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Current Trends in Investment Management

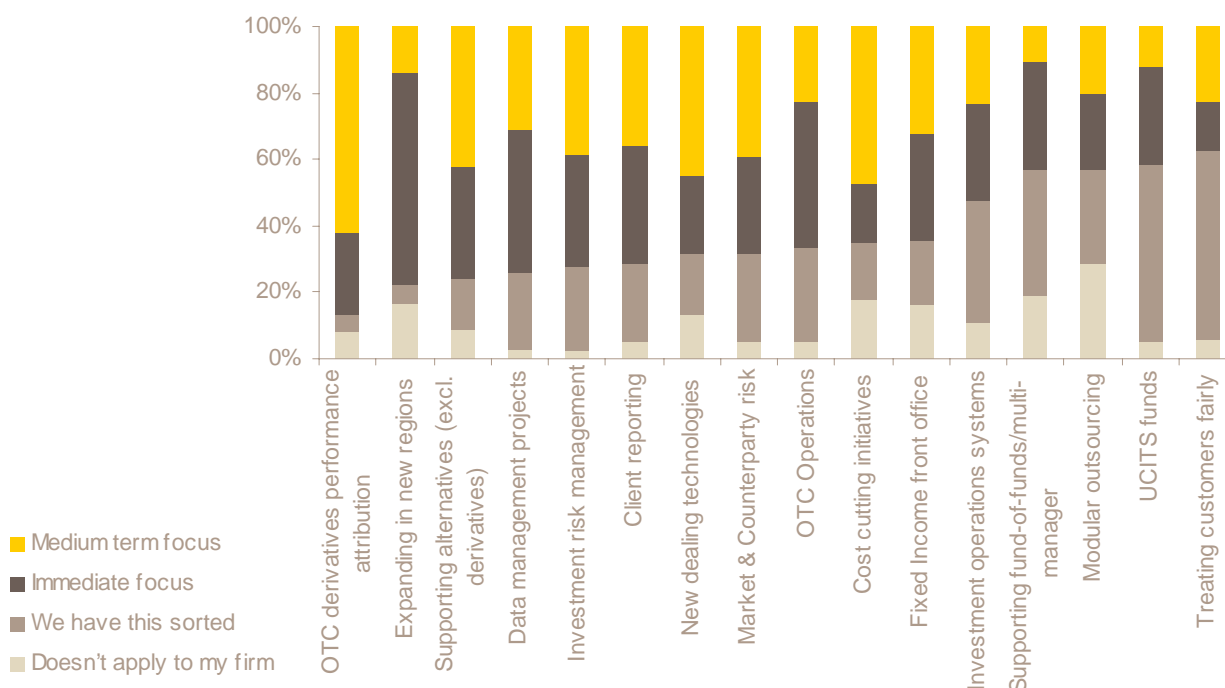
The Investit Intelligence service helps member firms improve their knowledge of the market and their ability to respond positively and profitably to change through practical, business-led research. Members receive three key studies every half year that define current practice, show firms how to achieve best practice and provide thought leadership on the key issues impacting the market.

Topics can extend from corporate and business strategy through to very specific areas such as best practice client reporting and performance attribution. In order to present these findings, Investit hosts bi-annual conferences attended by senior and executive delegates from the leading global and UK investment managers.

What are your biggest challenges?

At each conference, Investit facilitates discussion and debate identifying industry issues and future trends. At the most recent conference in July 2008, participants identified 16 areas for debate. These are shown in Chart 1 together with the views expressed by the conference attendees.

Chart 1: industry issues and initiatives



Note: The profile of attendees was approximately 75% investment managers and 25% third-party administrators.

Modular outsourcing identified as an emerging trend

Modular outsourcing was a trend identified as gaining prevalence in the industry. To date, most outsourcing initiatives have been first-generation transitions featuring complete lift-outs. At some point, second generation transitions will happen where the investment manager transitions from one TPA to another. Also, with the increased use of OTCs by investment managers we expect to see them looking for specialist support in some areas of operations. For these reasons, we think that investment managers will start to take a best-of-breed approach to outsourcing rather than the “all or nothing method” that has characterised outsourcing to date.

At Investit, we use the term modular outsourcing to describe this best of breed approach. However, in Chart 1 it can be seen that there are a significant number of firms for which modular outsourcing is not considered to be relevant, but we will return to this later.

We have 'this' sorted...

TCF (Treating Customers Fairly) and UCITS stand out as the top issues that firms have "sorted", with 57% and 54% of delegates respectively, saying that these issues have been addressed. That these are regulatory requirements is probably no coincidence, as firms need to become compliant by a specified deadline and there is usually guidance on what needs to be done. So, at Investit, we were not too surprised at this finding.

However, we were a little surprised at the proportion of firms that stated they had addressed the following areas:

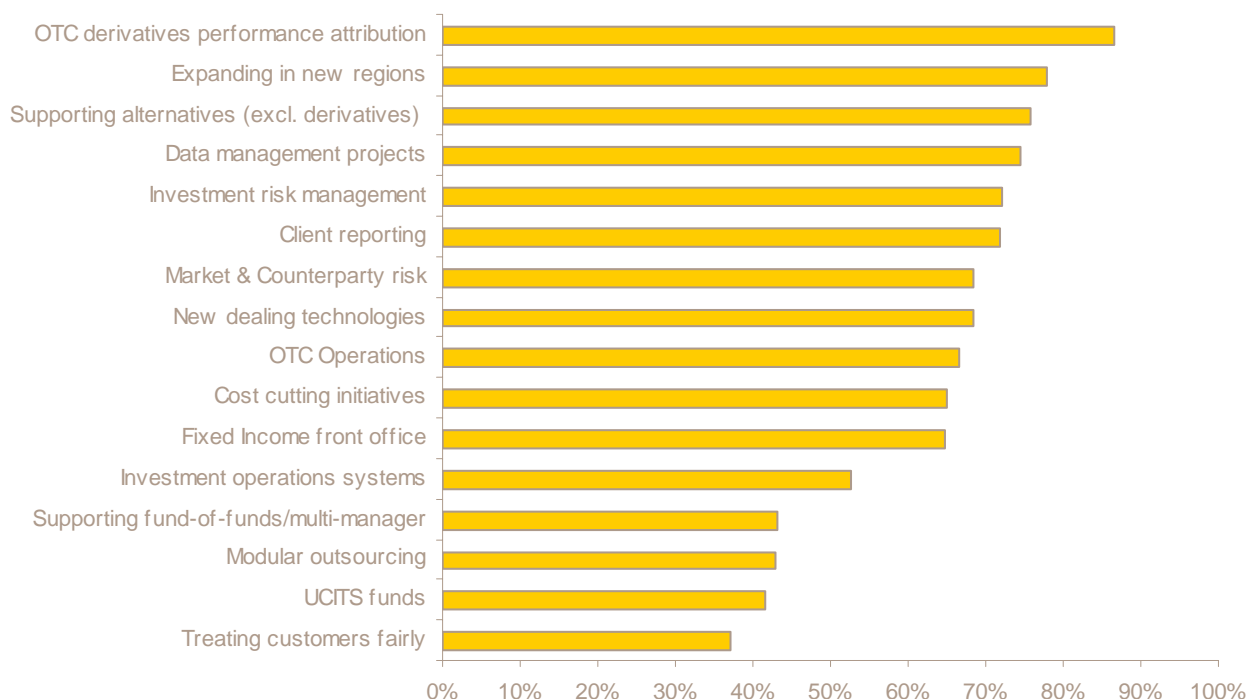
- Modular Outsourcing (29%)
- OTC Operations (28%)
- Client Reporting (23%)
- Data Management (23%).

Although 29% of firms do not consider Modular Outsourcing to be relevant, the same proportion of firms believe they have addressed it; this implies that around 60% of investment managers are not looking to change their current outsourcing arrangements any time soon.

Project 'wish list' for 2008/9

By combining the views expressed by the conference attendees regarding what they see as the "immediate" and the "medium-term" focus, we can see what are likely to be key business priorities for the industry over the next two years (shown in Chart 2).

Chart 2: key business priorities



The top five business priorities are:

- OTC Performance Attribution (86%)
- Expanding into New Regions (78%)
- Supporting Alternative Instruments (ex Derivatives) (76%)
- Data Management (74%)
- Investment Risk Management (72%) and Client Reporting (72%).

It is significant that over 70% of firms agreed that these are all key business priorities and so are likely to be the main areas of strategic investment over the next two years. However, note that 12 of the 16 areas were seen as key business priorities by more than half of the firms at the conference; therefore most firms are trying to address a broad range of issues and initiatives.

As a result of the current economic climate, cost reduction is an important factor in the upcoming budgeting process. Therefore we question if there will be sufficient budget to fund all of the projects firms have added to their 'wish list' for the next two years. Some difficult decisions will have to be made about where to allocate the budget for IT, business change and other projects.

So what does all this mean for people working in performance and client reporting?

Clearly, performance teams have to rise to the challenge of providing performance analysis for funds holding OTCs (86% of firms saw this as a key business priority). As few of those attending the conference in July were from performance teams, it is apparent that this is a business-wide issue; not one that just troubles performance analysts. Consulting work carried out by Investit over the past 18 months has shown that few investment managers have made strategic advances in this area. Therefore, this is a challenge in which the pressure is likely to increase over the next 12-18 months.

Client Reporting, joint fifth on the list of key business priorities, is another area that should be high on the strategic agenda over the next two years; however we have seen above how it will be competing for attention with a broad range of initiatives. Over the years, Client Reporting has consistently failed to attract the right level of strategic investment.

Recent research and consulting work by Investit has provided strong evidence that institutional clients are becoming increasingly dissatisfied (and vocal) about the quality of the reports provided by their managers. If Client Reporting is to change its history of under-investment, firms wanting to improve their client reports will need to prepare a strong business case. To do this, they are likely to need independent, objective evidence of external drivers for change.

Both performance analysis and client reporting feature in the top five key business priorities for the next two years which will directly impact performance and client reporting teams. Furthermore, other key business priorities (Expanding into New Regions, Supporting Alternative Instruments (excluding Derivatives), Data Management and Investment Risk Management) also have indirect implications for performance and client reporting teams.

So, to answer the question of what does it all mean for people working in performance and client reporting: it looks like the next two years are going to be quite busy!

About the author

Hilary Martin is a Consultant at Investit, supporting projects across the full range of Investit's client base. Recent assignments have included outsourcing of performance and client reporting functions, reviews of client reporting production processes and developing client take on processes and procedures. In addition, Hilary also conducts client audits to assess the quality of the services provided by the investment manager to its clients. Hilary joined Investit in 2005.

Prior to joining Investit, Hilary spent 8 years at Deutsche Asset Management where she worked in a wide range of business analysis roles initially in IT, working on front office systems, and then in various business teams working on projects in areas such as trade processing, performance, client servicing, client management and client reporting. Before joining DeAM Hilary worked as a business analyst at a software firm and then as a consultant at Ernst & Young.

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