



A presentation *from* BARCLAYS GLOBAL INVESTORS

Financial Services Club

The future of investing

Lindsay Tomlinson

Vice Chairman

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Agenda

- Definition and history
- Drivers of development
- How the drivers operate
- What does it all mean?

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Definition and history

- Third party fund management for institutions and individuals
- A two generation industry driven by increasing wealth
- Emerged from the back offices of brokers and banks
- Pension fund focused
- Growing, changing and professionalising

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Drivers of development

- An industry, like any other
- Knowledge based, subject to technology transformation
- Driven by economic forces, not by regulation
- Where is the value add?

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Economic drivers

- Consolidation
- Globalisation
- Disintermediation
- Democratisation and changing client needs
- Technology - transparency and speed

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Consolidation

- There are (some) economies of scale
- As industries mature they consolidate
- Technology, regulation, branding etc require investment
- A relentless squeeze on the middle ground

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Globalisation (1)

- The world is globalising
- The investment universe is going global
- The clientele are thinking globally
- Scale benefits extend across boundaries
- This led to the concept of a “Global 6-10 Managers”

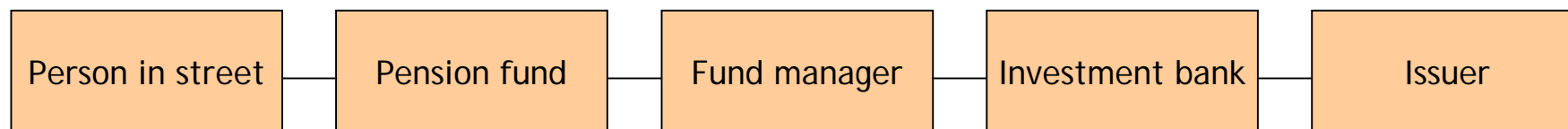
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Globalisation (2)

- This extends to financial markets too
- National boundaries no longer relevant
- Top down asset allocation less and less meaningful
- Leads to a wholesale recasting of national markets, indices, stock exchanges etc

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Disintermediation



- All elements of the value chain are seeking to disintermediate each other

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Disintermediation - Examples

- Structured products bypass fund managers
- Hedge funds cut out investment banks
- Investment bank may buy out pension funds etc
- The goal posts are moving and so is the playing field

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Democratisation (1)

- I did learn something from my American friends
- The person in the street is having to worry about investing
- Led by 401k in the US
- Globally, pension funds are maturing and going DC

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Democratisation (2)

- Professionalisation of retail space
- Brand
- Distribution
- Open architecture, fund of funds etc

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Changing client needs

- Pension funds views of risk have changed
- Managing risk is a key investment management task
- Pension funds increasingly adopting LDI strategies
- Minimising surplus/deficit volatility by cash flow matching

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Technology - Transparency and speed

- No place to hide - sources of added value relentlessly exposed
- Increasing specialisation
- Alpha and beta being separated by mainstream investors
- More off-piste excursions into alternatives

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Increasing specialisation

- Difficult to add value in mainstream
- Look for value in specialist niches
- Different sectors of markets and styles of investing
- Derivatives
- Data sets etc

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Alpha-beta separation

- Investors used to buy a package
- Now understand the difference between market exposure and added value
- Beta (market exposure) is scalable and cheap
- Alpha (added value) is capacity constrained and elusive
- The investment management industry is polarising

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Alternatives

- Investors looking outside mainstream for added value
- Private equity
- Hedge funds
- Commodities
- They are actually searching for illiquidity premia, market inefficiencies or non-market betas

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What does it all mean - for investment managers?

- Be very clear on sources of added value
- Focus on these
- Build partnerships or outsource the rest
- Don't think pension funds; think DC, China etc

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What does it all mean - for investors?

- Think hard about your objectives
- Consider non-financial issues such as governance, SRI etc
- You are buying alpha and beta, wrapped up in different packages
- Look through the packaging to the underlying strategies

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Who will be the winners?

- To win, you have to add value
- Middle ground players will continue to suffer
- Distributors will probably continue to squeeze manufacturers
- End investors and issuers should prosper
- London remains in a very strong global position