Preparing for the future

With 2017 being a record-breaking year for investments into UK funds, Natalie Tuck speaks to Investment Association CEO Chris Cummings on why the UK is so attractive, what influences pension funds' investment choices and how the IA is helping the industry to prepare for the future

2017 was a record-breaking year for investment into UK funds. What makes the UK attractive to investors, in particular for pension funds?
As the second-largest asset management centre in the world after the United States, the UK is recognised as a global centre of investment industry expertise. With a highly-skilled talent pool and robust regulatory environment, the UK is an extremely attractive location for investors. Pension funds are the largest client group and firms in the UK manage assets for pension schemes around the world. For defined benefit, the UK is a leading centre for liability-driven investment (LDI). Across both defined benefit and defined contribution, firms offer an increasingly wide range of investment services.

For the year ahead, what do you think will be popular asset classes for investors? Why?
The needs of pension schemes and savers in the UK and internationally are increasingly diverse. Defined benefit schemes in run off will invest very differently to cashflow positive auto-enrolment defined contribution default arrangements. Four themes are particularly notable in the investment debate at the moment. First, cost is an increasing driver of decision making, particularly in defined contribution. This is shaping innovation in a number of areas: for example, smart beta has evolved in response to clients wanting alternatives to purely passive exposure but at lower cost than traditional active products. Second, yield continues to be a major preoccupation, even as interest rates edge upwards, and this links to a third theme: the potential to access less liquid investments, such as infrastructure or private markets. Finally, socially-responsible investment is a growing theme, with particular strong flows in the UK retail fund market in 2017. All of this reinforces the central message that UK investment products and services are able to serve an evolving and often complex set of customer requirements.

The IA has previously said hidden fees may be the Loch Ness Monster of investments, finding no evidence that hidden fees affect fund returns. Does the IA still stand by its comments?
The press release that accompanied the report *Investment costs and performance, August 2016* has been removed from our website as it does not reflect the content of the report or the current views of our organisation. We remain wholly focused on delivering transparency of costs and charges in order to ensure that customers are able to feel confident in the full accountability of the industry for its delivery.

What else needs to be done to make investing more transparent, especially for the average pension fund member?
Investment managers need to work with pension schemes to help better explain three key things in accessible language: what the investment process aims to achieve, what it actually has achieved and what the costs are.

As part of this process, the IA is working closely and productively with transparency campaigner Chris Sier in his role as chair of a Financial Conduct Authority (FCA) independent working group to design a new template on cost disclosure, which will be rolled out later this year. This is likely to build on successful work previously undertaken by the Local Government Pension Scheme Advisory Board and the IA.

In your last annual report, the IA realigned its strategic priorities to reflect the changing environment. How has this been implemented in practice? What is on the agenda for 2018?
The IA has a busy agenda for 2018. We will be focusing heavily on customer communication and value delivery in the UK market as part of the follow up work to the FCA Asset Management Market Study. In addition to our ongoing work on Brexit and transparency, which will remain as priorities, we will be launching new initiatives on cybersecurity and fintech, and socially-responsible investing. Diversity is another key issue for our industry and we have been working for the past few months to help members prepare for the publication of the gender pay gap figures by April.

The IA said Brexit and cyber security were seen as key issues for the organisation. What impact has Brexit

had on the industry so far? How is the IA helping the industry to prepare for Brexit?
Two of the main objectives of the IA during the Brexit negotiations are to help protect the interests of savers and investors and to maintain an internationally competitive fund and investment management regime across Europe. This includes the need to preserve investor choice and a competitive products market, as well as a competitive regime that has the flexibility to delegate certain functions. These are key to ensuring the success of the wider European investment managements sector as a whole. We are actively engaged with our members and policymakers to provide a wide range of analysis on the asset management industry's priorities during the Brexit negotiations. However it is also important that global opportunities for growth outside the EU are not overlooked. The UK is at the centre of global investment allocation, with £1.2 trillion of investments managed in the UK coming from overseas, non-EU investors.

In relation to cyber security, what kind of cyber risks does the industry face? How is it working to protect itself from these risks?
Cybersecurity continues to be one of the greatest challenges for the financial services sector. In 2017, we saw a number of high-profile attacks, with notable examples including the WannaCry and NotPetya ransomware attacks, as well as large data breaches at Yahoo and Equifax.

The rise in increasingly sophisticated threats is set to continue. As part of our response to this, the IA will be launching an asset management security strategy to provide a coordinated industry response and to assist asset managers in assessing and establishing robust procedures to respond to cyber security risks. Cybersecurity is not just a challenge for 2018 but will require sustained long-term investment from asset managers to protect their business and customers.

And finally, in what way are technological developments changing the way the industry operates?
To remain globally competitive, the UK asset management industry must be restless in its quest for innovation and reinvention. We are seeing increasing numbers of fintech and regtech firms developing tailored solutions for the asset management industry and this is reflected in the growing numbers of fintech firms applying for IA membership.

Fintech firms are a key element in this process, driving innovation across the asset management industry to the benefit of its consumers. Speeding up the take up of new technology in the sector and ensure that fintech firms are embedded into the asset management ecosystem will be a key focus for the IA over 2018. As part of this drive we have just launched VeloCity, a fintech accelerator for the asset management industry.

Written by Natalie Tuck