Stephen Doyle, Head of U.K. Institutional Relationship Development for Asset Servicing

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Stephen Doyle: We’re seeing a huge movement and momentum from active towards passive management. The active managers are really struggling to – they have to show their performance, their outperformance to the market and the passive managers are really gaining a lot of institutional flow.

The market drivers that are really pushing the movement from active to passive are the regulatory change, so there’s a lot of pressure from the regulators to become more transparent in your pricing, and through that there is also a lower cost focus, so they're actually encouraging investment in the lower-cost product.

So the challenges for the passive market are that we've had a bull market in the funds business for ten years and because of that, passives have outperformed everyone else and the challenge will become when the markets start to fall, and everyone’s expecting market falls in the future, or corrections at least, and that’s when the passives will really have to demonstrate outperformance to an active manager.

Active managers can really show value through their ability to provide products that is outside of the standard realm. They go into specific sectors such as real estate, debt, loan funds to the alternatives, private markets, but also then in the active market they don't just go for the traditional large stock equity fund ranges, and they start to look at emerging market funds and things like that where they can show their outperformance to the others.
The active asset managers that are looking to remain competitive, they're really trying to do a couple of things. They're cutting their costs, their operating expenses. They're also trying to cut their fees to their client base and then they try and show outperformance by charging the performance fee on the back of that, so the base fee is a low fee. And the third area really is that there’s a lot of M&A activity in Europe where the market has just seen that you now need to be bigger and bigger to survive in this market.

BNY Mellon is supporting asset managers meet their investor needs in a number of different ways. First of all, we’re supporting the full spectrum of product capability, so that goes through from the active management right into passive. And the second way we’re helping asset managers is our insight into the market. We have a unique position in the market in that we have a great understanding of the asset owner’s space, who are typically clients for the asset management space, so we can help our asset management clients as they look to predict future behavior for their client base.
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