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HOW THE INDUSTRY HAS CHANGED

TECH, PASSIVES, ESG AND BEYOND: WHAT HAS SHAPED FUND SELECTION?

A decade is a long time in any industry. Three fund buyers reveal what has changed and what they expect in 10 years' time

PIERRE BONART

Head of multi-management, EdRAM

If we go back to March 2009, we have been in a bull market for equities ever since then, so that story has stayed consistent for the past decade. The way the story has involved is in terms of passive versus active, as we have seen flows shift strongly into the former.

I still believe there is room for that to contract and I think over the coming decade we could see something of a mean reversion in which investors take that money out of passives and put it back to work in active.

Two of the trends that stand to play a big part over the coming 10 years will be technology, in many forms, and ESG. It is clearly unavoidable that ESG will be a major factor, and I think we will only move further down that road from a fund management and selection point of view.

Technology can mean many things, from funds themselves to the way we work in our day-to-day lives. The increasing use of algorithms and quant investing is definitely going to continue.

MARCO SOHM

Head of fund mandates in investment management, Credit Suisse

The environment for fixed income has completely changed in the sense that we can expect higher yields in the future, which will be a drag for fixed income performance in general. Going forward, it is even more important to know where your absolute and relative risks are. This is especially true for strategies which do have the flexibility to play the whole spectrum of asset or sub asset classes. It is essential that a fund manager walks the talk.

There are different things that have changed within the industry as a whole. There was pressure on the cost side, which led to a much lower fee level, especially the decision from the highest court in Switzerland that discretionary solutions have to be invested in share classes without any trailer fee. On the other hand, swing pricing methodology has been introduced across the globe in order to protect the existing clients which in fact has increased the cost for asset allocators which have to subscribe and redeem in order to reflect their tactical house views.

DANIEL KNÖRR

Senior portfolio manager, Talanx Asset Management

Over the past 10 years, one of the biggest developments for the fund selection industry has been the onset of Ucits IV regulations. This really opened up the offering and the ability to find new managers. I remember at that time seeing a number of foreign investment boutiques come into the German market for the first time. That meant that from 2013 onwards, the ability of selectors and multi-managers to tap previously unknown managers improved.

Of course, that timeframe also coincided with the growth in passives that we are now more familiar with and the ability to buy very cheap beta. With that, there has been an evolution of smart beta and other ETFs.

It is hard to get past ESG as a driving force for change in the market. It is clearly here to stay. You could argue that it sits within the same scope of overall thematic and mega-trend thinking, which also encapsulates other areas, such as the growth of demographics-focused investing, which I think will also grow.

At a process level, what we do as fund selectors and investors will be impacted by the growth of blockchain technology and automisation in the investment process over the coming decade. We are likely to see the market become more efficient, with an increased amount of back office work being done within an automated process.

Some selectors have said regulation is one thing unlikely to revert. However, if the growth of technology, such as blockchain, improves, then our ability to handle it should improve. That will also allow us to spend more time on due diligence, where Big Data or AI will help us to find new investment ideas.