

Press Release

Massimo Tosato challenges industry to address the long term at ALFI conference

13 September 2013

Yesterday, at the ALFI Global Distribution Conference in Luxembourg, Massimo Tosato, Executive Vice Chairman of Schroders, outlined his vision for the asset management industry, urging firms to embrace change if they are to succeed in the long term. He focused on four main areas:

Embracing risk to secure long-term growth

Tosato explained that the issue of personal savings, including pension provision, is one of the most important issues facing Europe in the medium term. Without personal pension contribution and sufficient capital growth most individuals will face a significant shortfall in their retirement.

He was critical of much of the European Commission's approach to long-term investment. Tosato said the Commission is missing the point – investment in infrastructure has a role in long-term portfolio construction but portfolios cannot be built solely around it. Diversification and liquidity remain basic principles for proper construction of individuals' portfolios. We shouldn't confuse government capital needs with the needs of future pensioners. The point should be to encourage more investment in a broad-set of higher-risk assets to create sufficiently high long-term returns.

Investment funds are a key tool to address the pension challenge. They deliver long-term performance that preserves the real value of individuals' retirement savings. What is missing in Europe is a passportable, standardised, tax-deductible investment wrap in the form of an 'EPen'¹ i.e. EFAMA's OCERP proposal.

Addressing the value for money question

The asset management industry has faced criticism about the perceived value for money it delivers in a low return world. Tosato was critical of those who refused to acknowledge this pressure and was vocal in his support for performance fees to be linked to alpha-generation above risk-adjusted return. The industry must evolve and take responsibility for building solutions to ensure that clients understand that are paying for an attractive risk return trade-off to deliver the outcomes they need.

¹ A personal pension product with unified certification standards across Europe
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He explained that the most important point is one of trust between clients and the asset management industry. With an intangible product, trust is the bridge between firms and their clients, which can take decades to build but only a week to lose.

A call for purposeful regulation

Tosato expressed his support for purposeful regulation, acknowledging the role it plays in improving trust, protecting the customer and enhancing market stability. However, he called for regulators to distinguish between asset managers, which are agency businesses, and deposit and principle risk-taking institutions.

He also called for a refined approach to risk, so that the focus is on risk optimisation as opposed to minimisation. He presented the dichotomy between the products which investors increasingly need and want to buy, such as outcome-orientated propositions that are uncorrelated to broader market indices and the nervousness of regulators in approving these products for a retail investor. These propositions, although simple from a conceptual perspective, can be complex in their design and management.

Using Schroders as an example, he illustrated the effect the regulatory burden is having on the industry. Schroders has seen a significant increase in headcount in its governance functions i.e. compliance, risk, internal audit and legal over the last two years and has over 125 material regulatory change risks that it needs to monitor as part of its engagement with over 30 regulators globally.

Support for UCITS and the need for financial education

He finalised his comments by expressing support for the UCITS brand, acknowledging the power of a consistent framework applied to all funds and called for this to be maintained, but recognised the need to tighten eligibility criteria in some areas.

In a world with limited access to state pensions and defined benefit type guarantees, he called for individuals to take responsibility for their investment future. With more individual savers making long-term investment decisions in the workplace as part of their retirement planning, they will need the tools to enable them to make rational decisions. Tosato is a powerful exponent of investment education on basic financial principles that should start at high school.

Tosato concluded that if we can face these challenges and embrace change then the asset management industry as a whole will be better placed to continue to create value for our clients over the long term.

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*Source: Schroders, all data as at 30 June 2013, including Cazenove Capital assets under management

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