FUNDS CONGRESS **2018**

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Introduction

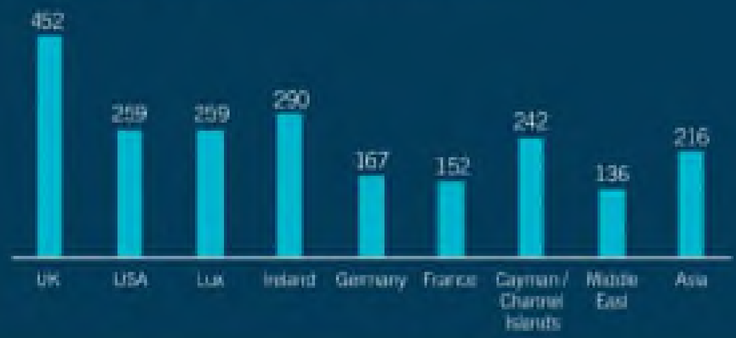
On 8th February 2018, more than 1,200 delegates attended this year's Funds Congress, organised by co-sponsors Carne, Dechert LLP and PwC. Now in its seventh year, the Congress is the largest Central London event bringing together investment managers from all asset classes and jurisdictions to consider the themes that will define the year ahead in fund management.

Audience participation brought an added twist this year. Electronic voting pads allowed attendees to express opinions and answer questions, providing a weight of information in the form of hundreds of immediate responses, shedding light on attudes to some of the most pertinent questions in investment management today.

The conference opened with an audience poll that revealed the very first insight: the breadth of investment strategies and geographical footprint of the investment managers present.

At the start of the Funds Congress, delegates were asked:

1. Where do you have business infrastructure?



2. Which investment strategies do you employ?

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Industry Keynote

A rapid-fire rundown of potential challenges lurking over the horizon provided sobering food for thought as Emmanuel Roman, chief executive officer at PIMCO, addressed a packed chamber at London's QEII Centre.

Roman, speaking from California, was forthright and commented on the trend from active to passive management, market risks ranging from inflation in the United States to political disruption in Europe and systemic challenge in China, the influence of new technology on the asset management industry and pressure on margins.

Emmanuel Roman, CEO, PIMCO

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Asset Management Industry Outlook: The Next Five Years

Andrew O'Callaghan, Partner, Asset and Wealth Management Leader – Europe, Middle East and Africa, PwC – Moderator

Cuan Coulter, Head of EMEA, State Street Global Advisors

Fiona Frick, CEO, Unigestion

Robert Mellor, Tax Partner, Asset & Wealth Management, PwC

It's a forecast that makes headlines: while many analysts fear the consequences of growing inflation and political volatility, a ten-year outlook by Funds Congress co-sponsor PwC suggests that assets managed by the investment management industry will continue to grow, perhaps reaching as much as US$145 trillion by 2028.

The industry is certainly changing more rapidly than ever before, the panel agreed. The market, once dominated by institutional investors, is shifting towards retail. Simultaneously, it is also fragmenting into many dozens of sub-sectors, a shift that has spawned a particular set of challenges for many managers.

Consolidation among management firms seems unavoidable. Large investment houses are already reining back their engagement with service providers, said one panellist. Nonetheless, with overall growth figures likely to remain positive, said the panellists, boutique and supermarket managers alike will find the space to thrive.

Technology could exert the greatest influence on long-term trends. Plenty of managers fear that machines may replace important aspects of human endeavour in the industry, but the managers likeliest to thrive, said panelists, are those who view technology as a gift, not a threat. Technoogical advances have already simplified many money-management tasks by automating informed decision-making at some level.

What's key is the ability to view technology as an enabler, not a threat. Through technology, managers can better identify customer groups, letting niche outfits punch far above their weight by facilitating access to customers that would otherwise have proved impossible to reach. Technology can also be harnessed to identify common needs among discrete groups of investors, allowing managers to target new investment groups. Automation can also underpin "efficient customization", a middle point between the extreme customization of a boutique manager and the mass-market approach of a supermarket-style retail manager.

Global Asset Allocation: Perspectives in 2018

Regulations continue to be a prime driver of allocation decisions, agreed a panel of asset managers, despite the occasionally unexpected consequences of regulatory packages such as Solvency II, which ultimately undermined the notion of an EU-wide capital market for debt.

Against a backdrop of consolidating investor demand, the market has experienced a pronounced shift in asset allocation towards alternatives – primarily, to private assets such as infrastructure and real estate – as a means of diversifying risk and yield.

These were the primary trends of the past year identified as the panel explored diversification in asset allocation and the future of alternatives.

Environmental, social and governance (ESG) criteria are also becoming more central to allocation decisions, particularly among young investors.

However, the increasing cost of compliance – in terms of time, energy and expertise – is exacting a charge on the entire industry, warned panellists, and falls most heavily on smaller managers. Recent changes to risk-retention rules has made the issue particularly acute in the structured finance space. Indeed, warned panellists, the negative impact of new regulations on productivity, costs and outcomes was now all too evident, making many fear the year ahead.

Steve Bernat, CEO, Carne Luxembourg – Moderator

Michele Gaffo, Global Head of Insurance Coverage, Deutsche Bank Asset Management

Jayne Styles, CIO, MS Amlin

Deborah Zurkow, Global Head of Alternatives, Allianz Global Investors

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Regulatory Keynote from the FCA: Direction of Travel

In a candid speech, Robert Taylor, head of global asset management regulatory strategy at the UK's Financial Conduct Authority (FCA), expressed empathetically that asset managers may be wary of new regulations, but reminded the room that it is important for firms to remember the real people whose pensions sit at the end of the industry's value chain.

Robert Taylor, Head of Global Asset Management Regulatory Strategy, Financial Conduct Authority (FCA)

Regulatory Priorities for 2018 and Beyond: How Will You Be Affected?

Hot on the heels of the MiFID II implementation date, the panel of senior European regulators acknowledged that the asset management industry has gone through a period of huge regulatory change, noting that now is the time to reflect and assess the impact of new regulations. Regulators made it clear there would be new regulation in the asset management space, even though change will likely be slow.

Several panellists were keen to underline the importance of culture within financial institutions, stating that Europe's regulatory bodies need to focus on behavioural standards, encouraging a deeply engrained culture of compliance within firms, rather than one that seeks to "just cross the line." The importance of "getting your voice heard" was also discussed, with regulators encouraging firms to communicate at all stages of the consultation process instead of waiting until the final phases.

Regulators also acknowledged that in light of the rapid growth of ETFs, global and European regulators are taking stock of the industry to better understand potential risks. They encouraged the ETF ecosystem to openly discuss challenges and identify industry-led measures to address potential concerns.

Brexit-related regulatory change remains uncertain – the outcome of the European Commission's European Supervisory Authorities review is still unsettled, while the EU27 is yet to form a single, coherent set of views on the issue of delegation. Regulators pointed out that determining how best to use the delegation is a global issue, not one just brought on by Brexit, and warned that UK-based firms should not take Brexit as an excuse to lower standards.

Greater heed needs to be given to emergency planning across all jurisdictions, agreed panellists. Sectors such as Ireland's exchange-traded funds space have grown rapidly without suffering any major setback, yet better contingency planning by asset managers would give greater comfort to regulators.

Monica Gogna, Partner, Dechert LLP – Moderator

Natasha Cazenave, Managing Director, Head of the Policy and International Affairs Directorate, French Autorité des Marchés Financiers (AMF)

Jean-Marc Goy, Counsel for International Affairs, Commission de Surveillance du Secteur Financier (CSSF)

Martina Kelly, Head of Markets Policy, Central Bank of Ireland (CBI)

Robert Taylor, Head of Global Asset Management Regulatory Strategy, FCA

Esther Wandel, Head of Division, German Ministry of Finance (BMF)

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Regulatory Keynote: The SEC and the Trump Administration - What to Expect

With the Republican Party now in control of Congress and the White House, firms can expect some pullback from what keynote speaker Troy Paredes, who led the Securities and Exchange Commission (SEC) from 2008 to 2013, termed "regulatory overreach" in the United States.

While much Republican ire has been directed at the Dodd-Frank Act, which stands accused of sucking dynamism fom the financial markets, Paredes cautioned that the dismantling of the entire Dodd-Frank structure was unlikely. A tug of war between the two main political parties, followed by a moderate regulatory scale-back would be the more likely outcome.

> "A tug of war between the two main political parties, followed by a moderate regulatory scale-back, would be the more likely outcome."

Similarly, the market should expect nuanced shifts rather than dramatic U-turns at the SEC. Deepening trends include a focus on retail - and the sectors that sustain it, such as mutual funds and ETFs - along with increased concern with cybercrime. An attempt by the Department of Labor to impose new fiduciary standards has been passed to the SEC, where attitudes are less likely to support as burdensome an approach as those at the Department of Labor, according to Paredes.

Troy Paredes, Former SEC Commissioner

Nevertheless, firms should take care not to push the boundaries of compliance or get too comfortable, Paredes reminded the audience. The SEC, which has repeatedly promised to crack down on misbehaviour, is making greater use of sophisticated technology to identify misconduct. Firms adopting a parallel approach by using technology to bolster their compliance programs could see rapid benefits.

In addition, whatever happens to the SEC under Trump, Paredes reminded the audience that there would be a new presidential administration in years to come and firms should remember that it would be that future regime that would be assessing their conduct today.

Special Guest Speaker: Leading Change Under Pressure

The Baroness Manningham-Buller knows a thing or two about pressure. As head of Britain's Security Service at the time of the 7/7 terrorist attack in London, she led the organisation through a swift expansion in terms of manpower and efficiency while overseeing one of its largest and most urgent investigations in more than half a century.

From the Funds Congress podium, Manningham-Buller dispensed tips and tidbits in equal measure, interspersing anecdotes from the counterintelligence world with pointers on effective leadership. At its core was the message, trust your people – and reciprocate that trust.

There was little kiss-and-tell; in its place, a fascinating, dispassionate analysis of her organisation's performance in condensing a vastly complex array of information – always partial, always incomplete – into solid, reasoned opinion.

In closing a remarkable address Manningham-Buller delivered her most memorable line: "I gave up trying to manage other people's expectations," she concluded. "If people want to believe I walk around with a Beretta in my bra, I let them."

The Rt Hon the Baroness Manningham-Buller,
Former Head of MI5, 2002-2007

CEO Perspectives: Navigating Through Change

In a fireside chat with two powerful CEOs and the CEO of the UK's Investment Association, the panellists reflected on the enormous effect asset managers have on the real world. The asset management industry, once dismissed as junior partner to the banking and insurance sectors, now touches 75% of British households through its management of individuals' pension pots.

Each CEO agreed that the corporate culture within a firm is of utmost importance, with a reminder that getting this right is essential to engender trust amongst the wider population whose investments they manage. To the panellists, the industry's structural importance underscores a compelling need for high professional standards, whilst also increasing the need to raise the profile and understanding of the investment management sector. Initiatives such as the UK Treasury's Asset Management Task Force are already opening new avenues towards a better understanding of the industry. There was agreement that engagement amongst the industry's participants and regulators, politicians and the general public needs to broaden both in light of Brexit and beyond.

The panellists discussed the imporance of diversity and inclusion to meet investors' expectations of how their pensions are managed. They highlighted the industry's support of Investment 2020 and The Diversity Project by investment association members as an example of raising profile and providing practical support to diversity and inclusion at the most senior levels of the industry.

Looking at future investment opportunities, the panellists agreed that the importance of environmental, social and governance (ESG) investments is becoming the norm, with ESG being adopted by many investment managers as integral to the running of a diverse portfolio of assets.

Chris Cummings, Chief Executive, Investment Association

Anne Richards, CBE, CEO, M&G

Michelle Scrimgeour, EMEA CEO, Columbia Threadneedle

Paradigm Shift: Consolidation of the Asset Management Industry

At a time of increasing regulation, when asset managers are obliged to commit ever greater resources to compliance, mergers are likely to become more common in the industry.

Greater agility and willingness to adapt will no doubt help many asset managers to manage change. However, for larger organisations, what drives the merger argument is not just the search for a cost-saving economies of scale, agreed the two panellists, but also a growing demand from clients that asset managers achieve more with fewer inputs, both in terms of maintaining strength across multiple strategies and asset classes and providing a robust footprint on a global scale.

A core concern for those countenancing a merger is the need to minimise any impact on clients. The establishment of client teams to provide continuity of service is vital to the success of any merger process.

It is never easy to bring together two firms with very different cultures; challenges include the need to unify human resources and a wide variety of systems and processes. Firms have to keep their eye on long-term gains, which in most cases will outweigh short-term pain. By embracing change and focusing on the job at hand, benefits should soon start to be seen.

Sameena Ali-Khan, Journalist and Broadcaster – Moderator

Campbell Fleming, Global Head of Distribution, Aberdeen Standard Investments

Phil Wagstaff, Global Head of Distribution, Janus Henderson

Brexit Today: What Are the Real Issues in Practice?

Christopher Gardner, Partner, Dechert LLP - Moderator

Gary Marshall, Head of EMEA, Aberdeen Standard Investments

Rupert Rossander, Head of Legal – EMEA, Invesco Perpetual

Jeremy Soutter, Global Head of Strategic Development, Carne Group

Elizabeth Stone, Asset and Wealth Management Leader, PwC UK

Howard Trust, General Counsel, Schroders

As the panellists discussed some of the thorniest Brexit-related questions affecting the asset management industry, delegates used their voting pads to reveal their concerns and priorities, providing useful insights into attitudes and intentions in the industry.

Most delegates said they expected Brexit to exert a moderately negative or significantly negative effect both on their firms and the wider industry. In general, firms of all sizes expected a degree of challenge, uncertainty and change, whatever their geography, asset focus or investment strategy.

Voting patterns showed that delegation remains the issue of most concern, although legal and regulatory change – whether because of new legislation such as GDPR or MiFID II or as a result of operating in new markets – also looks to occupy the industry as much as or more than Brexit over the coming 12 months.

One of the fundamental questions for asset managers, the panel felt, was the difficulty of knowing how to organise a distribution business across Europe in the period three-to-five years after Brexit. Firms are looking for clarity, one panellist noted, where clarity does not (yet) exist.

In such a situation, managers are doing as much planning as they need to, yet executing as little as they can. Indeed, views on when firms should move to execution mode on their Brexit strategy varied greatly – some believe that the time to start has passed, whereas others continue to follow a wait and see policy. That both of those views can be right was testament to the breadth of firms present.

A fuller report on results will be published separately.

Brexit Tomorrow: Economic Impacts, Threats and Opportunities

Emma Ross-Thomas, Brexit Editor, Bloomberg – Moderator

Miles Celic, CEO, TheCityUK

Catherine McGuinness, Chairman of the Policy and Resources Committee, City of London Corporation

Dr Andrew Sentance CBE, Senior Economic Adviser, PwC

The panel debated different economic scenarios post-Brexit and the threats and opportunities afforded by the negotiation and beyond.

Could a timely political agreement governing a post-March 2019 transition period brighten the UK's economic prospects? Perhaps, admitted the panellists, but firms would be unwise to expect any protections or guarantees over transition to be enshrined in law – there simply is not enough time to agree to a formal treaty governing transition. Indeed, the panellists felt there was little likelihood of clarity emerging in the coming months, even at this late stage.

For investment managers, this outlook underscores the risks surrounding politicians' promises of a transition period much like the status quo. In the longer term, while proposals for a system of mutual recognition between EU and UK regulators have been encouraging, firms will ultimately have to come to their own decisions as to the credibility of statements by politicians and regulators in favour of a post-Brexit regulatory system beneficial to the industry.

2018 Testimonials

Let's keep the conversation going. Join the FUNDS CONGRESS discussion group on LinkedIn for updates throughout the year on issues affecting the asset management industry.

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Funds Congress at a Glance

Funds Congress is the biggest central London-based asset management conference covering all asset classes.

Funds Congress at a glance:

- The only major annual event that brings together all major asset classes and fund jurisdictions.
- Focuses on the key themes that will define the year ahead in asset management. How will they affect your business? What are others doing and planning for?
- Who attends? Anyone helping to shape the strategy of their asset management firm, including C-Suite/MD/ Partner, legal and compliance, product development, risk management, business development and investor relations professionals.
- 40+ outstanding and inspirational guest speakers, including regulators, senior investment professionals and politicians.
- 4+ hours of networking time.

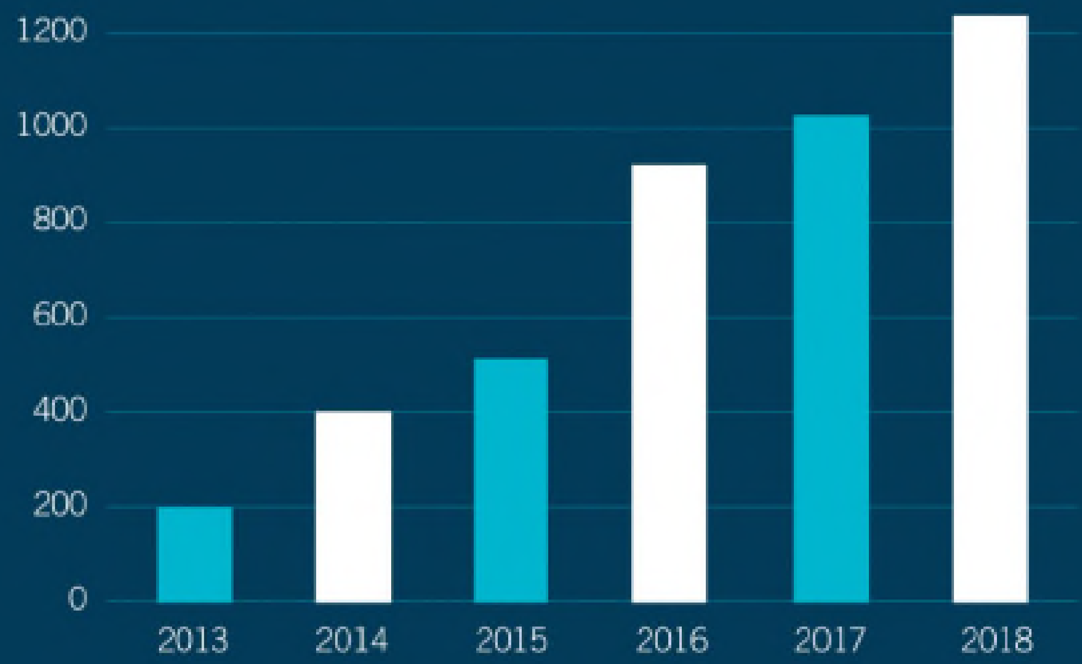
500
C-suite/MD/Partner level attendees

150
Legal and compliance professionals

475
Other core attendees:
Product development/Risk management/Business development/ Investor relations

20+
Jurisdictions represented

Growth of Funds Congress by attendee numbers



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