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Industry Leaders Address Changing Industry Terrain

Will fund industry leaders need to rethink their traditional operating models? Experts shared their views on this question and others, as well as the opportunities presented by a rapidly changing industry, in a candid discussion on the second day of ICI's 58th General Membership Meeting, held May 18–20 in Washington, DC.

The Industry at an Inflection Point?

Moderator Brian Langstraat, CEO of Parametric, opened the session with a provocative question: are fundamental shifts in the industry reshaping it in a way that will require asset managers to rethink their traditional operating models?

"I do think we're at an inflection point," said Andrea Lisher, managing director of JPMorgan Asset Management. "But, along with the challenges, there is an extraordinary opportunity to think of new ways to serve the client base." Trends she expects include shifting demographics and the corresponding movement in wealth, the move away from a pure focus on returns to a broader focus on outcomes, and the effects of technology on how companies engage with clients.

Leslie Walstrom, head of U.S. marketing for Columbia Threadneedle Investments, noted that asset managers need to adapt to changes in the ways that people want to communicate. "I think [the industry] is a little behind on that. We really need to think about what the preferences of all these demographic groups are."

Shundrawn Thomas, executive vice president and head of the funds and managed accounts group at Northern Trust Asset Management, agreed, and highlighted what he saw as the biggest opportunity in the changing terrain: trends in the way people invest. Defined contribution "investing as we know it will be an anachronism," he predicted. "Multi-asset class products and/or managed portfolio solutions will be the way that people will invest."

Responding to the "Passive Revolution"

Thomas emphasized that, because regulators and investors are demanding more simplicity and transparency, the fund industry and investment advisers should move away from the "traditional black-box investment strategy."

Walstrom recommended that attendees avoid viewing strategies through the lens of an "active versus passive" conversation. "Active doesn't mean anything," she explained. "Activity isn't always smart." Lisher added that different vehicles are required to get to people's goals. "You absolutely need both," she said. "It's active and passive. For us, it all comes down to, what are you trying to solve for?”

While acknowledging the shift away from traditional products and distribution channels, the panel stressed that this shift requires education and evolved marketing strategies around new products. Walstrom pointed out that the industry has been “guilty of a ‘we have a cool idea; here’s a new fund you should buy’ approach” rather than tying a product and its benefits to investor needs. The important thing, said Thomas, is not to get caught up in the lexicon of the business, but to focus on how a product can help investors meet their goals. “What you should be marketing is not what you aspire to be, but what you are” and how you can help, he said.

Communicating and Connecting

The panelists also discussed how methods for communicating and connecting with advisers and investors is changing. Thomas explained that Northern Trust Asset Management “purposefully delivers invitations in a very specific way to different types of audiences.” Walstrom agreed with Thomas’s approach, adding that “face to face is still really important.” But this approach can’t be done in isolation, she warned: “We have to figure out all of the possible touchpoints, and understand who we’re dealing with and how they want to interact with us. It has to be an ecosystem.”

Responding to a question from Langstraat about whether in-house capabilities will be important in the future—when it will be possible to target touchpoints more precisely—Lisher predicted that “we will see consolidation of advisors,” and a “movement to larger teams.” But, she cautioned, there is a flip-side to consider: the need to separate “noise” from real information. “There are way too many complexities,” she said. “It is on us to deliver content and investment solutions that link up.”

Thomas reinforced Lisher’s point, saying, “While the volume of touchpoints is going down, that doesn’t mean the value of touchpoints is going down. The market is saying, ‘You don’t have to call me with information that’s already readily available or accessible to me. But I absolutely will take a call if you’re delivering value.’”

“Robo advisers” are another trend changing the way firms communicate, said the panelists, though they have their limitations. “My personal view on robo advisers is that they are great when all you are trying to do is invest, or trying to construct a portfolio—but I think you’ll be challenged by things that have nothing to do with your portfolio, like long-term care. That’s when robo breaks down a bit,” said Walstrom.

Despite this, Thomas insisted that robo advisers will be “one of the most transformative trends impacting our business....It will drive down the costs of serving clients.” He concluded that robo advisers’ ability to “engage with investors in real time” whenever the customer chooses “far exceeds the slow, inconsistent feedback we get the couple of times we meet with clients.”

Targeting Marketing by Demographics

Circling back to Walstrom’s opening comment about the industry’s need to adapt to changing demographics, the panelists agreed that firms need to reposition their messaging for new generations.

Thomas remarked—to laughs from the audience—that with “Baby Boomers, we like to say, they’ll ask you. Generation X, they ask themselves. Millennials or Generation Y, they ask one another.” He went on to explain that the industry must find “very different ways to engage" with each generation, and that each generation's unique needs must "factor into how we think about our messaging."

One way that Columbia Threadneedle has gotten ready to reach out to Generation X and Millennials is by hiring people from those generations, said Walstrom. "Having them in our organization generates a different conversation."

Lisher reminded the audience that socially responsible investing "is a great example of the industry listening and delivering investment capabilities that are meaningful" to new generations.

New Entrants to the Industry?

Langstraat wrapped up the program by referencing suggestions that asset management is showing typical earmarks of an industry "ripe for disruption," asking whether it is possible for industry outsiders such as Alibaba, Facebook, Amazon, and Google to enter the space. All three panelists agreed that new entrants to the industry are indeed on the radar, but that the rigorous regulatory environment and the amount of resources required to succeed might deter them from entering.

"Managing money well is hard to do, and the issues that clients face are not getting easier," said Lisher. At the same time, she noted that there are many lessons to be learned from leaders in the tech space. She encouraged attendees to take some of those best practices and weave them into the ways that their firms deliver information.

Though he doesn't see outside players delivering the industry's comprehensive set of products and services, Thomas concluded that "it's not a stretch to consider them picking up some of the disaggregated parts....If I were sitting on the outside, I wouldn't be saying, 'Let's go into the asset management business wholesale'—but I might look at components of it."
