40 YEARS OF ASSET MANAGEMENT

With Alan Brown of Schroders a keynote speaker at the Clearstream Fund Summit, the conference was able to look at half a decade of industry change.

ALAN BROWN, THE group chief investment officer at Schroders between 2005 and 2012, and now the company's special adviser, drew on 40 years of industry experience to talk about changes in asset management. Brown, a keynote speaker at the Clearstream Fund Summit 2014 in Luxembourg, was welcomed by Philippe Seyll, member of the executive board and head of investment fund services at Clearstream, on June 4.

Each year, Clearstream looks at the key issues affecting the funds industry. This year's topics were: the future of the asset management industry; a regulatory update; the economics of Europe; global trends in Asia and China; and asset management in 2020.

Brown, who is also a former group chief investment officer at State Street Global Advisors, drew on his 40 years to talk both about the past and the future of the asset management business.

He remembers a time when slide rules and log tables were the most complicated tool available for asset managers, but he is still active in a world of computers and trading models.

In looking at change, he considered the introduction of dynamic asset allocation, risk preferences and risk premia, savings policy, income and outcomes, income versus inflation and expected returns. In examining the industry he said the industry needed to focus on the four key determinants of outcomes in retirement: the size of the pot; the level of returns; the volatility of returns; and the degree by which cash needs are met by returns. The last two of these are topics that the industry needs to improve upon, he says.

SEARCHING QUESTIONS

Alan Brown also reminded summit members of that great Warren Buffett quote: ''It is only when the tide goes out that you see who has been swimming naked.'' He also shared his view that the asset management industry needs to ask itself these questions: How well have we looked after ourselves? How well have we looked after clients? And how well have we served society?

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It is time to deal with the holistic problem again, he said, and help clients realise their real-world financial goals.

Following on, Benjamin Collette of Deloitte gave a regulatory update looking primarily at the second Markets in Financial Instruments Directive, or MiFID II, and at the compliance function in relation to it. He highlighted the increasing financial penalties from regulators, such as the UK's Financial Conduct Authority, where fines have risen from £22.78 million in 2008, to £474.3million in 2013.

He reviewed MiFID 1 and the overlap with MIFID II, in particular the area of inducements and what that might mean for the industry.

Collette concluded with a review on how the industry could enhance compliance practices and better manage their regulatory developments.

The next keynote speech was from Professor Bruno Colmant of Roland Berger on the Economics of Europe.

The speech was controversial as he looked at deflation in the eurozone and the possible collapse of the euro. The speech enlightened, fascinated and scared the listeners.

In an audience poll, 36.3% of attendees thought the eurozone would have a temporary and mild deflation, 33.3% a stagnant economy before a surge of inflation, and 27.5% a severe and long Japanese-style deflation. Only 2.9% of the audience were not expecting any deflation.

In additional polls, 45.3% thought the European Central Bank will end up financing additional sovereign debt.

Also 52.4% expected public debt rescheduling in weaker Eurozone countries.

And finally, 40% of attendees thought the euro would not survive. All in all a bit of a white knuckle ride.

AT THE SUMMIT: Clearstream looks at key issues in the funds industry.

The fourth presentation was from Shiv Taneja of Cerulli Associates, who looked at global trends focusing on Asia and China. He looked at the reconstruction of the industry post-2008, focusing on the significance of brand, reputation and the balance sheet taking into account the importance of bottom line growth in an increasingly competitive market.

ASIA AND CHINA

He reminded us that Asia was important, particularly in growth. However, he also said that even in 2017 it is estimated that 76% of assets under management would still be in the US and Europe and only 24% in Australia, Japan and the rest of Asia.

He also reminded us that traditionally long-term retirement funds are the key to a successful funds industry not short-term discretionary investments. Finally, Steven Libby of PWC presented the PWC Asset Management 2020 report. The good news is that by 2020 it is expected that global assets under management will have increased to $101.7 trillion from $63.7 trillion in 2012.

Again the highest growth rates come from emerging markets, with 12.5% from Latin America, 11.9% from the Middle East and North Africa, and 9.8% from Asia.

Europe will trail at 4.4% but, again, the US and Europe will be the key markets by assets under management.

Other key points were the transformation of fee models, alternative investments moving to centre stage, and asset management will move into the 21st century with key drivers being social media, big data, the cloud and digital intelligence.

Where it leads and how selling funds will change we may not know, but already people are looking at the likes of Apple, Google and Amazon to see how things might change.

The good news is that there is a good future for the industry but life will be very different to what it is now. We will all have to wait until 2020.

The presentations from the conference are available at www.clearstream-events.com