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asset management group

The Asset Management Industry

The asset management industry has a unique and different structure from the rest of the financial industry. It's important to note the key characteristics of asset managers when considering their impact on financial stability.

Overview:
The asset management industry is an integral component of the broader financial system. Its sole purpose is to help investors achieve their financial goals. Also referred to as "investment managers" or the "buy-side," asset managers are hired by investors to allocate capital on their behalf.

The asset management industry is made up of a large number of diverse firms that offer a wide array of investment strategies. These investment strategies are available to investors in a variety of forms, including mutual funds, ETFs, private funds and separately managed accounts, among others.

Key Characteristics of Asset Managers:

- **Asset managers invest money on behalf of their investor clients.** Asset managers are fiduciaries who have a legal obligation to invest assets according to guidelines set by their investor clients. In this capacity, asset managers actively manage risks associated with particular investment mandates of their clients and, therefore, function as risk mitigators versus risk takers.

- **Asset managers are highly substitutable.** If an investor is unsatisfied with an asset manager's performance or wishes to pursue a different investment strategy, it is relatively simple to transfer control of assets to a new manager. Investor withdrawals from one investment product or manager are often no more than a reallocation of an investor's portfolio, thus unlikely to encourage widespread redemptions in other products or managers. One manager's loss is usually another's gain.

- **The success or failure of an asset management firm does not impact investor assets.** There is a legal separation between a firm's assets and the assets of its customers. Firms are not permitted to commingle firm and investor assets and, typically, investors house their assets with a separate custodian chosen by the investor.

- **Asset managers do not guarantee positive investment returns, and do not back-stop investment losses.** Investment results, whether positive or negative, belong to the investor. Investors cannot access an asset management firm's assets in the event that an investment falls in value. This is well understood by investors.

- **Asset managers are highly regulated and subject to extensive public disclosure requirements and reviews.** The SEC has long served as the primary regulatory of asset managers. Since 2008, regulatory requirements have been substantially heightened through the Dodd-Frank Act and other initiatives.

- **Asset Managers do not reply on their balance sheets to achieve success unlike other financial services firms.** The relative size of asset management firms is typically denoted by its client "assets under management," or AUM. Importantly, these assets under management are owned by clients, NOT the firm, and therefore are not part of a firm's balance sheet. A firm's balance sheet is typically small and focused on operating expenses.

- **Asset Managers generate a stable income stream.** Asset managers derive income from management , unlike investment banks that get revenue from lending or other balance sheet-based activities that may be more volatile.