From constraint to catalyst: COVID-19, technology and the emergence of "smart relationships"

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Executive summary

- The COVID-19 crisis was initially seen as a constraint on relationships between asset mangers and institutional investors. However, the increased focus on technology that the crisis has driven may ultimately prove to be a catalyst for positive change.
- Personal relationships will always underpin the trust between managers and clients, but the remarkable events of 2020, coupled with new digital client relationship and portfolio analytics tools, have served to show that the overall process can be significantly enhanced.
- The traditional approach to building relationships, based around in-person meetings, is in many ways inefficient and outdated. Some aspects have not altered substantively for several decades.
- By intelligently leveraging technology amid the "new normal" of virtual meetings, managers can enhance client-centricity and empower institutions through the development of "smart relationships".
- Unlike their conventional predecessors, these state-of-the-art interactions allow pressing client issues to be addressed seamlessly and in real time – and bespoke solutions to be delivered "on the fly".
- Smart relationships should increase the transparency, frequency and scope of interactions between managers and institutions, as well as generating sizeable time and expense savings for both. The ultimate goal is to deliver non-investment alpha by providing clients with an integrated, seamless, holistic experience that will make their lives easier.

"These unprecedented circumstances are catalyzing a digital fast-forward towards the behavioral changes and technological innovation necessary to make 'smart relationships' a reality."

2. Introduction

According to research by financial services consultancy Cerulli, 95% of asset managers found face-to-face meetings "very effective" in engaging with institutional investors in 2019. Little could any of them have known during these encounters that within a few months, thanks to COVID-19, such interactions would be impossible.

The pandemic has essentially shut down business travel, plunging organizations of all kinds into an urgent rethink of how they build and maintain relationships. The resultant switch to virtual meetings has been widely viewed as constraining: Cerulli has recently reported that more than two thirds of asset managers – 67% – find the absence of in-person contact "challenging".

As the saying goes, however, a crisis is a terrible thing to waste. We are now realizing that these unprecedented circumstances are catalyzing a digital fast-forward towards the behavioral changes and technological innovation necessary to make "smart relationships" a reality.

Such relationships aim to generate non-investment alpha by leveraging state-of-the-art tools that elevate video conferencing and other virtual meetings to a new level of client-centricity. These tools place at managers' fingertips the analytic and diagnostic firepower required to address institutions' needs, devise holistic solutions and share relevant insights in real time.

This is far removed even from many successful face-to-face dialogues, which might still be at the mercy of unanticipated developments that bring progress to a comparative halt. Yet it could be only the start: as digital integration between managers and clients intensifies, the transparency, accessibility, frequency and scope of interactions should improve yet further – bringing multiple benefits for all parties.

It is true that personal relationships will always form the bedrock of trust between managers and institutions. Many on both sides it will rightly welcome the resumption of in-person engagement once again becomes feasible. As we explain in this paper, though, none of this means that the process as a whole cannot be significantly enhanced.

3. The limits of convention

3.1. A gold standard lacking lustre

Invesco can trace its roots to 1935. The scale of our business has grown dramatically since then, with globalization proving especially transformative in shaping how we operate.

It is now possible, for instance, for an institutional investor in Japan to be extremely well served by a portfolio team in the US. Moreover, until the advent of COVID-19, an Atlanta-based manager could easily fly to Tokyo for a client meeting.

Such an authentic "face-to-face" in many ways remains the gold standard of manager-client interaction. After all, nothing can match the undeniably human dynamic of getting together in person.

Yet the format and content of such an engagement – whether conducted by Invesco or any other asset manager – is unlikely to have altered greatly for several decades. Importantly, neither is much of the client experience. So let us briefly consider where this gold standard might lack lustre, taking as an example an exploratory conference between an asset manager's representative and an institutional investor's CIO.

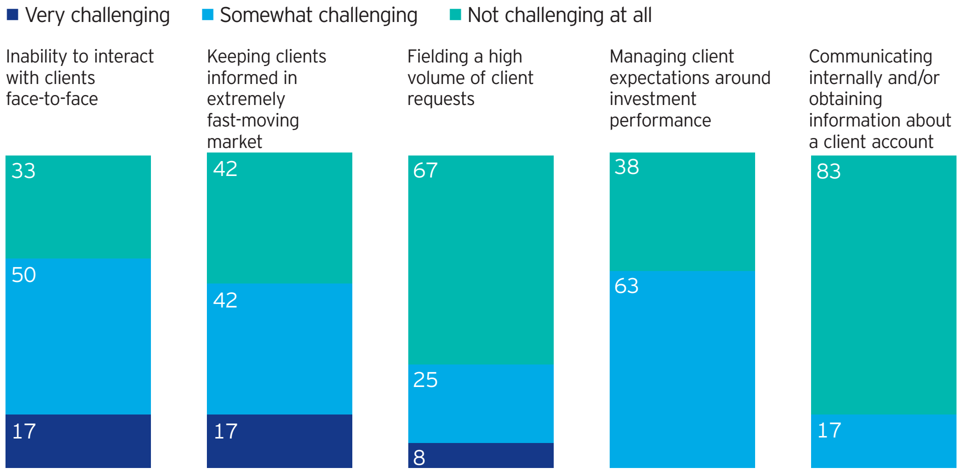
The date of the meeting probably falls four to six weeks after an initial conversation. The representative does the necessary groundwork during this period. A pitch book – in hard-copy rather than electronic form – is assembled, and a portfolio manager might be asked to attend as well. Although the appointment itself could last only an hour, preparation and travel entail notable time and expense. Crucially, the agenda is set – notwithstanding that much could change in the meantime.

For the client, too, there is the same risk that events in the interim could render much of the planned discussion redundant. In addition, arranging a subsequent meeting to deal with new issues is likely to take several more weeks – and so the process goes on. At least in some respects, this model is clearly inefficient and outdated.

The challenges of a face-to-faceless world

According to a survey by financial services consultancy Cerulli, issues around communicating with institutional investors are among the biggest challenges confronting asset managers during the COVID-19 crisis. The absence of face-to-face meetings is viewed as the most significant challenge of all.

"An authentic 'face-to-face' in many ways remains the gold standard of manager-client engagement. But this gold standard might lack lustre."



Source: Cerulli Associates: Communications with Institutional Clients in a New, Virtual World, 2020

3.2. What do clients actually want?

Acknowledging the shortcomings identified in the previous section, it is worth reflecting on what institutional investors expect from asset managers. This has also not altered greatly for many years. To quote recent research by Chestnut Advisory Group: "What investors want most from managers is understanding. The pandemic has not changed this."

To put it another way: as well as prizing an ability to protect and grow wealth, clients look for relationships that are broad-based, sincere, resilient and reciprocal and which unquestionably add value. They want to know that managers are there for them and that it is always possible to enter into some kind of meaningful dialogue about what is done on their behalf and why.

Invesco has gathered a wealth of feedback underlining exactly what clients want from these interactions. They want a "flawless, seamless onboarding process". They want a service that is "flexible and easy to load into our risk system". They want back-office skills that "match the output of the client reporting to the needs of the client input". They want their own "lack of time, resources and budget" to be taken into account. They want "consistent reporting and dissemination of information". Increasingly appreciative of technology's role in facilitating transparency and accessibility, they want client portals and the ability to see "all asset performance in one dashboard".

Moreover, as Chestnut's study concludes: "[Investors] still favor managers telling a strong, on-point and understandable story. [They] want to hear why your results are what they are and why your portfolio is positioned the way it is."

By their very nature, many in-person engagements might not satisfy these wishes. It is particularly unlikely, given that agendas are often set so far in advance, that they will adequately anticipate clients' needs at the time of a meeting – less still tackle them as they arise.

This is why it is vital to recognize the enormous potential of virtual meetings. They should not be regarded merely as superficial stopgaps or second-best "new normals". Instead, they should be seen as a powerful means of augmenting client-centricity – both now and in the future.

Communication is everything
A recent survey of consultants and outsourced chief investment officers (OCIOs) by Chestnut Advisory Group suggests that insight into portfolio performance is the most important support that an asset manager can provide to a client – whether existing or prospective.

	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%

Source: Chestnut Advisory Group: The Post-COVID World: Consultant and OCIO Views, 2020

"Clients want to know that managers are there for them and that it is always possible to enter into some kind of meaningful dialogue about what is done on their behalf and why."

"Smart relationships involve using proprietary client knowledge and analytic/diagnostic tools to not just respond to but even anticipate institutional investors' issues."

4. Towards smart relationships

4.1. Greater client-centricity through innovation

Many asset managers and institutional investors already accept that virtual meetings can work well. Clients are staying informed. Conversations are occurring more frequently. Content is growing in relevance, making interactions more productive. Hard-copy presentations and set-in-stone topics are becoming necessarily passé. A new gold standard is emerging.

Some managers are now using technology to address clients' demands in real time. For instance, those with online access to their firms' resources can share thought leadership or other material around a pressing issue at the push of a button.

Better still, other managers are already building what might justifiably be described as smart relationships. This involves using proprietary client knowledge and analytic/diagnostic tools to not just respond to but even anticipate institutional investors' issues, delivering pertinent insights and data as soon as or perhaps before they are requested.

By way of illustration, imagine that a manager proactively contacted a number of clients in early March 2020, offering to discuss prospective liquidity concerns and possible portfolio mitigants in light of the equity market collapse. The manager will have prioritized this outreach on a client-by-client basis, starting with those institutions facing large payout needs and/or high portfolio weights in illiquid asset classes.

Held using a secure digital conferencing tool, each ensuing "smart meeting" should be easily able to adapt to any point a client might raise. Equipped with an innovative decision support system, the manager should be in a position to deliver portfolio insights on a real-time basis, examining, devising, proposing and sharing bespoke solutions as a conversation progresses.

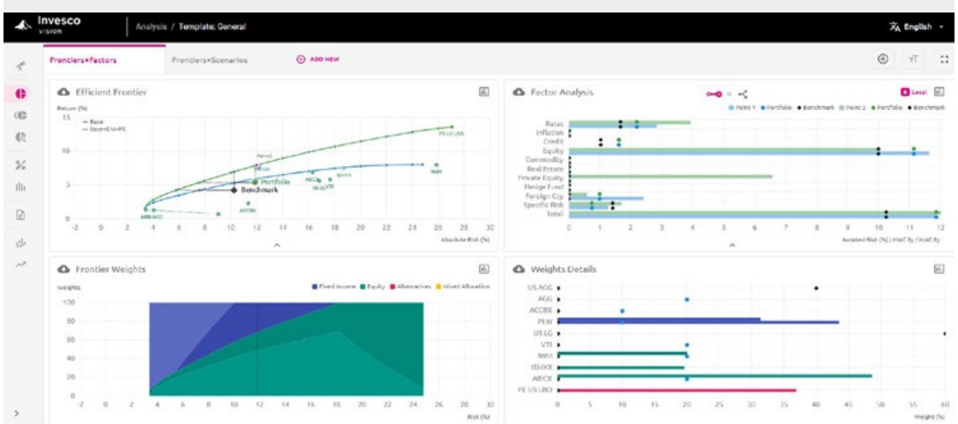
If a client wished to sell a specific asset class, for example, a manager could access an in-house portfolio-modelling program, investigate different scenarios and screen-share all the findings; an expert might also be invited to join the meeting. The client would thereby receive an "on the fly", comprehensive analysis of how its intentions could affect a portfolio's overall structure, risk levels and liquidity. Alternative ideas could also be tested, and all the appropriate information could be crystallized in a report very shortly afterwards. Such an approach constitutes a radical shift from the conventional in-person meeting, where unforeseen twists and turns may leave little choice but to reschedule and recommence.

Encapsulating smart relationships: Invesco Vision

One innovation clearly geared towards smart relationships is Invesco Vision, a Cloud-Based Portfolio Research and Analytics Platform that combines analytic and diagnostic capabilities to frame the risks and trade-offs around assets and portfolios. Using Vision in virtual meetings allows Invesco Investment Solutions strategists to have immediately at hand a tool that can assist the search for ideally aligned solutions in real time during the course of client interactions (see sample screenshot below).

Vision was developed in recognition of the fact that much of the information that investors require to better understand how their assets are managed has historically not been readily available to them. In tandem, it acknowledges the growing need for asset managers and clients alike to become "expert generalists", which is to say that they should have an appreciation of a diverse array of topics beyond the domain of traditional finance – including technology, advanced quantitative methods, geopolitics and regulations.

Vision aims to improve investors' decision-making by marrying the strengths of machine efficiency and transparency with the qualities of human judgment and collaboration. We believe that it represents a powerful encapsulation of what smart relationships should deliver.



Source: Invesco; for illustrative purposes only. The analysis output and insights shown here from Invesco Vision do not take into account any individual investor's investment objectives, financial situation or particular needs. The insights are not intended as recommendations to invest in a specific asset class or strategy, or as a promise of future performance. For additional information on our methodology, please refer to the comprehensive white paper, Invesco Vision: Portfolio Management Decision Support System.

"A manager should ensure that a client is just a few clicks away from accessing all suitable resources and expertise at any time. An institutional investor would thus be truly empowered."

4.2. Promoting full empowerment

As outlined in the preceding section, smart relationships can effectively give institutional investors full and interactive access to an asset manager's capabilities. Over time, as digital integration between managers and clients deepens, this facility could become available beyond the confines of virtual meetings – reshaping the client experience as a whole.

For this to happen, a manager must create a platform that provides a genuinely holistic view of a manager-client relationship. In essence, it should ensure that a client is just a few clicks away from accessing all suitable resources and expertise in one place at any time. Key elements of such a platform might include portfolio data and analytics for each product that a client holds; notes from – or even videos of – recent discussions and/or meetings; and all relevant insights, including research into keys areas of client concern (such as market and investment dynamics, liquidity needs, liability issues, global risks and disruptions, longer-term demographics, regulatory requirements around pension funding, foundation spending or capital requirements etc).

This would make a smart relationship all-encompassing and 24/7, conceivably transforming manager-client relations in every way. Performance reporting, communications, thought leadership, advice, financial planning, account opening, portfolio management, analytics, marketing, manufacturing, distribution – all could become constantly available and customized for a client. An institutional investor would thus be truly empowered.

Remember, too, that smart relationships should save money for managers and clients alike. With extensive travel no longer essential, managers will be able to reduce spending on what has always been one of their highest marketing expenses – leading to cost efficiencies that can be passed on to clients through reduced fees.

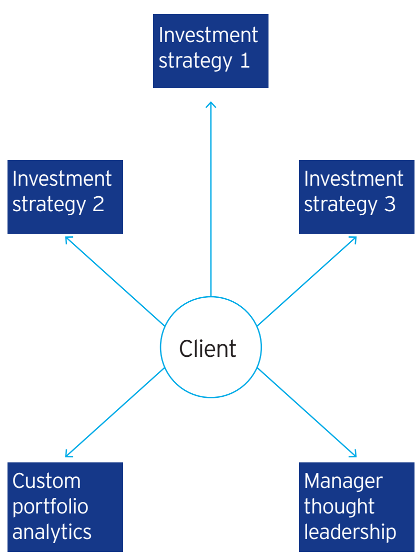
Better use of time should be another beneficial corollary. The hours, days and even weeks that managers once devoted to jetting to and from in-person meetings might usefully be spent developing and implementing novel investment acumen and improved client support.

Moreover, institutional investors may feel able to moderate their own travel to conferences and other onsite engagements. This would allow them to reallocate time to the optimal management of their portfolios, as made possible by the tools that smart relationships put at their fingertips.

From conventional to smart

The left-hand illustration below summarizes how manager-client relationships have traditionally played out. There is dialogue, of course, but the process is in many ways regimented and reactive. By contrast, the right-hand illustration summarizes smart relationships, which are altogether more continuous and collaborative.

Conventional manager/client communication



Smart relationship client communication

Source: Invesco; for illustrative purposes only

"This nascent, crisis-driven revolution's capacity to deliver non-investment alpha is simply too significant to ignore or resist. The opportunity to do something differently – and, indeed, better– should never be overlooked."

Conclusion

The COVID-19 pandemic has accelerated the adoption of a new means for asset managers and institutional investors to build relationships. While time and cost savings are among the obvious benefits, the most important consequence of what we have termed "smart relationships" is that the interactions between managers and clients will place the latter's needs at their heart like never before.

Naturally, the necessary intelligent leveraging of technology will present technical challenges. Major investment in digital infrastructure will obviously be imperative. Managers will have to tie together all their systems in a way that makes accurate and timely information available to and navigable by employees and clients alike; crucially, it will also fall to them to make such systems compatible with those of clients – not vice versa. Some would-be obstacles, including WiFi limitations and cellular reliability, may even be beyond managers' control.

Yet these are hurdles that should be surmounted with relative ease. Smart relationships are likely to recoup the cost of innovation and adaptation over the longer term, while the upgrading of global communications networks – including the advent of 5G – should increasingly help facilitate virtual interaction over time.

There will also be organizational challenges for managers. They will have to learn how to work to best effect with clients that are more empowered and knowledgeable than ever. Embedding institutional investors ever deeper into day-to-day operations will not only transform the role of those who oversee relationships: it will demand a considerable change in mindset from many other teams – from sales staff to portfolio managers, from researchers to marketers, from analysts to commentators – all of which should expect more direct contact with clients. If a smart relationship is to be fully implemented then everyone will need to function on a more fluid basis, leaving behind the regimented and reactive approaches of the past and embracing the continuous and collaborative approaches of the future. Meanwhile, clients will have to confront a substantial cultural shift of their own, operating in an environment where a holistic view of how their assets are managed is constantly accessible.

We believe that the positive impacts likely to stem from smart relationships are so wide-ranging and profound that these potential difficulties, too, will be overcome. This nascent, crisis-driven revolution's capacity to deliver non-investment alpha is simply too significant to ignore or resist.

We stress again that the trust that should exist between asset managers and institutional investors will very likely always remain rooted in personal relationships. We also acknowledge that there will invariably be much to be said for the long-established value of face-to-face meetings, whose resumption will rightly be welcomed by all. But the history of innovation tells us that the opportunity to do something differently – and, indeed, better – should never be overlooked.

Authors

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Martin Franc has served as Chief Executive Officer (CEO) of Invesco Australia since October 2017. As CEO, he is responsible for building Invesco Australia's business, which currently includes a premium institutional client base and a strong suite of domestic and offshore investment strategies.

Mr. Franc brings to Invesco a strong track record of success in funds management sales and marketing with more than 25 years' investment and financial experience. Most recently he was Head of Distribution, Sales and Marketing at BT Investment Management, where he oversaw strong growth in net sales throughout the global financial crisis. Before that, Mr. Franc was Senior Vice President, Institutional Sales at Putnam Investments, where he presided over strong growth in its institutional book of business. Mr. Franc has held other senior roles in marketing, business development and investment business management.

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