

Speaking of Alpha

# The Evolution of Outsourced Data Management

A conversation with Subbiah Subramanian



**The growing sophistication and complexity of institutional portfolios create new demands on in-house data management teams. Outsourcing presents firms with an opportunity to rethink and refine their operating models and focus more resources on their core competencies.**



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**Our Speaking of Alpha series features insights and commentary from State Street Alpha<sup>SM</sup> experts on data, operations, technology and services.**

The rapid pace of change in the investment management industry — driven by margin compression, growing regulation and evolving investor preferences — has many firms re-evaluating their technology and operating model and outsourcing non-core activities to trusted service providers.

Organizations focused on their core competencies and competitive differentiators are well positioned to grow assets under management by bringing innovative products to market faster and adapting to the changing demands of regulators and investors.

In a previous [article](#), we discussed the importance of providing the buy-side front office with accurate, intraday cash and position data, and the pivotal role that outsourced middle-office services can play in collecting, validating and delivering that data. We continue the conversation with Subbiah Subramanian, senior vice president and global head of State Street Alpha Data Services, to learn more about data management and the impetus behind the launch of Alpha Data Services.

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# State Street Alpha Data Services: A Conversation on the Evolution of Outsourced Data Management

## **What's driving the growing focus on data management?**

Institutional investors require increasingly complex products and services to reach investment targets, manage risk and comply with regulatory obligations. To meet that demand, investment managers are launching new products tailored to particular geographies or investor types that tend to require a specialized mix of data and analytics.

As these new products come to market, the infrastructure that supports them must scale up or down depending on volume.

Investment managers are also looking to increase efficiency. Historically, large teams have focused on building technology and supporting operations to manage their data, but have spent far less time using that data to gain insights.

Firms want to make their data accessible to traders and portfolio managers, and provide them with self-service business intelligence and visualization tools to surface those insights.

## **How has this impacted operations teams whose remit includes data management?**

As business demands grow, technology and operations teams are expected to deliver and manage an increasingly complex data infrastructure at a much lower cost. Historically, investment firms built and owned this infrastructure in-house. However, this can be an expensive exercise without much benefit.

Increasingly, firms want to center their core competencies on generating alpha and meeting client's needs by outsourcing data management and other non-core activities to their service providers.

## **What role does outsourcing play in data management?**

It's continuing to accelerate especially as investment managers dial up their focus on core competencies and identify processes that are better managed by third-party providers. This has significant benefits from a business resiliency perspective. Viewed through a data management lens, it introduces new challenges, where data ownership is shared across organizations and the need to govern that relationship and data grows in importance.

From a services perspective, organizations increasingly prefer to have services managed by the vendors of those services rather than managing them internally. They're able to introduce business capabilities much faster in this model. Here again, this introduces new complexities. Bilateral data integrations required in near real time affect critical business services that need to be managed.

From a data governance perspective, it's critical that investment professionals understand the data they're consuming, including its origin, quality, update frequency and sourcing dependencies.

### **What trends are leading clients to outsource their data services?**

As investment managers grow in size, sophistication and complexity, the data operating model has moved front and center. We see that reflected in the evolution of asset classes, instruments and investment styles across five trends:

- Firms increasingly struggle to generate alpha in public markets due to the growth of index-based investing. This has driven investment flows to private equity, infrastructure and real estate.
- Institutional portfolios have become more globalized as firms pursue opportunities in emerging markets.
- In response to regulatory pressure and investor demand, a growing number of investment managers are incorporating environmental, social and governance (ESG) mandates in their portfolios.
- Complex derivatives are seeing greater adoption, whether to hedge unwanted exposures or to implement yield enhancement and overlay strategies.
- Growing buy-side interest in new asset classes and instruments including cryptocurrencies, special purpose acquisition companies and private investments in public equity.

These trends present firms with significant new data management challenges that didn't exist when portfolios consisted largely of publicly traded stocks and bonds. Regulations such as the Markets in Financial Instruments Directive II have also significantly increased data requirements as firms must demonstrate and document best execution and pre- and post-trade compliance.

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### **What operational functions make sense to outsource and how does an organization make that determination?**

Managing reference data, benchmarks, analytics and processes such as setting up new securities before they can be traded or added to a portfolio are 'low hanging fruit' because they aren't client-specific workflows and can be offered as a service. Likewise for data governance.

Outsourcing is also useful for large investment managers and asset owners that rely on multiple custodians across geographies. Aggregating timely custodial data and proactively managing updates to custodian's file formats is critical but operationally intensive for individual firms to perform in-house.

Enterprise data management also lends itself to outsourcing. For example, validating analytics from multiple sources, distributing ESG factors to the front and middle office and generating 'gold copies' to maintain consistent data across the investment process.

Finally, third-party risk, performance and analytics tools that inform front-office decision-making are data intensive. Managing disparate data feeds required by those tools are another good example of where outsourced data management adds value.

The cloud has accelerated this move, providing stakeholders with accurate, timely and role-appropriate data, delivered from a service hub located in their geography to minimize latency.

### **What's State Street's approach to business continuity and operational resiliency?**

As a global systemically important financial institution, we can offer clients a resilient servicing platform that supports their operations across the investment lifecycle, from front to back, with global scale. We are not only accountable to clients but also heavily monitored by regulators globally. It is incumbent on us to adhere to a strong control environment that is frequently validated both internally and externally.

Our controls and processes are all supported by a strong technology foundation that we've invested in over a number of years. This provides an equivalent experience to firms that formerly had in-house operations teams, and maintains efficiency and consistency when validating and remediating data-related issues.

Alpha Data Services operates a 24x7 follow-the-sun model through our global hubs. The responsiveness of this model became clear during the 2020 pandemic and economic crisis, when trading volumes soared, liquidity became constrained and our client's trading floors transitioned to work-from-home operations overnight.

With hundreds of employees focused solely on providing our clients with timely and accurate data, our global operating model and scale is truly a differentiator and it undergoes constant review and refinement.

### **What opportunities does Alpha Data Services provide clients looking to transform their operating model?**

By leveraging a unified security master and managed data service, investment professionals and their support teams operate from a 'single source of truth' across the front, middle and back office. From portfolio construction to trading and post-trade operations through to accounting, our clients are using the same reference, benchmark and pricing data across the investment lifecycle.

The Alpha Data Services team manages security master setup, data loading, validation, delivery and governance. This not only introduces a number of efficiencies, it instills greater confidence in data-driven decision-making by eliminating the need to reconcile conflicting data.

Investment firms typically rely on a number of internally generated and third-party data sources, especially for fixed income, derivatives and private assets, as well as for ESG and carbon scores. Alpha Data Services was built for interoperability with a broad ecosystem of data vendors to help clients address the unique demands of their product and asset mix.

### **What's next for outsourced data management?**

Alpha Data Services is bringing forward our vision to provide global investment managers and asset owners with an interoperable, efficient and cloud-native data ecosystem. Outsourcing presents firms with an opportunity to rethink and refine their operating model. The growing sophistication and complexity of institutional portfolios create new demands on traditional, in-house data management teams that are costly and difficult for clients to address. Firms can focus on their core competencies, without having to onboard scarce and expensive talent, or build their own data management infrastructure.

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