Technology as a force multiplier

The PSPRS Trust
Let us begin with hard facts—we are all different

1. The scale of pension plans can differ greatly, influencing their budgetary allocations. This, in turn, determines their internal capabilities and the level of expertise they can afford to recruit.

2. Stakeholders have diverse priorities and concerns, such as Environmental, Social, and Governance (ESG) issues, proxy voting, fee structures, and investments in regions like China, among others.

3. The preferences of Boards differ, with some favoring average performance, while others strive for exceptional outcomes.

4. The engagement and reliance on consultants vary across different pension plans.

5. The approaches and strategies used for making investment decisions can differ significantly.

When it comes to technology, there is no one size fits all solution
Today, we’re talking about “technology” that does the following:

1. Helps us get what we want. Like DDQs or Capital Account Statements.
2. Gets the important information from those files. Things like fees.
3. Stores the data so that it can be tracked, analyzed, and/or used to make reports.
4. Takes care of processes. Making sure everything is done well, followed, and stays consistent.
5. Analyzes info. Either to explain something or to guess what will happen.
6. Produces reports that are both visually appealing and interesting.
7. Provides research that informs decision making.
Why do it?

• **Improved Decision Making**: AI and ML can quickly evaluate large amounts of data to uncover trends and patterns that might inform investment decisions. Data-driven decisions can improve pension plan recipients' returns.

• **Enhanced Efficiency**: Data entry and report generation can be automated, freeing up workers to focus on strategic, value-added tasks. Over time, this efficiency can reduce costs and increase returns through agile diligence.

• **Risk Management**: Advanced predictive analytics can identify problems before they become major difficulties, giving time to mitigate them.

• **Transparency**: Digital platforms make sharing information with stakeholders easier. Plan beneficiaries may trust and appreciate this.

• **Future Preparedness**: Tech tools can help pension systems prepare for future trends. It will help them keep up as finance digitizes.
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<th>Improved decision making</th>
<th>Using machine learning on broader data sets to make more informed peer comparisons</th>
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<tr>
<td>Enhanced efficiency</td>
<td>Automating DDQs and using various coding platforms like R and Python (among others) to automatically produce tables and write memos</td>
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<td>Risk management</td>
<td>Digitizing fund details such as changes in AUM, changes to auditors, etc. so they can be used as variables in models to identify risks sooner</td>
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<td>Transparency</td>
<td>Looking through funds to build more accurate exposure reports and useful visualizations</td>
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<td>Future preparedness</td>
<td>Creating a culture of continuous improvement</td>
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Why you might not want to rely on your consultant for everything

There are a few significant reasons why a small institutional investor may want to build their own data and technology platform instead of outsourcing it to a consultant:

1. **Customization**: Building an in-house platform allows for customization that meets the unique needs and operations of the agency. Outsourcing often involves adapting to the capabilities and limitations of the consultant’s system, which may not perfectly align with the firm’s specific needs.

2. **Integration**: An in-house system can be designed to seamlessly integrate with existing workflows, document retention and software applications used by the agency. This may be more challenging when outsourcing.

3. **Data Security and Privacy**: By building their own platform, firms maintain complete control over data security and privacy. This can be especially important for sensitive financial data. Outsourcing may increase the risk of data breaches or misuse, despite contractual protections.

4. **Intellectual Property**: An in-house platform can become a valuable intellectual property asset for the firm. It can also serve as a competitive advantage if the platform offers unique features or capabilities.

5. **Agility and Independence**: Having an in-house platform allows for agility and independence. Staff can quickly implement changes or upgrades as needed, without having to negotiate with an external provider or wait for their response. Also, if the technology a member has access to, or their spouse has access to, in a DC plan is superior to what the investment team is using, it severely undermines credibility and could lead to litigation.

However, it’s also important to note that building an in-house platform requires significant resources, including time, talent, and capital. Firms need to carefully consider these factors and weigh them against the potential benefits before deciding to build their own platform.
Final Thoughts

1. Pension portfolios are amongst the most complicated investment portfolios, talented employees will get poached.

2. Let go of the notion that you will eventually “get there”. Due to the continuous nature of innovation, fostering an innovative culture is essential.

3. Implementing a new system will slow everyone down and make your team inefficient in the short term, thereby depleting a significant amount of social capital. Be clear about this, but also make sure to talk about deadlines and what needs to be done.

4. Be wary of startups, they often change direction, use inferior tech to save money, get acquired and/or go out of business.

5. Because there is constant change, dedicated internal staff is crucial in liaising with new and existing vendors and tracking implementation. They need to be bilingual (able to speak investments and technology). We call them “PSPRS Plumbers”.

6. Organize your current and future state along the lines of hardware, software, coding/analytics, visualization, and data storage.

7. You have most of the data, this is about aggregating it quicker and more efficiently.