Online edition
4 January 2021

Setting the agenda for the City

£9.50 | €11

4 January 2021 Issue 1221

BARRON'S GROUP

fn Financial News

Setting the agenda for the City

***Black Swans*, Brexit, and what else is in store**
We asked bankers, asset managers, fintechs and VCs how they see 2021 playing out, what Brexit will really do to the City, and what clients are most worried about
Page 9

Mario De Meyer

Bankers face job cuts and bonus threats

Paul Clarke

Investment bankers and traders putting in 100-hour weeks amid record fee earning are expecting to receive big bonuses for 2020. But for some, the first payslip of the new year is more likely to contain a P45 than a bumper payout.

This bonus season, bank bosses have a particularly delicate balancing act. The annual tradition of culling underperformers to preserve the overall bonus pool will be especially tough after banks made promises to protect jobs. City employment lawyers predict that those who are forced to leave will fight the banks' decisions, embarking on prolonged and potentially costly cases.

"Banks are using redundancy now to sweep away staff with a view to not having to pay a bonus, while increasing payouts for other employees without increasing the overall pot," said Ivor Adair, a partner at employment lawyers Fox & Partners.

In recent months, Goldman Sachs, Citigroup, JPMorgan, Barclays and Wells Fargo all resumed some job cuts, while ongoing restructuring programmes at ABN Amro, Deutsche Bank and HSBC will result in thousands more redundancies.

Goldman is cutting around 400 roles across the organisation, while Citi is trimming around 1% of its headcount, it said in September.

ABN Amro is downsizing its investment bank amid cuts that will amount to 2,500 employees across the organisation, while Deutsche is still in the midst of a cost-cutting programme that will see 18,000 jobs eliminated.

Bankers at Wall Street firms are typically told about bonuses in January, although it can be as late as March before they are paid. They are discretionary payments, based on individual performance, divisional profits and the overall health of the organisation. Until a bonus hits an employee's bank account, it can be scrapped and anyone who is on notice to leave an employer is no longer entitled to a payout.

"In any given year, investment banks will prune their workforce. My

Continued on page 2

Inside

BlackRock's Lewis: Minority staff 'cannot be themselves'

Penny Sukhraj

Black finance workers do not feel they can be their "full selves at work", according to Gavin Lewis, a BlackRock managing director and one of the City's most active diversity champions.

"We hire diverse candidates but we don't manage diverse candidates," he told *Financial News*, adding that the finance sector needs to "get to grips with inclusion" as part of its retention efforts.

"Often, they have to subscribe to the dominant culture because [they] don't feel like they can be themselves," said Lewis, who is the co-founder of the #Talkaboutblack initiative, which aims to increase representation of black professionals in asset management.

According to the Investment Association, Black professionals account for less than 1% of investment managers in the UK compared to 3% of the UK's population and 13% of London's. Black work-

Continued on page 2

Continued from page 1

Bankers face job cuts and bonus threats, lawyers warn

expectation is that it will be more of an issue this year," said Fiona Macdonald, an employment lawyer at Keystone Law, who specialises in representing senior financial services professionals.

Investment banks are facing pressure to pay out larger bonuses for last year amid a sharp uptick in revenues across most business lines. Earnings for the top 13 investment banks are expected to swell by 25% to $188.2bn in 2020 – the strongest performance since 2010 – according to data provider Coalition.

In a November survey, compensation consultants Johnson Associates said fixed income traders could receive up to 45% more than for 2019, while compensation could be up 40% in the capital markets divisions of investment banks, which have been bolstered by pandemic fundraising.

However, amid a global pandemic that has caused economic destruction, banks are treading a delicate line between paying for performance and political pressure to show restraint.

In a 10 December letter to banks allowing UK lenders to restart dividend payments, the Bank of England said it expects banks to exercise a "high degree of caution and prudence" given the "uncertain outlook".

"The politics of this year's bonus round will be more fraught than usual," said Adrian Crawford, a partner in the employment practice at Kingsley Napley. "With banks being careful not to be seen to be paying out lorry loads of cash to their staff, it is likely to skew payments even more towards the best performers."

Even for those who stay, overall bonuses are unlikely to match the surge in revenues. Barclays is considering a 10% hike for some traders, while Goldman is likely to increase bonuses by 20% on last year, according to *Bloomberg*. Meanwhile, UK lender Lloyds Banking Group – which typically pays out smaller sums – has cancelled bonuses for staff amid a fall in profits because of the Covid-19 pandemic.

Contesting a lack of bonus payment for those let go is tough, said Crawford.

"Most contracts stipulate that any bonus is discretionary, and that banks are not obliged to pay them when an employee is serving a notice period," he said.

"It is usually easier to take the redundancy payment and move on, but this will be harder to swallow this year. We would expect to see more unfair dismissal or discrimination cases emerge early in the year."

The fraught relationship between banks and bankers over bonuses are a throwback to the boom times before the 2008 financial crisis, when senior bankers and traders contested payouts worth millions of pounds in court with their employers. These days, cases are rarer.

"The stars have to align," said Macdonald. "You need a particular grittiness to go through the litigation, and there have to be sufficient funds at stake to ensure the right risk-reward ratio."

Getty Images

Mean streets
A return to the City sometime this year may not save bankers from the axe

To read more of FN's in-depth news and analysis visit fnlondon.com

Continued from page 1

BlackRock's Lewis: Minority staff 'cannot be themselves'

ers with degrees also earn 23% less than white workers with similar qualifications, the IA says.

Lewis, who heads BlackRock's client business for the UK Local Government Pension Scheme, said that Black finance workers feel they "have to adapt to the point where, if they're not able to be authentic, they're not going to bring their full selves to work. And then you're not going to get the full benefit of their views and opinions. So I think it can't just be about numbers."

But he added: "The numbers just need to improve, particularly at senior levels."

Confirming the reality of the trend, Lloyds Banking Group disclosed last month that Black employees are paid 19.7% less than their colleagues in the bank's first ethnicity pay-gap report.

"Companies need to have the talent pipeline to be in a position to have more racially diverse people to be considered for board level [or] company leadership. Senior buy-in and senior leadership is key to making the long-standing change needed," he said.

BlackRock is pressing boards of companies it invests in to up their numbers on ethnic and gender diversity and also disclose the racial profile of the staff they employ.

Some of the world's biggest finance firms criticised racism and came out in support of the Black Lives Matter movement last year in the wake of protests over George Floyd's killing in Minneapolis in May.

In June last year, the UK government came under pressure to create a dedicated race charter for the financial sector, in a bid to encourage big banks, asset managers and other City employers to increase the number of black and minority ethnic (BAME) workers within their ranks.

"This year [2020] has felt like a turning point. The events over the summer have put a spotlight on race and diversity. The key is whether the focus will stay on driving the change that many have now recognised is needed."

The BlackRock MD added that it is "hard to know the starting point without being able to measure and track" the numbers, and establish "whether progress is being made".

The Diversity Project, where he is on the steering committee, has started running a programme after school for Year 10 scholars in disadvantaged areas. Lewis believes it is an example of what is needed. "It feels like the industry is at a pivotal point," he said.

An Audience With Gavin Lewis will be published on 11 January

Goldman: Covid-battered cities to 'largely return to normal' in 2021

Trista Kelley

Goldman Sachs is bullish about the coming year.

Economists at the US investment banking giant wrote in a note to clients that the American economy will bounce back as immunity from the Covid-19 virus takes hold throughout the population.

"By Q2, the recovery should accelerate as mass immunisation greatly reduces the virus threat, unleashing a spending boom in the high-contact consumer services," wrote the economists, Alec Phillips and David Mericle. The bank sees gross domestic product in the US gaining 5.9% in 2021, which the economists noted is about two percentage points above the consensus.

"We expect the virus fears that have kept the densest cities and the highest-risk consumer services deeply depressed to fade enough next year [2021] for economic life to largely return to normal," the note said. To make this prediction concrete, the economists analysed jobs in the New York area leisure and hospitality sector. The bank said the employment rate collapsed by about two thirds in April, but has since levelled off at about 63% of its pre-pandemic level. "By the end of 2021, we expect it to return to at least 90%.

"A healthy level of labour demand, and a mid-year hiring jolt from vaccine-sensitive industries" will help reduce [US] unemployment from 6.7% to about 5.2% by the end of 2021, Goldman wrote.

fn

Financial News
1 London Bridge St,
London, SE1 9GF
020-7842 9900

Editor Shruti Tripathi Chopra 020-3426 1101
Head of Production and Deputy Online Editor Mark Cobley 020-3426 1128
Picture Editor Ranjit Dhaliwal 020-3426 1150
Features Editor Trista Kelley
City Editor Lucy McNulty 020-3426 1375
Investment Banking Editor Paul Clarke 020-7842 9254
Asset Management David Ricketts 020-3426 1114
View Columnist David Wighton 020-7842 9458
Online News Editor Penny Sukhraj
Online Editor Will Hadfield
Reporter James Booth
Deputy Production Editor Adam Licudi
People Correspondent Bérengère Sim 020-3426 1127
Fintech Correspondent Emily Nicolle
Special Projects Editor Clare Dickinson 020-7842 9396
Senior Writers Pierre Briançon 020-3217 5462 Lina Saigol 020-7572 3469
Private Equity News Editor Mark Latham
Private Equity News Reporter Elisângela Mendonça 020-3426 1161
Publisher Francesco Guerrera 020-3217 5464
CEO, Dow Jones Almar Latour +1 212 416 3002
Art Director, Emea Barry Ainslie 020-3217 5229
Director of Operations Sacha Dick 020-7572 2140
Advertising London Office Max Valeri 020-7572 2145
Paris Office Davy Perrot +33 1 4017 1707
Events Angus Peckham-Cooper 020-7573 4006
Subscriptions Christopher Welding 020-3426 1328 Niall Hickey 020-3217 5130
Customer Services customerservices@fnlondon.com
Email firstname.surname@dowjones.com

Printed by JPIMedia Printing (Portsmouth) Ltd. Distribution: Comag Specialist Division, Citipost. Registered as a newspaper by Royal Mail

Note
Access to Financial News Online and its e-mail newsletters is sold on a licence basis. Member of BPA Worldwide.
ISSN 1461 1260

Getty Images

Accentuate the positive, eliminate the negative and City's mood is up

David Wighton

Despite financial services feeling ignored, there is a sense of cautious optimism

The City is putting on a brave face. Even hardened Remainers are trying to accentuate the positive as the new Brexit trade regime comes into force. The UK will now have the freedom to set its own rules, tailored to its own needs, say the optimists who point to encouraging noises coming from ministers. The City has an opportunity to become an even better place to do business, they say, and the government is determined to enhance its attractiveness compared with other international financial centres.

Stirring stuff. Yet there are a couple of slight holes in the government's argument, even leaving aside the small matter of lost access to EU markets as of 1 January.

One of the key factors firms consider when deciding where to locate businesses is political risk. Will a government work hard to maintain the competitiveness of its financial centre? Can firms rely on the government to back them when the going gets tough? Does the government really care about financial services?

According to Eamon Devlin, a partner at asset management law firm MJ Hudson, the clear commitment of the Luxembourg government to the financial sector is one of the reasons it has attracted so much financial services business in recent years.

Unfortunately, the UK government's commitment to financial services has been less obvious of late. It has just negotiated a trade agreement with the EU where the financial services sector was given considerably less attention than fish. Whatever ministers' fine words firms may be forgiven for focusing more on what the government actually does.

When asked how the government is going to help the City, ministers frequently cite the review of the listing rules to make it more attractive to float technology companies in London rather than in other financial centres. This brings us to the second slight flaw in the government's argument.

In common with many other changes the government talks about, these have little directly to do with Brexit. Dual-class share structures, one of the touted tweaks, are legal in the EU and indeed Italy recently introduced a rule allowing shares with multiple votes. So why didn't the government think about this before?

Well, one reason may be that it knew there would be fierce opposition to the move from UK investors who are allergic to dual-class shares. Another reason may be that there are other disincentives for technology companies listing in the UK that are even more difficult to remove.

Guillaume Pousaz, founder of UK-based payments start-up Checkout.com, said recently that the main reason it was likely to float in New York rather than London was the hostility towards high boardroom pay in the UK. The government couldn't change that any time soon, even if it wanted to.

Even if some of the government's Brexit bullishness is questionable that doesn't mean the City is downbeat. The mood is one of cautious optimism.

> "The City has an opportunity to become an even better place to do business, they say, and the government is determined to enhance its attractiveness compared with other international financial centres"

Dr Kay Swinburne, former vice-chair of the European parliament's influential economic and monetary affairs committee, says the UK will benefit from not having to follow the EU's constantly changing rules. Because they must cover 27 member states, these are by necessity a highly prescriptive compromise.

But to take advantage of this new freedom, the UK needs to decide that it is not going to chase "equivalence" with EU rules in order to maintain (or regain) market access. "You need to decide you are going to set a strong regulatory policy of your own," she said on a recent Centre for the Study of Financial Innovation panel.

Dr Swinburne, who is now vice-chair of financial services at KPMG UK, applauded the government's review of the UK funds regime which she said needs to be made more attractive to win back business from Dublin and Luxembourg. She also called for changes to the Overseas Persons Exclusion, that allows foreign-based firms free access UK wholesale markets. Brussels was never comfortable with the regime and now the UK has the opportunity to extend it, she said.

Dr Swinburne said her main worry was that the UK would spend too much time looking inward rather than focusing on new growth areas such as the trading of digital assets.

Andrew Gray, head of Brexit for financial services at PwC, is also "reasonably optimistic" as long as the government ensures that the UK remains open to global talent. Equivalence will "potentially become less of an issue" he says and lack of it will actually be more damaging to EU companies in terms of their access to liquidity in the UK markets.

Above all, perhaps, the government needs to recognise the importance of financial services, which have been a political target since the financial crisis. After years of neglect, the City needs a bit of love.

David Wighton is a columnist at Financial News

The chief executive of rapidly-growing investment boutique GQG Partners reflects on an unexpectedly impressive 12 months for the firm, and gives his thoughts on the year ahead, writes **David Ricketts**

Tim Carver: Being part of the $1tn club 'just doesn't make sense to us'

GQG Partners was one of the fastest-growing investment boutiques of last year. The asset manager, which is headquartered in Fort Lauderdale, Florida, grew assets under management by $30bn in 2020, despite the onset of the coronavirus pandemic, which dented inflows and performance for some of its largest rivals.

The business was founded in 2016 by former Vontobel co-CEO Rajiv Jain, who is GQG's chair and chief investment officer of the firm, which now oversees $60bn across four main strategies – global, international, US and emerging markets.

Financial News spoke with Tim Carver, chief executive, about some of the drivers of success over the 12 months and why it has been a good time to be a smaller player.

Question What has driven the high inflows into the business over the past year?

Tim Carver If I look back at the four years [since the company was founded], one of the biggest differentiators has been Rajiv [Jain] and the investment team's approach to investing and not being so tightly bound to style boxes.

My expectation is that over time you will see active equity managers build more concentrated portfolios and take higher conviction bets and be less benchmark focused, and more absolute return focused.

That has been the hallmark of what we have done.

In the early days when we were explaining to institutions about who we are and what we do, one of the hang ups was that people call us an adaptive manager. That means that we will go where investment opportunities lie.

That's what this last year has been about.

At the start of 2020, the portfolio was far more cyclical – we owned airlines stocks and banks. By February, we could move the portfolio quickly to being much more defensive and ended up with better relative performance.

Q As one of the co-founders of the business, how important is culture to what you do?

TC One of the things people often bring up is key-man risk. Rajiv is clearly a key person in our business. He's relatively young and owns a majority of the firm. But he's getting to do what he wants to do and has a team highly aligned around him.

Key-man risks exist more in big banks, where there's apathy and bureaucracy. If the culture isn't there, that's what creates key-man risk.

As co-founders, Rajiv and I have a vast amount of our personal wealth tied up in the strategies we run. If we get this right, at some point we get to fade off into the sunset.

We will be judged on how we bring in successors and how we convince the market they are capable.

It is our desire to build an institution, to build a firm that is cutting edge on the investment side and attracting the best talent. Rajiv always reminds people in team meetings that it is a privilege to manage other people's money.

In some bigger organisations, that responsibility can get lost. If you don't lose sight of that, you have the chance to build a culture that can outlive you.

Q There have been some big M&A deals completed in the asset management sector recently. Is scale needed to compete with some of the world's biggest fund management groups?

TC There are diseconomies of scale. I'm saying that as a guy in the trenches. It is about delivering investment performance.

We know scale is the enemy. The problem with scale is you get a cultural breakdown, you take on operational complexity and a lot of agendas that are at odds with creating a good culture.

This is the most competitive business in the world – more so than Silicon Valley or NFL. If you are in the most competitive business, you have to be focused. The type of infrastructure you need to build to be part of the $1tn club just doesn't make sense to us.

This industry will consolidate down to the very large and the boutiques like us. It will happen through M&A, but it will also happen through mid-sized firms just going away.

Switching costs in this business are almost nil. You have a committee meeting and fire the manager and it is incredibly easy to switch.

This business is littered with investment shops with investment managers that were prominent but which have gone away. The fee structures for most asset managers just do not make sense. If you don't have alpha, you cannot charge high fees.

Q Is it too late for new boutiques to enter the market?

TC The barriers to entry for new boutiques are at an all-time high. This is an industry challenge. We have a dearth of boutique formation, but you have to have boutiques to generate the kind of returns pension funds need.

One of the things we did early on was capitalise the business so that we can build the infrastructure globally, because we knew consultants needed us to serve clients in places such as the UK, Australia and the US. Historically boutiques would have said they might build a US franchise and then build out over time.

One of the reasons I think consultants haven't embraced new boutiques is because they haven't built that international infrastructure. We did that from day one. We built a Japan, UK and Australia business in parallel with the US.

It has taken us longer overseas, but this last year has been a huge contributor to our growth.

Q Before the onset of Covid-19, ESG was gaining more attention among asset managers. How does ESG fit within your investment approach?

TC This is a tide that is coming in and is not going out. It will be driven by large owners of assets. My concern for the industry is you will have a lot of marketing folks window-dressing portfolios to claim they are ESG.

There are some firms that are really focused on non-economic factors driving outcomes, such as governance, social and environmental considerations. Ultimately these things manifest in the P&L, whether that's increased regulatory costs or losing clients.

If you look at GQG, we have hired former investigative journalists. It is their job to understand where there is window-dressing and where there is true commitment.

One of the challenges is that different groups have different agenda. But coming up with standards about how to invest with people's idiosyncratic desires in mind is an interesting investment question that we will have to face.

Invested
As a co-founder, Tim has a vast amount of personal wealth tied up in the strategies the firm runs

"You will have a lot of marketing folks window-dressing to claim they are ESG"

Tim Carver

Getty Images

Boris Johnson said the UK is backing bankers and financial services, but admitted that the deal did not go as far as he would have liked

For the City, Brexit deal leaves the big questions unanswered

Talks on equivalence, movement, and data may — or may not — happen in the coming months, writes **Emily Nicolle**

Former prime minister Theresa May criticised her successor Boris Johnson for failing to strike a deal with the EU on financial services, arguing it was the sector most left behind by the trade treaty that passed through Parliament last week.

Speaking in the House of Commons on 30 December, May said she had wanted to put a "truly ground-breaking" finance deal at the heart of the Brexit agreement she tried to negotiate in 2018.

"Sadly, that has not been achieved," she said. "We have a deal in trade that benefits the EU, but not a deal in services, which would have benefited the UK."

Johnson has conceded the deal "perhaps does not go as far as we would like" for the City, but insists his government is "backing bankers and backing financial services".

However, crucial parts of UK-EU regulation for the sector are still to be hammered out in the early months of 2021. Here are some of the issues still to be resolved:

Equivalence

With no broad agreement on finance, the City's access to EU markets hinges on whether the European Commission will decree the UK's rules governing particular sectors to be "equivalent" to its own – and if they remain so.

Though the UK has said it is committed to equivalence (*see story right*) Brussels has yet to decide if the framework is "in the EU's interest". Talks will continue over the coming months to agree a non-binding memorandum of understanding on regulatory cooperation, but the UK's chief Brexit negotiator David Frost told journalists on 29 December that these talks only need to begin before March. An agreement could come much later.

Omar Ali, UK financial services lead at accountancy firm EY, said: "Equivalency isn't just about access; a lack of equivalence decisions would increase the cost of doing business for financial services firms and the clients they serve."

The UK's trading venues and investors could be hit particularly hard, with London standing to lose around €9bn in European stock trades per day from 4 January, as EU banks must trade shares denominated in euros from entities based within the bloc. Many banks have shifted assets and capabilities away from London as a precaution.

Movement

Those hoping to travel for work may also be disappointed, as freedom of movement will be somewhat restricted by the terms of the deal as well as the prevalence of Covid-19.

For those travelling on business, the agreement permits visa-free travel to the EU for 90 days in any given six-month period.

However, what they can do while abroad will be restricted to activities such as meetings, attending conferences and conducting research – others, such as the sale of goods or services directly to the public, will require a visa.

Data

Financial services firms in the UK will need to make sure they are still compliant with EU data-sharing rules for any business in the bloc once the transition period ends, as the 24 December deal has extended this regime temporarily. This includes paperwork for clients that trade with EU firms, as well as personal data under GDPR.

For a "specified period" the UK will be treated the same way as EU member states with respect to processing data. This is expected to be at least four months and may be extended to six, unless the UK or EU object, explained Albrecht von Wilucki from German law firm Buse Heberer Fromm.

"Outside of the lack of clarity on regulatory equivalence or cooperation, the most important topic... is going to be data, not least to avoid payments disruption and to ensure compliance, [because] fines levied can be huge," said John Liver, EY's UK financial services regulation lead.

FCA aims to dodge Brexit chaos with EU swaps ruling

Emily Nicolle

The Financial Conduct Authority is to allow UK investors to use platforms based in the European Union for trading swaps for up to three months, following the end of the post-Brexit transition period.

The UK's full withdrawal from the European Union at 11pm GMT on 31 December means market participants on either side of the Channel will not be able to trade swaps with each other. The FCA said it would temporarily allow UK participants to trade swaps in the EU, in a bid to avoid the disruption.

British financial firms will be allowed to use platforms based within the bloc if they do not have arrangements in place to trade in other jurisdictions where both the UK and EU have granted equivalence, such as the US.

The EU venue must also have the necessary regulatory status to do business in the UK. This temporary permissions regime will be reviewed before 31 March 2021, the FCA said.

The Bank of England said in an 11 December report that some volatility was expected in markets, along with disruption for financial services, particularly those for EU-based clients, once the transition period ended.

According to the Bank's analysts, market volatility could increase as a result of UK participants not being able to trade with EU counterparties, or on EU or EU-recognised trading venues when the UK's own venues become restricted.

European firms within the scope of the EU's Derivatives Trading Obligation (DTO), for example, would no longer be able to trade some derivatives such as certain interest rate swaps and credit default swaps, on UK trading venues. Meanwhile, UK firms in scope of the UK's DTO would similarly no longer be able to trade these derivatives on EU venues.

Without the FCA's change in policy, the Bank predicted this could have impacted about $200bn in interest rate swap trading that takes place daily in the UK.

In a statement on 31 December, the FCA said it expects firms to take "all reasonable steps during the first quarter of 2021 to ensure compliance with the UK DTO".

Finance and business executives scoop New Year awards alongside the great and good

Penny Sukhraj

Several financial services professionals were named in the 2021 New Year Honours list, alongside Formula One racing champion Lewis Hamilton, who has been knighted, and English actress Sheila Hancock, who became a dame in recognition of services to charity and drama.

Economist Robert Chote, the former chair of the Office for Budget Responsibility, was made a Knight Bachelor for his services to fiscal policy and to the economy.

A CBE was conferred on Christopher Woolard, the former interim chief executive of the Financial Conduct Authority, for services to financial regulation and financial technology innovation. Meanwhile, a Lloyds banker from Wigan, Katie Spencer, who is a senior manager at the firm, received an MBE for her contribution to the financial services sector during the coronavirus pandemic.

Refinitiv's chief privacy officer Vivienne Artz was recognised with an OBE for her contribution to increasing gender diversity in the financial services sector, as president and CEO of Women in Banking & Finance.

Helen Dean, a former civil servant who has headed up the UK's £15bn national pension fund Nest for the past four years, has been awarded a CBE for services to pension saving. She said she wanted to "pass on [this] recognition to each and every one of my team, without whom Nest would not be the world-class pension scheme that it is".

PwC's head of consulting, Paul Terrington, was recognised with a CBE for services to the economy in Northern Ireland.

British Business Bank non-executive director Jonathan Britton was awarded an OBE for his services to small business finance.

Tracy Vegro, executive director for resources and strategy at the Financial Reporting Council – the watchdog for the audit industry – was recognised with an OBE for services to business and diversity.

Money4You's founder and chief executive officer, Nwamaka Carol Akiwumi, was recognised with an MBE for services to financial education during the Covid-19 crisis.

Other senior business figures that made the list include Tesco's former chief executive David Lewis, who was knighted.

Crypto firms get temporary fix for registration due to backlog

Bérengère Sim

The Financial Conduct Authority has established a temporary registration regime to allow cryptoasset firms to continue trading after it was unable to process firms' applications by their original deadline because of a pandemic backlog.

"The FCA was not able to assess and register all firms that have applied for registration, due to the complexity and standard of the applications received, and the pandemic restricting the FCA's ability to visit firms as planned," the regulator said. Firms were required to register from 10 January 2020 with the deadline being 10 January 2021. If approved, they would have featured on the watchdog's registered cryptoasset firms list.

ArchaxEx and Gemini, the firm founded by the Winklevoss twins of The Social Network fame, were the first two businesses to make the registered cryptoasset firms list. According to the FCA's website, there is only one other firm is on that list – Ziglu.

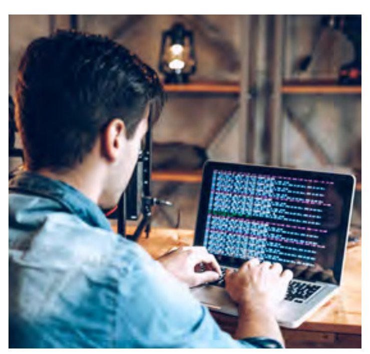
However, the City regulator has now released a list of firms with temporary registration, which features around 90 firms, including asset manager Fidelity Digital Assets.

This temporary list is for existing cryptoasset businesses which applied for registration before 15 December 2020 but had not yet had their application reviewed by the regulator; the firms will be allowed to continue to trade until 9 July 2021, pending the FCA's approval.

Firms that did not apply in time will not be eligible for the temporary registration regime and will need to return cryptoassets to customers, the FCA said. They must stop trading by 10 January 2021.

Cryptocurrencies are digital tokens underpinned by blockchain technology, such as bitcoin or ethereum. The currencies have seen prices yo-yo, although they have been hailed as a safe-haven asset amid the volatility of the pandemic.

On 6 October, the FCA banned the sale of crypto products to retail investors in the UK, saying that their "extreme volatility" made them "ill-suited" for retail customers, as well as the prevalence of market abuse and financial crime in the secondary market. The ban will come into effect on 6 January 2021.



Getty Images

The Financial Conduct Authority was not able to assess all firms

Getty Images

Widespread inoculation will be a shot in the arm for the economy

Fund managers are expecting vaccine to lift economy by April

David Ricketts

The majority of fund managers expect that the arrival of Covid vaccines will take at least four months until they have a positive impact on the economy, as investors continue to pile into stocks most likely to benefit from a recovery.

According to the latest Bank of America fund manager survey, 42% of respondents said they expect the economic knock-on effect from a Covid-19 vaccine to be felt from the second quarter of 2021. Some were more optimistic – 28% said a positive impact could be felt during the first three months of the year.

Despite a display of optimism, some fund managers remain cautious over the economic outlook into 2021, even with the arrival of successful vaccines. Almost a fifth of respondents to BoA's survey said the positive impact of a vaccine would not be felt until the final three months of the year.

Stephen Dover, head of equities at Franklin Templeton, said: "Until the spread of Covid-19 is reduced – probably once more vaccines become widely available later in 2021 – the outlook for the world economy is likely to remain volatile."

He added: "While we have received positive news regarding effective vaccines, widespread inoculation, especially in emerging markets, remains some months off. The positive news on vaccines gives us comfort that Covid-19 will be contained, but the timeline remains uncertain."

> "The news on vaccines gives us comfort, but the timeline remains uncertain"
>
> Stephen Dover

Neil Williams, senior economic adviser to the international business of Federate Hermes, is also expecting a slower economic recovery.

"Vaccines are coming, which is hugely encouraging and should lift consumer and business confidence," said Williams.

"Yet, the speed at which economies are likely to recover should not be overstated, given the 'eye of the economic storm' in Q2, 2020, which carved away six years of US, and 17 years of UK, growth."

He added: "The story is similar across the globe, with distributional and other challenges related to vaccines, as well as labour scarring suggesting 'normality' is unlikely before the autumn.

"In the US, if the pace of recent job gains continues, it would take around 19 months for the near 10 million displaced workers to return."

The BoA survey also shows fund managers are continuing to allocate more investment to so-called value stocks – those they believe are undervalued relative to their earnings and growth potential.

According to BoA's survey, 44% expect value to outperform growth stocks over the next 12 months – up 20 percentage points on November's outlook.

Fund managers have also upped their allocation to emerging markets, believing the asset class will be the biggest performer in 2021.

Bank of America's survey showed fund managers' allocation to emerging market equities is the highest since November 2010.

Exchange traded funds to gain entry to IA sectors from April

David Ricketts

The UK's fund management trade body has given the green light for exchange traded funds to be included within its sectors from April, a move that will allow some of the fastest-growing passive investments to be put on a level playing field with thousands of active funds.

The Investment Association, which represents the UK's £8.5tn fund management industry, confirmed in May 2019 that it would include more than 500 ETFs within its sectors, which divide funds into categories based on their investment approach. The sectors are considered an important tool in helping advisers and individual investors to compare thousands of funds.

The IA had originally intended ETFs to be included in its sectors from the beginning of 2020, but a high level of interest among ETF providers meant that the trade body had to create new bond sectors to accommodate them. The IA said if left unchanged the number of funds in the Global Bonds sector would have increased by more than 50%.

From April 2021, the sectors will consist of more than 4,000 funds divided across 52 categories.

The inclusion of ETFs by the IA comes as passive investments continue to gather momentum among European savers. According to Morningstar data, last year passive funds added more than €115bn to the end of October, compared to the €94bn collected by actively managed products.

Jonathan Lipkin, director for policy, strategy and research at the IA, said: "Including ETFs within the IA sectors will help investors more easily find and compare the full range of investment funds available to them."

Solomon warns on IPOs after 'broken' dealmaking is slammed

Bérengère Sim

The heightened participation of small investors in companies' initial public offerings is a concern for the chief executive of US investment bank Goldman Sachs.

"I do think we're in a moment in time where there's a lot of euphoria. I personally am concerned about that," David Solomon told *CNBC*. "I don't think in the long run that's healthy. I think it will rebalance over time, as it always does."

Solomon's comments follow two highly publicised IPOs: property rental platform Airbnb and food delivery service DoorDash.

Demand for DoorDash's shares sent stock up 86% in its trading debut on 9 December and Airbnb's shares more than doubled in their debut the following day. The hype around the two IPOs sparked videogame company Roblox to delay its IPO until this year, saying that it was too difficult to determine the right price for the company's shares.

"There is a lot more retail participation in a bunch of these IPOs, One of the things to think about is there are real differences [with the period of 2000 and 2001] – if you wanted to buy a stock back then, you had to go and open up a brokerage account," said Solomon. "You had to sign papers directly. Technology enables and it makes it a lot easier and it broadens participation."

Solomon said that high retail participation was "something to watch and be cautious about", adding that "obviously the market at the moment is pricing in perfect execution and enormous growth for a very long period of time and my guess is there will be a rebalancing of that over time".

Hedge funds ride cryptocurrency boom to rally 156% amid bitcoin trading bonanza

Trista Kelley

An index tracking hedge funds that invest in cryptocurrencies including bitcoin surged 52% in November, bringing the year-to-date return to a whopping 156%. That's according to analysis and research firm HFR, which posted the performance of its HFR Cryptocurrency Index.

Hedge funds have warmed to cryptocurrencies as bitcoin boomed with a rally that was on track to end the year some 305% higher. In November, *Financial News* reported that one manager of a bitcoin exchange-traded product received as much as $3m a day in inflows – which in 2019 took the whole month to attract – and that the investors are overwhelmingly institutions, rather than individuals.

"Investors are actively increasing exposure to hedge funds, including cryptocurrency strategies," Kenneth J Heinz, president of HFR, said in the firm's HFR Market Microstructure Report.

There is now "a greater urgency by institutional investors to not miss out – to invest some of their assets in bitcoin," Nikolaos Panigirtzoglou, a cross-asset research analyst at JPMorgan, told *Financial News* in November. This has been prompted by a perception of bitcoin as a credible alternative asset to gold.

Tech has also proved a smart strategy for hedge funds. Over the first 11 months of last year, the HFRI 500 EH: Technology Index posted a 23.5% return.

Hedge funds overall have struggled to consistently beat returns of equity indexes. Global hedge funds gained 4.49% in November, their best month since 2009, and posted a more than 8% gain in the first 11 months of the year. But those returns pale compared with those of the S&P 500 Index, which was on track to finish 2020 with a 16% rally. The more than decade-long bull run in equities has seen the US equity benchmark post returns of 9.5% or higher in all but three years since 2009.

There are some bright spots. HFR found that hedge fund debuts ramped up in Q3 amid optimism on the outlook for the US economy, with new launches outpacing fund liquidations for the first time since the second quarter of 2018. New funds reached 151, the highest number since June 2019.

European banks pile into government debt, setting up 'doom loop' scenario

Italian banks lead the trend with more than 11% of their assets held in their home country's government debt, a record. By **Patricia Kowsmann**

Getty Images

European banks are doing something that got them into trouble years ago – loading up on government debt, a trade that investors call the "doom loop".

Banks in the eurozone, stuffed with excess cash thanks to Covid-19 central bank relief efforts, bought close to €200bn in government debt of their home countries in the year to September. That has raised their holdings by 19% to €1.2tn, according to the European Central Bank.

This comes against the backdrop of massive government and central bank support packages that have buoyed assets. The ECB has been buying big quantities of eurozone government bonds, keeping their prices stable and making the investment safe for banks.

The fear is that behind the support lies increasingly fragile government finances, as countries borrow aggressively to counteract the effect of the pandemic. It rekindles memories of Europe's last financial crisis early last decade. In 2012, what started as a struggle by weaker eurozone countries to repay debts turned into a financial-sector crisis.

Banks held mountains of government bonds that fell in value, triggering a spiral of ratings downgrades that sent bank borrowing costs up, leading to a credit crunch that slowed economic growth. That hit government finances and perpetuated the doom loop between banks and their sovereigns.

"In Europe you cannot take for granted that the ECB will always step in," said Jérôme Legras, head of research at Axiom Alternative Investments.

It cannot be taken for granted that the European Central Bank will always step in

Italian and Spanish banks currently hold roughly a fifth of their respective countries' outstanding debt, according to the ECB.

For now, markets are sanguine to the risks. Borrowing costs for banks and governments are close to or at all-time lows. The additional interest Italy has to pay on its 10-year bonds is at its narrowest compared with similar German debt – around 1.1 percentage point – since 2018. Portuguese 10-year yields recently went negative for the first time.

"The risk is close to nil on a two-to three-year horizon. But after that, the situation will change radically" once investors start evaluating the sustainability of some countries' debt, said Lorenzo Codogno, a former chief economist at the Italian Treasury.

The purchases come as governments are issuing more debt than ever trying to raise funds to fight the pandemic.

Italy's public debt is expected to grow close to 160% of gross domestic product and stay around that level at least through 2022, according to the European Commission. It was 135% in 2019. The ECB is also providing cheap credit to banks to incentivise lending.

An easy way for banks to make money with the programme is to buy government bonds that yield more than the borrowing cost.

Banco Bilbao Vizcaya Argentaria, Spain's second-largest lender by assets, increased its holdings of Spanish bonds by 35% in the first six months of the year to about €34bn. "The increase is aimed at improving the cost of excess liquidity after the full take up of the ECB's loan programme," a spokesman for the bank said.

In Italy, Intesa Sanpaolo, Italy's second largest bank by assets and a big buyer of Italian debt, increased its domestic bondholdings by 18% this year to €40bn in September.

Marco Troiano, deputy head of the banks team at rating agency Scope Ratings, estimates Intesa and UniCredit, Italy's largest bank by assets, had exposures to Italian sovereign debt as of June worth more than 80% of their core equity tier 1, a key measure of banks' ability to withstand losses. At many smaller banks the figure surpassed 200%.

"Intesa Sanpaolo continues to maintain its holding of Italian sovereign bonds below 50% of its total sovereign bondholdings, a level that supervisors and investors consider comfortable," a spokesman for the bank said.

A UniCredit spokesman said the bank is actually running counter to the trend, cutting its exposure to Italian sovereign debt since 2018. It hasn't used the ECB loan programme to pile into government debt. "We are extremely comfortable with our sovereign holdings," he added.

Banks set aside little to no capital to account for sovereign risk because regulators consider these assets safe. In 2019, Germany's finance minister floated the idea of putting a limit on how much banks can hold risk-free, as a condition for deepening the euro-area banking union, meant to make banks more stable no matter where they are based.

£200bn

Eurozone banks' holdings of their home countries' government debt, as of September 2020

Legras isn't worried in the short term because early last month the ECB extended its emergency bond-buying programme through to March 2022, expanding its monetary stimulus since the start of 2020 to more than €3tn. It also unveiled a new batch of cheap loans for banks.

Andrew Mulliner, a bond portfolio manager at Janus Henderson who has invested in Italian, Spanish and Portuguese debt, said that given yields are so low, holding the securities has become less attractive for private investors. That means banks will have an increasingly bigger role in the purchases.

"It is a risk amplifier" for banks, Mulliner said. "That said, if your sovereign is going bust, chances are your banks are probably going bust as well, whether they hold a lot of government debt or not."

From The Wall Street Journal

Harrison on mission to create blueprint for modern law firm

The London lawyer appointed to lead Boies Schiller Flexner hits back at reports that the eminent US law firm is on the brink, writes **James Booth**

Boies Schiller Flexner's new deputy chair Natasha Harrison says she and the firm are going nowhere.

Last month the Londoner was confirmed as deputy chair of the elite US litigation firm, meaning that she is the anointed successor to the firm's chair, eminent litigator David Boies.

"It's a huge opportunity," Harrison, 47, told *Financial News* on 9 December. "It's really unusual for a woman to go into this role, it's even more unusual for a woman based in London to be running a US firm."

Harrison is not likely to have much of a honeymoon period managing the firm, which saw more than 100 of its 300 lawyers leave last year during the transition from the leadership of founding partners Boies, 79, and Jonathan Schiller, 76.

On 2 December *The Wall Street Journal* reported that Nick Gravante – who was appointed alongside Harrison to manage the transition in December 2019 – had quit Boies Schiller to join New York firm Cadwalader Wickersham & Taft alongside three other partners. His exit has left some in the industry questioning the firm's future, but Harrison said she was confident Boies Schiller was "not just going to survive, but it's going to thrive".

There have also been reports that Harrison is in the market for a move, something she emphatically denied, saying: "I am not on the market, I haven't been on the market and I have no plans to go on the market, because Boies Schiller is where I want to be."

Boies, who founded Boies Schiller in 1997 after he quit Wall Street firm Cravath Swaine & Moore, is one of the best-known trial lawyers in the US and a liberal darling who represented former US vice-president Al Gore in the recount litigation following the 2000 presidential election and successfully fought for same-sex marriage rights in California.

However, in recent years he has been criticised for his work for convicted sex offender Harvey Weinstein and failed health-tech firm Theranos, where he was a board member.

Harrison denied the firm's work for Weinstein and its representation of Theranos – whose founder Elizabeth Holmes has been charged by US authorities for allegedly orchestrating a "massive fraud" – had damaged the firm's reputation.

"I don't believe it has," she said. "Obviously there has been a lot of negative press about it, which no firm particularly enjoys, but what our clients are most focused on is the relationship they have with partners and getting the best possible outcomes in their cases."

Harrison and Gravante – before his resignation – have said consistently that many of the lawyers leaving the firm had been as a result of a planned restructuring to slim down the firm and weed out underperformers.

Natasha Harrison, anointed successor to the firm's chair David Boies, will be running the American firm from the UK

The firm's lawyer headcount has shrunk to 205 from 330 since the start of 2020. Harrison said she expected some further exits in the coming months, but said the restructuring was drawing to a close.

"There is a beginning, a middle and end to any restructuring, we are coming out of the middle and heading towards the end," she said.

The firm is "actively engaged" in talking to potential lateral hires, Harrison said, as it looks to strengthen in areas such as restructuring and international arbitration and rebuild towards its ideal weight.

"I reckon around the 220 mark feels about right for me at this time," Harrison said, referring to the firm's lawyer headcount.

Harrison said that Gravante's decision to leave was motivated by a desire to join a firm with practices such as corporate and finance that would generate work for his business crime and commercial litigation practice and not a reflection of his confidence in Boies Schiller.

"Nick wants something else for his practice and I completely respect that and get that," said Harrison, adding that she understood Gravante's exit would lead to question marks, but said lawyers within the firm were confident in its future direction.

"It makes for a good story, particularly when we have had a number of partners leave this year [2020]. Some counselled out, some because they want to go to a different type of platform, but those internally within the firm have confidence in the future and I believe they have confidence in me," she said.

As part of its leadership shake-up the firm has introduced a new system for partner pay, which will take effect in 2021. Previously the firm had an eat-what-you-kill system where partners were paid based on hard numerical factors such as hours billed, business generated and money collected. It was a system that Harrison felt had "huge merit" and was one of the things that attracted her to the firm.

"I used to say I didn't have 12 men in New York deciding my compensation," she said. "But the downside was it wasn't encouraging the sort of behaviour we valued as a firm such as collaboration. Its strength was its weakness in that the numbers only tell part of the story."

In 2019 the firm generated \$405m in revenue and had a profit per equity partner of \$3.3m. Under the new system partners will be placed in 10 bands based on financial factors and other contributions such as bringing in new clients, strengthening relationships with existing clients and driving strategic priorities such as diversity and inclusion.

"It's a performance-based system – and unashamedly so – but we also look at other aspects in this new compensation system to recognise partner contributions that go beyond the raw numbers," she said.

Partner performance will be judged by a compensation committee who will assess partners against a series of benchmarks. Partners will be told where they sit on the pay ladder in the first quarter of the year and will be told how much they will be paid in December 2021.

> "I am hoping for a really boring year with no headlines on restructuring"
>
> **Natasha Harrison**

"People can go up and down [the ladder] but we don't want people jumping around too much. Particularly for lawyers in their 30s and 40s… having some sort of consistency is helpful," she said.

Harrison, who grew up in Croydon, south London, was hired by Boies in 2013 to launch the firm's London office after stints in the UK office of US firms Weil Gotshal & Manges and Bingham McCutchen. She was called to the Bar in 1996, and has an enviable practice, acting for clients such as hedge funds Silverpoint, ESO, King Street, SVP and Farallon.

Asked if coming from outside the firm's core US base made leadership more of a challenge, Harrison joked: "I have to make sure that people understand my accent."

She said her colleagues have got to know her better as she has taken on greater management responsibility and spent more time in the US.

"In my early years at the firm I might have been a bit more of an enigma because I was the girl from London building the office there," she said. "I have spent significant time in the US, I have clients in New York and the West Coast, I am well known within the firm and, with the way tech has accelerated over Covid, I think it will be easier in some respects with Zoom and the like."

Looking ahead, she jokes: "I am hoping for a really boring year with no headlines on restructuring."

Harrison rejected the market chatter and lurid headlines that have accompanied the dramatic stream of partner exits recently and said the firm is well-placed financially for the next stage in its development.

She pointed to an expected nine-figure payout from the firm's work suing insurer Blue Cross Blue Shield in a competition case. Boies Schiller is one of three law firms set to share \$667.5m in fees for their work on the case, and Harrison said the firm is well-placed financially.

"If you look at the financials of the firm, we have no debt, partners don't pay in capital contributions so when they leave they are not pulling out capital. We have an extraordinary pipeline of work and an extraordinary rota of clients," she said.

"I am confident in the direction we are heading as a firm, we will continue to be the elite litigation firm… we are trying to create the blueprint for the modern law firm."

As to her own elevation as David Boies' successor, she said: "I am thrilled by the opportunity, there is no firm I'd rather be with than Boies due to its very unique culture, the quality of the work and the quality of the clients. It's a great privilege to be able to lead the firm."

City bosses *Black Swans*, Brexit and what else is in store for 2021

Mario De Meyer

> "There is a great deal of pent-up economic activity now, especially in the US and UK"

Bob Diamond

Former Barclays chief executive and founder of Atlas Mara

On the pandemic
The financial sector is always going to be closely correlated to the overall economy, so the most important challenge for both is going to be Covid. It is still too early to say how impactful vaccination efforts will be, but if we get that right, that will be the single biggest tailwind for 2021.

On the economy
We think there is a great deal of pent-up economic activity right now, especially in the US and UK. Many firms, quite appropriately, chose to postpone big decisions until after the crisis. As we get clarity over the efficacy of vaccination programmes, you will see a surge in economic output. In this regard I think the markets are ahead of the economic forecasts.

On the future of the office
There is no doubt that many executives in the banking industry will use this as an opportunity to 'zero-base' their firm's travel and event budgets. Undoubtedly, there will be areas for firms internally where video conferencing platforms allow for greater productivity over the long term. That said, I feel very strongly that there is no substitute for being in the office with your colleagues and meeting in person with clients and investors. So I think that in financial services the future will look much more like 2019 than 2020.

On Brexit
The City of London is going to be fine. London has adapted to changing circumstances time and time again and will continue to be a global financial hub, but a lot of the negative consequences of Brexit will be felt by other parts of the UK in the short term.

On markets
Volatility is always going to drive trading and markets revenues. It is a great counter-cyclical hedge for banks. But you cannot expect this performance to continue going forward. When I look at a lot of the big banks, especially in Europe, I do worry about where the profits are going to be generated.

On the 2021 outlook
I would definitely expect to see increased activity in the financial services sector. There is a lot of pressure for further consolidation. In terms of the debt markets, corporate balance sheets may be in better shape than we realise and you could see additional debt issuance in the spring.

Philip Bowden

Co-head of Allen & Overy's global banking practice

On risks in 2021
The pandemic will serve as a reckoning for many global businesses. There are lessons to be learned, and measures to be put in place by organisations to future-proof their financial and operational resilience ahead of whatever the next crisis might be.

From a credit perspective, liquidity injections have been keeping a lot of firms afloat for the past several months. Looking ahead, state aid will eventually cease, and subsequently we expect the wave of formal insolvencies to increase in the first half of 2021.

In terms of hazards on the horizon, the pandemic is adding an unprecedented burden on emerging economies and future sovereign debt crises are inevitable. I think we are likely to see new global policy initiatives to help countries restructure their debt.

Continued on page 10

Continued from page 9

On client trends in 2021

As a firm we are anticipating a very active year for private credit managers as they continue to lend in a significant way. We are seeing mid-market companies facing Covid-related liquidity challenges, particularly as many of them have found themselves ineligible for government support packages. Their need for funding, coupled with the dry powder available in the private credit market, makes for a healthy deal pipeline.

We continue to see a lot of activity in the private capital space across all alternative asset classes, from private equity to debt funds. We expect the demand for private (non-syndicated) loans to continue to grow as an alternative to regulated bank lending, and likewise we anticipate the trend for private credit to become increasingly upmarket, with the size of the tickets steadily increasing. We expect more distressed and special situations lending by private credit lenders over the next 12 months.

We are seeing an increased trend of banks ramping up their private credit businesses and launching private credit funds to compete with the growing direct lending market. More generally, sustainability is top of the agenda for so many of our client conversations. Given the pace of change in sustainability-related policy and regulation for the financial services sector, our clients' focus on sustainable finance and ESG has increased significantly. In fact, I would go as far as to say that ESG is the No 1 strategic priority for many of our clients and their organisations.

We are advising a number of firms on the development and implementation of their ESG strategies as well as their response to future regulation and policy. The pandemic has brought the importance of ESG principles into even sharper focus for many of our clients, but other factors are in play, including the continued rise of shareholder activism.

We will see the same flight to the quality of the global elite law firms as we saw following the 2008 financial crisis. This is a time for advisers to differentiate themselves and find ways to provide their clients with guidance that is pragmatic, commercial and easy to consume.

This crisis is truly global, and it is sector agnostic. Therefore, law firms that are full-service and have strategies that are both global and local will be better hedged. They will fare better than specialist firms, or firms with limited geographic reach.

Farmida Bi

Chair, Emea at Norton Rose Fulbright

On risks

We cannot underestimate cyber threats to critical national or even global infrastructure and technology systems. A cyber attack of this kind could have an extreme, disruptive effect on not just the markets but essential services and supply chains with potentially grave implications.

The journey to net zero is top of mind for many of our clients. They want to be part of the transition to green growth and to support the circular economy. Against the backdrop of the pandemic, another major issue is how national governments will deal with the huge increase in national debt.

London post-Brexit

London will remain one of the world's leading financial centres and an attractive place to do business. It has a diverse pool of talent, a reputation for innovation and a business-friendly regulatory and legal environment. Many financial institutions have long factored Brexit into their plans but there will of course be challenges ahead as new trading frameworks take shape.

On the 2021 outlook

We're likely to see an increase in distressed debt in the second half of 2021 together with more insolvencies. A number of projects are using the capital markets for refinancing. Green bonds and sustainable finance continue to gain considerable traction.

Paul Britton

CEO of Capstone

On Black Swan events

Perhaps not Swans, but more frequent Black Cygnets – short, sharp shocks to the market because of the deterioration of underlying liquidity. This is a structural issue that has not changed despite buoyant equity markets.

On themes for 2021

Unprecedented central bank asset inflation has led to a $25tn investor windfall since 2008. We believe financial services firms will face increasing pressure to hold themselves accountable in the context of social good. Charitable giving will no longer be enough.

We have the opportunity to lead by example and be a catalyst for deeper-rooted change as evidenced by the 10,000 Black Interns initiative in the UK. We believe this is a structural change that will continue to gather momentum in 2021.

Ann Cairns

Global chair of the 30% Club and executive vice-chair of Mastercard

On equality in 2021

My hope for 2021 is that the way we work will be better forever. Last year, companies around the world were forced to take flexible working seriously – for both women and men. Employees across a multitude of companies and industries have proved they can be equally productive – sometimes more productive – in a flexible environment.

In the future, I see people going to the workplace to collaborate, meet and socialise when they need to and will use technology to engage in an effective way from a variety of office and home locations. The acceptance of this and the potential of this change in corporate attitude truly has the power to level the playing field and could result in the most rapid progress of women in the workplace ever.

Like World War II brought a huge influx of women into the workforce, the fallout of the pandemic could bring more women into senior leadership.

When men and women have more control over their work/life balance and are better equipped to equitably share domestic responsibility they can both fulfil their potential. That's good for companies, for the economy and for society.

Liz Claydon

Head of deal advisory for KPMG

On client concerns

We are having lots of conversations around supply chains and production, and the importance of diversifying. Our instinct is to bring everything into one location but in terms of resilience, diversification is definitely something to consider. If Covid has taught us anything, it is that if you spread your production around the world, you do reduce your risk.

Additionally, companies that haven't got a strong ESG lens on their current business model and future investment plans could cause significant challenges.

Finally, unwinding the government's financial support packages could trigger further distress, job losses and with that, a decline in consumer confidence with all the implications this brings.

Many of our clients at the moment are reviewing their strategies, including their defensive activities – reducing costs, increasing cash flows and disposing of assets. With this, we are seeing less inclination for new products and geographies, but an increasing focus on reshaping strategies on the back of Covid.

Clients are also very focused on their technology strategies, both in enabling their current business models, but also as they look to invest in the future – the recent investment of Nestlé in Mindful Chef (giving them access to the D2C model) and the success of the Hut Group are two very relevant examples.

On deals in 2021

This year's outlook very much depends on the sector, and the strategies in place within each of these sectors. Whilst certain sectors will grow this year – for example, cyber and healthcare – other sectors are facing a much longer period of recovery – for instance, transport and hospitality.

With Brexit finally a reality, we are expecting fewer projects triggered by Foreign Direct Investment, which means local businesses will potentially need different sources of capital.

We have seen the M&A market really bounce back, with the potential for a record-breaking fourth quarter in 2020 for deal activity in the UK. Perhaps surprisingly, Covid-19 has been the catalyst for businesses to put their M&A plans into place. It has focused minds on the here-and-now for those who might otherwise have delayed their plans.

Then there is the wider economic and private equity picture to consider. Many firms are anticipating a chillier climate for deals after the Budget, with the prospect of changes to the capital gains tax regime. With substantial dry powder in reserve, private equity appetite remains strong, which will lead many to consider mergers and acquisitions, management buyouts and bringing on board investors to bolster defences during an uncertain period.

We are also seeing an increase in IPO activity with a number of processes looking to launch in Q1.

Gavin Davies

Head of global M&A practice, Herbert Smith Freehills

On Black Swans

The single most important lesson of 2020 must be that we are extremely vulnerable to [Black Swans], even if we cannot guess what the next one is going to be. Horizon scanning and threat planning for what can be identified for the risk register remain very important.

However, just as important is building resilience to threat from wherever it emerges, and the learnt agility of how to deal with that. It is that muscle memory that was built for us all in 2020, and resilience in all its aspects that is the key focus now for any business.

“We can't underestimate cyber threats to critical national or even global infrastructure and technology systems”

Farmida Bi

“The effects of inflation could have a severe effect on sovereigns and the broader economy”

Manolo Falco

Client concerns

Globally, M&A headed into a lockdown of its own in H1. Deal origination activity was fairly fully curtailed, strategic plans were paused, and ongoing sale processes were mothballed. The second half of 2020 was a story of agility, resilience and opportunism in the M&A markets. Focus shifted to resilience, portfolio management, and to emerging stronger into opportunities beyond lockdown. Q3 produced a significant bounce back in some markets. While this has not yet made up for the shortfall in the overall year, if continued it would show a very different and much swifter recovery than from previous crises.

The most important legal issues in M&A we have been discussing with clients include the rise of FDI regimes (latterly in the UK's significant new legislation) and its deployment by governments in the pandemic, the role of private capital in take privates, and the valuation issues on the public markets. We think the P2P market is strained at the moment because of equity markets ticking up. It will need a further stagnation or even a dip to see that trend continuing at the same rate as H1 last year. If that doesn't come then share-for-share mergers may come to the fore as previously predicted – but not yet realised.

If M&A needs stability, the challenges continue to be legion. But 2020 was the year that uncertainty became the new normal, that the M&A market adapted and that opportunistic dealmakers drove strategic priorities. Generally speaking, the UK M&A market has not been on pause, waiting for a Brexit trade deal or Covid vaccines. Nonetheless, a deal and vaccines will remove elements of uncertainty, and more importantly provide clarity of direction for the UK economy in the medium term. More uncertainties remain, of course, including the nature of the UK's future relationship with the US, the impact of the National Security & Investment Bill, and anticipated changes to the CGT regime.

On reasons for optimism

There was a strategic recognition that 2020 catalysed fundamental shifts in the way the world lives, works and plays, not least the importance of technology in all of our lives. And a recognition that, for the best-placed, M&A can be a tool of choice for effecting a rapid transformation of businesses to address that shift. In the more favoured sectors, we have seen strong liquidity in the bank market to support strategic M&A by corporate clients, and expect this to continue into 2021.

In addition, banks are being far more selective in their support for corporates; ancillary income and particularly the potential for M&A and DCM roles can be critical for those looking to raise debt. For those corporates and sectors that are out of favour, lenders are actively reducing their exposures as quickly as possible, including selling debt sub-par even for investment grade equivalent credits. Some of this retrenchment will result in restructurings and distressed M&A opportunities.

On deal execution, 2020 also showed us that even the most complex deals could be done in lockdown conditions, indeed sometimes more efficiently. We also faced challenges: a need to find other ways of connecting online at a personal level and of managing training for younger team members, and the sometimes unsustainable nature of working conditions on deals from home.

Key themes in 2021

The form that shareholder activism took last year, and the evolution of that model, with increasing convergence with engaged shareholder strategies, and with private equity business models. Also, corporate purpose, the rise and rise of the ESG agenda, and the pandemic putting the 'S' into the social category. The decarbonisation agenda will be another key theme, as will the lessons learnt from the impact of the pandemic that we are building into deal process and documentation, in particular around termination rights, for whatever next Black Swan event arises.

We also expect to see distressed deals in 2021, when governmental support necessarily runs out and the true impact is felt in the most damaged sectors.

Manolo Falco

Co-head of banking, capital markets and advisory at Citigroup

Risks in 2021

There's some talk of inflation coming back, and that for me is a big surprise that could make a big impact in the next year or two. With the levels of debt that for both governments and households have increased, the effects of inflation could have a severe effect on sovereigns and the broader economy. There are obvious tailwinds buoying markets – the Biden presidential win and the Covid-19 vaccines – but the effects of a potential increase in inflation is not something many people are talking about.

Client concerns

We're in the fourth industrial revolution and one of the biggest themes remains technological disruption. The Covid-19 crisis has made this even more important. The pandemic forced the world into a remote-working arrangement, which in turn led to a surge in companies both providing this sort of technology and a boost for consumer businesses that were able to take advantage of the shift to online sales. We're seeing stronger technology companies take advantage through IPOs and M&A activity, and we're beginning to see winners and losers emerge from the crisis.

On the future of the office

For investment banking it is important for people to be in the office together. Juniors still rely on the apprenticeship model and people work more effectively and creatively together in the office. However, technology has given us more opportunities to be flexible in the way we work.

In BCMA we had 98% of our employees working from home in the initial stages of the pandemic and still have 80% of people working remotely. That is a chance to change some things, including addressing work/life balance, which has always been a problem for investment banking and especially for the younger generation.

Very clearly, we are not going to travel as much. Previously, I was in New York for a week every three weeks, as well as six times a year in Asia and flying around Europe. We are still going to need to travel to see clients – we are a salesforce and relationships are made and developed with in-person meetings. But we have shown that a lot of meetings can be done remotely and it makes sense from an environmental and practical point of view to make sure some of these changes stay. It is an enormous opportunity to reflect on that as we think about going back to the office.

On Brexit

London is our Emea headquarters and that is not going to change, but we will increase our presence in Frankfurt. London will remain one of the world's major financial hubs – I don't think there's any city in Europe that can compete with its combination of infrastructure and quality of life, and it will continue to shine.

Lessons from Covid

The lesson is not to underestimate how capital markets manage to rebound and surprise. In April, I would not have thought we had much of a chance to see double-digit revenue growth across our investment bank, including a 90% surge in equity capital markets, but we did. In the aftermath of the first wave of Covid, we saw incredible issuance across the board, but I don't think we'll see that in 2021.

We're likely to see a rebalancing from debt capital markets issuance to leveraged finance, because private equity firms have raised an enormous amount of capital and need to put that to work. I think there will be a continuation in the trend of an increase in IPOs, while M&A – which began to return in September – is

Continued on page 12

Continued from page 11

clearly back and we expect that to continue into 2021.

We have learned that we can switch to an almost 100% remote working pattern very quickly, and that even under those conditions, the banks can cope with high levels of market volatility. Both the structural reforms that the banks have undergone over the last decade, and their continuing investment in technology, have meant that they have been able to continue to fulfil their obligations not only to clients, but also to the broader global financial ecosystem.

On M&A in 2021

We are seeing a decent pipeline going into 2021 – a lot of companies globally are cash rich and, as conditions stabilise, there are many that have identified opportunities to 'build back better – and greener'.

Richard Hammell

UK head of financial services at Deloitte

Risks in 2021

There is a really important issue that hasn't yet got the attention it should – biodiversity risk. Covid-19 has highlighted how non-financial risks, such as climate change, are capable of generating significant shocks to businesses and the economy and while biodiversity hazards may not materialise in 2021, I expect that it will come increasingly into focus.

The UK is undertaking a review of the economic value of biodiversity, which is the first of its kind in the world. I expect the public and scientists to demand action from politicians and regulators, as has happened with climate change risk.

With the Bank of England signalling that it is thinking about negative interest rates, the pressure on banks' margins is becoming more acute. We are talking to businesses about the actions they might take to offset this margin pressure, and about other considerations to ensure that their systems are ready, that their models can operate with negative rates, and that they will minimise the impact on customers.

On the trends for 2021

Improving data storage and analytics will make it possible for financial services to serve previously excluded customers profitably in the future. Climate change has also, of course, been rising fast up the regulatory agenda over the past few years.

As a firm, we are working to help standard-setters to develop new metrics and disclosure standards, so that banks, insurers and investors can make accurate assessments and disclosures of climate risk. We are also working with financial institutions as they seek to integrate climate risk into their scenario planning and business and capital models.

On life post-Covid

I'm not convinced 'normality' – as we knew it anyway – will ever return. The financial services sector has for many years occupied the lion's share of City office space. But, even before the pandemic, firms were actively looking to reduce costs and consolidate their office presence, including greater use of regional and offshore operations, as well as automation.

The shift in people working from home last year has sped up this trend, with new construction activity in the City of London falling by 60% in Deloitte's most recent London Office Crane Survey.

There are many aspects of personal interaction that mean that offices will always remain part of financial services. However, I expect the nature and operational use of space will have to adapt to a hybrid model in 2021 and beyond.

On Brexit

Financial services was one of the first industries to prepare for Brexit, because of the importance of having the right licence to operate, and it moved quickly to set up new operations to continue operating within the EU. I expect many financial institutions to step back now and consider how they conduct business across Europe, and where efficiencies can still be made. An evolving regulatory environment in the UK could also spark innovation, attract new talent and push UK financial institutions to consider new areas of growth, like investing in clean technologies.

Martin Gilbert

Former vice chair of SLA, chair of Revolut

On risks this year

The progress made on a vaccine is very welcome news and has lifted markets. A big risk is if we get ahead of ourselves, in terms of the effectiveness and supply of the vaccine. Also there is an assumption that central bank and government support is infinite, but the taps will be switched off at some point.

The full economic impact of the crisis is yet to materialise. In 2021, we will see a flurry of bankruptcies and redundancies. The US High Yield market is currently pricing in defaults at only 5%, which seems optimistic. Consumer behaviour is unlikely to revert to what it was pre-crisis. People may save more and/or change their consumption habits. We're already seeing this on the high street. Basically, investors cannot be complacent.

Few people are contemplating the threat of inflation, but the oil price combined with the weak US dollar means inflationary pressures may emerge, which would dent bond and equity market sentiment.

The future of fund management

The huge flows into passive strategies are forcing active managers to take a long, hard look at themselves. This next decade will be one where active needs to prove its worth. The uncertain economic environment and the fact that central bank liquidity cannot last forever means active strategies are well-placed to deliver.

Within the institutional space, there is increasing interest in allocating more to private markets – private equity, debt, infrastructure and real estate.

Events of 2020 have resulted in an even greater focus on ESG, which is welcome. But ESG embedded in investment processes is now standard. To differentiate themselves asset managers need to demonstrate and evidence they are not green-washing. Also they need to look beyond ESG and offer impact investing products.

On the future of work

We won't return to a pre-Covid normal, just as we won't go back to the work practices of a few years ago. The City constantly evolves and coronavirus has merely accelerated existing themes. Many businesses will adopt a hybrid model with employees coming into the office two to three days a week. Working from home has many benefits, but the office remains a good environment to foster culture and ideas.

Brexit and other trends

Brexit won't destroy London. Businesses and City institutions will adapt and London will remain a global financial centre. Following the 2008 financial crisis, a number of banks sold off their asset and wealth management divisions in order to strengthen their balance sheets. We are now seeing banks seeking to buy or establish wealth management businesses as they look to diversify into more profitable areas.

Patrick Frowein

Co-head of investment banking coverage & advisory Emea, Deutsche Bank

On risks in 2021

The impact of the pandemic will be far-reaching and long-term, resulting, for example, in re-localising supply chains and changing business models. We will continue to see fiscal and monetary policy supporting economies and expect the low interest-rate environment to remain. ESG factors will be even more prominent in corporate decision-makers' long-term plans, both on the capital profile, but also strategic agenda side. Deutsche Bank strategists estimate that by 2030 almost all of investors' assets under management will be under a responsible investment strategy, highlighting the significance of this mega trend.

On the pandemic impact

In spite of the pandemic, and in fact because of it, the corporate finance fee pool has grown to record levels. Firms sought liquidity from capital markets, pushing the fee pool to nearly €80bn. Whilst 2020 was a boom year for equity and primary debt issuance, M&A activity is only recovering now as uncertainty recedes.

"The full impact of the crisis is yet to materialise. We will see a flurry of bankruptcies"
Martin Gilbert

We are likely to see further recovery in 2021, driven by factors such as the strategic backlog for corporates through the crisis, the acceleration of business model transformation requiring action, and the record amount of liquidity that sponsors have to spend.

On 2021

Expect to see an uptick in M&A activity driven by themes we saw emerging pre-pandemic. We will probably see more leveraged finance activity through sponsors, more share deals given valuation levels and an increase in public-to-private deals as some sectors still offer value. Shareholder activism is likely to return after a slowdown with the pandemic.

Jan Hammer

General partner at Index Ventures

Trends coming this year

New players in financial services have begun to surpass the valuations and customer numbers of traditional players, and this shift was further accelerated in 2020. The risk for startups is finding themselves on the back foot as they respond to their newfound status in the mainstream. For regulators it is an overreaction or misunderstanding of new business models and technology, and for legacy financial institutions, it is the belief that the solution is just to copy features and miss that what we are witnessing is a paradigm shift with customer relationships and expectations.

Financial services are being rewired and rebuilt, but we're still far away from a seamless flow of information between systems. What may seem like small changes today, creating more connectivity and automation of manual tasks, will lead to significant advances in many areas of financial services, the creation of entirely new business and business models, and an acceleration of innovation in the sector.

On the future of the office

The lesson for me from 2020, is that you can't replace the value of relationships and the importance of serendipity, of random conversations and meeting someone face to face. There is a limit to the Zoom-call world. I don't expect we will go back to the pre-Covid normal and see each other as often as we used to, saving ourselves the pain of travel and time zones, but I'd hope that we use the saved up time for more meaningful interactions. At the end of the day, a large part of our business is all about people.

On the future of London post-Brexit

London has been a magnet for talent for years, and has benefited from attracting the best of the best. Post-Brexit, it has a chance to double-down and become the most welcoming place for talent. The devil is in the detail. How easy will it be to get a visa for a smart product manager and her family? Will a stellar engineer have to have a university diploma? Will they have to wait for months to make the move? How bureaucratic will the process be for companies? There lies an opportunity to attract the talent we need, but also a risk of closing our borders and signalling that the UK is not as welcoming as it used to be.

Trends in 2021

Conversations around ESG have accelerated and 2021 will move us to implementation and measuring impact. This has been an important time to give everyone pause and reflect. There is not one silver bullet to these issues but rather hundreds of actions.

For founders, the aspiration to be a $50bn+ fintech company is no longer a remote possibility. In 2020, we saw it happen with Adyen and expect many others to follow in their footsteps. As more startups reach these levels of scale and influence, the delineation between fintech and financial services will get blurry. Expect to see many 'frenemies' becoming more intertwined in some areas and competing ferociously in others.

Peter Harrison

CEO, Schroders

On Black Swan events

In the year of COP26, government may increasingly realise that effective positive change to the climate will necessitate a meaningful carbon tax. This may also prove an attractive new source of revenue. Similarly, our accounting standards currently imply that all profits are created equal. They do not reflect the significant environmental and social externalities necessary to create those profits. There is a growing probability that investors will move to a focus on 'impact adjusted profits', which would fundamentally change relative valuation amongst many businesses.

Important themes

The biggest takeaways from the pandemic are 'The Two Zeros': the transition to net-zero CO2 emissions and prolonging the challenge of zero interest rates.

It is very clear that interest rates will now remain negligible for a considerable period to come. This will have a profound effect on the way people invest and the products they demand. We're already starting to see market distortions in areas of the credit markets, such as in private markets, but there are likely to be many more of these to come. ESG trends will increase the pace of transition to the 2050 target of net-zero carbon emissions. The asset management sector has a responsibility to support and drive this transition.

The future of work

2020 was the year we broke our attachment to the office. This is going to prove transformational in the years ahead. If we simply revert to office working we will miss a major learning opportunity. Face-to-face interaction supports a culture of collaboration and innovation, but we have proved home working massively significantly improves the lives of many employees: We now need to learn to balance these.

Conor Hillery

Co-head of investment banking in Emea, JPMorgan

On client concerns

Clients are thinking hard about the post-Covid world. What is my opportunity? Where are my challenges? What do I do about it? It won't be the same as before for anyone. M&A is firmly back on the agenda for many companies as a way of shaping their businesses for the future. We're seeing especially high levels of deal dialogue, creative thinking and long-term planning.

On the future of work

Covid has forced us to road-test new working patterns, including remote working and travelling less. It has at times shown us that we can be more efficient. But it has also highlighted the need and the benefit of human interaction, for both business generation and personal wellbeing. Offices still have a central role to play in working life, as do face-to-face meetings with clients.

On markets

2020 showed how capital markets can step up to support businesses that need money even in the most uncertain times. While some of the activity was exceptional and won't repeat in 2021, a lot was held back and is still to come in the 12 months ahead. We saw the start of that next phase in Q4 last year.

On 2021

There will be other Black Swan events, we know that. But it is often about how you prepare yourself for those moments in the better times that can set you apart.

It will be a busy year: financial markets will be digesting the full gamut of activity – acquisition financing, accelerated IPOs, growth-led fundraisings, restructuring and recapitalisations. Buoyant markets, reinforced recently by the vaccine and the US election, provide the backdrop. We'll see strong companies – whose business models have been reinforced by Covid – expanding through M&A and capital raising. Others will need help to restructure, recapitalise or be bold strategically to shore up their position.

George Holst

Head of corporate client group, BNP Paribas

On risks

Some identified potential risks need to be looked after: Natural disaster in relation to climate change, any geopolitical shift resulting in either heightened disruption/conflict or polarisation, political and social unrest in the aftermath of the Covid-19 crisis with rising unemployment, and cybersecurity.

On discussions with clients

One of the most important themes discussed with our clients is the 'industry chessboard'; the consolidation or refocusing of our clients' business. Another is sustainability and climate risk. Most firms are putting sustainability at the heart of their strategy, adjusting their business model to secure stakeholders' trust – not just shareholders or lenders, but also clients and employees. This safeguards long-term profitability and protects the resilience of the supply chain. Some even see sustainability as a new source of income.

On the future of work

We saw new borders being erected with the surge of the health crisis, while others were torn down. New borders between countries and even households – with lockdown in several countries. But also borders removed, notably with the current environment of working from home, which is now the 'new normal'.

The frontier between our personal and professional life faded, but the concept of proximity evolved – having meetings with colleagues in the same country or from abroad are now the same. More equality in a sense. It forced us to accelerate digital working and processes around information sharing, to do it more efficiently and more systematically. The key will be to keep the best practices we had to put in place, while ensuring we maintain a strong social link between our employees. Travel schedules will need to be revisited. We do not expect to revert, but come to a better balanced way of working.

On M&A and markets in 2021

The 2020 crisis was a moment of truth: some companies have shown their resilience, others have been under tremendous pressure. In 2021, we could expect to see more active thinking around sector consolidation, corporate carve-outs, rotation of portfolios on the sponsor side. And with very solid

Continued on page 14

“Data is becoming the new oil. In all sectors we are seeing players seeking to gain competitive advantage”
Christophe Lattuada

Continued from page 13

capital markets – equity and debt – financing will be available for those projects that meet stipulated requirements. We expect private capital to play a big part in 2021. As a result, it should be a very active year, the window being wide open for bold moves.

Frédéric Janbon

CEO of BNP Paribas Asset Management

Important themes

Thematic investing has been very topical, especially relating to energy and the environment, as a way to generate sustainable performance, for example by selecting firms that provide solutions to enable the transition to a net-zero economy in line with the Paris Agreement.

The pandemic has accelerated the focus on social issues within ESG and they are now acknowledged as playing a critical role in mitigating risk and creating long-term value. Many social issues are qualitative and for human areas, by their very nature, the main challenge is to access high quality and consistent data to measure them.

Life after the pandemic

The post-Covid normal is likely to see a changed corporate landscape. The pandemic has also demonstrated that rapid adaptation is possible if there is political will. Governments should consider this when addressing climate change and accelerate the transition to a more sustainable economic future. The extensive support measures that finance ministers are putting in place provide a unique opportunity to drive economic regeneration, and redirection to a more inclusive, net-zero future.

Christophe Lattuada

Group country head for the UK and CEO of Societe Generale London branch

On the post-Covid world

The main risk for 2021 comes from the normalisation of the situation. All our models are based on a progressive return to the pre-crisis world. However, there are two limits to this. First, support measures have anaesthetised our economies and we will fully realise the magnitude as those measures scale down. Second, this pandemic has accelerated some societal transformations and may have permanently changed certain behaviours. Some sectors or business models will have to change fundamentally. Adaptation is the biggest challenge ahead of us. From that standpoint, initiatives such as the government’s new UK National Infrastructure Bank are encouraging. They have the potential to accelerate the adaptation of the economy and should help to deliver the UK’s commitment to reach net-zero carbon by 2050. Banks have a key role to play in accompanying this adaptation effort.

Themes for 2021

One obvious transformation that is accelerating is the ESG one. There are very few conversations I’m having with corporate clients or colleagues where ESG or sustainability doesn’t get discussed. This topic is now spanning beyond products and services and becoming a core question for corporate leaders addressing their overall sustainability and long-term business resilience. Indeed, societal shifts and increased stakeholder scrutiny are pushing the industry to shift the dial collectively on all aspects of sustainable finance, from reaching our climate commitments, to having a positive impact on our local communities.

There is huge potential in the opportunities that are emerging to finance the energy transition, social infrastructures and sustainable development goals across the world. We have recently strengthened our climate commitments by targeting reductions in exposure to upstream oil and gas by 2025, innovated as lead coordinator on the first-ever green convertible bond offering and brought together leading experts to a co-hosted client event on ESG. These types of alliances and co-creation are strong trends.

With the UK government stating that finance is vital to achieving its priorities for a zero-carbon future by 2050, and with COP26 taking place here in November, we believe the stage is set for participants across the industry to come together and find better solutions for sustainability challenges.

Data is becoming the new oil. This trend is not limited to quantitative investors. In all sectors, financial institutions as well as corporates, we are seeing players seeking to gain competitive advantage by making better use of all the data that is available.

On the future of work

I anticipate a more hybrid model emerging. Enhancing the client experience is vital and while a face-to-face approach is important, we found that clients welcome the convenience of digital methods to interact.

On Brexit

The industry will be looking to policymakers to ensure connectivity to the rest of Europe and to model the right regulatory environment. I believe that connectivity and a stable regulatory environment are two of the conditions that made London such an important financial centre and will continue to be so.

On markets

Banks went into this crisis in a much better position, in terms of balance-sheet strength, but also risk management and control frameworks. It is important to note that capital markets stayed open and provided support for crisis-hit companies. For Debt Capital Markets, 2020 was a record year for corporate issuance and for SSA issuers (Sovereigns, Supra-nationals and Agencies). There was a combination of structural trends (disintermediation, a low-rates environment) and the very specific environment created by the Covid crisis, which prompted a rush for liquidity by corporates in Q2. The third factor is the massive liquidity injected by the central banks into the capital markets over the last few years.

It is important to note the resilience, depth and maturity of the euro bond market, in particular, which in the past has been subject to numerous ‘stop and go’ events. Only days after the Covid outbreak, issuers in the most difficult sectors (airports, aircraft manufacturers) were able to launch multi-billion dollar transactions that were heavily oversubscribed.

Debt Capital Markets activity will remain important in 2021, supported by low rates and abundant liquidity. Corporate issuance will likely go down after two record years in a row, but that should be partly compensated by financial institutions’ volumes, which decreased by 20% in EUR in 2020 and should rebound in 2021. SSA issuance should remain elevated, maybe marginally down from the extraordinary levels of 2020.

On the demand side, I expect investor appetite for equities to continue into 2021, which should provide robust demand for high-quality issuance.

The Fed and European central banks have all supported the market strongly, which has enabled investors to commit to equity issues even in distressed sectors. The hunt for yield in a very low interest environment has only exacerbated investor enthusiasm. Given the much stronger performance we have seen in US markets versus European ones, we should see investors rebalance their portfolios as they pivot from America’s very tech heavy market to Europe’s more cyclical companies. On the supply side, many companies in Europe have so far only issued debt and not yet addressed their capital structure, so we have seen relatively limited equity issuance.

Given the volatility last year, the IPO window was small and limited to a couple of months post summer, but in 2021 we expect many companies to come to market. With businesses adjusting their models and seeking defensive and resilient sectors to invest in, we will see more M&A activity in many sectors.

Dominic Lester

European head of investment banking, Jefferies

On risks

The biggest issue will be the increasing challenge of maintaining government support for the industries hardest hit by the pandemic, particularly hospitality and travel. At some point the support programmes will need to stop or further taper off, driving a wave of bankruptcies through the corporate banking sector.

More broadly, there are a number of areas where consumer demand is unlikely to rebound to pre-crisis levels, which will take more capacity out of the system causing further financial strain. The question is going to be what impact these events have on credit markets.

On markets

There has been a huge rotation of capital from industries that are ex-growth, due to Covid-19, into growth sectors such as technology and healthcare. Supported by the low cost of capital, the risk appetite for these sectors is arguably higher than we have seen in the past 30 years. One only needs to look at the valuations of certain technology and healthcare companies, the amount of capital going into SPACs and the reopening of the IPO market to understand this.

Public equity investors are currently willing to make very aggressive and positive bets regarding the future, including funding companies with a strong ESG positioning. We are talking to clients about the importance of taking advantage of the market’s appetite to fund long-term growth opportunities.

On the future of work

The office will still be important, but more as a place to meet and collaborate rather than simply as a place to do work. It is now accepted that you can be productive from any location and there is no longer a stigma associated with not being in the office. However, it is still critical to remain connected with colleagues to help drive, foster and implement new ideas and being able to get together will always be important for this.

We have to recognise the needs of younger colleagues and their development and learning – osmosis is not really possible over a digital channel.

On Brexit

A number of functions will have to move to, or increase their footprint in Europe, particularly on the sales and trading side. Executing transactions with clients on the continent will require significant on-the-ground presence. Since a lot of the City’s workforce consists of professionals from continental Europe some may see Brexit as an opportunity to return to their native countries. However, none of the alternatives to London have the perfect combination of a dynamic global city, flexible labour laws, a reasonable tax environment and an outstanding education ecosystem.

Based on this, London will remain the first choice for many finance professionals.

On the new crisis

The last financial crisis was a crisis in confidence in banks, investment banks and, by extension, the functioning of capital markets. It was why we saw the pendulum swing towards the independent boutique advisories. We have seen the pendulum swing back to full-service firms during the pandemic.

The speed at which capital had to get redeployed between sectors and the volatility and dynamic nature of economic activity meant firms without their pulse on the capital markets did not have the information and experience to advise their clients properly.

On 2021

The capital markets will be highly active for the next few years and a full-service offering will become more important: with trust coming back, clients want banking partners who can offer global sector coverage and real-time capital markets advice and execution.

M&A was subdued last year, as it was difficult to complete transactions during so much market volatility. During 2021 we should see a rise in M&A activity driven by quasi-Darwinian consolidation with the strongest companies getting stronger.

The capital markets will remain very active as companies continue to get equitised and the appetite for highly leveraged balance sheets continues to decline. PE funds will have to focus more on generating attractive returns through growth equity investments, rather than traditional highly-leveraged LBOs. This will be a challenge as they will have to compete with the public equity markets that are valuing companies at a much lower cost of capital. Private equity firms will have to accept lower returns and therefore may become increasingly focused on longer durations.

David Mathers

Credit Suisse chief financial officer and CEO of its UK entities

On 2021

The fallout from the pandemic will continue into 2021. We still face the logistical challenges of rolling out the vaccination programmes, we have record levels of public borrowing, and there remains the likelihood of further business failures and rising unemployment around the world. The banks played a key role as part of the solution in 2020 – that will very much need to continue over the next 12 months and beyond.

On client concerns

What we see is a skew towards transactional work – clients are looking for bespoke solutions to ensure they are best positioned to maintain and enhance their wealth. Probably the major theme of the last few years has been sustainable finance. We established a new function over the summer – Sustainability, Research and Investment Solutions – and you will see some pioneering initiatives and product offerings from us in the ESG space over the course of the year.

The future of work

What we’ll see is an acceleration towards a hybrid form of work, where more people work remotely more often. That makes a lot of sense from a work/life balance point of view, and it is something we have been leaning into for a few years now. However, I very much believe, and our staff surveys are telling us, that there will always be a need and a desire to spend time with colleagues in the office. The business and social benefits of this ‘face time’ are well reported, but one I feel particularly strongly about is the need for younger colleagues to learn by watching more seasoned operators at work. That process of educational osmosis is very difficult to replicate in a remote set-up.

On Brexit

Overall, we have seen some relocation of activity from the City to the EU, and although this may increase over time, the volume of this is lower than originally forecast. From 2021, the UK will develop financial regulation unilaterally for the first time in 40+ years. We would expect the UK to take advantage of the change in circumstances to move financial regulation from level one legislation to regulatory rulebooks, which would ensure the regime can be adapted in a more flexible and agile way when needed. This will help the UK adapt its regulatory framework for fast-growing areas such as fintech and green finance, where the UK targets a global leadership position.

This would be a positive development, particularly if the expanded rule-making role of the regulators comes within a competitiveness framework and increased parliamentary accountability.

David Marchant

Chief investment officer, Canada Life Asset Management

On Black Swans

Black Swans are very difficult. A return of terrorism, war, new pandemic, earthquakes, hyperinflation – who knows? I wouldn’t want to base my whole portfolio around any of these. But even when you know about the Black Swan, working out its impact is almost as difficult. Who would have predicted back in March that 2020 would be a good year for equities?

Clients’ views on the trends for 2021

The extent of the recovery being faster than expected. The impact of Brexit on UK credit ratings – I don’t think we should assume it will be materially worse. The rotation from growth to value – the performance differential is wide. Tech companies are great but when the larger ones are worth more than some global stock markets, something feels wrong.

How do we re-establish credibility in government finances? Attention is entirely on the emergence from the pandemic, quite rightly, but there are long-term consequences for fiscal policy.

London will lose business but it is a great city with a diverse and educated workforce, which will continue to attract financial services.

Tiina Lee

Chief executive officer, UK & Ireland, Deutsche Bank

On the pandemic in 2021

How quickly the vaccines get rolled out will determine how quickly economies will bounce back. That could come too late for some companies and sectors.

On office life

The pandemic has accelerated the way we think about work. Some roles will go back to how it was before as proximity to the office is everything, for many others we have seen what flexible working can look like. We see at least 80% of our workforce will have the ability to work one to two days from home in the future.

On Brexit

As an industry, we could see a wider range of functions migrate to the continent over time, depending on how the regulatory environment evolves. However, whatever happens, London will remain a key centre. It will continue to offer access to a deep, world-class pool of talent and an ecosystem of professional services supporting it at scale. That is not easily replicated today in the numerous financial centres in the EU27.

Bernard Mensah

President of international, Bank of America

On risks

A Black Swan could be stagflation. A rise in prices, exacerbated by supply shocks and supply-chain breaks, while the economy stagnates and a fear of central bank borrowing creates a savings glut.

On client concerns

With our European clients, the immediate conversation is focused on finally getting through

Continued on page 16

Continued from page 15

Brexit, the prospects for global recovery post-Covid and the opportunities and challenges that will present.

Sustainable finance and broader ESG deliverables are here to stay and will increasingly become the big story for both corporates and investors, particularly as we look ahead to COP26. When speaking with colleagues, their health, both mental and physical, will continue to be absolutely our No1 priority.

On markets

Markets revenues and activity levels will always fluctuate, but in 2020 the primary markets have been fundamental to cushioning the economic shock to the corporate sector. In Europe companies rely on capital markets solutions for only 30% of their funding, with banks providing the other 70% – in the US it is the opposite. We have seen capital markets working highly effectively, which should remind us all of the importance of completing the EU capital markets union project to increase funding options for European mid-sized issuers in particular.

Nick Ring

CEO, Emea at Columbia Threadneedle Investments

On risks

There are two Black Swan type events investors might want to be aware of: Firstly that the vaccines fail to get acceptance and Covid persists; secondly, given the UK has been starved of good news over the past several years, a smooth Brexit, recovery from Covid and a stable government would be tantamount to a Black Swan event, totally at odds with recent experience.

Important themes

Sustainability has clearly come to the fore, along with a recognition of the important role that asset managers must play in ensuring a sustainable future for our economy and for society. We saw a record-breaking year for 'specific use of proceeds' bonds with new issuance at $0.5tn and we expect this to continue in 2021 as governments, supranationals and corporates focus on their environmental and social impact.

For the first time, social is no longer perceived to be the poor relation when it comes to ESG. We believe this is a secular trend, not a transitory one.

On 2021

It will be a watershed year for the asset management industry as we strive to align with the forthcoming European Sustainability Reforms. From March onwards the industry will need to demonstrate that ESG risk considerations are incorporated into investment decision-making and to make adequate disclosures. The firms to succeed will be those that understand this is far more than a tick-box exercise. Fundamentally it is about corporate culture, integrity and putting the needs and interests of clients first.

One of the biggest challenges will be developing new client engagement models post Covid. There will be greater use of digital, both to do business and to run the business. Firms that can blend their human and digital touchpoints seamlessly to create an experience that is relevant to each clients' needs will make strides.

Jon Moulton

Founder of Better Venture Capital

Hazards for this year

The potential for an acrimonious relationship with the EU with painful impacts, especially on financial services; Chinese military muscle flexing – another possible nasty; Virus mutation in a bad way – infecting mink is bad, but imagine a more infectious and/or deadlier version that could even get into other animals and pets or be vaccine resistant.

On Brexit risks

Loss of confidence in the UK as a good place for business with over-regulation, higher taxes and greater government interventions; Concerns over independence for Scotland – who gets the debt?!; Medium-term concerns about sterling and inflation from excess money printing.

"It is a great opportunity to rethink office culture and embrace a more diverse workforce"

Christophe Roupie

Head of Europe and Asia for MarketAxess

On risks in 2021

A couple of events come to mind – growing social unrest in the US, leading to a populist surge globally affecting asset pricing and leading to an increase in volatility, and the potential impact of less than effective vaccination rates in developed markets resulting in prescriptive behaviours from local government affecting the free movement of people. Oh, and Brexit affecting the free movement of fishes.

On advice for clients

Invest smartly in technology, creating a more efficient and automated workflow including smart data analysis and AI. Importantly, make sure that you don't get swept away by the revolution taking place in bond markets, which has only sped up following last year's volatility. In 2021, we will see wide adoption of these technologies, new kinds of trading protocols, and more momentum behind all-to-all electronic trading.

On the future of work

In the first weeks of the crisis we set up thousands of clients to trade wherever they were sitting. This shift has demonstrated two things – that trading is possible with physically fragmented trading desks and portfolio teams, and the benefits of electronic trading and all-to-all trading in delivering liquidity and cost savings in volatile markets, regardless of your location. These changes won't go away. Holistically, expectations are now very high for employees, so it is also a great opportunity for employers to rethink office culture and embrace a more diverse and inclusive workforce.

On Brexit

The City is probably going to be less dominant in Europe over time, but the depth and complexity of its financial markets will not be easily transferred or replicated anytime soon. The fact there is no single leading EU27 financial centre does cushion London, and I do think the EU's Capital Markets Union will be critical to supporting the competitiveness of the EU's economy beyond Brexit.

Future trends

In three years we'll be talking much more about climate change and climate transition finance, and the transformation of work through digitisation. However, Covid has focused minds for some time to come on preparedness for high-impact, low-probability events.

Data is now shining a previously unimaginable light on less liquid bond markets. Electronification has helped to create billions of data points that investors are now using to improve liquidity, pricing and execution, and inform portfolio strategies. Many market participants have been quick to follow this trend – our all-to-all network now accounts for a third of our volumes globally and has not only created new sources of liquidity, but has provided alpha generation and close to $850m in cost savings in 2020.

Ian Simm

CEO of Impax Asset Management

On Black Swan events

Not an obscure Black Swan, but perhaps a Grey Cygnet that still doesn't get enough attention. Cyber attacks against financial services firms are growing in number and sophistication and can result in significant business disruption and/or data loss. Asset managers need to put in place measures to minimise and manage possible technology risks and to ensure the safety of data, and compliance with data protection legislation.

On the future of work

A lot of people are finding it quite comfortable working from home but, if you're a junior staff member without a network or a clear idea of your career plans, it is not sustainable to be working by yourself forever.

The micro-conversations and encounters people have around the office cement the culture and the feel of the place, and you cannot sustain that if everyone is dispersed in their homes. We are going to be quite cautious about assuming a massive switch to working from home. That said, I think people will be more trusting of video in the future, and business travel will take a long time to recover to where it has been.

Industry themes for 2021

There is a yearning in the industry for investment managers to embrace more diverse sources of talent and to engage more with society. We are committed to doing that through our own diversity and inclusion practices but also our outreach to and support for policymakers, charities and educational groups.

The impacts of climate change have been largely in line with scientific models, but the human and social cost appears to be much greater than expected. Against this backdrop, there are many compelling reasons for optimism, with large flows of private capital into climate mitigating technologies and business models, shareholder activism against the worst polluters, rapidly rising consumer interest, and ever-more robust environmental regulation.

Samir Pandiri

President, Broadridge International

On tech

2021 will be the year that tech acceleration finally transforms the City. Bespoke tech is out of fashion; we'll see growing re-use of technology by financial institutions – the trend now is to use common tech platforms, especially in areas like securities processing, financial messaging and payments, which are critical but non-differentiating for a financial institution. Overall the trend to full end-to-end outsourcing/BPO solutions is accelerating.

On work

Hybrid working has become the conventional wisdom. Why we go to the office has now changed for good, but I see a hybrid bar-bell work pattern emerging: some firms want largely to go back to office working, while others assume very few staff will go back. And those in each category are not always who you would expect.

On the industry

The stressed middle of European asset management will need to get leaner, faster. One complex and costly area is fund communications – the business of informing retail investors – and 2021 will likely bring accelerating outsourcing in this area.

In addition, we'll have more tech solutions with ESG built-in for asset managers, so they can execute ESG governance more efficiently as shareholders.

Hanneke Smits

CEO Newton Investment Management

On risks this year

The investment risks that could arise in 2021 may include vaccine rollout stumbles – there are many logistical challenges to mass vaccination, including manufacturing sufficient quantities in the next six months. The cyclical trade is predicated on a more normal life by the summer, so any sign that this timeline is too ambitious could cause some volatility.

Fiscal support further delayed – the labour market is slowing and many unemployed will not be covered soon. The time for fiscal spend is running out before there is permanent scarring in the labour market, particularly as states are starting to restrict activity in an effort to slow the Covid spread.

Globalisation is under threat – China's current trade surplus is the highest on record ($75.4bn, 6% of Chinese GDP), which requires a significant deficit for the rest of the world (that is, it implies that a significant amount of domestic demand flows to China).

This may result in a further increase in trade tensions globally. Conflict with China could morph from trade deficit and tariffs to being existential and security related. Europe and Asia may be forced to align with either American or Chinese spheres of influence.

Themes for 2021

Increased attention around responsible investing and the role we play in society – investors' values are evolving and driving greater demand for responsible investments. It is no longer 'why ESG?' it is 'why not?' At a minimum, investors are beginning to expect that ESG principles are embedded into all investment strategies. They are also increasingly looking for their managers to embed engagement/active ownership into their investment process.

The impact of Covid-19 and staff wellbeing – given the unique circumstances in our current working environment, it has been ever-more important for us to reflect on mental health and wellbeing. Many of us are juggling being impeccable professionals alongside increased responsibilities as caretakers, teachers, cooks, cleaners, and countless other roles.

Solutions in a low-yield environment – low yields have accelerated the shift from product to solutions as investors increasingly orient to outcomes. Creating opportunities for asset managers with the breadth of specialist capabilities to assemble solutions that meet investor outcomes, whether that be low-cost passives as core portfolio building blocks, or alternative solutions that provide differentiated alpha.

The future of work

The future of the workplace is going to change and we will need to embrace a 'new normal'. Covid-19 has accelerated some trends (virtual engagement/remote working) and has created a lot of efficiency. It has also levelled the playing field for talent – longer term, Covid-19 will accelerate trends in digital client engagement and workforce flexibility, which will allow us to tap into and attract a wider, more diverse pool of talent. That said, it will also lead to some challenges that will need to be deftly navigated. For example, with less in person face-to-face time, there will be fewer 'quick' conversations and mentoring/talent development will potentially be more difficult.

The asset management sector must continue to improve diversity and inclusion. Diverse perspectives and backgrounds deliver better outcomes for clients. In 2021 we will continue our efforts to raise awareness via internal dialogue and training so that people can learn from each other, prevent unconscious bias and recognise their role in improving diversity and inclusion throughout the organisation.

Sylvain Thieullent

CEO of Horizon

On trading

With no broad equivalence agreement struck, European rule-makers are instructing firms to trade most of their shares inside the EU from January, which means equity markets will fragment. While this is in no one's interest, the reality is that it will become more expensive to trade UK-listed and European stocks.

The unknown, at this stage, is how much more expensive equity trading will become. And will costs rise to such an extent that it is not worth trading certain stocks at all? The implications for the liquidity of EU and UK stock markets could be severe.

When the mid-March volatility was at its peak, there was understandably a reluctance to make large trades when prices were swinging all over the place. As a consequence, national exchanges and MTFs gained market share over the likes of dark and block trading venues. This Covid-induced volatility, while unprecedented, has meant that clients have placed an even greater emphasis on efficiently managing their orders and trade flows.

For agency trading desks to stay competitive, they must strike a balance between handling most of their order volume through algos, while still having the facilities to work orders with manual care if required.

On remote working

The shift to dual office and remote working has raised more questions than answers. For instance, how can a trader go about creating, amending, and even stopping orders when working remotely? Who has the capability to change limit orders so that traders working from home can keep up to speed with how close they are to executing a trade?

On Brexit

As a hub that handles more FX turnover than the next four largest centres combined, Brexit will not destroy the City. However, the all-important detail around equivalence that was supposed to be fully fleshed out during the transition phase, is still up in the air.

A recognition of full regulatory equivalence would have been the most pragmatic road to go down, but this has only been agreed in certain areas such as clearing. It is imperative that an open and detailed framework for EU-based firms to operate easily in the City, and vice versa, is agreed on by regulators.

The vast majority of the liquidity providers and market makers seemed to be present during the high periods of market volatility witnessed in 2020.

Often a criticism levelled at these firms is that they disappear in times of market stress. That did not happen. Spreads widened slightly but liquidity was available to investors to get in or out of their positions.

The influx of regulations in recent years has forced all the major investment banks to take stock of their suite of algos not only to understand the best ones, but also to discard the ones they do not fully understand. With the search for high-quality liquidity likely to intensify, there has never been a more pressing need to get a true understanding of their algos.

Clare Woodman

CEO of Morgan Stanley International and head of Emea

On client concerns

As we head into 2021, our clients are very keen to understand how their tomorrow is going to be impacted across a number of fronts. There is elevated nervousness about the UK's trading arrangements with the EU. And does November's trade deal with Canada and the offer of one with the US help soothe the situation? And can an economically rebounding China lift global growth?

Another large theme for clients, and colleagues, is what further initiatives and actions should be launched to address social justice, racial equity and a broader diversity in the workplace.

Lastly, with Covid vaccines being rolled out globally, our clients are very much taking stock of the pandemic's disruption on their markets, how to rebound from it, and given advances in communications technology, what sort of flexible-working frameworks should be entrenched.

On office life in 2021

Working from home has brought its own challenges, and it will take time, focus and caution from managers to ensure their teams are not suffering from presenteeism or long hours. It is also important to remember that many businesses, including investment banking, are social organisations and there are clear benefits to people being together in an office environment. Effective teams are built on strong ties and clear communications. It is important, too, for culture and for learning and development, where a significant amount of knowledge is gained by observing colleagues. While the last few months have given businesses an opportunity to rethink their real estate strategy, that doesn't translate into a radical shift of footprint in major locations.

Morgan Stanley will remain a major player in the commercial real estate market globally. The challenge is going to be to find the balance between taking some of the positive changes forward as we map out what the future of the workplace will look like and designing a strategy that provides the best of both worlds.

On Brexit

Multinational banks operating in the UK have mostly completed their post-Brexit operating plans, so the effects on the City of London going forward are likely to be incremental, not an immediate upheaval. For Europe, Brexit presents potentially greater changes. It offers an opportunity to accelerate expansion of key financial products, services and regulations.

It will also add impetus to longer-term goals, such as more efficient capital markets and deposit-taking consolidation. Not to be lost in this shift are innovations in green, social and sustainable finance, digital currencies and fintech. These areas pose substantial growth opportunities – not just in Europe, and the UK, but globally.

View
Setting the agenda for the City

Tava Madzinga
To stop climate change becoming uninsurable, insurers need to skill up

The rise of Big Data, and its promise of a better understanding of changing business models and extreme weather resilience, offers hope to insurers hard-pressed to cover escalating risks

It is hard to quantify exactly the role of climate change in the cause of the growing number of extreme weather events, but the link is clear. In order to prevent a tipping point where weather-related risks become uninsurable, insurers need to act now and start following the science to build better management models.

Climate change is a relatively newly understood phenomenon, so there is still limited data to prove definitively a link between a changing climate and the growing number of extreme weather events. However, the effects of climate change are clear.

The planet's temperature has risen by 1°C above pre-industrial times, resulting in longer and more frequent heatwaves. Last year is set to be one of the three warmest on record. Again, it was a year in which weather-related events caused the vast majority of the estimated $73bn in natural catastrophe losses.

In some parts of the world secondary-peril events, like drought, wildfire and floods, are becoming more extreme due to ever-drier weather conditions, or an increase in rainfall and rising sea levels. Around this time last year, Cyclone Ciara swept through Europe and the UK in what the Met Office called the "storm of the century". The intense wind and rain resulted in the UK Environment Agency putting 200 flood warnings in place, with significant damage and disruption to homes, businesses and transport. A week later storm Dennis brought even more havoc. The two storms are estimated to have caused combined insured losses of more than $2bn.

According to the OECD, climate change is a systemic risk that puts an estimated $4.2tn to$13.8tn of the world's financial assets in danger. This is partly the result of economic growth, whereby there are more assets such as property and infrastructure at risk from weather-related events.

Increased urbanisation compounds the picture, with bigger communities in at-risk areas, many of which have limited mitigation measures in place, such as flood defences.

These extreme weather events lead to higher insurance losses from property damage and business interruption claims, but the potential impact on insurance companies is much wider. In terms of underwriting, there is the potential underestimation of insurance premiums by relying on old or incomplete loss data and risk models. On the other side of the coin, developments such as the implementation of new legislation by regulators, could introduce new risks that may damage profitability for insurers.

The long-term danger from unmitigated climate change is an irreversible "tipping point" in weather systems, whereby the increased frequency and intensity of extreme events mean certain parts of the world could become uninsurable due to the overwhelming risk of losses.

"Historically the risks from climate change have not been considered by the industry when developing insurance market models – mainly because it is difficult to estimate"

Historically the risks from climate change have not been considered by the industry when developing insurance market models, mainly because it is difficult to estimate their impact. However, to avoid a situation where weather risks become uninsurable, insurers need to consider a wide range of data and develop new models.

They need to track scientific findings to appreciate the latest thinking on climate change and its effects; socio-economic developments to understand who is at risk and why; and the status of local risk mitigation measures. This knowledge must be built into risk models to ensure they reflect the present-day impact of climate change.

For example, agriculture is an industry highly susceptible to climate change. Severe drought impacts crop yields, while earlier starts to the growing cycle can make crops more vulnerable to extreme frost. Technological advancements, such as precision farming, land monitoring and better irrigation systems, can mitigate the impact of climate change on agriculture. When fully accounted for, such developments can be used to challenge and modify historical loss data to make it more representative of the actual risk.

Building an understanding of changes in patterns of extreme weather events is challenging because of their infrequent occurrence. However, attempting to map the timescale of these changes will help predict future shifts and timescales. This should enable insurers to adapt their risk models and put in place measures to increase resilience.

Insurers also have an important role to play as investors in the activities that either contribute to climate change or could help reduce it. Companies should apply environmental, social and governance (ESG) criteria to their investment activities.

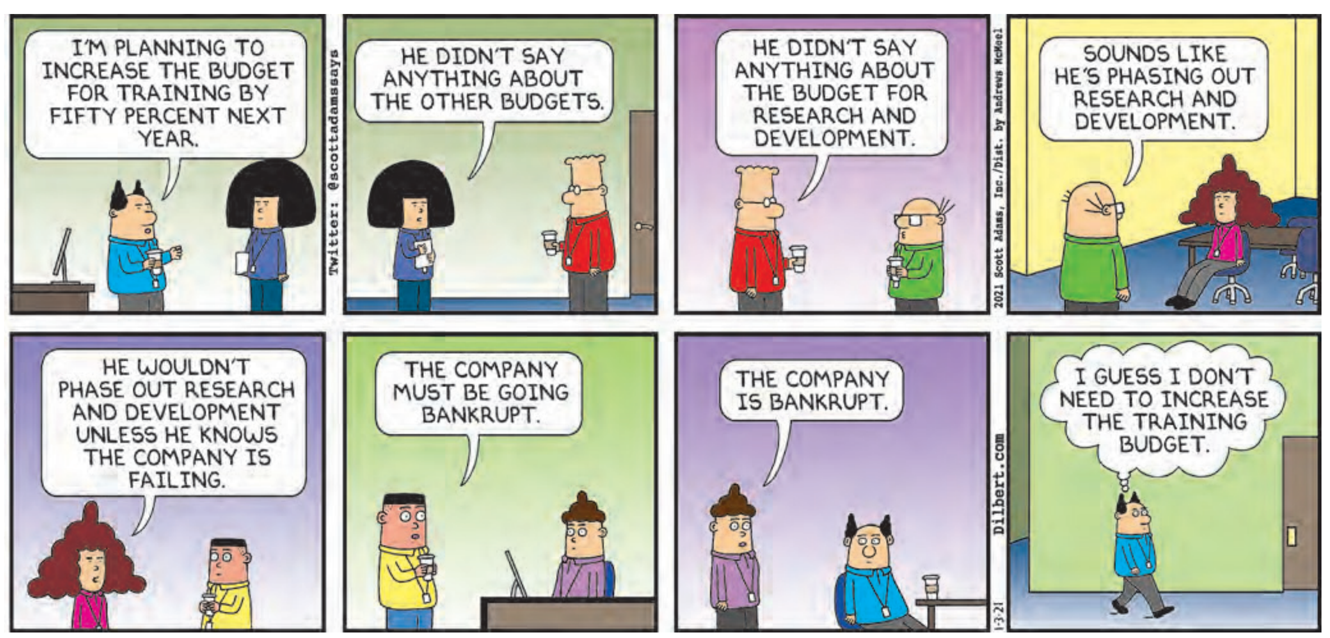
As long-term investors, global insurers can advocate for better disclosure in financial reporting and promote financial securitisation for infrastructure as a tradable asset class. In addition, by embedding insurance into climate-resilient infrastructure projects, they can support financing by collaborating with multilateral banks and government agencies.

They can also respond to and influence the rising public awareness of climate change by offering innovative insurance products and sharing their risk expertise as an advisory service for clients.

Despite the growing evidence of the role of climate change in natural catastrophes and the increase in subsequent insurance losses, weather-related risks remain insurable, for now. But insurers need to work with scientists and climate experts to understand those potential impacts and ensure the industry can manage the risks and continue to provide the protection businesses and communities need.

Tava Madzinga is UK and Ireland chief executive at Swiss Re

Dilbert By Scott Adams



Jean Raby
Responsible investment should improve and outperform the market, not become the market

With its popularity only set to increase, there is a real risk that box-ticking homogeneity takes over

In recent years, the investment industry has undergone a fundamental change in the way it approaches responsible investment. What is needed now is true transparency and a recognition that environmental, social and governance-focused investments (ESG funds) are not a homogeneous product.

Only a few years ago, responsible investment was considered a niche activity, a European phenomenon. Some argued it undermined fiduciary duty. Many were convinced it inherently resulted in lower returns.

How times have changed. Investors around the world – institutional and individual – are now concerned about issues that go beyond the balance sheet. The current environment is accelerating the trend. For instance, just recently the UK announced plans to launch the first green gilts and require climate risk disclosures from corporates, as it moves toward a net-zero economy.

Given the growth in financial assets managed by third parties, the world increasingly sees investment managers as a force for change in helping protect the environment, enhancing diversity and inclusion, promoting social equality and opportunity, and implementing proper governance to ensure that companies are managed for the long term. It is no surprise that allocations to ESG-oriented investments are increasing at a rapid pace.

PwC, in a recent report, said ESG assets will account for 57% of European fund assets by 2025, calling it the "largest fundamental change in the investment landscape" since the advent of ETFs, one that will put non-financial criteria on a level playing field with financial metrics.

We must not make the same mistake today with ESG investing that was made in response to the surge in passive investing. Closet indexing exposed a fundamental lack of transparency that eroded investor trust. As demand for sustainable finance grows, investors are again challenged to break through the noise.

The solution, now as it was then, is improved transparency coupled with a common sense approach that starts with the unique needs of individual clients. Managers can deliver a level of ESG that suits each investor, but investors need to be clear on their ESG-related conviction. How does it add to performance? How does it have impact? How is it implemented in the investment process?

We must make sure we do not allow the race to incorporate ESG into investment strategies to become a race to the bottom, where ESG becomes more about marketing to all investors, instead of recognising their diverse needs and interests. True responsible investment is about diversity, not divergence, engagement over exclusion, and impact and outcome above products. It is also about outperforming the market, not following it.

Investment companies must be active owners, vote in keeping with the ESG aims they purport to champion and report regularly on the outcomes.

The latter is easier said than done. The absence of consistent guidelines and definitions with which players can examine markets – including carbon credits, ESG funds and green bonds – is one of the most important issues facing our industry.

At a recent event we hosted on the topic in Asia, Christine Kung, head of international affairs and sustainable finance at Hong Kong's Securities and Futures Commission, said that thanks to a proliferation of varying standards, incorporating company ESG disclosures into conventional regulatory filings and frameworks has been difficult. Investors cannot get comparable and consistent disclosures when making decisions, and there are no globally consistent definitions and taxonomies. The good news is that regulators are working together to address these challenges.

"Given the complexity of the issues, the investment industry cannot fix the world's problems on its own. We need to work with others"

The rules developed by the Task Force on Climate-related Financial Disclosures are a good starting point, but investors have been slow to embrace them. Asset managers clearly can play a role in promoting their usefulness to clients and demonstrating their efficacy to the investing process.

Given the complexity of these issues, the investment industry cannot fix the world's problems on its own. ESG integration by investment managers is an important step, but it is not sufficient in itself. We need to work with others – governments, NGOs and other investors – to find new ways of mobilising and investing capital and working together with others in the investment industry to act as a driver of change.

There is a universal problem facing ESG investing globally: When investors hear ESG, they each hear something different.

ESG should not be a one-size-fits-all approach. Nor should its elements need to be equally present in every investment. These issues were long in the making, and they will be long in resolving. A diversified portfolio may demand expertise on climate alongside independent expertise on governance.

ESG can deliver a number of things, from risk management to performance to real-world impact. Investors don't need glossy photos of windmills. They need transparency to be able to perceive value for money, distinguish one approach from another, and, like investment risk, match it to their portfolio needs.

Jean Raby is chief executive of Natixis Investment Managers

Getty Images

Getty Images

Big Brother is watching: Ant Group's headquarters in Hangzhou, China

Alibaba shares tumble after Beijing cracks down on Ant

China's tough stance on its best-known internet giant, and outspoken founder Jack Ma, has investors worried about who is next. By **Chong Koh Ping** and **Xie Yu**

No longer China's most valuable company, Alibaba Group has erased almost all its stock-market gains of the last 12 months, just days after Chinese regulators signalled a major change in their posture towards the e-commerce behemoth and its finance affiliate, Ant Group.

Alibaba's Hong Kong-listed shares tumbled a further 8% on 28 December, after China's central bank released a harshly worded statement on 27 December criticising Ant's business practices and instructing the firm to shift its focus back to its mainstay, and less lucrative, digital-payments business.

The declines extended a stock sell-off on Christmas Eve, taking Alibaba's market capitalisation down to \$586bn. Just two months earlier, it had hit a record of nearly \$859bn on expectations that Alibaba would profit handsomely from Ant's public listing. Before the market opened on 28 December, Alibaba said it would increase the size of an existing share buyback programme to \$10bn from \$6bn, and the arrangement would remain in place through 2022.

Alibaba's swift comedown has led investors to reassess the regulatory risks faced by Chinese internet companies. On 24 December, the country's top commerce regulator said it is investigating whether Alibaba abused its dominant market position in online retailing through activities such as making merchants sell products exclusively on its platforms.

The hard part is figuring out "how much of the recent regulatory moves against Ant and Alibaba is politically based, how far it will go, and when it will be over," said Alex Au, managing director at Alphalex Capital Management, a Hong Kong-based hedge fund. He said he is considering buying Alibaba shares if they fall further.

At the centre of the unfolding debacle is billionaire Jack Ma, Alibaba's co-founder and former boss, and the controlling shareholder of Ant. In early November, Beijing scuttled Ant's blockbuster initial public offerings that had been on track to raise at least \$34.4bn, after Ma infuriated China's leadership by criticising financial regulations and quoting a phrase from Chinese President Xi Jinping in a controversial speech.

Some analysts said the intensifying pressure on Alibaba and Ant is tied to Ma falling out of favour with Chinese officials, but there could be spillover effects on other large Chinese internet companies.

On 28 December, Hong Kong's Hang Seng Tech index tumbled 4.3%, with social-media and videogaming giant Tencent Holdings falling 6.7% and Meituan, the operator of a popular multipurpose app for Chinese consumers, down 6.9%. Both Tencent and Meituan shares are still up substantially over the last 12 months.

Alibaba owns a third of Ant, which had been valued at more than \$300bn. Ant's valuation will most certainly be revised downward by investors, as its fast-growing businesses such as digital lending and the sale of investment products could be forced by regulators to shrink.

Chinese regulators summoned Ant representatives to a meeting over the weekend of 26-27 December and instructed the company to refocus its attention on its original payments business and comply with rules and regulations for its other business lines spanning personal lending, wealth management and insurance.

Richard Turrin, a fintech industry consultant, said the recent Alibaba sell-off may be an overreaction based on fear. "Whenever China introduces such harsh regulations against big private conglomerates, people think of iron-fist policies that might crush the latter. But Ant and Alibaba shouldn't be that kind of case," he said. It isn't in China's interest to break up, or destroy such a profitable enterprise that is already helping small business or poverty alleviation, he added.

Chen Shujin, a banking analyst at securities firm Jefferies, said in digital payments, Ant's Alipay app is operating in what is already a saturated domestic market, so its growth potential could be limited.

On the antitrust probe, Nomura research analysts said in a 28 December note that China might want to send a warning shot to others, writing of "profound implications for the whole internet industry".

The profits of China's internet giants could be hit, said Iris Pang, an economist with ING Bank in Hong Kong. "Ultimately, they will earn less," she said.

"How much of the recent regulatory moves against Ant and Alibaba is political?"

Alex Au, Alphalex Capital

From The Wall Street Journal

Three stock-picking lessons from 2020's crazy pandemic market

Al Root

Last year, stocks flipped from bull to bear in the blink of an eye. There is no time for conservatism anymore

I have always found the post-mortem helpful. That is the exact language that I used in my look back at my stock picks for 2019, and it is still true. Considering what went wrong, as well as my successes, has helped improve my stock-market skills. (Insert self-effacing joke about those skills here).

Looking back at 2020, it is time for more reflection. I'm glad to see that pandemic year in the rear-view mirror, but it did offer a few investing lessons. Here are three.

When the Going Gets Bad, Buy Stocks

"When there is blood in the streets, buy real estate," is said to have been a Roman proverb. That thinking still works today: The best time to buy stocks is usually when the outlook is the darkest, as it was in late March and early April.

It was a particularly frightening time to be in the market because few people who lived through the 1918 pandemic are still alive, and none of them was old enough to have been investing back then.

The S&P 500 bottomed out at less than 2,200 in late March, for a scary 55% drop from its pre-pandemic highs. Of course, the outlook improved and the market is about 70% above that low.

It would be easier if investors could live backwards, making decisions today based on what they already knew happens in the future. But we have to stick with common sense, calm, and an understanding of how the economy works.

One might assume I learned the blood-in-the-streets lesson by recommending a lot of stocks in March. Not really. I learned it, I hope, by recommending packaged-food stocks in April, a call that has proved too conservative. Those picks are some of the year's underperformers.

Calling the Top of Bubbles Is Hard

To be fair (to me, which is critical, in my view), I did write on 20 March that it might be the best time ever to buy Tesla stock. That successful call wasn't because I had great insights about the electric-vehicle market. It was based on how Tesla stock trades relative to analysts' price targets.

Tesla stock nearly always trades for more than analysts say they think it is worth. But on 20 March, Tesla stock was at about \$85 and the average target for the stock price was \$100. The Street was screaming "Buy Tesla", and anyone who did was rewarded.

Still, it was tough for a value investor – I consider myself one – to hang on for the ride. I recommended taking profits in the summer after a 250% rise in the shares to around \$300.

That wasn't a good call. The stock is now at about \$663, while the average of analysts' price targets is about \$408. Tesla is now the world's most valuable car company by a wide margin. Its performance has sparked a stupendous rally in everything EV-related.

Are EV and EV-related stocks in a bubble? I think so. That doesn't mean Tesla isn't fantastic and changing the world. But we recommended caution again in December, writing it was time to take profits in Chinese EV producers such as NIO.

Maybe that call will prove too conservative again. Or perhaps the recent comparisons between EV companies and the internet stocks of the late 1990s will turn out to be correct.

Justin Sullivan /Getty Images

Holding a Lottery Ticket Isn't a Bad Idea

Tesla has been an incredible story. It went into the S&P 500 last month as the most valuable company ever added to the index, and with the largest weighting. Shares were up about 670% year-to-date, as of the close of trading on 28 December.

Tesla stock is an outlier in another way. Shares of large companies don't usually go up 600% or 700% in a short period. Investors wouldn't expect Google parent's Alphabet, for example, to rise 500%, making it worth \$7tn. That scenario feels impossible. Huge gains are usually reserved for smaller companies.

That's why it is a good idea to have a few, smaller, higher-potential stocks in a portfolio. There were a couple of speculative recommendations that worked out well last year – and *Barron's* didn't completely miss out on the EV boom. We recommended BYD, a big maker of EVs, in January and suggested buying the small-capitalisation commercial EV maker Workhorse in the summer. Workhorse in particular was a small player without profits, but with potential.

Power surge **Electric carmaker Tesla had an astonishing share-price run in 2020**

"Are electric vehicles and EV-related stocks in a bubble? I think so. That doesn't mean Tesla isn't fantastic and changing the world"

Al Root

My Resolution: Make My Brain Work Faster

Last year's stock market didn't give people much time to evaluate things. Stocks went from a bull market to a bear market in the blink of an eye. The recovery from pandemic lows felt even faster. After the March lows, the Dow Jones Industrial Average had its best quarterly performance since 1987 from April through June. There was almost no time for conservatism, or to figure out what was going on.

It feels like the pace of change in the world and the market is accelerating. So I want my brain to work faster. We'll see if I'm successful achieving that goal, though measuring the results could be difficult.

The Score

Overall, I had an acceptable year. Most stocks I picked had positive returns and outperformed the market. That's good enough for a performance review. Being more precise wouldn't be fair to individual investors and portfolio managers, who have to make their calls with real money on the line.

For 2021, I am high on industrial stocks because a reopening economy should send demand through the roof. Caterpillar, Eaton and Parker Hannifin all stand to benefit. Happy New Year.

Al Root, a former strategist at broker RW Baird, is a columnist at FN's sister-publication Barron's

Will firms be able to mandate their staff to get a vaccination?

Requiring employees to get a jab before coming back to the workplace is the best way to eliminate risk of infection at work, writes **Bérengère Sim**

When 90-year-old Margaret Keenan became the first person in the world to receive the Pfizer-BioNTech vaccine, it marked a turning point in the fight against the Covid-19 pandemic that has brought the world to a standstill.

Although it will be a while before it is more widely available to people of all age groups, companies will start to ponder how the availability of the vaccine will impact – or not – the return to the office.

Can an employer in the City mandate that an employee take the vaccine before coming back to the office? For the most part, the answer is probably not, but it may be possible in some sectors, such as care homes, where workers are interacting with vulnerable people.

Requiring employees to get vaccinated before coming back to the workplace is the closest way of eliminating the risk of infection at work, explained Nikola Southern, employment law partner at Kingsley Napley.

However, UK Prime Minister Boris Johnson and the government have repeated "there are no compulsory elements to the vaccinations" and that there are "no plans" to introduce so-called immunity passports, a certificate that would enable individuals who are vaccinated to travel or return to work.

"It is difficult to see how employers could compel their employees to get vaccinated before returning to work if the government does not make vaccination mandatory, particularly if the employment does not involve work with vulnerable people," Southern said.

A firm that does mandate that staff get vaccinated could be opening itself up to discrimination claims. Some workers may object to a vaccine on religious grounds depending on the content of the vaccine.

Others may not be able to take it due to a health condition, which puts them in a disability discrimination protected group. In that case, "there is a risk that they would have a right of claim if they were forced to take the vaccine, whether by not being allowed to do their job or not being given access to the premises", Simon Kerr-Davis, counsel in the London employment law practice at Linklaters.

Firms with offices around the world – like many big City companies – will also have to navigate different jurisdictions, which have varying laws surrounding vaccination.

"I can't think of anything that even might be comparable," said Kerr-Davis. "Because the other epidemics that we've seen [like Severe Acute Respiratory Syndrome] haven't led to a vaccine… so we didn't face this stage in the issue."

SARS, which is an airborne coronavirus identified in 2003, brought parts of Asia to a halt as travel restrictions were imposed to control the spread of the disease, considered the first severe and readily transmissible new disease to emerge in the 21st century.


Getty Images

Once the vaccine is widely available, firms can assess how it will impact the return to the office

Similar to Covid-19, the measures taken boosted video conferencing and webcasting. However, the death toll was not as high: from November 2002 to 31 July 2003, there were 8,096 cases and 774 deaths in total, according to the World Health Organisation. In comparison, there have been more than 1.6 million deaths worldwide from Covid-19.

"This is all pretty uncharted territory," said Tom McLaughlin, managing associate at BDBF employment law firm. "If you're going to mandate that people do something, what is your position if they don't?"

Another issue is that of data protection. If a company is asking employees to get a vaccine before returning to the office, they would need proof.

As with all other personal information used by organisations, businesses or the government, information on whether or not an employee has taken a vaccine would be protected by the UK's Data Protection Act 2018. Companies would therefore have to decide how to process the potential vaccine data and make sure it is consistent with GDPR rights.

However, Sean Nesbitt, partner

> "If you mandate that people do something, what is your position if they don't?"
>
> **Tom McLaughlin, BDBF**

in the employment law team at Taylor Wessing, explained that these initial concerns may be swept aside: "Lawyers generally said it was not permissible to insist on people taking a temperature test as a condition of being admitted to an office, and yet mainstream practice is now that way, with very few repercussions."

As vaccination becomes normalised, that could reinforce the view that it is "a reasonable instruction", added Nesbitt, although normalisation "would not relax the strict rules on processing health data".

Firms could go down a different route – encouraging employees to get the vaccine without mandating it, similar to how City firms coaxed staff back to the office between the two nationwide lockdowns in England.

"There is a fine line between encouragement and mandating a vaccine. Communication will have to be very careful on that point," Southern said, explaining that if it appears to be mandated, even if it's not, it can preclude people from events. "It is going to be quite a difficult area for employers to navigate."

Wanted: Compliance hires as finance firms ramp up spying on staff

Lucy McNulty

The pandemic has forced many of the world's largest finance firms to slash hiring plans for 2021. But there is one department that bosses are keen to grow – compliance.

A global compliance survey from trading giant Nasdaq, which polled 210 senior compliance professionals from banks, funds, and market infrastructure firms globally, found that investment in compliance talent increased across almost all levels in the profession in 2020, and is expected to gain this year, especially in analyst-level roles.

"Unplanned surveillance spending increased for many firms in order to remain resilient through the pandemic," said Valerie Bannert-Thurner, senior vice-president and head of buy-side and sell-side solutions at Nasdaq Market Technology. "Combined with an expected increase in compliance personnel hiring in 2021, this is another sign that compliance and surveillance are becoming more crucial for firms in their efforts to uphold the integrity of the financial markets."

Around 50% of 136 respondents had hired junior staff with up to five years' experience in 2020, while a third of poll participants had hired executives with more than 10 years' experience. Just under a quarter of respondents said they intended to invest in senior and executive level compliance staff in 2021, while around 40% of poll participants said their firms planned to hire supporting staff and junior analysts with up to five years' experience.

Danielle Tierney, a senior adviser on market structure and technology at consulting firm Greenwich Associates, who contributed to Nasdaq's report said: "Many firms weren't strongly enough resourced in terms of internal expertise" to cope with many of the technical snags arising from the lockdowns.

It follows a busy year for compliance teams across the financial services sector. Finance's internal watchdogs came under huge pressure as the virus crisis forced them to keep track of large numbers of home-bound workers. Earlier in 2020, compliance teams, which became large and powerful after the financial crisis, had been in the sights of banks looking to reduce costs.

Credit Suisse and HSBC were among firms looking to cut headcount as part of broader restructuring plans, according to people familiar with the matter. Headhunters predicted banking giants would cut their London-based compliance divisions "in the region of 20% to 25%" within "the next 12 to 24 months".

Finance staff are accustomed to high-tech surveillance of their phone calls, emails and texts. Firms have long used tools to help them analyse


Getty Images

Monarch of all I survey: Working from home has led to a demand for surveillance technology and recruitment in compliance

staff communication against trading data to alert them to suspicious patterns of behaviour, driven by regulation that mandates such activity. But until Covid such systems had never before been used to track entire teams working from home.

Surveillance companies that help those in the finance sector track employee behaviour, told *FN* in June that firms had seen a rise in misconduct amongst remote-working staff.

The survey also found that compliance spending in 2020 had exceeded expectations with budgets "diverted to the most problematic areas, namely surveillance programmes, compliance personnel, and communications monitoring".

Those surveyed said that "the importance and influence of compliance departments has never been higher". "With the sudden move to a work-from-home environment, 2020 data displays a significant rise in the importance of compliance and influence on firm strategy compared to 2019," the survey said.

"In 2020, respondents who 'strongly agree' that their firm considers compliance standards reached 74%. Likewise, 59% affirmed that compliance directly influences their firm's strategic direction. Both results represent all-time highs in these topics and show statistically significant increases since 2019."

Deutsche Bank: 80% of UK staff could work part-time from home

Paul Clarke

At least 6,500 Deutsche Bank staff in the City could work from home for up to two days a week, as large lenders continue to look for ways to overhaul their workforce in the wake of the Covid-19 pandemic.

The German lender said that most of its staff will be able to work from home. "We see at least 80% of our workforce will have the ability to work 1-2 days from home in the future," UK and Ireland CEO, Tiina Lee, told *Financial News*.

Deutsche Bank is likely to offer a so-called hybrid working environment for its employees where they can split their time between the office and home, CEO Christian Sewing said in September.

In the City, Deutsche has been relatively conservative about asking staff to return to the office. In early September, it invited 20% of its 7,000 or so City employees back to the office, but paused these plans later in the month as the UK government unveiled increased Covid-19 restrictions.

Despite the successes of working from home during various lockdowns, few banks want to keep staff working remotely permanently.

Senior executives at Citigroup, Credit Suisse, Goldman Sachs and JPMorgan told *FN* that the need for face-to-face interaction with clients on complex deals, as well as a desire to maintain the apprenticeship model for younger staff, will mean that the office remains essential for the sector.

However, more are considering flexible working, and some banks have already unveiled radical plans to change the way they work. In November, Standard Chartered said it was offering 90% of its employees, around 80,000 people, the chance to work from home some of the time. HSBC is also expecting to move to a model where most of its staff work from home for two or three days a week, its CFO Ewen Stevenson said during its Q3 earnings call.

SocGen aims for 30% of senior ranks to be filled by women

Paul Clarke

Societe Generale has hiked its diversity targets, pledging to ensure that 30% of all senior management roles are held by women within the next three years.

The French bank said that its board has approved plans to ensure that a third of roles in its top 200 positions – from executive roles to management positions across business lines and functions – will be held by women.

"Societe Generale was the first banking group in France to appoint a woman, Diony Lebot, as deputy CEO," said Frédéric Oudéa, CEO of the bank. "We now want to go a step further and set ambitious new targets around diversity, which will form an integral component of the next stage of our strategic journey."

The banking sector has typically been a laggard on diversity, with the majority of senior roles held by men, despite ongoing initiatives to bolster the number of female managers. The Covid-19 pandemic has seen progress stall, particularly in the very senior ranks. A December survey by executive search firm Heidrick & Struggles, said its research showed that 95% of CEO appointments last year were male – up from 93% in 2019 and around 92% in 2018.

The Black Lives Matter movement that has swept across the world in the wake of the killing of George Floyd on 25 May, 2020, has forced banks to address the lack of racial diversity in their ranks. Last year, banks including HSBC and Goldman Sachs unveiled initiatives to bolster the number of senior Black employees across their operations.

At SocGen, 43% of its board members are women, it said in a statement, and 58% of its 138,000 strong workforce.

Sudoku 192

Fill all empty squares so that the numbers 1 to 9 appear exactly once in each row, column and 3x3 box

	3			5				
			4	2	9			3
9						8		1
	4				2	9		
		5					3	
	1				4	6		
6						3		9
			6	9	5			8
	2			8				

Sudoku is compiled for FN by Puzzler Media

Setting the agenda for the City