2020

INSTITUTIONAL INVESTOR PRODUCTIVITY STUDY

Investment professionals weigh in

Backstop Solutions, LLC

and

Mercer LLC

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PREFACE

Long before the COVID-19 pandemic upended life as we know it, institutional investing was already a demanding field that attracted highly educated professionals to strategically allocate assets and deliver superior risk-adjusted returns for their members, annuitants, employees or organizations.

Because institutional investors' time is so valuable, Backstop Solutions and Mercer have teamed up to study how institutional investors are spending it. In this first-of-its-kind study, we discovered that institutional investors spend approximately 30% of their time on tasks that not only do not add value to the investment process, but also could be automated or streamlined with better technology.

In this report, we present our findings on the demands on institutional investors' time, including variations in AUM, type of investment model and type of organization — and where there may be room for improvement.

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INTRODUCTION

The institutional investment industry's objective is to effectively and consistently deliver superior risk-adjusted returns for their organizations — be they members, employees, annuitants, families, universities, hospitals or charitable foundations.

Backstop Solutions and Mercer hypothesized that investment teams are spending time on tasks that don't align with their high levels of education, skills and experience. In a survey of more than 200 institutional investors, we explored this premise by asking them to describe their typical duties and whether they are satisfied with the technology solutions they have in place.

Our goal was to understand how much time institutional investors were spending on core investment tasks versus other non-core tasks and to identify opportunities for improvement in daily work processes.

What we learned:

- Institutional investors have investment teams comprised of experienced experts.
- These key professionals are spending 30% of their time on relatively lower-value, non-core jobs, such as searching for documents on shared drives, downloading and uploading documents, or retyping handwritten notes into a system.
- These same employees are spending just 50% of their time on meeting or diligencing new and existing managers. These are core tasks that allow institutional investor professionals to piece together an investment worldview and act accordingly.
- 75% of respondents are indifferent to — or not satisfied with — the technology functionality available to them currently. In an industry dependent on accessing, analyzing and sharing data, most respondents gave their organizations low ratings in terms of their ability to take in and share information.
- 65% of respondents have thought within the last week that "there must be a better way to do this," which suggests that the manner in which work is done is top of mind, and they would genuinely and enthusiastically welcome tools, solutions and systems that can help them address the issue in question.
- 69% of survey respondents reported that they were working in a generalist investment team model (as opposed to specialist or hybrid). Generalist teams cover multiple asset classes, requiring them to be even more thorough in scouring the investable universe.
- However, only 37% of respondents reported using an outside investment consultant.

The good news is that the better use of technology can make a measurable and meaningful impact on the efficiency and effectiveness of the organization by eliminating or greatly reducing those non-core tasks.

Organizations are caught in a vicious cycle. They can't disseminate and share information effectively due to a lack of options for optimizing and streamlining non-core tasks. As a result, too much time is wasted on basic processes such as downloading, uploading and searching for documents before they can get to the work that really matters.

DEMOGRAPHIC BREAKDOWN OF INSTITUTIONAL INVESTORS

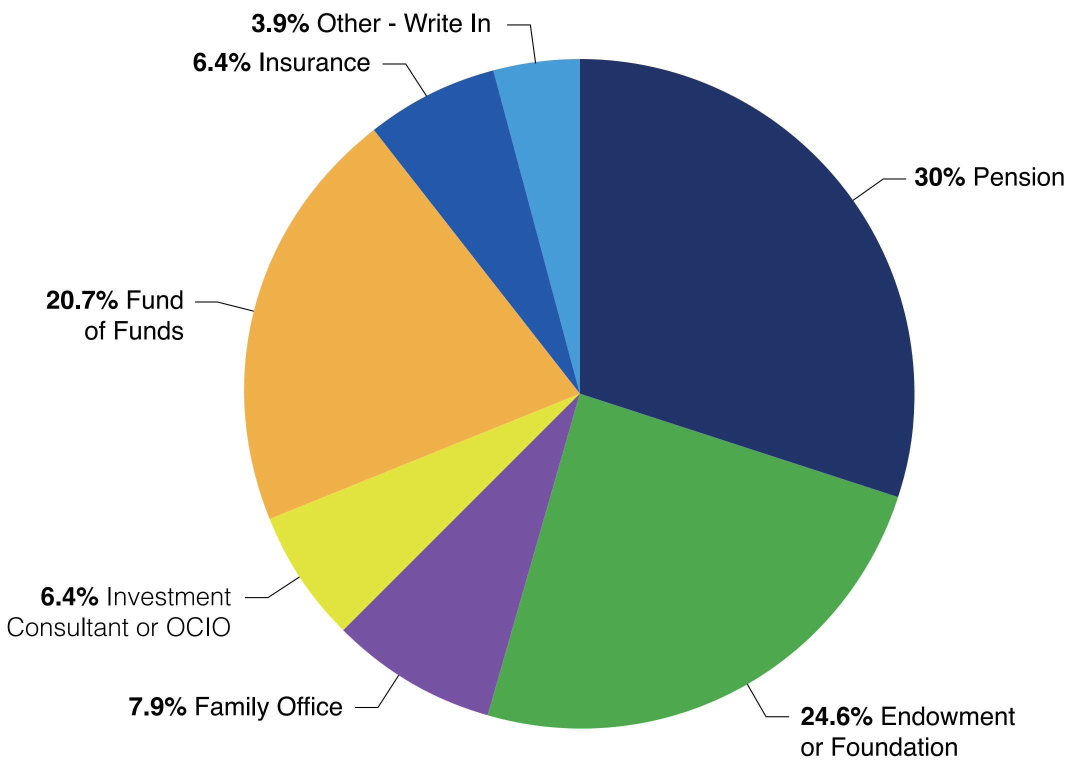
Our research included key asset institutional investor segments, including pension funds, endowments, family offices, funds of funds, and insurance companies. We included organizations of different sizes based on assets under management and different investment organization approaches such as using generalists, specialists and hybrid models.

BY VERTICAL

The two largest segments were pension funds and endowments and foundations, comprising over 50% of respondents. The next largest segment was funds of funds, making up 20.7%.

FIGURE 1

How would you describe your organization?



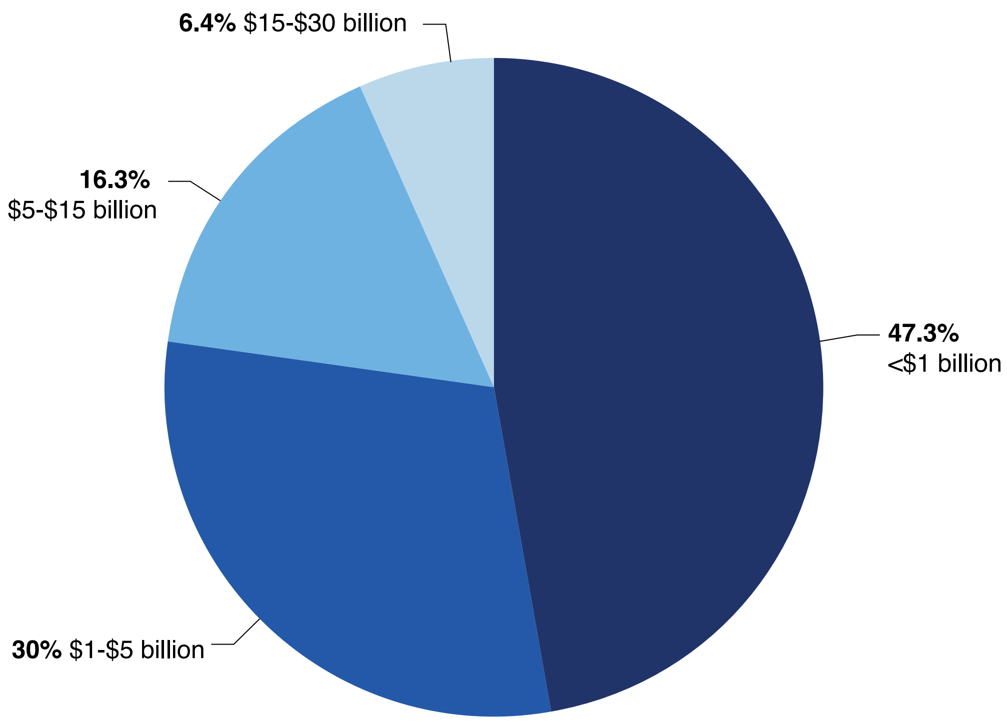
Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey
N=203

BY AUM

The chart below shows the breakdown of assets under management of our survey respondents. Approximately half are from institutions with over $1 billion in assets under management (AUM).

FIGURE 2

What is the value of your organization's Assets Under Management?



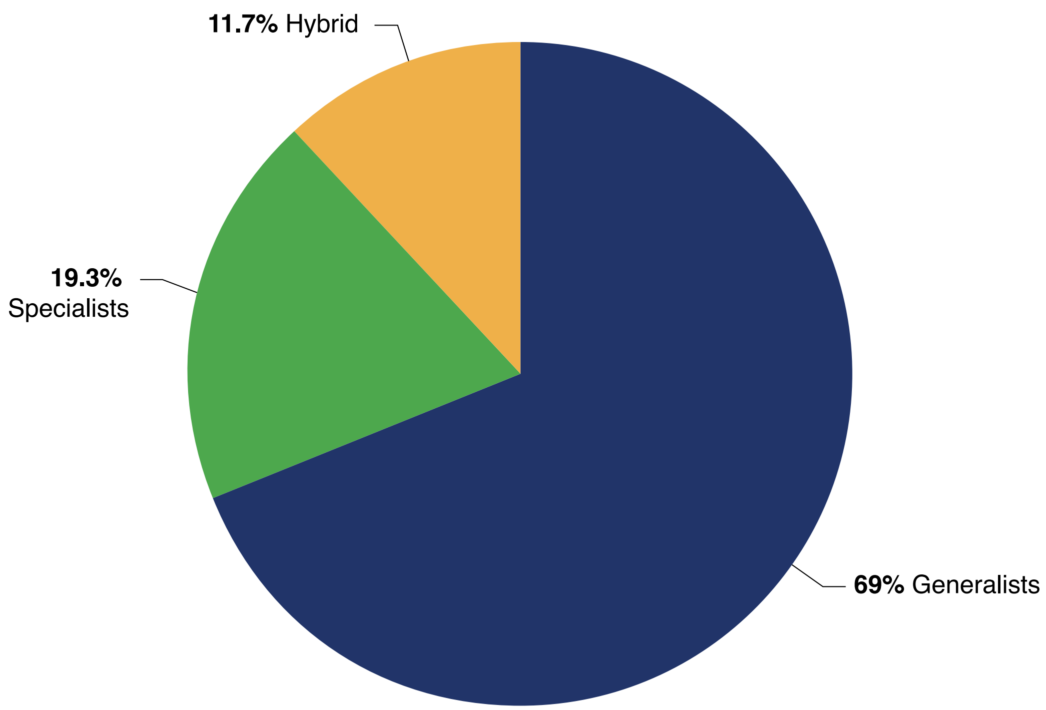
Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey
N=203

BY INVESTMENT TEAM MODEL

We asked respondents how their investment team was organized and gave them three choices: generalist, specialist or hybrid. Most respondents (69%) said their investment teams were organized as generalists. Another 19% identified as specialists, while the remaining 12% are working in a hybrid model.

FIGURE 3

Do you consider your investment team to be primarily organized around generalists, specialists, or hybrid?



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey
N=203

DEMOGRAPHICS OF RESPONDENTS SURVEYED

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The majority of our respondents were part of their organization's investment team. Generally, respondents were experienced, established in their careers and highly educated. Many had also pursued additional certifications related to their profession.

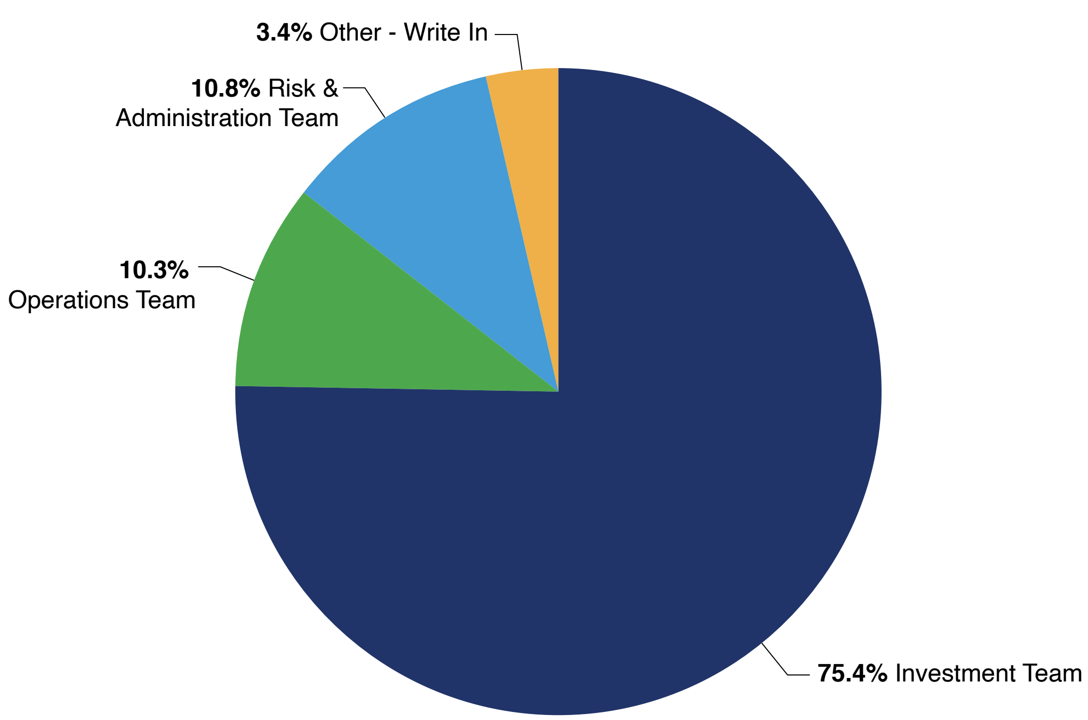
- 75% were on the investment team
- 73% of respondents were a director or higher
- 67% were of age 40 or older
- 66% had a master's degree or other advanced degrees
- 50% had additional certifications such as a CFA or CAIA

BY DEPARTMENT

Most of our respondents characterized themselves as being on the investment team.

FIGURE 4

What best describes the team or department in which you work?



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey

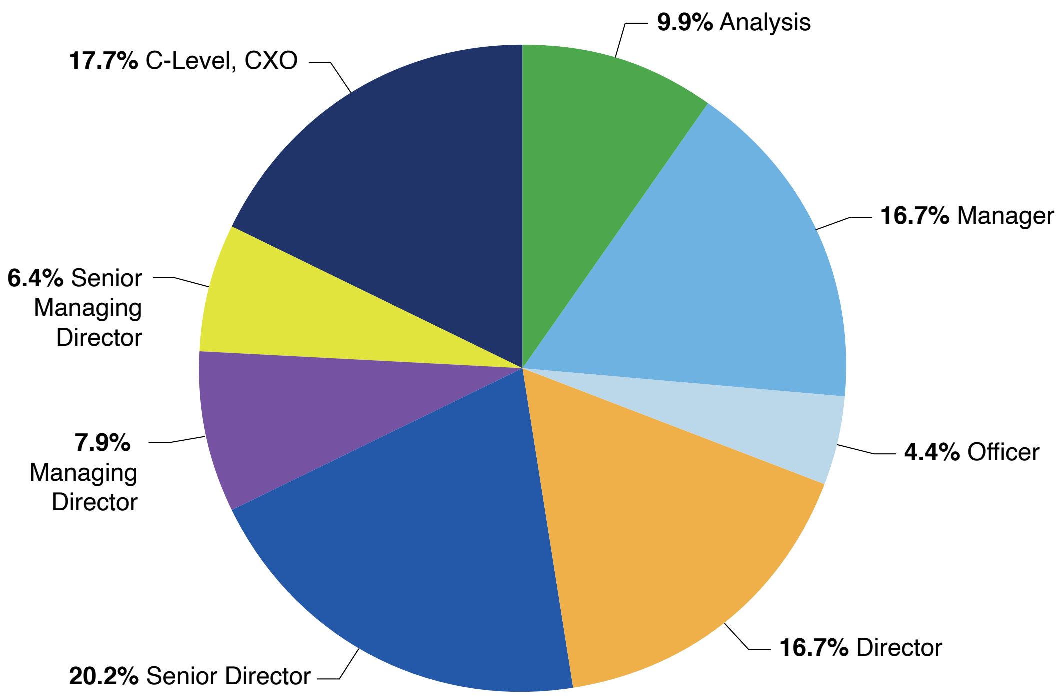
N=203

BY JOB LEVEL

The survey reached a fairly senior audience, as almost three-quarters (73%) of respondents were director level or above.

FIGURE 5

What is your job level?

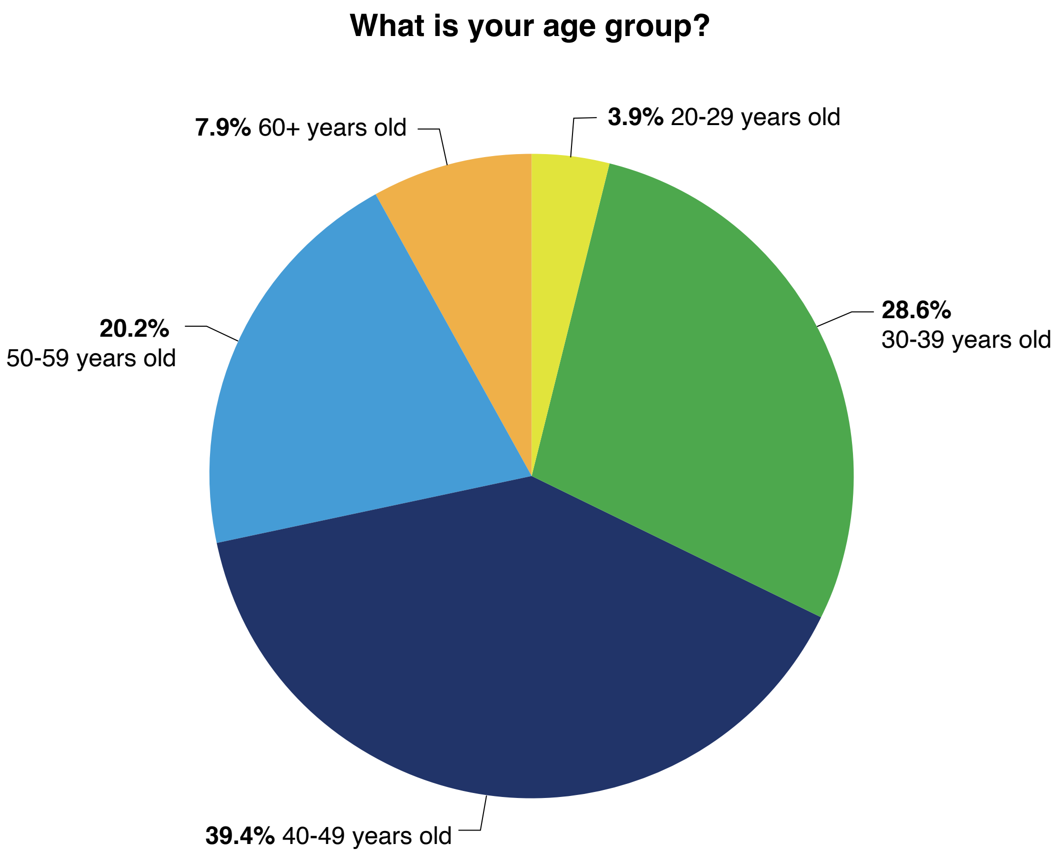


Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey
N=203

BY AGE GROUP

With 67% of respondents reporting an age of 40 or older, these professionals were fairly advanced in their careers.

FIGURE 6

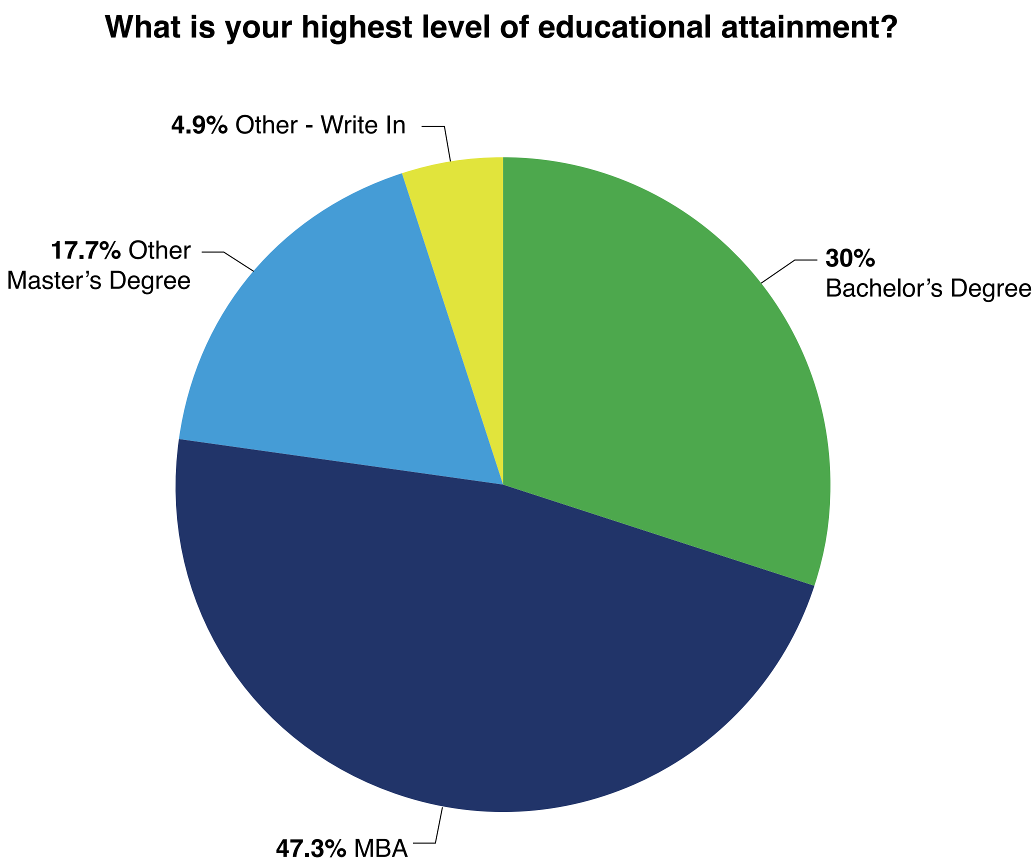


Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey
N=203

BY EDUCATION LEVEL ACHIEVED

Our audience was educated to a high level, with 70% having either an MBA, other Master's degree or other advanced degree.

FIGURE 7



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey

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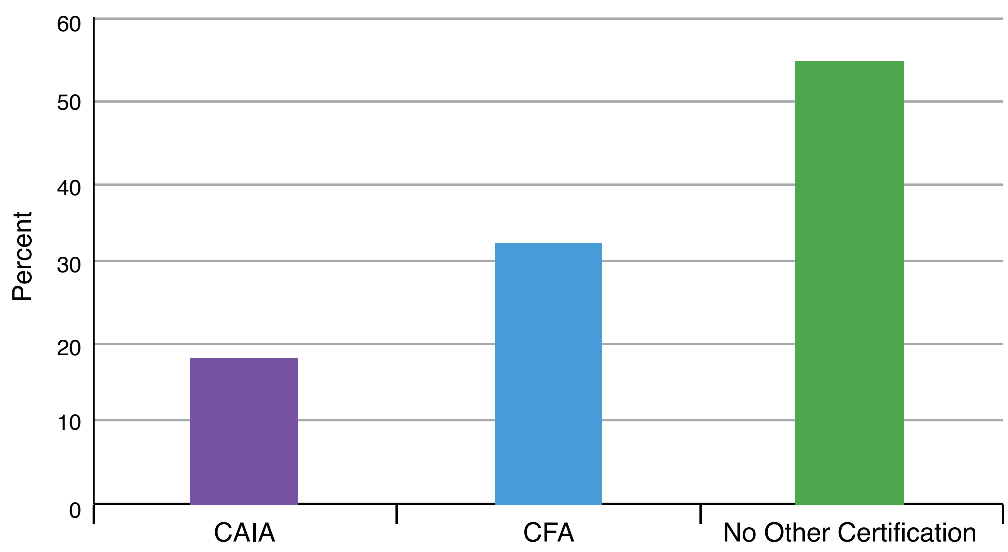
And half of respondents had other certifications, such as a CAIA or CFA.

FIGURE 8

Do you have other certifications?



Value		Percent	Responses
CAIA		18.2%	37
CFA		32.5%	66
No Other Certification		55.2%	112

= 50.7%

Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey
N=203

As the results above illustrate, survey respondents were skilled, experienced professionals with advanced degrees. These are senior decision-makers responsible for managing significant investments for their organizations. According to the CFA Institute, successful candidates report spending about 300 hours studying for each of the three levels, for a total of 900 hours. Similarly, the CAIA typically requires an estimated 200 hours of study time per level for a total of 400 hours.

The sheer amount of effort, time and commitment required to obtain these designations clearly illustrates the level of knowledge and expertise possessed by the members of the investment team. Clearly, their time is valuable. So how are they spending it?

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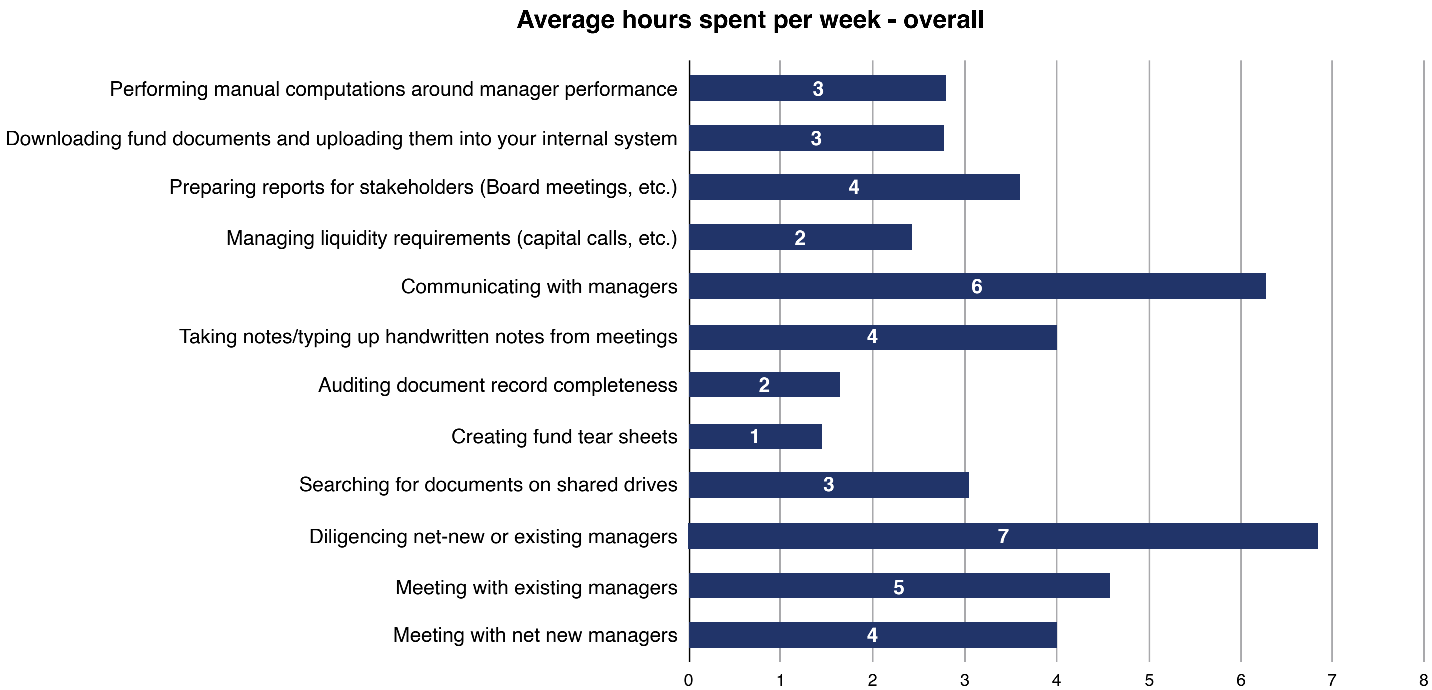
CIOs: DO YOU KNOW HOW YOUR TEAM IS SPENDING THEIR TIME?

While CIOs may not unanimously agree on the precise amounts of time their team should allocate to certain tasks, many would agree that they should emphasize tasks that help them generate new and successful investment ideas. Such tasks include talking to high-influence market participants — existing managers, net-new managers and research intermediaries like investment consultants.

But according to our research, investment professionals spend almost half of their time on non-core tasks — those that could be automated or streamlined.

FIGURE 9



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey N=203

To understand how much time investment professionals are spending on tasks that help them make better investment decisions, we grouped task into three categories:

1. **Core tasks** are central to the functions of an institutional investor. They include: communicating with managers, diligencing net-new or existing managers; meeting with existing managers; and meeting with net-new managers. According to the survey, these take up 22 hours a week or exactly 50% of their week.

   In future research, it would be a worthy endeavor to dig deeper into this 50% to understand how much of the time is spent on genuinely value-adding activities, such as gleaning new insights from actual conversations, versus simply reviewing or discussing facts that are already available in a research database.

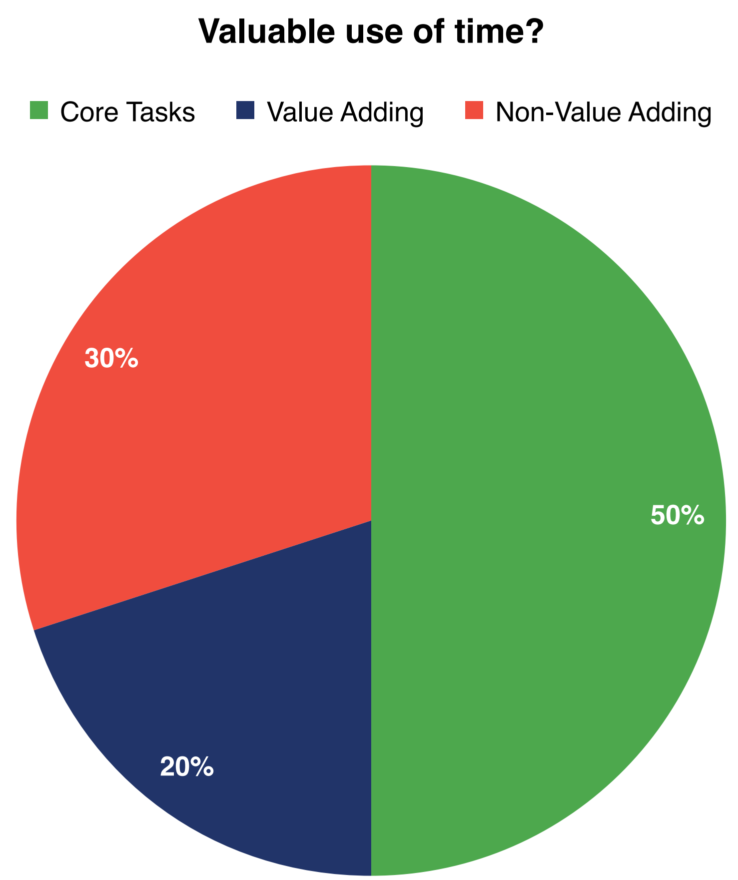
2. **Value-adding, but non-core, investment tasks** that are important but could be improved through the use of technology. They include: performing manual computations around manager performance; managing liquidity requirements; and preparing reports for stakeholders. Again, according to the survey, these tasks take up 9 hours a week or 20.5%.

3. **Non-value-adding tasks** do not really add value to the investment process. They include: downloading and uploading documents; searching for documents on shared drives; typing up handwritten notes from meetings; auditing for document record completeness; and creating fund tear sheets. These can all be enabled with technology, and currently occupy 13 of 44 hours a week or 29.5%.

Adding up the time spent on the two categories of non-core tasks, we see that 50% of respondents' time is spent on tasks that could be made more efficient or even eliminated through the improved use of technology.

While there is no prescribed percentage of time that they should be spending on core investment tasks, it does seem that 50% is too low.

FIGURE 10



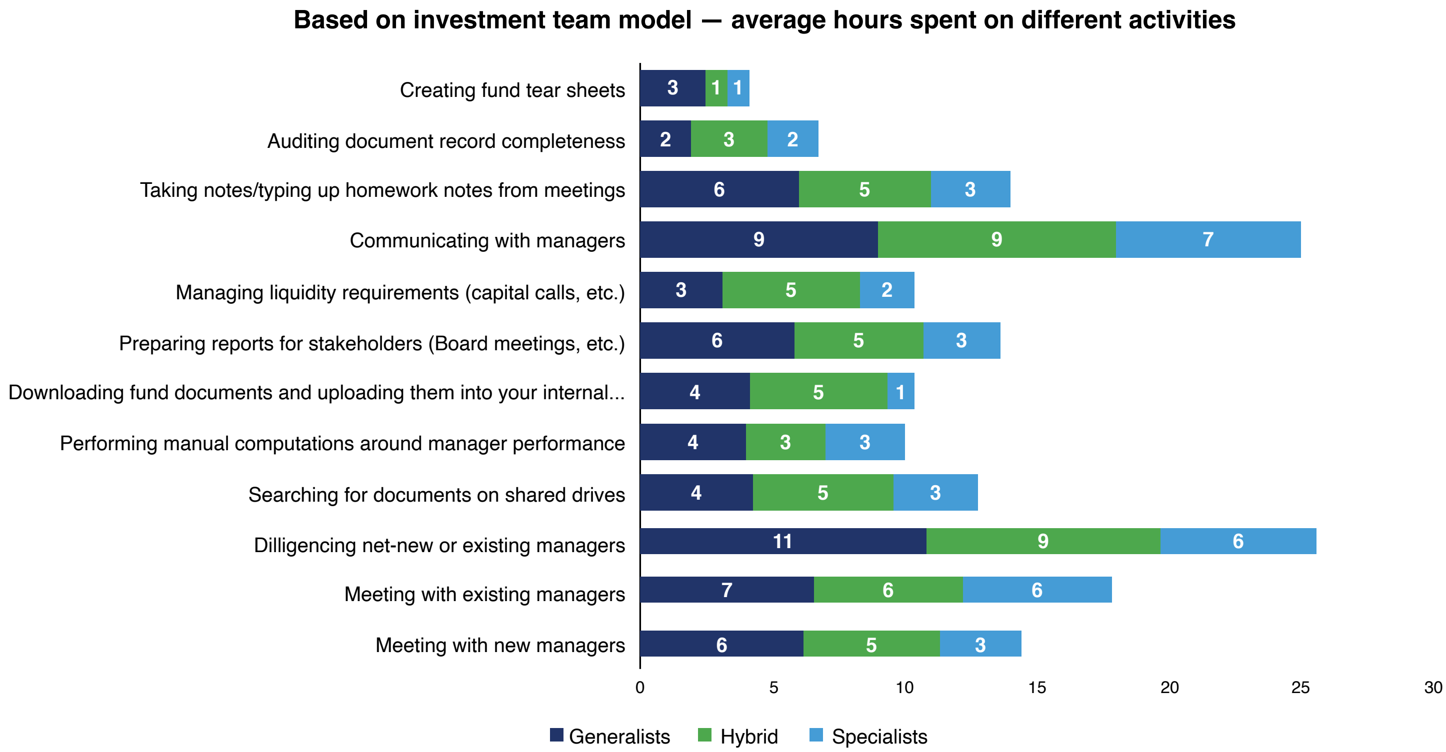
Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey
N=203

The following charts explore additional views of this information.

A) BY TYPE (HYBRID, SPECIALIST, ETC.)

Respondents who classify their investment team as **specialists spent, on average, less time diligencing new or existing managers.** This makes sense for a couple of reasons. Specialists cover a smaller universe of managers and are experts in their specific niches, so they can quickly drill down to the most important information. But it also implies that with tools that offer an easily available information set, this group could cover even more managers.

FIGURE 11



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey
N=203

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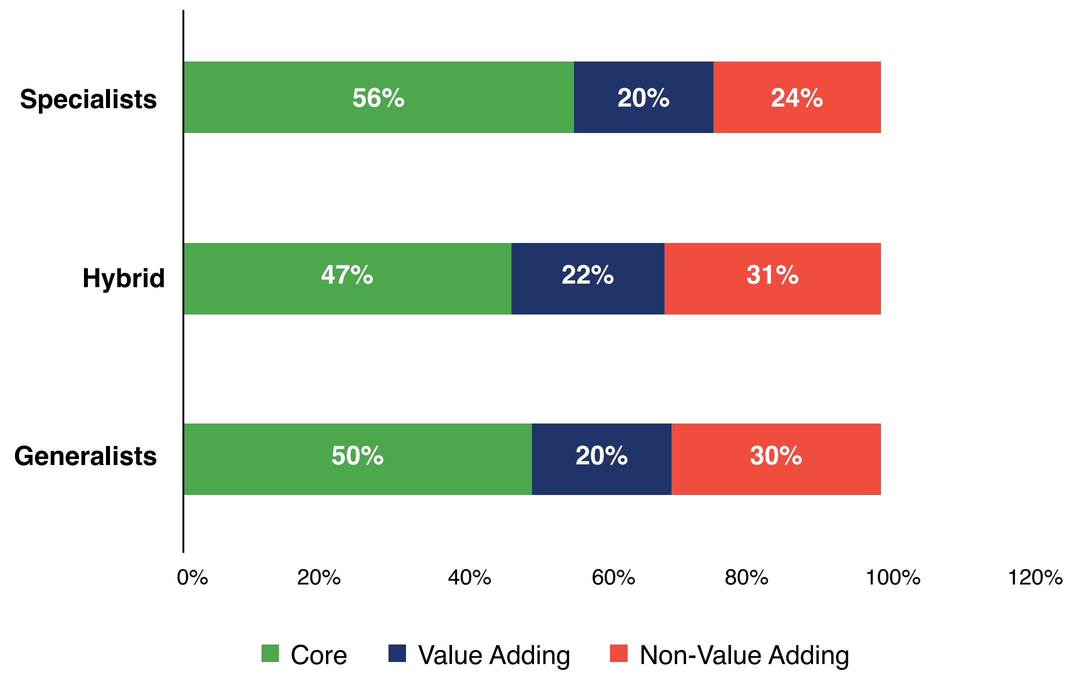
Grouping these responses into our same three task categories, we can see that — overall — the percentage breakdown of core vs non-value-adding vs. value-adding but time-consuming or manual is not that different, although **specialists spend less time on the manual non-value-adding tasks** and more on the core tasks (56% of their time on covering managers).

FIGURE 12

% of time spent by investment team model



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey
N=203

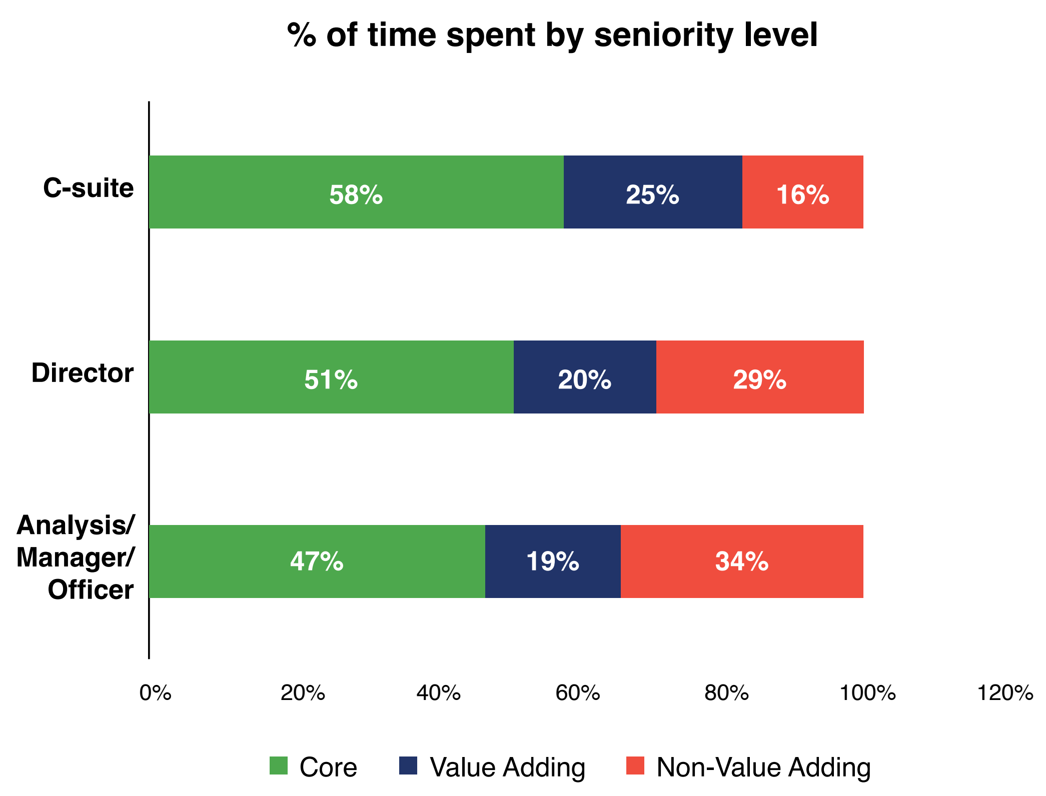
B) BY JOB LEVEL

Our research makes it clear that survey respondents aren't always making the best use of their time. Remember: Respondents were all fairly senior, experienced and highly educated professionals. These people do spend time on non-value-adding tasks, but the good news is that they spend relatively less time on these tasks as their seniority rises.

Many routine administrative tasks can be automated with technology.

Because manager selection and due diligence are key tasks in which senior professionals are involved closely, technology that enables collaborative teamwork and disseminates information to other teams could significantly improve productivity and the quality of investment decisions.

FIGURE 13



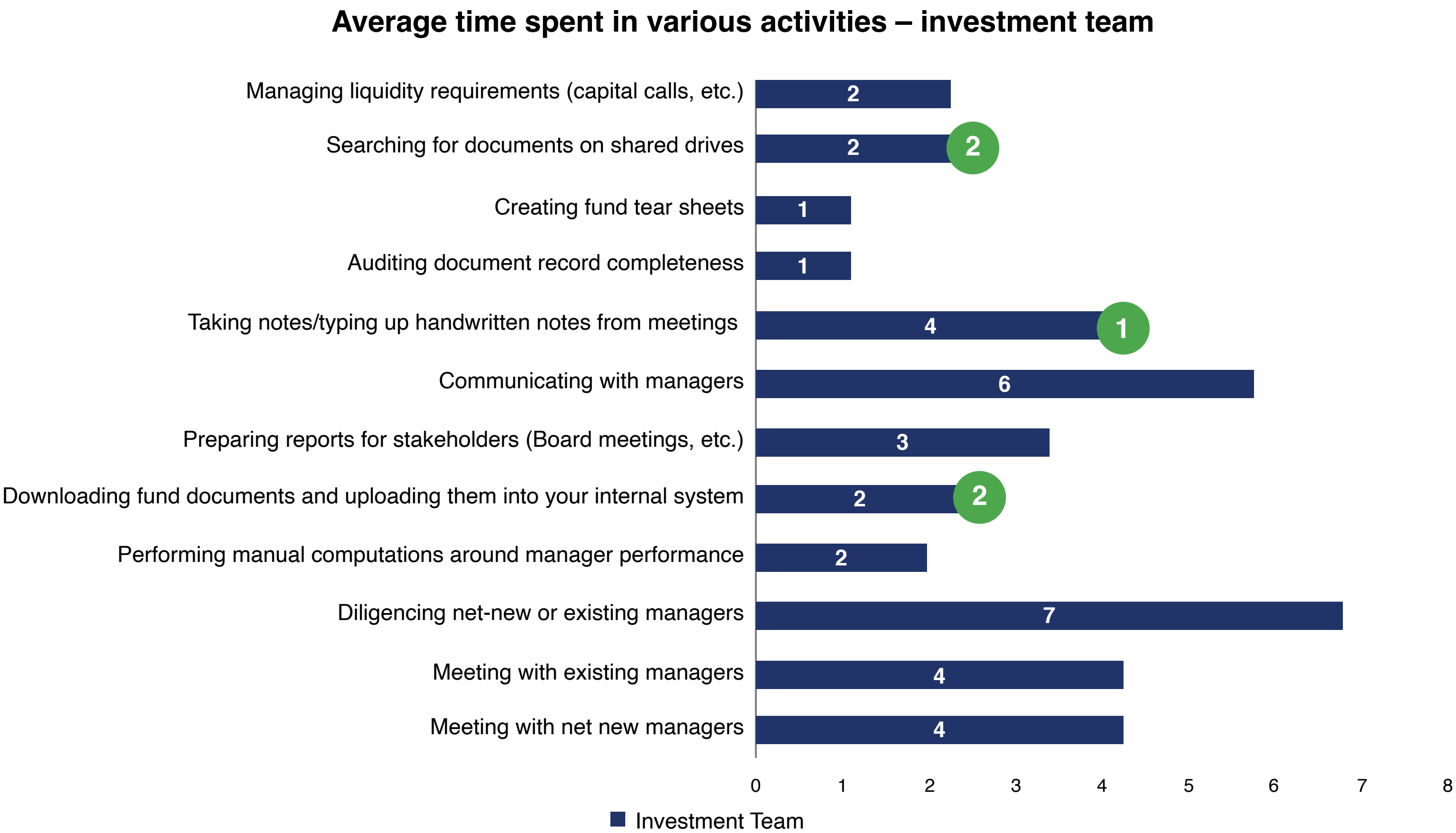
Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey
N=203

C) BY DEPARTMENT

Our survey revealed that a fair amount of the time of the investment team is spent on non-value-adding tasks. These tasks are good targets for streamlining and automating with technology. For example:

- Half a day is lost each week by investment team members typing notes. (1)
- Another half-day is lost to downloading and uploading fund documents or searching for documents on the shared drive. (2)

FIGURE 14



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey

N=203

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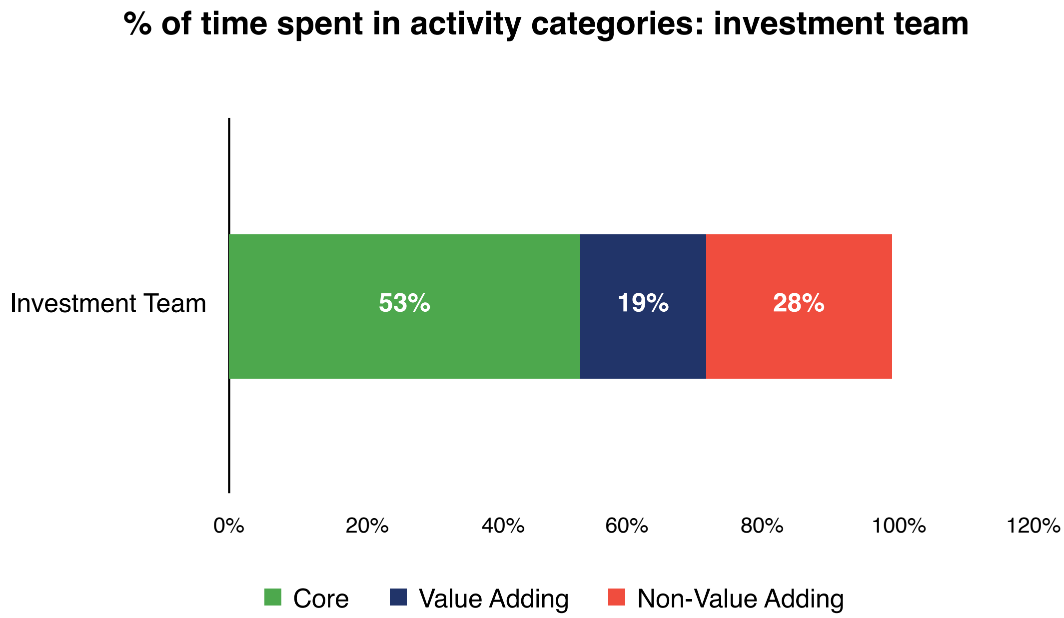
Taking another view with the grouping of tasks into core, non-core, etc., we see that almost half (47%) of the investment team's time was spent on the categories of tasks that could be improved with technology. For the non-investment team segment, that number was even higher, at 57%.

FIGURE 15



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey
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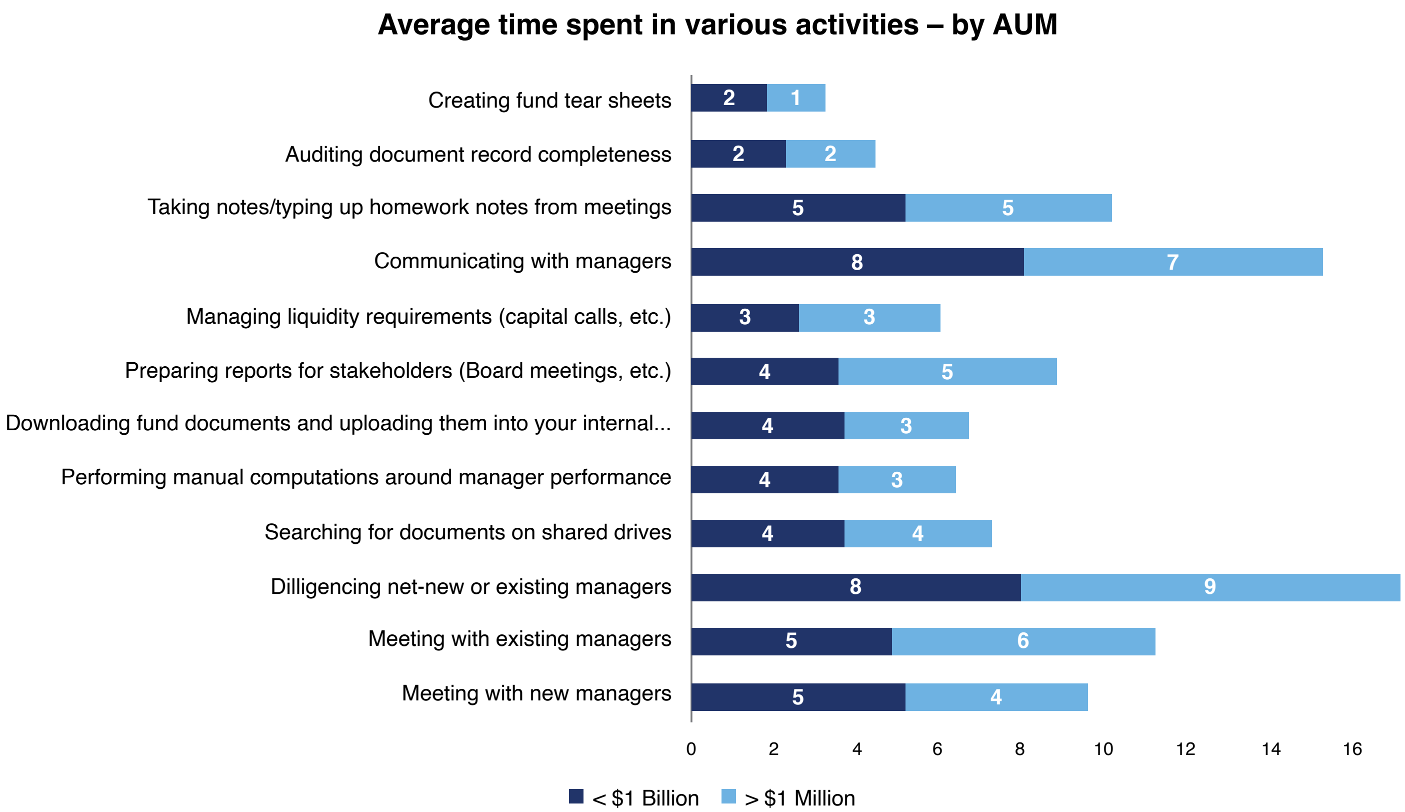
D) BY AUM (<$1B AND >$1B)

Even in larger organizations (those with AUM over $1 billion), our respondents report spending four hours each week searching for documents and another five hours typing notes. These happened to be the same times reported by the smaller organizations with AUM under $1 billion.

FIGURE 16

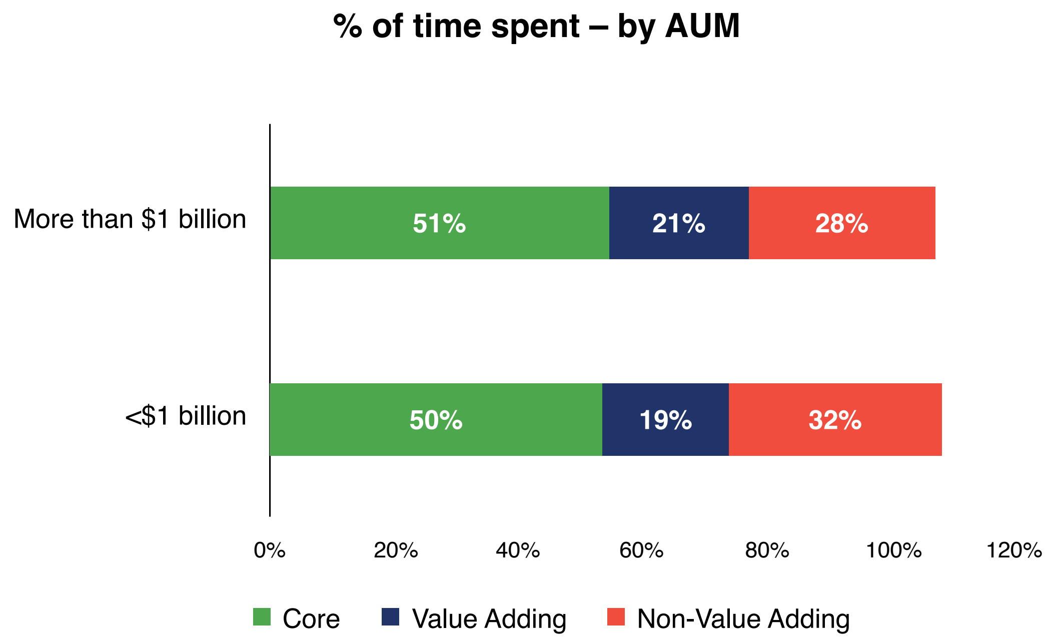


Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey

N=203

The breakdown of time spent on core tasks versus non-core tasks was also very similar between organizations of greater than $1 billion AUM and those with less than $1 billion AUM.

FIGURE 17



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey
N=203

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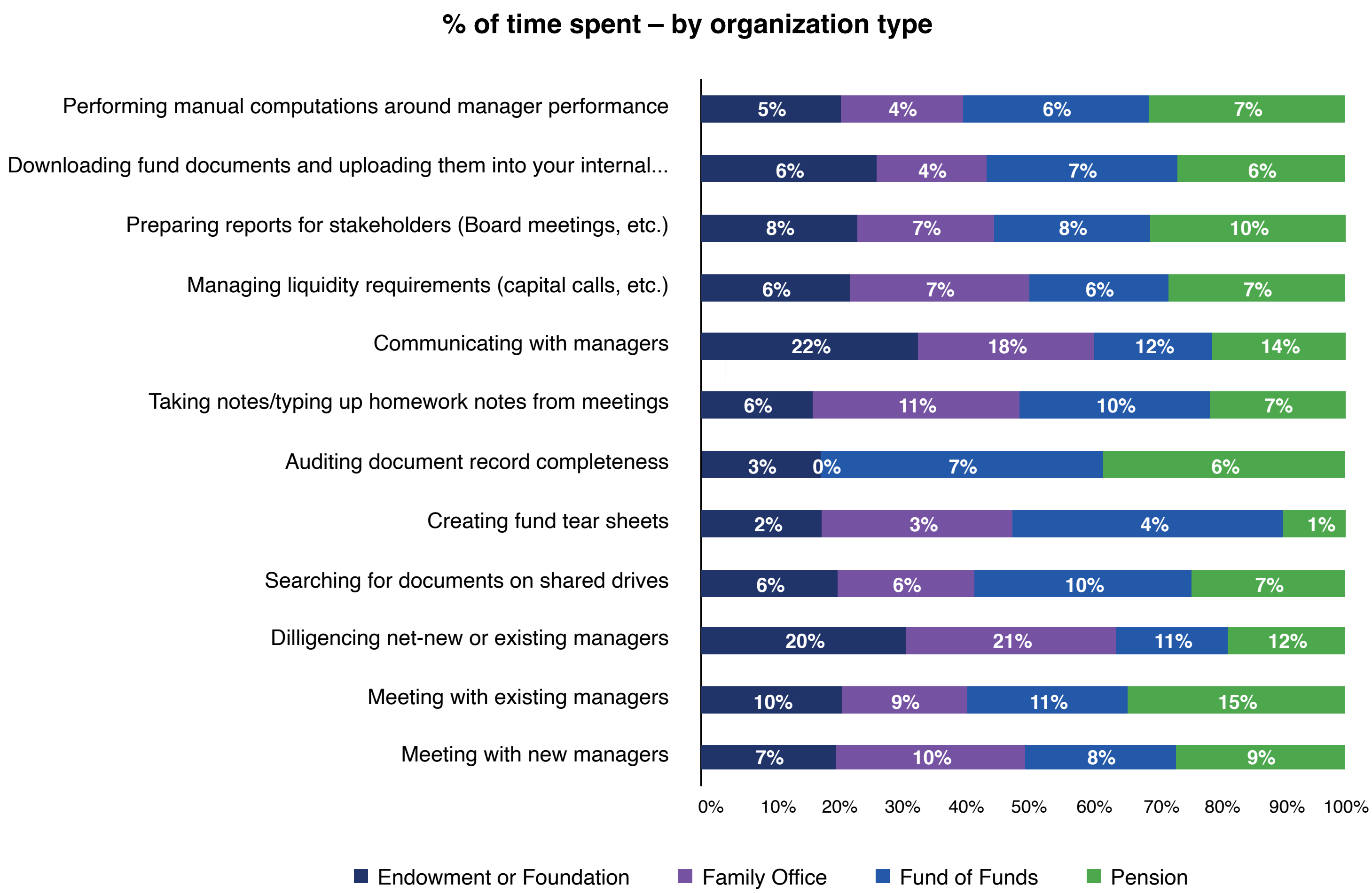
E) BY VERTICAL (ORGANIZATION TYPE)

Depending on the institutional investor, there were notable differences in time spent on tasks. For example:

- Endowments reported spending almost twice as much time per week diligencing new or existing managers than pensions.
- Endowments also spent 50% more time communicating with managers than pensions.

FIGURE 18



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey

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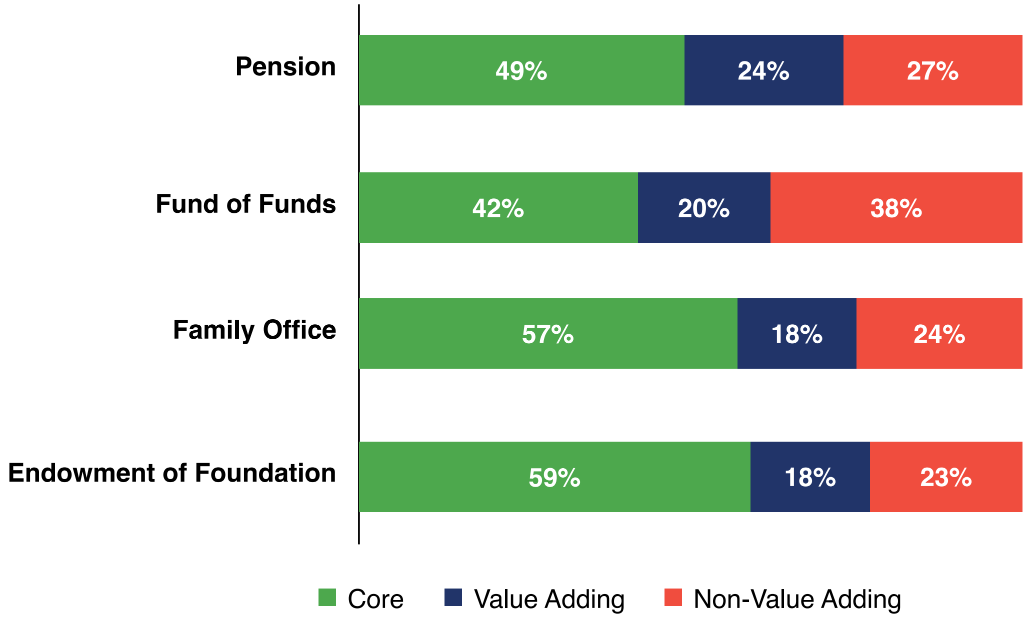
Interestingly, endowments spent the largest percentage of time on core tasks, with fund of funds spending the least. This difference may be another area we study in greater detail in the future.

FIGURE 19

% of time spent across categories – by organization type



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey
N=169

WHERE DO CIOs WANT INVESTMENT TEAMS SPENDING TIME?

As discussed earlier, it would make sense for investment professionals to spend more than half of their time researching and discovering investment ideas. After all, their organization may only be making a couple of new investments each year, and there is intense pressure on each member of the investment team to find the next “big thing.” To come up with good ideas that are both shaped by market realities and infused with insight and creativity from years of experience, team members must understand what's going on at an incredible level of detail. Accomplishing this requires a high degree of familiarity with an ever-changing space, subject-matter expertise, and access to high-market-influence participants, such as their existing stable of managers or ones that they have not yet allocated to, but may be considering.

One thing is certain: Great ideas are not arrived at by searching for documents in shared drives or hard-to-locate network folders. Institutional investors uncover big ideas by solving the puzzle of the market. And they get their puzzle pieces from conversations with investment managers and other market participants, as well as industry conferences, journals, consultants and peers. With enough conversations and enough time to digest the information they take in, the investment professional can put the jigsaw puzzle together with the best picture and insights into the market.

▸DID YOU KNOW?

In fact, a key performance indicator that directly reflects the optimal use of time is the number of meetings the investment team has with current and prospective managers in a given period. It is a metric that is easily and automatically tracked with the right technology solution.

But they can’t do it if they’re spending too much time on manual tasks such as transcribing notes, saving or searching for documents and preparing reports. The time they free up by streamlining, automating or offloading these necessary but non-core tasks can instead be spent on actions that directly influence investment selection, such as meeting with managers, discussing ideas with consultants and conducting research and due diligence.

While the exact percentages of how the investment team should be spending their time may be different from organization to organization, the point is still the same. With their level of training, qualifications and experience, investment professionals’ time is better spent on core, high-value tasks.

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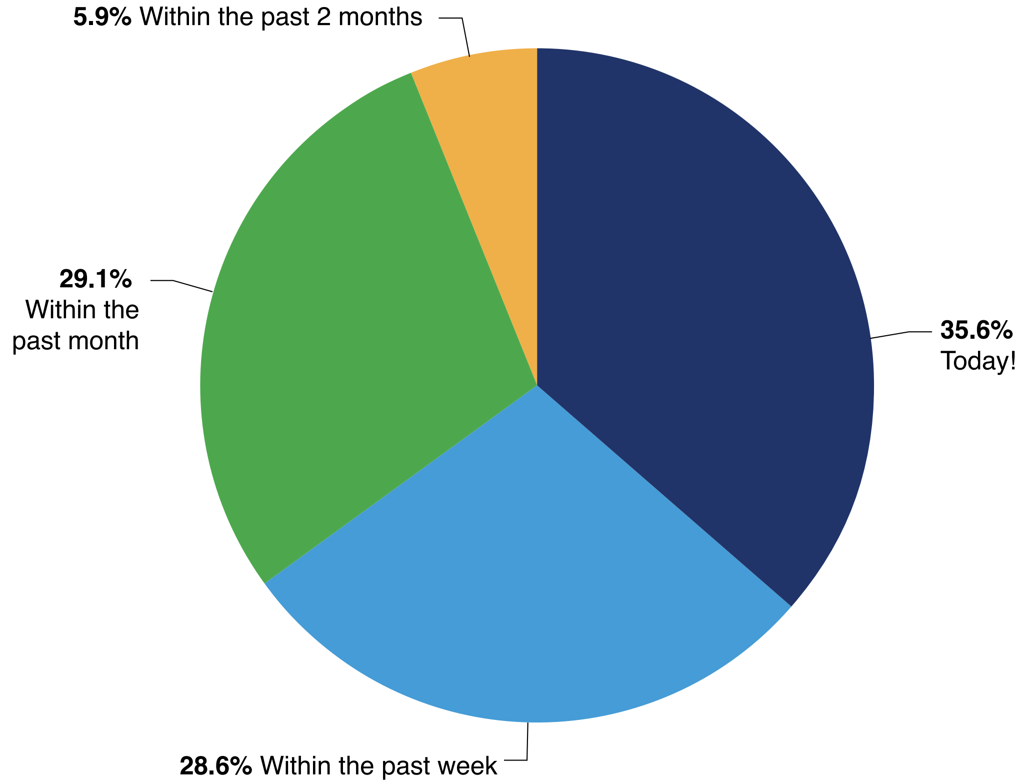
THERE MUST BE A BETTER WAY

Our survey found that investment teams can get easily sidetracked with non-core and manual tasks, but how do these professionals feel about how they're spending their time? Does it happen frequently? Is it truly frustrating? We asked them to put their cards on the table: "When was the last time you thought to yourself, 'There must be a better way of doing this?'"

Just over 65% of respondents had that thought within the past week and virtually everyone (a whopping 94%) within the past month. This is a powerful finding, clearly demonstrating that people are acutely aware of the issues and would welcome change, but don't necessarily know how to go about it.

FIGURE 20

Think about your daily or weekly responsibilities. When was the last time you thought to yourself, "There must be a better way of doing this?"



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey N=203

We also asked them what they were working on when they had that "there must be a better way" thought.

Generally, what you see in the next chart is that survey participants are having that light bulb moment when doing non-value-adding, non-core tasks that could be easily enabled or automated with technology.

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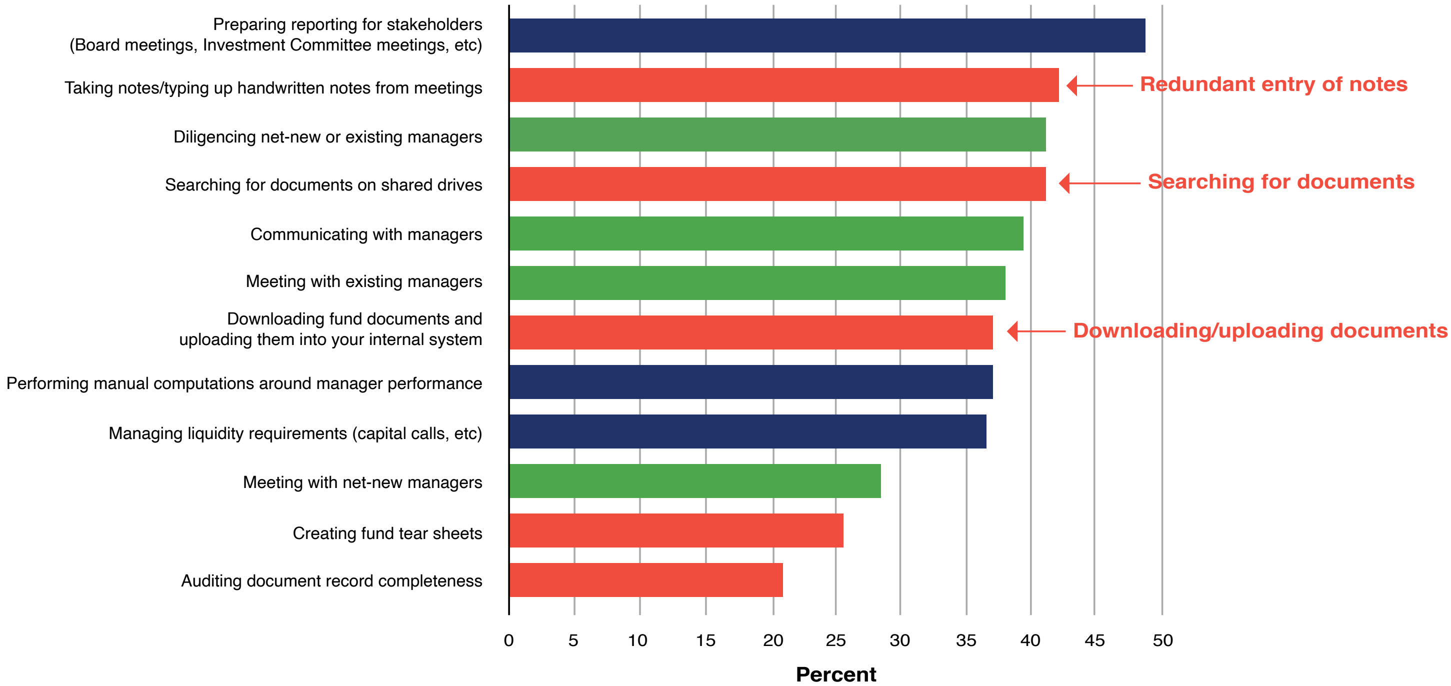
FIGURE 21

What were you working on when you had that “there must be a better way” thought?



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey N=203

FIGURE 22

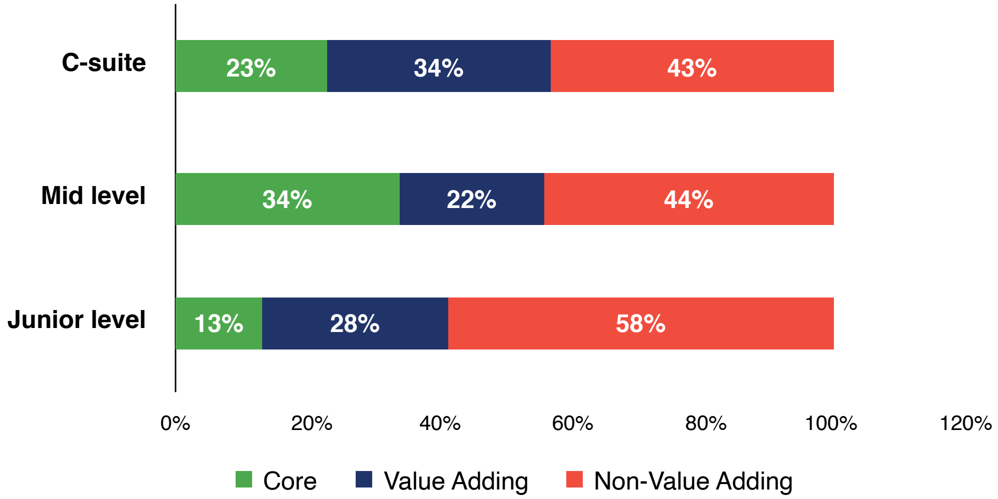
Value	Percent
Preparing reporting for stakeholders (Board meetings, Investment Committee meetings, etc)	48.8%
Taking notes/typing up handwritten notes from meetings	42.9%
Diligencing net-new or existing managers	41.4%
Searching for documents on shared drives	41.4%
Communicating with managers	39.4%
Meeting with existing managers	37.4%
Downloading fund documents and uploading them into your internal system	36.9%
Performing manual computations around manager performance	36.9%
Managing liquidity requirements (capital calls, etc)	36.5%
Meeting with net-new managers	28.1%
Creating fund tear sheets	25.1%
Auditing document record completeness	20.7%

**Respondents were asked to “select all that apply.” Percents were calculated based on the number of times respondents selected a given option.*

As one would hope to see, most of the tasks identified in the "there must be a better way" question were in the non-core and non-value-adding tasks. This was true across the spectrum of seniority, as well as within the investment team.

FIGURE 23

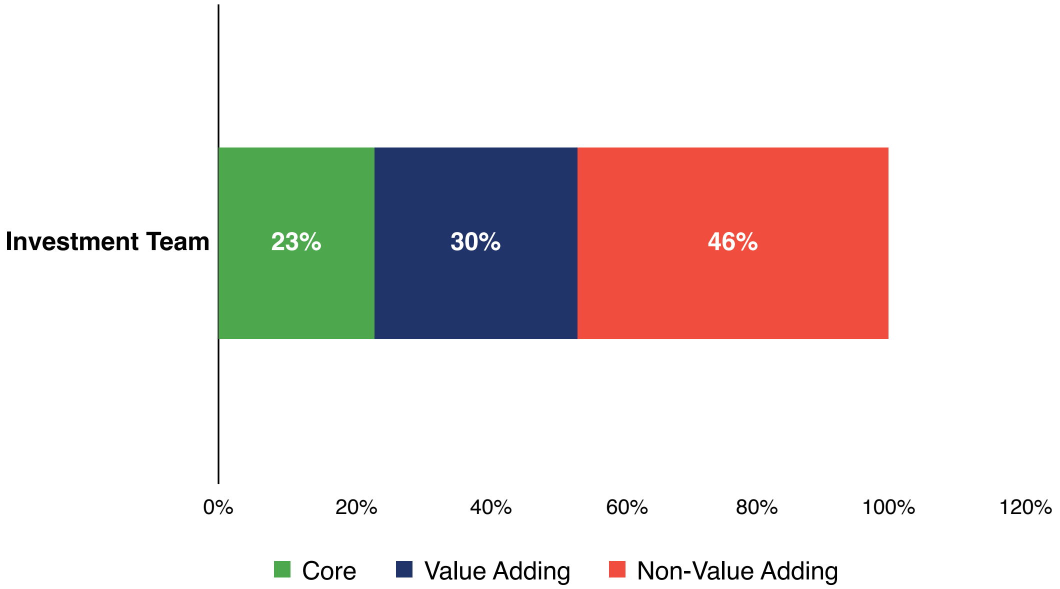
What were you doing when you thought, "There must be a better way?" – Grouped into Task Category by Seniority



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey N=203

FIGURE 24

What were you doing when you thought, "There must be a better way?" – Grouped into Task Category, for the Investment Team Only



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey N=153

LOOKING AT SOME OF THE TOP RESPONSES:

Preparing reporting for stakeholders – This is an important function, but it still ranks as the top issue in the context of "there must be a better way." And that speaks to the fact that the process of preparing reports for stakeholders is especially convoluted for most organizations. As one market stakeholder noted, it can be a poorly choreographed ballet of Excel spreadsheets, pulling info from disparate sources and manually checking values. The issue here is that there are many disparate internal systems that are required to create the report instead of a single streamlined integrated one, and that leads to wasted time, frustration and confusion.

Taking notes or typing up handwritten notes from meetings – Something as mundane as managing notes from meetings can and should be easily handled with modern software solutions for organizations that are handling billions of dollars in investment portfolios. There are a wide variety of tools and systems available to record and transcribe notes using voice-recognition technology that can then store and publish the notes to centralized locations.

Diligencing new or existing managers – It is interesting that diligencing net-new or existing managers made the list of tasks institutional investors were performing when they had the "there must be a better way" thought. It is an important task that requires wisdom, skill, judgment and acumen. It is an activity that takes place throughout the investment process, but particularly in the later stages when trying to make sure the manager is someone you really want to invest in. This process is different for researching new managers, which requires extensive due diligence across all parameters upfront, and for existing managers, where the review is shorter and focuses more on possible issues or changes. Investment consultants who can streamline the process and offer a qualified second opinion can make the work to vet new or existing managers more efficient and potentially higher quality. This is an area that may require further investigation in future studies.

Meeting with and communicating with managers – These tasks are at the core of being an investment institutional investor. It is how investment professionals stay current on market directions, get new investment ideas for the organization, and develop critical investment strategies. **It's interesting that our respondents think there must be a better way to do this core institutional investor task**. This is an area that may warrant deeper investigation to pin down exactly what makes it so frustrating.

Searching for documents on shared drives – It's another non-core task that should not be time-consuming. But a common experience is that once a file goes into the shared drive, it can be like falling into an abyss. Inconsistent naming conventions and version control issues can cause confusion and take time to recover. How do people know they have the right document or the right version of the right document? It is something that can be entirely avoided with a modern data infrastructure and proper document management capabilities, such as built-in tagging and search capabilities.

Downloading and uploading documents – Institutional investment teams need the data in a central location, but the documents and data come from multiple unconnected sources. It takes time to download quarterly letters, NAV statements and other manager-generated documents, rename them according to a standardized naming convention, upload and then tag them in an organized fashion such that colleagues and other stakeholders will be able to find them.

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IF INFORMATION IS KEY, WHY IS IT SO ELUSIVE?

At this point, we can clearly see that institutional investors spend a sizable portion of their time on non-core investment tasks. And notably, our survey illustrates two shortcomings in data management — the inability to ingest and share data. On a scale of one to ten:

- 47% of respondents rated their ability to ingest at 5 or lower
- 58% rated their ability to share information at 5 or lower

It seems our respondents are caught in a vicious cycle as the inability to ingest and share information effectively leads to more time downloading, uploading and searching for documents.

FIGURE 25

On a scale of 1 to 10, where 10 is great and 1 is poor, how would you rate your organization's ability to ingest information and share it across teams?

	1	2	3	4	5	6	7	8	9	10	Responses	Avg.
Ingest Information Count Row %	0 0%	13 6.4%	21 10.3%	20 9.9%	42 20.7%	38 18.7%	25 12.3%	28 13.8%	16 7.9%	0 0%	203 100%	5.7
Share Information Count Row %	0 0%	0 0%	50 24.6%	38 18.7%	29 14.3%	25 12.3%	25 12.3%	16 7.9%	16 7.9%	4 2%	203 100%	5.3
Totals Total Responses											203	5.5

Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey N=203

DATA MANAGEMENT IS CRITICAL

Data management is a vital part of the strategic infrastructure of institutional investors. Proper data management frees up time for investment teams to develop new ideas and enhance returns.

Without the ability to ingest information, the investment team can't piece together their investment worldview. Without the ability to share information, they can only rely on the insights and ideas they generate themselves rather than those of the broader team.

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GENERALISTS, SPECIALISTS AND HYBRID

In our research, we also asked about the characterization of the types of investment team models within respondents' organizations.

We asked respondents to categorize their investment teams as generalist, specialist, or hybrid.

- **Generalist** — members of the investment team look across all or many asset classes.
- **Specialist** — members of the investment team focus on only one asset class.
- **Hybrid** — investment team members cover two to three asset classes, effectively "specializing" in a few asset classes as opposed to a single one.

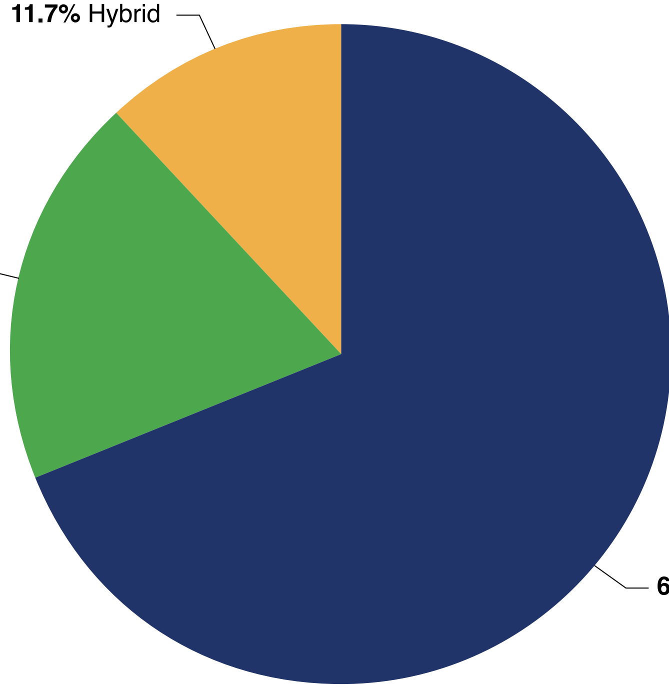
Some 68% of respondents considered their investment teams to be generalists. In those generalist environments, it is even more important to have proper tools, systems and external resources in place, because generalists must cover more asset classes and more managers.

Many CIOs attempt to leverage the generalist model to attract world-class investment talent, as doing so provides the opportunity to look across the investment universe, not just in a particular niche or asset class.

For the generalist strategy to reach its full potential, however, investment professionals need to spend their time even more wisely.

FIGURE 26

Do you consider your investment team to be primarily organized around generalists, specialists, or hybrid?



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey
N=203

STAFFING BY INVESTMENT TEAM CHARACTERISTICS

The fact that a large portion of respondents report having their investment teams follow a generalist model is another illustration of the importance of leveraging time-saving tools across an organization. **In our survey, respondents that indicated using a generalist model reported the highest percentage of staff on the investment team (45%) relative to specialist and hybrid models.** Since each team member in generalist model is covering more managers and more asset classes, it makes sense that in these organizations that the investment team represents a larger portion of the overall staff.

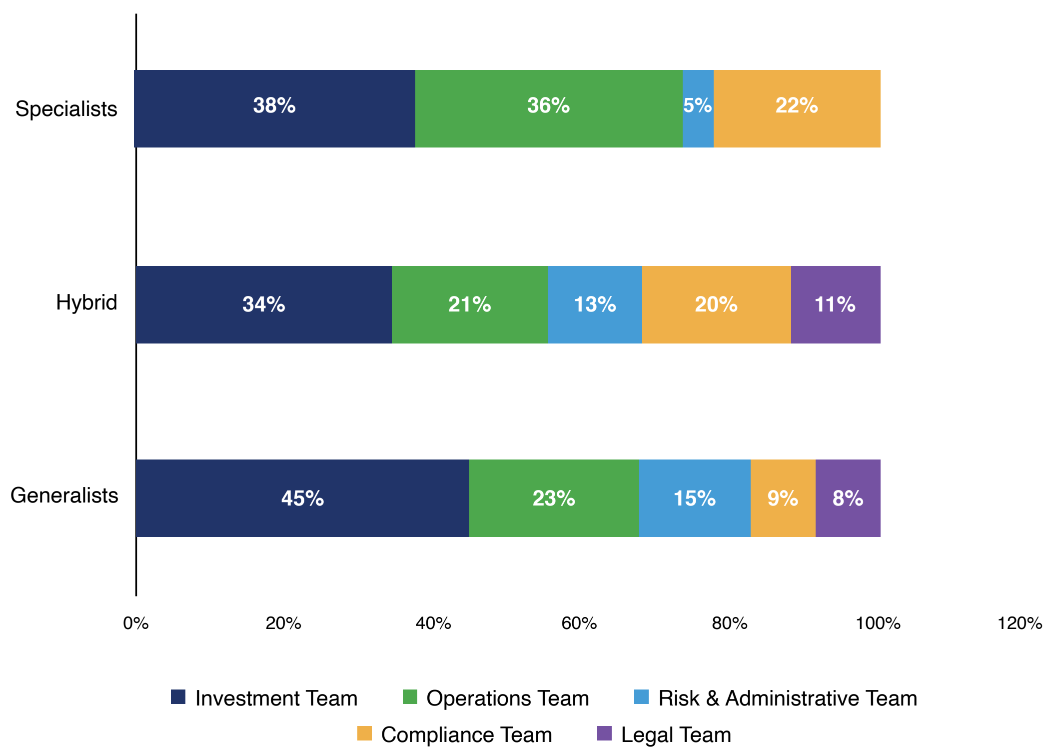
Generalist and specialist teams are the most tilted towards investment staff. Interestingly, hybrid organizations report the largest compliance teams. This may be a matter of interpretation, however, as some respondents may have classed legal & compliance together. This may be an area of further investigation in the future.

Align team and technology

To support a team of generalists responsible for multiple asset classes and managers, organizations need to have the technology infrastructure and external resources to help keep different sources and kinds of information centrally organized and easily accessible to facilitate better decision-making.

FIGURE 27

% of staff in each team – by investment team model



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey N=203

STAFF ATTRACTION AND RETENTION

Institutional investors are competing with Wall Street's hedge funds and private equity funds as they work to attract top investment talent. And it can be difficult to lure the best talent away from the perks of the world's biggest firms.

Investment principles are consistent from institution to institution. What differentiates some organizations, though, is the resources they make available to the investment team in order to evaluate and analyze their investment universe.

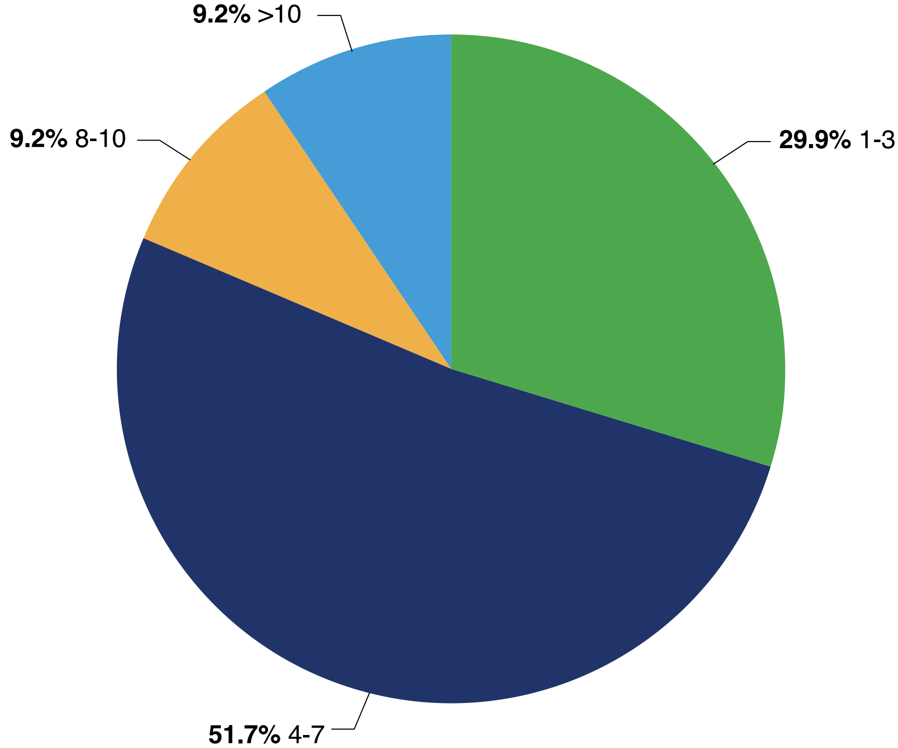
When competing with Wall Street for the best talent, institutional investors can differentiate themselves by offering both a better investment culture and a better investment infrastructure with the tools and practices required to provide relevant information on demand and connect the dots across asset classes. This improved quality of work life is made possible by eliminating mundane tasks and allowing professionals to focus mostly on their core competency. Outsourcing and automation of a range of routine tasks via a stable and flexible infrastructure are good not only for recruiting and team morale but also directly contribute to the ability to outperform their respective benchmarks.

ADDITIONAL FINDINGS

Generalist asset classes — Roughly 70% of generalists report covering four or more different asset classes. As a result, generalists need to meet with managers from a variety of different asset classes, so it's critical for them to spend their time wisely — forming strategies, evaluating ideas, and analyzing data. For them, searching for documents is frequently an even more elaborate and convoluted process because their coverage universe, and the diversity within it, are great. The availability of immediate, comprehensive, and complete information is paramount, highlighting the importance of implementing a systematic approach to information gathering, distribution and access.

FIGURE 28

If generalists, how many asset classes does each team member cover, on average?

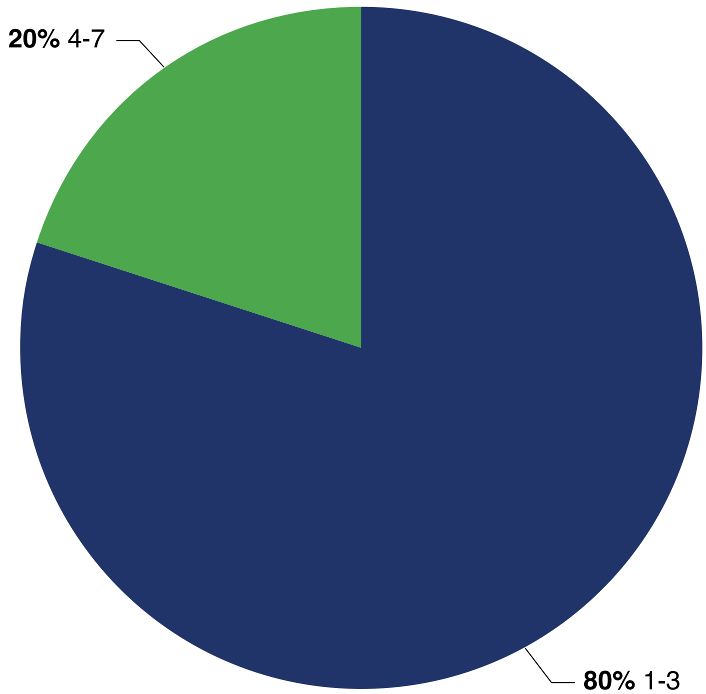


Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey N=118

Hybrid asset classes — Those respondents who said they worked in a hybrid investment team model, in contrast, covered much fewer asset classes, with 80% of them responding that they covered only one to three asset classes.

FIGURE 29

If hybrid, how many asset classes does each investment team member cover, on average?



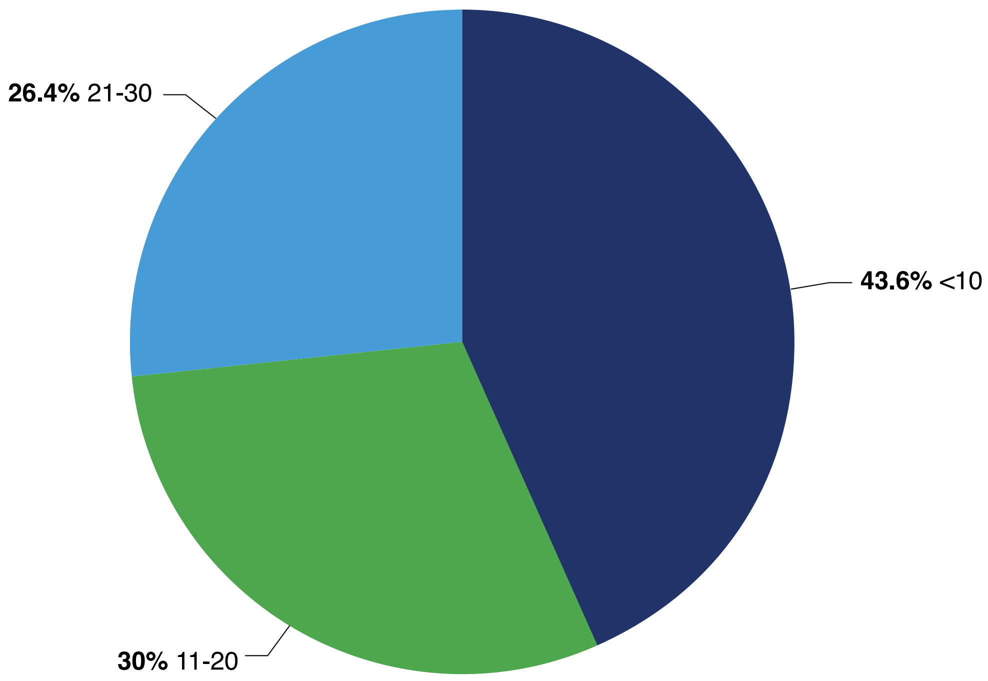
Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey
N=20

Generalist versus specialist manager coverage — As expected, generalists cover more managers than specialists.

The percentage of generalists that cover more than 10 managers is 56%, while roughly half as many specialists (24%) cover more than 10 managers.

FIGURE 30

If generalists, how many managers does each investment team member cover, on average?



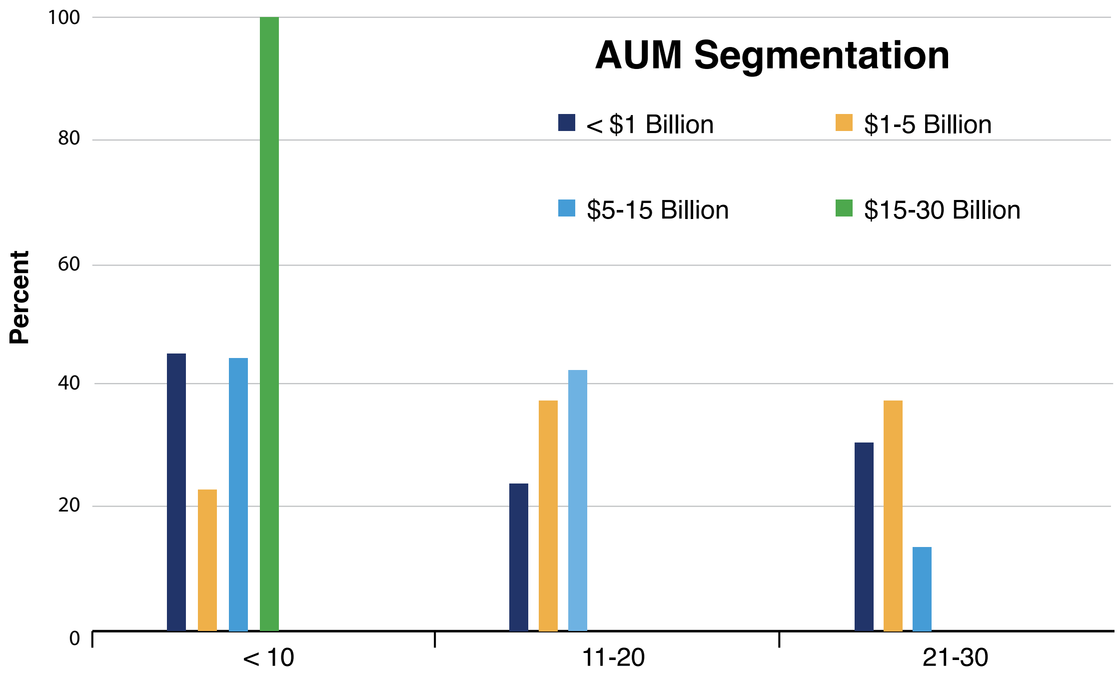
Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey

N=118

At organizations with larger assets under management, a larger percentage of investment team members cover fewer than ten managers, likely because they have the resources. In short, they may have the luxury of covering fewer managers per team member, allowing them to go "deeper."

FIGURE 31

If generalists, how many managers does each investment team member cover, on average?



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey

N=118

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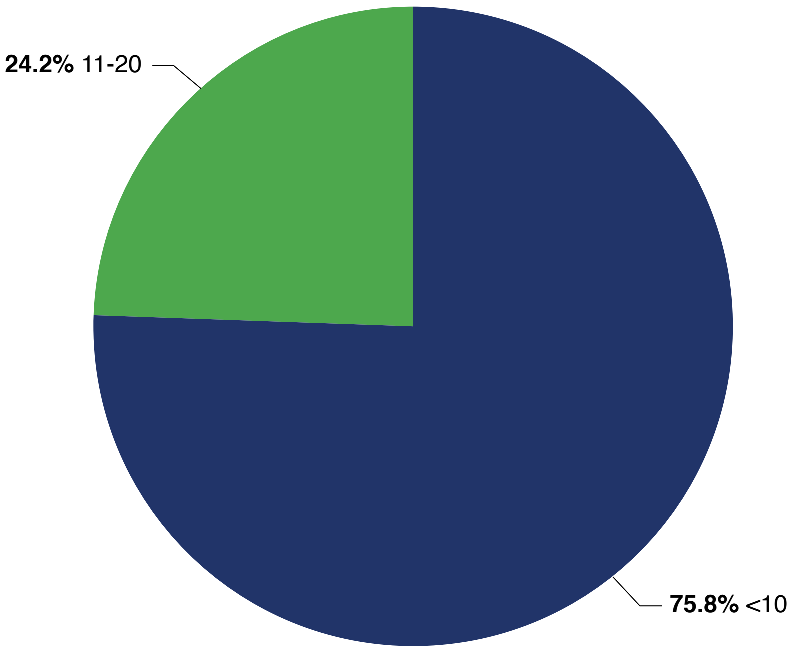
FIGURE 32

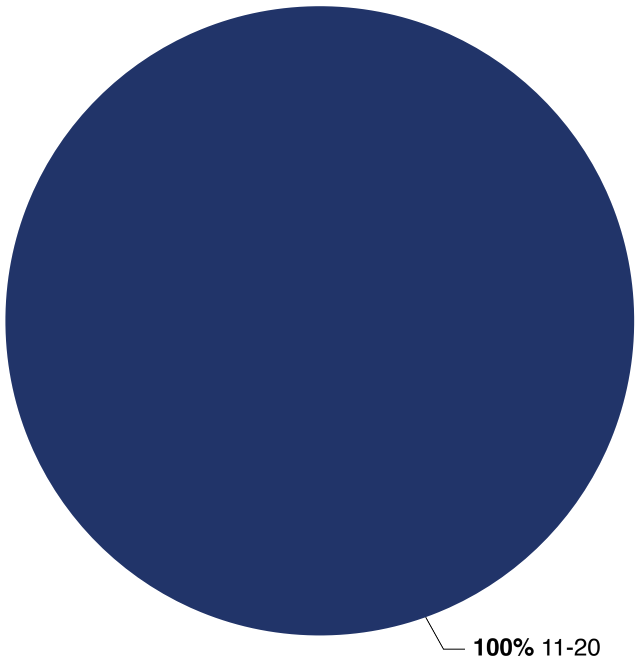
If specialists, how many managers does each investment team member cover, on average?



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey N=33

FIGURE 33

If hybrid, how many managers does each investment team cover, on average?



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey N=20

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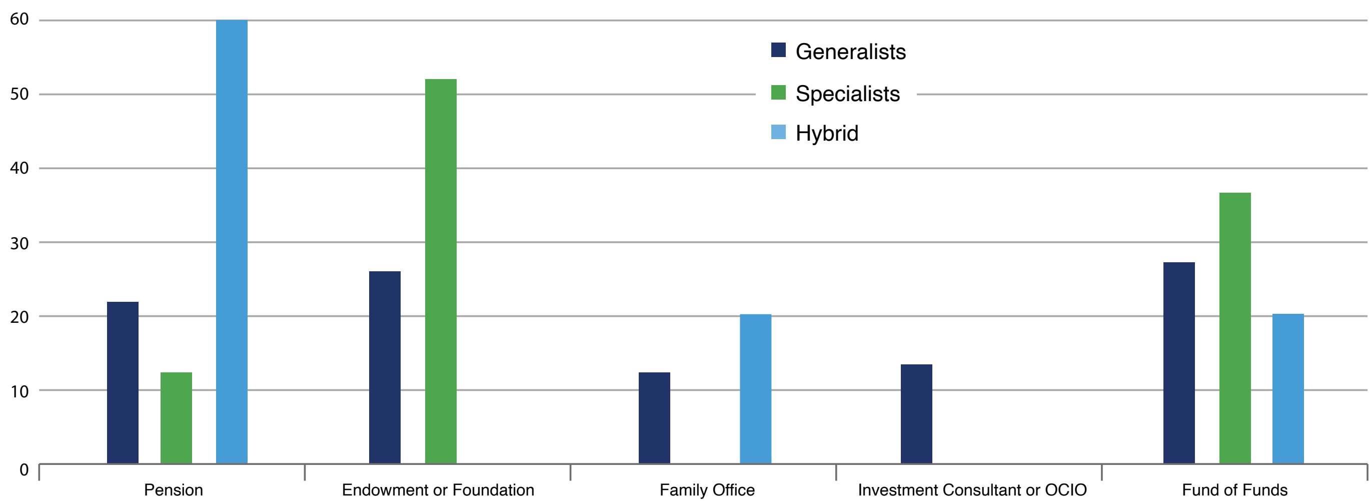
In summary, and according to our research, specialists cover fewer than 10 managers, hybrids cover eleven to 20 managers, and generalists were the only group who mentioned covering more than 20 managers.

Investment teams by vertical — The chart illustrates the mix of generalist vs. specialist vs. hybrids across the institutional investor verticals. It's interesting that pension respondents predominantly saw themselves as being part of a hybrid model, while endowments and foundations primarily viewed their investment team models as specialists.

FIGURE 34

Investment team model – by organization type



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey

N=182

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THE IMPORTANCE OF THOROUGHNESS

As we've seen in the sections above, survey respondents reported spending too much time on manual tasks as a result of organizations' inefficient collection and sharing of information.

Productivity and efficiency are important because allocating to new managers is a long and painstaking process. More than 65% survey respondents indicate they only allocate to between one and five new managers per year. And over 60% say it takes up to six months to make the decision.

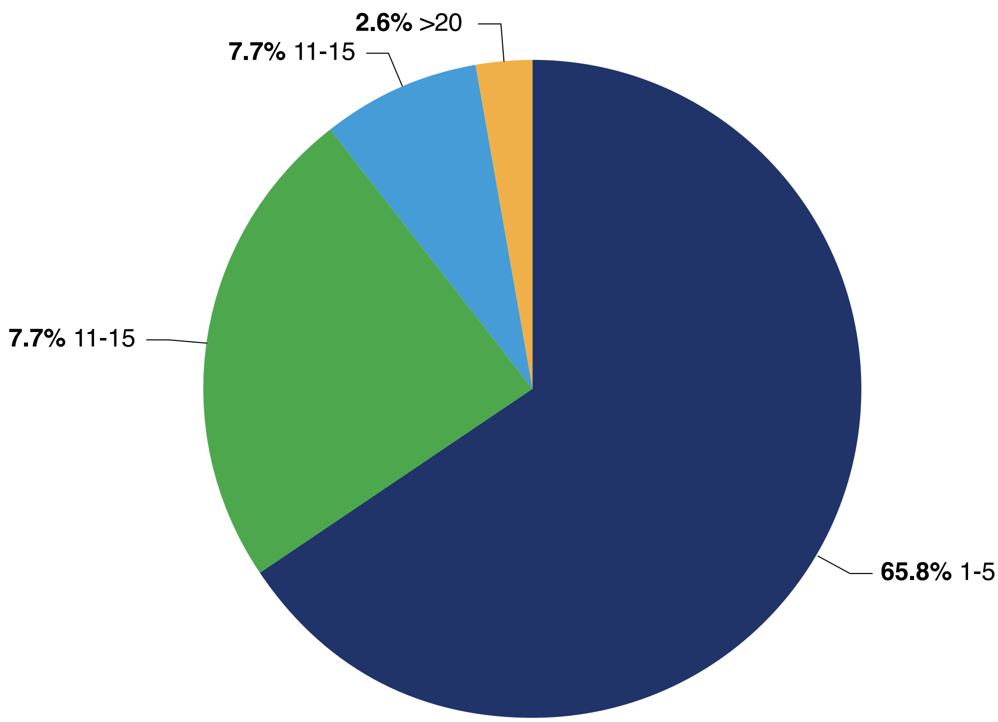
But, in reality, to even get a new manager on a shortlist for consideration, likely involves a multi-year process that requires extensive research and due diligence. The more internal and external support that the investment team has at their fingertips in the form of technology and outside consultants, the more ideas they will be able to bring to the table. That, in turn, will improve both the quality and quantity of the asset base.

HOW MANY NEW MANAGERS ARE ALLOCATED TO PER YEAR?

The data is in line with our expectations. We know that institutional investors mostly write tickets to just a handful of managers every year, and we see that in the responses with 89% of respondents indicating that they allocate to ten or fewer managers annually. What is surprising is that 10% are allocating to eleven or more each year.

FIGURE 35

How many NEW managers do you allocate to per year?

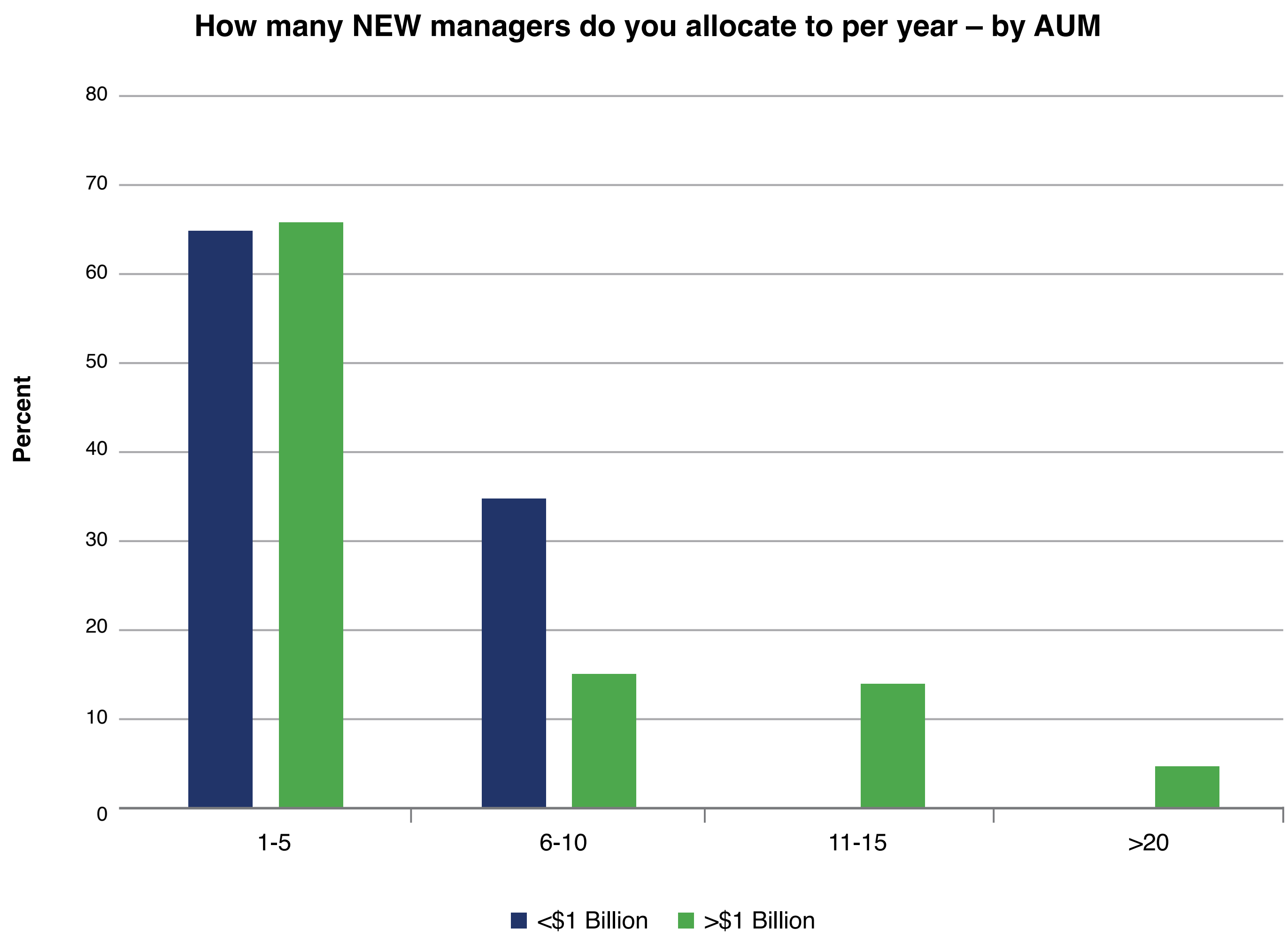


Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey N=203

BY AUM

The organizations below $1 billion in AUM maxed out at 10 or fewer manager allocations per year. Even the larger organizations had a greater percentage of allocations below ten, but there were some in the higher ranges as well.

FIGURE 36



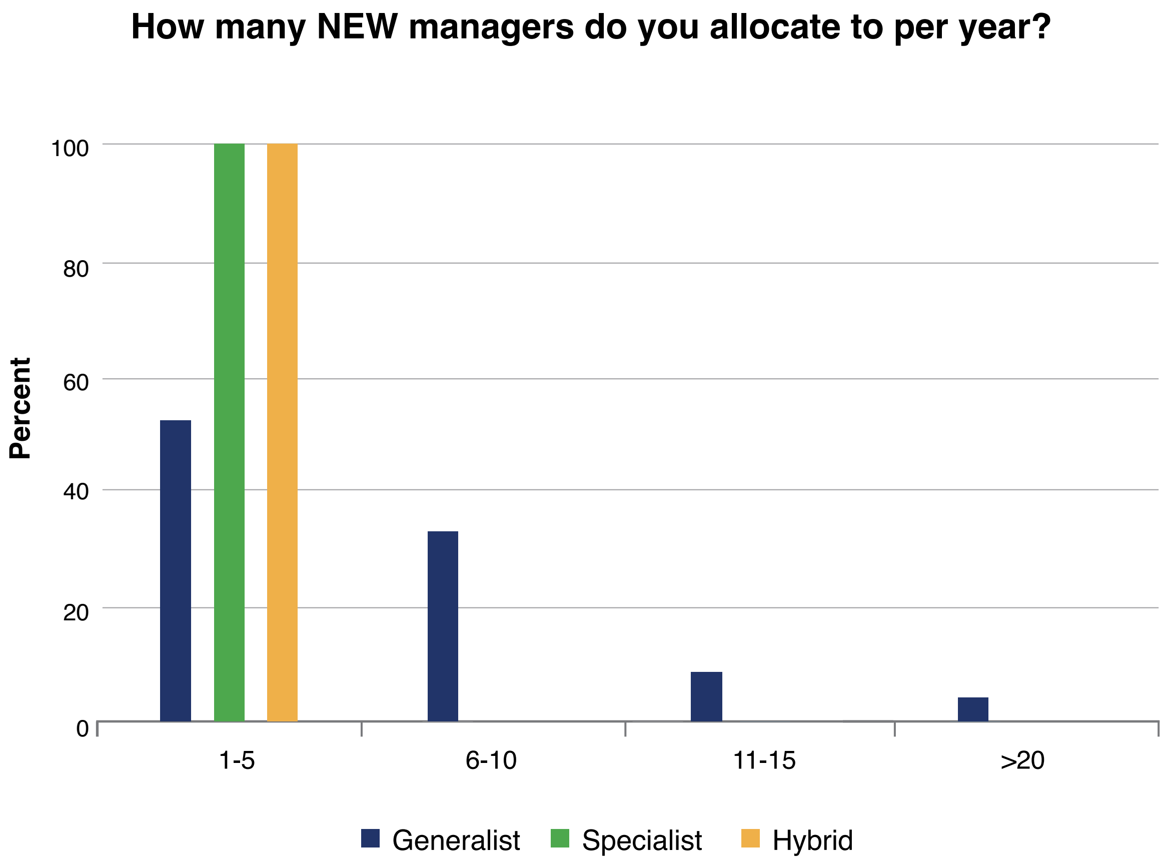
Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey

N=203

BY INVESTMENT TEAM TYPE

The generalist organizations surveyed allocate to more new managers per year than either specialist or hybrid organizations. Survey respondents from specialist or hybrid organizations all reported investing in five or fewer new managers per year.

FIGURE 37



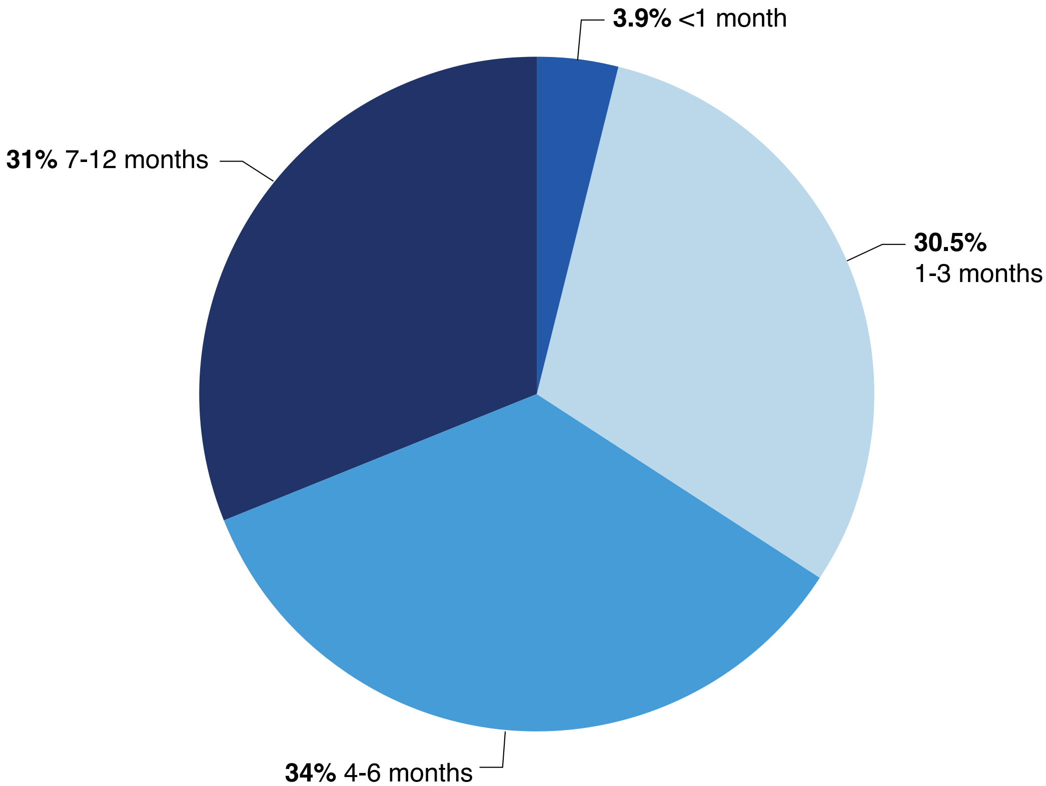
Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey
N=203

TIME TO COMPLETE INVESTMENT

As expected, 65% of institutional investors take many months to complete investment decisions. But in practical reality, the time from which they first start tracking a manager to the time that they actually invest could be multiple *years*.The multi-month process begs the question, “If an institutional investor wants to move swiftly/agilely, how do they do so?”

FIGURE 38

From start to finish, how much time does it take (in months) to complete an investment in a new manager?



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey
N=203

> **Given that it is a multi-month, or even a multi-year, process to make a decision to allocate to a new investment manager, how can institutional investors make better investment decisions more efficiently, and with more complete information?**

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TECHNOLOGY: (RUSTY) TOOLS OF THE TRADE?

The next area of our research survey delved into institutional investors' use of and satisfaction with technology.

An organization's ability to take in and share information is heavily dependent on the technology infrastructure and solutions it has in place. It is the key to being able to conduct thorough evaluations of investment managers over the course of several weeks, months and even years.

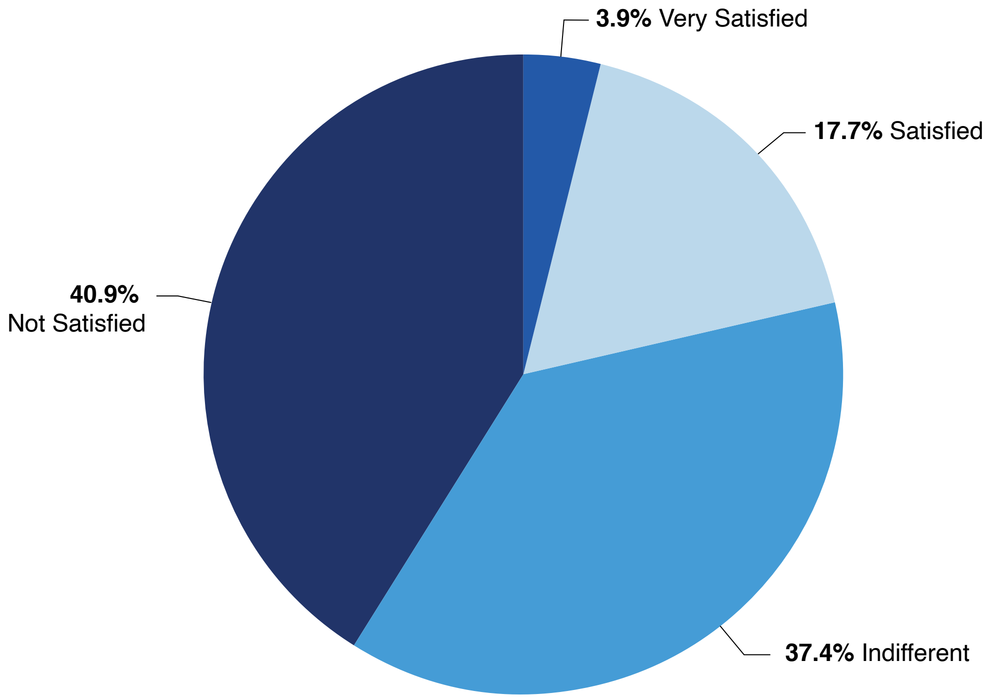
Approximately three-quarters of respondents reported being either indifferent or not satisfied with the technologies they have available to get their jobs done, with those not satisfied essentially doubling the percentage of those who were satisfied. In fact, only 21% reported that they are satisfied with their current technologies.

Put another way, **those who are dissatisfied outnumber those who are satisfied two to one, which should raise internal alarms that now is the time to look for a better way.**

Our research has highlighted several specific areas that need attention and improvement, including data collection and distribution, information systems, and internal communications. Improving each of these broad areas by themselves will make respective teams more efficient and workers more productive. Improving all of them via an integrated solution will produce synergies far beyond any benefits that can be obtained by simply focusing on one or two problem areas.

FIGURE 39

How satisfied are you with the solutions and technology you use to get your job done?

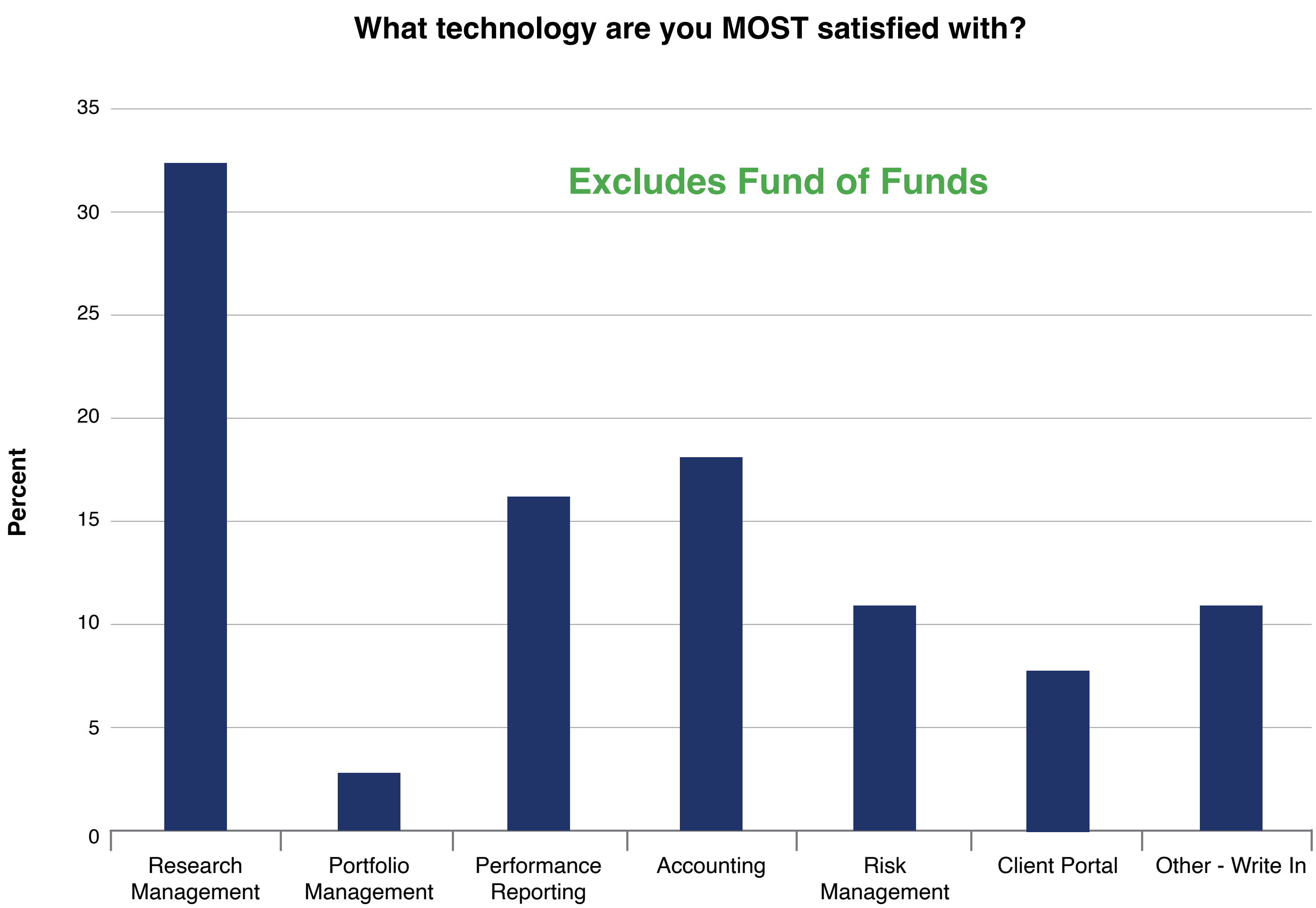


Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey N=203

MOST SATISFIED

Respondents were most satisfied with research management technology (32%), followed by accounting and performance reporting.

FIGURE 40



NOTE: Fund of funds were excluded here because we knew they would potentially have a different meaning for the concept of a client portal than other institutional investors would.

Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey

N=161

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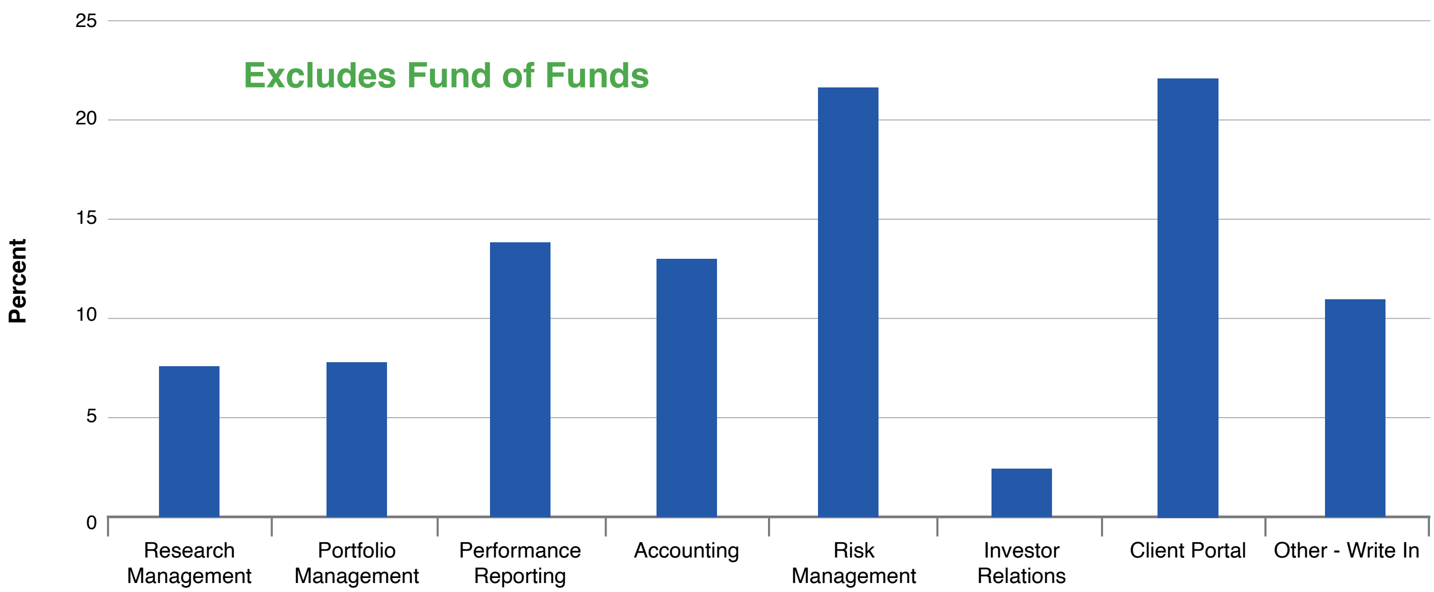
LEAST SATISFIED

Over 20% of respondents indicated they were least satisfied with risk-management solutions and client-portal technology. How the investment team uses the risk management data and the level of interaction and information flow between the two departments should be an area of further study and focus. After all, improving information flow around manager research, portfolio analytics and risk profiles lead to faster, more efficient and better-informed decisions.

FIGURE 41

What technology are you the LEAST satisfied with?



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey

N=161

Interestingly, institutional investors mentioned client portal as a technology that they were least satisfied with. What the term ‘client portal’ means to a non-fund of funds asset owner would be a potentially fruitful area for further investigation.

OUTSIDE INVESTMENT CONSULTANTS

Another way organizations improve their depth and quality of research is through outside investment consultants. Investment teams can benefit from the additional multiplier effect of leveraging this valuable resource across multiple areas.

Investment consultants can augment the data from an organization's research team. As a specialized function, they have more dedicated resources, are able to meet more managers and provide a wider perspective of the market. To do their job, it's vital that consultants are completely independent, experienced and accountable for the discussions they foster and the decisions they ultimately recommend. Ideally, a good consultant is also an educator, able to offer ongoing coaching and training throughout the relationship and encourage and facilitate knowledge transfer.

Survey respondents were asked if and how they used outside investment consultants.

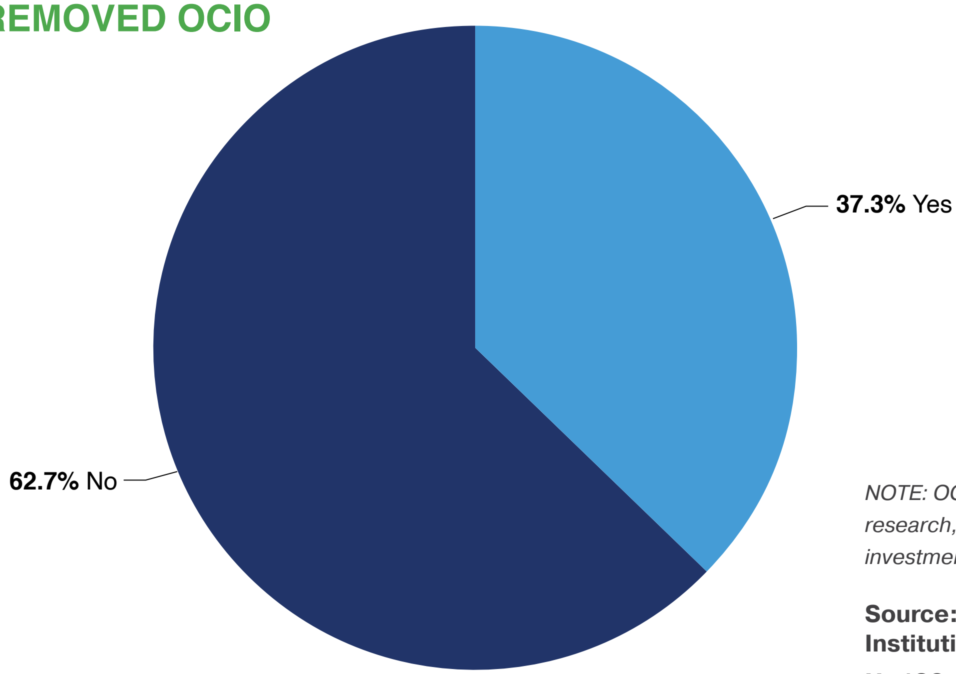
USE OF OUTSIDE INVESTMENT CONSULTANTS

Across all survey respondents, 37% said they use outside investment consultants. Given the consultant's immense contribution to the decision-making process and value add, we find it surprising that such a small percentage of respondents reported using them. Exactly why more organizations aren't relying on these valuable assets should be explored further.

FIGURE 42

Do you use outside investment consultants?

REMOVED OCIO



NOTE: OCIO respondents were removed from this research, as many of them have non-discretionary investment consulting businesses themselves.

Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey

N=182

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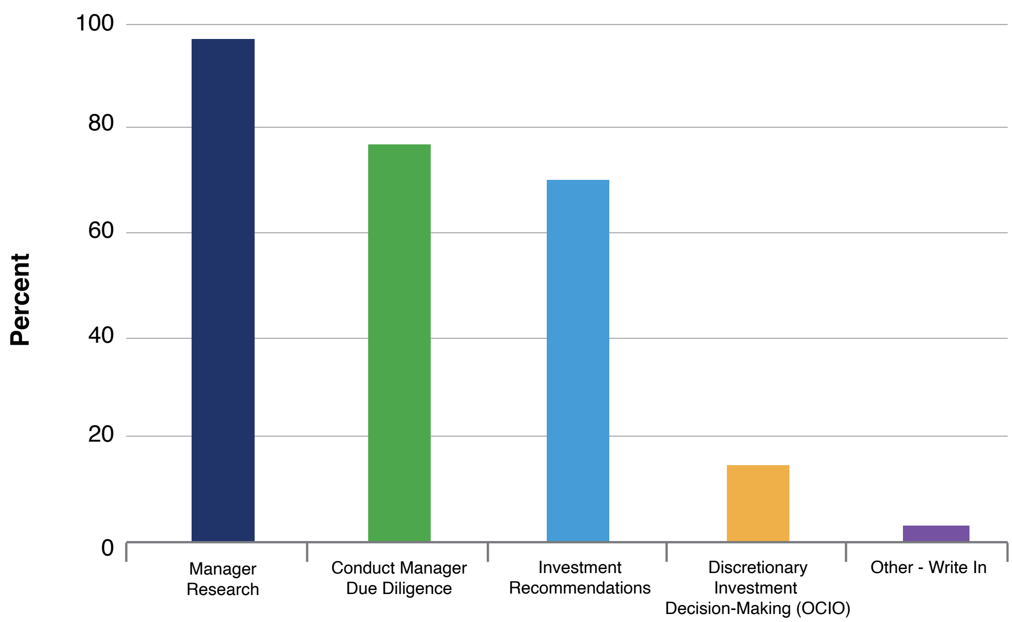
HOW ARE OUTSIDE INVESTMENT CONSULTANTS USED?

Of those who are using investment consultants, 98% rely on them for manager research. Some 77% also use them for conducting manager due diligence. And 70% seek them out for investment recommendations. (Figure 43 below).

FIGURE 43

What functions do outside investment consultants conduct for you: (Check all that apply.)



Value	Percent
Manager Research	98.2%
Conduct Manager Due Diligence	77.2%
Investment Recommendations	70.2%
Discretionary Investment Decision-Making (OCIO)	14.0%
Other - Write In	3.5%

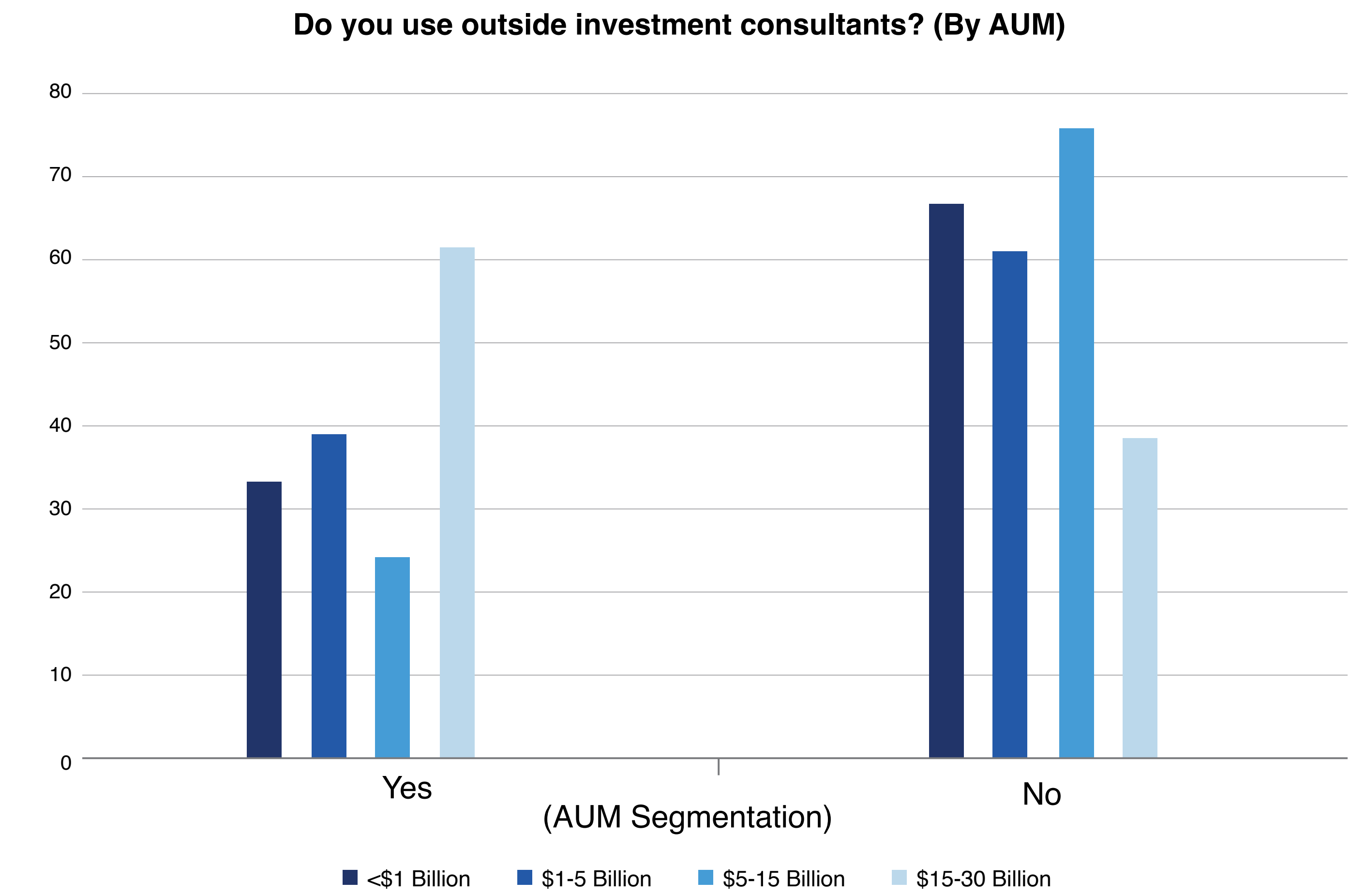
Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey

N=68

LARGER INSTITUTIONAL INVESTORS ARE MORE LIKELY TO USE OUTSIDE INVESTMENT CONSULTANTS

Among respondents to our survey, larger institutional investors and pensions were the two segments that reported using them the most.

FIGURE 44

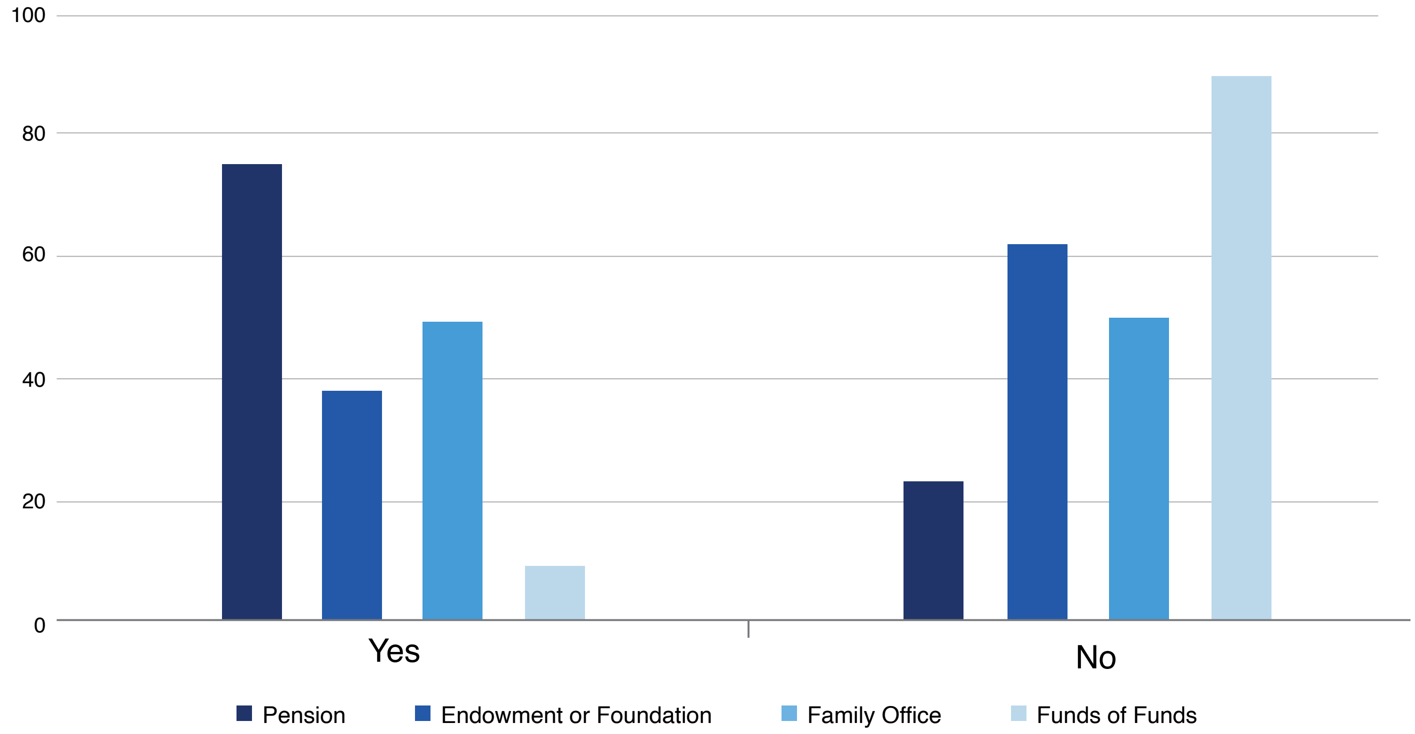


Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey

N=182

FIGURE 45

Do you use outside investment consultants? (By Organization Type)



Source: 2020 Backstop Solutions-Mercer Institutional Investor Productivity Survey

N=182

YES! THERE IS A BETTER WAY FORWARD

How can investment professionals find a better way? How can they spend more of their time on the most important core tasks — the parts of their jobs for which their skills are especially well suited?

Both the technology infrastructure they use and their access to a vetted pool of external investment consultants can help the investment professional spend more time in areas where they can be most effective. While technology improves productivity by freeing up time spent on manual tasks, using investment consultants allows the team to obtain wider coverage, review more opportunities and achieve a much deeper understanding of the nuances of each manager through a “second opinion” mechanism.

Investment teams have a high bar to reach as they strive to provide in-depth coverage of a wide range of asset classes. To do their best work, team members must spend their time building their investment worldview and piecing together those disparate puzzle pieces of information to generate new ideas. At the same time, access to technology that streamlines processes, exchanges information between platforms, and makes that information more shareable for stakeholders is vital.

External investment consultants also can bring an additional force multiplier effect. With these extra hands on deck, members of an investment team can collect even more puzzle pieces than they could on their own and gain a more complete picture of overall market dynamics.

CONCLUSION

As we've seen in this research project, investment teams spend a significant portion of their time on non-core tasks. Institutional investors across the industry can and should improve the alignment of their people, processes, and technology in order to be more effective.

- Only 50% of the investment team's time is spent on core tasks. Investment teams spend excessive amounts of time on tasks that could be streamlined, automated or augmented with technology solutions.
- An institutional investment team can greatly benefit from tools and technologies to become more efficient and scale operations.

  Institutional investors are spending time on tasks that don't match their level of education, skill or experience.
- Institutional investors have investment teams comprised of highly educated, experienced and qualified people who are only spending around 50% of their time on core tasks. That leaves another 50% that could be more effectively handled through the better use of technology.
- This is a problem that professionals are acutely aware of: Some 65% of them report thinking there must be a better way within recent days.
- Given the above, it is unsurprising that only 21% are satisfied with the technology they are using.
- In an industry dependent on accessing, analyzing and sharing complex data, most respondents gave their organizations low ratings in terms of their ability to take in and share information.
- They are caught in a vicious cycle. The inability to digest and share information leads to more time spent on non-core tasks such as downloading, uploading, and searching for documents. In turn, that leads to further delays and inefficiencies.

In the institutional investment sector, people who are core to an organization's ability to make the best possible investment decisions are spending too much time on non-core tasks that can be streamlined with technology. The use of appropriate cloud-based and mobile-friendly solutions can free up bandwidth by eliminating manual tasks. This is work that requires judgment, expertise and experience. There is a clear opportunity for institutional investors to give the people qualified to make those judgments the tools and bandwidth to do it efficiently and do it well.

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Backstop Solutions Group recently formed an alliance with Mercer to allow Backstop clients to access Mercer's research, ratings and data from within its investment management platform. Together, the two platforms can be accessed virtually, allowing investment officers to quickly dive into the research they need to make smart recommendations and decisions.

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