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FACE TO FACE

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Demographic shift stunts fund industry's growth

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Michelle Seitz, head of William Blair IM, on the challenges facing 'mature' asset management

Michelle Seitz, head of William Blair Investment Management, the $64bn fund house, is an early riser. A very early riser.

For years she has been getting up before the birds, at 4am. "I have a feeling I have always [gotten up early]," she says.

The prompt start has made it easier for her to balance her job and her family: once she is up, she works from home for four hours and then spends some time with her children, who range in age from nine to 16, before heading to the office.

But the early start also has another advantage. She says it gives her time to think about the big issues affecting the fund industry, away from the constant barrage of emails, phone calls and meetings that permeate a working day.

And right now having some quiet time to think about the big issues is useful, because never before has the money management sector faced so many big, structural changes, the mother-of-five claims. And that is before you include this year's volatile trading conditions, when stock markets plummeted in January before rallying again.

The structural changes faced by the fund industry range from the rise of passive products — cheap vehicles that replicate an index — to a demographic shift where individuals withdraw more money from their pensions than they invest in them.

"The industry has had a tailwind with the demographics working in our favour, but now the demographics are a headwind. Clients are using the money [they once invested and] you are seeing net redemptions at a pretty steady pace," she says.

Then there is investors' growing focus on costs, which puts asset managers' profit margins under pressure. The rise of younger investors, so-called millennials, also poses a problem. They do not seem to be behaving in the same way as their predecessors when it comes to investing.

Additionally, technological change, which Ms Seitz says the industry is ripe for, is a concern. "There hasn't been a digital disruption in our industry to date. That is another structural change, which I think can be to the net benefit of clients, but it will be another headwind," she says.

Ms Seitz adds: "I would say, in 30 years, frankly [these challenges are] the biggest sea change I have seen."

All this change means the organic growth of the industry will start to slow.

Before the financial crisis, the fund industry grew quickly, with assets under management increasing more than 6 per cent a year. But this has now slowed to 2 per cent and is expected to fall even further in the run-up to 2020, according to 2015 research by Casey Quirk, the consultancy.

If asset managers are to grow, they will have to take business from other asset managers, Ms Seitz says. At the same time, passive products will take assets from active managers.

"People need to save more, they are getting old, and they need to invest in a lower-return environment. All of these things add up to a more mature asset management industry rather than one that has experienced organic growth pretty consistently over time," she adds.

Ms Seitz, who was a portfolio manager for 23 years, says this "maturing asset management industry" will look different, and not just in terms of products and technology.

She argues that its workforce needs to become more diverse, shifting away from its reputation as a "pale and male" industry.

Only 10 per cent of mutual fund managers in the US are women, according to the Women in Fund Management report. William Blair has five named female portfolio managers, representing 37 per cent of its assets under management.

Ms Seitz, who admits she faced her “fair share of impediments” related to her gender along the way, says “diverse teams deliver better solutions”.

Under a new policy put in place under Ms Seitz’s watch, diverse candidates — typically women and ethnic minorities — should make up half of the individuals interviewed for a job at the asset manager. “If we interview 10 people, five need to be diverse and the other five can be the majority of the industry, which is white men,” she says.

The policy means the hiring process takes longer, but Ms Seitz says it should be worth it in the longer term.

“There are a lot of talented people out there. We need to make [the workforce] a bit more balanced than we have historically,” she says.

She is less forthcoming about how the money management arm of Chicago-based William Blair, a privately held financial services company, will deal with the other changes that are afoot for the industry.

One thing that is clear is that she wants to grow the asset manager’s retail business. This area only accounts for 15 per cent of its assets.

There are no plans, however, to move into robo-advice. This area of the retail fund industry, where online services provide automated investment advice, is expected to grow strongly.

The 50-year-old, who has presided over William Blair’s investment management arm at a time when its assets grew fivefold, also has no interest in launching passive products, which have proved popular with investors.

But the Indiana University graduate, who has been in charge of William Blair Investment Management for 15 years, says she is “excited” by the changes ahead.

“These changes are happening very quickly. The industry will need to continue to adapt but I think that is a good thing,” she says.

“There are so many things that we do with a herd mentality that I think disrupting that pattern will lead to a lot of breakthrough innovations both in transforming business models as well as in transforming the types of strategies we offer to clients.”