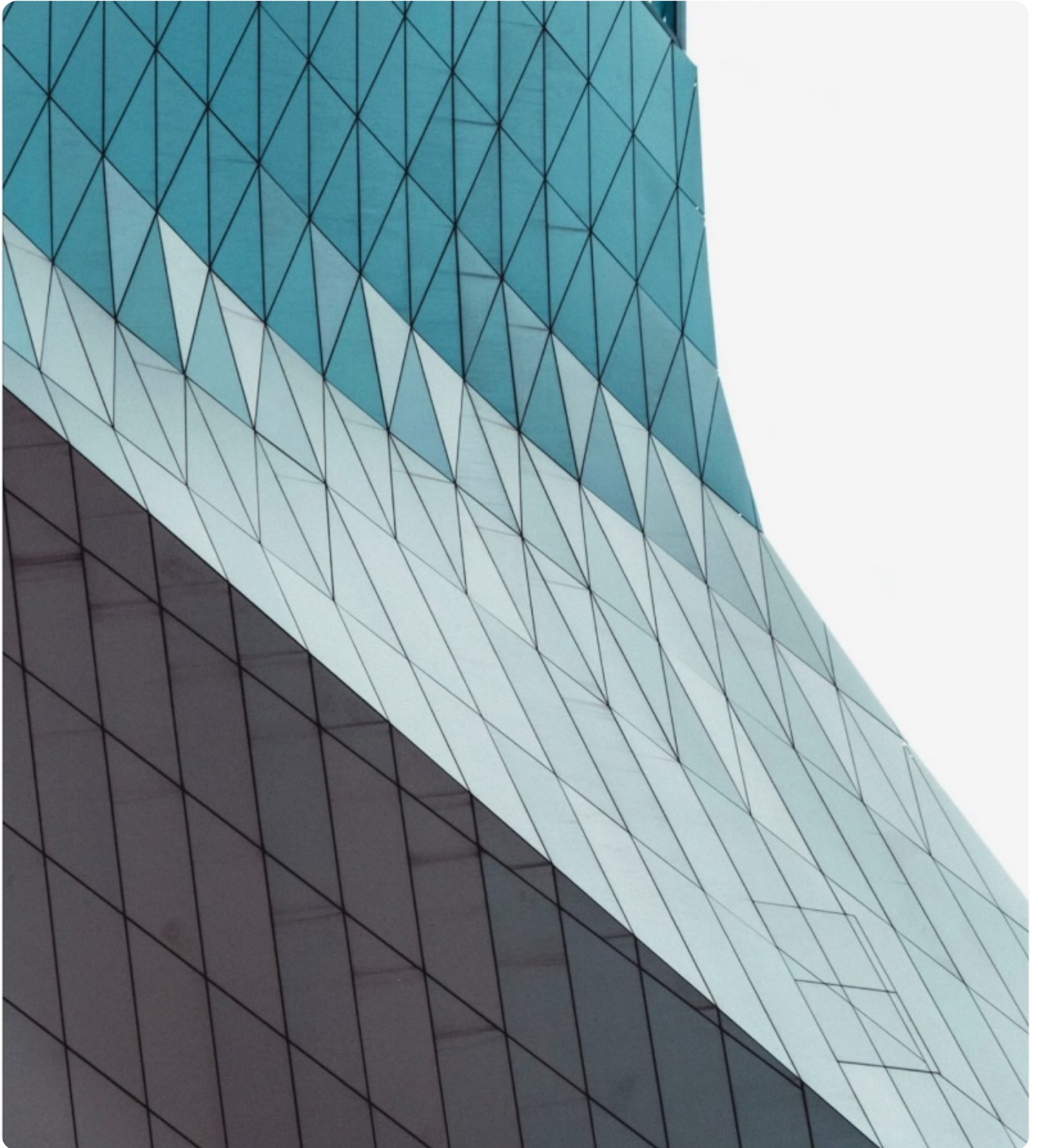


The Emerging Role of Technology in Insourced Multi Asset Management





Introduction

In recent years, the asset management sector has been undergoing a transformative change that has broad implications for the industry at large. Asset owners are increasingly choosing to bring various asset management functions in-house, and this creates opportunities for asset owners and their external fund managers and consultants to collaborate in new, value-adding ways. This insourcing trend has been driven by many factors, each bringing their own possibilities and complexities.

Cost Efficiencies

One of the most obvious drivers for insourcing is the potential for cost savings. If asset owners are able to reduce expenditure on asset management functions that can be done in-house, all other things being equal they can expect higher after-fee returns. Furthermore, insourcing provides asset owners with greater transparency and control over costs, ensuring a clearer understanding of how each dollar is allocated and spent.

Greater Control and a New Way of Working With External Parties

Beyond cost, control is another significant factor. When asset management functions are handled externally, asset owners can find themselves somewhat detached from real-time decision-making processes. Insourcing brings key decision-making in-house, allowing for a more timely response to market shifts, more tailored

investment strategies, and greater ownership and accountability. It also presents new opportunities for asset owners and their external managers and consultants to work together in more collaborative ways, or in areas where specialist knowledge is needed and the potential for value-add is greatest.

Customization and Agility

The ability to adapt investment strategies based on specific, often dynamic, internal requirements is another potential benefit of insourcing. Whether it's aligning the investment strategy with the organization's broader goals or foundational beliefs around managing Environmental, Social and Governance (ESG) risks, adjusting for specific risk tolerances, or accommodating unique fund characteristics like liquidity requirements, insourcing allows for an agility that is not always attainable through external partnerships.

A Strategic Move

Insourcing is more than just a tactical response to current challenges; it's a strategic move aimed at future-proofing asset management operations. Having an in-house team can offer asset owners the ability to adapt and innovate to the rapidly changing technological landscape. The growth of machine learning applications, and the wealth of internal data many asset owners possess, is one example where running processes in-house can provide an advantage.

However, insourcing presents both challenges and opportunities for asset owners. We examine some of those challenges and opportunities in the rest of this paper with a specific focus on multi asset portfolio construction processes, highlighting the role that technology can play.

Challenges

The challenges associated with insourcing are not merely logistical, but often impact the very architecture of an organization's asset management function and its core processes. Below, we explore some of the key issues and challenges.

Building Robust Models and Investment Processes

The pervasiveness of spreadsheet-based processes in asset management cannot be overstated. For years, asset owners have relied on spreadsheets for a variety of tasks, ranging from data storage and analysis to portfolio modeling. Despite their convenience, spreadsheets are fraught with risks—errors are easily made but hard to detect, and they offer limited functionality for more complex operations.

The challenge lies not just in developing or onboarding a more robust, specialized system, but also in the migration of existing data and models into this new platform. Furthermore, staff need to be trained to use the new tools effectively, a requirement that calls for time and resources.

Scaling Investment Operations Across Diverse Funds

Insourcing brings with it the significant task of combining an increasingly diverse set of assets and investment strategies into a single, coherent portfolio construction process. Asset owners may have portfolios spanning equities, bonds, real estate, and alternative investments. Each asset class has its own unique set of characteristics that are relevant when modeling and constructing multi asset portfolios. Furthermore, asset owners may manage multiple pools of capital, each with different objectives and risk profiles.

The challenge here is to create a unified, scalable process that is both flexible enough to accommodate this diversity and robust enough to sustain larger-scale operations. Work that is done for one portfolio or client should scale to others, without the need to reinvent the process from scratch.

Data Aggregation and Integrity

Asset owners find themselves confronted with the need to aggregate data from multiple sources, each with its own format and frequencies. This challenge touches on everything from performance calculation and reporting, to portfolio modeling and construction. It also becomes more complex for asset owners who invest across public and private markets, and operate across different regions.

The challenge is not merely technological—although that is a significant aspect—but also procedural. What checks and balances should be in place to ensure data integrity? How should the data be archived, accessed, and utilized to inform investment decisions?

Communication of Investment Processes and Decisions

As asset owners take the reins of their investment strategy, another challenge that emerges is the effective communication of internally developed investment processes and output to relevant stakeholders. Insourcing means that asset owners must now develop the expertise to articulate complex investment strategies, assumptions, and risk assessments in a transparent and comprehensible manner. This extends beyond mere reporting; it involves crafting narratives, justifying choices, and providing assurances, all while maintaining compliance with regulatory requirements.

Opportunities

While the challenges of insourcing are considerable, so too are the opportunities, which include the potential for greater control, flexibility, and efficiency.

Greater Control Over Modeling and Market Outlook

One of the most significant advantages of insourcing is the control asset owners can gain over the modeling process and, by extension, their market outlook. When functions are outsourced, asset owners often have to conform to external models and market perspectives, which might not fully align with their own views or requirements. Insourcing enables asset owners to construct models that are tailored to their investment universe, economic forecasts, and model-design preferences.

In addition, greater control reduces reliance on external parties for functions that can easily be replicated in-house, freeing asset owners up to collaborate with those parties in areas where the potential for value-add is greatest. This could take the form of 'best ideas' mandates or more niche investment mandates, or the sourcing of manager or portfolio construction research where dedicated, specialist research is a prerequisite.

Customized Fund Management Based on Unique Characteristics

Every fund or asset owner has specific characteristics that make it unique—including risk tolerance, liquidity requirements, long-term objectives, or foundational beliefs around the management of ESG issues. Insourcing allows asset owners to further customize their portfolio construction approach to reflect these specific needs.

Enhanced Agility and Responsiveness

In-sourcing brings with it increased agility and responsiveness. With an in-house team, asset owners can make more timely decisions in response to market, regulatory or technological change. This is particularly important in volatile markets, where opportunities and risks can arise over days, rather than over a typical quarterly or annual review cycle.

Emerging technologies that make use of internal data for decision-making are potentially another area where an internal team can be more agile than external parties.

Organizations often sit on a wealth of internal data that is underutilized. An in-house team can integrate this data into their models, providing a more nuanced and comprehensive view of investment opportunities and risks.

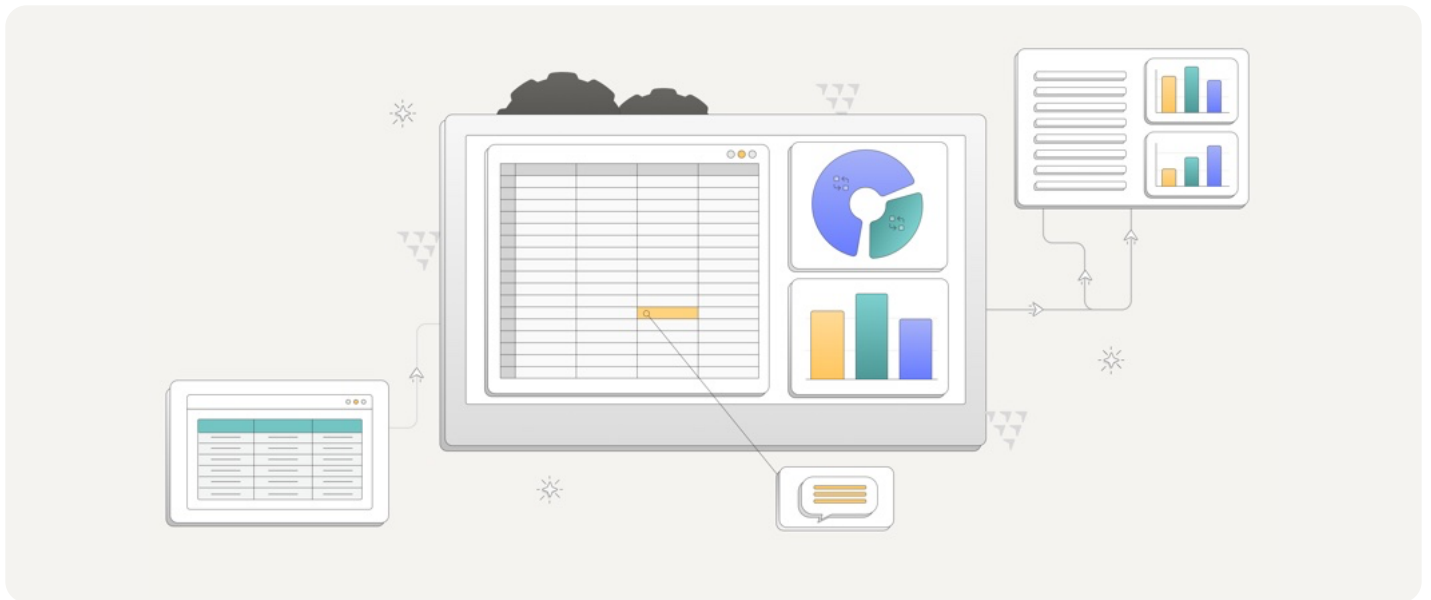
These opportunities offer compelling reasons for asset owners to consider the insourcing route despite the associated challenges. In the next section, we will explore how technology can serve as an enabler, allowing asset owners to harness these opportunities effectively.

The Role of Technology

The modern asset management landscape is increasingly being shaped by advancements in technology. Technology offers a suite of solutions designed to streamline processes, improve accuracy, and empower asset owners to take more control of their investment strategies. Below, we delve into the specific ways technology can address some of the challenges highlighted earlier.

Replacing Spreadsheets with Robust Modeling Systems

The limitations of spreadsheets become apparent as an organization scales its portfolio construction functions. Modern portfolio management software can reduce the likelihood of model error by having fewer touch points exposed to users, comprehensive permissions management to track who can view or edit core models, and record keeping to track model changes over time. Furthermore, user-friendly interfaces and customizable dashboards make it easier to migrate from spreadsheet-based processes. While platforms like Jacobi offer the integration of ex-ante modeling and ex-post analysis, the focus is to facilitate effective decision-making without the risks associated with spreadsheet errors.



Scalability Across Multiple Funds and Investment Options

Technology offers asset owners the capability to standardize and automate routine processes. This allows for scalable operations capable of managing a diverse range of assets and investment strategies. APIs, data integration tools, and cloud-based storage solutions can all work in tandem to create a seamless, scalable portfolio construction framework. Notably, these systems can adapt to multi-asset portfolios, allowing for integrated, real-time analysis that takes into account the interactions between different asset classes.

Data Aggregation and Integrity

Advanced data management solutions provide a structured approach to data aggregation and analysis. These systems can automatically fetch, clean, and format data from various sources, ensuring a high level of data integrity. These tools not only mitigate the risk of manual errors but also ensure that the data used for decision-making is both accurate and compliant with regulatory standards.

Communication of Investment Processes and Output

Effective data visualization tools assist with the communication of complex investment concepts and outputs. Converting numbers on a page to tangible representations of portfolio drawdown or liquidity risk, for instance, can make investment trade-offs real for investors or stakeholders. Modern portfolio construction tools recognise that the visualization of investment data and

output is often as important as the process that generates them.

Conclusion

The trend of asset owners insourcing asset management functions has transformed the investment landscape, offering asset owners greater control, customization, and agility. However, this shift is not without its complications. Challenges such as building out robust and repeatable processes, effective communication of those processes and investment outputs, and the intricacies of scaling operations across multi-asset portfolios necessitate thoughtful planning and execution.

The insourcing of portfolio construction functions presents a compelling case for the strategic use of technology. Platforms that can integrate robust ex-ante modeling with ex-post data management and effective visualizations can help address the challenges of insourcing, and also maximize the associated opportunities for improved control, customization, and efficiency.

About us

Jacobi's storyboard technology has its roots in institutional investment management and brings together investment expertise and a market-leading technology platform. Headquartered in San Francisco, the company is led by a team of experienced investment professionals and engineers.

Get in touch

For more information on Jacobi's modeling framework or other tools available within our portfolio modeling and visualization suite, please contact us.

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