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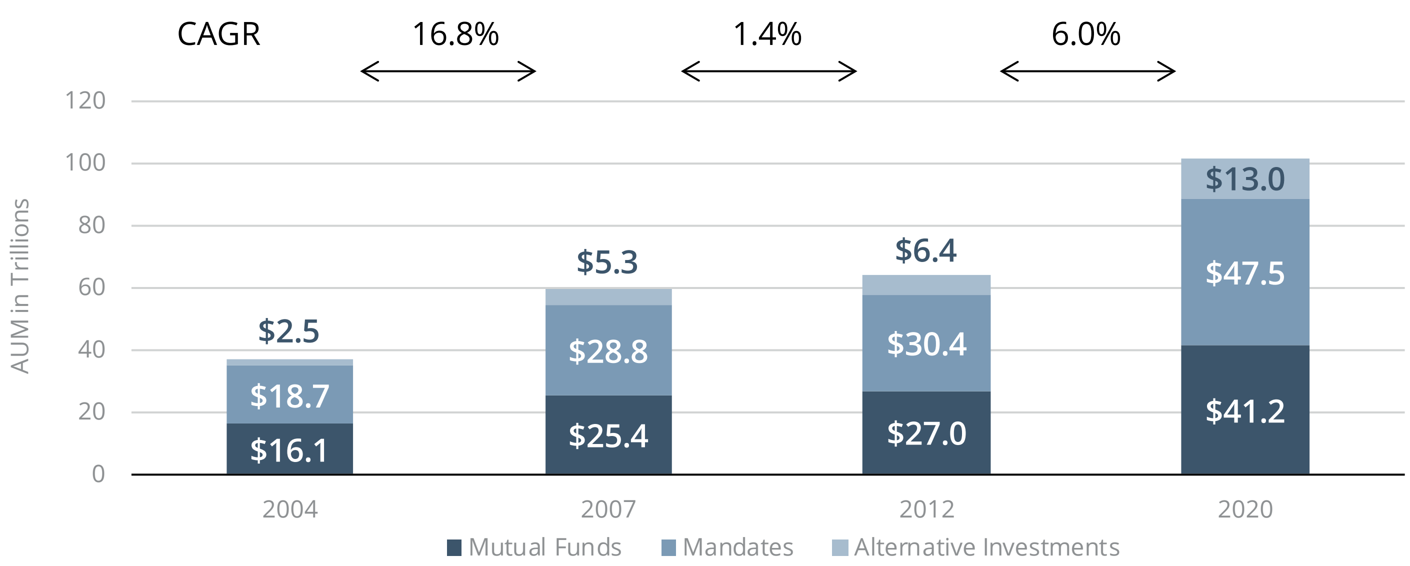
THE BRANDABILITY OF TRUST

May 2018

Over the next three years, the financial industry will likely see a tremendous growth in investable assets.

Unless you're one of the top 100 or so global asset managers, you might miss out on much of that growth. Worldwide AUM is forecasted to top $100 trillion by 2020.[1] Most of this AUM growth is expected to be managed by large-scale money managers, or those handling over $100B in assets. To best understand why, we must analyze more recent trends in the growth of assets under management.

Global AUM Projection for 2020



Source: PWC. (n.d.). Asset Management 2020: A Brave New World.

Large Money Manager Growth Concentration

Consolidation in the asset management industry has been on a tear, with M&A activity reaching an 8-year high of over $40B in deals.[3] This trend has been continuing for some time now with the share of total assets from the top 10 largest managers growing from just 5% in 1980 to almost 25% today. Large money managers have the inherent advantage of name-brand recognition. Unlike smaller brands, the size bias associated with large-scale managers is partly due to the fact that they will simply be better known to your target clientele. This familiar name is more likely to be trusted than a firm perceived as a stranger. Trust is a precious commodity during a time when headlines revel in the chaos caused by Russian election meddling, massive data breaches, the Great Recession and even the subprime housing crisis as depicted in the movie The Big Short—all chipping away at investor confidence. In fact, only 33% of Americans feel that they can trust their fellow citizens.[2] This effect is magnified when it comes to money. The 2018 Edelman Trust Barometer confirms that financial services is the least trusted industry, making the feeling of trust generated by 'known' brands even more important.[8] One a good note for the industry, over the past 5 years trust of financial services industries has been on the upswing, increasing from 48% to 54%.

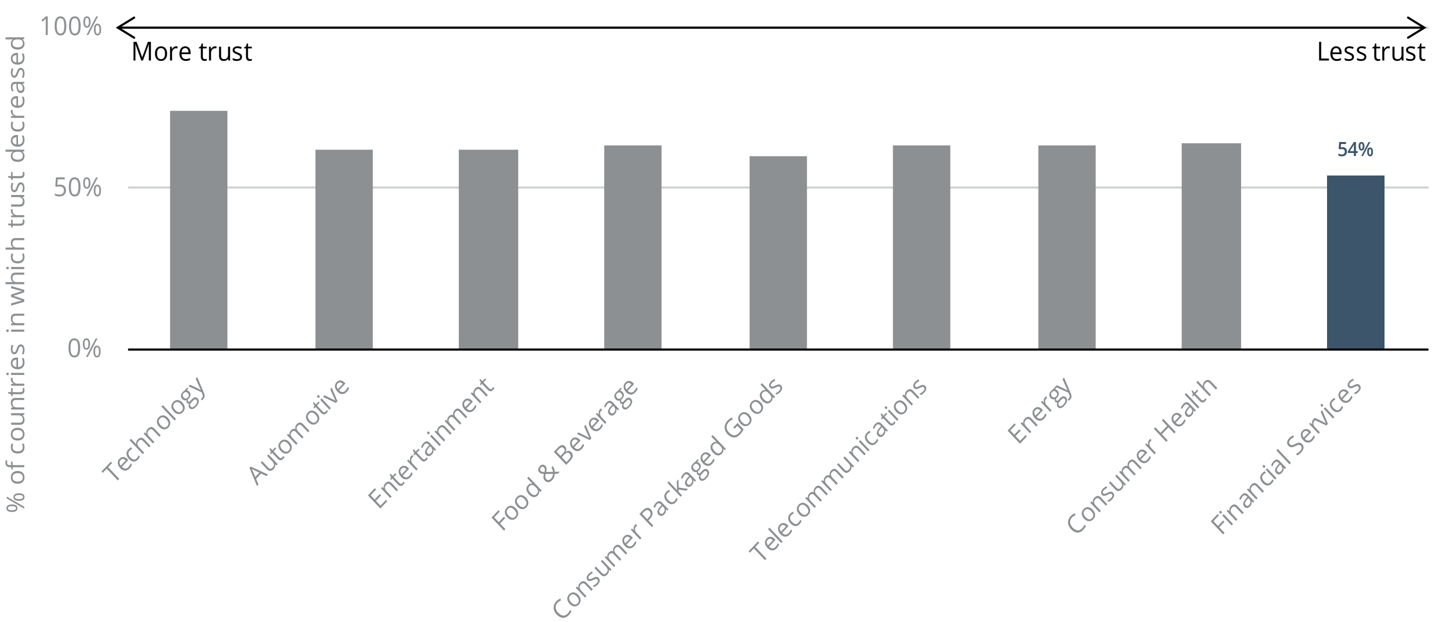
For investment managers actively working to build up a foundation of trust, the rewards are becoming clearly evident. After the 2008 financial crisis many investors lost their appetite for risk, becoming wary of where they were placing their money and choosing to accept lower returns by investing in known managers rather than betting on unknown managers with a higher potential payoff. Mr. Kevin Jestice, the head of Vanguard's institutional investor services, remarks, "When you talk about the big getting bigger, the trusted brands have really resonated, particularly in the past 15 years".[4]

The Emotional Factor

Why is it that big brands are generally trusted, even after negative headlines, scams and scandals over the years? To understand why this might be is to really understand branding and how it impacts investor behavior.

A brand isn't a logo nor a product, even though many companies think of it in this way. A brand is something more akin to a gut feeling felt by an individual or group— the feeling of a company or person. A brand is, in many ways, how your audience perceives you. This perception impacts clients by heavily affecting decision-making, building and breaking trust, setting expectations and differentiating between companies offering similar products and services. Perhaps

Trust in Industries



Source: Edelman. (2018). 2018 Edelman Trust Barometer.

Perception impacts clients by heavily affecting decision-making, build or breaking trust, setting expectations and differentiating between companies offering similar products and services. Most interestingly, this perception can be tailored or manufactured.

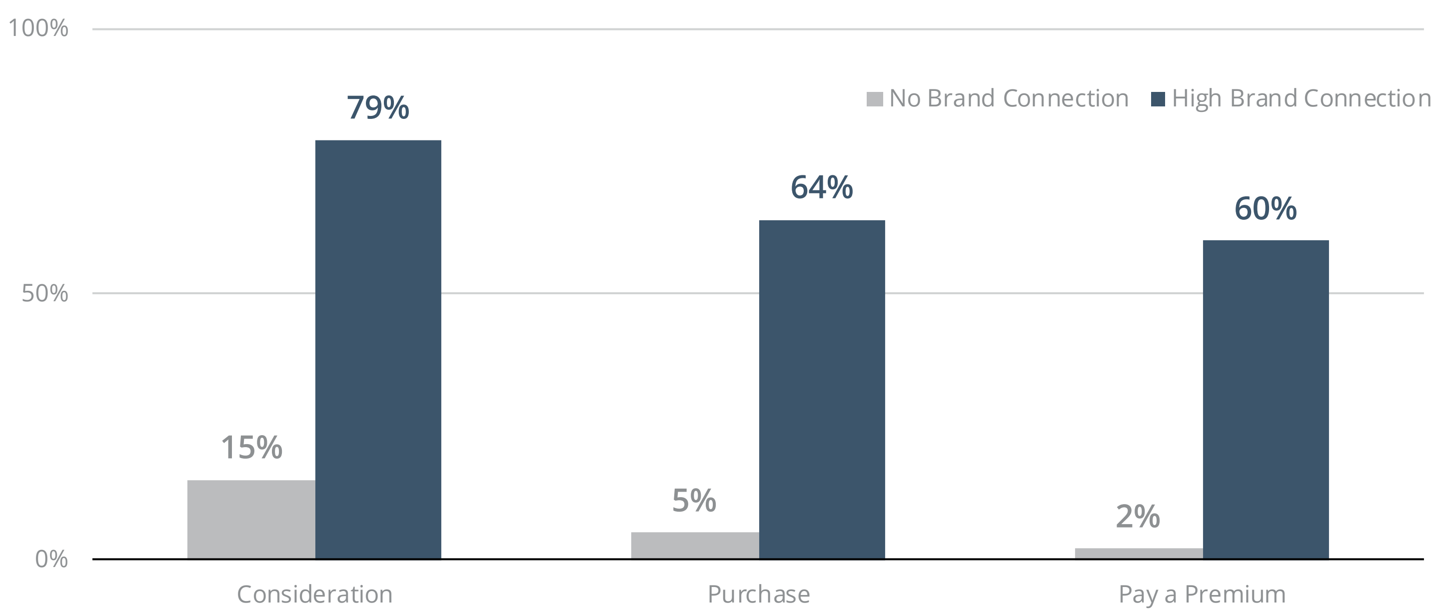
most importantly, this perception can be tailored and even manufactured.

A common rebuttal may be that sophisticated investors, institutions and other businesses do not allow emotions to factor into their complex decision making processes. However, a variety of different studies and surveys have proved the opposite. A CEB study in partnership with Google discovered that B2B buyers are actually more influenced by emotion than average consumers[5]—they have higher rates of consideration, purchase and willingness to pay a premium. CFA's Global Survey on the State of Investor Trust found that from 2016 to 2018 the importance of a brand with investors jumped from 33% to 46%. Furthermore they found that a brand has been increasingly used as a proxy for trust.[8] When we are talking about managing client wealth or maintaining reputations in the institutional investment world, there is a huge amount of emotion involved—because there is so much at stake. In addition, as many know anecdotally, it's not what you know but who you know—a clear indication of the emotional triumphing over the rational. Professional and institutional buyers are more likely than average to be influenced by connections and the reputation of a brand.

Why Do We All Say the Same Thing?

While many large money managers reap the rewards of developing a trusted brand, those without brand cache are losing out. Many players in the financial space shout the same message to the same people, promising 'high risk-adjusted returns' or being 'client focused'. Unfortunately, not only do these messages fail to engage and differentiate, they fail to

Impact of B2B Brand Connections



Source: Spenner, P. (2013). From Promotion to Emotion: Connecting B2B Customers to Brands.

address what the investors care most about: themselves.

The importance of discovering what sets your firm apart from competitors is well-understood, but many fail to then communicate how that difference allows you to uniquely serve the investors' needs. Successful branding requires understanding the emotional and rational drivers of your audience and then connecting that to your differentiated value offering.

In a world where money managers only tout 'higher risk-adjusted returns', investors' needs are sorely overlooked. By communicating with your audience and actually addressing their needs, you can lay the foundation for building trust.

As you begin to create an image and message that stands out from sea of homogenous managers, your brand will begin to evolve. The better your brand interacts and resonates with your target audience, the more trust you will develop. Another finding from CFA's State of Investor Trust survey was that clients consistently rank trust as the biggest differentiator in hiring an investment adviser. Trust also contributes to whether a client will refer others or expand the relationship with additional mandates.[8]

It is also essential to set the tone with your clientele in terms of how you communicate with them as well as succinctly communicating your investment style and process. This may seem obvious, but in a world where money managers only tout 'higher risk-adjusted returns', investors largely don't know what to expect. By connecting to and communicating with potential investors on what sets you apart and how you benefit them, you set the stage for their expectations in how you behave through changing market cycles and unique scenarios. The process of branding helps you to develop trust with your existing investors while engaging new potential clients.

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Competing with the Big Guys

Though larger financial firms benefit from a widespread brand presence, this doesn't mean smaller managers lack the opportunity to make an impact. Smaller firms historically achieve superior performance, a key opportunity to communicate to investors. According to a study performed by AMG, boutique investors outperform institutions by an average of 51 basis points.[6] Even so, the majority of inflows are directed toward large money managers.

Interestingly, specialist boutique investment managers offering alternative investments do currently attract assets in a way institutional managers do not. A study conducted by McKinsey found large sophisticated institutions tend to utilize specialist alternative boutiques over large, generalist managers due to the degree of control they have, a better customization to asset class exposure, and the higher level of focus and expertise.[7]

With significant industry growth potential for AUM growth for all money managers, connecting with investors and addressing their needs is absolutely critical to growing your investment firm's AUM. But in order to capture this growth, firms must be visible, communicate their unique value and most importantly build trust through developing a thoughtful and strategic brand.

Driving your Brand Forward

Your brand should be used as a platform not only to sustain but to drive further growth. When your clients trust you, not only will they be more willing to stick with you when markets are bad but also have a higher likelihood to refer assets your way. A message such as, "We will make you feel comfortable with municipal investing" indicates a strong plan of action and a direct emotional response, engendering far more trust than a hedge fund with the message of "a long/short strategy minimizing risk and maximizing returns". They have reason to trust what you are doing because they can more easily understand what makes you different, and again you're connecting with their needs.

Consistency in messaging is of the utmost importance. By showing consistency in your messaging, branding and design in your website, pitch materials, client correspondences and most importantly, the actual client experience, you can continue building that trust. Sales people, marketers and portfolio

managers should present your firm in the same way and messaging should be consistent across all mediums. Design should also follow consistent guidelines supporting the message you're looking to convey. Every detail, from the fonts and colors in your materials to the language you use when you pick up the phone, is an opportunity to build on or detract from your clients' trust in you. A lack of consistency in messaging in these areas can easily unravel the trust you are working so hard to develop.

For example, if a manager describes themselves as being cutting-edge and utilizing the latest technologies, but their website looks outdated and their presentations are generic, audiences will see a disconnect between *what* you are saying and *how* you are saying it—chipping away at your credibility and their trust in you.

The Next Step in Brand Building

Developing your brand has an impact more extensive than simply bringing in large inflows. Among the millions of investors in the market, each brings different wants, needs and goals. Branding allows you to best target the clientele most compatible, profitable and easiest to manage for you. Branding also communicates up front what investors should expect and how your investment style impacts returns in different markets. While underperformance is the primary reason clients leave a manger, understanding clients goals and fears are ways to build trust and better weather uncertainty. By staying true to what makes you different and communicating this to investors, your brand will become more recognizable and trusted, attracting the clients you desire and can best serve.

Standing out from the crowd often involves becoming a thought leader in the space you want to enter. The most direct way to do so is to take a deep look into the needs and wants of your clients, adding value by creating content addressing their needs. Share your unique insights and flaunt deep analysis under the brand and messaging you create, giving investors valuable content and an authentic way to connect and to understand you.

For more information about the benefits of branding in the financial and investment industries, visit **mbcstrategic.com** or email us at **inquiry@mbcstrategic.com**.

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