

TSAM Series: The Future of Asset Management

In association with BackBay Communications

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By TSAM and BackBay Communications

| Foreword

The asset management industry is undergoing a period of significant tumult as technological advancements, changing investor behavior and profiles, new product types and regulatory intervention create a stew of innovation and uncertainty.

TSAM Boston 2016 Congress and Expo will explore many of the factors that are shaping the future of the industry and how firms can and are adapting to face that future head-on.

In advance of the event, we surveyed over 70 senior decision-makers from our network across all areas of operations at some of the world's leading asset management companies. They provided their views on what they see as the agents of change, their expectations of how these changes will affect their business, and how they are readying themselves for the future.

We hope you find this study of interest and would welcome your feedback and observations.

Jonathan Wisner
Director, Osney Media

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Methodology

74 senior decision-makers at asset management companies from Osney Media's contact database were polled between 19th September and 21st October 2016 using an online collection methodology. Respondents came from across all areas of operations, including client reporting, technology, marketing, investment, accounting and finance, performance measurement, risk management, senior management and product development (see fig 1).

Companies ranged in size from boutique firms with less than \$1 billion assets under management up to global investment managers with over \$1 trillion of assets under management (see fig 2).

The respondent sample was fairly evenly split between firms that are headquartered in the US and firms headquartered in Europe (see fig. 3)

Fig 1: Which of the following areas within your organization are you responsible for?



Fig 2: What is your company's AuM?

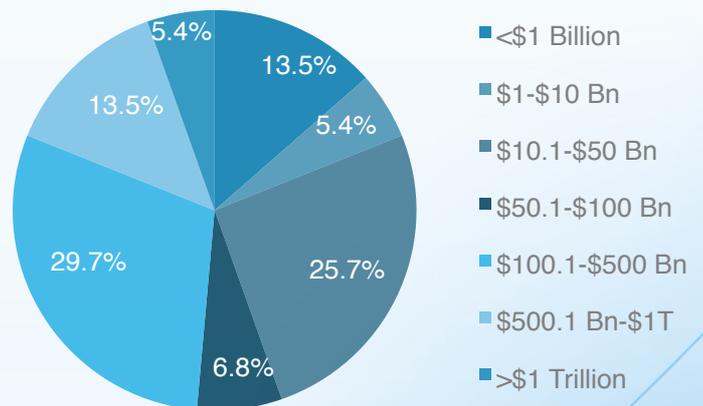
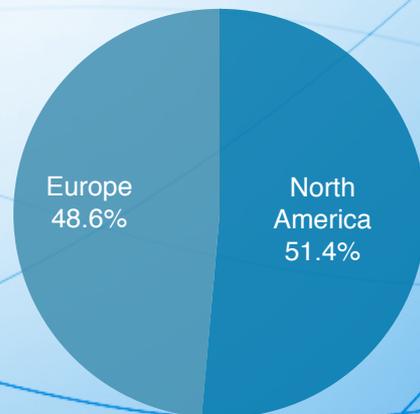


Fig 3: Where is your company headquartered?



Executive summary

Regulation seen as main driver of change

It will come as perhaps no surprise that regulation is widely seen as the most important factor that will shape the asset management industry over the next five years, coming in far ahead of other factors such as technology, the evolving competitive landscape and shifting consumer behavior. It is seen to affect all areas of operations from data management to client reporting, from PR and marketing to technology.

Investment managers confidently address operational challenges

While respondents are aware of and alive to numerous challenges that threaten to disrupt the industry, including pricing pressure, the need for greater product innovation and both new technologies and technology companies, they are on the whole skeptical about the transformational impact of these on the industry. The majority of the respondent sample believes the asset management industry will broadly resemble its current form in five years with only just over one in ten expecting it to look radically different.

“Regulation is widely seen as the most important factor that will shape the industry... it is seen to affect all areas of operations”

Executive summary

Focus on replacing technology and client reporting

They are also, on the whole, sanguine about both the industry's and their own firm's ability to adapt and continue to face up to the challenges confronting them. The overwhelming majority of firms are taking steps and making investments to improve their operations and position themselves for future growth. Many are undergoing, or about to undergo, projects to replace their legacy technology, introduce online client reporting portals, introduce a data governance strategy or outsource areas of their operations.

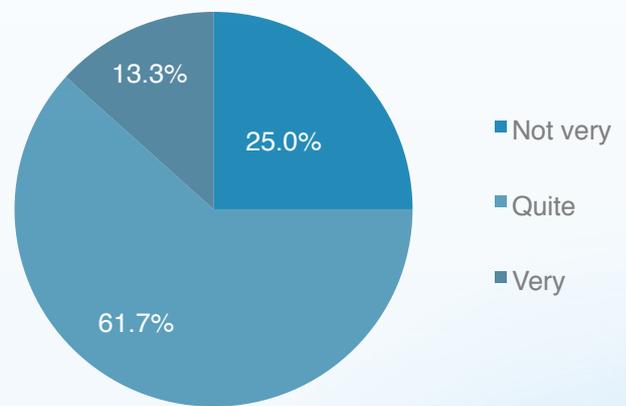
“The overwhelming majority of firms are taking steps and making investments to position themselves for future success”

The future for asset management

Three-quarters (75%) of survey respondents expect the asset management industry to continue to evolve over the next five years, although, given just how much discussion there is about the pressures facing it currently, it may be a surprise that just 13% believe it will look radically different. Indeed, a quarter say the industry will not look much different to how it is now. Fig 4

Those expecting the industry to undergo a radical change point to several different factors influencing that. A number of respondents cited technological changes. For example, one said: "Technological advances that we've seen in other industries will start to affect consumers," while another commented that "the supermarket is closing and vending machines are taking over." More than one respondent said that "regulatory changes will make a huge difference," while others believe that "there is going to be a lot of consolidation within the industry."

Fig 4: How different do you think the asset management industry will be in five years?

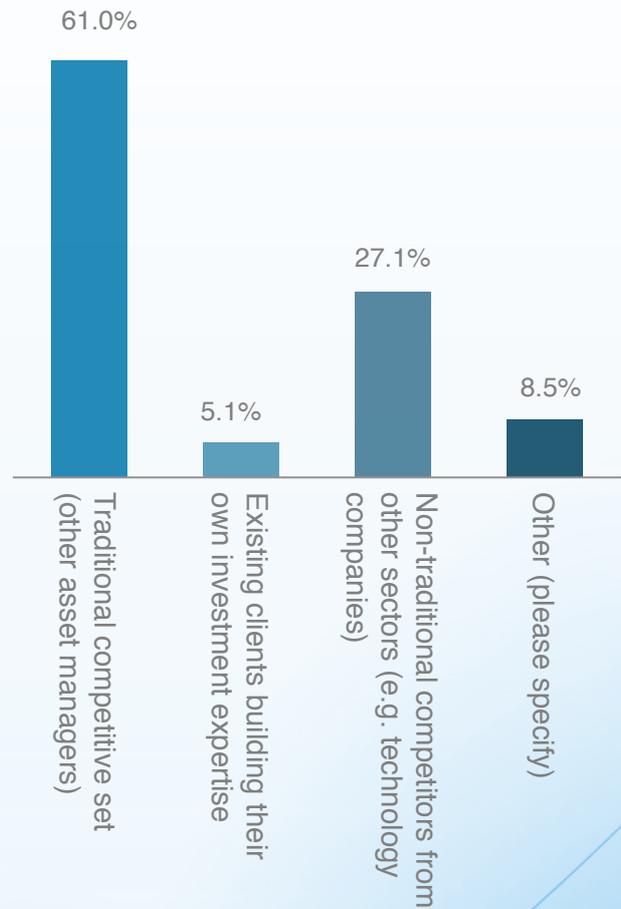


Turbulence more than transformation

The future for asset management

The majority (61%) believe that the competitive landscape will be similar in five years as it is now, although 27% believe non-traditional competitors from other sectors such as Amazon and Google will be their stiffest competition. Only 5% expect their clients to build up in-house investment expertise and disintermediate them. Fig 5

Fig 5: Who do you see as the biggest competitors to your company in the next 5 years? (select one answer)



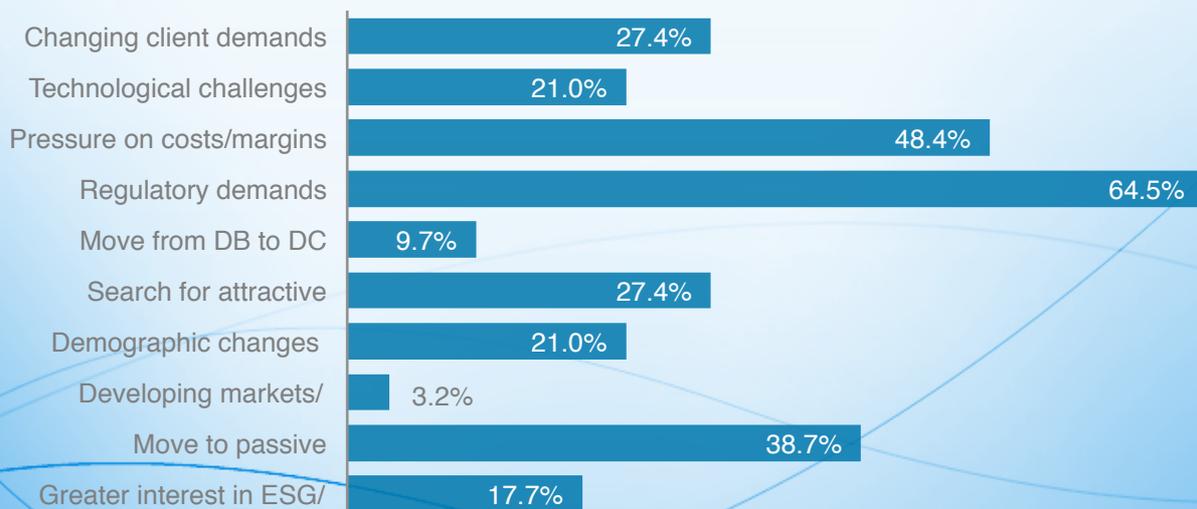
Agents of change

Consistent with previous studies we've conducted, regulatory demands are widely recognized as having the biggest impact on the shape of the asset management industry. Around two-thirds (65%) of respondents cited regulations as one of the top three drivers of change in the industry. The second most commonly identified driver was cost or margin pressure with just under half (48%) selecting it. It was followed by the rise of passive investing (39%), changing client demands (27%) and the search for attractive investment returns (27%). (Fig 6)

Regulatory change is also seen as the most likely driver of operational change for 30% of respondents, ahead of pressure to reduce costs (18%), increased competition (12%) and exploiting new product areas (12%). No respondents anticipate either ESG or security considerations as likely to drive operational change in over the next two years. (Fig 7)

Beyond the impact of regulations such as Mifid II, which are expected to touch on all operational aspects of asset managers in some way, respondents identified a number of themes in each operational area that look set to shape their evolution in the coming years.

Fig 6: What do you think are the biggest drivers of change in the asset management industry? (select up to three answers)



Agents of change

Client reporting is key

Client reporting in particular is identified as an area where firms are anticipating a lot of change. Beyond the impact of regulations - which are described as "smothering" by one respondent - many firms are anticipating a greater focus on meeting the reporting needs of their clients. Much is made, for example, of 'real-time' reporting, cloud-based access to reports as well as granting clients greater control over their reports by being able to run their own queries and reports and through interactive online dashboards. As one respondent summarized it, there is pressure to make "reports more meaningful to the lay person."

In performance measurement, the demand for more - and more timely - data looks set to take center stage with more than one respondent anticipating an expansion of standards in the coming years. One respondent believes that technological advances will make analysis cheaper and easier for firms to generate daily views at a client portfolio and fund level, while others anticipate "more costly market data." Another respondent points towards the growth of interest in alternative assets among investors and the need for the industry to develop a more effective way to price and incorporate these into reporting.

Fig 7: What do you believe will be the main driver of operational change in your organization in the next 12-24 months (select one answer only)



Agents of change

Vendor consolidation is cited as one of the key issues in data management with rising costs expected as a result.

As far as marketing and PR is concerned, there are three key trends that look set to shape their approach in the coming years. The first is making greater use of content, the second is the use of digital and social media, while the final one is greater segmentation to enable more tailored and targeted approach to marketing, particularly with key clients.

The migration from private data centers to the cloud is the single most common technology theme for firms with many also keeping an eye on emerging technologies such as machine learning, artificial intelligence and blockchain.

In the area of investment risk management, there is an expectation that more custom risk models, with a greater emphasis on scenario or “what if?” analysis, will emerge.

The demand for more - and more timely - data looks set to take center stage

Rising to the challenge

The asset management industry is widely identified as facing a wide range of challenges with pressure on pricing emerging as chief among them with one-third (32%) of respondents describing it as a 'huge' challenge. Adapting to regulatory change is also identified as a huge challenge by 27% of respondents while around a quarter (23%) said identifying good investment opportunities and the need for product innovation pose huge challenges. (fig 8)

The sample is, on the whole, optimistic about both the industry and their own firm's ability to meet the challenges facing them with 77% and 76% describing themselves as either 'fairly' or 'very' optimistic. (fig 9)

Fig 8: Please rate each of the following factors on how much of a challenge they pose to the asset management industry? (from 'not at all' to 'huge')

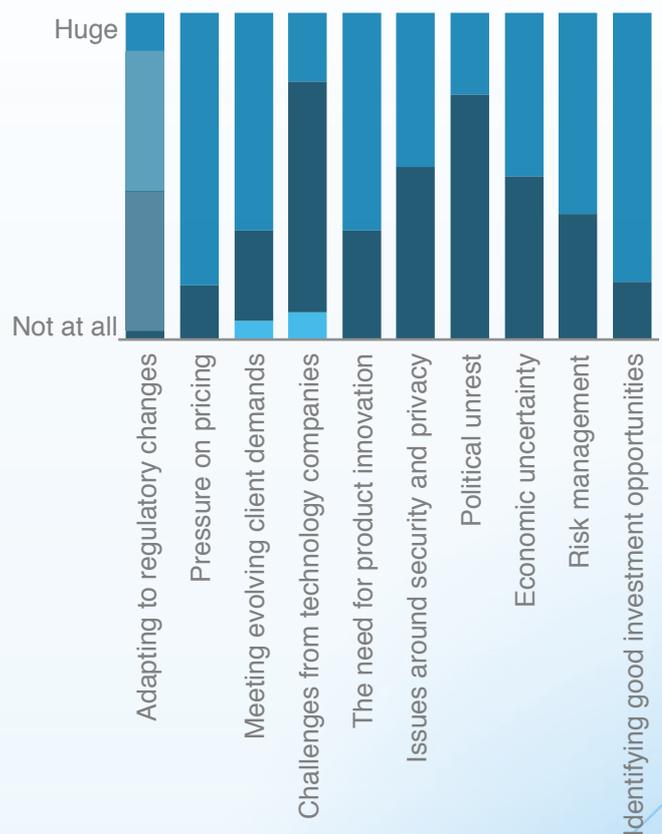


Fig 9: How optimistic are you that your company/the asset management industry as a whole will be able to meet the challenges facing it?



Rising to the challenge

Asked specifically about the impact of the EU referendum in the UK on their business, 29% say it has had a negative impact, compared to just 17% that report a positive impact (fig 10) In spite of that, the vast majority (71%) seem to have taken the result in their stride saying that “it’s business as usual” for them. A quarter (25%) are currently reviewing their UK operation while others have taken some action to reduce their operational exposure to the UK; 5% have frozen or reduced their headcount in the UK as a direct result of the vote while 3% plan to relocate some operations from the UK and 2% have taken steps to bolster their operations elsewhere in Europe. (Fig 11)

Fig 10: Has the UK’s vote to leave the EU (Brexit) had a positive, negative or no impact on your company

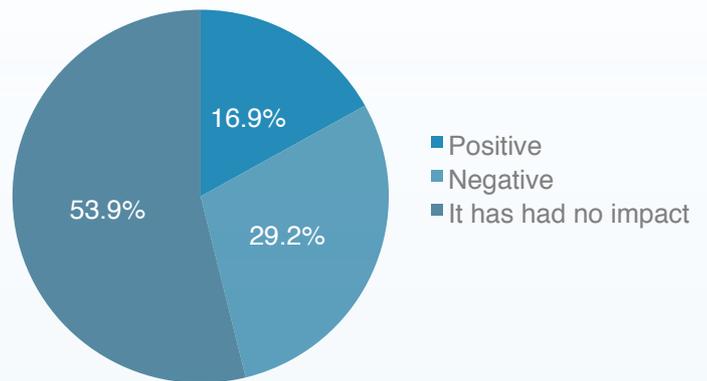


Fig 11: Do any of the following apply to your firm’s operations as a result of the UK’s vote to leave the EU (Brexit)? (select all that apply)

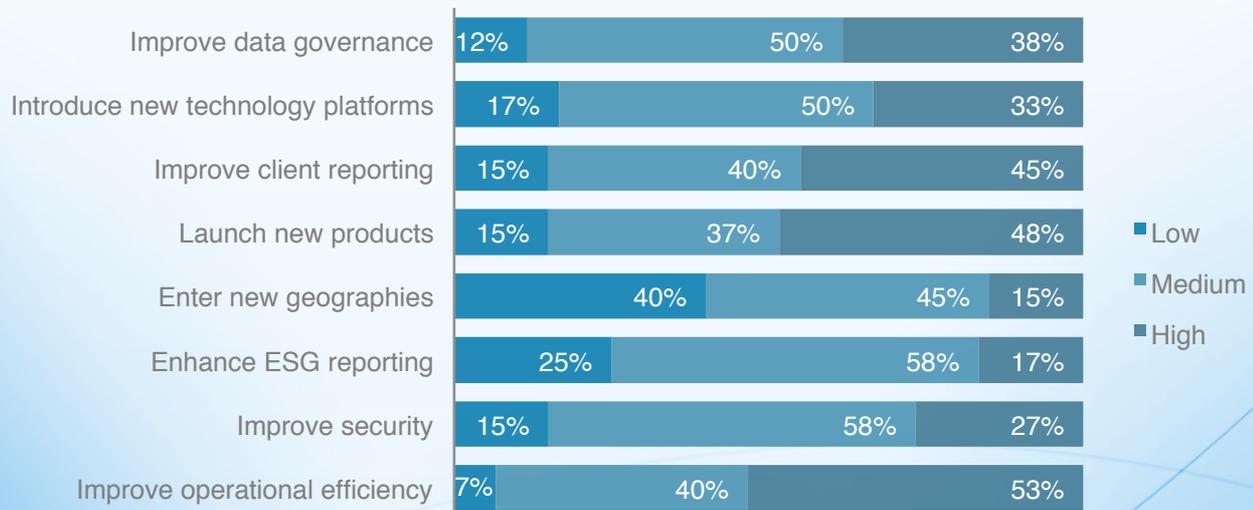


Embracing change

Efforts to improve operational efficiency (53%), launch new products (48%) and improve client reporting (45%) are high priorities for many firms this year. Entering new geographies is only a high priority for one in seven (15%) firms while 17% have identified enhanced ESG reporting as a priority. (fig 12)

2017 promises to be a year of firsts for many

Fig 12: How high a priority is each of the following for your company over the next 12 months?



Embracing change

It is therefore unsurprising that many firms are intending to overhaul various areas of operations in the next 12 months. Nearly half (48%) are looking to invest in new technology systems or adopt a new technology strategy while a similar number are looking to overhaul client reporting systems. One in three firms are looking to overhaul their data management processes or governance. (fig 13)

The next 12 months promises to be one of firsts for many asset managers with over half (52%) replacing legacy technologies, 32% introducing an online client reporting portal and 31% deploying a data governance strategy. Many companies will be dipping their toe in the water when it comes to outsourcing with 29% looking to outsource part of their technology operations and 12% outsourcing their marketing or communications function. (fig 14)

Fig 13: Do you plan to overhaul any of the following areas of your business in the next 12 months? (check all that apply)

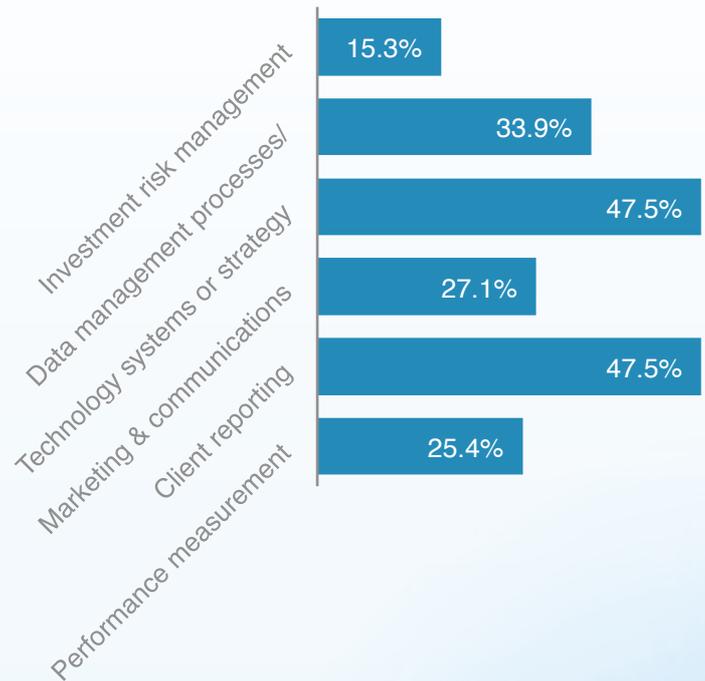


Fig 14: Is your organization looking to undertake any of the following for the first time in the next 12 months? (Check all that apply)



Positioned for success

The respondent sample is generally optimistic when it comes to their own company's ability to capitalize on market opportunities with the vast majority (73%) saying they are well positioned. However, a significant minority (10%) do not believe they are well positioned and a further 18% are unsure. (fig 15)

Looking at specific aspects of their operations, over half describe their companies as 'good' at managing investment risk (59%), communicating with clients (58%) and marketing and PR (53%). They are, on the whole, less positive on their firms' use of data with 36% saying they are poor at data visualization and a quarter (25%) describing their data management as 'poor'. Client reporting is also frequently mentioned as an area where companies are deficient with 25% describing it as 'poor'. Given this, it is unsurprising that client reporting is identified as a key focus area for improvement in the next 12 months. (fig 16)

Fig 15: Do you believe that your company is well positioned to take advantage of market opportunities?

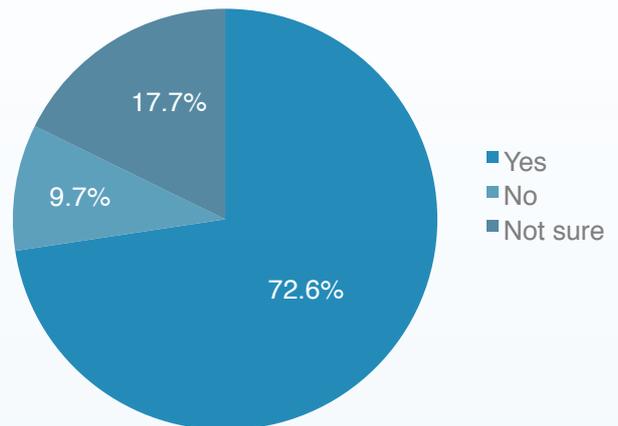


Fig 16: How would you rate the overall quality of each of the following within your company?



About

OsneyMedia

Osney Media is a provider of world class learning and networking events. Specialising within Financial Services, it hosts The Summit for Asset Management (TSAM) - a global series of conferences taking place in New York, Boston, London and Hong Kong. TSAM brings together stakeholders from across asset management and the wider buy-side community, in addition to the industry's leading service and solution providers. Catered for professionals across the value-chain of the business, TSAM co-locates 6 conferences focused on: Technology & Operations; Data Management; Marketing & Sales Communications; Client Reporting & Communications; Performance & Risk; Regulations & Compliance.

In addition to these events, Osney Media host two key industry groups: The Performance & Risk Association (PRA) and Ops50.

For more information, please contact us at info@osneymedia.com or call the main switchboard on +44(0) 207 336 4600.

BackBay Communications

BackBay Communications is a strategic branding, marketing and public relations firm focused on the financial services sector including financial technology companies, asset managers, investment advisors and private equity firms. BackBay takes a brand-centric approach to developing messaging and building integrated communications programs.

BackBay offers a unique combination of content and creativity. BackBay's services include public relations, branding, website development, marketing materials, videos, advertising and social media. BackBay is highly regarded for its thought leadership initiatives and relationships with the major business media. With offices in Boston, London and New York, and international agency partnerships, BackBay serves financial and professional services companies around the world.

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