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Risk Appetite at the Crossroads: An Interview With BNY Mellon's Jim Cecere

As managing director for global product management for U.S. financial institutions at BNY Mellon, Jim Cecere is in a unique position to see developing trends in the asset management industry.

Particularly in light of recent market volatility and dramatically changed investor risk appetite in the wake of the recession, *Money Management Executive* Editor Lee Barney spoke with Cecere about new product trends.

MME: Have you seen a shift in the types of products asset managers are launching following the recession?

Cecere: Yes. After the market downturn in 2008, there was an immediate flight to short-term fixed-income products. Investor behavior is highly reactive, and since then, asset managers have introduced more complex products, giving investors more tools to react with.

Asset managers have dealt with the impact of the recession and now face what continues to be highly volatile markets. They are looking at growing their businesses by doing one of three things: entering new markets, expanding into new products, or expanding their distribution. We used to talk about the convergence of alternatives with traditional asset management from an asset manager perspective. While that still holds true, the convergence of insurance products, commodities, private equity and other asset classes with traditional investments is probably more accurate.

Perhaps just as critical as the new types of offerings themselves are changes in how distribution is implemented—in other words, how asset managers are

getting their products into the hands of investors. So, I'm seeing three major themes: new markets, new products, and expanding and evolving distribution channels.

MME: What types of products are you seeing coming to market now?

Cecere: We are seeing a shift to a much broader array of types of investment vehicles. Asset allocation was traditionally defined by need, such as a certain sum of money for a specific goal. Instead of looking only at accumulating wealth, many investors are also taking a more protective stance while trying to create enough wealth to live comfortably.

Also, investors are looking at different ways to gain exposure to non-correlated asset classes to mitigate risk and battle the rapid changes and pressures we are seeing in the post-recession market—whether it's the sovereign debt crisis in Europe, continued market volatility or the downgrade of U.S. government debt.

Investors can now gain access to these diverse asset classes through exchange-traded funds. ETFs investing in gold, silver, copper, euros, Swiss francs and even hedge-like products are gaining in popularity. We've even seen one firm launch a lithium product.

We continue to see innovative products introduced through the ETF channel. Several investment companies are attempting to bring various types of fixed-income securities to the market, particularly shorter-duration products. Beyond the ETF market, asset managers, insurance companies and banks are also rethinking both their product sets and distribution strategies, as I mentioned

earlier. So, we're likely to see even more innovation and convergence in the near future.

MME: What about index funds?

Cecere: Absolutely—there is a definite proliferation in index funds, as well. Indexing remains a core part of most portfolios, even as investors look to diversify their types of exposure. I think Warren Buffett has even commented that investors thinking in the long term need a low-cost index option that tracks the broader market in order to ensure long-term investment success.

The evolution of index funds has led to even more ETFs being introduced and by a wider group of issuers. I admit, I was worried a year or two ago when we started seeing more entrants into the ETF space. I feared that it was no longer a "me too" product, but instead a "me eight" product. However, distribution and segment strategies have become the central focus of asset growth by issuers. Each focuses on its target segments and distribution channels, offering a broad set of index products and subsequently succeeding in many cases with regard to asset accumulation.

MME: You mentioned earlier that there have been significant changes in distribution. Can you elaborate?

Cecere: There has been an evolution in distribution, and this will continue to be of critical importance to the success or failure of a firm. If you think of what an asset manager does, there are three main functions: manufacturing products, producing products and distributing products. While manufacturing products involves the creation and



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development of new product, producing these products is all about processes, such as back-office and middle-office operations. Distributing finished products to investors is the final step.

If you look at the current objectives of asset managers, they are increasingly focused on the manufacture and distribution of products. They are wondering what sorts of products will differentiate them in the eyes of investors and meet the demands of asset allocation, while also effectively reaching the end customer through both traditional and non-traditional channels.

Distribution is evolving because investors have historically had access to specific sets of products either directly through an investment company or through various advice or wealth management channels. But because the product sets and buyer behavior are changing, how people access these products and to whom they turn is also evolving.

For example, we are seeing fewer investors call a fund company directly. Instead, investors are turning more toward investment professionals. Why? Given the complexity of the market and an influx of new products, people are looking for guidance on how they should invest their dollars.

In addition, fund companies are offering broader and more comprehensive education to give their clients a greater level of comfort with their investments. They're also developing new tools to aid the adviser in making decisions. Finally, they're focused on building strong customer service models.

Simply put, investment products aren't bought—they're sold.

MME: How is this change in product and risk appetite affecting your business at BNY Mellon and how you support fund companies?

Cecere: Going back to the three main functions of asset managers—manufacturing, producing and distributing

products—as they focus more heavily on manufacturing and distribution, they are relying more heavily on their operational service providers to help with production.

There have been an increasing number of demands on asset managers over the past few years, stemming not only from regulators and boards but also from shareholders as well. Portfolio managers are looking for information to deal with a growing focus on managing risk. And we expect that this situation will intensify in the future.

There are many challenges to face at this time. Our clients are feeling pressure to generate increased efficiency while also reducing costs. They are being asked to provide more information, demonstrate better risk management and comply with an ever-changing regulatory environment. This can be a time of uncertainty without the right partnerships in place to navigate these rapidly evolving events.

We are seeing an increasing reliance on companies like BNY Mellon that specialize in middle-office outsourcing, or the “production” of these products, while also helping add value on both the manufacturing and distribution fronts.

In just about every conversation with both clients and prospects, we receive a range of inquiries on how we can help them manage their operations in a more comprehensive way, whether it is through total outsourcing of middle-office operations or a component-based outsourcing solution. They ask for our insight on how to manufacture new products and reach new markets.

MME: What does the future of operations hold?

Cecere: You know the old adage, knowledge is power. Well, I would add that power is temporary due to an ever-changing stream of knowledge. Clients are asking for immediate information in meaningful formats—while still having near-real-time access to the new infor-

mation. Just as importantly, they want it presented in a way that allows them to make critical business decisions.

As simple as that sounds, when you look at the trillions of dollars in global assets, understanding all the varied intricacies of what is happening around these securities and the investments being made with them is a massive amount of information. Portfolio managers have an entire suite of demands as it relates to their decisions on how to invest assets. Marketing managers need to know who uses their products and how they are being used. Risk managers want to understand how investments impact the risk profiles of an investor, a portfolio and their firm. Information is an asset of indeterminate value.

BNY Mellon does not simply provide custody, accounting or transfer agency services. This is a core set of services for our firm, but more importantly, we have the ability to help our clients solve problems.

In this changing landscape, it means we focus on the three areas—manufacturing, producing and distributing—and develop solutions that enable our clients to achieve their strategic objectives.

We are skilled at taking all of this critical information and delivering it to clients in a user-friendly format so clients can access this data and are empowered to make better decisions.

A good example of this is the 2008 collapse of **Lehman Brothers**. The industry had to quickly answer a fundamental question: What is my exposure to Lehman? Not many firms could answer that question in a reasonable amount of time.

Since then, the industry has made many advances. However, we still have a ways to go, especially in light of new risk and reporting regulations.

There certainly are other areas of strategic importance to asset managers. But I wouldn't want to give the secret sauce away, would I? **MME**