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The Premier News Source for Asset Management Leaders

management executive

August 3, 2009 | Volume 17 • Number 31 | www.mmexecutive.com | feedback-mme@sourcemedia.com

Ops & Tech

Finding the Opportunity of a Lifetime in the Financial Crisis

Now is the Time to Reinvent the Mutual Fund Industry

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Steve Hooley

Sometimes we seek out opportunities for change. Other times change is thrust upon us. Market conditions in the past 24 months have produced seismic shifts in the mutual fund industry, and several business drivers have emerged that will shape our industry's future. As asset managers, distributors, suppliers and others evaluate their next steps, these demands will drive strategies and shape new solutions.

With change comes both risk and opportunity. For the nimble, thoughtful and resourceful, this set of challenging market conditions represents the opportunity of a lifetime.

Customers First

By focusing on our customers first, striving to deliver innovative solutions and streamlining our businesses, we can be poised to meet the needs of investors. As we consider the following business drivers, we do so with an eye to the opportunities they present to protect and serve shareholders while strengthening our own businesses.

Financial Pressures. It will be a long time before assets and revenues make their way back to 2007 levels. In the new economic environment, shareholders and boards will reconsider what is reasonable performance for investment management firms. Investment management firms, in turn, will re-evaluate risk profiles, client demands and profit expectations.

Regulatory Pressures. In the wake of investment losses and inquiries, investment management firms are bracing for a new wave of regulation and oversight. The mutual fund industry has long been at the leading edge of regulatory compliance and has historically supported regulations that are in the best interest of shareholders.

We must continue to anticipate and respond to regulatory proposals in order to ensure that regulation promotes the best interests of shareholders.

Efficiency Pressures. Seeking greater efficiencies, investment management firms are rationalizing products, looking at overlapping fund ranges and scaling back their offerings and the markets in which they distribute.

Meanwhile, many are re-evaluating whether it makes economic sense for them to maintain their own transfer agency operations and technology. By making these decisions with the needs of shareholders in mind, firms can streamline their fund lineups as well as their operations and investor servicing in ways that improve the shareholder experience.

Investor Behavior. Where will investors turn in the new economy? Will they move toward exchange-traded funds? Have they been frightened out of markets permanently? Or will investors come back to what they know?

We must convey our firm belief that mutual funds represent the best investment product for the majority of Americans as they save for important life events such as education and retirement. We must reconnect with shareholders and demonstrate why taking a long view of savings and diversifying their investments will help minimize risk and deliver the results they need.

Retirement Focus. Has the current recession, marked by dramatic losses in retirement savings, permanently altered retirement timelines? Regulators, legislators and the retirement industry itself are rethinking how best to prepare today's workers for tomorrow's retirement. As we anticipate changes in regulation, this is an opportunity to invest in the development of new solutions, such as the introduction of annuity and income-producing features within mutual fund products, as well as improvements in rollover capabilities.

Sustainability Focus. As investment firms build in greater operational efficiencies, they must also increase their focus on environmental sustainability. Investors, suppliers and the communities in which we do business are increasingly concerned with environmental issues like climate change.

Companies that are committed to reducing their carbon footprint and building "green" business practices into their core operations will ultimately be more competitive and more efficient, and will realize greater long-term financial results.

While change presents certain risks, we exacerbate them with inaction or defensiveness. If, as an industry, we wait to see what regulations will be enacted, wait for asset flows to dictate our fund strategies or

wait for outside forces to influence investor perceptions, we will find ourselves in an even more difficult position. Similarly, if our primary response to financial or efficiency pressures is to reduce critical resources, we may well cripple service delivery.

We can turn risk into opportunity. We have a rare opportunity to step back, look at end-to-end investment and servicing processes, and adapt our strategies. We can take advantage of our core strengths and determine how processes may be handled more accurately, less expensively and with reduced risk. We can leverage our interactions with customers to better understand their perceptions and motivations, and respond in a balanced way.

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Individuals, companies, industries and even societies define themselves by how they respond to turmoil and challenge. We are in such a defining period. We can “hunker down,” or rush headlong into uncharted waters.

Alternatively, we can rationally reinvent ourselves. We can reject the past as the only guide for the future. We can take affirmative rather

than defensive steps.

Every recessionary period since 1900 has been followed by a period of growth. Whether sluggish or explosive, growth inevitably brings opportunity. We now have the opportunity of a lifetime. We can define our own future.

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