

Asset Management

Thursday 19 September 2019

The Berkeley Hotel, Wilton Place, London SW1X 7LA

THE SUBJECT MATTER

In anticipation of A Meeting of Minds which will take place on Thursday 19 September this document sets out the subjects which will be tabled for discussion.

The format:

The half day runs 0815 – 1430; breakfast through to a formal luncheon and is made up of a blend of:

- **Keynote** sessions geared to encouraging new thinking – typically from outside the industry;
- **Roundtables** – small facilitated groups addressing a carefully researched agenda. The whole Meeting is Chatham House and therefore participants are able to speak openly and freely.
- Plenty of **networking** opportunities including a formal seated luncheon.

How do the roundtables work?

- On the day, the roundtables take place in a private room with, typically, some 10 - 12 people around the table. Tent cards with 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 usually last 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 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

YOUR CLIENTS – WHO EXACTLY ARE THEY? AND WHAT DO THEY WORRY ABOUT? .. 2

1. Institutional and retail: is this simply a question of segmentation?..... 2

2. How do you consume your data? Do you devote enough time to understanding and getting genuine value from your Management Information?..... 2

3. How to create real customer relationships in the digital age..... 2

4. Are you providing “Value for Money” (VFM)? This is an area of growing regulatory interest. How do you go about creating a consistent framework to assess whether your clients’ needs are being identified and met?3

THE BIG PICTURE 3

5. The meaning of life: what is our purpose? What are our clients paying us for?..... 3

6. Is ESG investing a case of “Fifty Shades of Green”? As we race to judge a company are we impacting the World balance? It is a big question. 4

7. Liquidity? Is it currently the most used word within asset management? 4

8. Faster, lower cost, just as accurate – how ETFs are set to transform investment management..... 4

TO DISRUPT OR BE DISRUPTED – THAT IS THE QUESTION? 5

9. What about the changes from within the industry?..... 5



YOUR CLIENTS – WHO EXACTLY ARE THEY? AND WHAT DO THEY WORRY ABOUT?

1. INSTITUTIONAL AND RETAIL: IS THIS SIMPLY A QUESTION OF SEGMENTATION?

- Whether your clients are institutional or retail, they both want servicing in a cost efficient, fast and transparent manner, so should they really be charged such a differential? Are their demands that different?
- Should segmentation be by profitability and complexity? The dividing line between institutional and retail sales is disappearing as teams are combined. So are you combining your client bank at the same time?

Expert: Magnus Spence, Managing Director, Distribution Insight, Broadridge Analytics

2. HOW DO YOU CONSUME YOUR DATA? DO YOU DEVOTE ENOUGH TIME TO UNDERSTANDING AND GETTING GENUINE VALUE FROM YOUR MANAGEMENT INFORMATION?

- How is data evolving in your business? How are you using the data you produce and that is made available to you to develop your proposition and strategy?
- Do you analyse your intermediary clients’ behaviours? Do you know when they go online or call you? And if they call you, do you know why? Do you know which bits of the tech you provide they favour?
- How do you stay on top of the evolving data requirements of existing and new regulations?
- How might the future look in terms of data provision and usability?

Expert: Paul Poletti-Gadd, Solutions Director, FundsLibrary

3. HOW TO CREATE REAL CUSTOMER RELATIONSHIPS IN THE DIGITAL AGE

- The financial industry is in a state of evolution, as waves of change via digitisation, automation and AI alter clients’ expectations of their advisers and fund managers.
- Today’s investors seek multi-channel interactive digital communication - accessible any time, any place. Therefore, it is important for asset management firms to boost their digital client experience if they wish to be successful in attracting, growing and maintaining their client base. It is imperative to build this relationship whether through direct channels or via intermediaries.
- This relationship-building starts with an understanding of who the end-investor is and their changing needs. And in turn that understanding requires gathering, managing and analysing data provided by platforms, intermediaries and investors themselves in order to build a picture of investors’ digital personas. In addition, particularly as today’s investor evolves into the investor of tomorrow, successful digital engagement has to evolve.
- Expectations for innovative client communications and fund trading access have moved beyond simple mobile apps. Today’s and tomorrow’s clients expect information to be readily available, and expect to be able to communicate with their advisers and fund managers in the same way they communicate with all their other service providers - quickly and digitally.

Expert: Andy Creak, Executive Vice President, InvestCloud

4. ARE YOU PROVIDING “VALUE FOR MONEY” (VFM)? THIS IS AN AREA OF GROWING REGULATORY INTEREST. HOW DO YOU GO ABOUT CREATING A CONSISTENT FRAMEWORK TO ASSESS WHETHER YOUR CLIENTS’ NEEDS ARE BEING IDENTIFIED AND MET?

- By the time we meet, and in line with the FCA’s rules, fund managers will have reviewed their funds’ objectives. The goal being to have set out the contract with the investor and at the same time provided the distribution channel with clearer information.
- VFM (see below *) can help build trust and confidence in the industry and our ability to beneficially serve our clients.
- In a report published by the CFA, they summarised the client perspective of VFM as: *“clients are likely to focus on the generation of an attractive risk-appropriate return over a timescale consistent with their investment objective, net of all costs, but taking account of the quality of service. The analysis should be long-term in nature.”*
- So how is it going? Do you feel you have a workable framework?
- Will the introduction of independent directors (ACDs) support this work?
- So – any zombies lurking?

*** The FCA sets out seven factors that firms must consider when assessing the value for money of each fund:**

- Quality of service: the range and quality of services provided to investors;
- Fund performance: this should be considered over an appropriate timescale given the fund’s objectives, and should be measured net of fees;
- AFM costs: the cost to the AFM of providing the service to which each charge relates;
- Economies of scale: whether the AFM is able to achieve savings and benefits from economies of scale for larger funds;
- Comparable market rates: the market rate for any comparable service provided by the AFM or to the AFM (including by delegated investment managers);
- Comparable services: the AFM’s charges for comparable services, including institutional mandates of a comparable size or funds with similar investment objectives; and
- Classes of units: whether it is appropriate for investors to be in share classes with higher charges than those applying to other similar share classes of the same fund.

Expert: Stephen Dowds, CIO, Hay Hill Wealth

THE BIG PICTURE

5. THE MEANING OF LIFE: WHAT IS OUR PURPOSE? WHAT ARE OUR CLIENTS PAYING US FOR?

In light of MIFID II and the need for transparent client reporting what are wealth managers paying asset managers for?

Some suggestions:

- Access to an asset class; to a specific area of the market where you need a specific set of knowledge to gain access.
- Alpha and a disciplined approach to investing.
- To ensure we exercise our fiduciary duty in monitoring our investments’ behaviours.

Indeed as one asset manager recently said: *“The value judgement goes away if you deliver what you say you will do. We need to put performance before fees and costs?”*

Another asset manager: *“We need to be better at clarifying the expected outcome. This is partly the attraction of passives.”*

Do we deliver?

6. IS ESG INVESTING A CASE OF “FIFTY SHADES OF GREEN”? AS WE RACE TO JUDGE A COMPANY ARE WE IMPACTING THE WORLD BALANCE? IT IS A BIG QUESTION.

- Maybe a bit of a dramatic heading, but if your analyst deems a company’s practices unacceptable and refuses to invest in it, what are the knock-on effects on the local society? Lost jobs, greater hardship. Is some work better than no work, even if the employer is not operating best practice? Negative impact investing.
- One example recently suggested was that if we refuse to invest in the arms industry, what happens to the companies responsible for providing the UK’s defences? This sort of decision places a phenomenal weight on the shoulders of the analysts.
- So how do you monitor your investments to ensure they are doing no harm both to the planet as well as the local community? Do the UN Sustainable Development Goals provide a framework?
- Or is it really the case that we are talking “Fifty Shades of Green”?

Taken from LGIM’s website: “*Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper.*”

Food for thought?

7. LIQUIDITY? IS IT CURRENTLY THE MOST USED WORD WITHIN ASSET MANAGEMENT?

Following Neil Woodford’s current discomfort, the rest of the industry is anxiously anticipating the shock waves.

- Will it damage active management and further encourage wealth managers towards a greater use of passive products to gain access to equity markets?
- Or is there an argument for some element of illiquidity within a fund?
- Why is daily dealing so crucial? In these low interest times, clients are looking for a higher yield and investment in less liquid assets might help them achieve it.
- Might one consider weekly or more varied dealing options?
- Or actually is it all down to transparency and clear communications with the end client.

How will the Regulator react? Brace!

8. FASTER, LOWER COST, JUST AS ACCURATE – HOW ETFS ARE SET TO TRANSFORM INVESTMENT MANAGEMENT

- Assets managed in exchange traded funds grew at an annualized rate of over 20% in the past 10 years, increasing 73% in the last five years alone*.
- The success of equity ETFs has led to a surge in growth of fixed income funds. Assets have grown nearly eight-fold in the past ten years – the equivalent of doubling every 16 months, with ETFs increasingly replacing the liquidity that in the past came from investment banks.
- Overwhelmingly, according to the research, the growth in ETF activity is coming from quasi-institutional sources, including discretionary fund managers, private banks and asset managers.
- Why the strategic shift away from stocks and funds and into ETFs?
- Our expert will demonstrate the benefits of ETFs, both for strategic holdings or tactical exposures, combining ready access, deep liquidity and low costs, enabling accurate implementation of investment views.
- Mark will lead the discussion on how these core characteristics are opening up opportunities for firms to operate more efficiently, stave off competition and move into new and profitable business areas.

*All data from ETF Global Insights

Expert: Mark Fitzgerald, Head of ETF Product Management, Vanguard

TO DISRUPT OR BE DISRUPTED – THAT IS THE QUESTION?

9. WHAT ABOUT THE CHANGES FROM WITHIN THE INDUSTRY?

Having looked at the emergence of new entrants from outside the industry, what about change from within?

As fee pressure mounts and margins are squeezed, there will be increased consolidation. However, one firm's battle will be another's victory.

- Vertical integration is a big movement but is it good for the end investor? Does it stymie competition?
- Is further M&A activity likely? What does consolidation mean for the industry?
- What impact is competition likely to have long-term?
- We will seek to identify the best examples of industry innovation from recent years – from product development through to routes to market?
- Where does innovation come from within an organisation and whose responsibility is it to encourage change?

As Richard Romer-Lee says: “Asset managers used to be product manufacturers and price setters ... now they are a service industry and price takers.” Do you agree?

Expert: Dorian Hughes, Independent Consultant formerly BlackRock

AS A LEADER OF PEOPLE... I WILL SURVIVE

10. AGILE LEADERSHIP – STAYING RESILIENT IN A VOLATILE WORLD.

As leaders of substantial organisations, how on earth do you maintain your equilibrium in a world where decision-making is demanded at every turn. How do you stay resilient?

This session will coach you in the art of self-management. It will help you to understand how best to optimise the use of your team, maintain a clarity of focus and overcome all the blocks and obstacles thrown in your way such as regulation.

Experts: Keith Jones and Tess Sharp, Co-founders, Alchemy Worldwide