SVB prefers outsourced investment reporting (April 15, 2009)

California bank believes third-party reporting and custody makes for a safer “henhouse”

It uses Clearwater Analytics web-based service to give corporate clients full transparency

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A triangle may not be the first thing that comes to mind when thinking about investment integrity, but that shape describes the core operating practice of SVB Asset Management, a wholly owned subsidiary of Silicon Valley Bank, Santa Clara, Calif. It is the way the company ensures accuracy and integrity for its clients.

The unit was formed in 2002, in the thick of the Enron and WorldCom scandals. Seeking a better approach than the broker model to managing corporations’ investment assets, the bank set up its asset management subsidiary as a registered investment advisor. It thus has a fiduciary responsibility to its clients—which are public and private companies, not individuals.

“We place a big premium on transparency and accuracy,” says Adam Dean, president of SVB Asset Management. “The client knows what we’re doing; knows the risk of an investment.” (The company blew the whistle a few years ago on auction-rate securities, says Dean, and was mentioned in The Wall Street Journal for doing so. He says the firm told clients the securities were not suited for corporations.)

Essential to transparency is an accurate and comprehensive reporting system—one corner of the triangle. Dean says the broker model allows the reporting to be skewed toward what the broker wants to show—yield versus total return, for example. By contrast, says Dean, SVB Asset Management in effect says to clients, “We’re looking at the same data you are, and that’s the way it should be.” Otherwise, he adds, “we just feel it’s the fox guarding the henhouse.”

The company built its own reporting system, but when it came across the system created by Clearwater Analytics, which had the kind of transparency and verification clients should expect, but typically don’t get, it switched to that product.

“We believe it’s better if the reporting comes from a third party, versus from the entity making the investments,” says Dean. That way the reporting party isn’t able to present things only in ways that make it look good. A client CFO, he adds, “shouldn’t be spending time disagreeing with his asset manager about asset pricing. We don’t have any pricing input. Clearwater gets prices from multiple sources.” He notes that it has become much easier to get people to understand this argument since the Madoff case broke.

Likewise, SVB Asset Management doesn’t provide custody services. “It’s the same logic as having third-party reporting,” says Dean.

Custody is the third point of the triangle, which in total is: asset management, reporting, custody.

Reporting across multiple portfolios

Clearwater Analytics, Boise, Idaho, was founded in 2003 as an offshoot of a successful money management firm, Clearwater Advisors. The proprietary reporting system used by Advisors was popular with clients who wanted to use it to pull information together about all their assets. The company eventually decided to market the reporting system and founded Clearwater Analytics to do that. According to CEO Courtlandt “Courty” Gates, Clearwater is the leading web-based daily reporting solution in the corporate operating fund market (on-balance sheet liquidity assets), which is sold directly to corporations and through banks.

“The place where we touch banks most closely is an outsourced reporting solution for large custody banks and investment managers,” says Gates. SVB Asset Management is an example of the latter.

Clearwater Analytics currently reports on approximately $400 billion of assets for over 2,000 institutional investors. In March, it announced two new offerings targeted to the insurance industry and to private wealth investors, both of which are significantly larger markets than corporate operating funds, according to Gates.

The Clearwater solution reports portfolio information in four integrated modules: accounting, compliance (investment policy), performance, and risk. The latter is the most top of mind right now, says Gates. Treasurers want to know, “What do I own? What’s my exposure to this issuer, this sector, this asset type?” says Gates. Also important is that Clearwater Analytics keeps up with proclamations from the Financial Accounting Standards Board and adapts them into the framework.

Mixed interest in aggregation

One feature used by corporations, but not offered by many banks, is aggregation—presenting results from a corporation’s multiple investment accounts in one place.

Aggregation is cumbersome, and it is critical that it be accurate and consistent, says Gates. By the use of “ftp feeds” and by “parsing websites,” Clearwater extracts information and brings it together into its database, where each portfolio is built from the ground up using a “tax-lot-level foundation” of cash positions, transactions, and other information.

Chris Growney, founding partner and principal of Clearwater Analytics, says it’s critical to verify that all the data is correct and not to just combine bad information from multiple sources.

“People often think the real issue is, ‘I just need to get the information into one place’,” says Growney. “But when you get it into one place you realize how much data volatility there is.” This results from errors, pure and simple, but also inconsistent assumptions—different amortization rules, for example. Clearwater offers the ability to verify the accuracy of the data, Growney maintains.

Banks that use Clearwater reporting could offer to aggregate all of the client’s investments rather than reporting only on the portion managed by the bank, but Growney says some banks decline because they don’t want to give the client a reason not to give the bank more of its investable funds.

Although SVB Asset Management doesn’t use Clearwater’s system to aggregate for clients, Adam Dean doesn’t share the bankers’ concern just mentioned.

“My thought is, you’re going to have as much of a client’s assets as you earn,” he says. “There are good common-sense reasons for a corporate CFO to have multiple investment accounts. At the end of the day, I’ll take my chances against a broker.”

Clearwater Analytics is careful not to sell against partner banks. “If coincidentally we call on a direct customer that happens to be a client of a partner bank, we’ll defer to the bank,” says Growney. At present, given the size of its sales staff, Clearwater works mainly with banks of about $2 billion and up. “We tend to work with banks looking to monetize their commercial client base by providing them with custody or investment management services, says Growney, and they leverage us to serve that market.”

Dean says he thinks of the reporting system as a relationship tool. “It gives the client the opportunity to ask questions we never used to get, and we can have more intelligent discussions,” as a result.

He adds that the information provided is used mostly by CFOs, controllers, and finance VPs at clients, but he’s also used it for client board presentations. “The risk summary at the broad level is intuitive even for the most disinterested board member,” observes Dean. BJ