Addressing underperformance is a common scenario faced by asset managers from time to time. Often those individuals responsible for the firm’s revenue goals wrestle with which strategy to highlight in their efforts to grow assets under management. They may simply discount the possibility that an underperforming strategy could be attractive to outside investors on the basis of lagging topline performance alone. Marketing professionals may shy away from taking the time to update the underperforming strategy in consultant and third-party databases, instead spending more time on the best performers in the firm’s lineup. This decision can be costly, since underperformance can often be explained and defended. Just because a strategy faces performance challenges does not necessarily indicate that consultants and investors will exclude it from consideration.

Using the following assessment process we’ve created based on our own experience with other asset managers, you can determine if performance headwinds are the result of factors that would be expected from execution of the investment strategy and therefore explainable to outside investors. Taking these steps to understand the story behind the topline results can keep you in the game.

1. Understand How You are Viewed
2. Tell a Story Behind the Results
3. Gain Competitive Insight
4. Determine Best Fit in the Portfolio
5. Assess Market Opportunity

Read on to learn more about how you can put these best practices to work for your strategy so you can remain competitive in the face of performance setbacks.

“During our manager-ranking process, we necessarily rate organizations, portfolio managers, analysts and a range of investment and operational processes by scrutinizing a relatively long list of attributes. Some of those are performance-focused, others are qualitative in nature.”

Mark Thurston
Head of Global Equity Research
Russell Investments
Simply, the first thing you should do is try to understand how you are viewed by prospective investors. How do the strategy’s results compare to market benchmarks and peers? Where did performance go wrong? For example, maybe your five-year number is very good and your one-year number is improving, but the three-year number is almost in the bottom quartile among your peer group. This is a problem because the three-year performance measure is one of the key performance search criteria that allocators use in the eVestment database to identify managers for further study. The best offense in our experience, and in this case, is being able to frame the results as being consistent with how the process is being executed, which we’ll discuss more in item number two.

Beyond performance analysis alone, however, one other important point for an underperforming manager to keep in mind is that distribution of other key strategy information needs to be stellar. More than ever, underperforming managers need to provide a complete, accurate and timely online resume of information beyond the return streams alone. This means submitting the most complete and accurate data to consultant and third-party databases and submitting this information on time. This will provide every opportunity for a prospective investor to examine more information about the investment approach and the team behind those results, than if they are left to judge merit on performance alone. We also strongly encourage managers with performance challenges to audit all reported data to databases. Filling in any missing data and making sure data is accurate will help ensure the strategy has an ample chance to be seen across a wide range of investors and screens.

“With eVestment, being able to pinpoint what consultants and investors are actually looking at has helped us. I can see not just who we think our competitors are, but who the market perceives our competition to be. The ability to see ourselves as consultants see us is beyond what I thought could be offered. It’s almost a miracle to be able to have that perspective. It’s like being in a job interview and being able to read the mind of the person interviewing you.”

Eric Foll
Director of Strategic Marketing
Principal Global Investors
Once you have an idea of how you stand in terms of your bottom-line performance, it’s time to identify and examine the strategy’s return drivers. This is really where you start building a story around the application of the investment process. In our experience, institutional investors want managers to demonstrate how their decision making leads to the realized results, preferably through an investment process that is repeatable and disciplined. Attribution is an excellent way to demonstrate where decisions impact returns. For example, when telling your story, you need to know where the investment team expects to generate its return. Is it from allocation decisions to particular sectors or regions, or will specific security sections drive results? It may be a combination of all of these factors.

You should also consider results in relation to peers. In our experience, peers are what a strategy is ultimately measured against in the hiring and firing decision. Having insight into how you performed against top quartile peers might help you understand how and when your approach generates returns differently, or how you may be doing something more effectively than your peers. For example, if you hold true to the investor’s objectives and style guidelines while others do not, that may be an area to highlight.

Last but not least, it is very important to confirm and communicate that the same return drivers you identify in your messaging deliver in both up and down periods, regardless of the actual return realized.

“When identifying an investment thesis, we do not primarily focus on historical returns, but rather on whether the manager’s process is consistent and repeatable.”

Scott Perry
Partner, Endowment and Foundation Consulting
NEPC
Which firms are currently winning business in the market and how does your strategy compare? By using our tools, you can identify asset managers that investors and consultants are researching within our database, as well as strategies that are experiencing inflows in recent periods. This gives you a good short list of managers that would be considered winners in the minds of your buyers. Actionable insight can be gained by studying these winning peers. Ask the same questions of them that you do of your own strategy: How is their performance in the same period? What does their team turnover look like? How are they winning – through consistent application of their process, or by creeping beyond stated guidelines to generate results? Using this approach you can identify competitor strengths and weaknesses and use them to your advantage in telling your story.

GAIN COMPETITIVE INSIGHT

“When our analysts establish a ranking for a manager, they also set expectations for the particular strategy’s portfolio characteristics and performance. We take these expectations into consideration in assessing a strategy’s ongoing performance, prompting us to question whether or not the underperformance is resulting from characteristics that we anticipated. In many cases it is, and when working with clients, our analyst will explain this background information with detailed attribution.”

Mark Thurston
Head of Global Equity Research
Russell Investments
We encourage managers who may struggle with underperformance to also look at how they fit into a prospective client’s existing portfolio allocation and objectives. After all, performance is not the only factor that investors and consultants consider, as we’ve mentioned previously.

There are a variety of attributes that impact manager selection. For instance, the diversity of investment strategies and styles for long-term protection from short-term market, geographic or strategy fluctuations may be a concern. When considering new managers, investors may want to ensure they avoid an investment universe, geography or specific investments that they already are invested in through another manager. Or what about ESG considerations? A corporate pension fund may want to avoid direct investments in competing firms, or a foundation with a healthcare mission may want to avoid investments in tobacco or alcohol.

And of course you will want to look at how your fee structure compares to others in your universe or within the portfolio. These can definitely have an impact on the actual returns the investor will see and may impact a decision to award an investment mandate or not. In many cases, if you can provide evidence that your strategy is a better fit when assessed among the lineup of managers already in the portfolio, you can still come out on top.

“When field consultants are conducting a search for a client, they work closely with the research team to review our focused manager placement list for the desired asset class. The goal is to determine the managers that will fit best within the client’s investment program.”

Scott Perry
Partner, Endowment and Foundation Consulting
NEPC
While an effective story is required to mitigate performance hurdles, knowing who to tell that story to is equally important in growing assets. Examining which types of clients are researching which universes and/or products within our database will help determine your target market. Using our tools, you can actually see the number of database reviews that occur over a given time period by type and size of client, as well as where those views originate geographically. So you could easily determine if views are from small, medium or large consultants and if the views were coming from China or Australia, or other regions, for example. This data will help you develop a targeted strategy for deploying sales and marketing resources, and which client types to pursue.

Managers also need to ask, “In what capacity is the market allocating to this strategy?” Are assets growing from new mandates flowing into the investment style or asset class? Are clients using the style or asset class as a funding source for rebalancing needs? Are flows essentially flat, indicating that manager replacement searches may be driving most of the opportunities that you will see in the coming year? This will give you an idea of how to direct your efforts and can also influence your message. You will also want to estimate the amount of assets that are available. Again, using our tools you can review the retention over time of a particular asset class. This in turn will give you an idea of asset volatility, or the amount of assets that are in play and available for placement.

“The suite of tools eVestment is able to offer give us a great window into what’s going on with our competitors, what’s going on with the market. You can see through their analytics where assets are moving. You don’t have to just rely on seeing where request for proposal volume is coming from. You can compare that to the data you see coming out of eVestment showing where money is flowing into and out of and you can see where the money is really in motion.”

Eric Foll
Director of Strategic Marketing
Principal Global Investors
CONCLUSION

Navigating underperformance isn’t easy – but it doesn’t mean that consultants and investors will dismiss you. Using the tactics described in this eBook, you can build a story around your results, solidifying your unique approach with real facts as they relate to peers. Gaining competitive insight will help you start to develop an outlook on who is winning in the marketplace from a competitive perspective, but more importantly, why are they winning? Also, showing evidence of a complementary fit within the existing portfolio is key. Your strategy may fulfill the needs of a specific investor requirement whereas another outperforming strategy may not. Finally, by estimating market potential and aligning your message with the types of prospective clients that are most likely to be receptive to your strategy, you can prudently deploy a combination of resources that will deliver the best outcome.

INTERESTED?

Interested in learning more about how eVestment solutions can help you tell the best story in the midst of performance headwinds?

Watch our video to learn more!