How to Minimize Errors in Investment Management Marketing Material

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The investment management industry has automated almost every aspect of its operations over the last several decades. However, when it comes to pulling together data from different parts of the organization into cohesive presentations for existing and prospective clients, most firms still operate in a 20th century tech environment, relying on a hodgepodge of spreadsheets and manual calculations to create and publish the data they use in their marketing and reporting materials.

We call this the "last mile" problem, and it should be on the radar of chief compliance officers at investment advisory firms. By neglecting the last mile, investment advisory firms leave themselves susceptible to a variety of very real risks in a part of their reporting process that regulators are focused on: marketing presentations.

In today's aggressive regulatory climate, "that's how everyone does it" is not enough to exonerate an investment manager whose employee accidentally typed the wrong performance number into a marketing or client presentation as he or she headed out the door. At the very least, industry best practices that are still being developed are likely to become the "new normal," and if better processes were available, it will be incumbent on the firm to explain why they were not employed.

This article discusses the last mile problem: how it manifests in most investment advisory firms; common examples of operational, regulatory and legal risk events; and how investment advisers can use technology to reduce errors in investment results reporting caused by manual processes.

"Good Enough" isn't Good Enough Anymore

Most investment advisory firms automated their operations as relevant technology became available for various pieces of their business, such as trading, accounting and performance measurement. In order to present holistic investment results to prospective clients, investment advisers may need to combine data from a number of disparate systems to produce cohesive marketing presentations. In our experience, much of that process is performed manually by the firm's personnel. Printing reports from each silo and typing the data into marketing materials is still quite common. So is downloading data into spreadsheets and linking it into presentations. Both leave investment advisers vulnerable to human error.

To Err is Human

Any time human touch points are involved in calculating, combining or updating performance information, there is potential for error. While relying on spreadsheet links might have seemed a perfectly reasonable automated solution at the outset, these processes tend to fall apart over time. Spreadsheets and presentations are constantly changing, and every manual update to a spreadsheet can introduce an error into the results. And a broken link or wrong cell reference in a formula is more likely to go undetected than a manual error due to the false sense of security quasi-automation provides.

And then there's the "recycling" problem. Once performance information is generated, the data is often used to feed multiple types of marketing materials and reports—each of which may have its own combination of automated, semi-automated and manual processes. Without automated safeguards in place, it's easy to see how non-compliance-approved or outdated information can slip into a marketing document or client report—and the hands of regulators.

While checklists, peer reviews, vigilant compliance oversight and standardizing materials can reduce human errors, it is impossible to eliminate them, leaving investment advisory firms vulnerable to operational, regulatory and legal risks.

Operational, Regulatory and Legal Risks

Since the 2008 financial crisis, investment advisers have become more vigilant about operational risk management, especially trading, counterparty risks and other exposures related to

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potential loss of money. However, one of the neglected areas of operational risk is "production of information"—which includes information produced for regulatory reporting and communicating with current and prospective clients.

Investment firms have a duty to disseminate accurate information to external parties. The adopting release for the Securities and Exchange Commission (the "SEC") Final Rule regarding Compliance Programs of Investment Companies and Investment Advisers states: "We expect that an adviser's policies and procedures, at a minimum, should address the following issues to the extent that they are relevant to that adviser: ... The accuracy of disclosures made to investors, clients, and regulators, including account statements and advertisements."

The SEC has widely publicized its data analytics capabilities, including forming specialized units that analyze mountains of data using sophisticated software. The SEC continues to increase the volume of data required from investment advisers through rulemaking related to regulatory reporting. It appears that the SEC seeks to build a mosaic of each firm, and firms want their mosaic to appear clean and intact. Should the SEC knock on your door, it's in your firm's best interest to show operational efficiency, internal controls and a solid culture of compliance.

Common "last mile" errors

While no investment advisory firm we know would ever willfully misrepresent information, unintentional mistakes can and do creep into marketing materials, exposing the firm to a variety of risks and inviting regulatory scrutiny. In our practices, we've encountered performance and reporting missteps as a result of the "last mile" problem. Some common examples include:

- **Copying return numbers into the wrong return-period column**
  It doesn't take much to copy a 3–year composite return number from a spreadsheet into the 5–year return column in a presentation or manager database. This common type of cut-and-paste error is easy to make and hard to catch.

- **Using an existing marketing pitch book as the template for a different strategy presentation**
  Let's say a firm uses its Small-Cap Core pitch book as the template for a Small-Cap Growth presentation. It's easy to copy-and-paste Small-Cap Growth returns into the existing document but forget to change the benchmark name—and/or data—from the original Russell 2000 Index to the correct Russell 2000 Growth Index.

- **Inadvertently including the wrong GIPS® information**
  For investment management firms that claim compliance with the Global Investment Performance Standards (GIPS), regulators understand that there are very specific requirements when presenting composite performance information. They look closely at composite data to verify that GIPS-compliant firms are including all required statistics, updated at least annually, for all marketed composites. When marketing materials, strategy fact sheets and website pages are updated manually, it is easy for unintentional mistakes to slip in unnoticed. A common example is to inadvertently copy the GIPS statistics or disclosures for one composite into materials designed for a different composite strategy.

- **Failing to include required regulatory disclosures in sales materials**
  While this can—and does—happen to of investment advisory firms, those claiming GIPS compliance are doubly vulnerable here. When it comes to GIPS errors, the offending firm can be required to redistribute the corrected Compliant Presentation ("CP") slide to current and prospective clients who received the original materials, which exposes the firm to reputational risk. Trust us when we say that no firm wants to go through that process!

- **Different sources for information**
  Unfortunately, when the firm's process is to manually update performance grids, charts and graphs, the door is left open for personnel in different departments to use their own sources and offline spreadsheets to calculate performance and use those results when updating materials. This is problematic since different sources and methodologies could produce different results––plus it makes it difficult to ensure that appropriate books and records are maintained that support all information that is presented. Without a process that locks down source data and then automatically uses that data to create presentation materials, the firm is forced to have additional compliance checks in place to validate and trace results to the firm's official source—thus creating inefficient processes.

- **Discrepancies between data in regulatory filings and marketing materials**
  Investment managers are constantly changing the content of their marketing materials to address the needs of specific audiences and/or to tell their story in a slightly different way. That process can be highly manual, resulting in any of the errors noted above and, in some cases, discrepancies between the facts and data that appear in regulatory filings and those that appear in the marketing presentation. These discrepancies or "different versions of the truth" send up regulatory red flags and could result in a violation.

Automating the Last Mile

So, what can managers do to avoid last mile problems? Best practices are

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to automate the entire process of producing marketing and presentation materials, from the first step of capturing accurate performance and making appropriate disclosure to the last step of obtaining compliance approval. Automation helps reduce human error, creates operational efficiencies and includes built-in safeguards that eliminate the possibility of distributing material that has not been approved by compliance.

Fortunately, firms today have many options. They can develop in-house software, purchase and install on-premises applications, or sign up for cloud-based services. Over the last decade, the cost of software has come down drastically and reliability has improved, so most firms should be able to find a solution that's right for them.

No matter which approach a firm takes, here are three key areas of functionality to look for:

1. **Quantitative data goes straight through from source systems to the final marketing materials and client reports**
   Returns and holdings from the firm's accounting system, attribution and characteristics from analytics systems, and GIPS statistics, if applicable, should all flow straight through to marketing presentations and other reports with zero manual updates. If a firm is massaging data because output from the source systems are incorrect, then the root cause for the data errors should be identified and fixed prior to automating marketing and client communications.

2. **Built-in checks for GIPS disclosures, mandatory slides and compliance approval**
   Any automated last mile solution should include safeguards against producing a presentation that does not include the most current GIPS CP slide and/or is not otherwise compliance-approved. Look for a system that has built-in checks for required regulatory elements and compliance approvals, an alert or do-not-publish default if the presentation is missing vital pieces, and a solid page-numbering protocol to ensure disclosures reference the correct page number for the GIPS CP slide.

3. **System provides a single pool of data and content for multiple communication purposes**
   A robust software platform should allow a firm to automatically gather data from multiple systems into a single pool, where it can be combined with regulatory disclosures and commentary from portfolio managers. This one pool becomes the sole source for production of all sales and client communication materials—not just marketing presentations.

Trust but Verify

Automation can increase accuracy while reducing operational, regulatory and legal risks. However, software is only as good as its inputs. Fully automating the last mile is not a substitute for prudent checks and balances or having appropriate procedures and controls in place during installation and on an ongoing basis. And whether a firm builds the software in-house, installs-on-premises or chooses a cloud-based system, be sure cybersecurity protocols are robust.

Technology can help bring the last mile up to par with the automation used in the rest of the organization. When the right controls and systems are in place, firms can leverage technology that allows for a predicable outcome and can reduce the burden on compliance personnel. The firm's internal risk score associated with performance advertising may also be lowered when automation is used to control where the data is derived from, how the content is updated, and who is involved to approve materials. However, investment advisers can never delegate their duties to software. Firms will always need qualified compliance personnel and other professionals with the expertise to oversee processes and stay ahead of changing regulatory requirements.

Conclusion

No matter how vigilant an investment management firm is, mistakes can still slip into marketing materials and client reports, leaving the firm vulnerable to unwanted regulatory scrutiny. Most firms rely on automated solutions in their performance and attribution calculation processes, but the final and most important part of the process—pulling all the required information and disclosures into holistic marketing and client presentations—is still largely a mishmash of disparate manual and quasi-automated events.

Automating this last mile removes human touch points to help produce accurate marketing and client materials and reduce operational, regulatory and reputational risks in the process. There are a variety of top-notch automation solutions available to managers today that pool data from various systems, combine it with input from portfolio managers, and have built-in safeguards to prevent many common errors, all while ensuring the final marketing presentation meets regulatory requirements. In order to communicate consistently accurate investment results—and avoid regulatory attention—investment managers would be well advised to automate the last mile when producing marketing presentations and client reports.

This article is based on material in a white paper prepared with our input and published by Assette. The complete white paper is available at www.assette.com/LastMile and includes some steps short of full automation that may also reduce operational, regulatory and legal risks.

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Solutions LLC, a specialty compliance consulting firm dedicated to assisting investment advisory firms to implement, maintain and manage compliance with the Global Investment Performance Standards (GIPS®) as well as reviewing performance advertising materials for adherence with SEC requirements. She is a member of the United States Investment Performance Committee (USIPC), the CFA Institute's official local sponsoring organization for the GIPS standards in the United States. She holds the CFA Institute's Certificate in Investment Performance Measurement (CIPM).

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