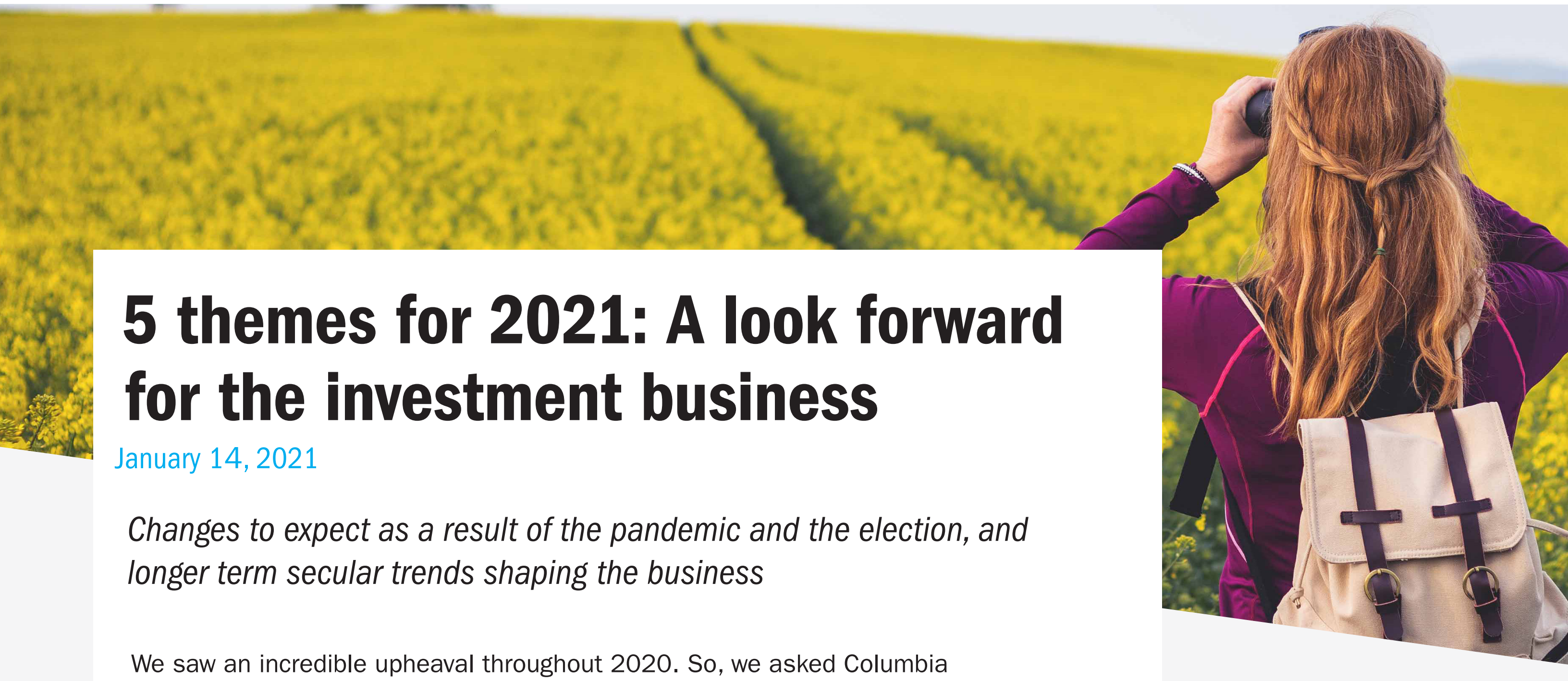

# 5 themes for 2021: A look forward for the investment business

January 14, 2021

*Changes to expect as a result of the pandemic and the election, and longer term secular trends shaping the business*

We saw an incredible upheaval throughout 2020. So, we asked Columbia Threadneedle Investments CEO Ted Truscott to provide his thoughts on some of the opportunities and challenges for the investment industry as we enter 2021.

William F. "Ted" Truscott
Chief Executive Officer

**1. Balancing virtual and human interaction**

Initially, many people reacted to the working from home transition with a lot of positive energy by exploring and largely embracing the novelty of remote work. But as reality set in and the situation continued, it dawned on some that this could be a tough way to work all the time. I'm not suggesting our industry isn't going to continue having some work remain virtual. In fact, I think it's very exciting that the trend will likely continue. But I do believe that people long for in-person human interactions as well. I see an operating model for most firms where there are some in-person meetings, some virtual meetings, and some that will be an efficient mix of the two.

But there's one big caveat: I think it's very hard to establish new relationships virtually. Asset management is a trust business, and at the end of the day, people want to meet with and know the people who manage their money or make recommendations to them. I don't think that's ever going to change.

**2. Attracting the next generation of investors**

Engaging with the next generation of investors is going to be a key test for the investment industry. Younger investors have a stronger connection to responsible investing principles. They're truly digital consumers with different expectations about service and access. They're certainly more comfortable with a more fluid hybrid virtual/in-person delivery model than an older investor might be.

I think all the things asset managers and financial advisors are doing to enhance their digital capabilities and build RI and ESG into business models, not just products, are going to help the industry meet that challenge. We'll also need to understand that offering customized solutions and service is going to become more prevalent — and more expected by this next generation. That said, when it comes to investing and money, you still need to deliver performance and build relationships based on trust. I don't think that's ever going to change.

### 3. Getting investors to reexamine the expectations for liquidity

People are used to daily liquidity vehicles. Whether you have a separately managed account or a mutual fund, you can get your money back in a day. And investors have assumed that this kind of liquidity is a central feature of the investing landscape. If structured properly, a less liquid vehicle can offer investors higher return over a more liquid vehicle to offset the risk of not being able to get your money back right away. A closed-end fund is a simple way of thinking about it. There are other ways to structure vehicles that have more limited liquidity too, including interval funds. I'm not saying that this is appropriate for all investors. But for some, forgoing liquidity may be a way to get to a better long-term return on their investment.

By the way, this is why the institutional investment world is so interested in private equity. Investors in private equity were very happy to forgo daily liquidity in return for the illiquidity premium that they typically received investing in those vehicles. I think the asset management business will need to do a better job of explaining the potential benefits of less-than-daily liquidity investments to individual investors and offer a wider choice of liquidity options.

### 4. The Biden administration

Biden is pulling together what could be the most diverse group of cabinet members we've ever seen, which is very exciting. I think it sends a great signal to the country that diversity and inclusion are here to stay. That's a major positive. I would also suggest that a number of his appointees are more centrist than progressive. One of the big fears the markets had was that if the Democrats came back into power, we'd go back to regulation, regulation, regulation. The reality is that we have a group of appointees who are not only really qualified for the job, but are also mostly moderate in their views and probably won't follow that path. As an example, I think Janet Yellen as Treasury Secretary is a brilliant move. It puts somebody who really understands how the world works in terms of monetary policy in the Treasury. At the same time, it allays some fears that a Democratic appointee in that job would be tempted to regulate all things financial services.

### 5. The characteristics of a successful firm five years from now

Let me start with something that people don't spend enough time on within asset management: operational efficiency. Most asset managers have not spent a lot of time consolidating systems like client reporting, eliminating duplicative accounting systems, streamlining the front and middle office, and automating. I think asset managers who don't invest in this kind of efficiency over the next five to 10 years are going to be in bad shape from a competitive perspective, and it will inhibit their ability to serve clients in a more customized way.

And this leads to my next point: the ability to provide customization. That could mean everything from separately managed accounts that are mass customized to large institutional investors demanding one-off solutions. If you think about that, it introduces some problems for the industry because asset managers have really operated for a long time on a scale model: the bigger the fund that I have, the more efficient I become in terms of pooling money and investing on behalf of shareholders. Those benefits have largely accrued to the industry itself. And I don't think those benefits are going to remain in place.

Lastly, firms are going to have to deliver more for less. Pressure to reduce fees is going to continue for at least five years, if not 10. So, if you think about a business that’s becoming less scalable because of increasing customization, and is also under continual pricing pressure, the ability to be really efficient from an operating standpoint is going to be absolutely paramount in terms of serving clients well.

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