[youtube:http://www.youtube.com/watch?v=f5EdMSgI0wE w auto]**Key fund management themes to watch in 2010-2012:**

Over the last decade I have lectured to thousands of fund managers from many different institutions, responsible for hundreds of billions of actively managed investments, mainly entrusted to them by pension funds. The global economic crisis highlighted a number of fundamental problems within the industry, that had been there for many years, and remain unresolved.

Improving performance:

Many actively managed funds struggle to outperform trackers – by the time all charges have been added. Either performance from investment decisions must improve, or charges must fall.

Restoring the Trust Gap with consumers:

A significant proportion of fund managers (often the majority) at events I have spoken at over the last few years lack confidence in their own actively managed investment funds. For example many tell me (straw polling during presentations) that they do not recommend their own products to friends and family, and do not commit their own wealth into their own funds unless they need to as part of the job. If fund managers do not believe they are adding value, it becomes a serious ethical issue if those retail funds continue to be actively marketed. Life is too short to sell things you don't believe in.

[youtube:http://www.youtube.com/watch?v=4f4DJjINWXI w]

Interview following keynote to hundreds of Fund Managers at ICBI.

Consumer competition:

Expect growth of online and other boutique services allowing "smaller" retail investors to manage their own portfolio of investments in tax efficient ways, right up to full pension provision, with live reporting data. Charges for such services will often be very low.

High-net worth family offices will grow:

Expect an increasing percentage of high-net worth clients to delegate a large part of the management of their own investments to specialists within their own family offices, and to be involved on a daily or weekly basis.

Benchmarking into oblivion:

In the past, risk managers often took comfort from benchmarking their advice against the "industry norm" – but as we have seen, the results of such alignments can be disastrous. Risk management requires great courage at times, and willingness to be regarded as eccentric, going against the current consensus if necessary. This will only possible with greater sophistication in risk modelling, and greater skills in commicating to analysts the basis on which contrary positions are being taken.

Hedge fund recovery but take care:

Hedge fund inflows from pension funds are likely to increase, but complexity will always create extra risk. Expect therefore much greater attention by pension funds to due diligence, and preference for hedge fund investments which can be easily understood. We can expect severe public and regulatory reactions against hedge funds (and institutions who invest heavily in them) if we see failures of several large funds over the next investment cycle.

Compliance is dead:

100% compliance cannot protect your brand nor build trust. History shows that perfect compliance may keep senior executives out of prison, but cannot defend their reputations when public mood changes in response to the latest financial scandal. Things that may have been legal, now start to look unethical or immoral. New regulations often follow a well-publicised problem, and compliance follows regulation, so tends to be locked into past thinking. To win and maintain trust we have to go far beyond minimum requirements forced on the industry, to take a clear moral lead. We need to consider where future regulatory pressures may come from, and what tomorrow's citizens will consider best practice.

More honesty is needed about life expectancy:

The primary relationship between fund management and pension provision will remain, but within it is a huge risk related to repeated under-estimates of life-expectancy. Both governments and corporations can have incentives to significantly understate future likely pension liabilities. We will explore how future medical advances are likely to place further severe pressure on existing assumptions, and the impact on pension fund viability. Radical improvements in life expectancy may be good news for the fund management industry, driving growth, but could bring pensions providers themselves into disrepute if it becomes clear that they have failed in their duty to forecast responsibly and provide safely.

For more on the client event for fund managers organised by Mercer in December 2009 at which Dr Patrick Dixon gave the keynote presentation in video above press here