

US Professional Fund Buyers Report

How professional buyers in the US
select funds and fund managers

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FIVE KEY TAKEAWAYS

1

The primary factors that professional buyers (PBs) consider when selecting a fund manager are a desire and commitment to be the best, penetrating analysis and the ability to effectively identify a competitive advantage. However, there is a large gap between expectation and reality — the majority of respondents say fund managers are falling short when it comes to demonstrating these desired characteristics. One possible explanation is that fund managers do not fully understand what investors want and expect from them. Alternatively, managers could be succeeding in these critical areas but struggling to demonstrate this to clients. These findings highlight a need for improved communication, dialogue and engagement between fund managers and professional buyer clients.

2

These top fund manager characteristics differ according to firm size. Professional buyers working at smaller firms place increased value on managers showing their determination to be the best. These firms perhaps lack the scale to employ multiple managers — and thereby reduce manager risk — so are therefore more reliant on their manager performing to the best of their ability. Meanwhile medium-sized organizations place most emphasis on in-depth analysis and larger houses say demonstrating commitment to clients is the most important characteristic when selecting a fund manager.

3

Ensuring a high level of transparency and targeting investors with an appetite for particular strategies are key to fund managers winning new business from professional buyers. Nearly nine in 10 respondents say a lack of transparency will see a fund being rejected, while eight in 10 will not consider a fund if the strategy is not of interest. This underlines the importance of fund managers understanding the needs and objectives of different investors so they can target potential clients with offerings which are relevant and appealing.

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Fund managers need to adopt a targeted approach to firms of a certain size. Professional buyers working at smaller firms are more likely to reject a fund due to complexity and fees — showing the need for managers to market more simple and cost-effective offerings to this group. These smaller investors are also more inclined to reject funds because they are too similar to other offerings. This indicates that investors are not satisfied with “me too” funds and crave a degree of innovation and product differentiation.

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A greater number of professional buyers working at medium-sized firms say they will overlook a fund if the strategy is not of interest. Asset managers looking to market funds to these firms should therefore undertake thorough research to gauge levels of interest with certain strategies before promoting them. Investment products need to be aligned with specific investor objectives and preferences.

Methodology: CoreData Research surveyed 100 professional fund buyers in the US in November and December 2020. Survey respondents were involved in the evaluation and selection of investments and investment managers for organizations including RIA firms, regional broker-dealers, national broker-dealers, banks or bank trusts, turnkey asset management providers and OCIO providers.

INTRODUCTION

The investment funds industry has been converging for a good number of years, following a sustained period of relatively benign markets. Pre-Covid 19, some managers struggled to attract institutional investors as they labored to differentiate their offerings.

The global pandemic may have turned the world order on its head but, arguably, the resulting market turmoil has given active funds the opportunity to stand out and see their investment process in action. Investment managers now have a chance to flex their investment instinct to locate sound investments in this volatile environment. A critical element in managers motivating interest in their strategy, and thus growing their assets, is the way professional buyers access these funds.

This report seeks to determine the key channels through which this group of investors identify the funds they are interested in buying. It also examines the factors which help them select or reject the vehicles and strategies on offer.

There is a tussle in the world of fund selection between hard and soft factors when assessing managers.

Larry Swedroe, Chief Research Officer at Buckingham Strategic Wealth¹ comments: “Despite the evidence demonstrating that manager performance-chasing is a loser’s game, the tradition continues, making this behavior one of the great anomalies in behavioral finance. Why do investors keep repeating the same behavior and expecting a different outcome? Einstein said that is the definition of insanity.”

Several academic studies show institutional investors often hire investment managers after they generate significant returns, then fire them when they perform more

poorly. However, evidence suggests the fired managers’ performance often goes on to improve, meaning the investors should have retained the manager in the first place.

Moving beyond past performance, investors are making increasing reference to soft factors when making fund buying decisions. In their book *The Trust Mandate*, authors Herman Brodie and Klaus Harnack outline this trend. According to them, the three most prominent soft factors investors should take into consideration are a consistent investment philosophy, clear decision-making process and capable investment professionals.

Although the pandemic has made evaluating these soft factors more of a challenge, professional buyers have, anecdotally, attested to their growing importance. If anything, the lack of face-to-face interaction has shown the investors just how crucial certain qualitative, subjective measures can be when choosing a manager.



¹ <https://www.evidenceinvestor.com/more-proof-that-consultants-cant-pick-winning-funds/>

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About Us

CoreData Research is a global specialist financial services research and strategy consultancy. CoreData Research understands the boundaries of research are limitless and with a thirst for new research capabilities and driven by client demand; the group has expanded over the past few years into the Americas, Africa, Asia, and Europe.

CoreData Group has operations in Australia, the United Kingdom, the United States of America, Spain, Malta, and the Philippines. The group's expansion means CoreData Research has the capabilities and expertise to conduct syndicated and bespoke research projects on six different continents, while still maintaining the high level of technical insight and professionalism our repeat clients demand.

With a primary focus on financial services CoreData Research provides clients with both bespoke and syndicated research services through a variety of data collection strategies and methodologies, along with consulting and research database hosting and outsourcing services.

CoreData Research provides both business-to-business and business to- consumer research, while the group's offering includes market intelligence, guidance on strategic positioning, methods for developing new business, advice on operational marketing and other consulting services.

The team is a complimentary blend of experienced financial services, research, marketing and media professionals, who together combine their years of industry experience with primary research to bring perspective to existing market conditions and evolving trends.

CoreData Research has developed a number of syndicated benchmark proprietary indexes across a broad range of business areas within the financial services industry.

- Experts in financial services research
- Deep understanding of industry issues and business trends
- In-house proprietary industry benchmark data
- Industry leading research methodologies
- Rolling benchmarks

The team understands the demand and service aspects of the financial services market. It is continuously in the market through a mixture of constant researching, polling and mystery shopping and provides in-depth research at low cost and rapid execution. The group builds a picture of a client's market from hard data which allows them to make efficient decisions which will have the biggest impact for the least spend.



Whitepaper compiled by CoreData

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