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17th Annual Conference

Blurred Lines: *The New Marketing Ecosystem*

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Times Square



How To Grow Your Edge With Institutional Investors



CHESTNUT
ADVISORY GROUP

Amanda Tepper

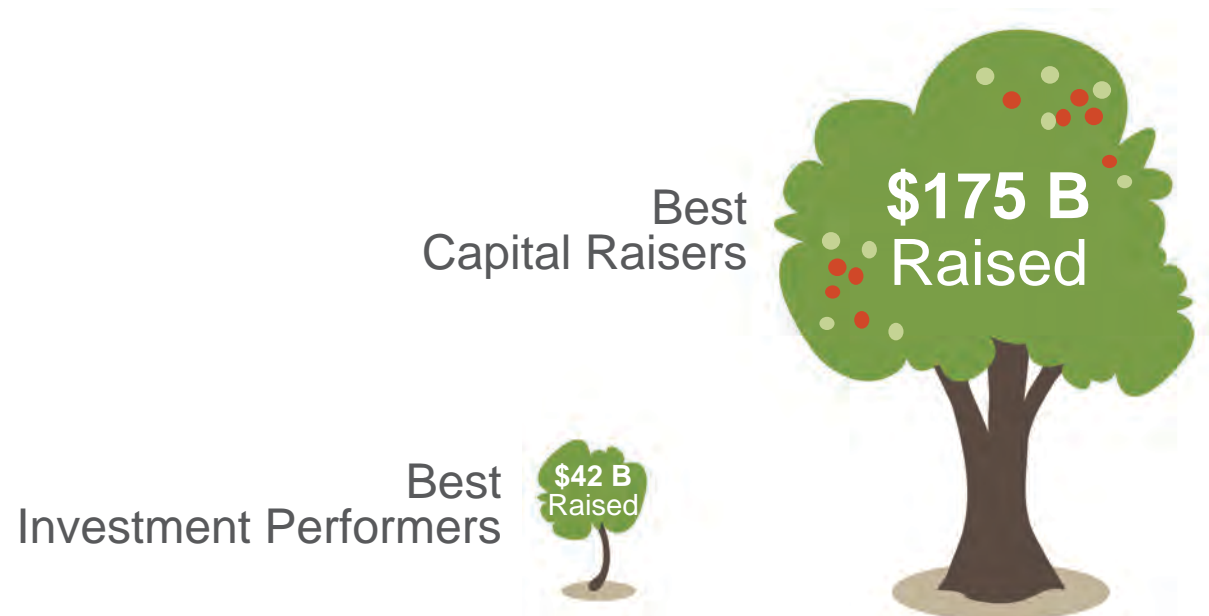
CEO

Chestnut Advisory Group

Performance + Relationships Alone Don't Work Anymore

The traditional approach to attracting investors – leveraging strong investment performance and legacy relationships – is no longer effective.

- The best performing asset managers do NOT raise the most capital. ¹
 - In fact, *the best capital raisers received over four times more capital* than the best investment performers. ¹



¹ CAG analysis of eVestment data 2006-2013

The ROI of Investor Education is Substantial

Our research shows that investors reward highly trusted asset managers lavishly.

Trusted asset managers:

- Raise over four times more capital than top investment performers
- Are hired 3–12 months more quickly than the typical asset manager
- Are retained 3–12 months longer
- Have clients that are easier to cross-sell new products to
- Have clients that are more likely to reinvest additional capital in existing products

4x
More Capital

Source: Chestnut Advisory Group proprietary survey of US institutional investors, 2014

Outstanding Investor Perception — The Difference Between Winning & Losing

The winners:

- The largest asset managers have invested the most in their IR efforts over the last decade,^{*1} and are now perceived as the most trusted by investors ^{*2}
- In the last decade the top 10 global asset managers' market share has increased from 35% to 50% ^{*1}
- Last year, the largest hedge funds received 65% of all net asset flows ^{*3}

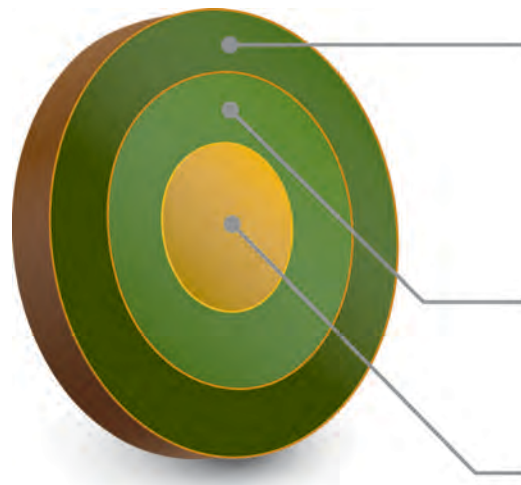


*1 Source: McKinsey; *2. Source: Chestnut Advisory Group proprietary survey of US institutional investors, 2014; *3 Source: HFR

The Golden Circle of Investor Education

- Assets flow only when **investors trust the asset manager**.
- Asset managers can only build that trust via **investor education**.
- Chestnut helps our clients tell their story in a way that **builds investor trust**, their brand and their business.

The Golden Circle of Asset Management Investor Education



Outer Ring – Understanding

The traditional relationship-based sale is no longer effective. Investors today need to understand exactly what their asset manager is doing with their money.

Middle Ring – Trust

Every contact between an asset manager and an investor either enhances or undermines trust.

Golden Circle – Long-Term Investors

Our research shows that trusted asset managers raise more assets, retain those assets longer and end up with loyal clients who are easier to upsell and cross-sell.*

Chestnut Advisory Group LLC proprietary investor survey



INSTITUTIONAL
INVESTORS'
EDGE

THE VALUE OF INVESTOR INSIGHT

WHAT YOU DON'T SEE ...

CAN SINK YOU

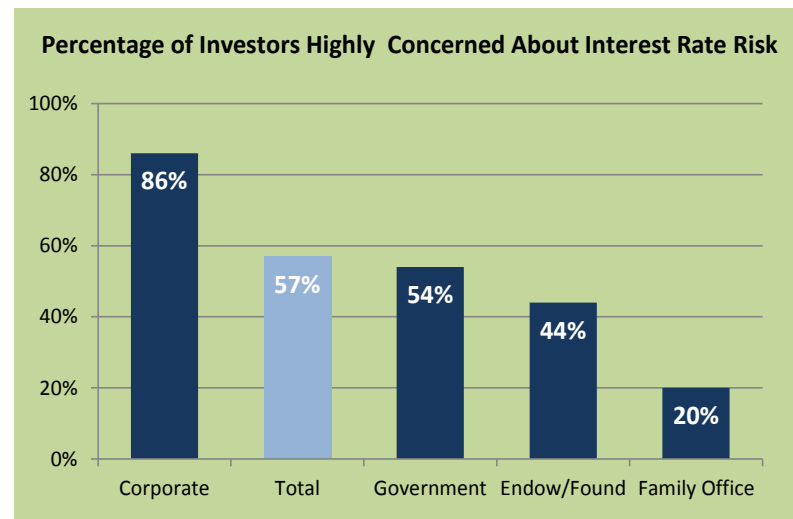
UNDERSTAND THE MOST PROMINENT ISSUES ON
YOUR INVESTORS' MINDS

July and Sept 2015
Research Results:
Excerpted Highlights

Overview of Third Quarter Research Topics

Investors Want Solutions, Not Products

- Plan managers' portfolio concerns vary widely.
- Targeted solution-based messaging is most impactful with investors.



Retirement Plans Not Yet Focused on Liquid Alts

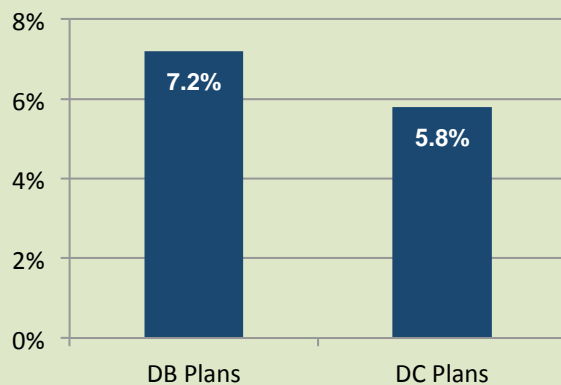
- Most investors feel they can more effectively attain the diversification benefits offered by liquid alts via traditional alternatives.
- Corporate DC plans see the potential benefits of liquid alternatives, but are not investing.

“The idea behind liquid alternatives is, to me, an oxymoron.”

- Corporate DB Plan Manager

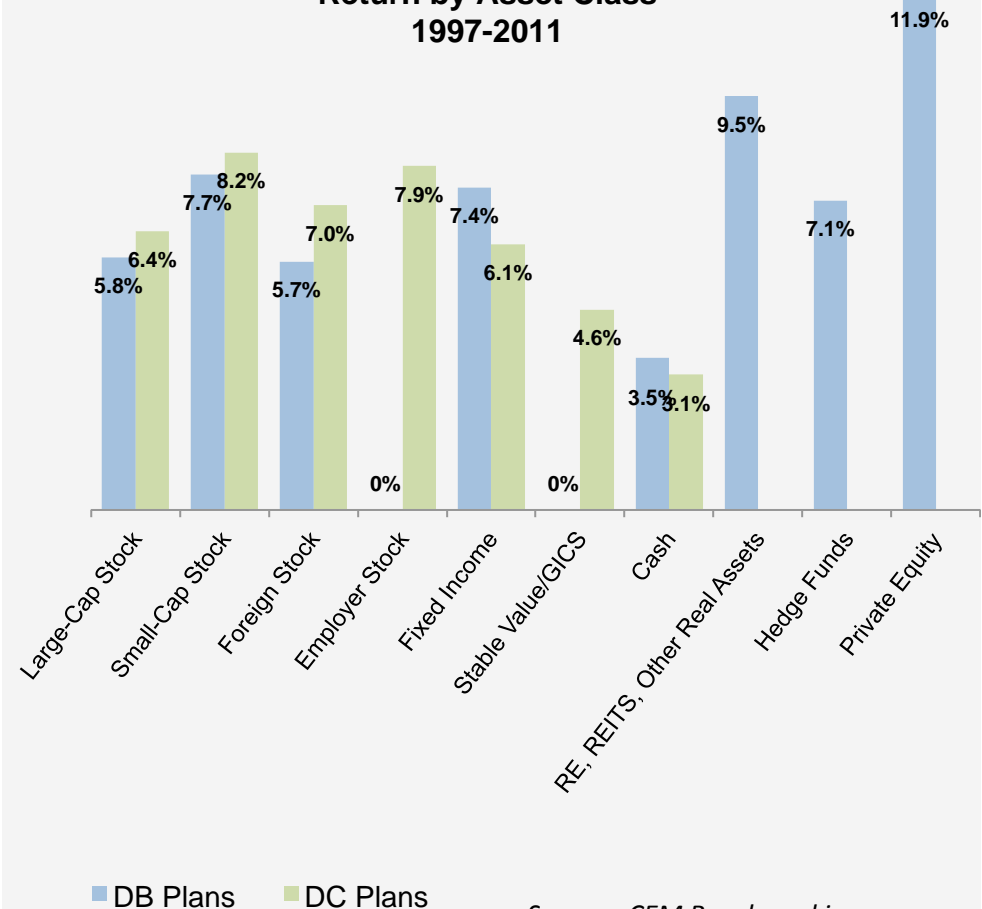
Offering Alternative Investments Ought To Be A Priority For DC Plans

**Total Return of DB & DC Plans
1997-2011**



Source: CEM Benchmarking

**DB and DC Plans
Return by Asset Class
1997-2011**



Source: CEM Benchmarking

Alternative Investments Not on Most DC Plans' Radar

- Over 80% of DC plans we spoke with do not allocate any assets to liquid alternatives.
- 100% of DC plans with no liquid alternative option have virtually no future plans to offer them to plan participants
- Only 6% of DC fiduciaries believe offering hedge funds or other alternatives, generally, is a major concern; Fully two-thirds of our respondents said it ranked 1 or 2 on a scale of 1 (lowest) to 6.

Investor Education is Key to Institutional Growth for Liquid Alternatives

"I don't know that you could persuade me to change [my view on using liquid alts], so somebody would have to help me understand why we need to add them."

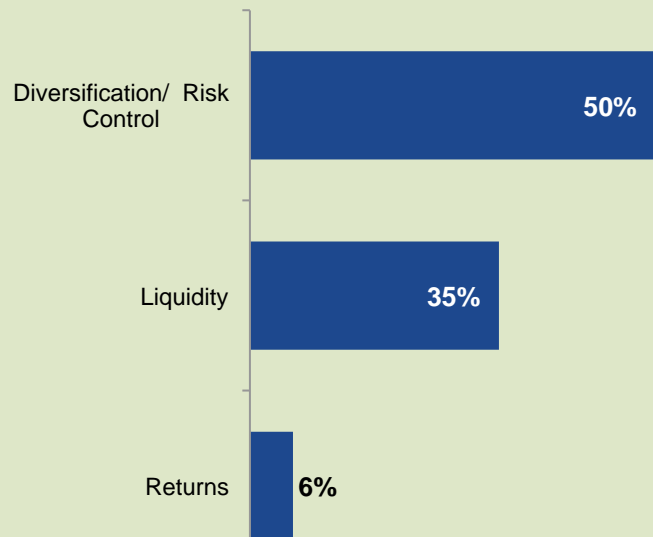
"Since I'm not extremely familiar with them, more information or education about them would be good."

"If we believed our participant base had sufficient communication, education, and expertise to choose them, we could consider them."

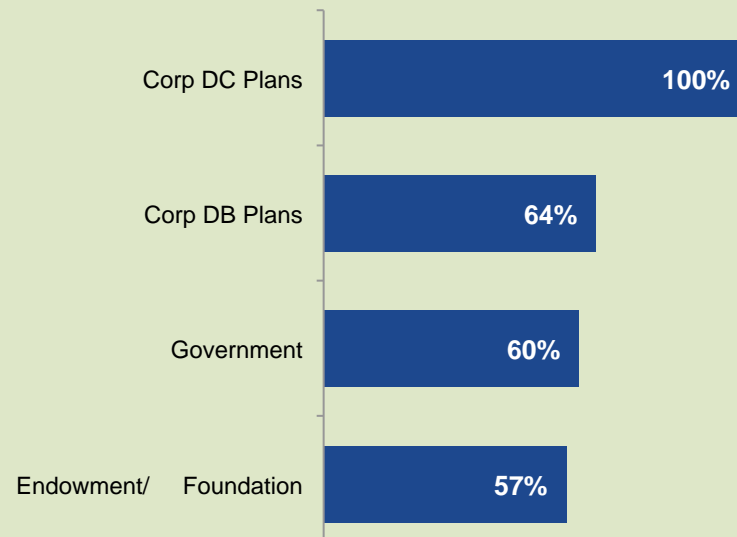
-Three Corporate DC Plan Managers

Mixed Perception of Liquid Alts Across Institutional Investors

What Are the Most Important Benefits Liquid Alts Would Provide?



Investors Who Have Virtually No Plans to Invest In Liquid Alternatives



DC Plans and Liquid Alternatives: Recommended Action Steps

1. When targeting DC plan assets, use your investor education efforts to position yourself as a best-in-class provider.
2. Create strong education materials specifically for the DC market.
3. Liquid Alt managers must educate institutional investors to penetrate that market.
4. Liquid Alt managers should focus on the family office segment.

Investors and Fees: Ignorance Is Not Bliss



- **Asset managers don't talk about fees – but they should.**
- Once hired, asset managers tend to go silent on fees. This silence leaves asset managers vulnerable to investor misunderstanding that can lead to termination.
 - We were surprised by the number of investors we interviewed who were unsure of the details about the fees they are paying their current managers.
 - Asset managers who fail to remind investors of their value are vulnerable: New York City Pension Plan study.
 - The headlines that ran when the study was published said that over the last decade, the city's funds had paid over \$2 billion in fees and had received 'nothing' in return.

“ On approximately what percentage of your total plan AUM do you pay performance fees?*

“Not sure.”

“That's a hard one.”

“I don't know the specifics on this.”

“I don't know – it might be in our annual report.”

”

*Respondents, in order: Corporate DB Sponsor, Endowment, Manager Government Sponsor, Government Sponsor.



Without Any Conversation, Value Perception Becomes Reality



- **Investors are ambivalent about the efficacy of the performance fees they pay.**
 - 69% of respondents believe managers who are receiving performance fees outperform those who don't.
 - Almost half of respondents believe their managers are taking excess risk to deliver performance that triggers those fees.
 - About half of respondents say a performance fee structure saves them money, while the other half say a base fee only approach is most cost efficient.
 - This presents a prime opportunity for the asset manager to explain how their particular pricing arrangement has served the client's best interest.



IIE's Recommended Action Steps on Fees

1. Have an annual discussion about your value proposition with every client.
2. Sharpen your pencil when looking for Corporate DC plan assets.
3. Hedge funds should prepare for continued downward price pressure.
4. Hedge funds should also prepare to disclose more about their value proposition.
 - Alignment of Interests Association, best fee practices for hedge fund managers

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