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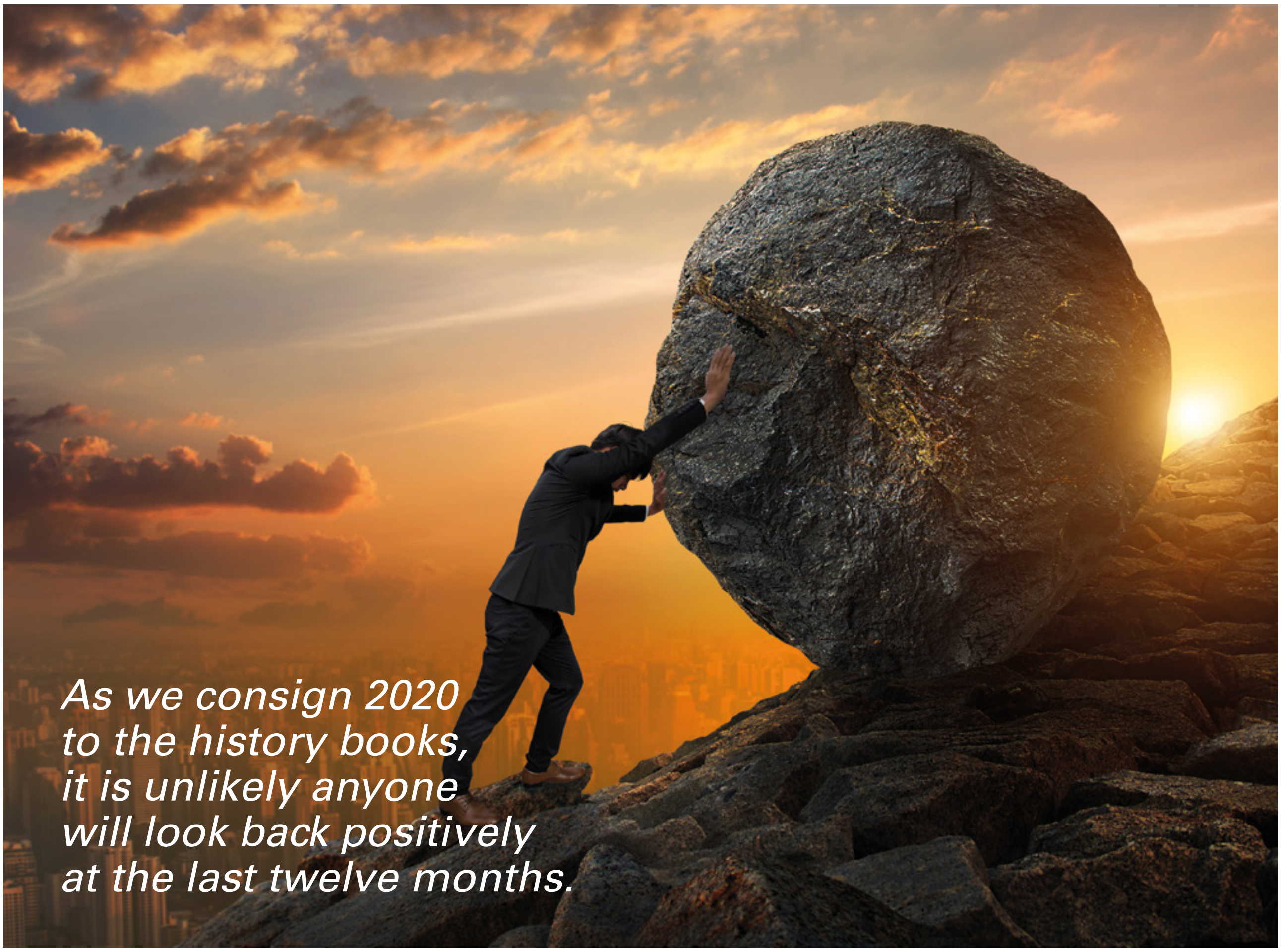
ADAPTING TO NEW PARADIGMS: THE ASSET MANAGEMENT AGENDA 2021

CONTENTS

INTRODUCTION



It has been a year of almost unprecedented tragedy and turmoil, with the COVID-19 pandemic dramatically altering how we have gone about even the most mundane aspects of day-to-day life. A Brexit deal; a raucous and unruly US election; sizeable market movements; continued trade disputes and social upheaval arising from the death of George Floyd and the resulting Black Lives Matter movement ensured that 2020 was one of the most unpredictable and chaotic years in recent memory.

Questions for the investment community naturally arise: where do markets go from here; what next for the asset management industry; and how will such experiences shape the needs, requirements and expectations of end-customers? For the latter, the media continues to play a critical role in shaping client thinking by providing insight and interpretation of events and their implications.

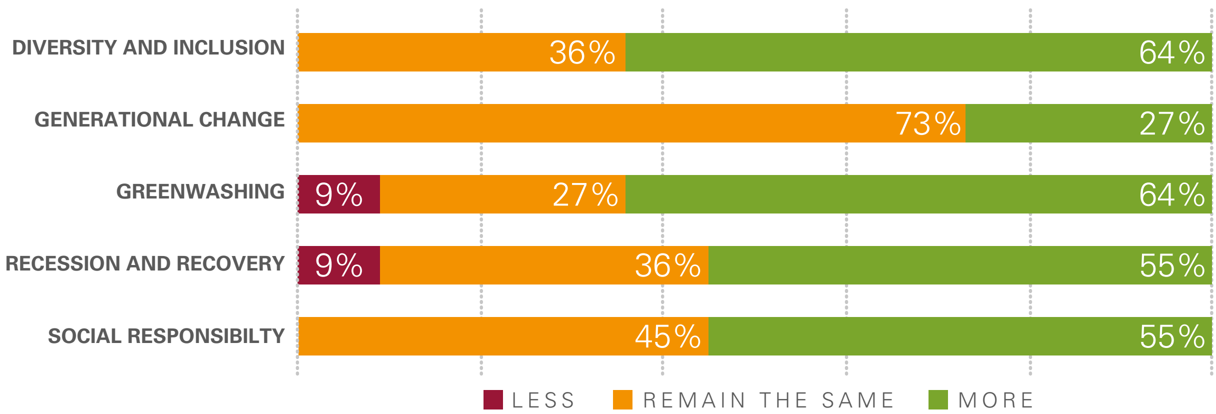
As a result, it is vital that asset management businesses are aware of what is happening around them and what is coming up on the horizon, in order to position themselves at the forefront of those topics likely to influence the decision-making of their key audiences.

It is this premise that forms the basis of JPES Partners' seventh 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 2021. 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

- Increased scrutiny, arising from greater socio-political pressures, will push the asset management industry to up its game on **diversity and inclusion,** both within asset managers' own businesses as well as those they invest in
- The influence of millennials, an increasingly prominent part of the asset management industry's client base, will continue to grow, with **generational change** causing asset managers to adapt their investment focuses and ways of working
- The continuing proliferation of ESG products will intensify scrutiny of potential **greenwashing**, particularly as issues such as climate change increase in emphasis due to changing geopolitical agendas
- Responses to and **recovery from recession conditions** caused by the coronavirus pandemic will have a substantial impact on end-investor priorities and needs, with asset managers having to adapt accordingly
- Asset managers will have to demonstrate their **social responsibility** credentials, with greater scrutiny of how they engage with both their own workforces and their underlying investments to positively contribute to the wider world

EXPECTATIONS OF JOURNALISTS TOWARDS KEY ASSET MANAGEMENT INDUSTRY THEMES IN 2021



SOURCE: JPES PARTNERS

ADDRESSING AND IMPROVING DIVERSITY AND INCLUSION CRITERIA

Diversity has become an increasingly prominent issue within asset management and wider financial services, with two major social movements in particular concentrating minds in recent years. The #MeToo movement (a longstanding issue, but one that gained substantial momentum as a result of events in the latter part of 2017, beginning with accusations of predatory behaviour by Hollywood producer Harvey Weinstein) has brought overdue attention on the issue of gender diversity, providing further impetus to the longstanding efforts of groups such as The 30% Club. Even more recently, the tragic events in the US that began in May 2020 with the death of George Floyd triggered social upheaval reminiscent of the 1960s, with the rise of the Black Lives Matter movement forcing the world to reassess attitudes and actions towards social equality.

Analysis by Populus, a leading UK market research group, argues that Black Lives Matter gained attention like no other social movement in recent memory – 44% of people in the UK paid it more attention than any other news story at its peak in May and June 2020. In comparison, the #MeToo movement was the most noticed story by 25% of people at its peak in November 2017[1].

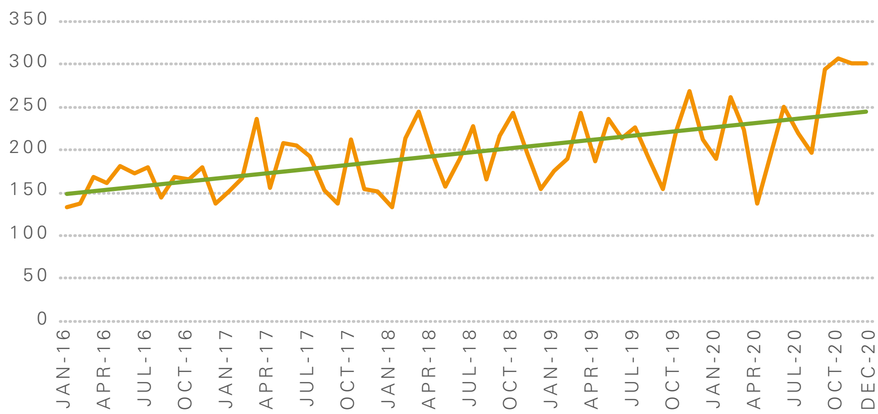
The importance of this type of social influence cannot be underestimated and has already been reflected to some extent by the business and financial community's efforts to address weaknesses when it comes to diversity.

Research in the US, for example, shows a significant increase in the number of Black appointees to Russell 3000 corporate boards[2], while prominent asset management businesses have publicly committed to greater efforts with respect to the disclosure of, and action on, diversity data[3]. Indeed, Legal & General Investment Management (the UK's largest fund manager) has gone as far as to actively warn FTSE 100 and S&P 500 companies that it will openly vote against the re-election of company chairmen or heads of nomination committees if boards do not include at least one BAME member by January 2022[4].

However, much remains to be done in this area. Analysis from Spencer Stuart, reported by the Financial Times in November, showed that the UK's largest companies were still failing to adequately address ethnic diversity among company directors[5]; while in the US, the outgoing Securities and Exchange Commission (SEC) chairman publicly stated that the asset management industry is "not doing a good job" when it comes to diversity issues[6].

With social pressure on all forms of diversity likely to continue (if not increase) for the foreseeable future, asset managers must, at minimum, engage on these issues in order to demonstrate what efforts they are making to prompt further improvements, both within their investments and their own companies. Those willing to step up and take leadership of this topic will likely see sizeable advantages.

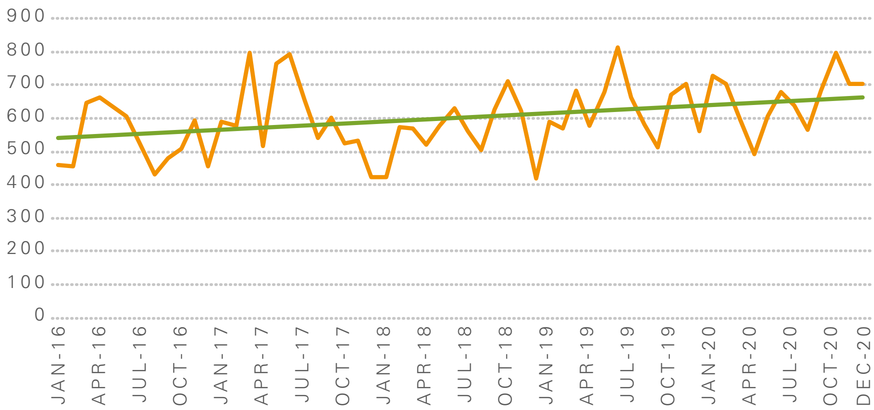
MEDIA COVERAGE OF ISSUES RELATING TO DIVERSITY, JAN 2016 – DEC 2020



SOURCE: FACTIVA

MILLENNIAL INFLUENCE: THE IMPACT OF GENERATIONAL CHANGE

MEDIA COVERAGE OF ISSUES RELATING TO GENERATIONAL CHANGE, JAN 2016 – DEC 20



SOURCE: FACTIVA

The prospective influence of millennials arising from the transfer of wealth from older generations is not a new concept; it is a theme that we identified in our 2020 report[7], with estimates suggesting as much as $68 trillion could move from the baby boomer generation to their children over the next 25 years in the US alone[8].

What makes this topic so pertinent, however, is that there is increasing evidence of the tangible impact that the thinking of younger generations is having on the ways in which asset management firms manage money, operate and engage with their end-clients.

Most noticeable has been how firms have sought to develop investment solutions in response to the differing expectations and objectives of younger generations. A survey of UK investors by The Share Centre, for example, found that 49% of Generation-Z's and 47% of millennials would be willing to make slightly less profit if the companies they invested in are more aligned with their values[9]. This has been reflected in themes such as climate change, social mobility and equality – long-term issues that will impact younger members of society – coming (even more) to the fore, with many asset managers creating and marketing dedicated products that directly address these issues.

Appealing to the values of millennials through dedicated products and socially responsible messages may, however, not be enough. A study by NEST Insight (the research division of the NEST master trust in the UK) recently found that while savers auto-enrolled in defined contribution schemes were positive about their pensions generally, very few were engaged with them – 40% did not know they could change contribution levels, and 16% had never checked their balance[10].

While regulatory and industry bodies are taking action on this, it is increasingly clear that asset management businesses themselves can play an important role in educating the next generation of investors. This issue has been made more crucial given the ever-widening savings and retirement gap which could dramatically and detrimentally impact Generation Z and millennials. With these generations representing an increasingly substantial proportion of global assets, engagement should be a key priority for the asset management industry.

FEARS OF 'GREENWASHING' AS ESG AGENDAS GAIN ADDITIONAL IMPETUS

The importance of ESG issues – particularly environmental considerations – is well recognised, having driven a substantial (and increasing) proportion of asset management industry thinking and activity over the last decade. Data from Morningstar shows that sustainable fund assets accounted for 9.3% of total European assets at the end of Q3 2020 (almost £800 billion of assets under management)[11], and our own research into asset management marketing and communications trends found that 78% of managers are planning to launch dedicated new ESG solutions within the next year[12]. Indeed, the speed of growth in this area is such that PwC has predicted that assets in sustainable investment products in Europe will reach €7.6 trillion over the next five years, outnumbering those of conventional funds[13].

Demand for such products is to be expected and perhaps even inevitable, given the combination of greater awareness of issues such as climate change; regulatory pressures on both asset owners and product providers to meet environmental best practices; and, more recently, a desire to maintain the environmental improvements arising from the lockdown conditions of the last year – one of very few benefits resulting from the coronavirus pandemic. Yet, this proliferation of products also comes with a sizeable note of caution within the asset management industry and its clients over the potential for 'greenwashing' and the expedient labelling of investment products and approaches that do not conform to best practice principles in order to meet demand.

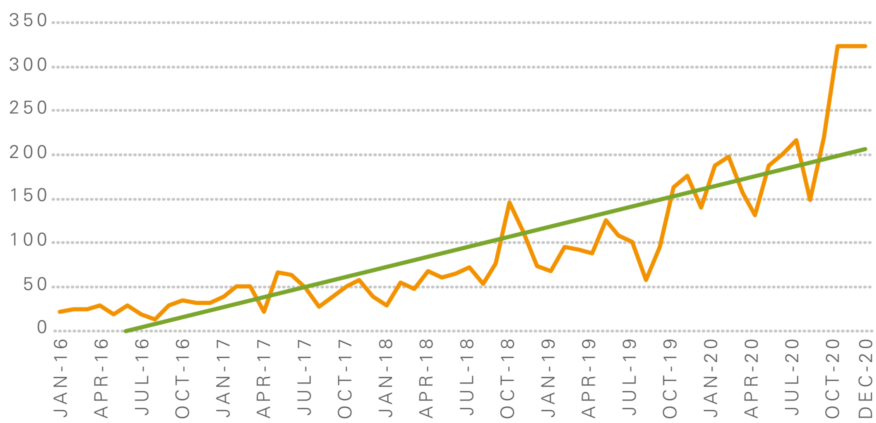
SOURCE: FACTIVA

Scrutiny of greenwashing has grown substantially over the last five years, with disapproval being particularly reserved for those businesses whose practices do not match their rhetoric. Criticisms of the world's largest asset managers – BlackRock and Vanguard, whose public commitments to address climate change and other ESG issues have been questioned due to their lack of engagement with underlying investments – have sharpened these debates even further[14], and have prompted the media, as well as end-investors, to question asset management industry practices generally.

More recently, the focus of industry commentators has expanded to critique the merits or otherwise of underlying assets themselves, specifically those that label themselves as 'green'. A case in point has been the announcement of plans to launch the UK's first 'green gilt', which was met with a more tepid response that the UK Government would have hoped for and led to concerns in some quarters over 'state-sponsored greenwashing'[15].

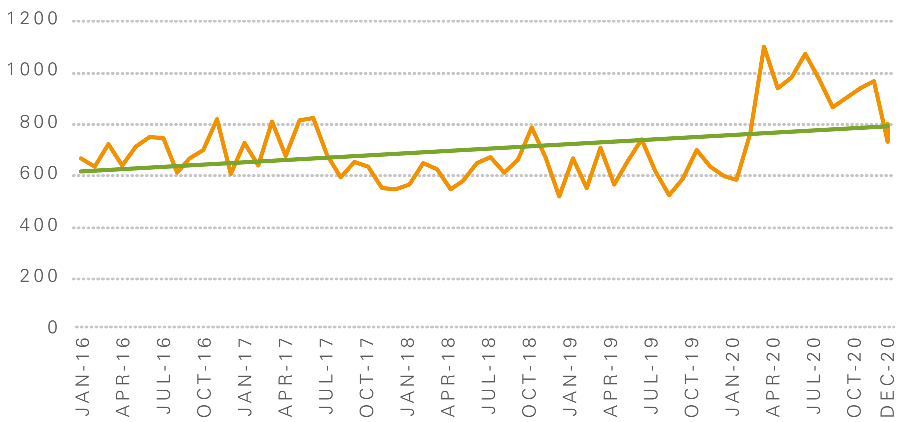
Even greater emphasis on issues such as climate change (in particular) can be expected over the coming year – be this due to changing political dynamics (most notably the influence exercised by a new US presidential administration), COP26, or efforts by governments and corporations to raise new funds. Attention on 'greenwashing' will therefore only increase and asset managers would be well advised to consider this in the context of their ESG communications, ensuring they can provide sufficient evidence and case studies to support their assertions.

MEDIA COVERAGE OF ISSUES RELATING TO GREENWASHING, JAN 2016 – DEC 2020



COVID-19 AND THE ECONOMY: RECESSION TO RECOVERY?

MEDIA COVERAGE OF ISSUES RELATING TO RECOVERY FROM RECESSION, JAN 2016 – DEC 2020



SOURCE: FACTIVA

The impact of the pandemic on the global economy, if not markets, has been profound, with the majority of governments across the world having to resort to the implementation of lockdown restrictions to control the spread of the COVID-19 virus, causing significant disruption to many industries and having a marked effect on countries' GDP.

While far more pronounced than anticipated, concerns over an economic slowdown and the potential for a more recessionary environment have been exacerbated but not necessarily created by the coronavirus crisis. Economists have highlighted the potential for reductions in growth for the last two years, with the IMF noting 'a synchronised slowdown' in the global economy (and resulting downgrade in growth projects to its lowest level since the global financial crisis) in October 2019[16].

Nevertheless, the situation that we now find ourselves in is much more severe than even the worst predictions that exceptionally cautious economists and commentators would have made back at the outset of 2020. As one commentator noted: *"Never before in world history has economic activity fallen so quickly"*[17]. The effects on certain sectors in particular – real estate, aviation, hospitality, leisure and others reliant on consumer footfall and discretionary spending – have been exceptional.

What happens next and the speed of any recovery remains subject to much debate – the development of vaccines in response to the virus understandably raised hopes that we would see a quicker revival in fortunes, though this has been tempered somewhat by increasing cases across a broad range of countries and the discoveries of new variants.

Longer-term, however, even bigger questions remain, with the actions taken during the pandemic having the potential to shape the global economy for many years to come. These encompass how governments manage their huge volumes of debt; the role of central banks and monetary policy; the evolution of working practices and workplaces; changes in consumer spending patterns; or potential increases in disparities between economies and social groups, to name but a few[18]. These, in turn, will have inevitable financial implications for end-investors, impacting their return requirements and asset allocation decisions, and therefore will be a major theme that asset managers need to address regularly and proactively.

MEETING SOCIAL RESPONSIBILITIES

While the ESG agenda has principally been driven (indeed dominated by) environmental considerations, discussion of how asset managers address important social issues has also become more prominent within the media in recent years. Topics such as the welfare of employees, working conditions and how companies engage with (local) communities are becoming issues that asset owners are incorporating into their decision-making when selecting asset managers and investment products[19].

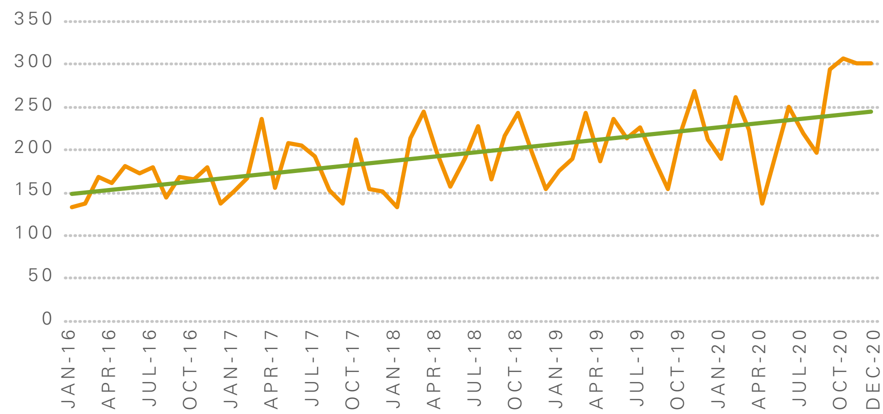
The importance of these issues can also be seen within a regulatory context. Efforts in the UK, such as the strengthening of the UK Stewardship Code by the Financial Reporting Council[20] to set out the expectations of those investing money on behalf of UK savers and pensioners, provide a good example and demonstrate the growing consensus that proactively addressing important social, environmental and economic issues can bring sustainable long-term value to end-investors.

The media has picked up on these issues accordingly in recent years, with press paying close attention and scrutinising the approaches taken by asset managers. Those that, as part of their investment processes, fail to identify or exercise influence to improve poor working practices, conditions, management or governance in investee companies, for example, run a sizeable risk of criticism – investors in fashion brand Boohoo experienced this first-hand in 2020[21]. The ability to deliver returns is no longer sufficient alone; asset managers are increasingly expected to use their influence as stakeholders to affect improvements in order to meet and exceed accepted social standards.

Importantly, though, such scrutiny does not only apply to how asset managers engage with and influence their underlying investments. The media, along with other audiences (asset owners, consultants, fiduciary managers), is also paying a significant amount of attention as to how asset management companies manage their own businesses, assessing the extent to which they are also meeting best practice principles and, critically, applying the same criteria that they apply to investments to themselves. Lectures on remuneration and bonus payments by asset managers towards the corporate world are getting increasingly short shrift if these businesses are not applying the same practices themselves, a pitfall that has caught out several high-profile businesses in the last year alone[22].

If anything, the experiences of the COVID-19 pandemic have thrown this topic into sharper focus, with much greater awareness of those being disadvantaged or poorly treated being demonstrated. As an industry with substantial influence at its disposal, the asset management sector will be expected to play a lead role in actively promoting and delivering improvements. Those businesses that fail to do so or, even worse, do not 'practice what they preach' are likely to face very public scrutiny.

MEDIA COVERAGE OF ISSUES RELATING TO SOCIAL RESPONSIBILITY, JAN 2016 – DEC 2020



SOURCE: FACTIVA

IN SUMMARY

The cataclysmic events over the course of 2020 and their effects have impacted every person in some way and, while shoots of cautious optimism are appearing following the development of vaccines, it is increasingly evident that the residual implications of the global coronavirus crisis will be felt for some time to come.

But, when assessing those themes expected to drive news agendas in 2021, we see that a majority of them have in some form or another been prevalent within the asset management industry for some time. However, the events of 2020 have thrown each one into a sharper or more granular focus – be this as a result of greater social awareness arising from COVID-19 lockdowns; a reassertion of the importance of diversity in the context of the Black Lives Matter movement; the way and accuracy with which 'ESG' products are promoted; or the increasing prominence of younger generations as they gain access to hereditary wealth. Only issues relating to future economic recovery can be specifically attributed to the events of 2020, and even this comes in the context of a recognised slowdown that predated the COVID-19 pandemic.

What is also clear is that while these themes are more longstanding than might first appear, all are also exceptionally forward-looking. This creates sizeable opportunities for asset managers, with those that proactively seek to address these trends – and demonstrate their ability to do so – likely to see sizeable competitive advantages as a result.

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