



BI-SAM Insights

White paper

July 2014

Author

Peter Ellis

Achieving Best Practice in Performance Measurement and Analysis

BI-SAM's Performance CMM

Introduction

To paraphrase the renowned Irish physicist Lord Kelvin:
“If you cannot measure it, you cannot improve it.”

The concept behind Lord Kelvin’s statement is one familiar to the asset management industry. Huge resources are devoted to measuring and analysing investment performance to establish:

1 Whether or not the level of performance being achieved is acceptable...

2 ...and if not, the corrective action that should be taken.

Yet although we apply Kelvin’s concept to the results calculated by performance teams, we do not apply it to the business processes that generate those results, where the industry lacks a robust best practice framework.

Best practice frameworks are an important mechanism for measuring product or service quality against an objective and independent benchmark. They are used by service functions in various industry sectors to:

- Instil confidence in their client base that service levels are aligned with, or better than, industry practice.
- Gain acceptance from their client base that a good overall service is being provided.
- Focus effort in the right places when it becomes clear that there is a need to enhance service capability.

“
If you
cannot
measure it,
you cannot
improve it
”

Performance Industry Best Practices

So what about best practices in the performance industry? At this point, no objective benchmarks exist. The closest the industry comes is the GIPS® Standards. But these were designed for particular situations, namely the presentation of composite performance in sales and marketing materials. The main motivation for extending the use of the GIPS® Standards into other areas, such as client reporting and asset owners, is the absence of a proper best practice framework for performance measurement and analysis.

The situation is made even worse by the fact there is a bewildering array of options for calculating the same performance results, and a wide range of opinions about which are the right and wrong options. That is why we still have arguments in the industry about fundamental points such as whether it is right to use money-weighted or time-weighted return calculations.

This lack of 1) a best practice framework and 2) an industry-wide consensus on methods and techniques creates profound problems for performance teams and their organisations:

- How do you know if your performance function is operating at the right service level?
- How do you know it is delivering value for money?
- Is your performance function far behind or way ahead of market practice?
- Is your firm paying for a level of service capability that is not appropriate for your business?

These problems have never been more pronounced than today because performance teams are in a state of transition, moving from an old world to a brave new one.

“Performance information now plays a central role in winning and retaining business.”

Evolving Performance Functions

It used to be the case that performance teams struggled to calculate basic performance results in a consistent way across all portfolios using repeatable processes. But this is no longer the case because the widespread use of Excel as a calculation platform has been superseded by the use of specialist calculation systems.

Over the past five years, there has been an increase in the demand from investors for:

- More detailed and transparent information about investment performance.
- More explanation and evidence of the value delivered by investment processes.
- More customised presentation of information to be provided in less time.

For these reasons, performance information now plays a central role in winning and retaining business. It provides the evidence managers need to show prospective clients how they can add value. It also provides the transparency and explanation that is so vital for enriching the client experience.

So, today the challenge no longer centres on calculating performance results. Performance teams need strategies that extend across the end-to-end processes of generating and efficiently distributing performance results, and the supporting data, to all the people within and outside their firm who want to see them.

Historically, performance teams have measured their capability in relatively simplistic ways, namely in terms of the calculation methods they use. Over the past five years, however, the demands and expectations of their internal and external clients have changed significantly.





Therefore, performance teams need a best practice framework that:

- Covers much more than the techniques and methods used to calculate returns, attribution effects, and any other performance and risk metrics.
- Enables them to ensure that their capabilities remain well aligned with an industry practice that is evolving quickly.

It is for these reasons that BI-SAM decided that this is the right time to invest time and money in the development of a best practice framework for performance measurement and analysis.

BI-SAM’s Performance Best Practice Framework

The best practice framework developed by BI-SAM focuses on five capability dimensions:

- 1 Calculation – Audited Data** The calculation of results using audited source data.
- 2 Calculation – Indicative Data** The calculation of indicative results using unaudited source data.
- 3 Performance Data Distribution** How well performance teams can distribute performance information to internal and external clients.
- 4 Operational Integration** The degree to which performance teams are integrated with the upstream business teams and processes that provide source data.
- 5 Production Robustness** The strength of the operating platform and of governance and management control procedures.

Underpinning BI-SAM’s Performance Best Practice Framework is a capability maturity model (CMM).

These models were first introduced as tools to evaluate the ability of IT firms to meet the standards required for government software projects. Over time, CMMs have been applied in other industry sectors to define a general model of the maturity of processes. In simple

terms, a CMM is a structured set of capability levels covering the methods, working practices, procedures and business processes used by a function to deliver services and outputs.

BI-SAM has developed a CMM for performance measurement and analysis by designing a set of 60 capability criteria across the five capability dimensions above.

Performance Capability Model

DIMENSION	MAIN CAPABILITIES ASSESSED
Calculation – Audited Data	<ul style="list-style-type: none"> ● Methods used for calculating returns, along with the frequencies and levels at which calculations are performed. ● Type of ex-post risk statistics calculated. ● Methods used to calculate equity and fixed income attribution. ● Composite calculations – whether the calculations are GIPS® compliant and independently verified.
Calculation – Indicative Data	<ul style="list-style-type: none"> ● When and how indicative returns are delivered to portfolio managers. ● When and how results are delivered to other internal/external clients, and how errors are identified and fixed. ● When and how indicative attribution results (equity and fixed income) are delivered to internal/external clients, and how errors are identified and fixed.
Performance Data Distribution	<ul style="list-style-type: none"> ● Channels used for distributing performance data. ● Type of information distributed, along with the period and level of detail. ● Service levels achieved for responding to ad hoc and scheduled requests for performance data.
Operational Integration	<ul style="list-style-type: none"> ● Effectiveness of portfolio data (holdings and transactions) and market data (indices and asset characteristics) collection in terms of data format, timeliness, completeness and consistency.
Production Robustness	<ul style="list-style-type: none"> ● Operating platform: scalability, degree of automation, identifying and resolving source data issues. ● Change control procedures for setting up new portfolios, closing down old ones and handling benchmark changes. ● Extent of service level agreements in place and degree of auditability achieved. ● The business perception of the service provided.

Find out more at www.bi-sam.com

Applying the Framework to the Real World of Performance

In addition to defining a capability maturity model for performance, BI-SAM has also developed a capability analysis tool. This analysis tool can be used by firms to obtain an independent assessment of the service capability of their performance function. The process involves three steps.

First, firms complete an online questionnaire covering the 60 capability criteria. The questionnaire also collects information about the business in which the performance team is operating. This is important because different types of firm require different capabilities. For example, an investment manager that only manages equity mandates has no need of a fixed income attribution capability.

Second, the responses are input into BI-SAM's CMM model.

Third, a factsheet is produced showing how the capability of the performance function compares with:

- **Standard Practice** – the minimum service level performance teams should achieve.
- **Best Practice** – the best level of service that should be expected in the industry.

The factsheet contains a **graphic representation** for each of the five dimensions, with each bar depicting the spectrum of potential positions in the capability model.

For the example shown here, this firm should be concerned about the robustness of the production platform and processes in the performance function. Also, this firm should consider enhancing the approach to distributing performance information to internal and external clients.

The factsheet also contains qualitative commentary to provide further insight into the positioning of the performance function within the best practice framework. For example:

- In which specific areas is the team operating at or close to Standard Practice?
- In which areas is it operating at or close to Best Practice?
- Which capabilities are the strongest?
- Which are the weakest?

Armed with this information, the factsheet will provide performance teams with independent guidance on:

- 1 Whether or not their methods, procedures and processes need to be enhanced.
- 2 If they do need to be enhanced, the specific areas where attention should be focused.



Using BI-SAM's Capability Analysis Tool

It is very easy to use the analysis tool developed by BI-SAM to assess your performance function.

If you would like to use the tool, contact BI-SAM as indicated at the end of this white paper. You will be sent a URL for the online questionnaire. The factsheet will be sent to you within a week of the completion of the questionnaire.

The service is completely free. All the information you provide will be treated as confidential information and used only for the purposes of performing the capability assessment. The results of the assessment will also be treated as confidential and shared only with the nominated contact for your firm.

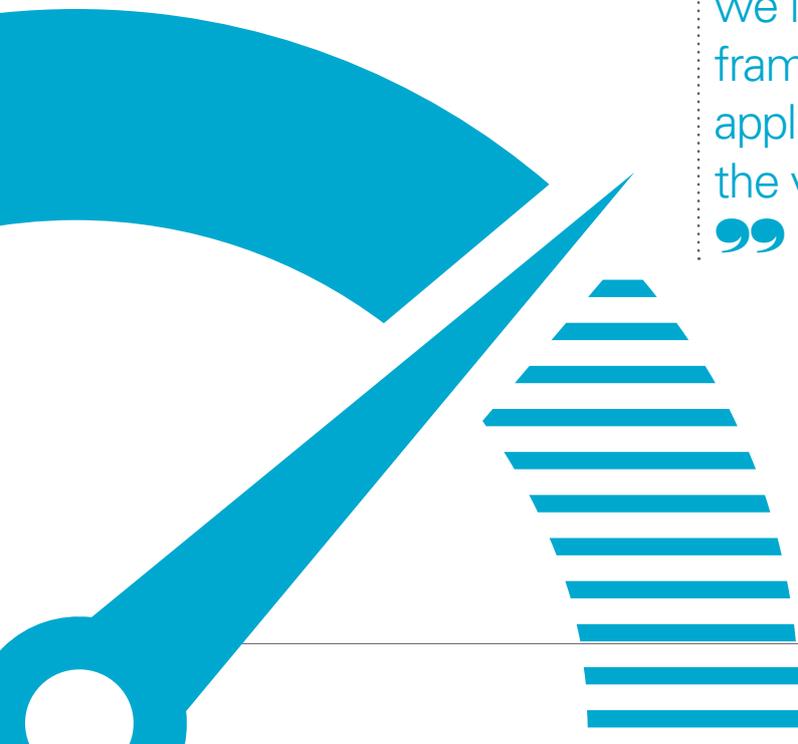
Future Developments

BI-SAM's Performance Best Practice Framework is a new innovation and we intend to evolve the framework to extend its applicability and enhance the value it delivers. There are two developments in the immediate pipeline.

First, we intend to conduct an annual market survey that will collect information from performance teams in different types of firms and in different regions. This will be used to establish a Market Practice for each capability dimension, and to provide market research on industry developments and trends.

Second, we will establish an Advisory Group, comprising practitioners from different firms and regions, to oversee further development of the best practice framework.

“
BI-SAM's Performance Best Practice Framework is a new innovation and we intend to evolve the framework to extend its applicability and enhance the value it delivers
”



Conclusion

Investors, regulators and investment managers all suffer from the industry's lack of a reliable best practice framework for performance measurement and analysis. BI-SAM has devoted considerable resources to designing such a framework to address this need. However, our efforts are not commercially motivated. Although BI-SAM is a market-leading provider of performance and reporting systems, the best practice framework we have created does not focus on the systems that performance teams employ.

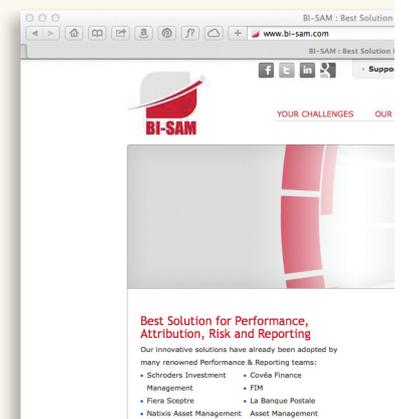
As a key participant in the asset management industry, we believe we share a responsibility to improve the industry for the benefit of all. By inspiring stakeholders from across the industry to work together to employ the framework we have designed, and enhance it over time, we can do just that.



Contact us at feedback@bi-sam.com to receive BI-SAM's capability maturity model online questionnaire



More valuable insight on industry trends is available at www.bi-sam.com





BI-SAM is a leading provider of software and services to the global Asset Management industry. BI-SAM's unique combination of best product and qualified expertise has already been selected by many international asset managers to reduce operational risks & costs and enhance clients' experience, while maintaining high level of security, controls and processes.

For more information on BI-SAM solutions, please visit www.bi-sam.com.



About the author *Peter Ellis*

With more than 30 years of experience in insurance, engineering, software development, and investment management, Peter is a knowledge leader in performance measurement and analysis. Prior to joining BI-SAM, he

was Managing Director of Investit. He also spent 8 years at Deutsche Asset Management, where he held a number of roles in IT and in the business. In his last role at Deutsche Asset Management, he was Managing Director, Performance and Client Services. Peter has extensive project management experience on a wide range of projects, and has directed many complex strategic projects, both from within IT as a project manager and as a business sponsor.

In accordance with international treaties and conventions about intellectual property rights as well with provision L.122-4 of the French Intellectual Property Code, the work herein this document is strictly protected. This document is copyrighted and the trademarks BI-SAM™ and B-One™ are registered by BI-SAM Technologies S.A. No part of this document or information contained herein may be reproduced or copied, in any form or by any means, without express written permission from BI-SAM Technologies S.A.

© Copyright BI-SAM Technologies 2014

For more information, contact us

EMEA

Head Office

43-47 Avenue de la
Grande Armée
75016 Paris
France
T +33 (0)1 42 85 73 00
F +33 (0)1 42 85 73 04
france@bi-sam.com

12 Mason's Avenue
London
EC2V 5BT
United Kingdom
T +44 020 7796 9010
F +44 020 7796 9039
uk@bi-sam.com

North America

295 Madison Avenue
11th Floor
New York
NY 10017
United States
T +1 646 590 0300
usa@bi-sam.com

225 Franklin Street
26th Floor
Boston
MA 02110
United States
T +1 617 933 4400
usa@bi-sam.com

Asia Pacific

21/F, On Hing Building
1 On Hing Terrace
Central Hong Kong
China
T +852 3971 9101
F +852 2524 1428
asia@bi-sam.com

Level 3
480 Collins Street
Melbourne VIC 3000
Australia
T +61 3 8610 6333
F +61 3 8610 6334
asia@bi-sam.com

www.bi-sam.com

Follow us on Twitter [@BISAMGroup](https://twitter.com/BISAMGroup)

Join our LinkedIn group [BI-SAM Network](#)

+1 us on Google+ google.com/+BI-SAM