Sinequa.
by ChapsVision

All the Alphas
Searching for Success in Active Investment Management

Asset Manager Afflictions

Active investment managers continue to face significant challenges. First, the pursuit of above-market returns, or "investment alpha," is both costly and increasingly complex. From 2020 to 2024, advancements in professional-grade investment tools have made finding true investment alpha more competitive, requiring high investments in global, fundamental research teams. However, these efforts are often offset by the rapid proliferation of data and tools available to a broader range of investors, intensifying the competition.

Second, when active managers fail to deliver alpha and produce only market returns (beta), clients frequently reallocate their assets to passive strategies, such as index funds and exchange-traded funds (ETFs). This trend has accelerated over recent years. For example, in 2023 alone, passive equity funds saw significant inflows, while active funds continued to experience outflows as investors sought lower-cost, more predictable returns.

Third, fees for active management services have steadily decreased. According to recent data, U.S. open-end mutual funds and ETFs saw average fees drop 5% annually since 2020, driven by continued fee pressure from the rise of low-cost index funds. With passive funds charging fees as low as eight basis points, compared to 75 basis points on average for active managers, the fee compression shows no sign of stopping. In response, active managers have continued to cut costs and pursue mergers, such as Morgan Stanley's acquisition of Eaton Vance and Franklin Templeton's purchase of Legg Mason, in an attempt to achieve scale and offset declining revenues.

Industry barbell structure weighs on active investments managers

Losing assets

In 2018, passive aquitty funds sucked in $472bn, while active ones shed $488nb, EPRN

Falling fees

6% fee deline in 1018 for U.S. mutual funds. Second-largest annual decline seen by Morningstar.

Trillion-Dollar Thinking

These challenges are especially pronounced for active investment managers with assets under management (AUM) around $1 trillion. In the U.S., firms like Capital Group, Franklin Templeton, Invesco, T. Rowe Price, and Wellington Management face intensified competition. In Europe, asset managers such as Amundi, GAM, Janus Henderson, Schroders, and abrdn (formerly Standard Life Aberdeen) are similarly impacted. Unlike large-scale giants like BlackRock and Vanguard, these firms lack the immense scale that allows for thin-margin operations, driving the need to rethink competitive strategies.

Discover how one of Sinequa's clients, a top-five global manager of cross-border funds, is leveraging advanced AI-powered search to drive efficiency, uncover insights, and create true competitive advantages.

All The Alphas

Designed to find and exploit informational inefficiencies, the active investment management industry has over-focused on the most transient of the alphas -- investment alpha.

This means overlooking the value hidden inside other internal functions, such as distribution and service. Delivering exceptional performance (alpha) in these functions can create competitive advantages more durable than investment alpha.

Data underpins all these alphas. Typically, it's the least optimized resource in most asset management firms. Yet, accessing and understanding all this data remains a heavy challenge. Many asset managers have been pieced together via acquisition resulting in a jumble of legacy brands, functions, and system silos. Your employees strain to generate a unified view across this data sprawl.

Sinequa's AI-powered search platform enables our investment manager client to:

- Transform vast amounts of data into actionable insights, customized for each role within the organization.
- Mitigate risks associated with digital transformation projects through enhanced data governance and security.
- Equip distribution and service teams with a unified, real-time view of clients and products, empowering them to deliver exceptional service and drive better decision-making.

Distribution Alpha

Gathering assets is crucial for driving revenue in investment management. As firms have transitioned from transactional product models to relationship-driven distribution, they have invested heavily—millions in people, systems, and especially CRM technologies. However, these investments have yielded only modest returns, often failing to create meaningful distribution alpha.

From 2020 to 2024, the investment management industry has seen a continued increase in sales and marketing personnel, with many firms hiring additional staff to enhance distribution capabilities. Yet, productivity remains a concern. Recent surveys indicate that approximately 80% of distribution leaders cite sales productivity as their top challenge, and revenue generation per employee has stagnated.

Significant distribution inefficiencies persist, including:

Fragmented Client Views

Client data often exists across multiple systems, leading to a lack of a comprehensive view. Currently, only 15% of asset managers have achieved their ideal CRM state.

Tool Fragmentation

The use of disparate applications across sales, service, and marketing functions results in a fractured client experience. Only 20% of asset managers report having the technology necessary to support effective distribution.
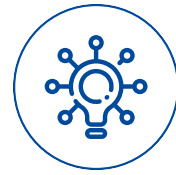
Data-to-Insight Challenges

A mere 19% of asset managers are leveraging data and analytics to enhance distribution efforts, highlighting the ongoing struggle to turn data into actionable insights.

One of our customers utilizes the Sinequa platform to simplify and unify their distribution strategy, effectively managing international sales across 34 countries and improving overall efficiency.

Service Alpha

Active investment managers can justify their higher fees when they provide superior returns. However, clients also have premium expectations when it comes to service. If they don't receive an exceptional experience—what we call "service alpha"—they are likely to shift towards passive investment managers.

Service alpha focuses on delivering personalized interactions that enhance clients' financial wellbeing. In fact, a 2022 survey by the CFA Institute found that 90% of high-net-worth investors prioritize developing a goals-based financial plan over traditional investment advice and management.

With investor clients in 170 countries, our asset manager client faced several service-related challenges.

> **Typical comments included:**
>
> *If somebody is asking a question, we shouldn't be answering: let me research this and get back to you in a couple of days.*
>
> **IT Project Manager**

Frequently, the response to client inquiries involved delaying answers, seeking client forgiveness, and scrambling to find information as quickly as the systems permitted. With over 15,000 fund fact sheets generated each month, locating the necessary information could take hours or even days.

For more complex questions requiring expert assistance, identifying the right expert could take up to four or five business days. As a result, the level of service provided fell short of, or even below, market standards for client care.

> *Every time I want to get a fact sheet, I have to drill down through seven layers of a Share-Point structure...This is insane...People are wasting an hour a day... we're wasting a lot of money.*
>
> **VP, Marketing**

The absence of service alpha led to several negative outcomes:

- Diminished brand value

- Negative impact on customer experience

- Inefficient use of employee time

- Increased regulatory risks

To address these issues, our customer engaged a consulting firm to assess their customer service processes and performance. The report confirmed these challenges and served as a catalyst for implementing the Sinequa solution.

Investing in the Sinequa platform enabled our active investment management client to:

- Improve the experience for both retail and institutional clients

- Save an estimated $4.6 million in employee time annually

- Reduce the need for additional customer service staff, saving approximately $16.8 million per year

- Strengthen their brand reputation

Transformation Alpha

Challenger investTechs and WealthTechs shouldn't stand a chance. Incumbent investment managers and wealth advisors have thousands or even millions of customer relationships, decades of experience searching for investment alpha, and petabytes of data. Yet incumbent institutions struggle to adapt to rising customer expectations quickly enough. All this has encouraged well-funded fintech challengers to pose severe competitive threats.

Incumbents struggle with rapid change because of legacy systems, organizational silos, and data volumes that exceed human capacity to analyze them.

In pursuit of disruptive innovations, investment managers and wealth advisors have embarked on digital transformation programs and big data projects. Unfortunately, 70% of digital transformations fail, according to McKinsey. And 60% of big data projects fail, according to Gartner. These projects are investments with high risks and mostly uncertain returns.

With Sinequa's AI-Powered Search, our investment manager customer can:

- Leverage legacy systems and understand data across systems and silos.

- Turn inhuman amounts of data into information for human decision-makers.

- Reduce the cognitive burden on employees so they can use their unique skills.

- Increase revenue and productivity while reducing risk.

- Scale solutions with natural language processing and machine learning.

Investment Alpha

Active managers search for informational inefficiencies the market doesn't see or yet understand and trades on them. But this investment alpha is transitory. It works until the market figures out the inefficiencies and competes them away. For active managers to outperform, they must pursue an endless quest to find new information inefficiencies. Otherwise, they will return to the mean market performance, but after deducting expenses and fees, they're underperforming.

The result: even more client assets migrate to passive approaches.

Data represents a challenge, but also an opportunity for investment analysts - if they can turn that data into information. The variety and volume of data can overwhelm investment analysts.
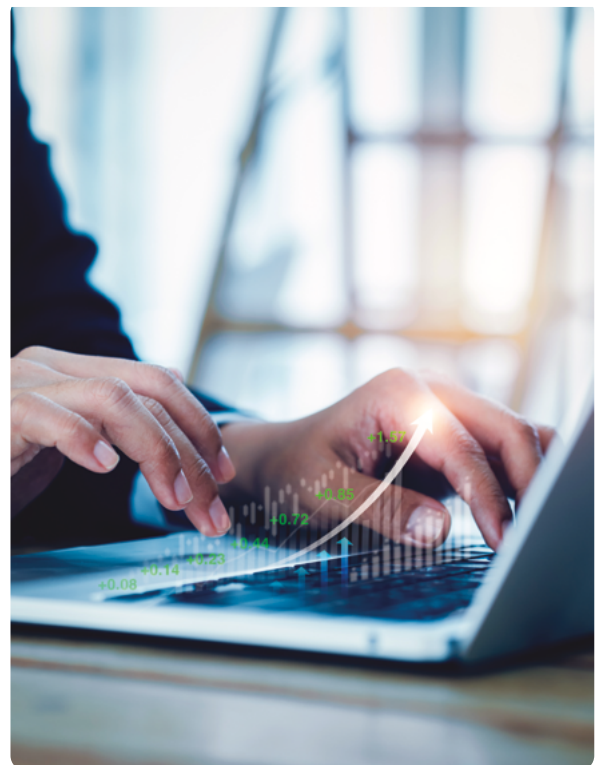
But Sinequa's ability to perform natural language processing (NLP) at scale can help. Imagine understanding and analyzing vast amounts of text, in multiple languages, from a variety of sources, without having to read it all. Sinequa can extract terms and topics, summarizing a large body of text into themes for rapid understanding by humans, and systematic analysis for statistical and machine learning applications.

Data, especially alternative data, can provide investors with insight into alphagenerating market inefficiencies ahead of the market. Historically, analysts looked at financial statements, interviewed executives, and compared similar companies in the industry.

To stay ahead, investment analysts must search across unstructured data and develop an investment edge across many varied datasets. Although data remains the foundation of all investing, the research and portfolio construction processes still require human judgment.

Our asset manager customer has 42 research offices spread across the globe. With Sinequa, they can take advantage of more information from a broader range of sources. This means they can find and exploit investment alpha at scale like never before.

M&A Alpha

Asset managers are addressing their challenges by pursuing mergers and acquisitions. In fact, deal-making in the asset management sector reached significant levels in 2023, with a notable increase in transactions and total deal value compared to previous years. According to recent data from PwC, global mergers and acquisitions in the asset management industry totaled around $35 billion in 2023, reflecting a continued trend toward consolidation.

This phenomenon spans the globe. In Europe, firms like DWS Group have been actively seeking partnerships with other asset managers to enhance their scale. Swiss company GAM Holding has explored potential sales to strengthen its market position. In the U.S., Invesco made a substantial move by acquiring Oppenheimer from Massachusetts Mutual Life Insurance Co. for $5.7 billion, signaling a strong commitment to the future of active management.

However, execution risk remains high in asset management deals, both during pre-deal due diligence and post-merger integration. Inefficient execution can jeopardize the competitive advantage of an active investment firm, as key talent may leave.

Sinequa supports due diligence by efficiently analyzing and consolidating both structured and unstructured information, such as client contracts and employment agreements. Following a merger, Sinequa provides a secure, unified view across disparate data silos through pre-built connectors for all major enterprise technologies, facilitating a smoother integration process.

New Product Alpha

Most new products fail. Investment products are no different. According to Casey Quick's New Arrows for the Quiver report, asset managers need to improve their new product development dramatically. Half of all new investment strategies attract less than $200 million in assets -- even after 10 years of distribution. Asset managers around a trillion can't afford the business risk of making bad new product bets, which means fewer product launches and little tolerance for postlaunch errors.

Start Your Search for Success with Sinequa's AI-Powered Search

Harness the power of Sinequa's AI-powered search platform to unlock the full potential of your enterprise's knowledge. Our advanced technology combines deep natural language processing and generative AI (GenAI) to transform how information is found and used across your organization.

Unlike basic web search engines, which scan publicly available data, Sinequa's platform indexes and understands data from virtually any internal source, both structured (like CRM systems) and unstructured (such as emails and PDFs). This ensures that employees access the most relevant information while respecting corporate security policies.

With Sinequa, AI-driven search goes beyond just finding information. Our platform leverages over two decades of innovation, delivering immediate, relevant, and constantly improving answers. Gain a comprehensive view of customers, products, risks, and more—all within a single, unified view.

Empower your team with Sinequa's AI-powered search and analytics platform, helping them focus on creating the real Alpha moments that drive your business forward.

About Sinequa

Sinequa transforms how work gets done. Sinequa's Assistants augment your company by augmenting employees with a knowledgeable, accurate, secure work partner so they are more effective, more informed, more productive, and less stressed. Best of all, Sinequa Assistants streamline workflows and automatically navigate the chaotic enterprise information landscape, so that employees can skip the grind and focus on doing the kind of work that makes the most impact. Sinequa's Assistants achieve this by combining the power of comprehensive enterprise search with the ease of generative AI in a configurable and easily managed Assistant framework, for an accurate, traceable, and fully secure conversational experience. Deploy an out-of-the-box Assistant or configure a tailored experience and specialized workflow to augment your people and your company. For more information, visit www.sinequa.com.

Watch a demo

Companies that use Sinequa