CACEIS provides high quality support for clients’ day-to-day business needs. However, we believe we also have a responsibility to leverage our market knowledge and resources to help clients understand and prepare for the future environment in which they will do business. It is for this reason that we are continuing our series of industry research papers, working with PwC Luxembourg, and publishing new research on where the asset management industry is headed.

Our research is based on extrapolation of demonstrable trends identified in the industry as well as clear shifts in related sectors, such as banking and insurance, which will have a noticeable impact on the asset management industry. In addition, regulatory issues, macro-economic trends and evolving social demographic factors are taken into consideration so as to obtain a detailed picture of the forces shaping the industry and new opportunities that present themselves. At each stage, the report provides practical recommendations for taking advantage of the opportunities identified.

The decision to focus our research paper on asset management’s future development prospects was driven as much by the need to better understand the opportunities opening up for asset management firms, as by the need to be aware of the pitfalls and issues that may hamper future development of the industry. We believe that the insight and recommendations this report provides will help asset management clients define a strategy that is both effective and realistic in its ambitions.

The asset management industry has recovered well after the 2008 financial crisis and even has the potential to take on a greater role within both the global financial services sector and the global economy. This potentially expanded role, however, will depend on the ability of the industry to capitalise on opportunities resulting from the crisis and to effectively negotiate any subsequent new regulations.

In this report, CACEIS and PwC have highlighted some of the opportunities emerging in the industry today: the rise in pension assets inspired by a move from pay-as-you-go schemes toward funded pension plans, a growing need for infrastructure financing due to the ongoing urbanisation of the world and increased potential for SME financing brought on by higher capital requirements for banks. Additionally, digital technology is impacting asset management and opening doors for those adroit enough to walk through them.

In order to take advantage of these opportunities, however, the industry will need to reassess its relationships with key stakeholders and evaluate the suitability of its operational capabilities and strengths. An increasing role for the asset management industry in the global economy will also depend on how the industry is regulated in the future. If policy makers apply the same rules to asset management as they do to banks, the consequences could be debilitating given that these two entities operate under entirely different business and financial models. Additionally, this approach could diminish the role asset management can play in supporting the recovery and development of the economy.

In summary, we hope this report initiates fruitful dialogue among asset managers, stakeholders and policy makers. Indeed, the aim is to inspire the industry to strengthen its role in providing sustainable solutions to some of the far-reaching problems facing governments and the global economy today.

François Marion  
CACEIS, Chief Executive Officer

Steven Libby  
PwC Partner, Asset Management Leader

MESSAGE FROM THE AUTHORS

François Marion  
CACEIS, Chief Executive Officer

Steven Libby  
PwC Partner, Asset Management Leader
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The time is right for asset management to move into the spotlight and increase its role in supporting the global economy. However, the asset management industry will need to ensure that regulators and policy makers do not overlook the industry, thereby impeding its efforts to play a more decisive role within the global economy. In our current economic climate, the industry must build and strengthen its trust with the public, regulators and policy makers and provide innovative, sustainable solutions. As asset management moves into the spotlight, it will have to rethink its relationships with key stakeholders (investors, distributors, regulators and policy makers) and evaluate, then adapt, its operations and business models to the new paradigm.

Several notable changes are disrupting the financial services industry as it recovers from crisis and regains its footing: banks are facing increasing lending constraints while demand for financing is on the rise, which is causing gaps to form in areas of the economy that lack funding, assets in pension funds and SWFs (Sovereign Wealth Funds) are growing as clients seek out long-term investments, and younger investors are embracing digital solutions.

FINANCING THE ECONOMY

In our post-crisis world, banks are curtailing their lending, but the need for financing has not diminished. The credit gap for SMEs (small- and medium-sized enterprises) was estimated to be $1.5 - $1.8 trillion globally in 2011 compared to $1.3 - $1.6 trillion in 2010. Additionally, according to the World Economic Forum, $2 trillion is needed each year to fund global infrastructure. This means, unless a solution is found within the next decade, the global economy will fall $20 trillion short by 2025. In the absence of available funding for infrastructure and SMEs, a financing gap is evolving, and asset management is ideally situated to fill it. Asset managers can effectively compensate for dwindling sources of traditional funding and address the growing demand for credit in dynamic parts of the economy.

To leverage on the new opportunities facing the industry, they will have to pay careful attention to their relationships with policy makers and collaborate with public authorities to create effective investment frameworks that allow them to realise their full potential. While regulators are aware of the central role the asset management industry could play in mobilising capital, they often see asset management through the same lens with which they view banks. Convincing regulators that the two are different, therefore, will be a priority.

TAKING A LONG VIEW OF THINGS

Aside from bank deleveraging, another force is impacting the financial industry today: the growing importance and assets in pension funds and SWFs. According to PwC estimates, assets of pension funds and SWFs (Sovereign Wealth Funds) are growing as clients seek out long-term investments, and younger investors are embracing digital solutions.

EXECUTIVE SUMMARY

The increasing importance of long-term funding casts asset management expertise into the spotlight. Asset managers will therefore, have to clearly demonstrate the benefits they can offer by becoming adept at mobilising long-term investors through meeting their needs with tailored solutions.

The digital era is changing the way investors and other key stakeholders of the industry access information and evaluate investment opportunities. Entering the digital era will allow asset managers to scale up operations, increase insights, improve investor targeting and stand up to potential competition from high-tech companies. Additionally, big data will play an important role in the future of asset management. Data analytics has become a highly specialised field that can optimise investing and help asset managers comply with regulations through more accurate reporting.

These opportunities do not, however, come without substantial effort. To leverage on wealth of information stored within most asset management firms, asset managers will have to rethink their operational capabilities and consider partnering, when appropriate, with the high-tech sector to deliver enhanced service to their clients.

The current state of affairs gives rise to several pressing questions: can the asset management industry develop the necessary capabilities to seize these opportunities? How should the industry be regulated in the new economy? Will it be able to provide innovative solutions that meet the needs of governments and the economy?

1 IFC Enterprise Finance Gap Database, 2011
2 World Economic Forum, “Paving the Way: Maximizing the Value of Private Finance in Infrastructure,” 2010
INTRODUCTION
The ramifications of the recent global financial crisis are still being felt today, yet economic optimism is slowly starting to return. But the financial services industry, one of the hardest hit, is still facing challenges due to the decline of the global economy, the Eurozone’s sovereign-debt crisis and an avalanche of regulations. Despite this, the consequences of current developments and long-term trends could result in opportunities that catapult asset management into the spotlight.

As regulations come into force, banks are lowering their high pre-crisis leveraging levels and restricting their lending activities to comply with new capital requirements. Traditional sources of financing are drying up and securing loans has become a primary challenge, especially for many SMEs. This setting welcomes non-banking solutions, creating an opportunity for asset management to move into the spotlight.

Additionally, the ongoing urbanisation of the world, especially in SAAAME (South America, Africa, Asia and the Middle East) countries, and the need for infrastructure renewal in developed countries amid constrained government budgets and reduced bank lending are producing financing gaps that asset management is ideally suited to fill. The rise of state directed capitalism and the rapid growth of sovereign wealth funds (which is set to continue) will also create favourable circumstances for asset managers to tap into a viable pool of assets.

Aside from regulatory reforms and financing gaps, another, more natural force, is upending the financial industry: the aging population is increasing savings for old age provision. In the United States, more than 50 million U.S. workers are active 401(k) (retirement plans) participants. As of September 2012, 401(k) plans held an estimated $3.5 trillion in assets and represented approximately 18% of the $19.4 trillion U.S. retirement fund market. The habit of saving for one’s future and investing for retirement is now also gaining momentum in Europe and beyond, which will result in the proliferation of assets in pension funds, one of the major institutional investor segments of the industry.

On the opposite side of the age spectrum is the younger demographic that has come of age during one of banking’s darkest hours. These investors are not squeamish about seeking out alternative solutions and do not shy away from digital investment technology. The digital era is changing the way people access fund information. Asset managers who embrace these changes can scale up operations, target investors more effectively and partner with high-tech companies to deliver cutting edge services. But these opportunities require a sufficient degree of effort; to leverage them, asset managers will have to learn from the high-tech sector how to provide easy access and cost-effective solutions while addressing issues like privacy and security.

Asset managers have the opportunity to move into the spotlight. A leading role, however, entails increased responsibility and, hence, more regulatory scrutiny. Therefore, asset managers hoping to leverage these changes will have to win the trust, not only of investors but of policy makers as well.
FINANCING THE ECONOMY
The falling supply of traditional sources of financing and growing needs in areas like infrastructure and SME funding have created a gap in the economy that provides a solid investment opportunity for the asset management industry.

**TRADITIONAL FINANCING SOURCES ARE DRYING UP**

To a large extent, the economy is reliant on banks and the government for financing, but in our post-crisis world these sources are dissipating. The disruption of new banking regulations already can be seen in reduced balance sheets, limitations on availability of credit and increased costs. The pace of European bank deleveraging accelerated in 2013 with banks cutting €2.2 trillion from their balance sheets, of which €1 trillion were outstanding loans, a 6.9% year-over-year (YoY) fall. Further effects will become more apparent in the coming years as the directives are fully integrated. See Figure 1.

**FIGURE 1**

ANNUAL PERCENTAGE CHANGE IN ASSETS AND LOANS OF EURO AREA MFIN (MONETARY FINANCIAL INSTITUTIONS)

<table>
<thead>
<tr>
<th>Year</th>
<th>Asset Change</th>
<th>Loan Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>-5.0%</td>
<td>-10.0%</td>
</tr>
<tr>
<td>2008</td>
<td>-11.0%</td>
<td>-15.0%</td>
</tr>
<tr>
<td>2009</td>
<td>-10.0%</td>
<td>-12.0%</td>
</tr>
<tr>
<td>2010</td>
<td>-5.0%</td>
<td>-10.0%</td>
</tr>
<tr>
<td>2011</td>
<td>-4.0%</td>
<td>-9.0%</td>
</tr>
<tr>
<td>2012</td>
<td>-5.0%</td>
<td>-10.0%</td>
</tr>
<tr>
<td>2013</td>
<td>-6.0%</td>
<td>-11.0%</td>
</tr>
</tbody>
</table>

Source: PwC analysis based on ECB database

One of the most significant legacies of the 2008 financial crisis is the multitude of regulations that have been put in place to protect investors by reducing systemic risks and collateral damage from banks that are “too big to fail.” Many of the new requirements for banks obligate them to maintain higher capital ratios and de-risk their balance sheets.

Indeed, the crisis and subsequent legislation have led to major changes in banks’ attitudes toward risk and, consequently, their investment strategies. As they strive to adhere to stringent regulations, banks in Europe are abandoning traditional business lines for the safe harbour of compliance. This is creating a gap in the industry, which asset management is ideally suited to fill.

The falling supply of traditional sources of financing and growing needs in areas like infrastructure and SME funding have created a gap in the economy that provides a solid investment opportunity for the asset management industry.

**FIGURE 2**

GENERAL GOVERNMENT NET LENDING/BORROWING AS PERCENT OF GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>General Government Net Lending/Borrowing (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>-4.0%</td>
</tr>
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<tr>
<td>2004</td>
<td>-4.0%</td>
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<tr>
<td>2005</td>
<td>-3.0%</td>
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<tr>
<td>2006</td>
<td>-2.0%</td>
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<tr>
<td>2007</td>
<td>-1.0%</td>
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<td>2008</td>
<td>0.0%</td>
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<td>2009</td>
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<td>2010</td>
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<tr>
<td>2011</td>
<td>3.0%</td>
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<td>2012</td>
<td>4.0%</td>
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<tr>
<td>2013</td>
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Source: PwC analysis based on IMF

There is a legitimate concern now, however, that as the economy rebounds and more enterprises begin looking for financing, banks may be unwilling or unable to meet these needs. This trend is likely to continue for several years. A prime example of this is the Basel III leverage ratio framework (which compares banks’ core capital to their risk-weighted assets), which is in the process of being fully implemented. The directive restricts the build-up of leverage in the banking sector while offering a non-risk based backstop measure. Essentially, this means that in order to become compliant, the euro area’s banks need to shed about €3.2 trillion in assets by 2018, according to the Royal Bank of Scotland.

Additionally, capital requirements are forcing banks to reconfigure balance sheets. Several national regulators are adding their own demands to those of CRD IV (Capital Requirements Directive), an EU legal framework based on Basel III that includes enhanced requirements for the quality and quantity of capital, a basis for new liquidity and leverage requirements, new rules for counterparty risk and new macro prudential standards, including countercyclical capital buffers and additional capital buffers for systemically important institutions. CRD IV provides more detail than Basel III on the factors which member states may take into account when determining the level of any national buffer, such as the ratio of credit to GDP and risks to financial stability. An unintentional result of these regulations is a reduction in bank lending.

**GOVERNMENTS ARE TIGHTENING THEIR BELTS DUE TO DEBT PRESSURES**

During the years immediately following the crisis, gross government debt in the major advanced economies and the European Union countries increased (2007-2012). See Figure 2.

In short, the crisis has negatively affected government budgets, which has led to a decrease in public spending. The majority of governments (with the exception of the MENA (Middle East and North Africa)) have been in a net borrowing position since the beginning of 2007. However, the biggest difference between revenues and expenditures (making up the position of the government as a net lender or borrower) was recorded in 2009.

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GENERAL GOVERNMENT NET LENDING/BORROWING AS PERCENT OF GDP

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</tr>
<tr>
<td>2007</td>
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</tr>
<tr>
<td>2013</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

Source: PwC analysis based on ECB database

*PwC analysis based on ECB database

**Methodology:** Net lending (lending) is calculated as revenue minus total expenditure. This is a core Government Financial Statistic balance that measures the excess to which general government is either putting financial resources at the disposal of other sectors in the economy and non-residents (net lending), or utilizing the financial resources generated by other sectors and non-residents (net borrowing). This balance may be viewed as an indicator of the financial impact of general government activity on the rest of the economy and non-residents (GFSM 2001, paragraph A.17). Net lending (in borrowing) is also equal to net acquisition of financial assets minus net incurrence of liabilities.

**RBS, “The long way to deleveraging: we are only half way there,” 2013**
As traditional sources of money have evaporated, financing gaps have emerged in some parts of the economy, especially for SMEs and infrastructure projects where the demand for financing is growing. The credit gap for formal SMEs has increased from an estimated $1.1 - $1.6 trillion in 2010 to $1.5 - $1.8 trillion in 2011. Additionally, the annual infrastructure financing gap is $2 trillion globally.6

**The Credit Gap for Formal SMEs is Around $1.5 Trillion Globally**

There are between 420-510 million informal and formal MSMEs and non-employer firms. In 2011, the gap in credit financing of formal microenterprises was $0.5-0.6 trillion globally - the majority attributed to developing economies ($0.4 - 0.5 trillion). The credit gap for formal SMEs was estimated at $1.5 - $1.8 trillion (see figure 3).

The value of the gap in credit financing for all MSMEs, including micro, informal MSMEs and non-employer firms is estimated to be $3.3 - 6.5 trillion globally, leading us to ask an obvious question: how can we build a bridge large enough to span a chasm this vast?

In absence of an appropriate pan-European capital market that could offer an adequate alternative source of funding to Europe’s SMEs, new regulations intending to bolster bank productivity could actually put them in an even more vulnerable position by weakening their role in credit intermediation. In this scenario, the asset management industry could likely step in and serve everybody’s interests.

There is also an ancillary benefit to asset management moving into this area the diversification of funding sources can reduce systemic risks by distributing the burden of financing the economy. This is particularly important in Europe where, at present, companies are very bank-reliant for their financing.

In the U.S., where the economy is only about 25% bank financed, this substitution is already well advanced. In Europe, on the other hand, about 75-80% of the economy is still bank financed.9 That said, BlueBay Asset Management announced a move into corporate lending with plans to offer direct loans to SMEs in the UK and Northern Europe. Also, the UK government launched a £1.2 billion business finance partnership scheme with seven asset managers that co-invested in a fund lending directly to businesses with a turnover of up to about £100m.10

Mainstream asset managers have also entered into private debt, a field traditionally dominated by alternative managers. For example, French asset management firms Amundi and Tikehau have formed a partnership based around private debt management in a bid to target institutional and retail clients. Amundi will provide its clients with access to Tikehau Investment Management’s bespoke private debt product range targeting all client segments from retail clients to institutional investors and sovereign wealth funds. Generalist managers, like Axa, Allianz Global Investors, BlackRock, Invesco, Generali, and BNP Paribas Investment Partners now account for at least half of the market in countries such as Italy and France.

However, a part of the solution will have to be addressed at the government level, where policy makers and regulators must improve SMEs access to capital markets, (e.g. ease the issuance of bonds). Simultaneously, policy makers need to find incentives to mobilise institutional investors, such as pension funds. Although we believe that SME lending will still be provided to a large extent by banks in the near future, there is an opportunity for the asset management industry to win a significant portion of this $1.5 trillion investment gap.

During 2011, hedge fund managers accounted for 60% of the $45 billion raised globally by this sector, with specialised credit managers and private equity houses sharing the remainder. However, in the first half of 2013, mainstream asset managers already captured fully 25% of the $12 billion raised during that period, leaving hedge fund managers with a mere 8% of the market (specialist credit houses and private equity groups remained on par with one-third share each).11

Although we believe that SME lending will still be provided to a large extent by banks in the near future, there is an opportunity for the asset management industry to win a significant portion of this $1.5 trillion investment gap.


2. OECD, “Bank deleveraging, the move from bank to market-based financing and SME financing,” 2012


4. Financial Times, “Generalist asset managers win a significant portion of this $1.5 trillion investment gap,” May 11, 2014

5. OECD, “Bank deleveraging, the move from bank to market-based financing and SME financing,” 2012


7. IFC Enterprise Finance Gap Database, 2011

8. PwC

9. OECD, “Bank deleveraging, the move from bank to market-based financing and SME financing,” 2012

10. Financial Times, “Generalist asset managers win a significant portion of this $1.5 trillion investment gap,” May 11, 2014

11. Financial Times, “Generalist asset managers win a significant portion of this $1.5 trillion investment gap,” May 11, 2014

FIGURE 3

FORMAL AND INFORMAL MSMEs CREDIT GAP ($ TN)

| Source: PwC analysis based on IFC Enterprise Finance Gap Database (2011) |
| Informal MSMEs | Developing countries | OECD countries |
| Formal MSMEs | |
| Formal microenterprises | |

0 1 2 3 4
Emerging economies are in dire need of physical infrastructure to accommodate growing populations and developed countries continue to need modifications and modernisation of their aging infrastructure. Technological infrastructure is an entirely different and equally pressing issue. The sums involved in addressing these problems are staggering, and bridging this financial gap is a primary concern for governments and stakeholders. Asset managers are already acquiring such business from banks, in addition to their traditional infrastructure business. For instance, in recent years, several asset managers started buying infrastructure debt when banks began turning away from sizeable government projects.

The shortfall in government budgets coupled with the derisking of the banking system and an increasing global infrastructure demand have created a gap in infrastructure financing. According to the World Economic Forum, $2 trillion is needed each year to fund global infrastructure. See Figure 4. This means, unless major efforts are undertaken to close the gap within the next decade, the global economy will fall $20 trillion short by 2025.

A SIGNIFICANT PART OF INFRASTRUCTURE DEMAND WILL COME FROM SAME* COUNTRIES

The bulk of the demand for infrastructure financing can be attributed to the urbanisation of emerging economies. According to a United Nations report, World Population Prospects, the current world population of 7.2 billion is projected to increase by almost one billion people within the next twelve years, reaching 8.1 billion in 2025 and 9.6 billion in 2050. The urban population is projected to increase to 4.6 billion in 2025 and 6.3 billion in 2050. Most of this growth will occur in developing regions, which are projected to increase to 3.7 billion in 2025 to 5.2 billion in 2050. An increase of this magnitude will put massive pressure on infrastructure and the consequent need for financing.

*World Economic Forum, “Paving the Way: Maximizing the Value of Private Finance in Infrastructure,” 2010

Source: UN Population Division, World Urbanization Prospects

Source: UN Population Division, World Urbanization Prospects
ENHANCING INTERACTIONS WITH REGULATORS AND POLICY MAKERS

While the asset management industry has the opportunity to play a greater role in financing the economy, this will be dependent on constructive working relationships with policy makers, public financial institutions and regulators. A certain degree of synergy is inevitable as both financing the economy and ensuring the stability of the financial systems rank high on government agendas.

WORKING WITH POLICY MAKERS TO PREVENT UNNECESSARY RESTRICTIONS

The growing importance of the asset management industry increases the risk of being regulated as banks, which would unnecessarily impose sizable constraints on investment flexibility and increase costs. In its current state, the asset management industry is already highly regulated and does not pose a systemic risk to the economy. Therefore, regulations intended for banks may not necessarily apply to the asset management industry.

Asset managers are different from banks . . .

To begin with, the leverage incurred by investment funds is significantly less than the leverage incurred by banks. In fact, asset managers make little use of leverage, the bane of the financial crisis. Andrew Haldane of the Bank of England recently delivered a speech which underscored this point. “History is not littered with examples of failing funds wreaking havoc in the financial markets,” he said.14

Secondly, mutual funds or UCITS simply do not fail the same way banks do. Unlike banks, asset managers are agents, not principals and they are not compromised if their investors lose money. “As an agency function, asset managers do not bear credit, market and liquidity risk on their own. Fluctuations in asset values do not threaten the solvency of an asset manager as they would a bank” said Andrew Haldane. On the contrary, investors fully expect to absorb losses along with gains. Whereas people who deposit funds into an insured bank savings account expect to retain their principal plus modest interest, those who invest in the market have very different expectations.

Third, the inherent structure and regulation of mutual funds and their managers protects investors, but also limits systemic risks and risk transmission. Each fund is legally separate from its manager and the manager’s other funds, so investment returns in one fund do not spill over to others. Fund assets are held separately by an eligible custodian and, therefore, cannot be used to cover losses incurred by the manager.15 Finally, regulated fund structures such as UCITS generally abide by diversification requirements of the regulators, which mitigate potential losses due to concentration risks.

It is important to remember that, although asset management is taking over business abandoned by banks, it remains a separate entity with its own unique framework and business model. Therefore, client solutions designed for banks will not necessarily be appropriate for asset managers.

. . . therefore, asset managers require different regulations

On 8 January 2014, in response to a request by the G20 Leaders, the Financial Stability Board (FSB), in consultation with the International Organization of Securities Commissions (IOSCO), developed methodologies to identify systemically important non-bank, non-insurer (NBNI) financial entities. The proposed methodologies sought to extend the Systemically Important Financial Institutions (SIFI) framework that currently covers banks and insurers of all other financial institutions.

Specifically, Blackrock and Fidelity Investments were singled out by U.S. regulators who conducted a study of the firms to determine whether or not they pose a potential risk to the financial system. The Financial Stability Oversight Council’s (FSOC) decision will no doubt be followed by protestations from the asset management industry. Vincent Lovero of Fidelity responded, “We continue to believe that the asset management industry, and mutual funds in particular, do not present the type of risk that the FSOC was designed to address.” Asset managers are among non-bank financial companies that the council is empowered by law to evaluate to determine whether their failure could threaten the entire financial system and thus require Federal Reserve oversight.16

While regulators are aware of the central role the asset management industry could play in mobilising capital, they often place banks and asset managers in the same camp. Legislation that comes from the assumption that asset managers should be treated like banks could be at the very least inconvenient and at the worst seriously damaging. Therefore, it is incumbent upon asset managers to strengthen their relationships with policy makers in order to further open the channels of communication and advocate effectively on behalf of the industry and its various constituents.

INCREASING COLLABORATION WITH PUBLIC AUTHORITIES TO ADDRESS FINANCING NEEDS

Collaboration between asset managers and governments or public authorities in financing the economy (e.g. as a form of Public Private Partnership (PPP)) is a win-win partner- ship. According to Preqin, at the end of 2012, 114 closed PPP infrastructure funds had raised a total of $62 billion, and there were 53 PPP infrastructure funds targeting another $32 billion.17

For instance, PPP/PFI-focused infrastructure funds reported impressive numbers for aggregate capital raised at year end 2012: Global Infrastructure Partners reported $313 billion, Macquarie Infrastructure and Real Assets posted $6.1 billion and EDF Funds Management reported $4.1 billion. The tightening of credit lines from banks can be a genuine opportunity for asset managers. With banks shying away from investments like infrastructure, asset managers with institutional client bases are ideally suited to meet this need. Emerging markets, in particular, present an opportunity for asset managers. Governments will need capital to finance their infrastructure projects and they are looking increasingly to the capital markets for solutions. Asset managers will do well, therefore, to increase collaboration with public entities and organisations in these regions to create suitable investment instruments that can establish channels to bridge the financing gap.

14 Andrew G. Haldane, “The age of asset management?” speech delivered April, 2014
15 Paul Schott Stevens, 2014
16 Andrew G. Haldane, “The age of asset management?” speech delivered April, 2014
17 Bloomberg, “Blackrock, Fidelity face initial risk study by regulators” , November 2013
18 Preqin, “Infrastructure Spotlight”, 2013

Authority to Address Financing Needs
MOBILISING LONG-TERM INVESTORS
As asset managers begin to fill in the gaps left open by banks, they will have the opportunity to serve a variety of growing sources of money, particularly as they move into long-term investments. For example, institutional investors, such as pension funds, banks and SWFs represent an important source of long-term finance. Worldwide pension assets are rising as governments and policy makers emphasise and incentivise individual retirement savings and the public becomes more aware that pay-as-you-go systems will not suffice to maintain standards of living throughout retirement.

**INCREASE IN PENSION FUNDS ASSETS**

Continued increases in life expectancy and a decreasing birth rate will ensure that the old-age dependency ratio, which measures the number of elderly people as a share of those of working age, is predicted to rise sharply in most countries over the next 40 years. See Figure 6. This trend is putting an immense constraint on the pay-as-you-go retirement schemes that could facilitate a shift towards funded pension plans. Whereas funded pension schemes are already the norm in the U.S., Australia and some other countries, a large number of European countries have just started to encourage individual old age savings.

According to PwC estimates, retirement assets increased from $21.3 trillion in 2004 to $33.9 trillion in 2012 and are estimated to reach nearly $60 trillion within the next five years. Relative growth in new pension assets will be strongest in Latin America and Asia Pacific with compounded annual growth rates above 9% each, as these markets are in a developing stage and have plenty of room to grow. That said, the U.S. and Europe will still have the largest pools of assets in 2020 - above $30 trillion in North America and close to $14 trillion in Europe. See Figure 8.

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**MOBILISING LONG-TERM INVESTORS**

**Figure 6**

**OLD-AGE DEPENDENCY RATIOS** FOR DIFFERENT WORLD REGIONS (2010 TO 2050) AS A %

<table>
<thead>
<tr>
<th>Region</th>
<th>2010</th>
<th>2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>50</td>
<td>60</td>
</tr>
<tr>
<td>Northern Europe</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Latin America-Asia</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>Oceania</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>Africa</td>
<td>10</td>
<td>15</td>
</tr>
</tbody>
</table>

*The old-age dependency ratio is the ratio of older dependents – people older than 64 – to the working-age population those ages 15-64.

**Figure 7**

**GLOBAL PENSION ASSETS AS A % OF GDP**

This map illustrates global pension assets as a percentage of GDP. There are large discrepancies from country to country and only four are over 100%. Large markets like the U.S., the UK, Australia, Canada and the Netherlands have percentages above 50%, while a large number of European countries stand below 10% and countries including China, France, Pakistan and Greece report less than 1%. That said, estimates predict sizeable increases in global allocations to pension funds during the next decade.

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1. The old-age dependency ratio is the ratio of older dependents-people older than 64-to the working-age population those ages 15-64.


Source: PwC analysis based on OECD and Allianz data as of end 2012

Note: 2011 data for Japan, Gibraltar, Lichtenstein, Russia, South Africa, Ukraine, Malaysia, Hong Kong, Singapore and Lithuania
A window of opportunity has opened for asset managers to connect the supply of pension funds with long-term investment demands. While the pension fund market in the U.S. is very mature, the pension fund systems in Asia and Latin America are still developing. Europe is following America in this area as people are becoming more aware of the need to save for their retirement.

According to the European Central Bank, in addition to direct mandates to asset managers, the proportion of euro area pension funds and insurers investing in investment funds has increased steadily from 18% to 26% during the past five years. See Figure 9. The growing pie of euro area pension funds and insurers investing in investment funds has coupled with the increasing share of those investing through investment funds rather than directly equals an opportunity for asset managers.

As pension funds seek to diversify, interest in infrastructure is gaining traction. According to a recent OECD pension fund survey, infrastructure investment was $72.1 billion in 2012. 33 of 69 surveyed funds reported an allocation to unlisted infrastructure equity.20

Investing pension fund money in infrastructure, though, is a relatively new concept. Although it is an obvious and natural solution to the problem of pension fund diversification - infrastructure projects take a long time horizon, but deliver cash flows over an extended period, while pension funds have long-term liabilities to meet - risk also plays a big part in this strategy. Pension funds are dependent upon reliable returns to pay retirees, so uncertainty does not fit well into this equation. Public policy also plays an important role in this area since political decisions directly impact infrastructure investments.

A prime example of this growing trend is the Government Pension Investment Fund of Canada, the world’s largest pension fund. In February, 2014, the fund’s managers made the decision to invest in riskier assets instead of low-yielding government bonds. Together, the Ontario Municipal Employees Retirement System and the Development Bank of Japan invested in infrastructure projects through an investment trust fund.21

Pension funds are already investing not only directly in infrastructure projects, but are also using the expertise of asset managers to invest in such projects. Currently 34% of pension funds’ infrastructure investments come through unlisted infrastructure funds.
FOCUS ON INFRASTRUCTURE IN SWFs

According to Preqin, the proportion of SWFs investing in infrastructure remained relatively constant during 2012-13. Over half of the SWFs they tracked were actively investing in the infrastructure asset class. See Figure 13. Of those, 84% invested in infrastructure assets directly, demonstrating the high level of experience and the resources available to SWFs. See Figure 14. Within this 84%, one-third only invested directly, whereas half gained exposure through a mix of direct investments and commitments to infrastructure funds. Just 16% of SWFs invested in infrastructure solely via commitments to funds.

As resource rich governments and rising economies continue to accumulate wealth, we will see new SWFs being setup (especially in SAAAME countries) and a further increase in AuM in existing funds. AuM in SWFs are estimated to reach $8.9 trillion globally within the next five years, (i.e. a 7% compound annual growth rate).23

Deepening the understanding of the different types of SWFs as well as their diverse needs, objectives, cultures and risk appetites will help asset managers to secure these clients for the long term. Those asset managers who can demonstrate operational strength in risk management, compliance and reporting in addition to good investment performance will be more attractive to SWFs.

THE RISE OF SWFs

SWFs are another segment of investors gaining the attention of asset managers. There has been a significant growth in SWFs in recent years with approximately 53 new funds being formed since 2000, bringing the global total to 62, according to the Sovereign Wealth Fund Institute. Primarily, they invest either to achieve attractive returns on investment or to generate strategic advantages for their country or both. However, SWFs can differ significantly from one to another. Invesco22 categorises SWFs as follows: Investment sovereigns, those who are purely interested in attractive investment returns; Liability sovereigns, which have some form of defined or undefined income requirement (liabilities); Liquidity sovereigns, which have liquidity (or stabilisation) objectives alongside investment objectives; and Development sovereigns, which have local development objectives for their country. These individual types of SWFs differ according to investment preferences and horizons, risk appetite, asset allocation and expected return on investment.

Although SWFs also saw their assets diminish during the peak of the crisis, the AuM have recovered and surpassed pre-crisis levels, growing to over $5 trillion by 2012 due to the inflow of new money as well as return on investments. SWFs constitute a major opportunity for the asset management industry because they are long-term and stable investors with almost no liabilities for some of them. According to Pension and Investment Magazine, 45% of SWFs assets are managed by external managers. See Figure 12.

Alternative assets such as private equity, infrastructure, real estate and hedge funds make up a significant part of the portfolios of these investors. According to Preqin, the portion of SWFs investing in private equity in 2013 was 51%, infrastructure was 57%, and real estate and hedge funds amounted to 54% and 31% respectively. See Figure 13.

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**FOURTH QUARTER 2013 PWC HORIZON REPORT**

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*Source: Pension and Investment Magazine*

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22 Invesco, “Sovereign Asset Management Study”, 2013

CLIENTS’ NEEDS WILL CONTINUE TO BE A HIGH PRIORITY

Further transparency and a renewed focus on investors rather than products are only some of the positive outcomes of the financial downturn. As asset managers offer a channel for long-term investors to support the financing needs of the economy, expertise in new areas will be essential. Gaining the trust of investors and delivering solutions tailored to their needs will also be important.

GAINING THE TRUST OF INVESTORS IS ESSENTIAL

Financing the economy is a massive responsibility that cannot be shouldered by banks in the traditional way it has been in the past. Asset managers who want to play a vital part in this process will be given the chance to do so. But this opportunity does not come without obligations. Governance and transparency makeup the bedrock of trust that will support financing alternative assets like infrastructure and SMEs. This will be particularly important for managers who deal with illiquid and riskier assets. To capitalise on this transition and succeed under the restrictions of new regulations, asset managers will have to be copious about complying with governance and transparency requirements.

Asset management is a performance-driven industry which demands results, but institutional investors have become more risk-sensitive and require the utmost transparency while, at the same time, expecting positive returns delivered by investment vehicles that are appropriately suited to their goals. In a previous CACEIS/PwC survey, risk transparency was identified as the most important criteria for investors, implying that the assets institutional investors possess must be invested strictly according to the risk principles they uphold. As institutional investors have become more proactive and scrupulous of their investments in light of poor returns, full disclosure of risk has emerged as a key concern. In this scenario, institutional investors want greater clarity of the risk undertaken as well as adherence to their risk principles. Asset managers who understand investors’ needs and how to leverage the new regulations to deliver appropriate investment schemes and communicate effectively with clients will be ahead in this arena.

DEMONSTRATING BENEFITS TO OFFER LONG-TERM INVESTORS

While mutual funds and UCITS primarily serve retail investors, institutional investors have also been keen to use such vehicles. Their simplicity along with professional management, transparency and investment protection provide great benefits to institutional investors. According to the OECD, 28.5% of global pension assets are invested through investment funds. See Figure 16. However, there is room for asset managers to increase that share given the discrepancies by country (e.g. 50% in Dutch pension assets, about 25% in the U.S. and only 1% in Czech Republic).²⁶

Therefore, as pension funds are looking for new investment opportunities and local regulators are increasing the flexibility of pension markets towards overseas investments, asset managers can demonstrate the benefits of investment funds to these investors. For example, in order to allow pension funds in Chile, Peru and Colombia to diversify their investments and invest abroad while ensuring investor protection, the local regulators permitted them to buy investment funds that are deemed safe, something that the UCITS framework can ensure. In fact, UCITS are largely recognised as best in class financial products for investor protection and offer an extremely broad scope of investment strategies in terms of asset class and geographical exposure. See Figures 17 and 18.

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²⁶Caceis/PwC, “Taking the Reins”, June 2012
²⁷OECD, 2013

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ENHANCING RELATIONSHIPS WITH POLICY MAKERS TO DESIGN APPROPRIATE INVESTMENT FRAMEWORKS

The current economic recovery is an opportune moment for asset managers to step onto the stage and play a vital role. To do this, they must work hand-in-hand with investors such as pension funds as well as with policy makers who are the drivers behind new regulations.

In the new heavily regulated environment, asset managers can benefit from working closely with policy makers to design appropriate investment frameworks that establish a connection between end-lenders and end-investors. If asset management is going to play a central role in the investment industry, policies that support its development are essential. Educating policy makers about the unique needs for financing as well as the demand for investment products could further clarify the role of the asset management industry and deepen the relationship between asset managers and policy makers.

For example, we are seeing some positive signs including the European Commission’s recent proposal of a new framework for European Long-Term Investment Funds (ELTIF). See box below.

Additionally, in recognition of the positive impact of businesses with social, ethical and environmental priorities, the European Commission established Social Entrepreneurship Funds and European Venture Capital Funds to help investors and social businesses better reap the benefits of the single market. This includes ensuring there are no unintended barriers within EU fund rules to the efficient channelling of investments to social businesses.

To bridge the financing gap in the economy, asset managers can leverage their expertise to identify the major barriers for each type of long-term investor. For example, the current regulatory environment often creates unfavourable incentives for long-term investment. In particular, accounting rules that are appropriate for investment banks and trading activities do not bode well for investors with a long time horizon, as they encourage short-term investing and even penalise long-term investors.

According to an OECD report,28 the new Basel III capital and liquidity requirements could discourage long-term banking and financial initiatives. The International Accounting Standards Board’s (IASB) mark-to-market philosophy, which attributes instant market pricing to assets whose value takes a longer time to materialise, is particularly damaging for long-term investments. Additionally, the European Solvency II Directive could reduce the appetite of insurance companies and pension funds for infrastructure assets by preventing them from properly matching long-term liabilities on their balance sheets with long-term assets.

Also, a long-term orientation by institutional investors is frequently impeded by the demands of clients who require liquidity. Perhaps an increased focus on investor education could mitigate this scenario. In order to prompt long-term investors to bridge the financing gap, asset managers can help to set up investment platforms, work with policy makers to establish regulatory mechanisms such as tax incentives for long-term investment and deliver investment opportunities that include risk transfer mechanisms.27

To further extend their influence and represent the industry, asset managers might also consider taking part in dialogues with investor associations to discuss and develop new frameworks. For example, various investor associations have been created to promote and enhance long-term investing: The Club of Long-Term Investors (CLTI), composed of 15 major supra-national financial institutions and governmental banks from all over the world, was established in 2009 and the European Long-Term Investors association (ELTI), was launched last July by 16 supranational financial institutions and governmental banks in Europe. The aim of both is to bring together worldwide institutions that focus on long-term investors in order to foster the right conditions for promoting growth in this area.

If asset managers hope to offer products that cater to investors seeking non-banking solutions, they will need to make use of adequate vehicles that are not stymied by overbearing regulations, which requires correct public policy. For example, the daily liquidity requirements of UCITS funds are not appropriate when applied to long-term investments. As already detailed in one of our previous reports,28 vehicles designed for the long-term should not only be permitted, but should be required to utilise liquidity designed with the long-term investor in mind. This could be accomplished through various measures such as managed redemption possibilities over certain time periods.

ADDRESSING THE NEEDS OF INSTITUTIONAL INVESTORS

During the past decades, the asset management industry has successfully won a notable portion of institutional clients. However, going forward asset managers will need to outperform their competitors in four key areas if they want to maintain and increase their market share with institutional investors. Specifically, asset managers must strive to deliver consistent risk-based performance and charge appropriate fees while demonstrating the utmost transparency and governance as well as a commitment to meet the needs of institutional investors through operational strength. See Figure 19.

EUROPEAN LONG-TERM INVESTMENT FUNDS

On June 26, 2013, the European Commission proposed a new investment fund framework designed for investors looking to put money into companies and projects for the long term. These private European Long-Term Investment Funds (ELTIFs) only invest in businesses that need money to be committed to them for long periods of time.

The ELTIF framework will be available to all types of investors across Europe subject to certain requirements set out in EU law. These requirements include the types of long-term assets and firms that the ELTIFs are allowed to invest in (e.g. infrastructure, transport and sustainable energy projects), how they have to spread their money to reduce risks and the information they have to give to investors. Any ELTIF manager must also comply with all of the stringent requirements of the AIFMD to provide adequate protection for its investors.
Risk-based Performance over fees
- Obligation to outperform
- Necessary to align fees to performance and investor interests
- Innovative fee structuring could result in a better take up

Transparency
- Full transparency in terms of risks, performance, holdings and fees
- Tailor reporting toward a more transparent and explanatory framework

Governance
- Ensure conflicts of interest between the investor and the asset manager are identified and prevented
- Necessary to ensure independent verification of controls and procedures

Operational strength
- Demonstrate ability to deal effectively with market and business challenges to ensure sustainable performance
- Uphold expertise and advisory role
- Ensure IT systems and processes are solid and adapted to the nature and volume of activities

Source: CACEIS/PwC, “Taking the Reins”, 2012

Figure 19
CACEIS/PwC Assurance Model
ENTERING THE DIGITAL ERA
The rise of the digital era during the past decade has led to wide utilisation of digital technologies in everyday individual and corporate life. Access to the internet, a privilege of few in the past, has become a mainstream commodity for the masses today.

**Figure 20**

**INTERNET USERS BY REGION**

The rise of the digital era has become a mainstream commodity for the masses today. The rise of the digital era during the past decade has led to wide utilisation of digital technologies across the value chain in comparison to a large number of other industries. That said, the strong growth of digital solutions, which is now permeating the retail investing arena, offers asset managers an opportunity to disintermediate banks and other distributors by engaging directly with clients. It also provides an opportunity to enhance data analytics for improved investment decisions, risk management, product development and client targeting. The successful implementation of these strategies would improve investment performance as well as introduce a new level of trust in client-investor relationships. Within the retail investor segment, elevated trust could be a building block for the asset management industry to increase its share of financial assets held by households (which has seen a decline in the past 10 years in Europe).

**Figure 21**

**HOUSEHOLDS’ TOTAL WEALTH ALLOCATION IN EUρO AREA**

But the asset management industry still lags behind in efficient usage of digital technologies across the value chain in comparison to a large number of other industries. That said, the strong growth of digital solutions, which is now permeating the retail investing arena, offers asset managers an opportunity to disintermediate banks and other distributors by engaging directly with clients. It also provides an opportunity to enhance data analytics for improved investment decisions, risk management, product development and client targeting. The successful implementation of these strategies would improve investment performance as well as introduce a new level of trust in client-investor relationships. Within the retail investor segment, elevated trust could be a building block for the asset management industry to increase its share of financial assets held by households (which has seen a decline in the past 10 years in Europe).

**COMMUNICATION AND SALES IN THE DIGITAL ERA**

Whereas communication towards investors has predominantly been seen as the responsibility of distributors, especially in the retail space, the rise of digital technologies and social networks has created a channel that allows investors to easily obtain information and interact directly with asset managers.

Additionally, online investment communities that allow investors to connect with one another to exchange information are giving rise to the digital investor who is both well informed and critical of the asset management and financial advice industries.

In many respects, digital investing is a new frontier for asset management and provides new opportunities for asset managers to engage not only in direct communication with investors, but also to team up with technology players to increase sales and disrupt the market. On the flip side, if asset managers fail to take full advantage of the digital era, they might face serious competition from a new breed of entrants emerging from technology firms that understand the value and efficient utilisation of new technologies to create a unique client experience within the industry. However, this is mitigated by the fact that technology firms will have to overcome the regulatory and cost barriers of entering the financial services industry.

**SUCCESSFUL MODELS FOR LEVERAGEING DIGITAL TECHNOLOGY**

A number of asset managers and new entrants within the industry have availed themselves of the advantages of leveraging new technologies to gain market share and disrupt the current status quo. In China, Alibab (an online e-commerce company with the same capabilities as Amazon, eBay and PayPal) bought the majority shareholding in Tianhong asset management (a small asset manager with less than $20 billion in assets) and subsequently launched the Yu'e Bao money market fund. Alibaba now gives its 300 million real-name* Alipay users access to the fund via its online platform. The combination of a vast internet savvy client base, an attractive asset management product and a simplified transaction process has resulted in a success story. Launched just ten months ago, Yu'e Bao has attracted more than 81 million investors. By comparison, China’s A-share market boasts about 67 million investors after 23 years of development.

The combination of a vast internet savvy client base, an attractive asset management product and a simplified transaction process has resulted in a success story. Launched just ten months ago, Yu'e Bao has attracted more than 81 million investors. By comparison, China’s A-share market boasts about 67 million investors after 23 years of development.

* A “real-name” is certified and linked to a Chinese bank account. Currently, there are 800 million registered accounts with Alipay that are not necessarily certified or backed by a bank account.
In addition to fruitful partnerships with firms outside of the industry, disruptive models such as mirrored investing—where technology firms allow investors to copy the portfolios and trades of other successful investors in real time and with full performance and cost transparency—are also challenging the traditional asset management industry model. Though currently a small offshoot of the investment industry, they seem to be gaining popularity, especially among digital investors and younger generations. Going forward, asset management players can also leverage new opportunities such as micro investing by collaborating with digital platforms to offer their products.

**ENGAGING CLIENTS THROUGH SOCIAL MEDIA**

In addition to offering digital investment opportunities, progressive asset managers are also using social media to interact with distributors, financial advisors and end investors. A survey by Kasina reports that asset managers using social media have seen a rise in brand awareness and increased engagement with prospects and customers. These target groups are increasingly using social media to engage directly in a dialogue with asset management firms. A 2014 study of financial professionals in the U.S. reports financial advisors are increasingly appreciative of asset managers that engage with social media. See Figure 23.

Another survey showed that one in three Generation Y respondents uses social media as a source of investment advice. As more and more people begin to integrate these platforms into their daily lives, that percentage is set to increase.

However, the asset management industry is still weak in the use of social media. A CACEIS/PwC report on use of social media among the largest global asset managers showed that nearly 40% of these asset managers are not active on social media and only 15% are truly interactive and engage the client in a two-way dialogue.

**THE IMPACT OF SOCIAL NETWORKS ON ASSET MANAGEMENT**

The impact of social networks on asset management is only starting to be felt. The asset management industry is just beginning to respond to the demands of customers who are changing the way they communicate and the way they do business. Going forward, the use of social media will be an important building block for the asset management industry as it moves into the spotlight by engaging directly with clients, thereby disintermediating banks and other distributors who currently own the end investors.

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30 TD Ameritrade, “Annual Investors Index Survey,” 2011

31 CACEIS/PwC, “Social Media Studies,” 2013

32 Top 100 global asset managers according to AUM and the top five asset managers with the largest net sales in 2013. The analysts included Facebook, LinkedIn, Twitter and YouTube.
IMPORTANCE OF DATA ANALYTICS

Large quantities of data are being created at exponential rates as the digital era progresses. Taking advantage of this data through analytics could prove to be a significant shift in the way business is done. But despite technological advances over the past century that impact communication and business, the financial services still remain in a nascent stage in this area. According to BNY Mellon, “Big data will reshape the asset management industry. New approaches will be required in research, analytics, asset allocation, trading and risk management. Through visualization-aided smart syntheses, often seen in the burgeoning era of ‘dashboards,’ big data will expand the ‘assimilation range’ of existing information delivered by capital market professionals.” Regulators could use big data in the future for supervision and control purposes. The industry will have to address challenges such as managing high data volumes, data quality, cleansing, security and privacy.

DATA ANALYTICS CAN DRIVE INVESTMENT STRATEGY

Nine out of 10 institutional investors view data and analytics as a key strategic priority, according to a recent survey by State Street. In fact, two-thirds of the executives in that survey said leading-edge data and analytics capabilities will be among their most important competitive advantages in the future.

Leveraging big data to make smarter investment decisions has become an important priority for asset managers facing major changes in the financial world. Asset managers who responded to the State Street survey felt their data capabilities helped them manage risks across multi-asset portfolios and stay abreast of regulatory and compliance issues. Effective data management was also highlighted as an essential component of developing the ability to respond to the market in real time.

BIG DATA CAN HELP TARGET CUSTOMERS

Although big data and analytics have been predominantly used by asset managers for investment and risk management purposes, the asset management industry is in possession of data through their asset servicing providers that could translate into millions of dollars if properly leveraged. The information this industry currently has regarding people’s investment habits, preferences and financial means could allow fund managers to target clients with tailored made products. Being able to predict which client segment in which country and even in which area of a given city has a preference for a given product, as well as in-depth distributor analysis and benchmarking, can increase sales and decrease product and marketing costs. The challenge the industry is currently facing is that the clients belong to banks and distributors. Data analytics can help target these clients directly and create a pull strategy, rather than relying on banks and distributors to promote or push products. This becomes even more relevant given the increasing trend of regulators banning retrocession fees, which has disrupted one of the traditional levers used by asset managers to place their products through distributors.

DATA ANALYTICS CAN HELP ASSET MANAGERS MEET REGULATORY REQUIREMENTS AND SAFEGUARD THEIR INFORMATION

Relying on outdated methods and technology to respond to new demands will inevitably result in a disadvantage, but data analytics can help asset managers to keep pace with evolving regulations and compliance demands. For example, one of the main requirements introduced by Dodd-Frank, a regulation introduced by the U.S. exceeding 1,000 pages, is increased reporting. Solvency II’s look-through principle also increases reporting imperatives. Adding the capability to aggregate and optimise data can help asset managers to meet these requirements more effectively.

Leveraging quality data is becoming essential when it comes to regulatory compliance. Asset managers are increasingly digitising their documentation for audit and control purposes. The process of generating supporting data is becoming a mainstay in the work of asset management.

ENHANCING DIGITAL CAPABILITIES IN THE NEW ERA

As money in the financial arena begins to flow toward digital sources, a tail of zealous competitors will follow. To move ahead, asset managers will not only have to be savvy about developing their technological capabilities to reach digitally-oriented investors, but will have to partner with the high-tech sector to provide easy access and cost-effective solutions while ensuring privacy and security.

COURTING DIGITALLY-ORIENTED INVESTORS

As digital investing refines client-manager relationships, asset managers who aim to become more technology-oriented and digitally-engaged with their clients will have to recalibrate the way they interact with clients. Regardless of individual goals, asset managers aiming to transition effectively into the digital world will have to become engaged with investors as well as with digital investment communities, whether to inform or merely to listen to the conversations they are having with each other. Asset managers will, therefore, need to ensure that they are appropriately available and their operations are adapted to the new requirements in order to be able to respond to investors who engage them in dialogue.
PARTNERING WITH THE HIGH-TECH SECTOR TO DELIVER EASY ACCESS TO THEIR CLIENTS

Although fund managers are not known for their technological acumen, the likelihood of technology giants like Google and Facebook entering the fund market is entirely conceivable. In fact, many have already taken steps in that direction through online payment solutions. According to Nektarios Liolios, managing director of Startupbootcamp Fintech, a company that provides support to new financial technology-focused businesses, “Big technology companies moving into finance is not a theoretical exercise - it is happening.”

In China, we have seen how a successful partnership between a technology firm and an asset manager can catapult both to the top league within months, while others have required decades. Companies that recognise and embrace the transformational impact of digital IT to create new products and services as well as new distribution channels to support growth will lead.

RETHINKING OPERATIONAL ABILITIES

Intense competition for professionals with data analytics capabilities is driving changes in the financial services industry. Salaries are going up and staffs are getting bigger. Going forward, investment firms will have little choice about the necessity of solutions to address organisation, reporting, optimisation and the protection of data. Those with the capabilities to corral data in order to facilitate enhanced business decisions and strong security will have an advantage.

From an operational standpoint, the demand for people who can harness big data effectively far exceeds the available talent. This skill set is not only in demand in the financial services industry, but in virtually every other sector, as well. Nevertheless, asset managers who are serious about growing their business should do everything they can to acquire and develop personnel who can lead their firms in the digital space.

When staffing their firms in the future, asset managers will look to hire IT personnel that possess technical skills including securing data and applications, and experimenting with new technology. They will also be looking for personnel that can interface with investors, create social media solutions and leverage data to meet requirements and develop strategies. In short, IT departments will become more asset management oriented and asset managers will become more technology savvy.

If the asset management industry is able to embrace and effectively use new technology across all its operations - be it investment decisions, risk management or sales and distribution - it will be successful in better addressing the investment needs of new generations and playing a more important role within the financial services industry.

34 Financial Times, “Tech giants pose threat to fund houses,” April 24, 2014

Conclusion
CONCLUSION
MOVING INTO THE SPOTLIGHT

REDEFINING RELATIONSHIPS WITH KEY STAKEHOLDERS

The asset management industry has recovered well from the latest financial crisis with global AuM exceeding pre-crisis levels and set to reach above $100 trillion by 2020.35 In addition, a number of trends have created an opportunity for the industry to play an even more central role in supporting the global economy and addressing some of the challenges facing governments. This opportunity does, however, come with increased responsibilities. To make the most of it, asset managers will have to redefine their relationships with key stakeholders and adapt their operations to a new paradigm.

DISTRIBUTORS

Retail Distribution Review (RDR) in the UK and other similar initiatives by policy makers across the globe herald a new era in the relationship between asset managers and distributors. In the past, retrocession was the strongest, if not the only, clout asset managers had with distributors to place their products in front of end investors. But within a few years, this leverage will be wiped out or, at least, strongly curtailed by regulators. Hence, the asset management industry will need to explore new partners and channels with strong distribution reach as well as understanding. The disruptive success of Tianhong Asset Management in China clearly demonstrates how the development of such a partnership can be a game-changer.

RETAIL INVESTORS

In light of transparency requirements and bans expected in coming years on retrocessions in major markets, asset managers will have to play a more active role in communicating directly to retail clients. Marketing brochures and regulatory reporting such as KID (Key Investor Information Document) are not enough. A comprehensive approach is required by asset managers, as they move from a push strategy to a pull strategy - instead of selling products to clients through their distributors, they should strive to educate and inform investors and motivate them to demand the products/solutions of specific asset managers from their distributor.

This includes not only brand marketing, but interactive communication with retail clients via social media and other new technologies. Paying lip service to customers will not suffice in a market in which the power is shifting from the asset manager and distributor to the client. Performance will be a pre-requisite in this environment. Value-added services, such as prompt sales support for distributors and any services which ease the advice and sales process of the distributors, will differentiate them from their competitors. Furthermore, the asset management industry will need to explore new partners and channels with strong distribution reach as well as understanding. The disruptive success of Tianhong Asset Management in China clearly demonstrates how the development of such a partnership can be a game-changer.

INSTITUTIONAL INVESTORS

Assets among institutional investors are set to rise in the coming years, especially in pension funds and SWFs. Asset managers who hope to seize this opportunity in order to maintain or increase their share of institutional investor assets will have to do more than merely outperform benchmarks. They will also have to excel in governance, operational strength, and transparency, while ensuring a risk-based performance with appropriate fees.

REGULATORS AND POLICY MAKERS

As the asset management industry moves into the spotlight to play a bigger role within the economy, regulators and policy makers will inevitably scrutinise it more closely. Therefore, the industry must make every effort to ensure that policy makers understand its function and role clearly. It would be fatal for the development of the industry and the recovery of the global economy if asset managers are regulated in the same way banks are - their operating models are entirely different.

Comparing AuM of the industry or individual players with the balance sheets of banks is like comparing apples to oranges. Asset management does not pose the same systemic risk that banks do. In addition, the leverage incurred by investment funds is significantly less than that incurred by banks.

ADAPTING TO NEW PARADIGMS

Not only is the time right for asset managers to redefine their relationships with key stakeholders, but new realities and opportunities demand an evaluation and, if necessary, an adaptation of operations. The rise of new technologies and investment and partnership opportunities in non-mainstream asset classes will have an impact on IT, human resources, risk management and compliance.

IMPACT OF NEW TECHNOLOGIES ON ASSET MANAGEMENT OPERATIONS

In the midst of increased competition, heightened regulatory scrutiny and new communication channels, asset managers who embrace and implement appropriate technologies may adapt to their new environment more easily. For instance, big data has not yet been adequately utilised within the asset management industry. Institutional investors are demanding improved risk management capabilities which require the analysis of large amounts of data. As investment strategies become more sophisticated in the search for alpha returns in increasingly efficient markets, managing and analysing large volumes of data will be a key component of investment decisions. Asset managers who can effectively use big data to provide deeper insights and sustainable returns will gain a competitive edge.


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New technologies can also enhance relationships with distributors and clients. Interactive and timely communication with investors will be crucial in an increasingly digitalised and mobile world. Although some asset managers now engage with end clients through social media, usage by the industry in this area is still in its infancy. That said, these channels will become increasingly important as the relationship between asset managers and distributors is redefined by regulators and the millennial generation enters the investment age. Asset managers should consciously decide if they want to engage in social media and what that means for their organisation. Engaging with clients through social media has an impact throughout the organisation from marketing to compliance. In addition, asset managers need to hire technology savvy talent that understands the needs of relevant target groups within these channels and how to interface with technology savvy retail firms to create positive dynamics that support the distribution of asset management products. Exploring new partnership possibilities, aside from the traditional channels of banks and financial advisory firms, would also enhance this process.

**IMPACT OF NEW INVESTMENT OPPORTUNITIES ON ASSET MANAGEMENT OPERATIONS**

For the asset management industry to move into the spotlight by narrowing the gap in SME and infrastructure financing, it will have to embrace the risks associated with these investments. For infrastructure, these are specific risks pertaining to the design, construction and operation of the infrastructure asset as well as market/economic, regulatory and political risks. A large number of these investments is in the form of PPPs, therefore developing and maintaining relationships with governmental organisations is important. For SME financing, the major risk will be credit related. Hence, asset managers engaging in such investments will need to ensure that they have access to quality data as well as the required skill set to evaluate the opportunities and risks of such investments.

Whether or not the asset management industry plays a pivotal role in the financial services industry will depend on a number of factors. How will asset management be regulated in the future? Will the asset management industry be able to provide innovative solutions for the needs of governments and the economy? Will the asset management industry be able to develop the capabilities required to seize these opportunities? The answers lie, to a large extent, in the hands of the industry and its ability to manage the relationships and risks associated with these opportunities.
#SocialMediaStudies - June 2013
Insight into Social Media Strategies for the Asset Management Community
CACEIS and PwC reveal the results of a comprehensive study into the current social media strategies of the world’s leading asset management firms. Using this insight to reveal key industry trends in terms of strategy, the report also clearly lays out the business case for and risks inherent in implementing a social media strategy.

Taking the Reins - June 2012
A roadmap for navigating the institutional investors’ universe
Over February and April of 2012, PwC and CACEIS conducted a survey of European institutional investors with assets in excess of €4.5tr, in order to gauge their perception of the asset management community. What the survey reveals about institutional investors’ perceptions can be found in the CACEIS-PwC report entitled “Taking The Reins”.

Rethinking Distribution - June 2011
Creating competitive advantage in a new fund distribution paradigm
The PwC and CACEIS 2011 research found that drivers such as regulatory developments, the shift of global economic power toward SAAME countries, the ageing of the population and greater use of social media are set to challenge the asset management industry to come up with new thinking to promote their products in a manner that is different from traditional patterns.

Ideal Advice - June 2010
A step-change in the industry’s relationship with the individual investor
This report examines the state of play of financial advice within Europe, and provides a set of key recommendations which we believe are critical to enhance the overall quality of investment advice. In our view, now is the time for our industry to take bold and convincing steps and an active role in achieving a business model that is both sustainable and investor centric.

Ideal Fund - June 2009
Reengineering the fund value proposition
This paper takes an investor-centric approach to examine the mutual fund value proposition and outlines recommendations for governments and the industry to promote sustainable solutions that will serve investors. The focus is on the long-term investment goals of European retail investors.