

# Pension Fund Investment Technology: Why Now is the Time to Up Your Game

## KEY THOUGHT POINTS

- Pension funds and Sovereigns are experiencing a rapid rise in portfolio complexity, creating new management and oversight challenges
- Complexity is being driven both by rapid increases in alternative allocations and a growing trend towards managing equities and fixed income in-house
- Market volatility and lower interest rates due to COVID-19 are putting pressure on funds to meet their future liabilities
- Funds need to up their game both in how they use technology to track complex portfolios and in planning for the future based on funded status, investment options and current liquidity
- Fortunately, technology innovations in areas like the cloud, data management and analytics provide funds with the opportunity to meet these challenges, achieve economies of scale, and future-proof their operations

## FACTORS AFFECTING FUTURE STATE OPERATIONS PLATFORMS IN PENSIONS

As noted in our summary above, portfolio complexity is on the rise for both Sovereigns and pension funds, and it means that funds will need to re-examine their current operational and data management platforms with the goal of making them more resilient and agile for the future. Here are some factors driving future-state platforms:

### 1 Various Trends Are Demanding Changes to the Investment Process

- The increasing trend of insourcing the investment portfolio in an effort to reduce fees for externally managed equity, fixed income and ETF portfolios
- Increasing exposure to alternative and illiquid investments to minimize pension deficits in the reduced interest rate environment

- Participation in real assets, co-investments and GP stakes to increase the upside of returns

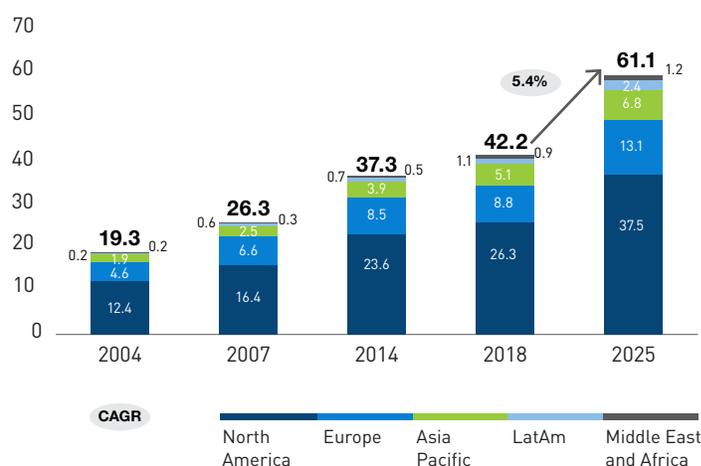
### 2 Increased Outsourcing for Supporting Operational Cost Improvement Requires Integration

- Outsourcing of operational, compliance and accounting processes related to in-house portfolios
- Consolidated admin providers
- Technology and data outsourcing

### 3 Gaps we've observed in Internal Data Maturity Models to Support Operation Models Need to Be Addressed

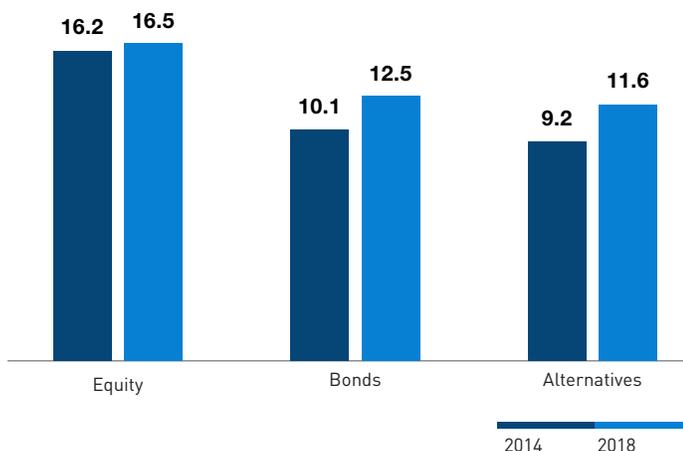
- Lack of a cross-portfolio view and performance time-series to build allocation models
- Lack of alternative investment applications and cash flows for commitment pacing models to adjust towards projected benefit obligations (PBO)
- Challenge to provide timely analytics for investment committees

Pension asset growth by region, 2004-2025e (US\$tn)



Sources: PwC Market Research Centre, past data based on OECD

Global pension's asset allocation (US\$ tn)



Source: PwC Market Research Centre based on OECD, World Bank, Towers Watson, national pension associations and national regulators.

## A TRANSFORMATION OPPORTUNITY

Eight out of ten senior leaders at investment management firms view their data and analytics capabilities as either their **“most important strategic priority” (34%)** or a **“high strategic priority” (47%)**.

Clearly there is a strategic transformation opportunity for firms looking to up their data and analytics capabilities in this rapidly evolving environment. However, in our view firms undertaking a transformation process need to use care in their execution.

**For example**, undertaking a transformation without a future Data Maturity Model (DMM) as a key underpinning will present many challenges in supporting increased portfolio complexity, arising from factors such as insourced portfolios and the challenges posed by risk management.

Also, managing alternative portfolios, without the ability to memorialize cash flows, distributions and other time-series data, will provide a significant hindrance for pension teams seeking to build future allocation models. Market data of comparable vintages, along with the long-term persistence of a low interest rate environment, means that cost pressures on investment management will continue to increase and the selection process of long-term assets will be complicated.

Finally, the research function within the pension fund industry continues to grow and, as a result, advancements in artificial intelligence and machine learning will be areas that need to be supported by the future state of data technology.

## CHOOSING TECHNOLOGY PARTNERS CAREFULLY

Pension funds increasing their alternative allocations will be challenged if they maintain the status quo. Several vendors supporting pensions today primarily cover the long-only portion of the portfolio. These vendors are also challenged in supporting the risk management function because of the inherent lack of integration with market-leading risk providers.

Firms initiating projects purely for the transformation of their enterprise data, without precise direction of how to integrate the varied asset classes of a true multi-strategy portfolio, will create gaps in their analytics and reporting. Coverage of alternatives continues to increase and, as a result, the systems that are tightly integrated to multi-asset risk platforms will support the risk governance structure. This alone is becoming an increasingly crucial function within pensions and Sovereigns.



Summing it up, it is our view that pension funds and Sovereigns investing in future-state investment research, data management and analytics will benefit from:

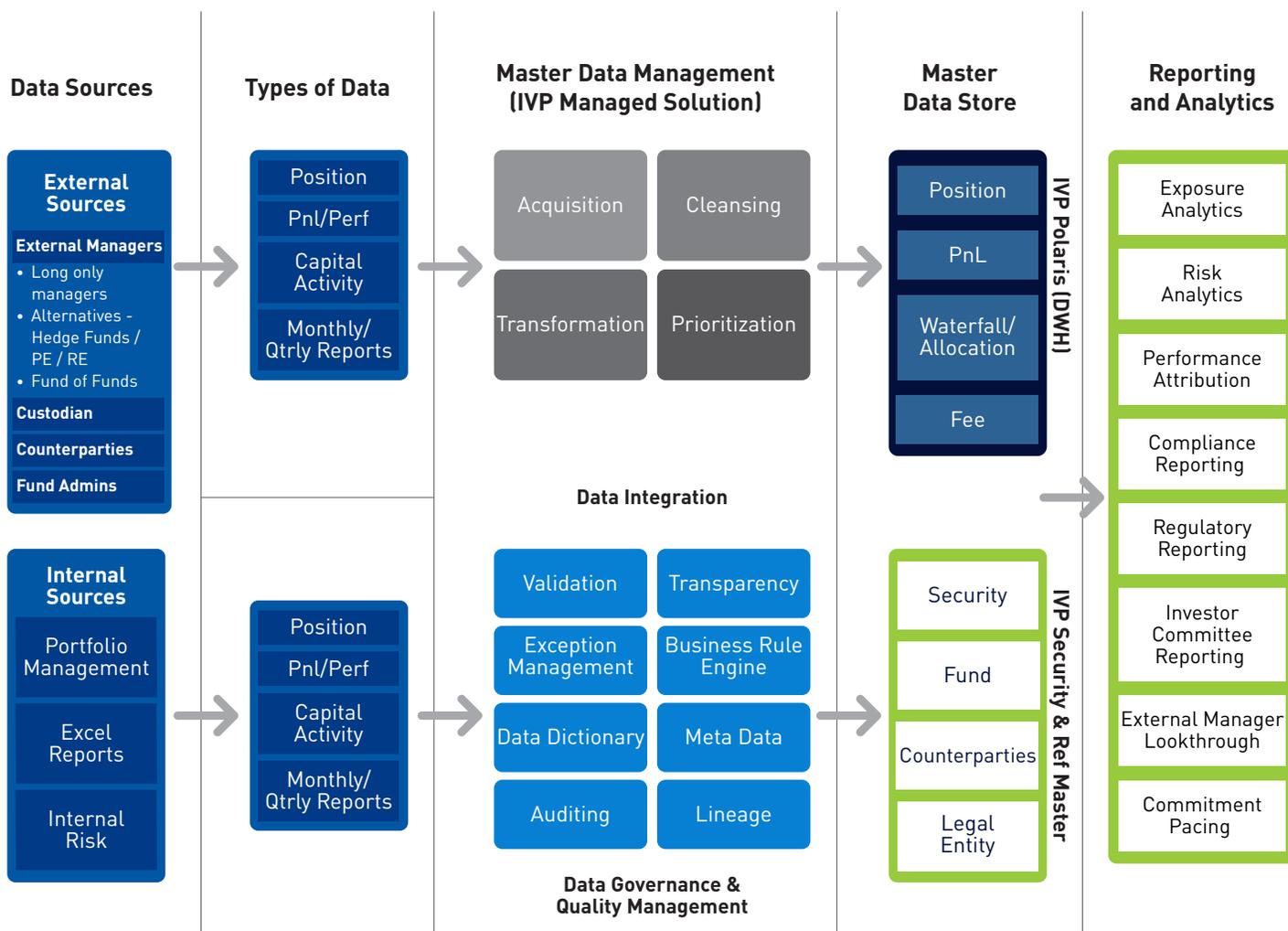
- Bridging the gap between pension assets and liabilities by way of superior investment strategies based on underpinning data and technology
- Homogenizing the traditional and alternative data for precise attribution analysis
- Using data dictionaries across investment strategies allowing for the ability to create cash flow forecasting models
- Deploying integrated risk models that will allow for future-state scenarios including volatile markets for drawdown projections that are feeding asset/liability models



## LET'S TALK. WE HELP TRADITIONAL, ALTERNATIVE AND PENSION FUNDS:

- Build, define and transform their future-state data platforms
- Deliver operational tools and software to reduce operational risk, improve data quality and digitize workflows

- Deploy research and reporting platforms for investment teams across assets from equities to PE deals
- Develop machine learning pipelines for specialized research and model building in asset allocations
- Deliver **IVP DMM** for asset managers and pensions, providing assessment and benchmarking around the key data maturity model pillars such as data quality management, data golden sources, operational data management and data delivery/consumption



## ABOUT IVP

### IVP technology and services support alternative investment firms managing \$2.5 Trillion of AUM.

For twenty years IVP has evolved and grown with the investment management industry. We are, quite literally, invested in our clients' success, for today and tomorrow. Clients value us as a thinking partner and rely on us for our deep domain knowledge and cutting edge technology that delivers improved business performance and a competitive edge.