**BROADRIDGE DISTRIBUTION INSIGHT**

# From price to worth: Redefining value metrics for asset managers


Ready for Next

# INTRODUCTION

Clients' perceptions of value are evolving beyond a pure assessment of performance towards a more sophisticated, yet potentially subjective, concept of worth. How can asset managers build a compelling case for the unique value their services offer?

# CONTENTS



# IN THIS WHITEPAPER:

- Analysis of the challenges facing asset managers seeking to define their value offering
- Insights and solutions that can help managers meet and exceed clients' perceptions of value

## SUMMARY


The definition of value has evolved in recent years, moving away from a pure assessment of performance. A number of catalysts are driving this change, resulting in a modern client with a very different concept of value to their forebears. But while the wider landscape may have become more complex, the reality of the value proposition remains simple. Ultimately, clients will measure value by weighting how expensive asset managers are against the worth they perceive managers' services to have.

Simply comparing fees against competitors is unhelpful in determining whether services are expensive or not and the picture is further complicated where price promotion and sub-advisory management are in play. The use of performance metrics has prompted a rise in new pricing models, but the potential downsides of these fee models may have a negative impact on clients' perception of value.

Finding the right pricing model presents a fundamental challenge to asset managers who wish to demonstrate value against a background of shrinking margins. However, within the performance-based model, there are ways to demonstrate manager skill and safeguard the value offering that offset some of these potential downsides.

Along with the question of fees, the far more subjective issue of 'worth' is key to understanding clients' perception of value. Performance, while always important, is only one component of a firm's worth: other key factors include risk management, transparency, reporting, and information flow. The advent of ESG also creates an opportunity for asset managers to update traditional active management into a more compelling, added-value form of ownership.

Broadridge have developed a suite of products and services designed to help asset managers with pricing analytics and benchmarks, AoV reporting, and other qualitative measures of value and perception. Broadridge's Distribution Insight platform has been designed to enable asset managers to build their own unique value proposition.

The services Broadridge offers, including AoV assistance, benchmarking, competitor analysis, and market intelligence, can support asset managers in building their own unique value proposition, focusing on the factors that drive the value they offer to clients.


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# PART 1: WHERE DOES VALUE LIE?

The question of how much value asset managers offer clients is becoming even more important in an increasingly digital world, with performance metrics and automation on the rise. Clients asking this question will come to expect more detailed and nuanced answers.

The definition of value has evolved in recent years, moving away from a pure assessment of performance relative to the benchmark. A number of catalysts are driving this change:

- Fears around Covid-19 and inflation, combined with depressed yields globally
- The rise of passive funds, sub-advisory, model portfolios, and exchange-traded funds (ETFs) have changed the role of the asset manager
- The increased prevalence of products using environmental, social and governance (ESG), or socially responsible investing (SRI) criteria has reframed how investors define value, adding brand image and social capital to the value offering
- Technological advances, shifts in buyer behaviour, and regulatory changes have increased the onus on asset managers to provide better service

The effect of these changes is that today's clients have a very different concept of value than their forebears.

The definition of value will vary from one client to another, but ultimately it is a measurement of the degree to which an asset manager can help a client to achieve their organisational objectives.

These are likely to fall into one of three categories:

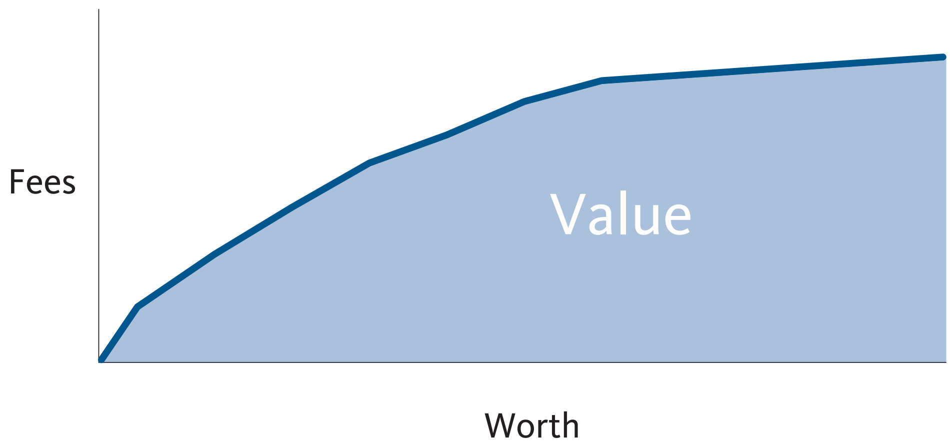
- Increasing performance or benefits
- Reducing business or operational risk
- Improving efficiency

Of course, any assessment based on these factors will have a heavy performance component, but management of cost and risk have always been potent secondary factors. Ultimately, your clients will measure your value by weighting how expensive you are against the worth they perceive your services as having.

The question of perception is key here. Moving beyond traditional, performance-based conceptions of value means the gold standard for calculating value is lost, and any measurements become subjective.

Viewed in this way, value has two axes. One is the relatively objective question of fees. The other is the far more subjective question of 'worth'. Worth will comprise a number of factors, including service, support, brand, innovation, performance, operational excellence, and product range. This assessment of worth is further complicated by the fact that past performance is not necessarily indicative of future performance, and that the idea of value in these situations may be aspirational.

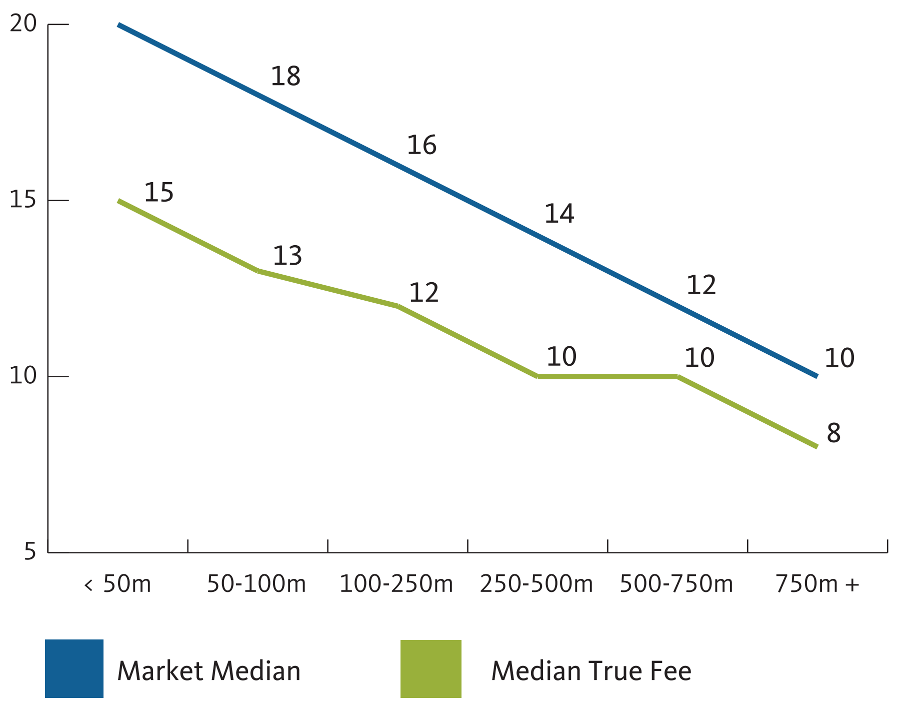
### Value is a measure of perceived worth against fees




## PART 2: IS YOUR PRICE RIGHT?

Assessing whether or not you are expensive may seem relatively straightforward: simply a case of measuring your fees against your competitors. But the full picture is more complex than this. There are a number of factors to consider, when deciding what to measure fees against: factors such as benchmarks, peer groups, and performance.

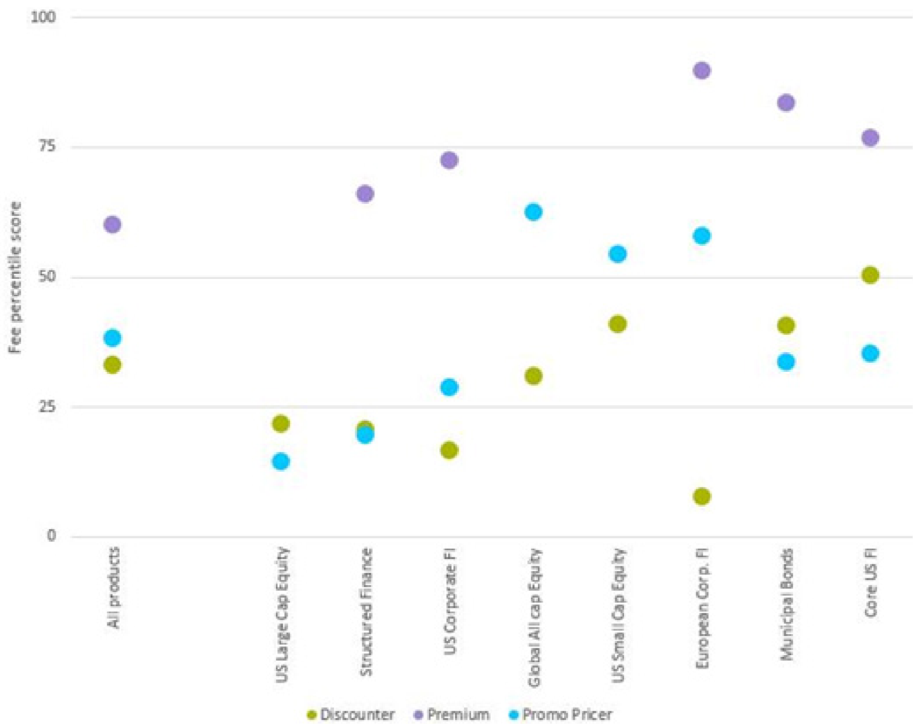
### Benchmarking: true fee median by mandate size (USD)




Source: US Core FI Fee Benchmarks – GMI Fees

So how do you know whether your fees are expensive or not? A good way to start is by examining the range of services you offer. Different services carry different fees, and what is considered expensive for one type of service may be quite reasonable for another. For example, asset managers specialising in passive funds will usually charge lower fees than those who manage their investments more actively. The greater onus placed on the asset manager specialising in active funds is another way of quantifying added value. Comparing the fees levied by managers primarily dealing with passive funds against those of managers specialising in active funds will be unhelpful in determining whether or not your services are expensive. Managers need a sound benchmark by which to measure their own fees.

## Comparison of asset manager pricing models




Source: S&P Indices vs Active (SPIVA) data

*"Providers need to be able to maintain an active management style that can not only add to the value of the assets under management but also ensure that the convictions of the fund manager are fully realised. In the end, this means being able to generate alpha, regardless of the market conditions. In all of this, what I want to see from fund houses are coherent investment processes and strategies, because as an investment manager myself I need to be sure at all times of what I am putting into a portfolio."*

BROADRIDGE FBF SURVEY RESPONDENT

### PROMO PRICING MAY MISLEAD

The market is also skewed by loss leaders. The use of promo pricing in known value offerings creates false expectations of the kind of fee levels the market can sustain.

For example, data from Broadridge Global Market Intelligence (GMI) shows that asset managers price some key products at substantial discounts or premiums. Here we examine a data set comprising pricing strategies from three leading asset managers, across a number of key product areas. We can see that three distinct pricing structures emerge from this, representing three very different kinds of competitive strategy:

- The premium manager — an asset manager who sets above market fees in these product areas

- The discounter — an asset manager who sets below market fees in these product areas
- The promo pricer — an asset manager who sets most of their prices at an industry average level, but significantly undercuts the market in several product areas

We can see from the proprietary GMI data that some products show relatively little disparity between pricing models, such as Large Cap U.S. equity funds. However, other areas, such as corporate finance products (both European and North American), show a much greater divergence in price between the premium manager, the discounter, and the promo pricer.

The rise of sub-advisory asset management also complicates the picture. Setting aside for a moment the question of whether or not sub-advisory provides value to the client, it can result in higher fees, as the client has to cover the services of both the asset manager and the sub-adviser, which could make the investment more expensive from a management expense ratio (MER) perspective. There is also the risk that association with sub-advised funds could lead clients to perceive the firm's broader offering (and brand) as expensive. Asset managers specialising in sub-advisory will have to work harder to prove value to make up for this.

## FINDING THE RIGHT PRICING MODEL

In recent years the very basis of asset management fees has shifted, in a direction that has widespread implications for how clients perceive value. The use of performance metrics is changing the way clients measure and evaluate success, prompting a rise in new pricing models that work to align fees with value delivered.

This has happened against a background of shrinking margins: a Casey Quirk study of global asset managers found that average operating margins had fallen from 34% in 2015 to 27% in 2019. In response, asset managers have been forced to innovate and experiment with new pricing models, and performance fees have become a popular option. But as the manager side of the equation changes, so does the client side.

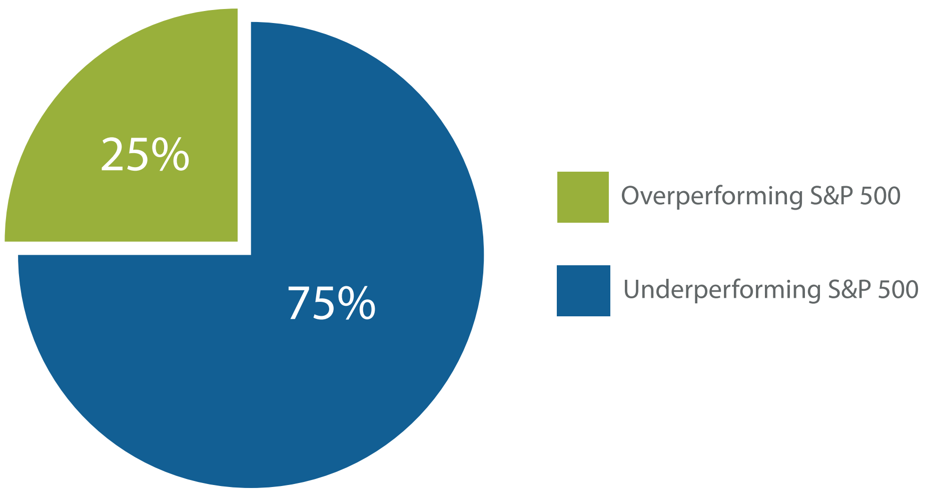
Performance fees bridge the gap between fixed fees and fluctuating returns and reimagine the model as a payment made to the asset manager for generating positive returns. These returns are most commonly calculated as a percentage of investment profits (both realised and unrealised). The appeal of the performance-based fee model is that it aligns the interests of asset managers and their clients.

Critics of these pricing models argue that their structure encourages risky investments, as they reward managers with a share of the profits without providing a comparable level of accountability for losses. This is because the model values active funds over passive; a state of affairs which incentivises asset managers to beat the benchmark, potentially at the expense of providing sustainable value for clients.

## SAFEGUARDING THE VALUE OFFERING

There is also a danger that performance fees can replicate other charges. Active funds already charge more than passive index funds because it is assumed that the more hands-on management style can help funds beat the benchmark. But these costs are already being covered by total expense ratios (TERs), which means that clients are being charged twice for overperformance. On top of this, most asset managers have a hard time beating index funds: according to recent S&P Indices vs Active (SPIVA) data, 75.27% of large-cap funds underperformed the S&P 500.

### Only one-quarter of actively-managed funds outperform the index




Source: Global Market Intelligence (GMI) data 2021

High-water marks can help clients avoid paying twice, as well as providing protection against paying bonuses for poor performance. Not all managers operating a performance-based fee model provide these benchmarks, but they can safeguard the value offering of the model while offsetting some of the potential downsides.

## A GOOD METRIC FOR MANAGER SKILL

Another pricing model with a growing presence in the market is fee as a percentage of alpha. By measuring a fund's performance against a relevant market index over an agreed period of time, fees as a percentage of alpha provide a more developed version of the performance fee-based pricing model, with an inbuilt benchmark to measure success.

But whether or not fees as a percentage of alpha are a good pricing model for clients depends on the value provided by the manager. If two managers provide the same alpha, but one does so with less risk, then that manager provides greater value because they have a higher information ratio. This is a good metric for manager skill: alpha as a risk adjusted measure.

# PART 3: DO YOU AND YOUR CLIENTS SEE EYE TO EYE?

Every year, Broadbridge Fund Buyer Focus Intelligence (FBFI) Intelligence interviews over 1,000 fund selectors to understand which asset managers rank highly for various aspects of service and product quality. This data provides benchmarking and competitor analysis based on real world perceptions of your firm and its competitors.

## Asset managers ranked by quality of website

| | |
|---|---|
| 1 | BlackRock |
| 2 | UBS |
| 3 | iShares |
| 4 | Pictet AM |
| 5 | Credit Suisse |
| 6 | JPMorgan AM |
| 7 | Vontobel AM |
| 8 | Swisscanto |
| 9 | Fidelity |
| 10 | Nordea |

Source: June 2021 FBFI Data Switzerland

*"For us, the distinguishing factor is not the product itself but the level of support that goes with it, whether it be via joint marketing activity or putting on events for our staff and so on. Above all, I am talking about sales support in the form of training for our distribution network. We also put a value on face-to-face provision of product information."*

FUND BUYER FOCUS SURVEY RESPONDENT

Service is one of the factors that clients rate most highly. Modern clients expect more from their asset managers than the simple delivery of a product. Everything else that an asset manager provides can be grouped together as service, including client contact, reporting, and useability of a platform.

### SMARTER CONTACT WITH CLIENTS

This emphasis on service reflects changing market demographics. In Europe, B2B channels continue to dominate, which benefits third-party managers who lack the resources to build a proprietary distribution network. But the rise of B2C channels will transform the market, with a greater emphasis on service and technology. The flow of information from the asset manager holds the key to great service.

A new generation of tech-savvy younger investors expect sophisticated robo-advisory services and AI-enabled solutions. Forward-thinking B2C platform providers are already moving away from browser-based platforms to offer smartphone and tablet access to retail account holders following the pattern prevalent in Asia.

B2C websites are starting to look a little outdated, as investors expect the same digital app experience they might get from popular retail trading platforms.

Developing these applications may prove to be a cost-effective way for asset managers to provide value to clients. Firms that adopt them will bear the burden of hefty development costs upfront, but will benefit from longer-term savings in hours worked. Interactions with smaller clients can be digitised, freeing asset managers to dedicate their time to more lucrative business.

## FULL DISCLOSURE ADDS VALUE

More conventional methods of communicating value are also ripe for an overhaul. The FCA's review of Assessments of Value (AoV) reporting found that many asset managers hold the incorrect assumption that existing fund charges already reflect shared economies of scale. Managers have placed a disproportionate focus on savings in admin charges, which they have championed as increased efficiencies. This is done at the expense of providing a proper breakdown of the costs of asset management and distribution that make up the more substantial portion of the client's expenditure.

In fact, the very rollout of AoV reports has not had the desired effect. The FCA's hope was that more personalised reporting would encourage firms to weave these assessments into the fabric of their culture. But instead, many firms have put out documents so complex that everyday investors would need to hire financial professionals to navigate them — a novel way of inflating an asset manager's value proposition.

This provides asset managers with an interesting opportunity. Any firm that publishes simple and digestible AoV information would have found a way to provide additional value to clients and distinguish itself from competitors. Although asset managers are measuring fund performance, many firms have not given adequate consideration to what a fund should deliver relative to its investment policy, strategy, and fees. Increased reporting and disclosure in this area would provide more value to clients.

## RISK MANAGEMENT MATTERS TOO

Recent benchmarking surveys show that, while clients do scrutinise performance, they consider many other factors to be just as important. In today's highly competitive market, with a wide range of influences on perceived success, asset managers must demonstrate value beyond performance in order to win and keep clients.

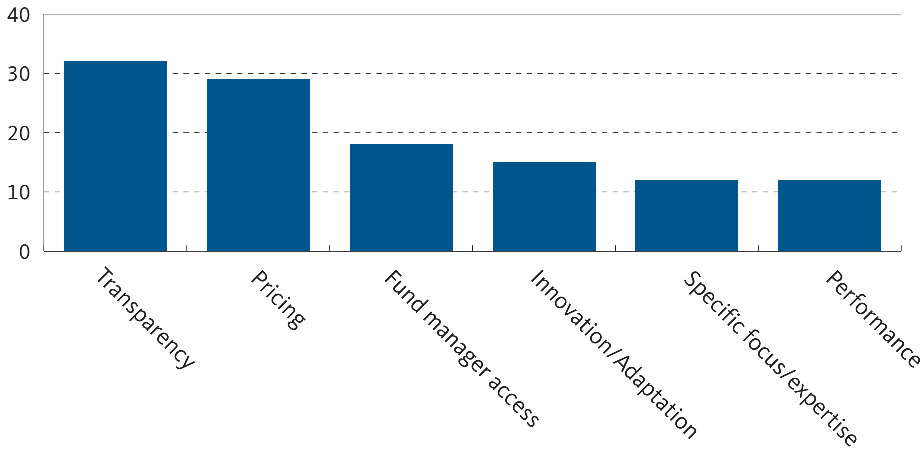
Of course, historical performance plays a prominent role in a client's perception of a firm: Recent benchmarking surveys have found that historical performance is an important factor when evaluating or choosing an asset manager. However, this does not necessarily mean that historical performance provides a sound basis for an assessment of value.

**Nearly two-thirds of fund selectors considered other factors to be more important than product quality when it comes to choosing an asset manager**

*"For us, the main criterion for selection of providers is the relationship between risk profile and performance. In addition, we take into account the provider's ability to generate a margin of performance over and above the market of reference or the relevant competitors. Finally, we are increasingly shunning providers with 'black box' – i.e. opaque – investment processes and hence, we need to be satisfied in all cases that the provider's investment process is clear and transparent."*

FBF SURVEY RESPONDENT

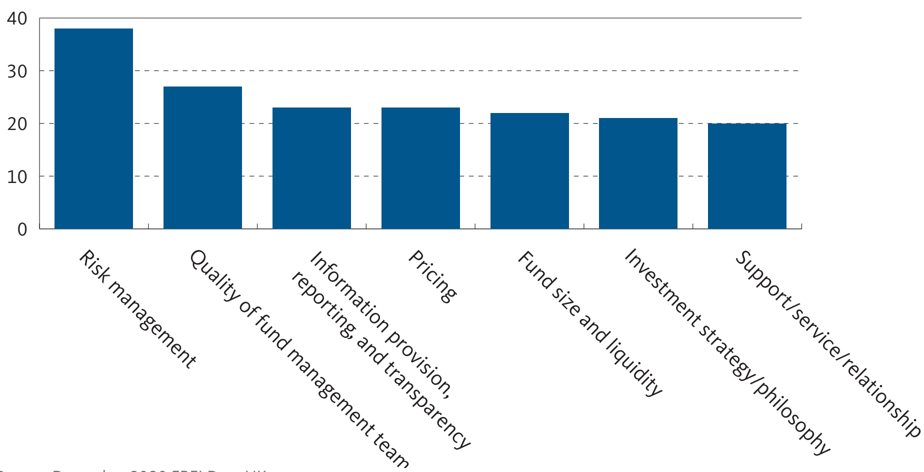
## Product quality improvement needs




Source: December 2020 FBFI Data UK

Broadridge FBF data indicates that performance was the most common reason asset managers were perceived as leaders in product quality, but it was cited by only 37% of respondents as important. Nearly two-thirds of clients considered other factors to be more important. When asked where they wanted to see improvement, fund selectors identified transparency, reporting, and information flow as more important factors than performance.

## Fund selector criteria




Source: December 2020 FBFI Data UK

Broadridge FBF Intelligence data surveying UK fund selectors found that performance actually ranked sixth when assessing the most important areas for product quality improvement, with just 12% of fund selectors citing it as critical. Comparatively, transparency ranked first, and was identified as a critical area of improvement by 32% of fund selectors.

Reference
1. Goyal, A and Wahal, S. (2008) 'The Selection and Termination of Investment Management Firms by Plan Sponsors', The Journal of Finance, 63(4), pp. 1805–1847.

The Journal of Finance published a study examining the selection and termination of over 3,000 asset management firms.[1] The study found that, in cases where a firm was fired due to underperformance and replaced, the positive returns achieved by the two firms were roughly commensurate within three years. It is therefore very difficult to argue that one firm provided greater value than the other, based on performance alone; other factors must be considered.

There is an understanding that many clients use asset managers to assess and monitor risk on their behalf. Broadridge FBF Intelligence data found that risk management was the number one factor cited as critical to fund selection, with 38% of respondents identifying it as a critical factor.

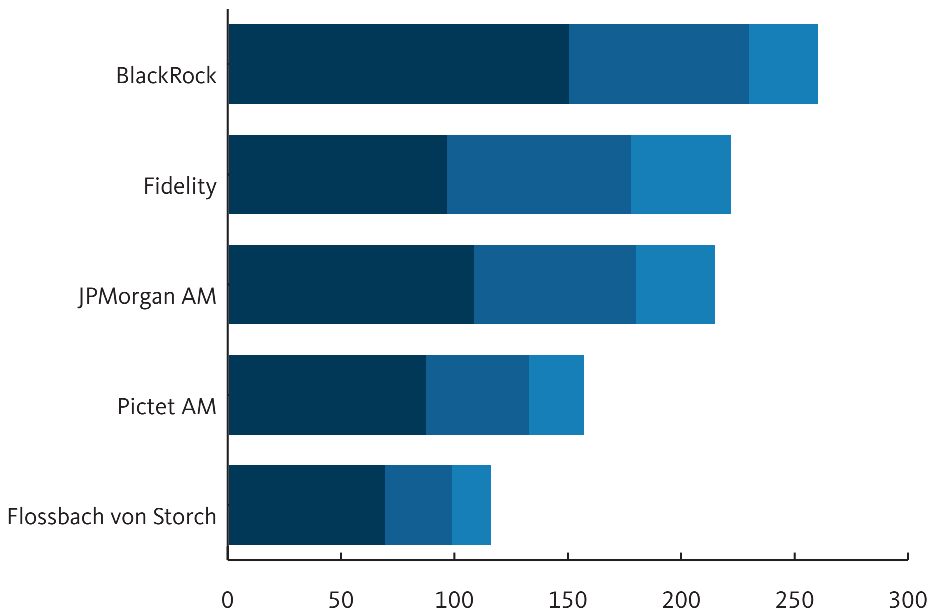
### DOES YOUR CLIENT FEEL UNDERSTOOD?

Broadridge FBF Intelligence compiles data from more than 1,000 fund selectors into a medal chart — a visual interpretation of the value that asset management firms provide to their clients.

*"Sustainable investing is currently focusing on growth and improving quality, but value has been left out of the equation. We ourselves have begun to work with several providers that we think need to improve ESG implementation. Improvements in this area will benefit everyone, including our own clients, from whom we are seeing significant demand for ESG investments."*

**FBF SURVEY RESPONDENT**

## Asset manager medal chart — understanding clients




Source: June 2021 FBFI Data Europe

'Understanding clients' is one of the key metrics assessed. It is clear that some of the big firms rank highly, which is to be expected when they account for a high volume of business in the industry. The success of these firms can be attributed to a number of different factors:

- BlackRock's supermarket-style offering enables them to offer a wide range of products. The more products you offer, the more likely it is that a client will find something suitable, making them more likely to find value in your service

- J.P. Morgan Asset Management won the Sales Services Award at the Broadridge Distribution Achievement Awards 2021 for their ability to adapt to the modern investor's increasingly wide definition of value. They won plaudits for their deep technical expertise, responsiveness, and clear understanding of individual and clients' needs

- Fidelity have pioneered digital solutions, a service that the growing number of millennial investors value highly. Firms that cannot match this offering will see a decline in the number of clients that feel understood by their provider

- The fortunes of Pictet and Flossbach von Storch in this category reflect the nature of their offerings in thematic, ESG, and SRI funds. As clients place more value in these areas, managers specialising in these products are well-placed to benefit

The key to each of these firms' success is that they have clearly defined their value proposition. Trying to compare the value of BlackRock and Flossbach von Storch's asset management would be futile. They have different clients with different needs and take different approaches to ensure that their clients feel understood.

It is worth noting that this data is taken from Europe as a whole. When we narrow our focus to asset managers in a specific country, the medal chart begins to look very different.

## Asset manager ranking — understanding clients — France

| | |
|---|---|
| Natixis IM | 1 |
| Pictet AM | 2 |
| Fidelity | 3 |
| Amundi | 4 |
| Lazard AM | 5 |

Source: June 2021 FBFI Data France

This underlines the fact that different markets present different opportunities to demonstrate value. While smaller firms may struggle to compete with the big beasts when it comes to regional or global markets, local expertise can prove a selling point on a smaller scale.

### OPPORTUNITIES IN ESG

The advent of ESG creates a unique opportunity for asset management firms to redefine their value propositions and update traditional active management into a more compelling form of ownership. Until recently, most firms were conservative shareholders with relatively passive approaches to proxy voting and engagement. A more forceful engagement strategy can improve shareholder returns and support a stronger brand image as a force for good.

Many aspects of ESG investing lend themselves to active approaches, such as:

- Managing non-transparent risks

- Being able to reduce or eliminate holdings

- Identifying forward-looking opportunities with limited current and historical data

Active strategies also align closely with clients' increasing focus on achieving outcomes via intentional impact investments and sustainability-themed solutions. Delivering such outcomes, along with measuring and communicating impact, requires more effort from asset managers but serves as an important differentiator between leading firms.

# PART 4: BUILDING A UNIQUE VALUE PROPOSITION

Although understanding clients is important, it is only the starting point for building a service proposition that focuses on what your clients want. By understanding your position amongst key competitors and monitoring it over an extended period of time, you can grow a specific service element that matters to your core clients. This will provide a strategy to build your value proposition around, as you identify the factors that drive the value you offer to your clients.

## BENCHMARK YOUR VALUE

Researching firms that offer the best value to clients, to see what innovations are allowing them to excel, is key to building your own value proposition. But managers must define benchmarks and peer groups in a realistic and relevant way in order to avoid 'apples and oranges' comparisons; it will be very difficult for a small asset manager to prove value if they are comparing their offering to one of the giants of the sector. At Broadridge, we provide the critical infrastructure that powers investing, corporate governance, and communication to enable better financial lives. As a global Fintech leader, with USD5 billion in revenues, we deliver technology-driven solutions that drive business transformation for our clients and help them get ahead of today's challenges to capitalise on what's next.

Our representatives and specialists are ready with the solutions you need to advance your business.

### FUND BUYER FOCUS (FBF) – MEASURING CLIENTS' PERCEPTION

Broadridge Fund Buyer Focus (FBF) Intelligence operates an independent competitor research platform that surveys the views of over 1,000 of the most influential third-party fund selectors across Europe and APAC. FBF data provides personalised benchmarking and competitor analysis across six KPI fields:

- Brand management
- Product quality
- Marketing & communications
- Provider selection
- Sales & account management
- Asset allocation

FBF's market-leading survey data enables managers to measure how different elements of value are perceived against that of those competitors.

### Global Market Intelligence – See the bigger picture

Broadridge Global Market Intelligence (GMI) is an integrated analytics solution which delivers market, distribution, competition, and pricing intelligence across retail and institutional channels globally.

The GMI Fee Module tracks negotiated fees of over 80,000 agreements globally, providing members with an essential tool for benchmarking their businesses and establishing effective pricing.

GMI can help managers to:

- Identify new markets and opportunities
- Analyse trends
- Understand market, channel, and product landscapes
- Operate more efficiently and make better strategic decisions

### AOV REPORTING – ASSESSING AND QUANTIFYING VALUE

No asset manager can excel in every aspect of value. Instead, firms must build and manage KPIs around the elements core to their value proposition.

The AoV framework is one way managers can report on the value delivered by their funds. Broadridge partners with firms looking to establish an AoV process, providing assistance in navigating the FCA's requirements and developing efficient oversight through data collection, analysis, and reporting.

# Are you Ready for Next?

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Please contact insights@broadridge.com
to inquire about pricing and access to any of our insights and analytics products.

Broadridge, a global Fintech leader with over $5 billion in revenues, provides the critical infrastructure that powers investing, corporate governance and communications to enable better financial lives. We deliver technology-driven solutions that drive business transformation for our clients and help them get ahead of today's challenges to capitalize on what's next.

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