SOME CIOs DON'T CARE ABOUT EFFICIENCY, BUT HERE'S WHY THEY SHOULD

THE INTERPLAY OF EFFECTIVENESS AND EFFICIENCY

Investment teams are composed of experienced experts in the field: professionals who are tasked with researching and discovering successful investment ideas. Chief Investment Officers (CIOs) expect their team members to put as much time as possible into dialogue with key market stakeholders and influencers, conducting due diligence on existing and net-new managers, and understanding the ever-changing dynamics of market realities.

The unwelcome truth, however, is that **institutional investors spend approximately 30% of their time on tasks that could be automated or streamlined with better technology.** This figure, reported in the groundbreaking "2020 Institutional Investor Productivity Study" recently published by Backstop Solutions and Mercer, includes non-core jobs such as searching for documents on shared drives, downloading and uploading documents, and retyping handwritten notes into a system.

EFFECTIVENESS Doing the right things	INVESTORS NEED BOTH	EFFICIENCY Doing things the right way

According to the study, non-core jobs such as these must be done for the work of the investment team to proceed effectively. But they also should be done as efficiently as possible in terms of resources, time, and effort so that investment team members can maximize the use of their time overall.

At Backstop Solutions, we wanted to take a deeper dive into the specific non-core task of collecting and uploading manager documents to explore the relationship between effectiveness and efficiency. We therefore conducted a further study, comparing results between institutional investors that have implemented automation to handle manager documentation and institutional investors that have not. What we found was surprising... and sobering.

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INVESTMENT TEAMS FACE A QUADRUPLE LOSS

Institutional investors have been collecting and uploading manager documents for internal reference and due diligence for decades. However, what used to take a few minutes here and there has slowly but surely become a major time drain over the past twelve years. This is due to three significant shifts in the industry.

First, in 2008, the institutional investment community had a rude wake-up call in the form of Bernie Madoff. One of the results of the largest Ponzi scheme in world history was that the investment community realized they needed to perform active due diligence on their fund managers on an ongoing basis. This has generated an increased (and increasing) demand for information — both in terms of frequency and volume — massively expanding the documentation that must be gathered and processed by investment firms.

Second, investment firms have seen the rise of private equity as a mainstream asset class. Fewer companies are going public, so private equity has become much more popular as a means of the investment, valuation, and transference of corporate enterprise value. Because private equity fund managers typically have liquidity structures that involve long lockup periods, allocators tend to have more fund investments today than they did ten years ago. With more funds comes more information. Consequently, firms are seeing growth in documentation in two directions: there are more funds to handle, and more information is coming in for each fund.

Compounding this massive increase in documentation is the third shift: more and more often, documentation must be downloaded from an online portal, rather than being pulled directly from an email. This change, which adds valuable security to sensitive data, increases the operational burden on investment team members who must retrieve the needed documentation.

Confronted with more funds to track, more documentation for each fund, and more time required to process each piece of documentation, investment teams are facing a quadruple loss:

1 **They are losing time** engaging in this non-core activity and thereby missing out on opportunities to put that same time to greater strategic value.

2 **They are losing productivity** since what used to be a part-time annoyance has become a full-time frustration.

3 **They are losing money** because they have to hire and train new people to handle this operational burden.

4 **They are losing consistency** in how important documents are processed and filed because of high turnover.

Clearly, this is a problem that institutional investment teams must address now as the situation will only continue to worsen over time.

WHERE THE TIME GOES

Understanding the nature of a problem is critical to solving it. Therefore, at Backstop, we conducted research to:

▶ Observe the end-to-end process for document management

▶ Measure the time spent on each task in the document process

▶ Quantify the efficiency that can be gained through the use of targeted technology

We interviewed both investment analysts and investment operations analysts/managers. All users had multiple years of experience. For some users, document collection and uploading was their primary work responsibility; for others, it comprised a greater or lesser portion of their activities. Regardless, users agreed that uploading documents is a daily job and that they typically choose to upload a document when it comes in unless they are in middle of a higher-priority task. They also noted that their workload for processing documents varies depending on the time of the month, quarter, or year. For example, documents pour in when quarterly reports are due.

In general, the uploading process has four phases:

| **1**	**2**	**3**	**4**
ACQUIRE	**PREPARE**	**UPLOAD**	**MANAGE**
Acquire document from:	Prepare document for upload:	Upload document to internal platform:	Manage the document post upload:
• Email attachment • Web portal • Email text	• Review • Classify/tag • Rename • Save to local folder	• Outlook plug-in • Drag and drop	• Verify the upload is correct • Manage tags and folders
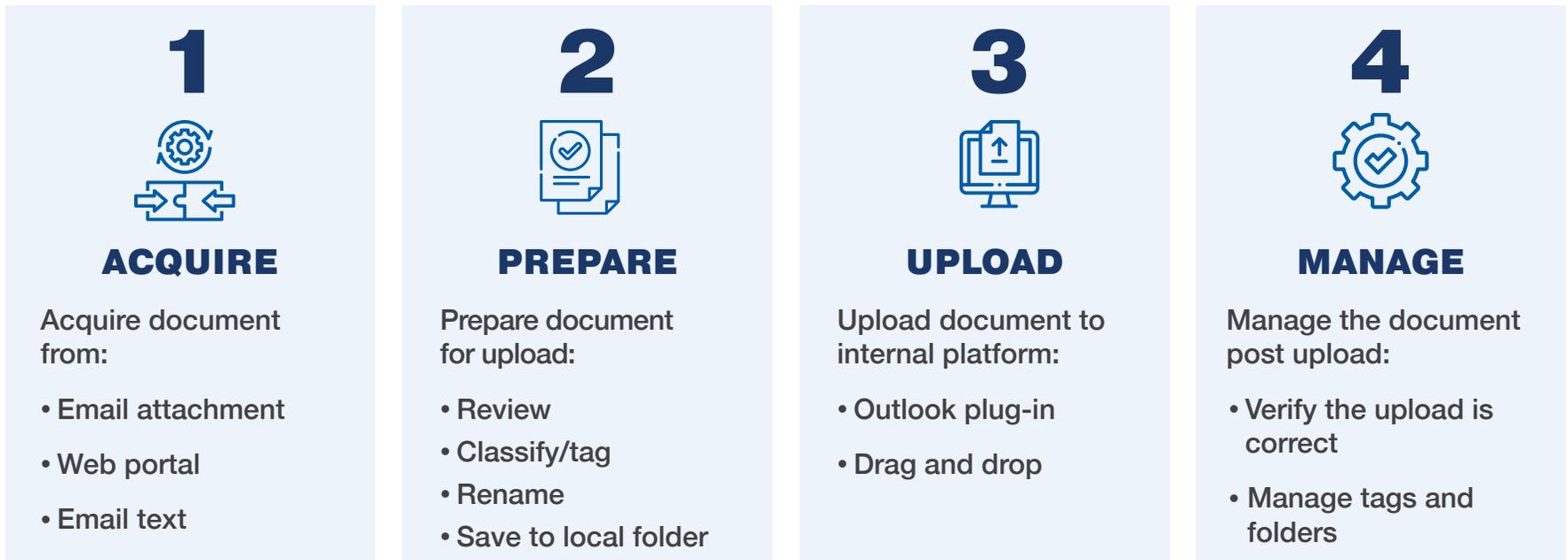
PHASE 1: ACQUIRE

Overall, users indicated that 40% of documents come as attachments, 58% have to be acquired from a web portal or virtual data room, and 2% have to be exported from email text. The amount of time necessary to acquire documents in each of these ways is shown here:

1.5 Minutes	Time to acquire document from email attachment
3.0 Minutes	Time to acquire document from web portal or virtual data room with login credentials saved to browser.
4.5 Minutes	Time to acquire document from web portal or virtual data room with login credentials not saved to the browser.
4.0 Minutes	Time to acquire document by exporting text from email.
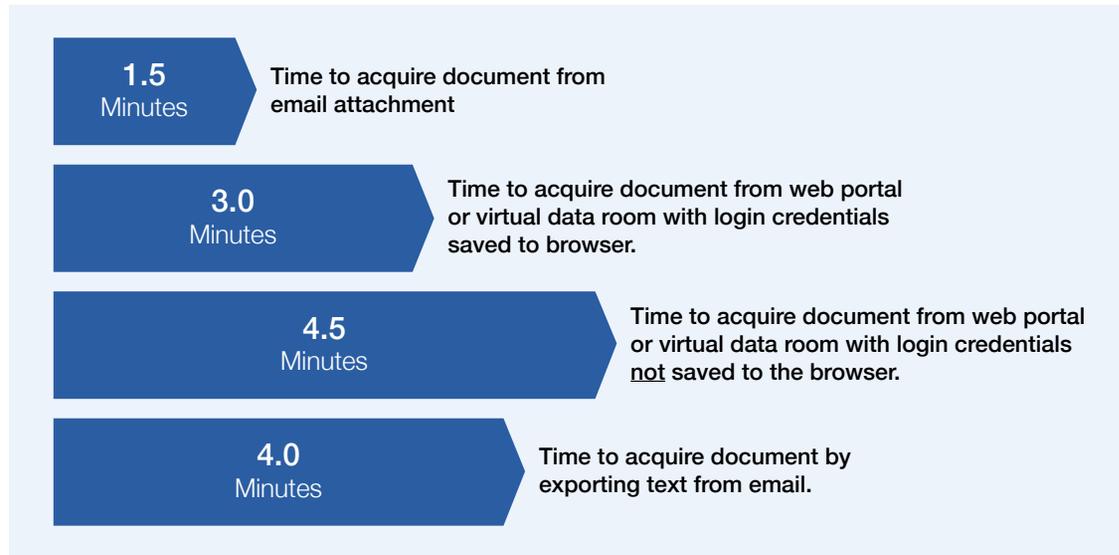
This comparison shows that **uploading a document from a web portal or virtual data room takes double or even triple the time necessary to acquire a document from an email attachment.** The other three phases (Prepare, Upload, and Manage) remain consistent in terms of processing time, regardless of how the document was acquired.

Since making documents available online is swiftly becoming the preferred method of information distribution, we need to understand what steps go into acquiring documents from a web portal or virtual data room and why those steps take so much longer than acquiring documents from an email attachment. Visually, here is what the process looks like:

00:00 Open email, & click URL	Input credentials	Enter portal	Navigate to the documents	~01:30 Download Docs

+1 min — Fetch credentials (excel, notes)

+1 min — Wait for OTP password

~03:30 With extra steps to get credentials
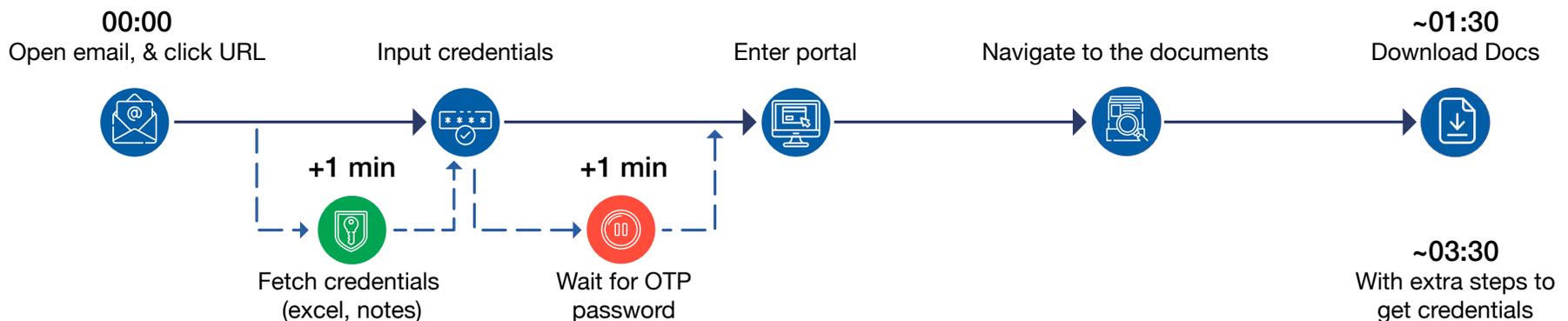
The problem is apparent at a glance: acquiring a document from a web portal involves multiple steps and requires the user to switch between several systems, including their email, a password management application, the web portal, and the local/internal drive.

Additionally, more and more funds are updating their security to incorporate:

A 90-day new password rotation policy

One Time Password (OTP) protocols

Multi-factor authentication

These changes mean that, in the future, users will likely spend even more time manually inputting passwords, rather than being able to rely on auto-saved credentials on their browser.

PHASE 2: PREPARE

After a document has been acquired, the user prepares it for uploading. This includes reviewing the document to determine what it is, classifying it, renaming it (if necessary), and saving it to a local folder or internal drive. Experienced users can review and classify most files within just a few seconds based on the email text, file name, and date.

PHASE 3: UPLOAD

"Drag and drop" is the most popular method of uploading documents. It reportedly gives users a sense of control as they have two screens (email and internal platform) side by side. Other users rely on the Outlook plug-in to facilitate uploads for email attachments.

PHASE 4: MANAGE

Users responsible for processing documents tend to be very detail-oriented and conscientious; therefore, many return to the document lists to verify whether the new file has uploaded successfully. They then manage their Outlook folders, such as by moving flags from "to-do" to "uploaded," or by dragging emails to specific fund folders.

A TIMELY REALITY CHECK

It is one thing to assess how long it takes to process an individual document. It is another to see how those minutes add up. The users we interviewed upload between 1,700 and 10,000 documents every year. Averaging that out (while recognizing that the volume of documents coming in actually ebbs and flows during the year), it would seem to indicate that users would spend between 20 and 90 minutes per day processing documents, as shown in the table below.

HOW MUCH TIME IS SPENT on "document collection and uploading"

	Task 1 — from email attachment (40%)	Task 2 — from web portal (60%)	Numbers of Uploaded Documents per Year	Total Minutes (Per Year)	Total Minutes (Per Day)
User 1	1	4.5	3930	12183	47
User 2	2	3	1744	4534	17
User 3	1.2	2.5	10000	19800	76
User 4	1.5	3	10000	24000	92
User 5	1.5	3.5	2490	6723	26
User 6	1.5	5	6000	21600	83
User 7	1.5	4	1736	5208	20

Total Minutes =
Total douments * Task 1 percentage * Timing on Task 1 +
Total documents * Task 2 percentage * Timing

Minutes Per Day =
Total Minutes / business days of the year

Taking 20 to 90 minutes per day to process documents would represent a significant hit on an investment team member's time — but is that actually what happens in terms of time spent on this activity? It is not. The reality is that **people do not work all day every day at peak efficiency.** Therefore, they spend more time processing documents each day and year than the above figures predict. **Here is a real-world example:**

Real Example – July 2020 Figures

Email:	207	1.5	311
Web Portal:	305	4.5	1,373
			1,683 Minutes Needed
Resource A:			22 Hours / Week
			5,280 Minutes / Month

3.13 Factor between minutes needed and resource available.

For this user, "crunching the numbers" indicates that processing 512 documents in a month should take 1,683 minutes. The sober reality is that the user spends 5,280 minutes each month — 88 hours — at the task. That is **more than three times the amount of time predicted**.

Why is there such a huge discrepancy between prediction and reality? Simply put, humans are not robots. Our efficiency ebbs and flows for many reasons, including:

- **Circadian rhythms** which give us two peak periods of productivity each day.[1]

- **Interruptions** which disrupt our concentration and then force us to re-orient on the task at hand.[2]

- **Stress** from any number of factors which drains our energy and motivation.

- **Mental fatigue** from repetitive tasks which causes us to slow down.

Users do not — and cannot — go from portal to portal to portal to download and upload document after document after document at the same level of efficiency all the time. Therefore, while processing a single document "in a vacuum" might take three or four minutes, the reality is that every document consumes ten or twelve minutes of a user's time. Multiply that over five or ten thousand documents, and the drain on an investment team's time and resources is completely unsustainable. To put this in context, processing 5,000 documents per year at 12 minutes per document would eat up four hours of the day, every day of the year. Is that really where CIOs want their team members spending their valuable time?

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[1] Barnes, Christopher. "The Ideal Work Schedule, as Determined by Circadian Rhythms." Harvard Business Review, January 28, 2015.

[2] Robison, Jennifer. "Too Many Interruptions at Work?" Gallup Business Journal, June 8, 2006.

RECLAIMING TIME TO FOCUS ON WHAT IS MOST IMPORTANT

Spending hours every day on a non-core activity is the antithesis of effectiveness and efficiency. Thankfully, targeted technology can virtually eliminate this time drain. Each aspect of the document collection and uploading process can be automated, slashing the hours required each day by investment team members to mere minutes to check the occasional outlier document that requires individual handling. In fact, even if an investment team were to automate *only* the Acquire phase of the process, they would still reduce the time required to process documents by 84%.

By leveraging technology to increase the efficiency of processing documents, CIOs can dramatically improve the effectiveness of their institutional investment team in multiple ways:

- Team members can concentrate more of their time and effort on strategic activities.

- The most current documentation will always be readily at hand to evaluate investment managers.

- All documentation will be handled and filed in a consistent manner.

- The firm can attract top talent by offering a high quality of work life where professionals can focus on their core competencies.

Institutional investment teams need both effectiveness and efficiency. They need to do the right things, and do them in the right way. Streamlining or eliminating manual tasks such as collecting and uploading documents is critical if teams are to reclaim their time in order to refocus it on their core work: making the best investment decisions for their firm and investors.

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Every MINUTE matters.®

ABOUT BACKSTOP SOLUTIONS

Because every minute matters, Backstop's mission is to help the institutional investment industry use time to its fullest potential. We develop technology to simplify and streamline otherwise time-consuming tasks and processes, enabling our clients to quickly and easily access, share, and manage the knowledge that's critical to their day-to-day business success. Backstop provides its industry-leading cloud-based productivity suite to investment consultants, pensions, funds of funds, family offices, endowments, foundations, private equity, hedge funds, and real estate investment firms.

Some CIO's Don't Care About Efficiency, But Here's Why They Should is based on a research study conducted by Backstop's own User Experience Team. Backstop's User Experience (UX) team is comprised of three diciplines: UX Research, UX Architecture and Product Design. Our user-centric team is focused on iteration, integration of user feedback, and understanding client needs to deliver Backstop's best in class product experience. Our goal is to help our clients reach maximum efficiency of mission critical tasks with user friendly and intuitive software solutions.

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