

WHITE
PAPER

Bringing order to chaos: Managing investment research in an era of change

Research Management Survey Findings



Pensions & Investments

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Introduction

Research is the lifeblood of investment firms. Managing it effectively in a world increasingly flooded with information has become a critical issue. To determine how research challenges are being met, Advent worked with Pensions & Investments to conduct a survey of senior financial services professionals. A flood of responses confirmed that research management is a key challenge for many organizations. In sum:

- 1. People are overwhelmed by the volume of information they face** day-to-day. Filtering information is a necessary and important part of any investment professional's work, but the volume of information is outpacing the ability of these individuals to process it all without the appropriate tools and processes in place.
- 2. Too much valuable time is wasted.** Investment professionals are expensive resources whose time is best spent analyzing information, making investment decisions, or communicating knowledge to colleagues and clients. Instead, many are forced to spend a lot of time searching—sometimes without success—for information that would ideally be available at their fingertips. Others spend more time managing their inbox than analyzing information and attending meetings.
- 3. Research is scattered across multiple systems.** The number of systems used often multiplies in tandem with growth. This proliferation rarely takes into account the efficient flow of research necessary to make investment decisions, causing a further drain on profits and ratcheting up the potential for knowledge loss, particularly when investment professionals leave.
- 4. Investor inquiries increased** in the wake of the financial crisis. Demonstrating exhaustive due diligence is viewed as the most important factor in improving investor confidence, meaning that investment professionals are being asked to process and manage even more information.

About the Survey

Advent Software collaborated with Pensions & Investments to survey financial services professionals on the topic of research management.

Of 360 responses, most came from executives and investment professionals with an intimate knowledge of their organization's research process. Asset management firms comprised more than half of the survey universe, with advisory firms and institutional investors making up the rest.

The breadth of responses made it possible to analyze the data in a variety of ways. Organizational size often presented a compelling lens through which to view results. Large enterprises often bring more resources to bear but often shoulder the burden of additional complexity. Smaller organizations offer relative simplicity, but can prove less process-oriented than their larger counterparts.

The functional roles of respondents also bring different approaches and attitudes toward research management to light. In particular, those most closely involved with the research process itself were often the most vocal in pointing out the need for more effective research management.

A full description of the survey methodology and universe can be found at the end of this report.

Findings

Information Overload

The sheer volume of data and information available poses a daunting challenge to those tasked with making informed investment decisions. The curse of abundance is exacerbated by the ever-widening scope of products and increasingly complex strategies involved. Heightened regulatory pressure and demands from nervous investors further exacerbate the issue.

Investment professionals are on the front lines of the battle with data overload. Two-thirds of all respondents say they are increasingly overloaded with the volume of information facing them at work, but that rate climbs to 73% among portfolio managers and 88% among directors of research (*Figure 1*).

68% are increasingly overloaded with information

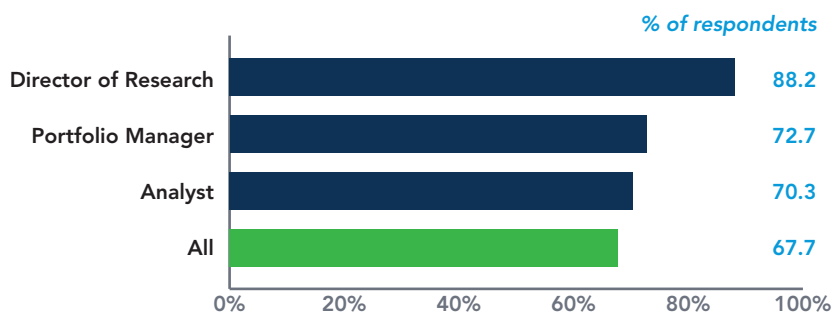


Figure 1: I am increasingly overloaded by the volume of information I have to deal with in my job

Findability

Directly related to the problem of data volume is the issue of findability. Being able to locate information efficiently is important for several reasons. In addition to shortening the investment decision process, making investors more nimble and flexible, it improves the client experience by making the organization more responsive and also reduces non-productive activities, creating a more rewarding work environment that optimizes the productivity of high value knowledge workers. Despite staggering advances in search technology, many people have had the frustratingly common experience of not being able to find the information they need. Almost two-thirds of all survey respondents say they spend a lot of time sifting through irrelevant information to find what they need. Research and investment professionals face this particular challenge more regularly than others (*Figure 2*).

63% spend a lot of time sifting through irrelevant information

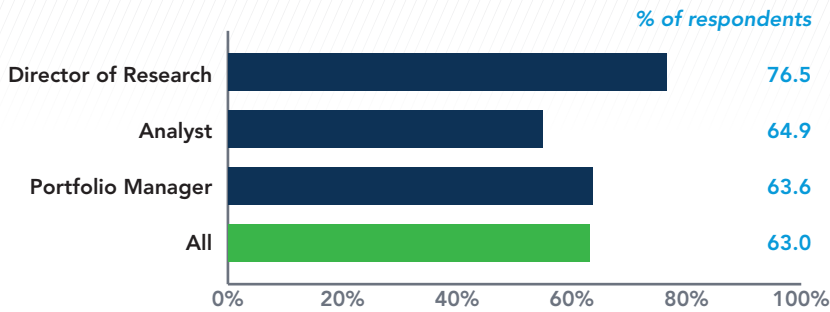


Figure 2: I spend a lot of time sifting through irrelevant information to find what I need

Wasting Time (and Money)

Financial services professionals spend a significant portion of their time searching for data, sifting, compiling, and formatting it into useful information, and then analyzing it to produce actionable knowledge for themselves, their colleagues, or their clients. Minimizing the amount of time spent on search frees up time for analysis, idea generation, and investment decisions. Optimizing activities in this way allows for better decision making, and also creates a more fulfilling work experience while also maximizing the value organizations derive from their highly compensated employees. This becomes even more critical in light of heightened expectations from investors.

Survey responses indicate that many professionals spend a startling amount of time on unproductive activities (Figure 3). Two-thirds of all respondents spend more than an hour a day managing their email inbox. Almost a third spend an hour or more daily searching for information that already exists on their organization’s internal systems. When one considers the compensation typically paid to these professionals, the financial drain caused by these unproductive activities becomes starkly clear.

30% spend more than an hour daily searching for existing information

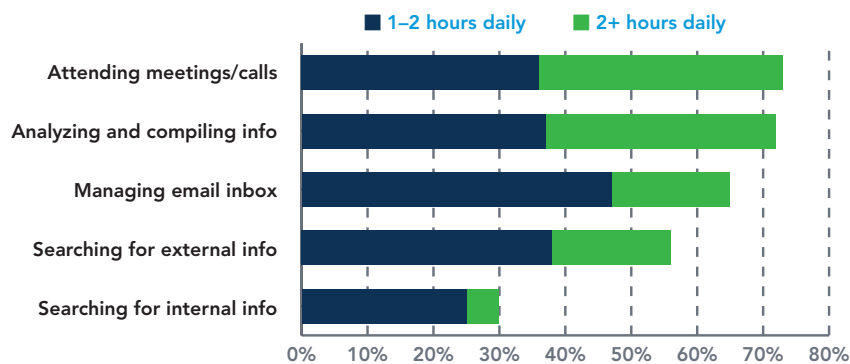


Figure 3: Daily time use by activity

The problem is particularly acute among investment professionals, those one would hope to be the least distracted and most productive. Directors of Research, for example, understandably spend a substantial part of their day searching for information externally. Less comprehensible is the fact that more than half of them are forced to spend over an hour a day searching for information already stored locally (Figure 4). It is not unusual for analysts and portfolio managers to face the same challenge.

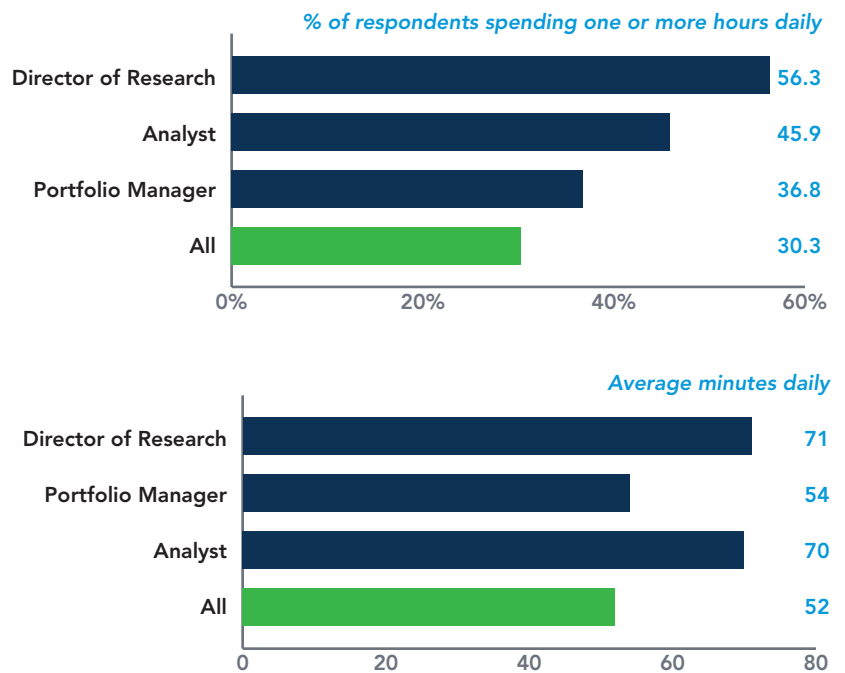


Figure 4: Time spent* searching for information stored internally

Two-thirds of all survey respondents spend an hour or more daily managing their email inboxes, but it is not unheard of for people to spend four or more hours on this task daily. Sales and relationship management professionals spend the most time managing email inboxes, with 84% reporting that they spend more than an hour a day doing it. Time spent managing email is directly correlated to organizational size: While 47% of those at the smallest organizations spend less than an hour managing their email inbox, that figure falls to only 21% of those at the largest organizations. The amount of time spent by investment professionals managing their email is particularly striking. Almost two thirds of all Directors of Research spend an hour or more on this task daily (Figure 5).

* Survey respondents were asked to indicate whether they spend a) Less than 1 hour, b) 1–2 hours, c) 2–3 hours, or d) 4+ hours daily on each activity. “Average minutes daily” is estimated by converting these responses to a) 30, b) 90, c) 150, and d) 240 minutes respectively before calculating the mean value.

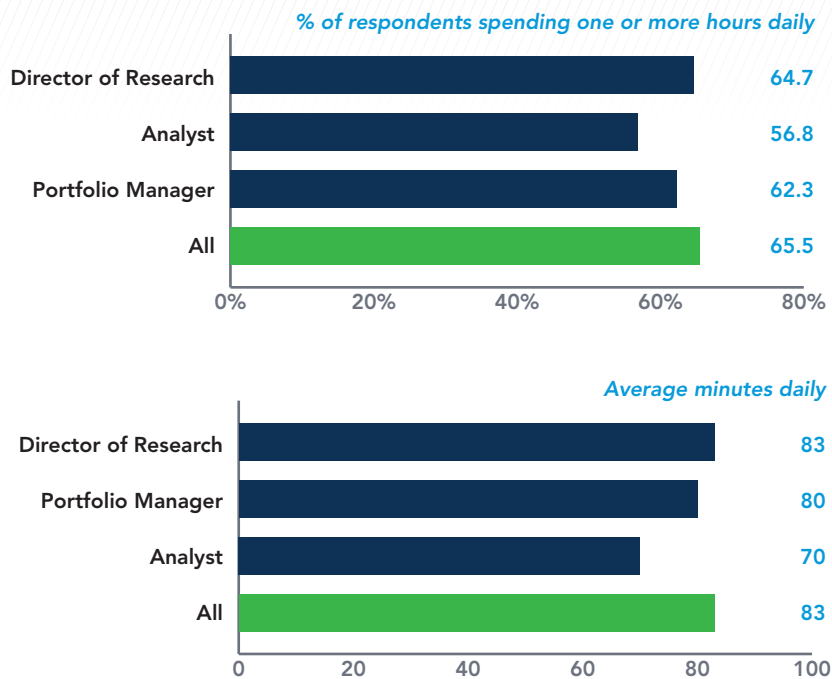


Figure 5: Time spent managing email inbox

Analyzing information and converting it into actionable knowledge are activities that lie very close to the center of every asset manager's value proposition. It is therefore not surprising that investment professionals spend the most time on these activities. Analysts, for example, devote an average of almost two and a half hours a day to analysis (Figure 6). Directors of Research also spend more than two hours on analysis daily. Given that analysis is a core part of their job descriptions, it can hardly be viewed as a waste of time. It is, however, an activity that can be made more efficient and effective via thoughtfully designed processes and the use of technology.

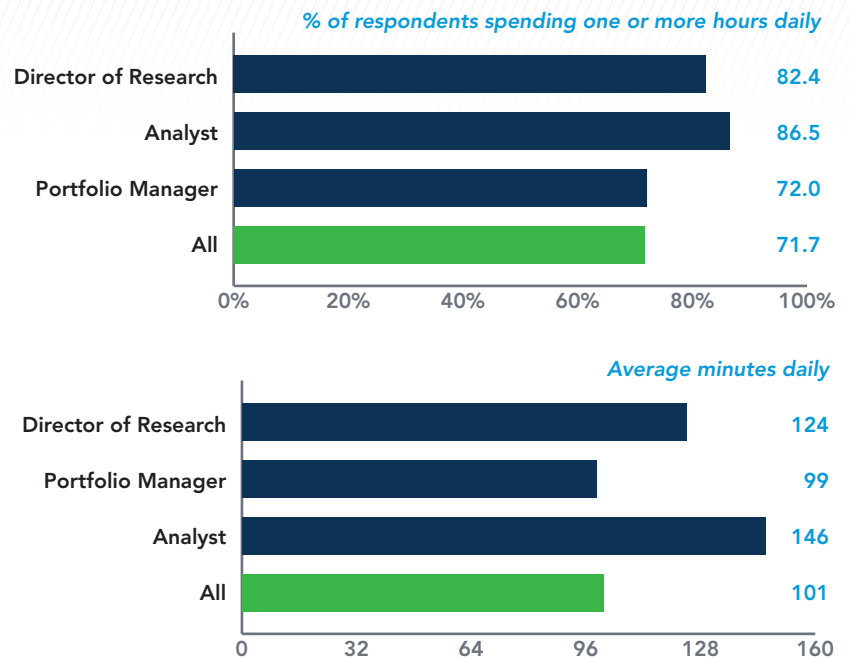


Figure 6: Time spent analyzing and compiling information into reports and models

Preserving Institutional Memory

Protecting against the loss of institutional memory is a critical issue for any organization in the investment business. The problem may be less acute than it used to be, thanks to greater focus on core processes and more widespread use of appropriate systems. Still, it is not unusual for financial services organizations to come face to face with the fact that their intellectual capital walks out the door every night. A quarter of those surveyed said that it was challenging to locate all the research generated by an investment professional after they had left the firm. The size of an organization has a direct impact on the severity of the problem. Only 13% of respondents at the smallest organizations say that finding the research of departed colleagues is a challenge, compared to 43% of respondents from the largest organizations. Not surprisingly, investment professionals are the most likely to view this as a serious problem (Figure 7).

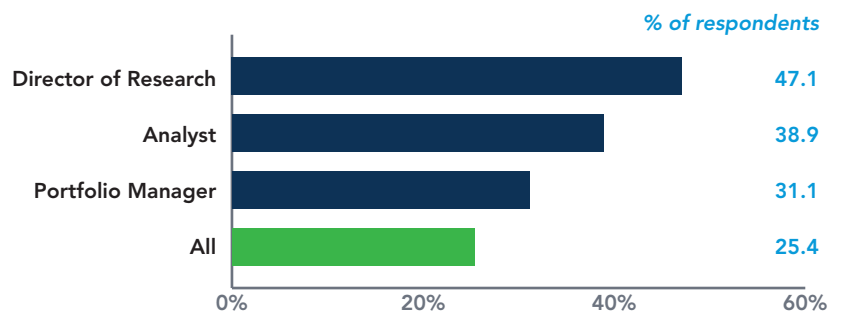


Figure 7: After a member of the investment team leaves the firm, it is challenging to locate all of their research

The Problem of Scattered Research

Locating information is only half of the battle. Research is often disseminated in a wide variety of forms and accessed by a wide variety of end users. The vast majority of financial services professionals need to access multiple systems in order to collect the information necessary to support investment decisions (Figure 8). Respondents from asset management firms most often reported using four or more systems, and small organizations understandably tend to use fewer systems than their larger counterparts.

Investment professionals are much more likely to require multiple systems. Almost half of all Directors of Research report using four or more systems, highlighting the severity of the challenge facing those at the nexus of the research process (Figure 9).

Despite a clearly demonstrated need for clarity and control in the average research process, dedicated research management systems remain something of a rarity, in part because they have only become available during the last few years. Less than 7% of all respondents said a research management system is used as the primary storage location for research (Figure 10). Local hard drives remain the most common storage location at a surprising number of organizations, particularly smaller ones. The fact that one out of every five portfolio managers surveyed stated that their primary storage location for research was their local drive hints at the scope of the challenge (and opportunity) facing organizations aiming to improve their ability to serve their investors.

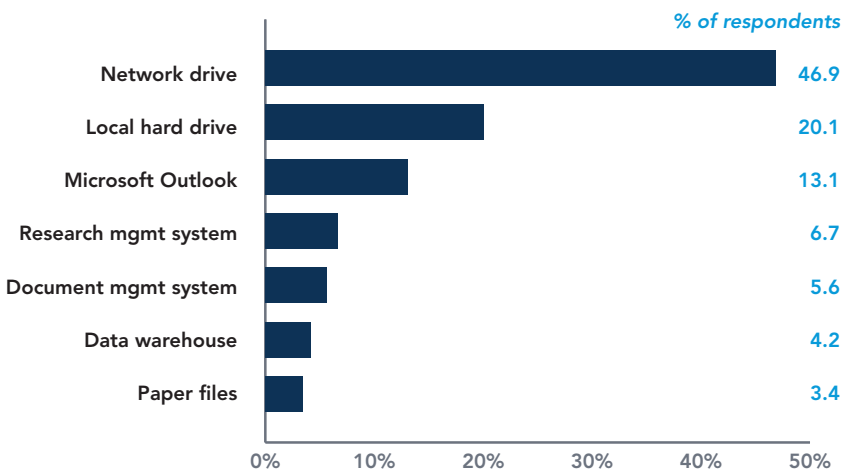


Figure 10: Primary storage location for research

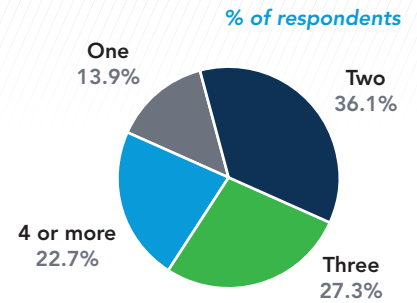


Figure 8: Number of systems required to access research needed to support investment decisions

86% require multiple systems to access research

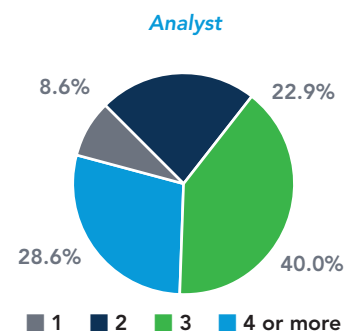
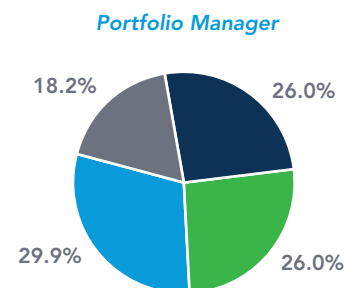
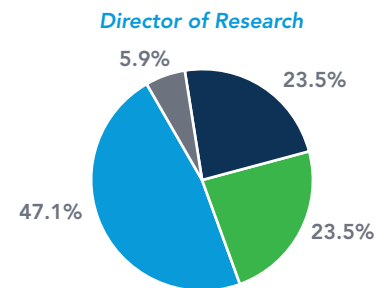


Figure 9. Number of systems required by investment professionals to access information needed to support investment decisions

20% use a local hard drive as the primary storage location for research

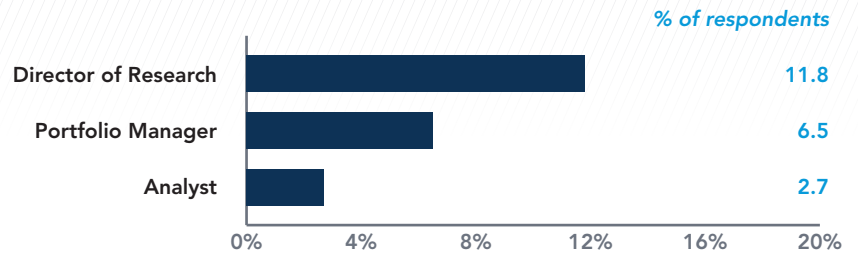


Figure 11: Research management system used as primary storage location for research

Large organizations have adopted research management systems earlier than their smaller counterparts. Likewise, institutional investors and asset managers embraced systems before advisory firms. Meanwhile, paper continues to play a prominent part in many people’s lives, with almost half of all respondents saying they store research in paper form (Figure 12).

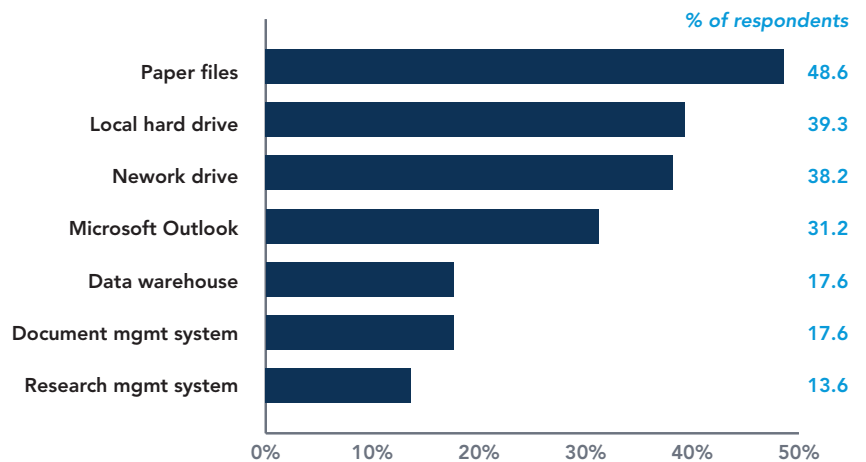


Figure 12: Additional storage locations for research (Multiple answers allowed)

Directors of Research and portfolio managers alike need to deal with an average of more than three separate systems to access research (Figure 13). It is no wonder that findability has become a critical issue for many investment organizations.



Figure 13: Average number of locations at which research is stored

Shaken Investor Confidence Adds Pressure

Market turmoil has caused a crisis of confidence among many investors. It is easy to see why, given the well-publicized scandals and the trauma inflicted by the ‘perfect storm’ market environment from which no investment strategy or asset class escaped unscathed. Investors are no longer complacent about demanding more frequent communication, increased transparency, and more detailed reporting from their managers and advisors. Survey findings illustrate this trend clearly, with respondents reporting that investor inquiries jumped amid the recent market volatility (Figure 14). The rise in investor inquiries exacerbates the challenge of managing research effectively.

Organizations of all types are facing tougher and more frequent questioning from investors, but larger organizations are experiencing increased scrutiny more frequently than their smaller counterparts (Figure 15). More than 83% of respondents at the largest organizations said the number of investor inquiries had increased, compared to 49% of those at the smallest organizations. As is often the case, size is a double-edged sword. Economies of scale can boost profits and a diverse product lineup can produce less volatile income streams, but the often larger number of investors can also result in a less intimate client experience. Additional challenges (not least of all technological) that accompany increased size and complexity mean that asset managers and other investment organizations need to consider how information and research is processed and managed effectively as they grow.

64% report an increase in recent investor inquiries

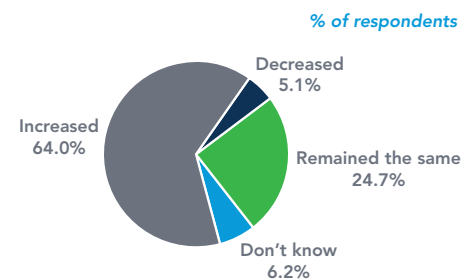


Figure 14: Change in investor inquiries during past 12 months

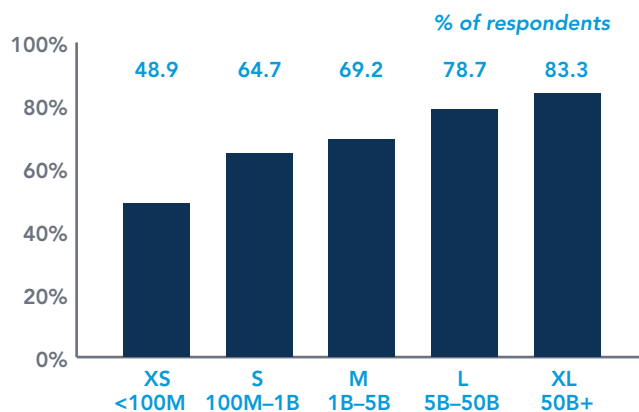


Figure 15: Increase in investor inquiries during past 12 months, by size of organization

It would not be unreasonable to expect client-facing professionals to be those most often reporting a rise in investor inquiries. Almost three quarters of sales and relationship management professionals did in fact say that inquiries had increased over the past year. But it is Directors of Research that are the most often in the firing line: 82% of them reported an increase in investor inquiries (Figure 16). Regardless of their point of entry into the organization, such inquiries almost inevitably end up being addressed by those in charge of research. These individuals are presumed to be best situated to access the data, information, or knowledge necessary to form a cogent answer. Though not necessarily tasked with communicating directly with investors, research professionals often bear the burden of responding to ad hoc inquiries, placing additional pressure on their time and resources.

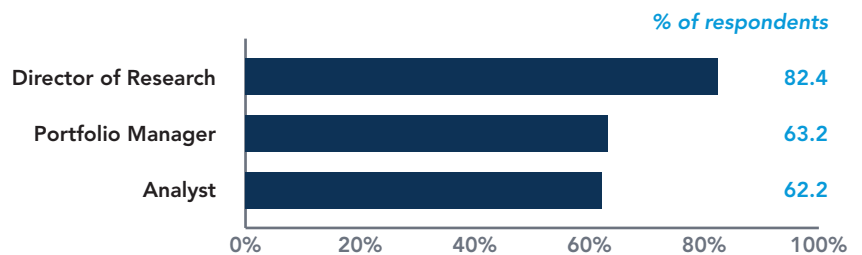


Figure 16: Increase in investor inquiries reported by research and investment professionals

Demonstrating exhaustive due diligence is viewed as the best way to improve investor confidence.

Most people think that investor confidence in their firm or organization could be improved. Almost half of all survey respondents say that—outside of improved performance—this could best be accomplished by demonstrating that investment decisions are supported by exhaustive due diligence (Figure 17). A third state that better, more frequent, and more detailed reporting would enhance investor confidence. A more transparent research process is seen by 16% of respondents as another way that investor confidence could be enhanced. Successfully implementing any of these approaches hinges on an organization’s ability to effectively manage research. Systems and processes need to be optimized to permit and encourage access, analysis, and communication of the key research materials.

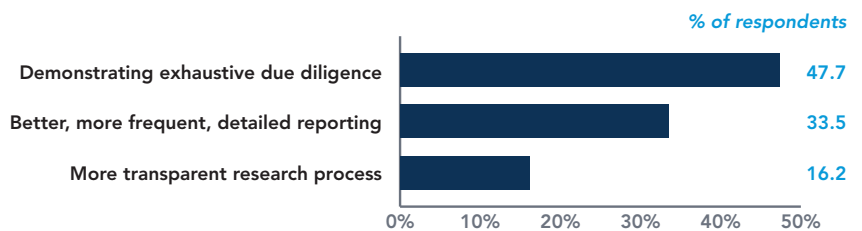


Figure 17: Factors that would most improve investor confidence

Facing the brunt of the challenge posed by rising investor inquiries, Directors of Research are most likely to see the value in a more transparent research process. More than one in three says that increased transparency would boost investor confidence (Figure 18).

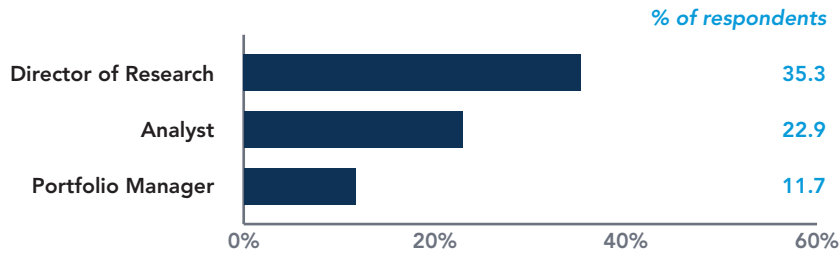


Figure 18: More transparent research process would most improve investor confidence

Directors of Research are also the most likely to feel that demonstrating exhaustive due diligence would improve investor confidence (Figure 19). Portfolio managers are often in agreement. While most did not advocate increased transparency per se, demonstrating the breadth and depth of their due diligence was supported by half of all portfolio managers. This is easy to understand when one considers that the ability to reliably, consistently, and easily produce evidence of exhaustive due diligence is something that could potentially save portfolio managers countless hours otherwise spent tediously retracing their activities and decision making process.

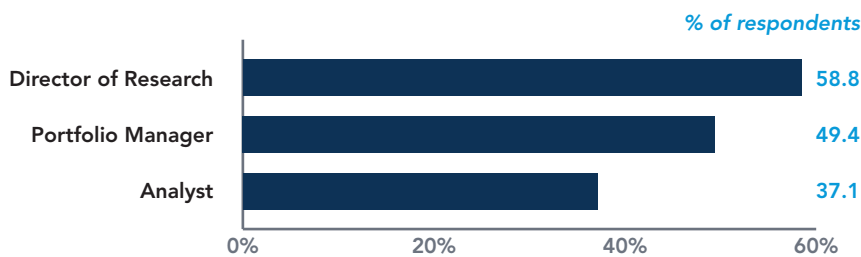


Figure 19: Demonstrating exhaustive due diligence would most improve investor confidence

The frequency and quality of client reporting have improved over the years as investment organizations enlisted technology to deliver enhanced client experiences. Many think it could be improved further. This perception is not correlated to firm size. Directors of Research are the most likely to feel that better reporting would help (Figure 20). They are joined by a significant percentage of those in other positions including sales, relationship management and operations.

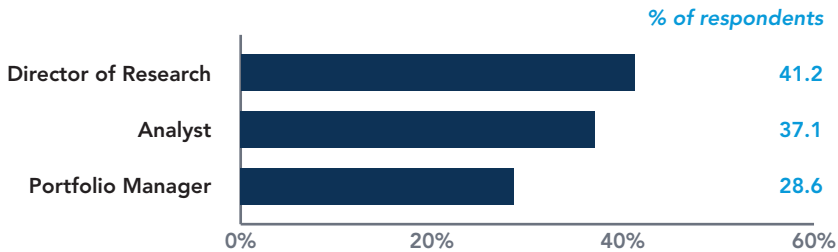


Figure 20: More frequent, detailed reporting would most improve investor confidence

Conclusions

The enthusiastic response to this survey highlights growing interest in the issue of research management among investment professionals and their colleagues.

Research is an increasingly complicated process that relies on an unprecedented volume of information from myriad sources. That information comes in various guises, including sell-side research, meeting notes, expert commentary, market data, internally developed models, and others. This growing flood of data and information is difficult and time consuming enough to manage at the best of times, but, with investor inquiries spiking and compliance issues now front and center, the challenges are exponentially greater. Product breadth and complexity as well as an increasingly competitive market further exacerbate these challenges.

Despite being at the very core of most organizations' value proposition, research often remains scattered, disorganized, and largely unmanaged. The costs cannot be overstated. Intellectual capital evaporates every day. Institutional memory is constrained. Collaboration becomes more difficult. Time and expensive resources are wasted.

Managing research effectively may seem like a daunting challenge, but like most challenges it should also be viewed as an opportunity. A properly structured and managed research process benefits all stakeholders in the investment process. Investors will appreciate improved reporting as well as enhanced responsiveness to ad hoc requests, both of which serve to raise their confidence in the people and processes responsible for their investments. Senior managers will welcome the improved workflow, higher productivity, and increased employee satisfaction that bring greater profitability and a more competitive offering. Investment professionals may have the most to gain from research management.

Investment professionals experience the advantages of well-managed research the most directly. Improved information handling brings order to the chaotic torrent of data faced by many investment professionals on a daily basis. More importantly, improved research management enables them to do their job better. Time is freed up for additional analysis and improved access to information can reveal nuances that were not previously evident. Information is more effectively transformed into actionable knowledge, producing more thoughtful and informed investment decisions.

About the Survey

The Research Management Survey was completed online by 360 respondents from a variety of financial services organizations during late 2009. Once responses were validated, they were tabulated and analyzed as a group as well as by the type of organization, organization size, and the position of the respondent.

Three types of entities, encompassing all major facets of the asset management business, participated in the survey:

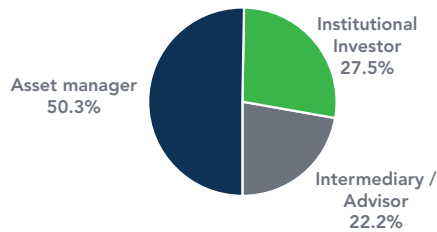


Figure 21: Survey respondents by type of organization

- ▶ **Asset management firms:** Global investment management firms, hedge funds, funds of funds, mutual fund complexes, and institutional managers
- ▶ **Advisors and intermediaries:** Broker dealers, consultants, RIAs, financial planning firms, banks, insurance companies, private trust companies, and CPAs
- ▶ **Institutional Investors:** Plan sponsors (public, private, Taft-Hartley), foundations, endowments, and family offices

Asset management firms comprise half of the survey universe, while institutional investors and intermediaries make up 28% and 22% of the universe respectively (*Figure 21*).

Differences in products, services, processes, technology, and costs are often correlated to organizational size. The survey universe was grouped into five cohorts ranging from the smallest (XS) with less than \$100 million AUM to the largest (XL) with AUM in excess of \$50 billion (*Figure 22*).

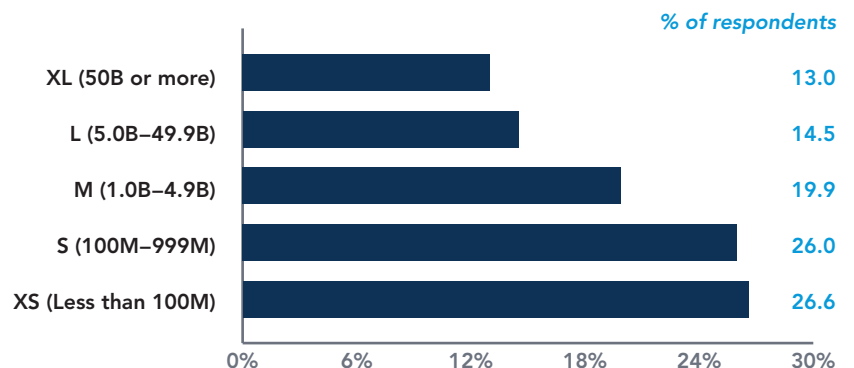


Figure 22: Survey respondents by assets under management

Perceptions and behavior are often direct reflections of the role played by a survey respondent in his/her organization. As such, respondents were grouped into eight cohorts based on their functional role:

- ▶ **Portfolio Manager:** PMs, Fund Managers, Pension Managers
- ▶ **Chief Investment Officer:** CIOs, investment committee members
- ▶ **Fin/Ops/Legal:** Controllers, treasurers, trustees, compliance, product managers, portfolio administrators, record keepers, human resources professionals, and librarians
- ▶ **Advisors:** Financial advisors, consultants, trust officers
- ▶ **Sales / RM:** Sales, marketing, business development, relationship management, and client service professionals
- ▶ **Analysts**
- ▶ **Business Executives:** CEOs, COOs, CFOs, Presidents, Partners, Managing Directors
- ▶ **Directors of Research:** Heads of Research



Figure 23: Respondent positions

About

Pensions & Investments

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The Author

Steve Unzicker provides research and consulting services to financial services organizations. His clients include mutual fund managers, institutional managers, hedge funds, family offices, banks, technology vendors, fund services companies, recruiters, and industry associations.

Prior to becoming an independent consultant, Steve was Director of Research with the Business Strategy Group at CRA RogersCasey. Previously, he managed the strategy consulting group at Investment Counseling, a boutique consultancy focused on the asset management business.

He began his career in the asset management industry with Morningstar. Steve earned his MBA from London Business School.



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You can count on us.

ADVENT SOFTWARE, INC.

[HQ] 600 Townsend Street, San Francisco, CA 94103 / PH +1 800 727 0605

[NY] 1114 Avenue of the Americas, New York, NY 10036 / PH +1 212 398 1188

[HK] Level 7, Two Exchange Square, 8 Connaught Place, Central, Hong Kong / PH +852 2297 2280

[UK] 127-133 Charing Cross Road, London WC2H 0EW, UK / PH +44 20 7631 9240

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