

The Big Interview: Campbell Fleming, Threadneedle CEO

CV

Campbell Fleming

2013

Threadneedle CEO

2009

Joined Threadneedle as head of distribution

1998-2009

Joined JP Morgan Chase as it took over Robert Fleming in the late 90s; became MD for J.P. Morgan's UK asset management business

1997

Joined Robert Fleming Asset Management, rising to become a director

1990

Legal officer at the Australian Securities Commission



Why outperformance alone is no longer enough to power a top tier asset manager

Dan Jones speaks to the asset manager's new CEO about its response to the challenges of a post-RDR world, premium pricing and how the industry should be tackling capacity issues

For new Threadneedle CEO Campbell Fleming, the task facing him at the UK's fourth largest retail fund manager is "evolution, not revolution".

The Australian took over the business at the start of March, replacing Crispin Henderson, who moved upstairs at parent Ameriprise Financial, and now oversees a business with £84bn in assets under management.

That figure is increasingly being driven by retail flows. Although legacy outflows in its institutional business continued, Threadneedle took in £893m in net retail business in Q1 2013; the highest level since Q2 2011.

Those flows have been driven by the fund house's investment performance. According to the group, 68% of funds are ahead of benchmark

over one year, rising to 79% over three years and 80% over five years.

Fleming, however, is insistent that outperformance alone is no longer enough for a top tier asset manager.

"We have hit record AUM and are seeing record flows. But it is not enough just to deliver top performance," he said.

The focus is increasingly also on both the environment in which that performance occurs, and the group's relationships with clients.

Threadneedle wants to be at the vanguard of projects seeking greater price transparency across the industry - such as the IMA's 'total cost of ownership' initiative.

Fleming described the group's offering as "top quartile performance at above median prices", but said any price premium must be justified not just by performance but by the environment in which a fund group operates.

"If you are going to suggest you are a premium player you need to have a controlled environment. Clients need to know they are dealing with a firm that is as well managed and resourced as it can be."

The CEO also highlighted the rising

costs facing the industry as a whole, a trend which suggests the need to justify premium prices or leveraging economies of scale is more crucial than ever.

"With rising regulatory requirements, fixed costs, an industrial product set to sustain and the need to be a long-term commercial player, it is going to be a bit difficult to deliver this quality at costs much lower than they are already."

"You cannot run an asset manager on a shoestring. You cannot do it in a garage in Mayfair anymore," he said.

Ownership

As one of the larger players of the UK fund industry, Threadneedle is not struggling with size issues, and is part of an even bigger unit, having been owned by US financial services giant Ameriprise Financial since 2005.

Prior to that, the group had undergone a series of ownership changes over the past 15 years - the group was acquired by Zurich in 1997 and sold to American Express in 2003, before Ameriprise Financial was spun off from the latter in 2005. Fleming said those times of upheaval have

now ended.

"We have a hugely stable and hugely supportive parent. The issue around our ownership is now closed."

More recently, the talk surrounding Ameriprise has focused on acquisitions, not divestment, though rumours of an £800m bid for Scottish Widows Investment Partnership were all but dismissed by the group last week.

From Threadneedle's perspective, Fleming said any acquisition would "have to be pretty attractive to take our eye off the ball". But he added Ameriprise had a "good track record" in integrating businesses in the past, having acquired the likes of US asset manager Columbia for \$1bn in 2009.

Pricing

For some observers of the UK fund industry, an uptick in M&A may only serve to highlight the increasing pressure on margins in the industry, driven in part by the focus on fund pricing.

For Fleming, the ongoing debate over headline price levels masks what has been a notable drop in entry and exit prices over the past two decades.

He points to 1995, when a front end fee of 500bps, an AMC of 150bps and other costs meant he bought a fund at total cost of 725bps.

"Today, I get that at 168bps. People are forgetting that while headline costs have been stuck, the strike price clients have been getting in and out at has been falling."

The rise of platforms has clearly helped lower these entry costs, but here too pricing is under pressure as the industry moves to a post-rebate era.

The consideration of 'preferential' clean share classes, where fund groups give preferential terms to some platforms but not others, is a work in progress for Threadneedle, Fleming said.

He added any preferential share classes the group did decide to provide would be supported by a comprehensive "audit trail".

"Those who can get a discount need to demonstrate a robust selection process, an industrial process, purchasing power and a quality client proposition. We try to look at these things in a matrix, so that we can independently point to an audit trail justifying a discount."

Such decisions may also be delayed by Threadneedle's recent decision to switch its transfer agency from BNY Mellon to IFDS; a move the group said would improve service levels for its clients.

The switch is expected to be completed by this summer. It may then lead to a merging of the fund range Threadneedle acquired in 2011 when it purchased the asset management business of LV=.

"The track record has improved on those LV= funds since we took over,

Threadneedle fund data - Q1 2013 (£m)

	Retail	Institutional	Alternatives	Total
Inflows	3,500	830	N/A	
Outflows	2,620	2,350	35	
Net flows	890	-1,500	-35	
Market appreciation	2,300	3,400	31	
Total	27,100	55,900	640	83,700

Source: Ameriprise Financial

and given our managers are running their own OEICs alongside, at some point having both does not make sense," Fleming said.

The run-up to RDR has seen a notable rise in fund mergers as groups tidy up their ranges, but the concentration of fund flows has also meant an uptick in the number of funds that are soft-closing.

Fleming said the industry will have to become cleverer in the way it deals with the issue.

"With rising regulatory requirements, fixed costs, an industrial product set to sustain and the need to be a long-term commercial player, it is going to be a bit difficult to deliver this quality at costs much lower than they are already"

"It does present a problem, and it can be difficult to unravel if these products are used on platforms and in model portfolios. FCA requirements mean we as an industry need to more industrially address the issue of liquidity and capacity, through products that are perhaps not completely open-ended."

One potential solution that will gain prominence, he suggested, is funds making provisions for a limited number of shares or units to be issued.

'Better beta'

While Threadneedle's focus remains firmly on active management, Fleming also revealed the group is giving thought to 'better beta' products, particularly given some of its existing institutional mandates.

"The main thing we are focused on is active products, but we are keeping a watching brief on better beta or enhanced index products. Some of the institutional money we run already is almost enhanced better beta in style."

Elsewhere, as an early adopter of absolute return retail fund strategies,

Threadneedle has not been put off the asset class by the issues surrounding classification of the vehicles.

Fleming said investors were of a similar mind and suggested the group will look again at its own offerings in the area.

"The success of Carmignac and Standard Life Investments [in this space] shows people can deliver. Clients are voting with their wallet."

"They and advisers get this strategy and see where it fits with their strategy. There is an opportunity to innovate professionally and responsibly."

Last year *Investment Week* revealed Threadneedle was one of four groups looking to enhance their direct-to-consumer proposition in the run-up to RDR, but Fleming is quick to rule out any concerted play in this space.

"Crispin Henderson was concerned we did not have any digital capability, and, if there was an exodus of advisers post-RDR, we would end up in loco parentis."

"We are yet to decide whether we roll out a full digital service where you can buy or sell. We will look again once we finish our transfer agency process. But [catering for orphaned clients] would be the full extent of our D2C offering. We are not taking on Hargreaves Lansdown or Fidelity."

A potential rise in clients who no longer have advisers is one unintended consequence of RDR, and Fleming is concerned about other impacts of a move away from a commission-based system.

"When you disaggregate the value chain, and people seek to justify how much they charge for their services, they will say 'it is worth this much'. Prices will potentially go up at every level. I am concerned about that."

Responding to the post-RDR environment and a more hands-on regulator in the shape of the Financial Conduct Authority will require a more diligent approach from fund groups, according to Fleming.

That will mean investing more time, more effort and more money in understanding what clients want, according to the CEO.

For Threadneedle in this regard and others, the focus is on "extending our obsession with performance and becoming more obsessed with customers", Fleming added.

