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Asset management: the UK as a global centre

In November 2009, the Asset Management Working Group published its report on the UK asset management industry, entitled *Asset management: the UK as global centre*¹. The Group was established by the Treasury to report on the UK's asset management industry and to identify, among other things, opportunities for its development. Members of the Group included Helena Morrissey, chief executive of Newton Investment Management.

In this brief paper, we review the key findings and recommendations (to the industry, regulator and government) in the report.

Findings and recommendations

The role of the asset management industry

The UK is home to a leading global asset management industry. The industry serves the interests of a broad range of clients and also fulfils wider economic roles. It is the principal source of investment capital for UK companies and it provides the liquidity which underpins global capital markets that are located in the UK. Asset management firms provide checks and balances within a regulated free market and, as agents for shareholders, those firms provide challenge and feedback to the corporate community.

Recommendations

1. The asset management industry should ensure that meeting clients' requirements remains at the heart of its operating philosophy. This should include shaping more effectively client expectations of what it can and can not deliver.
2. Engagement by shareholders should be encouraged by both industry and regulator.

3. The industry must be proactive in financial sector policy debates (domestic and EU). Policymakers should consult more with the industry on matters involving the financial sector at large, particularly on market issues.

Location choice and competitiveness

The UK remains a good place to locate an asset management business. Nevertheless, challenges and opportunities emerge continually. European legislation is a key factor in determining the competitive landscape, and government and industry need to work to secure advantageous outcomes in Brussels.

Recommendations

1. The Group suggested that the asset management industry and government should work together to prevent further loss of UK fund business to other jurisdictions and to make the UK a domicile of choice for collective schemes.
2. The UCITS IV Directive, combined with the simplification of the UK tax regime for offshore funds, would bring greater scope for rationalising fund ranges. However, the UK must not be placed at an unnecessary disadvantage in this process.
3. Consideration should be given to expanding the class of collective investments that the Financial Services Authority is empowered to authorise and to making changes to the FSA rules for Qualified Investor Schemes.

Distribution and the consumer

Many savers and investors are unfamiliar with the intricacies of financial markets and look to advisers therefore for help. However, there can be a lack of simplicity of choice and transparency in the help that they receive. The report suggests that five principles be adhered to in relation to distribution:

1. promotion of choice of distribution channels;
2. transparency and clarity surrounding adviser status;

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3. transparency in remuneration;
4. enhancement of adviser professionalism and empowerment of consumers; and
5. a 'level playing field' for different products and different distribution channels.

There is a substantial and growing opportunity for UK asset managers to distribute investment products within a single European market. The shape of the market in much of Continental Europe is different from the UK, with a preponderance of sales taking place via commercial banks. For the European consumer to benefit fully from enhanced competition, it is important that there is depth and breadth of quality in distribution and advice.

Recommendations

1. The five principles above should be adopted as part of a proactive agenda, both in the UK and within the EU.
2. Policy should aim to create across Europe a 'level playing field' for advice, which does not discriminate unduly between different advice and distribution models.
3. There should be clarity for European consumers about the status of advisers and the nature of the advice consumers receive. Disclosure needs to have a strong and transparent role in the distribution process and must not be relegated to the status of 'administration'.
4. The cost of advice should be distinguished from the cost of the products. A differentiation between product pricing and the cost of advice is preferable for consumers.
5. There should be a tiered system of qualifications for advisers in a way that requires those advising on more complex products to have higher levels of qualifications and continuing education. The development of web-based tools for consumers should be facilitated.
6. Standards of disclosure of product features and other aspects of advice should be raised to the level of best existing practice in an equivalent way for all investment products, including funds, unit-linked insurance products, certificates and structured banking products. Similar principles should apply to debt products.

The importance of pensions and savings

The industry's strength today derives in significant measure from the legacy of a large and growing pool of domestic pensions and savings. This has driven scale, multi-asset class skill and cutting edge innovation. A thriving domestic market in the future can only help to sustain the industry's momentum and to capitalise on the expanding pool of global pensions and savings, which will be a major source of fresh opportunity.

A major change in domestic pension provision planned for 2012 is likely to drive a significant expansion of pension saving, particularly through defined contribution (DC) schemes, in the UK. The asset management industry will play a far more visible role in the nation's savings provision. However, considerable challenges remain. The exposure of millions of people to investment products through their pension savings will require a new focus by the industry on product design, particularly default funds in DC schemes. At the same time, although substantial incentives are already available through the tax system to foster pension saving, these need to combine simplicity with a stable environment in which to encourage confidence, and with fairness and affordability.

Recommendations

1. Industry and government should work together to ensure open and fair access to overseas markets for the asset management industry.
2. The industry should work to ensure that retirement products, particularly the default funds within pension vehicles, are comprehensible and designed to address the requirements of savers.
3. Savings incentives, for both pension contributions and for long-term saving more generally, should aim for simplicity, long-term stability, fairness and affordability.
4. The number of different tax wrappers should be kept to a minimum in the interests of simplicity. It should not be necessary for fund management firms to wrap pension products in life insurance wrappers, and means should be explored to extend the same benefits to simple funds as are enjoyed by life products.

5. The government should seek reform of current institutional and legislative structures in the EU which tend to exclude investment management firms from the pension environment.

Capital market structures

Financial markets are for investors and capital raisers, not for intermediaries; this should be a guiding principle for regulating markets. This means that the asset management industry has not only a legitimate interest in the structure of financial markets but also a duty to challenge and shape markets where they do not work in the best interests of end investors. The Group supported the work that HM Treasury and the European Commission are carrying out to bring better investor protection into UK market arrangements.

The asset management industry has a vested interest in a soundly functioning banking system in which investors have confidence. There is no 'sell side' (investment banks) without the 'buy side' (asset management firms). Equally, the buy side will not be a success unless the sell side is successful.

Recommendations

1. Capital markets exist for the benefit of issuers and investors. This gives the investment management industry a legitimate interest in all aspects of capital markets and the banking system. The industry needs to articulate its positions better and more emphasis should be given to the interests of investors and capital raisers when regulating markets.
2. There is a need to ensure continuity in the operation of capital markets and the banking system as a whole, irrespective of what happens to individual institutions.
3. All avenues to maintaining market liquidity and efficiency should be promoted and protected. Unless evidence shows that restrictions are necessary for market stability, regulators should avoid imposing investment restrictions which could have substantial adverse consequences for the effective operation of markets.
4. The main focus of financial accounts should be on investors. The interests of shareholders and regulators in this area are potentially different and this should be recognised.

The full report of the Asset Management Working Group can be obtained at www.hm-treasury.gov.uk/d/fin_assetmanagement_091109.pdf

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