6 asset management trends to look out for

The asset management landscape continues to evolve with certain key trends - existing and ne
- driving the adaption of models and strategies.

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1. More money moves to ESG strategies

One of the most significant changes to impact the asset management industry is environmental, social anc governance (ESG) compliance. While it may have provided players with a competitive advantage in the pa it is now part and parcel of managing money.

This does not necessarily mean becoming an activist, but you must be able to prove to clients and consultants that you are having regular interactions with boards and management teams to ensure governance adheres to a high standard, and to apply pressure to do the right thing for society and the environment.

Many asset managers have become signatories of the UN Principles of Responsible Investing standard, who are then required to submit reports and auditing material to the institution. They are then rated accordingly, and this information is available for all clients and consultants to see.

It has been proven over time that those companies and management teams that abide by high standards (ESG principles tend to grow their profits at a faster, more sustainable rate. An asset manager can obtain significant funds if they comply with the UNPRI, as more clients seek sustainable investment growth.

2. The rise of enhanced passive funds

The trend of money going into passive strategies is nothing new. We know that passives have taken mone away from active fund managers over the years, which is predominantly a function of very few active fund managers outperforming the benchmark through a cycle.

Alongside passive's rise is that of enhanced passive funds; where the fund is tailor made for clients

specifically to their requirements. There is now a market for bespoke passive products, with a number of major players in the world They will provide clients such as pension funds who want to achieve a specific objective with bespoke passive strategies. This objective may be to hedge or protect the income they generate for clients over time.

3. Fees remain in the spotlight

The issue of fees is clearly ongoing. In the past, active fund managers could charge whatever they wantec to, especially for a good track record. But competition has increased over time, and so it is not always that easy for fund managers to continuously outperform the benchmark. There is now a spotlight on fees charged in relation to returns earned.

This is certainly a trend that will continue over time, and as investors become better informed. A growing number of passive platforms give clients access to the index at close to zero cost, depending on which index one talks about. This has prompted the industry to come up with new products to differentiate themselves and to enhance yields.

It is however not necessarily a case of choosing between passive or active. A typical client's portfolio will have a combination of both. When companies fall out of bed, like we have seen in SA, it is beyond your control with a passive strategy whereas an active manager may have had discussions with management ar analysed financials statements, providing valuable insight into the future health of a stock.

4. Huge flows into offshore and private equity

While not specific to the asset management industry, the magnitude of money going offshore has been ongoing for years – especially from a South Africa point of view. While 20 years ago it was acceptable to only manage domestic assets, that has now changed. Asset managers have had to reinvent themselves tc become global.

This has been an adjustment for the industry and will continue as flows to offshore show few signs of slowing – for all sorts of reasons. The opportunities available to investors in the local market are just a fraction of what is available to investors in offshore markets. This has seen more flows into international assets, particularly equities.

At the same time, a significant amount of money has been allocated to private assets in recent times. The opportunities, which exist outside of the listed market, tend to be picked up by large pension funds, and th very high net worth individuals who are after something slightly different and can stomach the volatility and lack of liquidity.

There are only so many companies that want to formally list on stock exchanges, whereas there are severa private businesses out there that can be purchased at much cheaper prices than if they were listed and, if well managed, will reward investors with significant returns. Private equity investors tend to fish in the IT, healthcare, and food and beverage industries.

5. Shift from individual share portfolios to fund portfolios

In South Africa and abroad, there is an increasing trend of client portfolio being managed via funds as opposed to direct shares. Instead of holding a portfolio of individual shares, the trend is now to have a portfolio that consists of funds – equity funds, fixed income funds, or whatever the case may be. There ma

be different reasons depending on each investor's rationale, but some of the considerations may potentia be the fact that the fund manager may trade within the fund without triggering a taxable event, but also Inheritance tax in foreign jurisdictions, as a result of situs (location of the asset).

Increasingly, we are seeing investors consider tax consequences more carefully before they invest but recommend that each investor should also consult with their tax practitioner, as the impact relevant to personal circumstances may be different from one investor/taxpayer to another.

Tax is always subject to change and therefore important to consider carefully in order to make an informec decision.

It goes without saying, that any investment should first and foremost make investment sense and be suitak relevant to a client's needs, objectives and risk profile, and although the tax consequences are important a the potential impact thereof on the return, it should not be considered in isolation.

6. Algorithms driving never-seen-before market movements

Whether there's good or bad news, markets tend to be much more sensitive than what they have been before. A lot of that is driven simply by the positioning of some algorithm funds. Using supercomputers an complex algorithms that pick up on breaking news, company/stock/economic information and price and volume movements, many institutions now make trades in a matter of microseconds, through a practice known as program trading.

These models are resulting in volatility in the market, where volumes are immense and, in some case, muc higher than what we are used to.

As soon as there's an unexpected event, the impact on the markets is much more significant. 2020 serves as a poignant example, global equity markets declined by 35% but bounced back to where they were prior within just two months. That is completely unheard of and a lot of it is driven by these trades. This sensitive technology could create even bigger issues in markets going forward.

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