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DEFINING THE NEXT DECADE: THE ASSET MANAGEMENT AGENDA 2020

2019 has been a significant year for the asset management industry. Various events, some foreseen and some that certainly were not, have dramatically influenced both sector practices and thinking, substantially reshaping an industry landscape that has become somewhat complacent over the last ten years.

Further, the media arguably plays a more critical role than ever before in not only making end-customer audiences aware of such events, but in shaping their thinking and resulting requirements. As a result, it is vital that investment industry businesses are cognisant of the world around them, what is coming up on the horizon and the need to plan for increased scrutiny, in order to position themselves at the forefront of those topics on underlying clients' minds.

It is this premise that forms the basis of JPES Partners' sixth Asset Management Agenda report, where we have conducted comprehensive research across global English-speaking media titles (including national and international press, specialist trade publications and newswires) to identify those themes trending upwards in the media and therefore likely to drive agendas in 2020. In parallel, we have also sought the views of leading journalists to gain a clear sense of what topics they expect to be most prominent in the year ahead.

KEY FINDINGS

- The investment industry remains behind the curve on **diversity** and inclusion, with increased focus and scrutiny expected to ensure it is meeting best practice principles
- A continued emphasis on **Environmental, Social and Governance (ESG)**, but with a greater focus on tangible solutions that address specific issues, particularly challenges resulting from climate change
- Substantial evolutions in asset management business, investment and communication practices in response to **generational change** and the requirements of a new client base of millennials
- The impact of upcoming elections in shaping the geopolitical ecosystem and ensuring either a continuation or rejection of the **isolationism** that has shaped markets, the global economy and international engagement over recent years
- Changing requirements and pressures on asset managers as a result of concerns over **liquidity** in markets, exacerbated by recent controversies, fund suspensions and closures

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About JPES Partners

JPES Partners is a communications consultancy specialising in the investment management and commercial property sectors.

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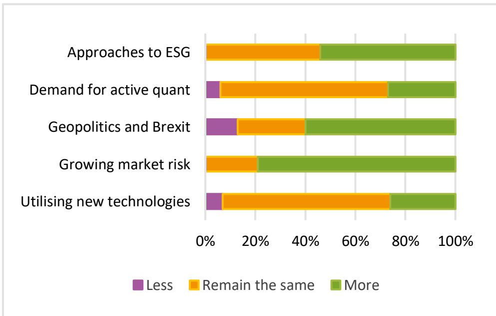
Journalist expectations for 2019



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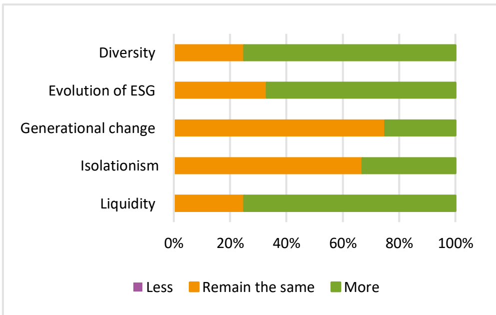
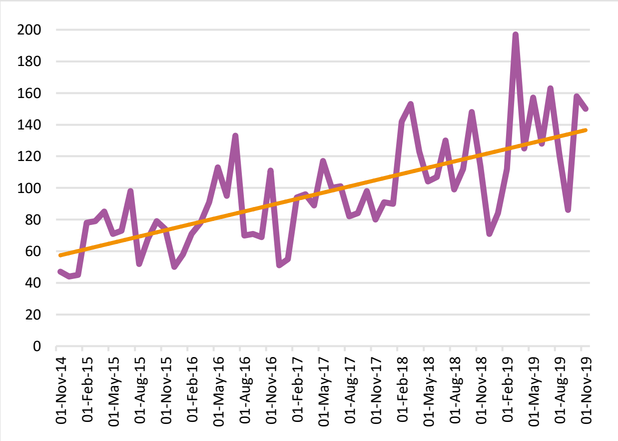


Addressing diversity issues

Despite being a longstanding issue for the investment industry and wider financial services sector, diversity has become an increasingly influential theme in recent years.



Media coverage of issues relating to diversity, Nov 2014 – Nov 2019 (Source: Factiva)

Part of this can be attributed to the efforts of senior individuals and industry bodies actively promoting the topic and the importance of inclusion to aid better business practices. Historically, attention has predominantly focused on the role of women in business; more recently however, it has broadened to include ethnic minorities and LGBTQ groups.

However, while considerable focus continues to be placed on advocacy of diversity issues, media coverage of the topic is increasingly being driven by more critical thinking and assessment. Recent research shows that gender diversity remains a particularly significant issue in the investment industry, with 43 prominent UK-listed investment trusts failing to have women on their boards[1].

More broadly, The 30% Club (a UK lobbying group) has also noted that more than 150 companies across the FTSE350 have failed to meet a target of 30% female representation at board level[2].

To that end, the challenges facing the investment industry with respect to diversity are significant: be this how businesses are applying gender and diversity criteria within their own companies; or the extent to which investment managers are encouraging improved diversity via engagement and better governance practices within investee companies.

One further consideration is the extent to which, even if diversity best practice is being met, this can be truly demonstrated. Senior industry commentators have identified difficulties in quantifying the application and effectiveness of diversity practices[3]. More work is clearly needed but, in the meantime, those businesses able to demonstrate tangible examples of best practice diversity are likely to enjoy competitive advantages.

Understanding key drivers behind ESG

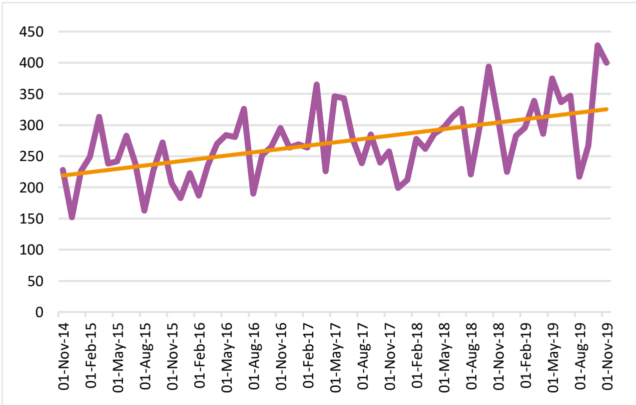
ESG has been the single most dominant issue in the investment industry in recent years, and the prospect of it continuing to dominate news agendas in 2020 should come as little surprise.

Most notable, however, is how ESG as a topic has developed over time. Three years ago, the media's focus was particularly geared towards the growth in the number of ESG-focused products, in response to both underlying investor and regulatory demand. In contrast, 2019 has seen a far more critical view of ESG themes, with greater scrutiny of the extent to which asset managers are meeting best practice and extensive criticisms of greenwashing.

Within an investment context, the focus on ESG has also continued to evolve, with the last year seeing industry participants and underlying investors take a much more granular view on specific issues.

Chief amongst these has been climate change and the role that asset managers, through a combination of investment practices, advocacy and (to some extent) lobbying, can contribute to encouraging greater environmental responsibility to address increasingly pertinent climate change issues.

Asset owners have become increasingly vocal on these topics, with a UN Climate Summit seeing some 230 investors demand the implementation of anti-deforestation policies[4], in addition to a separate commitment by leading investors to carbon neutral portfolios by 2050[5].



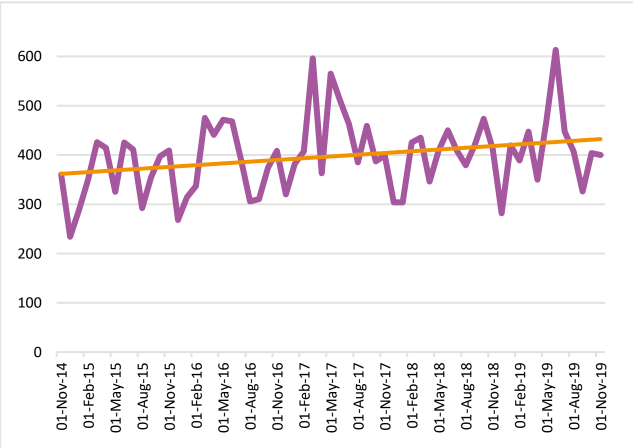
Media coverage of issues relating to ESG, Nov 2014 – Nov 2019 (Source: Factiva)

So, what's next for the ESG debate? Two areas appear immediately evident: firstly, a greater effort at an industry-wide level to standardise ESG approaches in order to encourage better practice. Efforts by the Investment Association to launch clear definitions to create a common language for investors and practitioners are a step forward in this regard[6]. Secondly, a greater focus on the levels of resource being dedicated to meet specific ESG issues (such as climate change) is likely, with media already paying greater attention to how investment firms recruit the best ESG talent[7] in order to deliver sustainable investment solutions in line with client and regulator goals.

The implications of generational change on investment industry practices

The influence of a new generation of investors and savers is increasingly being felt by the asset management industry.

A study in 2015 predicted a 'great transfer' of over $30 trillion in financial and non-financial assets in North America alone over the next 30-40 years[8]. This is fast becoming a reality, and subsequently is being reflected in the approaches that investment sector participants are having to take to meet the needs of a younger client base with substantially different priorities, requirements and habits to those of their parents and grandparents.



Media coverage of issues relating to generational change, Nov 2014 – Nov 2019 (Source: Factiva)

Most notable of course is the extent to which younger generations are investing based on their personal 'values' and 'social conscience'. This in no small part reflects the continued momentum behind the ESG movement and the growth in socially responsible investing, which a Harvard University study found to account for more than $26 trillion at the end of 2018 (more than one quarter of all assets under professional management worldwide)[9].

It would be wrong, however, to simply restrict the influence of generational change to how younger investors want their money managed. Equally critical are the significantly different savings goals that millennials have compared to those of their parents. Gone are the days where saving was just about planning for a comfortable retirement. Millennials instead have far shorter-term savings goals: analysis by Bank of America shows that one-quarter of US millennials with a 401k plan have already taken money out of their portfolios[10]; while Deloitte's 2019 Global Millennial Survey identified travel aspirations and property buying as substantial priorities for the new generation of savers[11].

Also crucial is the level of control that younger generations are exercising over their own money. Accenture research suggests that 66% of millennials want substantial control over their finances and prefer self-directed investment portals with adviser access, a radical change from the preferences of older generations[12].

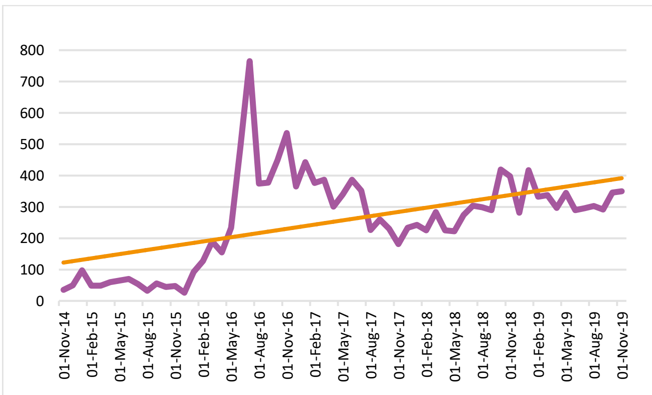
All of these factors represent a radical shift in the status quo, and one that investment providers must consider and implement in order to, at a minimum, remain competitive.

The influence of isolationist sentiment

The impact of geopolitical trends on society, markets and the global economy has not only continued to be felt, but in many ways has accelerated in recent years.

The chaos of Brexit and the unpredictability of the Trump administration have particularly exercised influence over global news agendas for some time, with both reflecting a continued populist movement towards nationalist, isolationist political stances. The ongoing US-China trade dispute is symptomatic of such a trend[13]; while the UK and Europe will almost certainly feel a similar bite in the near future, resulting from some form of UK exit from the EU and potential impasse on trade agreement terms[14].

The extent to which this environment (and its resulting impact on the global economy, markets and investor sentiment) will continue will be highly dependent on the various elections coming up over the next twelve-month period. Those in the UK and US (the latter depending on more immediate political machinations) will clearly have a substantial impact globally and will likely dictate either a continuation or reversal of the nationalistic, isolationist doctrine that has become such a feature of the geopolitical environment in recent years. These are not all, however: national elections in Eastern Europe and a number of emerging market countries, as well as municipal elections in France, will have a role to play.



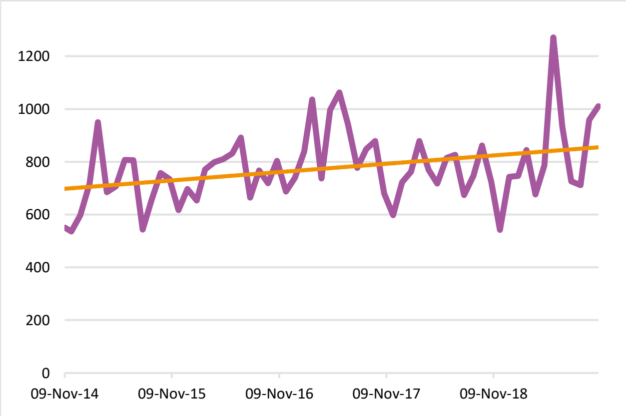
Media coverage of issues relating to isolationism, Nov 2014 – Nov 2019 (Source: Factiva)

If anything has been learnt from the last four years, it is that very little in global politics is certain anymore. Such is the disorder in UK politics, for example, it is hard to picture the long-term implications of any political party winning. Somewhat clearer is the US, where a Trump second term remains a likelihood, but a victory for Democrats would substantially alter the status quo and could lead to a rapid unravelling of an isolationist agenda that created substantial uncertainty and ignited protectionist trade disputes to date.

A focus on liquidity

Having contributed to the prominence of other themes in industry news agendas in recent years, the importance of liquidity as a topic in its own right has grown exponentially over the course of the last year.

It would however be wrong to attribute the prominence of liquidity as an investment industry issue solely to the now infamous collapse of Woodford Investment Management[15], which has dominated business and finance headlines over the course of 2019. Nor has it been the only incident, with a number of other controversies gaining significant press attention[16], albeit without the dramatic repercussions of the Woodford scandal.



Media coverage of issues relating to liquidity, Nov 2014 – Nov 2019 (Source: Factiva)

Questions over market liquidity are a regular part of the investment industry landscape. However, with market conditions shifting as a result of a gradual global economic slowdown, instances such as the Woodford crisis have crystallised debates around this topic (the role of intermediaries, for example), resulting in questions as to the clarify of advice, future direction of markets and resulting portfolio construction.

The implications of this are potentially profound and could impact the investment industry in a number of different ways. From a more negative aspect, several leading industry commentators have been quick to identify the prospect of a "crisis" resulting from liquidity mismatches and the reduced ability of banks to act as a result of capital requirements from regulators[17].

Unsurprisingly such comments, combined with the outrage arising from events over the course of 2019, have prompted action. Regulators, who have themselves come in for significant scrutiny, have begun to look at means of strengthening liquidity risk management frameworks[18], while fund administrators are seemingly placing more pressure on managers in response to fears of being penalised by regulators[19]. The extent to which all of these will be borne out over the long-term remains questionable, but in the immediate future a greater emphasis on transparency and scrutiny of portfolio construction can be expected.

The story is not wholly negative when it comes to the topic of liquidity, however, with pension fund allocations to illiquid assets increasing by almost a quarter according to a global Aon survey[20]. Within such a context, and in particular the willingness of sophisticated investors to seek illiquidity premium benefits, an argument can be made that it is more about explanation of the merits of illiquid assets than a specific aversion to them.

Summary

Like the previous twelve months, 2019 has been a year of upheaval for the investment industry due to a combination of timely events and longer-term trends. It is reasonable to assume that the impact of all of these will continue to be felt for some time.

Notably, all of those themes expected to drive news agendas in 2020 are evolutions of topics that our analysis has identified in previous years, reflecting the desire of end audiences to look deeper into key industry issues in a more granular way. ESG, a topic previously identified in past years, is increasingly being driven by specific issues (notably climate change), while newer topics of diversity and generational change have grown out of wider themes (ESG, pensions, savings and retirement, socially responsible investing, technology) to become key topics in their own right.

Even those topics appearing for the first time – isolationism, liquidity – are arguably not so much "new" but rather are evolving themes, reflecting developments within the geopolitical ecosystem and changes in an evolving market cycle (albeit with the latter being exacerbated by specific, high profile events).

Ultimately, while all of these themes present potential challenges for asset managers, they are also opportunities. The rise of these more granular issues is a clear indication of end audiences becoming increasingly discerning about markets, investment products and the underlying philosophies and focuses driving these. Those asset managers able to respond positively and proactively to these trends, actively communicating their efforts to target audiences will therefore place themselves well in what is likely to prove a very different environment to that which the industry has experienced over the last decade.

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