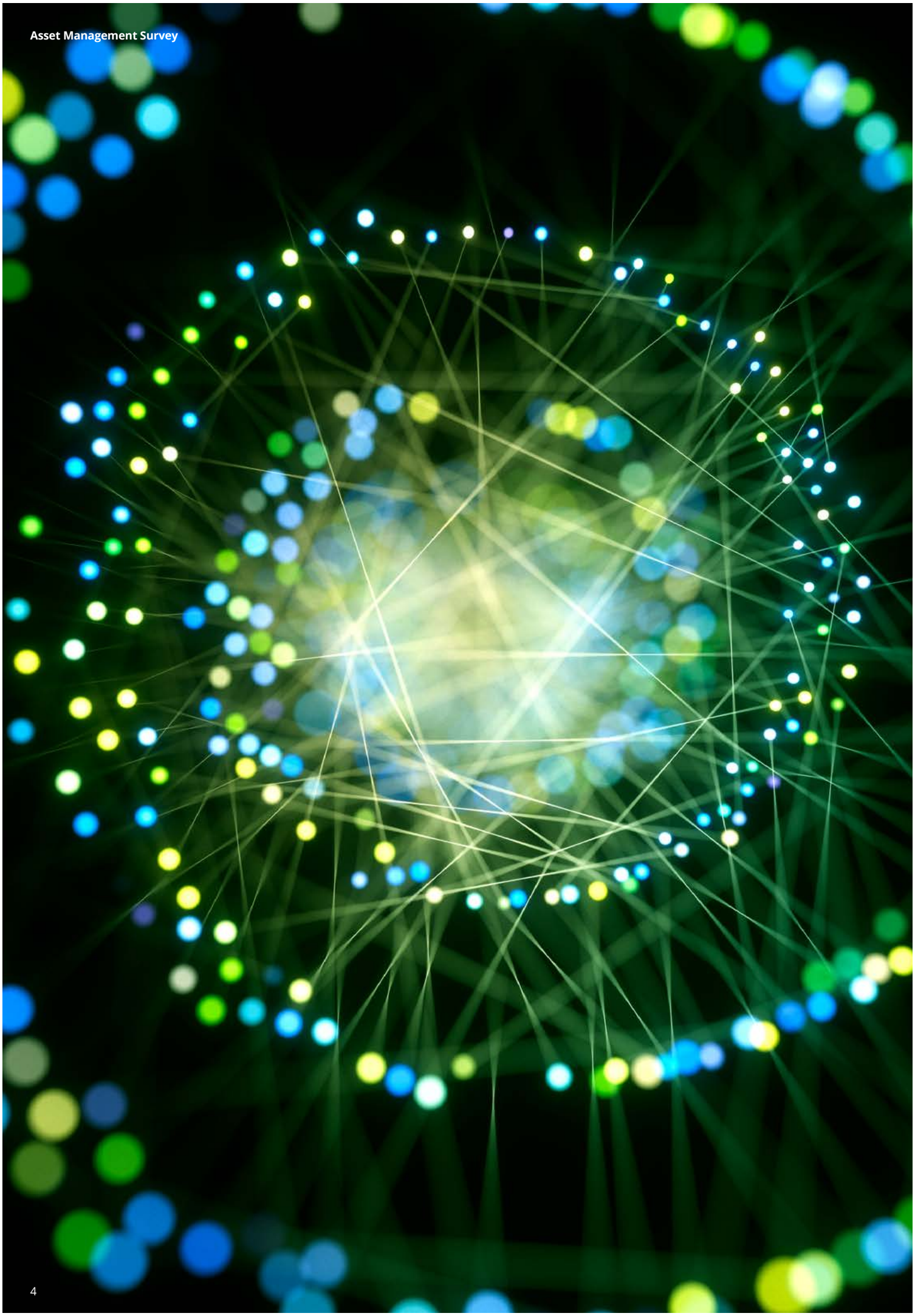
Deloitte.

Asset Management Survey

The gold rush route for asset managers

Agenda



Executive summary

As part of its Asset Servicing Centre of Excellence, Deloitte is launching an annual survey among the European investment management industry players to gain a holistic view of today's market needs and challenges to capture recent evolutions and anticipate future trends. Indeed, we believe it is essential to understand current themes and identify differentiating factors in order to stay ahead of competition. Both the asset servicing and asset management industries, have experienced continuous challenges in recent years, driven by fee compression, new product demand, stricter regulations, and an ever-evolving economic climate. This creates the need for both actors to adapt and even reinvent their target operating model to better cope with the afore mentioned drivers. This is the reason why Deloitte is conducting biennial surveys; one year among asset managers, the following year among asset servicers in order to fully understand the complete investment management value chain.

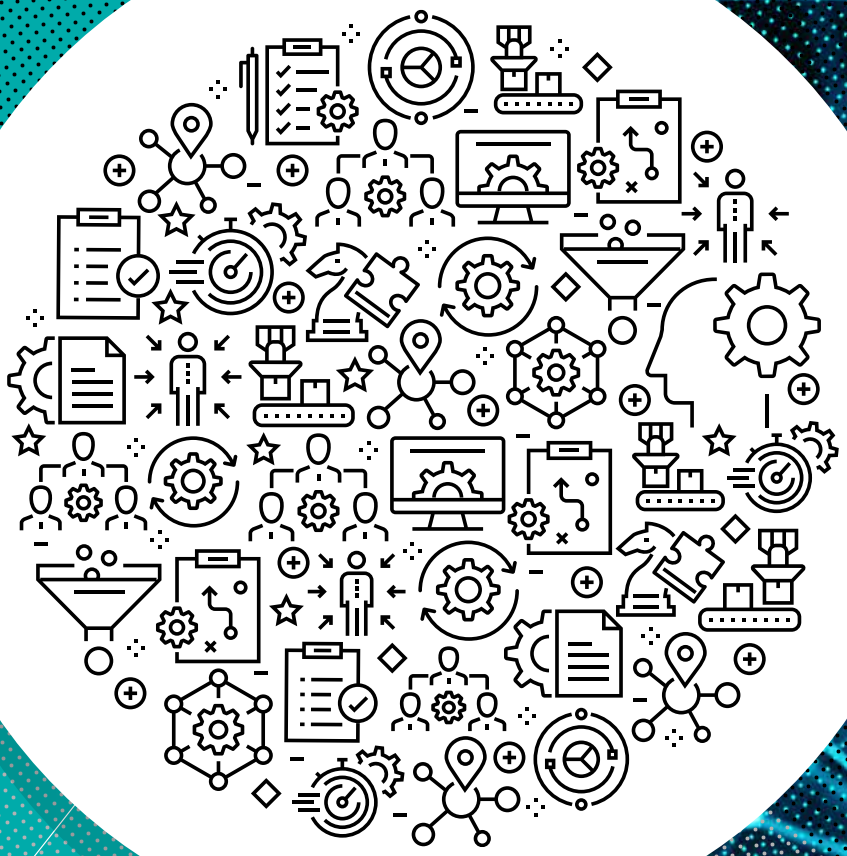
The 2019 edition, focusing on asset managers, welcomed the participation of 23 players located in Europe and the USA, who distribute in more than 30 countries worldwide. The sample of participants, totaling €8 trillion assets under management, provided a good representation of all asset manager size segments, with large players managing more than €500 billion and small niche boutiques managing less than €100 billion.

This year's survey revealed two major challenges which profoundly impact the whole asset management value chain. The positive or negative outcome of these challenges will depend on the willingness and timeliness of market players to embrace technology. Only the bravest and boldest will then thrive. Firstly, the rise of ETF and passive funds have been putting pressure on asset managers' revenues, pushing them to find new revenue sources to renew growth in the coming years. Asset managers are using a 'mix and match' of strategies, either increasing their fees by turning to alternative products, or attracting new types of investors through the integration of ESG criteria into their portfolio or via expansion in Asia. To acquire the relevant capabilities or to access those new markets, asset managers are continuing their consolidation, mainly among niche players.

Secondly, in a world where performance is not the only criteria for differentiation, investors' increasing expectations for a seamless and personalized experience have been putting pressure on client-facing activities. Thus, to create a dedicated customer journey for their investors, asset managers have an urgent need to collect data on their clients' behaviors. Today, this data lies in the hands of the service providers, however they are not meeting expectations in terms of digital capabilities. As a result, more and more asset managers are using technology to insource some activities as they are not satisfied with their asset servicers' capabilities. They also intend to use technology in order to increase their share of sales through direct distribution, and get closer to their customers.

Objectives & methodology

- Our survey methodology and scope
- Overview of our respondents



OBJECTIVES & METHODOLOGY

Our survey methodology and scope

The 2019 Asset Management Survey

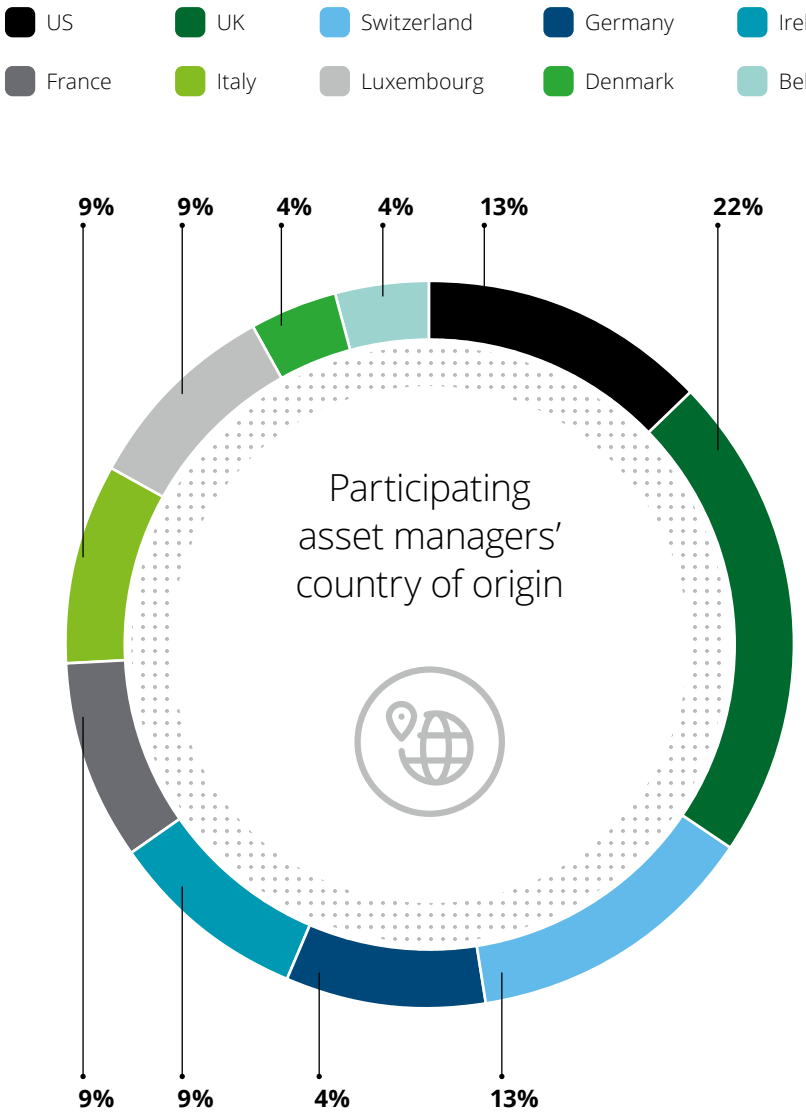
- Organized jointly by **Deloitte Ireland, Deloitte Luxembourg, Deloitte France, and Deloitte UK**
- The survey aims to:
  - Describe the **current market landscape**
  - **Identify market trends** and challenges that will shape the future state of the industry
  - Collect and share points of view from industry leaders
- **Recurring format**, alternating **asset servicers** and **asset managers** participation biennially

The Survey structure

- General company information
- Product coverage
- Fund distribution strategy
- Service providers
- Operating model
- Data and technology

2019 Survey participants

23 asset managers with €8 trillion AuM

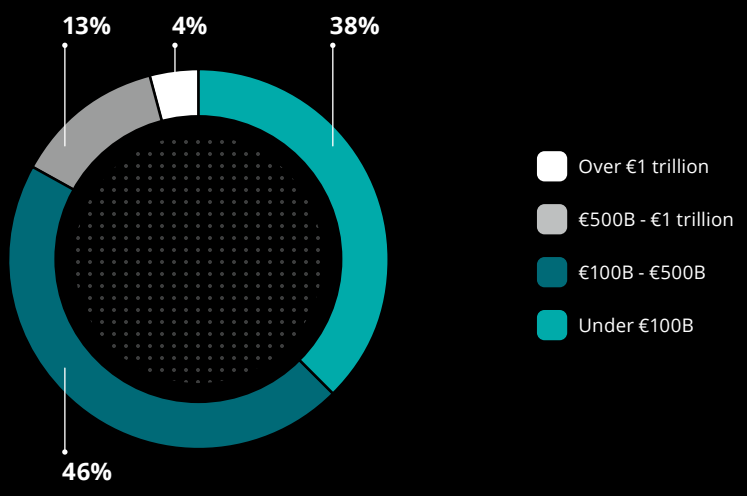


Source: Deloitte 2019 Asset Management Survey

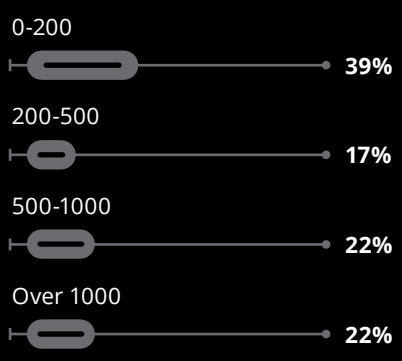
OBJECTIVES & METHODOLOGY

Overview of our respondents

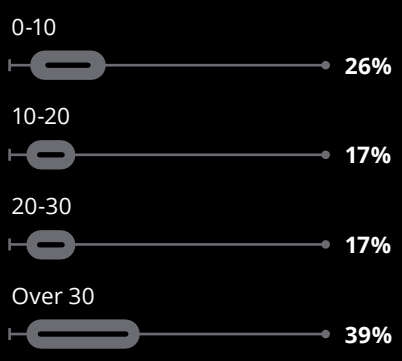
Interviewed asset managers total assets under management, 2018



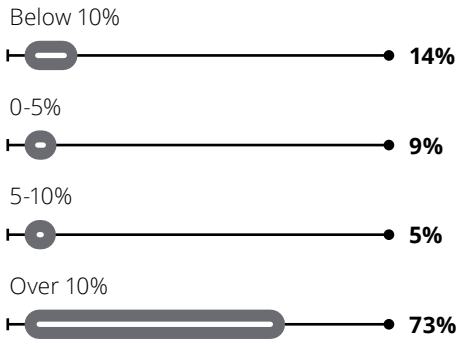
Number of employees at the interviewed asset management firms



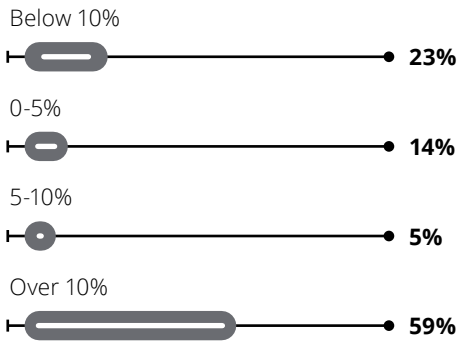
Number of countries distributed to by interviewed asset managers



Revenue change between 2014-2018 of interviewed asset managers



Profit change between 2014-2018 of interviewed asset managers

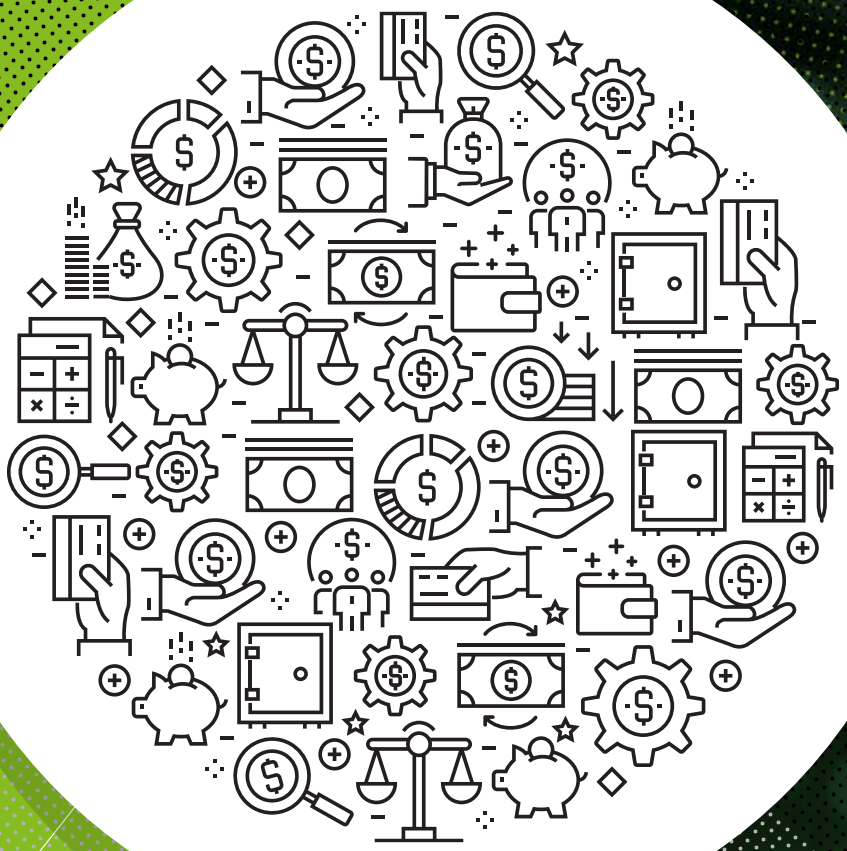


The analysis of participants' revenue and profit growth, reveals a winning versus losing strategy. Indeed, either asset managers had over 10 percent revenue growth or had over 10 percent revenue decrease. The same pattern repeats for profit change. We will see later in the survey that technology plays a significant role in asset managers' success.

Source: Deloitte 2019 Asset Management Survey

How to relieve fees pressure?

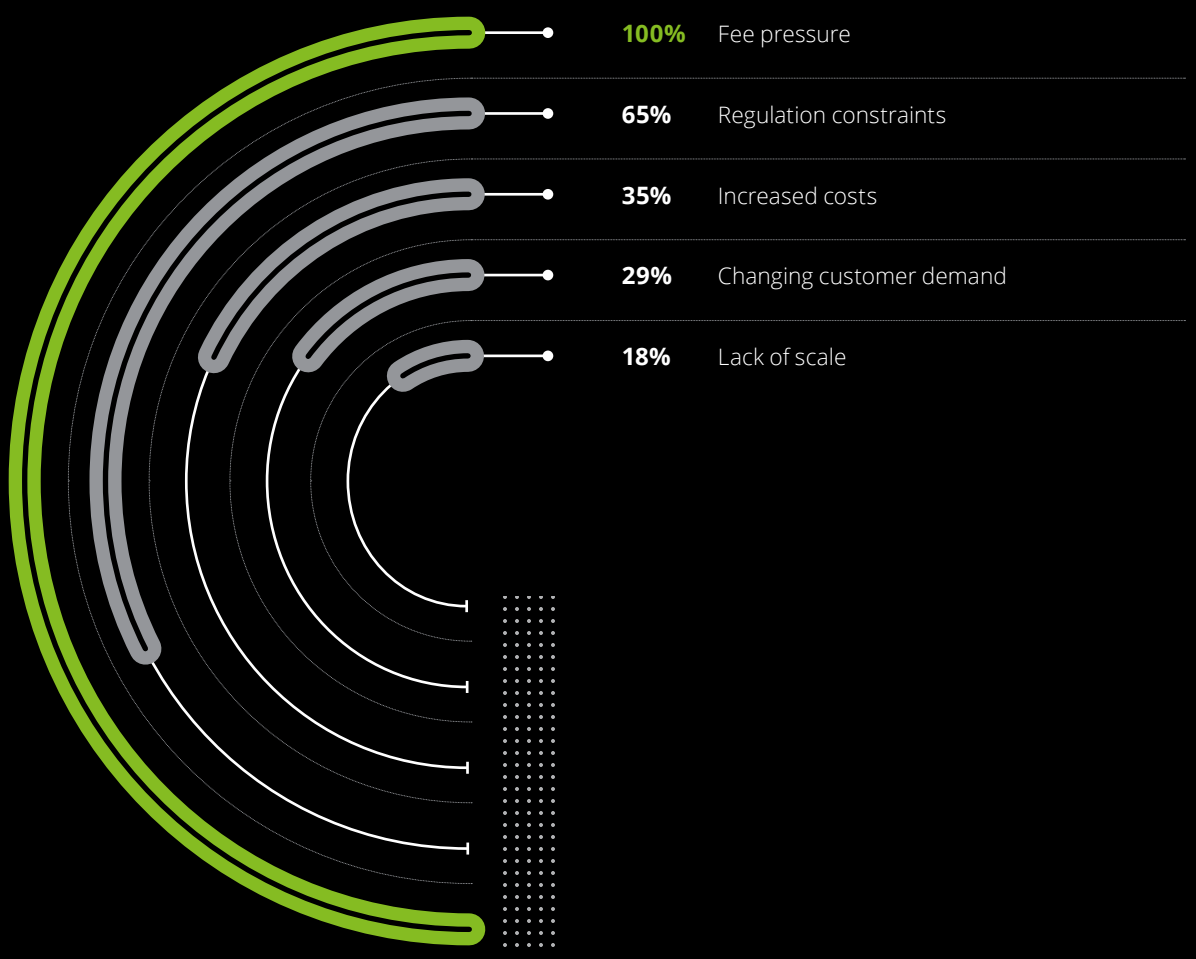
- Find the alternative track
- Engage in ESG – a game changer
- Develop off the beaten track in Asia
- Take the niche market route



FIND THE ALTERNATIVE TRACK

Today, asset managers predominantly offer traditional products, especially active funds, however ETFs are gaining ground putting pressure on asset managers' revenues and fees.

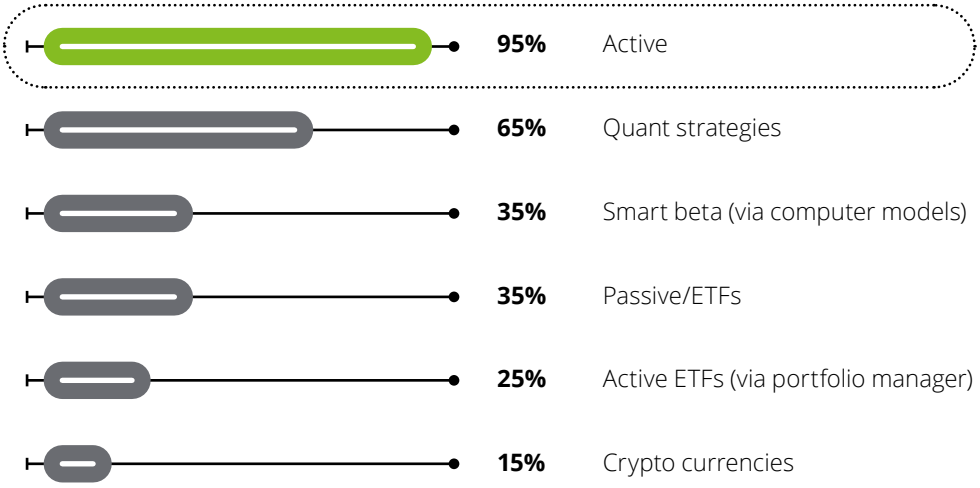
Percentage of asset managers who consider the following to be the biggest distribution challenges



Source: Deloitte 2019 Asset Management Survey

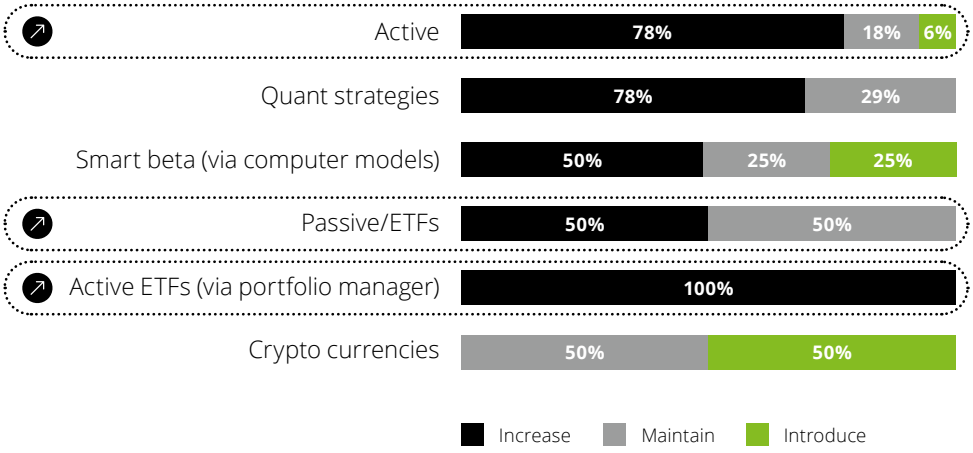
Asset managers are still offering "traditional" products today...

Percentage of asset managers offering below fund classes today



...however, most of them are planning to offer more quant strategies and active or passive ETFs over the next three years.

Expected evolution of the type of fund classes offered within three years



In the US, the adoption of passive investment products has been very successful for a few years now, and today, is on course to overtake the assets held in active funds. Non-transparent ETFs are also appearing on the US market, avoiding daily portfolio disclosures.

In contrast, the demand in European markets has been slower with most survey participants still offering mainly active asset classes. However, most of them intend to considerably increase their proportion of ETF, both active and passive, in the next three years. This will further increase the pressure on fees and thus on the operating margin.

Over time, asset managers' will to survive will lie between specializing in high-end niche markets to justify higher fees, or gaining scale to provide passive investment at very low cost.

Source: Deloitte 2019 Asset Management Survey

FIND THE ALTERNATIVE TRACK

As a result, asset managers are turning to private equity and real estate products, which are on the rise in Europe and APAC, to renew revenue growth.

Given the general reduction in their margins and in order to renew growth, many traditional asset managers are aiming to diversify their activities and are thus turning to alternative assets. These include private debt, real estate, and private equity which record the strongest growth rates in terms of assets under management.

Indeed, alternative products enable asset managers to increase their operating margin as investors generally accept a performance fee payment on top of a generally higher management fee.

In today's market environment, characterized by low interest rates and high valuations of public markets, investors are looking increasingly for value-generating investment opportunities in alternatives, whose performance is less correlated to public market evolutions. Private debt in particular has seen increasing demand due to its revenue generating character.

In terms of distribution, two thirds of survey participants intend to increase their private equity offer in Asia and Europe over the next three years.

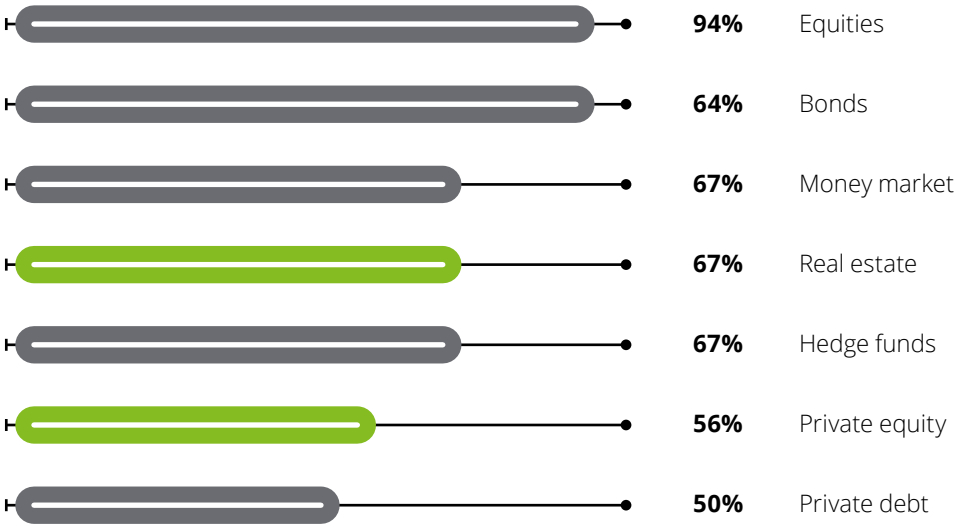
Although the alternative investment market still creates numerous profit opportunities, the increasingly 'dry powder', linked to the high availability of cash, shows that asset managers find it increasingly difficult to deploy the capital and that the number of such opportunities is decreasing.

The ambition to launch new hedge funds is diminishing among asset managers. The asset class is facing more challenging market conditions linked to increased market volatility and reduced confidence from investors in today's post-crisis era.

Source: Deloitte 2019 Asset Management Survey

Private equity and real estate products are distributed by 2/3 of asset managers today...

Percentage of asset managers offering below fund classes today



... however, demand is expected to encounter a high growth in the next three years in EU and APAC regions.

Expected geographical evolution of the demand for various asset classes

PRIVATE EQUITY

- **73 percent** of asset managers see increased potential in **APAC** as the destination for their private equity investments over the next three years, despite relatively high political instability
- **67 percent** of asset managers expect demand for PERE to increase in **EU**, both from traditional institutional clients and increasingly from private HNWIs too

REAL ESTATE

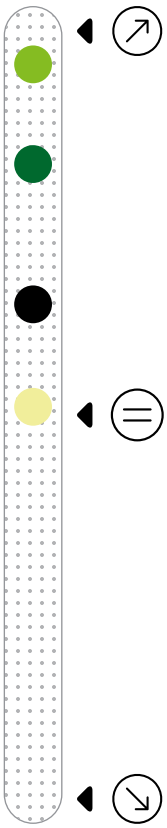
The **EU** is still perceived as the destination where the evolution is expected to grow the most in the next three years

EQUITY

50 percent of asset managers expect equity demand to increase in APAC countries

BONDS

Demand for **bonds** is expected to stay relatively stable



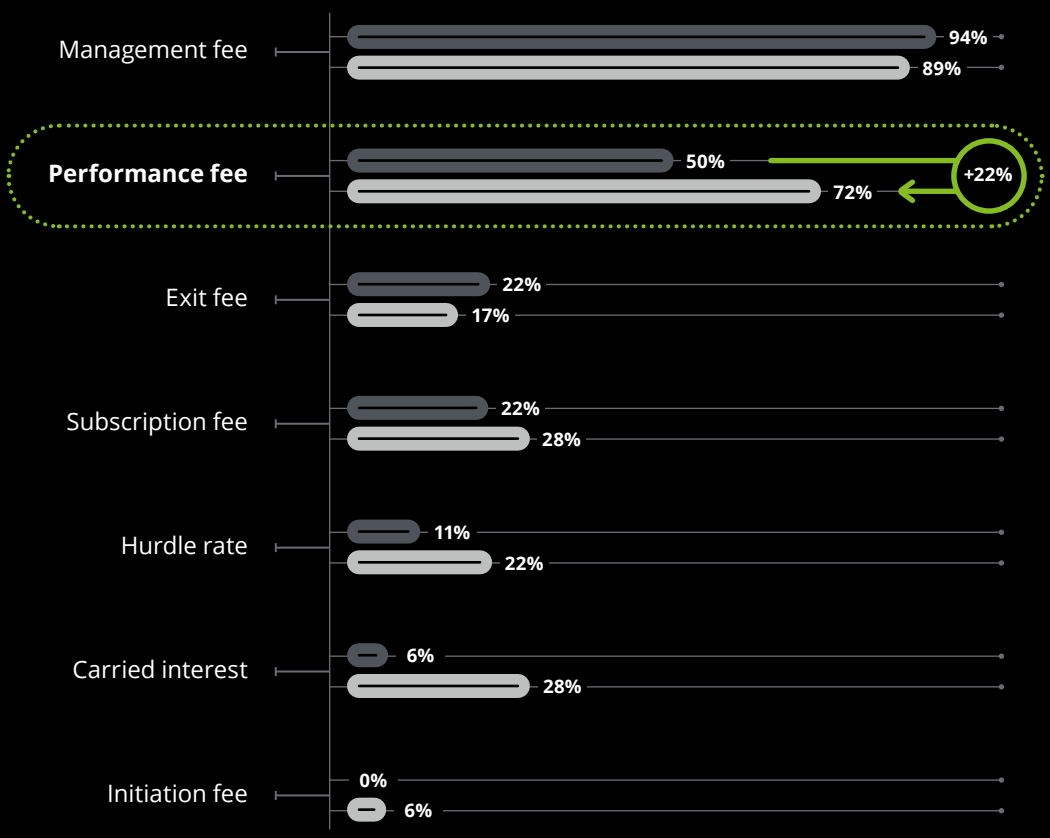
Source: Deloitte 2019 Asset Management Survey

FIND THE ALTERNATIVE TRACK

Indeed, alternative products' fees tend to be higher than traditional products' ones since they are not only based on management fees, but also on performance fees.

Management fees and performance fees are still the traditional type of fees used...

Percentage of asset managers charging below fee types today



Traditional products

Alternative products

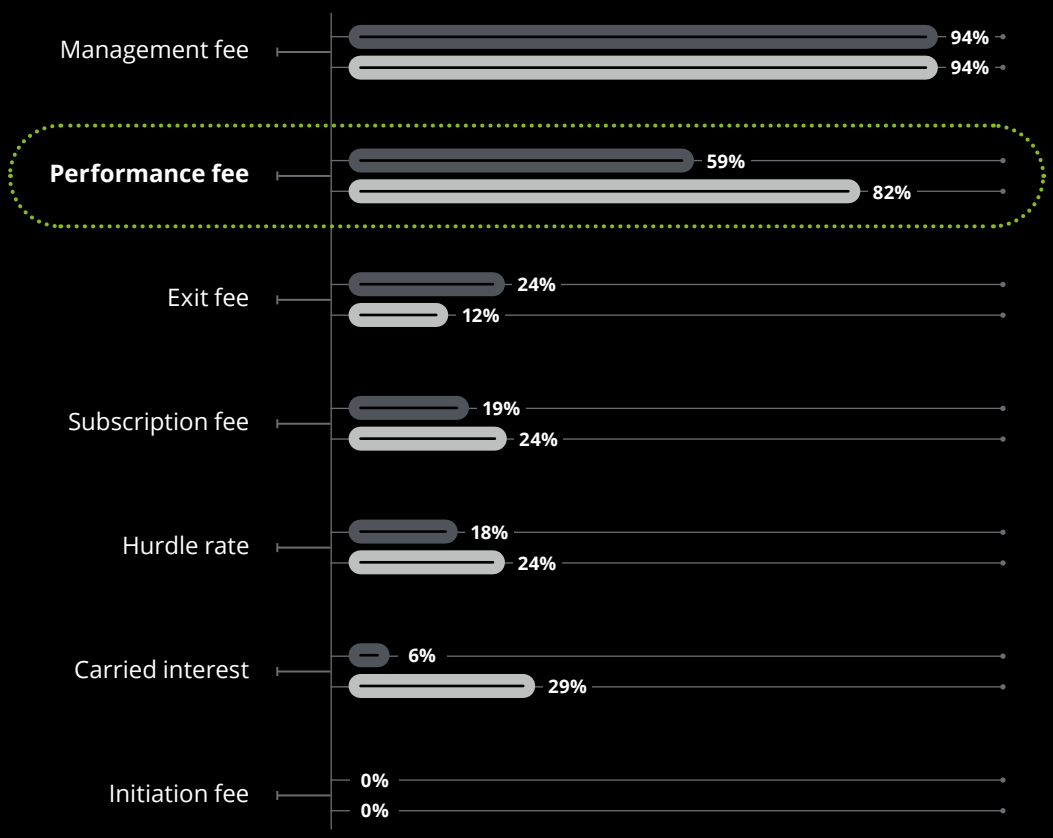
Source: Deloitte 2019 Asset Management Survey

Despite the growth in passive products and the emergence of zero-fee index funds, no change in fee structure is forecast for the next three years, neither for vanilla nor alternative products.

However, fee levels may come under pressure in the coming years if asset managers find it increasingly difficult to meet past investment performance levels.

...with no clear emergence of a new type of fees.

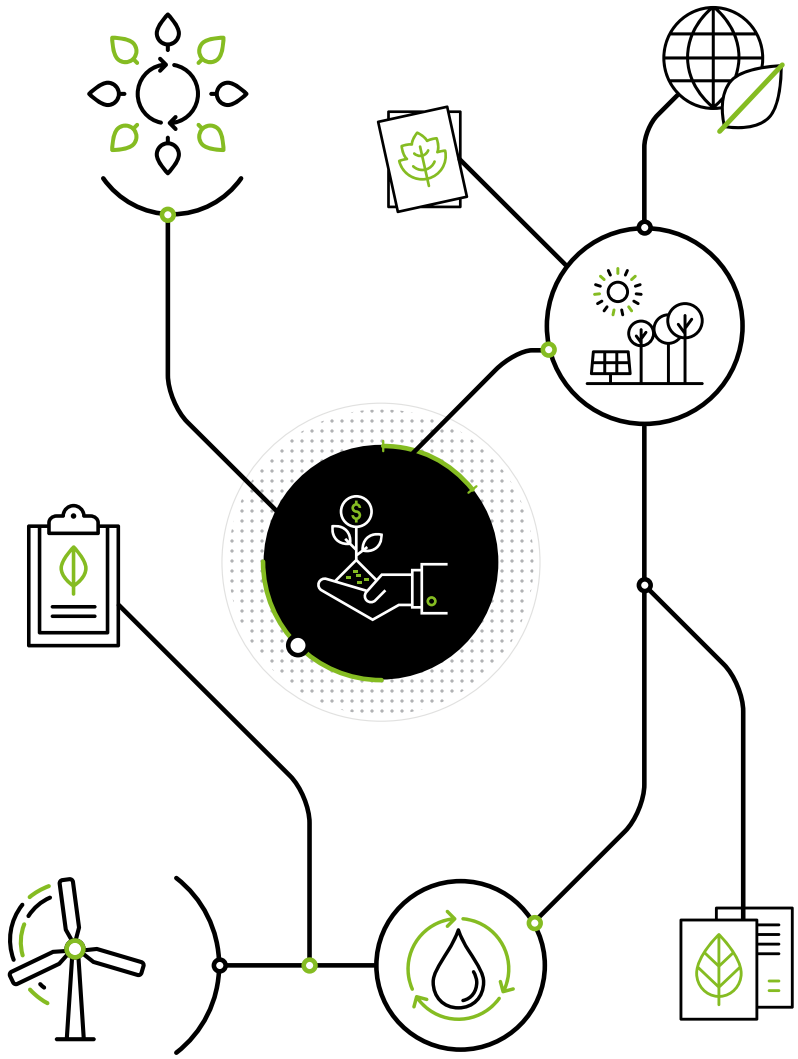
Expected percentage of asset managers charging below fee types, three years from now



Source: Deloitte 2019 Asset Management Survey

ENGAGE IN ESG – A GAME CHANGER

To attract new types of investors, asset managers are integrating ESG criteria into their portfolios. The proportion of ESG products in fund offerings today has reached 25 percent and will increase within the next three years.

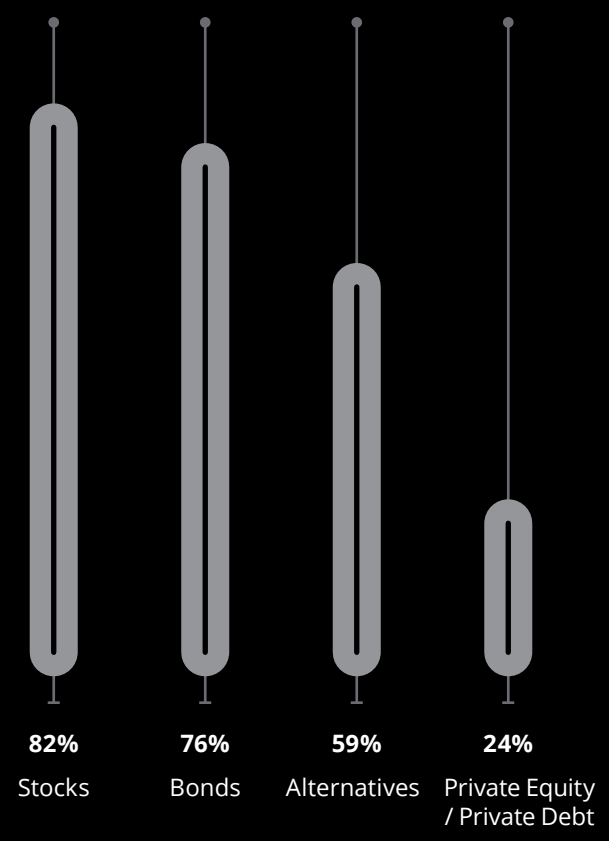


To attract new investors, asset managers are also turning to sustainable investments. The global market of sustainable investing assets reached US$31 trillion in 2018*. The integration of ESG, one of many sustainable investing strategies, has already reached 25 percent of asset managers' fund offerings. Today, 90 percent of survey participants integrate ESG into their portfolios with traditional assets (stocks, bonds, etc.), however alternative products covering ESG are expected to increase considerably over the next three years. The attractiveness of sustainable investment at the European level is evolving and the upcoming regulations have the purpose to provide framework for supporting financial professionals in designing their products.

**Global Sustainable Investment Alliance 2018*

Today, more than half of asset managers interviewed cover ESG factors with stocks, bonds, and alternative assets...

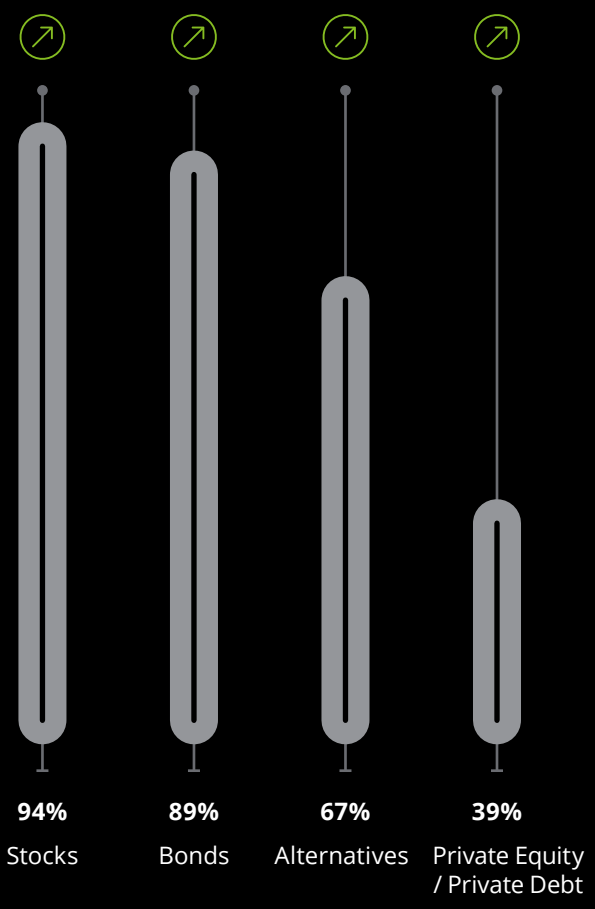
Percentage of asset managers covering ESG factors with below asset classes today



25% **average portion** of **ESG products** in asset managers' fund offerings today.

...and the proportion is expected to increase within the next three years, especially in direct investments.

Expected evolution of ESG-covered asset classes within the next three years



63% expected increase in **ESG funds** covered by **Private Equity/Private Debt**

Source: Deloitte 2019 Asset Management Survey

ENGAGE IN ESG – A GAME CHANGER

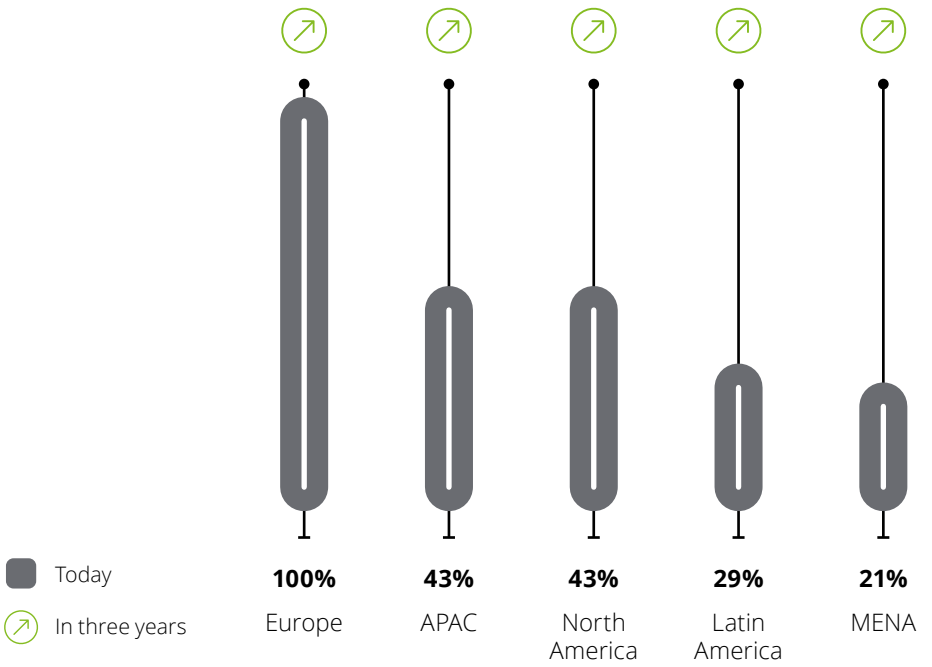
The sustainable and responsible investment fund offering is likely to increase in all geographies with ESG integration, exclusion, and engagement and voting being the main strategies used today.

Within three years, ESG fund offerings will likely soar in Europe, APAC, and Latin America...

Today, Europe represents 46 percent of the sustainable investment market and has enjoyed a 6 percent annual growth since 2014, making it the largest market worldwide. All asset managers interviewed distribute ESG products in Europe, however only 43 percent distribute those products in North America and APAC regions*. However, some smaller Asian markets are starting to expand and demonstrated a high growth between 2014 and 2018; notably Japan (+308 percent CAGR) and Australia (50 percent).

**Global Sustainable Investment Alliance 2018*

Percentage of asset managers who promote ESG products in the following regions today, and the evolution over the next three years



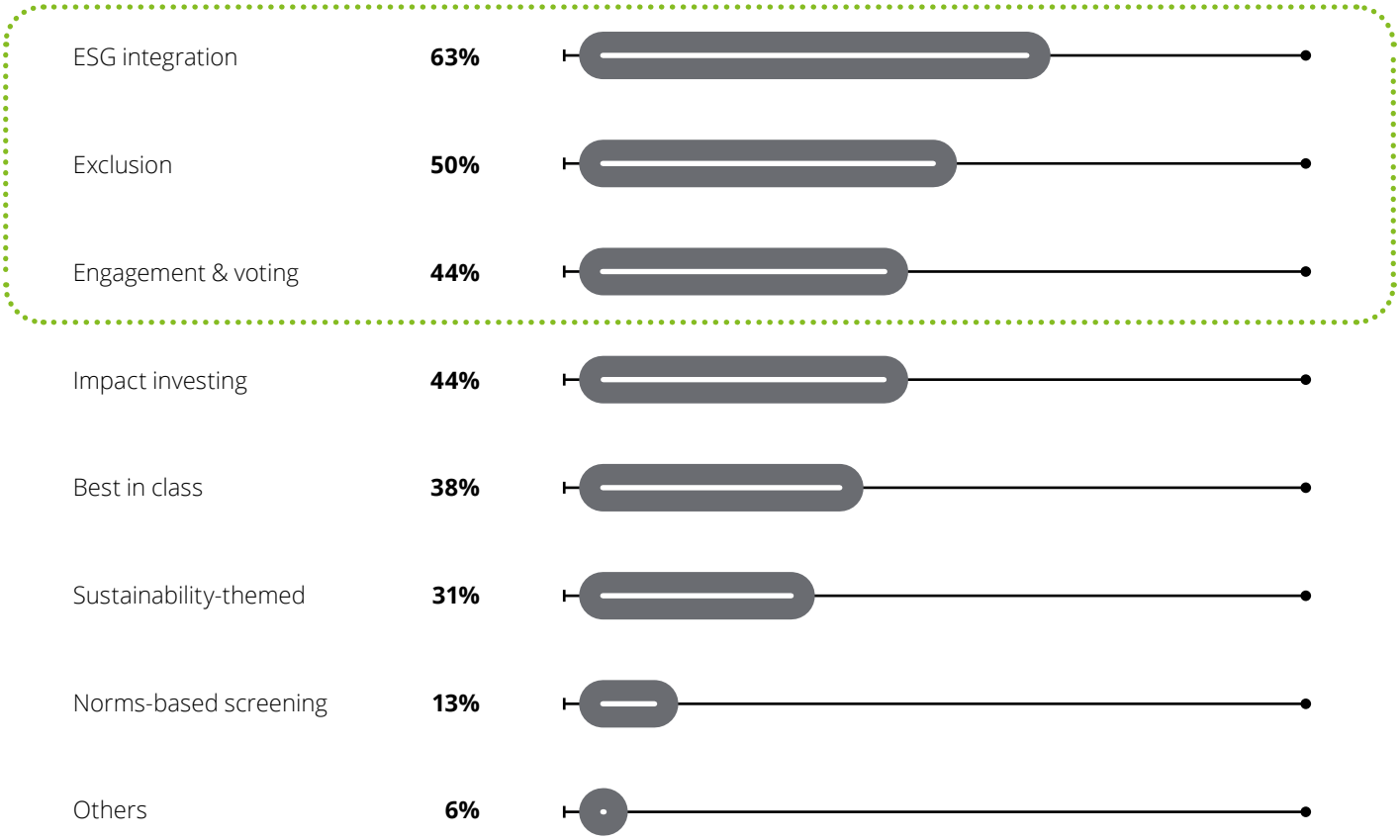
~ 90% Nearly all asset managers intend to **increase or include ESG characteristics** in their current portfolio, covered via all asset classes (alternatives, equity, and bonds)

Source: Deloitte 2019 Asset Management Survey

...with ESG integration and exclusion being the most common strategies, with a good balance among various others.

Talking about sustainable investment includes a set of different strategies, from impact mitigation to impact maximization. Sustainable investing, which was assimilated to "excluding companies or sectors which are posing some risks" such as tobacco or weapons a few years ago has now evolved into considering ESG criteria when selecting a portfolio. The integration of ESG criteria is the top strategy adopted by survey participants in 2019 and even outreached the usage of the exclusion methodology. Surprisingly, asset managers are more and more willing to take an active part in management as revealed by the top three ranking of the engagement and voting strategy by participants. The 17 percent sustainable assets' growth in corporate engagement and shareholder action between 2016 and 2018, also supports the strong development of this strategy. Through their votes, asset managers can influence management decisions and potentially ensure alignment with their ESG approach, acting as an effective steward for their end-investors and taking responsibility for sustainable change.

Percentage of asset managers considering below SRI among their top three strategies



Source: Deloitte 2019 Asset Management Survey

ENGAGE IN ESG – A GAME CHANGER

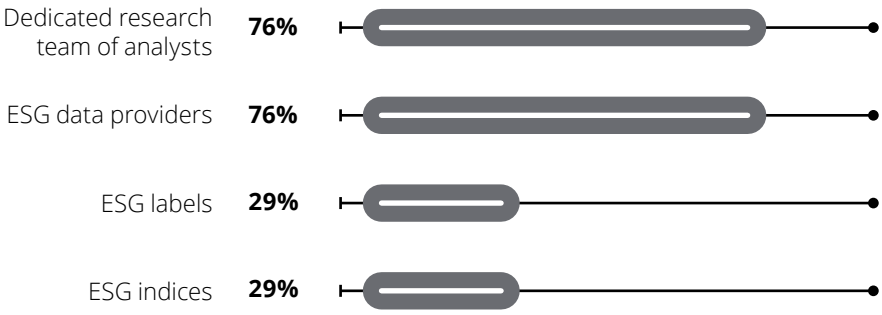
As the integration of ESG factors in fund offerings is still in its infancy, asset managers mainly use proprietary methodologies while the use of labels or certifications remains low.

As ESG data remains incomplete and unreliable due to the lack of taxonomy and standardization on the market, asset managers are not only using quantitative data coming from external providers. They mostly rely on an internal teams of ESG research analysts who review providers' ratings and build assessment grids based on internal criteria best suited for their investment strategy. As a result, 50% of survey participants use a proprietary methodology to assess the ESG criteria of assets. The usage of labels or certifications is not yet widely used, representing less than 1% of European funds, due partly to the variety of labels on the market. This environment can create competitive disadvantage for small asset managers / boutiques or new comers in this field as the cost to entry is relatively high. It is also difficult to navigate amongst the numerous data providers which exist on the market and ensure the adequacy with the asset manager sustainable investment strategy.

DATA MANAGEMENT will also have to involve sustainability criteria

Asset managers rely mainly on dedicated research and ESG data providers for assessing the ESG characteristics of their potential investments.

Percentage of asset managers who assess the ESG characteristics of their potential investments with the following methods today



However, the use of labels and certifications remains low when assessing the ESG criteria of an investment.

~ 50% of asset managers predominantly have a **proprietary methodology**, with internal analysts assessing the respect of ESG criteria.

Only ~ 30% of asset managers employ **labels**, **certifications**, or **flags** to identify ESG-conforming investments.

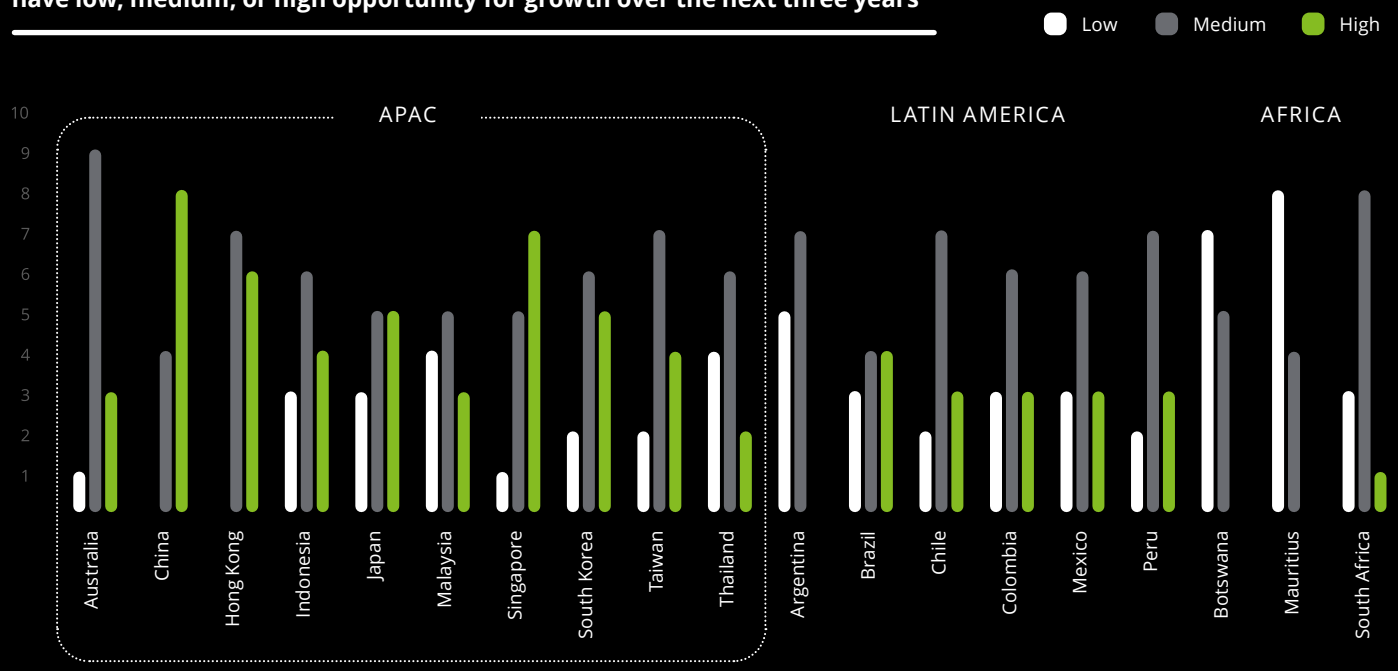
Source: Deloitte 2019 Asset Management Survey

DEVELOP OFF THE BEATEN TRACK IN ASIA

Asset managers are also considering expanding their geographical footprint, particularly in APAC which is considered the new 'goldmine' in terms of AuM growth and opportunity.

APAC, and some Latin American and African countries, have high opportunity for growth over the next three years.

Percentage of asset managers who consider the following countries to have low, medium, or high opportunity for growth over the next three years



Asia remains the most attractive region for asset managers according to most of survey participants. The region attracted 56 percent of global flows between 2013 and 2018, gained a 15 percent CAGR and represented 17 percent of global AuM in 2018. This growth will ensure that the region's AuM will continue to flourish in the years to come. For internationally-focused asset managers, this region presents many opportunities to either enter the market or continue to expand their existing presence. For asset managers who have not yet journeyed down the APAC route, it is the right time to harness these markets though appropriate fund distribution solutions. We invite you to consult our whitepaper "Asia Pacific—off the beaten track" which provides insight for asset managers on where they should drive their priorities and which opportunity window to take advantage of.

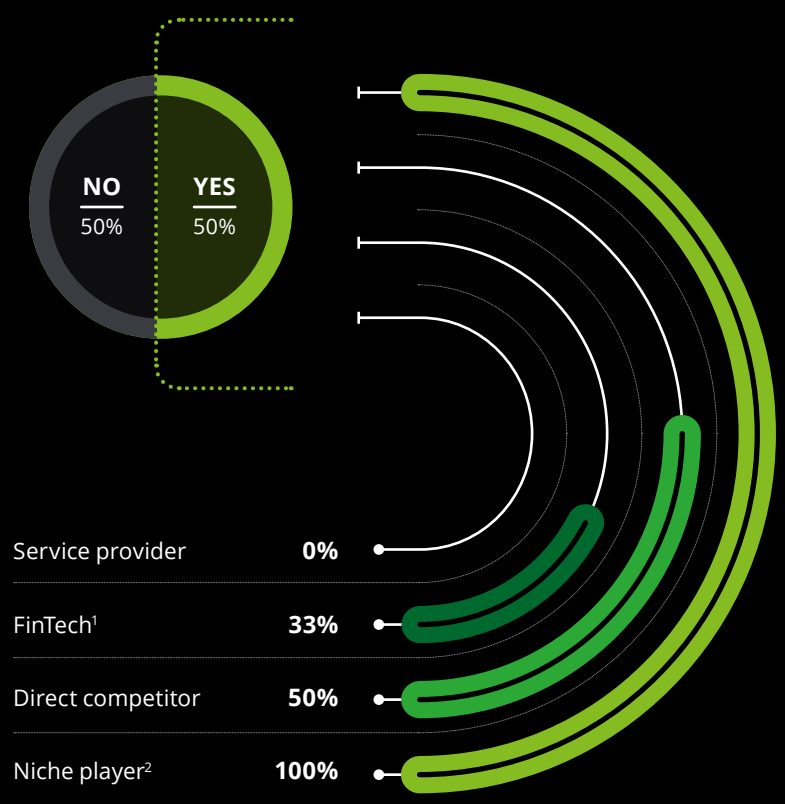
Source: Deloitte 2019 Asset Management Survey

TAKE THE NICHE MARKET ROUTE

To gain the required new capabilities and access new markets, asset managers are continuing their merger and acquisitions activities, mainly by acquiring niche players or direct competitors.

Most asset managers intend to acquire niche players or direct competitors in the next three to five years...

Percentage of asset managers planning mergers or acquisitions and intending to acquire the following targets

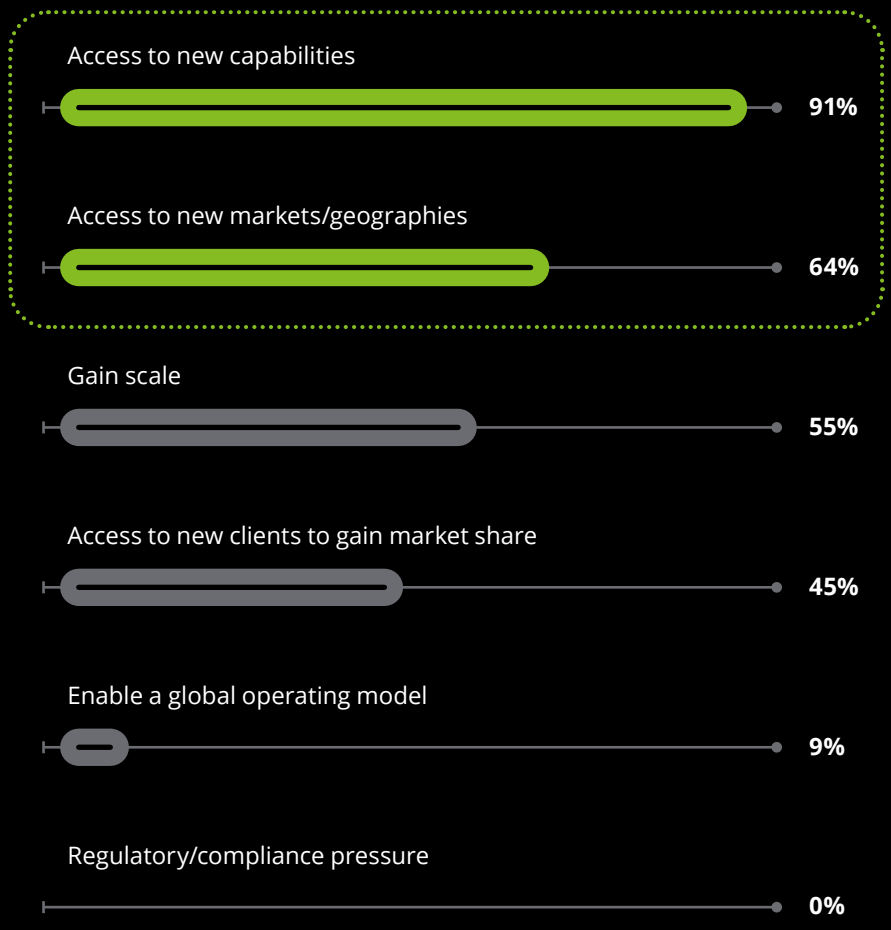


1 FinTech e.g. RegTech, robot advisors
2 Niche player e.g. VC, ESG manager

Source: Deloitte 2019 Asset Management Survey

...mainly to access new capabilities, new markets, and gain scale.

Primary objectives of a merger/acquisition



To face rising costs and declining fees, asset managers are turning to new pools of growth: alternatives assets, ESG products, or expansion in other geographies. Such market pressures are pushing asset managers towards M&A since they do not necessarily have the capabilities or the skills in-house.

All survey participants envisage acquiring a niche market player to build on existing capabilities or access new geographies. M&A activity has been on the rise for several years, reaching 49 merger and acquisition deals in 2018.

It is worth noting that deal-making is not a cure-all for asset managers and that poor execution can lead to increased costs.

Source: Deloitte 2019 Asset Management Survey

Is data the new gold for asset managers?

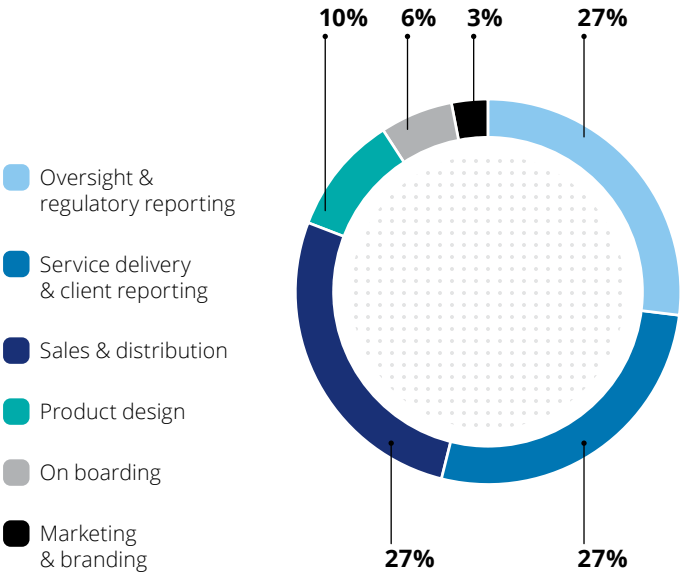
- Reconnect with investors through data collection
- Select service providers based on their digital capabilities
- Consider to re-insource activities thanks to technology
- Take the direct distribution path

RECONNECT WITH INVESTORS THROUGH DATA COLLECTION

As investors are increasingly expecting tailor-made portfolios, client-facing activities are under immense pressure, which in turn, requires asset managers to collect data about their investors.

Sales and distribution, client service, and oversight duties will be under immense pressure within the next three years...

Elements of the value chain where data exploitation would be of greatest need



Within the front office value chain, asset managers expect client-facing activities, i.e. sales and distribution, service delivery and client reporting, and oversight and regulatory reporting to be under scrutiny by investors in the next three years. This is the result of investors' increasing expectations for a seamless and personalized experience, similarly to what they experience with the GAFA in other industries.

...which requires asset managers to collect data about their investors and related assets.

Most important data sources for asset managers

69% of asset managers consider **investor information** (age, wealth, etc.) and **asset data** (price, volatility, etc.) the most important data for their business.

Elements of the value chain where data exploitation would be of greatest need

77% of asset managers think that data is extremely important for **portfolio management**.

54% of asset managers think that **sales and distribution** activities would benefit from data exploitation.

To build customized portfolios and sell them to the adequate investor, asset managers use mainly investors' information (age, wealth, risk aversion, etc.) and asset data. They consider service provider data, transaction data, and competitors' data less important.

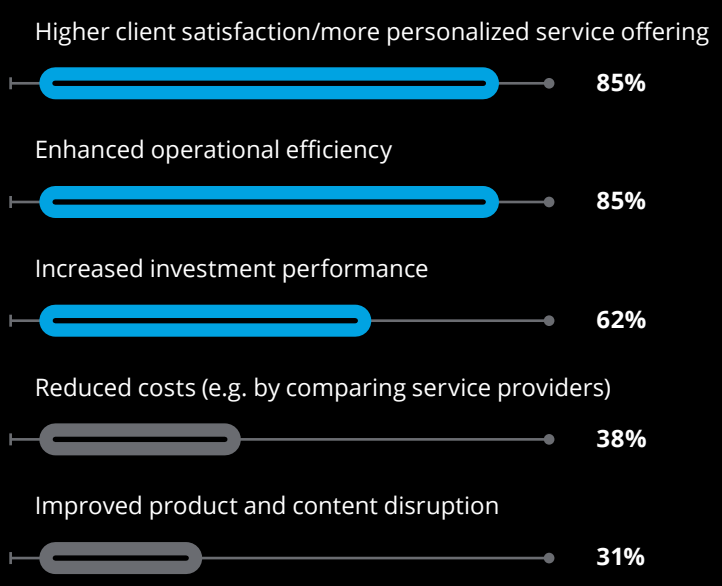
Source: Deloitte 2019 Asset Management Survey

RECONNECT WITH INVESTORS THROUGH DATA COLLECTION

Asset managers expect higher client satisfaction, enhanced operational efficiency, and increased investment performance from data exploitation.

Data exploitation is expected to increase client satisfaction, enhance operational efficiency, and increase investment performance.

Benefits expected from asset managers from data exploitation (in percentage of responses)



However, asset managers are still facing basic data challenges such as availability and reliability.

Main data challenges faced by asset managers

Preconceived ideas that the main purpose of data management is to increase investment performance or to reduce cost, turn out to be wrong. Indeed, as client-facing activities are under high pressure, asset managers primarily use data to bring higher client satisfaction through more personalized service offerings. However, availability and reliability are still widely perceived as the two main challenges that asset managers have to face with regard to data.

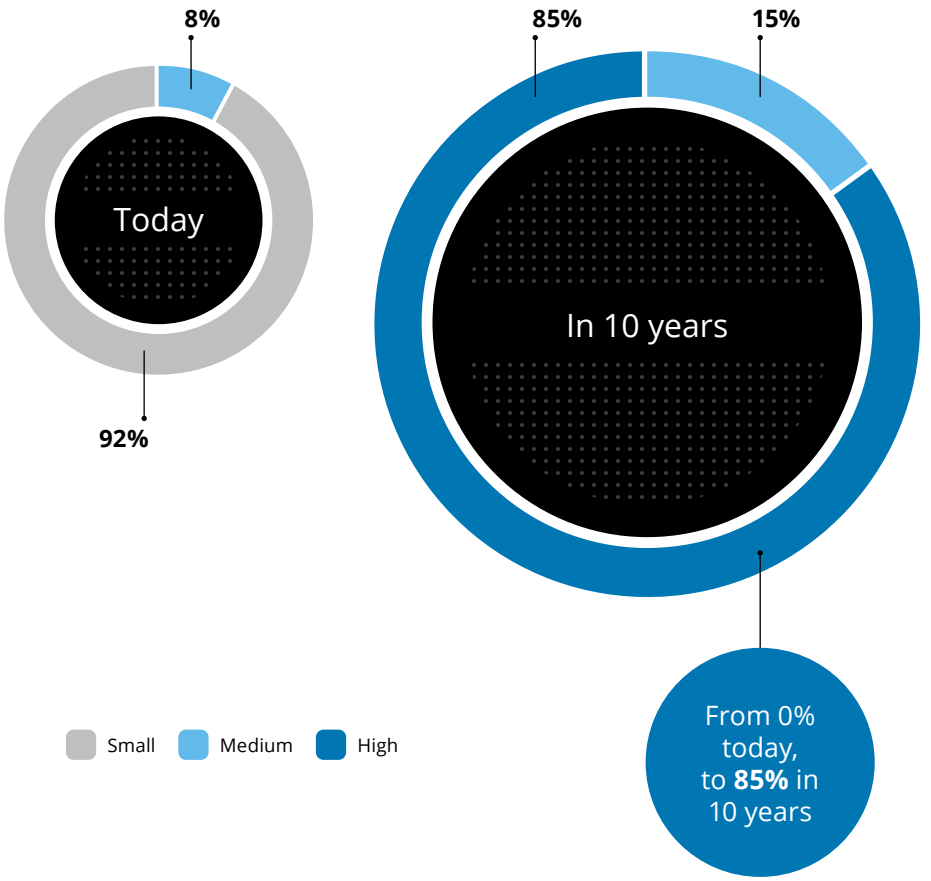
Source: Deloitte 2019 Asset Management Survey

RECONNECT WITH INVESTORS THROUGH DATA COLLECTION

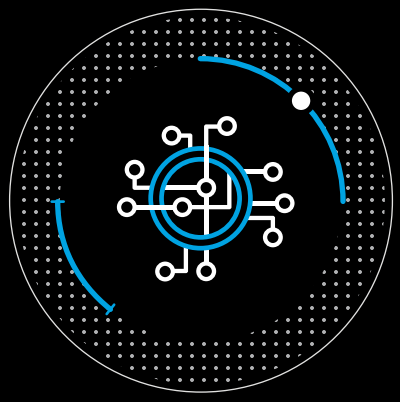
The data on investors is in the hands of transfer agents—asset managers are expecting them to use technology to provide information on investors and and improve client reporting.

Blockchain has not fully unlocked its disruptive potential, but asset managers believe that the TA business will be revolutionized in the next 10 years.

Extent to which asset managers think that blockchain will disrupt the TA business



Source: Deloitte 2019 Asset Management Survey

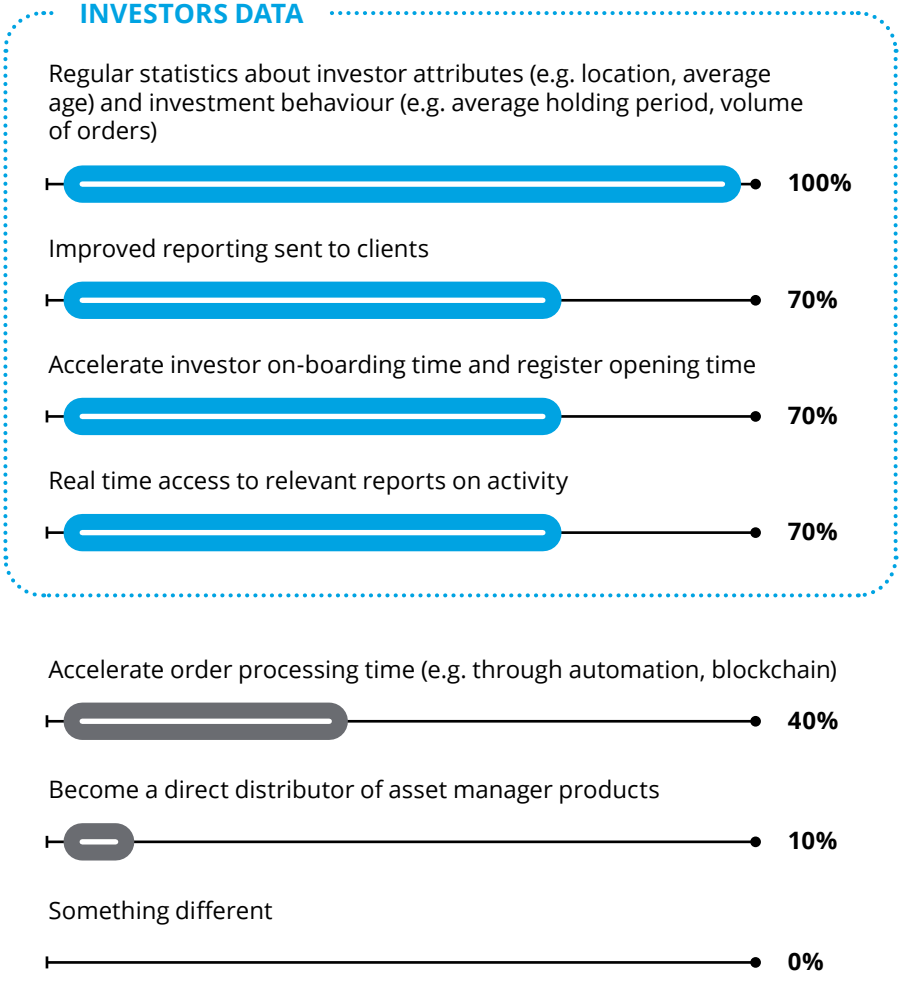


Today, investors' data lies in the hands of transfer agents as it is a layer of intermediation between asset managers and investors, therefore becoming an active part of the distribution model. Today, transfer agents are in the middle of an unprecedented market disruption where technology will lead to a major reshape of TA distribution models. Indeed, 85 percent of survey participants believe that Blockchain will disrupt the TA value chain in the next 10 years.

Supporting parts of the TA value chain with blockchain technology will enable real-time transaction processing while maintaining complete and transparent logs of data for documentation and reporting purposes. Nevertheless, the idea that the whole TA value chain will move to blockchain remains a myth as of today. Instead, we will expect to see asset managers connecting with already existing market utilities in order to process their transactions through blockchain. To survive in this environment, TA will have to offer new added-services, among them regular statistics about investors attributes and real-time clients reporting.

However, over the next three years, asset managers expect their TA to provide regular statistics about investor attributes and behaviors; moreover, they expect improved reporting sent to clients.

Added-value/additional services expected from transfer agents in next three years



Source: Deloitte 2019 Asset Management Survey

SELECT SERVICE PROVIDERS BASED ON THEIR DIGITAL CAPABILITIES

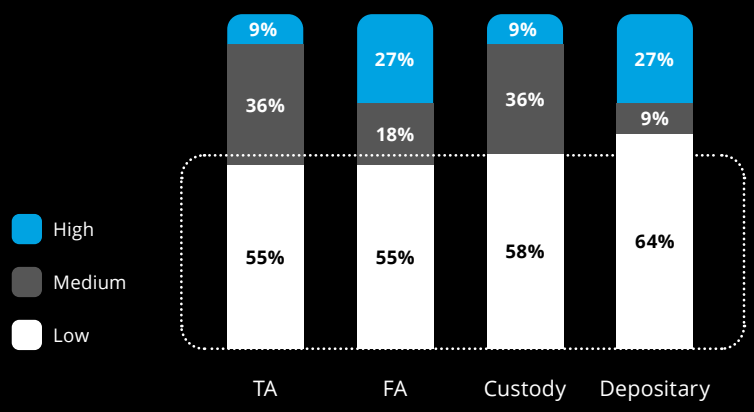
However, even though digital capability is a premium criteria for service provider selection, most asset managers are not satisfied with their providers' capabilities.

Asset managers are satisfied by their asset servicers' expertise and price/quality ratio; however their digital capabilities are below expectations.

Overall, **asset managers are satisfied with the service providers** to whom they have outsourced the activities of transfer agency, fund administration, depositary, custody, valuation, and risk management.

In spite of the overall satisfaction with their service providers, **more than 55 percent of asset managers are dissatisfied with the digital capabilities of their service providers.**

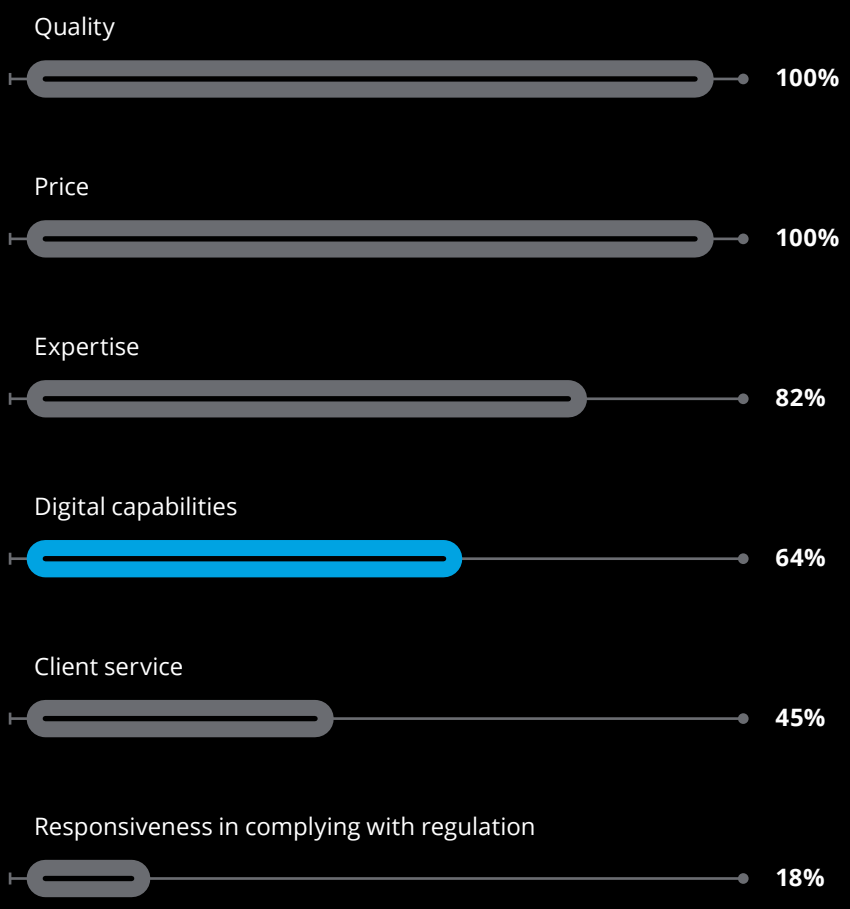
Level of asset managers' satisfaction in asset servicers' digital capabilities



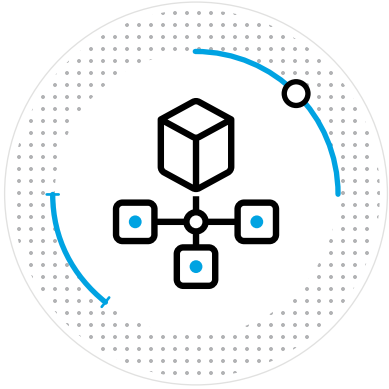
Source: Deloitte 2019 Asset Management Survey

Thus, the asset servicers must ramp up their skills, as digital capability is a premium criteria for selection.

Main drivers for selecting specific service providers



As with the transfer agent industry, technology will significantly disrupt the service provider industry. As of today, asset servicers have not yet achieved the level of digital maturity expected by asset managers, even if technology is the fourth criteria when selecting a third-party provider. Thus, asset managers have limited use for asset servicers' data since the data provided does not match their need. They would expect to receive data on economics to help them in their decision process.



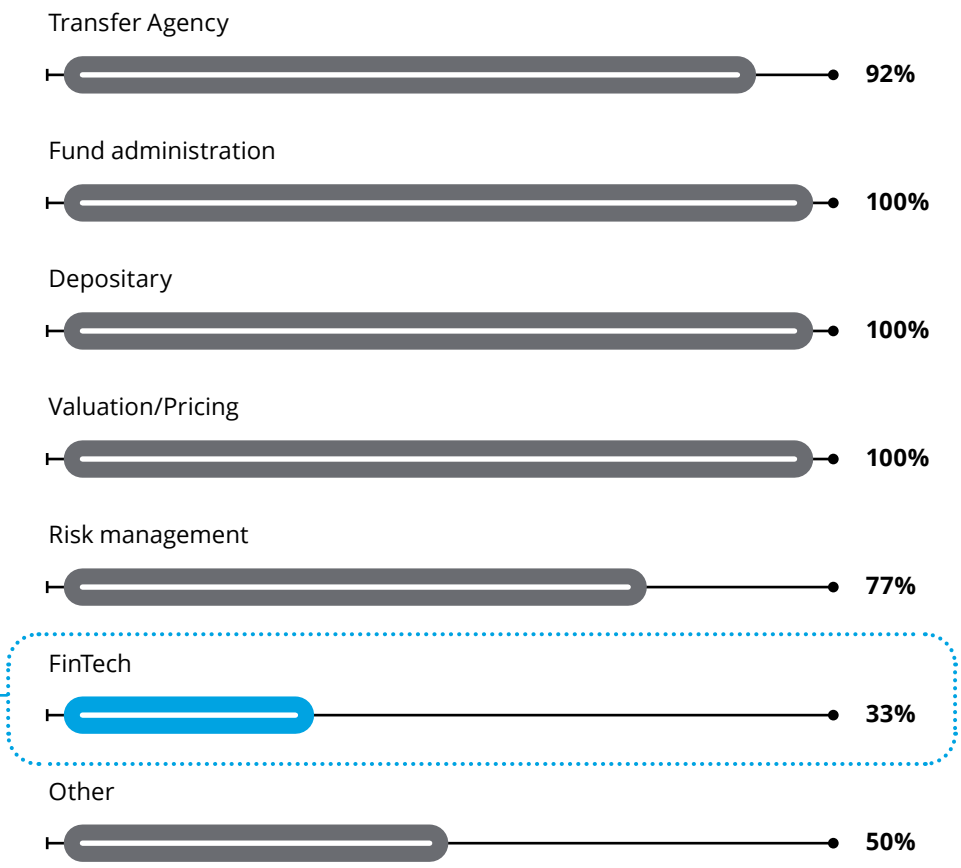
Source: Deloitte 2019 Asset Management Survey

CONSIDER TO RE-INSOURCE ACTIVITIES THANKS TO TECHNOLOGY

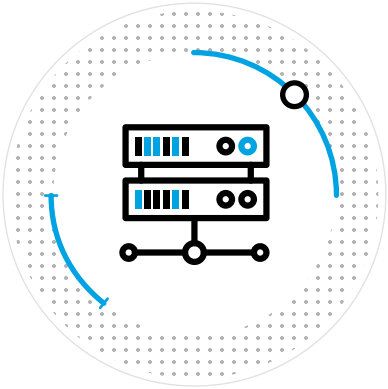
As a result, some asset managers intend to re-insource some activities on the value chain thanks to the efficiency provided by technology.

Over the next three years, the majority of asset managers do not plan to change the allocation of functions outsourced or internalized, except for FinTech providers...

Percentage of asset managers who are not planning to outsource or internalize from a service provider in the next three years

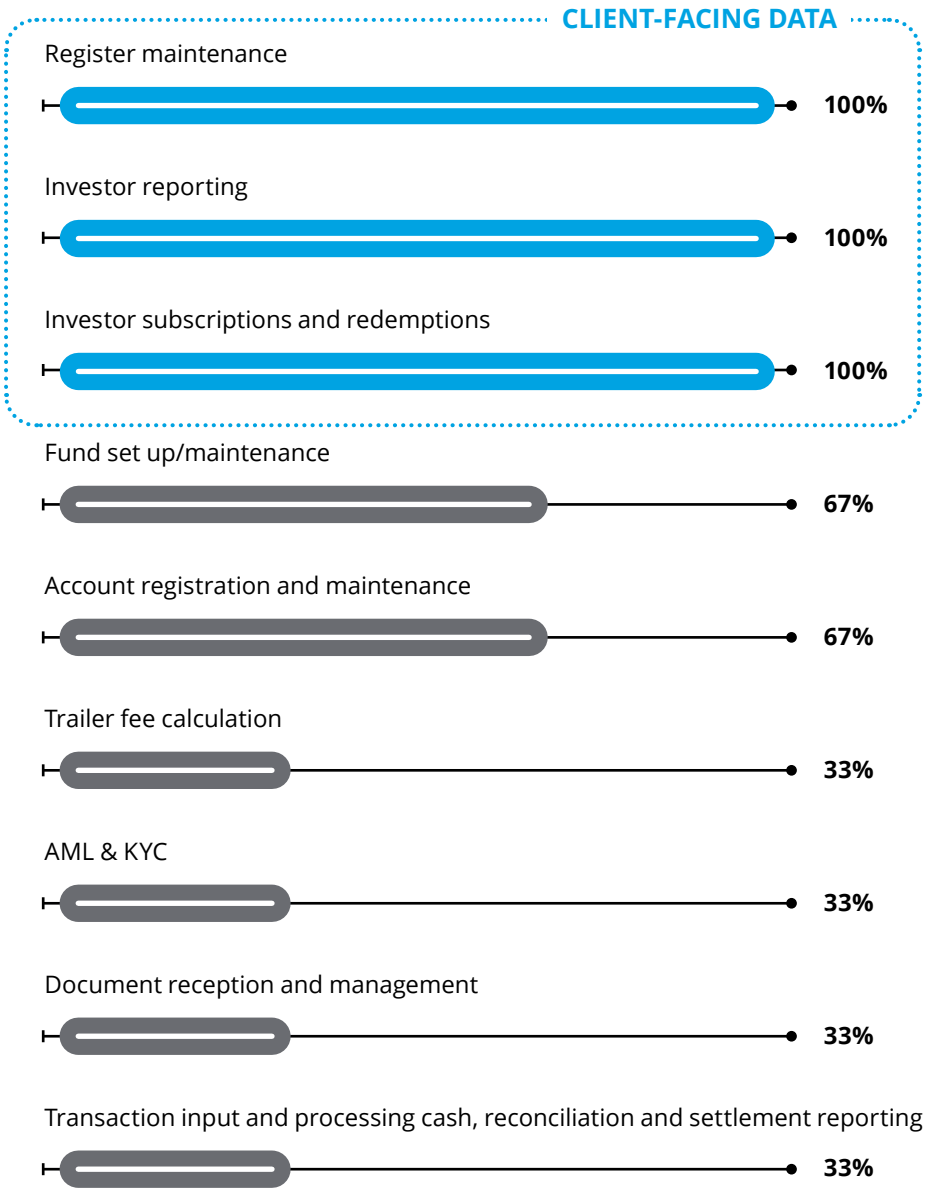


Source: Deloitte 2019 Asset Management Survey



...however, if they had the appropriate capabilities, asset managers would consider internalizing register maintenance, investor reporting, and investor subscriptions and redemptions.

Percentage of insourced investor service activities if appropriate technological capabilities were in place



As of today, asset managers do not expect to re-insource the services they have outsourced to their asset servicers such as transfer agency, central administration, valuation, or depositary bank. They would only consider outsourcing some services to FinTech providers to avoid developing digital services from scratch.

However, due to the low level of satisfaction regarding asset servicers' digital capabilities, all interviewees intend to use technology to re-insource some activities which have been previously outsourced to asset services.

The activities asset managers intend to internalize are client-facing ones such as register maintenance or client reporting, allowing them to collect data about investors. This trend represents a major threat for asset servicers who need to rethink how they operate to take advantage of the potential presented by technology and in order to survive. It is time for them to conduct a steep and fast turn to avoid being overwhelmed by asset managers or industry disruptors who have understood that technology is the new gold.

Source: Deloitte 2019 Asset Management Survey

CONSIDER TO RE-INSOURCE ACTIVITIES THANKS TO TECHNOLOGY

Asset managers intend to increase their budget in technology to promote digital transformation, hire tech-friendly talents, and move data into the cloud.

As technology will be the main driver for industry growth...

Factors impacting the asset management value chain the most within the next three years

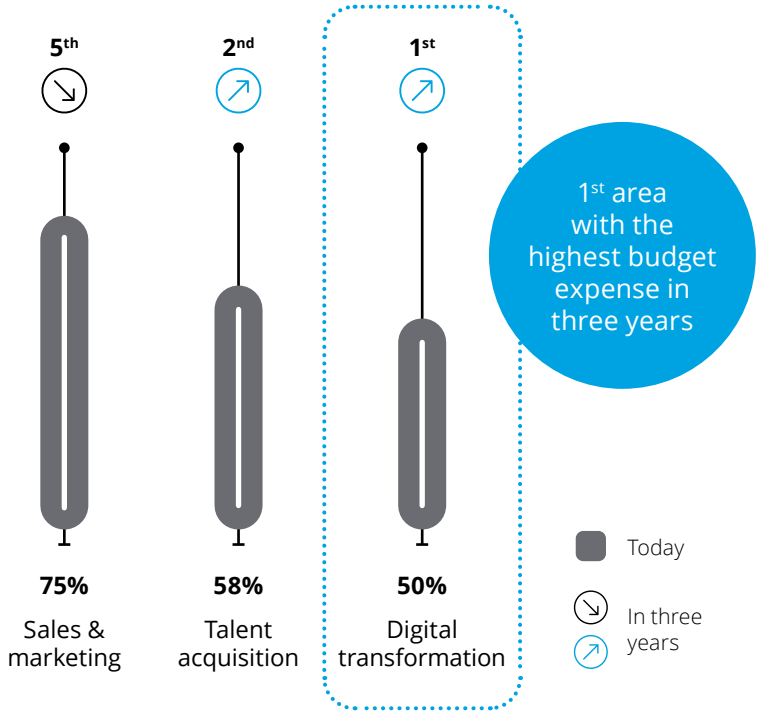
Technology

Regulations

People

...digital transformation, including talent acquisition for tech-friendly profiles, will be at the center of asset managers' expenses.

Ranking of top three areas with the highest budget expense—today and within three years



80% of asset managers intend to **move data or other activities to cloud services** in the near future.

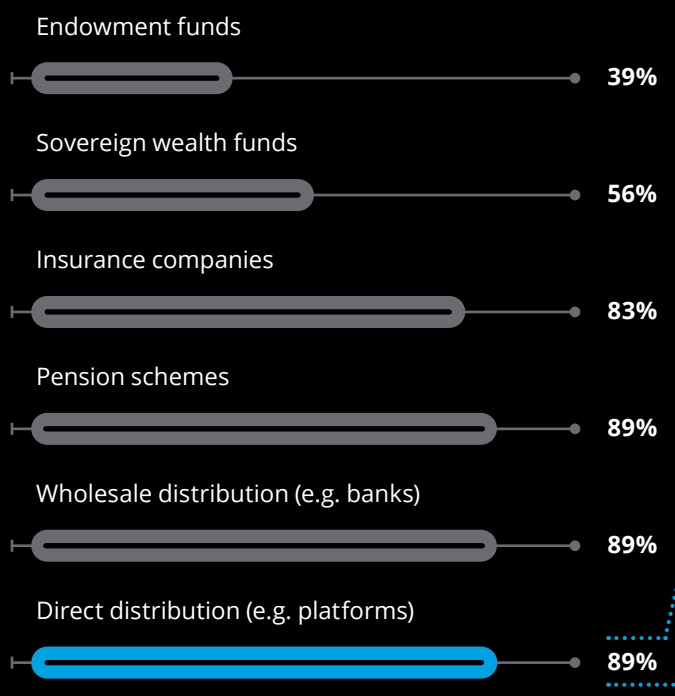
Source: Deloitte 2019 Asset Management Survey

TAKE THE DIRECT DISTRIBUTION PATH

Asset managers are also increasing their direct distribution sales to access investors' data and provide tailor-made solutions, thus bypassing distributors and TA roles as data providers.

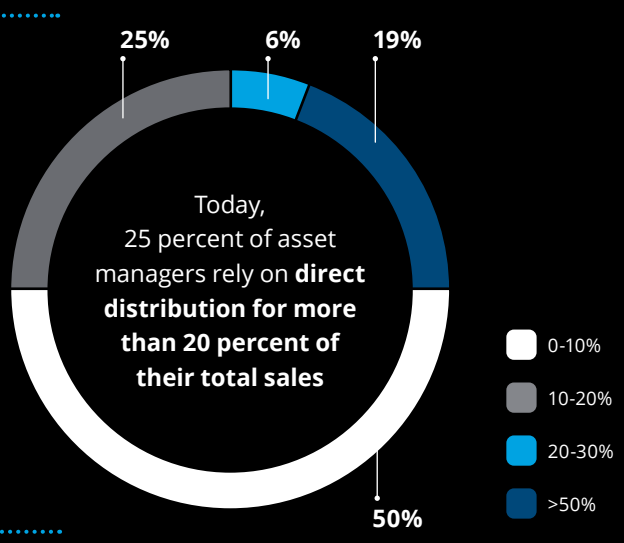
Nearly all asset managers are already relying on direct distribution...

Percentage of asset managers who rely on the various distribution channels today



...however, the proportion of sales through this channel remains limited. Nevertheless, this proportion is expected to increase significantly in the next three years.

Percentage of sales distributed through direct distribution today



1/3 of asset managers are likely to **increase their proportion of direct sales in the next three years.**

Source: Deloitte 2019 Asset Management Survey

Notes

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