THE LAST WORD

In this final outing for the Last Word, we head to the City and let **Christopher Good** put forward his opinion on changes now taking place in fund management, and those that are coming

After a grim few years, the numbers look good

Total net assets for the European fund industry were €10,661bn at the end of July 2014, compared to a global figure of €27,434bn. Private funds have had a busy summer. Deals are getting done as sellers take a more realistic view of prices, and investors are getting liquidity, which gives them the confidence to commit to new funds.

On the macro side, there's a long-term global demographic trend that suggests we're an older, growing population with more assets to manage and an inclination to pay for that service.

So much for the Pollyannas - here's what the Eeyores say. Investors now require more love and attention, both when you market to them and when they're in your fund and you're reporting to them (often on a bespoke basis). There's downward pressure on management fees everywhere. The SEC 'sunshine' report into private equity in the US and the Retail Distribution Review in the UK have reminded investors of the layers of fees involved in fund products. Investors understandably want value for money.

If the phone isn't an investor, it's probably a regulator

Previously, the perceived wisdom was that 'widows and orphans' needed the regulator's protection, and institutional investors who invested all the time did not. The EU's new funds legislation assumes institutional investors are prone to the same weaknesses and mistakes as widows and orphans, so they're now getting similar levels of regulatory protection. There are still jurisdictions that try to run a 'lighter touch' regime, but the political will on this means the bar's going up everywhere. The regulators have also been quick to flex their muscles - they want more detail on what managers are up to and what they're being paid.

The SEC's report reignited the debate on manager compensation and charging fees to investee companies. The new EU rules require compensation disclosure and prescribe remuneration arrangements. Whether you manage a regulated or unregulated fund, wherever you run it, it won't be long before you bump up against a regulator. And of course there are also chronic tax changes in the background...

I'm a Pollyanna. I meet lots of smart, hard-working managers who know their beans and do a sterling job for their investors. But

the day job is more complicated than it was even five years ago and that's the direction of travel.

Managers need to get big, get specialised, or get going

Competition and transparency will flush out those who can't produce the goods. Recent fundraisings indicate a bifurcated market - those who close investors quickly, and those who face protracted battles to win new mandates. As the strong managers shout their successes, those who have failed to raise or are losing AUM will be conspicuous by their silence.

The extra regulation, tax changes and additional reporting mean fixed costs are rising. Most managers will respond by scaling up their businesses and AUM, and there will be opportunities to swallow up the businesses of those managers who aren't cutting it.

Those managers who can't or won't scale up will need to charge higher fees. They can only do that if they offer something their competitors don't. This will favour teams who are specialised, with deep knowledge of a sector or a geographic region (or even both). Generalists (or, more likely, generalists trying to pretend they are specialists) need not apply - those longer due diligence meetings with investors will find you out. And investors won't sit back - they will constantly check managers are running a disciplined investment programme to back up their story. ■

About Christopher Good

Christopher is a Partner in the investment management group at law firm Macfarlanes, where he advises fund sponsors on product structuring and investor negotiations, spin-out arrangements and incentive structures, together with primary and secondary fund transactions. He also advises institutional investors on their investment programmes.