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Intech 2.0? How the Firm Plans to Recover From a 75% Asset Plunge

The firm faces a "formidable" challenge to regrow its client base, one strategic consultant told FundFire.

By Bridget Hickey | April 8, 2024

Intech has a steep road ahead. Since splitting from Janus Henderson in 2022, the quant manager's assets have plummeted by more than 75% to almost $9 billion, and its client accounts have dropped by half.

The firm's management team is optimistic, however, betting that improved performance by flagship strategies plus an overhaul of its tech will win over wary investors. Indeed, Intech entered positive flow territory in the fourth quarter of 2023 and recently landed a mandate from a $53 billion Texas pension.

The West Palm Beach, Florida-based manager is also pushing into a "more active" line of products and considering a move in the wealth space.

The firm is "night and day" from where it was two years ago, said CEO Jose Marques. "We are super excited about what we've done, how far we've gotten in a very short period of time."

Marques took the helm in 2022 when the firm spun out from Janus, replacing then CEO and Chief Investment Officer Adrian Banner, who remains with the firm as co-CIO

Down, Down, Down

Intech's assets have plunged by more than 75% and its client accounts have dropped by half since splitting from Janus Henderson, according to ADV forms filed in March each year.

	2022	2023	2024
Regulatory AUM	$38.0 billion	$17.1 billion	$8.8 billion
Accounts	94	74	47
Employees	69	55	48
Investment advisory employees	22	20	16

Source: ADV filings. AUM as of Dec. 31 the prior year. Employee data does not include clerical workers.

Performance Challenges

Jose Marques

Intech's outflows do not alarm Marques.

"Coming into the management buyout, we fully expected a reasonable amount of outflows," he said. "We modeled them ahead of time, and I can tell you, that trajectory of outflows is almost perfectly aligned with our forecasts."

The Arkansas Public Employees' Retirement System is one asset owner that scrapped Intech last year. The $11 billion pension cited underperformance as well as the firm's organizational changes as its reason for withdrawing a $403.2 million domestic equity mandate.

The manager's U.S. Enhanced Plus strategy – one of its flagship offerings – trailed the S&P 500 Index by 1.23% between January 2016 and May last year, according to Intech. Its U.S. Broad Equity Plus product lagged the Russell 1000 Index by 1.43% over the same period.

Intech's breakup with Janus coincided with one of the most challenging investment landscapes in years, with rising interest rates, inflation, and geopolitics among some of the factors impacting equities markets.

But the firm was also grappling with another challenge – its investment approach, which employs the Stochastic portfolio theory, a Princeton-developed framework for analyzing portfolio behavior and equity market structure. The theory is susceptible to market concentration, Marques said.

Last May, the now employee-owned firm sought to revamp its investment processes by "cleaning up" this susceptibility.

"We've seen a sharp – and I mean sharp – turnaround in performance," Marques said. "It would not be an exaggeration to say 'yeah, we're back to the good old days in terms of performance.'"

The firm's U.S. Enhanced Plus strategy beat the S&P 500 Index by 4.10% between June 1 and February 29, per Intech; its U.S. Broad Equity Plus product surpassed the Russell 1000 Index by 4.12% over the same period.

New Money

Intech has seen new inflows since the third quarter of 2023, according to data from the firm and flow database Informa. The new money is "admittedly, a dribble, but it's a super-constructive dribble," Marques said.

Last week, the $53 billion Texas Permanent School Fund named Intech and Dimensional Fund Advisors as two of the managers that will replace a BlackRock mandate, after the fund decided to yank $8.5 billion from the world's largest manager due to its fossil fuel policies.

Intech declined to comment on the Texas mandate.

More positive signs include the removal of the firm from some client watchlists, several "major" consultants upgrading their view of Intech, and invitations to participate in the request for proposal, or RFP, process, Marques said.

Recently, a European client also decided to give Intech its entire non-domestic equity allocation, a mandate worth about $125 million, he said.

"That's a real vote of confidence," Marques added.

The firm declined to name the client.

New Talent

Ryan Stever

Intech's headcount fell by 30% since March 2022, including a 25% reduction in investment advisory roles, according to ADV filings.

Key departures include the firm's deputy CIO since 2012, Vassilios Papathanakos, who transitioned to the role of "distinguished researcher" in January 2023 and left at the end of December to "pursue other interests," per a firm spokesperson.

The manager has added new talent – broadening out its investment team's focus.

The team had become "a little narrow in terms of vision and scope," Marques said.

In September 2022, Intech tapped Ryan Stever – an alum of Berkeley rather than Princeton – as a co-deputy CIO, and then promoted him to co-CIO this February. Stever previously worked for BlackRock, where he was managing director of direct-indexing provider Aperio Quantitative Strategies.

The firm also added former Acadian Asset Management portfolio manager Katherine Hardenbergh last year, in the newly created role of director of research.

Paul Cassell joined in May as chief technology officer.

Intech has overhauled its tech since becoming independent, replacing "literally" all infrastructure, Marques said. This has included a transition to cloud-based IT architecture and new middle and back-office processes developed with SimCorp.

Product Development

Intech intends to develop more active strategies, with the firm pursuing a "barbell" approach to its product mix, Marques said.

On the one hand, the firm has low-fee, low-margin offerings, which include "enhanced index" products and its defensive equity strategies. On the other side is its new "All Season" core equity product, developed in partnership with California-based Welton Investment Partners, which employs managed futures to offset global macro risks. Two new strategies are in the pipeline, but the firm declined to disclose details.

The pursuit of fees is not the only factor driving the firm's move into the active space, Marques said.

"Developing the processes and technology and investment perspectives to be successful in there will pay dividends on the low end of the tracking error business too," he said.

Intech is weighing whether to offer its core products to high-net-worth clients – the firm only offers institutional products currently. It may build its own wealth distribution capabilities and is open to partnering – "it's up in the air right now," Marques said.

The firm is also exploring a move into liquid alternative products.

However, Marques ruled out the exchange-traded fund space. "You'll never see us coming up with the 'presidential runoff ETF' or whatever, the 'ETF of the week' thing," he said.

Winning Trust Back

Intech faces "formidable" challenges in both the institutional and the intermediary landscape, said Anu Heda, a partner at asset management consultancy Naissance Partners.

"Currently, in the U.S. specifically, we're seeing asset owners and advisors trimming the number of partners that they are working with, so growing a wholly new client base would be challenging for anybody, let alone a firm that is shrinking."

With under $10 billion in assets, Intech will also struggle to maintain viability in terms of staff needs, he added.

Restoring trust with consultants is key for firms wanting to win back institutional clients, said Ravi Venkataraman, a managing partner of Chestnut Advisory Group.

Managers are downgraded by consultants "fairly quickly," but regaining the upgrade typically takes about three years, he said. "No client wants to be the first climbing back on the wagon."

Firms need to "proactively communicate" the steps they are taking to right the ship, he added.

"It is amazing how people don't do that sometimes, because it's awkward – the consultant may not want to take the meeting because they just recommended someone else, but you have to just keep trying," Venkataraman said.