Reinventing asset management

By Madeleine Taylor

2021 has already been a remarkable year of reinvention in the asset management industry, after the disruptions and unpredictability of the last year.

On the whole, asset managers have proved their resilience in the face of volatile markets, bouncing back with a strong performance in the last quarter of 2020 and the first half of 2021. By the end of 2020, PwC found that global assets under management had grown to USD110 trillion and counting.

But most of all, the pandemic caused a major acceleration in changes that were already taking place in the world of asset management, a sentiment that has been echoed by many of the award-winning firms.

The winners of Institutional Asset Manager Awards 2021 have each spearheaded the industry's efforts to reinvent itself, and proved their own ability to shine during one of the most turbulent episodes in recent history.

Albourne, the winner of Best Investment Consultant, found itself well-positioned to capitalise on these changes. The firm specialises in alternative assets, which won big last year as institutional interest in hedge funds and private markets grew.

"The starting point is the general concern around the expected returns of 'traditional' assets, equities and fixed income, which leads to a consensus desire to increase allocations to alternatives," said Albourne's CEO John Claisse, speaking about his recent discussions with CIOs of client firms.

"The most common asset allocation challenge or concern right now is inflation, leading to an increased focus on infrastructure, reflections on the expectations for large technology allocations, energy and commodity strategies, as well as the pros and cons of holding TIPS, gold and cryptocurrencies," said Claisse.

From the perspective of inflation-hedging, institutional investment into cryptocurrencies such as Bitcoin took off over the past year, with major asset managers including BlackRock, Ruffer, and One River entering the market.

"The crypto market is still in the first inning of institutional adoption," said Asen Kostadinov, head of strategy

> *The most common asset allocation challenge or concern right now is inflation, leading to an increased focus on infrastructure, reflections on the expectations for large technology allocations, energy and commodity strategies, as well as the pros and cons of holding TIPS, gold and cryptocurrencies.*
>
> John Claisse, Albourne

at Copper.co. The firm won Best Digital Assets Service Provider. "It is going to take time for crypto to truly solidify its status as an alternative asset class given the prevalence of complexities and risks beyond 'volatile prices'."

Market volatility increased the demand for data and analytics across all asset classes and strategies last year.

"Rapidly moving markets, continued fee pressure, and changing client demands has resulted in asset managers looking to new sources of data and solutions in an effort to differentiate their investment strategies and uncover alpha," said Teddy Kahn, Global Head of Investment Management at S&P Global Market Intelligence, winner of Best Data & Analytics Provider.

Digital continues to reign supreme after asset managers switched to remote working last year, and this has become an important source of competitive advantage.

Andrew Morgan, chief revenue officer at TS Imagine, said: "[Asset managers] have to think about the best ways to future-proof their business, and clearly a digital strategy has to be front-and-centre, right up there with their alpha generation capability."

TS Imagine won Best Risk Management Software Provider. The firm is currently processing a merger between TradingScreen and Imagine Software, through which it intends to create a SaaS-native "digital stack in a box" for clients.

The need for data is nowhere more apparent than in the realm of ESG and responsible investing, a topic that has grown enormously in the minds of investors over the past year.

Award winner Albourne conducted a survey last year that showed that 51 per cent of respondents already take ESG into account when investing and a further 19 per cent intend to. This is up from 36 per cent and 14 per cent respectively in 2018.

"ESG is no longer a nice-to-have, but a must-have," said Alexandra Mihailescu Cichon, Executive Vice President of Sales and Marketing at RepRisk. The firm won Best ESG Data Provider. "Now more than ever, it has become clear that ESG risks can translate into bottom line compliance, financial, and reputational impacts for companies – and how crucial it is that the datasets used for decision-making are reliable, timely, and of high quality."

"Whereas many firms have long been talking about responsible investment, it's no longer enough to say you are doing it. Institutional allocators now want to see the actions that investment firms are taking to make a difference, and they want to better understand the ways in which firms are taking differentiated approaches to making smart portfolio decisions and steering their businesses through considerable change," said Mike Geller, partner at Prosek Partners, winner of Best PR & Communications Firm.

Sasha Jensen, founder and CEO of Jensen Partners, outlined how the increased focus on ESG issues such as diversity and inclusion is changing asset managers' recruitment priorities. Jensen Partners won Best Recruitment Consultant.

"We've seen demand for diverse candidates grow across alternative assets to the point where many firms are creating diverse candidate pipelines and dedicating significant HR resources to finding talent that better represents the communities and clients they serve," said Jensen. ■

The rise of alternative assets

Albourne: Best Investment Consultant*

Can you outline the asset management industry trends that have been driving growth and development within your firm over the past year?

Investors are:

- Allocating more to Alternatives but want to retain control over investment decisions;
- Resource constrained and seeking external support (Advice, Research, Data, Analytics and Implementation services);
- Prioritising Alignment of Interest and values with their partners; and
- Adapting to remote working, with the expectation that the future of work will be meaningfully different.

All of these trends have been to our benefit.

Pre-pandemic, we were already seeing increased demand for our services, with investors selecting bespoke combinations of our strictly non-discretionary fixed fee, Advisory, Due Diligence, Fintech and Implementation services aligned to their specific needs from an asset class and regional perspective.

The last year has seen these trends accelerate. The alternatives industry has not been immune to the overarching theme of remote working over the last year, which has impacted how we as a sector work from due diligence, to trading, to carrying out research. The short answer is that we've seen an increased reliance from our clients on our services.

Investors are demanding increased transparency; now to be clear this is not new, but it is certainly becoming ever more important and has been embraced across a wider range of topics. What has driven our development over the last year has been the key tenets of our business which have not changed, and that is our advocacy for transparency, our independent, non-discretionary and fixed-fee stance, and our pursuit of an alignment of interests. More specifically, we have seen demand being led by our Operational Due Diligence and Private Markets services, but our Hedge Fund services have also been in demand, from both an investment and an implementation perspective. We recognise that our clients' needs are wide and varied; ultimately, there is no one size fits all. Thus, services such as our back office and middle office implementation solutions as well as our data and analytics have been in demand.

How have client needs and demands changed specifically in relation to asset management and what has your response been in terms of your offering?

There are two key topics that come up again and again, and that is how to better incorporate i) Diversity and Inclusion ("D&I") and ii) Environmental, Social and Governance ("ESG") factors into the due diligence process.

Firstly, the advantages of having a diverse and inclusive workforce have been well documented and we know that there is an increasing desire amongst peers in the alternatives industry to improve. A growing number of investors are including D&I criteria in their evaluations of alternative investment managers. Reasons for doing so range from the belief that diverse teams lead to better decision-making, to a desire to combat systemic inequity and a desire to better align investment programs with the values of their institutions.

While Albourne has prioritised the coverage of MWBE funds for almost a decade, over that past three years, we evolved our focus to prioritise employment practices (Anti-harassment, Equal Pay and D&I Policies) in our ODD and to emphasise the importance of D&I data collection and monitoring.

Pre-empting the recent increase in client demand, we developed with AIMA (and based on the relevant section of the ILPA Due Diligence Questionnaire), a new and freely available **Diversity and Inclusion Questionnaire**. Since launch we have had responses from managers for over 2,000 funds.

Moving on to ESG, Albourne's 2020 survey showed that 51 per cent of respondents already take ESG into account when investing and a further 19 per cent intend to. This is up from 36 per cent and 14 per cent respectively in 2018.†

Albourne has been focused on good governance since inception in 1994, but more formally on ESG since 2011 when we launched our first ESG questionnaire. We subsequently incorporated ESG into our operational due diligence process and reports. Investors have an interest in understanding the extent to which their investments benefit from ESG factors. Albourne's latest solution, published in April 2021, is an updated **ESG Questionnaire and Scoring framework**, which was launched to help provide further transparency for investors.

The questionnaire has two parts to it: i) the first is based on the PRI Asset Class questionnaires; and ii) the second is a short form overlay questionnaire that supports the scoring framework.

The scoring covers three key areas: policy and governance; investment process and monitoring, and reporting. We believe this will create a transparent and level playing field in which to assess ESG integration across strategies. This is the tip of Albourne's 'ESG iceberg', with additional advisory, due diligence, data, analytics and implementation services which will support clients with ESG policy development, process mapping, impact and theme investment evaluation and ESG risk factors reporting to name just a few key areas of coverage.

What are the primary challenges asset owners are facing and what is critical to these being overcome?

From recent discussions with dozens of our clients' CIOs, a few key topics kept coming up (in addition to the need for ESG (including D&I) Integration, transparency and the alignment of interests as mentioned previously). The starting point is the general concern around the expected returns of 'traditional' assets, i.e. equities and fixed income, which leads to a consensus desire to increase allocations to alternatives.

The view on hedge funds is more favourable than it has been for many years. While the outlook of investors towards private markets is typically net positive, there is greater variation in that view by strategy. The most common asset allocation challenge or concern right now is inflation, leading to an increased focus on infrastructure, reflections on the expectations for large technology allocations, energy and commodity strategies, as well as the pros and cons of holding TIPS, gold and cryptocurrencies. Investors are working to understand the best ways of protecting their portfolios going forward, whilst also managing the expectations of their stakeholders.

Finally, there is the future of work–this topic will drain every available minute when CIOs gather! The starting point is currently a discussion of options, plans and preferences. What is clear is that one size does not fit all (for now) and also that flexible plans around flexible working will be essential to successful implementation.

What are your business objectives for the year ahead and how do they align with the needs of your clients?

Albourne aspires to be a multi-generational firm delivering win-win-win solutions.

We have three key business objectives for 2021/2022 and beyond, none of which are new. The first is to empower our clients to be the best investor they can be. The second is to enable our colleagues to realise their full potential. Finally, the third is to engage with our communities to drive positive change. These objectives are the foundation of our business and align our clients' needs with those of our colleagues and the communities that we live and work in. Promoting, monitoring and maintaining best practices is central to our reason for being.

Amidst an ongoing global pandemic, valuing the contribution and wellbeing of our colleagues has never been more important. We continue to prioritise offering a safe, fair, equitable workplace, which is essential if we are going to realise our multi-generational goals.

What is your outlook for the asset management industry for the coming year and how is your firm best placed to support clients in navigating the environment?

I'll close with three key points:

- Expect the unexpected;
- Beware of the consensus;
- Model the tails.

While our central case outlook is generally positive for the alternatives asset management industry, we endeavour to ensure that Albourne is well positioned to empower clients to make the best possible decision in any economic environment. In times of stress, such as in 2008 and indeed last year, our clients need us more and so with that we work hard today to be ready to meet those demands. ■

***Albourne wins Best Investment Consultant**

†Source: Albourne's 2018 & 2020 Investor Reviews

Dr John Claisse
CEO, Albourne Partners Ltd

John Claisse joined Albourne in 1996 and became CEO in 2015. John is an equity partner, member of Albourne's Executive Committee and chairs the firm's Corporate Planning Council. John helped develop the firm's proprietary risk analytics and was formerly Senior Analyst for quantitative equity and multi-strategy hedge funds. John remains a Portfolio Analyst advising public and corporate plans, large endowments and foundations. John serves on the Sussex University School of Business Advisory Board and is a Trustee of the SBAI.