

Continuing to advance the Value of the Investment Profession

2018 update



CFA Society
United Kingdom

ACKNOWLEDGEMENTS

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BACKGROUND & PROCESS

In April 2016, CFA UK published a report *The Value of the Investment Profession* aggregating the views of a wide range of stakeholders (clients, investment managers, investment consultants and others) on the role of the investment profession, its effectiveness and value.

We have now completed the second year in this three-year project to follow up on these findings, engaging members and stakeholders to provide recommendations on how CFA UK can address some of these issues.

A further set of four working groups, each made up of CFA UK members, have been meeting over the last six months, looking at a number of the challenges identified in the report and finding practical actions for CFA UK to take in response.

The areas of focus are:

- Capital Allocation
- Client engagement
- Communication
- Cost & Competition

CAPITAL ALLOCATION

As professional investors, our decisions and activities play an important role in efficiently allocating capital in the economy. We act as stewards on behalf of our clients in ensuring that their capital finds those locations where it can be most productively applied and we engage with company management's to encourage them to maximize their long term returns.

Update on 2017 recommendation

The working group felt that the investment profession's role in allocating capital in the economy was not widely understood by society, its clients and even the profession's members themselves. It was felt that the way to make most impact is to initially focus on increasing awareness of the issues and their value within the profession.

- In December 2017 the CFA UK "Mastering Stewardship: The Alpha Edge" conference attracted a strong range of speakers highlighting the tangible value of effective stewardship and giving attendees practical tools and skills to integrate in their investment process.
- CFA UK are also in the process of setting up an ESG Special Interest Group to increase members opportunity to learn from their peers and contribute to a broadening of knowledge in the area.
- Additionally as part of the ongoing review of the CFA UK's Investment Management Certificate (IMC), there is now a working group looking at adding a supplementary qualification around Stewardship.

Recommendations for 2018

This year's working group focused on the unintentional barriers and conflicts that hindered the adoption of best stewardship practices. Whilst clients generally have long term investment goals, the industry is judged by and paid on shorter term performance measures, and generally so are fund managers. The timing around positive and negative ESG impacts on a portfolio tend to be increasingly relevant over longer time horizons and it was felt that if this could be incorporated in incentive plans, we could reduce these misalignments of interest. The group has recommended a list of principles that should be included in formulating any incentive programme and we are looking to hold an event to debate how best these can be practically incorporated and promoted as best practice guidelines.

CLIENT ENGAGEMENT

The initial report suggested that clients are often not equipped to work effectively with their investment managers and the working group discussions looked at how to help various client categories understand and engage more effectively with our profession.

Update on 2017 recommendations

- The working group recommended that the CFA UK should set up an initiative to help CFA UK members who would like to volunteer on Charity Boards, and build opportunities to use their skills pro-bono and improve our reputation and value to society. We will be launching a new working group over the summer to begin implementing these proposals.

Recommendations for 2018

- This year's working group focused on how the CFA UK can encourage greater engagement of the general public with their pension options. Having looked at the vast amount of information available online and in the press around the deficit in pension savings, it was felt that people need more independent and clear guidance around many of the basic financial concepts and these need to be available at those key times when a person needs to make financial decisions. Having engaged with the Department for Work and Pensions, we felt there was a key opportunity to influence the younger workers as they choose their auto-enrollment contribution levels and we should develop (with partners) an online CFA UK backed information pack.

COMMUNICATION

The industry has done a poor job at communicating the value it brings to clients which has led to a lack of trust in the sector's commitment to putting clients first. Many reports also show a need for better financial education and literacy. Education is a core CFA expertise and value and this expertise could be used to improve communication, helping to build trust in the investment profession and improve engagement with clients. Globally, local CFA Institute societies have set up financial literacy programmes as part of the CFA Institute Future of Finance.

Update on the 2017 recommendations

As part of the remit for the new charity volunteering working group, the CFA UK will also look to engage with charities who focus on increasing financial literacy and help members volunteer their skills.

Recommendations for 2018

This year's working group recommends that the CFA UK designs an online interactive educational tool that follows what happens to your money at the different points along the value chain. It would contain short videos of real CFA's explaining what they do and how that generates returns on an individual's savings. By clicking through deeper into the chain, they will be able to see their options and the best questions to ask as you select your route to a healthy financial future. This can then become the central tool to back up a PR led campaign encouraging people to invest with confidence for their future.

COST & COMPETITION

As MIFID 2 and PRIIPS regulations dictate new ways to show the costs our clients incur, it seems this issue continues to cause confusion and disruption for both clients and the industry. But effective competition should not just mean the lowest absolute fees. Clients also want service and integrity from their fund manager.

Update on recommendations for 2017

Innovative pricing models are the subject of a current working group who will look to produce a paper and an event outlining most recent developments.

Recommendation for 2018

The working group looked at a whole range of pricing models and innovative ways that they help better align the interests of the asset management firm with their client. Whilst costs are a key concern to clients, discussions developed around how the industry can better show the value generated for these costs and what information is needed to differentiate products in order for the client to choose the best fund manager for them.

The CFA Institute has been advertising under the slogan 'Lets measure up', and the group felt that getting members involved in highlighting best practice and illustrating what "measuring up" means to them, would bring this to life for the membership. We will be asking for your ideas to add to those from our working groups and attendees at this year's summer reception will get to vote for the best ideas.

We continue to depend on the enthusiastic participation and valuable contributions from a wide range of CFA UK members and other investment professionals. If you are interested in volunteering for any of our future working groups please contact:

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LET'S BUILD A BETTER WORLD FOR INVESTING. LET'S MEASURE UP.

Let's make the financial world as diverse as the one we live in.
Let's put ethics at the heart of everything we do.
Let's always put investors' needs above our own.
Let's deliver real value for the investment fees we charge.
Let's create jobs, build bridges, ensure prosperity.

Let's do our part. Let's start today. Let's measure up.

Get started at letsmeasureup.org



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