



Speaking the same language

With their different business models and product focus, fund groups and life offices have traditionally talked a different financial language. This year's International Adviser Fund Links Forum brought them together in an attempt to find common ground

The *International Adviser* Fund Links Forum 2007 brought together international life and fund groups to discuss global issues affecting their businesses.

Guest speaker Bryan Low, director of life consultants Acuity, opened the conference with a comprehensive overview of the regulatory and legal developments affecting the offshore life industry.

The day comprised 16 sessions divided into two broad categories: investment issues and distribution issues. Here we summarise each of the sessions.

■ Distribution stream

Rex Cowley, head of international and high net worth marketing, Close Wealth Management

Cowley explained how lessons must be learnt from other business sectors that have embraced technologies and innovations from

external sources to grow and improve market share and profit.

"Businesses need to replenish their knowledge stock constantly to have the edge and this simply cannot be done if a business is internally focused," he told delegates.

He cited challenges such as MiFID and the FSA Retail Distribution Review as challenges that would be best overcome by working together to find solutions.

Paul Fidell, assistant sales and business development director, Barings

Fidell argued that while choice in fund selection was welcome – aided by the increasing use of open architecture – an unforeseen effect had resulted, what he called "the paradox of choice".

"We have arrived at the situation where there is too much choice and people end up making no deci-

sions because they always think there is going to be something better," he said.

According to Fidell, it is up to investment managers to help advisers make choices by providing and properly explaining solutions and products that can do the job of a portfolio of funds by providing actively managed asset allocation and diversification.

Howard Fryer, financial institutions director, Fidelity International

The picture for people nearing retirement is bleak, according to Fryer.

"People overestimate how much income their savings could generate and hope for a standard of living well above what they are on track to be able to afford," he said.

He pointed out the risks investors need to be aware of when calculating what they require to fund their retirement, including rising

life expectancy, inflation, withdrawing too much income in the early stages of retirement and inappropriate asset allocation.

According to Fryer, all this will push more UK investors to need advice, which will provide an opportunity for both advisers and producers of retirement-friendly products.

Gary Marshall, chief executive, Aberdeen Unit Trust Managers

Marshall discussed what must be considered when deciding whether to register funds in multiple jurisdictions from a single domicile or operate a model where funds are domiciled in each separate jurisdiction.

He said the cross-border and local domicile models both had their own advantages. For the former they were economies of scale, centralised control, consistency in areas such as

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Anthony Fletcher, manager of fixed income and multi-asset portfolios, Aberdeen Asset Managers

administration, and having one primary regulator; the latter showed a commitment to a given market, benefited from a local currency and local service for clients.

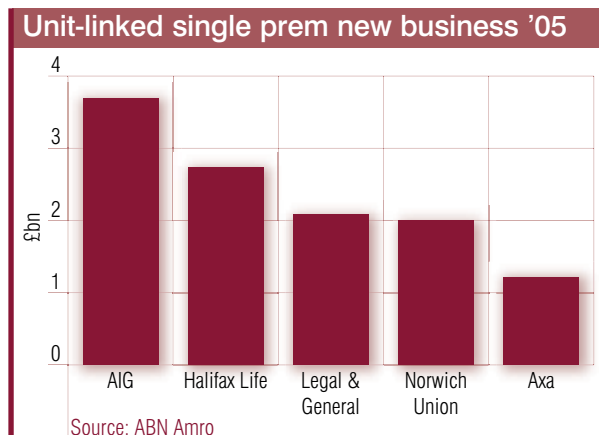
Adam Harrison, UK sales manager, ABN Amro

Harrison gave an overview of international life companies, pointing out that the UK has the largest insurance industry in Europe

reforms and open architecture fund solutions.

Sam Mettrick, director for global partnerships, New Star

Mettrick talked about the importance of life companies and fund supermarkets in funding houses, revealing 64% of New Star's retail sales came through these channels in the past year. He said securing genuine partnership was the key to such relationships and



with £1.2trn invested across a spread of assets.

He described three strategic areas where fund groups could improve business with international life companies: by increasing distribution through current arrangements; participating in the outsourcing of investment expertise; and taking advantage of the long-term changes in the industry, such as taxation changes, pension

life offices had to make their systems as open and compatible as possible to be successful.

He said the symbiotic relationship between asset managers and life companies rested on the latter having strong administrative functions, holistic product solutions and wide and deep distribution, while the former must focus on maintaining investment performance.

Jan Stig Rasmussen, MD and CEO, Sparinvest Luxembourg

Rasmussen discussed what was needed to take a company and develop it as a brand.

He began with the process of establishing a recognisable corporate identity, including factors such as competitive advantages, core values, what a business stood for, its strategies and how these can be communicated to customers.

He cited investment performance as being the *lingua franca* for an investment business. But he said it was not enough to simply replicate a fund with good performance in a different jurisdiction because it would not be able to trade on the track record.

Nick Tolchard, managing director, international development division, Invesco UK

Tolchard highlighted distribution trends in Asia, focusing on the role of banks as the main distributors of mutual funds. He said they accounted for more than 50% of fund sales across Asia ex Japan, adding that by 2008 it was forecast that two-thirds of all mutual fund assets would come through banks.

A result of this was that financial advisers were declining as a distribution channel and their market share for sales of mutual funds was forecast to drop

to 4.3% in 2010 from 4.7% in 2006, while the banks' share would grow from 60.3% to more than 65%.

“The key distribution to unlock is the retail bank channel,” he told the forum delegates.

Investment stream

Michael Albrechtslund, MD, Sparinvest Asset Mgt

The importance of asset allocation to a portfolio's return was the theme of Albrechtslund's talk. He argued that while market timing and securities selection were important, they were also extremely difficult to get right with any degree of long-term consistency.

He said asset allocation accounted for more than 93% of average portfolio returns and highlighted Sparinvest's approach, which uses returns-based style analysis to highlight a manager's skill and any style drift.

This analysis, he said, showed all global fund managers had underperformed by 4% in the past three years. For this reason, it is vital to get asset allocation right.

David Bushe, business development manager, Close Wealth Management Group

Bushe attempted to tackle the dilemma of asset allocation, advocating a

Distribution stream



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Investment stream



Michael Albrechtslund, Sparinvest AM



David Bushe, Close Wealth Mgt



Anthony Fletcher, Aberdeen Asset Managers



Trevor Greetham, Fidelity Int'l



Craig Heron, New Star



Maggie Lee, Invesco HK



Francois Mouté, ABN Amro



Percival Stanion, Barings

neutral approach equally weighted between alternatives, bonds, equities and property in conjunction with active management to generate alpha from assets that were outperforming.

A strong argument in favour of the neutral approach, he observed, was that it led to far lower volatility than standalone equities but superior performance compared with bonds or property.

Anthony Fletcher, manager of fixed income and multi-asset portfolios, Aberdeen Asset Managers

Fletcher described how the advent of Ucits III had greatly extended the range of investment tools open to fixed income managers.

Fletcher set out how he uses non-correlated assets to reduce risk while maximising returns.

"It is important to have a portfolio that is uncorrelated because if it is correlated you are just increasing the risk to get the extra returns, which defeats the point," he said.

Trevor Greetham, portfolio manager and asset allocation director, Fidelity International.

The challenge of building genuinely 'all-terrain' portfolios was the subject of Greetham's presentation. He said Fidelity's approach was to use an investment

'clock' that linked the performance of asset classes and equity sectors to movements in the global economic cycle.

Taking a view on global growth and inflation were vital to this system, he explained, as these help dictate which asset classes to buy and which to sell, with bonds attractive in times of falling inflation and defensive growth, while stocks such as utilities and financials were also important as this stage closes and deflation begins.

As the global economy heated up, cyclical growth stocks and later commodities assume ascendancy in a portfolio.

Craig Heron, fund manager, New Star

Heron outlined the case for funds of funds as an investment solution for life companies. He acknowledged the risk modelling processes of many life companies meant multi-manager was not always compatible within their products.

But he contended risk modelling was inherently flawed because random events happened on a regular basis, stability in correlations was low and economic forecasting was often wrong. He added that the economic cycle meant different asset classes came into and fell out of favour, something which risk mod-

elling could not account for and that required active management.

He argued multi-manager was best-suited to achieve this because of its ability to switch between asset classes and regions in different conditions.

Maggie Lee, investment director, Invesco Hong Kong

The case for investment in Asian infrastructure was made by Lee. She highlighted factors such as the \$200bn expected to be spent in the region on projects such as water sanitation, roads and telecoms in the next five years.

She said access to such projects for external investors had been increased through the growing use of public private partnerships, privatisation of government assets, more favourable tax regimes and the funding of projects through capital markets.

According to Lee, infrastructure spend in Asia is being driven by factors such as the rapid growth in population and increased urbanisation.

Francois Mouté, portfolio manager, ABN Amro

Mouté is the manager of various US equity portfolios, many of which have the option to go short, go overweight cash and sell index futures. This puts him a position where he

can try to create portfolios that perform in market downturns.

He thinks it is vital to have the ability to make strong decisions, holding extreme positions against the benchmark. Cash is an important part of that. He argues that to use equities flexibly to survive in all market environments, it is vital to choose an equity market that is transparent, mature and liquid.

For him, the obvious choice is the US stock market. Then he uses futures to reduce overall exposure.

Percival Stanion, head of global multi-asset group, Baring

Set against continuing Asian growth, Stanion highlighted the asset allocation decisions that investment managers need to make in light of the credit crunch disrupting western banks; the increasing costs of borrowing; slowing consumption as housing markets weaken; and economic momentum tailing off amid abating inflationary pressures.

His conclusions were that the private equity bubble had burst; equities were the best asset class but earnings expectations would be scaled back; and that corporate credit was unattractive due to the risk of defaults.

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