Helping Asset Allocators Become Data-Driven Organizations

A conversation with Bruce Feibel and Kishore Kottapalli

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The ability to harness large volumes of portfolio, market, and reference data from multiple sources in a flexible and easily accessible manner creates new opportunities for forward-looking asset allocators.

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Traditionally, these organizations have relied on external asset managers to manage their investments, without a process in place for accessing key data on holdings, investable cash and exposures on a timely basis. This leaves many allocators at a distinct informational disadvantage during periods of market turmoil or when analyzing investment opportunities.

A growing number of allocators are also evaluating their operating models and bringing more higher value-added activities in-house to support growth and optimize fee budgets. The ability to create and maintain a holistic view of their investment data is the first step to supporting portfolio management, risk modeling and trading internally.

Bruce J. Feibel, SVP and State Street Alpha[SM] Platform Manager and Kishore Kottapalli, SVP and Global Head of Cloud Strategy and Engineering at State Street Alpha recently sat down with Frank Smietana, Head of Thought Leadership and Content Strategy at State Street Alpha to discuss the challenges and opportunities facing allocators as they seek to extract more insight from growing volumes of portfolio, market and reference data generated across multiple sources.

Frank: Asset allocators are a diverse group of organizations, from pensions and superannuation funds to sovereign wealth funds and family offices. What do these entities have in common, and why are they increasingly looking to make greater use of their investment data?

Bruce: In general, allocators are focused on delivering beneficial outcomes to their stakeholders. They do that within the constraints of an investment policy that governs what asset classes and securities they can invest in. The actual day to day investment management is typically outsourced to multiple external managers and service providers, while the largest allocators manage a portion of their portfolio internally or perform investment related activities like managing currency overlays to hedge unwanted FX exposures.

This reliance on external providers creates an information lag, leaving allocators with potentially stale, inaccurate, or incomplete views of their portfolios. Increasingly, this is no longer acceptable to the leaders and investment boards of these organizations as well as to the regulators that oversee those organizations. The ability to aggregate positions, exposures and investable cash via fund-of-fund look through capabilities is increasingly seen as table stakes, as is the need to view this information at both the plan level and portfolio level. To help solve these challenges, allocators are turning to their asset servicers for solutions.

Frank: As one of the world's largest asset servicers, State Street has long realized the potential in helping asset allocators become data-driven organizations. What is State Street Alpha, and how is it changing the way investment data is managed?

State Street Alpha is the industry's first front to back asset servicing solution, providing the full suite of functionality required by allocators managing assets internally, from portfolio management and risk analytics to trading, middle office post-trade and settlement operations, and back-office custody and accounting. This ensures a single source of truth across the enterprise, while significantly reducing reconciliations between disparate systems.

The Alpha Data Platform (ADP) forms the foundation, enabling allocators to capture and leverage data from across the investment lifecycle and integrate these diverse data sets to produce an accurate and timely view of holdings.

Built on the Snowflake Data Cloud, ADP represents a sea change in the way data is managed and distributed, providing investment professionals with critical data delivered in a fit-for-purpose format. External investment managers can share data with allocators in a frictionless manner, significantly reducing information lag.

Alpha addresses the shortcomings posed by a patchwork of legacy point solutions. While those systems perform the functions and calculations required to satisfy a particular task, the lack of a shared data model and limited connectivity between systems leaves them unable to solve the challenges posed by growing data volumes and the demand for timelier insights.

Frank: The search for portfolio diversification and predictable low risk returns underpins asset allocators' significant investments in private assets, especially real estate, farmland and infrastructure. What data challenges arise in managing private assets?

Bruce: Unlike publicly traded assets, where pricing and valuations are readily available, private markets require far more data aggregation to generate a realistic view of asset values and anticipated cash flows. Private assets are heavily reliant on unstructured data in the form of term sheets and other documents, with many allocators still relying on manual work by analysts and spreadsheets to manage their investment data. Allocators that don't know what they own at the look-through level can't effectively manage those investments or determine how a macroeconomic change might impact their portfolio.

ADP provides allocators with a holistic view of their public and private investments, reducing reliance on spreadsheets and manual processes. By collating every data source into a single repository, from structured to unstructured, allocators can streamline their investment process.

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Frank: What advantages does Alpha's out-sourced data management service offer asset allocators, and why is the trend toward outsourcing accelerating?

Allocators don't want to be in the data management business. Talent is expensive and hard to find, and the time required to establish an in-house data center of excellence can take years.

ADP was purpose-built to meet the demanding requirements of asset allocators and investment managers. This helps our clients scale up quickly and on-board new asset classes without the overhead of purchasing and implementing additional systems. Being cloud-based, we can deliver this service anywhere in the world, which is especially critical for organizations subject to strict data residency requirements.

The State Street Alpha data management teams replicate their expertise working across our global client base, building reports, applications and data marts for our clients to meet the specialized needs of their portfolio construction, risk, performance and compliance teams. Allocators looking to become data-driven organizations can leverage our many years of data management experience, saving the significant cost and effort of building those capabilities in-house.

In any enterprise data management solution, asset allocators need to consider not just the upfront implementation but also ongoing maintenance costs. As technology and cyber risks evolve, working with a partner who's investing in these areas as a core priority becomes really important.

Frank: How does Alpha help allocators "cross the bridge" to determine which investments and processes to manage in-house and which make sense to outsource?

Bruce: Depending on which asset classes and investment processes are identified for insourcing, assembling the right mix of technology solutions and outsourced services across an organization's front, middle and back office is key to executing an effective strategy. Traditional back-office services such as fund administration, performance, collateral management and securities lending might make sense to outsource, while high-value front office capabilities are top insourcing priorities. Organizations also need to identify which assets make sense to outsource.

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Complementing our technology platform, Alpha Data Services delivers fit-for-purpose data across the organization by managing reference, pricing, benchmark, index and ESG data from any service provider or data vendor on behalf of clients. Outsourced services remove significant operational overhead, enabling firms to focus on managing investments.

Central to bridging internally managed assets with external providers is our Investment Book of Record (IBOR) and record keeping capabilities. Together, they provide organizations with an independent source of start-of-day positions across their asset servicers. By delivering accurate and timely cash and positions, allocators can quickly invest new funds, rebalance over- and under-weight allocations, and identify counterparty exposures.

Frank: Looking ahead, what capabilities does a unified data platform offer asset allocators looking to transform their organizations?

The ability to harness large volumes of portfolio, market, and reference data from multiple sources in a flexible and easily accessible manner creates new opportunities for forward-looking allocators. Most immediately, self-service business intelligence and data visualization tools empower non-technical users without relying on operations teams for support. With more data now actionable, allocators can leverage Alpha AI to deploy continuous learning systems that combine the best of human and artificial intelligence for complex applications like detecting anomalous data.

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