2 WIDER POLICY, REGULATORY AND OPERATIONAL ENVIRONMENT

KEY FINDINGS

PERIOD OF UNPRECEDENTED CHANGE

- A range of factors, including a rapidly widening customer base and the ongoing consequences of the Global Financial Crisis, are seeing the investment management industry increasingly in the public spotlight and a very broad range of domestic regulatory and policy interventions.
- A unifying theme is the delivery of customer value, and an associated emphasis on alignment of interest, transparency and oversight. This in turn links to a focus on broader culture. The industry is also the subject of rising expectations in the domestic economy, particularly as a steward and allocator of capital.

A FOCUS ON VALUE IN AN EVOLVING LANDSCAPE

- The UK funds industry is going through a major period of change during 2019, with the first edition of fund value assessments and a number of other changes to enhance governance and transparency.
- The shift towards more solutions-focused strategies, including outcome and allocation funds in the retail market, is highlighting a broadening of the value debate beyond a more traditional approach based on active out-performance in a given asset class.

RESPONSIBLE INVESTMENT

- The responsible and sustainable investment agenda is increasingly being embraced by the industry. A key challenge is how to communicate different approaches to customers in a clear and consistent manner.
- With the definitional landscape continually evolving, the data collected in the Survey this year will be a baseline moving forward. This year using GSIA definitions we found 26% of total AUM subject to a responsible/sustainable approach.

GREATER ROLE OF PRIVATE MARKETS

- Both supply and demand factors are leading to a significant focus on private markets by investment managers. On the supply side, market-based finance has been more widely used since the Global Financial Crisis and there are also signs of a decline in the proportion of listed companies. In the continuing low interest rate environment, the demand for alternative assets has been strong, particularly in the institutional market.

FURTHER TECHNOLOGICAL ADVANCES

- Technological change is accelerating across the value chain and will be a fundamental driver of industry transformation, leading to greater efficiency and reducing costs. It also raises wider issues for the industry in terms of talent recruitment and diversity.

This Chapter explores a number of important external drivers of change in the UK industry, resulting from a range of factors, particularly regulatory, policy and technological developments. At a regulatory and policy level, one distinguishing feature in recent years has been the extent of the domestic agenda and the changing role of the investment management industry within that. However, many of the themes identified have a significant international resonance.

A PERIOD OF UNPRECEDENTED CHANGE

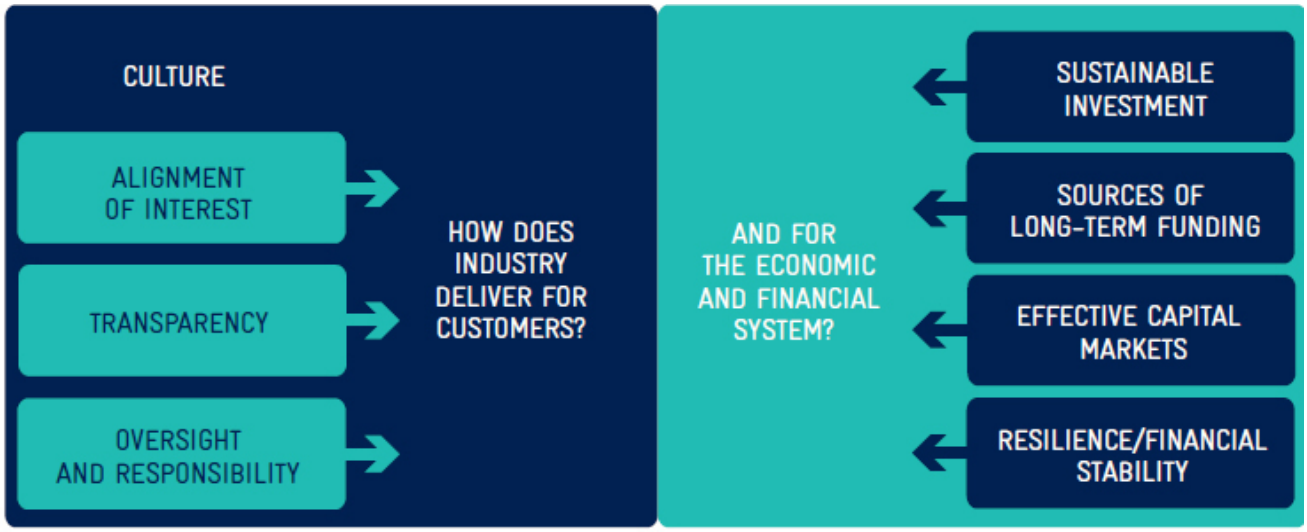
The UK industry is experiencing an unprecedented series of regulatory and policy interventions, reflecting a range of factors, most notably:

- The changing importance of the industry in serving the domestic market, particularly in a growing retail market and a more individualised retirement savings environment.
- Ongoing consideration of the role and structure of the financial services industry in the aftermath of the Global Financial Crisis of 2008.
- Accelerating and deepening concerns about the financial risks posed by climate change.

In Figure 7, we show at a high level how this plays out thematically:

- A primary issue is how the industry delivers value to its customers, across retail, institutional and private wealth markets. This is expressed in a number of ways, with three specific themes that fall under broader culture:
  - Alignment of interest between providers and customers, particularly in the area of fees.
  - Transparency of delivery, covering both costs and product objectives.
  - Internal governance processes at product and wider firm level.
- That definition of value extends to the external oversight associated with corporate governance and wider questions of environmental sustainability, where expectations are rising significantly among customers and policymakers.
- From a broader macro-economic perspective, there is an increasing focus on how investment managers deploy capital across the economy and the implications of that activity in the context of the stability of the global financial system.

FIGURE 7: KEY POLICY AND REGULATORY THEMES



Value also links to a critical operational and resilience issue: how firms are deploying technology to improve efficiency, lower costs of delivery and ensure cyber resilience. Technology in turn is shaping up to transform all aspects of the investment management delivery chain.

A FOCUS ON VALUE IN AN EVOLVING LANDSCAPE

In the UK, the defining feature of 2018/19 will be the implementation of a range of regulation stemming primarily from the Asset Management Market Study,[11] but also drawing in work on conduct and culture:

- Firms are preparing for the implementation of new value assessment processes, which will take effect from 30 September, the same time as requirements for independent non-executive directors (or equivalent) on fund management company bodies. These value assessments arise from a desire by UK regulators to place more responsibility directly on fund manufacturers for driving competition on price across the UK fund market.
- The value assessment requirements are linked to the implementation of the Senior Management and Certification Regime (SM&CR) from December 2019. Undertaking the value assessment will be a prescribed responsibility under SM&CR.
- Firms are also implementing extensive changes in the area of transparency and clarity of communication. These affect two areas in particular. First, the transaction costs incurred in the capital markets, with a significant new framework for institutional reporting under the Cost Transparency Initiative. Second, investment fund objectives, use of benchmarks and performance reporting.

A consistent theme in the IA Investment Management Survey, and in other reports, has been the convergence between retail and institutional markets as traditional differentiators have been eroded. This can be seen both at product level and in terms of customer type in the context of the growing pre-eminence of DC pension schemes. Firms also increasingly point to a convergence in terms of levels of governance, transparency and fee competition, and see this direction of travel intensifying in the context of recent regulatory change.

"THE FIRST THING THAT COMES TO MIND IS THE EVER INCREASING SIMILARITY BETWEEN WHAT THE END CUSTOMER CAN GET, WHETHER AN INDIVIDUAL OR INSTITUTION. THE HIGH QUALITY INVESTMENT MANAGEMENT AND ALL THE TRANSPARENCY THAT COMES WITH INSTITUTIONAL INVESTING IS NOW AVAILABLE TO RETAIL CLIENTS."

"FROM WHERE I SIT THERE IS HUGE COMPETITION IN THE ASSET MANAGEMENT SECTOR. EVERY SINGLE BIT OF RETAIL BUSINESS WE GET IS SECURED THROUGH HAND TO HAND FIGHTING. THERE IS COMPETITION FOR EVERYTHING THAT WE DO FROM BIG PLAYERS, SMALL PLAYERS, CHEAP PLAYERS, EXPENSIVE PLAYERS."

[11] The Final Report of the FCA Asset Management Market Study was published in June 2017, with implementation of remedies now almost complete. The FCA has also published the Final Report from its Platform Market Study (March 2019) and the CMA released the final report from its investment consultants market investigation in December 2018. All have ramifications for the UK asset management industry.

DEFINING VALUE IN THE NEW WORLD

The changing regulatory requirements will also intensify an environment in which cost is becoming ever more important in the context of an ongoing split in the market between a widening range of low cost indexing products and active funds with demonstrable capabilities, whether within or across asset classes.

As we note in our analysis of the UK retail fund market, the last ten years have seen a clear trend towards more outcome-focused funds (e.g. multi-asset funds, volatility-constrained, targeted absolute return) which many in the industry see as a long-term structural shift, albeit with a cyclical dimension given the low interest rate environment. This is also taking place in the context of changing patterns of competition for asset allocation services, with investment advisers increasingly outsourcing this activity together with fund selection.

For the funds industry as a whole, value therefore is being defined far more broadly than outperformance in a given asset class vs. an indexing alternative, which has often tended to be the perception of active management.

Investment management increasingly defined through the lens of allocation and outcome

A view from investment managers

"ACTIVE EQUITY MANAGERS NEED TO THINK VERY CAREFULLY ABOUT WHAT IS THE VALUE THAT THEY'RE BRINGING. THERE'S NO POINT IN DOING INDEX PLUS BECAUSE YOU CAN GET THAT VERY CHEAPLY FROM BETA. ASSET ALLOCATION IS ALSO REALLY IMPORTANT AND DRIVES LONG TERM RETURNS BEYOND THE SINGLE INDIVIDUAL STOCK FUNDS THAT ACTUALLY BEAT A BENCHMARK...WE HAVEN'T YET FOUND A COMPUTER THAT CAN DO ASSET ALLOCATION WELL, YOU STILL NEED THAT HUMAN ASSET ALLOCATION SKILL SET."

"THE VALUE AS AN ACTIVE MANAGER HAS BEEN MOVING TOWARDS THE OUTCOME BEING DELIVERED IN TERMS OF INCOME AND RISK. THAT IS A CONTINUING TREND OF WHAT YOU'RE SEEKING TO DO IN TERMS OF THE PORTFOLIO MANAGEMENT....THE MOVE TO DESCRIBING THE OUTCOME YOU'RE SEEKING TO ACHIEVE AND BEING HELD TO ACCOUNT FOR HOW YOU DELIVER AGAINST THAT IS RIGHT IN TERMS OF THE CHANGING WAY IN WHICH ACTIVE VALUE IS BEING DELIVERED."

A view from a wealth manager

"WHETHER YOU'RE A MULTI-ASSET FUND MANAGER OR A DISCRETIONARY WEALTH MANAGER SUCH AS OURSELVES, YOU HAVE THE OPTION OF CHOOSING BETWEEN ACTIVE AND PASSIVE INVESTMENTS. THE KEY IS TO PROVE VALUE AND TO BE ABLE TO DEMONSTRATE VALUE TO END CONSUMERS. WE DO USE ACTIVE FUNDS BUT WE USE THEM SELECTIVELY WHERE WE THINK WE CAN ACTUALLY DEMONSTRATE SOME ALPHA OVER AND ABOVE A PASSIVE SOLUTION. THE THING WE FIND IS OUR DIFFERENTIATOR IS THE INVESTMENT OF TIME AND MONEY INTO OUR ASSET ALLOCATION PROCESS. ROUGHLY 80% OF THE CONTRIBUTION TO OUTPERFORMANCE OF THE BENCHMARK COMES FROM THE ASSET ALLOCATION RATHER FROM YOUR ASSET SELECTION."

RESPONSIBLE INVESTMENT

A key trend in terms of the evolving product set, as well as the underlying investment process is the growth of responsible investment. This builds on environmental and social themes as well as on more traditional stewardship activities such as corporate governance oversight and engagement.

"ESG HAS BECOME MUCH MORE HANDS ON THAN THE APPROACH 5-10 YEARS AGO. IT IS MUCH MORE ABOUT LOOKING AT THE IMPACT THAT BUSINESSES HAVE ON THE ENVIRONMENT ALONGSIDE HOW THEY ARE GOVERNED, HOW THEY ARE MANAGED AND HOW THEY PAY THEIR EXECUTIVES. OUR APPROACH IS CHANGING MASSIVELY."

"IN THE EARLY DAYS OF ESG IT WAS FIRST CHAT ABOUT IT, THEN HIRE SOMEBODY WHO UNDERSTOOD THE CONCEPT.... NOW IT'S ABOUT EMBEDDING THE PROCESS THROUGHOUT THE ORGANISATION."

Four factors are now deepening the debate and can be expected to do so further:

- **The scale of concern about environmental change** and its implications, probably the most potent theme at an international level.
- **A growing expectation that private finance should support projects aiming at positive social impact.**
- **Stronger expectations of what the investment management industry can achieve in key areas of corporate oversight and holding companies to account**. These include executive pay, improving board and company diversity, audit quality and long-term investment, as well as broader behaviours that may negatively impact corporate and wider economic sustainability. Recent corporate governance scandals in the UK have turned the spotlight on the responsibilities exercised by, or on behalf of, institutional investors.
- The question of corporate oversight in turn raise **questions about 'stakeholder voice' and the extent to which mechanisms are developed to ensure that corporate decision-making is not just focussed on shareholder value** but more representative of the wider society, including employees, suppliers and customers. In the UK this theme has featured in policy discussion on both the right and left of the political spectrum.

Together these strands are often brought together under the label of Environmental, Social and Governance (ESG) issues. Multiple initiatives at national, regional and global level are exploring new frameworks for monitoring and development. These involve government, regulators, industry and wider stakeholders, and are increasingly affecting both customer behaviour and industry delivery.

There is an ongoing debate about the boundaries between areas where government or wider society may be responsible for defining norms and what should be left to the investment management industry. This is likely to remain a grey area, with some firms taking a stronger position than others in areas such as investing in tobacco.

"THE VAST MAJORITY OF PEOPLE IN ASSET MANAGEMENT WANT TO DELIVER GOOD OUTCOMES AND HAVE AN IMPACT. AT THE SAME TIME, FUND MANAGERS ARE RELUCTANT TO BECOME POLITICIANS OR TAKE MORE POSITIONS BECAUSE THAT'S NOT OUR JOB. THOSE THINGS ARE CHOICES FOR SOCIETY AND CUSTOMERS AND INEVITABLY, WILL ALIGN IN THE LONG RUN - GOOD BUSINESS DELIVERS GOOD OUTCOMES FOR CUSTOMERS, DELIVERS GOOD IMPACT FOR SOCIETY AND DELIVERS GOOD THINGS FOR THE PLANET. OTHERWISE NO ONE GETS A GOOD OUTCOME."

WIDE-RANGING DEVELOPMENTS

In the UK, the Government set up an independent Advisory Group chaired by Elizabeth Corley, which published a report in 2017 on "Growing a Culture of Social Impact Investing in the UK". In 2018, the Prime Minister commissioned an industry taskforce to progress the recommendations of this report.[12]

The IA is pursuing its own proactive work and has been engaging in extensive consultation on industry-agreed definitions and potential product labelling options.

"A CRITICISM OF ALL OF US IN THE INDUSTRY IS THAT WE DON'T NECESSARILY EXPLAIN THINGS VERY EASILY TO PEOPLE. THE NEXT WAVE OF MILLENNIALS AND INVESTORS WOULD LIKE TO SEE A REALLY TRANSPARENT, CLEAR AND UNDERSTANDABLE SET OF DEFINITIONS."

All of this work is taking place against a fast-moving backdrop, building on existing initiatives such as the UN Principles for Responsible Investment (UNPRI). Recent developments include:

- The European Commission's Sustainable Finance Package, including an EU Taxonomy and Ecolabel, building on the final report of the High-Level Expert Group on Sustainable Finance.[13]
- A global focus on the private sector's role in delivery of the UN Sustainable Development Goals.
- British Standards Institute (BSI) work on Sustainable Finance.
- The Financial Conduct Authority (FCA) Discussion Paper on Climate Change and Green Finance.[14]
- A growing debate on the role and responsibilities of UK pension schemes. Following Law Commission reports in 2014 and 2017, the Department for Work and Pensions (DWP) subsequently introduced regulations clarifying and strengthening trustee investment duties in this area.[15] The FCA is currently consulting on similar requirements for Independent Governance Committees (IGCs) in respect of the insurance-based pension schemes they scrutinise.[16]

The inconsistency in the definitions of the various approaches to responsible investment and interpretation of those definitions, means that data collection is particularly challenging. In this year's Survey the IA has collected data on the basis of the Global Sustainable Investment Alliance (GSIA) definitions (see Table 3). These categories will be updated in future iterations of the Survey following publication of the IA's framework on common approached to responsible investment, but provide a good base for initial analysis.

Chart 5 shows that taking segregated mandates and pooled vehicles together, 26% of total assets are managed according to some form of responsible investment criteria. The data also suggests that almost all of those assets which are invested responsibly are integrating ESG in their investment processes. The overlap in the figures suggests some firms are integrating ESG in combination with other approaches. Given the direction of travel in regulation, it is likely that ESG integration will be systematically embedded into investment processes across firms within the next few years.

Looking at the dedicated responsible investment approaches (negative screening; positive screening; norms-based screening; sustainability themed investing and impact investing) we find:

- Negative screening is the most commonly used approach with £735 billion (10%) of assets excluding investment in certain companies or sectors.
- Positively screened, sustainable and impact approaches are all much less widely used, each with less than 1% of total assets under management. In the impact space this figure stands at 0.3% of total assets, representing £23.2 billion.

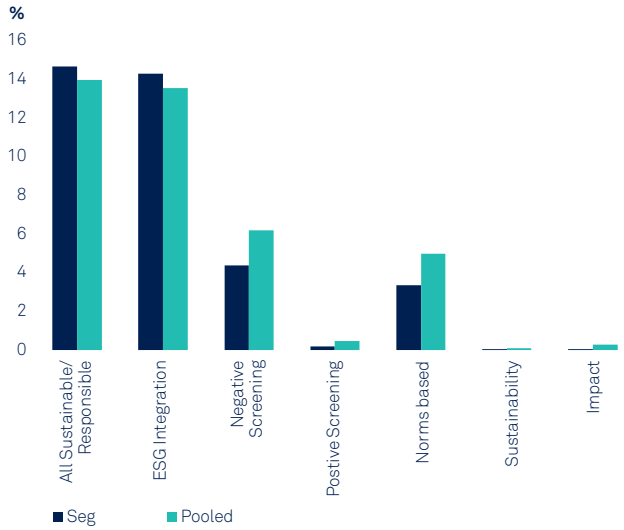
It is difficult to estimate total investment in dedicated responsible investment approaches as it is likely that there will be significant overlap in some of the reported totals.

[12] https://www.gov.uk/government/publications/growing-a-culture-of-social-impact-investing-in-the-uk
[13] https://ec.europa.eu/info/publications/180131-sustainable-finance-report_en
[14] https://www.fca.org.uk/publications/discussion-papers/dp18-8-climate-change-and-green-finance
[15] In 2014, the Law Commission issued a report, Fiduciary Responsibilities of Investment Intermediaries, which clarifies expectations that pension trustees should take into account the financially material aspects of sustainability, and also set out circumstances in which non-financial factors could be relevant. It was followed by a Law Commission report of 2017, which clarified how far pension funds may or should consider issues of social impact when making investment decisions.
[16] CP19/15 Independent Governance Committees: extension of remit

TABLE 3: GLOBAL SUSTAINABLE INVESTMENT ALLIANCE (GSIA) DEFINITIONS

Category	Definitions
Integration of ESG factors	The systematic and explicit inclusion by investment managers of environmental social, and governance factors into traditional financial analysis.
Negative/exclusionary screening	The exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria.
Positive/best-in-class screening	Investments in sectors, companies, or projects selected for positive ESG performance relative to industry peers.
Norms-based screening	Screening of investments against minimum standards of business practice based on international norms.
Sustainability-themed investing	Investment in themes or assets specifically related to sustainability (for example clean energy, green technology, or sustainable agriculture).
Impact/community investing	Targeted investments, typically made in private markets, aimed at solving social or environmental problems, and including community investing, where capital is specifically directed to traditionally underserved individuals or communities, as well as financing that is provided to businesses with a clear social or environmental purpose.

CHART 5: PROPORTION OF ASSETS UNDER MANAGEMENT BY GSIA CATEGORY



On the UK stewardship side, there is policy and regulatory activity at multiple levels:

- The Government has set out its expectations of companies and institutional investors in its Corporate Governance Reform package.
- The Financial Reporting Council (FRC) has been consulting on a new Stewardship Code to encourage active stewardship by asset managers and asset owners.
- The FCA has led a discussion on what effective stewardship looks like, the minimum expectations of firms that invest for clients, the standards which the UK should aspire to and the role of the regulator.

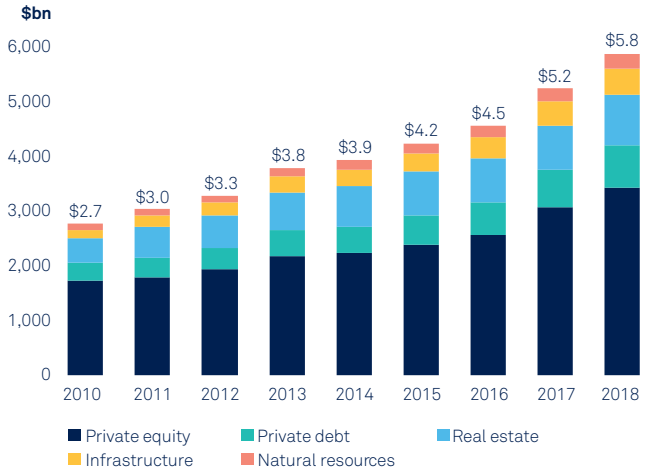
"WE'VE RECOGNISED THE CORRELATION BETWEEN STRONG CORPORATE GOVERNANCE AND REDUCING SOME OF THE RISK. OVER TIME, IT PROVIDES BETTER, LOW VOLATILITY RETURNS. WE'VE BEEN BUILDING THAT MORE INTO OUR INVESTMENT PROCESS OVER THE LAST 5-10 YEARS BUT NOW WE'RE DOING A LOT MORE DOCUMENTING OF IT BECAUSE OF THE REGULATORY ENVIRONMENT AND SOCIETAL EXPECTATIONS."

Underpinning this is a fundamental question as to the role of regulation of stewardship, which has also been a longstanding debate at EU level, with the Shareholder Rights Directive II being implemented through 2019. Internationally, stewardship codes are now in place in dozens of countries, reflecting the growing importance of this area of investment management activity.

GREATER ROLE OF PRIVATE MARKETS

The last ten years have seen a significant growth in private markets. A combination of capital-constrained banks and governments has seen a growing role for market-based finance in many areas of economic and social infrastructure, such as housing. As Chart 6 shows, total private markets have more than doubled since 2010, with growth in infrastructure particularly strong and expected to continue.

CHART 6: ACCELERATING GROWTH IN PRIVATE MARKETS (2010-2018)

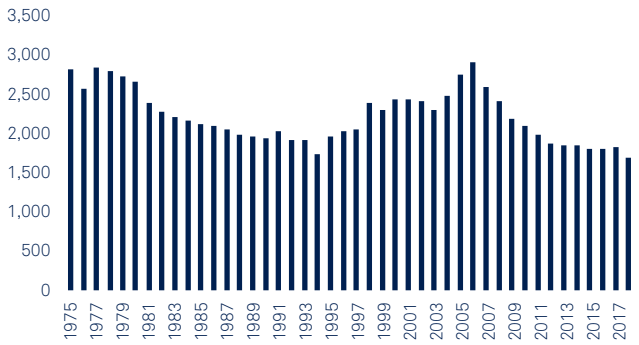


Source: Preqin

It has also coincided with greater activity from corporates who are finding public markets less attractive. This phenomenon is most evident in the US, but can also be seen in the UK as Chart 7 illustrates, with a falling number of publicly listed UK companies. Again, there is a cyclical dimension, with low interest rates making debt an attractive way of raising capital for companies, but there are also structural features, notably the increased burden of registration; and more demanding corporate governance and transparency regulations. These may act as a longer-term dampener.

"IN OUR VIEW, THE AREA THAT IS MOST INTERESTING FOR INVESTORS GOING FORWARD IS THE PRIVATE MARKET. THE UK ECONOMY IS NOT THE 2,500 LISTED COMPANIES, THE UK ECONOMY IS THE 4 MILLION COMPANIES. THEY ARE REALLY INTERESTING BUSINESSES AND SOMEONE'S GOT TO WORK OUT A WAY OF GAINING ACCESS TO THE RETURNS IN THE WIDER ECONOMY RATHER THAN JUST THE QUOTED ECONOMY. FIRST, IT'S A MUCH BIGGER POOL. SECOND, REGULATION AND POLITICAL PRESSURE IS GOING TO LEAD TO A REDUCTION IN THE NUMBER OF QUOTED COMPANIES."

CHART 7: NUMBER OF UK LISTED COMPANIES OVER FOUR DECADES (1975-2018)



Source: World Bank / IA estimates

On the demand side, the drivers have been fairly clear. Pension schemes and other institutional customers are looking for more diversified sources of return and income, reflected in greater interest in alternative strategies and asset classes. Some of this is cyclical, particularly in the context of low interest rates post-2008 and a hunt for yield which has been a key feature of investor behaviour over the past decade.

"WE'RE ON THE BACK OF ALMOST A DECADE OF ULTRA-LOW INTEREST RATES AND QUANTITATIVE EASING WHICH MEANS THE YIELDS ON CONVENTIONAL FIXED INCOME ASSETS ARE LOW. NO ONE WANTS TO ADD THE COMPLEXITY OF ALTERNATIVES FOR THE SAKE OF IT, BUT PEOPLE ARE BEING FORCED TO LOOK AT MORE COMPLEX NICHE AREAS AS A RESULT OF LOW INTEREST RATES.

THIS CYCLE IS CLEARLY DIFFERENT. WHEN YOU COMBINE QUANTITATIVE EASING AND YOU HAVE A SITUATION LIKE Q4 LAST YEAR WHERE CENTRAL BANKS WERE PERCEIVED AS STEPPING AWAY FROM MARKETS, THE CORRELATION BETWEEN BONDS AND EQUITIES BECOMES QUITE HIGH. THAT IS WHY PEOPLE ARE LOOKING AT ALTERNATIVE ASSETS."

The growth in private markets is raising important questions about how fund investors, including those investing through DC pensions, are able to access such returns effectively.

"THE CHALLENGE FOR INDIVIDUAL INVESTORS IS HOW THEY ARE GOING TO INVEST IN PRODUCTS THAT USE THE FULL INVESTMENT TOOLBOX. BECAUSE THEY CAN'T ACCESS NON-TRADITIONAL ASSETS, WE'RE ACTUALLY HARMING THE VERY INVESTORS WE ARE TRYING TO PROTECT BY NOT GIVING THEM A FULL RANGE OF STRATEGIES TO MEET THEIR LONG TERM OBJECTIVES."

As this survey is published, the public debate about these issues is intensifying, with a range of concerns about 'liquidity mis-match', whereby expectations of daily trading for investment funds may not reflect the liquidity of the underlying assets themselves. The most obvious examples of this are the challenges in open-ended funds that invest directly into asset such as property which are slow to buy and sell. However, the debate rapidly becomes more complicated given the different degrees of liquidity which may exists across different asset classes and over time, depending on market conditions.

A range of options exist to address these issues, including using open-ended funds with longer redemptions periods or closed-ended funds where the price will provide an adjustment mechanism in the event of investors seeking to sell quickly. The Investment Association has put forward plans for a new kind of fund, a Long-Term Asset Fund which could provide customers with a different way to access less liquid or illiquid assets.

Whichever route is ultimately chosen, the industry recognises the need for clear communication and investor education to help customers understand the nature of the investment process.

"IF YOU THINK WIDER IN TERMS OF INNOVATION, GOVERNANCE, SMALL COMPANY FORMATION, SCALE UP AND ALL THOSE KIND OF AREAS THEN IT IS CLEARLY A GOOD THING FOR THE ASSET MANAGEMENT INDUSTRY TO BE CONTINUALLY PUSHING INTO THAT SPACE. BUT YOU'VE GOT TO MAKE SURE YOU'RE REALLY CAREFUL ABOUT THE TRANSPARENCY OF RISK AND REWARD FROM A CLIENT'S PERSPECTIVE."

"THE ABILITY TO INVEST IN LESS LIQUID ASSETS IN ITSELF WOULD BE A GOOD THING BUT THERE NEEDS TO BE THE EDUCATION THAT THE INVESTMENT IS OVER A DIFFERENT TIMELINE. THE BEHAVIOUR WE OBSERVE AROUND SHORT TERM PERFORMANCE DRIVING FLOWS COULD MEAN THE CLIENT WOULD COME OUT AT THE WRONG MOMENT."

FURTHER TECHNOLOGICAL ADVANCE

Firms we interviewed for this and other recent Surveys emphasise the strategic importance of technological innovation, which will transform every aspect of the industry, from investment decisions to client experience. It is already evident in a number of areas, facilitating new products such as ETFs, new distribution processes (e.g. robo-advice) and dramatic changes in the speed and process of trading in capital markets. The consensus is that transformational change lies ahead as the industry undergoes a revolution in technology, which will affect front, middle and back offices, as well as the advice and distribution landscape.

Looking to the longer term, the full impact of this is difficult to predict beyond the scale of change. Over the short to medium term, key areas to watch will include:

- **Increased internalisation** as more firms internalise resources and decrease offshore headcount to retain IP and support cross functional initiatives.
- **Role redeployment** through a shift of resources to value-add functions and oversight activities, meaning automation – and potential outsourcing - of commoditised activities.
- **Evolving skill set** with investment managers increasing tech talent to take advantage of Artificial Intelligence (AI) data analytics and Robotic and Automation technologies with the potential to transform business operations (discussed in more detail below).

"THE MOST IMPORTANT THING IS HOW TECHNOLOGY CAN IMPROVE THE ACCESSIBILITY AND ANALYSIS OF THE DATA THAT WE'VE ALREADY GOT… WE NEED TO UNDERSTAND MORE ABOUT OUR CUSTOMERS SO WE CAN GET BETTER AT BUILDING THE RIGHT PRODUCTS AND SOLUTIONS."

There is also a link here to wider issues of culture and diversity within the industry as it seeks to attract those with different backgrounds and skillsets in the context of both technological change and the wider shift toward sustainable and responsible investment outlined in the previous section.

"ASSET MANAGEMENT IS NO LONGER JUST ABOUT RUNNING THE MONEY AND TALKING TO INVESTORS. IT REQUIRES HUGE INVESTMENT IN TECHNOLOGY AND A DIFFERENT WAY OF THINKING, INCLUDING MAKING THE WORLD A BETTER PLACE. YOU'RE GOING TO NEED DIFFERENT SKILL SETS AND DIFFERENT TYPES OF PEOPLE THAT WE NEVER THOUGHT OF HIRING BEFORE."

CHANGE THROUGHOUT THE VALUE CHAIN

These trends are being driven by the increasing adoption and implementation of new technologies throughout the value chain expressed as:

- Acceleration of operational modernisation and robotic process automation (RPA), ensuring substantial efficiency gains within and between different functions of the middle and back office.
- Increasing use of AI and data analytics across functions from funds marketing and distribution to portfolio decision-making and risk analysis.
- The further emergence of AI assisting key decision processes, including asset allocation, security selection, portfolio construction and trading. From a technology perspective, trading is already a major focus for firms to ensure the most efficient trade execution in a fast-evolving environment.
- Changing patterns of distribution, which may see a further blurring between the role of investment manager and advisor/distributor.
- Increasing cloud migration with the growing prevalence of third party applications as firms re-optimise internal architectures for cloud readiness and evaluation of vendor security maturity.
- A shift to digital platforms leveraging distributed ledger technologies and broad Application Programme Interface (API) architecture, both internally and with external clients along with integration of third party platforms to provide best of breed client experiences.

WIDER RANGE OF ISSUES FOR INDUSTRY

The ways in which investment management firms respond will vary, both between and within different categories of managers. Key questions will include:

- The balance between outsourcing vs. internal system development.
- The balance between manufacturing and distribution in the long-term savings and pensions markets, likely leading in turn to a greater role for robo-advice.
- AI ethics and accountability and its impact on resource reallocation.
- The shape of the client acquisition and retention experience.

Clearly, the extent of this digital transformation will require the implementation of new governance oversight control processes and compliance frameworks, as well as enhanced operational and cyber resilience in the context of a rapidly evolving and borderless threat environment. Ultimately, management buy-in and firms' appetite for moving from legacy applications to the scaling-up of data driven AI and RPA solutions will determine the pace of digital adoption and transformation.