



James Suglia



Tom Brown

A recent KPMG report provides insight into the new world facing investment managers after the crisis. Reviewing its key conclusions, **James Suglia**, and **Tom Brown** argue that the key to recovery lies in mending relationships.

Renewing the promise

Time to mend relationships in investment management

The credit crisis is fundamentally reshaping investment management. A new report, drawing on the findings of a global survey of 288 investment managers, investors and senior executives working in the industry, provides valuable pointers to how the industry will develop as a result¹. If firms are to grasp the potential of these changes, mending relationships with investors, regulators and other stakeholders will be key.

Corporate governance and risk management

Many investment managers could benefit from lifting their game in this area. Investors believe that independent assurance and adherence to a best practice code of conduct need improvement, despite investment managers believing that they are performing well in these areas. This is a disconnect that managers really need to address to avoid alienating their investors. Managers who have strong programs need to be more transparent (i.e. better at communicating them) while other managers must first work on strengthening their practices.

Investment managers need to clearly articulate their risk appetite and transparently communicate this. When risk appetite is properly understood and clearly defined, it becomes a powerful tool for enhancing overall business performance. A clear and effective risk management and governance structure gives both the investment manager and investors confidence that investments can be competently managed in a controlled way.

Rebuilding trust

The trustworthiness of financial intermediaries has been hard hit by the crisis. This is on top of a string of scandals in recent years, from market timing abuse to Ponzi schemes, which had already damaged this trust.

Investment products can be complex and difficult to understand for most members of the general public, while failure is easy to see and measure. Investment managers need to help intermediaries, who sit with clients, to explain the risks and benefits, the costs and the small print. This should deliver the message to their investors in all of these areas. Unfortunately, the research indicates that there is still a wide gulf to bridge between investment managers and intermediaries.

Regulation

There are widespread concerns about the impact of potential new regulations, especially in the areas of leverage, disclosure to clients and the external assurance. The great majority of respondents felt that regulators clamping down will seriously increase costs for investment managers. In many cases, managers will be unable to pass on these associated costs to their clients.

Likely regulation in areas like shorting and leverage will damage many business models. Many hedge funds could find life very hard. Greater transparency may also mean that investors begin to question the fees they are being asked to pay for hedge and other alternative funds. In response some alternative fund managers will entrench but many will diversify and seek to migrate into more traditional activities.

Differentiation

For many years, investment managers did not have to try very hard to be successful in the industry. Today, the key to success has become differentiation.

The study highlights the importance of personal relationships and service quality as well as delivering on clients' expectations. Achieving differentiation is really about getting 'back-to-basics': determining what clients need, getting the value proposition focussed and communicating it clearly.

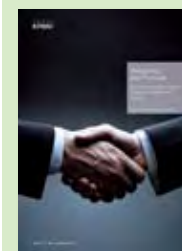
For more information please contact:

James Suglia
Partner
KPMG in the US
Tel: +1 617 988 5607
e-Mail: jsuglia@kpmg.com

Tom Brown
Partner
KPMG in the UK
Tel: +44 20 7694 2011
e-Mail: tom.brown@kpmg.co.uk

1. *Renewing the promise: Time to mend relationships in investment management*, KPMG International, June 2009; in partnership with Datamonitor.

About the report



The full report, *Renewing the promise: Time to mend relationships in investment management* will be available in June, please visit www.kpmg.com for copies.