Crossing the Rubicon: Foreign managers take on Italy

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Every year, Crisil Coalition Greenwich conducts around 300 interviews with large European institutional asset owners and asks them about the market trends impacting their portfolios, as well as their level of satisfaction with the overall experience provided by their preferred asset managers. This gives us a unique vantage point from which to analyze and dissect some of the leading themes and trends impacting the European institutional market.

Prompted by considerable manager interest in the Nordic market, we did a deep dive in Q4 2024 to understand the competitive dynamics in this highly attractive region. We found that Nordic managers, while only modestly leading foreign rivals in terms of investment offering, outperformed non-Nordic peers by a significant margin in the quality of their service effort.

Seeing similar interest in the Italian market these days, we conducted a similar exercise looking into the dynamics shaping the competitive landscape there. Italian institutional AUM grew by almost 10% in 2024, and the largest handful of pension funds have grown at an annual rate of almost 7% over the last 10 years.[1] Naturally, the performance of the market has nourished the domestic asset management sector, but it has also attracted foreign competitors.

This dynamic has also played out in our research with a larger proportion of Italian institutions participating and more asset managers, both domestic and foreign, receiving evaluations of their investment and service experience. With all this activity, we wanted to take an in-depth look at some of the market's key drivers in hopes of guiding managers looking to grow their footprint in the country of *la dolce vita*.

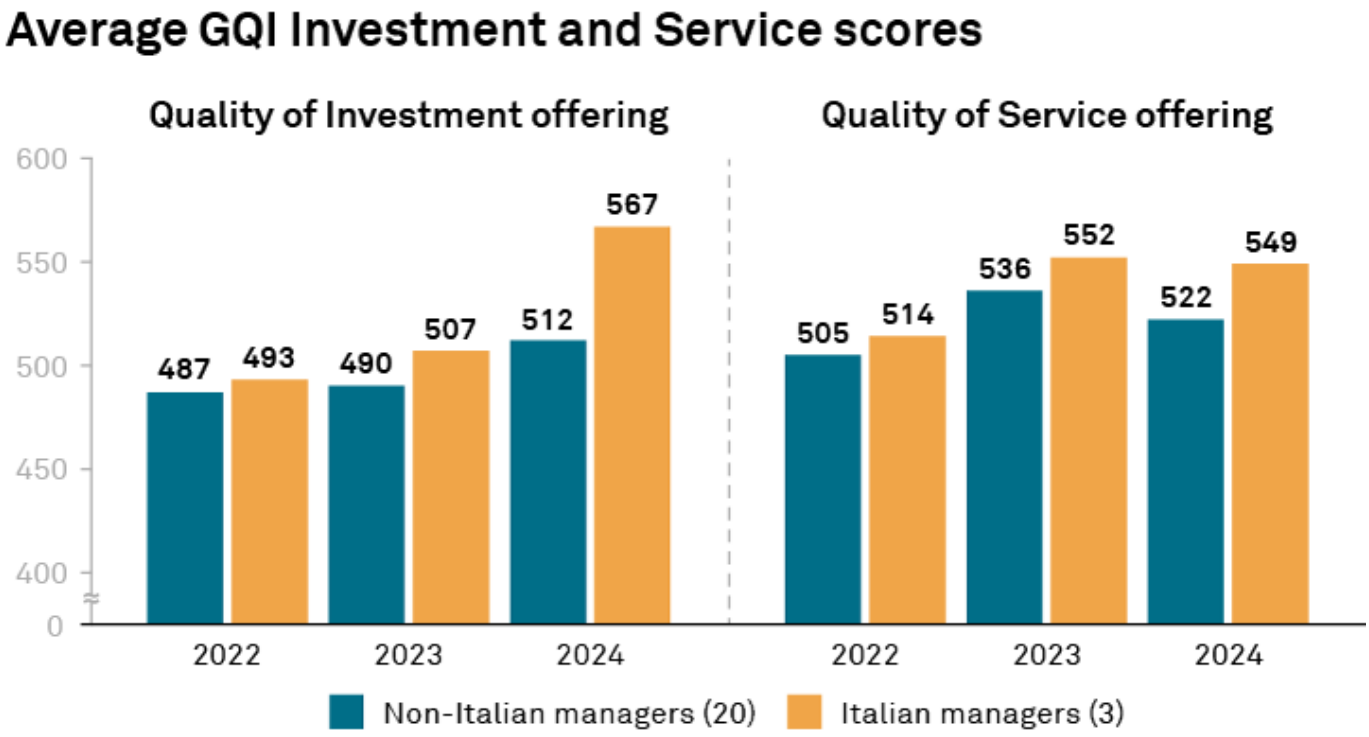
Italian managers have the investment edge

Continental European Institutional Investors—Italy

Crisil Coalition Greenwich has been conducting research in the European institutional market for 27 years, and we executed 64 interviews with Italian asset owners in our 2024 cycle. In these interviews, institutional investors provide information on key portfolio metrics and share feedback on the managers with whom they work. Investors evaluate their preferred managers across the dozens of service- and investment-related KPIs that constitute our proprietary metric, the Greenwich Quality Index (GQI). This serves as the base of our analysis.

As for our methodology, first, we identified 23 investment managers for whom we receive consistent, robust,

year-on-year feedback in our Italian sample and labelled them as Italian (3) or non-Italian (20), based on the location of their global headquarters. We then analyzed the Investment and Service GQI scores of both manager groups. What we found was quite remarkable.



Note: Based on 65 respondents in 2022, 60 in 2023 and 64 in 2024. Numbers in parentheses represent number of managers.
Source: Coalition Greenwich 2024 Continental European Institutional Investors Study—Italy

As shown in the chart above, Italian managers have enjoyed a modest advantage over foreign peers in recent years in both the Investment and Service components of our scoring methodology, but the gap expanded considerably in 2024. The pureplay Italian managers outperformed foreign competitors by 55 points and 27 points[2] in Investment and Service, respectively.

In contrast to the Nordic exercise, our research shows that it is the investment offering, not the service effort, that distinguishes Italian managers from foreign peers. This dynamic checks out with our on-the-ground understanding of the Italian market. Italian institutions tend to be quite demanding when it comes to the customization of investment solutions, and Italian managers have been purpose-built to accommodate the desired modifications of clients. Further, Italian institutions push for tight fee margins, a dynamic that discourages some foreign managers from even entering the market.

What Italian institutions value in their managers

Next, we wanted to dig deeper into our data to understand “Italian investment alpha”—exactly what Italian managers are doing to outperform foreign competitors so convincingly. To do this, we conducted a similar analysis looking at the specific KPIs institutional investors use to grade the investment offerings of their preferred managers. Our investment KPIs follow the “Four Ps” of manager selection (Philosophy, Process, People, and Performance) with the addition of Risk Management.

We measured the deltas of the average scores received across all five of these metrics by Italian and foreign manager cohorts as a means of understanding Italian supremacy. Here are the top three areas in which Italian managers outperformed, in descending order:

- Managing portfolio risk
- Clarity and consistency of the investment process
- Clarity of investment philosophy

Italian managers have recognized that domestic institutions are focused on getting the investment fundamentals right. First, institutions want to manage risk in a way that best suits their own objectives. Second, they want to understand the thinking underlying security selection and general portfolio construction. Third, they need a perspective on the big picture to understand how specific investment solutions play in the broader portfolio. Perhaps surprisingly, actual investment performance is the least differentiated metric we tracked.

How to succeed

The takeaway for Italian managers is clear: Keep up the good work. But how can foreign managers modify their approaches to gain ground in the Italian institutional market?

Certainly, foreign managers should act to bolster some of the relative investment shortcomings mentioned above, but they should also lean into their relative strengths. Italian leadership is less pronounced on the service side, and non-Italian managers are virtually neck-and-neck with Italian peers with regard to the following service KPIs:

- Usefulness of formal investment review meetings
- Quality of reporting documents
- Understanding of client goals and objectives

Structure, sophistication, and depth of resources are some of the assumed hallmarks of larger, multi-national managers, and those strengths align well with the aforementioned service measures. Put to good use, the service edge could entice more Italian institutions to consider foreign managers.

To wrap up, foreign managers operating in Italy face a challenge reminiscent of climbing the Leaning Tower of Pisa—it's a tough ascent, but the view from the top is well worth it. To reach the summit, foreign managers must first acknowledge the fierce competition from Italian managers and set clear expectations on how far they can accommodate the exacting demands of Italian institutions. Next, they should leverage their global resources and structured approach to information exchange and relationship management to showcase their strength of service.

By finding the right balance, managers can tap into the vast potential of the Italian market and reap significant rewards.

If this topic interests you, please get in touch. We have a depth of research and analysis available to asset managers operating in the Italian institutional market.

[1]Serenelli, Luigi. 2024. “AUM of Italy’s First Pillar Schemes Shoots up by 10%.” IPE. October 25, 2024. https://www.ipe.com/news/aum-of-italys-first-pillar-schemes-shoots-up-by-10/10076410.article

[2]Coalition Greenwich analyses assert a difference of at least 30 GQI points as statistically significant.

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www.greenwich.com | ContactUs@greenwich.com

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