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## ***“Inflation is one of the most important issues”***

***With \$1.4 trillion, U.S.-based Invesco is one of the largest asset managers. Its CEO Marty Flanagan expects consolidation, but not a dynamic one.***

***What are the biggest challenges in asset management at the moment?***

Already before the coronavirus crisis, it was digitalization, besides industry consolidation. The Covid-19 pandemic has brought this development forward by five years. We are increasingly working from home and communicating faster and more frequently with our clients. We can now meet with all our clients in all regions of the world in the shortest possible time. This trend already began before the pandemic, but it was accelerated by the lockdown measures enormously.

***What will be the most important consequences of the pandemic?***

There is noteworthy progress in medicine, particularly in the fight against viruses. The US health system was also forced to improve its level of care. Another consequence will be the possibility of working from home. This will change the old model of day-to-day work and could create a better work-life balance. These are very positive ramifications. However, cooperation with colleagues – and also the personal interaction with them – is still important because we learn from one another that way. For this reason, we are currently seeing a growing desire of employees in all larger companies to return to their offices.

***And how about the economic consequences? Are you concerned about inflation?***

Sure, price increases are one of the most important topics in the market at the moment. These days, I barely have a conversation that doesn't touch upon inflation. In the United States, there are staff shortages in hotels and restaurants, for example. In order to get workers, higher wages are necessary. There are also the problems in supply chains. This will lead to a short-term increase in the inflation rate. But I assume the central banks are aware of this development and are preparing for this accordingly.

***What's the situation with the growing public debt?***

The aggressive fiscal support measures were without doubt necessary during the pandemic. At a certain point, however, the level of indebtedness must be taken into consideration. Rapid economic growth provides some relief. Nevertheless, both spending cuts and tax increases must be considered.

I would like to see a combination of both. But policy makers are still shying away from taking growth-inhibiting measures at the moment. However, they can't avoid this in the long term.

***Is further consolidation in the asset management industry necessary?***

This is something I expect to happen. But consolidation has been a topic in asset management since the 1980s. The reasons in favor of more mergers are simple: Clients want fewer providers, digitalization is forcing companies to make high investments, and regulatory requirements are becoming more and more burdensome. The outlays for digitalization and regulation have never been as high as they are now in the asset management industry. Consolidation can occur in two ways: organically, by attracting clients to diverse, large companies, or inorganically through mergers and acquisitions.

***Will this happen more and more?***

Mergers are very complex and aren't always rewarded in the market. Such plans therefore need a bit of time, which is why I couldn't imagine a high level of dynamism in this area anytime soon.

***How will Invesco behave with regard to consolidation?***

We certainly have a history of acquisitions to show for ourselves, such as the recent takeover of Oppenheimer. For us, the capacities to serve client needs are paramount. We prefer to develop these ourselves, but if that's not possible, we will take a look around in the market.

***Last year, there were rumors about a merger between Invesco and Janus Henderson. The hedge fund Trian Partners took a stake in both companies and apparently declared itself in favor of such a move. Is the topic now off the table?***

We never had discussions about such a project. I am skeptical about the combination of two very similarly positioned companies because there are many overlaps, which don't lead to any advantages in the market.

***Do small, specialized asset management companies still have a future?***

The strong certainly get stronger and bigger in the consolidation process. Small, specialized asset management companies that concentrate on a niche definitely have a future. Things will be more difficult for medium-sized asset managers whose business model differs little from that of the big providers. In order to be successful, you must have a unique selling point.

***Actively managed funds or passive index funds, how would you decide as a client?***

There is no simple answer to that. Furthermore, a combination of both instruments is generally sensible. It always depends on the client's investment objectives.

***Has the growth of passive index funds – so-called exchange-traded funds (ETFs) – led to stronger industrialization of the asset management industry in the form of greater significance assigned to economies of scale?***

I don't think so. Over the past 10 years, it was difficult for fund managers to achieve higher returns than the overall market in the prevailing market environment. This led to the enormous growth in ETFs. But this has changed. Active fund managers can now achieve higher returns for their clients again. More money is also flowing into active products once again. Here, we saw the strongest inflows in years during the first quarter.

***One large ETF provider is Blackrock, whose market power is increasingly viewed in a critical light. Can an asset management company become too big?***

I don't see this risk. If you look at the market shares of the 10 largest asset managers, they turn out to be much, much smaller compared with airlines or car manufacturers. They are equal to only fractions of the market shares that leading providers in other industries have. For this reason, I consider the discussion about the market power of asset managers as being overblown.

***How can asset managers contribute to the fight against climate change?***

Through our investments in companies and our discussions with the relevant management about their sustainability strategy.

***Are regulatory requirements on more sustainability sensible?***

They are an important element. Europe, in particular, has a pioneering role in this area. In my opinion, however, some requirements are too complex. Besides this, investors are also demanding sustainable products more and more. For this reason, too, we must integrate sustainability into all our business areas.

***How strong is the demand for investment products that aim for a sustainable impact?***

It is growing, but impact products still play a minor role overall.

***Are you still happy about your activities in China?***

China is an important component of our strategy. For us, it is the fastest-growing market in the world. The authorities are very interested in opening their financial markets. There are more and more investment opportunities for us in China.

***Aren't you afraid of a trade dispute?***

Under the new US president, Joe Biden, the discussion has become much calmer. That's very positive. With this development, good negotiation outcomes have become more likely for both sides.