

**FROM TRUST TO LOYALTY:**

**A GLOBAL SURVEY OF**

**WHAT INVESTORS WANT**

**2016**



**CFA Institute**

FROM TRUST TO LOYALTY:

# A GLOBAL SURVEY OF WHAT INVESTORS WANT



## A message from Paul Smith, CFA, President & CEO

The best way to learn what investors want is to ask and listen. CFA Institute commissioned this survey with Edelman, an organization with years of experience measuring trust across industries, to find out how investors are doing and what investment professionals can do to better meet their needs.

### Survey Respondents

#### 3,312 Retail Investors from 10 countries

25+ years old

Have investable assets of at least \$100,000

#### 502 Institutional Investors from 6 countries

Responsible for institution's investable assets of \$10 million or more

The survey finds that trust levels among investors have risen since our first joint study in 2013, but it is not all good news. With higher trust comes higher expectations, and the gap between what investors want and what we as a profession are delivering is cause for concern, and action.

Investors want advisers they can trust who have their best interests at heart. They expect greater transparency and communication, especially during periods of market volatility. Increased levels of care are particularly acute during downturns. And, in this digital age, a lack of reliable security measures to protect their data can be cause to find another adviser.

In short, investment managers who truly want to differentiate themselves from the competition will need to do much more to demonstrate their value proposition. As stewards of other people's money, investment managers have a deep responsibility to be good fiduciary managers and ethical participants in the financial markets. CFA Institute, as an advocate for best practice in the investment profession, offers tools and resources to meet this responsibility.

It is incumbent upon us to listen to what investors are telling us they want and ensure that our profession continues to evolve to earn their trust. Then we can do what we do best – help them to achieve their investment goals.

A handwritten signature in black ink, appearing to read 'P. Smith', written in a cursive style.

**Paul Smith, CFA**  
**President & CEO**

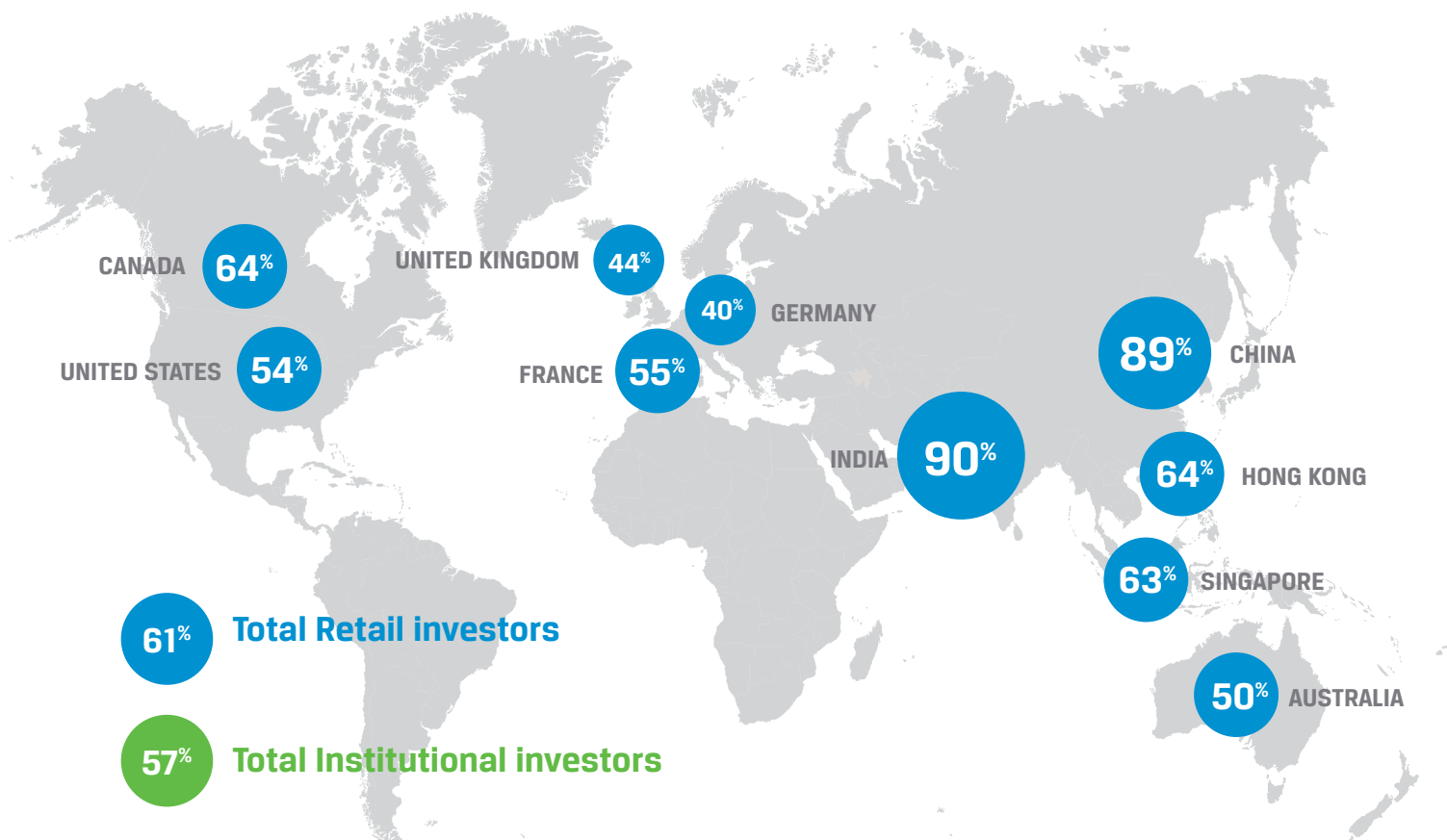


# TRUST AMONG INVESTORS HIGHER, BUT FINANCIAL SERVICES STILL RANKS RELATIVELY LOW

Since CFA Institute and Edelman last conducted the Investor Trust Survey in 2013, investors' trust in the financial services industry to do what is right has generally increased. In addition, investors have a slightly more favorable view of the industry (61% for retail investors and 57% for institutional investors) versus the general population surveyed in the 2016 Edelman Trust Barometer (51%), but in both groups, financial services remains in the bottom tier of trust relative to other industries.

## How much do you trust businesses in the financial services industry to do what is right?

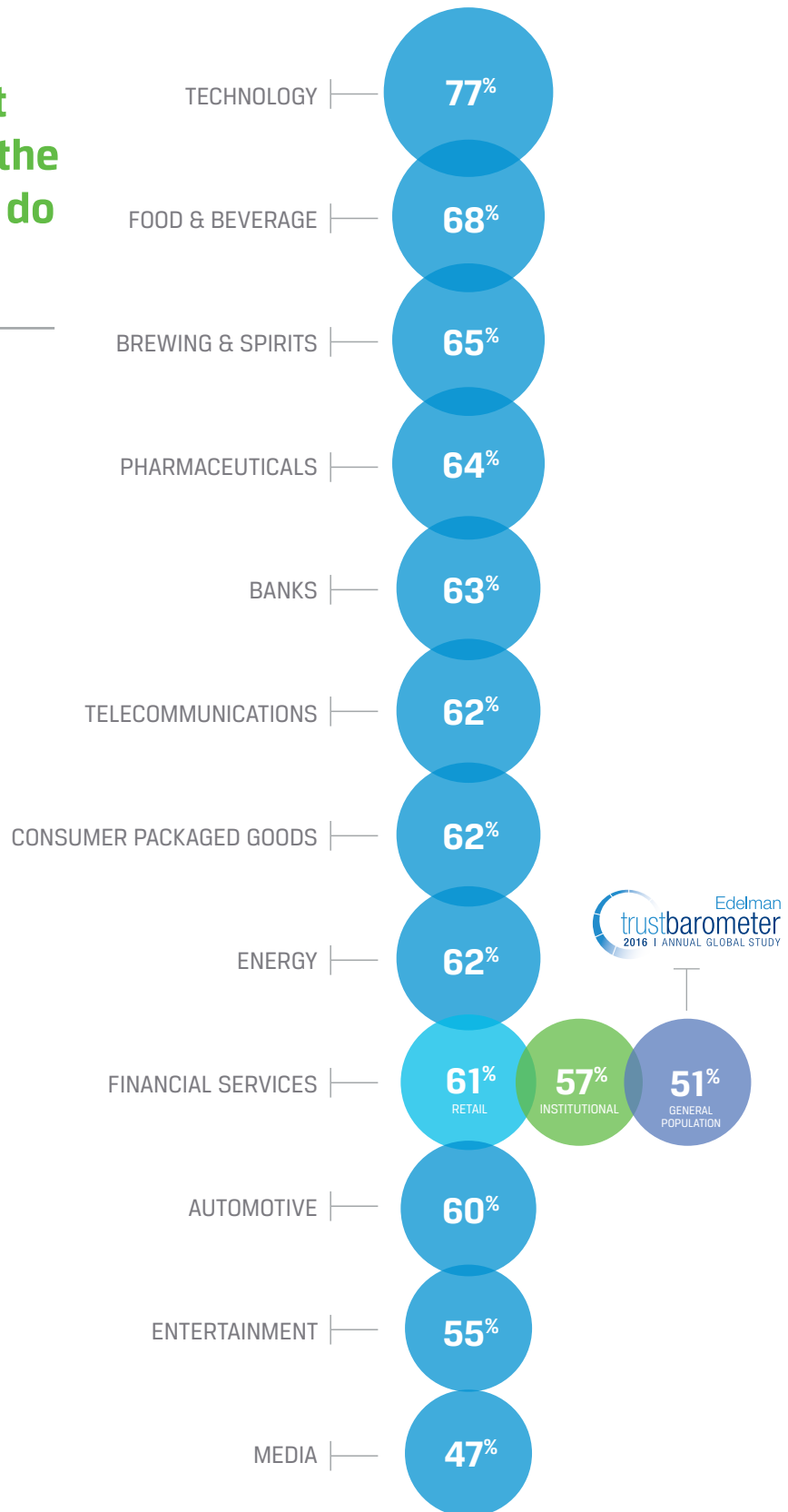
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\*Map shows retail investor responses by country

# INVESTOR TRUST IN THE FINANCIAL SERVICES INDUSTRY CONTINUES TO RANK IN THE BOTTOM TIER

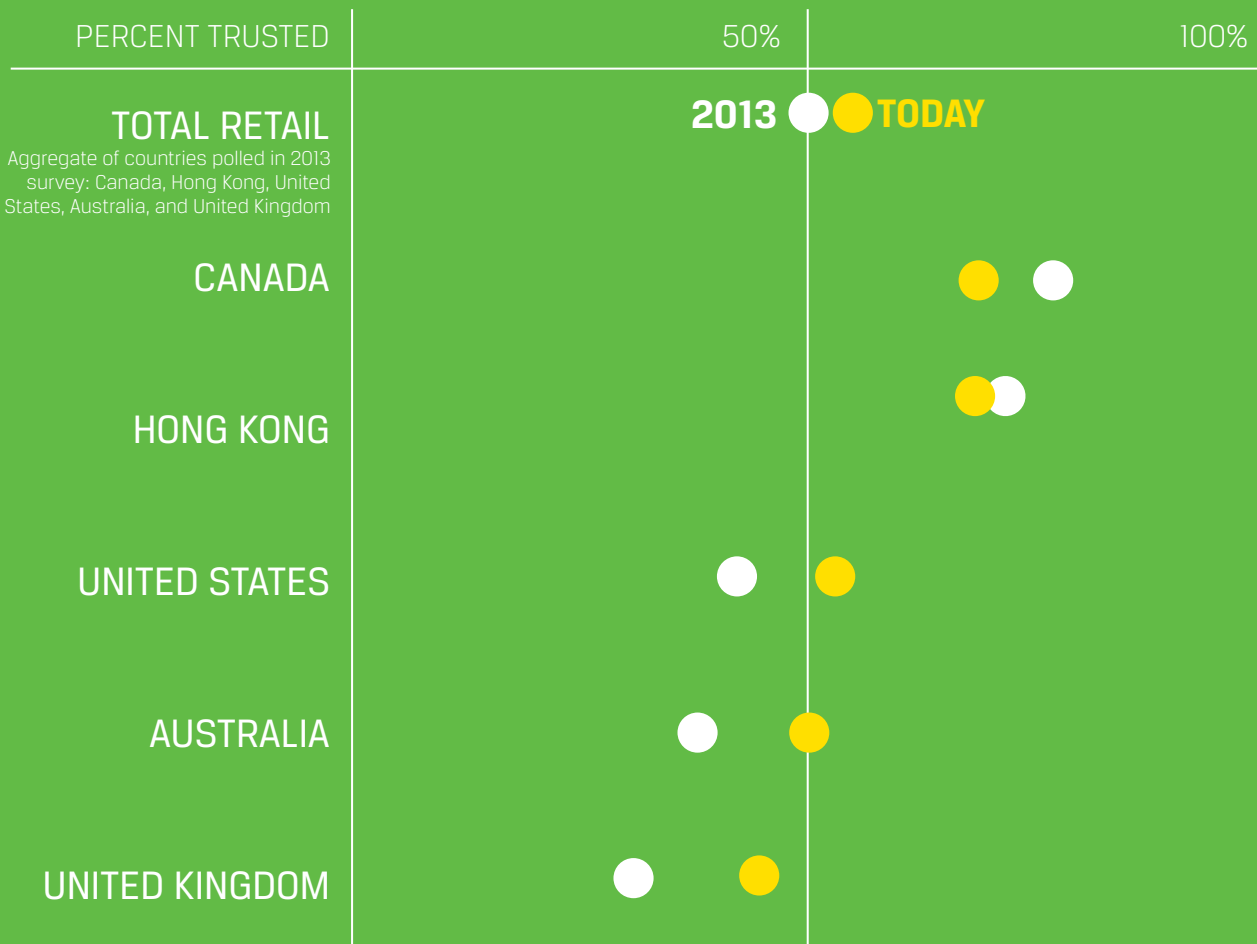
How much do you trust businesses in each of the following industries to do what is right?





**Today,  
investors in  
the majority  
of markets are  
considered  
"trusting" toward  
the financial  
services industry**

## Comparison of Retail Investor Trust Levels: 2013 vs. Today



Canada and Hong Kong (two markets with high trust levels in 2013) have seen declines in trust; the U.S., Australia and the U.K. have climbed. In this survey, we expanded our global reach to include France, Germany, China, Singapore and India. Among retail investors, those in China and India had much higher absolute levels of trust (90% and 89% respectively) compared to investors in other markets, though these are also the markets where relationships with investment managers are newer — only 22% in China and 22% in India have worked with their primary investment firm for seven or more years. This is relatively low when compared to retail investors in the U.S. (69%). Globally, 45% have worked with their

primary investment firm for 7 or more years.

Meanwhile, despite continuing questions on whether the markets are functioning well and offer equal opportunity to investors, 77% of retail investors worldwide still believe they have a fair opportunity to profit in capital markets, with investors in Singapore (90%) and India (88%) in particular reflecting this sentiment. Among institutional investors globally, it is 86%. This reflects the fact that investors have never had it better in terms of efficiency, speed, and pricing in the marketplace, and demonstrates a clear role for investment managers to help clients successfully navigate the markets and achieve their goals.

# INVESTOR LOYALTY NOT TO BE TAKEN FOR GRANTED

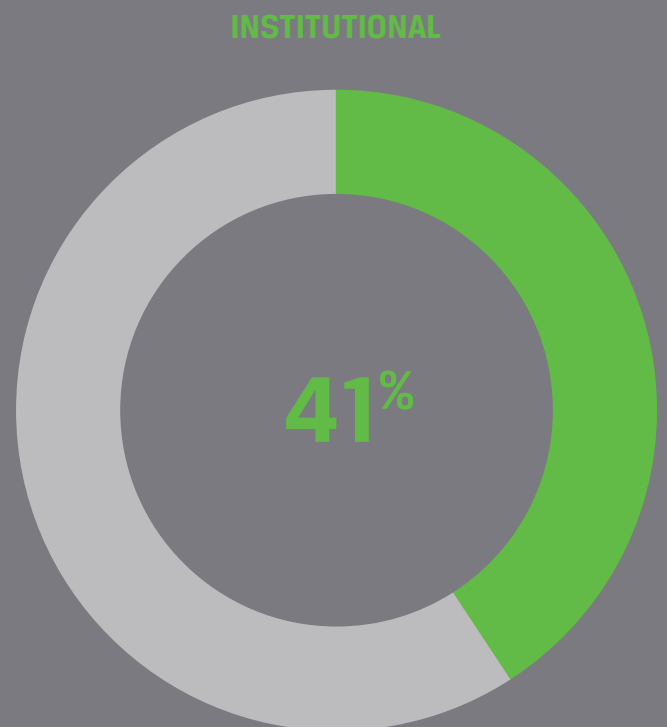
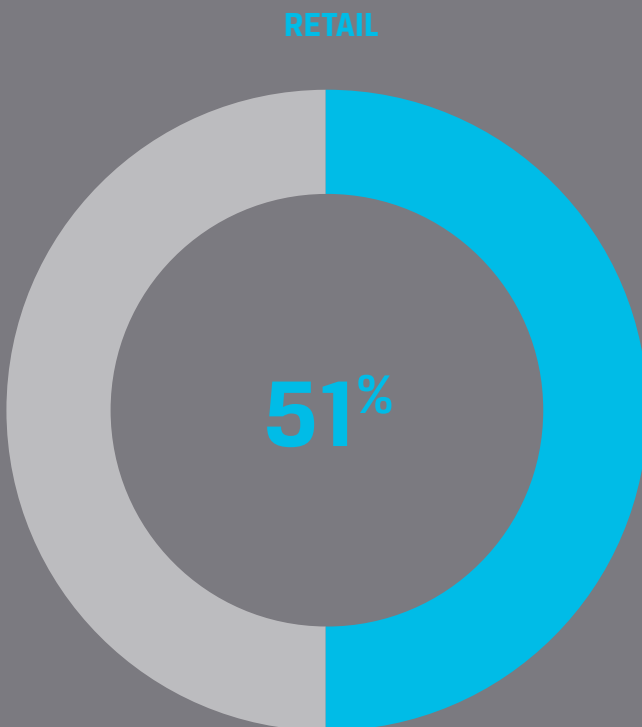
Investors have mixed loyalties to their investment managers. When asked what would make them leave their current firm, the top response was underperformance (53% of retail investors and 60% of institutional investors). Other common triggers for a move include fee increases, a data or confidentiality breach, and lack of communication and responsiveness. Once they consider a move for any reason, 76% of retail investors and 74% of institutional investors will switch investment firms within six months.

Similarly, only 51% of retail investors and 41% of institutional investors would recommend their current firm, suggesting an underlying weakness in loyalty.

The importance of recommendations as an indicator of trust and loyalty has motivated the adoption of metrics like the Net Promoter Score®, used by firms who want to grow their business by word of mouth.

## How likely are you to recommend an investment firm you work with to others?

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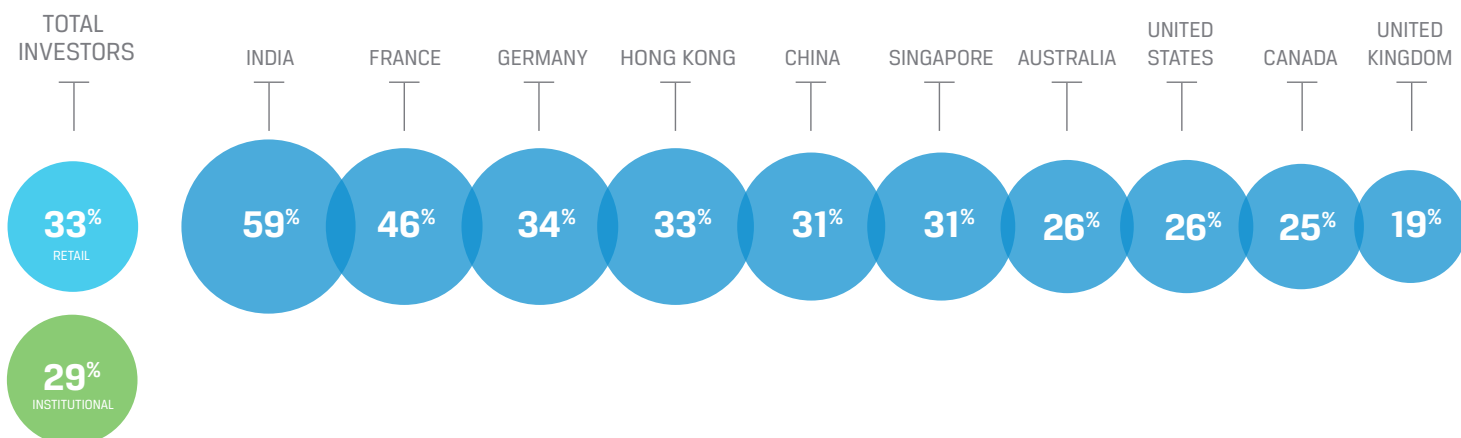
# LOYALTY AT RISK DURING CRISIS

A time that loyalty is particularly at risk is during a crisis, with 27% of retail and institutional investors saying they would re-evaluate their manager based on their performance through a crisis. While a crisis may seem an unlikely scenario to most investment professionals, recent history has influenced the thinking of investors, and many are concerned about the prospect of another financial crisis in the near future.

A significant proportion of investors – one in three – think another financial crisis is likely within the next three years, and it's the younger investors aged 25 to 44 who are most concerned. Surprisingly, investors over 65, those likely in a draw-down phase of investing and therefore the demographic most exposed in the event of a downturn, appear least concerned. Geographically, concerns are higher among retail investors in India (59% say a crisis is very or extremely likely) and France (46%), while the U.K. is at the other end of the spectrum at only 19%.

In the face of such uncertainty, investors are much more cautious in how they would approach a potential calamitous financial event – well over a third of both retail and institutional investors indicated they would reallocate their portfolios to less risky financial products and would focus more on risk management than returns in the event of a crisis. Importantly, however, institutional investors are also likely to balance this with an opportunistic eye to take advantage of price dislocations. Meanwhile, the top expectations of all investors from their investment firms during this time include taking swift and decisive action to protect their portfolio, providing market updates and portfolio implications, and communicating regularly.

## How likely is it that there will be another financial crisis within the next 3 years?



# INVESTORS REQUIRE ACTIONS THAT DEMONSTRATE TRANSPARENCY

Market turmoil also has contributed to a need for greater openness and engagement, as investors feel a particular lack of control over their investments during these times. Though markets are always uncertain, investors do not want to be caught off guard by unforeseen developments, and having more information mitigates this concern to some degree.

Investors simply want better information today, and transparency and consistent communication are more important than ever in the client relationship. Investors' expectations have risen following increased media scrutiny of industry conduct and the availability of information from new technology platforms.

By transparency, investors mean clear, forthright communication: regular, clear communications about fees; upfront conversations about conflicts of interest; and easy-to-understand investment reports.

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**Transparency and  
consistent communication  
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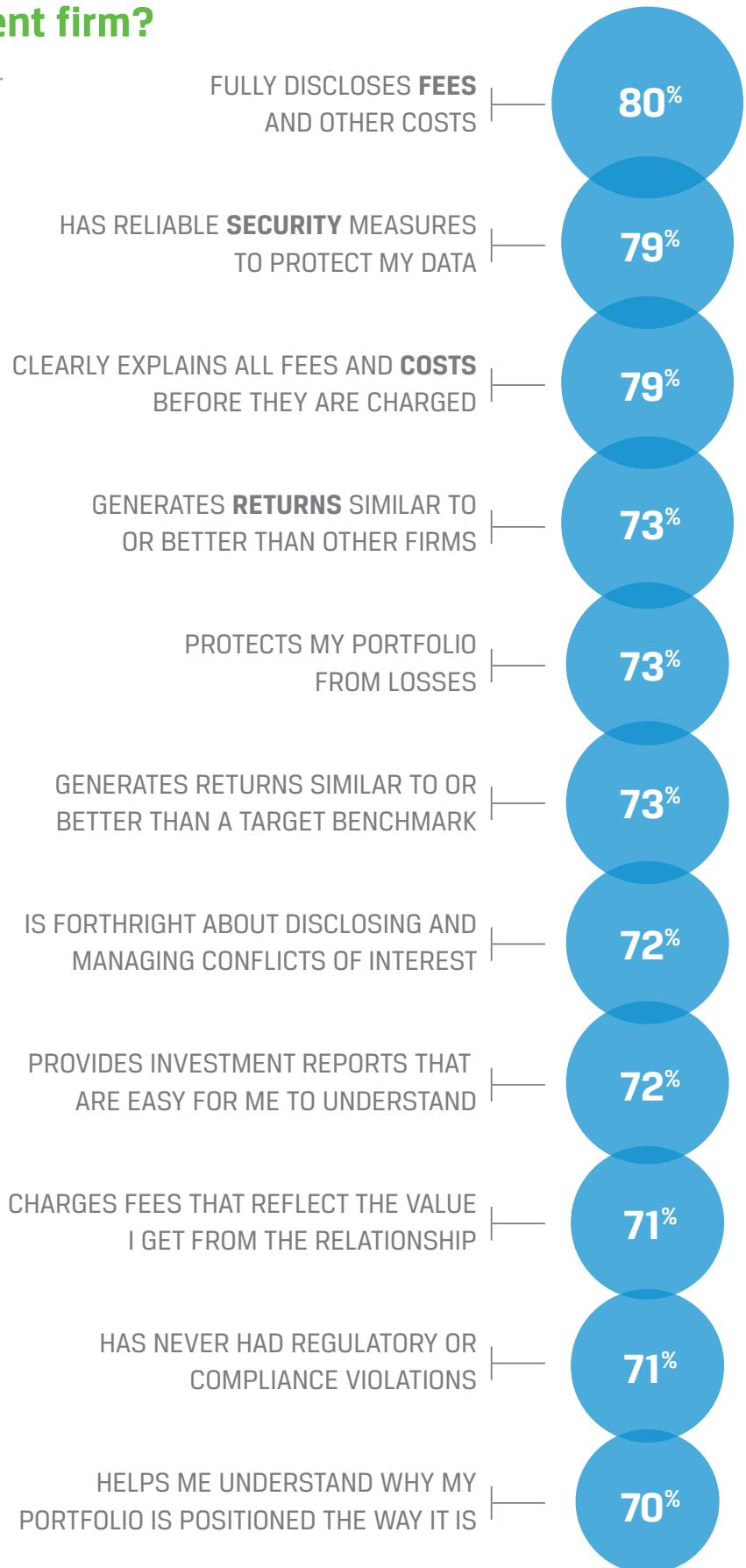
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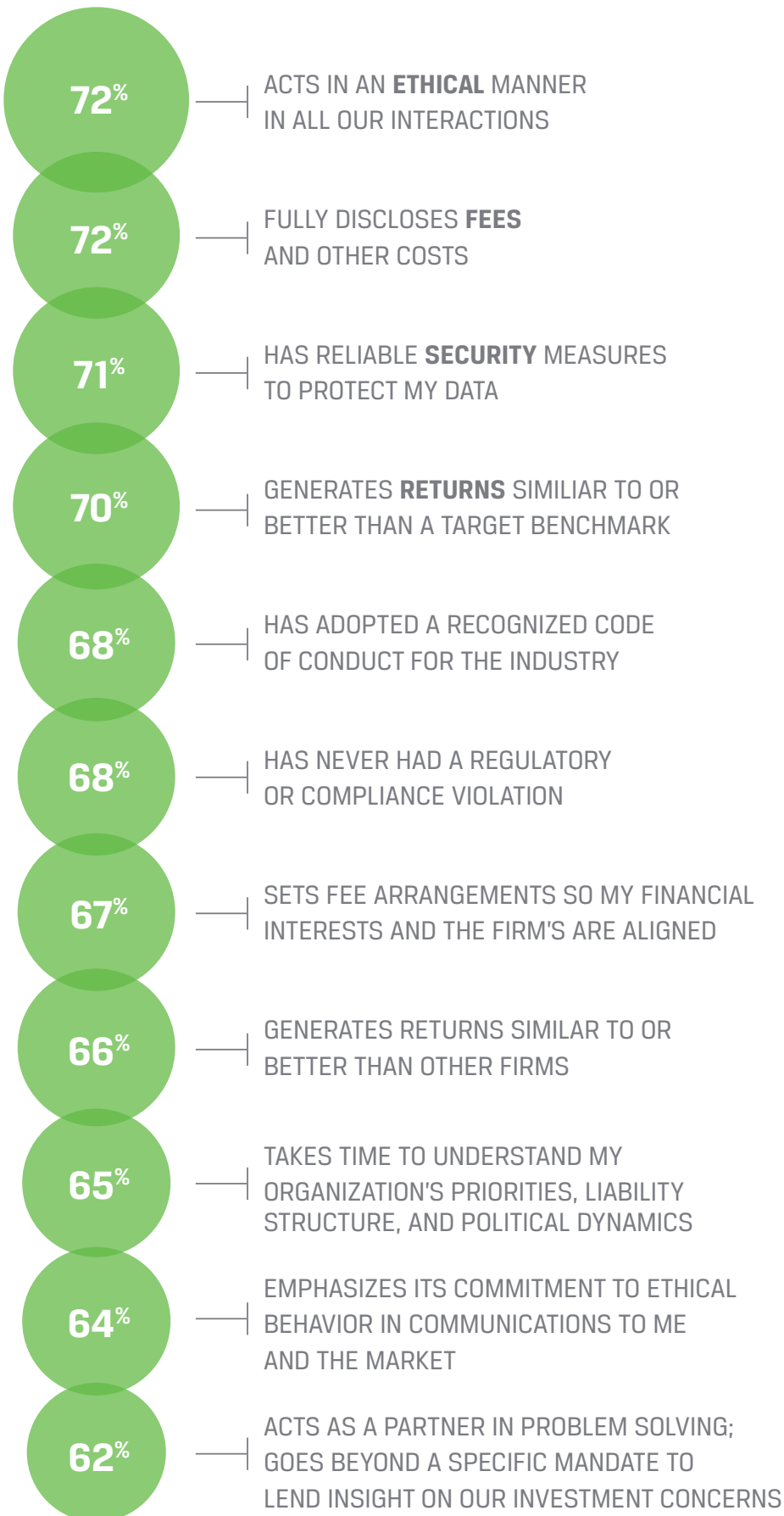


# How important are the following attributes when it comes to working with an investment firm?

## RETAIL



## INSTITUTIONAL



# What Investors Want

For many investors, understanding fees – how much they are paying and what they are paying for – ranks above returns in their priorities. Seventy-nine percent of retail investors said it was important to them that their investment firm clearly explain all fees before they were charged. Providing this context concerning fees is critical for investment managers to deepen trust and articulate their value proposition.

Retail investors are prepared to pay fees, even higher fees, if they feel these costs will add value or deepen existing services. The top benefits retail investors would be willing to pay more for

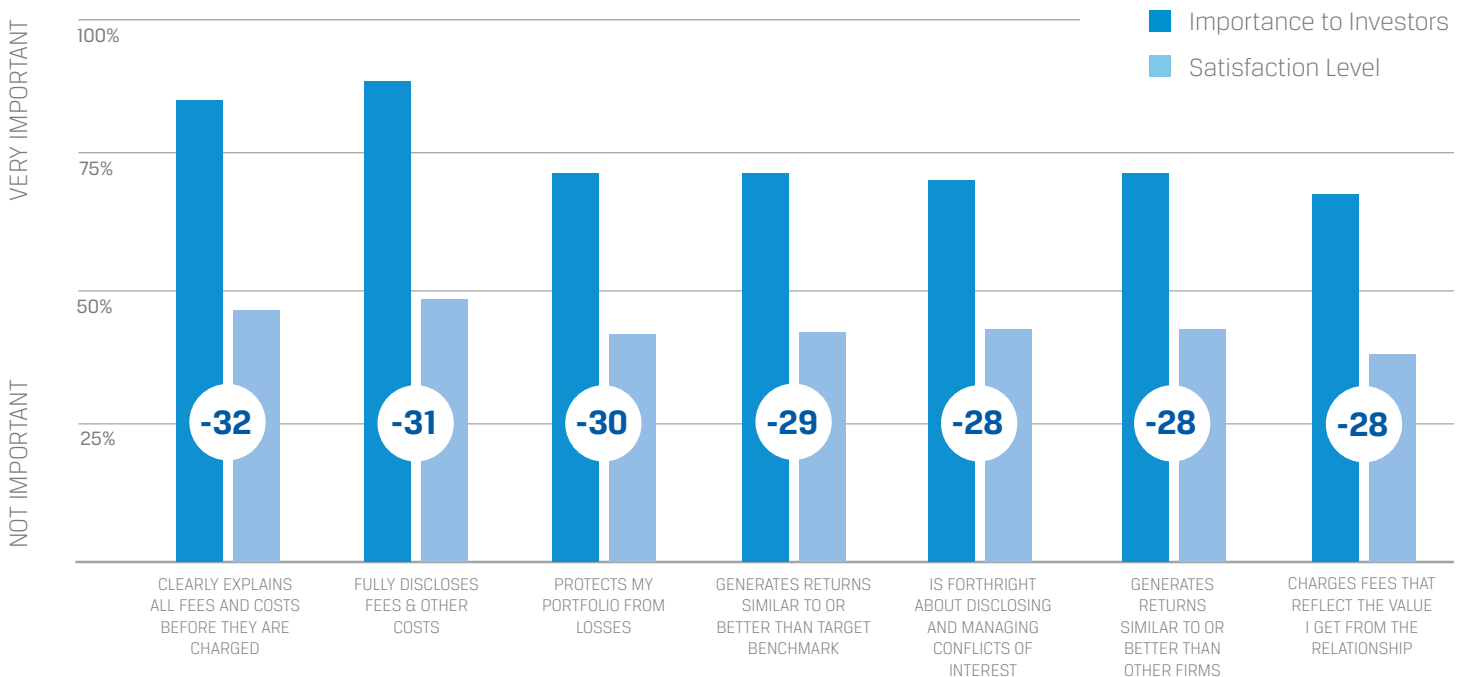
are better protection from portfolio losses (38% of retail investors would pay more) and reliable security measures to protect their data (35%).

Investors also want more context to understand specific portfolio management strategies, reflecting their increasing desire to be engaged.

The top client service attribute retail investors want is that a firm “helps me understand why my portfolio is positioned the way it is.” This is expected by 70% of retail investors, but only 46% say investment firms are adequately delivering on this—a large gap that firms should close.

## How important are the following attributes in the following categories vs. how well are investment firms delivering on these attributes?

### RETAIL



Meanwhile, processes must exist to disclose and/or manage potential conflicts of interest. Investors want to be sure that their managers are acting in their best interest at all times, and it is in the best interest of investment managers to clearly articulate their commitment to conflict management and resolution. In this spirit, retail investors prefer to have access to the best product for their unique needs (76%), rather than choosing from a constrained set of products, even if choosing from constrained offerings would lower their out-of-pocket expenses for investment management (24%).

Similarly, institutional investors aren't getting the proactive communication they want. This is expected by 59% of institutional investors, but only 41% are satisfied with what they receive in this regard.

## INSTITUTIONAL



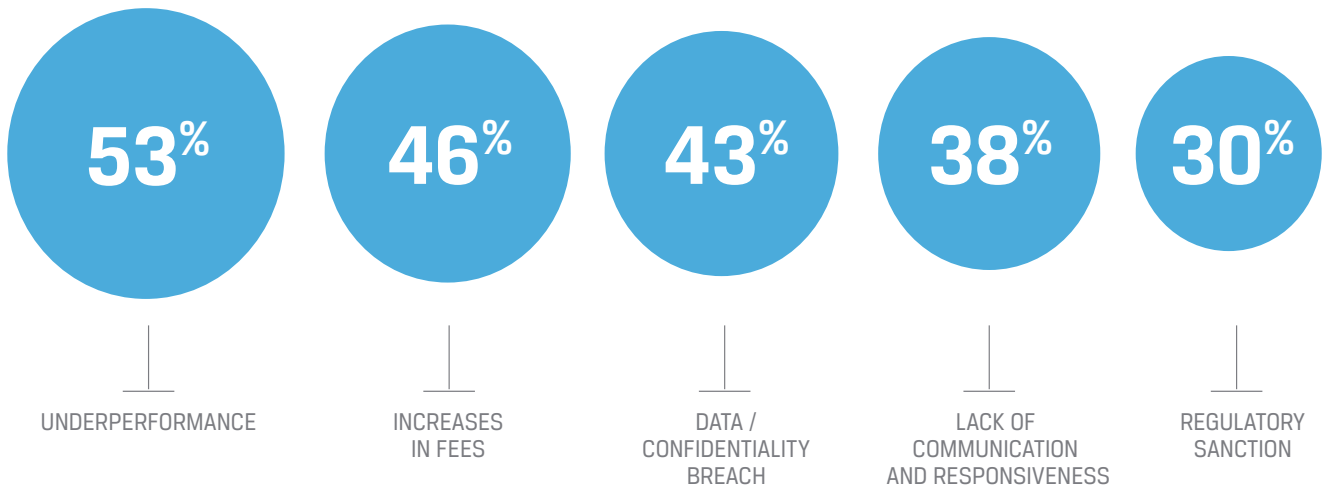
# CYBERSECURITY TOP OF EVERYONE'S MIND

For institutional and retail investors alike, the top operational priority is having reliable security measures to protect data. Investment firms must employ measures to ensure that only they and their staff have access to investors' personal and financial information.

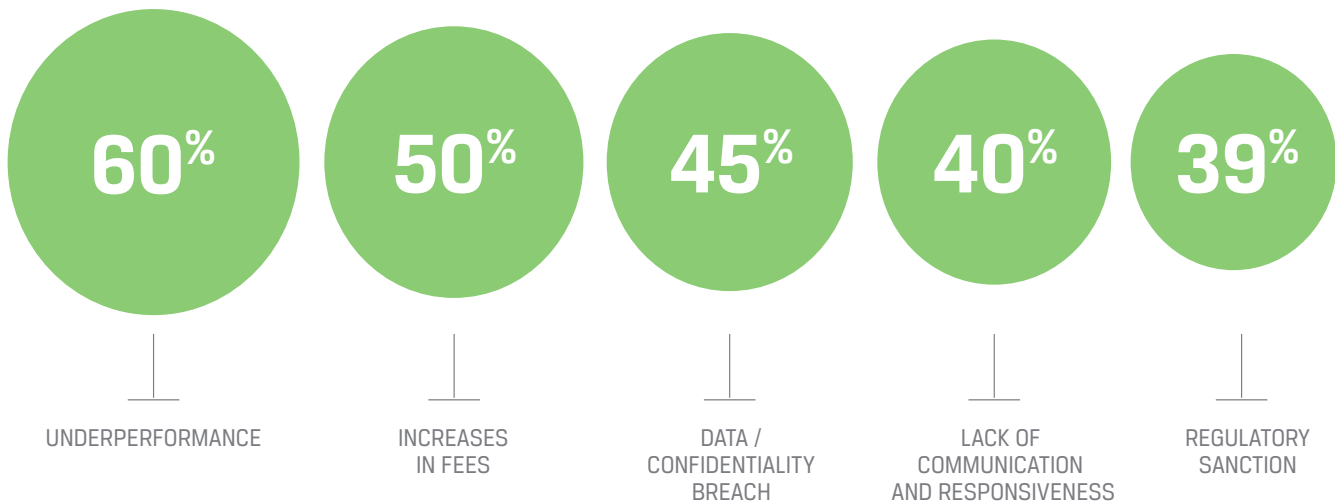
There's perhaps no greater headline risk to an investment manager or its clients than a data breach. Forty-five percent of institutional investors would leave their current investment firm if confidential information were to be compromised. Regulatory action creates reputation risks even if investors are not directly harmed by the breach.

## What are the top 5 reasons investors are most likely to leave an investment firm?

### RETAIL



### INSTITUTIONAL





# THE HUMAN TOUCH

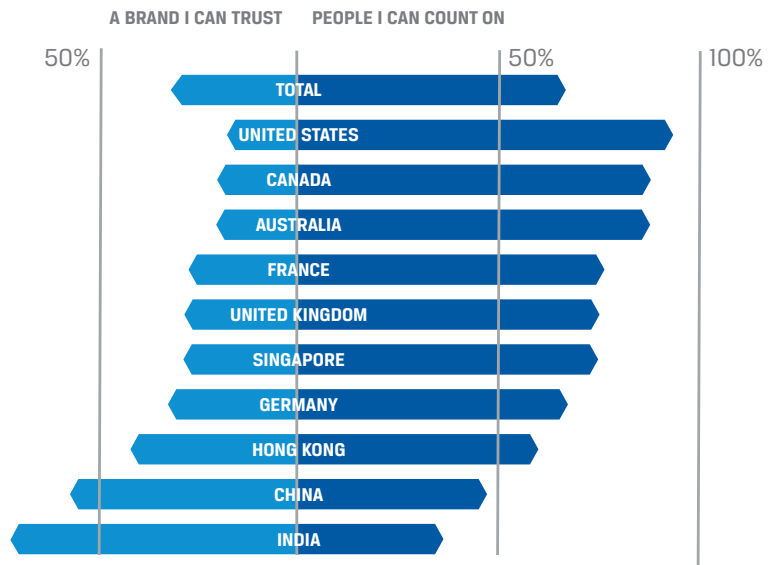
Our survey showed extensive evidence of how much investment management is a people business. Retail investors identify their financial adviser as their most trusted source of investment advice. In addition, 28% of institutional investors and 30% of retail investors said they would pay more for a firm that employs investment professionals with credentials from respected industry organizations.

Meanwhile, retail investors indicated that it is more important to have “people I can count on” than “a brand I can trust” by a two-to-one margin. Only China and India were exceptions to this. This suggests that to investors an investment firm’s brand is only as good

**By a 2-to-1 margin, retail investors say that people are more important than brand.**

as its people, which is an important consideration for investment firms when investing in human capital.

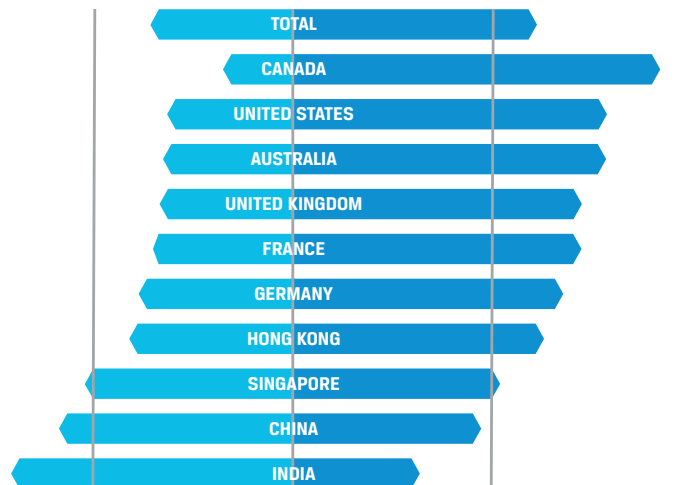
There are, however, some signs that this is changing, and technology may become even more important to investors. When retail investors were asked whether they expect to continue to value human interaction over technology over the next three years, most still preferred to have human guidance, particularly those in Canada, the U.S. and Australia. The opposite is true in China and India though, where the majority value greater access to technology, and in Singapore investors are evenly split.



**In 3 years' time, retail investors say that having a real person to help guide them will still be more important than having the latest technology and tools.**

HAVING ACCESS TO THE LATEST TECHNOLOGY PLATFORMS AND TOOLS TO EXECUTE MY INVESTMENT STRATEGY

HAVING A PERSON TO HELP NAVIGATE WHAT IS BEST FOR ME AND EXECUTE ON MY INVESTMENT STRATEGY



## ADDITIONAL EXPECTATIONS FROM INSTITUTIONAL INVESTORS: **WHAT REALLY MATTERS?**

Ethical standards matter. Institutional investors, with their complex constituencies and a clear focus on risk management, hold their investment managers to the highest ethical standards, and the most important attribute of a firm for them is that it “acts in an ethical manner in all our interactions” (important to 72% of respondents). This high level of ethical commitment is also demonstrated by having adopted a recognized code of conduct for the industry and never having had regulatory or compliance violations (both important to 68% of respondents).

Also high on institutional investor agendas are, similar to retail investors, fee transparency, data security and, of course, performance.





## VALUE FOR MONEY:

# CAN INVESTMENT MANAGEMENT FIRMS DELIVER?

Institutional investors are laser-focused on net returns, and the areas where they see the biggest gaps relate to performance and fees. Investor preferences about performance were not greatly differentiated by how it is measured: Performance relative to a benchmark or versus a peer universe is valued similarly (important to 70% and 66% respectively). Regarding fees, institutional investors want to see that fee arrangements are fully disclosed (72%) and align interests (67%). Notably, it is less important to institutional investors to have low absolute fee levels (only 58% cite this as important), and more than a third say they are happy to pay more for firms with excellent performance.

Looking at the private equity experience, a sustained lack of fee transparency has led investors to seek changes in fee disclosure standards. When investment managers are not proactive in understanding and addressing investor needs with regard to transparent fees and mitigation of conflicts of interest, regulatory attention can result, which may be more expensive to investment managers.

# DEEPENING BONDS WITH INSTITUTIONAL INVESTOR CLIENTS

Our analysis shows that institutional investors view their investment firms' actions in three distinct categories:

## Expected

Behaviors that have become essential elements of any relationship. Many of these behaviors focus on ethics and disclosure.

## Valued

Behaviors that investors see as important and regard as part of the value that comes from a strong relationship. The majority of behaviors here showcase performance and protection on behalf of clients.

## Differentiators

These actions are important to certain segments of the investors rather than a broad class, but the people who regard these areas as important assign them huge value. Providing more personalization and customization creates a more engaged relationship that matters to these investors.

ESSENTIALS	INVESTORS WOULD PAY MORE FOR	DIFFERENTIATORS
<ul style="list-style-type: none"> <li>Has adopted a recognized code of conduct for the industry</li> <li>Has never had regulatory or compliance violations</li> <li>Sets fee arrangements so my financial interests and the firm's are aligned</li> <li>Emphasizes its commitment to ethical behavior in communications to me and the market</li> </ul>	<ul style="list-style-type: none"> <li>Acts in an ethical manner in all our interactions</li> <li>Fully discloses fees and other costs</li> <li>Has reliable security measures to protect my data</li> <li>Generates returns similar to or better than a target benchmark</li> <li>Generates returns similar to or better than other firms (in comparable products)</li> <li>Takes time to understand my organization's priorities, liability structure, and political dynamics with different stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Acts as a partner in problem solving; goes beyond a specific mandate to lend insight on our investment concerns</li> <li>Communicates proactively about market dynamics and their effect on my portfolio</li> <li>Employs investment professionals with credentials from respected industry organizations</li> </ul>
<p><b>While these actions are valued, they are also expected.</b></p>	<p><b>The most important benefits institutional investors would be willing to pay more for relate mainly to performance, transparency on fees, and security.</b></p>	<p><b>Although not most important, institutional investors value and would pay more for personalization, client service, and credentialed investment professionals.</b></p>

ANALYSIS OF INVESTOR-REPORTED IMPORTANCE OF BENEFITS VS. WILLINGNESS TO PAY MORE

# BEYOND THE MANDATE

A consistent theme in our findings was that institutional investors increasingly want more than an investment manager, they want a partner who can address their investment concerns. In our fast-paced, technology-driven culture, institutional investors want to know their investment manager deeply understands their business and priorities, but this is an area where many feel managers are falling short. Bridging this gap is key to ultimately enhancing trust. Two of the top gaps illustrate this. Investors want a firm that “takes time to understand my organization’s priorities, liability structure, and political dynamics with different stakeholders” (important to 65%, but only 42% say the industry is delivering it) and “acts as a partner in problem solving and goes beyond a specific mandate to lend insight on our investment concerns” (important to 62%, and only 39% are satisfied). Running a pension fund, endowment, foundation, or family office is complex, and these clients are looking for true partners.

Investment firms must do more to prove they are serving their clients well, and the attitude firms take toward this will likely define their future success.



# INVESTORS HAVE UPPED THE ANTE AND MANAGERS NEED TO KEEP PACE

The new normal for investment managers is a financial world in which both retail and institutional investors expect and demand more. Performance remains essential, but building trust requires far more than beating benchmarks or even subscribing to a set of ethical principles on a sheet of paper. Awareness that many of the old ways of doing business won't continue to suffice is helpful, but now firms have an opportunity to change. Trends around fees and technology are especially important. A successful approach starts with employing and building upon the following actions:

## **Communicate Early and Often**

Provide investors with the big picture in an easily digestible (and well documented) manner – one that makes sense and assures them of a sound strategy. Go beyond required, boiler-plate disclosures by providing next-generation transparency and clarity for your clients. For many retail investors, this may mean giving them more tools to participate in informed investment decision making.

## **Demonstrate Consistently Aligned Interests**

Ensure that your business is aligned to your clients' interests with appropriate management of any conflicts of interest. Offer recommendations and insights that prioritize investors' stated goals above and beyond all else.

## **Be Prepared**

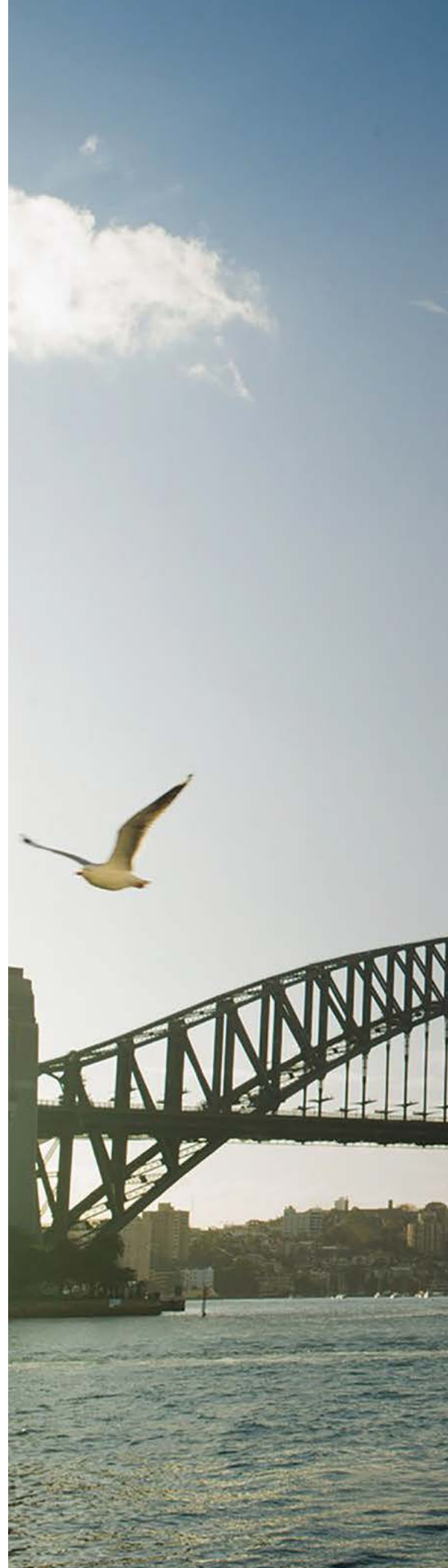
Discuss and implement a prudent investment strategy, one that incorporates a worst-case scenario in the event of the next downturn. For retail investors, an investment policy statement can facilitate this.

## **Strengthen the Bonds**

The investing experience can only be successful with high levels of trust and loyalty, which require stronger client relationships.

## **Engage Technology**

To deliver value, investment managers must put technology to work far more powerfully than previously. This will need to incorporate faster, more personalized, and more innovative ways of engaging with investors.



## ABOUT THE CFA INSTITUTE TRUST TO LOYALTY SURVEY

The CFA Institute Trust to Loyalty Survey is a study of trust in the investment community and the evolving needs of investors. It was produced by research firm Edelman Berland and consisted of a 15-minute, online survey conducted October 19 – November 11, 2015. The survey sampled 3,312 retail investors 25+ years old and with investable assets of at least \$100,000 in the United States, Canada, United Kingdom, France, Germany, Australia, India, Singapore, China, and Hong Kong.

It also sampled 502 institutional investors with assets of \$10 million or more in the United States, Canada, United Kingdom, Singapore, Australia, and Hong Kong. The margin of error for Total Retail Investors is  $\pm 1.7\%$ ; the margin of error for Total Institutional Investors is  $\pm 4.5\%$ . CFA Institute encourages you to share the survey and related data. Please use the link [www.cfainstitute.org/investortrust](http://www.cfainstitute.org/investortrust).

## ABOUT US

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow. CFA Institute has over 135,000 members in 145 countries and territories, including 129,000 CFA<sup>®</sup> charterholders, and 147 member societies.

**For more information, visit [www.cfainstitute.org](http://www.cfainstitute.org).**





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