

## Asset Management

Thursday 20 September 2018

The Berkeley Hotel, Wilton Place, London SW1X 7RL

### THE SUBJECT MATTER

In anticipation of A Meeting of Minds Asset Management, this document sets out the subjects which will be tabled for discussion.

#### A Meeting of Minds – the format:

- **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**” - some optional sessions for you. We thought the art of sleeping might be a good start!

#### How do the roundtables work?

- On the day, each roundtable takes place in a private room with, typically, some 12 people around the table. Tent cards indicating participants’ names and companies are set out to make it easy to identify your peer group. The sessions are introduced by an expert on the subject. This introduction will last usually about 10 minutes before the conversation is opened up to the table, the goal being to ensure that everyone gets stuck in! The session facilitator will aim to bring the session to a conclusion, highlighting the key points raised.

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.

.....	1
<b>Business models of the future</b> .....	<b>2</b>
1. We could go a bit Blade Runner but let’s be slightly more grounded and look at business models some five years into the future. ....	2
2. And looking at business models in the more immediate future: Vertical integration? Your share of the value chain? Client fees? Your people? .....	2
3. How about a look at new routes to market? D2C? Increased brand management? White labelling?.....	2
<b>Changing customer demands</b> .....	<b>3</b>
4. Remember that bit about thinking of your investors as customers? .....	3
5. A look at changing investment preferences. What are the emerging trends? .....	3
6. Attracting the investors of the future? They want it and they want it now! .....	3
7. It’s not just about the investors of the future - How are the Baby Boomers doing? Any retirement innovation out there? Let’s examine pensions of the future.....	4
<b>A force for good?</b> .....	<b>4</b>
8. Are asset managers really systemically risky financial institutions or the deliverers of a better future for investors? Should we be supporting the financial education of the whole of the country? Or are you just too busy with the day job? .....	4
<b>Fintech – game changing!</b> .....	<b>4</b>

## **BUSINESS MODELS OF THE FUTURE**

### **1. WE COULD GO A BIT BLADE RUNNER BUT LET'S BE SLIGHTLY MORE GROUNDED AND LOOK AT BUSINESS MODELS SOME FIVE YEARS INTO THE FUTURE.**

- 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!
- 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.

### **2. AND LOOKING AT BUSINESS MODELS IN THE MORE IMMEDIATE FUTURE: VERTICAL INTEGRATION? YOUR SHARE OF THE VALUE CHAIN? CLIENT FEES? YOUR PEOPLE?**

- 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 investment 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 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!

### **3. HOW ABOUT A LOOK AT NEW ROUTES TO MARKET? D2C? INCREASED BRAND MANAGEMENT? WHITE LABELLING?**

- As margins decline, are you still focusing on working with the intermediary channels or are you exploring different ways to reach potential investors?

- Do you have a direct offering? How is it going?
- Are you considering forming partnerships with brands or other FIs to reach the end customer?
- Are you outsourcing part of your offering?
- The banks are already being challenged by the tech giants, when will they turn their focus on you? Indeed have they already done so? Any lessons to be learned to ensure you keep ahead?

## **CHANGING CUSTOMER DEMANDS**

### **4. REMEMBER THAT BIT ABOUT THINKING OF YOUR INVESTORS AS CUSTOMERS?**

- We will invite a retailer to lead this session? They will 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.
- This session will take a look at your different “customers”. They do after all range from the mass affluent to the high networth; and from the small IFA to the national to the private bank, indeed to the retail bank.
- So an opportunity to think about the different “journeys”. Are you getting it right? Could you be doing it better?

### **5. A LOOK AT CHANGING INVESTMENT PREFERENCES. WHAT ARE THE EMERGING TRENDS?**

- The rise of passive investing, with the resulting downward pressure on fees, and the increased costs of research under Europe’s new MiFID II rules, are squeezing profit margins, especially for medium sized active managers.
- We are seeing an increased desire to support ESG investments.
- Thanks to MiFID II, investors are now seeing with greater clarity the level of returns they are receiving on their investments plus the fees they are being charged.
- Might this all result in far more demanding investors – even at the retail level? And what might these demands look like?

### **6. ATTRACTING THE INVESTORS OF THE FUTURE? THEY WANT IT AND THEY WANT IT NOW!**

- 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.

- 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.

## **7. IT'S NOT JUST ABOUT THE INVESTORS OF THE FUTURE - HOW ARE THE BABY BOOMERS DOING? ANY RETIREMENT INNOVATION OUT THERE? LET'S EXAMINE PENSIONS OF THE FUTURE.**

- 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.
- How is this impacting the products and propositions you are offering?
- A look at innovation in the retirement space.

## **A FORCE FOR GOOD?**

### **8. ARE ASSET MANAGERS REALLY SYSTEMICALLY RISKY FINANCIAL INSTITUTIONS OR THE DELIVERERS OF A BETTER FUTURE FOR INVESTORS? SHOULD WE BE SUPPORTING THE FINANCIAL EDUCATION OF THE WHOLE OF THE COUNTRY? OR ARE YOU JUST TOO BUSY WITH THE DAY JOB?**

- Maybe a starting point would be some sort of 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 their 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?

## **FINTECH - GAME CHANGING!**

### **9. TECH IS A GAME CHANGER, SO WHAT DO WE HAVE TO DO AND WHAT DO WE NEED TO EMBRACE?**

- Big data and machine learning. Could you be losing out to the algorithm?
- Effective data management is going to become more and more crucial and it will need to be cross border.
- 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.
- Technology is changing the world. Deep Mind for example is 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 on earth do we compete with that?
- AI can improve the performance of portfolio 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.
- It is also a key part of customer engagement.
- So who is really ahead of the curve here? Other than the algorithm that is.

Thank you for reading so far! If you have any thoughts on the above or would like to add your own suggestions, do please call Evie Owen on 01483 862692 or email [evieowen@owenjamesgroup.com](mailto:evieowen@owenjamesgroup.com).