating performance solutions to ensure your firm can focus on value-add activities instead of performance woes.

DOWNLOAD FREE EGUIDE

Free eGuide

Download your free eGuide to learn:

- **Why transaction-based performance calculations offer more accurate returns**
- **Important questions you should ask vendors about potential performance solutions**
- **StatPro's approach to calculating performance and managing data**

Any good solution should be designed with simplicity, scalability and customization in mind to ensure processes are as efficient as possible.

ASK THE RIGHT QUESTIONS

5 Questions to ask potential performance vendors

Evaluating any type of vendor can be an onerous experience, but evaluating a performance measurement system can be especially burdensome.

Whether it be calculation type availability, accuracy of returns or data management, there are a number of factors to consider during the evaluation process. So what questions should you ask potential vendors when looking at different performance systems?

WHAT PERFORMANCE RETURN CALCULATIONS DO THEY OFFER?

Does the potential solution offer transaction-based calculations, holdings-based, or both? Each calculation methodology has its own strengths and weaknesses so it's important that you have the availability to choose the best option for your firm. For example, an early stage firm may employ a holdings-based approach if they're unable able to meet the data requirements that come along with a transaction-based approach, but once they reach growth stage and data requirements are no longer a concern, the more accurate and granular transaction-based approach makes more sense.

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