

# OPERATIONAL ALPHA™: IT'S ALL ABOUT THE DATA

Operational Alpha™ is gaining traction as a measure to gauge operational efficiency. Originally applied to asset managers seeking ways to generate investment alpha through improved data management, Operational Alpha™ relates equally well to asset owners seeking higher quality investment decision-making. By reducing overhead and making better use of data, resources and technology, investors can funnel cost savings into their investment decisions.

For asset owners, Operational Alpha™ starts with data. All processes depend on the availability of sound data and the ability to manage it. For investors with complex, multi-asset class portfolios, this data can sometimes be elusive.

## Essential Steps to Better Data Management

Organizations struggle to efficiently leverage data in a way that supports investment decisions. Superior, complete, customized and accessible data: that's the goal. Most asset owners are not sure where to start. Developing a checklist of key steps can make the process more manageable.

### Step One: Establish a Measure of Success

Before you tackle the problem, it is a great idea to state what the outcome should look like so you can measure progress along the way. To help establish metrics, ask the following questions:

- Which of our goals are mandatory, and which are aspirational?
- Which data have been designated by an outside party and which are intrinsically motivated?
- Which areas are most important to measure (i.e., timeliness, failure, stress points, quality)?

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From transparency demands to market complexity, pressure weighs heavily on asset owners to make better use of their data. Yet organizations struggle to leverage their technology and operations infrastructures in a more organized way. Turning data into decisions requires better solutions.

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- What is our timeframe for measurement (i.e., monthly, quarterly, annually)?
- Who in the organization will use the metrics and how?

### Step Two: Perform a Comprehensive Review of Your Data Inventory

By reviewing your data inventory and its uses, you gain a bigger-picture view of your organization's needs. An inventory can include:

- Third party systems used by our organization
- Internal models and macros created by our organization
- Service providers and the data sets they support
- Reports produced by our organization, including external and internal reporting
- Employees and what data they need to perform their jobs

### Step Three: Assess Your Data Needs

Organizations are deluged by information. By taking a more holistic view of your current environment you can determine what data is most crucial for effective decision-making. You can do this by asking the following questions:

- What data are we using the most? The least?
- Which data sets are most error-prone and problematic?
- What are key information security risks to our organization and how do these various vendors and data processes perform?
- Where are we missing data and how can we obtain it?
- Is our current reporting inventory still necessary?

### Step Four: Formulate a Plan to Improve Your Data

The next step is to look at how you can improve your data environment. It is good idea to start small, because you will learn more about your organization and the data as you evolve the process. You can begin by asking the following questions:

- How can we stop updating the same elements in multiple places?

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Typical reports an organization may produce include board reports, regulatory reports, audit footnotes, tax returns, internal meeting support, survey reporting and metrics sent to third parties such as debt issuers.

- What quality checks can we automate or optimize?
- Can we eliminate any providers, simplifying our time spent on checking data?
- Can we automatically sync data between any systems?
- Do our people have the right expertise and awareness? Should we seek training opportunities?

### Taking a Deeper Dive into Your Data

Creating an approach to great data management requires taking a closer look at your data. Whether you do this manually using spreadsheets, with a data management system, or a combination of the two, each approach entails a significant amount of oversight and expertise. By better understanding your needs, you can become more efficient.

To perform a thorough assessment of your data, evaluate five key areas:

- **Completeness**
  - Is our data environment sufficient for the business we are in? Do we have access to both public and private market data?
  - Can we store all data elements required to facilitate decision-making, especially attributes specific to derivatives and alternatives?
  - Can we store documents and easily tag, search and locate information within them?
- **Quality**
  - Can we efficiently oversee information from custodians, futures merchants, banks and broker-dealers?
  - Is data available in a timely fashion and updated frequently enough to support our needs?
  - Do we have appropriate oversight to ensure accuracy of the assumptions used in our investment models and the reporting shared with outside parties?
- **Customization**
  - Does our data model allow us to flexibly classify assets based on multiple risk factors, such as geographical and

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Creating an approach to great investment data management requires assessing five key areas: completeness, quality, customization, delivery and security.

sector exposure, instrument utilized, beta correlation, leverage, liquidity and counterparty risk?

- **Delivery**

- Can we access data quickly and efficiently?
- Can we efficiently import and export our data?
- Can we easily access our data from remote locations?

- **Security**

- Is data secure at all times, both at rest and in transit?
- Are controls in place to ensure employees and external parties only have access to the information they need?
- Do we have a policy in place for data loss prevention?

Asset owners that successfully assess their data needs will make huge strides in improving decision-making efficiency and obtaining Operational Alpha™.

**Learn more**

Are you interested in learning how you can attain Operational Alpha™? We are happy to discuss how you can make better use of your data.

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