

# Delivering Investor-Pleasing Performance Reviews

In Good Times and Bad

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## IN THIS ARTICLE

Performance reviews are the most important conversations an asset manager has with their investors. We interviewed over 87 institutional investors and consultants to learn what they value most in these reviews, and what is simply not helpful.

**Investors say the best performance reviews tell them an easily-understandable story**, explaining what worked, what didn't, and how the portfolio is positioned for the manager's view of the future.

**Rote portfolio attribution reports are not helpful to investors.** Although a rundown of the best and worst performers is easy to automate and replicate every quarter, few consultants and investors rank this approach as helpful.

**Transparency is an attitude, not just more data.** Investors tell us that a transparent asset manager is one who is "open and honest about the good and the bad," who demonstrates "humility in admitting mistakes." Transparency comes from a thoughtful and candid explanation of your investment decisions.

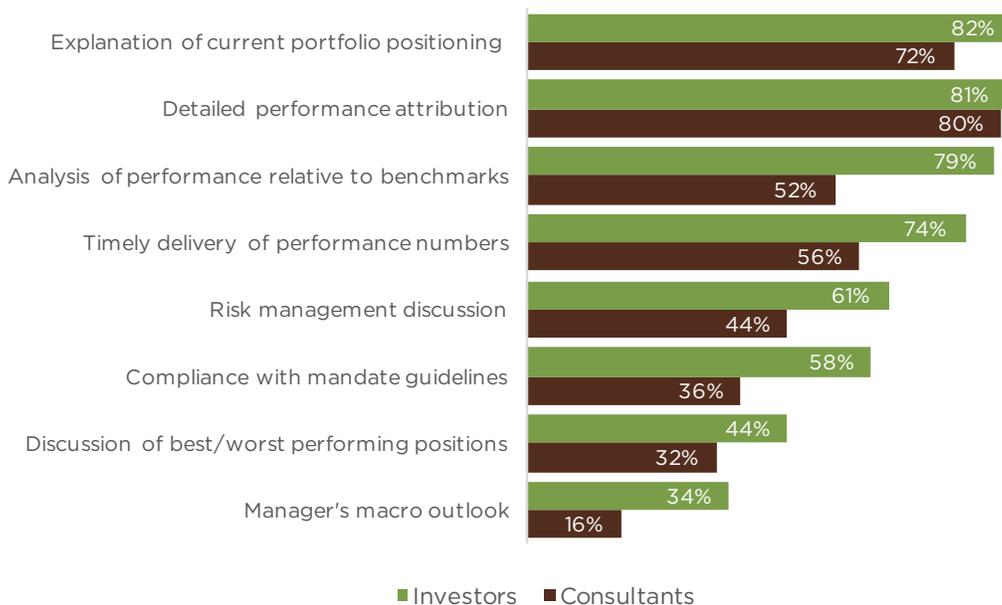
"We focus on hiring managers who can tell their story in an understandable way."

- Government Plan Sponsor

"We want them to be comprehensive, honest and give insight beyond the numbers"

- Consultant

## Highly Important Elements of Superb Performance Reviews



## Investor-Pleasing Performance Reviews

*We recently asked over 87 institutional investors and consultants for their insights on what elements of performance reviews are valued most and what is simply not helpful.*

One of the most important discussions an asset manager has with their investors is about investment performance results. Performance reviews are mandatory on both sides. The investor requires them as part of ongoing regulatory compliance while the manager fulfills their requirements and gives them the opportunity to review recent performance, reiterate their value proposition and remind investors of the role their product plays in the investor's portfolio.

For managers, performance reviews also serve as crucial ongoing marketing material to potential new clients as well. Nonetheless, we often hear from our asset manager clients that performance reviews are not given the appropriate attention at their firms. As one large asset manager told us, "Our written quarterly performance letters are underwhelming because the investment team does not spend an extensive amount of time on them."

We asked institutional investors and consultants for their thoughts on performance reviews - the most frequent point of contact between asset managers and their investors.

**"Our written quarterly performance letters are underwhelming because the investment team does not spend an extensive amount of time on them."**

### Hallmarks of a Superb Performance Review

Investors and consultants tell us there are four key areas that are the most important elements of successful performance reviews:

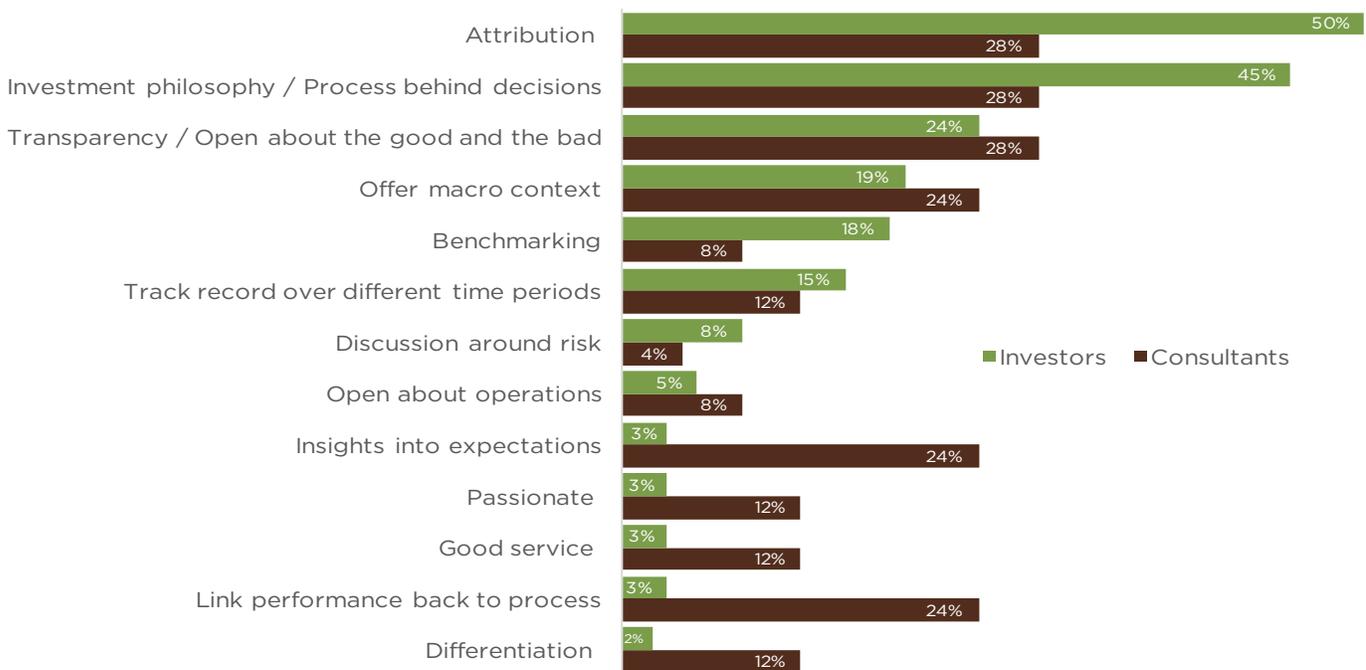
**1) Easily understandable attribution analysis.** The most important element of any performance review is a clear and concise explanation of the manager's investment strategy and process, leading to a greater understanding of the drivers of performance. One consultant summarizes attribution as, "being able to point to what happened in their process to either produce positive or negative results, what have they learned from both, and how have they amended their portfolio process."

"The hallmark of a good performance review is when the manager first asks you what type of metrics you're most comfortable with. Often they launch into a presentation without a full appreciation of how you may or may not see the world."

- Consultant

**2) Focus on the process driving your investment decisions.** Investors tell us it is crucial that every performance review ties back to the asset manager's investment approach and philosophy. Remind your clients in every communication what role your product plays in their portfolio and the parameters of your mandate. Too many

### Hallmarks of Superb Performance Reviews by Asset Managers



asset managers jump right into the numbers without orienting their audience.

### 3) Be transparent: thoughtful, candid and humble.

Investors value asset managers they view as frank and humble. As one endowment CIO told us, “The most memorable performance reviews I have are when a manager is the most honest, and can go into detail describing the thought behind his actions including lessons learned from a bad decision. If it was a good decision, what is the exit strategy?” A consultant tells us, “We want specifics – not just broad explanation like growth outperformed value. I want to see the good, the bad, and the ugly.”

### 4) Demonstrate consistency and a repeatable process.

Investors want to see consistency across different market environments and time periods. One family office comments, “I’m not just looking for good performance, but good persistent

performance that is repeatable. It has to relate to their process and that process is repeatable.” A government CIO notes that “Performance Reviews need to revolve around the consistency of the value added – we hired them because we felt they had a compelling process that would add value above the benchmarks on a consistent basis.”

### Consultants Value Macro Context, Unique Insights and Passion

Many consultants find other elements of a superb performance review to include macro context in relation to the investment process, linking performance back to the investment process, and insights into expectations.

One consultant explained that excellent performance reviews occur when an asset manager “provides context around the macro environment with specifics on what drove their performance and then

ties it to their philosophy and process. That is very helpful for us in helping the client understand not only the current performance, but also helping to set expectations for future performance.” Managers should focus on how their product is impacted by the current market and which types of conditions are good or bad for them and why.

**More asset managers are moving away from broad macro commentary,** since

investors feel they have sufficient access to extensive third-party market updates.

**Consultants want to hear the manager’s unique point of view.** One consultant told us that superb performance reviews include a description of “their unique quality or niche because asset managers are pretty consistently the same so defining that differentiation point is paramount.” As another points out, “The most memorable performance reviews are where the asset

### **Advice from Investors: Don’t Make Excuses or Overcomplicate**

*We asked investors and consultants to share what they believe are the least helpful aspects of performance reviews. The top responses were:*

#### **Don’t Make Excuses: Own It**

Allocators dislike when they feel their managers make excuses for performance issues and dodge their questions. Managers should strive to be candid and avoid becoming defensive. As one consultant tells us, he gets frustrated when managers “spend too much time trying to explain away bad performance without owning it.” A government plan sponsor says, “When their performance is good, they tend to lead with it. When performance is bad, they stuff that in the back of their book.” Another government investor expects “humility in admitting to mistakes which do occur, and not an effort to try to conceal missteps that have been taken.”

#### **Don’t Get Lost in the Weeds**

Although portfolio managers and analysts tend to love detail, investors find too much detail to be ineffective. As one corporate plan sponsor pleads, “Stop telling us everything. We really

want things boiled down to concise key talking points.” Almost half the consultants surveyed tell us they want less detail in their performance review. Consultants often have over 100 managers they are monitoring so they need managers to “help them be able to tell a story to a client – so it’s striking the right balance of providing enough detail to frame out a story and provide a few talking points to a client versus a very detailed analysis or commentary that is frankly just too time-consuming to get through.”

#### **Don’t Be Rote**

Simply providing investors data in some format on a systematic basis is insufficient. Investors need the context around the data to understand the manager’s views and outlook. An insurance investor notes, “What you don’t like to see is the same explanation every time. If they are forthright about something going on and they feel we need to know, that buys them a lot of loyalty from our perspective.”

manager shares insights about their industry or approach that you couldn't possibly read about anywhere else."

### Plan Sponsors Value Clarity

A key item for a successful performance review - particularly among government plan sponsors - is a simple, easily digestible and repeatable message. Most sponsors need to be able to explain an asset manager's strategy in a way their trustees can comprehend. As one government sponsor tells us, "Simplicity is key. We have a lay board so it's really important that performance reviews are easy to understand. We generally focus on hiring managers that can tell their story in an understandable way."

"Stop telling us everything. We really want things boiled down to concise key talking points."  
- Investment Consultant

### Reiterate Your Value Proposition

Some of the desire for detailed attribution is to justify the fees that asset managers charge. One corporate CIO wants her managers to "remind us of what's unique about their process that helps them pick more winners than losers. We need to justify paying the fees that they are charging relative to the value they are generating. We've gone primarily passive because we just didn't see the value proposition."

**Investors want a balanced review of drivers of both outperformance and underperformance.** One corporate CIO says, "I wish asset managers would stop only talking about their winners or their benchmarks and not their entire portfolios."

A consultant expects "upfront and frank discussions about what went wrong with the same fervor as what went right. Do not attempt to play with smoke and mirrors - I know more than you think I know and I have no tolerance for the story not matching the data."

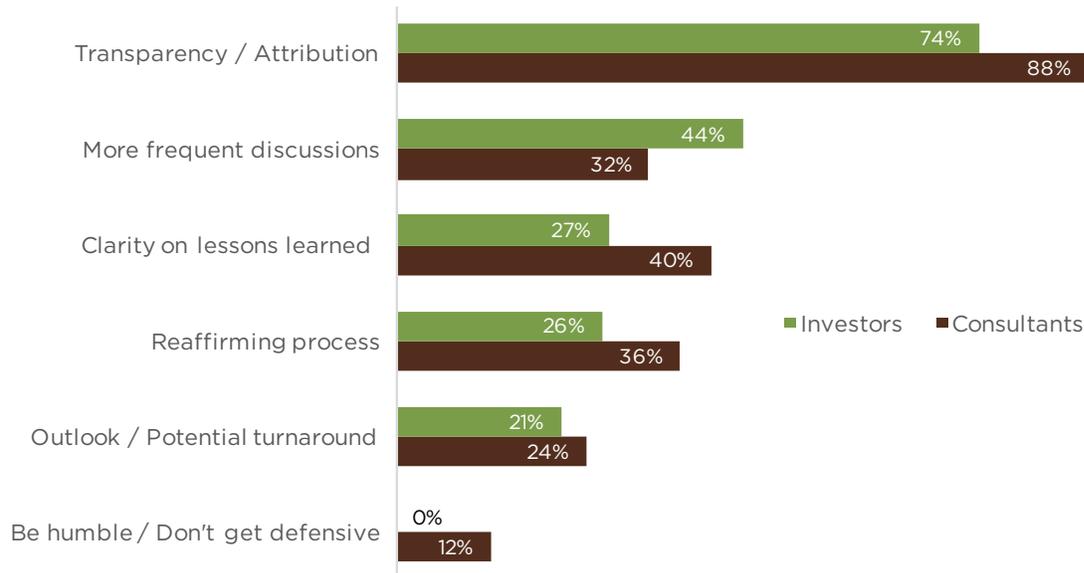
**Don't excessively focus on the current earnings period.** Remind investors of the long-term risk/reward characteristics of your product. The best performance reviews put your investment results into a context of what you are delivering against your overall promise - "x-y% risk-adjusted return through a full market cycle." As one investor says, "We don't like when managers only offer a short-term view or slicing dates or periods in order to obfuscate. We'd rather they look at longer periods and rolling periods."

**Ask first what your investors are concerned about. Then address those concerns.** As one consultant tells us, "It usually doesn't start this way, but I wish it would. The hallmarks of a good performance review is typically when the manager stops and asks you what type of metrics and what type of analysis you're most comfortable with. That's always a good place to start because there are a million metrics for each manager. Often they launch into their presentation without a full appreciation of how you may or may not see the world."

### Underperformance Happens: How to Make the Best of Bad News

During a period of underperformance, a detailed attribution analysis and explanation of the drivers of the underperformance is the single most important means of allaying

### Best Practices for Performance Reviews after a Period of Underperformance



client concerns, according to almost 90% of consultants we surveyed. Consistently delivering a clear and understandable attribution discussion lays a foundational understanding with clients, and makes telling your story under duress less difficult. You can contrast what worked in previous periods with what isn't working now, and why. Address the types of markets you will do well in, and vice versa. The worst position to be in is to try to explain a period of underperformance to investors who don't understand what you do. During an otherwise predictable period of underperformance, less-informed investors will usually be the first ones out of your product.

Being proactive and more visible during and after periods of underperformance is essential. When performance is bad, speak up more and spend more time on the story behind the drivers of your underperformance. Get your portfolio managers on the phone with investors.

As one plan sponsor notes, "Great performance reviews get down to rolling up your sleeves and having the PMs, not just the product manager, who's telling the story. Having that access is critical."

## Conclusion: Action Steps For Delivering Investor Pleasing Performance Reviews in Good Times and Bad

### **Always remind investors about your strategy and role**

Every performance review should begin with a reminder of the strategy and the role your product plays in the investor's portfolio. Too many managers jump right into the numbers without a preamble of the role of the investment in their portfolio and specific mandate goals.

### **Manage performance expectations in every conversation**

Performance reviews should be viewed as an opportunity to prepare investors on when to expect challenges. As one plan sponsor notes, "Knowing in advance what types of markets will affect their performance positively and negatively is important. When those arrive, we know when they are going to have a rough time in the market and it's not a surprise." An informed investor is likely to be a long-term investor.

### **Ensure it is a review and not a presentation**

Managers should ask first what their audience is most concerned about. Then address these concerns up front before launching into a prepared message. As one consultant notes, "A good performance review is when the manager first asks what type of metrics and analysis you're most comfortable with. Often they launch into a presentation without a full appreciation of how you see the world."

### **Increase communication around periods of underperformance**

When performance is bad, managers should speak up more and focus on the story behind the drivers of underperformance. Investors agree wholeheartedly with the bulk of asset managers (82%) we surveyed who believe that having additional access to you and your investment team during periods of underperformance is an important best practice.

### **Take the time to create the best possible content**

Investors tell us that timeliness is less important than quality. If you can't create an insightful performance review quickly, provide a summary version of numbers without analysis right after quarter-end and deliver a fully fleshed-out review when ready.