

## If Ray Mears was an investor would he invest the way investors do?

David Curtis

Head of Sub-Advisory  
Goldman Sachs Asset Management

---

---

---

---

---

---

---

## Agenda

- Importance of investment
- Trends in asset management
- Implications for wrap
  - New products
  - Pricing
- How does wrap benefit investment managers?

1

---

---

---

---

---

---

---

## Ray Mears



2

---

---

---

---

---

---

---



---

---

---

---

---

---

---

---

### Ray Mears Philosophy

- Maximum efficiency from minimum effort
- You don't need equipment, you need knowledge
- Prioritise needs to ensure the optimal outcome

4

---

---

---

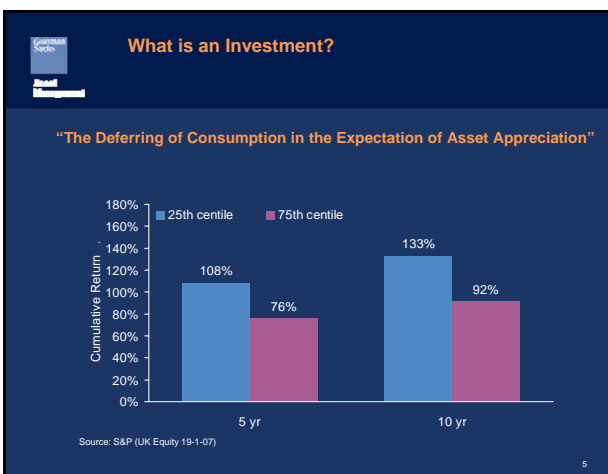
---

---

---

---

---



---

---

---

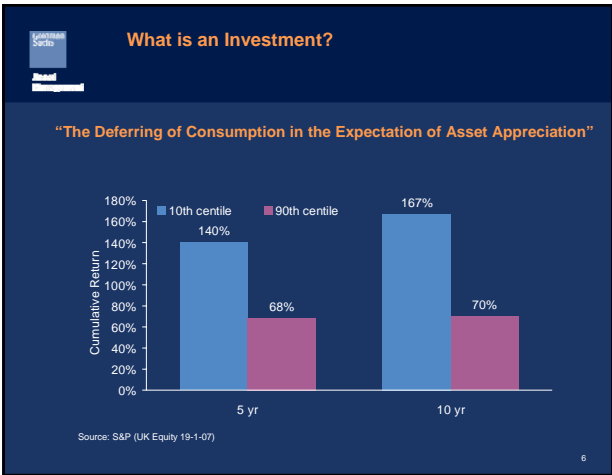
---

---

---

---

---



---

---

---

---

---

---

---

---

- One View of Asset Management Industry**
- Active management is a zero-sum game
  - Product is not well differentiated
  - There are too many fund managers
  - Consumers don't really care about investment

---

---

---

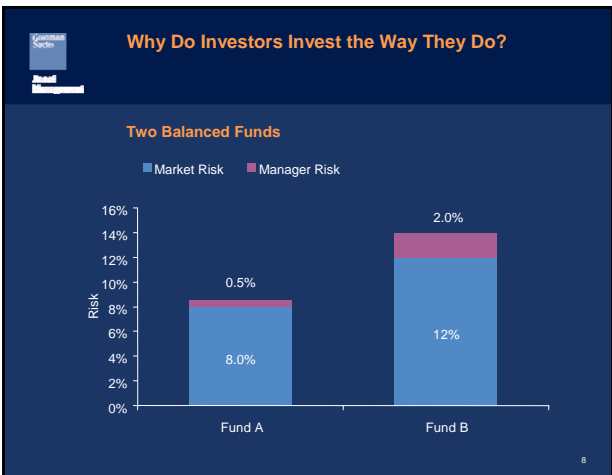
---

---

---

---

---



---

---

---

---

---

---

---

---

## What Ray Might Say!

- 90% market and 10% market risk can't be right!
- Not optimal for all investors to take just a little bit of active risk
- Why don't more people
  - Recognise efficiency of market and invest in index product
  - Recognise skilled managers and invest in hedge funds
  - Invest half market risk and half hedge fund risk

9

---

---

---

---

---

---

---

---

## The Active Risk Puzzle

Why is the range of active risk taken so narrow?

- Do clients have separate risk aversions?
- Role of "career risk"?
- Active risk is linked to asset allocation
- Equity bull market
- Marketing

10

---

---

---

---

---

---

---

---

## The Future of Investment Management

### Higher allocations to active risk

- Investors will pursue high information ratios

### Relaxing constraints

- Remove shorting constraint
- Less developed markets
- Greater use of derivatives

### Alpha and beta separation

- Alpha is portable
- Investors will pursue passive market exposure

11

---

---

---

---

---

---

---

---

Global  
Sectors

Asset  
Management

### The Future of Asset Managers

- Middle ground of asset management is disappearing
- Two types of firms prevail:
  - Global "full service" investment managers
  - Boutiques
- Merging of alternatives and traditional
- Survival based solely on alpha

12

---

---

---

---

---

---

---

Global  
Sectors

Asset  
Management

### New Asset Management Strategies

Focus on strategies that provide higher alpha per unit capital

- Growth of overlay strategies
- Growth of hedge funds

Reducing costs through indexation

Importance of UCITS 3

- Extends the range of asset classes and strategies
- Greater flexibility on shorting and use of derivatives
- Greater alpha generating potential

13

---

---

---

---

---

---

---

Global  
Sectors

Asset  
Management

### Asset Allocation Today

	Strategic Asset allocation	Tactical Asset allocation
Before	<ul style="list-style-type: none"><li>• Fixed Income</li><li>• Equities</li><li>• Real Estate</li></ul>	<ul style="list-style-type: none"><li>• Fixed Income</li><li>• Equities</li><li>• Cash</li></ul>
Now	<p>Greater Opportunity Set</p> <ul style="list-style-type: none"><li>• Hedge funds</li><li>• Private Equity</li><li>• Exotic beta<ul style="list-style-type: none"><li>— Emerging market debt</li><li>— High Yield</li><li>— Emerging market equity</li><li>— Commodities</li></ul></li></ul>	<p>Greater Focus on Alpha</p> <ul style="list-style-type: none"><li>• GTAA/currency overlays</li><li>• Unconstrained fixed income</li><li>• Long/short equity</li><li>• Active Currency</li><li>• Active Commodities</li></ul>

14

---

---

---

---

---

---

---

Guinness

Savits

Real

Management

### Pricing Strategies

- Peer group pricing
- Share of alpha

	Alpha	Fee
Hedge fund	9% pa	3% pa
Mutual fund	3% pa	1% pa

- Greater use of performance fees

15

---

---

---

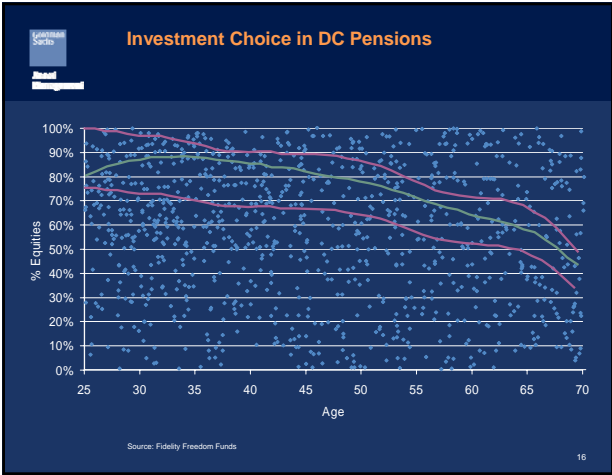
---

---

---

---

---



---

---

---

---

---

---

---

---

Guinness

Savits

Real

Management

### People Want Choice but don't Want to Choose

- 5 very common DC choices:
  - Reckless conservatism (cash)
  - 1/nth investment (ie 1/5 in 5 options)
  - The familiar (own shares)
  - Top of the list (literally!)
  - Default

Is this a good opportunity for an investment manufacturer?

17

---

---

---

---

---

---

---

---



What Wrap Can Do For Asset Managers?

- Better link fund managers with their customers
  - Construct products to meet client needs
- Give them tools to help them build suitable portfolios
  - Build better portfolios
- Give them analytics to better understand performance
  - Improve persistency
- Illustrate to them that investment works!
  - Aggregation promotes saving

Ray would be pleased!

18

---

---

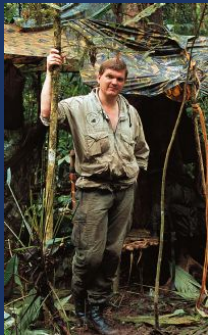
---

---

---

---

---



19

---

---

---

---

---

---

---