

accelerando in the media

## Where is the industry heading to? Interview with Philip Kalus

FundsPeople, Óscar Rodríguez Graña, published 5 October, 2021. Translation provided by accelerando intelligence



***It are absolutely fascinating times for the asset management industry. We have all talked about the need for change, digitalization and fund distribution having to become more efficient and effective for quite a while. Now, Covid-19 and the related limitations and restrictions have not only turned fund distribution models and sales plans upside down, but also served as an unprecedented accelerator of change and digitalisation. What normally takes more than 10 years to change has been compressed in only one year.***

This is the opinion of Philip Kalus, CEO at accelerando associates a specialized consultancy in the sector. Kalus considers the consequences of the pandemic for the funds industry as far reaching, yet too often underestimated. “Many management boards have realised that they managed to speak to more fund buyers than ever last year and also managed to sell more funds than ever, without all the effort and the high costs of global travel, physical road-showing and so on.”

Kalus acknowledges that we are now seeing a certain rush back to physical meetings, conferences, large events etc., but in his opinion, we will never be on the same level than in the past again.

“Based on the lessons learned in the last 18 months asset managers are and will remain much more restrictive on fund manager travel.”

“Most fund buyers have learnt that fund analysis on a virtual basis works pretty well too - even in a much faster, more agile manner. These experiences are irreversible.”

### **The gap between winners and losers is bigger than ever**

This can be observed in the evolution of fund flows. “The gap between winners, best-selling managers, and losers, worst-selling managers, widened in 2020 to an extend never seen before and this trend remains widely in tact this year so far. Assuming that top sales are all about product and performance falls short.” In his opinion, it is more than ever about a highly adaptive, yet very consequent and focused sales and communication model.

“Some asset managers got it really right and they delivered mind-blowing sales numbers. Many do ok, albeit below their real potential and many others simply struggle a lot. Old distribution models with agendas filled with coffee meetings became much obsolete. It is all about real access to the decision makers in a truly efficient and relevant manner. That’s where many struggle,” he underlines and as an example of success he points to BlackRock.

BlackRock’s UCITS assets have now surpassed EUR 1 trillion, three times more than the second one. “BlackRock managed even higher sales in Europe than in the US. This is not down to products or more attractive fees, it goes well beyond that. It is what we call the extra-mile in access, in winning the deal, in the overall client experience. That is where the secret of success can be found.” Interestingly, this is not limited to mega players. “There are also a number of fund boutiques, often with tiny sales resources, having won very impressive business in Europe in this environment.”

### **ESG: European asset managers should not lean back in comfort**

Europe is the undisputed global leader in ESG. The European market accounts now for 82% of global ESG fund assets, followed by the United States with 14%. Also, most studies researching ESG integration and credibility demonstrate a clear lead of European asset managers versus their American peers.

However, for Kalus, the European asset managers should not lean back in comfort. “Many U.S. asset managers are getting very serious about ESG and catch up at rapid pace.”

This is also demand driven. Following the introduction of SFDR, many professional fund buyers insist that funds must have either article 8 or 9 classifications. “Interestingly, only around 26% of European funds meet these classifications, but this year so far article 8 and 9 funds account nearly 50% of all fund sales in Europe and we are just at the beginning of the journey. This is a loud and clear message to asset managers,” states the CEO of the consultancy.

### **Greenwashing risks**

For Kalus, there is a very serious risk in greenwashing. “In reality, it has always been there, but now, with literally all asset managers having jumped on the ESG train, it has certainly increased,” he confirms. After what happened at DWS, some asset managers have become very nervous about the risk of being accused of greenwashing. “Probably, many asset managers have been a bit too pushy in marketing their alleged ESG expertise and they are now being more cautious and review all kind of ESG related documents and messages. Some would say that in some houses there is even a certain panic.”

It is also a learning process on the buy-side and professional fund selectors are becoming much more knowledgeable. “They increasingly challenge asset managers by asking for really credible, coherent and resilient ESG processes. Some markets are more advanced than others. Already some years ago in France, we regularly heard that some French fund buyers literally ate asset managers’ alleged ESG expertises for breakfast.”

Also, institutional investment consultants, with all their market power in markets like the UK, get seriously rigorous on challenging asset manager’s ESG integration. For the expert, all this is a normal and healthy process towards a more credible ESG culture in asset management. However, until then, “we may well see more unpleasant headlines,” he adds.

### **Passive management in Europe will not reach U.S. levels**

In spite of the omnipresent industry talk about the rise of passive funds and ETFs in Europe, they jointly only represent 20% of the European market.

“Although, we expect the passive segment to continue growing in Europe, we do not foresee a ratio anywhere near to the one in the United States, where it has passed the 50% level. In fact, I am convinced that true active will outperform passive in the European market share growth at the expense of alleged active products that in reality follow their benchmark indices closely.”

As indicated by Kalus, in the U.S., ETF growth was certainly fuelled by an exodus from active funds, but we are not witnessing it in significant proportions in Europe, particularly not with respect to true active funds, which, in fact, are experiencing a very strong buy-side demand. The expert also underlines that we must also bear in mind that ETFs have real fiscal advantages in the U.S. In Europe that is not the case. “Passive and active funds can happily co-exist. They serve different purposes. Hence, we consider large parts of respective discussions as much obsolete.”

### **Some views on fund fees**

Average fund fees in Europe have fallen and for Kalus there is no doubt, that this is a positive thing. However, he recommends to consider average fee declines with some caution. “They are averages. We constantly find funds priced at the upper end in best-selling tables - also outside captive channels. In addition, we know asset managers with one global fee policy, effectively resulting in a “take it or leave it” position, without negative impact on sales at all.”

So, is fee pressure far less dramatic than many headlines suggest? According to Kalus, at least in the truly active space, the answer is yes. “Active asset managers win on net alpha and client experience, rarely on price. There is always somebody doing it cheaper. If fees are reasonable and alpha is delivered there is nothing wrong with higher fees. It is like everywhere. You pay significantly more for a Porsche 911 than for a VW Polo and there is a reason for it.”

### **Mergers and acquisitions: Not all tell a success story**

M&A is certainly back in European asset management and the industry remains too fragmented, especially in Europe. Also, large parts of the industry seem to get increasingly obsessed with scale. However, for Kalus, scale for scale’s sake is meaningless. “If the integration is not extremely well executed. M&A is not an easy exercise at all, full of pitfalls, conflicts and legacy issues. The need for a real cultural match is often a serious worry for the entities involved too.”

For Kalus, some deals make sense, others don't. "The asset management industry does not have an exactly great track record in turning M&A into success stories. There are plenty of failure stories," he notes. Within success stories, Amundi - Pioneer "was probably one of the most interesting cases. Amundi bought Pioneer on a very low valuation, whilst securing major captive distribution channels," he states. Goldman Sachs and NN IP is a similar case. "I don't believe that Goldman bought NN IP because of NN IP's ESG credentials. They bought NN IP on very attractive terms with a very low valuation on NN IP's AuM, whilst securing a significant distribution platform with NN Group, including the insurance assets, becoming a client of Goldman within a 10 year strategic partnership." Nonetheless, it is not all about large or mega deals. "Smaller deals are actually at their highest level since 2007 and this is a space where many deals make much more sense," he concludes.

accelerando associates is a leading independent boutique consultancy providing bespoke strategic advice and research to asset management firms worldwide.

Everything we do is centred around European fund distribution - across all European jurisdictions, distribution channels as well as all elements of proposition and communication. We put practice-relevance above all else and are fully dedicated to providing our clients with the utmost clarity and conviction necessary to make strategic as well as tactical decisions. In fact, our promise to our clients is as straight-forward as can be: Clarity, relevance and actionability. Our forward-thinking approach, much marked by intellect, eclecticism as well as curiosity, takes fresh, different and un-biased perspectives. In consequence, we are well known in the industry for identifying major distribution opportunities and challenges at early stages. We take particular pride in the high proportion of multi-year client relationships - including some of the world's largest and Europe's fastest growing asset managers - which are characterised by an unchallenged level of trust and open dialogue. Last but not least, our boutique structure enables us to truly tailor our services to very specific client requirements.

[www.accelerando-intelligence.com](http://www.accelerando-intelligence.com)

Follow us on LinkedIn: <https://www.linkedin.com/company/accelerando-associates>

This document, including any opinions, is for informative purpose only. All information has been collected carefully by accelerando associates to best knowledge and belief, but is not guaranteed as to accuracy or completeness. accelerando associates is not responsible or liable for any consequences resulting from acting upon the contents of this document.