

## Emphasis on 'innovation' is hurting industry, warns deputy CEO

By Chris Sloley 04 Oct, 2019



Stop the innovation push! Jose Castellano wants to get off. The deputy CEO of iM Global Partner has warned that the emphasis on cutting-edge and alternative ideas is hurting the industry.

Speaking to *Citywire Selector*, Castellano, who is also head of international distribution at the asset management platform, said too many companies are switching focus from their core offering as they seek to match market trends with new products.

'Growth in the industry was once driven by performance and is now driven by asset gathering. This asset gathering has been driven by a constant need for 'innovation', whatever form that takes, which has led to many similar strategies coming to market to capitalise on one or two new and exciting themes.

'This has created a lot of headaches for the industry, as a lot of the funds are now facing fee compression and it is highlighting the inefficiency of the fund market in some instances. There was a number of fees that were effectively subsidised by the high-fee environment and now we are facing a large level of industry disruption.'

Castellano said the proliferation of underperforming funds – both in traditional and new market areas – could also be damaging active management as a whole.

'This is causing disruption and it is a consequence of the market because people then turn to index funds, as they don't want to spend money for zero outperformance. They will pay a premium for performance but will ask questions when they are not having their expectations met.'

### Sub-scale funds cause major problems

The situation is likened to stranded assets in natural resources, where funds are no longer operable at a sufficient scale but the cost of closure would also damage companies.

'If we look at the current product offering of the industry, I would say 70-80% are sub-scale products, while not all are underperforming, the products with scale and performance is where investors should be focusing their attention.

'The industry is putting a lot of money into keeping these sub-scale products, which could be more effectively used elsewhere. The situation is complicated by several of the larger scale products also lacking performance.

'We have seen a lot of the high fees subsidise the sub-scale funds and that is now coming under pressure. If asset managers focused on going back to basics, without focusing on the fear of not generating assets but instead the plan of generating alpha, then the market would be in a better position. 'Championing his own company's efforts, Castellano highlighted how iM Global Partner has focused on 'core' areas in its strategic partnership work. This has seen it align with a US credit shop, an Alt Ucits specialist, two US equity companies and a liquid alternatives company.