GFC (not the 'Global Financial Crisis') Podcast Episode 4: Interview with Third Party Marketers about institutional fund sales in Coronavirus times and lockdown (05/10/2020)

Institutional fund sales in Coronavirus times: 'I think there is a much more constructive and informative dialogue going on'

The last couple of months were … well, 'challenging' is probably the least you can say when you are a classical fundraising Third Party Marketer (TPMs), used to meet with investors and prospects in person, trying to convince them of the qualities of the fund managers you are representing. 'GFC (not the 'Global Financial Crisis') Podcast' spoke to four of these external sales consultants – Natango Invest, and bavi consulting in the Frankfurt/Main area, Multi Boutique Marketers in Luxembourg and London based Bohanan Ltd. – to learn from them how institutional sales has changed during lockdown; which investor groups have come out of hiding first, and how to communicate in an environment where personal meetings seem to become rather the exception than the norm.

GFC-Podcast: *Alexandra von Kalnein is founder and Managing Director of Natango Invest in Frankfurt. Since the start of 2019, her company connects institutional investors with niche asset managers, that are excellent in their fields. How has the sales process changed in the last half year for her and her team?*
Alexandra von Kalnein: As for many other businesses, the biggest change has been the ban on travel. And I think, the US managers have been hit the hardest because their travel ban was quite substantial, started in, I think, April, May, and it will last, unfortunately, I guess, until spring next year.

GFC-Podcast: *Georg Redlbacher is founder of German Multi Boutique Marketers (MBMs) who have been supporting mainly foreign asset managers since 2012 in their attempts to get a foothold on the German speaking market. His experience, especially with North American asset managers, was quite similar – whether with investment managers based in San Francisco, New York or in Chile.*

Georg Redlbacher: It changed dramatically with the lockdown in the US. Most people that I work with live in Manhattan. They were trapped in tiny apartments with small kids, pets and so forth. So that was an experience … I specifically remember a conference call. And the fact that one of the portfolio managers at Gabelli was trapped in a small Manhattan apartment together with a two-year-old, that you heard in the background every once in a while, was perfectly accepted by the German client and understood. From my perspective, it all went a lot more efficiently, a lot more smoothly than I had expected.

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GFC-Podcast: *Robert Hau of bavi consulting GmbH near Frankfurt consults asset managers, especially from the real estate sector. Approaching institutional investors in Coronavirus times is not an easy thing, he says, as well.*

Robert Hau: It's really not easy to meet institutional investors like pension funds, insurance companies or perhaps some banks because they are restricted by their companies not to meet people in their rooms. What you can do in this regard, you can meet them outside, maybe meet them in a coffee shop or in a bar or in a restaurant. Very strict are insurance companies. A lot of them are not allowing meetings until the end of this year. Everybody is focusing on the end of this year, but the virus won't be away. So, I think it will last as well next year.

GFC-Podcast: *Coming out of lockdown, Stephan von Posern, founder of British Bohanan Ltd., differentiates between two types of investors.*

Stephan von Posern: It depends very much what type of investor we have, and it depends what type of asset class. So, in terms of investors with an ‘elaborate investment process’ – where committees are involved in the decision-making process – they take a long time. And usually part of the due diligence process is meeting with the asset manager.

On the other end of the spectrum is the, let's call them, the ‘lean investment process’, where you have one person making the investment decision. Of course, that needs much less time. Now, what happened since the lockdown is: There is literally no travelling. Investors are not travelling; asset managers are not travelling to see investors. So, the elaborate investment process came to a standstill.

GFC-Podcast: *And getting access to a new client base is even harder.*
Alexandra von Kalnein: The problem is getting to know new prospects, really cold prospects, is almost impossible without even seeing them. So, we expand on our existing network. We continue working on people we have known for a couple of years, but we get almost no brand-new contact, unless there is a real specific reason or outstanding performance. But that's the biggest challenge, is to expand that contact network.

GFC-Podcast: *… Alexandra von Kalnein sees a difference in the behaviour of certain investor groups.*
Alexandra von Kalnein: The first ones to move back in the market after we had the credit crunch and the liquidity crunch in March and early April, where the Family Offices, actually. And the first, I would say, new investments, even in markets such as China or China Small Cap equities, came almost exclusively from those smaller Family Offices and Wealth Managers.

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GFC-Podcast: *Stephan von Posern* would like to *differentiate between holders of liquid and illiquid assets.*

Stephan von Posern: If you are an investor who's going to invest into an illiquid asset class where he or she is locked up for a few years, of course part of the process is meeting with the asset manager. They're not deciding such an investment without seeing the asset manager. If we're talking about the lean process, investing in liquid assets like mutual funds, of course the current situation doesn't prevent them much from making investment decisions, looking at new funds, going through the fund data and then deciding to invest in that fund.

GFC-Podcast: *The risk position of the investors is also something to consider.*

Alexandra von Kalnein: The institutional world, when it comes to pension funds – they have two problems: Number one, their risk position has deteriorated, and they have almost no risk capital available anymore. So, the fact that they would like to increase their equity position – and which is highly needed from a return perspective in order to meet their requirements on the liability side – is almost impossible, if you go after Solvency II guidelines and if you have to comply with a given number of risk capital.

So, you have two problems: First of all, they are almost stuck in a position where they would like to move, but they cannot. And number two: Because of their risk, I would say, increased awareness, the likelihood that a new manager with almost no name in the country and very little experience to get business, is extremely low.

GFC-Podcast: *Georg Redlbacher sees a clear tendency of investors towards a stronger 'home bias' at the moment – for all investor groups.*
Georg Redlbacher: Yes, I think a lot of people stayed fairly constant in their asset allocation. From what I've heard over the course of, let's say, the past four to six weeks, which honestly surprised me quite a bit, is that people tend to increase their home bias, including currency exposure. And I certainly feel that the appetite in time for selecting new managers has gone to zero. I think we're slowly coming out of that now where they have the resources and the time to look at new matters again, but this is a slow-moving process. So, everything is pretty much in slow motion. And I don't sense a big difference between a large bank or fund-of-fund-managers and institutional investors or small wealth manager or a family office. The scale is different, but the behaviour I find very similar.

GFC-Podcast: *So, there are still opportunities to invest money in different managers – but just not for everyone.*
Alexandra von Kalnein: So, people turn towards the existing names, brand names, experienced teams on the ground. Assets have been, you know, invested. Let's say, the high yield industry has collected a lot of money over the last six months. But it went almost exclusively to existing big names, brand names. It's a lot of, you know, the blue-chip names: 'I know them. I know performance, even if it's not as good as a given boutique. I'd rather go with that because the next potentially crash is coming. And if it's coming, I know more or less what I have.' So, people are potentially willing to give up a bit more of relative outperformance in exchange of a solid team and an existing infrastructure and the client-service on the ground.

GFC-Podcast: *So, what about the investment decision process in the different asset classes? Does it take longer to invest money now, Robert Hau?*
Robert Hau: Yes, of course, because pitches are often not possible and because of not having on-site visits. And the clients *do* like to see every time the manager physically face-to-face, and therefore they will reschedule month per month these meetings.

GFC-Podcast: *Stephan von Posern believes the process will take a lot longer.*
Stephan von Posern: Large investors with a complicated investment process, where maybe consultants are involved, they are not making decisions at the moment. Different is it if they have done the due diligence process before March. So, if that has been completed before March, of course, they go ahead and invest. But non-completed processes – they are on hold for the time being.

Take the lean investor who can make a decision in a few weeks or few months, that will continue. But the more elaborate investor, who used to take months to make a detailed due diligence, visiting the asset manager, which usually takes months (or took months), now you add another six or potentially nine months. So, you get easily to a process which takes a year or one and a half years.

GFC-Podcast: *Which asset classes have benefited the most from the current situation? Alexandra von Kalnein:*

Alexandra von Kalnein: So, private equity has seen a lot of money, almost as much as impossible to reinvest in companies. So, I would say private equity sits on a big pile of cash. Private debt has seen a bit. But I would say the biggest benefactor was the real estate market. But the feedback I get is, that illiquid assets have benefited more than the liquid ones.

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GFC-Podcast: *Stephan von Posern also notices opportunities for private debt investors.*

Stephan von Posern: The current environment, of course, offers very attractive opportunities, and well-managed companies suddenly have problems because of this external shock. But these leave opportunities. These companies either underperform or they even become insolvent. So, this leaves opportunities for, for example, private debt investors, with great interest to pick up those opportunities.

GFC-Podcast: *With regard to another asset class, investors tend to be very cautious, says Georg Redlbacher:*

Georg Redlbacher: People are afraid of the Emerging Markets, regardless of whether it's Asia or Latin America and basically stay away from Emerging Markets for the time being. Even though, for example, Asia has recovered much more strongly than Europe or the US has. So that is kind of puzzling. But what I have been hearing is that they have not gotten a call from the asset allocators to look back into Asia, yet.

GFC-Podcast: *But how long is that going to last?*

Georg Redlbacher: I think most of them will be cautious, at least until the end of the year. I think a lot of people are wary about a second wave coming. So, I think for the time being, they will maintain their home-bias. And I assume that most decision makers are looking for some kind of a trigger. The trigger may come in terms of any developments on the Corona side – be it news around the vaccine or a second wave and how that is handled – to political developments such as the upcoming US election and how that is developing and the process towards November 3rd.

GFC-Podcast: *It is said that one consequence of Covid-19 for the business world is that everything gets more digitalized. But what was the biggest challenge for Alexandra von Kalnein in this regard?*

Alexandra von Kalnein: The biggest challenge for all of us has been: How can we get a portfolio manager in front of a potential client? And the transformation into a digital format, whether it be webinars, one-and-ones, or webinars in a group, was the most challenging part. I have to admit, as of September, it starts becoming almost a normality to see people on the screen and to speak on the phone. And funnily enough, some people are even more available when it comes to webinars rather than travelling.

GFC-Podcast: *Surprisingly for some, investors and prospects and clients alike, seem to have more time now.*

Georg Redlbacher: What has really worked for me personally, reaching out to investors during this Corona time, has been that what I've learned is that when I am able to reach people by phone, that they typically have more time to have a more in-depth conversation than before the lockdown. That has been a pleasant development just on the phone line. On the digital side itself, I perceive very little changes to emails except for maybe people have, again, more time to read them!

GFC-Podcast: *And what about the 'Brave New World' of videoconferencing, Stephan von Posern?*

Stephan von Posern: It's an interesting point. You remember the late 90s where the telecom companies like Cisco and Nokia and Ericsson were picturing for us this view of the world where videoconference calls and webcasts just taking over and making business life much more simple because we don't have to travel anymore? But has it ever happened?

No, it hasn't. We are still travelling or used to travel as much as before. It just added another possibility to communicate, which has been used. Now the same is at the moment: I speak to a lot of investors who were involved in webcasts, had conference calls and they say: 'It's not the same – I still have to meet the asset manager. It's not replacing it.'

GFC-Podcast: *The future of meeting face-to-face again, at conferences and seminars – that is still open.*
Georg Redlbacher: Mostly wholesale and institutional investors, who before the lockdown insisted on face-to-face meetings, are probably leading the effort to say: 'OK, we're fine with a videoconference call.' I think that will continue for the time being, because what we see on the other side is – as people are trying to offer face-to-face again, especially in the form of conferences – most conferences have either selected a very small format for the remainder of this year or postponed their formats well into the next year, assuming it's fairly back to normal, once the vaccine has some penetration. And I think the jury's still out on that as well.

GFC-Podcast: *Robert Hau definitely sees no future for himself in remote connections.*
Robert Hau: If I am not able in future because of COVID or something else to work personally with clients, I will quit my job and go on pension.

GFC-Podcast: *Alexandra von Kalnein's impression of the first conference she attended after lockdown was quite positive – because it showed an openness between investors and salespeople which she hadn't experienced before.*
Alexandra von Kalnein: I have to say, there was a physical meeting two weeks ago for Family Offices, and I was really surprised by the quality of the meeting and the … I would say, even the openness of investors. I've never had conversations that really were so fruitful. And, you know, where people give information in the sense that the salesperson is not a nuisance as such but can be somebody who is useful to provide information that is needed or necessary.

There is a bit of a, you know, I would not say "peace agreement" between investors and salespeople, but on both sides. We are all sitting in the same boat. And therefore, I think there is a much more constructive and informative dialogue going on. People try to bring them the best solution. Because frankly, I guess everybody now is questioning: 'Where should we go in terms of asset allocation?' It has never been such a volatile and unpredictable environment. Therefore, I guess, we need each other.

(Umfang: 2.683 Wörter, 15.939 Zeichen inkl. Leerstellen ohne Überschrift – Länge gesamte Episode: 19:59 min.)