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Investment management repositioned
Capitalizing on three disruptive forces

Deloitte Center
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Contents

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Foreword

Dear colleagues,

For nearly 15 years, we have shared with our clients an examination of the marketplace to offer guidance on what might be of greatest importance to industry leaders in the coming year. While relevant and timely, we acknowledge that these "day-to-day" challenges and opportunities sometimes don't change much from one year to the next. So, we began to focus our attention on potential disruptions our clients saw as concerns for the coming years ahead. As industry leaders give greater thought to longer-term strategic issues, we similarly felt it was necessary to take a longer-term view.

We are delighted to share with you our views on investment management industry trends and priorities over the next few years, based on the perspectives and first-hand experience of many of Deloitte's leading practitioners and supplemented by original research from the Deloitte Center for Financial Services.

Making predictions is an inexact science at best, but we are seeing the emergence of a number of dynamics that have great potential to fundamentally change the investment business over the next three to five years. This outlook is organized such that the reader will have an overview of three disruptive trends that we find are generating the most energy in client discussions:

- **The triumph of technology:** Technology has had a deep impact on investment management, from the early days of the mainframe to major innovations such as desktop computing and mobile applications. As the rate of technology innovation exponentially escalates, there is a looming sense that the industry will again witness a major change. One that will present tremendous opportunity.
- **The seismic shift of global wealth:** Shifting wealth and changing demographics go hand-in-hand with the rapidly evolving economic environment. Investment managers will need to carefully examine many of the core underlying assumptions regarding risk, and anticipate effectively, in order to take full advantage of these trends.
- **The reign of risk management:** Despite some fatigue around the issue, there is simply no viable way to write an investment management outlook without a section on risk management.

There seems to be an increasing recognition of the multitude of risks that face investment managers, as well as the strategic importance of risk management to the long-term health of a firm. How can investment managers invest in ways that ensure their client's assets are carefully protected and their brands remain strong?

To help you swiftly digest these trends, we approach each by posing questions you may be asking yourself as your firm considers the challenges that lie ahead. We hope you find this report insightful and informative as you consider your company's strategic priorities for the coming years. Please share your feedback or questions with us. We would value the opportunity to discuss the report directly with you and your team.

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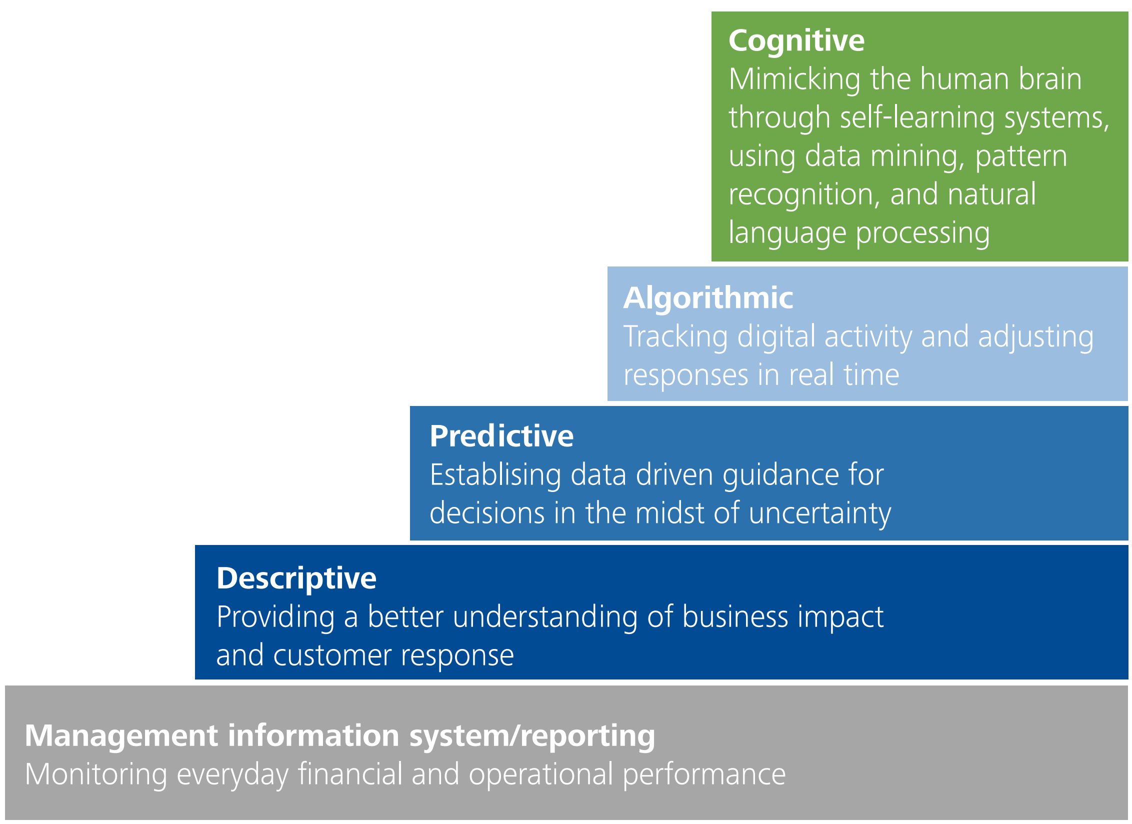
The triumph of technology

It can be a challenge for the human mind to comprehend exponential change. The human brain has experienced linear change and our brains have evolved in line with that experience.[1] Because technology does not always evolve in a linear fashion, adoption of technology can sometimes clash with comprehension. Investment managers who want to lead should be sure to invest meaningful resources into understanding the exponential impact of technology. For example, what technology is available now, what is coming down the pike, and how will emerging technologies impact them?

How will advanced computing techniques change portfolio management?

Arguably, the biggest change to the practice of portfolio management in the history of modern finance was the introduction of the index fund in the 1970s. The practice of active management has certainly evolved since index funds were introduced; for example, the use of derivatives and hedging has had significant impact on investing strategies. For active managers, the fundamental concept of a portfolio manager or team analyzing data and making decisions has not fundamentally changed. But as analytic technologies continue to advance, asset managers could see significant advances in their ability to analyze massive amounts of data (see Figure 1).

Figure 1: Analytic technologies help advance data analysis from reporting to cognition



The application of several advanced capabilities, such as sensing technology, advanced analytics, or crowdsourcing, could fundamentally shift the industry in the next few years. Imagine a value manager or hedge fund that fully adopts these technologies for its portfolio. Rather than focusing on making investment decisions, top talent would be focused on building and refining investment algorithms that take into account every possible detail that could affect an investment's performance. These investment algorithms could be informed by a firm's sensing technology, capturing each time a holding is mentioned in social media or the press.

When needed, algorithms are also informed by crowdsourcing data. Imagine a retail-focused investment manager interested in how holiday sales are doing at one of its holdings. Today, that might be accomplished by relying on satellite photos to view the volume of parked cars around the store and then running calculations to estimate sales. In the next few years, a data-centric investment manager could tap data from companies like Gigwalk or Field Agent to take photos of inventory and prices inside the store.[2] The result? An algorithm that could far more accurately predict sales and see how prices change over time. The manager can also program the algorithm to learn from new data and past mistakes; thereby evolving its intelligence by the microsecond.

In an industry where information is power, it is not hard to see how firms that use these technologies may be the long-term winners, nor is it difficult to imagine how such technology could materially drive down the cost of active asset management. Pairing these technologies with more traditional forms of investment management research and trading could be a powerful advantage. Since cost-effective alpha is one of the fundamental drivers of the active-versus-passive debate, these concepts could materially change the discussion about the benefits of each strategy, and further blur the lines between what is considered active and passive.

Pairing advanced technologies like sensing technology, advanced analytics, or crowdsourcing with more traditional forms of investment management research and trading could be a powerful advantage.

How will data and advanced analytics change the distribution of investment products?

Improvements in the use of data and analytics have the potential to radically disrupt the distribution of investment products. The firms that best harness these tools will likely be at an advantage over the next few years as they will be able to more accurately and cost-effectively target likely buyers.

The current distribution system, whether through the institutional, intermediary, or direct-to-consumer channels, is still largely a "brute force" undertaking, but the use of detailed data from industry vendors and distributors, supplemented by increasingly sophisticated customer relationship management (CRM) and digital client engagement technology, is rapidly growing. Yet the use of this data to improve the efficiency of sales is still largely untapped by many investment managers. By way of comparison, think of the sophistication of online shopping tools that present individualized and relevant items to each shopper. These concepts have the potential to be used by investment managers to target likely buyers as well as interested intermediaries. An example? Adviser portals that provide product options, sales strategies, and market insight that takes into account the client base and past behavior of the adviser. Think of this as a digital "value added" offering that provides the content that is most relevant to each adviser.

Another growing source of data is being offered by brokerage firms that sell data to the fund companies distributing through them. The insight offered by this data is compelling. For example, a fund company can build a cross-section profile of intermediaries who are top sellers of certain products. It can then scan for intermediaries at the same firms, or in the same region, or with similar books of business, and approach those found with a targeted "advisers like you" sales pitch. Instead of relying on the gut instinct of their wholesale force, they can leverage detailed information to help them target sales efforts much more effectively.

The "insight arms race" is already well underway, as illustrated by many asset managers spending millions of dollars annually on data licenses in both the intermediary and institutional spaces to acquire broader and deeper data sources. Many firms are also working to centralize and standardize disparate data sources to support rich analytics across internal trade and asset data, market intelligence, and client activity. The goal of these efforts is to keep distribution teams from drowning in a sea of data that doesn't provide meaningful insight.

Investments in digital engagement channels that focus this sea of data can help asset managers create compelling client experiences akin to those in leading consumer-facing industries. We expect that this change should also lead to a transformation both to distribution teams' behavior and their relationships with their clients. Analytics-driven client messaging and alternative engagement channels can improve the productivity of distribution teams, but will require more centralized coordination to execute. Seamless engagement across channels will shift clients' focus away from their longstanding sales relationships and toward the value they derive from an asset manager as an enterprise, profoundly altering the distribution process.

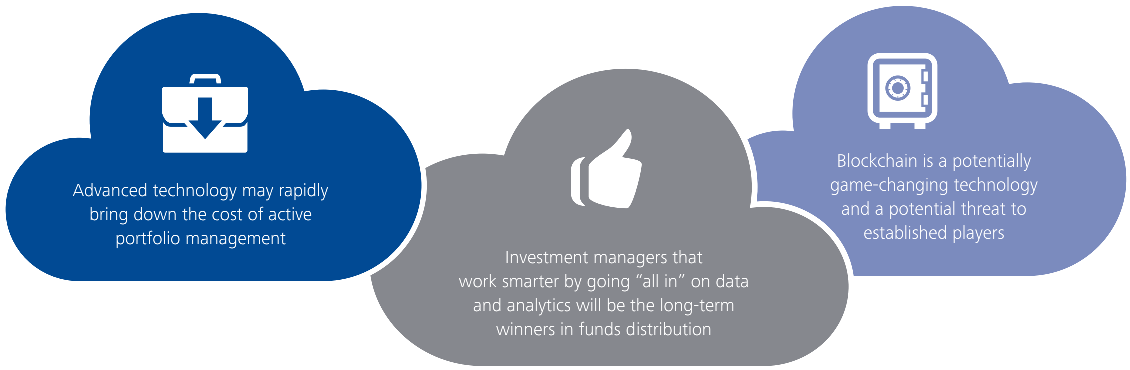
How will blockchain technology evolve and what is its potential industry impact?

Blockchain technology has received generous attention in the last several years. Its use as a digital ledger to facilitate the exchange of digital currencies (like bitcoin) has facilitated its notoriety; however, recent attention is shifting to applications of this technology that are far more interesting to the investment industry. How so? Blockchain's potential to make transferring any type of asset easy, efficient, and safe by removing enormous amounts of operational friction.

The promise of blockchain technology has attracted investments from established financial institutions[3] and government research labs. In fact, the Hartree Center in the United Kingdom recently announced a partnership with Innovate Finance to fund a lab focused on blockchain technology.[4] The impact of blockchain could alter many aspects of the financial services industry. The underlying distributed ledger technology of blockchain allows anything of value to be transferred securely and efficiently, resulting in enormous implications for how transactions are cleared, settled, and reconciled. Custodial and recordkeeping services? Transformed. Middle- and back-office operations? Streamlined. While it may be early to determine if the technology will prove to be a disintermediation of established service providers, utilized by established players to gain efficiency, or some combination of the two, the evolution and current utilization of blockchain suggests that firms need to pay close attention to these developments.

Our forecast

While we do not know exactly how technology is going to change investment management, a few possibilities appear very likely:



Advanced technology may rapidly bring down the cost of active portfolio management for firms that embrace it. This will alter the "active vs. passive" debate by driving the cost of active management lower. It can also lead to additional attention on active funds that are on "auto-management" and are overseen rather than advised by humans. This concept is also being advanced in retail wealth management where digital advice platforms, known as robo-advisers, are automatically managing client portfolios.

Investment managers that work smarter by going "all in" on data and analytics will be the long-term winners in funds distribution. Investment performance will always be a primary driver of sales, but all things being equal, the firms that embrace analytics will be at an immense advantage. It will still be early innings in the next several years, but investment managers that wait too long could easily be left behind by those who are already using the tools and building infrastructure in this area.

Blockchain is a potentially game-changing technology and a potential threat to established players, especially in the areas that are currently cumbersome and inefficient (think settlement of complex financial instruments and foreign exchange as prime examples). A trial period is underway. Experiments to understand blockchain's capabilities are being adopted. The application of blockchain against current infrastructure and disruptive forces is ongoing. We predict that in five years, blockchain will likely be an established part of the investment industry's financial infrastructure.

Recommendations

Disruptive technologies are already impacting the investment management industry, and the rate of change will increase significantly over the next three to five years. The good news is that there is more than one way to tap into the exponential opportunities.

- Many large and established investment firms are already dedicating resources to these technologies via internal projects, external investment, partnerships, and even acquisition. Large firms may offer their resources as services to smaller firms in order to capitalize on the investments they've made.
- Smaller managers can take advantage through outsourced service providers and partnerships. There are even technology firms emerging that offer solutions across the investment management lifecycle. Examples include: automated data collection from firms like Novus; the use of advanced analytics to drive decision making from firms like Kensho or Ayasdi; and automation of risk management from, among others, RedKite or OpenGamma.

Although many of these projects and partnerships will fail, even if a few succeed, it will make all the difference. The firms that are truly at risk are those not even playing the game.

The seismic shift of global wealth

In order to succeed and grow over the long term, investment managers must not only be adept at managing their current assets, they must also anticipate where their future assets will come from and what products are best suited to the needs of the client. This task is becoming increasingly challenging as there is little agreement as to where to find the best opportunities. Investment managers are dealing with economic outlooks in multiple jurisdictions that are far from certain and it is not very clear where the source of future economic growth will be, nor where the biggest risks lie.

Investment managers also have to deal with unprecedented demographic changes, such as the aging population in many developed nations. For example, people over the age of 60 make up more than 30 percent of the population in Portugal, Italy, Greece, Spain, Japan, and Korea.[5] Since demographics are a significant driver of economic growth and global financial liabilities, the aging population is being closely watched by investment managers.

What regions present the largest opportunities?

The decision by an investment manager to expand into a region, country, or jurisdiction is not one that is made lightly. There are a variety of products and methods that can be employed. When entering a new market, a manager can set up the company's own operations, partner with a local firm, or enter as a subadviser to another manager, among other options. While all routes involve a vast allocation of resources, managers are only willing to invest in regions where they can expect a long-term return.

What is the risk over the next few years? The changing investment landscape and ongoing volatility have combined to make it uncommonly difficult to predict which regions will generate wealth in the future and which products are likely to succeed over the long term. In short, there do not seem to be many safe havens, sure bets, or feel-good regions in which to put capital to work.

How will demographics impact the investment management industry?

While investment managers should continue to offer solutions for an aging population that controls a tremendous amount of wealth, they have to prepare for the fact that wealth will gradually shift to the younger generations who will become their key customers. Sounds easy enough, but there may be an issue involved: These new customers are growing up in an increasingly tech-centric, hyper-connected world and their expectations for service are being set by technology firms. As a result, it is very possible that younger individuals will skip right over the traditional intermediary-centric investment and wealth management model and access financial services in entirely new ways.

Millennials, already seen as a segment with quirky tendencies and limitless potential, will affirm their status as the new drivers of consumption going forward. Once they graduate to higher incomes, their share of assets will also pick up, although their lower per-capita wealth will demand differentiated service levels. However, their most pronounced impact on financial services may be driven by their value-conscious behavior and how they buy products and services, which may force a revamp of long-entrenched operating models.[6]

Millennials, already seen as a segment with quirky tendencies and limitless potential, will affirm their status as the new drivers of consumption going forward.

Newer technology-based firms like Estimize, which provides a "social investing" capability by gathering stock price valuation opinions from both professional and individual investors, and Algofast, which brings sophisticated algorithmic trading to the retail market, already are providing avenues for investors who feel comfortable working outside the traditional model. Established technology-based companies also can be expected to create financial services opportunities that may produce long-term dramatic results. For example, in Kenya, wireline phone service, especially in rural areas, was relatively limited due to the expense of the infrastructure needed. As cellular phones became available and affordable, the technology was widely adopted and phone coverage increased dramatically.[7] The advancement did not stop there. Vodafone used the new cell-phone technology as an inroad to develop M-PESA, which became a means to store and transfer money as well as to pay bills. This new payment offering from a telecommunications company now accounts for up to 70 percent of financial transactions in some parts of Kenya.[8]

Younger generations are also starting new companies to improve on experiences they view as less than stellar. Motif Investing allows individuals to build portfolios with fractional shares based on "themes,"[9] and Flywire (formerly peerTransfer) began life as an international tuition-payments processor after its founder discovered his tuition payment was lost.[10] The bottom line is that technology continues to advance and expectations of the younger generation have advanced along with the technology. For this new generation to become clients rather than competitors, investment managers should learn as much as possible about their habits and expectations.

How will growing worldwide liabilities change the investing game?

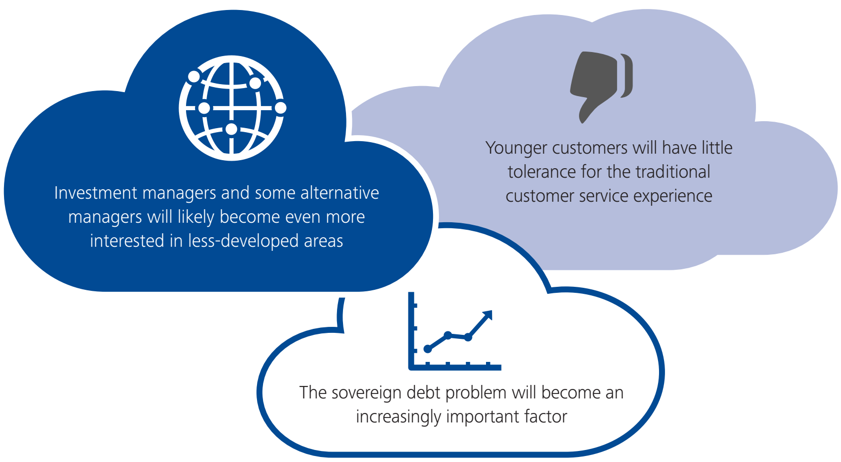
Of major concern to many investment managers, and largely driven by the aging population, is the amount of debt owed around the world. The challenge of debt came to the forefront during the Greek government debt crisis that came to a head in 2015. There is concern that additional debt-laden members of the European Union, such as Portugal, Italy, and Spain, will follow in the path of Greece and that the low interest rate environment may be coming to an end, possibly triggering a worldwide sovereign debt problem.[11] There are even concerns that a true accounting of US debt puts its "fiscal gap" at $200 trillion, worse than many European countries that have been getting so much attention for their lack of fiscal discipline.[12] The debt problem is not limited to sovereign nations, as shown by recent events in Puerto Rico[13] and US state and local pension systems.[14]

Nor is the problem limited to governments, as evidenced by the record-setting amount of US student debt.[15] Ultimately, all of the debt—sovereign, institutional, or otherwise—can be thought of as "personal" debt because the issue will have a very real and personal effect on individuals. Retirees may not get the level of benefits they were promised, tax rates may go up, and tax breaks may be eliminated.[16]

With all of this in mind, what should investment managers be contemplating? First, to develop a point of view on what changes may occur as a result of the debt problem, both over three to five years and in the longer term. And second, to consider actions that allow them to be as insulated as possible from the downside while simultaneously positioned to capture the upside. This conundrum will require investment managers to carefully follow political and economic developments even more closely than before—and become very adept at evaluating the ability and willingness of creditors—especially sovereign creditors—to repay their debts.

Our forecast

The investing environment is in the midst of great flux, and the rate of change seems to be accelerating. The current operator's manual may not apply three years from now, let alone three months from now. It is very possible that one or more of the following could occur:



Investment managers, and alternative managers who are more comfortable with risk, will likely become even more interested in less-developed areas such as Africa, which are already receiving growing attention.[17] While there are tremendous risks involved, and the exit strategy is largely untested, there is also tremendous upside opportunity.[18] With large amounts of capital to invest and risk prevalent even in established regions, the risk/return equation in underinvested areas, especially those with sizable natural resources, becomes much more interesting.

Younger customers will have little tolerance for the traditional—some may call it clunky—customer service experience offered by many leading financial institutions. Investment and wealth management firms will need to build, partner, or acquire the ability to offer a seamless customer experience across all their client touchpoints: face-to-face, phone, web, or mobile. This new generation of customers has shown a willingness to vote with their wallet, and new financial technologies are giving them more options than any previous generation has had.

The sovereign debt problem will become an increasingly important factor over the next three to five years, with more countries, US states, and cities facing fiscal problems and potential bankruptcy. Individuals will likely also be impacted, such as retirees who may not receive their full pensions and students who are burdened with education debt. Personal debt, especially among younger generations, will make finding the ideal customer of the future more challenging for investment managers.

Recommendations

- Investment managers will need to carefully reevaluate their positions over the next three to five years, due to the expected shifts in wealth-generating countries, the behavior of younger generations, and the impact of global and individual debt. Reverberations may be felt throughout the investment industry due to certain firms' overexposures to this debt. The likely result? An industry shakeup, with weak managers being absorbed by the strong or simply going out of business.
- Investment managers that have an embedded and systematic process based on the world we live in today should carefully review and test their assumptions based on the world they expect will exist in a few years. Firms should enhance their flexibility and adaptability as much as possible to account for a rapidly evolving environment. Facing the uncertainty is key.

Those firms with a willingness to take action are the most likely to succeed. In other words, investment managers need to be willing to disrupt themselves to avoid being disrupted.

The reign of risk management

As the investment management industry has evolved, it has become more complex. From product offerings, operations, systems, and regulations, this complexity has seeped into the overall markets and has been seen in high profile events. The flash crash of 2010, the bond flash crash of 2014,[19] and more recently, the intense volatility in several major markets in the summer of 2015[20] have illustrated the industry's fragility. Where does this leave investment managers? Under pressure from regulators, boards of directors, distributors, and shareholders to bring more resiliency into their operations. The Securities and Exchange Commission (SEC) has made it clear that investment advisers, their management teams, and their boards bear the ultimate fiduciary responsibility to manage risk. And, collectively, they realize that one risk incident can have an absolutely devastating effect upon their reputation, and ultimately, their bottom line.

One form of regulatory pressure is the increase in requests for data. The SEC is openly focused on this area, with programs such as MIDAS[21] under way, and new programs such as N-PORT in the proposal stage.[22] The Department of Labor (DOL) is also focusing on data. For example, its recent proposal on conflicted advice requires that certain forms of data be provided to the DOL in machine-readable format. This trend is leading to an automation of regulatory oversight and the emergence of a kind of "robo-regulator," where data is collected and analyzed to spot trends and potential rule violations.

How can firms manage extended-party risk?

Investment managers operate under a spectrum of operational models, ranging from largely insourced to almost fully outsourced. Even firms that are primarily turnkey rely on third-party vendors for a variety of services, then those vendors rely on other vendors, who also rely on vendors, and so on down the line. If a risk event at any one of these distant parties causes a failure, and in turn, causes a loss for a fund or its shareholders, it is the investment manager who is responsible. The same holds true if a vendor is hacked and shareholder data is exposed, or if a virus is introduced via a third-party system.

Every day, asset managers rely upon a complex network of service providers to perform critical functions. Boards, investors, and regulators increasingly focus on extended-enterprise risks that investment managers face, including:

- Business disruption
- Theft or inadvertent dissemination of personally identifiable information
- Dissemination of intellectual property—both its strategy or how it trades
- Regulatory breach (investment compliance, anti-money laundering, or disclosures)
- Counterparty credit risk
- Service failure

To manage these risks, it is important to acknowledge extended enterprise risks, and identify and prioritize the highest risk issues. The farther away a risk is from the enterprise, the easier it is to deemphasize. Regardless, leading managers realize that a comprehensive and detailed risk management program that fully accounts for extended enterprise risk is one key to a sustainable and viable future.

How should managers respond to the rise of the robo-regulator?

Have no illusions. The SEC is watching…and analyzing. Investment managers are seeing an increased complexity of SEC examinations due to the regulator's focus on big data and advanced analytics. The movement toward real-time regulation is leading to increased transparency and data reporting requirements. In the near future, the SEC is expected to be better able to conduct detailed comparisons of data across firms, allowing them to spot trends and regulatory issues that individual firms themselves cannot see.[23] Other regulators—such as the Financial Industry Regulatory Authority (FINRA)—are following suit. The 2015 hire of an SEC employee to be its senior vice president and head of its advanced data analytics team reflects that FINRA has even higher potential for pursuing data for regulatory purposes.[24]

In response, investment managers are reducing silos across supervision, compliance, and surveillance functions. Holistic rather than regulatory-specific compliance functions are being built. Reactive controls are moving toward predictive and preventative capabilities. Digitalization of records are being increased to facilitate compliance requests.

How can firms control conflicts of interest?

Conflicts of interest seem to be the topic of the day for a variety of regulators. For example, in 2015, Julie Riewe, co-chief, Asset Management Unit, Division of Enforcement of the SEC, said:

> "In nearly every ongoing matter in the Asset Management Unit, we are examining . . . whether the adviser in question has discharged its fiduciary obligation to identify its conflicts of interest."[25]

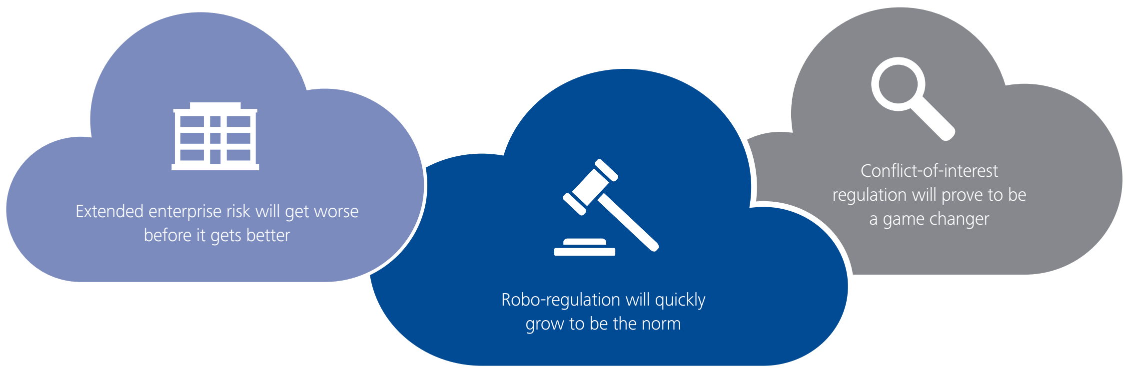
Conflicts of interest can occur in a variety of areas. Currently, the SEC is focused on advisory and other types of fee arrangements, as well as on fund distribution. In particular, the SEC is concerned with determining if Rule 12b-1 is being violated by the use of fund assets to pay for distribution, the disclosure of these payments, and the awareness of such payments by fund boards. Conflicts also occur in many other areas, including trading, valuation, and the selection of third-party vendors, such as custodians and brokers.

In addition to the SEC, several other regulators, including FINRA,[26] the Commodity Futures Trading Commission (CFTC),[27] and the DOL,[28] have been focused on conflicts of interest. Of note is the fact that the DOL issued a proposed rule on conflicts of interest for firms offering advice to retirement plans and individual retirement accounts (IRAs). If this rule is finalized, as expected, it will place additional burdens on firms that market to and advise on retirement products. These firms should pay very close attention to how this rule develops.

The focus on conflicts of interest is intense, and it is growing. It is so intense that it could very well impact the design and distribution of investment products in significant ways. Practices that have been well accepted in the industry, such as selling proprietary products and revenue sharing, are likely to fall under greater scrutiny and become far more challenging to operationalize. Key areas that investment managers should pay close attention to include: fee arrangements, payment for distribution, trading, valuation, and the selection of third-party investment managers.

Our forecast

All in all, there will be plenty for chief risk officers to worry about:



Extended enterprise risk will get worse before it gets better. The expectation is that some firms will have to learn the hard way, whether in the form of regulatory fines, cyber-risk events, shareholder lawsuits, or all of the above. While many investment managers are very sophisticated in managing these risks, others have less mature risk management offerings. After some significant pain, the broader industry will get more serious about managing these risks and many investment managers will take a “blank slate” approach in restructuring their systems, policies, and procedures.

Robo-regulation will quickly grow to be the norm as regulators become increasingly aggressive about using data and analytics. Regulators will continue to push for additional data and will want it in machine-readable electronic format. By being more informed than the investment managers they regulate, the robo-regulators will force a response from the industry. For some firms, that response will include a significant technology investment, as well as reorganized risk and compliance areas. Institutional clients will compound demand by requesting access to the same data flowing to the regulators.

Conflict-of-interest regulation will prove to be a game changer. It will require investment managers to strategically reassess their business and reprice the risk of doing certain lines of business. This is especially true if the DOL rule on conflicts is finalized. The complexity of the regulations, the cost of compliance, and the focus on conflicts will cause some firms to either divest, acquire certain lines of business, or do both in order to remove conflicts and focus on areas of strength. For example, some firms may decide to focus on products and divest their distribution networks (or vice versa) in order to eliminate conflicts. Certain lines of business may be moved from a brokerage to advisory model, including moving small IRA accounts to a conflict free robo-advisory model or a self-directed platform. Investment managers may also decide that smaller revenue lines are simply not worth the cost of compliance and the risks of class-action lawsuits.

Recommendations

- Effective data strategies need to be adopted in order to meet the new regulatory requirements. Organizational data and risks should now be viewed holistically. New processes are essential to view, validate, approve, and store approved records before disseminating to regulators. Delineating who is responsible for the governance and oversight of third parties is key in identifying critical third parties and the risks they can bring.
- It is clear that investment managers have changes to implement. Where to begin? Start with a comprehensive inventory of all third parties in order to ensure that oversight procedures are well documented and proper escalation procedures are in place. Extended enterprise risk is an essential function, and firms that manage this risk well will be better positioned to avoid a crippling risk event in the future.

Disruption forecast: Partly sunny or partly cloudy?

All of the topics in this investment management outlook are compelling enough to generate an enormous amount of debate and discussion. What does it all mean? What is the overriding impact of these trends and what should investment managers be doing about it?

The sense that the investment management industry is ripe for disruption remains strong, as well as the belief that there is tremendous opportunity with a simultaneous amount of risk. As always, there will be winners and losers over the next three to five years. However, the calculus as to who will win and lose is changing. Recent conversations with clients suggest that some investment managers are embracing the disruption and looking for opportunity in many areas, while others seem less inclined to acknowledge current and potential change.

The market will likely continue to bifurcate; with both large and small investment managers able to take advantage. Which firms may struggle? Established players who underestimate the amount of change that is coming, those that do not effectively prepare, and firms that are unwilling to make the necessary investments. Who may be at risk? Firms that lack sharp focus and identity—such as those who offer multiple product and service lines but do not excel in many of them—and investment managers that have not been able to build scale in certain business lines. These firms in particular may simply not be able to invest at the same level as larger competitors and will likely continue to fall behind.

Who may succeed? The well-established, forward-thinking investment managers; those that apply their substantial resources to take advantage of changes, invest in new technologies, and build robust risk-management platforms. Many have diverse offerings that will allow them flexibility to withstand unanticipated changes. Certain large firms also have the ability to offer services to smaller firms and act as industry utilities. Disciplined niche players can find targeted opportunities and areas of expertise, outsourcing much of their technology and risk-management functions, and focus on core value-add services.

It is also expected that several fintech firms, such as those using blockchain technology and some of the robo-advisers, will become successful.

There is room for a variety of types of investment managers to be successful. Large firms and small firms, those with diverse offerings as well as those with niche strategies, can all grow. Will it be the size or focus of an investment manager that determines success? Alas not. It will be the ability of each investment manager to identify the disruptive trends, prioritize, and implement an appropriate response. Those that take action will continue to thrive.

Who will be successful in this new landscape? Only time will tell, but those who do not embrace change may be left behind.

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