



GLOBAL SHIFTS IN THE ASSET MANAGEMENT INDUSTRY

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ABOUT THE AUTHOR

Hywel is responsible for the investment performance delivered by Old Mutual Investment Group. He has worked at leading global institutional and private client asset management companies across the globe. His experience spans 30 years in asset management in Europe and the Middle East.

KEY TAKEOUTS



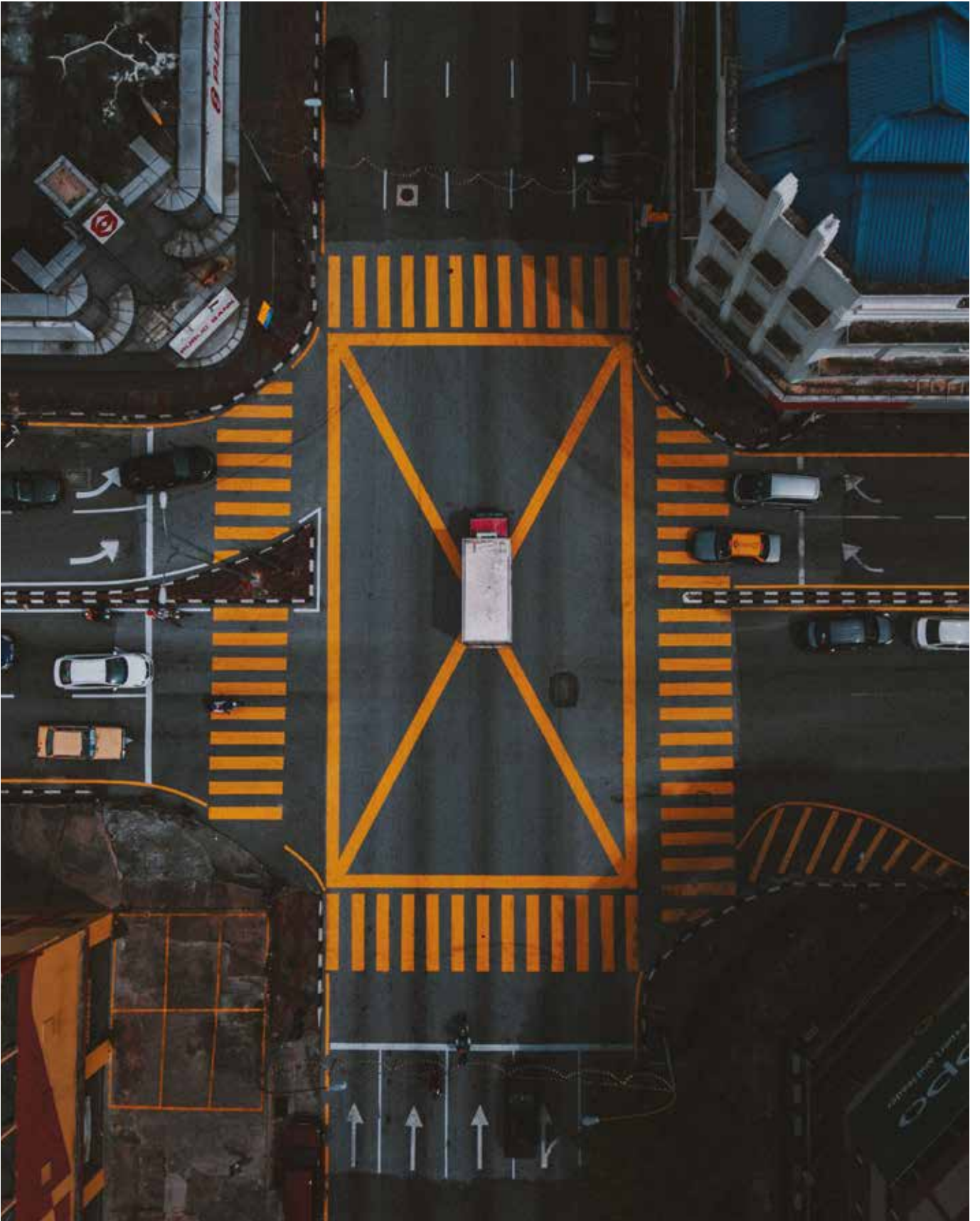
- THE GROWTH OF PASSIVE FUNDS AND THE INCREASING DISRUPTION BY TECHNOLOGY PUTS PRESSURE ON REDUCING ACTIVE ASSET MANAGER FEES.
- INVESTORS ARE LOOKING FOR BESPOKE MULTI-ASSET INVESTMENT SOLUTIONS, OFTEN WITH AN ESG ETHOS.
- THERE IS A RISING DEMAND FOR ALTERNATIVE, NON-TRADITIONAL INVESTMENT PRODUCTS, PARTICULARLY THE DEMAND FOR IMPACT INVESTING, INFRASTRUCTURE INVESTMENTS, PRIVATE EQUITY, AND CREDIT (YIELD-ENHANCING) STRATEGIES.

More than 40% of US asset owners have incorporated ESG factors into their investment decisions, up from just 22% in 2013, states the annual Callan ESG Survey Report (August 2018). The top two reasons cited for this ESG incorporation were expectations to achieve an improved risk profile and fiduciary responsibility.

Many investment management advisers have also identified the need to launch “ESG funds”, for example, UBS Global Wealth Management is now offering its clients sustainable funds in cooperation with the Swiss giant’s asset management arm. From January to August 2018, UBS’s sustainable mandates, which the new strategies are built on, have doubled in size from CHF1.2 billion (€1.05 billion) to CHF2.45 billion (€2.15 billion).

From a real asset perspective, the Netherlands’ largest pension fund investor, APG, has set internal ESG targets. The €482 billion pension investment manager now invests €21.7 billion of its nearly €42 billion property portfolio in sustainable assets – an increase of €1.3 billion from 2017. The trend is similar in infrastructure, where €2.3 billion of the €11 billion portfolio is deployed in sustainable investments. Responsible investment is evidently becoming an important part of institutional clients’ investment decision-making. So what are the key drivers causing the need for these responsible investment strategies? Well, we have identified some dominant global shifts that call for greater, more intentional ESG integration.

These shifts will define the future of the asset management industry, both globally and here in South Africa:



1. THE GROWTH OF INDEXATION (PASSIVE MANAGEMENT)

As indexation/passive funds continue to grow, pressure on active asset manager fees to be reduced will continue.

2. TECHNOLOGICAL TRANSFORMATION / EVOLUTION

Technology and digitisation are expected to be increasingly disruptive to the industry – this will further put pressure on asset manager margins as well as the need for them to invest in technology.

3. CLIENT-DRIVEN BESPOKE SOLUTIONS / PARTNERSHIPS

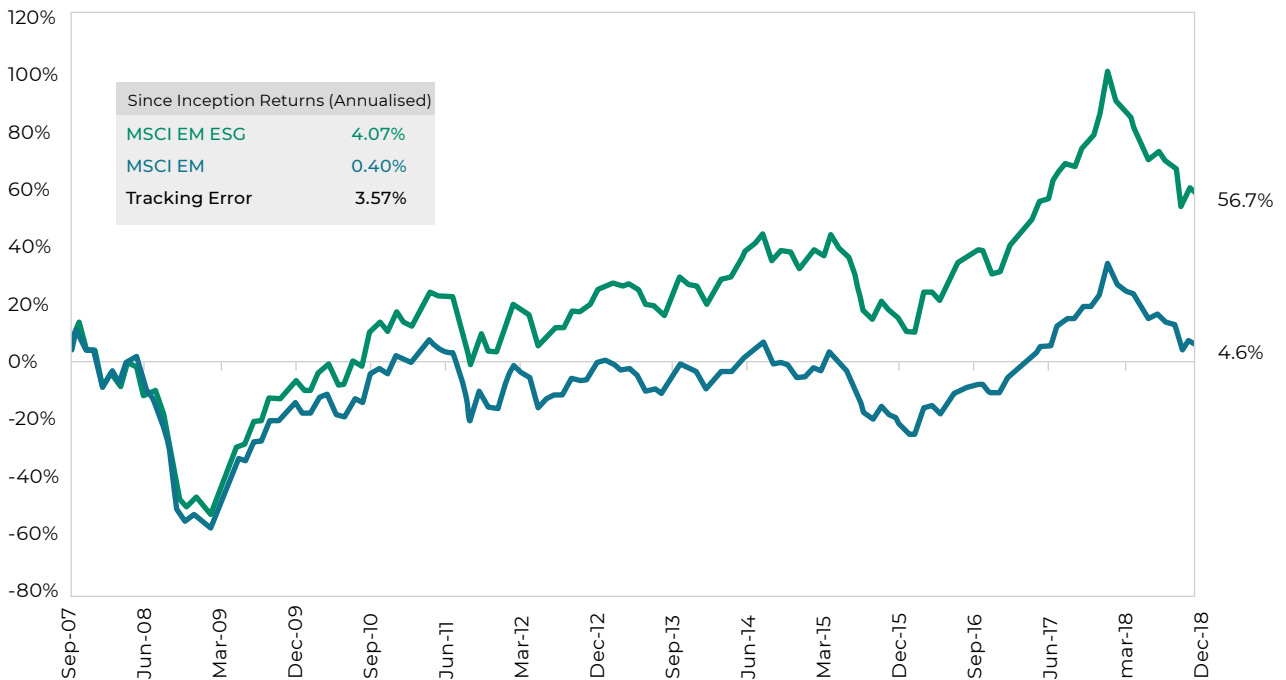
Investors increasingly want specific outcomes rather than plain vanilla funds, e.g. bespoke multi-asset investment solutions for institutional investors, often with an ESG ethos. In the coming

years, the value of active and passive management will be more clearly defined. While passive investments may form the foundation of multi-asset solutions, active and alternative investments that deliver high and non-correlated alpha will be important components that boost performance.

4. SEARCH FOR SUSTAINABLE ALPHA

The increased demand for alternative, non-traditional investment products continues to grow, particularly the demand for impact investing, infrastructure investments, private equity, and credit (yield-enhancing) strategies. These global shifts highlight two key pressures facing asset managers: lower fees and the need for sustainable profitability. Let's now explore ways in which ESG could address these global shifts and their consequent pressures.

CHART 1: MSCI EMERGING MARKETS ESG LEADERS INDEX VS MSCI EMERGING MARKETS INDEX (USD)



(Net Total Returns as of 30 June 2018) | Performance price to 6 June 2013 has been back-tested.

PASSIVE AGGRESSION?

With the growth of indexation, ESG can be used as a differentiator in terms of ESG passive offerings. In this respect Old Mutual Investment Group already offers a variety of both local and global ESG funds. Our Customised Solutions investment boutique manages the very first responsible investment equity index fund in South Africa. For active managers, we have incorporated ESG into the investment processes of our actively managed funds. The search for sustainable alpha through alternative, non-traditional investment products is a strategy well known to Old Mutual Investment Group. Across our alternative strategies – including impact investing, infrastructure investments, private equity, and credit (yield-enhancing) investments – we apply an ESG filter/ consideration to each investment offering. This incorporation of ESG is also often an essential component of a bespoke client solution. Even with this increasing adoption of responsible investment practices, many critics still argue that ESG does not necessarily represent an alpha opportunity but that it is more effective as a risk management tool. In our view this is not necessarily true, as indicated by Chart 1, which compares the MSCI Emerging Markets ESG Leaders Index to the MSCI Emerging Markets Index (USD).

So, as these global shifts continue to gain momentum, the need to look to ESG as a cornerstone to manage the impending changes to their landscape has never been more important to investors, which include millennials, many pension and provident funds, and asset managers.

This article first appeared in our 2019 Responsible Investment Report, titled The Future Matters. For the full report visit www.oldmutualinvest.com.
