

MEMO# 32178

January 27, 2020

SEC's Asset Management Advisory Committee: Members, Objectives and Highlights of Inaugural Meeting

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January 27, 2020 TO: ICI Members SUBJECTS: Fund Governance RE: SEC's Asset Management Advisory Committee: Members, Objectives and Highlights of Inaugural Meeting

The SEC established a new Asset Management Advisory Committee, or AMAC, on November 1, 2019 for an initial two-year term, which the Commission may renew. Chairman Clayton explained that the committee “will help the Commission ensure that our regulatory approach to asset management meets the needs of retail investors and market participants at a time when the industry is evolving rapidly.”[\[1\]](#)

The committee was formed to provide the Commission with diverse perspectives on asset management and related advice and recommendations. It is comprised of individuals representing the views of retail and institutional investors, small and large funds, intermediaries, and other market participants.

The AMAC met for the first time on January 14. Chairman Clayton delivered opening remarks, as did the other commissioners, Division of Investment Management Director Dalia Blass,[\[2\]](#) and Ed Bernard, Senior Advisor and Retired Vice Chairman at T. Rowe Price and AMAC Chair.

Chairman Clayton expressed several points at the outset, including: (i) the AMAC’s mission is to provide diverse perspectives and related advice and recommendations to inform the Commission’s policy decisions; (ii) his interest in the AMAC focusing on promoting access and choice for long-term, Main Street investors; and (iii) his support for AMAC focusing on ways to promote diversity and inclusion in the asset management industry.[\[3\]](#)

Commissioner Peirce suggested that the committee consider “the various issues surrounding customer privacy and data protection, and the unique and pressing challenges these matters pose to asset managers.” She noted that “asset managers are ... faced with the cost and potential liabilities associated with determining just where, and how, they are to comply with a growing multitude of overlapping regulatory regimes.”

Commissioner Roisman asked how technology advances, changing client preferences, and

industry consolidation are affecting firms' ability to serve investors. He indicated that the SEC should "maximize the investment choices available to people, while enabling access to information or advice for them to make their best financial decisions." He noted that he looks forward to hearing from AMAC on "what the SEC can do to help investors in this way. Where can we remove barriers to innovation at financial firms? Alleviate regulatory burdens or other costs that may be accelerating consolidation? Or otherwise reexamine aspects of our rules that ultimately work against the interests of investors?"

Commissioner Lee highlighted that she would like the committee to address "the increasing significance to investors of "their the ability to accurately assess, compare, and invest in companies with sound policies on sustainability, ethical business standards, and good governance." She explained this further by suggesting the committee consider: "[h]ow can the Commission ensure that asset managers and their clients can meaningfully pursue their investment goals and have access to critical information related to climate risk and, more broadly, to ESG issues? What set of standards will best serve investors and asset managers in evaluating a company's exposure to climate risk and assessing and pricing that risk? What should it mean when a fund calls itself an ESG fund? And how can the Commission and investors ensure that asset managers are not only investing in line with the long-term goals of their clients, but also voting in line with those goals?"

Commissioner Jackson highlighted the need for the SEC to protect closed-end funds.

Director of the Division of Investment Management, Dalia Blass, explained the history and purpose of the committee and stated her view that "many of the debates surrounding long-term trends in the asset management industry, such as the rise of index investing, increased globalization, increased scale and trends in retirement funding, would benefit from thoughtful discussion among experts with diverse viewpoints. Today, this committee is an important step forward in this discussion."

Ed Bernard, Chair, used his time to describe how the committee would operate. He noted that he expects there to be: (i) broad discussions with a variety of perspectives; (ii) identification of topics that subcommittees then will examine in depth; and (iii) committee recommendations to the Commission, as appropriate. He also noted that serving and protecting investors should be the "North Star" of the committee's work. He stated that he would like the committee to focus on, as one of its topics, diversity in the asset management industry. He described the committee's first meeting as one meant to provide factual support for the committee's future work.

Following the opening remarks, there were four panels, with the first three primarily featuring one or more presentations with little discussion. Committee members then discussed their impressions of the three panels in the fourth and final panel. The four panels were: (i) Evolution of Asset Management and Value Proposition; (ii) Evolution of Public and Private Securities Offerings; (iii) Globalization of Asset Management; and (iv) Committee Discussion of Panels. The highlights of each are described below.[\[4\]](#)

Evolution of Asset Management and Value Proposition

Panelists: Michael Goldstein, Empirical Research Partners; and Ben Phillips and Casey Quirk – Deloitte Consulting.

The panelists began by opining that the Baby Boom Generation has driven, and will continue to drive, for a while longer, the asset management market. Nevertheless, panelists also noted that the asset management industry is in the middle of a transition as

baby boomers begin the process of decumulation and millennials increasingly become the focus of asset management (the “Shift”). The panelists further noted that this Shift is accompanied by wealth management focusing less on pure asset accumulation (product) and more on service (tax, debt, and liability management) and outcomes (achieving financial goals). This is in response to baby boomers looking for income and specific cash flow needs and millennials having more debt, being more risk-averse, and being less concerned with outperforming benchmarks. Furthermore, the panel predicted a more pronounced transition towards customized, holistic, outcome-oriented financial advice.

One panelist noted that the biggest change to the asset management industry has been the trend toward index funds. Panelists agreed that this trend owes largely to a couple factors: (1) increasing focus on fees—both fees on funds and fees for advice—as asset returns were lower in the past decade as compared with previous decades; and (2) increasing use of asset allocation models as financial advisers attempt to deliver on outcomes for clients. Panelists generally agreed that traditional active mutual funds will continue to be under pressure but, while there may be industry consolidation among active managers, those that continue to provide value and take advantage of technology and scale will succeed.

The panelists discussed recent economic trends, including low interest rates causing low yields for fixed-income and the tendency for companies to remain private for longer. The panelists opined that financial firms (i.e., broker-dealers, investment advisers, and mutual funds) would have to adapt to these economic trends and the Shift by varying their product offerings. They predicted that firms would increasingly broaden their offerings to include more ETFs, index funds, ESG-related investment strategies, and private equity.

Evolution of Public and Private Securities Offerings

Panelists: Stephanie Drescher, Apollo Global Management; John Finley, Blackstone Group; and Colby Penzone, Fidelity Investments.

The panelists generally discussed potential benefits to retail investors of exposure to private and public markets and the ways retail investors could access private markets.

The private market speakers lauded the growth in the private market in contrast to the relatively stable or shrinking public market. They argued that private market investments can be less volatile than passive public market investing, given the ability of private market investors to actively intervene. Further, private market investments offer less correlated returns.

The panelist representing the registered fund industry discussed features of registered funds that investors valued, including low fees, daily liquidity, and professional asset management. He posited a number of questions for AMAC members to consider before concluding that retail investors would benefit from private market exposure, including how to determine the appropriate allocation for private market investments within a portfolio, and ensuring that retail investors would have access to the best private market opportunities.

Panelists then discussed a number of methods for retail investors – including the “mass affluent” and participants in retirement plans – to access private markets. AMAC members expressed concern about how to protect retail investors, given the lack of liquidity and transparency in private markets. Particular methods of increasing retail investor access discussed were:

- Open-end funds, which could include pre-IPO investments.
- Target date funds, if liquidity requirements were eased so that they could invest in more illiquid private opportunities early in their life cycle. The panelist from the registered fund industry pointed out that daily liquidity is not necessary early in the fund investor's lifecycle, and that the rates of investors borrowing against their 401(k) plans or transferring out of their plans were already quite low.
- Closed-end funds, which provide retail investors access to private markets through regulated funds with experienced managers. The private market panelist supported the SEC staff no longer requiring regulated funds of hedge funds to only sell to accredited investors.
- Private funds with substantial institutional investors, which would protect retail investors and achieve economies of scale.
- Retail investors advised by a registered intermediary if private funds continue working with and educating advisers for high net worth individuals.

Globalization of Asset Management

Panelists: Alex D'Amico, McKinsey & Company; Raquel Fox, Office of International Affairs, SEC; Dan Waters, Independent Director and Consultant; Paul Royce, Capital Group; and Jason Vedder, Driehaus Capital Management.

The panel generally discussed the implications of the significant growth of global assets under management and the regulatory complexities for global asset managers.

An overview of the state of global assets under management included discussions of fee pressure and costs (noting that US managers have fared well compared to European managers); the shift of assets from active to passive; the expectation that global organic growth is expected to decline over the next few years; the trend of consolidation of mid-sized managers; and the opportunities for boutique firm growth.

Raquel Fox, Office of International Affairs (OIA), SEC explained the OIA's role in leading the SEC's cross-divisional efforts on international initiatives, such as Brexit and MiFID II. Ms. Fox stressed the importance of early engagement with policymakers and encouraged market participants to engage with entities such as IOSCO and the FSB. She also encouraged market participants to engage with the SEC on cross-border issues, particularly if participants think SEC staff action is warranted.

Next, a panelist presented his view of the driving themes for the next decade: (i) focus on systemic risk posed by funds (which could include required system-wide stress testing); (ii) retail investor protection (with a greater emphasis on investment outcomes and product design than disclosure); and (iii) ESG and sustainable investment (with a significant risk of regulatory divergence among jurisdictions and inappropriate reliance on fund regulation to deliver outcomes that have not been agreed to politically on a global level).

Next, there was a discussion of challenges presented for global asset managers by the EU's MiFID II Directive's provisions on investment research. A panelist from a large registered fund firm explained that most managers in the UK and EU now choose to pay for research and stressed the importance of asset managers to be able to choose how to pay for research. The independent boutique investment adviser on the panel discussed the impact of the MiFID II research provisions, expressing concern that large asset managers are able to absorb the cost of research, but small and mid-sized managers cannot, putting them at a competitive disadvantage.

Post-Panel Committee Discussion

The final panel consisted of an open dialogue among the committee members, offering each member an opportunity to comment on the panel discussions. Of the 21 committee members in attendance, 14 raised similar concerns relating to the Shift that the first panel discussed. They were primarily concerned about how the Shift might impact, and potentially harm, their existing business models. They made several observations and expressed several concerns, including:

- increased importance of disclosure;
- need to redefine liquidity and diversity for the future;
- impact of technology on financial firms;
- future roles of active and passive investing;
- establishing a regulatory framework for ESG; and
- balance between smaller and larger financial firms in an increasingly constricted market space.

The committee members were unanimous in their opinion that they were able to learn a great deal from the panelists and noted that they were interested in evaluating the prospect of implementing changes based on the information learned.

Dorothy M. Donohue
Deputy General Counsel - Securities Regulation

endnotes

[1] See SEC Announces Formation of Asset Management Advisory Committee, *available at* <https://www.sec.gov/news/press-release/2019-208>. A list of committee members is attached to this memorandum.

[2] Chairman Clayton, each of the Commissioners present, Dalia Blass, and Ed Bernard each provided opening remarks. The Commissioner and staff remarks are *available at* <https://www.sec.gov/news/speeches>.

[3] SEC Chairman Jay Clayton, Remarks at Inaugural Meeting of Asset Management Advisory Committee (January 14, 2020), *available at* <https://www.sec.gov/news/public-statement/clayton-statement-asset-management-advisory-committee-meeting-011420> (further stating with respect to diversity, that “opportunities to participate in the investment management industry are distributed much more narrowly than they should be.”)

[4] An archive of the webcast along with the presentation materials are available on the SEC’s website at <https://www.sec.gov/news/webcasts.htm>

Attachment

Asset Management Advisory Committee Members

1. John Bajkowski, President and Chief Executive Officer, American Association of

Individual Investors

2. Michelle McCarthy Beck, Chief Risk Officer, TIAA Financial Solutions
3. Jane Carten, Director, President, Director, and Portfolio Manager, Saturna Capital
4. Scot Draeger, President-Elect, General Counsel, and Director of Wealth Management, R.M. Davis Inc.
5. Mike Durbin, President, Fidelity Institutional
6. Gilbert Garcia, Managing Partner, Garcia Hamilton & Associates
7. Paul Greff, Chief Investment Officer, Ohio Public Employees Retirement System Rich Hall, Deputy Chief Investment Officer, The University of Texas/Texas A&M Investment Management Co.
8. Neesha Hathi, Executive Vice President and Chief Digital Officer, Charles Schwab Corp.
9. Adeel Jivraj, Partner, Ernst & Young LLP
10. Ryan Ludt, Principal and Global Head of ETF Capital Markets and Broker/Index Relations, Vanguard
11. Susan McGee, Board Member, Goldman Sachs BDC Inc.
12. Jeffrey Ptak, Head of Global Manager Research, Morningstar Research Services
13. Erik Sirri, Professor of Finance, Babson College, and Independent Trustee, Natixis Funds, Loomis Sayles Funds, and Natixis ETFs
14. Aye Soe, Managing Director and Global Head of Product Management, S&P Dow Jones Indices
15. Ross Stevens, Founder and Chief Executive Officer, Stone Ridge Asset Management
16. Rama Subramaniam, Head of Systematic Asset Management, GTS
17. John Suydam, Chief Legal Officer, Apollo Global Management
18. Mark Tibergien, Managing Director and Chief Executive Officer of Advisor Solutions, BNY Mellon | Pershing
19. Russ Wermers, Dean's Chair in Finance and Chairman of the Finance Department, University of Maryland's Smith School of Business, and Managing Member, Wermers Consulting LLC
20. Alex Glass, Indiana Securities Commissioner (non-voting)
21. Joe Savage, Vice President, Regulatory Policy, and Legal Compliance Officer, FINRA (non-voting)