Change is inevitable

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The investments profession is facing challenges that require unconventional ways of thinking. This is sparking conversations around the asset manager of the future and challenging the investment industry as we know it today, with technology being one of the key catalysts to the change.

Disruption is inevitable but it does not impact every industry in the same way. The markets have structural weaknesses that expose the sector to significant levels of change but barriers of entry are inhibiting disruption – for now. The industry will experience higher levels of technological change in the future.

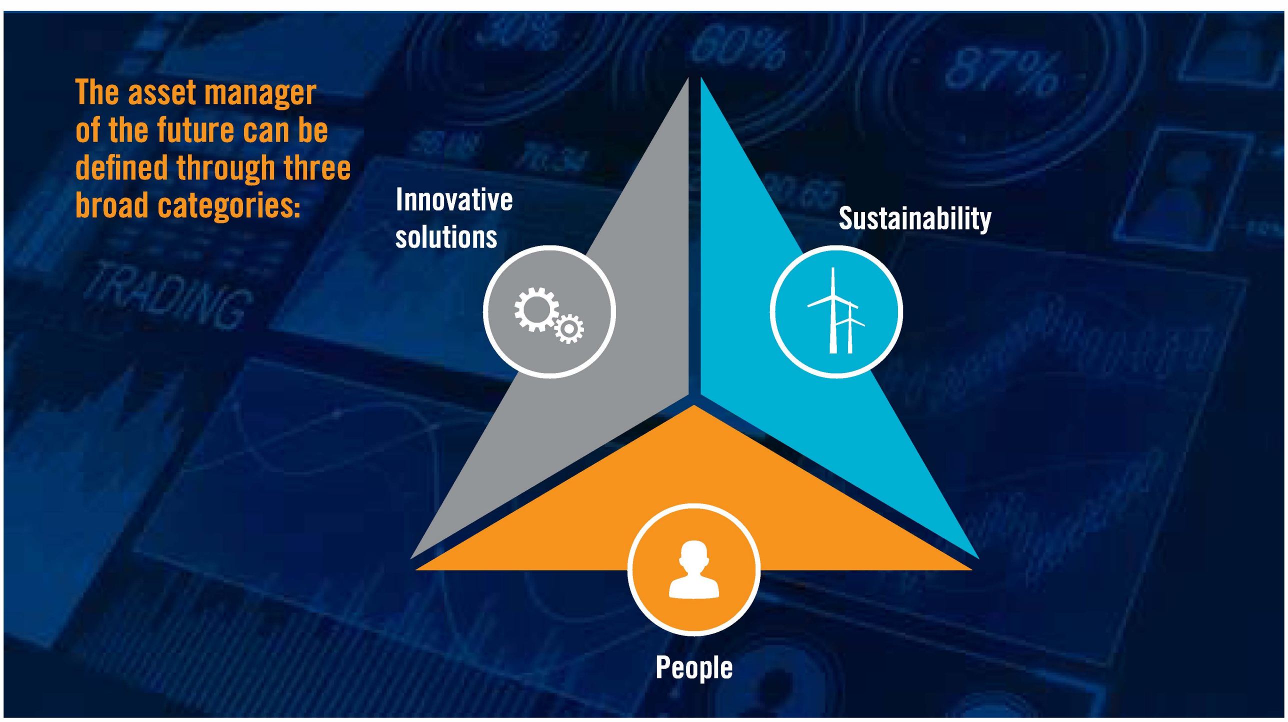
Some structural changes have resulted in an increase of passive investments in the USA, which broadly represents their economy. But in South Africa, the indices do not represent the economy and this adds to structural differences. High fees and sub-par investment returns from active funds globally have led to a flood of assets moving from active to passive managers, and this trend is expected to continue into the future – highlighting the rise of passive.

The number of listed companies in both the New York and Johannesburg Stock Exchange have reduced drastically over the last 10 years. This has been largely driven by increasing venture capital, technology advancements, and diversification risk, among other things.

The public markets are becoming less relevant, and asset managers need to position themselves in a way that enables them in the changing environment while keeping to goal-based investment strategies.

The future lens

As the asset management industry undergoes rapid change, investment firms are faced with the challenge of integrating technology into their existing business models and developing investment solutions that align with client values. These changes pose significant implications for investment professionals, whose current roles are likely to change in the next 5 to 10 years.



1. Innovative solutions

The winning asset management business models of the future have the challenge of positioning themselves as:

- distribution powerhouses
- solution providers
- beta factories
- alpha shops

Distribution powerhouses	grant access to assorted products, distribution channels and investors
Solution providers	have multi-asset and portfolio construction expertise that allow them to develop innovative solutions
Beta factories	can achieve high operational efficiency through robust product pipelines and operating at scale
Alpha shops	have deep expertise in either traditional or alternative asset classes

The asset management industry is moving to a point where you must be either broad or niche to compete. The players in the middle are going to suffer in these challenging market conditions.

Integrate passive investment strategies

Asset managers that want to remain competitive should seek to build solid portfolios that integrate appropriate passive investment strategies. Passive funds continue to gather assets and with the advent of zero-cost exchange-traded funds in the United States, this is likely to accelerate this growth even further.

The proportion of passively managed assets in the United States has consistently increased from 19.5% to 22.4% over the last five years and is expected to continue in a similar trajectory. Passive investing will grow at the expense of active management, as investors increase allocations to smart beta.

Investing in artificial intelligence

Successful asset managers will use technology to develop innovative solutions – allowing them to optimise their products, gain economies of scale, and improve the overall solution construction. Continuous investment in artificial intelligence-enabled data solutions will help asset managers innovate, improve services and reduce costs. Artificial intelligence is reshaping distribution and enabling asset managers to launch their solutions to new markets and customer segments which have been previously underserved.

2. Sustainability

Members in pension funds increasingly demand that all parties in the investment chain take their broader long-term interests, and those of future generations, into account. Society is demanding that environmental, social and governance (ESG) factors, sustainability and climate change become key considerations in the investment process – and their combined voice refuses to be taken lightly.

Investing for the long term

A sustainable investment view is more likely to create and preserve long-term investment capital whereas stewardship through active ownership helps realise long-term shareholder value. Long-term streams of returns and long-term themes, rather than short-term price movements, are more likely to achieve desired investment outcomes.

Climate change

Climate change is a growing and significant priority to investors globally. The social, environmental and economic risks posed by climate change have long-term ramifications, including risks posed on investments. The causes of climate change need to be addressed timeously to avoid spiralling into dangerous temperature levels and the investment industry has a role to play in doing this.

The future will take its cue from the turbulence of the past. The private markets have seen negative share price reactions to investor activism and this has led to occurrences like the tabling of climate change resolutions by the Johannesburg Stock Exchange in 2019. Increasingly, investors and companies are including climate change in their investment decisions. Industry interventions such as Bloomberg's Task Force on Climate-related Financial Disclosures (TCFD) and the Carbon Disclosure Project have ensured that disclosing climate change and environmental risk is increasingly becoming part of companies' financial reporting.

3. People

The world of work is evolving, and the investment industry isn't exempt from the change. In South Africa, the asset management sector doesn't reflect the participants in the market and lacks the diversity of views needed to further develop the sector.

Looking at transformation trends in the South African asset management industry, black-owned market share of traditional equities has fallen. This has been due to merger and acquisition activities that have increased across the sector, driven by B-BBEE and consolidation. The financial services sector should be radically transformed to become a vibrant and globally competitive industry that reflects the demographics of South Africa and contributes to the establishment of an equitable society by providing accessible services to black people and directing investment into targeted economic sectors.

We need two types of diversity

To effectively function in the future, asset managers need to be cognisant of both cognitive diversity and identity diversity:

Cognitive diversity
It's important to have a team of varied thinking and problem-solving skills. This means that we move away from hiring professionals with just accounting and investment backgrounds and seek to hire individuals whose educational background and working experience lie anywhere in the spectrum. Data analysts, geologists and information technology specialists, amongst others, all have a place in the investment team.

Identity diversity
We live and work in a world in which individuality should be embraced because individuality is all around us. 'Different' should never be seen as an anomaly, and investment teams need to reflect the society we live in.

Both cognitive and identity diversity are connected, because people of different identities often have different backgrounds and experiences, making diversity a critical aspect in investment teams to help foster a better understanding of the marketplace and society to spark innovative solutions for clients.

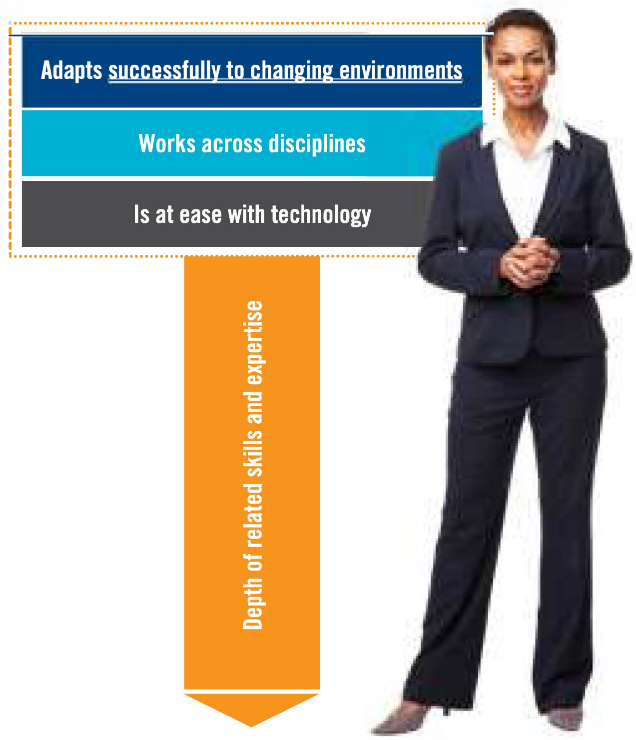
T-shaped leaders are in demand

Researchers have coined the term 'T-shaped skills' as valuable skills to have in the future. A T-shaped person is an all-rounder who:

- adapts successfully to changing environments
- works across disciplines
- is at ease with technology

An example is an engineer who is a subject matter expert, easily transitions into investment management and knows how to code. Both traditional and practical learning will drive the new era of T-shaped leaders who combine leadership, soft and technical skills. No single investment team can afford to have a lack of diversity. Without diversity, people aren't able to sufficiently connect across disciplines to develop innovative investment products.

The future presents a world in which artificial and human intelligence complement each other, allowing people to leverage the benefits of technology while enhancing transparency, ethical consideration, communication and knowledge sharing.



Path to the future

The roadmap to success in the investment profession isn't simple – a combination of skills and abilities will continue to shape the industry.

What hasn't changed, however, is that the asset management industry will always attract investment professionals with a passion for learning and this will result in better outcomes for clients. It is the desire of investment professionals to learn, adapt and gain new abilities that will shape the asset manager of the future and make it one that can adequately serve its clients.

Our role as leaders in the financial services industry is to build the foundation that welcomes continuous development, technological change and enhanced diversity and inclusivity to help propel asset managers into the future and investors closer to their financial goals.