Profitable growth has become the primary driver of an asset manager’s franchise value but it remains elusive. Without dramatic changes to revenues, costs or both, one-quarter of asset managers still risk becoming unprofitable by 2028. Annually between 2014 and 2017:

- Only 30% of firms benefited from profitable growth, with the median peer enjoying 4.6% organic growth, 12% revenue accretion and 7% cost expansion
- Roughly 35% of firms engaged in cost cutting to no avail: the median peer could only shrink costs 0.4%, while revenue plummeted 6% and assets shrank 3% through redemptions
- The remaining 35% are slowly melting while searching for growth: the median peer saw no organic growth, only 7% annual revenue growth, and annual cost expansion of 8%

Many industry-accepted best practices—investments quality, customer satisfaction and alignment across stakeholders—are now only table stakes. Profitable growth firms are developing four competitive advantages:

- Higher-demand investment strategies, supported by strong product management and development
- Strong pricing policies, reflected in premium fees, greater contribution margins, or both
- Customized client experiences, built with proprietary data and reinforced by brand
- Strategic use of technology, supporting R&D and efficiency initiatives

As industry leadership transitions—75% of asset management CEOs are retiring or just taking the helm—creating profitable growth in asset management requires executive and managerial skills. Tomorrow’s asset management leaders, like counterparts in other industries, must become more adept at:

- Creating new success metrics for both planning and incentives
- Making clear, well-articulated strategic choices that define a case for change
- Allocating resources in budgets and balance sheets
- Modernizing the operating model across governance, brand, data and technology
- Managing cultural evolution, especially regarding non-traditional talent recruitment
- Driving change emphasizing more agile decision-making and project execution
Casey Quirk, a practice of Deloitte Consulting, is the largest management consultant in the world focused exclusively on strategy advice to asset and wealth managers. Our global team combines unparalleled industry strategy and implementation experience, proprietary research, and proven solutions frameworks to deliver value in a rapidly evolving environment. Our core consulting assignments include broad business strategy reviews, investment positioning and strategy, market opportunity evaluations, organizational design, ownership and incentive structuring, transaction due diligence, and post-merger integration. In conjunction with Deloitte, Casey Quirk offers the most comprehensive end-to-end consulting solution in the industry.

Table of Contents

Introduction ................................................ 3
Challenges persist ................................. 4
Winners separate from the pack .......... 6
Reinvesting in competitive advantage ................................................................. 9
New leadership skills ....................... 16

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Introduction

After several years of benign capital markets fueled by a secular reduction of interest rates worldwide—culminating in post-crisis quantitative easing—the asset management industry faces a new, and more challenging, future. New customer needs and market structures will force asset managers to adapt their value propositions and business models in order to remain vibrant and valuable. Those who cannot—and in an oversupplied marketplace, there are many such firms—likely will peak in terms of franchise value and steadily, if slowly, shrink in terms of size, profitability and influence. Questions regarding this industrywide transition no longer focus on why or when, but how: what new competitive advantages are required to win, and what is the best way for complex asset management firms to fund and execute these difficult transitions?

This white paper explores the root causes and necessary elements of effectively transforming today’s asset managers into tomorrow’s market leaders: growing, valuable franchises that attract clients and shareholders. There are four primary conclusions:

• **Challenges persist in the operating environment:** market appreciation has masked secular trends that continue to erode the economics of traditional asset management businesses, built on outmoded value propositions.

• **A shrinking number of winners keep separating from the pack:** firms able to achieve profitable growth—a combination of higher profits and organic expansion, often catalyzed by dramatic reinvestment in the enterprise—are flourishing.

• **Reinvesting in competitive advantage pays off:** profitable growth firms are buying or building specific capabilities that amplify revenues, generate efficiencies, or both.

• **Executing these changes will require new leadership skills:** more traditional managerial techniques used in many other industries can help a new generation of asset management executives pull off complex transformations.

Data cited in this paper and its exhibits, unless otherwise indicated, comes from Casey Quirk’s annual Performance Intelligence financial benchmarking survey of asset managers throughout the United States and Europe, jointly conducted with compensation consultants at McLagan, a unit of Aon.
Challenges persist

Strong market growth in 2017 and the first three quarters of 2018 insulated the industry from three intensifying secular headwinds:

- **Organic growth** for the industry outside China is likely to shrink to 1% in 2018, following 2017’s 2.6% expansion. In 2017 the lion’s share of this expansion was driven by HNW and retail investors. Future growth will also be reliant on these segments, as institutional asset owners have become focused on income provision and may no longer be reliable sources of new growth going forward.

**Exhibit 1: Asset Management Industry Expansion of Assets Under Management, 2013-18E**

<table>
<thead>
<tr>
<th>Year</th>
<th>AUM Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>23%</td>
</tr>
<tr>
<td>2014</td>
<td>9%</td>
</tr>
<tr>
<td>2015</td>
<td>2%</td>
</tr>
<tr>
<td>2016</td>
<td>6%</td>
</tr>
<tr>
<td>2017</td>
<td>12%</td>
</tr>
<tr>
<td>2018E</td>
<td>7%</td>
</tr>
</tbody>
</table>

Note: Excludes China  
Source: Casey Quirk/McLagan Performance Intelligence, Casey Quirk Global Demand Model, public firm filings

- **Fee pressure** continues to accelerate, with year-over-year compression in fees approaching or now passing 5% in most asset classes and segments. A shifting asset mix explains only part of this trend. The primary driver has been pricing pressure in traditional equity and core fixed income segments.
Exhibit 2: Asset Management Industry Fee Ratios, 2013-17

Global Implied Industry Fees
bps, 2013-2017

Change in Implied Industry Fees
By Channel and Asset Class, 2013-2017

-3.4%
-4.6%

Source: Casey Quirk/McLagan Performance Intelligence

- **Total costs** rose 8% in 2017, with fixed (non-compensation) costs comprising an unprecedented 4% of this amount. Previously, cost growth was focused on personnel-linked expenses. But expense growth now has shifted to functions impacted by increased regulation or (more often) reliant on data, process and technology.

Exhibit 3: Asset Management Industry Cost and Revenue Growth, 2013-17
Winners separate from the pack

Even with these fundamental pressures, overall industry economics improved in 2017, with margins rising from a year earlier to reach a median of 34%.

**Exhibit 4: Asset Management Industry Operating Margins Worldwide, 2013-17**

![Asset Management Industry Operating Margins Worldwide, 2013-17](image)

Source: Casey Quirk/McLagan Performance Intelligence, public firm filings

But bullish capital markets drove most of the market expansion. Viewed against a longer and more representative three-year view, most firms continued to see deteriorating economics. A full 36% of asset managers experienced falling margins despite rising revenues during 2014-17, while winners were able to further cement their lead. Such data proves the traditional industry focus on improving the top line is necessary but insufficient for long-term value creation.

**Exhibit 5: Asset Managers by Changes in Revenue and Profit, 2014-17 (% annualized)**

![Asset Managers by Changes in Revenue and Profit, 2014-17 (% annualized)](image)

Source: Casey Quirk/McLagan Performance Intelligence
A shrinking number of asset managers are able to realize **profitable growth**: the ability to reinvest in the business and gather new money while simultaneously expanding revenues faster than costs. In recent years, shareholders in asset managers increasingly have prized profitable growth—a long-term defense against the secular headwinds described earlier—more than investment performance or overall size, formerly key metrics now less often used to value one asset manager over another.

**Exhibit 6: Asset Management Industry Metrics and Correlations to Forward P/E Ratios, 2010-17**

<table>
<thead>
<tr>
<th>Metric</th>
<th>2010</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>3Y Fund Family Rank</td>
<td>0.57</td>
<td></td>
</tr>
<tr>
<td>EBITDA Margin</td>
<td>0.39</td>
<td>0.49</td>
</tr>
<tr>
<td>TEV / EBITDA Multiple</td>
<td>0.09</td>
<td>0.30</td>
</tr>
<tr>
<td>3Y AUM CAGR</td>
<td>0.06</td>
<td></td>
</tr>
<tr>
<td>Organic Growth</td>
<td></td>
<td>0.24</td>
</tr>
<tr>
<td>Implied Average Fee</td>
<td>0.05</td>
<td>0.12</td>
</tr>
<tr>
<td>Organic Growth</td>
<td>-0.05</td>
<td>-0.18</td>
</tr>
<tr>
<td>3Y AUM CAGR</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Sample of U.S. and European publicly traded asset managers
Sources: Capital IQ, Morningstar, eVestment, Casey Quirk Analysis

During the three years from 2014-2017, managers traveled one of three distinct paths:

- **Only 30%** of firms **realized profitable growth**, actively reinvesting in the business to achieve competitive advantage yet still growing revenue 5% faster per year than costs. These firms also saw 4.6% organic growth over the period. Profitable growth has become more elusive than in earlier periods: between 2011 and 2014, nearly half of the industry’s competitors could simultaneously grow new business and profits.
**Exhibit 7: Asset Management Firms by Growth Characteristics, 2014-17**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable Growth</td>
<td>4.6%</td>
<td>12.2%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Searching for Growth</td>
<td>0.0%</td>
<td>7.0%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Cost Cutting</td>
<td>(2.7%)</td>
<td>(6.1%)</td>
<td>(0.4%)</td>
</tr>
</tbody>
</table>

*Note: Profitable growth firms reinvest in fixed costs, have positive organic growth and realize margin expansion. Source: Casey Quirk/McLagan Performance Intelligence*

- **35% of firms engaged in cost cutting** to no avail: the median firm in this group was able to reduce total costs by 0.4% over the period but simultaneously suffered revenue decay, with earnings plummeting 6% and overall assets shrinking 3% as a result of investor-driven redemptions. Very few managers were able to cut costs and improve economics, indicating that revenue growth is still a prerequisite for improving margins.

- **The remaining 35% of firms are seeing economics slowly melt while they search for growth:** within this group, the median peer saw no organic growth, and costs rose by 1% per year more than revenues. All firms in this group faced rising costs across their business, with some deliberately sacrificing profits in order to fund strategic reinvestments.

Without dramatic change, the challenging operating environment will push many to the brink of unprofitability. Even if capital markets steadily rise 5% per annum and fee compression rates remain static instead of continuing to accelerate, up to one-quarter of asset managers could see their margins sink below 5%, or tip into losses, before 2028.

Conclusions from the three-year analysis make a clear point: firms that effectively reinvest in their businesses benefit from both organic growth and margin expansion, and therefore see increased franchise value. In what competencies do these firms invest, and how do they execute those new investments?
Reinvesting in competitive advantage

In a more benign operating environment, asset managers succeeded by meeting best practices: maintaining a culture of investment quality, satisfying clients by outperforming benchmarks, and using incentives to align stakeholders with strategy. In today’s marketplace, however, an oversupply of asset managers, coupled with the shift of customer needs from relative outperformance to more certain cash flows, means these best practices are necessary but insufficient.

Profitable growth firms have reinvested profits into true competitive advantages: capabilities that raise fixed costs, but also improve organic growth and enhance revenues. Four such competitive advantages appear common across profitable growth firms. All are strategic in nature, and require leaders in an asset management firm to prioritize efforts and resources on their most competitive skills.

1. Higher-demand investment strategies

Retail and institutional investor demands have been changing for most of the past decade, and profitable growth firms have anticipated this shift in appetites and reacted in two ways:

· They have strengthened product development functions. Profitable growth firms have transformed product management groups, traditionally focused on product packaging and regulation, into more strategic product development groups. These teams measure future buyer demand, identify priority strategies to add, canvass the marketplace for new talent, and build plans to sunset legacy, outmoded capabilities. Product development teams at profitable growth firms often are more willing to embrace new technologies, data and analytics in their investment processes. Well-built product development groups are cross-functional and have leaders that report directly to the CEO, not to either investment or distribution leadership.

· They have aggressively repositioned product arrays. Profitable growth firms are more willing to use innovative and inorganic means to secure talent required to support more highly-demanded products. Their chief investment officers have been more willing to embrace change, regardless of track records in legacy products, and more open to sunsetting outmoded investment strategies. Profitable growth firms also have strengthened corporate development teams to help smartly acquire teams and boutiques with new capabilities they need.

Buyer appetite continues to reflect an evolving market structure, an ongoing hunt for yield, insulation from volatility, and cost sensitivity—secular trends that comprise the shift to outcomes. Asset classes with forecast high demand currently include established private equity and hedge fund providers, longer-dated real estate and infrastructure offers, and private debt. Investors also seek more exposure to passive strategies, quantitative
techniques and smart beta. European network distributors are buying more multi-asset strategies for their large distribution systems.

Profitable growth firms already have accommodated this changing demand. Nearly four-fifths of their assets reside in capabilities that will be net recipients of new investor money during the next three years. Conversely, their peers are more poorly positioned against demand: roughly half their assets sit in investment strategies expected to lose money from reallocation between now and 2021.

**Exhibit 8: Asset Management Industry Key Product and Pricing Metrics, 2017**

<table>
<thead>
<tr>
<th>Current AUM by Projected Investment Strategy Growth</th>
<th>Core Investment Strategy¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 Firm AUM, 2018 – 2021E Organic Growth</td>
<td>Revenue %</td>
</tr>
<tr>
<td>Profitable Growth</td>
<td>20%</td>
</tr>
<tr>
<td>Searching for Growth</td>
<td>12%</td>
</tr>
<tr>
<td>Cost Cutting</td>
<td>10%</td>
</tr>
</tbody>
</table>

Note: ¹ Core investment strategy defined as a firm’s dominant asset-class level revenue
Source: Casey Quirk/McLagan Performance Intelligence, Casey Quirk Global Demand Model

2. *Strong pricing policies*

Profitable growth firms not only have been able to grow more quickly, they also have been able to maintain better economics for their offers to an increasingly, if not uniformly, cost-sensitive client base. As depicted in the previous exhibit, for their largest investment strategy, profitable growth firms can charge fee ratios 20% higher than the median asset manager can. Firms searching for growth are maintaining large core capabilities through moderate discounting, although some have stabilized their economics by achieving scale efficiencies in flagship products and awarding clients the savings. Firms that have only cut costs have found themselves unable to achieve size in core offers, intensifying pressure to grow assets through slashing fees.
Some of the advantages supporting stronger fee ratios for profitable growth firms stem from their product strategies, but others reflect broader perspectives about pricing:

- **Capacity control:** most higher-demand investment strategies have natural capacity limits, particularly in private markets. This has strengthened the hand of profitable growth firms when setting fees and locking clients into longer-dated vehicles.

- **Few substitutes:** most higher-demand asset classes lack lower-cost passive counterparts, limiting price competition.

- **Segmentation strategies:** profitable growth firms increasingly avoid highly cost-sensitive clients, and aggressively negotiate distribution tolls with large intermediaries.

- **Governance:** profitable growth firms maintain clear protocols around pricing philosophy designed to limit revenue leakage, complemented by robust client and cost discussions to inform discounts.

Increasingly, profitable growth firms will likely explore alternatives to ad valorem pricing, including performance-based fees and tolls that encourage longer client relationships—trading short-term revenues for less volatile longer-term income and more closely aligning investor charges with added value.

### 3. Customized client experience

Traditionally, a sizable portion of the industry’s profitability has stemmed from an increasingly outmoded product-oriented distribution model. Asset managers have standardized products for wholesale distribution; they have viewed, positioned and incentivized distribution as transactions, not relationships; and sales and service functions of clients and intermediaries have operated separately.

As buyer preferences change and the marketplace structure shifts, this approach is no longer as effective, diluting sales productivity. Increasingly, a distribution approach that supports greater customization—and, potentially, more visibility of the final consumer—will define industry leaders. Trends encouraging this include:

- **Less homogenous buyers,** even within a legacy channel-oriented view of the industry, as the growing focus on outcomes highlights a buyer’s unique needs and requirements

- **Intermediary consolidation,** where large distributors aim to cut through a glut of similar-looking providers by seeking more exclusive, value-added relationships with asset managers

- **More complex portfolios,** across both retail and institutional investors, requiring more insights that position a particular product’s advantages in terms of the client’s desired outcome
• **Higher service expectations**, a common theme across distribution strategies in all industries, as buyers expect a client experience similar to how they now buy groceries, transportation and media: simple, digital and (to the appropriate extent) mobile

Profitable growth firms, anticipating this widening shift in client expectations, are developing new approaches to asset management distribution that more closely resemble service-oriented businesses, rather than the manufacturing mindset of the legacy industrial model. Innovation has taken multiple forms, but the new distribution strategies have a few common denominators:

• **Greater collection and analysis of client and third-party data**, used to segment clients more finely and create more customized offers

• **IP-driven marketing** that not only reinforces brand but provides thought leadership and other insights to intermediaries and clients

• **A distribution organizational model that builds relationships** by closely aligning marketing, sales and service processes, often through the use of client journey mapping

• **Enterprise value-added services**: tools and expertise from across the asset manager—including risk management analytics, asset allocation advice, custom data analytics or other knowledge—to better inform asset owner, intermediary, or end-user needs

• **More customized delivery of capabilities**, including tailored client reporting, client- or intermediary-specific engagement models, and portfolios designed exclusively for large clients or intermediaries

As a result, profitable growth firms are investing more across all elements of the distribution operating model:

• **People**: a greater number of specialists, marketing officers, data scientists, and relationship managers to supplement traditional sales and service personnel within institutional distribution forces, wholesaler groups and internal sales desks

• **Processes**: retooling organizational models—and incentives—to encourage team-based approaches to distribution, as well as innovating approaches at both the intermediary and end-user levels

• **Most of all, technology**: applications and systems that digitize most elements of relationship management processes, including data collection and analytics, marketing, client onboarding, reporting, and customized engagement

Profitable growth firms invest significantly more than their peers in distribution-related technologies, both proprietary and third-party. Firms that use more digital technology to supplement client engagement on average tend to grow twice as fast and enjoy greater sales productivity.
4. **Strategic use of technology**

Perhaps the greatest differentiator between profitable growth firms and their peers has been their investment in, and use of, technology. While technology has driven innovation and change in all industries, most asset managers have been late adopters. In many cases, high margins masked the impact of inefficiency, the speed and frequency of serial acquisitions left multiple legacy systems in place, and compensation budgets heavily favored front-office talent at the expense of technology teams.

Profitable growth firms, however, have realized that technology is a critical component of their future economics: providing them the ability to grow more quickly and efficiently than peers. Increasingly it extends across all functions of an asset manager:

- **Investments:** automation, alternative data and artificial intelligence all will play a significant role as firms seek to provide their investment professionals with new tools and platforms that can help them redefine asset management propositions.

- **Distribution:** as described earlier, a large number of technologies will help asset managers mass-customize their engagement models, and potentially deliver more services directly to end users, without dramatic reductions in efficiencies.

- **Middle and back office:** more efficient and automated approaches to trade execution can not only reduce costs (and provide more headroom within pricing strategies) but also improve data quality, provide real-time access, accelerate processing and better support portfolio management across more complicated investment strategies.
• **Data:** probably the least optimized resource across most asset management firms, many businesses fail to harness it at an enterprise level through effective use of master data management.

Approaches to technology investment and innovation vary across profitable growth firms, but there are emerging common characteristics across the most successful competitors:

• **They spend more on technology**, in relative and absolute terms. A majority of profitable growth firms spend more than 9% of revenues on technology. More importantly, profitable growth firms have increased their technology spending levels three times as fast as peers.


![Technology Spend Chart]

Sources: Casey Quirk/McLagan Performance Intelligence

• **They develop proprietary technology**, or at least proprietary uses of third-party technology and data. Profitable growth firms develop tools that embed aspects of their intellectual property, or are designed specifically to support their own IP. Examples include risk management systems, portfolio management tools, advanced investment analytics, and distribution support technology backing wholesalers or connected directly with consumers.

• **They build technology for the front office.** Profitable growth firms invest in technology as competitive advantage. Other firms may budget as much as profitable growth firms, but in many cases are spending to clean up and integrate legacy systems, rather than innovate portfolios or support client engagement.
• **They seek technology-oriented talent**, not just in terms of chief technology officers, but also in the form of marketing officers, portfolio managers and distribution leaders who are comfortable with technology. They also seek front-office executives highly comfortable with new technologies.

• **Finally, they outsource commodity technology.** Profitable growth firms are shedding fixed costs related to non-differentiated technology functions, usually linked to fund administration, fund accounting, transfer agency, and some securities investment operations. Here, utility third-party vendors in the marketplace can provide efficiency through their scale. Profitable growth firms spend 22% more than their peers on outsourced technology vendors for commodity functions—and have more than 20% lower operations-related costs as a result, mostly achieved by reducing headcount. This frees up budget to reinvest in proprietary technology that creates genuine competitive advantages.

![Exhibit 11: Asset Manager Outsourcing Cost Metrics, 2017](image)

Many asset management firms are adopting technology strategies, but leaders at profitable growth firms realize technology is a central pillar to their entire enterprise strategy—a transverse requirement supporting all core competitive advantages. A similar epiphany is currently transforming most industries worldwide.
New leadership skills

Asset management firms can adopt profitable growth strategies by identifying the key competitive advantages in which they want to further invest. That is only the first step: they must then fund and execute the changes required to install those new capabilities and efficiencies. Both of those steps are sizable and highly transformative, and therefore demand leadership.

The asset management industry, however, is in the midst of a leadership transition that has hallmarks of a generational shift. More than half the chief executive officers of large asset managers worldwide only took the helm of their companies in 2014 or later. Another quarter of sizable asset managers also could transition leadership in the next few years, as their current CEOs approach retirement age.

**Exhibit 12: Largest 50 Asset Managers by CEO Tenure, 2018**

<table>
<thead>
<tr>
<th>CEOs (#)</th>
<th>Average Tenure (years)</th>
<th>Average Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nearing Retirement</td>
<td>10</td>
<td>63</td>
</tr>
<tr>
<td>Next Generation</td>
<td>2</td>
<td>53</td>
</tr>
<tr>
<td>Rest of Managers</td>
<td>9</td>
<td>53</td>
</tr>
</tbody>
</table>

Notes: “Nearing Retirement” indicates current age above 60; “Next Generation” maximum tenure four years. Source: Casey Quirk Analysis

New CEOs may not have the experience of their more tenured peers, but they may be well-positioned to reinvent their firms. Most will be able to take more career risk, given that more of their total compensation not only lies ahead of them, but also depends on effectively navigating tomorrow’s more challenging operating environment. They can more closely align their success—and their incentives—with the large-scale nature of multi-year transformation.

Long-term incentives may help, but will not be sufficient. Historically, asset management enjoyed lucrative economics and muted competition, due to high organic growth rates. Given many asset managers were independent partnerships where talent owned the enterprise, profits were viewed as compensation. In such an environment, leadership required a set of expert skills around managing investment professionals, innovating product, and engaging with clients.
Tomorrow's asset managers, however, face different challenges. A less benign operating environment has created fierce competition for clients and talent. More asset management firms today have, in one form or another, external shareholders who view earnings as cash flows they need for other purposes, and therefore have less patience regarding their volatility. The leadership qualities required to lead an asset manager are more industrial than ever before, and increasingly reflect the traditional attributes of CEOs in other industries. They include:

- **Creating new success metrics** for strategic planning and incentives. Profitable growth firms focus on goals linked to profit and growth, rather than legacy metrics such as AUM and investment performance. Measuring progress as an enterprise is a critical cultural shift required to effectively change an asset management firm.
• **Making clear, well-articulated choices** that define change. Profitable growth requires identifying clear competitive advantages. A robust strategy function designed to support decisions about where an asset manager is and can be competitive—and more importantly, where it is not and unlikely to ever be—is important. Asset managers can no longer be managed like portfolios, with some businesses flourishing and subsidizing subpar margins or losses in others. Profitable growth relies on all business lines contributing to the enterprise.

• **Allocating resources** in budgets and balance sheets. The CFO role in an asset management firm has become more important. Funding new initiatives will require shifts within annual spending, harvesting profits from legacy business lines to incubate new ones. It also will require efficient capital accumulation and deployment to fund multi-year reinvestment initiatives—new skills within a traditionally capital-light industry.

• **Modernizing the operating model** across governance, brand, data and technology. Most asset managers remain a jumble of legacy brands, corporate structures, systems and information. Streamlining all of this—leveraging automation, data science, marketing resources and simplification initiatives—not only finds additional funds for securing new competitive advantages, but helps support a clear narrative about change and focus to clients and shareholders.

• **Managing cultural evolution**, especially as non-traditional talent recruitment rises. Star asset managers and salespeople drove much of the industry’s early expansion, and were well compensated. Success in tomorrow’s industry will require equally rewarding new types of talent: marketing, technology, finance and human resources.

• **Driving change** with agile decision-making and project execution. The amount of change required to transform most asset managers into profitable growth firms—measured both in terms of reinvested capital and management bandwidth—is often larger than most leaders initially realize. Successful asset management CEOs will find ways to sequence transformation initiatives, use pilot projects to ensure quick wins that motivate further change, find the right balance between consensus and action, and reward successful execution.

Going forward, CEOs of profitable growth firms will still require the culture-carrying industry-specific skills that built the current group of leading asset managers. The skills required to build tomorrow’s leaders, by comparison, will more closely reflect the traditional toolbox CEOs must use in any industry facing disruption and transformation.

Asset management remains a vibrant, lucrative industry. Its current challenges reflect the fact that asset management firms have evolved more slowly than their customers have. The businesses that recognize this and truly invest in the appropriate changes—in strategy, competitive advantage, culture and leadership—will transform themselves into the profitable growth firms that will represent tomorrow’s market leaders.