

Client Experience: Where the Rubber Meets the Road



Introduction

Investment managers beginning the 2023 business year are facing the continuation of an intensely turbulent marketplace. As investor confidence remains under pressure, Chestnut's [Back to Basics](#) series continues examining the research insights we have found are the key to successful asset management growth.

In this article we turn to the lifeblood of any asset management business: client experience.

Throughout this series we have stressed how every client interaction either builds or erodes trust, which is critical to a successful client relationship (we refer to this as the “client contract”). We believe the foundation of a client contract is built around five component parts that we explore below.

Key Elements of a Successful Investment Manager-Client Relationship



The strongest client alignment goes beyond investment outcomes

First and foremost, alignment of objectives is essential in client relationships. Traditional investment alignment means aligning your investment strategy with your clients' goals and objectives, as well as their risk tolerance and time horizon. By thoroughly understanding your clients' needs and preferences, you can tailor your approach - and more and more managers are offering product customization as well - to meet clients' specific requirements.

But there is a **higher order alignment** we believe is becoming critical to the investment industry: an alignment of purpose, values, desired outcomes, long term thinking, and holistic success measures (we detail how to approach this in our [Define Your Purpose](#) article). A steady deterioration of patience has eroded the investment value chain, evidenced by short termism, higher turnover, performance chasing, product proliferation and asset bubbles fed by an indiscriminate allocation of capital. A proper discussion of these is beyond the scope of this article, but we do believe all are critical ingredients of alignment between the investor, asset manager and advisor.

Successful products and solutions fit target clients' needs

We are seeing a trend toward investors seeking fewer and deeper asset manager relationships, driven by the desire for a broader scope of partnership with each manager. A powerful way to achieve deeper and more meaningful investor relationships is to offer a range of capabilities including a mix of traditional and alternative investments, depending on your clients' preferences and risk tolerance.

It's more important than ever to be able to **customize your product offerings** (e.g. guidelines, exclusions, risk exposures) to meet clients' unique needs, rather than offering a one-size-fits-all solution. Today a considerable portion of the industry is still not set up to deliver on this, either philosophically or operationally, which leads to friction and erosion of trust in the investor/manager relationship.

Another way of qualifying to be a **preferred partner** is to be strongly differentiated from the competition. There are several ways to do this including a unique "quality of alpha": (e.g. style, correlation to the market and other managers, downside risk mitigation, etc.) In our experience, it can be helpful for managers to get an objective third party (one who has experience studying many different investment capabilities) to help identify points of parity, differentiation and areas of opportunity in process and/or messaging for each investment product. This analysis enables managers to have conviction discussing their areas of true differentiation with clients.

Insight and advice: the best path to being more than a component provider

Investors expect their asset managers not only to have a deep understanding of the capital markets and investment strategies, but also to share this knowledge and insight with clients to help them make informed decisions about their investments. Over 85% of investor respondents in a [recent Chestnut study](#) said managers' insights play an important role in their hiring decisions. Almost 90% of respondents told us they take some type of investment action at least quarterly based on insights their managers have shared with them.



Source: Chestnut Advisory Group

Investors want to know how managers think and what they are thinking about. Increasingly, clients demand their managers provide an informed point of view on market events, conviction and **proactive recommendations** on asset classes and strategies to navigate various markets and client challenges, all done without being salesy or pushing product. Delivered well, efforts to address this client need for insight offers managers a great opportunity to differentiate themselves from the competition.

Moving from component provider to a **valued and trusted advisor is the desired path** for asset managers that have moved beyond boutique scale. In order to do that asset managers are increasingly using their insight and expertise to offer a wide range of ‘solutions’ products and services, advising clients on portfolio construction, stress testing, scenario analysis and even offering customized research to deepen client relationships.

Great client service is essential for successful investor relationships

Superior client service and ease of doing business is one of the most consequential factors in building or destroying client trust. This means being available to answer questions and concerns, providing timely responses to inquiries, and being proactive in your approach to managing client interactions.

Client Service Table Stakes
Excellent client reporting
Easy access to investment personnel
Accurate and timely data
Top notch formal reviews

We often work with our asset manager clients to map out their “**client journey**,” from pre-purchase, contracting, onboarding and transition, and ongoing management through separation. By targeting specific areas for development across these dimensions, managers can differentiate themselves from competitors.

Client Service Opportunities for Distinction
Customized insight and advice
Value-added informal interactions, networking and training opportunities
A deeper understanding of client goals including and beyond the existing mandate(s)

As investors feel they are hiring an asset management firm (not a portfolio manager or a distribution professional), successful investor **relationship management must be a shared responsibility**, with no one person or department ‘owning’ any client relationship. An ideal investment manager client team will include individuals from investments, product, client service and relationship management all working together to go above and beyond for clients, with a commitment to their success. Technology will play a critical role in the future, for understanding the client, analyzing their problems and delivering timely reporting, data, insight and solutions.

Performance and value: don’t sell your firm short

We recommend that asset managers address their value proposition with investors head on. Managers must explain their value proposition to investors not only before they are hired, but on an ongoing basis to remind them why they hired you in the first place.

Successful client relationships always begin with an agreed-upon fee that is established and negotiated in the context of the expected outcome or alpha and other value to be delivered in the relationship. Managers who are **transparent about actual fee levels** in consultant databases start

this fee negotiation from the strongest position, as they have already begun enhancing trust with investors and consultants.

As our discussion above makes clear, the actual returns generated by any one mandate are only a small part of the total value an investor seeks to receive from their relationship with that manager. Whether the manager's recent investment performance is strong or weak, we recommend managers have a value proposition discussion with every client at least annually. Such discussions provide an opportunity to revisit and describe the high level of service and strong (recent or expected) returns relative to the fees you charge.

While such value proposition discussions sometimes reopen the fee issue, we see managers taking this approach enjoying **higher client retention and satisfaction**, as well as raising additional capital from their clients over time as trust builds. Managers today also have a range of fee options, such as performance based fees, preferred pricing models (aggregating assets to qualify for discounts), leveraging OCIO pricing relationships, and utilizing investment vehicles that allow scale benefits.

Other **innovative fee structures** that we help managers evaluate and implement include “passive plus” and “lower for longer” discounts.

In summary, building and maintaining strong client relationships in asset management requires a range of elements, including alignment of objectives, a toolkit of relevant products and solutions, insight and advice, superior client service and value for fees. By focusing on these key areas, you can develop long-lasting, mutually beneficial relationships with your clients.

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

