

An Industry In Constant Evolution

by Robert White, CFA

It is generally accepted that 2020 saw changes in the way we use technology that are likely to persist even after the pandemic ends. Many changes to society and markets already appear self-evident today, and developing a full understanding of the implications will be important for active managers over the years to come. The Christmas break provided us with a chance to ponder more introspectively over the impact these changes may have on the investment management industry itself, and how best to serve our clients over long term.

Much has been written on how society will change following the pandemic and there are several examples of interesting shifts in consumer trends. My favourite example – albeit admittedly very niche – has been the explosion of interest in the 1,500-year-old game of chess since the pandemic. Despite the success of The Queen's Gambit on Netflix, who would have thought the game would become one of the fastest growing spectator sports on video streaming services such as Twitch¹.

Investment management has an even longer history; its roots go back 4,000 years to ancient Mesopotamia, although the first stock exchange wasn't established until the early 17th century in Amsterdam. The profession has of course progressed somewhat since then, maturing greatly through the 20th century as a new regulatory framework developed after the Great Depression, and academics developed more precise mathematical understanding of concepts such as diversification and value.

Although the use of such techniques greatly helps investors today, the experience of the pandemic has been a stark reminder that mathematics and volatility numbers do not always accurately account for all investment risks. Tail risk or so-called "black swan" events such as the pandemic are notoriously hard to incorporate in models, and when they occur, investors are much more focussed on the risk of permanent capital loss rather than any statistical measures of historic price dispersion. A key

pillar of our philosophy at Momentum is exceptional client service; our investment staff are acutely aware that investing is a journey, and helping clients to remain invested through times of extreme uncertainty is often the most valuable service advisors can provide for their clients.

Another important issue has been the importance of sustainability in investing. During an international crisis such as this, investors are increasingly thinking about social issues as well as returns, and pressure on boards is increasing through greater numbers of successful shareholder resolutions on ESG matters². The most progressive companies are reacting to this demand, and are mindful of the wellbeing of a broader range of stakeholders than they have been in the past. This is an area where active managers have been ahead of the curve, naturally being more engaged with corporate boards than passive investors that narrowly follow indices.

A final word should be said on the impact of technological innovation generally, as the investment management industry has been operating at the forefront of areas such as natural language processing within AI. The amount of data available today means that investors are constantly looking for an edge over peers through new developments in tech, and increasingly sophisticated computer-driven systematic strategies are becoming more popular. This is a trend we have already embraced at Momentum, blending systematic and traditional strategies to optimise performance for our clients over the long term.

¹ <https://www.cbsnews.com/news/online-chess-makes-its-biggest-move/>

² <https://www.ft.com/content/844783f8-c9c4-4cda-960f-bec2543a5e12>



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