

Custodians face up to measuring performance

By David Hunt

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The recent announcement by French custodians, Caisse des Depots (CDC), that they had purchased a performance measurement package, shows that the move begun in the US, and taking hold of the UK is now gaining a foothold in mainland Europe as well.

On the list of value added services offered by custodians, performance measurement is rapidly moving from the "nice to have" category into the "must have" section. But while most global custodians will put a tick in questionnaire boxes asking whether this facility is available to clients, in practice this can mean a host of different things.

With institutions across Europe investing increasingly on an international basis, switching from traditional forms of fixed income and private placements into more exotic forms of investments in a whole host of markets, the need to measure performance has become more apparent. Investors need to know which areas of their investment are doing well and, indeed, which of their managers are ahead of the game.

Custodians are well placed to handle this performance measurement function. They are already heavy spenders on IT and should have a lot of the data in a clean form readily to hand. But the services they currently offer in this area vary enormously.

"Custodians offer performance measurement at different levels," says Simon Murray director of custody consulting firm Thomas Murray. "Most will offer a basic performance measurement service, but not all will be able to offer a full service - full attribution or universe analysis."

Many, like Lloyds Bank Securities Services (LBSS) don't currently offer a performance measurement facility themselves, but will provide clean data for outside companies that do. But as Tony Harman, manager of marketing and business development at LBSS says, "Clients are requiring more sophisticated products and we are looking at doing our own thing in the future. It's one of the areas we are looking at closely."

For custodians like Lloyds, the choice is either to go it alone and construct their own package, or to outsource to companies like Frank Russell or WM, the undoubted market leaders in this area in the European context. While Russells tend to be favoured by custodians, WM (owned by Bankers Trust) does a lot of business with the major money managers. The decision to outsource however, is not always straightforward.

John Stannard, a director at Frank Russell, agrees that there has been an increasing demand for their performance measurement services, but says that that demand "is becoming more selective, in terms of identifying things that are firstly relevant to the process of making investment decisions; and secondly provide results that are concise and meaningful." While custodians are in some ways well set to tackle performance measurement themselves, Stannard sees a number of drawbacks.

"Performance measurement is different to custody - they need to build a separate operation, and doing this from scratch is expensive. There are different needs in different markets as well - the system that works in the UK need not necessarily work in Australia. Going the outsourcing route is cheaper and enables you to leverage other people's experience; that's why it is popular," he says.

Gordon Bagot, a director at WM Company agrees. "Custodians just don't have access to the range of data that we have. We have a wide range of clients using our measurement services, and we have links with practically all the custodians as well. We have a very big database and spend a lot of time checking it out. Where a custodian may quote performance

against an index, that index may not represent where the particular fund is actually invested. We can say 'here's the aggregate of a lot of similar funds'."

Robert Kay of Global Securities Consulting Services goes part of the way with Stannard and Bagot. "Not all banks offer the same services all over the world," he agrees. "For example, in Europe Chase will use Frank Russell whereas in the US they have their own in-house expertise." In Europe generally however, he sees a lot of custodians who are doing their own thing.

"A number of European banks are providing really quite sophisticated analysis, usually built around their own existing asset management capabilities. It depends greatly on where their current capabilities lie, but in tackling their European client base they are tending to develop their own packages, making them more distinctive, giving them more of an identity than an off-the-shelf solution."

CDC however, decided not to go it alone, buying a package from Frank Russell instead. According to custody marketing manager Vanina Barthelemy, "We simply didn't have the time or the resources to do it properly." CDC believes it is the first French custodian to offer such a service, which has been more the province of asset managers.

The days when custody was simply about settlement and safekeeping have just about gone. The market has moved towards full accounting and value added services, with buyers today looking for a one-stop-shop that can supply all of their needs. What was yesterday's value added service very quickly be-comes today's core product and performance measurement is no exception. As Stannard says "It's an evolving market, but my guess is that in five years; time there will be very few custodians who won't have to offer performance measurement." David Hunt"