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Janus Henderson's 'Frustrating' Inst'l Flows Slow Growth

By Lisa Fu July 30, 2020

Janus Henderson has not yet reported material growth, although the firm has hit the three-year anniversary of the **Janus Capital** and **Henderson Investors** mega merger, company executives said during the firm's second-quarter earnings call.

The firm reported net outflows of $8.2 billion during the quarter. Much of this was driven by equities and quantitative equities, which reported net outflows of $4.2 billion and $3.9 billion, respectively. The outflows were more severe for institutional investors than intermediary clients, chief financial officer **Roger Thompson** noted on the earnings call yesterday.

In comparison, Janus Henderson reported net outflows of $12.2 billion during the first quarter and net outflows of $9.8 billion in the second quarter of 2019. The asset manager has not seen positive net flows since the third quarter of 2017, when it reported flows of $0.7 billion, according to a financial supplement.

Janus Henderson did not respond to questions about specific institutional flow figures in time for publication.

"The promise of growth has clearly taken longer to materialize than we planned, targeted or we would have liked," CEO **Dick Weil** said on the call. "In this most recent quarter, our institutional flows have been particularly frustrating."

Assets under management (AUM) increased quarter-over-quarter from $294.4 billion to $336.7 billion. However, this 14% AUM growth was driven primarily by rebounding market values, not flows, according to Thompson.

"We think it's an appropriate time to take a hard look at our business structure and expenses, all the while balancing that against the appropriate investments necessary," Weil said. "Going forward, we are going to drive modernization across products, capabilities and global client servicing."

As part of its efforts to advance the company's trajectory, Janus Henderson outlined plans to enhance its global distribution platform. These included upgrades to its customer relationship management (CRM) system, data and client analytics, global web platform, portfolio construction services portal (PCS), and business intelligence, according to the financial supplement. The firm is also introducing new products and investing in high-growth areas of the business, Weil said. During the second quarter, the firm extended its global sustainable equity offering to U.S. clients, and launched a separately managed account (SMA) version of the strategy, he said on the call.

On the expense side, Janus Henderson achieved merger-related cost savings of $125 million ahead of schedule, Weil said. The firm also wound down its Australian equities product and outsourced some of its middle- and back-office functions, he said.

In terms of investment management, the firm has seen improvement in its one-year performance as market volatility in the first quarter subsided, according to the supplement. Short-term improvements came primarily from equities and fixed income capabilities, Thompson said. Though the performance of the firm's institutional quantitative equity manager Intech improved in the short term, longer-term performance is still a concern. And U.S. SMID and mid-cap performance could also negatively impact flows in the second half of the year, he said.

Performance alone will not win back institutional clients, warns **Dan Sondhelm**, CEO at **Sondhelm Partners**. Institutional investors don't like surprises, so managers should be proactive and honest about the reasons for underperformance.

Confusion during or after a merger can also impact institutional investor flows, Sondhelm says. The expanded company needs to make sense from an investor perspective, he explains. Investors will be paying attention to client experience, engagement and overall communications, in addition to the portfolio management, he adds.

"I've worked on many mergers where the primary goal was to minimize marketplace confusion [that causes] investors leave," Sondhelm says. "You can't leave that to happenstance."

Similarly, the service team needs to have continuity during and after a merger, Sondhelm says. The existing relationship manager should be responsive to clients during the entire process, he says.

Managers that want to win clients after seeing outflows need to "be in the game," Sondhelm adds. That means their strategies should be in manager research databases, so they show up in institutional investors' searches, and their business development team should be scrutinizing client data to find new opportunities, he explains.

"Using digital technology that helps you capture, track and convert visitors to leads allows you to know who is engaging with your digital content across channels – website, social media, email," Sondhelm says. "These are your warmest leads, whether former clients or new leads."

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