INDEPENDENT PUBLICATION BY

RACONTEUR

RACONTEUR.NET | #0606 | 21/07/2019

FUTURE OF INVESTING

Distributed in
THE SUNDAY TIMES

Published in association with
RöBO INVESTING
UKSIF UK Sustainable Investment and Finance Association
THE WEALTH MOSAIC

IMPACT

Making impact investing more inclusive

Younger investors are said to care more about the environment than older generations, but are financial services companies prioritising millennials and overlooking their senior peers when it comes to sustainable investing?

Marina Gerner

The young are vocal about climate change, pollution and inequality. Last year, Swedish schoolgirl Greta Thunberg was catapulted to fame when her climate protest sparked an international wave of school strikes. The youngest-ever US congresswoman Alexandria Ocasio-Cortez has been making waves with her Green New Deal.

One of the most powerful recent appeals, however, comes from Sir David Attenborough and his documentary series *Our Planet*. Not exactly a millennial, you may note. After all, it's not just so-called snowflakes who care about global warming.

When it comes to tackling climate change and inequality by investing in companies that work on solutions, sustainable investment has been on the rise. Also known as socially responsible investing, this approach uses environmental, social and governance (ESG) factors to asks questions such as: How well does this company treat the workers in its supply chain? How many tonnes of carbon has it managed to avoid? What's the ratio between the chief executive's pay and that of the lowest-paid employee? How diverse is the company board?

Millennials have been a driving force of ESG investing. Of those investors aged 25 to 34, some 53 per cent go for sustainable funds, while 28 per cent of those over 65 do the same, according to *Schroders Global Investor Study 2018*. But have investment companies placed too much emphasis on courting millennials, when ESG should be a universal issue? And what impact has this millennial focus had on the market so far?

When trying to appeal to millennials, there's a danger that some companies "stick on a badge or a graphic of the UN sustainability goals, without any substance", says John David, head of Rathbone Greenbank.

"It could be questioned whether the focus on millennials has led to less money being invested in the sector," says Jeannie Boyle, director and chartered financial planner at EQ Investors, noting that millennial graduates have larger amounts of debt than previous generations.

On the upside, Ms Boyle says the focus on millennials has encouraged innovation. It's largely thanks to younger investors that "we have seen a pressure on providers to reduce their charges", adds Philippa Gee, who runs Philippa Gee Wealth Management. She says younger investors also demand more passive products and digital products. These changes have benefited all generations.

> **It could be questioned whether the focus on millennials has led to less money being invested in the sector**

"Millennials may well be the more conscious generation," says George Latham, managing partner at sustainable asset manager Wheb. "And they had some galvanising effect on older generations, who have more money to invest." After all, generations influence each other. "There's nothing wrong with focusing on millennials, because the intergenerational dialogue is very powerful," he says.

What's more, we are on the cusp of one of the greatest wealth transfers in history. In the United States, it has been estimated that baby boomers may pass down some $30 trillion to their children and grandchildren. This transfer creates intergenerational dialogue. Should financial companies with an ESG focus pay more attention to the older end of the spectrum?

"When it comes to legacy, we do see more clients thinking about the impact of their investments," says Simon Gibson, chief investment officer at wealth manager Mattioli Woods. "Climate change is clearly the top issue here."

What are the questions financial advisers are hearing? "We're finding more and more clients in their mid-40s to 60s are interested in what they refer to as ethical investing," says Mark Fisher, director at chartered financial planners Ardent in York. He says clients don't often specify what that means, but assume tobacco companies are excluded, for example, while companies that "do good" are included.

Tanya Pein, a responsible investment adviser, agrees that the intergenerational dialogue is strengthening. She says: "Young people rightly point out that the investment industry is largely run by people too old to bear the brunt of the decisions they currently take. Increasingly, the school strikers are being joined by their parents and also grandparents. Why? Because action on climate heating and environmental justice is a multigenerational issue."

Can financial companies do more to include all generations? "The wider issue across all generations is that savers are disengaged from what their money is doing," argues Mr Latham. Over the last few decades, the industry has created more and more benchmarks, indices and terms like smart beta that are steps removed from the actual services and products a company provides. "It has become very layered," he says, adding there's an opportunity for companies that focus on ESG to show savers of all ages what their money is actually going towards.

For pensions, more needs to be done to include ESG investments. As Mr Fisher notes, many millennials, who are auto-enrolled into a workplace pension, are investing in "default funds that don't have an ethical option". He mentions one client, who works for a charity: "She was surprised to learn that her pension was not invested ethically and went storming off to HR." Ms Boyle echoes this concern. "More needs to be done to incorporate impact investment choices into defined contribution pension plans," she says.

Wealth managers can do more to include ESG options in their offering. "The European Union has recently agreed new ESG requirements under MiFID II [Revised Markets in Financial Instruments Directive]," says Emma Foden-Pattinson, an investment manager at Charles Stanley. She notes that by 2020, it will be a requirement that all wealth managers confirm their clients' ESG preferences on an annual basis.

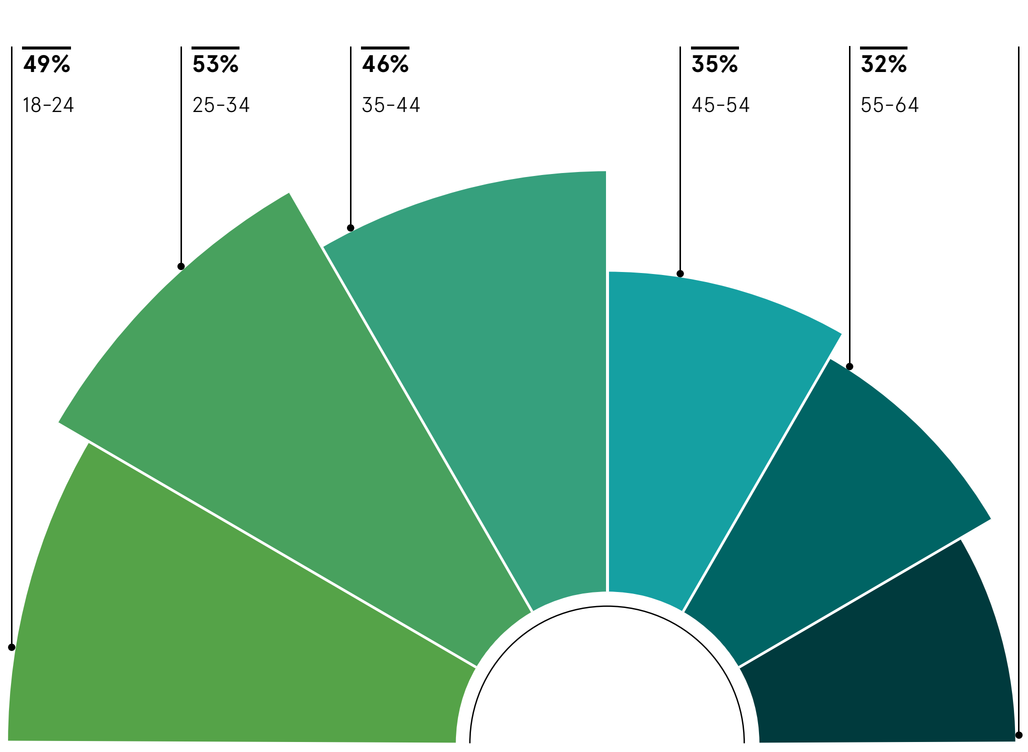
In the past, people assumed ESG investing has lower returns, but that's no longer the case. "We are now seeing companies whose activities are underpinned by a solid ESG policy delivering superior returns to their peers," says Ms Foden-Pattinson.

The discourse is changing from personal values to broader sustainability issues, argues Kate Elliot, senior ethical researcher at Rathbone Greenbank. "What types of companies will survive and deliver the products that address climate change?"

A "confluence of factors" are creating momentum for ESG among all investors, says Maxime Le Floch, an investment analyst at Hermes. There is higher awareness, more information available and new environmental policies in countries including China. Meanwhile, the need to address these challenges is urgent. As Mr Le Floch concludes: "It seems there is a tipping point now." ●

SUSTAINABLE INVESTING BEHAVIOURS BY AGE

Percentage of the following investors who invest in sustainable investment funds



Schroders 2018

$31trn
total value of global sustainable investing assets in 2018

34% increase in the value of assets since 2016

Global Sustainable Investment Alliance 2018

Contributors

Oliver Balch
Journalist specialising in sustainability, business and travel. He is the author of travelogues on South America, India and Wales.

Tim Cooper
Award-winning financial journalist, he has written for publications including *The Spectator, London Evening Standard, Guardian Weekly* and *Weekly Telegraph*.

Ian Fraser
Financial journalist and author of *Shredded: Inside RBS, The Bank That Broke Britain*, he was business editor at *The Sunday Times Scotland*.

Marina Gerner
Award-winning arts, philosophy and finance feature writer, her work has been published in *The Economist's 1843, The Times Literary Supplement* and *Standpoint*.

Jack Apollo George
Writer and media specialist whose articles on technology and culture have been published by the *New Statesman* and *CLOT Magazine*.

Matthew Staff
Former editorial director, he is now applying his multi-sector B2B experience across numerous industry titles.

raconteur reports

Lead publisher
Ellen Shannon

Managing editor
Benjamin Chiou

Associate editor
Peter Archer

Head of production
Justyna O'Connell

Digital content executive
Francesca Cassidy

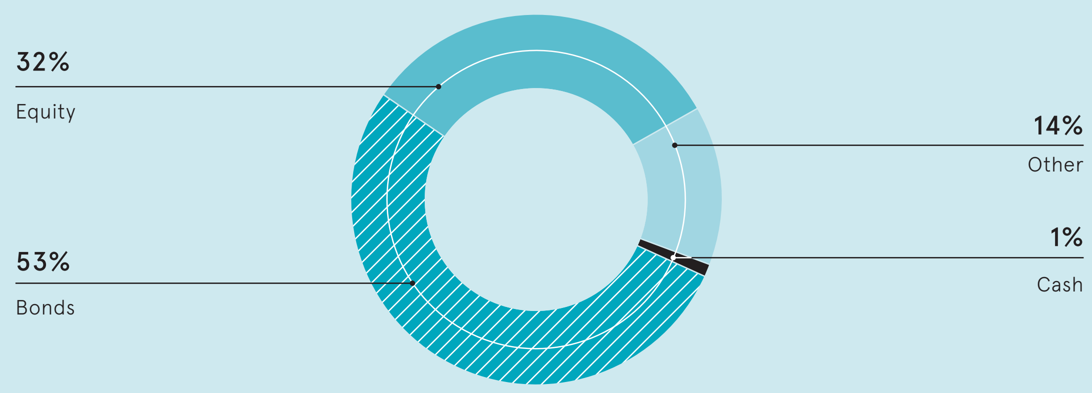
Design
Joanna Bird
Sara Gelfgren
Kellie Jerrard
Harry Lewis-Irlam
Celina Lucey
Colm McDermott
Samuele Motta
Jack Woolrich

Head of design
Tim Whitlock

/raconteur.net
@raconteur
@raconteur_london

raconteur.net /future-investing-2019

UK PENSION FUND ASSET ALLOCATION 2018[1]



[1]Willis Towers Watson, *Global Pension Assets Study 2019*

WHAT ASSET CLASSES CAN PRIVATE INVESTORS ACCESS DIRECTLY?

Asset classes	Access	Who
Equities	Yes	Everyone
Government bonds	Yes	Everyone
Corporate bond market[2]	Limited	Financial elite
Forex	Yes	Everyone
Commodities	Yes	Everyone
Equity crowdfunding/venture capital	Yes	Everyone
Property	Yes	Everyone
P2P lending and mini-bonds	Yes	Everyone
CFDs	Yes	Everyone
Cryptocurrencies	Yes	Everyone
Other alternatives	Yes	Everyone

[2]Please note a small selection of retail corporate bonds do exist on the London ORB for UK investors

Democratisation of the corporate bond market for private investors

Until now the corporate and high-yield bond market has been the preserve of major investment funds, but this is set to change as the digitalisation of the market creates more affordable access

Imagine a dystopian future when access to the stock market has been restricted to institutions and the ultra-wealthy. Private investors, newly disenfranchised, have woken up to the scary reality that a small number of elite finance professionals now control the stock market.

In this imaginary world, perhaps some investors would simply keep their cash in the bank. But many would surely be furious at the removal of these basic democratic freedoms.

> It's time for bond markets to enter the digital age and open up to all investors

This scenario may seem far-fetched, but when most private investors look at corporate bonds this is what they see: an appealing asset class, restricted by a powerful elite. The institutional, club nature of the corporate bond market, limited online trading venues and minimum purchase sizes typically above £100,000 a unit immediately shut out almost all private investors.

There has been an increasing clamour for this to change. In an environment of persistently low interest rates and growing inflation, investors want better returns and greater reliability than the often volatile equity, commodity and currency markets.

It remains to be seen if European bond markets will become as developed as their US counterparts, where an estimated 19 per cent of corporate bonds are held by retail investors[1]. A recent European Commission study[2] insists the market be enhanced, noting its importance to investors reducing equity exposure. Bonds already form a large portion of UK pension asset allocation[3], so why is this different for individuals?

In the UK, several projects have attempted to free the bond environment from its shackles. Most notable is the creation of the London ORB, a market open to private investors, but only containing a limited selection of corporate bonds at any one time, with typically lower yields, high cash prices, long maturity dates and ever-smaller corporates using it to issue.

The closed-off nature of corporate bonds is particularly conspicuous when we consider that between 2006 and 2018 they have outperformed the largest 100 London-listed equities. Barclays calculates that sterling investment-grade fixed income returned 5.2 per cent annually in the period, compared to the FTSE 100 at 4.5 per cent[4]. This is not to mention the superior performance of high-yield paper, which returned 6.9 per cent, according to Bank of America Merrill Lynch[5].

In addition, with more than £3.1 trillion of bonds outstanding in the UK, the Bank for International Settlements notes the UK corporate bond market is larger than the London-listed share market[6]. According to McKinsey, the value of corporate bonds outstanding worldwide has nearly tripled in the decade since the 2008 financial crisis[7]. Many companies issue both equities and bonds in a bid to optimise their capital structures.

The barricaded nature of the bond market means that private investors have not been able to select from such instruments for truly diversified portfolios. While private individuals have been able to invest in company debt through small business peer-to-peer and mini-bond lending, this has been beset by numerous failures and concerns of default.

Corporate bonds, by contrast, are encouraged by the long-running purchase programmes of central governments and by the reassuring fact that each issuance receives a rating from the main agencies, Moody's, S&P and Fitch, and offers valuable transparency given the openness of corporate reporting and associated press coverage.

Crucially, recent technological innovations have greatly opened up the potential for access to the bond markets. The concept of fractionalisation, or splitting into smaller sizes, has been employed for stocks with high prices and this is now being applied to corporate bonds, which means much smaller purchasing sizes and online trading.

"It's time for bond markets to enter the digital age and open up to investors," says Rezaah Ahmad, chief executive of WiseAlpha, which offers exposure to corporate and high-yield bonds to anyone with as little as £100 per investment. "In our opinion, the corporate bond asset class is the best mainstream risk adjusted asset class, and we believe greater access and choice should be available to all private investors."

Typically, until recently, even funds wanting to invest in the mainstream fixed income markets would have to call a trading desk at an investment bank, with little price transparency. "Even though bonds are a multi-trillion-pound market, they are as antiquated as the stock markets were 50 years ago," says Mr Ahmad. "Amazingly, this method of trading still accounts for 80 per cent of bond volume in the US and is higher in Europe."

WiseAlpha has sought to open the market by fractionalising the bonds of FTSE 250-size companies, dividing them into affordable tranches and allowing individuals to gain exposure to bonds issued by household names ranging from Virgin Media and Thames Water to the RAC, Tesco, John Lewis and many others. People can choose the companies of most interest to them or use WiseAlpha's robo-manager service to help diversify their portfolio.

"Our mission is to transform and rebuild the corporate bond market," says Mr Ahmad. "We have started a big change and we expect policymakers and regulators to further aid the liberalisation of the market, as they look to support greater consumer financial welfare, and to introduce healthier fixed income choices, more electronic trading initiatives, greater transparency in corporate financial reporting and fewer systemic risks."

Private investors are looking to establish more diverse portfolios and the opening of the bond markets will transform their options. The level of return on offer, given the risk profile, is hard to ignore.

To find out more about the corporate bond asset class please visit wisealpha.com

We do not offer investment or tax advice. We recommend investors seek professional advice before deciding to invest. As with all investing your capital is at risk. Please remember bonds are investments, not deposit-protected savings products. This financial promotion has been commissioned by WiseAlpha Technologies Limited, which is authorised and regulated by the Financial Conduct Authority (No 751087). "Private investors" is used in this article to refer to individual investors.

[1]Deloitte, *The Corporate Bond Report 2018*

[2]European Commission, *Analysis of European Corporate Bond Markets*

[3]Willis Towers Watson, *Global Pension Assets Study 2019*

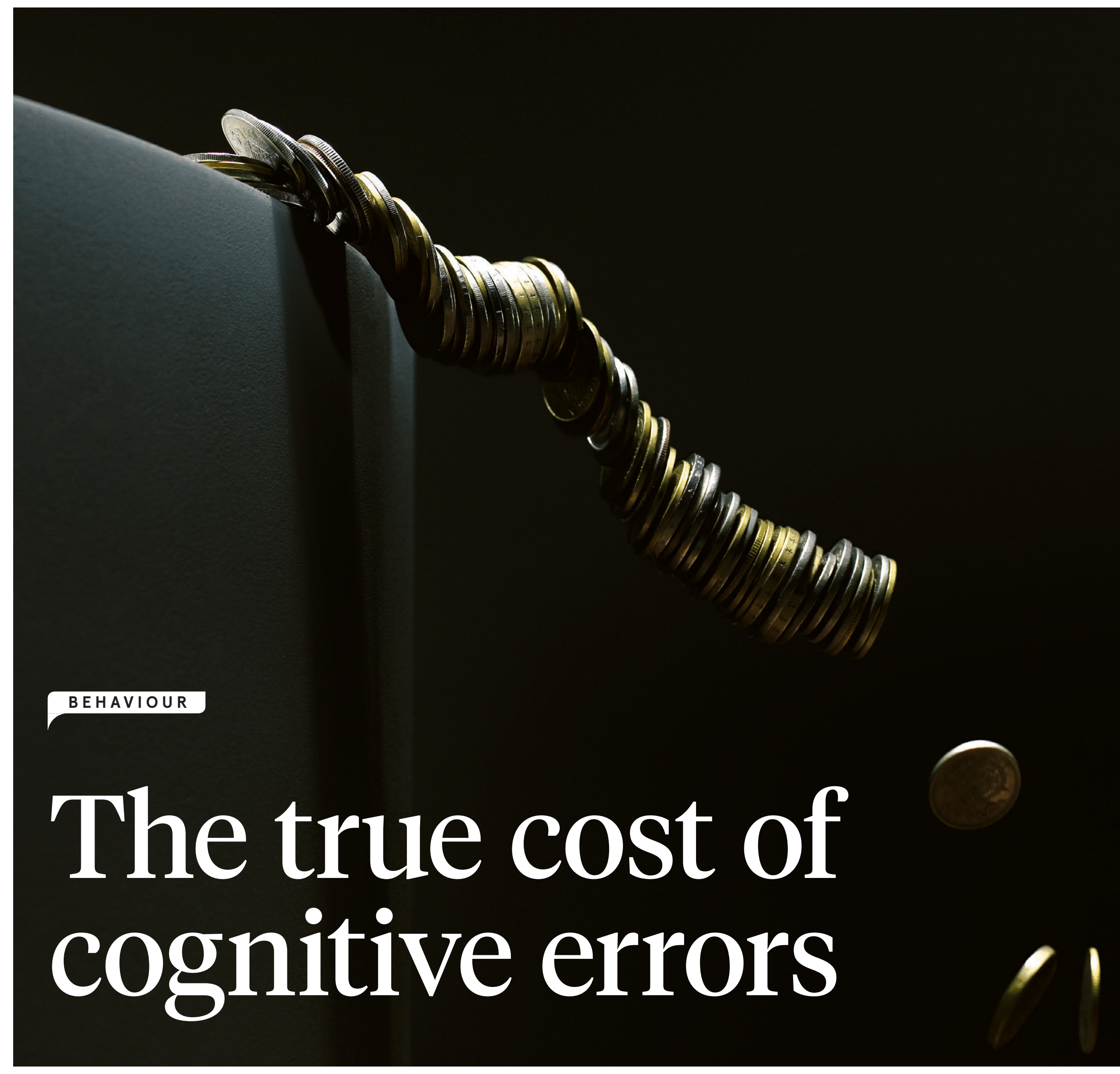
[4]Barclays Sterling Investment Grade Index LC61TRGU FTSE 100 Total Return Index TUKXG

[5]Bank of America Merrill Lynch Sterling High Yield Index HL00

[6]£2.24-billion FTSE All-Share market cap (*Bloomberg* 2018). £2.6-trillion financial and £511-billion corporate bond market (BIS)

[7]McKinsey, *Rising Corporate Debt*

wisealpha



Phil Ashley / Getty Images

BEHAVIOUR

The true cost of cognitive errors

Understanding ingrained behavioural biases can help investors improve decision-making and identify irrationalities, but it is not an exact science

Tim Cooper

Most investors think they know what they are doing. They do not. A startling picture is emerging of the true cost of human error in investing. Nobel-winning academics such as Daniel Kahneman and Richard Thaler have shown that humans are driven by many deeply ingrained behavioural biases, such as fear, greed and overconfidence, in their investing decisions.

This has led a small army of investment statisticians to try and calculate how much these biases cost individuals.

Research firm Morningstar claims biases cost the average investor 1 per cent a year in returns. Vanguard Asset Management claims the figure is 1.5 per cent. Researchers at Dalbar put it at 3.5 per cent, while financial economist Professor Brad Barber and colleagues say errors cost investors a hefty 4 per cent annually.

Advisory education firm Edvoa has created a tool showing how these percentages affect investments over time. It shows that for a £100,000 investment over 25 years, the biases would cost an investor £85,000 based on a 1 per cent annual cost of errors or £191,000 based on 2 per cent.

Vanguard looked at the effect on individuals making a £250 monthly investment. For them, a 1.5 per cent cost would lose them £24,000 over 20 years, but that would grow to a painful £274,000 over 50 years.

Behavioural biases can be difficult, or even impossible, to override. Craig Burgess, managing director of EBI Portfolios, recommends reading Dr Kahneman's *Thinking Fast and Slow* to see why.

"These biases evolved over thousands of years," says Mr Burgess. "We are pattern-seeking primates, which is useful for hunting prey, but terrible for complex tasks such as investing. So, we are now regularly prone to hundreds of biases, too deeply ingrained to overcome without removing the human from the process. Reading the book is not enough.

"A simple example is the investment industry's arbitrary obsession with three and five-year performance data. That shorter-term view can sway investors."

But Ken French, a pioneering academic in this field, showed you need 22 years of data to prove that a manager has enough skill to beat the market consistently.

Mr Burgess says removing the human makes it relatively easy to solve these problems using a systematic approach based on principles proven by academic evidence.

These principles include diversification across asset classes, funds, sectors, geographies and investment styles. Another principle is investing for the long term and ignoring short-term volatility. A third is minimising costs as these can dent returns significantly over time.

So-called passive investments are therefore important as they are cheaper because they track an index automatically without much intervention from a fund manager and they remove the risk of a human manager making errors.

Also so-called smart beta funds automatically access certain factors that evidence suggests will outperform the market. These factors include investing in smaller companies, "value" or cheaper companies and highly profitable ones.

> We are pattern-seeking primates, which is useful for hunting prey, but terrible for complex tasks such as investing

However, so-called active managers dispute these ideas and point to other evidence showing that a skilled manager with conviction can beat the market consistently.

James Norton, senior investment planner at Vanguard Asset Management, says errors are mostly sub-conscious so investors are not aware of them. This can lead to dangerously risky behaviour.

"If you pick a fund that does well, you may think it's down to your skill, even if it's not," he says. "That may encourage you to take more risks next time. The opposite is true in a falling market. For example, if you sold out of shares at the lowest point of the credit crunch in 2008, you would have missed the next ten years of growth [more than 60 per cent]."

Other people suffer from a different bias called loss aversion, which means they feel the pain of a loss twice as intensely as the pleasure of a gain.

"That leads many to avoid investing completely, despite evidence that you will be better off if you stay invested in shares for as long as possible," says Mr Norton.

To avoid biases, he suggests asking for feedback from a colleague, friend or adviser, planning investment strategies and sticking to them, and rebalancing automatically to stay within your desired asset allocation and risk range.

It is also important to start derisking, by moving from shares into bonds or cash, well before you need the money.

Mr Norton also suggests limiting portfolio reviews to once a year, for example. This means you will only tend to see positive movements and fewer of the painful short-term drops that could spark an irrational reaction. Advisers and investment professionals can help investors do all these things, he says.

Behavioural biases do not just affect individuals as herd mentality often leads stock markets to behave irrationally, creating short-term disconnects between share prices and fundamental data on corporate performance. The result is bubbles, such as the dot com boom, and crashes as seen during the credit crunch.

Some argue that disciplined investors can exploit these biases by buying cheap stocks in a falling market, when the herd is fearful, and selling when the herd is greedy and overbuying.

Blake Crawford, portfolio manager at J.P. Morgan Asset Management's international behavioural finance team, says: "If investors can improve the decision-making process and identify irrationalities when they happen, they can spot mispriced securities."

He suggests setting up rules or frameworks that apply consistently to investment decisions and reduce the role of emotions.

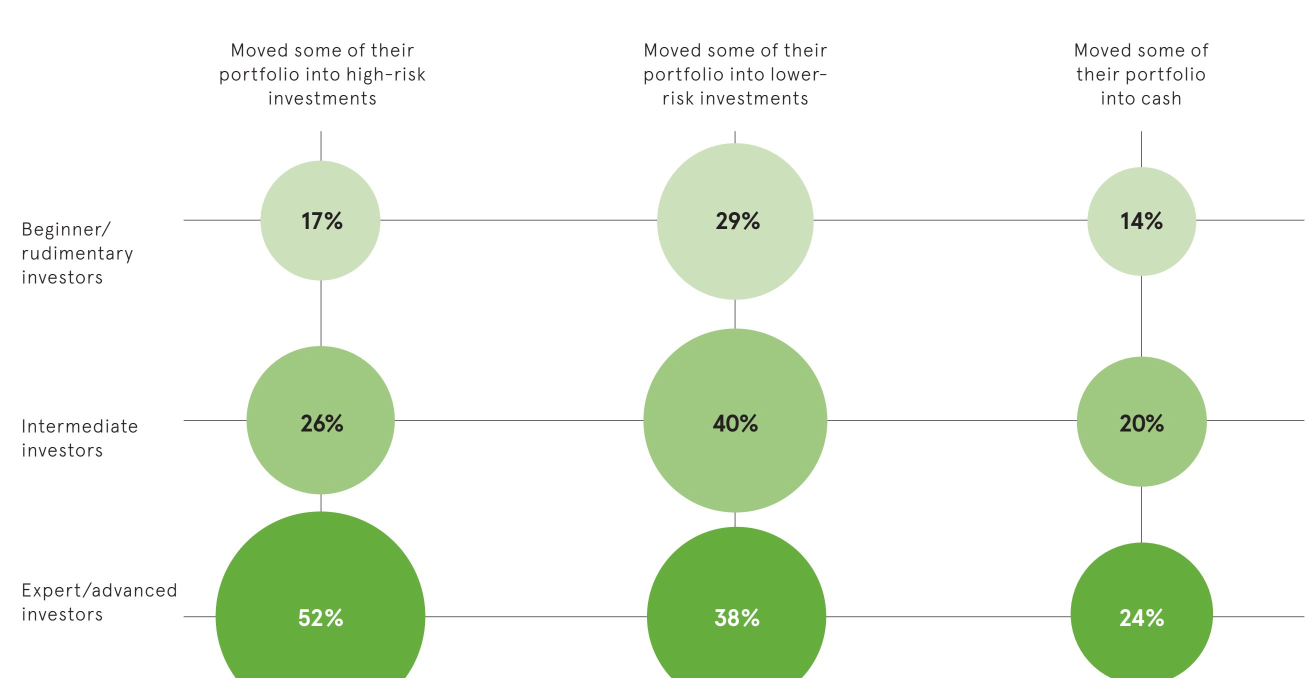
A downside is that this approach "can be painful for short periods, particularly when markets are behaving irrationally, but long term this is the only sustainable way of investing", says Mr Crawford.

Another solution can lie with policymakers. Mr Crawford highlights an evolution of behavioural finance called nudge theory, proposed by Dr Thaler. This suggests policies that nudge people towards rational decisions.

Pensions auto-enrolment is the perfect example as it pushes employees to invest in the market, via a pension, for the longest time possible. As a result, millions of people are avoiding an irrational decision to shun investing for the long term, says Mr Crawford.

HOW INVESTORS RESPOND TO VOLATILITY

Changes that investors made to their portfolios in direct response to market volatility



Schroders 2019

HIGH ROLL£RS

An in-depth look at what the world's wealthiest people do with their money. In this infographic, high-net-worth individuals (HNWIS) are defined as having a net worth of more than $1 million, excluding the value of their primary residence. Ultra-HNWIs (UHNWIs) are defined as having a net worth of more than $30 million, also excluding the value of their primary residence

2,696 number of billionaires worldwide by end of 2018, up 21 per cent from 2013

Knight Frank Research 2019

19.6m number of millionaires, up 13 per cent from 2013

Knight Frank Research 2019

198k number of ultra-high-net-worth individuals, up 22 per cent from 2013

Knight Frank Research 2019

61% of the global HNWI population lives in just four countries: United States, Japan, Germany and China

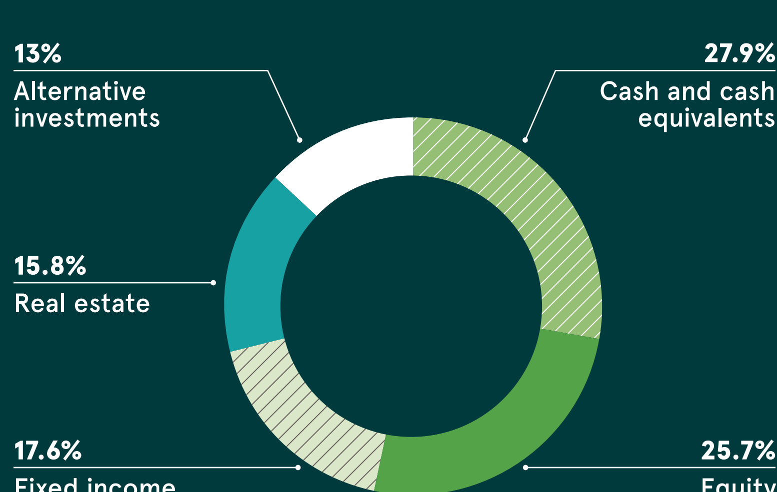
Capgemini 2019

4% increase in Middle Eastern HNWIs financial assets in 2018 – the only major region to experience growth last year

Capgemini 2019

HOW THE WEALTHY ALLOCATE THEIR ASSETS

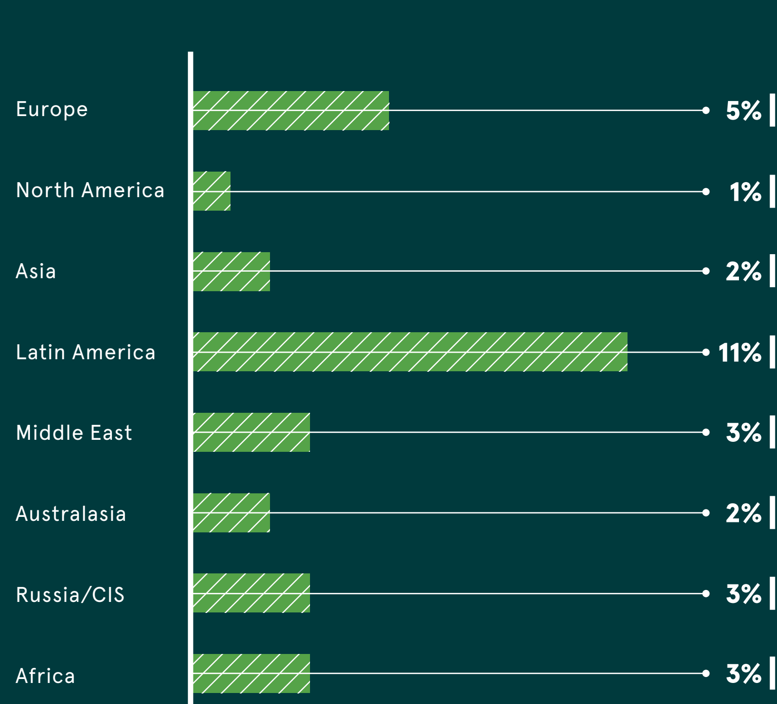
Breakdown of HNWI financial assets, at the end of the first quarter



Capgemini 2019

LUXURY INVESTMENT ALLOCATIONS

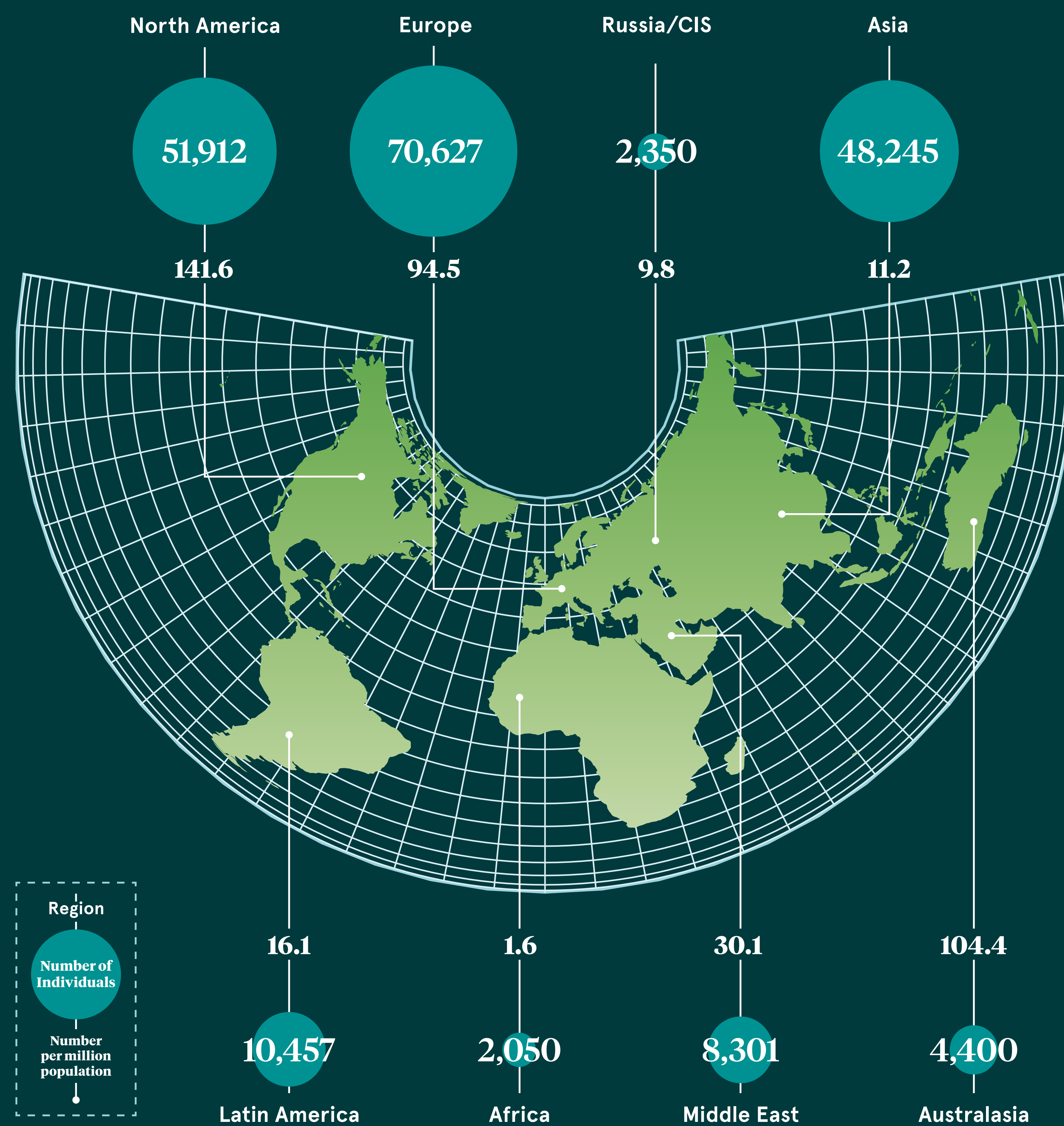
Percentage of UHNWIs' investment portfolios that are allocated to luxury investments such as art, wine and cars



Capgemini 2019

WHERE THE HIGH ROLLERS LIVE

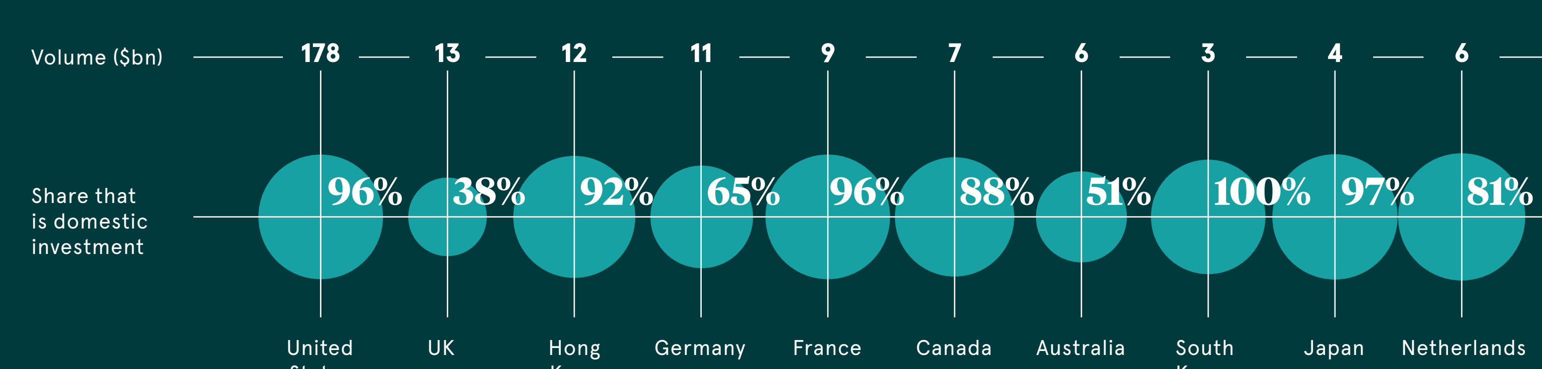
Number of UHNWIs in 2018



Knight Frank Research/United Nations/Raconteur analysis 2019

TOP LOCATIONS FOR PRIVATE REAL ESTATE INVESTMENT

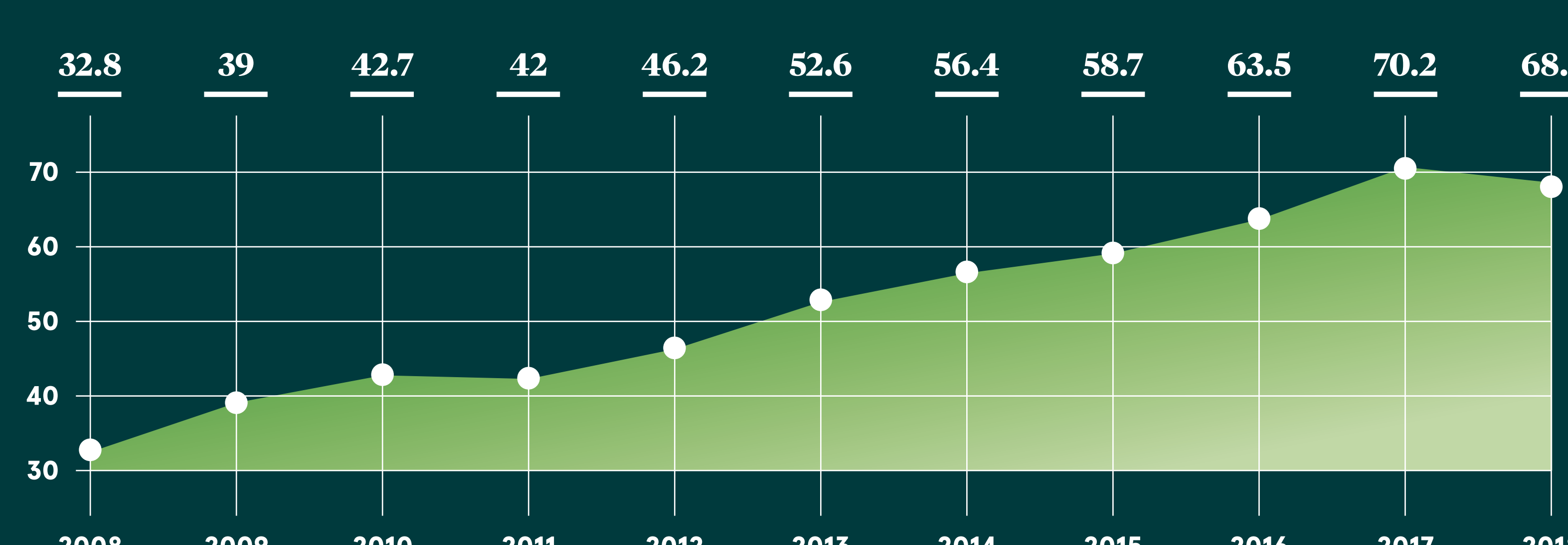
Top ten cross-border and domestic investment destinations by volume



Knight Frank Research 2019

MILLIONAIRES SUFFER WEALTH DECLINE IN 2018

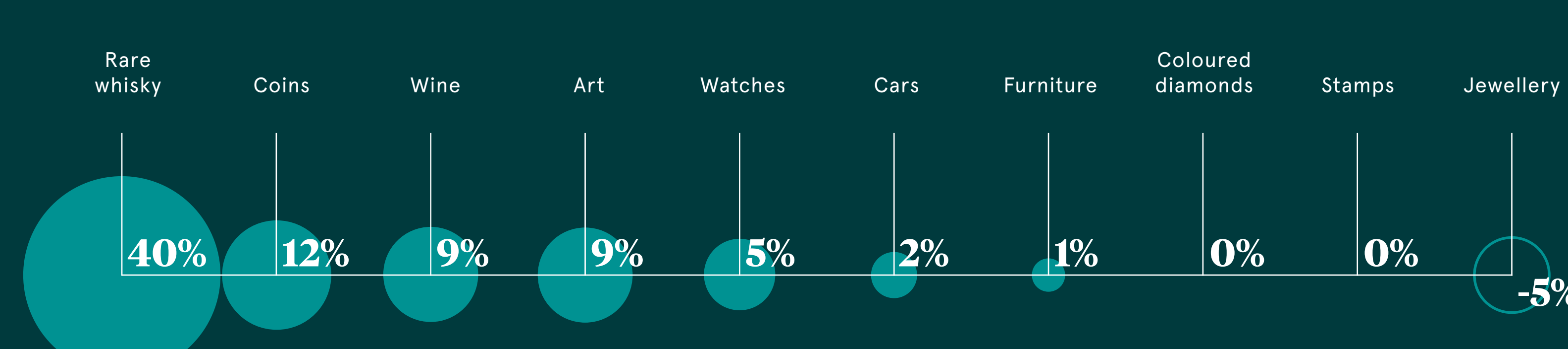
Collective wealth of millionaires worldwide ($trn)



Capgemini 2019

LUXURY PURCHASES, VALUE GROWTH

Change in value of the following assets in 2018



Knight Frank Research 2019

Commercial feature

Why bond markets are critical for a sustainable future

Some markets are bigger than others, and the fixed-income universe is almost 50 per cent larger than the world of equities. So when the sleeping giant of sustainable investing stirs, change starts to happen, fast

It was only two years ago that the world's first Sustainable Development Goal (SDG) bond was issued. Twelve months later, leading fixed-income investment manager PIMCO reports that 27 per cent of issuers they engaged with unveiled sustainable or green bonds during 2018.

Fast-forward to summer 2019 and the UK government has announced plans for mandatory reporting on climate risk by pension schemes.

Changing times for investment

The sheer volume of environmental, social and governance (ESG) questions coming through now from asset owners and consultants is indicative of changing times, says Olivia Albrecht, head of ESG business strategy, at PIMCO.

"There is a groundswell of understanding today around ESG, and 2019 feels fundamentally different from 2017 and 2018," she says. "Clients who historically focused only on the equity portion of portfolios are now increasingly interested in fixed income, with an upsurge in product development happening too."

As asset owners target ESG and sustainable investment, issuers are also prioritising integration of practices and are on the lookout for projects to finance. So, while ESG may still largely be an emerging trend, its evolution is swift, notes Lupin Rahman, PIMCO head of emerging market sovereign credit.

"In 2017-18 you had a sharp acceleration in green bond issuance in the corporate space," says Ms Rahman. "Now this theme is really moving into sovereign territory with green bond issuance by countries such as France, the Netherlands and Chile."

The reach and remit of ESG is also expanding beyond the environmental domain of so-called green finance, aligning with wider SDGs.

This growth in demand looks set not only to continue, but increasingly see ESG factors formally incorporated into all investment decisions, not just dedicated ESG-labelled portfolios.

Furthermore, as understanding of economic effects improves, the market is rapidly realising ESG considerations are material in driving fixed-income and risk-adjusted returns, adds Ms Rahman.

"The old way of thinking was that ESG is just about doing good, but what markets are recognising more and more, be it related to environmental issues, social factors or governance, is that all these considerations have an impact on financial returns," she says.

Key to ESG mainstreaming over time, however, will be the performance component, says Ms Albrecht. "One question that keeps coming up on the part of investors is whether an ESG-style approach means an automatic give-up of performance expectations. The answer is simple: no. There need not be a performance sacrifice with ESG if the opportunity set is sufficiently broad. In fact, what we need is something of a mindset shift to bust this persistent myth."

Materiality, risk and 3Es

At PIMCO, ESG investing is underpinned by a fundamental focus on materiality of risks. Its integration is broad-based across the firm, involving every risk-taker and informing all aspects of fixed-income investment, rather than remaining a siloed sideshow.

This approach is systemic and strategic, explains Ms Rahman. "ESG is not a matter of reinventing the investment wheel. At PIMCO we have been thinking about factors that we deem drive returns over longer-term horizons for some time, incorporating cost-benefit analysis into bigger-picture sustainability planning," she says.

Adopting a top-down perspective, as well as bottom up, for instance, means exploring how climate risk is going to impact macro-forecasting, which in turn affects central bank policies, then the stability of financial markets.

In part, this risk intelligence and forecasting capability at PIMCO is borne out of the natural behaviour cycle of the fixed-income market itself. Issuers have to come to market repeatedly to finance their debt position, which facilitates dialogue.

More specifically, the PIMCO approach to ESG follows a three-stage process, known as the 3Es: exclusion, evaluation and engagement. While exclusion and evaluation are familiar to investors, it is perhaps engagement that is the real differentiator around ESG, says Ms Rahman. "Our engagement activities help us to identify improving ESG issuers that may offer greater value add in terms of returns," she says. "We want to influence that process."

With a significant credit analyst and IT team devoted to ESG, PIMCO is able to seize engagement opportunities effectively. As a consequence, its annual *ESG Investing Report* for 2018 reveals issuer engagement grew year on year, rising to 81 per cent from 69 per cent in 2017.

In total, last year PIMCO conducted over 5,000 meetings and calls with issuers at or near the C-suite level. This extensive, elite access enabled the firm to enjoy a highly representative cross section of open discussions with many chief executives and chief financial officers, often going beyond the usual financial and balance-sheet metrics to tackle targeted sustainable development issues.

> **In 2019 PIMCO received an A+ rating (highest score) from our UN PRI Assessment Report**

Once again, the two top ranking SDG themes – climate action, and decent work and economic growth – remained the most important themes in 2018, with more than half of companies PIMCO engaged with highlighting these goals as priorities. Social issues such as gender inequality, standards of education and good health all ranked higher with issuers than in 2017.

Influence is investment driven

As an industry leader in fixed-income investment, PIMCO is better able to structure financial markets to fit with sustainable investing considerations and mitigate specific ESG risks. PIMCO was also an early mover around what would now be regarded as ESG issues, having launched one of the first socially responsible bond funds in 1991, in the United States.

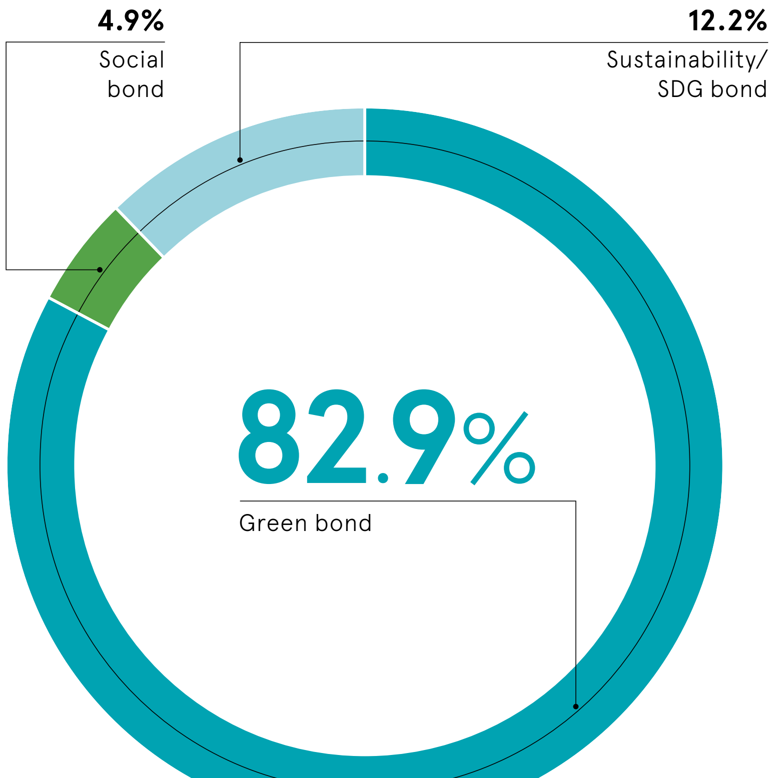
This position as thought leader effectively brings with it a responsibility for PIMCO, acknowledges Ms Rahman. "We are working with a large number of industry groups on ESG, whether UN principles for responsible investment (UN PRI) or central banks and government regulatory bodies. So, that role as a global citizen is very important in helping shape ESG policies and disclosures," she says.

Just as $1.8 trillion in assets at PIMCO alone is significant, this collaborative potential is much bigger still, says Ms Albrecht. "Our influence is most powerful when we come together as an industry and collectively drive change, whether through the Sustainability Accounting Standards Board or via the Climate Action 100."

Fundamentally, though, it remains vital not to lose sight of primary business and financial drivers. She concludes: "At PIMCO, our ESG capabilities sit within the investment team. So they lean upon our in-house expertise across the full fixed-income universe. Ultimately, crucially, this is investment driven."

SUSTAINABLE BONDS

27 per cent (39) of the 147 companies PIMCO engaged during 2018 have issued sustainable bonds. The pie chart below gives the breakdown of these bonds



PIMCO, December 31, 2018

Please speak to a financial adviser to explore new possibilities with PIMCO

EQUALITY

Why gender-equal firms are better investments

Gender initiatives are more than just a diversity and inclusion exercise – they are good for business and should matter to investors

Matthew Staff

Workplace gender equality is hardly a muted subject, but when delving deeper into nuanced or specific sectors, it's perhaps making less noise than you'd expect.

Industrial settings, in particular, still struggle to convert this often lauded theme into tangible evolution. The disparity is not just boardroom related, but perhaps even more pronounced among the general workforce where employment opportunities are most abundant.

Entrepreneurs, analysts and industry leaders alike are now urging gender progression not just as a box-ticking quota exercise, but to make organisations more functional and operationally sound, and ultimately to improve their attractiveness as an investment proposition.

Bonnie Roupé, a serial Swedish entrepreneur who followed up her publishing enterprise in the leisure sector by conquering more industrial territory in healthcare via the online midwifery app Bonzun, has battled male domination. But she is now seeing first hand how companies can become more appealing to investors as a consequence of top-to-bottom gender equality.

"Over the years, I've experienced regular occurrences of gender bias, as a standard issue," she recalls. "This was particularly with international investors who had a well-documented set of, let's call it, 'issues' with female entrepreneurs. Endless studies have documented the dearth in capital and the odd treatment that women went through during fundraising especially."

Ms Roupé believes that as more female entrepreneurs have risen to the top, however, the more this bias has been at least recognised and scrutinised.

She continues: "We have societal norms, old habits and comfortable categorisations that steer us, and we have to make sure we are going through regular checks and balances to identify where we have gaps and to address them. That includes power dynamics in the boardroom right down to how staff are treated, how sexual harassment is addressed in the workplace, to how women and girls are portrayed in marketing material.

"Diversity is a powerful tool and should be leveraged on all levels. Better decisions are made, better performance is achieved and anyone falling behind is either leaving value on the table, or worse, destroying it."

In Canada, the International Finance Corporation (IFC) has formed a potent partnership with the government to address the gender issue in industrial settings from this vital angle of value.

> **Better decisions are made, better performance is achieved and anyone falling behind is leaving value on the table or destroying it**

"Gender diversity is good for business and matters to investors," says Veronica Nyhan Jones, head of advisory at the IFC's Infrastructure and Natural Resources Department. "Research has consistently demonstrated that gender diversity in the workforce, including management, among suppliers and in community engagement, increases innovation and productivity. It also strengthens supply chains, improves social licence and reduces friction with key community stakeholders.

"For instance, according to EY, for three years consecutively, the top 20 most gender diverse power utility firms had a 15 per cent higher return on investment than the bottom 20."

IFC has found that hiring women in non-traditional roles could increase firms' productivity by as much as 25 per cent through gains in maintenance costs and lower turnover.

All this inevitably equates to a more valuable business and an increased likelihood of investor interest.

Ms Nyhan Jones adds: "As companies recognise the business value of gender diversity, shareholders and investors are increasingly valuing it as well, holding companies accountable for doing the right thing, the smart thing, and being more transparent in their efforts to build gender-diverse businesses."

Investors, just like governments and potential partner companies, are now aware that increasing female influence at all rungs of a business, in any sector, is a business necessity, not just a moral objective.

IFC is seeking to be a catalyst in this push and has subsequently introduced a Gender Toolkit aimed at "unlocking opportunities for women in business for oil, gas and mining companies".

In addition, IFC and the government of Canada have teamed up for a five-year Energy2Equal plan which will support sub-Saharan African companies to reduce gender gaps, not through traditional methods of calling out guilt and prejudice, but again by demonstrating the financial and investment boost that is being missed should companies fail to evolve.

The theory, which can be replicated and applied to all walks of business, but strongly hits home on an industrial level, is that a much needed snowball effect is possible as a result. Ms Roupé believes there has been too much focus on boardrooms over the years and not enough on female leadership in executive teams, and the influence they can have on women who are intimidated or void of role models.

"At present, it's always the same women in multiple board roles, and there needs to be more room for others to come in and help change the ingrained perception that a board member is a white, old man," she concludes.

Those companies that realise this potential and encourage complete gender inclusion from top to bottom will reap the strongest fiscal and investment rewards in the future industrial landscape.


Gorodenkoff on Shutterstock

IFC Gender Toolkit

Canada's International Finance Corporation (IFC) has laid out an ambitious, but much needed, set of goals to improve levels of gender equality among clients, especially in industrial settings. These range from quadrupling annual financing for smaller businesses led by women, scaling up commitments to financial institutions targeting women to the tune of $2.6 billion by 2030 and ensuring 50 per cent female representation across its own board member nominees.

The company's head of advisory for infrastructure and natural resources Veronica Nyhan Jones emphasises that such initiatives aren't simply a diversity and inclusion-induced banging of a drum. They're a concerted promotion of strategy to make businesses more operationally excellent and, as a result, more valuable.

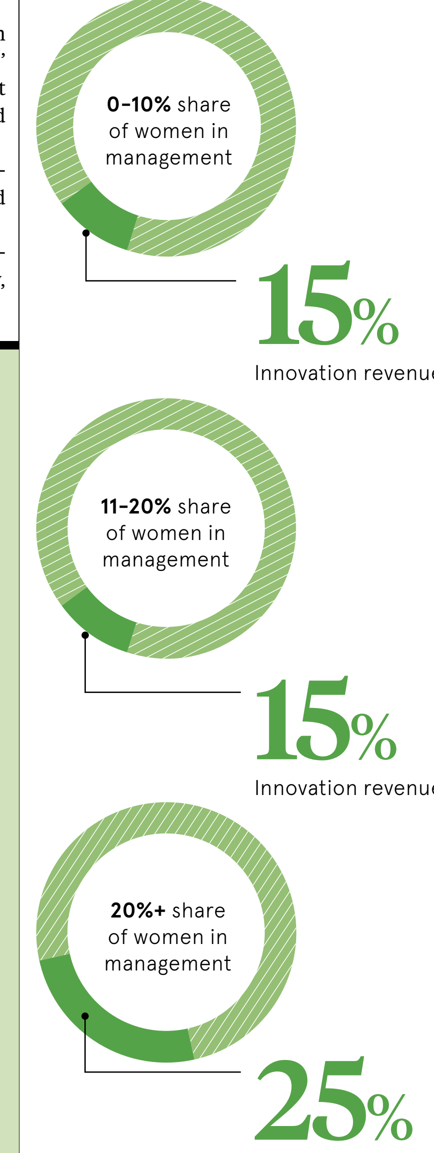
The recent introduction of an IFC Gender Toolkit is targeted at helping companies realise just that, as Ms Nyhan Jones explains: "The toolkit aligns with the IFC's own requirements of making gender equality a priority by providing concrete tools on increasing gender across natural resource operations.

"Implementation of this toolkit in natural resource sectors will enhance women's participation in the supply chains of companies in these sectors and promote their economic empowerment."

The desired outcome is that gender equality in the workplace becomes a natural business and value-driven decision, rather than a compulsory balance requirement in the years to come.

IMPACT OF DIVERSITY ON INNOVATION REVENUES

Share of revenues that companies have generated from enhanced or entirely new products or services in the most recent three-year period



Boston Consulting Group 2017

INTERVIEW

Making 'impact' the norm for future investments

Former head of Allianz Global Investors UK **Elizabeth Corley** makes predictions for the future of investing and sets out what is needed to integrate impact into everyday decision-making

Oliver Balch

Elizabeth Corley isn't one for quiet retirement. After decades in the City, the former chief executive at Allianz Global Investors UK is taking on a new challenge to bring so-called impact investing into the mainstream.

As co-chair of the newly established Impact Investing Institute, she hopes to persuade the world of finance to become as excited about delivering social and environmental good as it is about making money.

On the face of it, she is pushing against an open(ing) door. Since the global banking crisis of 2007-08, financial institutions have become increasingly cognisant of their responsibility to wider society and not just to their shareholders.

Environmental, social and governance issues, known as ESG, are "absolutely entering the mainstream" of financial markets, says Ms Corley. Impact investing takes these concerns one step further, creating financial products that explicitly set out to deliver positive societal benefits.

To qualify as an impact investment, such benefits cannot be the accidental outcomes of an otherwise business-as-usual arrangement. "They are something that has to be decided before you put your money in. In this sense, intent is really, really important," she says.

The intent of the Impact Investing Institute, which is part-funded by the City of London, is to catalyse the eponymous movement that it represents through research and advocacy.

Ms Corley isn't starting from scratch. In 2016-17, she chaired a government task force on impact investing and how to make it grow. A large part of her current role will focus on pushing forward the overarching theme of the task force's 53 final recommendations, namely to "integrate social impact in business as usual".

But what does this mean in practice? And what would be the effect were such an integration ever to come to pass?

Ms Corley identifies at least three measures that could accelerate the impact investing market, valued presently at just over $500 billion, which is a not insignificant sum, but still just a fraction of the $79-trillion global asset management market.

Her to-do list starts with data. Investors are, by nature, a sceptical bunch. In the absence of credible and consistent ways of measuring the real-life outcomes of ESG investments, that scepticism will only grow.

Progress is being made, she insists. By way of example, she points to the World Benchmarking Alliance, a new initiative designed to rank publicly listed companies by the contributions they are making to the United Nation's Sustainable Development Goals.

Slowing up progress, however, is the proprietary nature governing how non-financial data is assessed. Going forward, Ms Corley would like to see banks and data providers share their methodologies and information more widely, preferably on open source platforms.

"So, there are things going on [regarding data], but they are not going sufficiently at scale yet and they are heterogenous; they are not consistent enough as yet to allow comparisons," she says.

Ms Corley foresees technology infrastructure giving a boost to the future impact investing sector. Individual savers and investors are increasingly engaged with the big issues of the day, from climate change to trade justice; millennials, especially so.

Yet, when it comes to what banks and pension funds do with their money, most individual savers feel disengaged. More personalised, more interactive communications systems could change all that.

"In the near future, people will be able to decide what kind of information they want and how they want it, so more personalised to their own interests," she predicts.

Engaging the public on money matters is not just a tech issue, however. Banks will have to drop the jargon and start using simple language. At present, finance vocabulary is "pretty impenetrable" to the vast majority of the population, Ms Corley concedes.

Learning to step into the shoes of others and communicate meaningfully is a skill she honed while heading up Allianz Global Investors. "When I was a CEO, I was so focused on employee engagement and how people felt about the company," she says. "There's a real interest in understanding how the company is perceived and being more accountable for it."

Important as engaging people in impact investing may be, they need products to invest in. More needs to be done on building up the sector's offer, Ms Corley argues.

For inspiration, she looks to the financial technology sector, which has seen a proliferation of new products in recent years. She draws particular attention to the sector's sandbox approach, whereby regulators gives startups support to test out their solutions in real-world conditions. "We should do the same for impact investing," she says.

Again, the impact investment movement is not without progress. As evidence, Ms Corley talks enthusiastically about an innovative crowdfunding platform run by Bristol-based ethical bank Triodos UK. The website publicises a range of high-impact enterprises and projects that individuals can invest in directly. Since its launch in February 2018, the platform has generated more than £150 million for 63 separate projects.

"I want to make it easier for people when they are doing their long-term pensions or their ISA to invest with their values and then for that money to flow in an accountable way through to initiatives that are really going to deliver," she says.

> **I want to make it easier for people to invest with their values and then for that money to flow in an accountable way through to initiatives that are really going to deliver**

Her final aspiration is directed towards regulators. In the years ahead, once impact investing has bedded in a little more, she would be happy to see pension funds and other asset managers obliged to put 1 or 2 per cent of their funds into impact-oriented investments.

It is a model that has worked very well in France, where employers with more than 50 workers are obliged to offer their staff an optional solidarity savings fund. Some 10 per cent of the assets of such funds, which run alongside regular savings schemes, are allocated to eligible social enterprises.

Should Ms Corley's aspirations for the impact investment movement take hold, the effects could literally be world changing. Instead of just avoiding so-called harm industries, such as tobacco, fossil fuels, arms and so on, a turbo-charged impact investing sector would see capital start flowing to those actively tackling the big issues of climate change, education for all and universal healthcare.

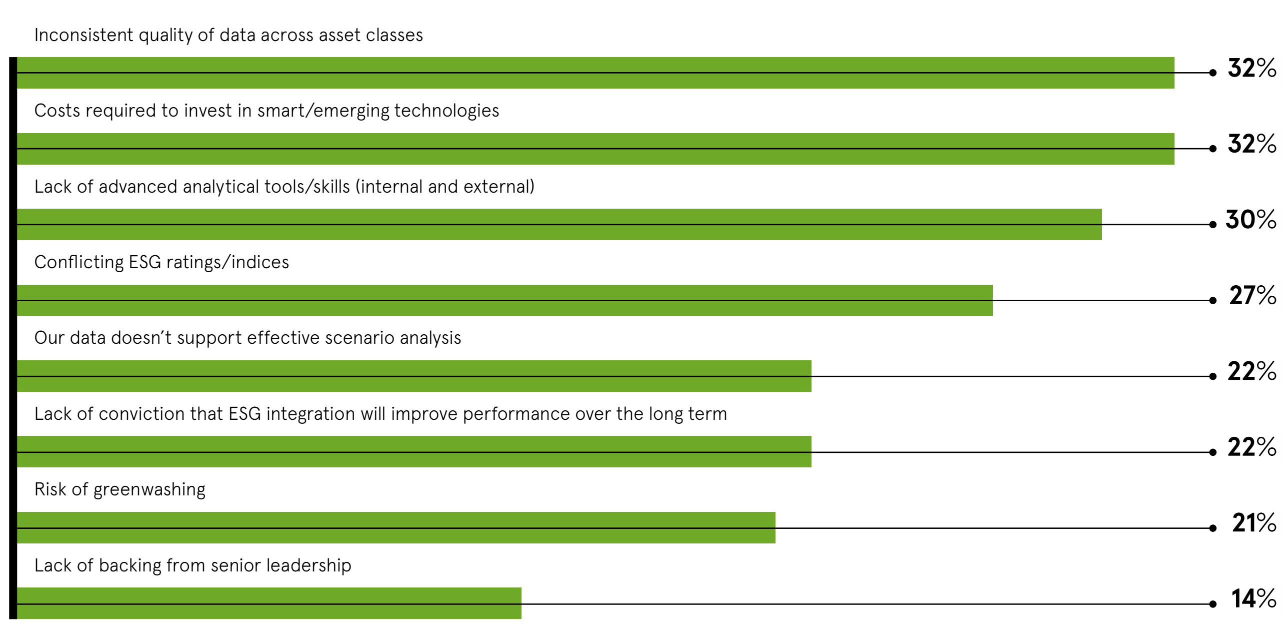
The investor in Ms Corley also sees potential for reforming the culture of the mainstream finance sector. If impact investors can demonstrate that a more transparent, more engaging, more direct approach to investing is possible, what is to stop consumers expecting the same from their pension provider or bank?

Her answer? "Not a lot." Indeed, the rise in consumer and employee boycotts of unethical stocks points to a rise in the individual empowerment of investors and to a desire for those managing our money to become more accountable. "It's a natural rebalancing," Ms Corley concludes.

OBSTACLES HOLDING BACK ESG INTEGRATION

BNP Paribas 2019

Percentage of investors who rated the following as barriers to greater adoption of environmental, social and governance (ESG) factors across their investment portfolio



Commercial feature

ESG investing: from why to how?

Responsible impact investing is an opportunity not an imposition

From Sir David Attenborough at Glastonbury to Mark Carney in Brussels, climate risk and resilience are centre stage and in the news. No financial market is immune to the influence and impact of such a macro-trend and disruption is inevitable. It is not a matter of whether it will happen, but when.

In response, interest in environmental, social and governance (ESG) investment criteria has grown rapidly among the asset and wealth management community, says Jon Williams, partner, sustainability and climate change, at PwC.

"To say it has come from nowhere to everywhere, would be an overstatement, but investor interest in ESG has skyrocketed from a largely ethical position over the last few years and assets under management have quadrupled in the past 24 months," he says.

"Now, thanks to a combination of customer demand and regulatory change, almost every investment portfolio has an ESG fund. Environmental and social concerns are increasingly being seen as financial issues by retail and institutional investors, pension funds and the people who manage their money."

Climate and consumers

With growing scientific consensus around climate change, the United Nations Intergovernmental Panel on Climate Change has also set 2030 as the end-date to fix global warming.

Not surprisingly, both financial and real-economy regulators are getting pretty exercised.

Mr Williams says: "The Financial Stability Board became interested in climate change as a result of inadequacies in carbon disclosure affecting allocation of market capital and pricing of risk.

"Progress is positive, but too slow. Two years on from the Task Force on Climate-related Financial Disclosures report and data transparency remains a work in progress.

"Furthermore, while the new European Union Sustainable Finance Taxonomy represents a big step forward in the fight against greenwash, we must be wary of creating a green investment bubble."

$30.7trn

value of sustainable investing assets in the five major markets in 2018 – this represents an increase of 34 per cent from 2016

+76%

growth in integrating ESG factors into investment decisions in the UK, where €2 trillion of assets are managed in this way

Another key factor is consumer sentiment. Younger consumers, particularly millennials, want to invest, or divest, with purpose. With intergenerational transfer of wealth amounting to maybe $30 trillion over the next two decades, some 39 per cent of investors predict increased allocation towards having a positive impact on the world. Next-generation investors are not giving up financial return; they want to do well and do good.

Technology and transition

Technology can play a role, but not in isolation. Any assessment of potential opportunity, or risk, must also consider changes in regulation or the wider context of shifts in policy.

In the case of electric vehicles (EVs), UK policy is to phase out new petrol and diesel vehicles by 2040. However, *Bloomberg* estimates EVs will hit cost parity by 2025. That would obviously be positive for investors in EVs and associated infrastructure, but negative for asset and wealth managers backing companies in filling stations or the 12,000 petrol-car components.

New markets and investment opportunities could also emerge in other climate-resilience technology, for example the use of drones in conservation work and remote sensors in agriculture, or renewable power generation and smart grids.

Agility and opportunity

Turning disruption to your advantage, however, means more than simply assessing future market shifts. Planning an effective response requires the ability to understand the connected nature of these enablers of disruption, be it technological innovation, regulation, ease of switching or access to the funding and talent needed.

In this "currency of collision", opportunity exists where these enablers collide, spurred on by customer appetite for change and influenced by broader factors such as climate change, explains Elizabeth Stone, UK head of asset and wealth management at PwC.

"Those who will use it to set themselves apart are the ones with the right creative mindset, responsive business model and approach to transformation, qualities that are not confined to tech players or nimble start-ups," she says.

Transitioning beyond disruption to opportunity is what will distinguish successful companies. Mr Williams concludes: "For the asset and wealth management community, the pressure is here and now. What firms do in the next two to three years will determine whether they are winners or losers over the decade to come. Inertia is not an option."

To find out more about the Currency of Collision and how you can turn disruption to your advantage, click here: www.pwc.co.uk

pwc

P2P LENDING

Wafer-thin margins and spectacular crashes

The recent collapse of a number of P2P lending firms has highlighted the fragile nature of the industry

Ian Fraser

Putting money into the peer-to-peer, or P2P, lending sector once seemed like a no-brainer. The original companies in the sector, including Zopa, carefully vetted their borrowers, only lent to a tiny proportion of those who asked for credit and churned out reliable returns of 4 to 6 per cent, year after year, for their investors.

On top of that, the sector, in which companies match borrowers with third-party funders, offered a feel-good factor: the chance to help the economy while helping disrupt the disgraced banking sector out of its sometimes shabby ways.

Since Zopa became the UK's first such lender to be launched in March 2005, Britain has become one of the world's most advanced markets for P2P lending. UK companies lent £6.7 billion over the past 12 months, £1 billion more than the rest of Europe combined, according to data firm Brismo. The government's introduction of innovative finance ISAs in April 2016 further fuelled growth.

However, in recent months the reputation P2P lending, also called marketplace lending, has soured.

In February 2018, the Manchester-based platform Collateral went bust after being caught trading without a licence. In May, the property lender Lendy collapsed into administration with more than half of its £160-million loan book in default. Then, on July 2, shares in stock market-listed Funding Circle, which has lent £7 billion to businesses since its August 2010 launch, crashed after it halved its revenue forecasts.

Experts are predicting that a further 12 P2P lending platforms will collapse over the next year. "I predict further spectacular crashes, even among the larger players, unless better regulation comes in," says Roger Gewolb, co-founder of FairMoney and the Campaign for Fair Finance.

And the sector faces structural issues. The margins available to platform operators are wafer thin, some platforms have had to lower their credit standards, interest rates will inevitably rise from their current lows and the sector has not yet had to contend with a downturn.

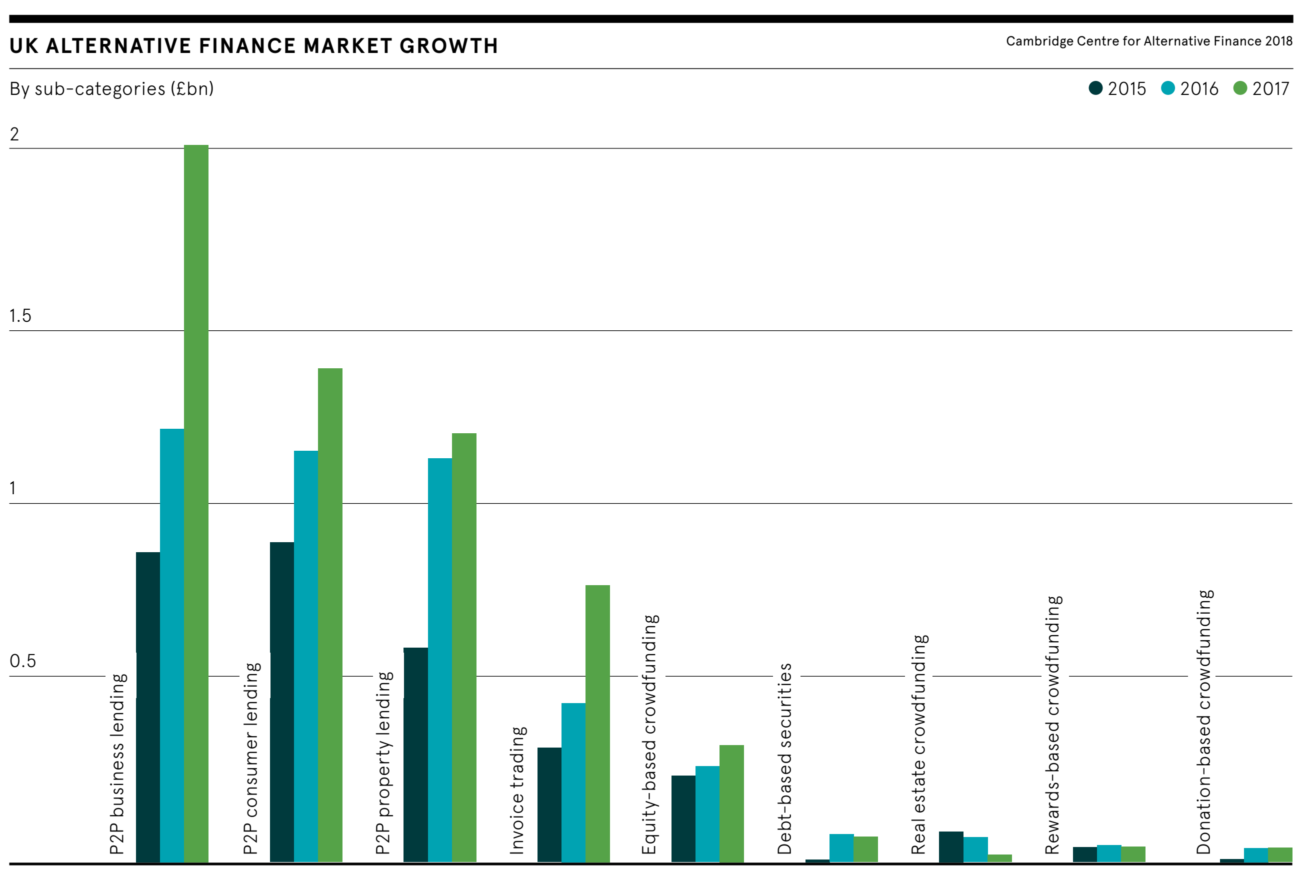
However, Iain Niblock, co-founder and chief executive of the aggregation platform Orca Money, believes investors would be extremely foolish to write off an entire sector because of the recent collapses. He points out that nobody is dismissing the entire collective investment fund sector as a no-go area, just because Neil Woodford's flagship fund has been suspended.

Mr Niblock says: "I think peer-to-peer lending has a place in every retail investor's portfolio. Over a large number of years, the returns have been steady and they have been uncorrelated to the stock market, giving people a valuable diversification benefit."

Established platforms, such as LendingCrowd, Lending Works, RateSetter and Zopa, are still delivering annual returns of 4 to 6 per cent a year. Though this is down on 2016 levels, it is higher than any bank savings account, though there is clearly greater risk. "Nowhere else permits such attractive returns for short-term cash deposits," says Mr Gewolb.

Neil Faulkner co-founder and chief executive of 4thWay, which rates P2P lenders, says: "As long as investors stick to platforms that overwhelm you with lots of clear information and statistics on their results and all aspects of their business, and as long as the investor spreads their money across a basket of platforms, there's no reason to worry.

"It was inevitable that default rates would start to rise, given we've been going through a relatively benign period for so long. If they have gone up from 1 to 2 per cent that may be a doubling, but it's still low."



The clampdown that the Financial Conduct Authority (FCA) unveiled in June, which was not a response to Lendy's collapse, but followed a two-year review of the sector by the regulator, may further dent the P2P market's fortunes.

From December, the regulator will limit the amount any individual investor can put into the sector to 10 per cent of their investible assets, unless they have received financial advice. The regulator will also require platforms to strengthen their governance and credit underwriting standards, improve their transparency and rein in their marketing.

> I predict further spectacular crashes, even among the larger players, unless better regulation comes in

Mr Gewolb does not believe these changes go far enough. He says it is absurd for regulators to treat people who lend money through a P2P platform as investors. They should, in his view, be treated as depositors and covered by the UK's Financial Services Compensation Scheme, which covers £85,000 of savings per individual, per institution.

"These firms are a still going to be regulated as if their customers are investors, not depositors, and nobody is really inspecting the books. The cowboys have been left in charge of the ranch," he says.

Adam Bunch, co-founder of the Lendy Action Group, which represents investors affected by Lendy's demise, says the FCA's new rules come five years too late. He believes the FCA had been caught on the hop by a new sector which it had allowed to grow "virtually unchecked" and with "barely any regulation".

So if investors are getting cold feet, where else should they look for P2P-like returns? Mr Niblock thinks buy-to-let properties are the closest match. But David Penney, director of chartered financial planners PR&W, says: "The best alternative would be a balanced portfolio of predominantly equities and bonds, provided they have the right risk profile and a sufficient time horizon to take risk.

"P2P may have a place, in specific circumstances, for investors who can afford to lose their capital. In my experience, people often underestimate or misunderstand the risk. They see the 'interest' in a P2P loan as akin to interest on a cash deposit. They're comparing 4 per cent interest on P2P against 1 per cent interest on a cash ISA, without recognising the risk of the loss of capital."

OPINION

‘The UK is already the European leader in these financial techniques and I expect demand for the skills to continue to rise’

These are exciting times in UK sustainable finance as the sector prepares to capitalise on a series of opportunities. The UK sustainable fund management sector is already Europe's largest with Eurosif data showing that in 2017 nearly £2 trillion of assets was managed using a variety of sustainable finance strategies. Further growth will be driven by new factors.

Firstly, regulation is increasingly supportive. Changes to UK pension regulation mean most trust-based schemes will have to start disclosing their policies with respect to environmental, social and governance (ESG) issues, including climate change, and this will stimulate demand for managers and advisers with expertise in these areas. Similar changes for defined contribution pension schemes can be expected in the next 12 to 18 months.

Some regulatory aspects of the European Union Sustainable Finance Action Plan are also supportive, notably those requiring greater disclosure on ESG approaches from large asset owners and fund managers.

Brexit need not be a problem. The tone adopted by the government in the recently launched Green Finance Strategy (GFS), namely that it intended to at least match the ambition of the sustainable finance action plan in key objectives, is very encouraging.

The second factor is the government's net-zero carbon target. Delivering this target will require more money to be invested in the right way and it will probably need new financing techniques.

The government's independent expert advisers, the Committee on Climate Change, identified several areas that will require funding, including replacement of household boilers, installation of thousands of electric vehicle charging points and large-scale reforestation.

Reforestation can probably be achieved using existing financial techniques, indeed some large asset owners already have extensive forestry holdings, but the charging points and, in particular, the household boiler work may require new approaches.

Boilers, for instance, look a bit like infrastructure, but they are not the large capital-intensive individual assets which some asset owners currently fund. Instead we need to find a way of funding large numbers of relatively small household-infrastructure improvements. This is the kind of challenge the City exists to meet. It could do it rapidly and efficiently, with the right policy framework in place.

I'm happy to say that the government is committed to working more closely with the City in sustainable finance. When it launched the GFS, the government also announced the setting up of the Green Finance Institute, which exists to better link the City and government to more rapidly introduce the developments needed in behaviours, regulation and policy. Phrases used in the GFS, "financing green" and "greening finance", sum up what the institute is about. I am delighted that UK Sustainable Investment and Finance Association (UKSIF) will be working with the institute on UK pensions and climate change.

The third potentially transformational factor for UK sustainable finance is public opinion. The net-zero target, coming after the Greta Thunberg phenomenon and the Extinction Rebellion protests, has struck a chord.

UKSIF's opinion polling over recent years has suggested that public attitudes to money are changing. When about a decade ago we first asked people to say what they wanted from their money, the public consistently said financial return was the most important factor. Last year for the first time, the most popular answer chosen from the options provided was financial return and making a difference. This change seems significant and it came before Greta and Extinction Rebellion.

I don't think public opinion will change back. People want their money to be managed and banked responsibly and properly. The UK is already the European leader in these financial techniques and I expect demand for the skills to continue to rise. ●

Simon Howard
Chief executive
UKSIF

OPINION

‘We are witnessing an evolution in the application, flexibility and deployment of technology in wealth management’

Technology has long been part of the business of wealth management, but its role was historically focused on supporting internal needs of wealth management firms in areas such as portfolio accounting and management. Very rarely did the technology used go further and positively touch the client.

However, we are witnessing an evolution in the application, flexibility and deployment of technology in the wealth management industry. Much of the technology used in the past was clunky and really only suitable for internal use, but we now see relevant, modernised technologies right through the business from front to back. Good for the business, the adviser and, thankfully, for the client too.

While much of the news on the client side might focus on fashionable topics such as robo-advice, many of the relevant themes also support the wider development and application of technology throughout the business. We use the term Built for Wealth, which highlights technologies built with a focus on the needs of this sector and there has been a significant uptick in solutions built for wealth management.

From the client’s perspective, multiple technology developments are changing what wealth management is, who delivers it, how it is delivered, who it is offered to and what is included. This ongoing change looks set to deliver a wealth management offering that will be better for both the traditional wealthy client base as well as increasingly enabling a wealth-management-for-all model.

We see technology, depending on the requirement for any individual wealth manager, helping the wheel spin smoother, faster, straighter, longer and more efficiently.

Let’s provide four clear examples:

RELATIONSHIP AND COMMUNICATION

What type of relationship does a client want? Adviser led, technology led or a mix, to be determined as and when the client requires it? Previously, there was little or no choice. Technology now allows the client immediate and deeper access to their portfolios, and multiple means to engage their wealth manager when and where they want and whether by chat, secure email, video or browser. This growing flexibility represents a sea change for the industry and the client.

AGGREGATION AND REPORTING

Achieving a full view of net wealth across banking, investments, debts, pensions and more has always been hard. This is changing. Through regulation, technology tools and client demand, accessing a full view is becoming increasingly possible across multiple providers. Having access to this view, in one place, is a significant step forward in the concept of wealth management.

BEHAVIOUR AND CUSTOMISATION

What exactly does a client need and want? Historically, this understanding was delivered by the adviser. That was how customisation was delivered. Technology is now changing this to deliver an increased understanding of client behaviour and, closely linked, the potential to then offer a customised service, product and pricing to an individualised profile.

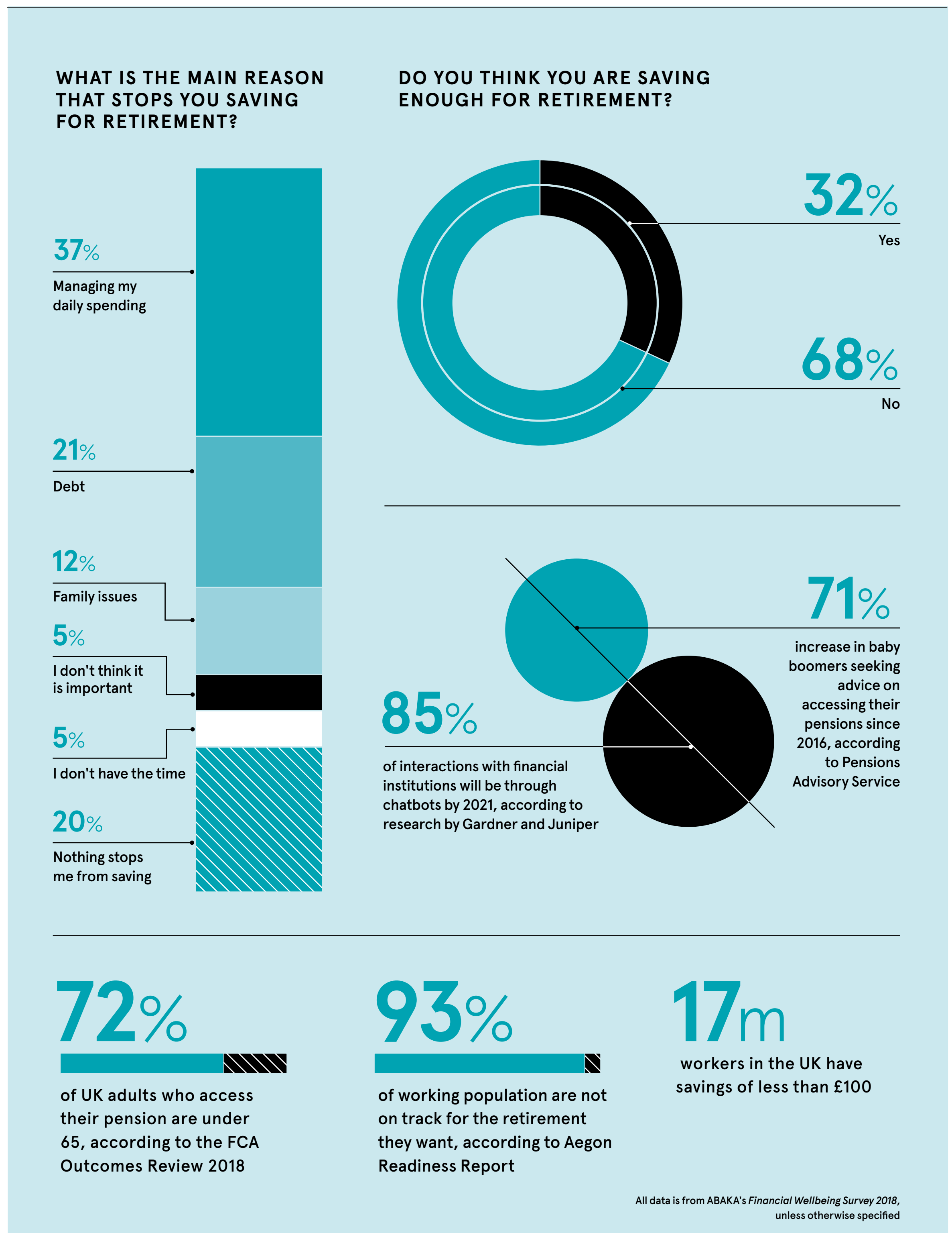
PRODUCTS AND INVESTMENT IDEAS

All the above also maps well to the new capability of wealth management to offer a broader range of products to its client base that, with a greater understanding of a client’s preferences, can also facilitate the delivery of improved investment ideas to relevant clients. Whether exchange-traded funds, alternatives, off-market deals or more, technology is improving access, process, cost and personalisation.

To conclude, from the client perspective, the new era of modern technology is bringing a better wealth management experience, more client centric, more transparent, more cost effective, more personalised and generally easier for a broader client base to access. The evolution remains early in its journey, but the building blocks of change and industry improvement, which are good for all participants, are increasingly available and being put in place. ●

Stephen Wall
Co-founder and head of marketplace and content
The Wealth Mosaic

Commercial feature



Banking on innovation with fintech

It’s clear the emergence of advanced technologies backed by artificial intelligence (AI) is enabling companies in a range of industries to implement innovative solutions that revolutionise the customer experience

Through leveraging machine-learning, countless business systems that once required a great deal of manual labour can be automated. For example, pioneering fintech startups are able to create effective systems from the ground up as they don’t face the same complex legacy systems that traditional financial institutions are hindered by.

> **ABAKA is in an ideal position to support major financial institutions by offering digital advice powered by the UK's first conversational AI on pensions, savings and investments**

These new systems have the potential to gain truly relevant insights into their existing customers and then provide a more timely and personalised service, especially in the world of finance.

Established banks and financial institutions are increasingly understanding the importance of both embracing technological solutions that can benefit their customers and ensuring they select the right partners to achieve a higher level of customer engagement and innovation, which has previously not been possible.

“The rise of innovative technologies in financial services provides a huge opportunity for fintech firms like us to work together in tandem with banks and large organisations, specifically around domains where there hasn’t been a lot of innovation, including financial advice and retirement planning,” says Fahd Rachidy, founder and chief executive of ABAKA, a fintech firm offering an AI-based enterprise platform that helps financial institutions power digital retirement advice and customer engagement solutions to their retail customers.

Even relatively simple product features can take many months and millions of pounds to implement at traditional banks due to their complicated existing technology and systems. The additional challenge of a complex organisational structure can slow down the speed of innovation too.

By collaborating with fintech firms, banks can utilise the more agile work process and ensure outdated ways of working can be bypassed to get things done quickly. Innovative fintech companies also draw skilled staff that are attracted to working in a less formal environment, which can help complement the internal bank talent when working on projects that require up-to-date technical skills.

“At a time when 30 million workers in the UK are at risk of running out of money in their retirement, our financial-advice-as-a-service solution can provide players in the finance industry the ability to offer help, which was recently only reserved to wealthy clients due to its high cost, to all customers at scale and at an affordable price,” says Mr Rachidy.

AI-powered financial-advice-as-a-service can help banks and other financial institutions improve how they educate, engage and empower their customers as they can use innovative communication methods to reach clients where they actually are most comfortable. For example, instead of forcing clients to use unintuitive web-based forms, customers can ask for advice and support through chat-based interfaces, easy-to-use devices like Amazon Alexa or conventional mobile texting.

Although banks traditionally hold a great deal of information about their users, it's usually held in disparate silos that are extremely difficult to bring together. Thanks to the growing power of big data solutions, more customer data than ever can be analysed to extract actionable insights that enable banks to provide tailored and contextual advice to consumers to help coach them throughout their life and overall financial journey.

“With the open banking initiative, a number of technologies have been developed to allow banking institutions the ability to aggregate all the data from a client into a single, intuitive dashboard. For example, it’s not unusual for a person to have a current account with one bank, a savings account with another and a retirement account elsewhere. Before open banking, this often resulted in banks seeing a very fragmented picture of their customers finances, especially around retirement pots where customers can have several different savings accounts of this type,” says Mr Rachidy.

As the pension industry as a whole has done very little in recent decades to create a more intuitive and engaging user experience, ABAKA is in an ideal position to support major financial institutions by offering digital advice powered by the UK's first conversational AI on pensions savings and investments.

“As opposed to most of the providers in the fintech space, whether it is in financial management or savings, we're not providing information direct to consumers, we’re only providing our services directly to financial institutions. What we provide is a unique way to deliver digital advice on the topic that is of increasing importance, retirement advice,” says Mr Rachidy.

For a long time, the pensions landscape in the UK has been hard to navigate for many consumers who just don’t have the time or knowledge to seek out the best solutions for their individual circumstances. By offering ABAKA’s solution, financial institutions can support a revolution in how people retire and enable their clients to gain personalised advice that will help them plan their retirement journey as effectively as possible.

Most people are not saving enough for their retirement and are urgently looking for a simple solution that allows them to navigate an extremely complex industry. Unfortunately, many providers still rely on paper-based manual processes and don’t have the capacity to offer this type of product to their clients, unless they partner with innovative fintech firms such as ABAKA.

The financial-advice-as-a-service solution they’ve developed enables big financial institutions to leverage their trust and credibility, alongside the innovative user experience offered by ABAKA.

“ABAKA is in a very unique position as the only fintech firm in the UK that is able to provide an AI-backed conversational digital advice service that really helps to facilitate both traditional players and new market participants in creating customer journeys and delivering experiences, which are a lot more exciting than they've been doing for the past 30 years,” Mr Rachidy concludes.

For more information please visit www.abaka.me

ABAKA

Bonnie Kittle on Unsplash

P2P LENDING

Tech drives inclusion, but only goes so far

Robo-advisory services are enabling investors with varying levels of capital to access financial advice, but a level playing field remains elusive

Jack Apollo George

Investing is about having the power to shape your financial future and make a small mark on the economy around you. Instead of faceless funds managing your pension and ruining or resurrecting whole industries, you could take some control yourself.

Historically, wealth management and investment services have only catered for those who already held substantial assets. The richer you were, the more money you could make. Someone who invested £1 million in a stock that outperformed the market would make a healthier profit than someone who could only invest £5,000. In a world where firms could only provide a limited amount of investing advice and wealth management, it made sense for them to cater for the rich.

Now, however, technological advances are potentially rewriting the definition of who can be included in wealth management.

Robo-advisers harness the power of big data and automation to offer financial advice and asset management with a minimum of human intervention. This means the companies that offer such services are no longer restricted to only serving the wealthiest investors.

Nonetheless, the major players in the industry are cautious about the disruptive potential of robo-advisers. Mary-Catherine Lader, chief operating officer of BlackRock WealthTech, says: "We see the dominant model for wealth management as human advice plus technology, not one or the other."

Similarly, Cynthia Loh, Charles Schwab vice president of digital advice and innovation, concedes that these products are not for everyone. "Robo-advisers are designed for an investor who is digital first, wants to maintain control and receive more episodic advice, does not have a highly complex financial situation, and wants to keep costs low," she says.

It is telling that despite priding themselves on innovation, Charles Schwab holds $37.7 billion in assets in digital advisory offerings. While this is an increase of 23 per cent year over year, it only represents 15 per cent of their total portfolio.

Ms Lader at BlackRock, which manages $6.5 trillion-worth of assets worldwide, says: "Our mission is to help more and more people achieve better financial futures. That means making investing, whether small change or large sums, accessible for everyone in some form." Such inclusive language from a powerful incumbent might reflect the threat posed by digital upstarts.

One of the largest such fintech businesses in the UK is Nutmeg. The company encourages digital wealth management for "a much broader section of society who have less to invest and can start investing with us with as little as £100." Chief executive Martin Stead says in their view "everyone should be able to access the kind of financial services offered to the wealthiest".

But even so, only 40 per cent of Nutmeg's users are first-time investors. Tech-informed investment strategies might be lowering the bar to entry, but they aren't necessarily being fully embraced by the underserved majority.

This is backed up by Charles Schwab's November 2018 report on robo-advisers. Although mostly used by women and millennials, nearly 30 per cent of US robo-advisees still have an income of more than $100,000, far above the national average. Innovation does not necessarily imply revolution.

If algorithmically replicating the work performed by professionals doesn't disrupt the industry, then perhaps a more fundamental reshaping of finance will. Blockchain technologies allow for secure transactions to take place without the involvement of any third parties. If these were fully embraced and implemented, you wouldn't need banks, investment firms or pension fund managers anymore.

In 2017, when bitcoin became a true buzzword, the promise of decentralised technology really took off. Wary of often vulture-like venture capitalists, startup founders offered ordinary investors the opportunity to bet on their company via an ICO, or initial coin offering.

Ashwini Anburajan, founding partner of the 22X Fund, which brought together shares from a number of companies on a prestigious startup incubator, explains the appeal. "The average person is shut out of venture and private equity where there's an opportunity for truly exponential returns," she says. "ICOs gave investors that return in a rapid deal cycle and added the luxury of liquidity by being able to sell their coins."

Along with the values of many leading cryptocurrencies, such as bitcoin and ethereum, the bubble for ICOs burst in 2018. This was not helped by a number of scams and the reality that 50 per cent of ICOs folded within four months. Despite this recent history, believers in the revolutionary potential of blockchain remain bullish.

UK managing director of eToro, Iqbal V. Gandham, says: "Blockchain will eventually 'eat' traditional financial services through tokenisation and we will see the greatest transfer of wealth ever." With 11 million users in 140 countries, and allowing the trading of crypto, contracts for difference (CFDs) and currencies, eToro may wish to present itself as the sort of platform on which a decentralised, democratised investment landscape could be built.

> "The average person is shut out of venture and private equity where there's an opportunity for truly exponential returns

But that future is still largely a pipe dream. While anyone can invest on these new platforms, they come with significant risks as 66 per cent of accounts trading CFDs on eToro have lost money and, in 2018 alone, Americans lost more than $1.8 billion trading bitcoin.

Investing still takes time and money. The language of inclusivity may continue to be pushed as incumbents seek to capture the leading investors of tomorrow. But, despite fintech's professed appetite for disruption, robo-advisers and blockchain look unlikely to uproot the industry anytime soon.

MOST IMPACTFUL TECHNOLOGIES

Percentage of American investors who think the following will have the biggest impact on financial services

Charles Schwab 2018