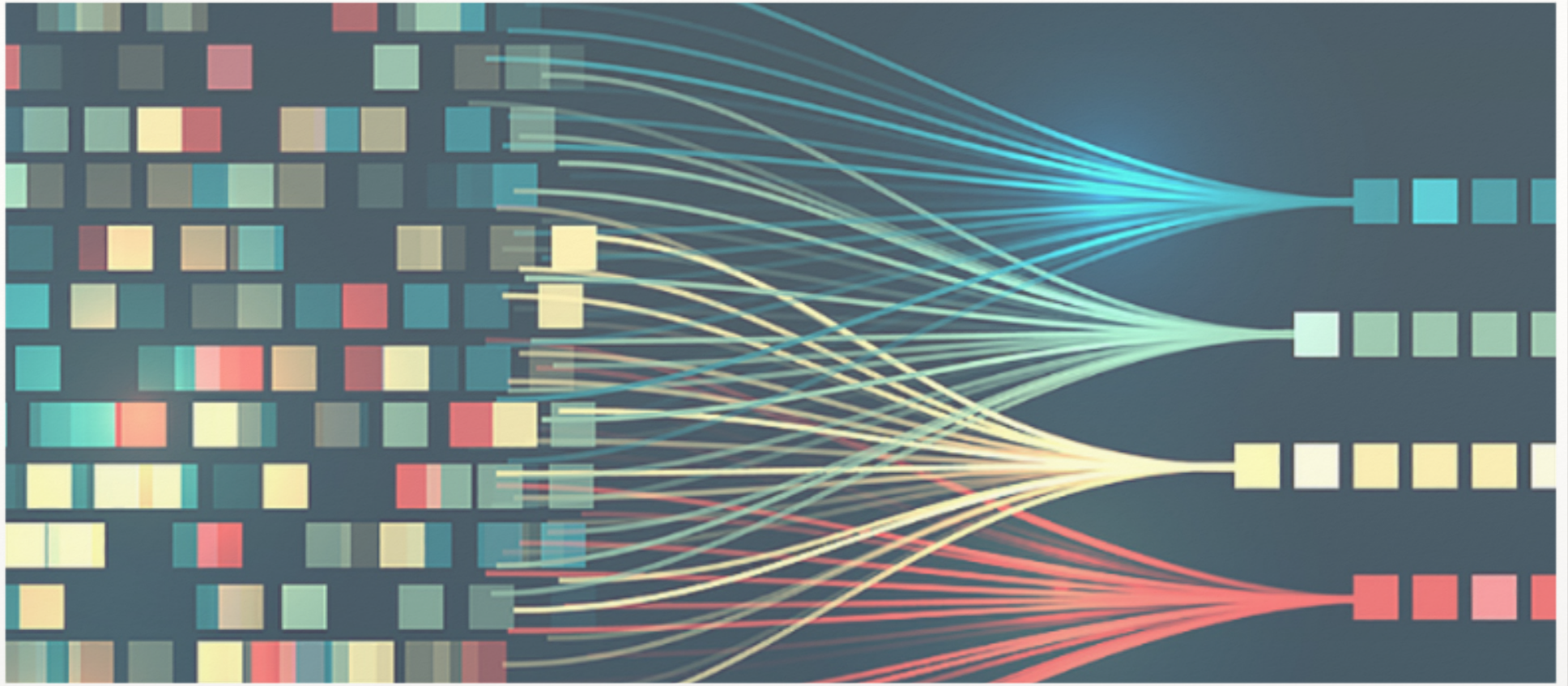




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Decision Frameworks & Synergism in Investment Manager Selection

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Introduction

- ❖ *Research Question: What is the decision framework used by analysts to select professional money management?*
- ❖ Generally, what are the factors that decision makers use to hire, invest, or buy a product?
- ❖ Goal: Research seeks to develop the taxonomy of factors that influence the propensity to hire a professional money management firm.

Research Motivation

- ❖ Observed decision framework may be generalizable.
- ❖ The cost of not knowing the actions of this highly influential group is formidable.
- ❖ Decision makers stand to benefit from understanding the taxonomy used by industry professionals.
- ❖ Academia's depth of understanding the factors that influence these investment decisions is limited.

Literature Review

- ❖ **Retail** - Past performance, herding and headline news, media coverage and large fund complex bias
- ❖ **Institutional** - Soft factors, non-performance attributes, cost sensitivity, investment personnel, pre-existing connections, heuristics
- ❖ **Wealth** - general dearth of research due to access

Literature Review

Author(s)	Year	Factors	Definition
Jenkinson et al.	2016	Philosophy/Process	Non-performance based attributes deemed to be of importance to investment consultants in the selection process. These are also known as "soft factors."
Foster & Warren	2016	People/Firm	Factors associated with the investment acumen, special qualities and judgment of the organizations that offer products and the people who manage them.
Sourirajan & Natarajan	2021	Performance	The total return of investment as calculated by cash flows over time and of time in isolation.
Salganik-Shoshan	2016	Risk	Statistical measures of performance that account for return and risk, i.e. Jensen's Alpha.
Weiss-Cohen	2020	Price	The fees an investment product charges for managing assets.
Sirri & Tufano	1998	Characteristics	Factors related to the size of fund complex, assets under management, price and media attention.
Jaiswal	2017	Bias/Unintended	Factors related to conflicts of interest related to the connectedness of a consultant and asset manager.

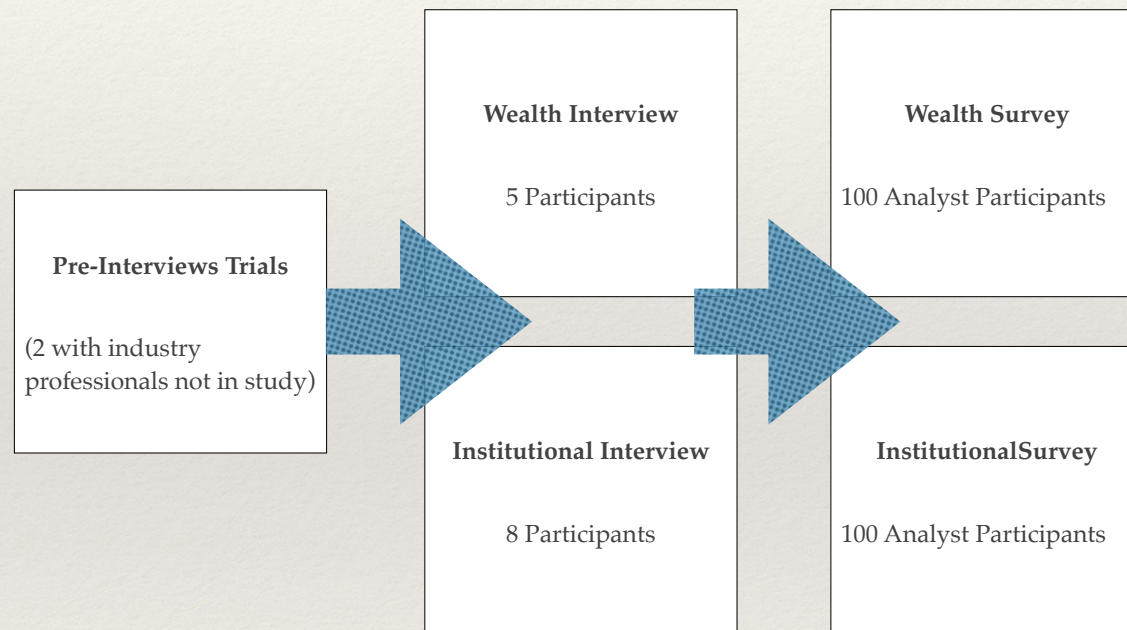
Literature Insights

- ❖ Some retail factors overlap with institutional factors
- ❖ Retail is performance driven
- ❖ Institutional relies more on “soft” or qualitative factors
- ❖ Human biases are present in the institutional segment
- ❖ Among institutional investors, the analysis of past performance is more nuanced
- ❖ Cornerstone of manager selection is based on confidence

Methods

- ❖ Qualitative research based on grounded theory.
- ❖ Purpose is to create taxonomy and formulate theory
- ❖ Data: Mostly interviews with document support
- ❖ Coding: descriptive, comparative, axial and thematic.
- ❖ Highly iterative coding approach
- ❖ Certain industry heuristics were so entrenched that they were used as “selected factors” (aka a priori factors in study) which is a non-sequential design.

Data Collection: Two Groups Interviewed

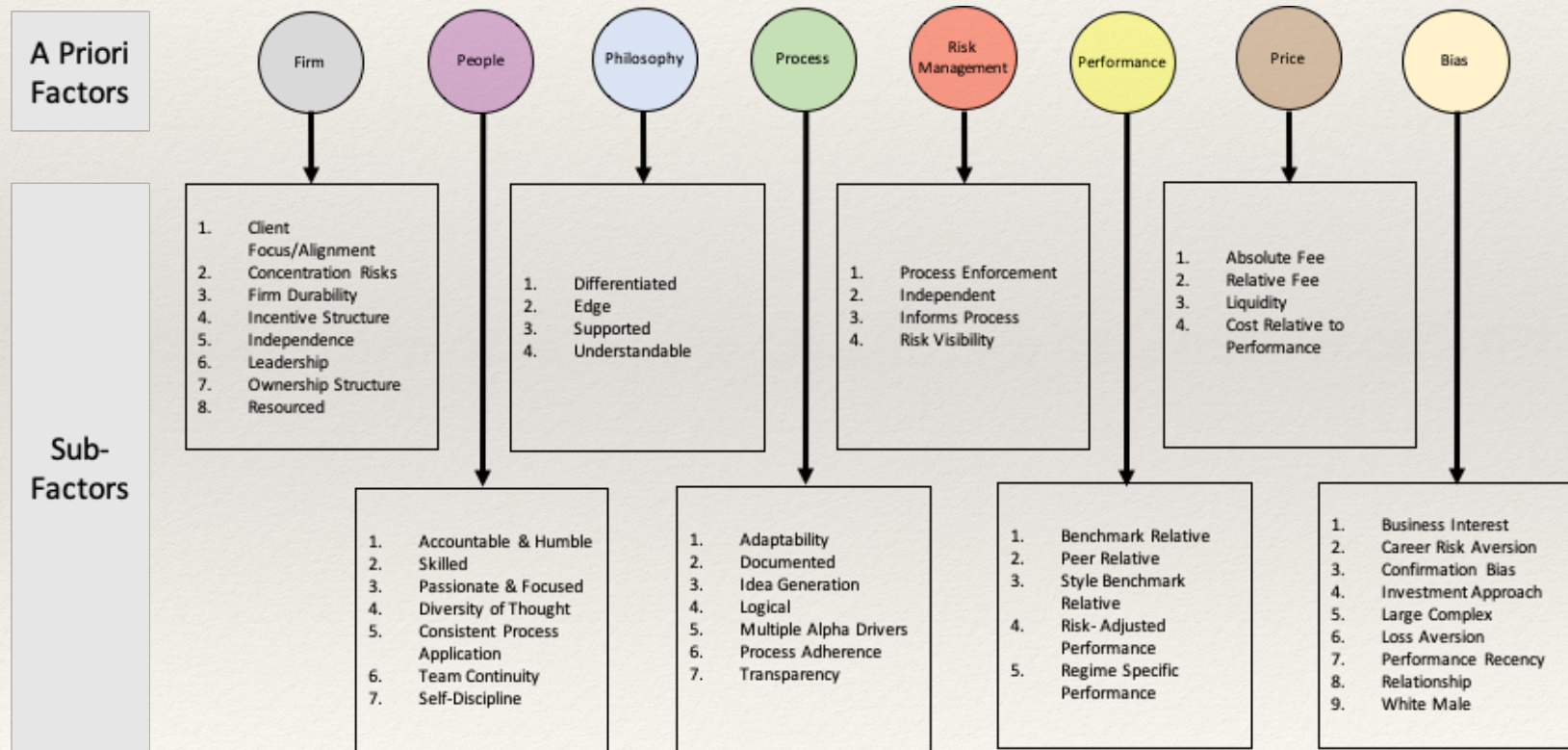


Data Collection: 13 Interviews

- ❖ 13 1-2 hr interviews: 8 Wealth & 5 Institutional
- ❖ Semi-structured
- ❖ Question categories:
 1. Descriptive
 2. Investment disposition
 3. Analysts' perceived value
 4. Determinants of success
 5. Investment process and investment decision factors
- ❖ Follow up questions: examples and specifics

Data Analysis: Sub-Factors Identified

A priori factors are accepted from industry heuristic. Corroborated in interviews. **Sub-factors** were identified bottom-up thru interviews. Saturation present.

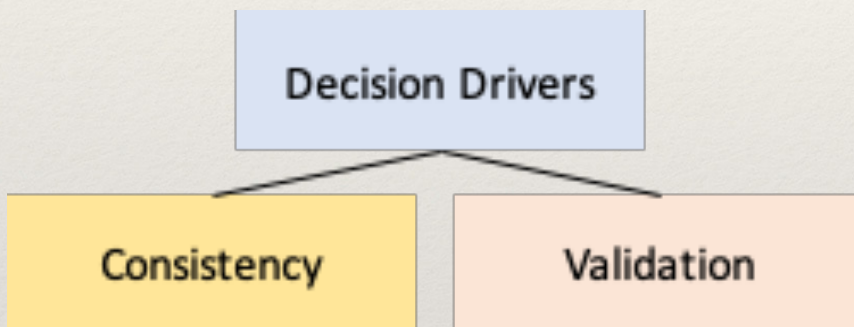


Data Analysis: Major Drivers of Attractiveness

Two Major Themes Emerge:

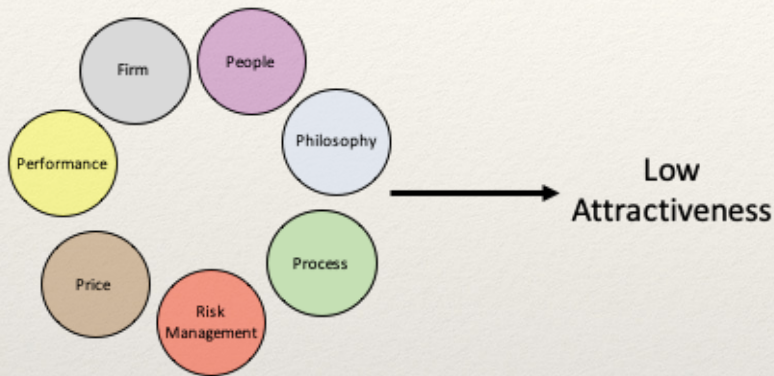
Consistency - attractiveness is influenced by consistency of a priori factors or a shared expectation between factors.

Validation - attractiveness is influenced by the degree to which claims or attributes can be proven or tested.



Data Analysis: Isolation & Synergy

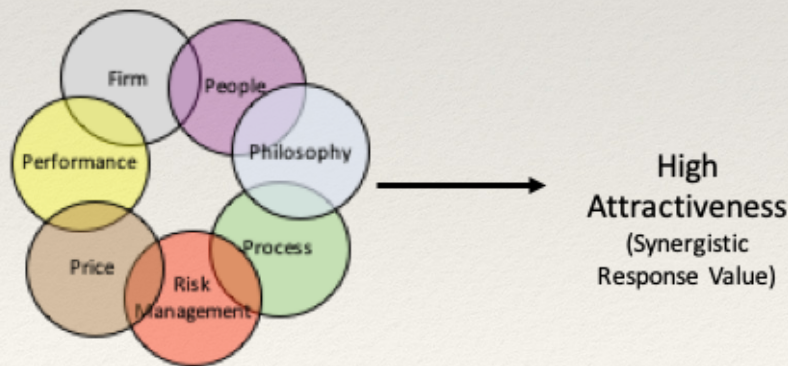
Isolated Factors: Low Consistency & Low Validation



Two Sources of Value for Attractiveness:

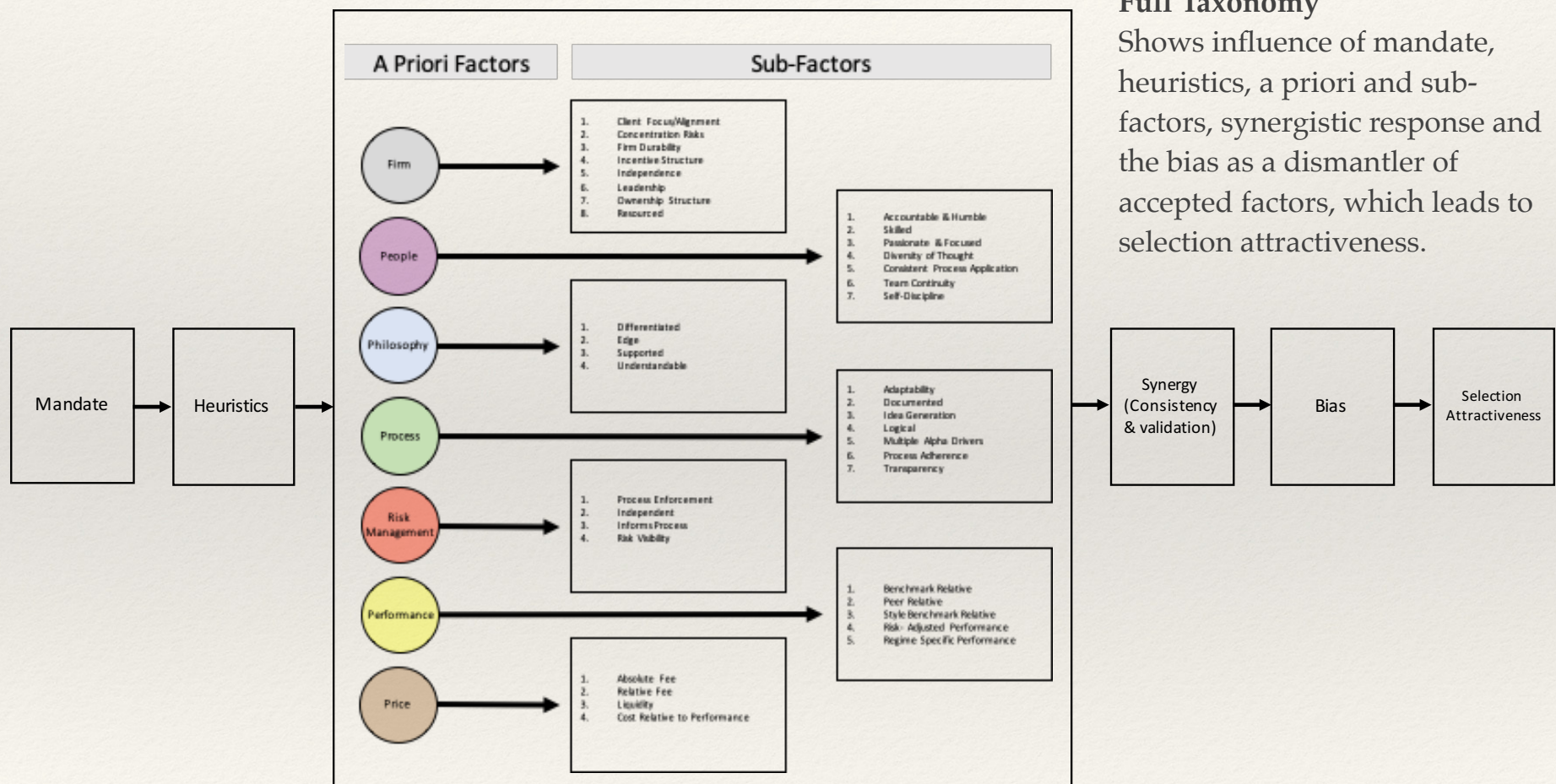
Isolated - Attractiveness is low when there's no consistency or validation

Consistent Factors: High Consistency & High Validation



Consistent - Attractiveness is significantly higher when there is high consistency and validation

Data Analysis: Full Taxonomy



Data Analysis: Group Analysis

- ❖ Similarities between research groups:
 - ❖ A priori factors, sub factors, synergy
- ❖ Differences between research groups:
 - ❖ Mandate, client centricity, firm durability, biases, some isolated sub-factors

Conclusions

- ❖ Decision frameworks are governed by consistency and validation
- ❖ One source of value: isolated factors and subcomponents
- ❖ Second source of value: consistent factors (consistent and validated) that lead to synergistic response.
- ❖ There are commonalities and areas of distinctiveness between the institutional and wealth segments.
- ❖ **Next Steps: Second study will analyze the relative importance of factors using quantitative survey methods.**