Process Trumps Performance for Inst'l Marketers

FundFire article published on November 21, 2013
By Michael Shagrin

This is the final article in a four-part series on the issues impacting institutional manager marketing professionals.

Institutional marketers resoundingly agree that emphasizing their firm's investment process and philosophy is a more effective sales tactic than focusing on traditional performance metrics, according to a *FundFire* survey.

This marketing approach became especially prominent after the financial crisis when most investors were blindsided by a market in free fall. And it still remains fresh today as investors look to have a deeper understanding of what's in their portfolio.

"Since the experience in 2008, investors have tried to understand how their investment firm will navigate the unknown," says **Jillian Rudman**, president and CEO of Rudman & Associates, a strategic consulting firm serving the asset management industry. "This requires the firm to tell a much more sophisticated story, one that's based on the unique aspects of their culture and investment process."

The emphasis on the firm's process and philosophical approach to investing was not a direct result of the financial crisis—rather, 2008 was a "tipping point," Rudman says.

"It gave everyone a uniform black eye in terms of performance," she says, "but before that point, marketers were beginning to realize that there may be more to the story."

FundFire's anonymous survey polled 71 marketers from 48 firms about the issues affecting their jobs and the industry, with respondents holding positions such as communications specialist, product marketer, and senior level director.

FundFire conducted an almost identical survey in 2012, and for the second year running, Institutional marketers chose "investment process" as their favored thematic emphasis for client interactions. "Investment performance" finished dead last out of the seven choices in both years.

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Echoing this sentiment, when survey respondents were prompted specifically about which "investment-focused content" they prefer, the top two choices in both years were "material that reinforces firm's investment process [and] philosophy" and "whitepapers on investment issues."

Asset management firms and their marketing teams are particularly wary of making promises they cannot keep or predictions they cannot verify, experts say.

In recognizing the uncertainty of returns, an asset manager must have a coherent story about how their firm will respond to changing market dynamics, especially since investors have become increasingly sophisticated and well-informed, according to Rudman.

Brian Brett, head of distribution at American Beacon, which had $42.3 billion in institutional assets under management as of the end of the third quarter, says his firm makes a point of emphasizing investment process, even though each of the firm's strategies has a different philosophical underpinning.

But various experts who have spoken to *FundFire* unanimously agree that materials promoting investment process inevitably end up focusing on the process' impact on returns.

Additionally, investors are often willing to overlook an unimpressive investment process if it's paired with strong performance, Brett says. If a manager produces consistently positive results, clients may avoid any inquiry at all into the fund's process or underlying philosophy.

"If you do great, if you have great performance, I won't say you get a pass, but investors are more likely to say 'good luck next quarter,' then move right along," Brett says.

It's when returns are not quite so attractive that process becomes the primary talking point.

"Process becomes more critical when you're not doing well because everyone has to look around the table and say, 'Do we understand what they're doing? Are they performing like they said they would?"

The focus on process is also frequently an extension of investors' post-crisis heightened risk awareness.

As investors and consultants increased their scrutiny of asset managers after the crisis, **Rachel Minard**, CEO of marketing consulting firm Minard Capital, says marketing materials followed suit and became more focused on the risks accompanying investment choices.

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"We learned a lot after 2008 that returns are not enough," she says. "The way investments were being marketed made everyone stand up [after 2008] and say: 'What am I actually invested in?'"

Now, convincing content cannot just be about impressive returns. It must also contextualize performance in terms of its various layers of headline, business, investment and operational risk, Minard says.

One survey respondent from a small asset management firm says this is easier said than done as making an impression on investors is getting more difficult. "This environment has been tough to get people's attention and [even] harder with moderate performance," his comment reads.

This unforgiving environment for poorly performing asset managers stems from more vigilance Minard says. This, in turn, has stimulated competition, further enhancing the struggle to get business.

Even among those firms with strong performance, managers feel a growing need to differentiate themselves from other investment firms who are also generating strong returns, according to Minard. Investors want to know the sustainability of a fund's performance, she says, and that requires recognition of how the firm goes about making its decisions.

"Process is part of the conversation now more than ever because competition is so high," she says.