

Manager Selection October 27, 2020

How Investment Teams Waste Their Time

It would be better spent on due diligence, instead of meaningless scut work, say Backstop and Mercer.



How are investment teams spending their time? About 30% is spent just shuffling data around and on other tasks that are less essential than core investing work.

Institutional investors are spending half a day per week just typing up handwritten notes, according to a joint study from consulting firm Mercer and investment software firm Backstop Solutions that was released Tuesday.

Another half day is spent uploading and downloading documents on shared drives, as well as digging up data on emails. Other tasks include creating fund tear sheets or auditing document record completeness.

“These really don’t have anything to do with the core investment process,” said Maryling Yu, chief marketing officer at Backstop. “These are the really manual, non-value tasks.”

The researchers said institutional investors are in need of a more streamlined research process. Over the summer, the two firms created a joint platform so clients could access Mercer’s institutional investment data, ratings, and research on Backstop’s suite of productivity tools.

The report noted that institutional investors are spending just half their work week on the core tasks that allow them to shape their investment worldview. About half the work week, or up to 22 hours, is devoted to conducting due diligence and communicating with new and existing managers.

Even after respondents were sorted into generalist, specialist, and hybrid investment team structures, results were little changed. Generalists, who typically cover 10 or more asset classes, required better processes to keep track of all their managers. On the other hand, specialists, who are siloed from others’ research, need an operations process that helps build a broader investment worldview.

The report did find differences between types of organization. Endowments reported spending nearly twice the amount of time pensions spend per week conducting due diligence on new or existing managers.

Due diligence is increasingly essential this year as investors spend more time researching opportunities across multiple asset classes, experts from Backstop and Mercer said. While research into global equities and fixed income are daily processes, private equity and real estate operate on a more quarterly basis.

“In a low return environment, everybody’s looking at their portfolio, considering the portfolio and looking to other asset classes,” said Dan Bristow, partner and global head of investment analytics at Mercer. “It’s very difficult for an in-house team to effectively mine all of that, look at it in one lens, and make informed decisions. Our mission is to make that task one step simpler.”

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