



TELOS-SURVEY

„WHAT REQUIREMENTS DO INSTITUTIONAL INVESTORS IN GERMANY HAVE REGARDING CUSTOMER RELATIONSHIP BY ASSET MANAGERS?“

EXTRACT

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A) INITIAL SITUATION AND TASK POSITION

Special funds (mandates) for all kind of institutional investors, and not just social institutions, have existed since 1990. The German institutional asset management market has changed in these almost thirty years. First of all, in the 1990s it started small-volume investments of around DM 50 to 100 billion. Today, we are talking about a total volume of about € 1.6 trillion. In addition, the special funds business has become more complex. This is the case, on the one hand, with regard to the diversity of asset classes that prior to the turn of the millennium focused on traditional equity and bond mandates. Today, new and developed products such as private equity or private debt and loans to municipalities as well as sophisticated strategies such as factor-based approaches, overlay structures, value-preservation concepts or ESG integration approaches are almost a part of everyday life. In addition, the official recognition of the master KVG business as a central anchor for any administration of special funds such as reporting or risk management has ensured a quantum leap in the strengthening of the special funds market. The tightening of regulation (2007/2008) as a result of the crisis has also furthered the complexity of the institutional business.

For all above mentioned developments, certain characteristics and framework conditions of the institutional business have hardly changed. Special fund business has always been driven by strong trust between the client and the asset manager. And looking after the customer always took a central position in the customer relationship. This has not changed in principle until today. Certainly, however, the understanding of roles of the customer advisor has undergone a process of change with the growing demands. The "TELOS - Spezialfondsmarkt-Survey 2018" (retrievable via "www.telos-rating.de") has shown that today institutional investors rank customer care at a similar level of importance as performance, risk management and the investment process, namely at 95% (in the two highest meaning levels "very high" and "high").

This fact was reason enough to pursue the obviously customer-relevant aspect of customer service. Customer support today is no longer one-dimensional in the sense of maintaining and generally accompanying a special fund mandate. From today's perspective, the account manager assumes a multifunctional position that ideally embraces a broad understanding of his client's investment policy. In addition to knowledge of the fund managed by the fund manager, this includes know-how about the client's regulatory background, the development of possible hedging strategies and solutions in the area of performance and risk reporting.

Based on this modern understanding of roles, we have defined the current requirements for a customer advisor and grouped the resulting individual criteria into groups, which are methodically described in the following chapter.

B) METHODOLOGY

The starting point of the survey is a questionnaire comprising seven sets of questions, divided into the following titles:

- Investor group
- Organizational requirements for the Asset Manager / relationship manager/sales
- Skills / knowledge of the relationship manager/sales
- Time aspect in customer service
- Type of communication
- Disturbing factors in customer service
- Satisfaction with customer service

Within the aforementioned questionnaire, TELOS provided investors with various possible answers. This concerns in particular the question complexes to the organization, the know-how of the relationship manager, the time aspect as well as the kind of the customer service. Overall, the participants were able to classify and rate 36 individual topics in terms of content. The questions and the possible answers basically aim at the relevance of the respective sub-topic and could be answered by selecting between six levels:

- (5): very important
- (4): important
- (3): neutral
- (2): less important
- (1): hardly important
- (0): unimportant

In the seventh chapter "Satisfaction with customer service", investors ranked up to five asset managers whose customer service they were particularly satisfied with.

The questions were tailored specifically to the needs of the target group "institutional investor".

For many years, TELOS has a high experience regarding the needs and requirements of institutional investors as well as asset management strategies, based on several

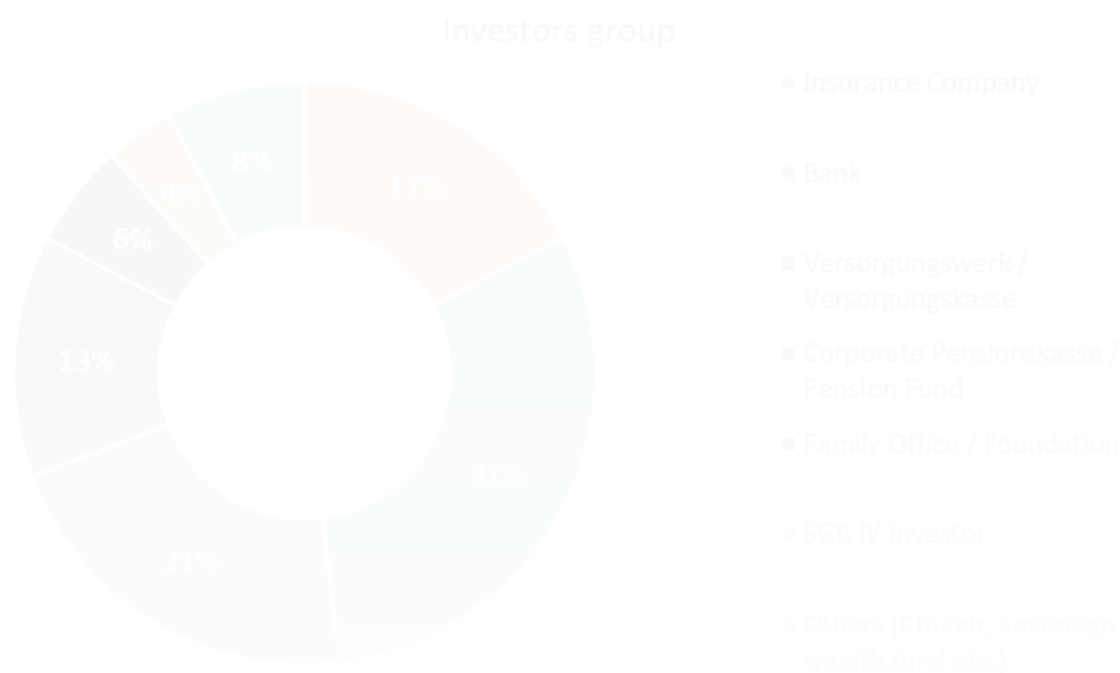
- Analysis / studies / surveys (e.g. „TELOS-special funds market study“, since 2000)
- Qualitative ratings (e.g., manager ratings)
- Tenders (Consulting business of TELOS) as well
- Personal discussions with institutional contacts.

TELOS-Survey „Client Relationship Management“

b) The participant group is recruited exclusively from contact persons of institutional investors. In addition to the known subdivision of institutional investor groups (usually 5 investor groups), a further specification has been made in the present case, resulting in the following 7 investor groups:

- Insurances
- Banks
- Occupational pension scheme
- Corporate pension funds
- Family Office / Foundations
- SGB IV - Investors
- Others (churches, sovereign wealth, etc.)

The spectrum ranges from smaller investors to institutional addresses in the high tens of billions. The survey reflects a representative section of the institutional market in Germany.



The contact was mainly by e-mail, sometimes by phone. TELOS was able to use its contacts with individual investors in the survey. A large proportion of the completed questionnaires result from various follow-up telephone calls directly by the investors.

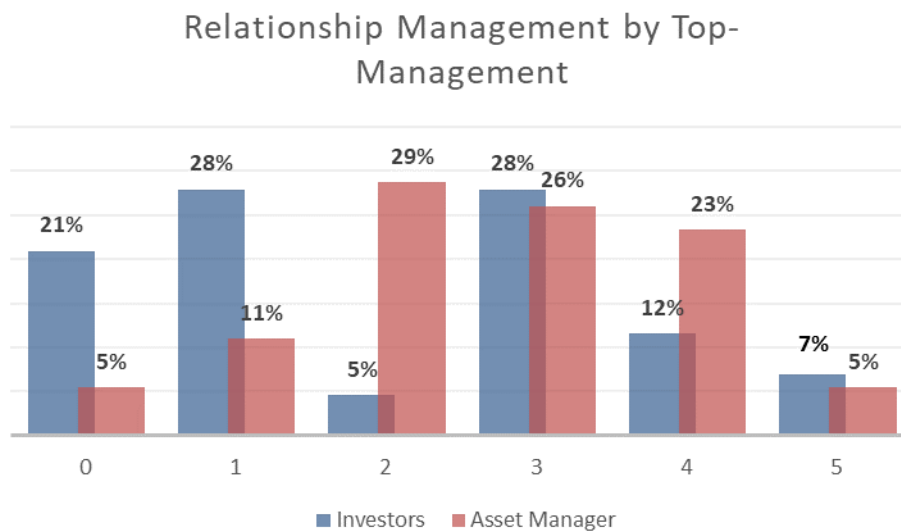
The survey was conducted in cooperation with the following partners:

C) RESULTS

C1) Requirements regarding organisation

All questions could be answered in six levels from "very important" (5) to "unimportant" (0).

Relationship Management by Top-Management



It appears that asset managers still overestimate the direct involvement of a managing director in the customer relationship. Often, however, asset managers try to score points with this personal touch of relationship management, for example with regard to questions in due diligence rfp's. However, the expectations of investors are different. In their opinion the management should only engage in direct relationship management when it comes to strategic considerations regarding the mandate (such as fee negotiations or adjustments) and not on a regular basis.

D) MANAGEMENT SUMMARY

"Relationship management", understood in the sense of delivering real added value for the customer, has been developing more and more into a commodity in the customer relationship between the asset manager and the institutional investor for years. Today, there is no longer a manager selection process without questioning the manager's attitude towards his "understanding of optimal relationship management and customer care" and putting his "capacity and qualifications" to the acid test in this area. The reason is that asset management providers, asset managers themselves, as well as Master-KVGs or custodians, increasingly play the role of an extended arm of the investor. They assume the function of internal employees of the investor; It is not without reason that today we are talking about outsourcing of certain functionalities. The definition of customer service according to old „gusto“, namely doing socialising with contacts and paying the bill for lunch or other social events, is history.

Our aim was to separate the term of relationship management from its mostly one-dimensional view and to try to break down the decisive functions in connection with a professional customer service / relationship management into its components.

This resulted in a breakdown into five questionnaires (with a total of 36 sub-questions):

- Organizational requirements for the asset manager / relationship management
- Skills / knowledge of the relationship manager
- Time aspect in customer service / relationship management
- Type of communication
- Disturbing factors in customer service / relationship management

From years of experience in discussions with investors and asset managers, we had come to the conclusion that good customer service is not limited to a positive selection of services or capabilities, but can also be seen in a kind of negative selection. For this reason, the explicit demand for such "concerns" seemed quite appropriate.

The answers of institutional decision-makers provide a high knowledge-profit, especially for providers in asset management. Our goal was also to contrast the results from the investor analysis with a parallel survey of the asset management side. On the one hand, this self- / external image comparison helps to critically question one's own assessment; on the other hand, important measures can also be taken for day-to-day business, for example with regard to the focus of individual services.

In summary, the assessment of the asset managers correlated in some respects relatively harmoniously with the opinion or the requirements of the investors, including, for example, the "assignment of a personal account manager", which takes care of all customer issues centrally.

CUSTOMER CENTRICITY: WHY IS IT SO HARD TO ACHIEVE AND HOW TO CULTIVATE IT IN EVERY CUSTOMER INTERACTION

by Marco Wunderlich

Outstanding customer centricity. Almost every provider promises it. But do they actually deliver it? If you asked customers – as TELOS did – you could be in for a surprise: as it turns out, customer centricity is pretty weak in general. To be fair, absolute customer centricity is very difficult to achieve. Most service providers have a poor understanding of what their customers expect from a presentation, pitch, RFP response or written tender and an outdated blueprint.

This article provides a blueprint and process for cultivating customer centricity in every customer interaction. Although this can be applied for all kind of interactions with prospective and existing clients, we focus here on tenders.

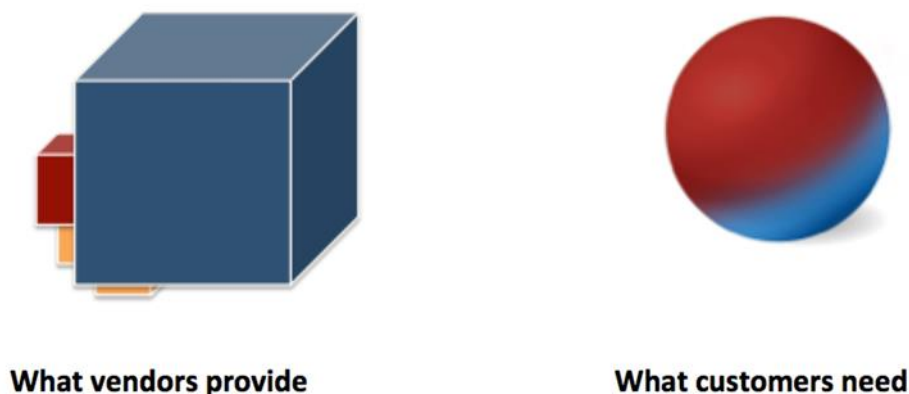


Fig. 1: Customer-provider: the structural problem. Most providers offer too much information. What customers want is a compact, well-rounded account.

When submitting a tender, providers often focus on themselves and their product, delivering detailed manuals and glorified brochures that are awash with technical terms. Ideally, though, what they should be delivering is a clear account of how they can help the client overcome their challenges. Even if the solution is complex, what most clients want is a clear basis for their decision.

Preparing a tender is a laborious business. Most bidders gather all kinds of information they believe their prospective customers will need. But they often have little concept of how to structure their tender, include only the relevant detail and, most importantly, ensure the service they are offering actually meets their client's needs. To prepare a successful tender, you need a detailed

understanding of your prospect so you can tailor your proposal accordingly and offer a comprehensible solution that meets their requirements in full. When it comes to the final decision, clarity and relevance will set you apart and ultimately win you the contract.

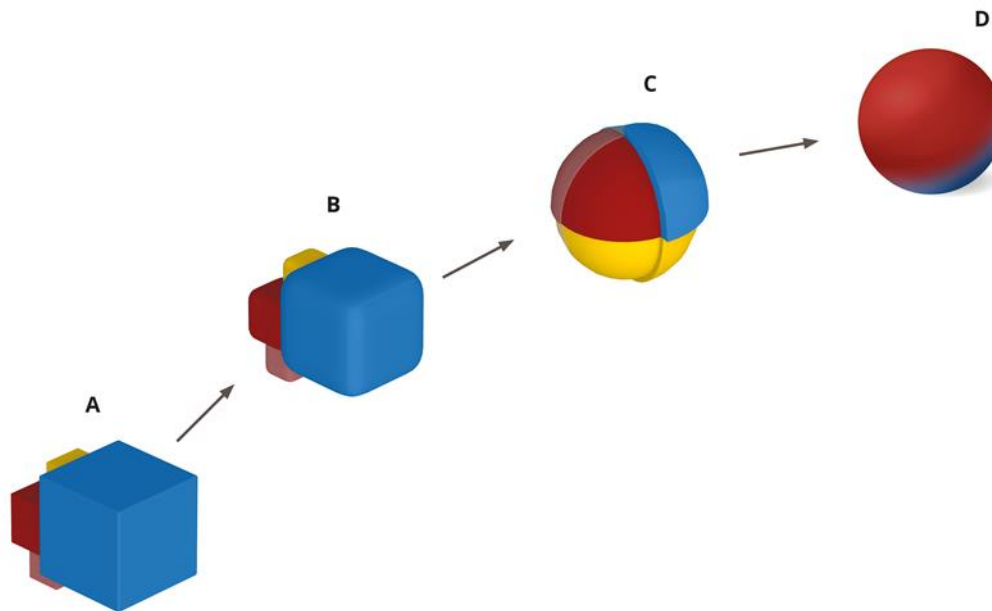


Fig. 2: From technical detail to successful tender: The OPAG framework is a step-by-step process for working from disparate items of technical detail toward a coherent, rounded package that meets the needs of the client and convinces their decision-makers.

Competition is tough and you know your solution is the best. So make sure your prospect knows it too! Gearing customer interactions toward the decision-making process sharpens understanding on both sides: the customer understands the benefits, and you understand the customer. The OPAG (Offer Performance Attribution Grid) is a tried-and-tested tool that helps you do just that: tailor your information to provide a clear, accurate, convincing basis for the customer to make their decision.

The secrets to success: high Sharpe-ratio in customer interactions

If an investor is willing to give you their attention, they will want to see the value of your offer. They will want relevant, usable wisdom —not just information - about how your solution meets their needs, and makes them look good in the process!

So, the question is: how can we manage a prospect's perception of our value-add? There are several aspects to consider, which are illustrated in Fig. 3:

1. **Customer understanding:** The first step is to understand what is driving your prospect. Some of their needs, wishes and requirements will be obvious, others less so. These needs are represented as the top layer of the 'cube' structure in Fig. 3. At this stage, you should be looking to join your customer's in-house conversations, both in their purchasing departments and among their decision-makers.
2. **Performance positioning:** Next, link your customer's needs to the solution you are offering (see top right of Fig. 3). At this stage, you will need to omit anything that does not directly connect with your customer's requirements, as this will not be of benefit to them. As you organise your relevant information, make sure you keep it clear, interesting and manageable to keep their attention.
3. **Human factors:** Organise the content you would like to present into a coherent, convincing sequence. If there are any potential causes for concern or objections (bottom left in Fig. 3), have your answers ready so you can reassure your prospect. Give the prospect the information they have asked for and the reassurance they need to choose your proposal.
4. **Communication:** Round off your communication with simple words and strong graphics that speak the language of the customer. Call on your marketing team to assist you in making these preparations, as they can give your message additional structure and strength. Problem resolution is your job; 'smooth' communication is theirs.

Clear, precise, convincing tenders tend to be structured according to very specific rules – and that's where much of the asset management industry has its shortcomings. Financial service providers know all about investments and capital markets but often need to learn more about the real issues their customers face. Convincing communication will address these issues and support the customer's decision-making.

The requirements of a tender

When it comes to submitting a tender, product features and performance data are certainly very important – but in today's competitive environment, they're nowhere near enough. A good track record, a customer base with well-known names and excellent service are essential for you to even enter the conversation.

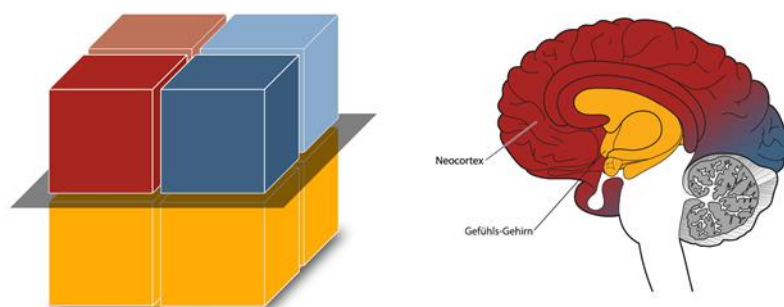


Fig. 3 There are times when 'just enough' is ...well, not quite enough! Investors need relevant, useful information. Even in institutional business, underlying emotions impact on decision-making because, ultimately, even decision-makers have them.

Even the most rational decision-makers are driven by their beliefs, fears and prejudices. Failure to address them will leave your proposal open to interpretation. By tackling them directly, you can make sure that your proposal will be understood as a change for the better. A focus on hard facts is vital, of course, but without the necessary emotional underpinning, your entire proposal can collapse.

"I attribute as much of my success to what I've learned about the brain as I do to my understanding of economics and investing."

Ray Dalio

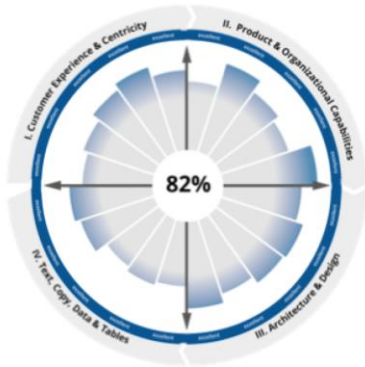
Founder Bridgewater Associates, largest and best performing hedge fund in the world

When it comes to gaining a better insight into emotional foundations of a prospect, high-quality customer interactions are essential. Over the last few decades, 'soft' skills have largely been demystified and are now entirely learnable. Leadership, project management, storytelling and even innovation are astoundingly systematic, and with the right approach, you can delve into your customer's world more deeply than ever before.

The 'art' and science of writing a good tender?

A good tender has to meet all sorts of specifications, some of which may not be intuitive and can even appear contradictory. But as an asset manager, you'll be used to solving complex tasks with multiple variables! In portfolio management, much use is made of structured processes, models,

best practices and benchmarks, and performance is measured continuously. So why not do the same with customer interactions?



Portfolio performance can be broken down into its components. So too can the quality of a tender. Fig. 4 shows a clear level of quality in the four areas described above. All of these items can be scored. It indicates where more work is needed and provides a plan of action.

Fig. 4 Offer Performance Attribution for customer interaction shows the status of each of the 20 factors and potential for optimisation.

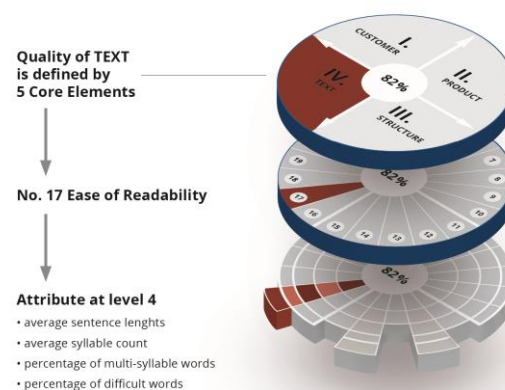
Winning a pitch is not an art; it's a **formulaic process**. **Dependable formulas for success** are available and can be used to secure a competitive advantage – and consequently faster, more profitable AuM growth.

Ninth-grade writing à la Warren Buffett ...?

When submitting a tender, how can you make sure someone actually reads it? We said at the top of this article that one of the four key indicators of a high-quality tender is good communication, so let's look now at what makes something readable.

Readability has been the focus of considerable research since the 1940s and can be determined through aspects such as the average number of syllables per word, average sentence length and the proportion of difficult words in a text. All of these are controllable.

Fig. 5. The OPAG framework provides a system for breaking down and optimising the elements of communication and managing them for success.



Readability is just one of 20 core factors we've identified as making up a great tender. All of them – and indeed the tender itself – can be broken down, optimised and managed in the same way.

All just marketing gimmicks? Definitely not. Even Warren Buffett ensures that Berkshire Hathaway's annual reports are written ninth-grade level. He knows very well that this level of communication has the highest probability of being understood.

Next Steps

The quality of tenders definitely has alpha potential. Customers need a solid basis for their decision-making, and there are known blueprints for providing one:

1. Start by optimising readability. The standard MS office package is useful here, but there are also free online services such as www.readable.io.
2. Use the traffic light method to check executive summaries – they take just five minutes to evaluate and analyse. Just drop as an email at mw@PITCHarchitects.com to get the guide for great summaries.
3. For a detailed analysis or performance attribution of your sales documents, use the OPAG framework presented here. Alternatively, go to <http://www.PITCHarchitects.com> for a customer's view on your communications.

About the author



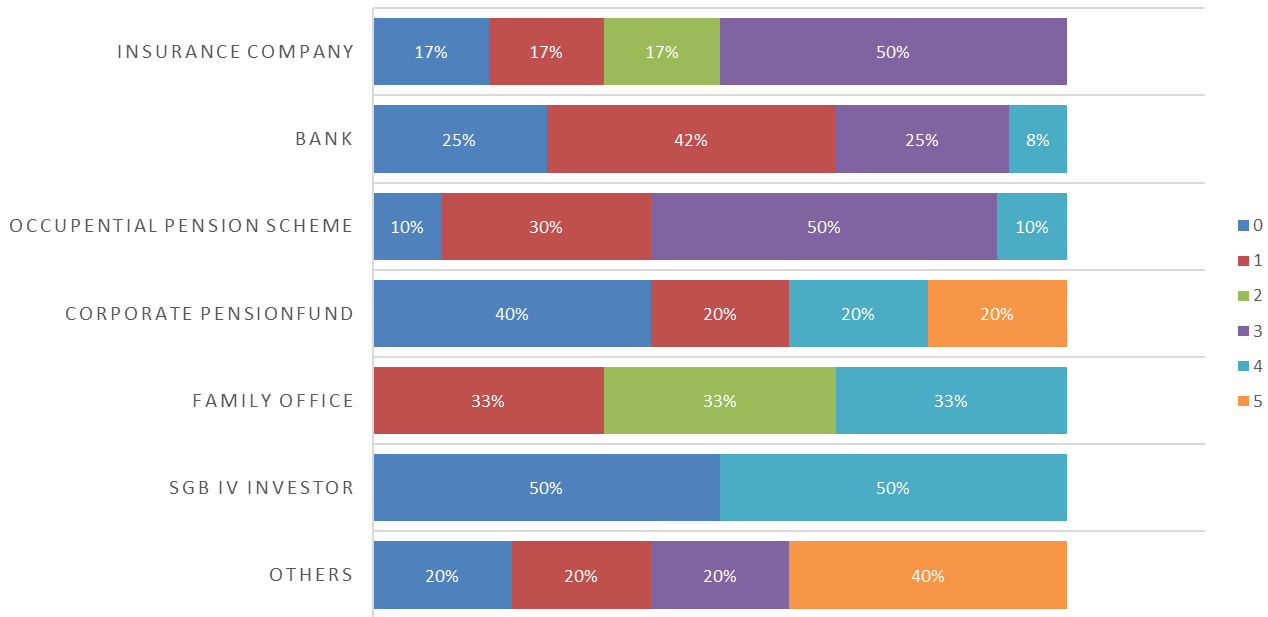
Marco Wunderlich has a background in asset management and consults with asset managers, banks and FinTechs on high impact customer interactions. He himself has raised funds with an average volume of € 100+ m per investor, was head of the proposal /rfp-desk with various asset managers, and head of sales of a Master-KVG (preferred investment platform for German institutional investors). He is author of various publications on customer centricity and holds an MBA from the University of Chicago.

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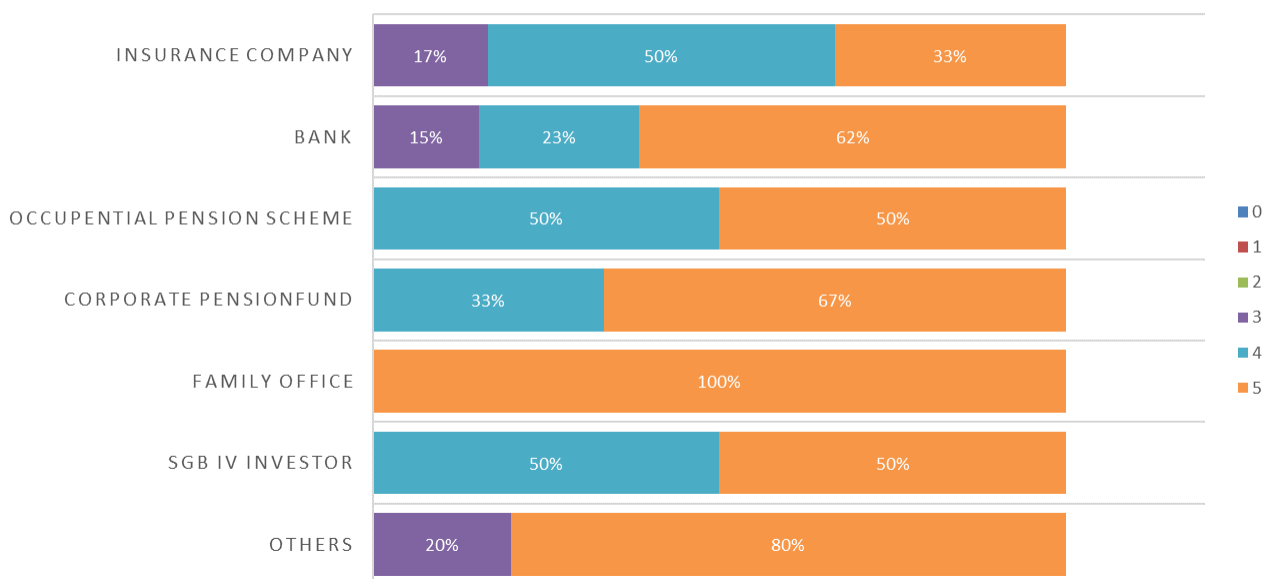
ANNEX: RESULTS PER INVESTORSGROUP

Organisational requirements

RELATIONSHIP MANAGEMENT BY TOP-MANAGEMENT



PERSONAL ACCOUNT MANAGER – AS A KIND OF CENTRAL COORDINATOR



Important NOTE

The statements and assessments in this analysis report are based in part on the evaluation of external information, the sources of which we believe to be reliable, but without guaranteeing their correctness and / or completeness.

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