



Shifting client expectations in global fund management

Next generations start growing their assets

The shifts in baby boomers' needs are clear and have to be addressed with appropriate fund products

BY HENK VAN ELDIK*

As baby boomers are getting closer to their retirement, their portfolios which have been the industry growth drivers for years, are shifting from growth and accumulation to preservation and decumulation. Client expectations are not only changing but also the products and its providers have been evolving substantially over the past 2 decades. So let's look in more detail what the changes are and which solutions could be appropriate to this.

The wealth management industry so far has largely focussed on this 50+ segment in the developed world, because this is where the

majority of the assets and profitability have been. As the next generations start growing their assets, managers will want to tap into these as they have done so far. Research from various sources indicates though that the industry has very little knowledge of these next generations, the so-called generations X and Y. Research by KPMG¹ has brought some astonishing findings on generation Y: they are low risk and prefer self management! At the same time, the investors are also becoming more global in their approach and the number of investors in Asia is rapidly growing as their wealth explodes.

Likewise, the asset management industry itself has also undergone

major changes in the past decades with a heavy shift from individual stocks to mutual funds, which has also brought a lot of focus on risk, (relative) performance and alpha generation. Distributors have expanded to provide advisory solutions to all investors' levels well beyond the classic „private banking“, first fed by their in-house asset management but now also increasingly through subcontracting to best of breed specialists.

As there are more funds than stocks, selection has become an art in itself; it has also generated a new group of experts: the fund selectors or multi-managers. Unfortunately, this seemingly logic value chain has led to a disconnection between what the investor



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wants and what the industry thinks the investor needs. The mutual fund industry has become a huge marketing machine spitting out new ideas and opportunities not necessarily in line with the products that the advisor needs to manage his clients' assets. This disconnect is probably best demonstrated in the European mutual fund flows in 2007 and YTD 2008, where new product launches have captured the majority of the sales, but did not benefit to the industry growth. Significantly Lipper research showed that most of the products launched in 2007 have not accumulated enough assets to be economically viable, in other words, even if the client liked the product initially, he soon moved his assets again somewhere else.

Research among investors show that they are not only getting weary of the under performance of many long only funds, hence the success of low cost ETFs, but also want absolute return which explains the phenomenal growth of hedge funds. Guaranteed funds have and are still regarded by some as the solution to the problem for the small retail investors. Alternatively, insurances, partly because of tax advantages have become a serious competitor of funds especially in the low return environment of the past years.

So, where does this lead the industry to? The shifts in baby boomers' needs are clear and have to be addressed with appropriate fund products otherwise investors will turn to those who can address this – like insurance company annuities. Generation Y will be looking for products they can understand and which will address their

risk conception. The fund industry can only keep their share of pocket if it delivers the same complete solutions to both advisors and investors as their competitors do.

This will mean that the experts in strategic asset allocation and manager selection will have to move into the drivers' seat and not leave this up to the advisor. This does not mean that classic quality fund management has no role to play on the contrary, but their clients will be the multi-management funds, being it proprietary or independent. These Multi-Manager funds will deliver the total solutions to the advisor who will choose for his client between asset allocation and life style funds.

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¹ Beyond the baby boomers: the rise of Generation Y, by Bernard Salt of KPMG Lipper, Fundforum 2008, by Diana McKay



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