INSTITUTIONAL AI — SOVEREIGN INTELLIGENCE EDITION — **CONFIDENTIAL**

THE AI SOVEREIGNTY ASSESSMENT

ASSET MANAGEMENT EDITION

Governing AI Sovereignty Across Front Office, Middle Office,

Back Office, Distribution Channels, and the Investment Decision Chain

A Diagnostic Framework for Asset Management Leadership

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FOR THE BOARD | EXECUTIVE SCORECARD | CONFIDENTIAL

What This Delivers

This is the output of a facilitated assessment session. The methodology is in the appendix. This section is what your board and investment committee need: scores, gaps, peer comparison, and priorities.

How the Engagement Works

Format	Facilitated 2-hour session with your CTO, CIO, CISO, General Counsel, and Chief Risk Officer
Preparation	We send the 25 questions in advance. No homework required — the session is the work.
Deliverable	Board-ready sovereignty scorecard within 5 business days: scores, heat map, peer benchmarks, priority gaps, and 90-day action plan.
Fee	Complimentary for qualifying institutions. No obligation.
Confidentiality	All discussions under NDA. Results never shared externally. Anonymised data contributes to sector benchmarks only with consent.

Your Sovereignty Score

	POWER	COMPUTE	DATA CTR	MODELS	AGENTS
Jurisdictional	___	___	___	___	___
Logical	___	___	___	___	___
Technical	___	___	___	___	___
Operational	___	___	___	___	___
Contractual	___	___	___	___	___
TOTAL	**___ / 20**	**___ / 20**	**___ / 20**	**___ / 20**	**___ / 20**

TOTAL SOVEREIGNTY SCORE: _____ / 100

What Your Score Means

Score	Classification	Board Implication
0–25	Reactive	AI governance is ad hoc. Proprietary strategies are structurally exposed. SEC examination will surface gaps.
26–50	Evolving	Contractual governance emerging. Models and Agents columns remain largely ungoverned. Competitive intelligence exposure persists.
51–75	Governed	Active governance across infrastructure. Models governance in progress. Defensible in examination. Beginning to differentiate on governance.
76–100	Sovereign	Full or near-full sovereignty. Governance posture is a client-facing differentiator and competitive moat.

Priority Gaps

The three highest-priority gaps from your assessment, with recommended 90-day actions:

#	Cell	Score	90-Day Action
1	_____	___	_____
2	_____	___	_____
3	_____	___	_____

Peer Benchmark

Your score positioned against the benchmark range for your institution profile:

Your Score	Peer Range	Position
___ / 100	___–___	□ Below □ Within □ Above

The gap between your current matrix score and your strategic direction is the governance programme. The matrix identifies which cells are at Level 1 — those are your priorities. This scorecard is the board deliverable. The full methodology follows.

1 EXECUTIVE OVERVIEW

What This Assessment Measures

The AI Sovereignty Assessment for Asset Management measures your institution's verified ability to own, govern, and audit the AI systems that construct portfolios, generate alpha, manage risk, serve distribution channels, and inform investment decisions — across five governance control dimensions and five AI infrastructure layers.

The assessment produces a 5×5 matrix of 25 specific, answerable governance questions. A score of 1 to 4 per cell — maximum 100 total — produces a sovereignty profile revealing not just your overall governance posture, but exactly which infrastructure-governance intersections are exposed.

> *For asset managers, exposure in the Models column is not just a compliance risk. It is a competitive intelligence risk — the proprietary investment strategies and alpha signals your models process may be accessible to your model provider by design.*

The Alpha Protection Imperative

The Models column of the matrix addresses the most urgent and most underappreciated governance gap in asset management today. When your institution uses external AI model APIs — Anthropic, OpenAI, Microsoft, Google — to assist with research synthesis, portfolio analysis, risk assessment, or client communication, the queries you submit contain something extraordinarily valuable: your investment thinking.

The portfolio positions you submit for AI-assisted analysis, the strategy parameters you use as context, the factor exposures and alpha signals embedded in your queries — these are not just data. They are your competitive moat. Under standard model API terms, that information is processed in plaintext on the provider's infrastructure, logged in the provider's systems, and potentially retained under terms that give the provider residual rights over those interactions.

> *The question is not whether external AI providers will misuse your investment strategies. The question is whether you have the technical controls and contractual rights to prevent them from doing so if they chose to — or if a government demand, a cyberattack on the provider, or a corporate acquisition changed the access landscape overnight.*

2 AI ACROSS THE INVESTMENT OPERATING MODEL

The following section maps AI governance exposure across your institution's operating structure — front office, middle office, and back office — plus the distribution channels through which your investment products reach end investors. Each function creates specific governance obligations that this assessment is designed to surface and measure.

FRONT OFFICE

The front office is where AI touches your most competitively sensitive functions: investment decision-making, alpha generation, and client-facing activity. Governance failures here are simultaneously fiduciary breaches and competitive intelligence exposures.

Portfolio Construction & Optimisation

AI-driven portfolio construction — factor exposure optimisation, constraint satisfaction, tail risk management — is increasingly replacing or augmenting traditional quantitative methods. Investment decisions influenced by AI systems must be explainable to regulators, auditable for fiduciary review, and traceable to a human-accountable decision chain.

Example: A multi-asset fund uses AI to optimise factor exposures across 15 asset classes. The AI recommends a 3% overweight to emerging market credit. When the position loses $40M during a sovereign default event, the regulator asks: what was the AI's reasoning? What data informed the decision? Who approved the recommendation? Without Operational × Models governance, these questions are unanswerable.

Primary matrix exposure: Models column, all five pillars. Operational × Models is the most immediate gap.

Alpha Generation & Quantitative Strategies

Proprietary quantitative strategies, factor models, and alpha signals are the primary competitive differentiation of most active asset managers. These models represent institutional IP that must be technically protected from provider access, competitive intelligence exposure, and unauthorised use.

Example: A systematic equity fund submits 50,000+ queries per day to an external LLM for earnings call sentiment analysis. Each query contains ticker symbols, position context, and proprietary signal parameters. Under standard API terms, the model provider logs every query.

Primary matrix exposure: Technical × Models (critical). Logical × Models. Contractual × Models.

Research Synthesis & Investment Analysis

Natural language AI is used extensively to synthesise research, analyse earnings calls, extract insights from regulatory filings, and generate investment theses. The queries submitted to external model APIs — including ticker names, position sizes, strategy parameters, and investment rationale — contain market-sensitive, potentially material information.

Example: An analyst queries an AI model: "Analyse the impact of a potential 25% tariff on Chinese semiconductor imports on our $2B tech allocation, specifically our overweight position in TSMC and underweight in Intel." That single query contains portfolio positions, directional views, and trade rationale — all processed in plaintext on the provider's servers.

Trade Execution & Order Management

AI-assisted execution algorithms, smart order routing, and transaction cost analysis are standard across the industry. MiFID II best execution requirements and SEC obligations apply to AI-influenced execution decisions. Every algorithmic decision must be reconstructable from logs.

Primary matrix exposure: Operational × Models. Jurisdictional × Compute.

MIDDLE OFFICE

The middle office is where AI governance intersects with your existing risk, compliance, and legal frameworks. These functions are the natural bridge between your current cybersecurity posture and AI-specific control requirements.

Risk Management & Factor Analysis

AI-driven risk systems — Value at Risk models, factor exposure analytics, stress testing, liquidity risk assessment — are increasingly integrated with portfolio management workflows. Risk models contributing to investment decisions must satisfy the same audit and explainability standards as the investment decisions themselves.

Primary matrix exposure: Operational × Models. Technical × Compute.

Compliance Monitoring & Surveillance

AI-driven compliance surveillance — investment restriction monitoring, personal account dealing surveillance, AML transaction monitoring — is standard in large asset managers. The AI systems monitoring for regulatory violations must themselves be governed to the standard of the regulations they enforce.

Primary matrix exposure: Logical × Agents. Operational × Agents. Contractual × Models.

Legal & Regulatory

AI-assisted contract review, regulatory filing preparation, and legal research are accelerating across asset management legal functions. When AI processes material non-public information, privilege-protected communications, or regulatory strategy, the governance obligations are acute.

Primary matrix exposure: Technical × Models. Jurisdictional × Models.

BACK OFFICE

Back office AI governance is typically more mature than front or middle office — because these functions have been subject to operational risk and vendor management frameworks longer. However, the introduction of AI agents into operations workflows creates new control requirements.

Client Reporting & Communication

AI-generated performance attribution, commentary generation, and client communications are accelerating. SEC Marketing Rule requirements apply to AI-generated client communications. Model hallucinations in client communications create regulatory and reputational exposure.

Primary matrix exposure: Operational × Agents. Contractual × Models.

Operations & Reconciliation

AI-driven trade settlement, NAV calculation support, corporate actions processing, and reconciliation workflows are standard. When AI contributes to NAV errors or settlement failures, the operational and regulatory consequences are immediate.

Primary matrix exposure: Operational × Agents. Logical × Compute.

ESG Integration & Stewardship

AI-driven ESG scoring, engagement prioritisation, and sustainability reporting are standard in ESG-mandated strategies. ESG data processed by external AI models may contain market-sensitive or proprietary information.

DISTRIBUTION CHANNELS

For asset managers, AI governance extends beyond your operating model into the distribution and sales channels that deliver your investment products to end investors. Your fund data flows through AI systems at every intermediary layer, creating governance obligations that most asset managers have not mapped.

Channel	AI Governance Risk	Regulatory Exposure
Advisory / Wealth	Advisor-facing AI processes fund holdings, performance data, and suitability parameters on third-party platforms	SEC Reg BI; DOL fiduciary; MiFID II
Institutional / Consultant	Consultant AI ingests RFP responses, portfolio data, and strategy details for comparative analysis	ERISA; SEC fiduciary; client DDQ
Sub-Advisory / OCIO	OCIO platforms use AI to evaluate and monitor your strategies using data you provide	SEC/DOL fiduciary chain; data residency
DC / 401(k)	Recordkeeper AI processes fund data for participant recommendations and plan optimisation	ERISA §3(38)/(21); DOL AI guidance
Retail / Direct	Robo-advisory and direct platform AI processes fund-level and client-level data	SEC Marketing Rule; FINRA suitability
Model Portfolio / UMA	Turnkey and UMA platforms use AI to optimise allocations across your strategies and competitors'	SEC best interest; platform data rights

If your fund data, strategy parameters, or performance attribution are being processed by AI systems in distribution channels you do not control, your competitive intelligence exposure extends beyond your own infrastructure into every intermediary relationship.

3 BRIDGING YOUR CYBERSECURITY POSTURE TO AI CONTROL

Most asset managers have mature cybersecurity programs — SOC 2 Type II, ISO 27001, SEC cybersecurity rules, NIST Cybersecurity Framework. The 5×5 Control Matrix is not a replacement for these frameworks. It is an extension that covers the AI-specific control gaps your current cybersecurity program was not designed to address.

What Your Existing Cyber Program Covers — and What It Misses

Control Domain	Covered by Existing Cyber	AI-Specific Gap
Access Control	MFA, RBAC, privileged access management for systems and databases	No controls over who at the model provider can access your inference queries, fine-tuning data, or agent decision logs
Encryption	Data at rest and in transit encrypted per SOC 2 / ISO 27001	Data is decrypted during AI model processing — your investment logic is in plaintext at the inference layer
Audit Logging	SIEM aggregation, 12–18 month log retention, alerting	AI model interaction logs live in the provider's systems, not yours. Agent decision chains may not be logged at all.
Vendor Risk Mgmt	SOC 2 reports, annual reviews, contractual terms for infrastructure providers	Model API agreements were not designed for fiduciary obligations. Standard terms grant providers broad data rights.
Incident Response	Detection and response for infrastructure incidents, breaches, outages	No playbook for model drift, AI hallucinations in client comms, or agent actions that breach investment mandates
Data Classification	PII, client data, confidential data classified and handled per policy	No classification for AI query content — investment logic, strategy parameters, and alpha signals submitted to external models

How the 5×5 Matrix Maps to Existing Frameworks

5×5 Pillar	NIST CSF	SOC 2	ISO 27001	SEC Cyber Rule
Jurisdictional	Identify (ID.AM)	CC6.1	A.8	Disclosure (e)
Logical	Protect (PR.AC)	CC6.1–6.3	A.9	Safeguards (b)
Technical	Protect (PR.DS)	CC6.7	A.10, A.14	Safeguards (b)
Operational	Detect (DE.CM)	CC7.1–7.3	A.12	Detection (c)
Contractual	Identify (ID.SC)	CC9.2	A.15	Third-party (d)

Your CISO already manages four of the five pillars in the infrastructure columns (Power, Compute, Data Centers). The AI-specific gap is in the Models and Agents columns — where your existing cybersecurity program has no visibility, because the controls were designed before AI model APIs became part of your investment process.

The Practical Implication

The 5×5 matrix does not ask your institution to build a parallel governance program. It asks you to extend your existing cybersecurity and vendor risk management frameworks into two new ecosystem columns — Models and Agents — that were not on the threat landscape when your current program was designed.

For your CEO, COO, CIO, CISO, the matrix is a gap analysis. For your board, it is the answer to the question: *"Does our cybersecurity program cover AI?"*

For most institutions, the honest answer today is: "*It covers the infrastructure AI runs on, but not the AI itself".*

4 THE FRAMEWORK

The Five AI Ecosystems in Asset Management

ECOSYSTEM 1 — POWER

The energy infrastructure powering your investment platforms, data centres, and computing environments. As AI processing demands grow, energy consumption is becoming a material operational and ESG consideration.

ECOSYSTEM 2 — COMPUTE

The GPU clusters, CPU infrastructure, and specialised computing environments running your quantitative models, factor engines, risk systems, and AI research tools.

ECOSYSTEM 3 — DATA CENTRES

The data centres and cloud storage where client portfolio data, proprietary model weights, historical factor libraries, and investment research reside.

ECOSYSTEM 4 — MODELS

The AI models processing investment decisions, generating research insights, constructing portfolios, and communicating with clients. This is simultaneously your primary governance gap and your primary competitive asset.

ECOSYSTEM 5 — AGENTS

The autonomous AI agents conducting research synthesis, generating trade signals, monitoring compliance, communicating with clients, and executing multi-step investment workflows.

The Five Pillars of Control

Pillar	Core Question	Asset Management Implication
1. Jurisdictional	Where does it execute, under which law?	AIFMD data residency, GDPR for EU client data, SEC data governance, MiFID II record-keeping
2. Logical	Who can access it, when, with what proof?	SEC examination access logs, MiFID II record-keeping, information barrier compliance
3. Technical	Who holds the encryption keys?	BYOK vs. HYOK: contractual vs. cryptographic alpha protection
4. Operational	Do you have real-time visibility?	Model drift detection, investment decision provenance, risk system integrity
5. Contractual	Do you have enforceable rights?	Model API data rights, interaction log ownership, exit provisions, audit rights

How to Score Each Cell

Level	Classification	Description
1	Reactive	No visibility or control. Relying entirely on provider assurances or standard contracts.
2	Evolving	Partial visibility or contractual controls only. Aware of the gap with some mitigating measures, but technical enforcement absent.
3	Governed	Active monitoring, enforced contractual rights, partial technical controls. Demonstrable to regulators and clients.
4	Sovereign	Full technical and contractual sovereignty. Controls are cryptographically verifiable, continuously monitored, independently auditable.

Score each cell based on what you can demonstrate with evidence — not what contracts assert, what providers have attested, or what you believe is likely true. A Level 1 score is not a failure — it is an accurate baseline.

[PARTIAL VERSION] …

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All discussions covered under NDA. Assessment results and proprietary strategy information are never shared externally.

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