

## ICI VIEWPOINTS

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## Fresh Perspectives on a Changing World

By Miriam Bridges

Implications of globalization, the impact of the Millennial Generation on product development, the search for alpha in a world full of passive products—these were among the top priorities and concerns of the fund industry discussed by a panel of industry leaders at ICI's 57th annual General Membership Meeting (GMM), held May 6–8 in Washington, DC.

Speaking at the opening session of the second day of GMM, the panelists at the “Facing the Future: Fresh Perspectives” session agreed with a sentiment commonly attributed to Benjamin Franklin: “When you're finished changing, you're finished.” The need to embrace change weaved its way through the candid conversation, moderated by Jenny Johnson, executive vice president of operations and technology at Franklin Templeton Investments.

### The Changing World

A changing world has created an environment where the industry must evolve, said Omar Aguilar, senior vice president and chief investment officer of Charles Schwab Investment Management. “We have never lived through an environment like this...globalization, asset allocation, generational transfer as people retire and new people come into the workforce. It changes the way we think about our products, think about distribution, and how we adapt product development into solving solutions for clients.”

Other panelists stressed the need for people to think globally. “There will be very big differences geographically, and we need to help our clients look globally for opportunities. But people are afraid to,” explained Simon Mendelson, managing director and head of product development at Deutsche Asset and Wealth Management. “It's fear of the unfamiliar.”

This global change also introduces massive regulatory complexity into the mix. “We are under the sights of lots of global regulators,” said Mendelson. “There are more than 170 points of regulatory oversight for us in the world.” Kara Kohler Hoogensen, managing director and product development principal of Principal Funds, agreed: “The biggest challenge is the regulatory environment and trying to navigate the multiple entities and schemes out there, and figuring out how to do it efficiently and effectively, to best meet the needs of our customers.”

Julie St. John, president and chief information officer for investment operations and technology at the Capital Group Companies, explained that meeting customer needs involves balance. “Having offices all over the world does add complexity to the operating environment...but it's really [about] meeting local and regional needs. Figuring out that balance is critical.”

Despite these challenges, the panelists see opportunity for the fund industry. “The reality is, a fund is the best way for the average person to access the market,” said Johnson. “And there is more and more opportunity outside of the United States.”

Mendelson agreed. “Hundreds of people around the world want to invest globally, so that's a positive side to the global equation,” he explained. Hoogensen added that there are opportunities presented by having access to global talent, saying, “I think one of the opportunities we have is bringing diversity of thought process into our product development.” Company employees in global markets, she explained, enable the firm to gain insights about those markets and “really get an understanding of what [customers] are looking for.”

### The Changing Generations

Demographic developments also are driving change in the fund industry, said the panelists. “Millennials are going to start to take over

the economic power,” Aguilar told the audience, adding that they will have a big effect on how the industry develops products. Yet events such as the dot-com collapse, the fall of Enron, the WorldCom scandal, and the global financial crisis have given Millennials “economic post-traumatic stress disorder,” said Mendelson.

It’s no surprise, then, that this generation is more risk-averse and skeptical than previous generations of investors, suggested Aguilar and St. John—yet they also rely deeply on communities for advice. “They were born texting, using mobile phones, so they tend to listen more to a community than to an adviser,” said St. John. Family is part of community, of course—Mendelson talked about asking a Millennial how he got his investment advice, and getting the reply, “I ask my dad.” Accordingly, Mendelson emphasized that the industry needs to reach out to families and figure out “how to help parents help their kids.”

The question, they said, is how can the industry encourage the Millennial Generation to save? Aguilar noted that “Millennials are pretty good at saving. They like to save. But the challenge for this generation is to stay invested. Sitting on cash is not going to help.” St. John offered that tools such as “gamification” should be considered for a generation that is so comfortable with technology. Think about “setting up a reward system so that they can get small goals,” she explained. “That’s the way to encourage that generation to save.”

Hoogensen expressed concern about the opposing forces in this landscape. “On the one hand, Millennials [like] immediate gratification and access to information. Yet most of what we’re trying to do is help individuals save for really long-term goals. So how do you marry this need for immediate gratification with this really long-term time horizon?”

## New Words and Hashtags

As the flows into passive products and exchange-traded funds (ETFs) continue to be strong, there is growing interest in “smart beta” products. Panelists shared their thoughts on the implications for investors and asset managers.

Mendelson suggested that, though passive products will continue to attract the bulk of flows, not everything will be passive. “There will be a meaningful active component of the industry. I think smart beta will grow too. I think there will be three components of the industry: active, passive, and something in between.”

With a smile, Aguilar coined what may be the next new word in the active versus passive debate: *balpha*. “The surge in passive will continue,” he said. But “there is opportunity for combining smart beta with the current, traditional beta. I think about this as *balpha*. Think about *beta*, *alpha*. Basically in between,” he joked.

Johnson wrapped up the panel with a light touch, asking participants to offer advice to future fund leaders through Twitter hashtags. The results? #learnfrommistakes, #keepitfresh, #embracechange, #askquestions, #beopen, and #learntoadapt.

*For other GMM highlights, please visit [http://gmm.ici.org/gmm/2015/15\\_highlights](http://gmm.ici.org/gmm/2015/15_highlights).*

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