



Predictions for 2018

Given the margin pressure on the IM industry and the potential for economies of scale inherent in managing money, 2018 could be the year that records the highest average M&A deal value for the IM sector.

With the exponential rise in data availability, and continued processing power increases, 70 percent of new hedge fund launches globally in 2018 will likely include investment processes that are supported by computer models, including AI and machine learning algorithms, as compared with 47 percent in 2015.¹³



Action steps

IM firms can consider the following action points for augmenting their growth strategies.

- Reevaluate the current technology architecture to align with growth plans, because a shift to alternative data and AI may require significantly more storage and processing capabilities.
- Manage the product portfolio to balance the need for product breadth with the firm's capabilities and investor and distributor preferences.
- Firms considering being acquired should also consider mergers with similarly situated firms as a way to achieve scale that may mitigate high-valuation roadblocks.

Investment managers may be best positioned to deliver on these action steps with agile information systems in place. These capabilities can facilitate introduction of new

products, compliance with new regulations, and expansion into new geographic markets. A flexible systems architecture may also provide management with a strong footing during M&A transactions, as integration of target-firm systems can be done more quickly with an advanced architecture.

To support growth efficiently, IM firms should have in place a flexible operating model to comply with changing regulations, manage product offerings, and cover diverse geographies. Based on an Ovum survey (figure 2), management confidence in their systems at US buy-side firms appears to lag slightly behind Asia Pacific countries (APAC) and European peers with respect to regulatory compliance, new asset class introduction, and expansion into new geographies.¹⁴ Especially in the United States, IM firms may have their work cut out for them to rise to the challenges in 2018 to achieve organic and inorganic growth because people, processes, and technology will likely have to improve in unison to achieve the full value of operational model transformation.