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INVESTMENT COMPANY INSTITUTE
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JUNE 1, 2017

Industry Leaders Highlight Opportunities Presented by Industry Change

By Miriam Bridges

Shifts in demographics, regulation, investor preferences, and new product offerings are creating a range of opportunities for the asset management industry. In conversations exploring these evolving trends, industry leaders offered their perspectives on how to succeed in these new environments during two insightful sessions on the second day of ICI's 59th General Membership Meeting, held May 3–5 in Washington, DC.

Two Sides of the Same Coin

Moderator Shundrawn A. Thomas, executive vice president and head of funds and managed accounts group for Northern Trust Asset Management, opened the "Facing the Future: Fresh Perspectives" session by asking the panelists what they view as the most important trends in the asset management industry—and what opportunities are presented by those trends.

Thomas A. Jones, head of strategic relations for Columbia Threadneedle Investments, said that his firm thinks about "increasing fiduciary oversight, institutionalization of retail [distribution], the increasing requirements from regulatory actions, and the changing asset base" as both "challenge and opportunity—two sides of the same coin." Though it's always challenging to implement new regulations, he explained, such regulations also present an opportunity to "articulate, as an asset manager, how you fulfill those, and how you help the intermediary communicate it as well."

Heather Lord, senior vice president and head of strategy and innovation for the Capital Group, agreed with Jones, adding, "The increased focus on transparency and results is a welcome friend in the industry.” A greater focus on transparency around investment results helps investors be better equipped to choose services that will meet their needs, she explained. For example, “I think we’re going to see more and more externalization of fees, where you see people paying for investment management services and advice separately.”

Sean Tuffy, senior vice president of investor services for Brown Brothers Harriman, pointed to the exponential global growth of asset management as an opportunity for asset managers to deliver products and solutions to more investors. But he cautioned that this growth comes with an increased focus on asset management by policymakers—and, thus, a challenge of “proving the industry’s value without veering into over-regulation.”

Panelists also discussed investor expectations around, and the downward pressure on, fees. Jones explained that his firm views this trend as “an opportunity to look at different vehicles in a way that allows pricing to match up with what the intermediary is trying to accomplish within their model.” Tuffy stressed the need to ensure that products are tailored to the market, saying, “It’s all about matching the fees and the products with the investment objectives and the investor. It’s not a one-size-fits-all fee schedule for your products.”

Distribution “Rises to the Occasion”

Asked how she thinks fund distribution will evolve over the next five years, Lord responded with five observations.

1. The Department of Labor’s fiduciary rule will drive a host of changes throughout the industry.
2. The rule will help to broaden the scope of advice, making it “a lot more about portfolio construction” than “about the fit of an individual product with an investor goal.”
3. Retail investors increasingly will have access to investment techniques typically used by large institutions.
4. Changes in how assets are allocated across channels will drive structural changes in distribution organizations.
5. Investors’ comfort with technology outside of the industry has set a new standard for advisers and intermediaries—investors now expect them to provide a seamless user experience across all investing platforms.

In this environment, Jones said, focusing on strategy is critical. “It becomes far more about what you choose *not* to do,” he explained. “Aim your resources at what you have...to get where you believe your firm needs to be.” Though rethinking strategies to match the “institutionalization of retail distribution” will be difficult, “I see distribution rising to the occasion,” Jones continued. “It isn’t just about explaining our products. It’s about bringing resources across the firm and being better at helping advisers implement and explain it.”

Rethinking strategy also is key to responding to these changes in distribution globally. “If you want to reach the fast-growing regions—the pockets in Asia, for example—you need to think about your strategy. Distribution is hard in the United States—and outside is a whole new ballgame,” explained

Tuffy. Being truly global means approaching processes in new ways, too. “If you’re not integrated 24-7, then you’re global only geographically...and that’s ‘fake global,’” joked Jones.

A Noble Industry

Trust is the bedrock of the fund industry, and the panelists noted that there are a number of ways to build on this trust. “If people have simplicity, transparency, and clarity,” emphasized Lord, they’ll more highly value the services they receive “and have more confidence.”

The need to communicate the benefits provided by the industry also applies when recruiting young advisers and managers, noted Jones and Lord. “Helping talent understand that financial services is an industry where they belong is important,” said Lord.

Panelists emphasized the need to seek out talent with broad, adaptable skill sets. “It’s a dynamic business that’s increasingly going to be more dynamic, so it’s important to have a broad sets of skills versus being a specialist,” said Jones. Tuffy added that seeking leaders who can think critically is “a huge advantage in an industry that is evolving and growing.” Lord wrapped up by urging the audience to seek recruits who have appreciation for the great responsibility of helping investors who are trying to reach important financial goals.

One approach to seeking out this talent is to focus on diversity, agreed the panelists.

Delivering on the Promise of Diversity

Though panelists at sessions throughout the conference noted the benefits of recruiting different perspectives and backgrounds, Thursday’s “Diversity in Management” panel examined the issue in detail. Session moderator Sonnia T. Shields, executive director and head of diversity for J.P. Morgan Asset Management, kicked off the session by explaining that diversity must be looked at through different lenses: “inherent diversity” (including age, race, gender, ethnicity, and physical ability) and “acquired diversity” (including language ability and military experience).

The panelists agreed that companies perform better and are healthier when they’re diverse, and that investors have better outcomes when they’re advised by diverse teams. Indeed, a live audience poll showed that 97 percent of the audience agreed that having a more diverse team resulted in better business results, while 74 percent of the audience said their firms were actively working to increase diversity.

In response to an audience question about successful initiatives at their firms, Gregory Davis, principal and global head of fixed income for Vanguard, shared his firm’s approach of partnering with such groups as the National Society of Hispanic MBAs and the Society of Professional Women. In addition, he said, Vanguard has employee resource groups that bring together people with similar interests for networking and professional development. “The opportunity is not just for them to get together. It’s the opportunity for the broader community to understand some of the challenges and issues that could be affecting demographics with firms," Davis said.

Such groups also are active at Fidelity, said Marie L. Knowles, an independent director at Fidelity Fixed Income & Asset Allocation Funds, and bring additional benefits: "These groups focus not just on networking, but also on solving business problems. So, for example, for the LGBT group, we ask how we target those clients in marketing materials."

Research has shown that employees in underrepresented groups are less likely to have a sponsor or mentor, which can be critical for career advancement, Shields explained. Consequently, J.P. Morgan Asset Management has launched a sponsorship program for these groups, where senior executives serve as mentors to high-performing employees with diverse backgrounds. Firms must go beyond "discussing the importance of diversity," she stressed. "It's critical to make sure you have a workforce that reflects clients."

Knowles closed the panel on a hopeful note. "I want to acknowledge that [making a] business case for diversity is a completely different dialogue than 30 years ago."

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