

RMS cuts costs and raises efficiency

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How much time do investment professionals spend trying to find and pull together the data they need to make decisions? More to the point, what is that time costing;

The answer is: plenty. For a 25-person investment team earning industry-average compensation, the cost of searching internally for, compiling and analysing research information adds up to \$2.7m a year. Even for a 10-person team, the cost is close to \$1.2m.

The best research management solutions can cut those costs dramatically by making it easier to centralise, organise, share, search and find all the research data a firm receives and generates. Based on conservative time-saving estimates, the 25-person team stands to save \$1.1m a year, and the smaller firm around \$500,000. And that is only in direct staff costs: it does not include potential savings or profitability gains firms could realise by leveraging research across teams or vetting more investment opportunities in less time.

These conclusions are based on a 2009 survey of 360 investment professionals by Advent Software, examining the challenges they face trying to find data in their firms' systems. The key finding was: in the face of an overwhelming flood of research data, firms that do not leverage technology to manage it spend an inordinate amount of time searching for information that is already in their possession. Research management solutions can optimise the productivity of the highest-value workers, such as research directors, analysts and portfolio managers, by minimising futile search time. They can also increase the capacity of managers to identify opportunities, to perform due diligence and to make effective decisions, and all this reduces opportunity costs. They also foster collaboration and an "institutional memory" of the firm's intellectual capital. They can improve investor confidence by providing thoughtful answers to inquiries and supporting a demonstrable due diligence process.

Indeed, a central repository can help ensure and demonstrate that portfolio managers adhere to the company's investment process, which is a key requirement for investors today. Mark Rice, general manager of Advent Software, says: "In their pitches to investors, fund managers often talk about process, but it's hard to stick to it unless there is detailed history of the original thesis and price targets and how these panned out." If a manager says the firm will talk to each company in the portfolio every six months, this needs to actually happen or else it is likely to be exposed by the due diligence process. "Investors increasingly ask if managers are sticking to their strategies and ask for proof," says Rice. "They are no longer waiting for regulators to defend their interests - they're doing it themselves."

A big part of an investment firm's intellectual capital is its knowledge of economies, markets, sectors and companies - knowledge gleaned through proprietary and third-party research. Information often needs to be accessed in a different timezone from where it was created, perhaps in the middle of the night. Or the relevant analyst may be on vacation when data is required. Worst of all, precious intellectual property can be lost altogether if an analyst leaves the firm.

Would funds take such risks with their compliance documents or their accounts? It is, then, surprising that firms are quite so relaxed about their main business activity. "An RMS provides a central "knowledge bank" with structure and workflow for tracking the progression of an idea from initiation to the ongoing monitoring of an invested position," says Rice.

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