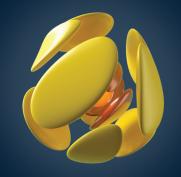
DEFINING PORTFOLIO RESILIENCE

A New Risk Management Framework



Technology Investment Trends: Areas to Maximize Returns

Anders Reinertsen, Head of Asset Owners, Americas, BNY Dr. Ashby Monk, Executive and Research Director, Stanford Long-Term Investing

Anders Reinertsen

What are some trends you're seeing in technology investment across the asset owner community?

Dr. Ashby Monk

First and foremost, you kind of can't have this moment without talking about generative AI (artificial intelligence). I have seen this remarkable step change in every, let's call it C-suite of these large pensions around the world because people are looking at generative AI and wondering, "Wow, is my job at threat here?" The good news is I don't think your job's in threat. It might help you write, you know, reports to staff or something like that. But it's not going to help you make investment decisions.

So, in the case of ChatGPT, I heard a chief executive officer of a large pension fund say, "My gosh, I can just have it write my annual report instead of hiring a consultant to write my annual report." Maybe. But to me that's a little bit of a waste. I think replacing a consultant, you know, maybe you save a little bit of money, changing a portfolio and you open up opportunities to generate a lot more money. And so, the trends right now are to think in terms of technology versus human beings. And I think the future is technology to change portfolios.

And ultimately, that's the true test of an investment technology. Does it empower you to make a smarter investment decision? Does it change what you hold? So the process of building technology should reveal something to you that drives a change in what you hold. That's how you know you've really invested in the right technology.

I think right now the trends are towards portfolio positioning systems. So, investing heavily in ingesting, cleaning and presenting data on your portfolio. So, that's the most kind of, let's call it basic, even though it's highly complex. Part of the moment right now in investment technology is like we're just trying to figure out what we're doing with our portfolio positioning system. We give it to chief investment officers. They look at their dashboards and they say "Okay, yep," but soon you're going to start realizing things that are more sophisticated, like "Oh wow, I didn't realize I was holding that risk," or, "Oh wow, I didn't realize I had that manufacturing exposure in Indonesia in consumer retail." I don't know. You know, these are the types of slicing and dicing of the portfolio that will help bring you towards that blue flashing dot. The blue flashing dot is going to be there for your portfolio very soon. And once it is, you're going to look at it and you're going to say, "Oh my gosh, I made the wrong turn." That is the test of fabulous technology. "I've made the wrong turn. I am changing my portfolio." And so right now, you see a lot of organizations kind of wringing their hands about spending one basis point of AUM (assets under management) on technology. If you can hold 1% less cash because of your technology, because you were really sure on where you are, that one basis point is going to feel like nothing.

Anders Reinertsen

Is there a specific area that they should be investing in in order to ensure that return is maximized for their one or two basis points?

Dr. Ashby Monk

Absolutely. So, our goal with the technology, as I mentioned briefly a moment ago is to change portfolios. So, we want you to build technology that reveals something about your portfolio that you didn't know and that triggers either a decision to keep it or to change it. That's valuable technology.

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