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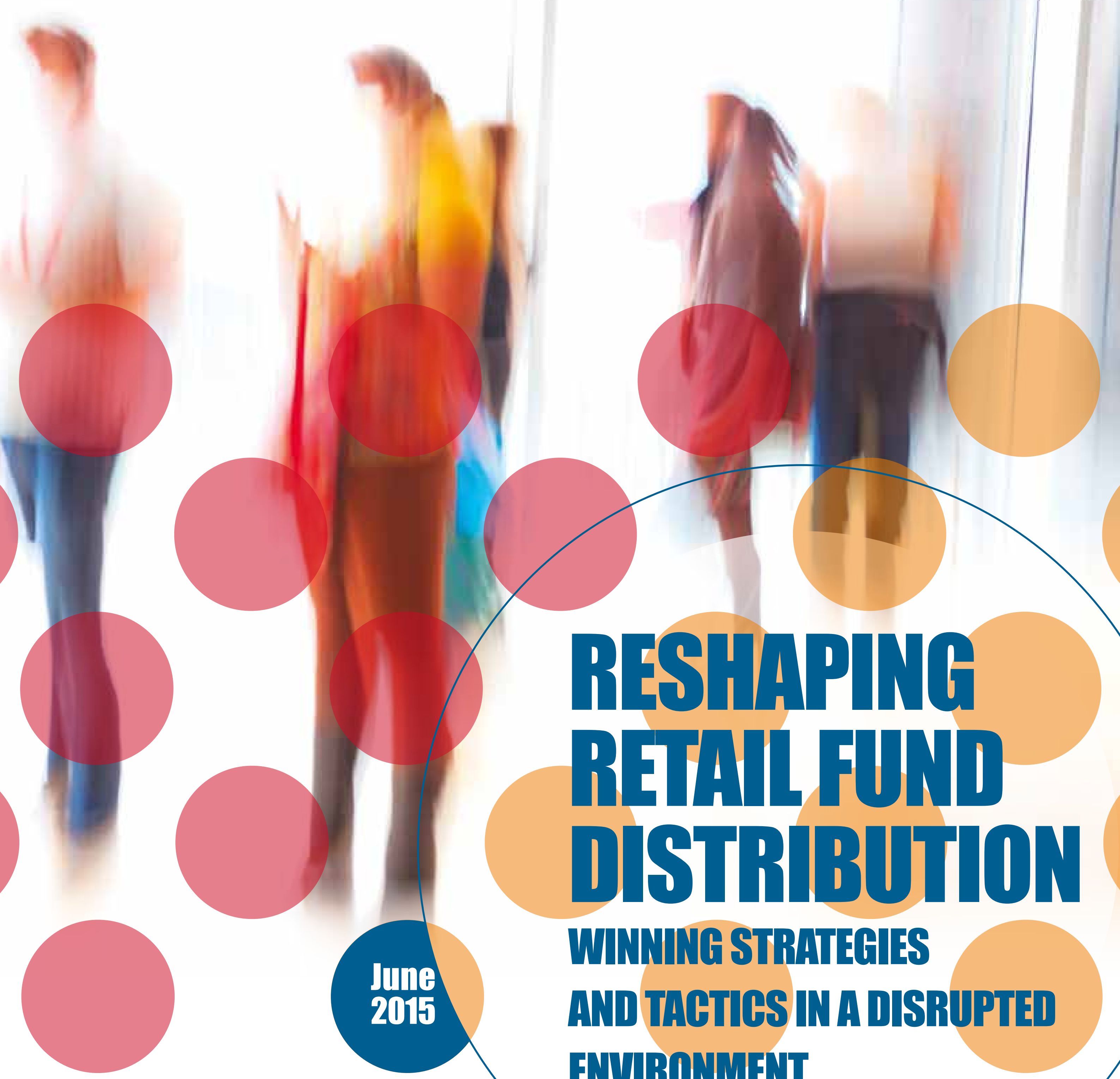

RESHAPING RETAIL FUND DISTRIBUTION

WINNING STRATEGIES AND TACTICS IN A DISRUPTED ENVIRONMENT

June 2015

MESSAGE FROM THE AUTHORS

CACEIS

Most industries are evolving constantly, and we hardly notice the incremental change. However, from time to time, industries undergo a step-change, where the process of gradual evolution is significantly disrupted by outside forces. These disruptive forces, often technological, demographic, regulatory or economic, lead the industry into making a leap forward, to adapt to its new operating environment.

The airline industry provides us with a tangible example of such change. In the nineties, the consensus among airline industry professionals regarding the nascent internet, was that air travellers would increasingly use the web as an information source but would continue to rely on the agency network for booking. However, the state of the airline industry today, having undergone an almost complete disintermediation, is testament to how much an established industry can shift, when disruptive forces drive change.

In this paper, we seek to understand the forces acting upon the fund distribution industry, from the younger investors and their expectations in terms of digital solutions, to state-led regulatory measures and personal pension funding requirements. Despite the heavy regulatory burden the fund industry bears, which can stall progression, we believe the speed of change in the fund distribution industry is picking up and will impact all parties, from the asset manager, the distributor and financial advisor, right down to the end-investor.

With a clearer understanding of the forces, we can then also look at how best to adapt to the new disrupted environment, using a combination of strategies and tactics to increase participants' likelihood of finding themselves among the fund distribution industry's winners.

CACEIS is proud to partner with PwC Luxembourg in presenting this new study, which is based on original research, including interviews with key fund industry market participants. The objective of our paper is to present our extensive research and to promote discussion among all parties with a stake in fund distribution. I trust you will find this report both informative and thought provoking and I look forward to the opportunity to discuss its findings with you as we watch the industry evolve.

Joe Saliba CACEIS, Deputy Chief Executive Officer

PwC

In June 2011, CACEIS and PwC published the report "Rethinking distribution – Creating competitive advantage in a new fund distribution paradigm" in which we identified six key drivers of change that would cause significant disruptions within the asset management industry and suggested a strategic reconsideration of distribution practices. In a few short years, the impact of these disruptions on the industry has intensified and now calls for action.

The pace of change in the asset management industry is being accelerated by the latest regulatory agenda, a profound shift in the investor base, and recent technological developments. Because these agents are likely to have an unsettling effect on fund distribution, industry players need to adopt new product strategies and distribution tactics to achieve positive results.

This report aims to set the stage for discussion on the future of the retail distribution environment, providing a roadmap to those players who are looking for a winning strategic response to the challenges created by this new dynamic environment. It is based on analysis of the drivers behind these monumental shifts and qualitative interviews with key players operating in countries where the new regulatory playfield has already been altered.

In the midst of monumental change, the outlook of funds is favourable as assets are growing and opportunities abound. But it's time for action; standing still is not a sustainable strategy.

Olivier Carré Partner, Regulatory & Compliance Advisory Leader

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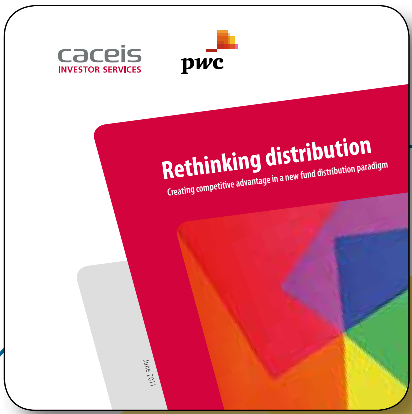


RETHINKING DISTRIBUTION

RETHINKING DISTRIBUTION

DRIVERS OF CHANGE:

- Increase in regulation;
- Increased exposure to emerging markets;
- Change in investor trust and loyalty patterns;
- Focus on pension and retirement products and solutions;
- Increased separation of alpha and beta and competition from other financial products;
- Increasing use of technology to reach investors.

INTRODUCTION

Fund distribution is at a turning point. Although the status quo of the industry has been in a state of continuous metamorphosis for some time, the latest regulatory agenda, a profound shift in the investor base, and recent technological developments are accelerating the pace of change.

REGULATIONS

National regimes in the EU (Retail Distribution Review (RDR) in the UK and the Netherlands) and Markets in Financial Instruments Directive II (MiFID II) are reshaping the contours of the playing field. These regulations are focused on avoiding conflicts of interest by banning inducement-based schemes between asset managers and fund distributors, and increasing transparency. The ban on inducements for advice in the UK and the Netherlands, the first EU countries to adopt this approach, is changing the relationship between asset managers and distributors. Distributors may no longer rely on their asset managers to provide them with product-related income. Similar rules are in the process of being adopted in other EU jurisdictions, but not homogeneously, and non-EU countries are developing their own new domestic frameworks.

MILLENNIALS

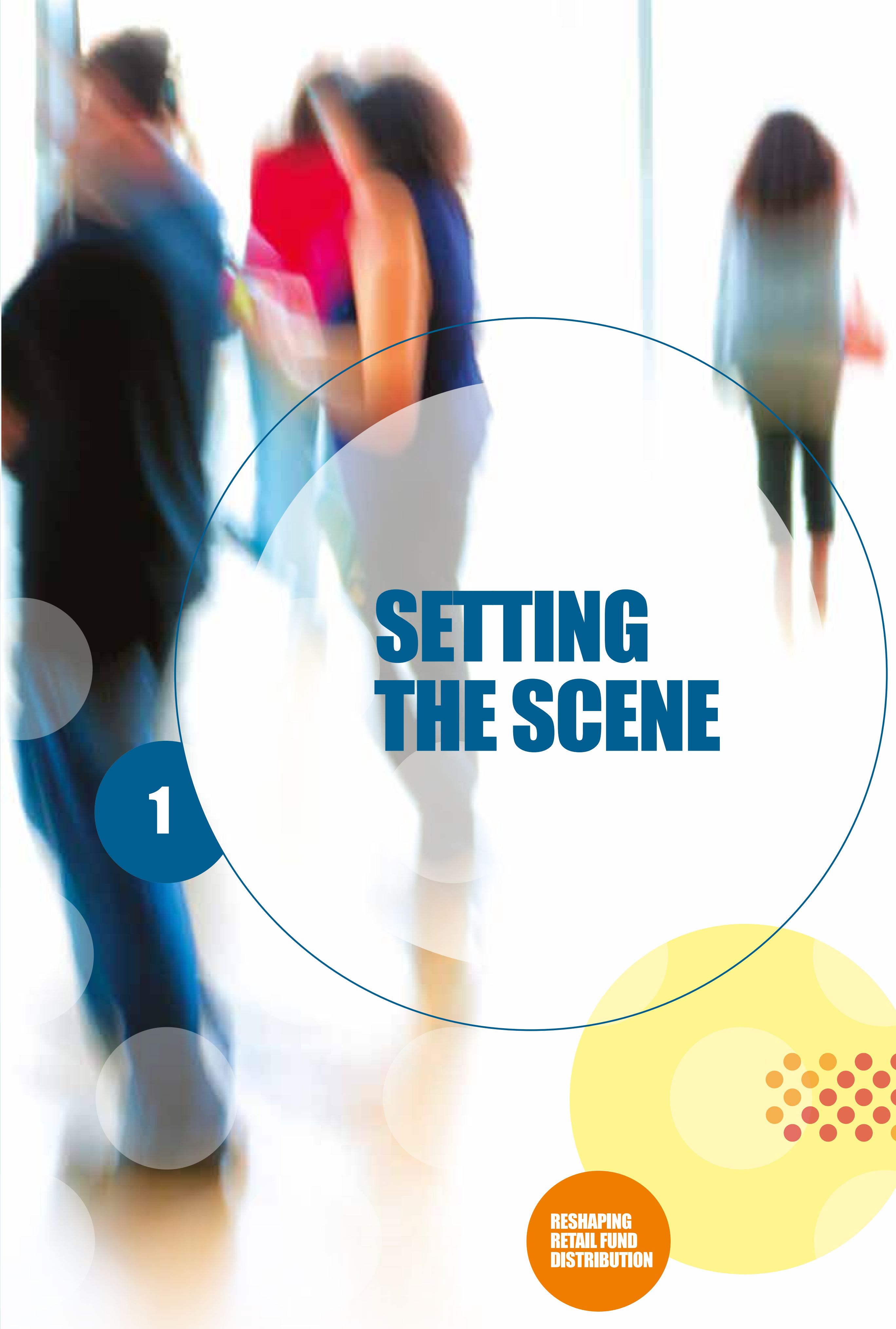
Over the next decade the average investor base profile will change dramatically as the Baby Boomer generation ages, and Generation X and Generation Y assume more significant roles in the global economy. The latter group, also known as "Millennials," represents the next big wave of investors bringing radical transformations to client demographics, behaviours and investment expectations. Security, simplicity, transparency, convenience, personalisation, product performance and cost have always been important factors in building clients' trust and loyalty. However, the Millennials' definition of these concepts and their expectations of financial service providers are very different from those of the generation preceding them.

These changes are forcing traditional financial industry players to re-think the way they interact with the new generations of investors – specifically, how they will earn investor's attention, loyalty and trust, how asset managers can increase brand awareness, and how to establish new products and channels for appealing distribution models.

TECHNOLOGY

Technological developments are radically altering the way people communicate and interact with each other, and, as a consequence, the way people do business today. The distribution of funds is turning into a mere function of technology, as interactions with advisors are becoming increasingly virtualised and computers are starting to provide the services traditionally performed by financial advisors. In this respect, a new breed of technology-driven actors is disrupting the market with new business models that provide affluent retail investors with an alternative in the financial advisory domain—they are called robo-advisors or automated advisors.

In the new asset management arena, the roles of the distributor and the portfolio manager are overlapping and competing with technology-driven actors. In addition, in keeping with the new regulatory agenda which puts "clients first", retail clients have taken centre stage.



1

SETTING THE SCENE

RESHAPING RETAIL FUND DISTRIBUTION

1 SETTING THE SCENE

In the midst of monumental change, the industry has bounced back after navigating the turbulent waters of the last few years. Total assets under management (AuM) in Europe reached an estimated €19.3tr at the end of 2014; institutional clients represent the largest client category, accounting for 74% of total AuM (insurance companies and pension funds acting on behalf of millions of households comprise 39% and 33% of total institutional AuM, respectively), while direct investment of retail investors account for 26%[1] (see figure 1).

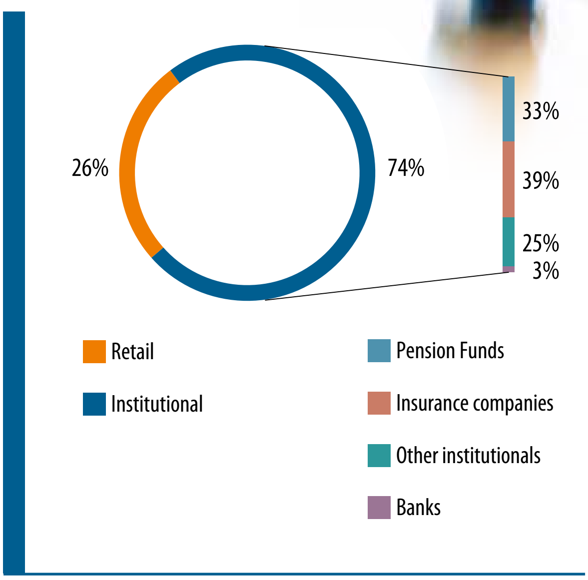
In this regard, retail sales are mainly driven by institutional investors via pension or unit-linked products sold by insurance companies. According to the European Fund and Asset Management Association (EFAMA), the percentage of direct financial holdings of euro zone households in insurance and pension funds soared from 31.8% in 2003 to 37.4% in 2013. On the contrary, European households placed 12.5% of their total financial wealth in investment funds in 2003, while in 2013 that figure decreased to 8.5%[2] (see figure 2). Moreover, according to the European Central Bank (ECB), 96.4% of European households have deposit accounts while only 11% have mutual funds[3].

Several steps have recently been taken to make it simpler for an individual investor to participate in the investment funds industry. For example, the idea of creating a "digital passport" that would allow investors to purchase investments, including UCITS funds, and manage them online was recently proposed to the European Commission by EFAMA, the Association of the Luxembourg Fund Industry (ALFI) and the UK's Investment Association. In addition to these efforts to reconcile retail investors and investment vehicles, other trends have also recently emerged.

BREAKDOWN OF TOTAL AUM, BY TYPE OF INVESTORS

FIGURE 1

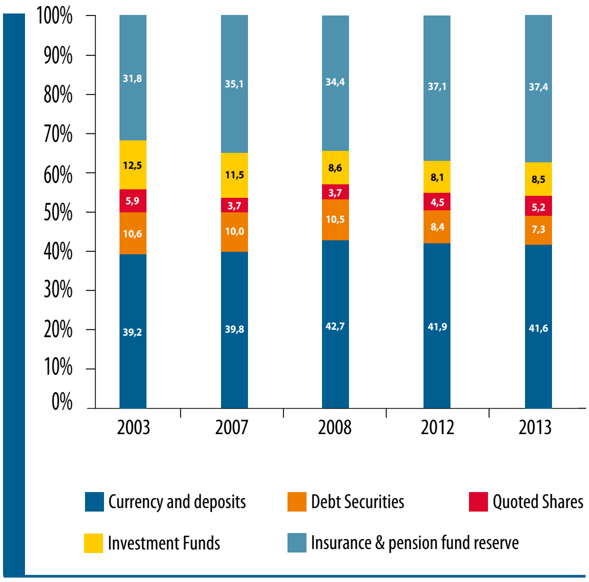
Source: EFAMA



DIRECT FINANCIAL HOLDINGS OF EURO AREA HOUSEHOLDS (SHARE OF THE TOTAL, %)

FIGURE 2

Source: EFAMA



[1] EFAMA, Asset Management Report 2015, April 2015

[2] EFAMA, Trends in European Investment Funds, Fact Book, 2014

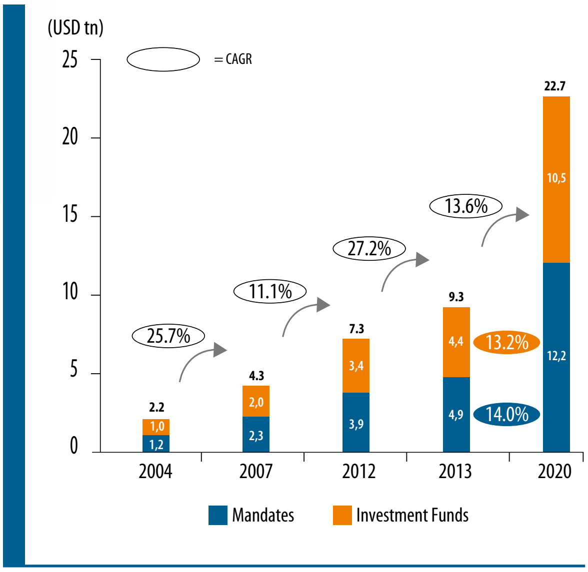
[3] ECB, The Eurosystem Household Finance and Consumption Survey, 2013

The *retailisation* of alternatives is also in vogue as it offers retail investors other sources of diversification with the possibility of achieving alpha in a low interest rate environment. Alternative investments have grown substantially on a global basis in the last few years. Global alternative investments stood at $7.3tr with a 14% CAGR increase in 2013. Although these investments have become an increasingly important component of institutional portfolios in search of alpha, uncorrelated returns and tailored solutions, the retail market is also gaining momentum.

FIGURE 3. GLOBAL PASSIVE INVESTMENT ASSETS

FIGURE 3

Source: PwC Market Research Centre



INTERNATIONALISATION ON THE RISE

The geographical diversification of investments has been limited in the past, but is increasingly favoured by investors (e.g. exposure to Chinese or Brazilian markets is accessible to European retail investors and vice versa, to a lesser extent). Total European investment assets' exposure to BRICS countries (Brazil, Russia, India, China and South Africa) strongly increased in the last decade. For example, the aggregated investment portfolios of France, Italy, Germany, Spain, the UK and Switzerland stood at $114.3bn in 2004 and reached $376bn at the end of 2013, with a 14% CAGR increase in the time period (see figure 4).

PRODUCTS RENEWED

For the last decade, the majority of products distributed to retail investors were actively managed "plain vanilla funds", but this trend is changing.

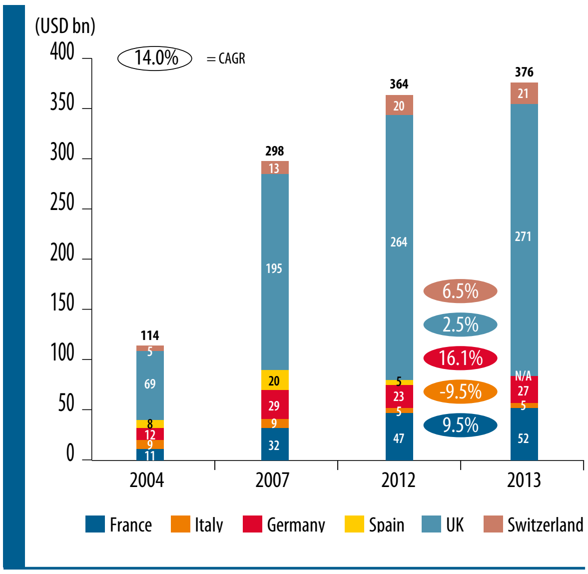
Passive investments now capture a large share of fund market growth and they are set to maintain this pace. Global passive investments more than quadrupled from 2004 to 2013 reaching $9.2tr in 2013 with a 26.7% compound annual growth rate (CAGR) increase (see figure 3). Within the passive sphere, Exchange-Traded Funds (ETFs) products and index funds are gathering momentum.

With regards to the active sphere, following the recent market meltdown and the resulting sensitivity of retail investors and their advisors to diversification, asset allocation funds have been gathering pace by presenting themselves as the most successful strategy in terms of new fund launches in 2013 and 2014.

GEOGRAPHIC BREAKDOWN OF TOTAL EUROPEAN PORTFOLIO INVESTMENT ASSETS INTO BRICS

FIGURE 4

Source: PwC market Research Centre based on IMF



In connection with this, access to foreign products has been boosted by the success experienced by the UCITS passport. Before the implementation of the UCITS Directive, retail investors were not granted access to foreign products and the range of purchasable mutual funds was reduced compared to the current scenario. The UCITS product, which can be divided into domestic and cross-border depending on where it is set up and sold, has had huge success since its inception in 1985.

In this respect, the number of cross-border funds soared from 4,529 in 2003 to 10,430 in 2014 with a 7.9% CAGR increase in the time period. In line with this, the number of cross-border registrations stood at 26,030 in 2003, while in 2014, the figure reached 83,505, boasting an 11.4% CAGR increase over the prior decade. For example, in Hong Kong, European UCITS account for 88% of funds authorised for distribution and UCITS funds are also widely accepted in Latin America.

At the same time, other fund passports are also emerging (e.g. the Asia Region Funds Passport (ARFP) and the ASEAN CIS Passport Framework). Although the surge of these new initiatives could threaten the UCITS dominance, a certain degree of reciprocity between SAAAME (South America, Africa, Asia and Middle East) markets and Europe is expected, allowing retail investors to access an increasing portion of foreign investment funds. Although reciprocity is not currently a standard in the industry, it could bring positive effects for asset managers that would be able to distribute their products in various territories without setting up operations on-site.

DIGITALISATION UNDERWAY

Today, the notion of point-of-sale in the fund industry is increasingly becoming abstract for retail investors. In the past, an investor would sit in a banker's or financial advisor's office to purchase financial products as the industry focused most of its technological investments on back-office support.

Now, it is moving towards strengthening front-end tools and adopting a multi-channel approach in order to provide clients with multiple touch points through increasing use of social, mobile, analytics and cloud (SMAC) technologies. Creating online, mobile and social media channels to promote products, brand awareness and trust is becoming mainstream in the industry.

Because retail investors and the general public can connect to significant amounts of information anywhere at any time, digital services can address their needs in an easier and more convenient way than nine-to-five financial service providers can.

At present, the proliferation and ongoing specialisation of online platforms (D2C and D2B) that allow retail investors to acquire third-party funds and financial advisors to monitor the performance of their clients' investments from their personal laptops are pushing interactions and transactions to the digital space.

Banks are also moving in that direction. Two of the biggest Swiss banks, in fact, recently launched global digital private banking platforms for clients in Asia Pacific. The digital platforms represent a new private banking service delivery model and empower clients with 24/7 access to comprehensive information about accounts, market insights, personalised intelligence and trading tools.

In the retail banking space, digitisation is also advancing. For example, Barclays has begun converting its traditional branches into fully automated customer service centres with ATMs that carry out traditional functions, but are also equipped with barcodes that allow clients to scan QR codes in order to instantly pay their bills. With the aim of enhancing the customer's experience, the bank has also begun offering new digital services, such as "Digital Angels", which allow customers to pay bills, set up direct debits, book holidays or even set up their social media accounts. Also, the bank released Pingit, a smartphone application that allows consumers to send money to someone using only their mobile phone number[4].

Royal Bank of Scotland is also on the move. The bank is implementing a range of initiatives to support the digital transformation of its retail banking services. The main initiatives include equipping more than 400 branches with iPads to help customers sign up to online banking, upgrading ATM networks, and providing free in-store Wi-Fi for personal devices[5]. RBS is also working with a third-party operator to launch a pilot peer-to-peer financing platform[6].

MARKETING STRATEGIES RESTYLED

When it comes to marketing, strategies are also morphing. Content marketing is on the rise in the fund industry and building trust and creating brand awareness are becoming essential. Most retail investors have limited knowledge of financial products, industry jargon and the latest market updates, so online publications, educational materials, and articles on the most recent industry trends are assuming a central role in engaging clients' attention and promoting brand visibility. At present, several asset managers are enhancing their websites with information about market trends, insights and video, as well as creating investors areas with learning materials, education pages and media centres. J.P. Morgan Chase, BlackRock, Fidelity, M&G and Franklin Templeton, to mention a few, have taken these measures in keeping with recent digital trends.

The increasing use of social media as a source to compare financial products and to register opinions on services, companies and products, is also altering the rules of the game. Social media is steadily becoming part of the marketing strategy of asset management companies and financial advisors that aim to better understand their clients' needs and fine tune their product offerings accordingly. Coupled with this, market analytics and cloud technologies are becoming fundamental tools in order to integrate insights coming from different structured and unstructured sources into marketing efforts and product development initiatives.

A recent report released by the Financial Conduct Authority (FCA) shows that 61% of investors in the UK want to connect with their advisors on social media and 87% of the investors surveyed have at least one social network account. Moreover, 46% of those without a social media account would be more likely to use these networks if they could communicate in real time with their advisors[7].

Technological developments have also enabled the creation of information-rich mobile apps that are used to promote and sell products to clients while providing them with market insights and educational materials. Although mobile apps in the asset management (AM) industry are in an early stage compared to other markets, such as the payments industry, and the first app landed in the AM sector a few years ago, this trend is going to further evolve as the mobile channel becomes a powerful tool for marketing initiatives.

The combination of content marketing, social media dissemination and mobile apps is becoming an important component for marketing strategies. In fact, as noted in our interview with *BT Financial Group*, *"market commentary is provided via a selection of our industry experts through video, podcast, and written commentary and distributed through owned assets such as our websites and amplified via social channels."*

ASYMMETRY OF INFORMATION HAS DECREASED, PRICING TRANSPARENCY HAS INCREASED

ASYMMETRY OF INFORMATION

The asymmetry of information was also a common characteristic of the financial industry during the 80s and 90s when retail investors were fully dependent on the information provided by their bankers. Fees for execution and advice were also opaque.

On the contrary, nowadays investors are overwhelmed by information. Society creates 4.5 quintillion bytes of data daily, and 90% of the data in the world today has been created in the last two years, according to IBM[8]. This vast amount of information, 75% unstructured and coming from sources such as text, voice and video, is principally the result of a surge in internet and social media usage.

There can be no doubt that internet access and social media have increased the amount of investment related information available to investors and the general public. This allows investors to make investment decisions, to a certain extent, based on their own research rather than on the advice of a broker or bank.

In Europe, sweeping regulatory changes in national regimes, RDR (in the UK and the Netherlands), PRIPs (Packaged Retail Investment Products Initiative) and MiFID II (the main regulations tackling retail customer protection), are also reducing the asymmetry of information by forcing financial service providers to disclose a bigger amount of information (such as management fees and remuneration models) than they did a decade ago and facilitate comparison.

[4] FT, UK banks axe branches in favour of digital model, October 2014
[5] ComputerworldUK, RBS to invest £1 billion in digital transformation, June 2014
[6] FT, Royal Bank of Scotland to enter P2P lending market, October 2014
[7] FCA, Social media and customer communications, 2014
[8] IBM, InterConnect 2015, February 2015

PRICING TRANSPARENCY

In addition, hidden fees are also on the regulators' radar. Traditionally, the cost of advice for retail clients was paid or largely subsidised by the product provider to the distributor in the form of a retrocession, either upfront and embedded in the initial subscription or as an on-going 'trail' of commissions (i.e. trailer fees).

Alternatively, the cost of advice was paid directly by the end-investor to the advisor as a fee for advisory services. Under the inducement-based model, it is not always easy for investors to dissociate the actual cost of product and advice, and there is a risk that inducement-based incentives may foster an incentive-driven sales culture rather than a client-centric advice model. European regulators are now diving into the inducement-based scheme with the aim of banning retrocessions and increasing transparency in the fund distribution landscape.

In the US, the SEC implemented the Dodd-Frank Act (in 2010) to boost transparency in the financial system together with regulating fees for investment products and related services such as investment advisory. In addition, both the Pension Protection Act of 2006 and the Department of Labor Rulings of 2012 addressed the issue of fee transparency and disclosure, forcing boards of trustees of Defined Contribution (DC) plans to focus on fees. Also, in 2013, there were proposals to impose a "fiduciary standard" that would require advisors to always put clients' interests above their own.

The arrival of this new transparency ruling has been particularly valorised by financial advisors as they can use it as a talking point to better market and promote their services to investors. As **Aaron Gubin,** *director of research at SigFig,* a US-based robo-advisor, declared during our interview, *"retail investors are now enabled to understand what they buy together with valuing the cost of advice and other investment vehicles."*

In South Africa, where the Financial Services Board (FSB) is in the process of implementing a local version of RDR which should be in force at the end of 2016, asset managers are positive about the increasing transparency levels in the industry. According to our interview with **Richard Carter,** *head of product development at Allan Gray*, the largest privately-owned asset manager in the country, *"the new transparency rules included in RDR will better equip investors to understand the products they are buying, particularly with regards to their complexity and the price they pay for advice. This will bring a standardisation to the level of advice fees in the local market. In fact, many local providers are already cleaning their products of advice fees — this became the wining product formula even before the implementation of RDR."*

Within the Australian market, after the implementation of the Future of Financial Advice (FOFA) in 2012, *"a number of regulatory requirements exist, which have removed the ability of product manufacturers to induce distribution partners; a prohibition on providing and receiving conflicted remuneration, the requirement to manage conflicts of interests and specific bans on inducements for certain superannuation products,"* as **Les Vance,** *Chief Risk Officer at BT Financial Group* declared during our interview.

He also affirmed that *"the changes have promoted greater transparency across the industry and provided greater visibility of fees to customers, creating a level playing field. Any perception of conflict or acting in self-interest is now mitigated."*

In the midst of this profound transformation, regulations, Millennials and technological developments, will be the three disrupting factors of the future distribution environment.

ASYMMETRY OF INFORMATION HAS DECREASED, PRICING TRANSPARENCY HAS INCREASED

FIGURE 5

ASYMMETRY OF INFORMATION HAS DECREASED PRICING TRANSPARENCY HAS INCREASED

"Retail investors are now enabled to understand what they buy together with valuing the cost of advice and other investment vehicles."

Aaron Gubin, *director of research at SigFig*

"The changes have promoted greater transparency across the industry and provided greater visibility of fees to customers, creating a level playing field. Any perception of conflict or acting in self-interest is now mitigated."

Les Vance, *Chief Risk Officer at BT Financial Group*

"The new transparency rules included in RDR will better equip investors to understand the products they are buying, particularly with regards to their complexity and the price they pay for advice. This will bring a standardisation to the level of advice fees in the local market. In fact, many local providers are already cleaning their products of advice fees - this became the winning product formula even before the implementation of RDR."

Richard Carter, *head of product development at Allan Gray*

2

DISRUPTING FACTORS

RESHAPING RETAIL FUND DISTRIBUTION

2 DISRUPTING FACTORS

REGULATORS PUT CLIENTS' INTERESTS FIRST

The bulk of the regulatory actions taken in order to avoid conflict of interest and increase transparency in the system, and consequently improve consumer protection within the retail fund landscape, is embedded in two main regulations: RDR, adopted by the UK in January 2013 and emulated by other countries such as Australia, Singapore, South Africa, and the Netherlands, and MiFID II, which will come into force in the EU in 2017 (see figure 6).

REBATE BANS MOVE ACROSS EUROPE, BUT NOT HOMOGENEOUSLY

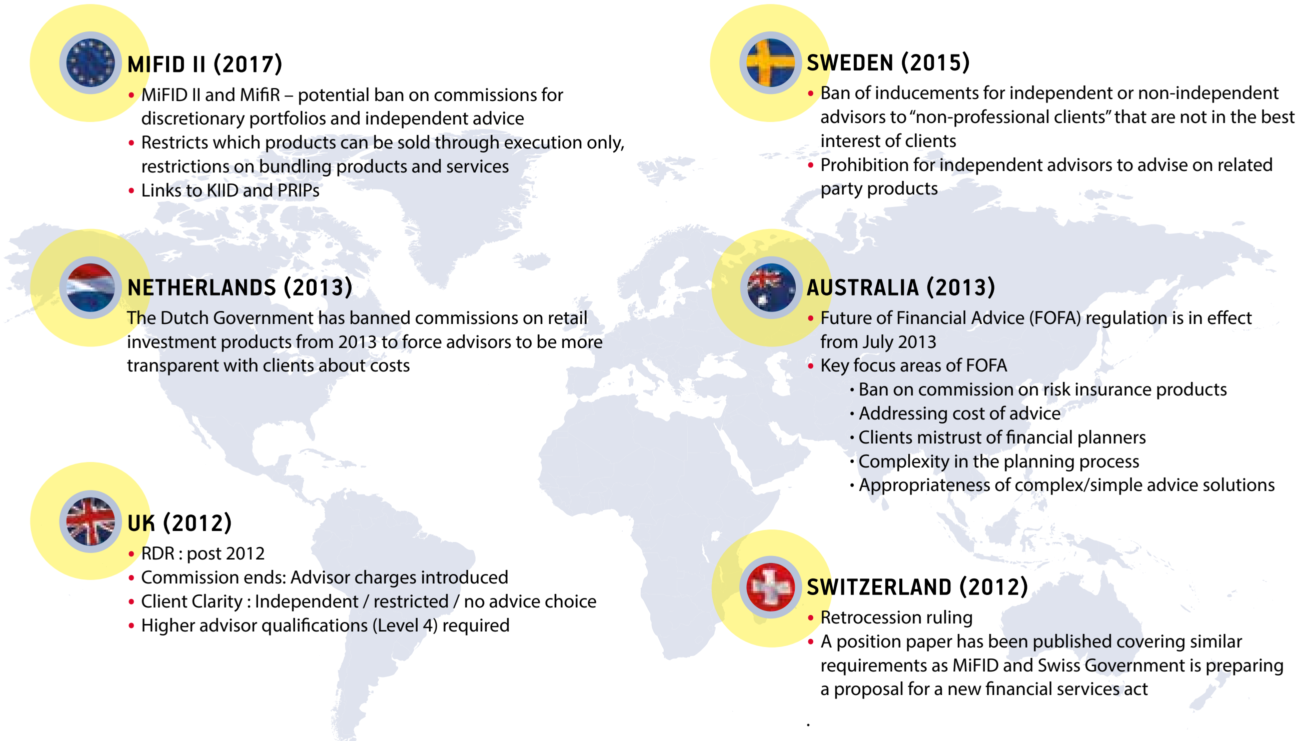
MiFID II was drafted post financial crisis and the EU market has consequently undergone major shifts, in particular regarding product placement remuneration (advice fees) and the complexity of financial products (i.e. complex vs non-complex financial instruments), with some member states (e.g. UK, NL) already spearheading the change in product placement rules by imposing very strict national laws banning inducements (i.e. indirect revenues of the distributor stemming from the product manufacturers). Nevertheless, the MiFID rules are setting the stage for disrupting factors which will affect distribution and business models within the EU.

Two new regulatory approaches have already been implemented in the UK and the Netherlands. However, MiFID II will create EU-based minimum standards for fund distribution (execution and advice) without going as far as the national regimes already in existence. Nevertheless, MiFID II and multiple implementation standards by ESMA are still awaiting final publication.

REBATE BANS MOVE AT THE GLOBAL LEVEL

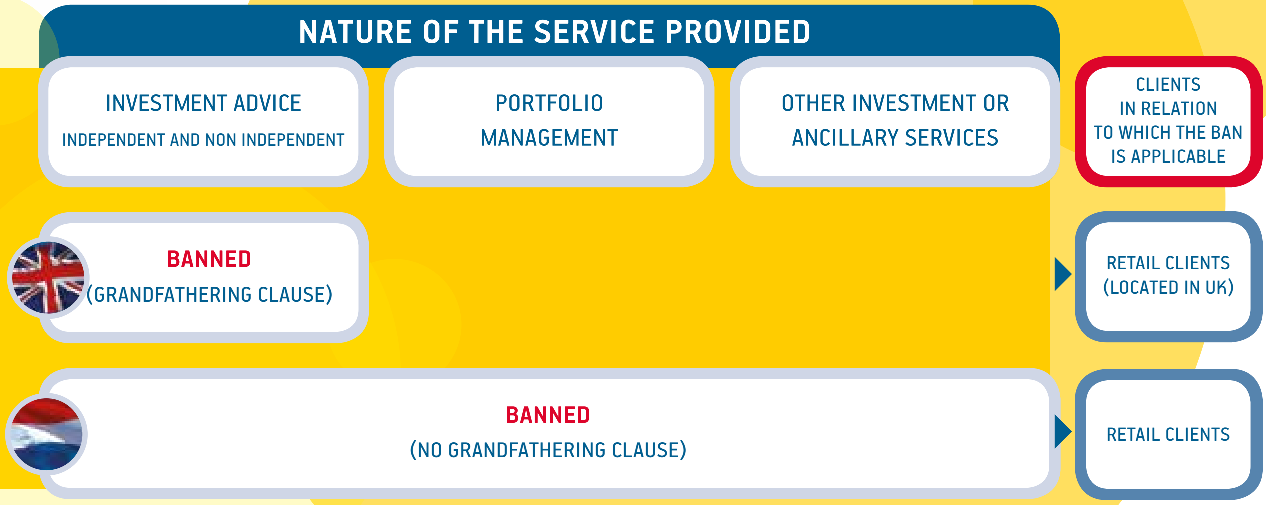
FIGURE 6

Source: PwC Analysis



THE UK AND THE DUTCH MODELS

FIGURE 7



Source: PwC Analysis

RETAIL DISTRIBUTION REVIEW (RDR) IN THE UK

The UK has been the first country to adopt a formal ban on inducements with RDR, which was officially implemented in January 2013 due to regulator concerns that some advisors were directing their clients to funds that could provide the largest inducements for them.

RDR introduced new standards of business conduct for independent financial advisors in order to improve financial advisory services and bans inducements, principally for the independent and non-independent advice provided by financial advisors to retail clients, with the exception of execution-only and portfolio management practices. However, these new regulations are the result of a complex set of consultations and discussion papers that have been considered or implemented since 2006 when the first RDR was drafted. At that time, the Financial Services Authority (FSA) realised that the local fund market faced several challenges: 1) low levels of financial literacy among customers; 2) poorly designed and complicated products; 3) lack of demand for life and pension policies; 4) inducement schemes creating product bias; 5) lack of professionalism in the advice sector; 6) unintended barriers created by current regulations. Between the first consultation and the final implementation (January 2013), the FSA published 15 statements and 30 consultation papers that converged in RDR.

In addition, RDR included a grandfathering clause. Firms may continue to receive inducements in relation to investments in retail products that retail clients made prior to December 2012 if they do make any new personal recommendations in relation to them (see figure 7).

THE DUTCH MODEL

The Netherlands has followed the British approach but with a broader scope. As a matter of fact, while the UK regulator decided to ban the inducement-based scheme for independent and non-independent advice, the Dutch authorities decided to apply the same policy, but expanded it to include execution-only and portfolio management. In addition, unlike the UK-RDR, the Dutch regime does not include a grandfathering clause.

Certain Dutch banks have implemented a "self-regulatory" ban on the payment and receipt of inducements on non-MiFID products (i.e. insurance products) from 1 January 2013 forward. This was extended to investment firm services for retail clients from 1 January 2014 forward (excluding underwriting and advice).

In line with the UK-RDR, the main goal of the ban in the Netherlands was, in anticipation of the MiFID II Directive, to increase cost transparency and to prevent banks from selecting funds based on the inducement they offer. One can expect this new law to strongly impact the open architecture model of Dutch banks as 95% of the retail fund sales in the Netherlands are made through this channel. The ban on inducements should lead banks to focus more on in-house products.

In addition, according to GfK, a German market research group, home buyers, which could serve as an example since no data on investment funds-related advice flows exists, are now paying an average of €1,700 for mortgage advice, compared with around €3,000 in commissions and fees before the ban was introduced in 2013. The average financial advisor's hourly fee has dropped from €122 to €107 in response to intensifying competition between brokers. While consumers may have benefited, financial advisors themselves say their income has gone down by an average of 20% since the ban was introduced and 98% consider the ban to be unfair[9].

MIFID II

Although MiFID II does not extend the scope of MiFID I rules with regards to funds, the main impact in fund distribution is linked to the enhancement of customer protection and information, which is required by the new norm. This new regulation has the main objective of establishing common minimal standards for fund distribution across the EU, leaving national regulators to align with the rules or create their own internal standards, as was the case in the UK and the Netherlands.

The new norm bans independent advisors and portfolio managers from receiving third-party inducements except minor non-monetary benefits under certain conditions. In all other cases, firms providing investment or ancillary services remain allowed to pay and receive third party inducements under certain conditions, which include enhancement of the quality of service. However, the criteria to meet this quality enhancement test are expected to become stricter in view of ESMA's Final Technical Advice on the subject.

Moreover, firms providing investment advice will now need to expressly disclose whether the advice is provided on an independent basis and is based on adequately representative analysis of the market. To qualify as independent, the advisor will have to assess a large and diversified (in terms of type and issuer) number of financial instruments available on the market offered not just by entities with close links with the advisor. Also, advisors are required to disclose more detailed information, which is provided by "product manufacturers" (i.e. asset managers), to investors. As such, the cost of advice directly depends on the quality of information provided by manufacturers and the diversity of products on offer. ***In this context, without inducements, products are shifting from sources of revenue, as they are today, to cost factors in the future. And the battle between asset managers and distributors for investors' fees continue.***

The rules to implement MiFID II are subject to ESMA revision. ESMA delivered its Final Technical Advice to the Commission in December 2014, including its requirements for the implementation of the new playing field with respect to inducements.

[9] Dutchnews.nl, Commission ban cuts financial advice fees, February 2015

A NEW GENERATION OF INVESTORS STANDS APART FROM THE CROWD

In addition to the new regulations coming into force, demographic shifts will also impact the demand for investment products. The burgeoning middle-class[10] urban populations in Asia, Africa and South America will need far more retail investment products. Meanwhile, the aging populations in advanced economies will demand post-retirement products and investment vehicles.

Although Africa's population will still be growing rapidly in 2020, Europe's population growth will stall. In this scenario, at the global level the middle class is projected to grow by 180% between 2010 and 2040, with the highest proportion of middle-class people living in Asia rather than Europe as soon as 2015. Between 2010 and 2020, more than one billion additional middle-class consumers will emerge globally.

At the same time, the global population will age at an unprecedented pace (see figure 8). The number of people 60 years old or older will increase by 2.8% per annum from 2025 to 2030. The old-age dependency ratio for the world is forecast to reach 25.4% in 2050, up from 11.7% in 2010. The developing countries have the youngest populations, but they will also have the fastest pace of ageing, giving them the least time to adapt in the years following 2020[11].

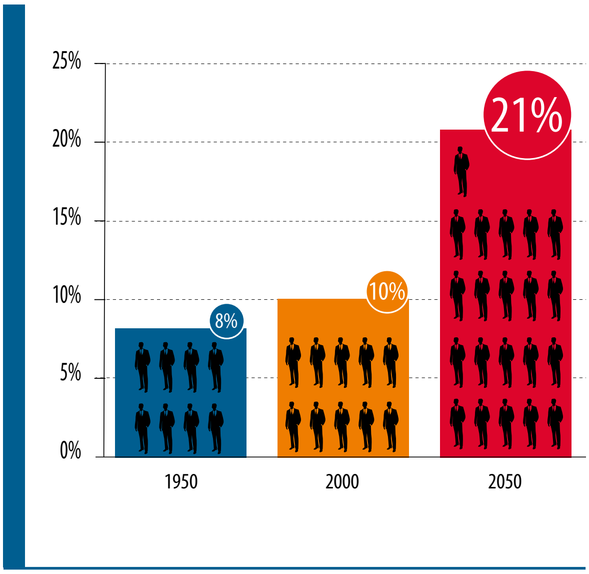
This profound change in demographics is set to revolutionise the retail investment landscape and the balance of power within the AM industry value chain. In fact, over the next decade, the average investor base profile will change drastically as the Baby Boomer generation ages, and as Generation X and Generation Y assume more significant roles in the global economy. The latter, also known as "Millennials" are radically changing client demographics, behaviours and investment expectations. At present, they represent 25% of the workforce in the US and account for over half of the population in India. By 2020, Millennials and Generation X will represent 60% of the global workforce[12] (see figure 9).

These individuals have grown up with broadband, smartphones, tablet, laptops and social media, and they are now looking at smartwatches, with the aim of gaining instant access to information. Because their behaviour is influenced by their experience of the global economic crisis and they tend to be more sceptical than the generation before—they are demanding investors[13] .

PROPORTION OF THE WORLD POPULATION AGED 60 YEARS OR MORE

FIGURE 8

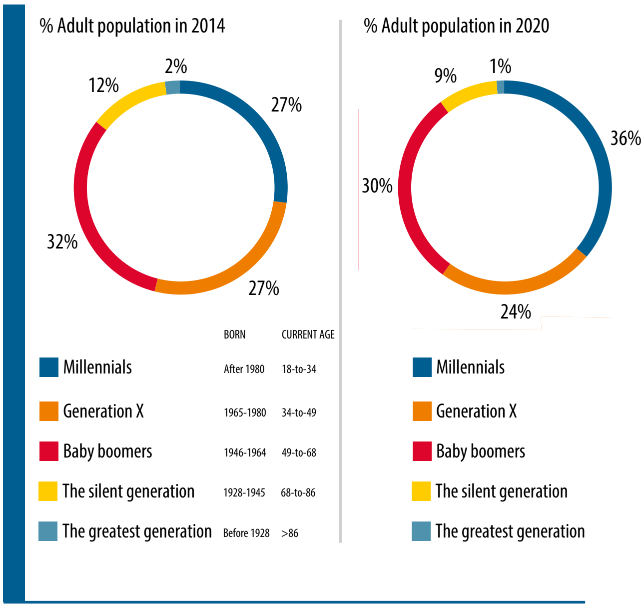
Source: UN report World Population Ageing 1950-2050



THE MILLENNIALS

FIGURE 9

Source: Pew Research



[10] According to the OECD, the global middle class comprised those living in households with daily per capita incomes of between $10 and $100 in PPP terms

[11] PwC, Real Estate 2020: Building the future, 2014

[12] PwC, Millennials at work, Reshaping the workplace, 2014

[13] Ibid

FINANCE AT THEIR FINGER TIPS

Millennials want "finance at their fingertips," as **Gregory Fleming,** *President of Morgan Stanley Wealth and Investment Management,* stated[14]. *"They want to be able to email and text the financial advisors and talk to them on a real-time basis,"* he said, noting the cautious nature of these investors. *"The earlier ones saw the Internet bubble pop, the later Millennials saw the credit crisis. They tend to be more conservative on stocks[15]."* While earlier generations of clients typically meet in person with their financial advisor monthly or quarterly, Millennials want to meet every six months, but manage their portfolios digitally in the meantime.

Because Millennials have a greater appetite for information, standardised quarterly reporting won't be sufficient to satisfy their desire for minute-by-minute information. They also fully embrace digital solutions and demand multiple touch points, including extensive use of mobile technologies in their daily life.

Younger consumers tend to trust "people like me" rather than corporations or professionals, a Millennial outlook that is reshaping industry branding strategies, which now look far beyond traditional corporate advertising campaigns and strive to incorporate social media (Facebook, Twitter, Blogger etc.) and other tools used by these new investors into their digital brand management.

FINANCIAL PLANNING STARTS EARLIER

Engagement levels in financial planning are also on the rise and modern financial customers want to play a more active role in managing their own finance. Research from BlackRock in the UK suggests that the younger generation is taking financial planning more seriously and starting to save at an earlier age, with those aged 24-35 now saving 18% of what they earn, in contrast to only 12% for those aged 45-54[16].

In addition, as more students attend college at a cost higher than ever before, Millennials have increasingly turned to loans to help finance their education, starting their job careers with a debt to be paid. According to a study produced by Fidelity Investments, the top three issues Millennials are very conscious about are saving for retirement, paying off credit card debt and paying student loans[17].

Also, the study suggested that nearly one-half (47%) of the Millennials within the survey sample have started to save for retirement, with 43% indicating they have a 401(k) and 23% investing in an Individual Retirement Account (IRA); this shows that long-term saving is also an important issue for this cohort.

ENVIRONMENT AND SOCIAL ISSUES MATTER

Moreover, the environment is a top priority for Millennials, who demand more products dedicated to investing in environment, social and governance (ESG). As globalisation continues to encourage broader social and environmental awareness, 84% of Millennials say that helping make a difference in the world is more important than professional recognition[18]. As social responsibility moves up on the personal agenda, adoption of ESG investment strategies and socially responsible investing (SRI) are expected to increase accordingly.

According to a recent Merrill Lynch Private Banking & Investment Group report, 29% of investors aged between 20 and 30 want their financial advisor to provide value-based investing (such as impact investing), and among a list of nine priorities, they placed it as the third most important[19].

In addition, the 2013 U.S. Trust Insights on Wealth and Worth report found that 69% of Millennials believe that social, political or environmental impacts were important considerations in investment decisions; 61% of Millennials would be willing to accept a lower return in exchange for greater social and environmental impact; and 72% would accept higher risk in exchange for greater social and environmental impact[20].

[14] SIFMA's annual meeting, November 2014

[15] Ibid

[16] Tony Stennig, BlackRock quoted on BBC News, Financial fears for the future for those aged 45-54, October 2013

[17] Fidelity Investments, The Fidelity Investment Millennial Money Study: Facts, Figures and Findings, 2014

[18] Bentley University Centre for Woman and Business, Millennials in the Workplace, 2012

[19] Merrill Lynch Private Banking & Investment Group, Millennials and money, 2014

[20] U.S. Trust, Insights on wealth and worth, 2013

LOYALTY REBRANDED

One in three Millennials also says he is open to switching banks in the next 90 days and believes he won't need a bank in the future[21]. This outlook is drastically changing the way financial service providers define loyalty. Security, simplicity, transparency, convenience, personalisation, product and price effectiveness have long been key factors for winning clients' trust (see figure 9). While these will still be important for Millennials, financial service providers will have to adapt their client retention tactics.

The biggest challenge for the next ten years will be how to manage the transition in the investor base between Baby Boomers and Millennials in an efficient manner. The winners are likely to be specialist firms that attract both market segments and large scale asset managers/investment advisors by providing a full range of solutions. Moreover, the disappearance of the Baby Boomers and the entrance of non-financial disruptors (e.g. tech firms) could facilitate the end-game.

A NEW SET OF LOYALTY PRINCIPLES

FIGURE 10

Source: PwC Market Research Centre

SECURITY

SECURITY. The modern financial customer seeks a different kind of security compared to 20 years ago. At that time, the bank was seen as a vault while today customers are looking for cybersecurity policies to prevent electronic fraud.

SIMPLICITY

SIMPLICITY. Today's customers expect simplicity in their interactions with financial institutions, as well as simple products and services supported by user-friendly web and mobile based applications.

PERSONALISATION

PERSONALISATION. Customers are increasingly looking for a high degree of personalisation and customisation of products and services. They expect solutions to be tailored, on request, to their own needs and habits through multiple channels.

CONVENIENCE

CONVENIENCE. The widening of the product offering due to technological advances and new entrants into the market is driving customers to be more focused on the concept of convenience in terms of cost, ease and speed.

TRANSPARENCY

TRANSPARENCY. Transparency and comparability are becoming the most important aspects when valuing financial products. Customers are more proactive when comparing the product offerings of different providers in order to find the most suitable match according to their needs.

EFFECTIVENESS

EFFECTIVENESS. Customers are value-driven and still demand strong product performance at a reasonable cost. They look for a high degree of efficiency in financial services, products and operations.

[21] Viacom Media Networks, The Millennials Disruption Index, 2013

ASSET AND WEALTH MANAGEMENT IN THE NEW DIGITAL ECONOMY

In addition to new regulations and Millennials' behaviour, technological development is a disrupting factor in the AM industry, particularly within the client-facing landscape.

The wealth management industry is moving toward strengthening front-end tools, for both advisors and end-clients, in order to create a new value-added offering, including execution-only operations, which provides clients with an online bridge to the market, and automated portfolio management. According to GSMA Intelligence and Ericsson[22], there are more than 7 billion active mobile subscriptions at the global level. As a consequence, the mobile channel represents a unique and powerful distribution network and is set to revolutionise the way people access financial products and services. In this context, asset managers, distributors and new entrants (disruptors), will all seek to pursue greater technological capabilities to gain power in the value chain and to secure better positioning among investors.

EXECUTION-ONLY: INVESTMENTS GO MOBILE

The traditional payments industry, characterised by a few actors such as cards companies, banks, and dominant payment networks, has been penetrated during the last decade by non-traditional players that have fundamentally transformed the playing field. These non-bank actors are principally technological or internet-based companies as well as IT providers and start-ups, which introduced innovative models for executing payments or money transfers, as this segment of the industry is simple, lightly regulated, and entails a large number of transactions on a daily basis.

While the payments industry embraced technology developments early on, the asset management industry will follow in its path. In fact, asset managers are responding to this trend by creating mobile apps that allow clients to engage with financial products and services. The universe of such apps is diverse and steadily developing, ranging from simple transactional-type services to rich advisory and relationship-oriented functions.

The first fund manager mobile app only recently hit the market, and relatively few investment companies have actually invested in apps for investors. Of the 500 largest fund managers, a minority have an app designed to be used by investors. According to My Private Banking research[23], a Swiss research company, Invesco, Franklin Templeton, Vanguard, Pictet and T. Rowe Price are in the top five AMs with mobile apps.

The main functions provided to retail investors through the apps currently include product categories with trading options (execution of purchasing and sale of proprietary mutual funds, stocks and ETFs), Twitter news feeds and videos offering investment insight summaries.

Although these apps represent a powerful channel to favour proprietary mutual funds trading across retail investors, the natural client base continues to be linked to the financial provider's customer base, or those who have opened a bank/brokerage account with the same company. Widening the customer base is key for asset managers if they hope to drive up fund-related revenues. To date, there are few cross-industries working to commercialise mutual funds across a vast and diversified retail customer base. The main example of this is Yu'e Bao in China.

[22] Wearesocial.net, Digital, Social & Mobile Worldwide in 2015, January 2015

[23] My Private Banking, Mobile Apps for Fund Management, 2014

[24] Market Watch, Why It's Time to Move Your PayPal Balance, June 2011

[25] Create Research, Why the internet titans will not conquer asset management, 2015

[26] Financial Times, The future is mobile for fund houses, February 2015

YU'E BAO, A DISRUPTIVE BUSINESS MODEL FROM THE FAR EAST

In less than two years more than 100 million accounts have been opened and more than $100bn of assets have been collected.

In June 2013, the Alibaba Group launched Yu'e Bao, a value-added service on the Alipay balance account, which automatically invests in Tianhong Zenglibao Money Management Fund, the 50th largest asset manager in China at that time (51% of its shares were acquired by Alibaba in October 2013), and now its largest. Yu'e Bao, which means "leftover treasure" in Chinese, allows Alipay users to open their Yu'e Bao account with a single click by transferring money into an account that automatically purchases a unit of the Tianhong Zenglibao Money Market Fund. The minimum transfer amount of Yu'e Bao is RMB1 ($0.16), there are no transaction fees or purchase/redemption fees and the management fee is 0.3% per annum.

Yu'e Bao provides returns close to or even higher than one-year time deposits and delivers an extraordinary customer experience. It is very easy for Alipay users to open Yu'e Bao accounts and to transfer money in and out of them; investment information is clearly shown on the apps and is very easy to understand.

Following Yu'e Bao's success, a number of other companies have launched similar offerings. Among these, the most notable cases come from another internet technology giant in China, Tencent Group, that launched its fund distribution platform "Caifutong" on its popular instant communication App "WeChat", which had more than 468 million active users as of Q3 2014.

Although these models are more difficult to put in place in different regions of the world due to regulation and macro-economic factors, the disruptive impact of technology still remains relevant.

PayPal actually tried this before in the US but without profitable results. As a matter of fact, in 2004, the company launched a money market fund which allowed PayPal accountholders to directly invest money from their accounts with the aim of mobilising uninvested cash balances in customer accounts. In June 2011, the fund was shut down since it became unprofitable for the company and the investors.

At the announcement of the closing, the accountholder was earning just 0.04% return after fees, which wasn't attractive enough for investors, while PayPal subsidised the fund's expenses for nearly two years to keep the funds' returns greater than 0%. A **PayPal spokesperson** declared at that time *"Due to market conditions, financial advantages of the money market fund have diminished for our customers"*, making this business unprofitable for the company[24].

Other tech giants such as Apple, Twitter and Facebook, to mention a few, have already discussed entering the asset management industry, but so far none have. Nevertheless, according to a report recently released by Create Research, it is entirely possible that the breakthrough in this space will come from a mobile telephone company. The trend is confirmed by the recent move by Rogers Communications, one of Canada's largest mobile providers, to apply for a full banking licence that could enable it to offer credit card services. The license application follows the joint launch of a "mobile wallet"[25] .

According to Create Research, the most likely outcome is a mobile app that offers an overview of excess cash and savings across all bank accounts, lines of credit and investment accounts. The app would then automatically alert the owner to transfer investible funds to an online advice platform. This model would be of particular interest to ETF platforms, which could partner with the telecoms industry. **Martin Gilbert,** *chief executive of Aberdeen Asset Management,* the largest listed fund house in Europe, said, *"Digital disruption will come from the development of alternative distribution channels to retail clients. These will be less about buying product and more about client empowerment, service and experience[26]."*

Although the AM mobile app world is in an early stage compared to the payments segment, the industry is developing other internet-based channels in order to provide a wider services offering which encompasses advice and portfolio management.

PORTFOLIO MANAGEMENT AND FINANCIAL ADVICE: FROM D2C AND D2B PLATFORMS TO ROBO-ADVISORS

D2C and D2B platforms come in many guises and under different names, but they fall into two main categories: fund supermarkets and wraps[27] platforms. Essentially, both are online marketplaces that allow users to buy, sell and store investments in one virtual place, in addition to providing advice and portfolio management.

Both fund supermarkets and wraps offer a greater range of funds than conventional products traditionally offered to retail investors. Additionally, they enable investors to buy and hold their investments online in one place with the flexibility to move investments around as their lives change without having to pay high charges for buying and selling. At the same time, they allow advisors to build and monitor clients' portfolios directly online.

When it comes to financial advice, technology developments have also enabled the growth of automated advisory services. Clients can now navigate the fund industry by using new technologies that combine algorithms and user-friendly interfaces to allocate money. Hence, the advisory business is ripe for revolution.

Often referred to as "robo-advisors", this new breed of online technology-driven investment advisory firms are adopting fully delegated, assisted or self-service advisory models through sophisticated algorithms, in order to help consumers build and manage investment portfolios based on their age, risk aversion, income requirements, investment timeframe, income, savings and assets.

These innovative platforms basically provide investors with online access to investment management. Although the array of such advisors and their value propositions vary substantially from one provider to another, holistically they create portfolios, deliver recommendations for investors based on preferred risk profiles, provide portfolio rebalance alerts and deliver automated advice.

Clients initiate the process by signing up and entering the amount of money they want to invest, their investment timeframe, and the level of risk they are prepared to take. Then, according to the client's risk profile (such as risk-adverse, risk-seeker, etc.), the robo-advisor sets the asset allocation into a range of funds. If something changes, for example, a particular event impacts the market or a sector, the algorithm changes its chosen funds accordingly and the system automatically updates the client's asset allocation. In addition, with robo-advisors, even retail investors can access these services at reasonable price.

[27] The main difference between fund supermarkets and wrap platforms is that the former offers a variety of mutual funds that can be acquired and managed by retail investors, whilst the wrap enables any publicly quoted investment to be placed on a particular investment plan (e.g. insurance policy).

With Nutmeg, one of the most well-known platforms in the UK, the investor needs to make one upfront investment of £1,000 and the basic fee is 1% a year or £1 for every £100 invested. This rate also decreases to as low as 0.3% when the investor places more funds on the platform.

Robo-advice services have become increasingly popular in the last few years, with Wealthfront and Betterment leading the way in the US and Nutmeg in the UK.

On a global basis, robo-advisors directly managed about $19bn as of December 2014, according to a study by Corporate Insight[28], and this figure is set to grow since virtual advisors are providing personalised portfolio allocation, tax aware portfolio design, smart rebalancing to maintain a target risk and 24/7 access with lower fees than other types of advisors.

THE POWER OF DATA

On the supply-side, processing increasingly large volumes of data in a timely manner has become a challenge for many industries and technological developments are enabling the translation of this information into vital insights specific to the industry needs.

Big Data encompasses structured, semi-structured, and unstructured intelligence from demographic and psychographic information about consumers derived from product reviews, commentaries, blogs, content on social media sites, and data streamed 24/7 from mobile devices, sensors and other technical devices.

Building the capacity to use Big Data to get the right information to identify the right markets and customers at the right time enables investment companies to make the right strategic decision.

More broadly, the emergence of powerful, low-cost analytical tools and computer technology enables companies to mine Big Data to identify emerging trends and develop unique insights that were impractical or impossible to generate just a few years ago. These insights can translate into better, faster, smarter business decisions – and can drive the development of breakthrough products, reveal hidden markets, and spark other innovations that give companies a competitive edge[29].

With regards to the fund industry, historical transaction data, which includes purchases and redemptions activities, is becoming fundamental for profiling current advisors, prospecting for new ones, as well as for measuring the effectiveness of sales and marketing efforts. In line with this, Customer Relationship Management (CRM) data, which encompasses calls and meeting of internal and external sales forces, is providing vital insights about sales processes.

Social Media data is also becoming important for fund distribution. This channel is turning into the favourite tool for delivering opinions on the current product offering and customers' experience, so mining data from this source would bring critical insight about customers' expectations and consequently could help with product development initiatives.

Data analytics are also critical to drive product development, identify risks and opportunities in the marketplace and structure marketing and sales campaigns according to a diversified array of territories. A study produced by ZS, a marketing and sales consulting firm based in Boston, claims that "firms that maximise wholesalers' territory alignment, without adding resources, can increase fund sales by 2% to 7%"[30]. Data is key to the process of structuring territories.

On the compliance side, data is also becoming an asset. As each jurisdiction is developing new own regulatory initiatives and legislative developments are also taking place at the EU level, sound data management architecture which is compliant with local, EU-level and global requirements would reduce compliance risks.

[28] Corporate Insight, Transcending the Human Touch, 2014

[29] PwC, Capitalizing on the promise of Big Data, 2013

[30] Ignites, Three steps for using data to reshape sales territories, January 2015

3

WINNING STRATEGIES AND TACTICS

RESHAPING RETAIL FUND DISTRIBUTION

3 WINNING STRATEGIES AND TACTICS

As outlined in the previous sections, new regulations, Millennials' investing habits and recent technological developments have altered the balance of power within the fund industry value chain. The relationships between asset managers, distributors and retail investors have changed – and more disruptive changes are coming.

In effect, clients have been empowered by the recent regulatory agenda that restates investor protection as imperative, forcing product manufacturers and distributors to embrace stronger levels of transparency in favour of end-customers. In concert, distributors will be obliged to seek new revenue stream models, as regulations proclaim the end of the inducement-based model. In light of the new playing field, both asset managers and distributors have to adopt winning strategies and tactics.

WINNING STRATEGIES AND TACTICS FOR ASSET MANAGERS, DISTRIBUTORS AND FINANCIAL ADVISORS

FIGURE 11

Source: PwC Market Research Centre

ASSET MANAGERS	DISTRIBUTORS AND FINANCIAL ADVISORS
New pricing and distribution models	**Product Mix /Specialisation**
Product Specialisation (Active/Passive/ Pension Products / ELTIFs)	**Digitalisation and robo-advice**
Focus on institutional-type reporting for retail investors	**Enhancement of Mandate Management**

BRANDING +

ASSET MANAGERS TO RETHINK THEIR PRODUCT STRATEGY TOWARDS BOTH DISTRIBUTORS AND RETAIL INVESTORS

KEY MESSAGES FOR ASSET MANAGERS

With the new regulatory agenda, asset managers will need to level out their pricing policies according to the new transparent environment, "cleaning" their product offering from distributors' fees. On the other side, retail clients are looking for low-cost and innovative solutions that could better meet their demands, while regulators are pursuing "fair" pricing policies in the active domain. Hence, it will become crucial for asset managers to tailor cost-effective products and link the fees applied to active products to their performance. Asset managers will also have the opportunity to leverage both the European Long Term Investment Funds (ELTIFs) and the future European Personal Pension (EPP) frameworks, currently under discussion, to propose a suitable range of pension products that could fill the current "pension gap" observed in Europe.

NEW PRICING AND DISTRIBUTION MODELS

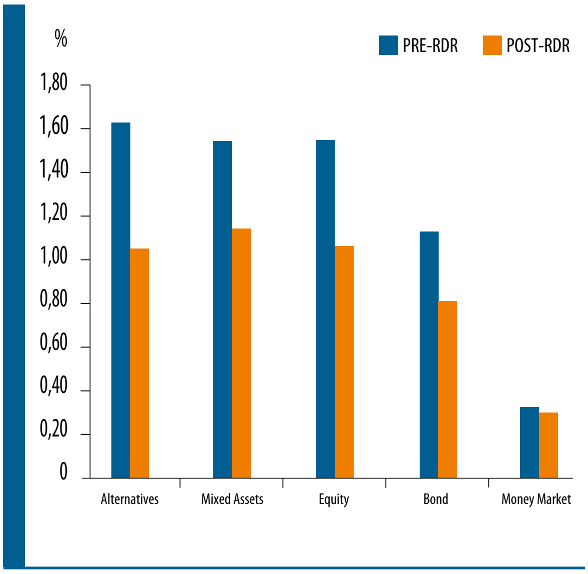
Before the RDR implementation in the UK and still today in most EU markets, investors willing to underwrite an investment fund are paying a management fee composed of two components: one entitled to the asset manager for managing the fund and another earned by the distributor as the introducing broker; both are embedded in the annual management charges (AMCs). The regulator seeks to avoid this "bundled" remuneration system to make the costs of investment products and distribution services more distinct.

The main effect on the market has been asset managers "cleaning" share classes from "trailer commissions" paid to distributors who introduce business to them, and the consequent decrease in the level of management fees paid by investors. As a matter of fact, the average total expense ratio (TER) paid by investors before the implementation of the RDR in the UK stood at 1.40%, decreasing to 1.01% post-RDR, with a 28% decline. Specifically, the average TER of alternatives decreased by 35%, bonds declined by 28%, equity by 31%, mixed asset funds by 26% and money market funds by 11% (see figure 12).

COMPARISON BETWEEN PRE-RDR AND POST-RDR TER OF SHARE CLASSES DISTRIBUTED IN THE UK

FIGURE 12

Source: PwC Market Research Centre based on Lipper



Nevertheless, the cleaning of share classes also transforms funds from revenue sources to cost factors for distributors. Also, RDR and MiFID II introduce stricter advisor governance standards which require investors to pay an advice fee to the distributor or financial advisor depending on the type of intermediary chosen to purchase financial products (robo-advisor, fund platforms, IFAs…). In this context, even though investors are now paying a "fairer" price for "clean share classes", which doesn't include hidden distribution costs, it is still uncertain to what extent the total cost of investment will evolve with the separation of the "clean" AMC and the advice fee.

In addition, the discrepancy between fees and performances is now tracked by the regulators. As a matter of fact, in 2014 86% of active large-cap fund managers failed to beat their benchmarks in the US, while charging fees of 0.6% to 1%[31]. On the other hand, European regulators are currently tackling the so-called "closet trackers" with the aim of bringing a stronger transparency level to the active sphere. The first investigation of its kind by a European government into closet tracking ended with a Swedish asset manager being forced to cut fees on some of its active funds over accusations of closet traking. Dutch and Danish financial regulators are also examining the issue and an investor lobby group recently asked ESMA to launch an EU-wide investigation[32].

In order to attract new investors and with a ban of trailer fees, asset managers will need to adopt a new pricing policy linking fees to fund performance. This can be achieved by lowering the level of management fees or introducing a performance fee in case the fund manager is able to genuinely beat the benchmark.

PRODUCT SPECIALISATION

Until today some distribution channels have been exclusively focused on actively managed funds and structured products paying trailer fees. The change in fee models imposed by the new regulatory regimes and enhanced through new market entrants, is also calling for a new mix of investment products and distribution channels. The attractiveness of passive products, asset allocation funds and tailored solutions is likely to increase without the "constraint" of trailer fees.

ETFs and Index Funds

Although ETFs and Index funds, also known as index trackers, have the same DNA, there are some differences between these vehicles with regards to their structures, pricing, bid-offer spreads, costs, and taxes. In addition, while index funds are distributed through traditional channels (banks, fund platforms…), ETFs are listed on stock exchanges (broker-style distribution) and are consequently the cheapest products in the market, perfectly matching the new automated business model emerging in the advice domain (i.e. robo-advisors).

[31] CNN Money, 86% of investment managers stunk in 2014, March 2015
[32] Ignites, Swedish firm cuts fees on alleged closet trackers, May 2015
[33] Aspiration's web site
[34] Business Insider, This New Investment Firm Lets You Pay Whatever You Want For Its Service, November 2014

New alternative pricing models are coming up in the US. For example, in 2014, Aspiration, a US-based online investment firm, adopted a new fees policy labeled "pay what is fair"[33]. This approach allows customers to price the management fees applied to their portfolios according to what they think is fair. With this model, the company is *"bringing forth a wide range of investment products and investments geared toward the needs of the middle-class investor."* **Andrei Cherny,** CEO and founder of Aspiration[34].

Index Funds

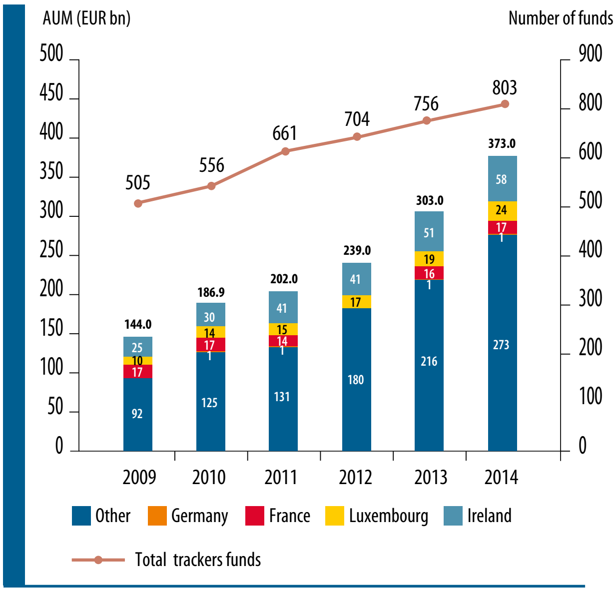
Index funds are also in a good shape. In the US, according to the Investment Company Institute (ICI)[35], in 2013, 372 index funds managed total net assets of $1.7tr with investors adding $114bn in net new cash flow to these funds in the same year. In addition, according to Lipper[36], from 2009-2014, investors drove more than $1tr into passively managed equity funds while just $363bn landed in actively managed equity funds. With regards to Europe, European index funds' AuM stood at €144bn in 2009, but reached €373bn by 2014 with the number of funds soaring from 505 to 803 in that time period (see figure 13).

With regards to index funds, asset managers should streamline their value offering as these products have proved to have a lower expense ratio, greater control of the risk exposures in a portfolio and more appealing tax advantages compared to actively managed funds.

EVOLUTION OF EUROPEAN DOMICILED INDEX FUNDS

FIGURE 13

Source: PwC Market Research Centre based on Lipper



ETFs

According to ETFGI, the total European ETFs' AuM amounts to $12bn with TER of between 10 and 20 basis points (0.1-0.2%), while the TER on actively managed funds is 75 basis points before trading costs[37]. The level of fees is set to further decrease – the main players in this market (State Street, BlackRock and Vanguard) have recently announced their intention to cut them even more in order to gain market shares[38].

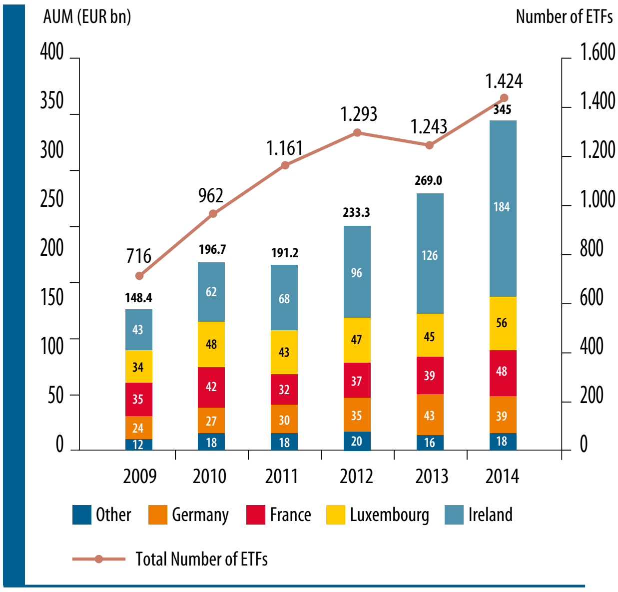
Having expanded far beyond their initial function of tracking large liquid indices in developed markets, ETFs now hold over $2.8tr of assets globally39. With regards to Europe, the total number of European domiciled ETFs jumped to 1,424 in 2014 with a total AuM of €345bn (see figure 14). On a global basis, the ETFs market is set to grow at 6% per year until 2020. Institutional investors are widely expected to be the primary global growth driver with insurance companies, pension funds and hedge funds projected to be significant sources of demand[40].

However, retail investors will increasingly obtain more market share as the low cost and liquidity of ETFs have made them a favourite tool among investors and advisors.

EVOLUTION OF EUROPEAN DOMICILED ETFS

FIGURE 14

Source: PwC Market Research Centre based on Lipper



[35] ICI, 2014 Investment Company Fact Book, 2014

[36] Lipper, 2014 Quick Guide to Open-End Fund Expenses, 2014

[37] Financial Times, Democratising finance: How passive funds changed investing, January 2015

[38] Reuter, State Street cuts fees on 41 ETFs as price competition heats up, February 2015

[39] BlackRock, ETP Landscape: Industry Highlights, January 2015

[40] PwC, ETF 2020, Preparing for a new horizon, 2014

The adoption of ETFs by retail investors in Europe stood at just 20% while institutional investments reached 80% in 2013, but this scenario is set to change. As a matter of fact, EU regulations (MiFID II), as well as national regulations like the RDR in the UK, are set to ban the use of commissions by the manufacturer (e.g. "trailer fees"). This remuneration system has worked against ETFs in the retail market where financial advisors had little incentive to sell ETFs that did not pay commissions. The provision of financial advice is now radically changing throughout Europe and is likely to have a profound and beneficial effect on ETFs as it could lead to interest in cheaper and more cost-effective vehicles as a basis for Beta performance.

These products are also increasingly adopted by financial advisors and valorised by retail clients looking for a *"different kind of investment solution: easy to understand and personalised according to [the clients'] needs. They also want to track their portfolios with the aim of adjusting risk profile, exposure and profile, on a regular basis and with few clicks",* according to our interview with **Aaron Gubin,** *director of research at SigFig,* a US-based robo-advisor. Moreover, during the interview we have conducted with **Joe Ziemer,** *head of communications and partnerships at Betterment,* one of the most popular robo-advisors in the US market, confirmed that, *"Betterment uses ETFs in both stock and bond portfolios because of the liquidity, diversification, and low expense ratios they provide".*

A recent study conducted by Source, a UK-based ETF provider, also showed that 68% of professional investors and advisors are currently using ETFs in the portfolios they manage; 78% of the sample said they do not plan to decrease use of ETFs, while 39% admitted that they plan to up their use of the products. The study also foresees a 32% net increase in the use of tracker ETFs in 2016, and 6% growth for actively managed ETFs[41].

Along with the new regulatory agenda, the innovation potential within the ETFs' DNA will boost further development. As a matter of fact, these products have experienced a strong innovation pace in recent years which has made them even more appealing. Markets have seen an increase in active and sophisticated ETF products. New types of ETFs are, in fact, arising, such as Smart Beta ETFs that weight investor portfolios according to multiple risk factors (value, size, low volatility and momentum) or currency hedge ETFs that allow investors to spread their risk via investments in stocks from abroad without being exposed to additional currency risks.

Pension products

IRA plans and 401(k)s are already popular in the US, but such products haven't landed in Europe yet. Over the past three decades, 401(k) plans have become the most widespread private-sector employer-sponsored retirement plan in the US. In 2013, an estimated 53 million American workers were active 401(k) plan participants. By year-end 2013, 401(k) plan assets had grown to represent 18% of all retirement assets, amounting to $4.2tr. On the other hand, robo-advisors are presenting themselves as a cost-effective solution for different customer segments. In fact, as **Joe Ziemer,** *head of communications and partnerships at Betterment* explained during our interview, *"Betterment's average client's age stands at 36 years old, but we're seeing an increasing interest for low-cost and automated advice services among older age ranges looking for retirement products".*

With regards to Europe, the ageing population and the need to diversify the sources of retirement income, as public pensions will not be able to sustain the retirement needs of European citizens in the long run, have triggered an ongoing discussion among policy makers regarding the "pension gap". According to AVIVA[43], across the European Union, the annual pension gap stands at €1.9tr varying substantially between countries with Western European economies (the UK, France, Germany and Spain) boasting the largest shortfalls. In addition, according to a survey conducted by ING in 2012, less than half (40%) of respondents in Europe have a non-compulsory pension and women and young people appear to be particularly vulnerable[44].

In the absence of proper regulatory framework that could trigger the development of long-term saving products in Europe, the mentioned "gap" has been filled so far by substitute products sold by insurance companies (unit-linked products), or banks.

However, as **Gabriel Bernandino,** *European Insurance and Occupational Pensions Authority's (EIOPA) chairman,* stated, *"a single market for personal pension has the potential to maximise scale economies while increasing the level of competition in the marketplace, and delivering high-quality and low-cost pension solutions to beneficiaries".* Currently, each member state has its own rules for the design of personal pensions, the provision of tax incentives, approval procedures, marketing and distribution rules as well as communication requirements. As a consequence, the

[41] Financial Times, Switzerland takes top spot for ETF demand, May 2015

[42] ICI, 401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2013, 2014

[43] Aviva, The Pensions Gap across Europe, 2011

[44] ING, ING International Survey on Pensions and Long Term Savings, 2012

personal pension market is highly fragmented and remains a local business. The creation of an EU-wide passport for EPPs would allow asset managers to develop a new cross-border specialised products proposition, leveraging on economies of scale particularly in the areas of investment and administration. On the other side, EU consumers would enjoy a more specified value proposition according to their needs, complementing the products that are currently available at national level.

Moreover, the Council adopted a new regulation in April 2015 aimed at increasing the pool of capital available for long-term investment in the EU economy by creating a new form of fund vehicle. The new ELTIFs are designed to offer European institutional and retail investors longer-term investment opportunities in assets such as infrastructure, sustainable energy and new technologies. Currently, there are no cross-border products that pool funds into these types of investments. The new regulation will create a specific ELTIF label and an ELTIF passport for marketing to professional and retail investors across the EU, similar to the UCITS passport. It will operate within the AIFMD regime as a new category of authorised closed-ended funds[45].

This new structure, together with an EU legislative framework for the EPPs, will spur the creation of EU-wide long-term saving products that would benefit EU consumers and will offer new opportunities for asset managers to propose a suitable range of pension products that could fill the current "pension gap" observed in Europe.

Asset allocation funds

According to the BlackRock Investor Pulse Adviser Survey, 39% of advisors surveyed in the US are encouraging clients to increase positions in asset allocation funds[46]. This fund type, which has been increasingly adopted by product manufactures in recent years to respond to clients' diversification needs, gives advisors more latitude to build personalised and diversified porfolios for their clients, delegating the asset allocation to asset managers.

With regards to Europe, in 2014, European investors placed €71bn in asset allocation funds (€6 bn in 2013)[47] beating sales of equity funds (€61bn) during that year.

A strong asset allocation proposition will help asset managers to better market their products among financial advisors and distributors, giving them the opportunity to provide their clients with an added-value solutions proposition.

FOCUS ON INSTITUTIONAL-TYPE REPORTING FOR RETAIL INVESTORS

Millennials are set to assume a more significant role in the global economy and in the investment industry. This cohort has grown up with broadband, smartphones, tablets, laptops, social media, and they are now looking at smartwatches, expecting instant and easy access to information. They are also more sceptical than the generation before since they have lived through the dotcom bubble and the latest financial crises. In light of this, the traditional investment reporting offered to retail investors would not be enough for them, while an "institutional-type" seems to better match their expectations.

If asset managers want to provide retail investors with direct access to their products, they should offer to retail clients tailored reporting solutions that can track asset performance and monitor portfolios in real-time, as-it-happens for institutional investors. The objective is not only to remain distinct from competitors, but also to implement dis-intermediation strategies and shake off the gatekeepers on the distribution chain.

This reporting approach will also help asset managers to better promote their products among retail clients together with empowering them in the investment decision-making process.

[45] European Council, Long-term investment funds: Council adopts new rules, April 2015
[46] Financial Times, Multi-asset investing, May 2015
[47] Lipper, European Fund Market Review, 2015

DISTRIBUTORS TO PROPOSE NEW CLIENT ENGAGEMENT MODELS

KEY MESSAGES FOR DISTRIBUTORS AND FINANCIAL ADVISORS

With bank advisors moving upmarket and the low-end mass market being orphaned by advisors or investors not keen to pay for advice, an "advice gap" is likely to develop. In addition, the overlap between products and solutions offered respectively by asset managers and distributors is forming. Financial advisors and distributors will need to fill this gap by enhancing their advice models by adopting new technology and mandate-based fees, developing own asset management capabilities or specialising in determined products or services, such as long-term saving solutions.

FROM THE "ADVICE GAP" TO THE ENHANCEMENT OF ADVICE MODELS

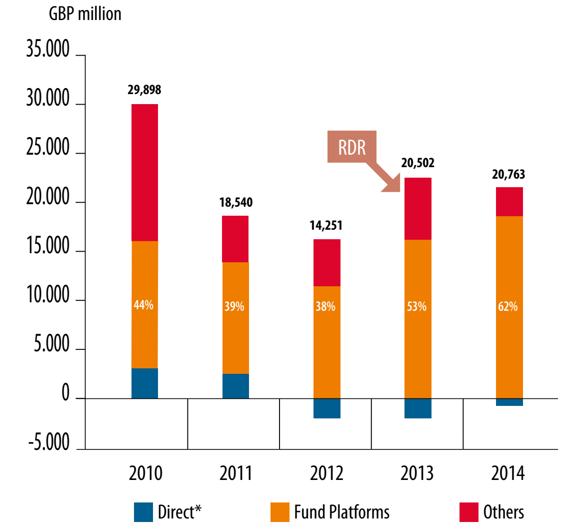
Bank-based advisors are moving upmarket targeting wealthier customers and leaving the mass-market that is becoming less profitable. As an example, one of the largest private banks in the world has started to offer financial advice only to clients with at least £50.000 in savings or £100.000 of annual income, due to the constraints coming from the implementation of RDR and changing customer expectations.

As a result of banks moving upmarket and the low-end mass market being orphaned by advisors or investors not keen to pay for advice, an "advice gap" has formed. This is particularly true in the case of the UK and a very similar pattern emerged in the Netherlands. Since the implementation of RDR, the market share of UK fund platforms in the distribution of domestic products to retail investors increased from 38% in 2012 to 62% in 2014, as most retail investors cannot afford to pay for financial advice (see figure 15). The ban of inducements has changed the distribution landscape as it has actually increased the number of people seeking execution-only services. According to Fundscape, around 10-13% of the UK population sought financial advice before the implementation of RDR, but afterwards that number decreased to 7-10% [48].

NET RETAIL SALES OF UK DOMICILED UNIT TRUST AND OEIC BY DISTRIBUTION CHANNELS

FIGURE 15

Source: PwC Market Research Centre based on IMA



* Direct includes sales through a sales force or tied agents. Also private client sales of own funds.

[48] Alfi, Navigating the post-RDR landscape, September 2014

However, the proliferation of technology-based advisors, which are providing retail clients with automated advice services at lower prices than traditional financial advisors, is gathering pace in the low-end mass market and is set to partially reduce the mentioned gap. In fact, the fee levels offered by robo-advisors are attractive for retail investors. As an example, Nutmeg discloses that their clients are likely to save between 0.3% and 1% more than the typical wealth manager[49].

With the new regulatory environment, where retrocessions are no longer allowed, financial advisors and distributors will need to enhance their advice models, through product mix/specialisation, digitalisation and robo-advice, as well as enhancement of mandate management in order to steam new revenues.

Product Mix / Specialisation

Competing with prices in the affluent segment can be difficult for distributors and financial advisors since platforms are offering a less expensive way to automatically purchase ETFs or baskets of securities and allocate assets according to client's risk profile. However, specialisation could be an option.

In this context, considering the shifts from DB to DC pension provision, creating specialised platforms or solutions for retirement products could be another low-cost alternative. The product and segment specialisation of robo-advisors will further help distributors to tailor low-cost and retirement products for their clients. In fact, Betterment has just released a new *"retirement income product in 2014 which was well received and continues to grow",* as **Joe Ziemer,** *head of communications and partnerships at Betterment,* explained.

In the active domain, asset allocation funds are set to gather pace in the near future as they give more flexibility to financial advisors to build and manage clients' portfolios. These products seem to be an appropriate solution for both advisors and end-clients, particularly those with smaller portfolios and they allow for better matching of investing strategies with clients' circumstances, goals and risk appetites.

Digitalisation and robo-advice

Robo-advisors are starting to build white label platforms for distributors, which can be customised according to intermediaries' needs. The ongoing customisation of robo-platforms will give financial advisors the opportunity to better serve their clients with low-cost and personalised solutions.

In the US, according to Goldman Sachs[50], robo-advisors have the opportunity to capture an increasingly important subset of Millennials, the HENRYs (high earning, not rich yet), which are underserved. As a matter of fact, a study conducted by TD Ameritrade confirmed that 65% of Millennials with over $500.000 of investable assets works with a wealth advisor, while only 33% of Millennials with investable assets less than $500.000 but household income of more than $150.000 does[51].

Although financial advisors have already entered the asset management domain by developing their own portfolio management capabilities, asset managers are starting to compete with traditional financial advisors in the advisory domain. For instance, in the US, Vanguard officially launched its robo-advisor, Personal Advisor Services, in May 2015. Along with this, the firm lowered the platform's minimum investment requirement from $100,000 to $50,000 and investors are charged an annual fee of 30 basis points on managed assets plus fund expenses, which typically range between 5 and 19 basis points[52].

In the case of Betterment, the company *"released in late 2014 a new tool for traditional advisory firms allowing them to outsource portfolio management and back-office activities. This new platform also provides tools for the advisors' clients to be able to log in and view their accounts with their advisor's branding",* according to our interview with **Joe Ziemer.**

Enhancement of Mandate Management

In a context where the functions of asset managers and distributors are overlapping, distributors have to renovate their value proposition with new added-value solutions. Historically, asset managers have been considered as the product manufacturer, while the distributor is the service provider. Now that asset managers are adjusting their value propositions with services traditionally provided by distributors, such as robo-advice, distributors will need to build up asset allocation capabilities in order to remain competitive in the advisory domain.

By developing mandate management capabilities, distributors and financial advisors will be able to generate new revenue streams compensating the loss incurred following the ban of the inducement-based remuneration system.

As asset managers and distributors are now competing to "own the client" and overlapping their historical functions within the value chain, branding promotion is fundamental for both.

[49] Nutmeg's website
[50] Goldman Sachs, The Future of Finance, 2015
[51] Ibid
[52] Wealth Adviser, Vanguard introduces Personal Advisor Services, lowers minimum to investors with $50k, May 2015

BRANDING WILL BE KEY FOR BOTH ASSET MANAGERS AND DISTRIBUTORS

KEY MESSAGES FOR ASSET MANAGERS AND DISTRIBUTORS

With the new transparency rules, the shift from a push model, where financial products were sold to clients, to a pull model, where they are rather bought by clients, is likely to become the norm. In this regard, multiple touch points are used to enhance interactions with retail clients. This approach aims to increase brand recognition and will be one of the key success factors for both distributors and asset managers. A digital strategy built around SMAC technologies seems to perfectly fit the need to strengthen their reputation among end-clients, spreading brand awareness and better capturing investors' sentiment for product development purposes.

Jeanette Marais, head of distribution and client services at Allan Gray affirmed during our interview,

"Brand is key in South Africa. Investors are not looking for cheap products; they rather prioritise the quality of products and services, and most importantly they value trust. We have been very cautious during 40 years in building our brand around strong quality products and services, and now we have a kind of devotion from our customers."

MULTICHANNEL PROMOTION

As Millennials are set to increase their participation in the fund industry and as they respond to a high level of information together with digital interactions with their financial providers, promoting brand awareness has become fundamental for asset managers and distributors. In this context, multichannel promotion is becoming key.

Dissiminating product information via blogs, websites, tweets, forums, webinars, and mobile apps goes hand-in-hand with a segmented digital strategy built around customer segments. This would help both players to better position their brands and value proposition towards retail investors. In this regard, SMAC technologies have become a differentiator in the industry.

SMAC TECHNOLOGIES NEEDED

Since retail investors are increasingly using mobile technologies and social media to communicate with their peers, an adequate social media strategy targeting different segments of the market with information on products, educational materials and market insights is likely to create trust and increase brand awareness. Whereas websites and emails are adequate tools for providing information, social media and mobile apps will complement these channels of communication while gathering customer's perceptions. In addition, Twitter accounts can push live messages to investors, intermediaries and partners to keeping them informed of companies' developments without inundating them with documentation. YouTube is the perfect platform for educating consumers and intermediaries on companies, products, and financial themes.

As the flow of information will increase substantially with industry players enhancing content marketing through multichannel approaches, leveraging Big Data analytics and creating a strong cloud-based data management infrastructure will become critical for those players who want to establish an ongoing flow of dialogue with their clients. The adoption of cloud-based technologies is, in fact, set to provide fund managers and distributors with a stronger degree of agility and would enable them to better manage proactive and rapid response to eventual issues, as well as reduce compliance risk associated with many regulations[53].

In addition, a robust analytics capability will help asset managers and distributors to better serve their clients.

TECHNOLOGICAL INVESTMENTS TO SUPPORT BRANDING AND COMMUNICATIONS INITIATIVES

In this context, investments in technological solutions, web-based and mobile applications, platforms and robust data architecture will be necessary if asset managers and distributors want to control their communication and interactions with retail clients. These applications will allow distributors and asset managers to enhance the client experience, track end-user activities, and create even more scope for efficiency, planning and potentially greater access to clients' funds. Through this increased interaction, distributors will be able to better understand their clients' needs regarding product development and optimisation.

[53] PwC, How the financial services industry can unlock the value in Big Data, 2013

CONCLUSION

Retail fund distribution is in the midst of the most profound structural change of the past 50 years. The prospects for funds in this incredibly dynamic business environment are positive. Opportunities are numerous and assets are growing with sustained growth projected for the industry (e.g. pension, non-banks financing). Yet, the balance of power between the legacy industry players (i.e. asset managers, institutional investors and distributors) is uneven and the entry of new players (i.e. east-Asia asset managers and tech firms) is modifying the status quo.

This business disruption is exacerbated by three main factors: regulations (e.g. MiFID II), Millennials (i.e. new investment behaviour) and technology. Consequently, new strategic responses and value propositions are needed both for asset managers and distributors.

RETAIL CLIENTS GET EMANCIPATED

As retail clients take centre stage in the new regulatory agenda, which puts "clients first", fee transparency and a focus on arm's-length advice models will put retail and affluent clients in a much stronger position to obtain cheaper products (e.g. passive funds, inducement free share classes) and tailored solutions (e.g. mandates, execution-only). However, this comes with a price. As the disappearance of trailer fees also renders advice much more self-sustaining, ***"advice gaps"*** could occur for client segments not ready to pay the full cost of advice.

ASSET MANAGERS NEED TO REFINE PRODUCT PROPOSITIONS AND DISTRIBUTION MODELS

Asset managers are facing a dilemma: the traditional distribution model based on the retrocession of trailer fees is not sustainable in the medium term and, as a consequence, the array of products distributed across the EU is rebalancing. Actively-managed funds (products extensively using trailer fees) and passive products (i.e. Index funds and ETFs) are now placed at the same level to compete for the same distributors and client segments. Accordingly, active managers will need to adopt new pricing models, tailor cost-effective passive products or link the fees applied to active products to their performance. In addition, they will need to strengthen their service offerings with solutions such as asset allocation funds, Smart Beta and non-fund mandates management in order to better serve distributors and financial advisors.

Finally, enhanced product solutions and reduced pricing will not always be sufficient to maintain or gain market share. Access to investors without an 'incentivised' distribution network will become more challenging. Various strategies are already emerging in the market as players move to secure greater access to investors:

- Share class re-engineering (i.e. asset managers are "cleaning" share classes from "trailer commissions" paid to distributors who introduce business to them).
- Strategic shareholdings in robo-advisors (e.g. Schroders have acquired a $32m stake in online wealth manager Nutmeg).
- Direct platforms (e.g. Fidelity introduced Funds Network in the UK, a fund supermarket allowing retail clients to acquire a large number of funds available in the market).
- Advisory service enhancement (e.g. Vanguard launched its robo-advisor service in May 2015).
- End-client marketing (e.g. Blackrock and Fidelity are work ing to build up a strong digital brand recognition in the retail space).

DISTRIBUTORS NEED TO PROPOSE NEW ENGAGEMENT MODELS

On the other side, the distributors need to provide retail clients with enhanced advice solutions, incorporating discretionary management and advisory services with a comprehensive product catalogue. In the trailer fees-free world, ***products will become "cost factors"*** for the distributors and, as such, management of product shelf will be a core competency from a revenue and cost perspective. Distributors will seek to secure their role as gate-keepers and to 'transfer' the responsibility of charging advisory fees to the manufacturers (e.g. pressure to justify or lower the cost of products).

However, a pure cost strategy will not be sufficient to distinguish distributors in the eyes of retail clients. In addition, they will need to develop better asset allocation capabilities and specialise in determined products or services, such as long-term saving solutions, to justify their advice fees. Reporting capabilities and effective reporting management (i.e. interfaces with product providers, data storage, research capabilities) will be required to persuade clients and manage their business risk in terms of product placement.

[54] PwC, How the financial services industry can unlock the value in Big Data, 2013

NEW TECHNOLOGIES AND MULTICHANNEL BRANDING ARE THE CATALYSTS FOR THE NEW BUSINESS MODELS OF ASSET MANAGERS AND DISTRIBUTORS

The way new generations of investors interact with the industry and the way social media influences investment behaviour will be crucial elements of change in the industry's balance of power. Millennials are supplanting Baby Boomers as the primary investorship. In this new environment, technology is a catalyst for the creation of new disruptive business models.

The increasing adoption of SMAC technologies to serve informed retail clients and create a constant flow of dialogue to promote products and services will be crucial. To increase brand recognition, ongoing multichannel dialogues with clients are likely to become a major differentiating factor in the industry. Also, to deliver proactive responses in a dynamic environment and to appease demanding clients, distributors will have to build robust data architecture in the "cloud", enhance their IT security standards (to avoid reputational issues associated with hacking) and strengthen their analytics capabilities (to capture clients' feedback and influence their value proposition, among other things). Retail clients of the new generation will become ***"instividuals"*** in terms of their sophisticated information consumption which demands tailored service delivered through the latest technologies.

Investments in technology are fundamental for asset managers and distributors who hope to succeed in the new investorship environment where cost pressure is mounting and the level of service sophistication is increasing.

LOOKING FORWARD

The next stage of disruption is already underway - Millennials are increasingly making investment decisions on their own without advice or intermediation. In the era of SMAC technologies, the emergence of investor communities and mirrored investing is likely to challenge the primary role of asset managers and distributors in the asset management space.

As a matter of fact, these technologies have given people the opportunity to share information and opinions in peer-to-peer networks and to replicate the portfolios of peers who they think could "beat the market". Companies such as eToro and Ditto Trade have built their approach to investing on the basis of investor communities.

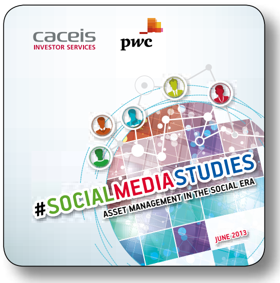
These changes have introduced a new arena to the asset management industry, in which the role of the distributor and the portfolio manager are commingled within web-based social networks and the financial skills of a community of investors.

OTHER RESEARCH REPORTS IN THE SERIES

Asset Management moves into the spotlight **-** June 2014

Uncovering the opportunities for tomorrow's asset management industry

The report highlights the new opportunities emerging in the asset management industry, from pensions and infrastructure financing to digital technologies. It identifies regulation as a key issue in the industry's future, noting the threat to asset management's development potential should policymakers apply the same rules to it as to banks, despite having an entirely different business and financial models.



#SocialMediaStudies **-** June 2013

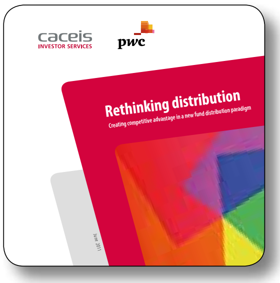
Insight into Social Media Strategies for the Asset Management Community

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 €4.5tn, 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.
Also available in Spanish

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.

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