From Chaos To Clarity

Modernizing Mutual Fund Data Management

*Many financial services firms are reexamining their data management processes and **adopting more comprehensive approaches** as part of a wider technological transformation...*

AN EXERCISE IN MODERNIZATION

Establishing a more forward-thinking operational perspective

This transformation is particularly necessary in mutual fund/pooled investment data. The complexity and the volume of mutual fund data continues to increase, and how all that information is packaged varies wildly, often leaving firms to spend more time trying to organize data than analyzing it. The amount of effort, time, expense, and personnel that is put toward verifying data has long been an industry challenge.

Data management of mutual funds and other pooled investment products is unique among other asset types. The tools used in the capital markets space for managing equities and fixed-income securities are not transferable to pooled investment products, which have unique data elements that require key system functionality in order to process and accommodate. Sourcing and managing all the data that goes with a mutual fund is time-consuming, difficult, and never-ending.

Most enterprise data management (EDM) solutions lack the unique functionalities required to manage mutual fund data, requiring firms to force data into systems that don't correspond with or support pertinent data points needed. This limits the firm's ability to report on mutual fund data accurately and centrally.

Complexity of Mutual Fund Data

The capacity by which financial services firms are able to process multiple, non-standardized data sets and make them coherent is quickly becoming unsustainable. At the root of the problem is often the accuracy, consistency, timeliness, and accessibility of data.

While mutual funds are one of the most popular investment securities in the world, they are also one of the most operationally complex, as they carry unique requirements for purchasing and redeeming shares as well as strict disclosure requirements. Over the years, firms moved to hold single omnibus accounts at the fund, resulting in additional requirements for the distribution firms, which now have the responsibility to perform functions that were previously done by the fund company's transfer agent.

Every mutual fund contains hundreds of data points, and if you include performance data, it can exceed a thousand data points.

Data Flow Chaos

A key issue is the difficulty in getting disparate data sources to communicate with each other and transmit those data points. Firms frequently find themselves having to enter the same data multiple times in different applications, leaving the firm with a "spaghetti" of data initiating from various sources. This process can be laborious and frustrating and prevents an accurate and consistent view of the data.

Most firms receive fund data from multiple sources. The data requirements for maintaining a mutual fund on a distribution platform are vast but can be categorized into primary data sets of Price Rates (NAVs), Dividends, Corporate Actions, and Reference Data, which tend to come from various sources.

There are also a handful of third-party industry data supplies like Morningstar, ICE, VMS, and Lipper.

In addition to mutual fund data sources and third-party data suppliers, most firms incorporate proprietary data that needs to be captured and deployed alongside the industry data feeds. There are also data sources related to client/counterparties and trading and clearing partner information sources.

What's left is a "spaghetti architecture" of raw input data with no means by which to format and standardize it in accordance with the data points applicable to each downstream system.

When comparing values across multiple sources, if the values aren't normalized to a common value, the result is unstructured and uncategorized data that has no reporting merit.
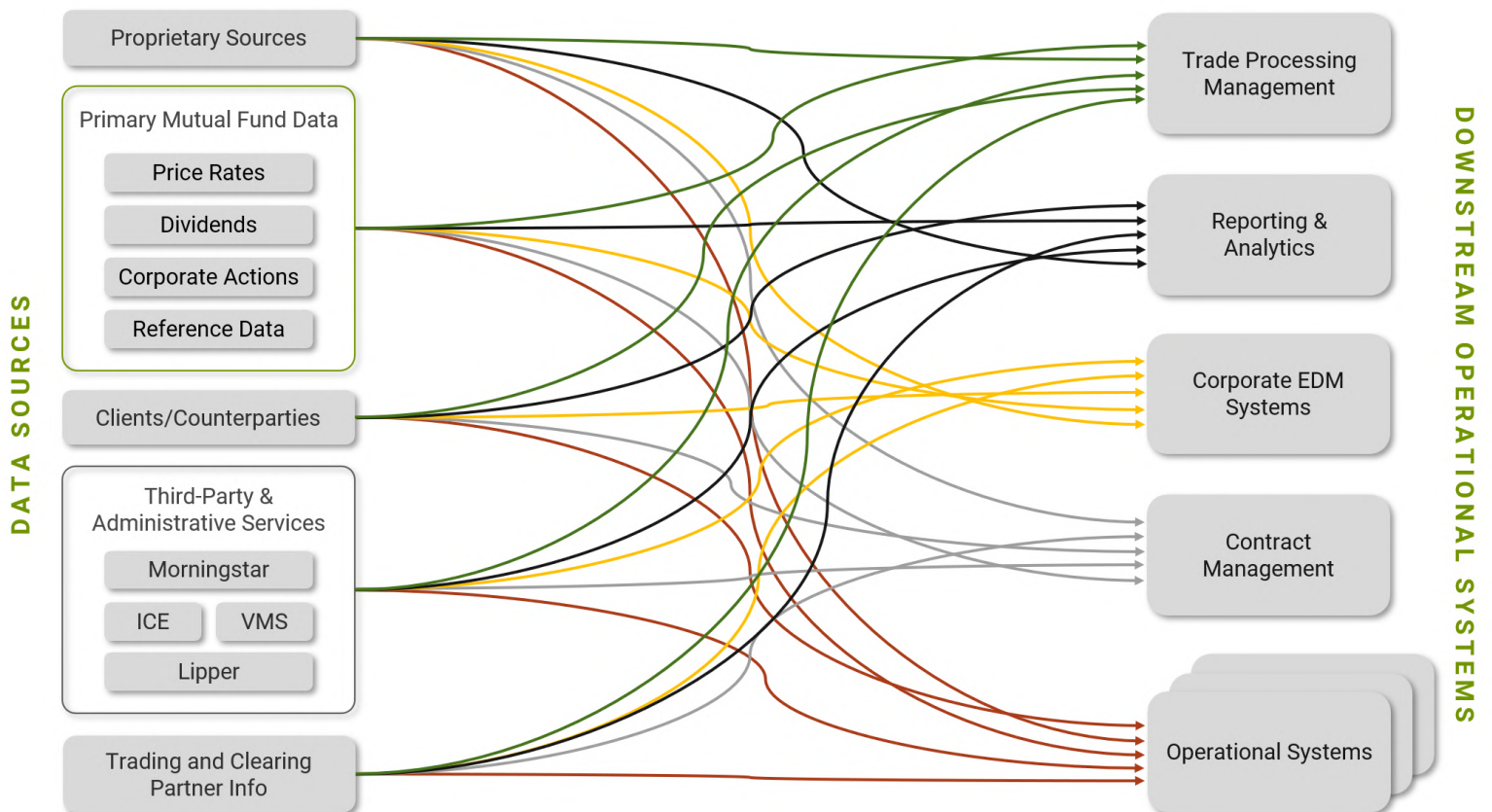
Crafting Order from Chaos:
A Centralized "Hub"

To address the chaos of mutual fund data management, firms should be looking to adopt a centralized solution that can ingest the unique data points of pooled investements.

A centralized Mutual Fund Data Management system acts as a 'hub' and allows for all data flows, from whatever source and in whatever format, to be incorporated seamlessly without any disruption to operations, improving data quality and consistency. The "hub" should be able to ingest, reconcile, standardize, normalize, cleanse, enrich, compare/challenge, and manage the mutual fund data coming in from the company's data sources.

The core components used in an equites and fixed-income EDM system are the same core components needed in an EDM application that specializes in pooled investment products.

The difference is having a system that delivers off-the-shelf functionality tailored specifically to pooled investments while also allowing flexibility to tailor the system to meet any unique needs of the organization.

The Quest for the "Gold Copy"

The goal of any EDM application is to end up with a 'Gold Copy' of data that is the single source of information for all investments. The 'Gold Copy' is then the primary source feeding all downstream systems, such as trading systems, recordkeeping systems, web portals, publication systems, etc.
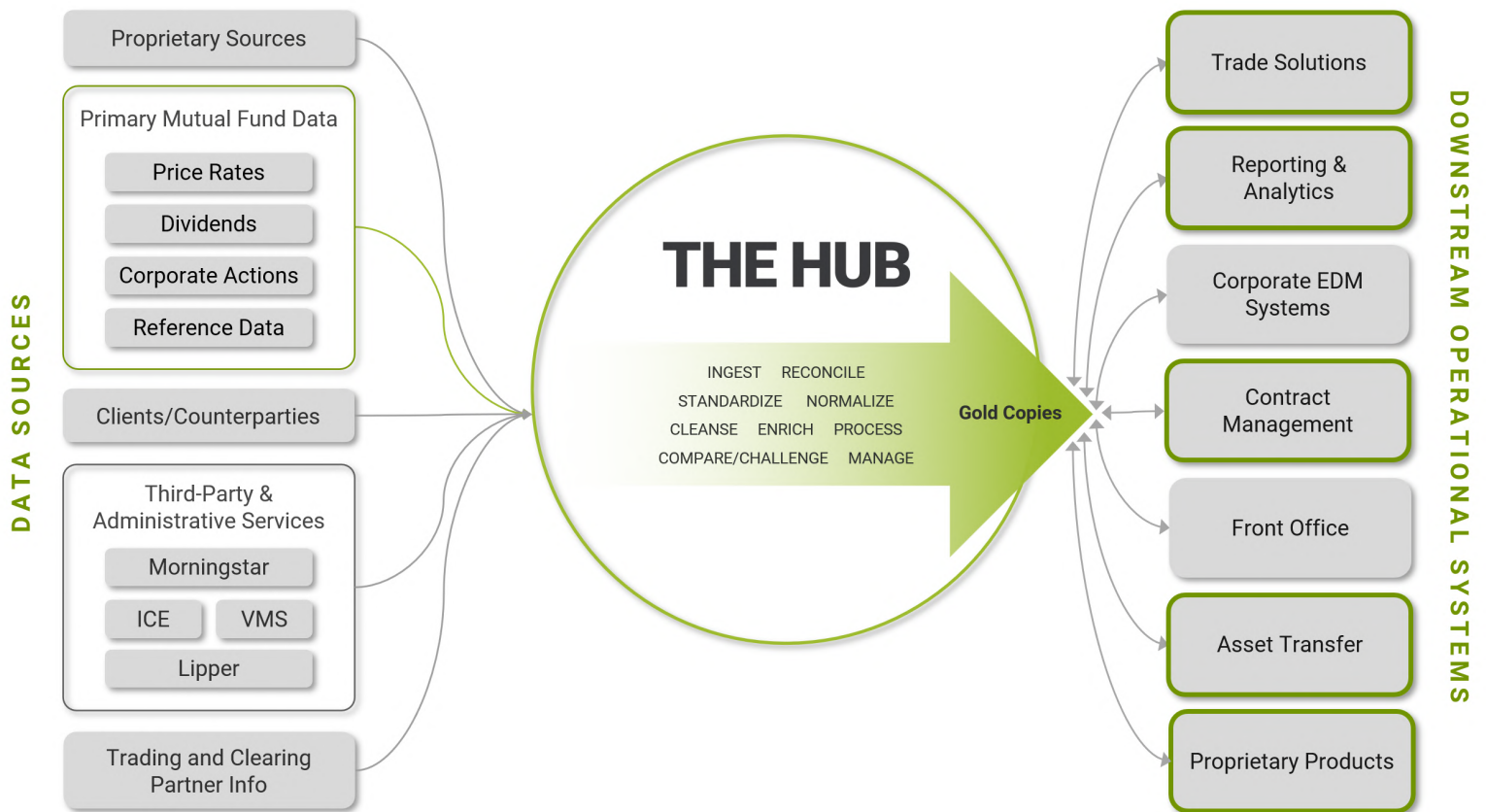
If there are downstream systems requiring unique subsets of securities, the system should allow for the creation of 'gold copies' with only the subset of securities with their specific data items to feed the downstream systems.

One of the more challenging aspects of implementing an EDM is interfacing this centralized 'Gold Copy' of data with all the downstream systems that consume the data. This challenge can be overcome with a robust 'hub' tool with the capability to format output files that align with individual characteristics of each unique downstream operational system.

Many firms struggle with the onus of updating the same data on multiple legacy systems, leading to inefficiencies, manual errors, and potential risk with incorrect data.

A centralized 'hub' to master all reference data with complete visibility of all data and all data processes ensures optimal accuracy and absolute consistency. This includes data requests, feeds, validations, exceptions, and publishing multiple 'Gold Copy' data sets.

Primarily, firms want to improve their ability to scale quickly. They want to easily add new investment types, vendor feeds, and data domains.

DATA SOURCES

- Proprietary Sources
- Primary Mutual Fund Data
  - Price Rates
  - Dividends
  - Corporate Actions
  - Reference Data
- Clients/Counterparties
- Third-Party & Administrative Services
  - Morningstar
  - ICE
  - VMS
  - Lipper
- Trading and Clearing Partner Info

THE HUB

INGEST   RECONCILE
STANDARDIZE   NORMALIZE
CLEANSE   ENRICH   PROCESS
COMPARE/CHALLENGE   MANAGE

Gold Copies

DOWNSTREAM OPERATIONAL SYSTEMS

- Trade Solutions
- Reporting & Analytics
- Corporate EDM Systems
- Contract Management
- Front Office
- Asset Transfer
- Proprietary Products

Upgrading legacy systems and adopting modern data management processes enables firms to better manage and analyze vast amounts of data, which can lead to increased efficiency and reduced costs.

NEXT STEPS

Building a Future-Proof Mutual Fund Data Management Plan

The landscape is evolving quickly, and firms are constantly trying to keep up by adding people or adding hardware.

The better answer is to adopt a data management system for the future and establish a data management strategy that's future-proof.

Data management modernization is at the core of a firm's technological transformation. Employing a centralized solution to manage data gives firms the ability to focus on results and be much more proactive with their data, utilizing better processes and more effective technology.

Effective data automation utilizes straight-through processing, systematic master creation, and fund-family reconciliation to facilitate operational improvements for high-volume trading funds. By increasing efficiency and decreasing turnaround time, these modernization solutions offer firms more operational scalability to reallocate resources to more strategically important projects.

Change is often difficult to navigate and can be overwhelming, but the cost of doing nothing and maintaining the status quo is far higher.

To grapple with emerging trends, technologies, and products, the mutual fund industry should anticipate more innovative automation and be prepared to efficiently employ it. Contact us to learn how Delta Data can support your firm's modernization strategy.

Contact us today to learn more.

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