

# The Post-COVID World: Consultant & OCIO Views

## IN THIS ARTICLE

When we saw the COVID-19 crisis beginning to upend the capital markets, we turned to consultants and OCIOs to gain a clearer understanding of the state of the investment marketplace. Our research reveals how this crisis has accelerated some key industry trends while potentially reversing the course of others.

**The COVID-19 crisis has created an outstanding - and temporary - growth opportunity for asset managers, as consultants across the board are reassessing longstanding investment recommendations** due to the pandemic-related market and economic upheaval. From strategic asset class allocations to the passive/active debate, consultants are revisiting their core assumptions and forecasts, opening long-closed doors for asset managers to constructively engage with them.

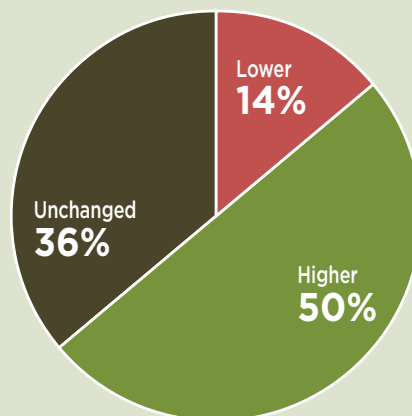
**Consultants still favor managers telling a strong, on-point and understandable story.** Our research reaffirmed our consistent finding that what investors, and consultants most want from asset managers is understanding. Consultants want to hear why your results are what they are, and why your portfolio is positioned the way it is. The pandemic has not changed this.

**OCIOs' growth is accelerating post-crisis.** Despite widespread projections that OCIOs' blistering growth over the last decade would slow, fully half of our respondents now forecast higher business growth than they did pre-pandemic. This pattern of increased investor demand for outsourcing after market turmoil mirrors OCIOs' post-Great Financial Crisis (GFC) growth spurt.

Chestnut Advisory Group provides business development consulting to asset managers. Our services encompass strategy, content and implementation.

## OCIO Growth is Accelerating

Changes in OCIO Growth Expectations Since the Pandemic  
Outlook for the Next Two Years



## Manager Best Practices with Consultants in the New Normal

*Today more than ever, asset managers seeking growth must first win investment consultants' support. So when we saw the COVID-19 crisis beginning to upend the capital markets we turned to consultants and OCIOs to gain a clearer understanding of the state of the investment marketplace.*

*Our research reveals that this crisis has created a huge - and likely temporary - opportunity for asset managers to constructively engage with consultants to improve their relationship and gain market share.*

### Consultants Still Favor Managers Telling a Clear Story

Our post-pandemic research [Research Methodology details on page 6] reaffirmed Chestnut's consistent findings from our past research on this topic:

what investors, OCIOs and consultants most want from managers is understanding. Consultants want to hear from managers why your results are what they are, and why your portfolio is positioned the way it is. The pandemic has not changed this.

“What investors most want from managers is understanding. The pandemic has not changed this.”

between managers who are currently in their clients' portfolios and those managers who are not. Consultants rated 'insight into a manager's portfolio' as the most helpful manager support effort across the board.

Consultants need managers' help understanding what drove a product's past performance and the investment rationale around current portfolio positioning. Understandably, in the midst of a market crisis consultants are much more focused on the managers

### OCIOs and Consultants Want to Understand Managers' Portfolios

In this latest research, we asked consultants and OCIOs what type of asset manager support they find most helpful. We asked them to distinguish

currently in their clients' portfolios (where this factor was rated the top most helpful for current managers by 75% of respondents), but the top answer was identical for both current and new managers.

### Consultants Want to Understand Managers' Portfolios

Most Helpful Manager Support Efforts		New Managers NOT in Clients' Portfolios % selecting	Managers in Clients' Portfolios % rank top two
1	Performance attribution with investment rationale around portfolio positioning	59%	75%
2	Up-to-date performance analysis	59%	63%
3	Revised performance outlook for the portfolio and/or asset class	41%	0%
4	Portfolio Manager availability to hold direct conversations with our consultants	41%	25%

## New Managers Must Provide Their Current Performance Outlook

The main difference between manager support efforts consultants deemed most helpful from new and established manager relationships is the manager's post-crisis portfolio performance outlook. From a new manager, 41% of consultants want to hear their current performance outlook for their product and asset class in light of the crisis. By contrast, consultants have literally zero interest in the revised performance outlooks of their existing managers. Consultants feel they know current managers' products well.

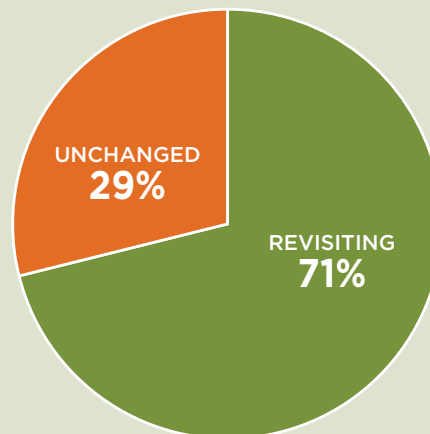
Consultants always welcome the opportunity to speak directly with portfolio managers, but deem the helpfulness of these conversations as understandably much higher with managers they don't yet know well (rated helpful by 41% of consultants).

## Know Consultants' Post-Pandemic Questions and Give Them the Answers They Seek

Almost three quarters of our consultant survey participants say they are revisiting their long-term strategic asset class recommendations post-pandemic. Tied for top place among factors driving consultants' changed asset mixes are the target allocation for private assets and the correlation between asset classes. This fundamental consultant reassessment should create substantial opportunities for asset managers to strengthen consultant partnerships and gain new allocations post-pandemic. For example, many consultants will certainly want to hear from managers with a good story about products demonstrating low correlation to major market indices through this crisis.

## Asset Allocation Recommendations are Under Review

Are You Planning to Revisit Your Long-Term Asset Allocation Recommendations?



## Use Market Research to Best Help Consultants and Improve Your Partnership

With consultants and OCIOs revisiting their recommendations and forecasts, this post-pandemic period provides managers with what we view as a once-in-a-decade opportunity to help consultants rethink their recommendations and allocations. To take advantage of this opportunity, managers should conduct their own market research with consultants to ensure their firm is positioned to take advantage of all the change going on right now, as there are a wide range of approaches and opinions today.

Some fruitful lines of manager research and questioning include:

- **The active/passive revisit:** Fully 60% of survey respondents said they are definitely or possibly reviewing their views on active versus passive investing. Active managers, now is your chance to press the case for active with those

consultants who are reassessing this crucial investment recommendation. Find your best consultant relationships within that 60% and engage.

- **Volatility mitigation ideas:** Many volatility reduction strategies did not protect client capital as expected during the recent market downturn, although many investors continue to seek more stable returns.
- **Post-crisis opportunistic investment ideas:** Tactically-oriented OCIOs are actively seeking post-crisis opportunistic investment strategies, such as distressed debt.

### Don't Go Quiet!

Chestnut's research over the years tells us that in a crisis, investors and consultants want to hear from asset managers much more than during normal times. Consultants tell us they feel that managers did a much better crisis messaging job during this crisis than during the GFC.

Now that the initial burst of firmwide COVID messaging is probably over, managers should resist the temptation to return to their pre-crisis 'normal' communication approach. Consultants, OCIOs and their clients are still working and everyone has a long way to go to meet pre-crisis investment and business goals. While the quantity of communications should resume, the quality of manager communications - topic, tone, targeted audience - should not be business as usual. We encourage managers to reach out, engage, have good questions ready, and be patient.

This post-pandemic period provides managers with what we view as a once-in-a-decade opportunity to help consultants rethink their recommendations.

### Consultants' Search for New Managers Continues...Slowly

While many asset managers felt that new business opportunities were at a standstill, particularly during the initial pandemic lockdown, 93% of our respondents said they continued to research new managers and strategies as always.

When we probed respondents on this subject, however, the reality became more nuanced, and a bit more in line with asset managers' perception that consultant research teams' attention remains difficult to attract. Consultants say their new manager research activity post-pandemic is largely focused in two areas:

- Continuing research on managers or strategies already in progress pre-pandemic
- Research on tactical, opportunistic new strategies some consultants feel fit the specific needs of the moment, such as distressed debt strategies

In both cases, managers already well-known to the consultant are better placed to succeed.

In our interviews some OCIOs expressed reservations about "signing up" a new manager without some form of on-site due diligence. This reluctance is not universal, however, as some large OCIOs and consultants have confirmed they will no longer require in-person, on-site visits as part of their due diligence, at least for some time to come. We will

not be surprised to see this attitude spread as more consultants and OCIOs become comfortable with working remotely.

## OCIO 2.0: The Business is Growing and Changing

### Growth Expectations Have Increased

Fully half of our OCIO respondents have revised their growth forecasts upwards post-pandemic. This echoes the pattern of increased investor demand for outsourcing after market turmoil experienced immediately after the GFC. Crises cause many institutional investors to realize that they are not comfortable or properly structured to effectively navigate a volatile, complex, fast-moving capital markets environment under the traditional consulting relationship, much less fully independently. In our very first post-pandemic OCIO Report From the Front webinar, David Eisenberg of Cambridge Associates called this crisis “a poster child for the OCIO business,” and it seems many of his peers agree.



“This crisis is a poster child for the OCIO business.”

-David Eisenberg  
Cambridge Associates

### Focus Moving From the ‘O’ to the ‘CIO’

Most OCIO business growth over the past 20 years came from investors that had historically managed their portfolios internally and decided that it would be better to outsource the investment function. In other words, the focus was on the first “O” in “OCIO” - outsourcing.

As the OCIO business matures, clients are increasingly focusing on the “CIO” part. Investors want to understand the rationale behind their OCIO’s decisions and portfolio positioning. OCIO clients are demanding a consistent stream of insights, explanations and forecasts, as well as additional value-added services ranging from help meeting

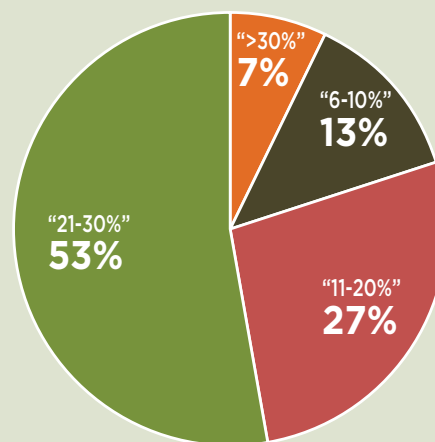
external debt covenants to endowment fundraising advice. Many investors are finding their current OCIO provider - in most cases, the very first OCIO that institution has ever hired - is not meeting their expectations.

### Client Turnover Is Rising

Unmet expectations are leading clients to review their OCIO and consulting relationships more than before. We call this era of higher client demands and more frequent relationship reviews ‘OCIO 2.0’. Our survey revealed that 60% of respondents expect that at least 20% (and, in many cases, 30% or more) of investors will review their OCIO/consultant relationships over the next two years.

### Consultant/OCIO Turnover Is Expected to Rise

Percentage Of Investors Expected To Review Current Consultant And OCIO Relationships Within The Next Two Years



Those OCIOs who have focused on delivering world-class client communication and transparency stand to gain from investors’ new focus on the ‘CIO’ portion of the value proposition.

## Research Methodology

Chestnut conducted research with a broad sample of investment consultants and OCIO providers with assets under advisement totaling \$18.3 trillion. The majority of respondents are firms

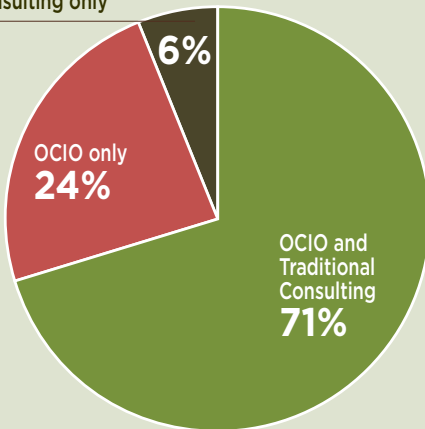
with both a traditional consulting and an OCIO practice - a similar mix to the overall industry today. Respondents from all market segments - from boutique to mega - participated.

### Chestnut Surveyed A Wide Range Of OCIOs And Consultants

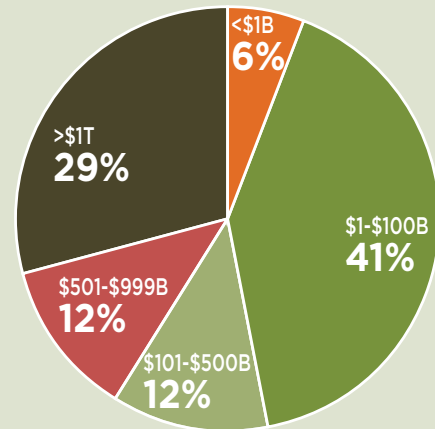
\$18.3 Trillion of consultant and OCIO AUA participated in our survey

Nature Of Business

Traditional Consulting only



Assets Under Advisement



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