

The Perception Gap: Investors and Managers



By Kurt N. Schacht, JD, CFA

Strong investment returns used to be all that mattered if you were an investment manager. Boy, have things changed.

Don't get us wrong. Returns still matter a lot, but they are no longer enough to earn investors' trust and loyalty. And the minute your performance turns, investors will drop you like a hot rock if you have not earned their trust on a range of other issues that matter more than ever.

If you are an investment manager, what should worry you most of all is the huge gap between what investors say they want and what the investment management industry is delivering, according to a new study, *From Trust to Loyalty: A Global Survey of What Investors Want*, by CFA Institute and Edelman Berland. We asked investors about 26 different factors and how much each mattered when picking and keeping an investment manager. For example, the study asked about the transparency managers have around their fees—how much investors are paying and what they are paying for. That transparency ranks above investment returns in terms of importance to investors, just one of the key findings from the study.

What is particularly troubling—and should serve as a wakeup call to the investment profession—is that, of the top seven things most important to investors overall, the industry performs miserably in terms of explanation and execution. Many of you may say, “That can't possibly be my firm.” However, self-awareness is not generally the strong suit of the investment management business.

For instance, clearly explaining all fees and costs before they are charged to a client is the number one most important thing you can do according to the several thousand survey respondents. When asked how well the industry is delivering on this element, more than half responded negatively, a 30% gap between importance and execution. And that is just one area we measured. Of the other six factors most important to investors, the gap between importance and delivery was also at or near 30%. Things like charging fees that reflect the value a customer gets from the relationship. Things like forthrightly disclosing and managing conflicts of interests.

We as a profession have a convenient way of dismissing things like this as inevitable. We just chalk it up to the same old Wall Street vs Main

Survey: How important are the following attributes when it comes to working with an investment firm?

RETAIL INVESTORS

- Fully discloses fees and other costs (80% - Top Answer)
- Clearly explains all fees and costs before they are charged (79%)
- Is forthright about disclosing and managing conflicts of interest (72%)

INSTITUTIONAL INVESTORS

- Acts in an ethical manner in all our interactions (72% - Top Answer)
- Fully discloses fees and other costs (72%)
- Has adopted a recognized code of conduct for the industry (68%)

Street distrust, that perpetual suspicion of money people. At some level, however, we know there are serious fault lines in our profession. If we fail to recognize them and work to try and resolve our shortcomings with the same energy we bring to investing, we will fail in our role as professionals and in delivering value to a society of savers and retirees. You might ask: What are we good for?

It is not a far-fetched notion for any of us in this profession, no matter how good we think we are, that we take stock and recalibrate. How? Through higher levels of transparency, enhanced efforts to communicate strategies and fees, and nurturing a true sensitivity to the needs of the client.

Seldom have we seen such great disconnect between a profession that feels it's adequately serving its clients and the actual customer experience. Given its importance to the lives and futures of millions of savers, the profession of investment management should lead, not settle. Take steps today to not only strengthen your client relationships but help advance the investment management profession at a critical time in its evolution.

Kurt N. Schacht, JD, CFA, is managing director of Standards and Advocacy at CFA Institute.

KEEP GOING

What can you do?

- Review the *From Trust to Loyalty* study: www.cfainstitute.org/investortrust
- Adopt the Asset Manager Code of Professional Conduct: www.cfainstitute.org/assetcode
- Share the Statement of Investor Rights with your clients: investorrights.cfainstitute.org
- Adopt the Global Investment Performance Standards: www.gipsstandards.org