# Remaining relevant
## by confronting disruption in fund distribution

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**Establishing brand credentials, and winning the trust of a new generation of investors, will become increasingly important for tomorrow's fund groups. But many are also re-examining their business models to become more responsive, open and transparent. Investors and distributors alike will demand ever more data. The ability to deliver that efficiently to a globally mobile investor base could be the difference between success and failure.**

One of the biggest challenges is to find a strategy for reaching the millennial generation.

Millennials are 'digital natives' who expect instant information digestible in Twitter-length feeds. This is a generation that clearly needs to save for the future. Defined benefit pensions are becoming a thing of the past and that first house purchase is occurring later and later in life.

With this challenge comes a potential threat from outsiders. Chris Chancellor, Partner, MackayWilliams, stresses there are many potential competitors out there. "It is vital that asset managers demonstrate the value they are bringing, build their brand and earn the trust of a new generation. The risk is that the technology companies will be trusted more. You can imagine peer-to-peer lenders setting up their own asset managers or Amazon entering the distribution space."

## Keeping faith with millennials

Stephan Pouyat, Global Head of Capital Markets and Fund Services at Euroclear, says: "Trust will be key. All the evidence suggests that many millennials are unimpressed with a financial system that has generated the wrong sort of headlines.

"They want fairness and transparency. A recent survey by US Trust showed that three-quarters of them put a high priority on social goals when they invest.

"At the same time, they know they are going to have to work for longer. Today's 25-year-old could have another 75 or 80 years to live. They are hyper-connected and they want solutions that can support them wherever they are in the world.

"We need to build trust in a genuine, open way. Having a social conscience goes a long way to achieving this and pays dividends in terms of risk mitigation. As someone who spends a lot of time in the emerging markets, I've started to see the ESG concept take some of the risk out of previously volatile markets with improving governance frameworks."

Then there is the challenge posed by technology. Digital communication with investors opens up a world of new marketing possibilities. However, says Mr Chancellor, "millennials expect information instantly – they don't want to wait two weeks after the month-end for the fact sheet to appear."

At the same time, the increasing demand for data – from regulators, distributors and investors alike – is imposing a big investment burden on firms.

## Size is desirable, but it is not a tactic

The most vocal response of fund managers, says Mr Chancellor, is that you've got to be big to survive in the new world. "Yes, there is an argument for size, he says. But size is not a tactic; it cannot be your differentiator. Brand is the key."

Nick Lyster, Head of Wealth Advisory Services at Principal Global Investors agrees: "You've got to be sure both you and your clients understand what you're offering them. Going forward, there has to be a greater focus on what differentiates your funds. Now you have to demonstrate expertise, through generating high alpha or risk-adjusted returns. I suspect there will be a lot more fund closures."

At St James's Place, Chief Investment Officer Chris Ralph echoes that sentiment: "Brand is key. We can explain our process of finding really good fund managers and delivering superior returns. In a world where there is an information overload, we provide simplicity.

"However, size is still important. The regulators recognise that it's less complex dealing with a big distributor such as St James's Place than 3,500 individual advisers across the UK."

## Demand for more data, fast

Scale also helps in dealing with the increasing demands for more and speedier information. Data requirements, says Mr Lyster, "are going through the roof." One answer is an initiative called openfunds, set up by UBS, Credit Suisse and Bank Julius Bär, together with fundinfo (FI), in January last year.

It seeks to standardise fund documentation and information with common definitions in areas such as asset classes and geographical split.

"Every month we send out a mass of data to our distributors, but they wanted more. Open source could become a global standard. Once we open up our data and put an FI coding on it, it makes it easier to access at the touch of a button. Long-term, the distributors are likely to be asking for still more, so you need to get your house in order."

That means digitising processes. "Throwing people at this is not the answer," says Mr Lyster, whose firm is committed to spending heavily over the next two years on projects designed to speed up the information flow.

Mr Pouyat notes: "The open source discussion is relevant across the industry. Increasingly, investors are globally mobile and they demand service wherever they are. I expect the real winners will be those who can deliver their products in the most cost effective, global way possible."

## Face-to-face contact still matters

Mr Ralph agrees there is a demand for more and speedier detail but he has two important caveats regarding digital solutions. "We don't believe they provide all the answers. For these really important decisions, clients still need to engage in face-to-face conversations with advisers, not tap a few keys on a keyboard."

The other danger, he says, is that a flood of instant information can provoke knee-jerk reactions. "We want clients to recognise the long-term efficacy of the portfolio they are invested in and not over react when there is market dislocation – such as at the end of 2017."

But, he says, transparency – clearly showing clients what they are investing in and what they are paying for – will be vitally important going forward: "We think there is some way to go before that is true across the whole of the industry. In Asia, for instance, there is a lot of information that is not very helpful."

Mr Chancellor agrees. "This is an area where a lot of fund groups continue to struggle. Long-term, they will have to let the fund selectors see the whole portfolio. The performance will not always be there. You have to be able to show exactly how you're creating value."

## Transparency and goodness aid distribution

Mr Pouyat stresses that transparency goes beyond the portfolio level. "Transparency at every stage in the distribution chain has a big role to play in cutting costs and improving access to potential investors. To get there it means adapting to a new model. But it is possible and does work."

For proof of that, look no further than the ETF market, he suggests: "Around 70% of ETF trades in Europe have typically been done OTC rather than on-exchange. At Euroclear FundsPlace we devised a new international structure – with Blackrock/iShares – that has boosted transparency in the asset class. It has even increased liquidity and facilitated the process of global distribution.

Transparency throughout the chain will be an important factor in gaining the trust of the new generation of investors facing pension deficits and social fragmentation. The method of engagement could still be the killer app. But, in the meantime a more open source approach would serve us all well."

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