

**MANAGER INTERVIEW**

# Selecting the best choices from the menu

David Curtis, head of sub-advisory management for UK and Northern Europe at Goldman Sachs Asset Management, views the UK sub-advisory market as currently very immature. However, he believes that the market has a lot of potential and is deciding where to deploy resources. He talks to Elizabeth Cripps



**“WE WILL SEE MORE BUSINESS FROM THE UK INITIALLY, BUT ULTIMATELY I THINK THESE MARKETS WILL MOVE FROM 2 PER CENT OPEN ARCHITECTURE TO 50 PER CENT”**

**You have joined GSAM in a major new role. Which areas will you be looking at strengthening?** In terms of geography, people say the UK market is the most mature sub-advisory market, but at GSAM we think it is immature. We also think that the rest of Europe is very immature. Because the UK is ahead, we have therefore increased our focus on the UK. We have been very successful so far but on a reactive basis.

In terms of business focus, there is a huge amount of education needed. Often sub-advisory wins are represented as mandate wins, without really looking at what it is that makes a sub-advisory relationship successful.

Sub-advisory means different things to different people. To me, the thing that every relationship has in common is that it is between a financial institution and an asset management company. You have these different menu choices – in sub-advisory, how much brand you want to use,

how much servicing support, how much wrapping. Those are the components that become really important in these relationships and should be focused on.

**Do you see sub-advisory in a wider sense to that in which it is generally used?**

Yes, and we do that because to be successful you have to be client-centric. You can't just start with a product and assume it fits everyone. You have to be able to adapt. My definition of sub-advisory would include fund supermarkets, as they are open architecture platforms with full use of brand, full use of wrapping and some degree of service.

**Other than in the UK, which geographical areas within Europe are tuning in to the sub-advisory trend?**

First of all, if you look at investment distribution platforms in the US,

about 50 per cent of their content is open architecture. In the UK, I would say it is about 2 per cent. That tells you where the market might go to.

Inside continental Europe, Switzerland and Scandinavia are relatively more advanced. We are seeing some interesting evolutions in Italy and the Netherlands too. All the major banks there now have a degree of open architecture built into their proposition.

What we saw in the UK is that people started originally from quite a defensive point of view, saying “we are not good at that”, rather than “this can really complement what we are doing”. In the later part of the 1990s, institutions were a lot more resistant to open architecture because people thought they could do everything themselves. And the environment proved to be a lot more challenging.

**CV: David Curtis**

■ David Curtis joined Goldman Sachs Asset Management in April 2005 as head of sub-advisory for UK and Northern Europe as part of GSAM Europe's third party distribution team.

■ He previously spent more than eight years at Merrill Lynch Investment Managers, with responsibilities including head of financial institutions group and co-head of UK third party retail sales.

■ Prior to this, he spent four years at Kleinwort Benson in fixed income and commodity investment management and hedge fund sales.

■ He studied medicine at Bristol University and qualified as a doctor in 1992.

### In practice, how will your focus on the UK translate in terms of marketing effort?

It means a focus on our direct calling effort – getting in front of individual firms and sharing our insight into these trends – is happening in the UK. Across continental Europe there are a number of good conversations going on but it's a bit more like a patchwork quilt – three firms in Scandinavia or two in Italy. We have a 60 per cent UK, 40 continental Europe business mix.

### How do you see that changing?

I think we will see more business from the UK initially, but ultimately we believe all these markets will move from 2 per cent open architecture to 50 per cent. It is just a case of where to deploy resources first.

### Are you still expecting more separation of manufacturing and distribution in Europe?

Absolutely. Firstly, in the UK, inevitable depolarisation and multities promote that bifurcation into two distinct disciplines. We are clearly seeing that. And the pressures that businesses have on them nowadays to be more competitive and excellent in whichever field they operate in mean the same thing will happen in Europe.

### Which investment strategies are best-suited to sub-advising?

Quantitative equity management is very suitable for a sub-advisory relationship because it does not rely on one investment star picking a stock and throwing active bets around in a solely self directed manner.

Quantitative equity management is

### Job role: the appeal of clear thinking

#### What was the attraction of this position for you and what are your aims in it?

The attraction was that Goldman Sachs Asset Management was very clear about this opportunity, which is to partner some of the largest financial institutions in Europe. In terms of a headline objective, that's it. Their clarity in understanding the growth in subadvisory showed they are ready and committed for it. Five years ago, they were all aware of sub-advisory but they didn't want to do it.

#### What exactly will your role involve?

Working with a fairly small group of financial institutions that we think we can partner and deliver a better investment management proposition to. To us, that means delivering a wider range of skills and results than just investment management alone. It also means working with clients in different ways, where as well as sharing the rewards of managing assets we also share some of the risk. If

we don't deliver an attractive proposition, our assets don't grow. We are effectively sharing the risk of a product launch.

In the UK, we can classify the financial institutions. Firstly, the banks. They are all now offering open architecture propositions. Then there are the large to medium-sized insurance companies, then the smaller to medium-sized insurance companies. The first group normally has internal asset management but the second normally doesn't, so you have different opportunities. Smaller to medium insurance companies are typically considering outsourcing.

The last group is asset managers or specialists, for example investment trusts. There used to be a situation where an investment manager would launch an investment trust and have that pot of assets to manage all its life. Now that's not the case. When there is bad performance or the firm is in a period of uncertainty, the board don't retain that incumbent investment manager.

a team-based approach where you take very small bets. It gives clients a lot of reassurance in terms of efficiently adding value.

#### Is it relatively unusual?

In the retail space, it is rapidly gaining traction. Another thing is that not having an existing retail business is an advantage. It is about aligning our business and not conflicting but supporting our clients.

#### Will the Ucits III regulations bring significant new advantages to the sub-advisory sector?

UCITs III allows mutual funds to broaden the scope of investment strategies. If firms want to offer these, it is less likely that they will have capacity in house, so they will need to call on firms with those specialist skills, which makes sub-advisory more likely.



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