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Kinds of asset management: similarities

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In previous columns, we mainly discussed the differences between the existing kinds of asset management. Ultimately we could explain the differences by the characteristics of the asset and the environment. The asset manager tries to manage risks that threaten the value of the asset. Thus we immediately found a first similarity between the various kinds of asset management, namely managing the risks. But actually there are two. The risks are indeed defined in relation to the value that the assets should generate. Maximising the value of the asset apparently is a similarity. But that is not news, we define asset management ourselves by generating the maximum value from the assets.

The question only is whether these are the only similarities, or that there may be more shared elements. This is not merely an academic exercise, but also a question of more down-to-earth sense. If there are more similarities, then the sectors can learn from each other. When risk management and value maximization are the only similarities, then it is difficult.

So the similarities are there, though it requires some imagination to see connections.

Factory asset management and financial asset management seem instance together because they both involve maximising the financial value of the asset for the owner. The instruments with which this happens are radically different, but the goal is the same. This is completely different than that for infrastructures, which mainly have a facilitating role for others. Eventually the owner again benefits from the infrastructure (a better infrastructure creates more economic growth, more tax etc.) but that link is at best indirect.

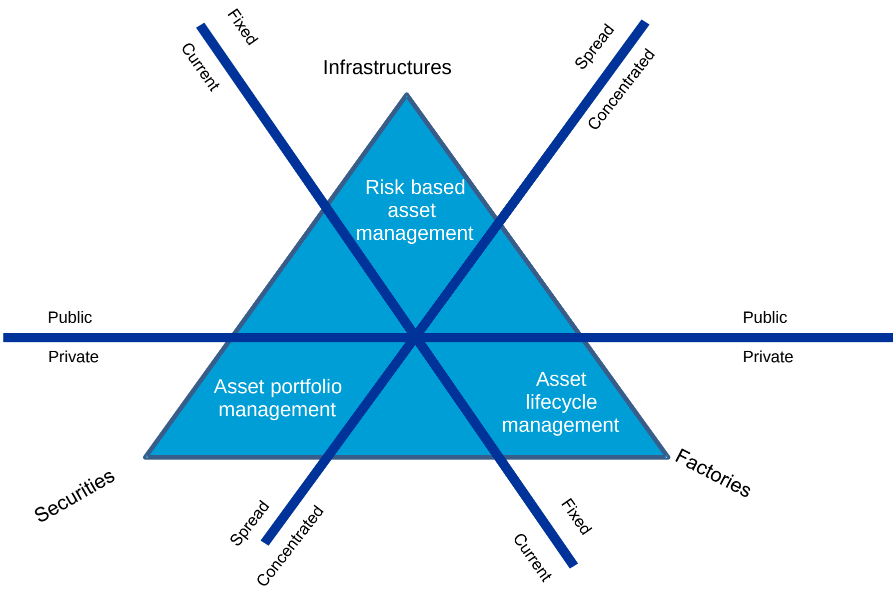
On the other hand, managing factories and managing infrastructures also have similarities. Both are about technical assets. For both there is much attention to the asset during the operational phase of the life cycle. Assets in this sense really are things, sometimes even with their own character or will. This is definitely not the case in the financial world. An asset is much more of an abstraction, not a thing. Assets certainly have no character and an asset manager has no connection with it. A non-performing asset is sold immediately.

Finally there is a similarity between financial asset management and infrastructure asset management. Since there is no fence around the asset, everyone can touch it. This comparison is perhaps far-fetched, but we will try to explain it. An infrastructure is intended to be used by many. If someone with an overloaded truck drives on a weak road surface, it will break shortly after. The asset manager is faced with damage by the behaviour of others and there is not much that can be done to change the behaviour of the other. This since that person is unknown. But something similar also applies to a financial asset manager. This asset manager can built a nice portfolio, but it then can be halved in value within a few months since some financial institution on the other side of the world has decided to provide a mortgage to people with no income, job or possessions[1]. The behaviour of others determines the value of your asset. A factory asset manager bothers less about this (though it can be affected by the crisis after the credit crunch occurred). With a gate around the factory he can prevent that others interfere with the value of your asset.

We try to summarise this in a picture, which contains two extreme forms of asset management, with the third in between. But depending on the viewpoint, the organization of the forms of asset management

[1] The famous ninja (no income, no job or assets) mortgages

had to be changed. We have therefore chosen for a triangle[2]. That reads something harder, but we can now unite all viewpoints. This can be seen in the figure.



At the corners different kinds of assets can be seen (infrastructures, factories and financial assets). For these assets there are different types of asset management.

For investments this is asset portfolio management, asset lifecycle management for factories and infrastructures for risk based asset management.

In the graph three separate lines are drawn. The first one is public versus private. Infrastructures are public assets for public benefit, while investments and factories a private interest, namely the wealth of the owner.

The second distinction is that of current assets versus fixed assets. For both the infrastructure asset manager as the factory asset manager the assets are fixed, while a financial asset manager can sell assets on the spot.

The third division looks at the distinction between dispersed and concentrated assets. We are still searching for a better wording for this, so if people have suggestions then we are happy to hear them. Both infrastructures and securities are distributed, in the sense that many people can ´touch´ the assets. A factory however is concentrated and there is usually a fence around it. This can prevent unauthorised rumbling with the assets.

Since the forms of asset management can be linked with each other in this way, you would almost say that they have a common core. We discuss this in the next column. For now, we first worry about which flavours we select for our ice cream.

John de Croon and Ype Wijnia are partner at AssetResolutions BV, a company they co-founded. In turn, they give their vision on an aspect of asset management in a weekly column. The columns are published on the website of AssetResolutions, www.assetresolutions.nl/en/column

[2] The question is whether it really is a triangle, or more a square or a pentagon. Because we started with 3 types you of course end up with a triangle, but a square (or actually a tetrahedron) requires a quarter axis. All other forms of asset management that we dealt with (such as IT asset management, asset tourism management) were intermediate forms, but do not contain a new dimension