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Money Management

Voya CEO sees bright future for firm

Hurtsellers believes that custom strategies will make a big difference

By RICK BAERT

The head of Voya Financial Inc.'s money management division said she's very comfortable at the helm of a firm that's trying to increase profit, amid headwinds of fee compression and lower-cost passive investing trends.

"I think it's kind of a pretty exciting time, being on the investor side, being in the seat I am and thinking about what we're going to do," said Christine Hurtsellers, CEO of Voya Investment Management LLC, New York, who spoke with *Pensions & Investments* in an interview Nov. 28.

Ms. Hurtsellers, who has been chief executive at Voya Investment Management since August 2016, said she's not fazed by the growth in assets under management among the world's largest money managers through passive investing and exchange-traded funds. Instead, she said, she's excited about the company's growth efforts using its insurance asset management expertise — its liability awareness, its ability to customize, and its ability to offer asset classes that are hard to replicate in public markets, such as commercial real estate, private credit and specialized securitized capabilities.

Some analysts might think the challenges facing active managers such as Voya are similar to those facing traditional big-box retailers, Ms. Hurtsellers said.

"I think there's some of that, and certainly risk to that in certain business models, and that's why you're seeing some of the consolidation and will continue to," Ms. Hurtsellers said. "But then again, there are still people who don't want the online Amazon experience. They want more customization, they want higher client service, they want access to portfolio managers. And those are the kind of things that we do. Quite frankly, the Invescos, the BlackRocks, the real giants of the market, that's not their swim lane."

Active and passive

Ms. Hurtsellers cited a Nov. 15 report by McKinsey & Co. It shows that passive equity, fixed-income and multiasset strategies — which saw the largest inflows in 2017 — provided revenue margins in the range of eight to 10 basis points. Meanwhile, active equity strategies, which saw the most outflows that year, had revenue margin declines in the 3% to 7% range but still had revenue yields ranging from 45 to 55 basis points.

"There really are only a few ways to get revenue growth: adding assets to where your marginal expenses are below the price that you're onboarding the assets, cutting expenses or developing products that are more profitable than our existing block of business," Ms. Hurtsellers said. "Those are really the only ways you can get there. And I think the industry is going through a really interesting time period where scale is highly valued, I think for efficiency."

Some of Voya's efficiency comes from recently streamlining its product offerings. In June, Voya Financial closed on the sale of its $17.5 billion variable annuity business to a private equity consortium including Apollo Global Management LLC. That sale resulted in a 5.2% decline in the investment management unit's assets under management to $201.4 billion for the year ended Sept. 30; however, quarterly AUM rose 2.3%, according to its latest financial statement.

The investment management unit contributed 17% of Voya Financial's pre-tax adjusted operating earnings of $163 million in the third quarter.

Important sale

"The sale itself was important to Voya because it eliminated a lot of tail risk to low interest rates and equity markets, and it positioned the company to be much more capital-light and growth-focused," Ms. Hurtsellers said. "It was a wonderful transaction for our clients and shareholders."

Shedding the annuity business gives Voya more freedom in broadening its investment capabilities from its traditional fixed-income offerings to real estate, public and private equities, and hedge funds, Ms. Hurtsellers said. She expects growth to happen organically, but said the firm is open to acquiring money management firms to fit specific needs — particularly global distribution capabilities in credit.

"My current financial metrics and strategy in running the business is purely on organic growth," Ms. Hurtsellers said. "That being said, Voya (Financial) is a strong company, buying back shares, has very high free cash flow. Inorganic growth can always be a possibility. If investment management were to do something inorganic, the top choice would be something that would bring us global distribution and very aligned to a fixed-income-type business with global credit that would round out our global credit capabilities. That's inorganically what would fit us best."

However, such growth through acquisition would require Voya to be "very, very careful" to not upset the company's culture. For example, she said, "Asset managers, portfolio managers, they can have pretty big egos," she said. "When you have to go out every day and fight the market and look at your NAV on your fund, it takes a certain amount of hubris or courage to be that kind of person. Sometimes, if that goes too far astray, it becomes too egotistical. It becomes 'all about me and my returns,' and you can lose your way and say, 'Wait a minute, I'm managing someone else's money. Let me rewind on me.' So we would be interested in global distribution, global credit, to round us out, but just make sure it's a good fit culturally for us."

PERSONAL TOUCH: Christine Hurtsellers said Voya's approach will appeal to investors who are turned off by the online experience.

Ms. Hurtsellers said cost control is a major factor for Voya Investment Management in ensuring asset growth translates into higher revenue. "One of the levers in addition to the fees in growing your assets is how are you managing your fixed expenses," she said. "Our cost structure is very efficient."

Efficiency is evident

That efficiency, Ms. Hurtsellers said, is evident in part by how Voya Investment Management leverages its streamlined middle- and back-office operations. "There's a critical reason as to why that is and why I view it as a competitive advantage," Ms. Hurtsellers said. "We have active equity, private equity, fixed-income assets, but our public equity and private equity are all managed off one infrastructure with one compliance team, one risk team, one distribution engine, all put together."

Ms. Hurtsellers said using a single back office is in contrast to "the sort of string-of-pearls acquisition-type asset managers with multiboutiques, where they bought a nice business from a founding partner … (and) said, 'We're going to leave you alone and run your brand but we're going to give you distribution to help you.' Now they're finding that with fee compression and research costs, they've had to deal with a lot of fixed costs and you've seen a few that have tried to push and integrate their existing boutiques. We're more agile. We're able to innovate."

Technological advances

Voya has used technological advances to deliver cost efficiencies, she said. "We use artificial intelligence and robotics to settle and populate our risk database system for commercial real estate and we just ported it over to our bank loan team," Ms. Hurtsellers said, "so we don't have those middle- and back-office barriers to entry. We're able to innovate and implement much quicker than many, so that really helps us to manage our cost base as we continue to drive the revenue side of the business."

That use of technology has benefited Voya for many years, although perhaps not so obviously to some, she said. "Three to five years ago, if you were interested in an investment-grade credit fund and we'd talk about what we do, we would lose mandates because we didn't have as many credit analysts as, say, J.P. Morgan who maybe had around 50. And people would say, 'Well, you just don't have enough people,' and we'd try to explain that we do all of this automation where we take all this Bloomberg data for these credits as well as monitor all these price movements through our analytics, and we use this to filter and focus where we pay attention. And people would say, 'Yada, yada, yada.' Today, that's an edge for us."

Ms. Hurtsellers said Voya Investment Management has "always been passionate about using tools to free up people to give them time to think. That's how I see it. That's the magic of bots. When I see a lot of competitors spending tens of hundreds or millions of dollars on technology, sometimes I scratch my head and say, 'What are they spending this money on?'" She said the use of individual technology on multiple activities is "pretty doggone efficient. If you develop these, you can really deploy them to multiple things."