Why do some asset managers win multiple mandates from their clients?

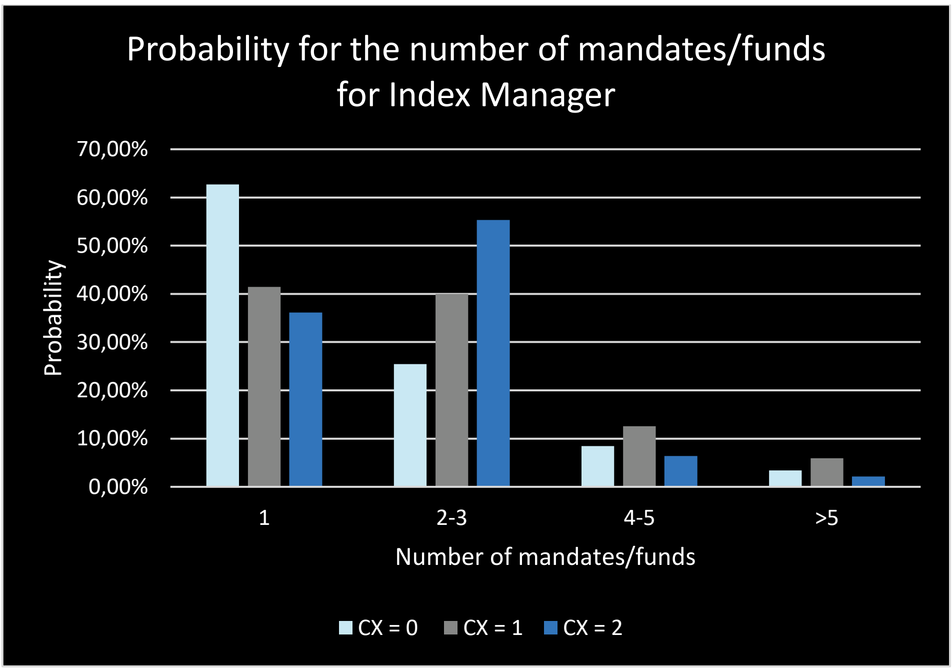
INSTICUBE has studied data collected from its membership of Institutional Investors over the past two years to investigate why some asset managers are awarded two, three or more mandates from a single client.

INSTICUBE is a pan-European research platform through which senior institutional Asset Owners in Europe share intelligence on the value and service they receive from Asset Managers they employ.

Our findings showed that, independent of any other factor, the likelihood of winning multiple mandates rises substantially when you are an index manager.

The probability for an index manager to hold a single mandate with a client is between 35%-62%. This is heavily influenced by client experience, or CX, (see below). Index managers with low CX ratings have a less than 40% probability of receiving more than 1 mandate from an asset owner. Whilst for index managers with higher CX ratings the probability rises to almost 60% (CX score of 1) and a likelihood of almost two thirds for Asset Managers with the highest CX ratings (CX score of 2).

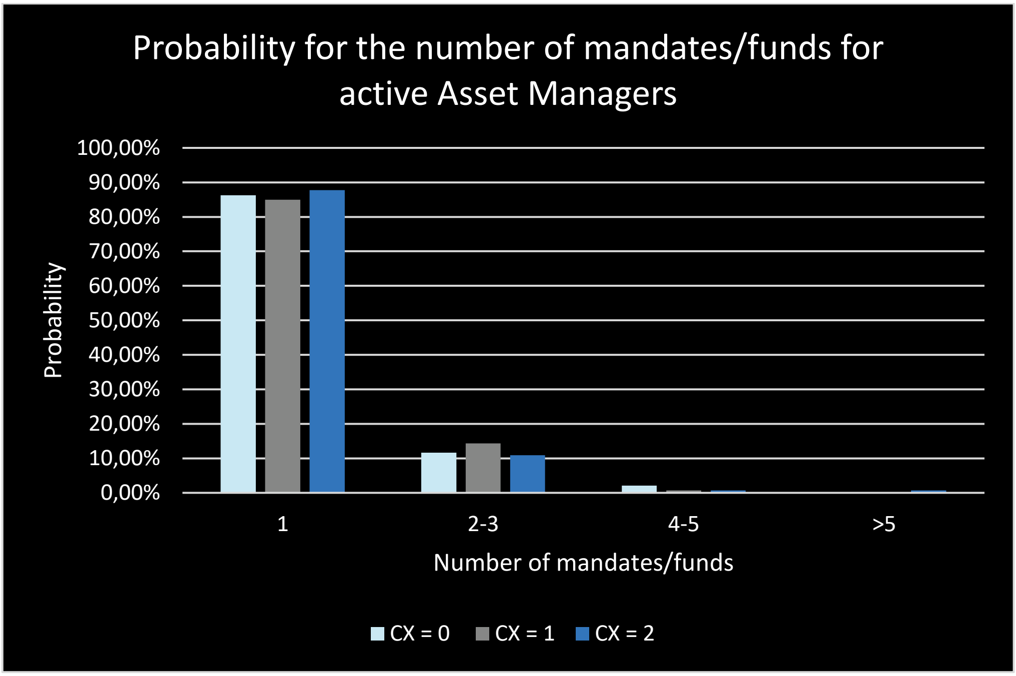
For Index managers with low CX scores, the probability of receiving three or more mandates is only 17%, but this rises to ca. 32% for higher CX ratings.



Evidently, Client Experience matters for passive investments since most CX=0 asset managers only manage one mandate/fund, whereas the CX=1 and CX=2 asset managers predominantly have two or more mandates/funds with a single investor. This seems to be a rational distribution, as an index manager must prove it can manage a portfolio in an asset class passively. If this is the case and investors are content with the CX, then they feel confident to award additional mandates/funds.

Another differentiating factor could be pricing. An index manager with CX=0 could compensate for their poor CX with low pricing. This would explain why there is a small proportion of low CX=0 index managers, managing more than five mandates for a single client.

What about Active managers?
Our data suggests that active asset managers find it much more difficult to win two or more mandates/funds from a single client. There is less than a 15% chance that active asset managers will hold more than one mandate/fund with a client.



Again, this distribution appears intuitive. An active asset manager is selected for his potential ability to achieve outperformance in a certain area. Even when the asset manager also specialises in another (sub-)asset class, they will face strong competition with other active asset managers.

Another factor which could explain the difference between the number of mandates awarded to passive and active managers, is that the idiosyncratic risk is considered higher for active asset managers than for index managers. Thus, investors who choose to invest actively would be more likely to attempt to reduce their risk through diversification.

INSTICUBE have recently published a series of LinkedIn posts which outline why Client Experience and investment performance are the most decisive success factors in the industry and, for example, act as clear drivers of mandate sizes awarded. This is also true for the number of index mandates, although pricing may substitute the role of performance in active mandates.