Exchange of views

Patrick Thomson - Chief Executive Officer for EMEA, JP Morgan Asset Management

David Wright - President, EUROFI

David Wright

Ladies and gentlemen, take your seats please, because we have the pleasure of an interesting discussion for the next 15 minutes with Patrick Thomson. Welcome Patrick, who is the Chief Executive Officer, EMEA, at JP Morgan Asset Management. I was looking through your CV, Patrick. I calculate you have been with JP Morgan Asset Management for 27 years. Is that correct?

Patrick Thomson

It is.

David Wright

So you have a wealth of experience. Patrick, I was wondering whether we could start with a subject that interests me a lot. I am very much supportive of what the Commission has put forward for European Long-Term Investment Funds (ELTIFs). Is this going to be the sort of long-term investment vehicle that can translate into bringing the necessary investment for transition and the new sustainable economy? Are you optimistic about this in JP?

Patrick Thomson

Firstly, thank you very much for having me, David. It's lovely to see you again. *C'est un grand plaisir d'être ici en France.* I would also like to single out the comments just made by the previous speaker, which I thought were very thoughtful. I totally endorse the approach by the European Securities and Markets Authority (ESMA) in terms of investor protection, consumer care and embracing the digital economy.

To answer your question specifically, ELTIFs offer a significant opportunity, but one that is fraught with risks. Picking up again on the previous comments around getting retail investors to invest and save more, this is clearly a very good outcome for the European economy. Of course, one has to be careful about the sorts of products that are delivered to those investors, and to make sure that the disclosures and necessary consumer protections are in place. Of course we fully support it, and I am very optimistic about the ability for savers, and particularly retail savers, to participate in long-term investing both within and outside Europe.

Here one thinks of an asset class like infrastructure perhaps, which has a clear public benefit, but it is an illiquid investment. One has to be careful about the way that one distributes those products, and to make sure that the consumers understand that because it is an illiquid investment, you might not get your capital back at a time of your choosing. Of course, like any investment, it is subject to risks, so I think making sure that those are clearly understood and well communicated is a very important part of the responsibility that we have as asset managers; ensuring that the public is educated.

I would probably make one other comment around that, which is that I do think that Covid has provided an extraordinary opportunity to educate our clients, investors and savers around Europe. People are much more digitally aware, and the firms that embrace that and are able to educate their clients and customers will be able to deliver better outcomes for them.

David Wright

To follow up on the ELTIFs, the Commission has made its proposals to modify the conditions for ELTIFs. I have heard very positive comments about these amendments from various parts of the market. I absolutely understand your comments on the retail side, but from the wholesale professional side, is this going to trigger a market, and the definition of a product, which could in the longer term match the Undertakings for the Collective Investment in Transferable Securities (UCITS) label?

Patrick Thomson

First, I can make an observation on UCITS generally. For us as a company, UCITS is very much the gold standard. Almost 30% of the assets that we manage here in Europe are on behalf of investors outside of Europe, who use the UCITS label as a form of guarantee and reassurance around the quality of those products. Again, to the extent that ELTIFs can be part of the Alternative Investment Fund Managers Directive (AIFMD) and the reputation for sensible, consistent regulation that we have here, I think that will encourage a lot more confidence in ELTIFs.

I think it is fair to say that ELTIFs have had a slow start. I do think some of the proposals will encourage more savers into that, but I would also make a further comment on sustainability. I think there is an incredible opportunity here to encourage people to save for a more sustainable outcome. For those of us who were at COP26, I was very struck by the numbers required to move the economy to net zero by 2050. It is $125 trillion, and when you break that down it is effectively three to four trillion dollars a year of increased spending. Now, that is almost three times what was spent in 2021, so these are monumental numbers.

David Wright

These are global figures.

Patrick Thomson

Yes, these are global figures. However, what I think is very encouraging, and what I am very optimistic about, is that this is an extraordinary opportunity for savers and customers in Europe to participate in allocating capital towards helping companies transition to net zero. Again, if there is proper regulation and consistent disclosure standards, that is an extraordinary opportunity for savers.

David Wright

Let us take the standards here. We saw the Chair of the International Sustainability Standards Board (ISSB) here yesterday, impressively outlining the work, but are we going to get a consistent set of standards? The role of the asset management industry in pushing companies that you invest in strikes me as being one of immense importance. For example, in the United States or in Europe, are you going to use the power that you have to drive adherence to these standards?

Patrick Thomson

Like a lot of asset managers, we have substantially increased our resources in stewardship, which really gets to that point. We are very engaged, as a lot of my peers are, in making sure that companies are delivering exactly what they say in their financial reporting. We want to be able to verify that. We are using different tools and techniques, and I will give you an example. We are now looking at other data streams such as complaints from NGOs. If you have a company engaging in activity and saying it is doing one thing, it is always good to verify that with a set of NGOs, who can effectively collate data to verify some of those claims. That is just a small example.

I think the use of forensic science to track the behaviour of companies is becoming much more active in the asset management industry, but underpinning all of this, and one of the most crucial things that we would ask regulators for, is a consistent set of disclosures. The ability for us to evaluate companies globally on a consistent set of disclosures will basically allow us to make informed choices around the companies that are actively engaged in moving to transition. I would encourage, to the extent humanly possible, a consistent set of standards that can then be applied across global investment markets.

David Wright

That is the big challenge. My feeling is that we will get some good standards from the ISSB, but not everybody is going to apply them in the same way. There may be a minimum, but then there will be differences on the top, which will make your life much more difficult. Look at the difficulties in Europe, for example, on finishing or completing this phase of the taxonomy with natural gas and nuclear, which is possibly going to take a further four to six months before the Council and the European Parliament hopefully sign off. It is a swirling world.

Patrick Thomson

It is, but I think that underpinning all of this and why I am so optimistic is that our clients want this. Fundamentally, we are responding to them. Again, just to remind everybody, we act on behalf of our clients, of course. It is not our money; it is our clients' money, and the fact is that more and more clients want to see their money being put into companies that are either transitioning or making steps towards a greener future. I am very encouraged by that, because I think in some cases it is almost outpacing the regulatory and reporting reforms that we talked about.

A great example would be the policies around introducing the Sustainable Finance Disclosure Regulation (SFDR) in March of last year. I would commend the Commission on that, because that had an enormous impact on the asset management industry. Fundamentally, if your funds are not Article 8 or Article 9, there is a question mark about their viability today. Think of that, because that has really happened in the last 12 months.

I am very encouraged, because that is unambiguous evidence for me that customers want this outcome. Of course, they want to see their money generating returns to help them meet their own requirements in retirement, or whatever their investment and savings needs are, but they want to do it in a sustainable way. Again, I think all of it is pulling in the same direction, and asset management companies who actually embrace and understand this, or who get into the detail around disclosures, and demonstrate and evidence the sustainability of their products to their clients, will be the endgame winners.

David Wright

Changing hats a little bit, we are seeing a huge growth in the private markets and private credit markets. Do you think that the UCITS rules and other rules for funds are sufficiently nimble and balanced to take care of investing in these type of assets, or do you think change is needed?

Patrick Thomson

There is an AIFMD review ongoing, and I applaud the work that is being done to review that post-2020, which was a real-life stress test for these products. Again, we encourage the idea that getting more savers to invest in longer-term products makes sense, where appropriate. There are, however, some challenges with private markets. Disclosures and consistent standards are less common. There is a well-known arbitrage going on in the private markets at the moment, whereby if you have a publicly listed company with perhaps some high-carbon assets such as a coal mine, what the company can do is simply sell it to a private equity buyer or a management buyout. The listed company then looks better from an Environmental, Social and Governance (ESG) perspective because it is emitting less carbon. Of course, the fact is that the coal mine will continue to emit, and in some cases increase, emissions, because they are not subject to the same regulation that a publicly listed company is.

One has to be very careful, and I would encourage regulators to think in the AIFMD review about the nature of disclosures, although, one needs to be careful about not overwhelming retail clients. We have seen in the past that the intent to disclose can actually lead to unintended consequences, so a balanced approach to make sure that investors in private markets know what they are investing in would serve that point well.

David Wright

So a much broader swathe of disclosure requirements across both publicly listed and private companies is what you are appealing for here.

Patrick Thomson

I think a more consistent set of disclosures; it does not necessarily need to be broader. Companies already disclose an awful lot of information, and asset managers have to as well. I think it is more related to the manner in which those disclosures are actually presented to customers. Again, there is an opportunity here. One thinks here of fintech companies. Challenger banks is a good example, whereby they use technology, nudges and different digital interfaces to ensure that clients are engaged with their savings, and they give them a requisite amount of information. Making sure that the information is succinct and to the point rather than the volume of information is a key point here.

David Wright

I have a slightly broader question, Patrick, because of your great knowledge here. When I look across the scene, it seems to me that Europe is not doing too badly on the fund side and the UCITS side. We have good proposals now on ELTIFs and even AIFMD and so forth, but the one area where we are not doing well at all is in the private pension markets. We are not creating deep pools of capital. I believe the 401(k) mass is hugely important in the US capital market. Securitisation is not functioning in Europe. What do we have to do here to really deepen and dynamise the capital market? It is a very broad question.

Patrick Thomson

Yes, I think it is a great point, and I would point to a couple of systems. I think Australia and the US are good examples of places where people are engaged with their savings. For me, it is all about engagement. There is a component about regulation where you need to broaden and deepen and facilitate service providers to be able to provide pensions. That is a critical point, but you also have to have a customer base that is actively engaged. Culturally in the United States, people are aware of what their 401(k) plan is. They are interested in it and they are invested in it. Again, for me it goes back to investor education and engagement. If you can get people engaged with their savings, and you get them to understand that putting the money in the bank and sitting on cash is not a sensible long-term investment strategy, then I think that will facilitate and promote a broader and deeper pool of capital, which will then be put to good use in serving people's pensions.

David Wright

What is the trigger to do that? How do you get people to do that? Is it education? Is it financial literacy? We have talked endlessly about this for years and years. Should finance be mandatory in schools? Surely yes.

Patrick Thomson

It is a combination of things but, as I said, I do go back to the point that I think Verena made very well. We now operate in a digital world. You are seeing fintechs appear all over the world that are taking advantage of that ability to connect with customers to make life simple, understandable, a good customer journey and a good customer experience. To the extent that we can do that, I think that will solve part of the problem.

David Wright

It was a great pleasure to see you here, Patrick. Thank you for coming. Thank you for your support of Eurofi, which is greatly appreciated. For the next edition we will be in Prague, and I am sure and I hope you will be with us.

Patrick Thomson

Merci beaucoup.