

PERSPECTIVES ON THE ASSET MANAGEMENT INDUSTRY

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Three themes are shaping the asset management industry

1 Growing pressure points

- Widening gap between AuM and revenue growth
 - Stubborn cost base and growing regulatory challenge
 - Risk of the cycle turning not embedded in business models
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2 The role of technology and data

- Automation and data & analytics as a critical cost lever
 - AI an arms race but not only scale driven
 - Large long-term impact of technology on workforce
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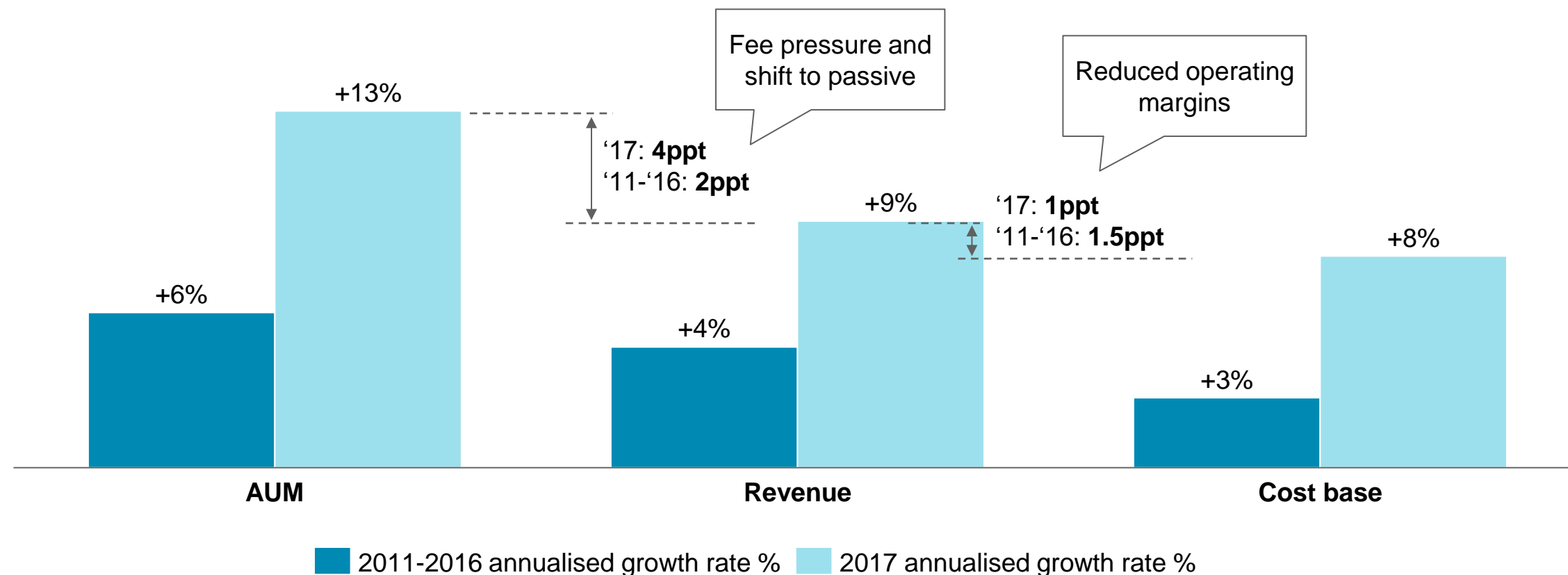
3 The power of scale and scope

- Significant value shifts expected
 - Economies of scale shifting from MBO to distribution and data
 - Ability to expand into Alts a key success factor for traditional AMs
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Two structural concerns: widening gap of AuM vs. revenue growth and a stubborn cost base

Externally managed assets, industry revenues and costs

2011–16 vs 2016–17 growth rates

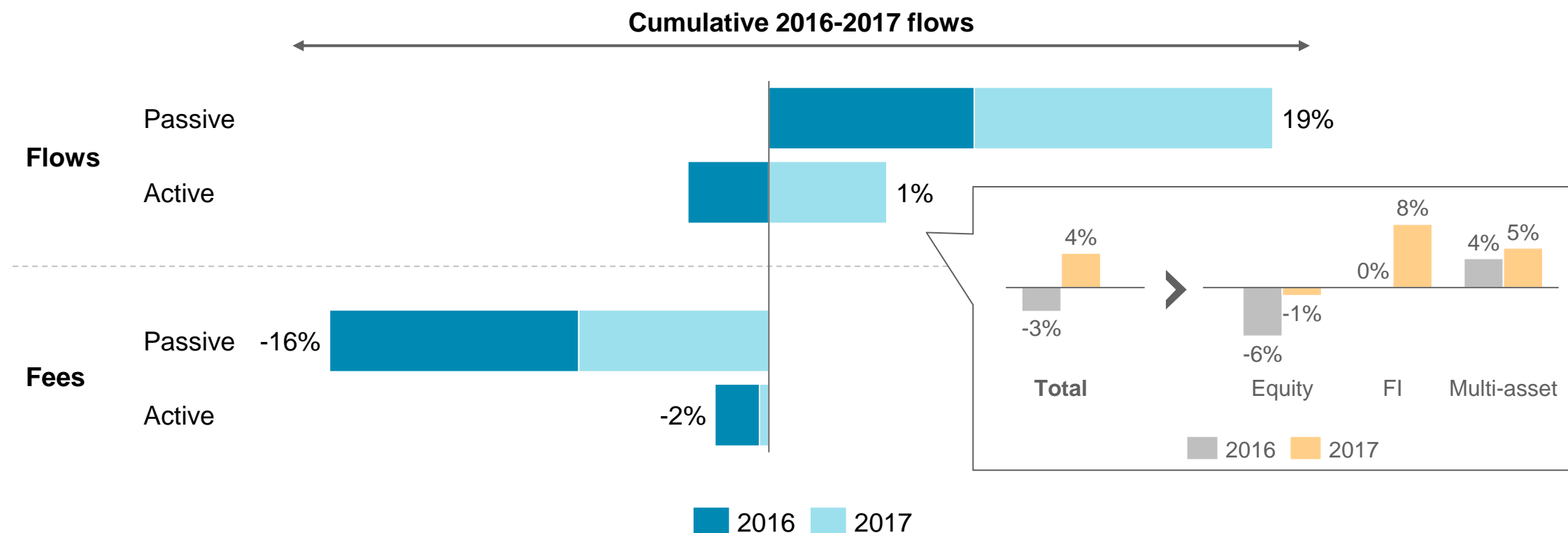


Source: Oliver Wyman analysis

Active funds saw inflows again in 2017 but skews are significant and fee pressure is here to say

AuM flows and fee change

2016, 2017 net flows and fee change



Source: Oliver Wyman analysis

New regulatory areas will increase the cost base

Past: Level playing field reg. for Asset Managers

- **Overarching rules for mutual funds** that are sold predominantly to retail investors with focus on
 - Investment limits and restriction on short selling
 - Concentration limits (e.g. max % invested in illiquid assets, issuer limits, etc.)
 - Limits on borrowing/leverage
- Certain **requirements for solid governance and risk oversight** function

Investment Company Act 1940 (USA)

Undertakings for Collective Investments in Transferable Securities **UCITS** (Europe)

Alternative Investment Fund Managers Directive **AIFMD** (for alternative funds in Europe)

Now: shifting focus towards concrete themes

A

Liquidity

- ECB, FSB and IOSCO indicating AM activities may be caught under the “systemically important” umbrella
- FSB issuing 14 recommendations to address “structural vulnerabilities” from AM, 9 of them on liquidity

B

Market structure and transparency

- MiFID II in Europe as well as Department of Labor (DoL) with aim of increasing investor protection and transparency, strengthening AMs fiduciary duty and enhancing fee transparency for end investors

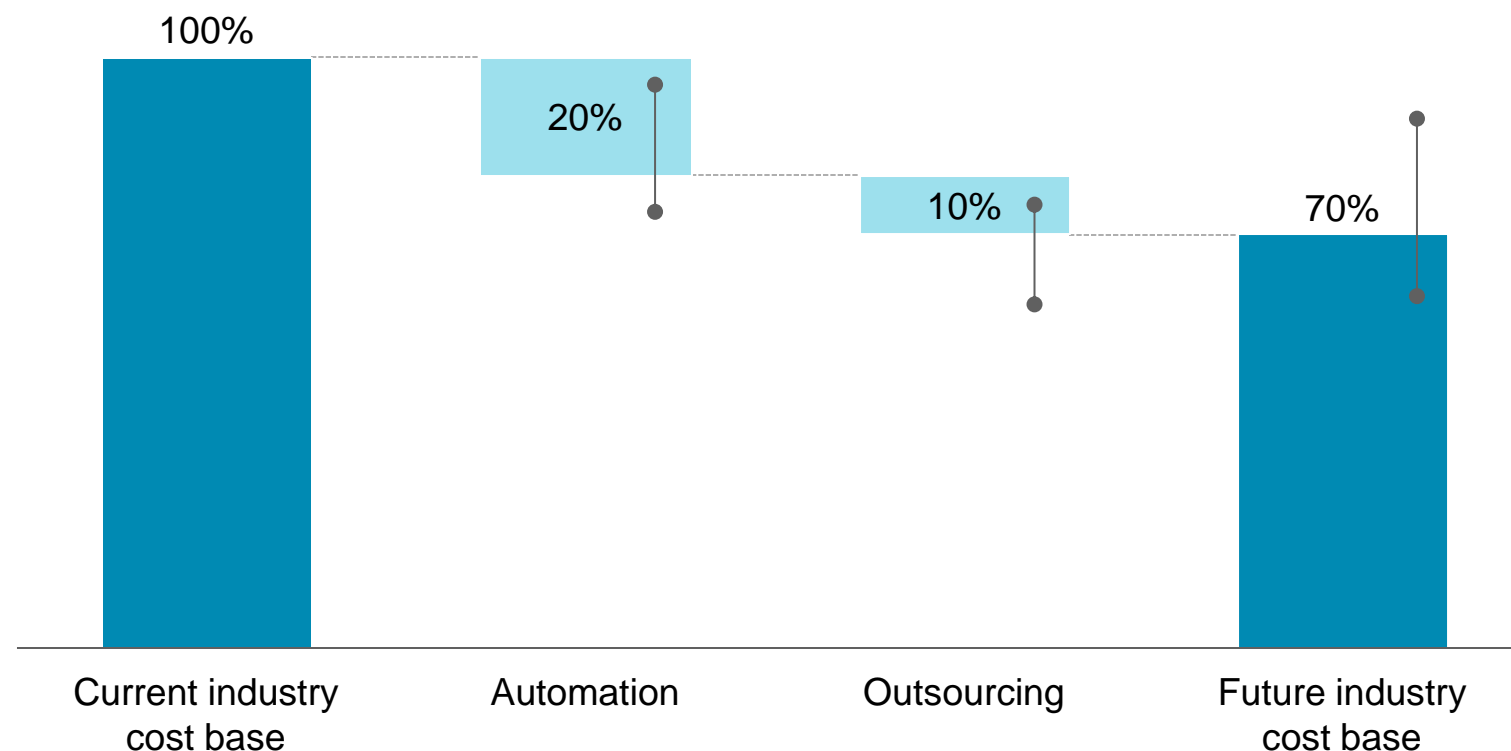
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Governance and conduct

- After significant fines across the banking industry, regulators attention focusing on conduct in AM
- Industry still in at a starting point of proving value-for-money

The industry can save ~30% of costs through automation and outsourcing

Potential cost saving by lever % of total industry cost base

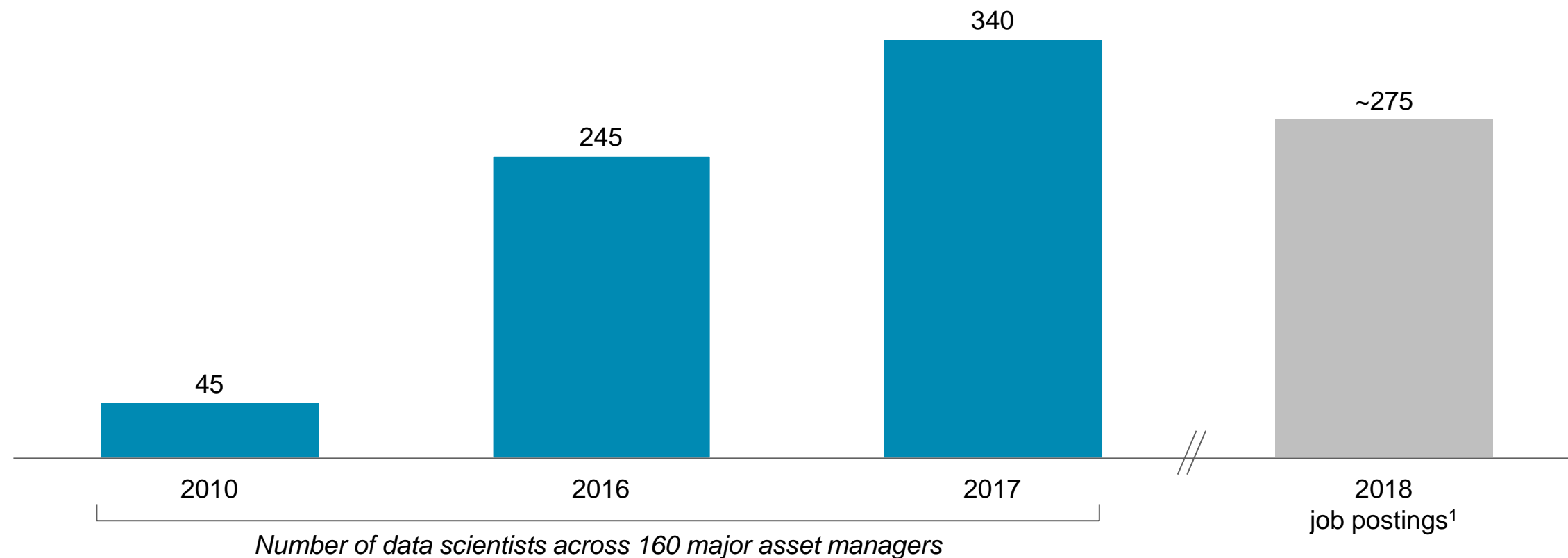


- The biggest potential cost lever is **automation** and better use of data and analytics
- Firms typically spend 10–20% of their cost base on data management
- More radical **outsourcing** can offer significant savings that are as yet unrealised
- We estimate ~40% of processing and administration costs are personnel, despite the high potential for automation

Source: Oliver Wyman analysis





AI and data are starting to shape the industry

Asset manager data analyst/scientist employees and job openings 2010–18, in # of employees & job openings



1. Data scientist and data analyst job postings at major asset managers as of February 2018
Source: AlternativeData.org, LinkUp, Oliver Wyman analysis

It will be an arms race but not all about scale

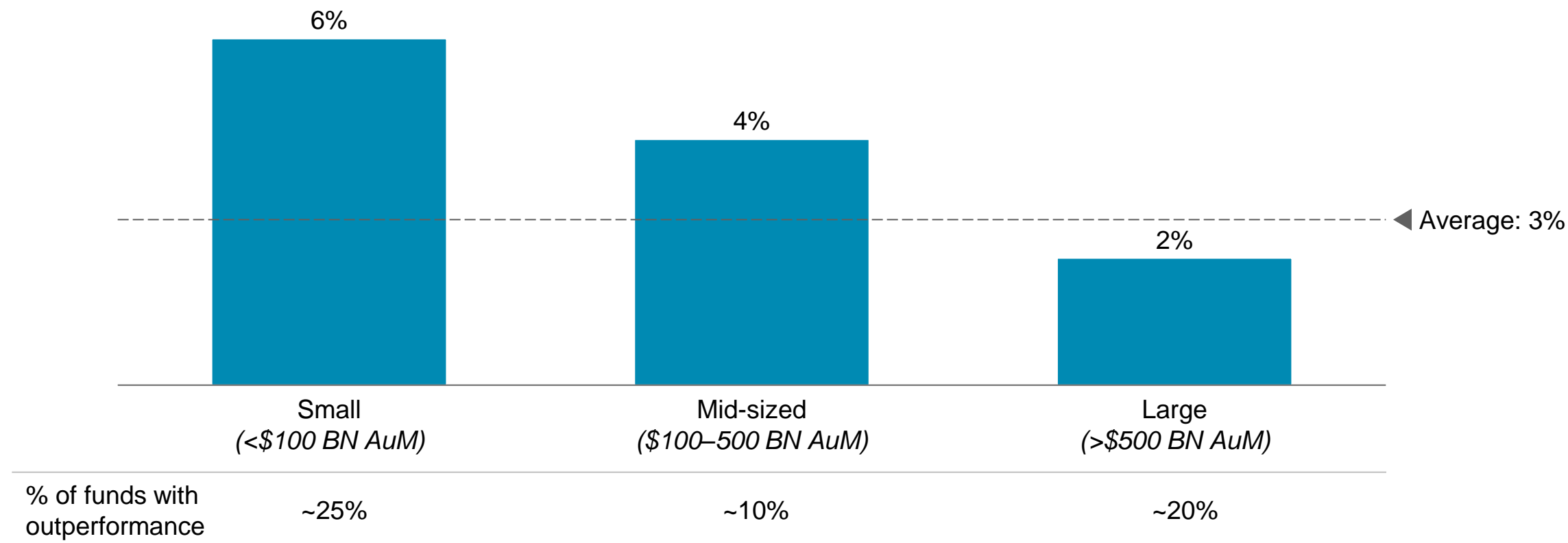
Success factor	Key questions	Importance of scale
Cultural integration	<ul style="list-style-type: none"> • How embedded are data driven insights in the investment process? • What are the KPIs, measurement of success? • How do you attribute alpha? 	
Technical expertise	<ul style="list-style-type: none"> • How to overcome traditional data aggregation challenges? • What is our level of sophistication and access to advanced data analytics? • Are we able to extract unique insights from data? • Do we have rapid feedback loops to test & improve analytical approaches? 	
Financial firepower	<ul style="list-style-type: none"> • Can we afford top talent? • Do we build/source the required support & infrastructure? • Can we access differentiating data sources? 	
Risk management	<ul style="list-style-type: none"> • Have the first and second line of defence adjusted to the new data/AI world? • How do we ensure we are compliant, e.g. with data protection laws or potential intellectual property issues? • Can we always delineate between what is material non-public vs. proprietary data? 	

Source: Oliver Wyman analysis

Outflows skewed to smaller players, indicating economies of scale in distribution













Outflows by active fund manager size

% 2015–17 CAGR outflows, all asset classes



Note: Outperforming funds identified as having overall 2015-17 returns above those of their stated benchmark
Source: Morningstar, Oliver Wyman analysis

Distribution strategies also need to adjust to demographics

	UK Segment	% of Wealth & growth trajectory	Typical life events	Typical financial needs
	Aged 85+	 3%	<ul style="list-style-type: none"> Go into long-term care 	<ul style="list-style-type: none"> Affordable care Estate planning
	Retired 75–84	 15%	<ul style="list-style-type: none"> Downsize house 	<ul style="list-style-type: none"> Affordable care Estate planning
	Retiring 65–74	 30%	<ul style="list-style-type: none"> Spend more time on leisure Decide to formally retire 	<ul style="list-style-type: none"> Sustainable income/drawdown strategy Tax planning Protection
	Pre-retirement 55–64	 32%	<ul style="list-style-type: none"> Decide to reduce hours/semi-retire 	<ul style="list-style-type: none"> Financial plan for retirement Protection
	Peak savers 35–54	 19%	<ul style="list-style-type: none"> Pay off mortgage Children finish education and leave home 	<ul style="list-style-type: none"> Long-term plan to grow investments Protection
	Young professionals 25–34	 1%	<ul style="list-style-type: none"> Pay off debts Purchase house Get married Have children 	<ul style="list-style-type: none"> Mortgage Emergency cash fund Short-term savings

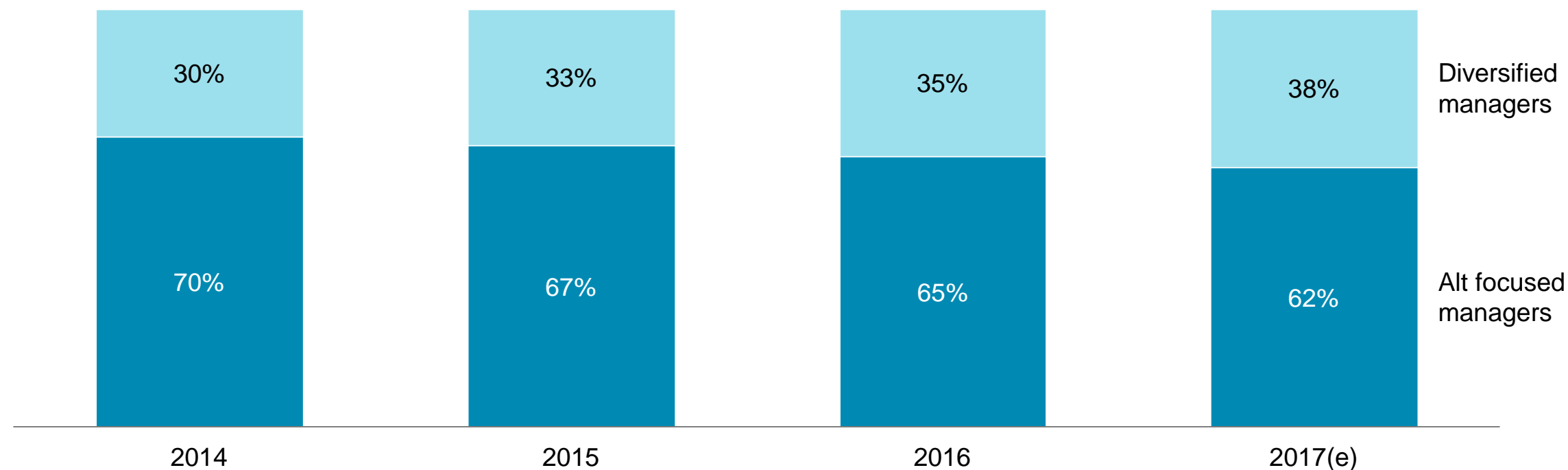
Financial decisions become increasingly complex and important

Source: ONS, IFS, Oliver Wyman analysis

Economies of scope playing out – leaders ahead in terms of building their Alternatives capabilities




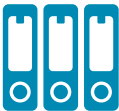

Alternatives AuM distribution by manager type

2014–17(e), in % of total share



Note: Alternative focused managers have more than 50% of their portfolio in alternative strategies.
Source: Towers Watson, Oliver Wyman analysis

In summary these trends will lead to significant value shifts in the industry

Business model	Description	Success factors
 Product providers	<ul style="list-style-type: none"> • Traditional “AM habitat” • Increasingly split across alpha and beta provision 	<ul style="list-style-type: none"> • Scale • Product innovation and management • Distribution access
 Solutions providers	<ul style="list-style-type: none"> • OCIO/fiduciary managers in the Institutional space • Robo and other advisors in the Retail space & hybrid models • Vertically integrated players (WM/AM) in markets like the UK 	<ul style="list-style-type: none"> • Client access • Ability to customize advisory outcomes
 Platform providers	<ul style="list-style-type: none"> • Effective/no frills product distribution platforms (with different levels of integrated advice proposition) • Particularly in Asia frequently combined with other Financial Services propositions 	<ul style="list-style-type: none"> • Technology/data management • Scale • Distribution reach
 Infrastructure/data providers	<ul style="list-style-type: none"> • Traditional and alternative data/market information firms • Traditional OMS/PMS system providers • Custodians/fund admin/MBO outsourcing providers 	<ul style="list-style-type: none"> • New technology/infrastructure • Scale • Ability to utilise APIs
 Capital providers	<ul style="list-style-type: none"> • Insurance companies (e.g. for pension protection products) • Structured notes out of IBs • Some alternative capital involved 	<ul style="list-style-type: none"> • Risk and capital management expertise • Regulatory status

Source: Oliver Wyman analysis

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