a meeting of MINDS

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Asset Management

Thursday 20 September 2018

The Berkeley Hotel, Wilton Place, London SW1X 7LA

THE DRAFT AGENDA

The format:

A Meeting of Minds is a day long forum: breakfast through drinks made up of a blend of:

- **Keynote** sessions geared to encouraging new thinking – typically from outside of the industry;
- **Roundtables** – small facilitated groups addressing a carefully researched agenda. The whole day is Chatham House and therefore participants are able to speak openly and freely.
- Plenty of **networking** opportunities including a formal seated luncheon.
- Some "me" time. We thought the art of sleeping might be a good start!

In summary, your time is precious and our goal is to ensure that if you spend it with us, you spend it in the company of your peers, you address the subjects which matter to you, and all in a time efficient manner.

The context:

This summer we will see the end of a series of tough regulatory deadlines – namely GDPR, MIFID II and the Senior Managers Regime. There may now be a window of opportunity to get on with the business of doing business! Mind you Brexit continues to grind on …

As institutional and retail grows ever closer, we are seeing changes to asset management business models. Indeed there is also evidence of consolidation within the industry. What are the key drivers of this shift?

The following sets out our thinking as to the subjects which will be considered in the roundtables which will take place on Thursday 20 September. This document will evolve over the next couple of months as we carry out more research with our target audience to ensure that the subject matter is totally on message.

SOME PROPOSED AREAS FOR DISCUSSION:

1. BUSINESS MODELS OF THE FUTURE

a. Well we can go 20 years hence – think Blade Runner!

- Our research guinea pigs suggested that what they were looking for was a real step into the future not just a "next year" sort of conversation. More a two, three or even five years ahead perspective. And ok it may not be quite as bleak as Los Angeles in 2048 but it could be quite challenging.
- Actually by then we probably won't need any money at all!

b. Let's be a bit more real and look three to five years ahead.

- Well the dead cert has to be the accelerated growth of fintech which will bring with it the continuing democratisation of financial services. And with access comes knowledge and more demanding clients/customers. As an aside, the client vs customer conversation is worth having – it sets up a slightly nuanced mindset. Ask the retailers. It introduces words like journey, experience, frictionless, multi-channel, brand!
- Will you be actively managing their money or will it be the algorithm? Will WeChat have taken over the whole world? Will you have been "commoditised"?
- Will you still have a sales team? Will all communication be on line? It practically is already so what value will the sales team add? Will they need to morph into data scientists?
- There must be a human element in there – what will it be?
- What will happen to the physical grandeur of the City? It will probably be occupied by said data scientists.

c. And in the more immediate future?

- Is vertical integration really the way forward? It would seem that this is the direction of travel. Asset managers continue to consolidate and buy distribution, and advisory firms continue to consolidate and apply for their fund management license.
- As clients become ever more savvy as to what they are paying for their portfolio management services (thanks to MiFID II), value for money will become a differentiator and if you own the whole value chain then that scale makes life easier.
- At present, the consensus is that the client is willing to pay a fee of 2%. However, at the end of the year, the client will want to see a net profit and they will have expected that frictionless, readily accessible and pleasurable experience. The pressure is on.
- How about a look at "abroad" – after all the US sneezes …. For starters, the fintech ecosystem in the US is way ahead of the UK. At the very least an overview of developments taking place there would be useful.
- And what about retirement? We understand that fintech is now looking at this space. The idea behind the pensions dashboard is already looking rather dated. You snooze you lose.

- And whilst we are looking at the future, the demographics of the UK workforce are undergoing seismic changes and you should be experiencing an increased diversity of thinking – and that don't mean just more women on the board. Age, race, gender!

2. WHO OWNS THE CUSTOMER? HOW DO WE SHOW WE CARE THEY ARE OURS?

a. Remember that bit about thinking of your investors as customers?

- How about inviting a retailer to lead this session? He or she can share their insights when it comes to building a customer experience which is pleasurable, frictionless and multi-channel.
- A personalised service will shortly just be housekeeping.

d. Customer outcomes really do matter now and they are changing their investment preferences.

- Low interest rates are driving the use of passives.
- The increasing desire to support ESG investments. It is no longer just about achieving a stellar return.

3. TOMORROW'S CUSTOMER: HOW DO WE ENSURE WE CAPTURE THEM NOW?

a. Attracting the investors of the future? Gamification? Robo?

- How can we get the young interested in investments? It has to fulfil a need. Bitcoin has caught their attention as has "Equity for Punks" – a crowdfunding site. Apparently there is a preponderance of betting apps on iPhones! Younger people may well look at their phones 250 times a day. They want it and they want it now. Their attention span is limited – indeed everyone's attention span is limited.
- Nutmeg and Hargreaves Lansdown are accessed in the right way i.e. via an app. Indeed, Hargreaves Lansdown was a fintech start up once!
- The banks are making great strides in the fintech world and the pressures of Openbanking are pushing them to move even faster.
- Apparently 15 – 20% people are doing their own investing. Although not sure what percentage are Millennials – will need to dig deeper.
- A piece of research cited £15K as the level at which people become uncomfortable about making financial decisions. And that does apply to everyone… the young may have low interest but they do want to buy a house. It is a basic human truth that they do want to get on.
- We need to identify the kick start to get them engaged in the first place.
- How about a focus group of Millennials?
- Imagine the size of the market (and the size of the opportunity) - it is vast (i.e. the whole of the UK population). However good Hargreaves Lansdown, Fidelity et al might be doing, they are just scratching the surface.

e. It's not just about the investors of the future - How are the Baby Boomers doing?

- And as we all live forever, we need to keep up with the Baby Boomers and their needs as well. You will be investing on behalf of people throughout their lives and indeed those lives are getting longer and longer.

4. THE FORCES OF CHANGE AND THE FORCES FOR GOOD IN ASSET MANAGEMENT. ARE WE REALLY SYSTEMICALLY RISKY FINANCIAL INSTITUTIONS OR THE DELIVERERS OF A BETTER FUTURE FOR INVESTORS?

b. We need to support the financial education of the whole of the country.

- Maybe a starting point would be harmonisation around the lexicon used within fund management. A Lux SICAV isn't exactly a typical discussion point down the pub.
- Maybe support financial education in school e.g. play apps.
- Algorithms may well take away quite a lot of the skill of fund management (daring!). We therefore need to promote active fund management more widely.
- Communication by telling stories works well. The narrative has to balance revenue today with the future. There has to be a societal value add.
- It is well-known that younger investors are demanding greater knowledge of where there money is being invested. So how about taking a look at the UN's sustainable goals. What can the asset management industry do to support these goals?

5. IS TECH A GAME-CHANGER? IF SO WHAT DO WE NEED TO DO AND WHAT DO WE EMBRACE?

a. Big data and machine learning. Could you be losing out to the algorithm?

- For the super smart computer scientists coming out of university, it is now a binary choice between joining a hedge fund or Google. We need to gear up to ensure we get them into asset management. They are doing wonderful things these days. Deep Mind for example are working with the Royal Free hospital using big data to analyse lots of x-rays to see if they can identify trends and thereby diagnose cancer much earlier. How do we compete with that?
- AI can improve the performance of asset managers, automate back-office functions to cut costs and enhance the number of clients you can work with by analysing vast amounts of internal and external data.
- Who is really ahead of the curve here? The algorithm will win – it is just a question of when.

The above will hopefully get you thinking. Over the next couple of months, these subjects will evolve into an agenda which will be put to you in the run up to the September Meeting of Minds. You will get to shape your own agenda on the day by cherrypicking those sessions which particularly float your boat.

In the meantime, any thoughts, suggestions or angles will be gratefully received and added to the melting pot.

12 July 2018