



TRENDS OF COMPETITION IN THE ASSET MANAGEMENT INDUSTRY

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Chairman of Arca, Vice Chairman of Prometeia

Round Table

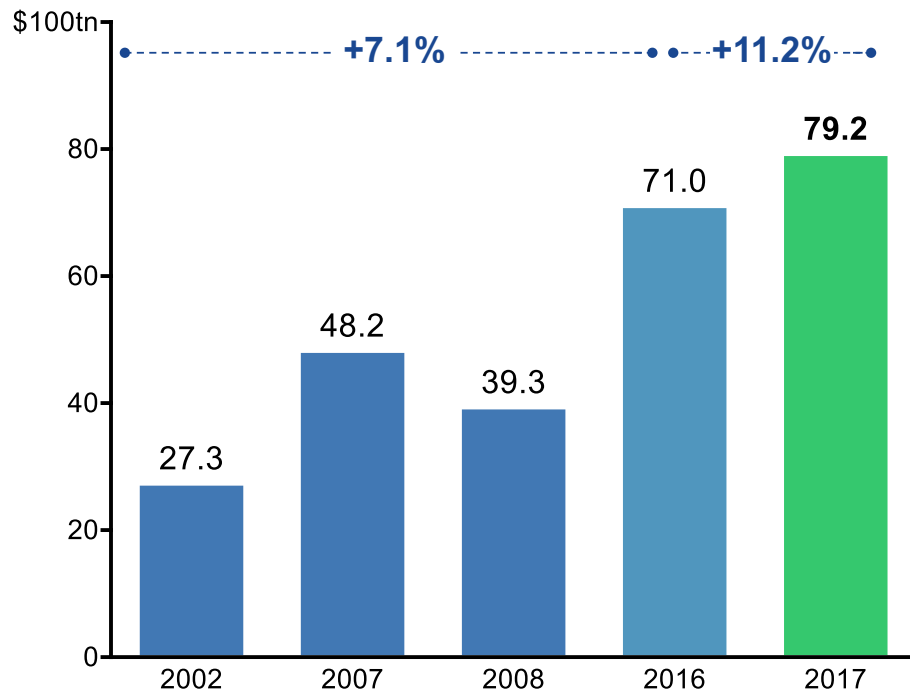
"The Asset Management Industry: development, challenges and strategic issues"

WOLPERTINGER CONFERENCE
MODENA, AUGUST 2018

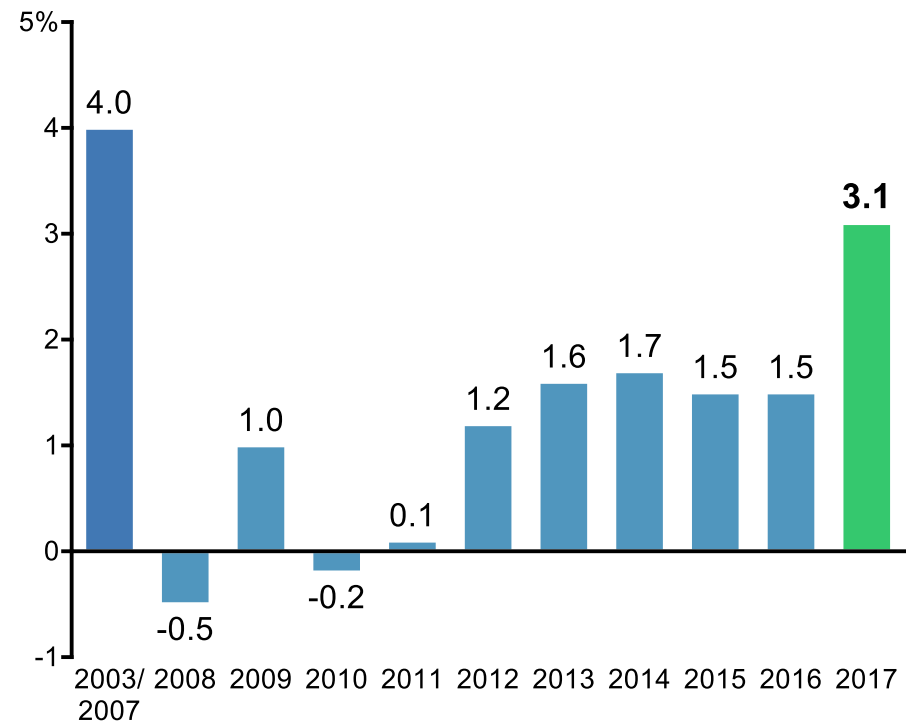
Global asset management industry registering relevant growth in AuM in the last 10 years with a spike in flows in 2017

GLOBAL ASSET MANAGEMENT INDUSTRY

ASSET UNDER MANAGEMENT



NET FLOWS AS A SHARE OF BEGINNING OF YEAR AuM

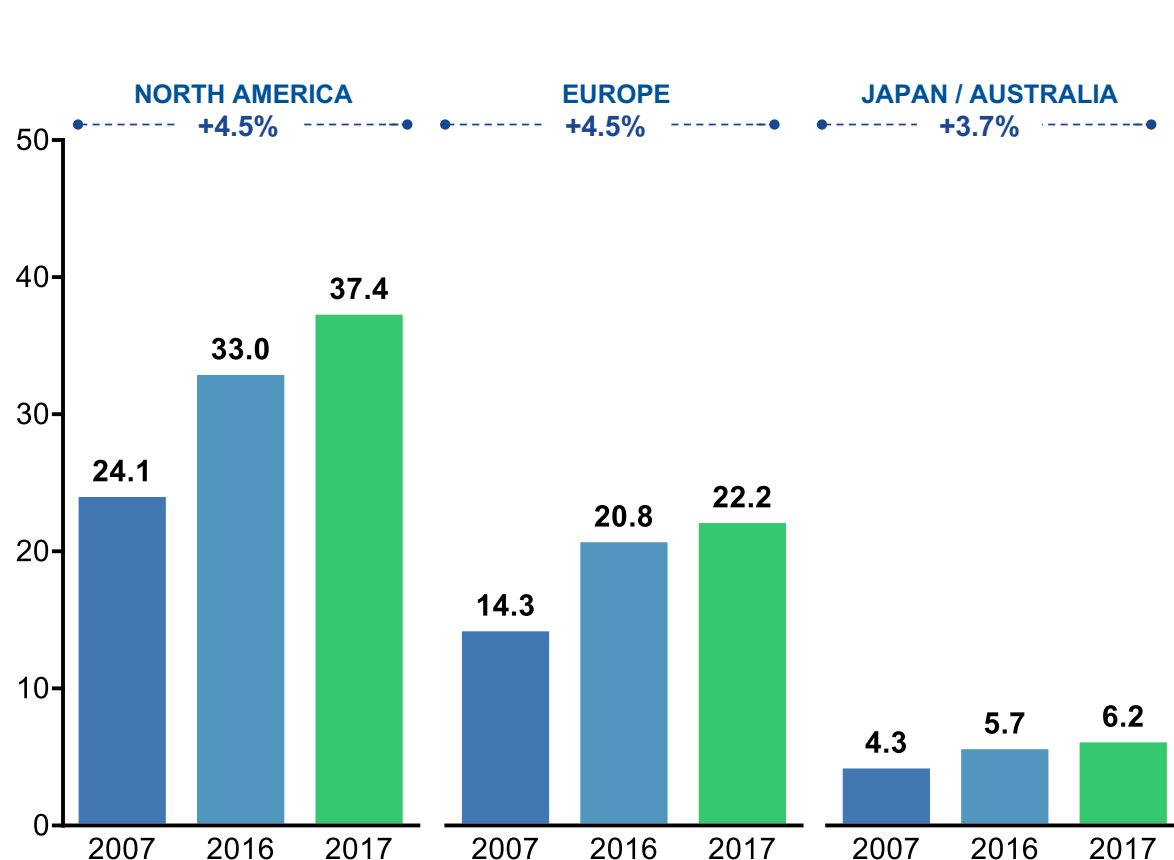


Source: BCG "The Digital Metamorphosis", July 2018

•---• Cagr

North America still the dominant market with relevant growth rates in China and Latin America

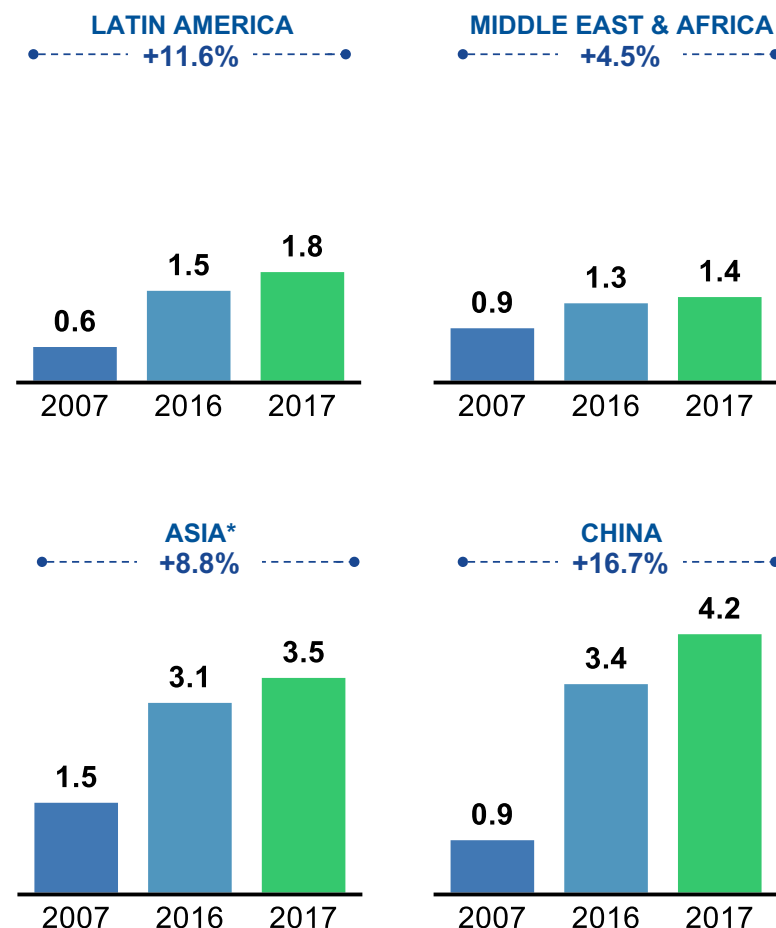
GLOBAL ASSET MANAGEMENT AUM BY REGION (\$/tn)



Source: BCG "The Digital Metamorphosis", July 2018

*: does not include Japan, Australia and China

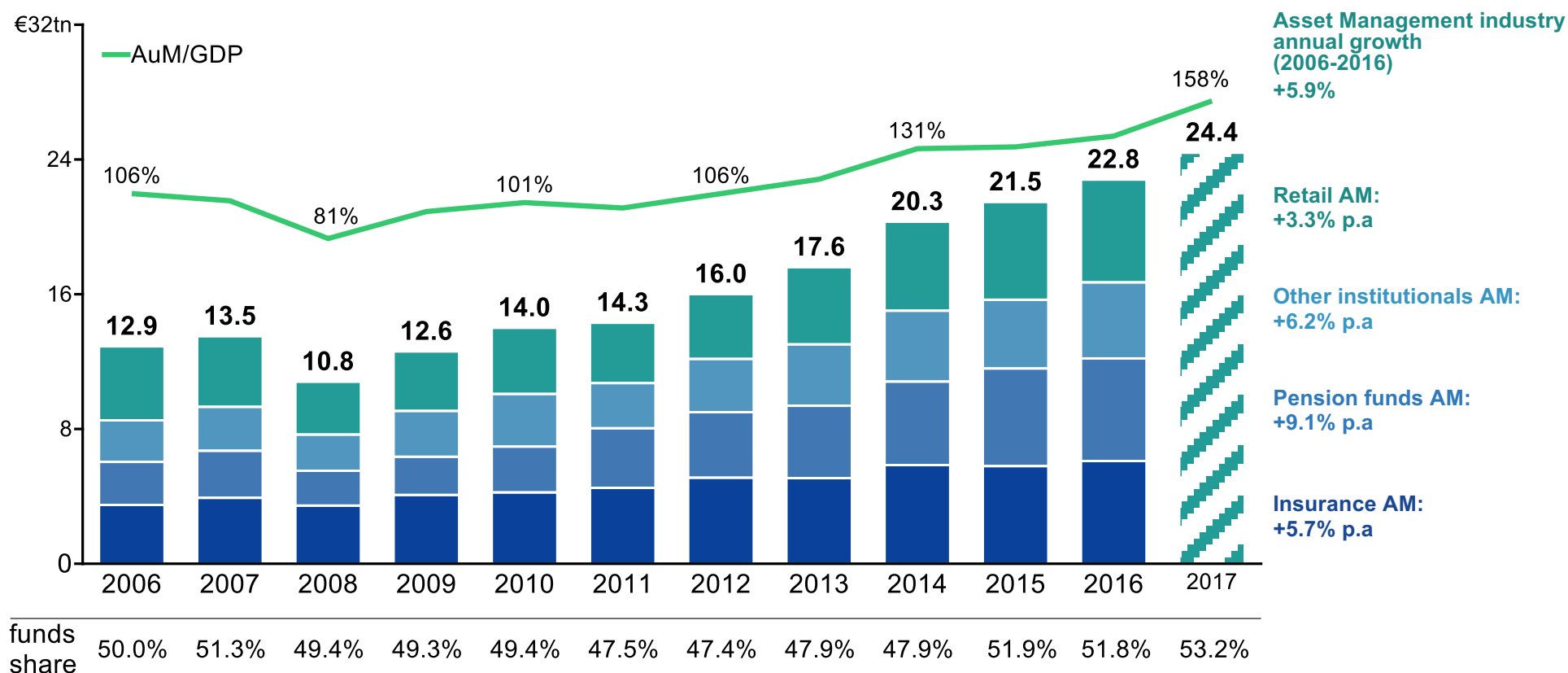
●-● CAGR



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European asset management industry has grown at an annual rate of almost 6% over the last 10 years

EUROPEAN ASSET MANAGEMENT MARKET



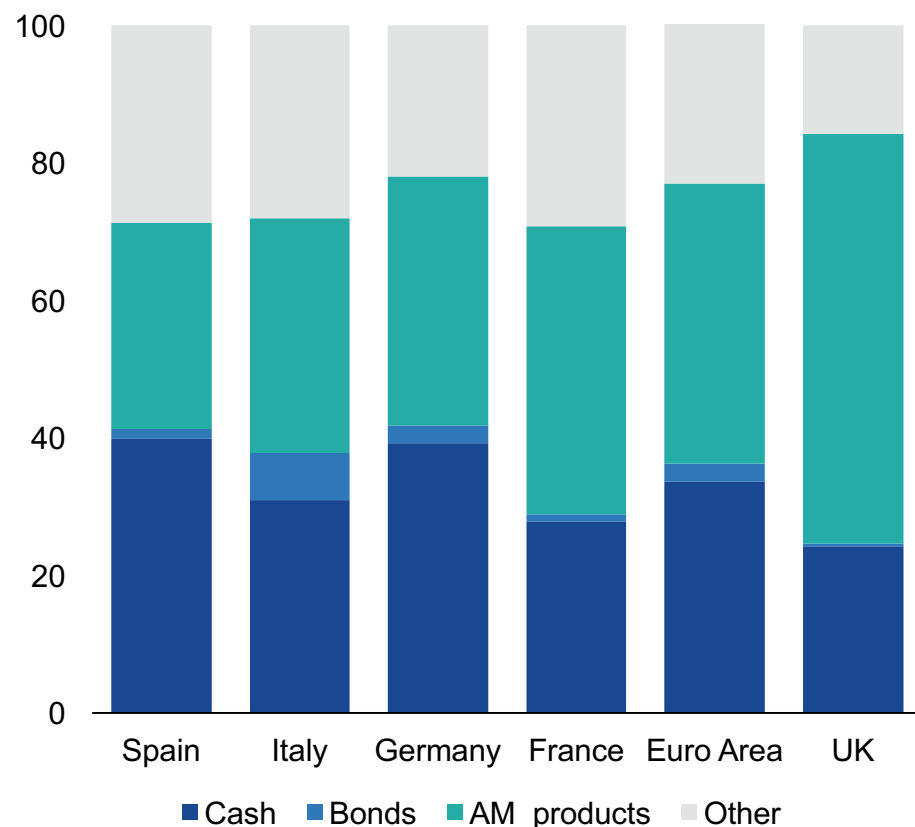
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Source: Prometeia elaborations and estimates on EIOPA, OECD and EFAMA data, figures as of end 2017

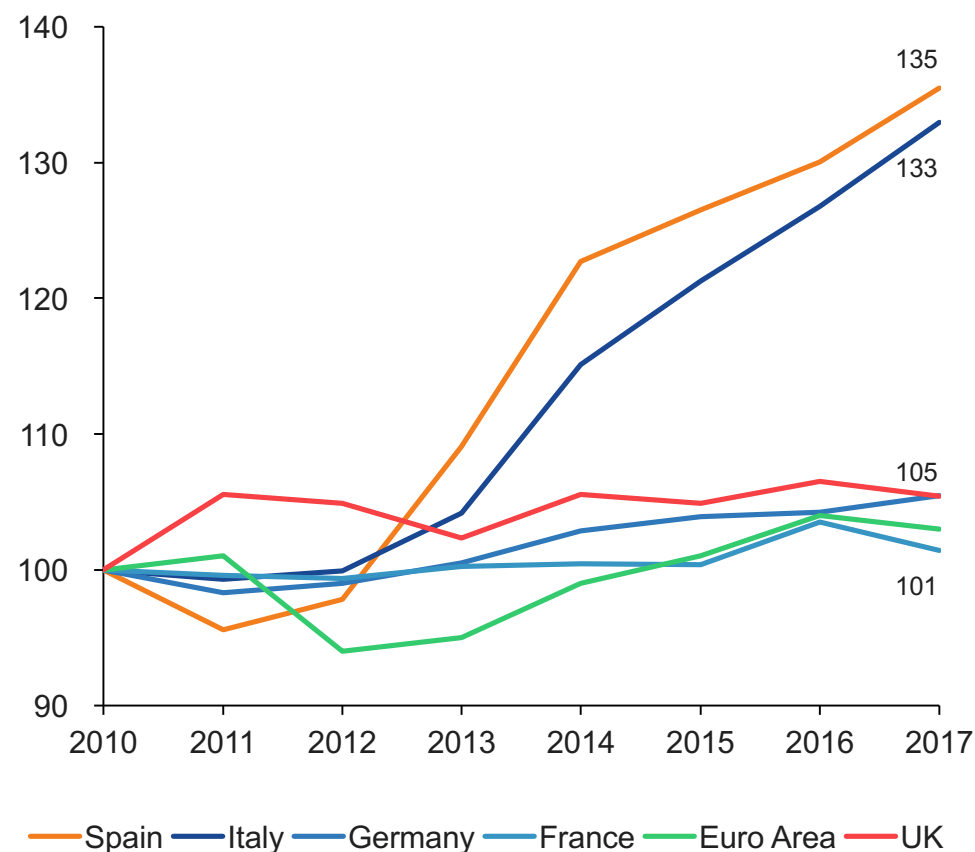
Note: figures refer to assets under management in Europe

Increased allocation of European households to AM products, with Southern European countries catching up to Northern ones

EUROPEAN HOUSEHOLDS ASSET ALLOCATION
(%, 2017)



EUROPEAN HOUSEHOLDS ALLOCATION TO AM PRODUCTS
(2010=100)

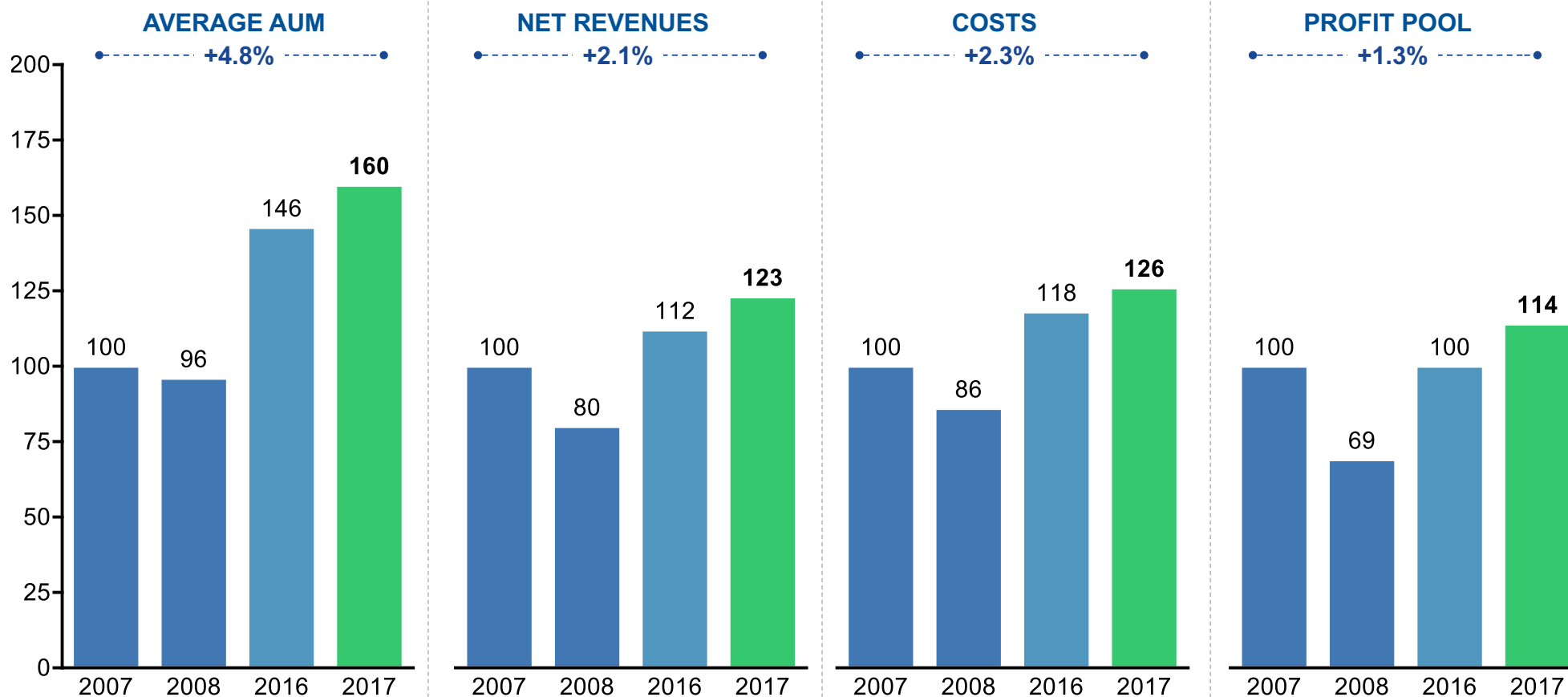


Source: Prometeia elaborations and estimates on Banca d'Italia, Assogestioni, Covip, Ania and BCE data

Note: AM products include funds, mandates, insurance products and pension funds; data related to Germany may be subject to review

In 2017 a record high in profitability...

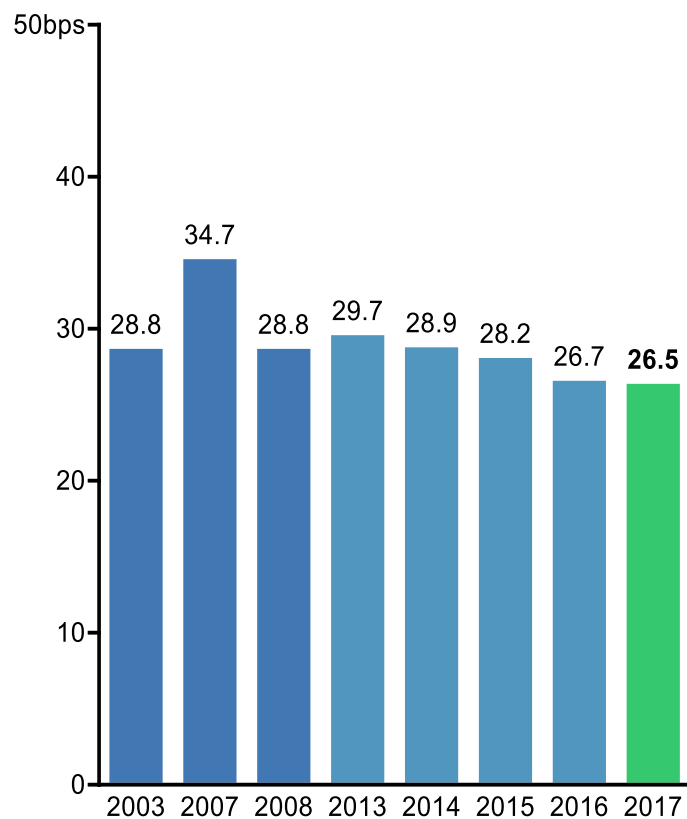
ASSET MANAGEMENT PROFIT TRENDS



Source: BCG "The Digital Metamorphosis", July 2018

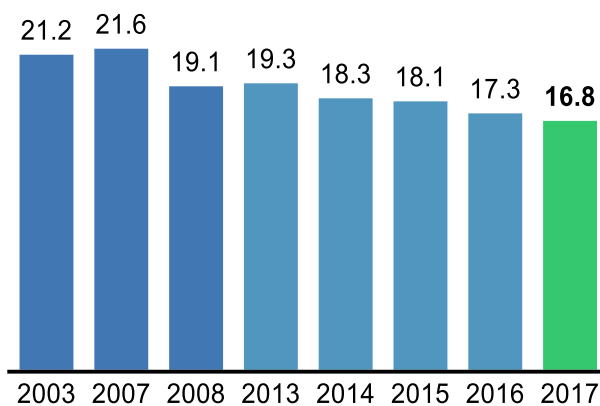
... despite a declining trend of net revenues in relation to AuM

NET REVENUES
AS A SHARE OF AUM

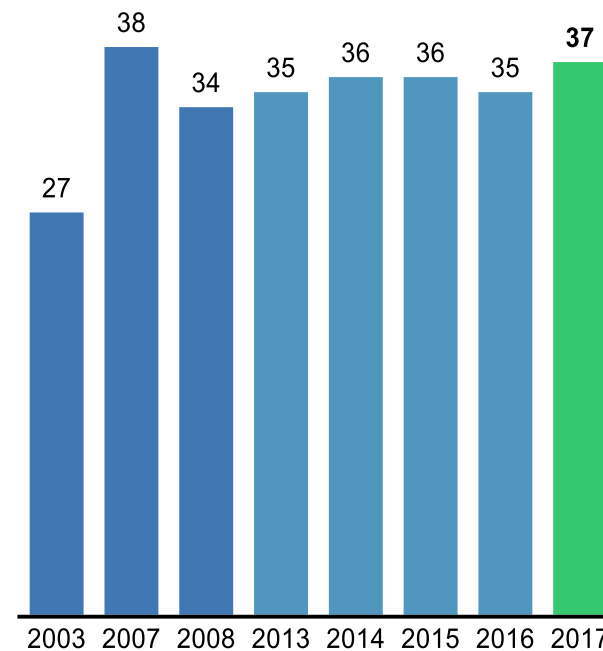


Source: BCG "The Digital Metamorphosis", July 2018

COST
AS A SHARE OF AUM



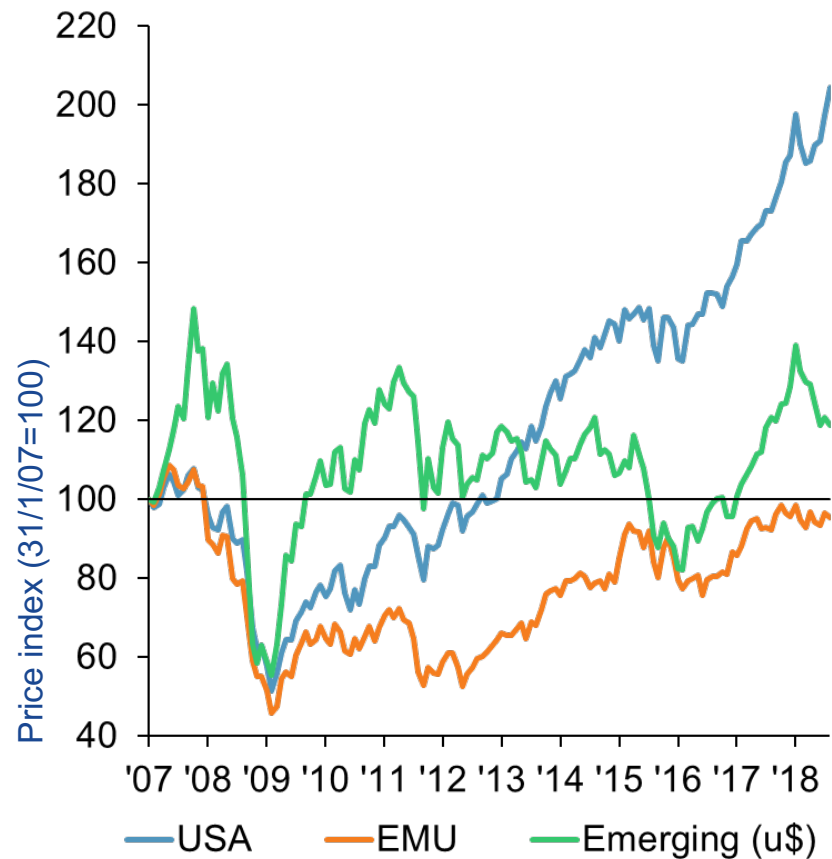
OPERATING PROFITS
AS A SHARE OF NET REVENUES



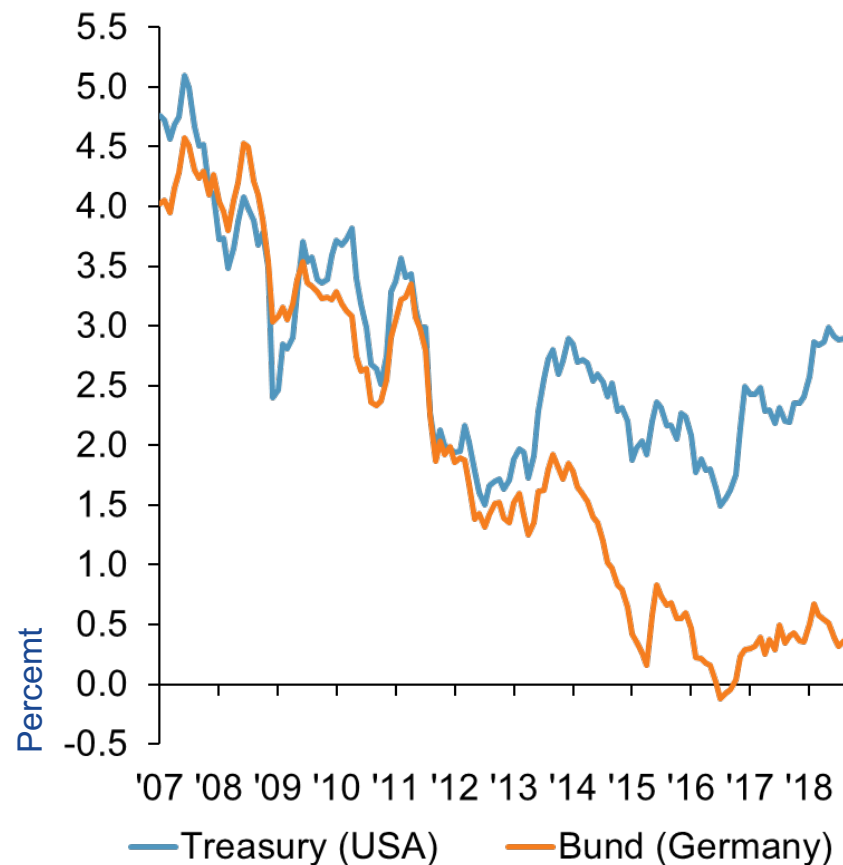
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The positive effects, on AUM growth, of bull market for US equity and declining bond yields, will slowdown

EQUITY INDICES

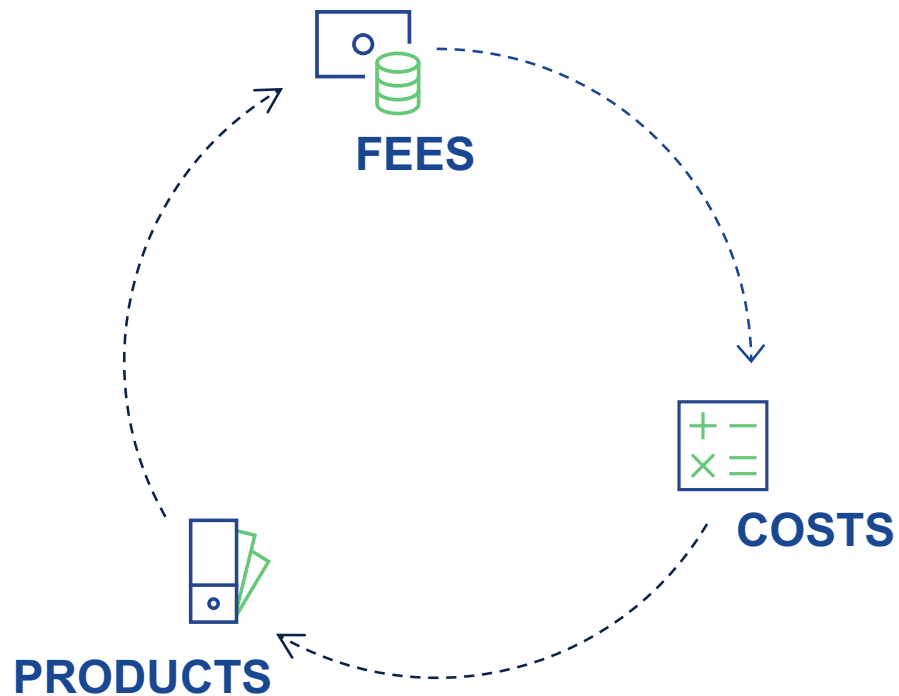


10-YEAR GOVERNMENT BOND RATES



Source: Thomson Reuters, Prometeia calculations; MSCI indices; monthly data at 29/8/18

Main trends and challenges within the asset management industry



FEES AND MARGINS

Review of applied fees in order to better align them to expected returns and sustain competition from passive strategies



COST BASE

Optimization of operations and relevant costs mainly through

- Automation and digitalization
- Trade off between outsourcing and internalization

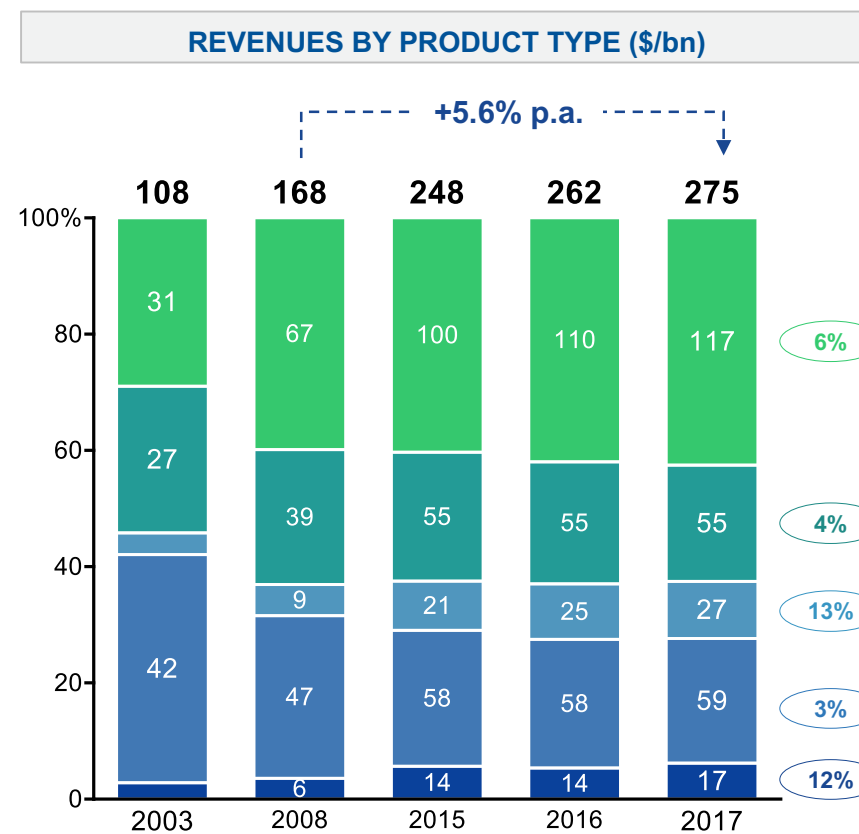
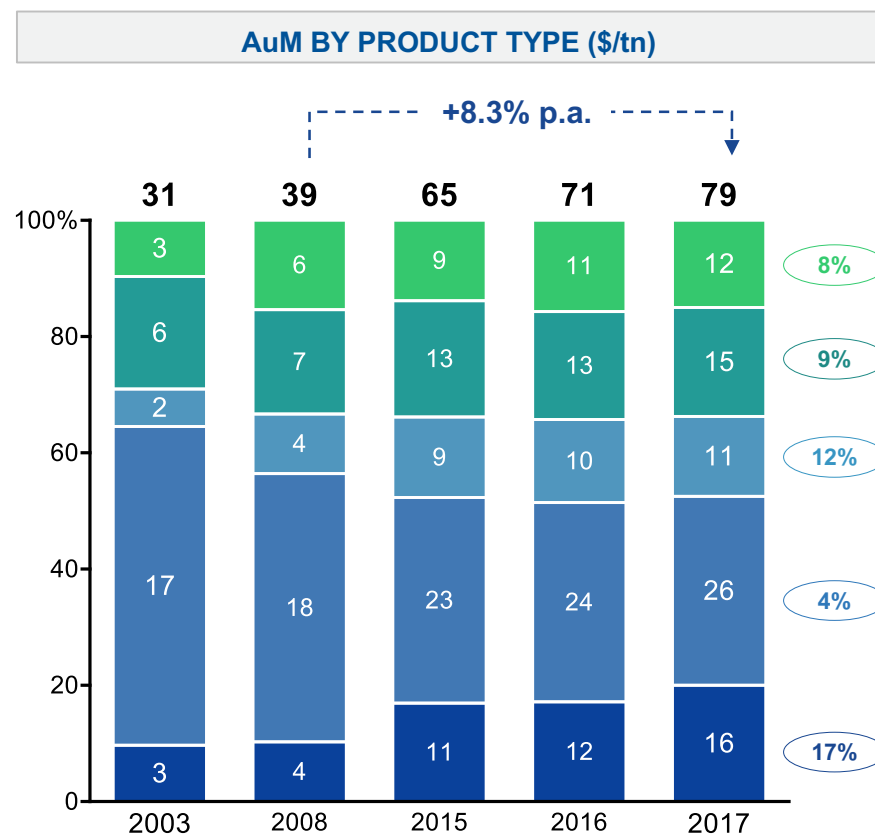


PRODUCT INNOVATION

Growth of value added strategies and alternative asset classes

Greater incidence of passive strategies leading to a less than proportional increase in revenues

GLOBAL ASSET MANAGEMENT INDUSTRY



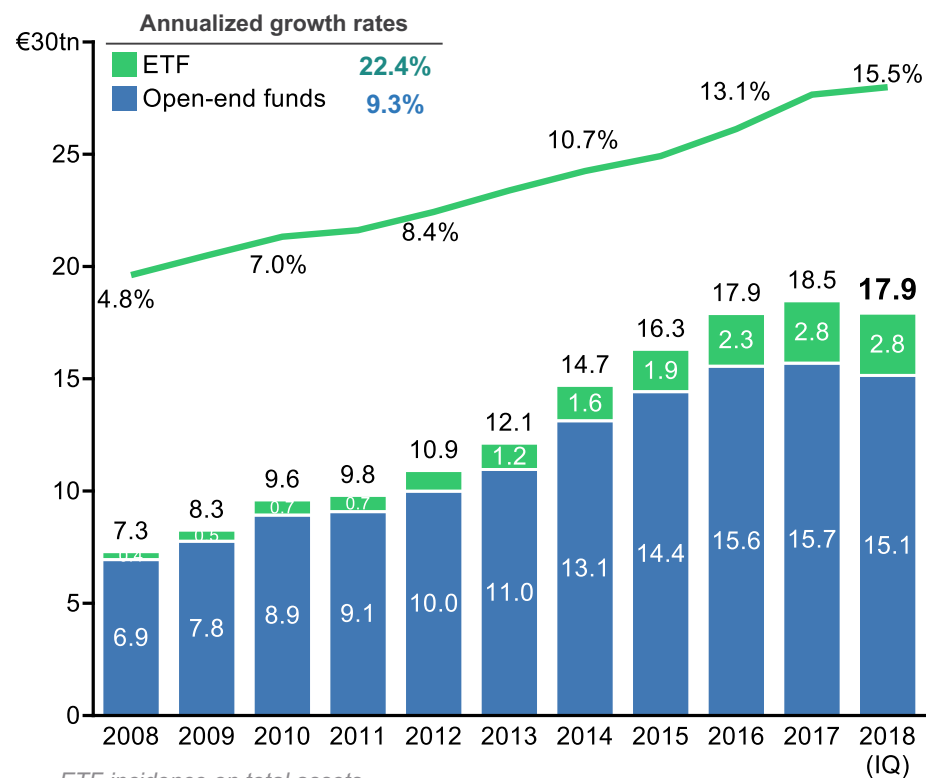
Source: BCG "The Digital Metamorphosis", July 2018

Alternatives Active specialties Solutions/LDI/balanced Active core Passive

Increase of the allocation to passive strategies, in particular for the US market

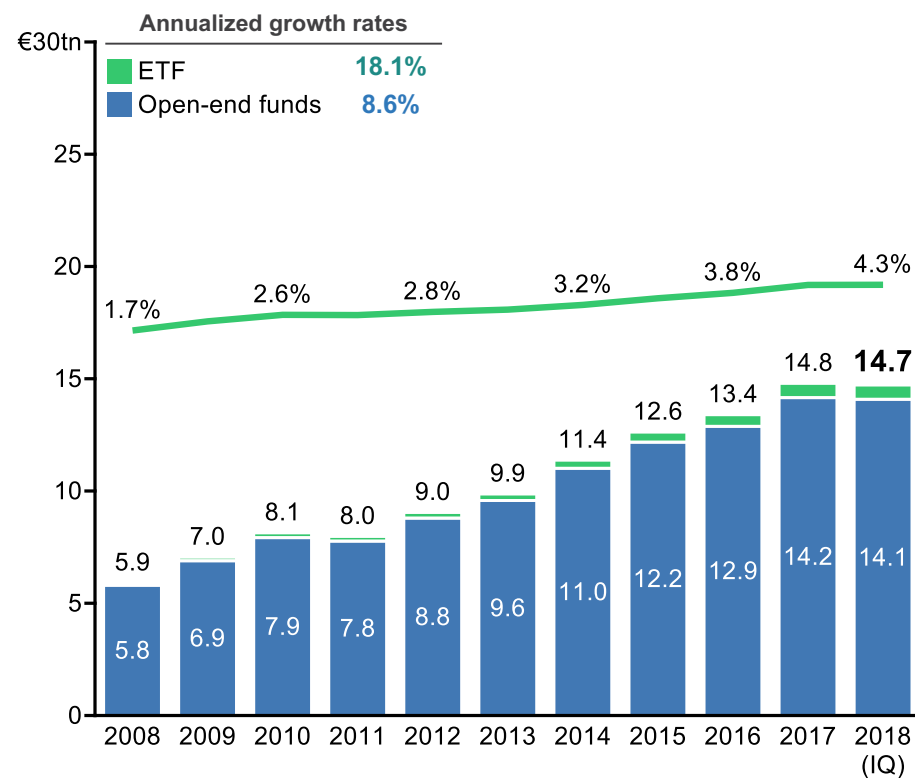
REGULATED OPEN END FUNDS ASSETS AND ETF INCIDENCE

US MARKET



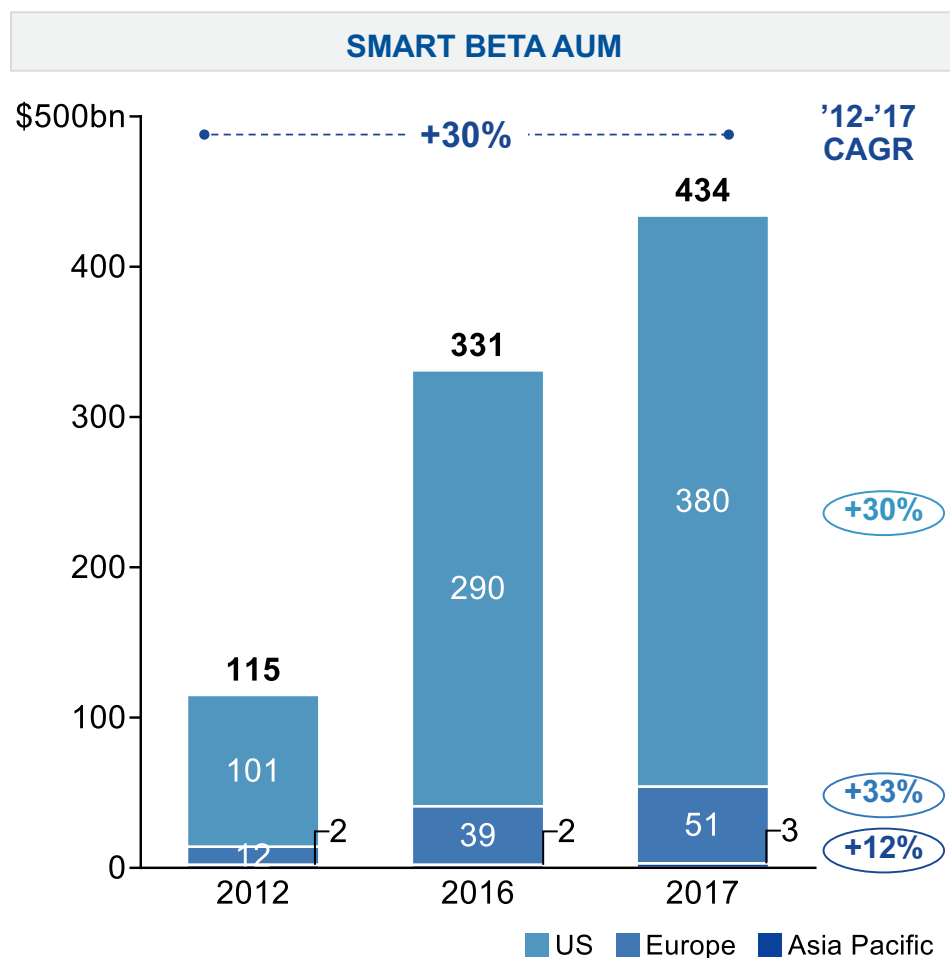
Source: EFAMA, IIFA, ETFGI; data net of fund of funds

EUROPEAN MARKET

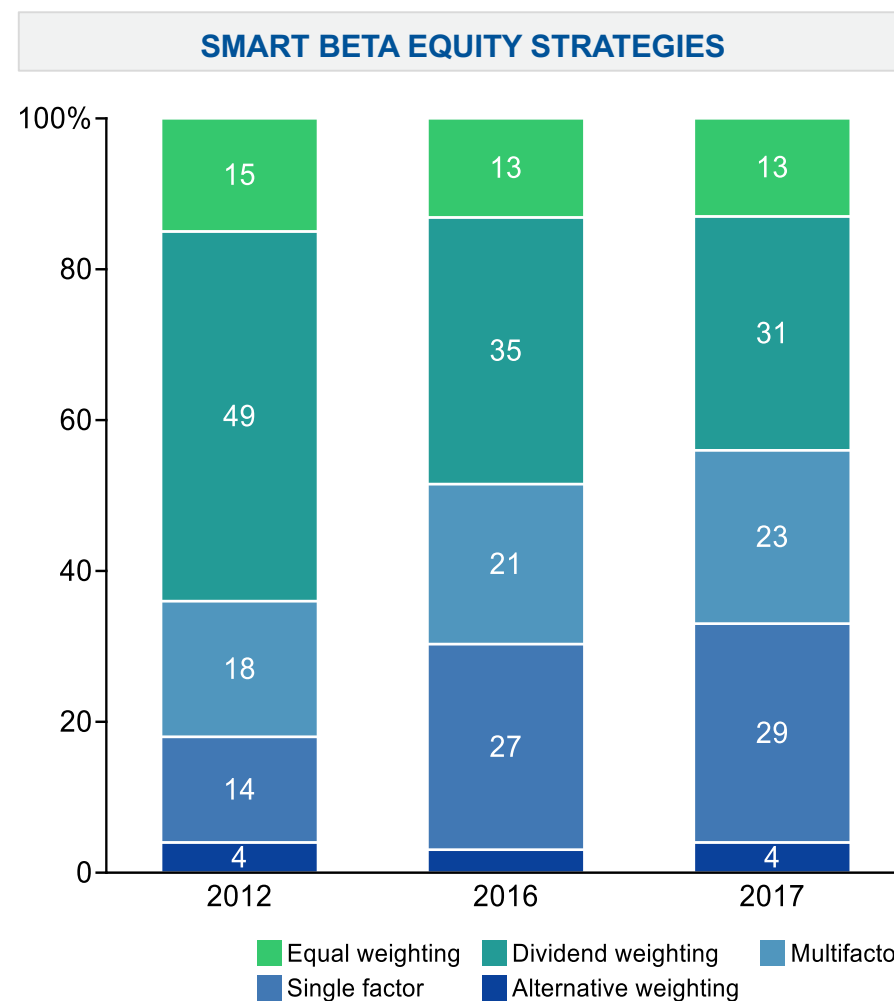


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Relevant growth also within smart beta, mainly driven by single factor strategies



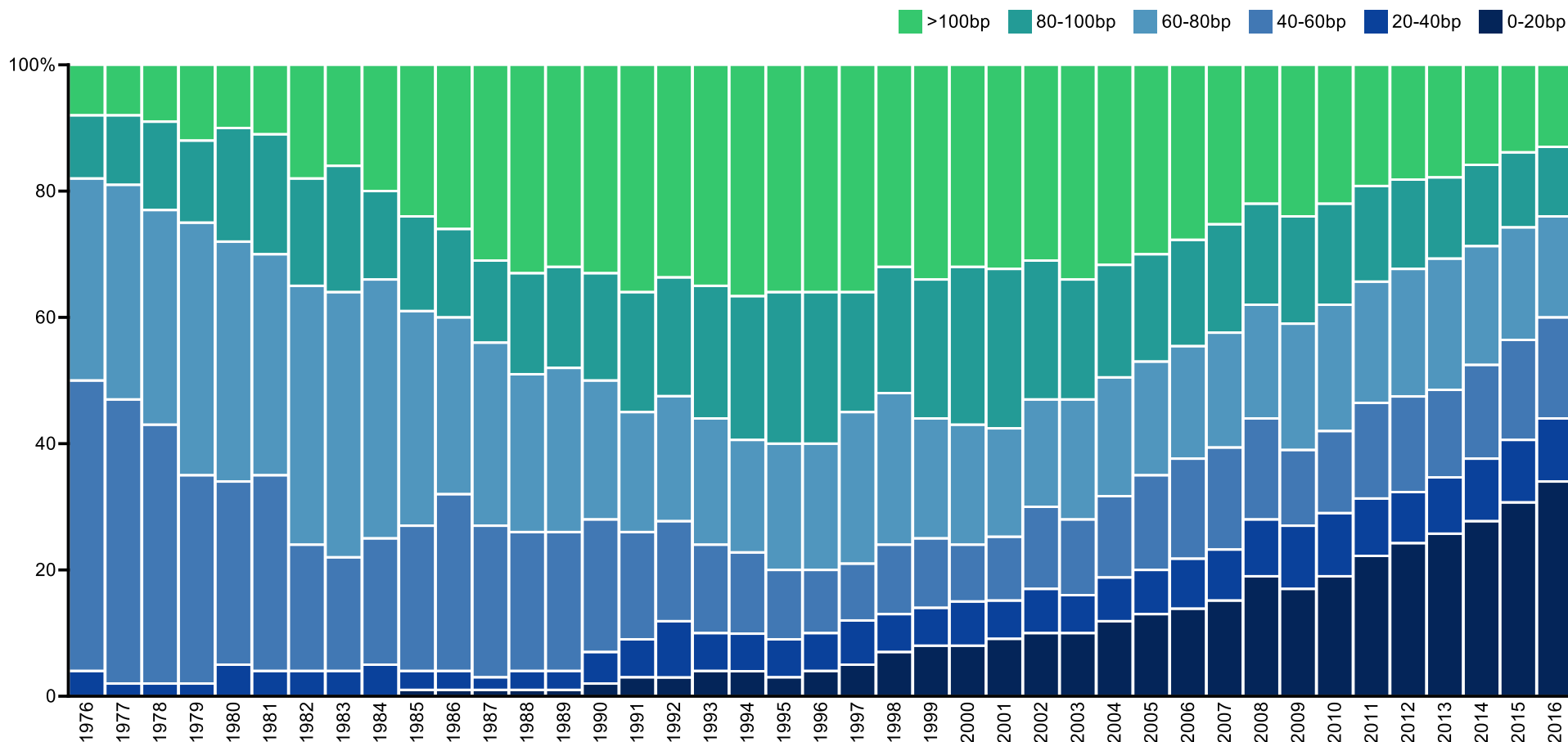
Source: BCG "The Hidden Pressures on Asset Managers", May 2018



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Repricing trends have already taken place in the US fund industry...

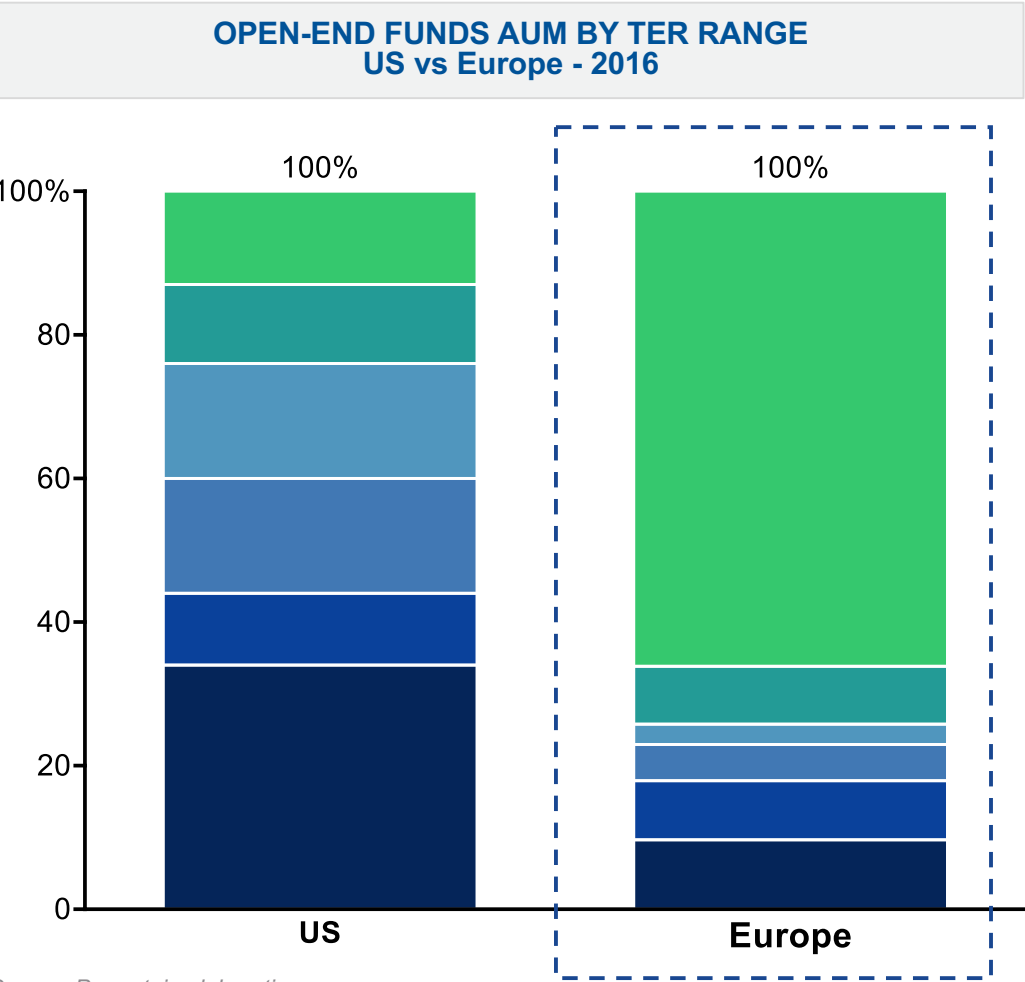
US FUNDS AUM BY TER RANGE



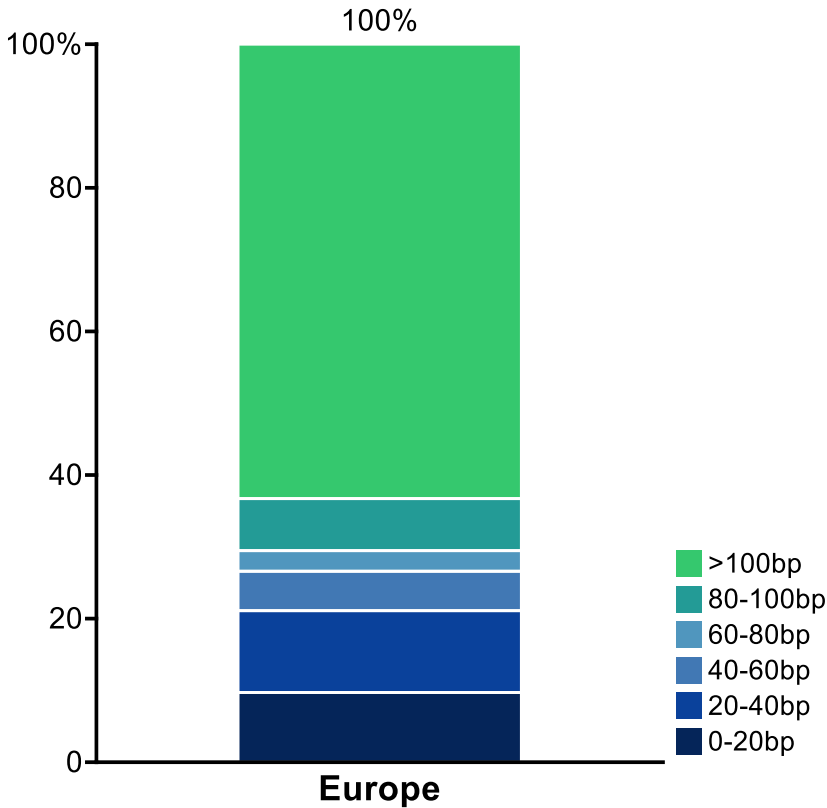
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Source: Morningstar, Vanguard; analysis based on US domiciled funds

... while the European market still shows higher levels of fees



OPEN-END FUNDS AUM BY TER RANGE
Europe - 2017

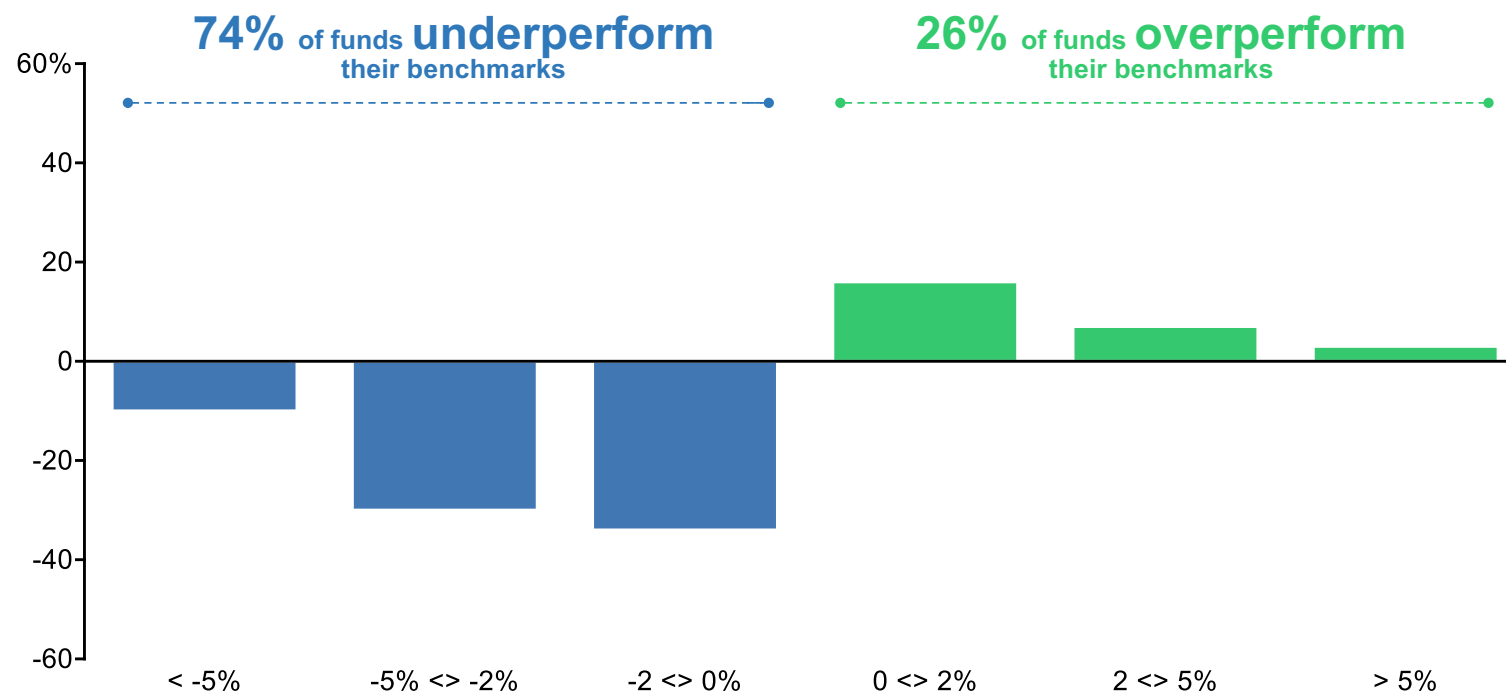


Source: Prometeia elaborations



Structural difficulties of retail funds to overperform their benchmarks when net of costs

FUNDS DISTRIBUTION BY TRACKING ERROR RANGE (3Y)

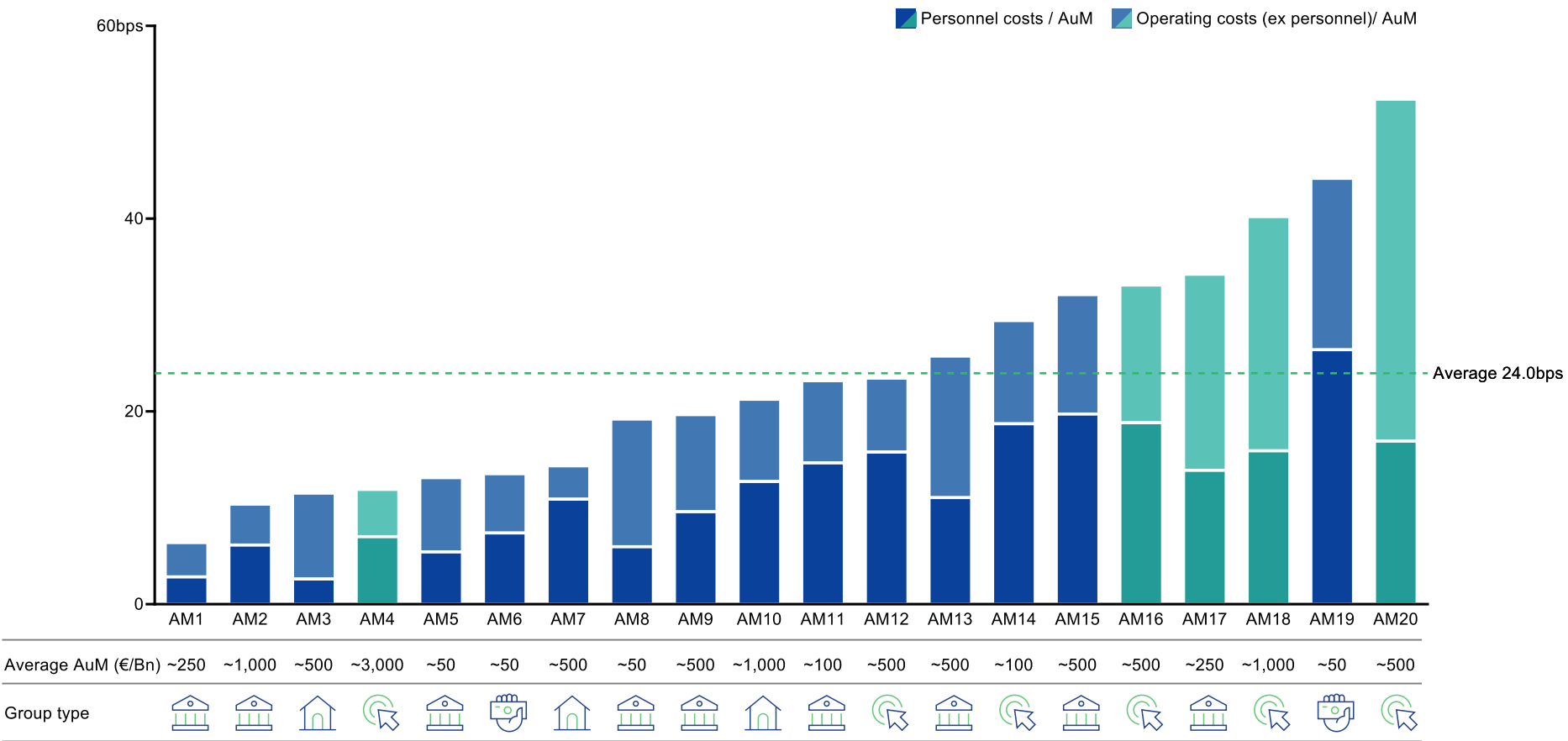


Source: Prometeia analysis and elaborations on proprietary database

Note: analysis based on a sample of ca. 2500 retail UCITS funds (target date, absolute return and alternative UCITS funds not included); analysis based on a 3Y framework (7/1/2015 – 06/30/2018)

Different operating costs structures according to the configuration of the AM

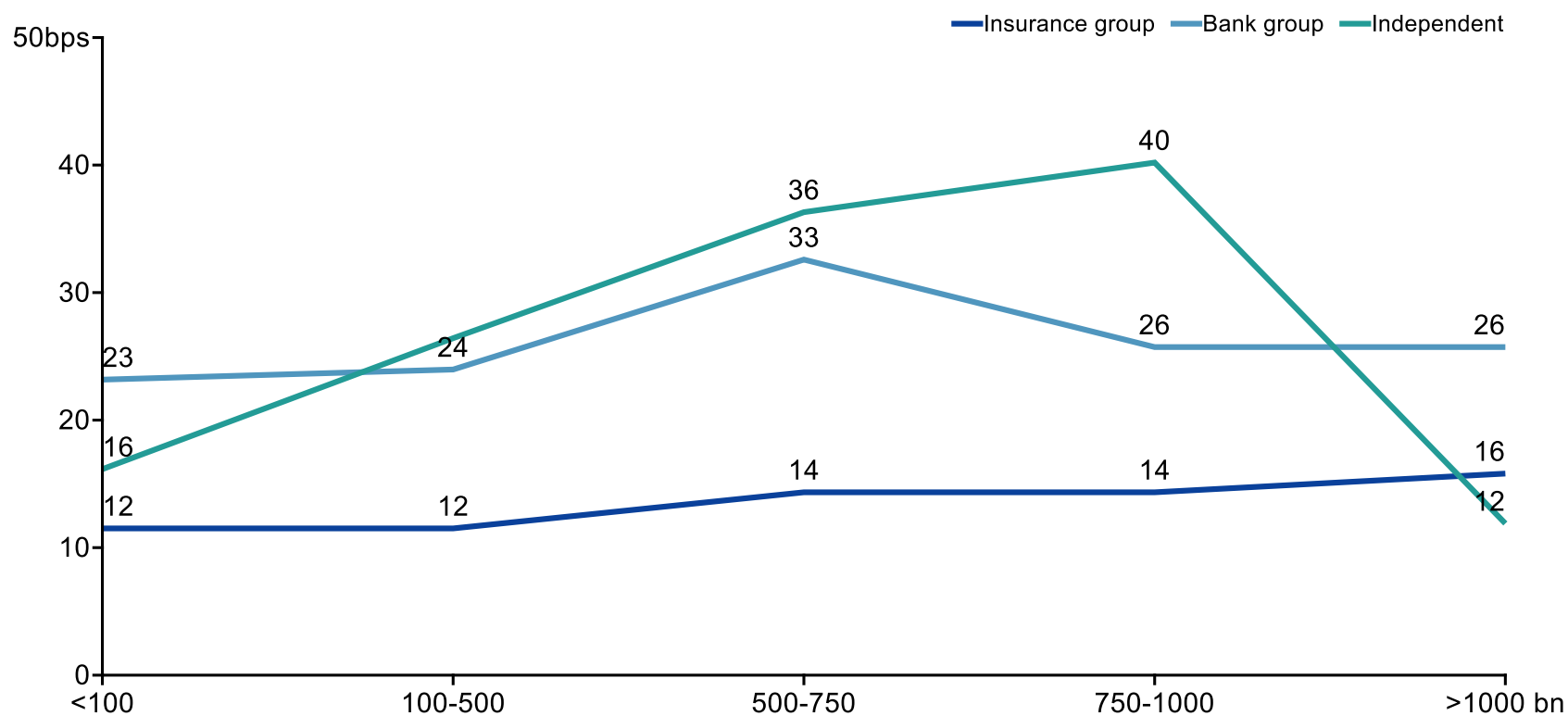
OPERATING COSTS / AUM



Source: Prometeia analysis on 2017 balance sheets; AUM includes delegated management
 Note: blue colors indicating Europe based asset managers, green colors indicating US based asset managers

Size matter but also lower scale players can be efficient...

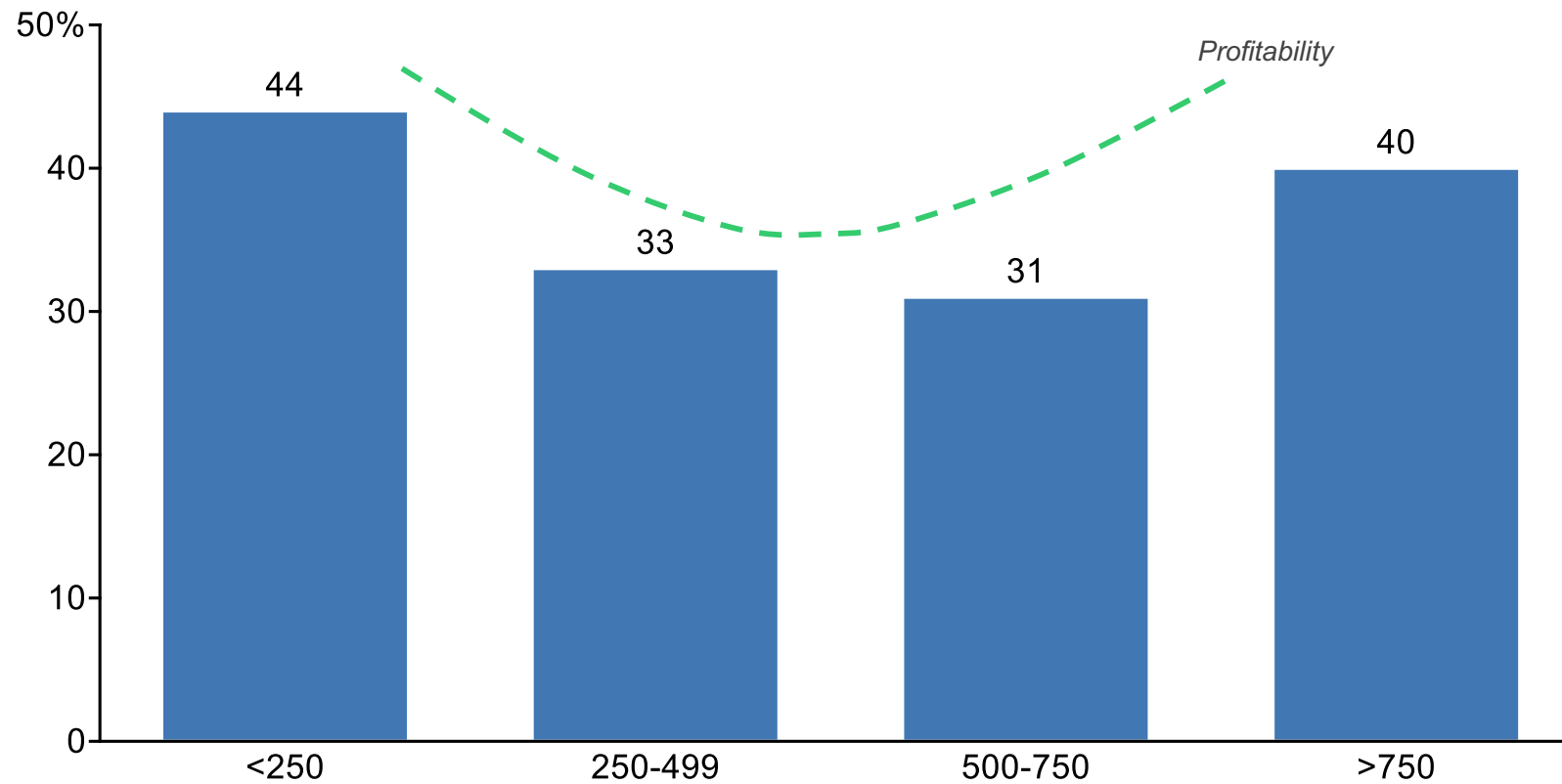
OPERATING COSTS / AUM BY TYPE OF PLAYER



Source: Prometeia analysis on 2017 balance sheets; AUM includes delegated management

... and profitable

EBITDA MARGIN BY AUM SIZE



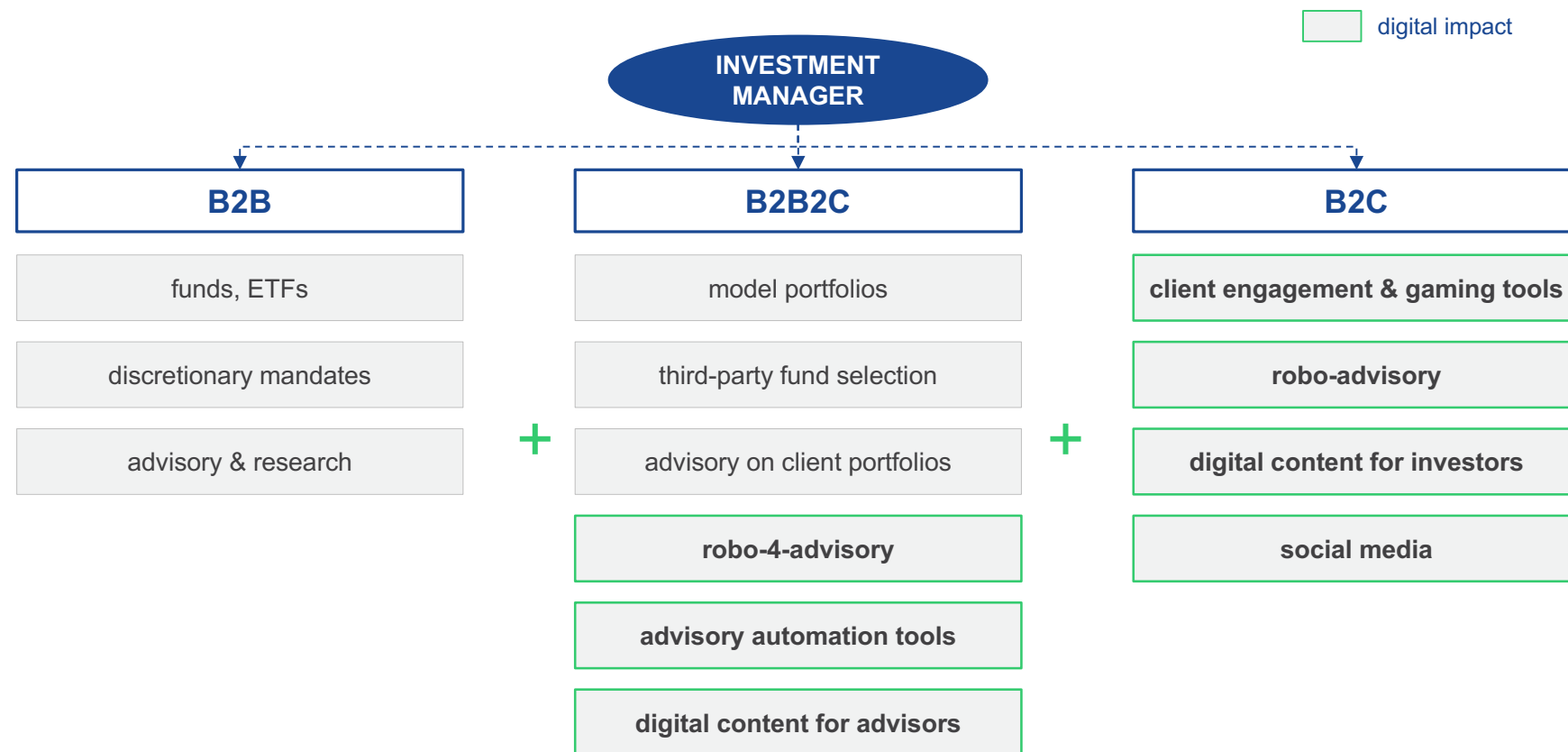
Source: BCG "The Innovators Advantage", July 2017

Digitalization as one of the main trends within asset managers, driven both by cost management and evolving clientele demands

«DIGITAL AGENDA» ASSET MANAGERS

	MAIN DRIVERS	«DIGITAL» IMPACT
INVESTMENTS	<ul style="list-style-type: none"> ▪ Creation of value for the client in a low interest rates scenario ▪ Rising pressure on fee levels and increased competition from passive strategies ▪ Efficient data management in support to investment decisions 	<ul style="list-style-type: none"> → New models and analytics in support to quantitative strategies (i.e. semi-passive or smart beta) → Development of internal platforms for cost efficient investment processes and multi-strategy trading → Possible impacts in terms of efficiency (transactions/contracts) given by new ledger → New technologies for data mining (big data or alternative data)
OPERATIONS	<ul style="list-style-type: none"> ▪ Increased costs factors (including regulatory and compliancy driven costs) and need to implement economies of scale ▪ Need for and increased reporting efficiency either aimed at managerial level or in support to the investment decision process ▪ Trade-off between outsourcing and insourcing 	<ul style="list-style-type: none"> → Adoption of enterprise wide IT systems (e.g. investments, risk management, back office,...) and increased use of the cloud systems → Evolution of systems («data lake») for the management, use and interpretation of data (performance, scalability, security, governance) → Automation of processes (e.g. «reg-tech») → Increased outsourcing, better serving the continuous technological evolution and allowing adaptability to variable costs
DISTRIBUTION	<ul style="list-style-type: none"> ▪ Scalable offer of contents and advisory for both investors and distributors ▪ Direct access to the final client 	<ul style="list-style-type: none"> → Analytics and technologies in support to the distribution channel → Technologies and processes for B2C → Social media and digital strategy

Increasing interest in advisory automation and in opening (new) direct channels to consumers



To provide a complete product range, with adequate vehicles, solid track record, and flexible operating models

To enhance the service with technology and contents to facilitate advisory automation

To open a direct channel to retail investors with an end-to-end investment advisory process

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