

# Asset managers: The tide turns

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*The Economist*

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- For decades looking after other people's money has been a lucrative business
- Profit margins in the asset-management industry were 39% in 2014
- compared with 8% in consumer goods and 20% in pharmaceuticals
- Yet the outlook for many asset managers is grim

# Industry reshaped

- low-cost competition
- regulators

# Active managers

- The biggest challenge confronts so-called active managers who promise to earn returns that are higher than the market benchmark (the S&P 500, for example) by picking investments judiciously
- Very few manage to do so
- A study found that 91% of active managers in emerging-market equities failed to beat the relevant index over ten years, and that 95% of active bond managers underperformed

- Morningstar, a data provider, has found that high fees are indeed a predictor of underperformance
- “Now the tide has gone out and the emperor has no clothes”
- Big recent withdrawals ...

# Technology and Regulation

- Regulation and technology are adding to the challenges for incumbents
- In the wake of the financial crisis, regulators focused on the banks
- Now they are looking at asset managers, with everything from the transparency of their fees to the liquidity of their investments under the spotlight

- Technology also means that the strategies of active managers can be replicated at much lower cost
- A computer program can comb the market for stocks that look cheap relative to their profits, asset values, or dividends

## Fees are falling

- Fees for active equity funds are falling slowly, dropping by 4% between 2012 and 2014
- But competition from passive managers is intense
- As a percentage of assets, expenses at Vanguard, a specialist in **tracker funds**, now average 0.18% a year, a fifth of what they were in 1975

- Tracker funds: An index fund that tracks a broad market index or a segment thereof. Such a fund invests in all, or a representative number, of the securities within the index.

- Some star active managers will continue to win business.  
But those that do badly will see their assets wither further