

# In Turbulent Times, Trust Is Crucial



It is a turbulent time for the investment management industry. Destabilizing global geopolitical and economic developments are stressing the capital markets and upending asset managers' business plans.

To help asset managers and OCIOs successfully navigate this difficult marketplace, we are reviewing the key tenets of [Chestnut's](#) approach to investment manager business growth. At a time when investor confidence may be under pressure, we believe successful investment management should focus on going Back to Basics. In this article series we will examine the research insights we have found are the key to successful asset management growth.

The Golden Circle of Asset Management: The philosophy underpinning our strategic growth advisory work is what we call The Golden Circle of Asset Management [described in detail on our website](#). We aim to put our clients in the Golden Circle by answering three critical questions:

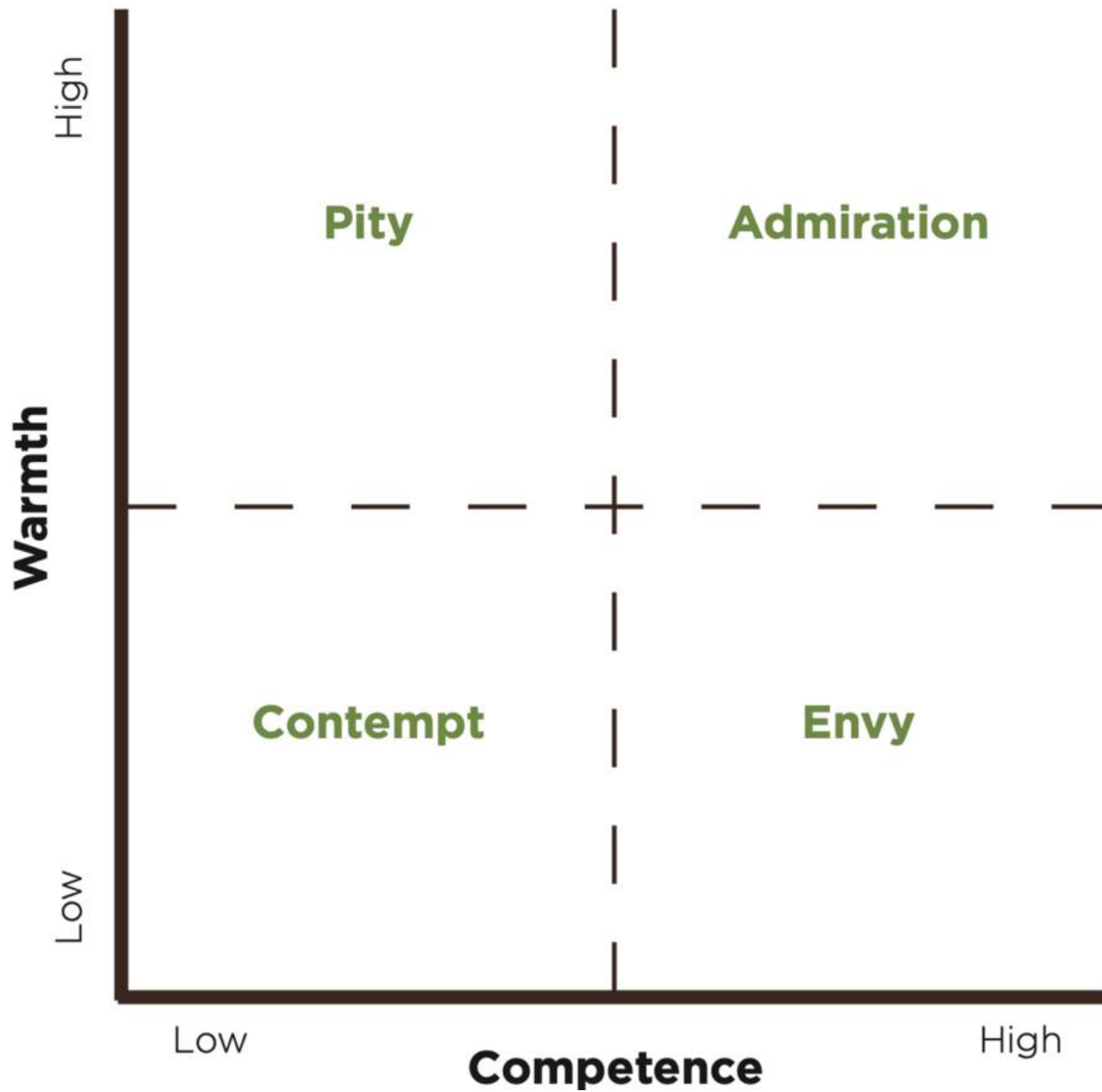
- WHAT do your target investors want?
- HOW can your firm deliver?
- WHY should investors hire you?

Naturally, we've organized our Back to Basics series around our Golden Circle framework. For our first post, we're starting with the issue at the heart of the Golden Circle: Trust.

Investor Trust Is Built Via a Matrix: As we know, investment management is a service, and at the end of the day, each investor engages each manager in a contract that is based on trust. In our research article [Trust for the Win](#), we explain how investor trust is built via a matrix, not a straight line. Critically, our research shows that the two axes of the trust matrix are warmth and competence. Each quadrant of the matrix evokes specific investor emotions, as illustrated in the chart below.

## The Trust Matrix

Emotions Evoked by Quadrant



(Source: Chestnut Advisory Group)

Most Managers Overemphasize Competence: In our work helping asset managers build more trusting relationships with investors, we consistently see managers over-index their brand to competence. These

managers' core message focuses on the 'What' (e.g. type of asset classes managed, number of offices, investment team bios) and the 'How' (e.g. investment process, collaboration, ESG integration).

Investors' default perception is that most asset managers are quite competent. In fact, competence is assumed fairly early in the manager/OCIO selection process. While demonstrating competence is always important, our research shows that managers who overemphasize their competence actually hurt themselves, because they become viewed by investors as being low in warmth. In other words, investors see these managers as smart but not really trustworthy.

**Establish Warmth by Demonstrating You Put Investors' Needs First:** An investor is in a vulnerable position relative to an asset manager or OCIO. Most investors are unsure whether the manager's competence will be used in service of the investor's best interests or to benefit the manager at the investor's expense. Challenging markets like we face today serve to amplify that worry.

Allocator due diligence focuses on manager/OCIO ownership and compensation structures hoping to find essentially institutionalized protection for the investor's best interests. Yet stable ownership and fully-aligned compensation plans alone will not win investors' trust without other clear demonstrations of the manager's warmth.

Managers establish their warmth by demonstrating their understanding of investors' needs in a selfless manner. The word 'selfless' is key. One example of a warmth-enhancing strategy is effective thought leadership.

During turbulent times like today, investors crave any insight that will further their objectives. Authentic thought leadership with relevant insights that can further investors' objectives - and that contains no product or firm push whatsoever - is one strategy proven to build warmth with investors.

Please feel free to contact [Chestnut Advisory Group](#) for more detailed insights on delivering a superior client experience.

All content and material contained in this document is protected by United States copyright law and is the exclusive property of Chestnut Advisory Group, LLC and may not be reproduced, distributed, transmitted, displayed, published or broadcast without its prior written permission. © 2023 Chestnut Advisory Group, LLC. Chestnut's logo is a registered trademark of Chestnut Advisory Group, LLC.