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pwc

Taking the Reins

A roadmap for navigating the institutional investors' universe

June 2012

Taking the Reins

Message from the Authors

PwC Luxembourg

Just as the global economy seemed to be hauling itself out of recession, the Eurozone crisis contagion has spread to its members and beyond. The asset management industry has shown significant resilience in spite of the recent financial and European sovereign debt crises. However, continued success critically depends upon the potential of the asset management industry to enhance and strengthen its relationship with its clients. In consideration of the importance institutional investors play, PwC and CACEIS undertook this survey to effectively assess current sentiment and key factors influencing the relationship of institutional investors with external asset managers.

In times where uncertainty and volatility prevail in capital markets, customer centricity is at the very heart of the solution for a successful long term relationship and a sustainable business model. In this respect we have listened to the voice of institutional investors regarding their needs and expectations. The result has been the development of the PwC-CACEIS Assurance Model, which is based upon four pillars covering the fundamental requirements of institutional investors for asset managers. The four pillars represent the complete analysis of our results into a concise basis for discussion.

Asset managers that are able to best adapt to the changes in the industry and transform to take advantage of the opportunities available are those that will succeed in the long term. At PwC we are committed to working with our clients and partners in the asset management industry to help them develop effective solutions for their business and success in the global marketplace.

We look forward to hearing your thoughts on this report and hope you find it useful in your quest towards excelling in servicing institutional investors.

Dariush Yazdani

PwC Luxembourg, Partner, Market Research Institute

CACEIS Investor Services

CACEIS is a global asset servicing provider fully dedicated to supporting its clients' business. The support we seek to offer is not simply in terms of clients' day-to-day servicing needs but also, and perhaps more importantly, we aim to assist clients in the realisation of their long-term strategic goals. These goals are focused on stimulating growth in their business going forward, and ultimately enhancing levels of satisfaction for the all-important end-investor.

The decision by CACEIS and PwC to focus our joint annual research paper on the asset management industry as seen from the point of view of the institutional investor was heavily influenced by the need for a deeper understanding of the longer-term strategic view. The asset management industry is required to take a far closer interest in the needs of these very large institutions - clients whose relative weight in the industry is currently increasing – and as a service provider, CACEIS's need to focus on the institutional investor is also becoming ever-greater.

By studying the asset management industry from the institutional investor's perspective, we can assess both its failures and achievements, and as a result make a series of suggestions as to the factors that are likely to have a positive effect on the services asset managers deliver to their institutional clients, now and in the future. Aside from these aspects that an asset manager is able to directly influence, we have also taken a detailed look into the wave of upcoming regulation in order to understand the probable impacts on the industry, and thus how its development path will be affected.

Our research paper concludes by proposing a comprehensive PwC-CACEIS Assurance Model, designed to provide a KPI-like measurement scale across the main areas on which asset managers need to focus in order to ensure a stable, wide-ranging and long-lasting business relationship.

We trust you will find this publication insightful and thought-provoking.

François Marion

CACEIS, Chief Executive Officer

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Executive Summary

Institutional investors hold 69% of the assets managed by the asset management industry. These assets are predominantly held by insurance companies and pension funds making them a major force within the industry.

In light of the importance of institutional investors, PwC and CACEIS have conducted a survey aimed at gauging the satisfaction of European institutional investors with external asset managers so that the latter can best adapt to maintain the assets delegated to them. Our sample have total assets of €4.5tn, representing close to 40% of European institutional assets, indicating the strong representation of the industry in our survey.

IT'S NOT ALL ABOUT PERFORMANCE

The long held view of asset management has been that of an industry dedicated solely to the provision of performance. However, our survey highlighted institutional investors' awareness and the importance they place upon a number of additional KPIs (Key Performance Indicators) critical to institutional investors in their relationship with asset managers. These were derived through analysis of the criteria of institutional investors for selecting and replacing asset managers, as well as the criteria driving overall institutional investor satisfaction.

The report was able to whittle down the responses into two defined categories: areas in which satisfaction is being met and those in which expectations are falling short.

LEVERAGE WHAT WORKS

Based upon the responses institutional investors gave regarding asset managers, we were able to observe a number of criteria in which they are satisfying institutional investors.

The top factors that emerged were expertise, quality of advice, operational strength and independent verification; all of which should continue to be key areas of focus enabling asset managers to leverage their position in this space.

FIX WHAT DOESN'T

However a number of factors emerged in which institutional investors felt they weren't receiving the level of service they expected or needed.

The main factors in which institutional investors felt asset managers were falling short were performance, fees, risk transparency and the quality of reporting. These criteria therefore provide the basis from which asset managers can seek to improve their services and their relationship with institutional investors.

PWC – CACEIS ASSURANCE MODEL

Our analysis and conclusions taken from these responses resulted in the PwC-CACEIS Assurance Model. The Assurance Model factors in the responses from all the institutional investors into a distilled model which asset managers can use as a basis for enhancing their offering to ensure continued success with institutional investors.

The Assurance Model gave rise to four key action areas that span the variety of responses which are as follows:

- ***Risk-based performance over fees***

  Risk-based performance over fees describes the need for a more indicative fee structuring model that satisfies institutional investors demands for fees correlated to the performance of their investment.

- ***Operational Strength***

  Operational strength entails the need for a strong operational team with sufficient ability to meet any of the demands an institutional investor may have as well as the expertise to help shape institutional investor requirements. The importance of demonstrating operational strength is set to increase as investors are increasingly challenged regarding risk and reporting from a variety of sources. Strength is required in order to ultimately minimise overall risk of their investments and ensure long term sustainable performance.

- ***Governance***

  Governance covers the requirements of institutional investors for a transparent and accountable asset manager, supported by independent verification of the asset managers themselves. In order to enhance their relationship with institutional investors, asset managers should ensure strong decision making processes and controls. The rising demand from institutional investors for increased governance and independent verification of controls and processes - especially in the alternative space - is being driven by the quest for objectivity, risk control and regulatory enforcement such as the AIFMD.

- ***Transparency***

  Understanding of how their assets are being invested, risks being managed and any potential reasons for the performance is critical to institutional investors, with ever greater importance being placed upon this as returns suffer and regulatory burdens increase. Asset managers must tailor their operations and reporting towards a more transparent and explanatory framework in order to keep institutional investors informed of their actions, leading to a long term sustainable relationship.

The wealth of assets that institutional investors hold are integral to the survival of asset managers, and may also hold the key to future growth of the industry should institutional investors trust strengthen and their willingness to delegate assets increase. In light of this we believe ongoing discussion and enhancement of the ideas conveyed in the PwC-CACEIS Assurance Model will lead to long term and sustainable success in the industry.

Introduction

Introduction

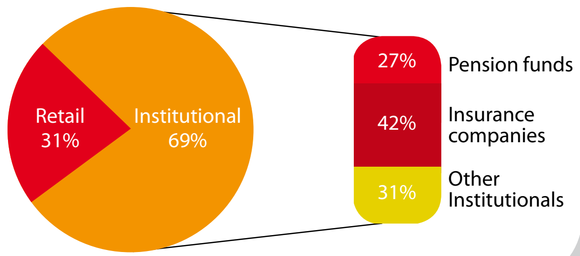
Institutional investors form the significant majority of assets in the investment industry and have increased their allocation in recent years in spite of the hardships of recent market crisis, as such maintaining their trust is integral to the future success of asset managers. As of end 2007, institutional investors accounted for 65% of total European assets, this market share has since increased to 69%; despite what might be viewed as an incremental change, the volume of assets institutional investors now hold exceeds €12 trillion.

With the assets institutional investors hold, asset managers must be diligent in providing an attractive proposition as they will form the backbone of their survival by supplying the majority of their assets. The investment protocol of institutional investors will set the path down which assets are invested as a result of the search for diversification and risk-returns.

Achieving as well as exceeding the requirements of institutional investors is consequently an important factor for future growth; therefore PwC and CACEIS have conducted a survey to identify the areas in which asset managers must capitalise and improve upon to ensure success with instititutional investors.

Figure 1

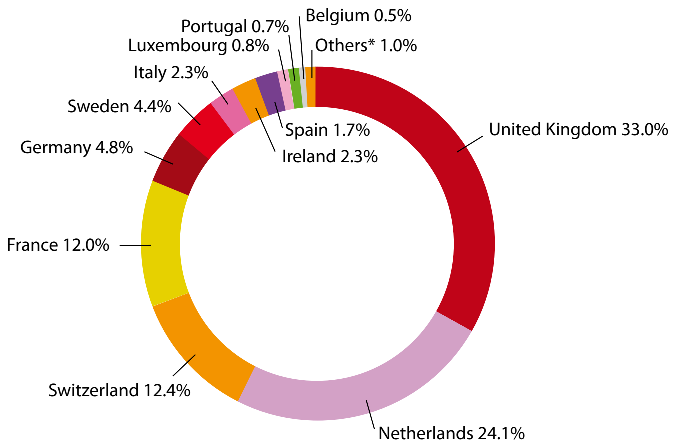
Breakdown of total European AuM, by type of investors, end 2010



Source : EFAMA

Figure 2

Breakdown of participants by country (% of total assets in our sample)



Source : PwC-CACEIS survey 2012
* Others include: Austria, Bulgaria, Croatia, Estonia, Finland, Hungary, Iceland, Norway, Romania

The results of our survey include the responses of European institutional investors, mainly pension funds, insurance companies and institutional investors' trade associations accounting for over €4.5tn in assets. The geographical spread of participants has ensured a strong representation of European nations to allow for fair analysis of the institutional market as a whole (see figure 2).

This report gauges the satisfaction of some of the largest and most influential investors in the market and aims to provide:

- A better understanding of how institutional investors use external asset managers and the factors that drive institutional investors' satisfaction;
- Insights into future developments affecting relationships between institutional investors and asset managers;
- Recommendations on how to optimise the asset manager relationship with institutional investors in the long term and on a sustainable basis.

The report follows a methodical and intuitive structure; first identifying the key criteria that institutional investors had suggested in their responses as key components of their relationships with asset managers, then looking at their level of satisfaction. The following section investigates those areas in which asset managers are performing well in, highlighting the need to continue to leverage upon these indicators. Areas in which asset managers are not matching expectation is covered afterwards and illustrates the deficit in satisfaction of certain criteria.

Based on the survey results and interviews, we have developed the PwC-CACEIS Assurance Model as a basis for discussion which we believe if applied properly will enhance and strengthen the relationship between asset managers and institutional investors.

While our report focuses on the qualitative assessment of the relationship between institutional investors and asset managers, we have also put in the appendix some valuable results from our survey regarding the investments of institutional investors, their use of different investment vehicles and of external asset managers.

It’s not all about performance

When assessing the quality of the relationship between asset managers and institutional investors, performance is not the sole criterion

It’s not all about performance

Performance has always been viewed as the barometer of an asset manager, and their subsequent success or failure has hinged upon how they have faired. However, as recent markets have shown, performance has been unilaterally volatile and the faith investors place in asset managers has been visibly shaken.

As a result of poor markets, institutional investors are no longer complicit in receiving returns without challenging their asset managers; they increasingly focus on a multiple set of barometers. While performance remains important, institutional investors are now also looking to other aspects of their relationship.

As part of the PwC-CACEIS survey we aimed to discover which additional factors institutional investors are now focusing their attention and to what extent they are satisfied with their performance in those criteria. In order to define these, the elements we evaluated are as follows:

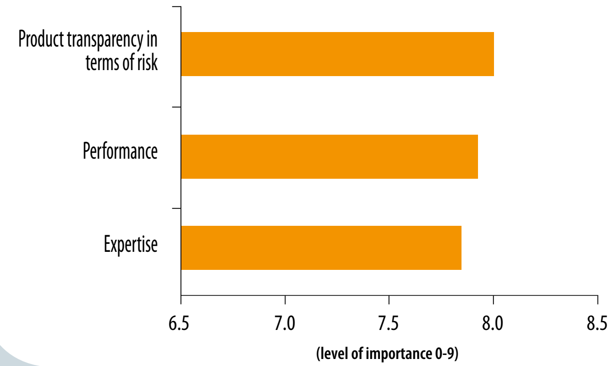
1. Key criteria when selecting an asset manager;
2. Key drivers of overall satisfaction; and
3. Key criteria for replacing a current external asset manager.

KEY CRITERIA WHEN SELECTING AN ASSET MANAGER

Respondents were asked to rate on a scale of 0 to 9 the importance of selection criteria, below are the three factors institutional investors found most important of all (figure 3).

Figure 3

Key criteria when selecting an asset manager



Source: PwC-CACEIS survey 2012

Asset management is a performance-driven industry which demands the best expertise but institutional investors have become more risk-conscious and require utmost transparency in terms of risk. Their focus is upon the manager’s ability to outperform the indices and maintain positive returns while markets are less favourable. Institutional investors are also looking at the performance of managers across a variety of asset classes and particularly those that have delivered consistent performance, this is especially prevalent in current times in which markets have been poor and correlation across different asset classes is high.

Risk transparency was identified as the most important criteria, implying that the assets institutional investors hold must be invested strictly according to the risk principles they uphold. As institutional investors have become more proactive and scrupulous of their investments in light of poor returns, the disclosure of the risk has emerged as a key concern. In this scenario institutional investors want greater clarity of the investment risk undertaken for the understanding of their portfolio, as well as adherence to their risk principles.

While performance is often a result of their expertise, institutional investors are focused on the asset manager's ability to identify potential issues or attractive areas, and to interpret them in the optimum way.

KEY DRIVERS OF OVERALL SATISFACTION

Having identified the factors that institutional investors find most important when selecting an asset manager, another of the key indicators was the factors that are fundamentally valued by institutional investors.

Key driver analysis is used by business to understand which criteria or attributes have the greatest impact on the customer's purchase decision. This analysis is based on the relationship (i.e. correlation) between each criteria and a measure of overall satisfaction. Those criteria which had the closest (positive) correlation to the overall satisfaction were the criteria that were most indicative of an institutional investor's satisfaction with external asset managers (figure 4).

Operational strength (IT/People/Process) achieved the highest correlation, suggesting it was the key driver of overall satisfaction.

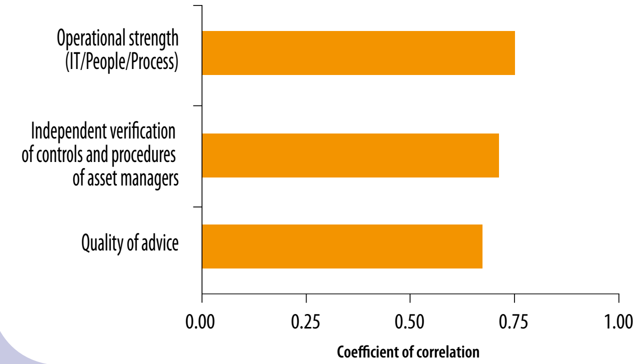
Operational strength implies the capability of an asset manager to cope with the changes facing the industry, and to meet the increased requirements of institutional investors. Those with greater operational strength are able to adapt best to any new changes in the industry such as regulation, or the increased granularity and frequency of reporting demanded by institutional investors.

Independent verification of controls and procedures of asset managers follows operational strength as key driver of overall satisfaction. In this context institutional investors are placing greater pressure upon asset managers to be transparent and substantiate their assertions, with some basing their decision as to whether to hire a manager or not upon the validation of a third party.

Quality of advice follows closely behind. The stronger the advice, the more comprehensive the offering from asset managers; exemplified by up-to-date and relevant guidance of current and future market trends, and strong advice regarding optimum asset allocations.

Figure 4

Key drivers of overall satisfaction



Source: PwC-CACEIS survey 2012

KEY CRITERIA FOR REPLACING A CURRENT EXTERNAL ASSET MANAGER

Respondents were asked to select from a large array of criteria their reasons for replacing their current asset manager. Figure 5 demonstrates the three criteria which had been selected most frequently by institutional investors.

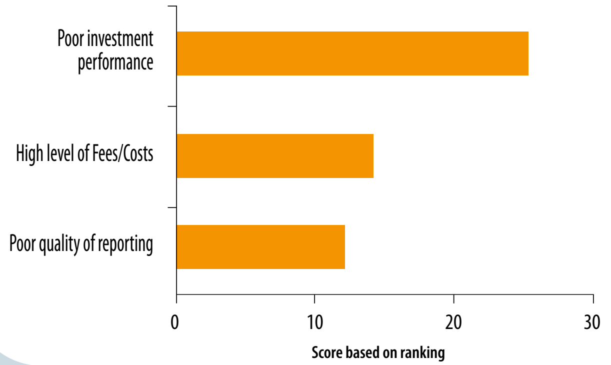
Understandably, poor investment performance was the primary reason for replacing their asset manager, which correlates with it being among the top three factors when selecting an asset manager.

High levels of fees/costs are seen as a key reason for replacing an asset manager; this is particularly pertinent in the current environment in which institutional investors aren't seeing the returns they desire, and look to reduce costs elsewhere. Fees have consistently remained a concern of institutional investors, but greater emphasis is being placed upon them as a result of both parties facing rising costs in the form of regulatory requirements.

Rounding out the top three is a perceived lack in the quality of reporting. Institutional investors felt that aside from poor performance and high levels of fees, the low quality of reporting also drove them to replace asset managers. The quality of reporting is defined as the frequency, depth and relevance with which asset managers report portfolio developments as well as any changes/updates impacting the structure of the allocated assets. In this regard institutional investors wish to receive timely and in-depth reports detailing the progress of their investments as well as explanations for any deviations.

Figure 5

Key criteria for replacing a current external asset manager



Source: PwC-CACEIS survey 2012

DEFINING KEY PERFORMANCE INDICATORS (KPIs)

Institutional investors are increasingly looking at all aspects of their asset manager, ranging from performance to operational ability to the level of reporting that they receive. While other factors were considered important, such as innovation or team stability, they didn't feature as frequently or rank as highly as the other responses.

What emerged during our analysis (as explained previously) was the recurrence of eight key themes which featured highly across all the responses (see Table 1).

We have selected these eight KPIs as the key drivers in an institutional investor's relationship with asset managers because of the need for asset managers to satisfy these criteria to maintain and secure institutional assets.

As a result of these clear trends emerging, our evaluation is based upon the extent to which institutional investors' desires are being met and how they might improve upon them to increase their attractiveness.

Table 1

Identified KPIs

KPIs	Reasons for selecting asset managers	Drivers of overall satisfaction	Reasons for replacing asset managers
Performance (or lack of)	●		●
Risk transparency	●		
Expertise	●		
Fees			●
Quality of reporting			●
Operational strength		●	
Quality of advice		●	
Independent verification of controls and procedures of asset managers		●	

What works, what doesn't

Overall satisfaction of institutional investors is good but they have mixed feelings in certain areas

What works, what doesn't

While many people would argue that the recent financial crisis, economic shocks and scandals have significantly damaged investor trust, the good news from our survey is that third-party asset managers are performing reasonably well in the eyes of institutional investors (figure 6). This result is based on respondents being asked to rate their satisfaction (from 0 to 9), with external asset managers on a number of criteria.

This result is consistent across the European institutional market, as no significant differences in the level overall satisfaction were observed when taking into account the origin of participants.

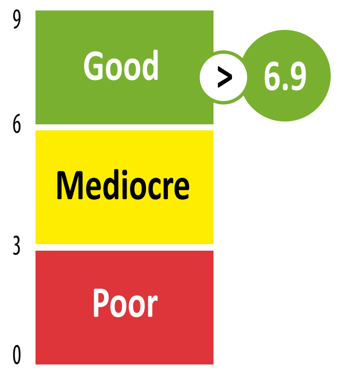
More specifically, asset managers perform extremely well in respect to investment policy, their accessibility/responsiveness and their transparency in terms of performance. But how do asset managers perform around the KPIs we identified in the previous section?

When it comes to the level of satisfaction around the KPIs, our respondents had a mixed feeling. In order to evaluate the level of satisfaction of institutional investors with asset managers on the identified KPIs, we used two models:

- the Satisfaction Gap Model (figure 7);
- the Satisfaction and Importance Mapping (figure 8).

Figure 6

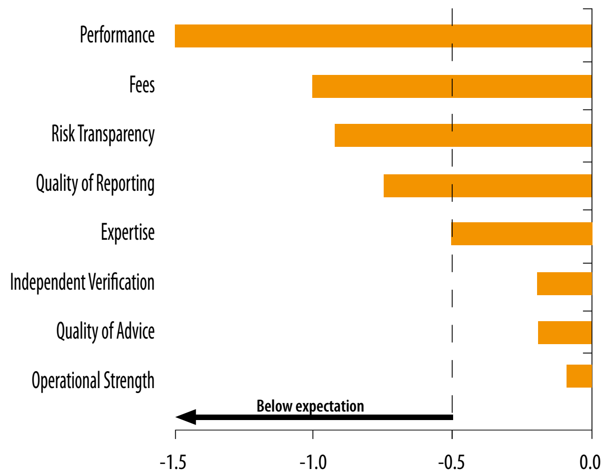
Overall level of satisfaction when dealing with external asset managers



Source: PwC-CACEIS survey 2012

Figure 7

*Satisfaction Gap**



Source: PwC-CACEIS survey 2012

* The satisfaction gap was obtained by subtracting the average level of importance from the average level of satisfaction for each criteria.

Both models led to the identification of a number of areas in which asset managers were meeting investors' expectations and a number of others in which they were falling short.

From our analysis, we identified four KPIs in which asset managers were meeting investors' expectations:

- Operational strength;
- Expertise;
- Quality of advice; and
- Independent verifications of controls and procedures.

Whereas our analysis revealed that investors ranked their levels of satisfaction for the following KPIs as below expectations:

- Performance;
- Fees;
- Risk Transparency; and
- Quality of Reporting.

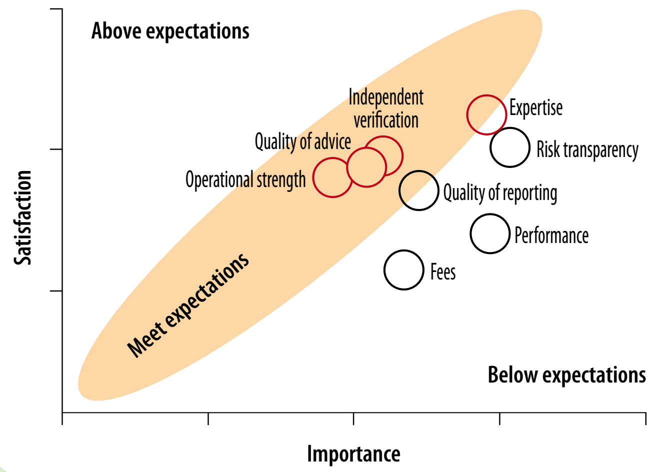
In the two following sections, we will assess each of the above as to why asset managers are, or are not, meeting expectation and what must be done to maintain or increase the satisfaction of institutional investors.

Satisfaction and importance mapping (figure 8)

Within this analysis, we mapped the identified KPIs across importance and satisfaction level as institutional investors were asked to evaluate both according to the same rating scale (0-9). The shaded area indicates the level of institutional investors' expectations (i.e. where the level of satisfaction is commensurate with the level of importance for a given criterion).

Figure 8

Satisfaction and Importance Mapping



Source: PwC-CACEIS survey 2012

Leverage what works

Asset managers have demonstrated strengths in certain areas and should seek to work on these to ensure further success with institutional investors

Leverage what works

From the results of our survey, we have identified certain criteria in which asset managers have demonstrated strengths in the eyes of institutional investors:

1. Operational strength;
2. Expertise;
3. Quality of advice; and
4. Independent verifications of controls and procedures.

On the following pages, we will assess the reasons asset managers are meeting expectations on these criteria, how they can maintain and increase the satisfaction of institutional investors and how these areas affecting the relationship between asset managers and institutional investors are going to evolve.

OPERATIONAL STRENGTH

Institutional investors cited the desire to allocate their funds to asset managers with strong and robust operational infrastructures that minimise risk. Indeed studies have shown that more than half of asset manager failures were associated with operational risks i.e. loss resulting from inadequate or failed internal processes, people and systems or from external events[1].

Although operational strength doesn't rank as highly in importance in comparison to the other KPIs, the satisfaction level is very high (figure 8). This shows that asset managers have been able to provide comfort to their investors regarding their operations.

Verifiable processes are key in inspiring confidence. Once the asset managers' objectives are defined properly, institutional investors, or their advisers, will spend significant time evaluating their external managers and ensuring that all decisions are taken rationally. Asset managers who clearly formalise, document and communicate on their processes will make it easier for investors to understand what they do and why.

IT systems also ensure consistent, timely and effective control of risks. Asset managers should therefore be equipped with systems (e.g. portfolio monitoring, order management settlement, and valuation) which are solid and adapted to the nature and volume of their activities.

However, as the burden upon asset managers increases in the form of greater regulation and expectation from institutional investors, the greater the significance of reducing costs and driving efficiency. One such solution touted for asset managers, to strengthen the quality of their operations in a cost-efficient way, is to ensure the integration of systems in all sites or to introduce single infrastructures and centralised data management systems.

Asset managers may also be able to boost their strength through outsourcing back and middle office tasks so that the focus is more toward core investment decisions. Recent trends also suggest that there is a rise in outsourcing front office activities such as distribution and sales, indicating the strive to focus attention upon core investment procedures.

[1] Definition of operational risk by the International Convergence of Capital Measurement and Capital Standards known as Basel II

Looking forward, the importance of demonstrating operational strength is set to increase as investors look at minimising overall risk of their investments and ensure long term sustainable performance. While strong performance will remain important, investors will demand evidence of excellent operational soundness. The shock of the Madoff scandal resulted in higher scrutiny of institutional investors regarding the reputational risk and investment risks. This will motivate institutional investors to look at the evaluation of operational strength of asset managers as more than a tick box exercise.

Institutional investors are set not only to assess the investment process of asset managers going forward, but give equal priority to non-investment risk due-diligence of their asset manager.

EXPERTISE

Just like professional sports teams, asset management companies' value lies in its people. Expertise is valued greatly in the fields of asset allocation and regulation in which institutional investors wish asset managers to be fully versed in the finer details of each.

Expertise rates very highly in terms of importance, ranking 3rd in the most important factors when selecting an external asset manager (figure 3). Asset managers can take assurance from the fact that institutional investors also rate their satisfaction as being met, even when given such importance.

Expertise must remain at this level to maintain the trust of institutional investors, both in the short term and long term. Although institutional investors cited one of the main reasons for using an external asset manager as having a lack of internal resources/expertise (see appendix, figure 16), they are by no means oblivious to the abilities required, so when outsourcing they can critically assess the expertise of those they wish to hire. In order for asset managers to maintain this expertise and stay ahead of the competition they must constantly re-educate and remain aware of changes in the market.

Recent trends have shown that small and mid-size asset managers are becoming increasingly attractive to institutional investors as a result of the rewards they provide through unique experience, value creation and their in-depth knowledge in the niches they specialise in.

Furthermore, as the search for returns continues, institutional investors are increasingly moving toward alternative investments - such as emerging market equities, natural resources, infrastructure and commodities - which demand more sophisticated and unique expertise and knowledge.

Looking forward, institutional investors will increasingly look for specialists. As explained in our previous report[2], the growing need for specific products on behalf of European institutional investors, searching for higher returns is likely to attract foreign competitors and hence increase the intensity of competition in the European institutional asset management market.

QUALITY OF ADVICE

Recent reports indicated that institutional investors were increasingly seeking the advice of asset managers in reviewing their asset allocation and procedures to fulfil their investment objectives. The subsequent result has been that asset managers are perceived to be moving more toward an advisory role as close partnerships develop. In order to add value, asset managers are required to mobilise their knowledge, experience and analytical skills to create and deliver focused advice to institutional investors. At the same time, asset managers can help institutional investors increase their investment knowledge and thereby support their fiduciary obligations.

[2] PwC-CACEIS, Rethinking Distribution, June 2011

The asset managers that have been most successful are those that have offered alternative capabilities, not necessarily pure alpha strategies. Those that have provided value added in the form of additional advice regarding asset allocation have retained and won additional clients on the merit of their offering. Some managers are already providing asset and liability analyses, portfolio optimisation and asset allocation studies as well as trainings for their institutional clients.

The fallout from the global and European crises has also led institutional investors to a greater thirst for advice as a consequence of uncertainty, with asset managers increasingly being asked as to where to invest next. This connection combined with that of one-to-one interaction has pushed asset managers closer to clients; and although the issue of performance vs. fees continues to be the focus, asset managers have been able to add value by sharing insights and offering tailored advice.

In an era where fees and performance come under ever greater scrutiny, and the upward pressure upon costs for asset managers rises consistently, the ability to provide additional services and to secure clients at low cost is of extreme importance. Therefore the 'added extra' of advice provided by asset managers is well regarded by institutional investors, earning asset managers greater client retention and a selling point for attracting new ones.

Looking forward, institutional investors will evaluate asset managers in a far more comprehensive manner as they look to the overall capabilities; envisaging their role to be more of an advisory one in which they can align their investment objectives rather than only that of an investment specialist for a given asset class.

INDEPENDENT VERIFICATION OF CONTROLS AND PROCEDURES OF ASSET MANAGERS

European institutional investors want independent verification of information provided by managers to assess its validity and accuracy. As figure 8 illustrates, independent verification ranks highly in satisfaction and is considered by institutional investors to be fairly important.

Independent verification plays a critical role in giving investors comfort that their assets are being managed with integrity. It has been one of the cornerstones of the UCITS directive which requires the fund or its management company to appoint an independent custodian/depositary, administrator and independent auditor for fund assets. The UCITS directive also requires managers to establish an independent risk management function to monitor leverage, risks and concentration limits (UCITS III) as well as independent compliance and audit functions (UCITS IV) .

Large asset managers and independent administrators are looking for ways to efficiently demonstrate their control environment. One increasingly common way to do this is to commission independent control assurance reports (i.e. SSAE 16/SAS 70 reports). US pension funds often request these reports, viewing them as a helpful due diligence tool.

The following quote also highlights the importance of independent verification: "We see increasing numbers of firms keen to claim compliance with the GIPS standards in particular, because it satisfies the transparency and consistency demanded by institutional clients in the RFP"[3]. In a survey conducted by eVestment Alliance and ACA Beacon Verification Services, 33% of consultants polled exclude managers from searches

[3] GIPS - Understanding the Global Investment Performance Standards (GIPS®)

if they don't claim GIPS compliance, and another 48% said they "sometimes" exclude non-compliant managers. Those that do comply are able to better compete for institutional assets, especially in the institutional investor industry which is moving toward standardisation and transparency. Although larger firms find it easier to become compliant, smaller boutique firms are beginning the uptake as they begin to seek greater access to institutional assets.

Looking forward, we will see rising demand from institutional investors for increased governance and independent verification of controls and processes, especially in the alternative space; which is being driven by the quest for objectivity, risk control and regulatory enforcement such as the AIFMD, which was identified as one of the most impactful regulations by our respondents.

Although AIFMD is being levied at asset managers, there are a number of indirect impacts for institutional investors, particularly while they are continually increasing their allocation to them. AIFMD will enforce the need for an independent depositary, as such institutional investors will benefit from a secure location in which their assets are held, boosting investor protection. The role of the depositary will also act as a third party verifier regarding the actual assets held and to where they are being invested.

CONCLUSION: WHAT DO ASSET MANAGERS NEED TO LEVERAGE ON?

As the asset management landscape has evolved post-crisis, key principles have emerged in the distinction between those that have been successful and those that haven't. While the spectres of performance and fees continue to loom over asset managers, other measures of ability have begun to emerge, particularly in the capabilities of asset managers to cope with a difficult returns environment and the mounting regulatory tsunami.

Institutional investors are looking closely at the operational capability of asset managers and the added value services they're willing to provide as they strive for greater transparency and understanding. Asset managers must therefore continue to build upon their operational capacity so that they can adapt to new regulatory requirements and governance procedures; as well as dedicating resources to the explanatory and advice led services which further attract institutional investors toward them.

Fix what doesn't

There are clear areas for improvement identified. It is important for asset managers to focus on these if they wish to continue to be successful in the institutional market

Fix what doesn't

A decade of market volatility has generated an increased awareness and sophistication among investors. Demands for enhanced due diligence and controls of asset managers have been reinforced with investors seeking greater knowledge of asset managers' activities in order to determine how performance is achieved and risks are managed. Moreover, pressure from investors to cut investment costs have put asset managers under greater scrutiny.

From the results of our analysis we identified four KPIs in which asset managers are not meeting institutional investors' expectations:

1. Performance;
2. Fees;
3. Risk Transparency; and
4. Quality of Reporting.

On the following pages we will assess each of the above as to why asset managers are not meeting expectations, what must be done to fix it and how these factors affecting the relationship between asset managers and institutional investors are going to evolve.

PERFORMANCE

Institutional investors have felt the detrimental impact of the euro-zone sovereign debt crisis and turbulent stock markets which led to losses in all major markets. Funding levels of pension funds for instance dropped last year by 2.1% among euro-schemes[4] and as pension funds expect a return on investment of around 6% in the Eurozone, pressure on asset managers is mounting.

Performance was ranked 2nd highest by respondents when considering external asset managers (see figure 3), but is ranked highest for the satisfaction gap (see figure 7). As a result of this, institutional investors believe that performance is well below their expectation level, and as such should remain the top priority for asset managers in retaining their clients; figure 5 emphasises this point as it shows that poor performance is the greatest reason to replace their asset manager.

A number of experts predict that in the coming months there could be a similar level of manager searches following disappointing performance as there was in the first half of 2009, indicating their growing impatience of poor results.

Others have argued that the performance of the manager isn't one of the primary concerns, but rather that the deficiency in being able to spot the problem and affect a solution.

Asset managers may therefore need to look inward as to the reasons for institutional investors switching away from them, rather than to market effects. As the previous section mentioned, institutional investors were satisfied with the quality of advice and expertise that asset managers provided; therefore asset managers may need to look closer at why they're not achieving the desired performance and instigate a change in their approach or most drastically the managers themselves.

[4] Towers Watson, Global Pension Finance Watch

Looking forward, as a result of the increasing popularity of ETFs, the separation between alpha and beta is set to accelerate. Investors will be less inclined to pay any premium for active asset managers if it only delivers market performance, putting further pressure on fees within the industry, allowing only those asset managers creating alpha to be able to demand a premium. A low interest rate environment and volatile equity markets will mean outperformance within the main asset classes will become an obligation.

Further regulations such as Solvency II and IORP II[5] are set to shift allocation towards less risky assets resulting in a lower performance, especially for long term investors such as pension funds.

FEES

Fees received a low level of importance when institutional investors came to selecting asset managers, but ranked 2nd highest for the reasons for replacing their current external asset managers (see figure 5). From figure 7 we can see that the satisfaction gap for fees is 2nd highest after performance.

A tactic now employed by certain institutions is to negotiate on the fee level, a position made possible due to the size of the investments that they make and the bulk buying that they are able to undertake. As a result they may achieve up to 40% in fee savings.

The combination of a desire by institutional investors to reduce fees whilst enhancing performance is placing severe downward pressure upon asset managers in the way they achieve these criteria, resulting in a change of philosophy in how they construct a proposal and subsequently meet it.

Some managers, in particular hedge fund managers, have already reacted by properly aligning fees to performance and/or by developing new fee structures. For instance, "sliding management fees" whereby management fees drop as assets under management increase have been introduced by start-ups.

ETFs are increasingly being selected because of their lower expense ratios, but recent trends suggest that investors were willing to pay higher expenses for the more complex, innovative products offered by ETF fund managers; an indication of their regard for expertise.

Looking forward, the current regulatory and tax agenda may significantly impact the cost of managing funds. The proposed Financial Tax Transaction (FTT), for instance, was identified among the top future regulations affecting institutional investors by the respondents. While the scope and impact of the FTT is still uncertain and exemptions may be granted to pension funds, a study by APG found that the Dutch pension funds sector could have to pay €3bn a year as a result of FTT, understandably impacting the performance of the whole sector.

Given these trends ,we predict investors will become increasingly sensitive to the relation between fees and performance when working with external asset managers in the future.

[5] Institutions for Occupational Retirement Provision Directive

RISK TRANSPARENCY

Risk transparency received the highest importance of all the criteria in the survey when deciding to select an asset manager (see figure 3). However, the level of satisfaction is below what is expected and subsequently risk transparency is one of the top three criteria in which there is a gap between satisfaction and importance.

With increasingly sophisticated products coming to market, the ability of the institutional investors to understand the composition and risk of the strategy is becoming increasingly difficult, and could lead to a perceived greater amount of risk or lack of disclosure of the true level of risk. Some managers have tried to overcome the problem by providing frequent and in-depth reporting to give a higher level of transparency and clients a better understanding of their portfolio holdings. For instance, exposures to single issuers, countries or sectors are analysed and communicated to clients through a regular report. Such an offering will help maintain an institutional investors satisfaction with operational strength, if not boost it, while simultaneously meeting some of the requirements regarding risk transparency and reporting quality.

Poor performance and significant drawdowns are leading to the replacement of asset managers, and the basis for selection of the next are those with strong risk controls which had enabled them to produce positive returns in previous years. Therefore while performance expectations hold true, institutional investors are also looking increasingly at how such performance was achieved and whether it was in line with their principles regarding risk.

An area that has grown markedly in recent years has been the alternative UCITS market, favoured by institutional investors for their liquidity, transparency requirements and specific regulatory investment criteria. Total AuM illustrates this growth, rising from €96bn in 2010 to €112.9bn in 2011.

Looking forward, the demand from institutional investors in the aftermath of the financial crisis to increase transparency of risk is a key driver in satisfying institutional investors. However, there are a number of other regulations that stand to be imposed in the coming years which are set to increase the pressure on institutional investors and asset managers (as their service providers) regarding transparency requirements and reporting (see also "quality of reporting").

QUALITY OF REPORTING

The quality of reporting received a fairly low level of importance when selecting asset managers. However, the satisfaction level is well below that which is expected and was one of the top three reasons for replacing current external asset managers (see figure 5).

In line with expectations of greater risk transparency, the quality of reporting was highlighted as another factor institutional investors were becoming more demanding of. While satisfying the institutional investors' desire for stronger reporting, asset managers can similarly meet their requests for performance and greater transparency.

A study conducted by MIT[6] on the influence of financial reporting found that "firms with higher financial reporting quality are found to deviate less from predicted investment levels and show less sensitivity to macroeconomic conditions". These results suggest that strong reporting quality will improve investment efficiency by reducing negative influences such as moral hazard and adverse selection.

As an example, one asset manager has created a department dedicated to investment risk & analytics, with the aim of improving the knowledge of institutional investors regarding their investment. As a result of having the operational ability to create such a department they have created an online web portal which provides the client with a multitude of information, such as: reasons for performance, economic exposure, asset classes used, as well as the country risks they may face. An issue raised by the respondents was that they understood the market wasn't conducive to strong performance, but still felt aggrieved that there had been little explanation as to why; part of the solution used by the above manager was to show why the investment manager had either underperformed or outperformed the market.

Looking forward, institutional investors will increasingly demand greater frequency of reports, as well as more one-to-one meetings, illustrating their desire for a good relationship and strong communication.

Forthcoming regulations are also set to further define the content and format of reported information e.g. the UCITS KIID. Another example is Solvency II and the IORP II proposal (identified as the regulations with the greatest impact by the respondents); which could negatively affect institutional investors' choice of asset allocation and require further transparency and reporting.

The requirement to report total aggregated risks under these rules is set to heavily impact insurers and pension funds, as they have their assets spread across a multitude of jurisdictions, asset classes, fund structures and managers. The penalty for not providing this transparency will result in higher capital charges for insurers and pension funds, which in turn may require asset managers to provide detail to a greater level in order to avoid such penalties. Asset managers will be reluctant to provide such detail though as it will compromise the confidentiality of their asset allocations and trading models. The solution to the need for transparency could result in third parties receiving aggregated data from asset managers which should protect confidentiality of their investment processes, and could also serve as an independent verification procedure. This is however a valuable opportunity for asset managers to differentiate themselves by moving early to create Solvency II / IORP II – ready operational capabilities and investment strategies for their insurance and pension fund clients.

[6] MIT – "How does financial reporting quality relate to investment efficiency" September 2009

Greater traceability, governance and reporting procedures under the Solvency II / IORP II proposal requirements are of much importance to insurers and pension funds, especially if their assets are held with external managers or in externally pooled funds. In order to sufficiently meet the deadline on 1st January 2014, insurers and their external asset managers must make sure their relationship is strong to ensure a smooth transition process.

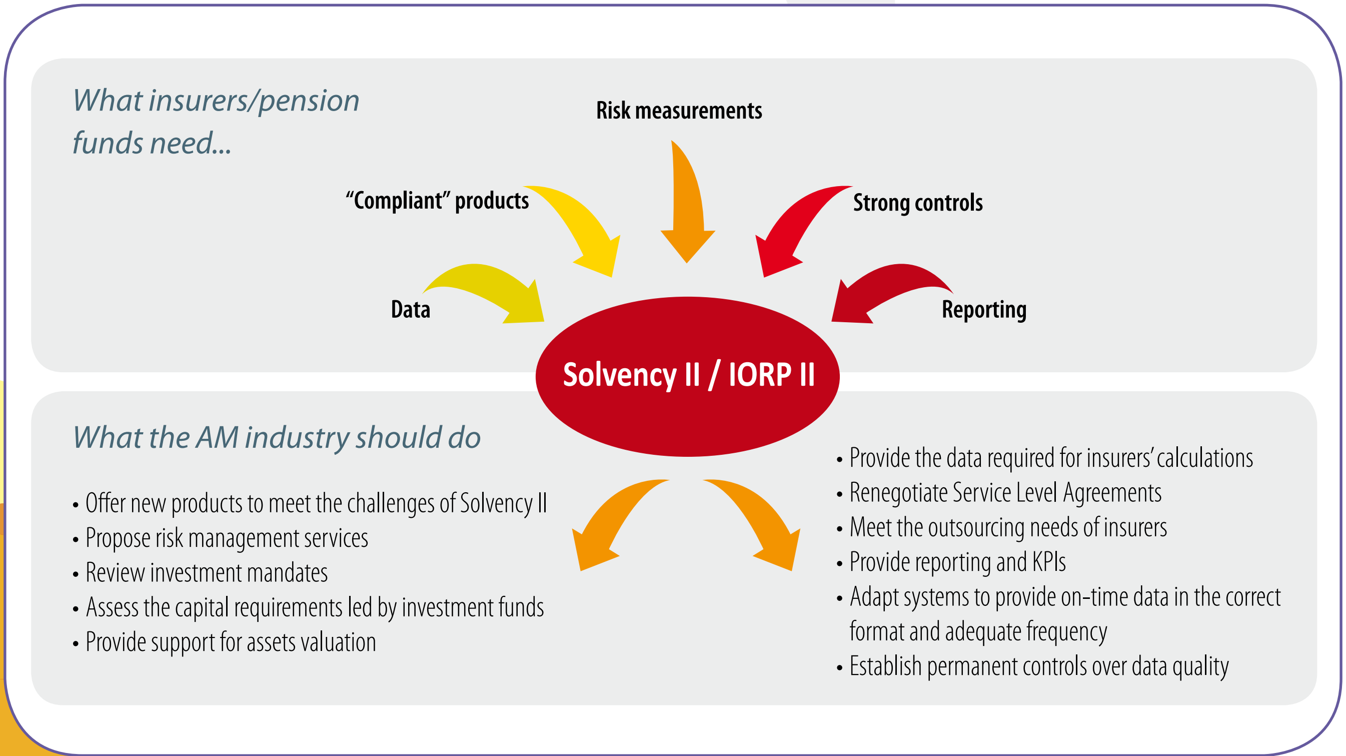
CONCLUSION: WHAT DO ASSET MANAGERS NEED TO FIX?

While the traditional foundations of strong performance and low fees hold true, institutional investors are expectant of greater information regarding their investments, not only for reasons of respecting their investment criteria and principles, but also as indications as to why their selected asset managers may not be achieving the set target.

Asset managers must therefore strive to enhance the granularity of information given to institutional investors to maintain the relationship as well as demonstrate to potential clients the reasons for their performance and why they're the best choice.

The size of investments of institutional investors also means that asset managers must be able and willing to align fee levels to the interest of investors and enhance their competitiveness, resulting in a stronger ability to garner the assets available.

Figure 9



Conclusion:
The PwC – CACEIS Assurance Model

Conclusion: The PwC – CACEIS Assurance Model

After the emergence of our eight KPIs, and the integral role that they play in the satisfaction of institutional investors, PwC and CACEIS have formulated an Assurance Model which demonstrates the key factors asset managers must act upon to ensure a sustainable relationship and differentiation from the competition.

Our Assurance Model has distilled the KPIs into four key areas which asset managers must focus on to sustain a satisfactory relationship. The four key action areas are as follows:

Table 2

KPIs and key action areas

Key action areas	KPIs
Governance	Independent verification of controls and procedures of asset managers
Operational strength (IT/People/Process)	Operational strength Expertise Quality of advice
Risk-based performance over fees	Performance Fees
Transparency	Risk transparency Quality of reporting

Source: PwC-CACEIS survey 2012

Each action area contains recommendations for asset managers so that they can adapt their operations to attend to the key issues facing them.

GET THE FUNDAMENTALS RIGHT

First of all, asset managers need to understand the fundamentals and use them to their advantage. The fundamentals of business success are:

Governance

A stronger governance framework including independent verification of controls and procedures will reduce the opacity of an asset manager's operations and help build trust with institutional investors who wish to maintain strict governance requirements and a more comprehensive knowledge of how their assets are being dealt with.

"Skip asset gathering and partner with us."
Recommendation from a Swiss pension fund

Operational strength

Operational strength could be said to be the backbone of an asset manager and essential to the maintenance and improvement of their abilities.
Strong operational teams and abilities are the enablers of change and the core of the asset manager.

From here the team must continue to satisfy expectations by upholding their expertise and the quality of advice they deliver, as well as identifying areas in which added value can be attributed.

"They should know our needs and our regulatory requirements."
Recommendation from a Finnish pension fund

Although institutional investors indicated that they were satisfied with the independent verification, operational strength, expertise and quality of advice of asset managers; this doesn't by any means entail that they are of less significance.

In an environment in which new assets are difficult to both obtain and retain, the size of assets institutional investors hold is essential to the health of asset managers; therefore maintaining and increasing the satisfaction of institutions is as important as meeting the deficit in expectations.

Asset managers must look in the short term to retaining the features that satisfy institutional investors; maintaining these factors is essential to upholding the trust institutional investors place in them, while allowing asset managers to look into the longer term to correct areas in which satisfaction is not met.

The impending regulatory environment further compounds the problems asset managers face as both their operations and that of institutional investors stand to be altered significantly should they pass into law.

DELIVER CONTINUING VALUE

Success can only be achieved when a manager is able to deliver consistent risk-based performance and to charge a level of fees which is commensurate with it while demonstrating utmost transparency.

Risk-based performance over fees

Risk-based performance over fees describes the need for a more indicative fee structuring model that satisfies institutional investors' demands for fees correlated to the performance of their investment.

Institutional investors felt that they were paying over the odds for management of their assets and received no compensation for poor performance or size of assets that they allocated. Therefore a stronger correlation between the two should help justify the fee levels and incentivise asset managers to achieve optimum returns.

"Asset managers must overperform on a more regular basis."
Recommendation from a French pension fund

Transparency

Transparency was a running theme throughout the report, featuring in areas in which satisfaction is not being met as well as part of the regulatory requirements that institutional investors and asset managers face.

"Be fully transparent."
Recommendation from a Swiss pension fund

Institutional investors mentioned that although performance was not being met, of just as significant importance was the reasons behind the performance; which was highlighted by their desire for higher quality of reporting and transparency of how their assets are being invested.

Therefore asset managers must tailor their operations and reporting toward a more transparent and explanatory framework to keep institutional investors informed of their actions, leading to a sustainable relationship in the long term.

CONCLUSION

PwC and CACEIS have proposed this Assurance Model as a basis for discussion within the industry. It should be at the forefront of any asset manager's mind when considering offering their services to institutional investors.

The Assurance Model is the result of the analysis of all the factors influencing and driving institutional investors use of external asset managers. As such, it provides a distillation of the industry sentiment and a comprehensive model on which to make decisions, based upon first hand evidence given by institutions.

The model provides both short and long term influences, as well as a selection of the key drivers influencing the decision processes made by institutional investors. The ability of the Assurance Model to represent the thought processes of institutional investors is a basis for asset managers for maintaining their appeal and for building their strategy to garner greater allocations.

We strongly believe that an ongoing discussion and enhancement of the ideas conveyed in the Assurance Model will reap long term and sustainable success in the industry, and could well make the difference between mere survival or growth.

"Hear what the client wants."
Recommendation from a German insurance company

Sustainable and satisfactory relationships demand building long-term trust in addition to short-term differentiation

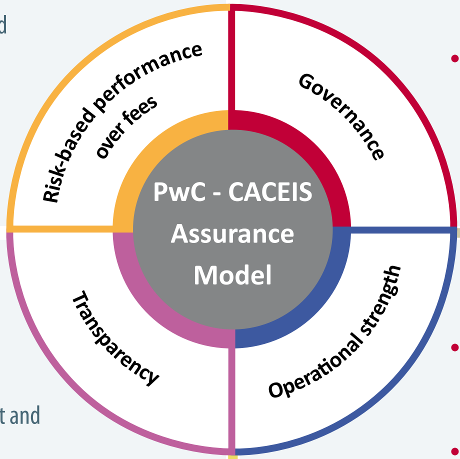
Figure 10

Risk-based Performance over fees

- Obligation to outperform
- Necessary to align fees to performance and investor interests
- Innovative fee structuring could result in a better take up.

Governance

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



Transparency

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

Operational strength

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

Appendices

Additional results from the survey

Additional results from the survey

Beyond the qualitative assessment of the relationship between asset managers and institutional investors, further analysis of the survey can be found on the following pages.

- General profile of the participants (by type and size);
- Asset allocation of institutional investors;
- Use of different investment vehicles;
- Use of external asset managers.

GENERAL PROFILE OF THE PARTICIPANTS

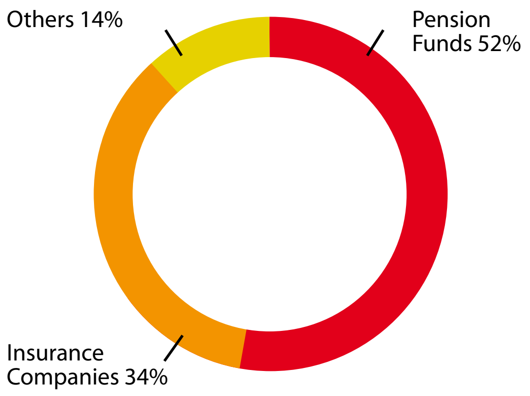
Our sample includes the responses of European institutional investors, mainly pension funds (52% of participants), insurance companies (34%) and other institutions accounting for over €4.5tr in assets.

The geographical spread of participants has ensured a strong representation of European nations to allow for fair analysis of the institutional market as a whole as illustrated in figure 2.

Institutional investors with assets of more than €5bn (41% of our sample) were classified as large, those with less than €5bn as small (59% of our sample).

Figure 11

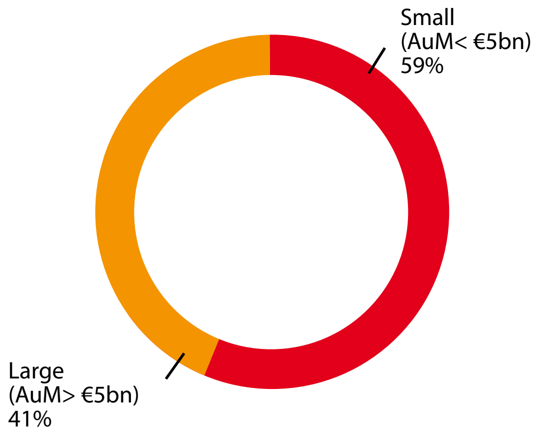
Breakdown of participants by type



Source: PwC-CACEIS survey 2012

Figure 12

Breakdown of participants by size



Source: PwC-CACEIS survey 2012

ASSET ALLOCATION OF INSTITUTIONAL INVESTORS

Prudent investment is a normal standard for institutional investors. Institutional investors should determine the appropriate risk profile and then develop an adequate investment strategy. In other words, the goal for institutional investors is to maximise returns given a prudent level of risk. In this context, no particular investment is inherently prudent or imprudent, as long as the investment portfolio is diversified enough and the liquidity, rate of return and cash flow requirements are met.

European institutional investors are traditionally exposed to fixed income products

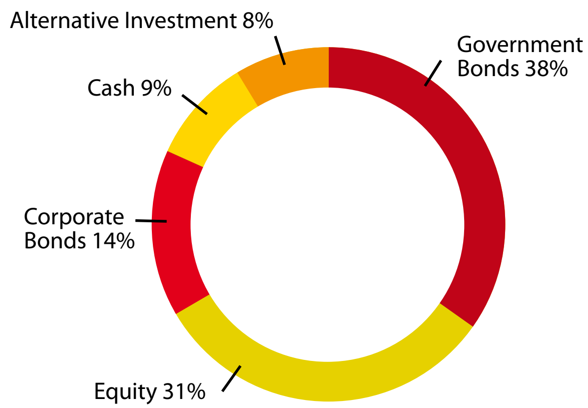
The breakdown of total assets (figure 13) of institutional investors of our sample illustrates the heavy bias they maintain toward fixed income products in Europe; with corporate bonds (14%) and government bonds (38%) comprising over half of their asset allocation. Equities account for around a third (31%) of assets of our sample, while cash assets (9%) and alternative investments (8%) make up the remainder.

Alternatives have been a key driver in the search for alpha as they're perceived to have less volatile and potentially higher returns than equity assets. Within the alternatives class institutional investors have invested in a large array of classes including: hedge funds (HF), Private Equity (PE), Real Estate (RE), as well as distressed debt.

After a lengthy period of poor returns in a low return environment, institutional investors have increasingly diversified their assets as they seek consistent reward while balancing risk. This has primarily come in the form of a rise in bonds; a Mercer study of the UK showed a rise in bond allocation from 36% to 43% between 2007 and 2011, while equities dropped from 61% to 47% over the same time frame. Making up the difference from this considerable drop were alternative investments which rose from 3% to 10% of allocation.

Figure 13

Breakdown of total assets



Source: PwC-CACEIS survey 2012

However a highly varied asset composition can be observed

While the asset breakdown of pension funds in our sample closely resembles that of the average, the sample insurance breakdown is markedly different. Insurance companies hold 80% of their assets in fixed income products, far greater than the 52% for pensions. Insurance companies also hold over twice as much in alternatives assets at 17%, whilst equities compose just 3% of the remaining assets.

Within our sample, a few pension funds also differentiate by investing up to 56% of their assets into equities, which is a more common feature in the US than in Europe. Public and private equity represent 50% and 14% respectively of CalPERS, the California Public Employees' Retirement System, which is one of the largest investors in the US.

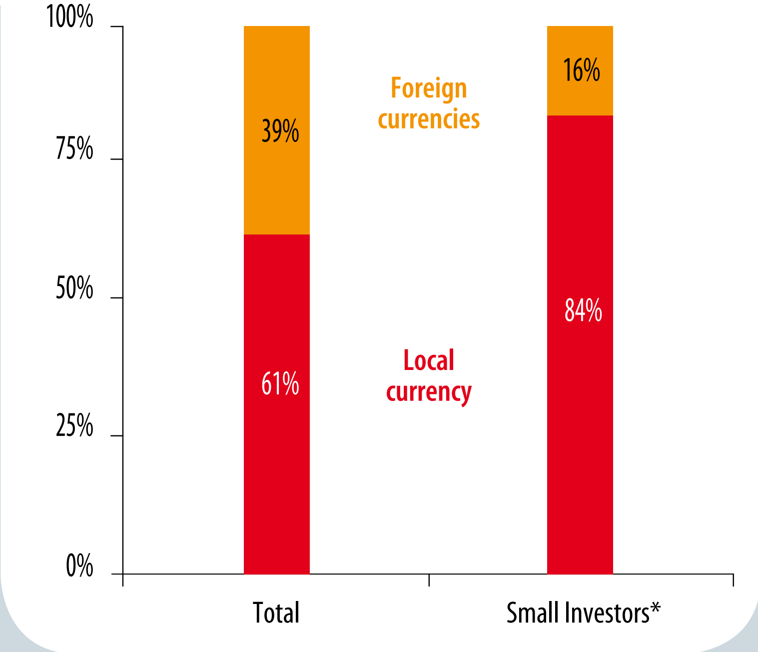
Local currencies concentrate the bulk of assets

Our survey shows that European institutional investors also favour local currencies, accounting for 61% of the total investments (figure 14) which gives an indication of their preference for 'local' investment. This proportion is even larger for smaller investors (participants with less than €5 bn assets) who may lack the expertise to get further exposure to foreign currency risks.

Given European institutional investors' investments, especially in the context of the euro zone sovereign debt crisis and the current low interest rate environment, it is no surprise that participants ranked market, interest rate and credit risks as the risks most likely to impact their assets in the next 12 months.

Figure 14

Currency Exposure



Source: PwC-CACEIS survey 2012 *Investors with less than € 5bn of assets

USE OF DIFFERENT INVESTMENT VEHICLES

The investment fund is the most popular investment structure among our respondents as 74% of our respondents declared using it compared with 66% using mandates (i.e. segregated accounts). But mandates bring the largest delegated assets.

Each fund structure brings distinct advantages

From the response of the sample it is clear that mandates are preferred for the freedom they afford the investor. Flexibility of investment policy and tailor made solutions are highly valued when selecting mandates and offshore funds, the main proponents of which are pension funds and larger investors (Table 3). As expected, fees are a primary consideration for the investor, and as such the freedom to negotiate fee levels of mandates is beneficial.

Table 3

Main advantages of investment structures

	Mandates	Regulated funds	Offshore funds
1	Tailor made solutions	Transparency	Fees
2	Fees	Governance	Tax
3	Flexibility of investment policy	Investor protection	Flexibility of investment policy

Source: PwC-CACEIS survey 2012

Regulated investment funds hold just over a third of assets, and are the preferred vehicle of insurers. Regulated funds are the desired choice as they provide security for their investors, as well as strong governance procedures.

Pension funds are far more likely to favour mandates over regulated funds (60% vs. 30%), but allocate a greater amount to offshore funds than the average (10% vs. 8%).

Regulated funds are valued for the protection they afford the investor, with strong governance and transparency also advantageous when selecting the fund. These funds are used to a great extent by insurers and small investors, who have less investment freedom and stricter risk parameters than pensions and large investors.

Offshore funds, like mandates, are preferred for the flexibility of investment policy. These are used to the greatest extent by small investors, followed by pension funds. Tax advantages have also been highlighted as a key benefit of offshore funds. Institutional investors therefore see the potential to reduce costs through the use of a lower cost vehicle. The issue of cost is reaffirmed by the importance placed upon fees, due to the ability to negotiate costs.

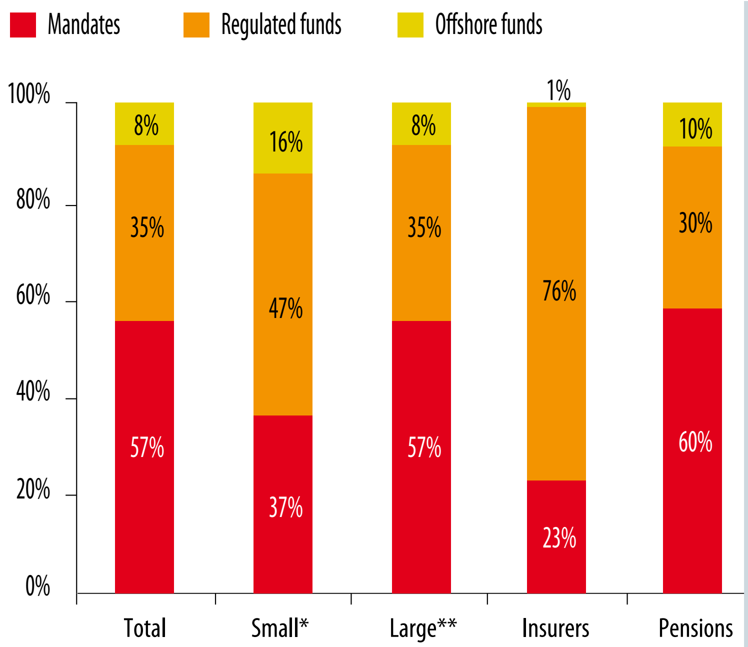
Mandates bring the largest delegated assets

Institutional investors' assets have traditionally been held in mandates, which is a reflection of the control they wish to maintain over their investment but do so through an external asset manager (figure 15).

The reason for the low percentage in offshore funds (mainly alternative investments) is perhaps due to the risk requirements of the institutional investors and their reduced freedom to invest.

Figure 15

Asset allocation by investment vehicle by type of participants



*Small Investors : those with less than EUR 5 bn of assets
**Large Investors : those with EUR 5 bn or more

Source: PwC-CACEIS survey 2012

In stark contrast, insurance companies greatly prefer regulated funds, accounting for three quarters of their assets. Investment funds have benefited from the growth of the unit-linked insurance market. Insurance companies also have a minimal amount in offshore funds (1%). The reason for which may be due to the insurers' need to mitigate their risk to a greater extent, and pension funds having a longer investment time frame.

The difference between institutional investors in terms of size also impacts their investment behaviour; with smaller investors opting for a predominantly regulated fund structure (47%), and larger investors using mandates (57%). The allocation to offshore funds by smaller investors is double that of large investors, an indication of the greater amounts of freedom enjoyed by smaller investors.

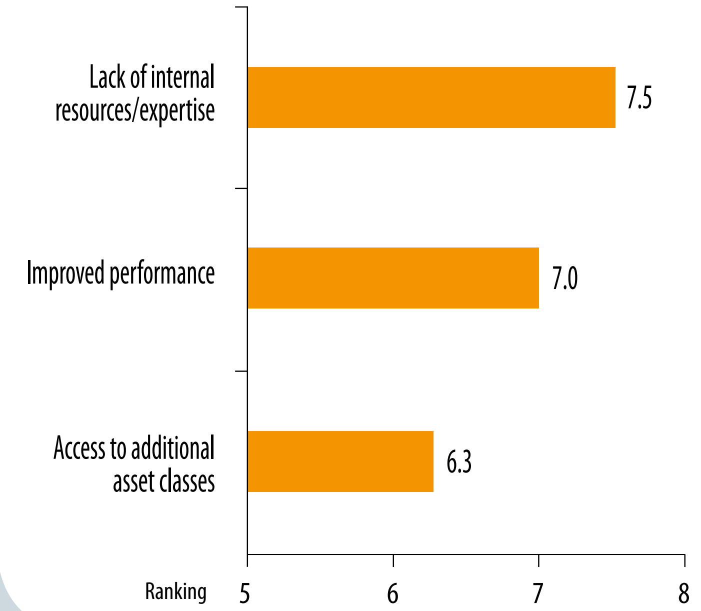
USE OF EXTERNAL ASSET MANAGERS

With institutional investors looking for higher returns in such an investment environment, they will most probably have to diversify beyond their traditional local fixed income investments into areas (regions and asset classes) they are not familiar with. This may impact their use of external asset managers.

As part of the survey, institutional investors were asked to give their reasons for using external asset managers. The main reasons listed (figure 16) highlight the necessity for institutional investors of using asset managers as they seek to optimise their investments through utilising the expertise of asset managers.

Figure 16

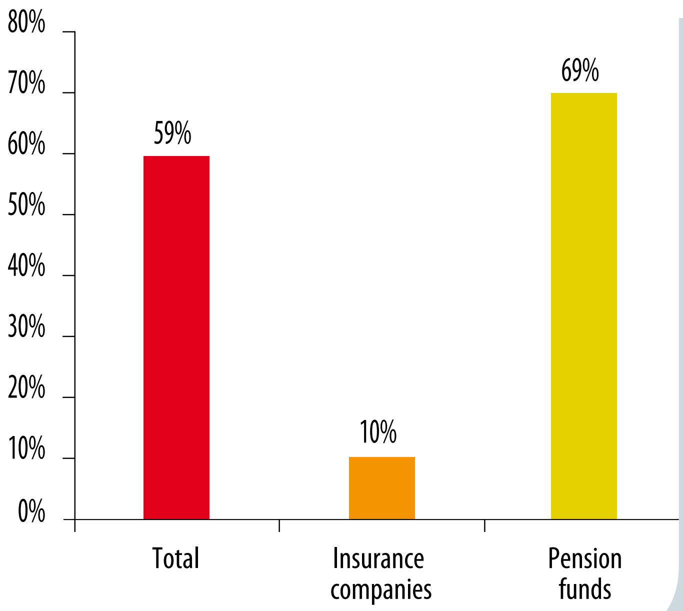
Main reasons for using external asset managers



Source: PwC-CACEIS survey 2012

Figure 17

% of assets delegated to external asset managers



Source: PwC-CACEIS survey 2012

Institutional investors need the expertise of asset managers

The key factor that emerged was the lack of internal resources/expertise, explained by the fact that many institutional investors are composed of small teams that are unable to dedicate sufficient time to investing.

The lack of internal resources/expertise compliments the other main reasons for using external asset managers as institutional investors seek to better their performance as well as diversifying their assets.

Pension funds tend to delegate far more of their assets to external asset managers than insurance companies

Within our sample of respondents, 59% of assets are delegated to external asset managers (figure 17). Pension funds rely much more on external asset managers as they delegate close to 70% of their assets. On the contrary, the share of delegated assets to external asset managers is much lower (10%) for insurance companies as they are generally supported by group asset management arms or in-house investment teams.

The majority of institutional investors use less than 10 external asset managers

Within our sample, 52% of participants use less that 10 external asset managers (figure 18). Whatever the type of institutional investor be it pension funds or insurance companies, the median remains around 10.

The market for external asset managers is expected to grow in line with the growth of institutional investors' assets

While the expertise of external asset managers will be required by institutional investors to further diversify their portfolios, our survey participants do not anticipate any increase in the proportion of delegated assets nor in the number of their external asset managers:

- Only 39% of participants expect to increase their proportion of assets delegated to external asset managers (by 5% on average) in the next 12 months while 46% of participants believe it will remain the same;
- Within the survey, respondents were asked whether they planned to increase their number of external asset managers; 68% of respondents said they didn't plan to.

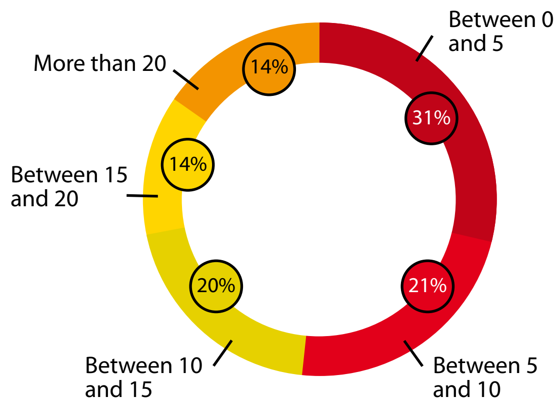
Institutional investors delegate more than € 500 million to each of their asset managers

The average size by investment structure is € 553 million (figure 19) with a significant difference between participants more heavily invested in funds (€ 240 million) and participants more heavily invested in mandates* (€ 809 million).

The amount of assets delegated to mandates illustrates the size and investment power that some institutional investors can bring when deciding to use external asset managers.

Figure 18

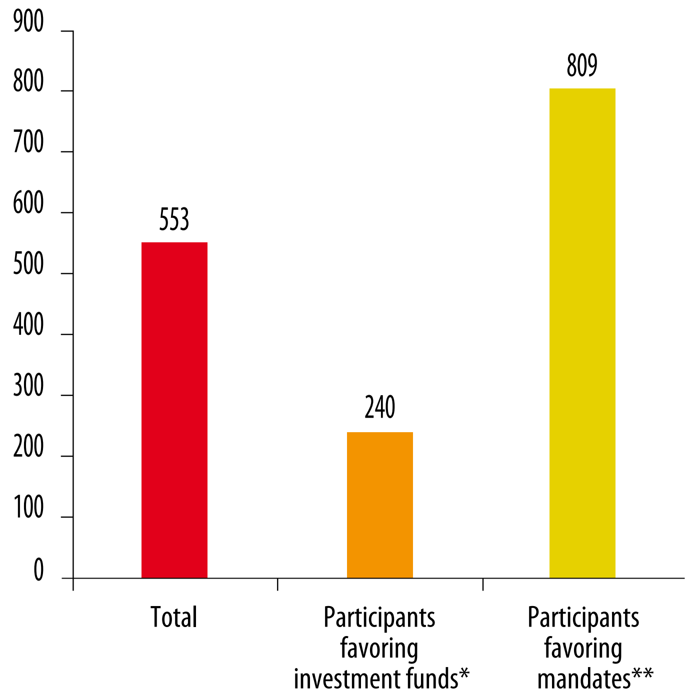
Number of external asset managers used



Source: PwC-CACEIS survey 2012

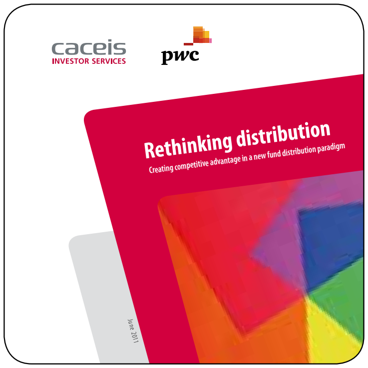
Figure 19

Average amount delegated to each AM (€ mn)



Source: PwC-CACEIS survey 2012
Here we differentiate between participants holding more than 50% of their assets in investment funds (*) or in mandates (**).

Other research reports in the series



***Rethinking Distribution* -** June 2011

Creating competitive advantage in a new fund distribution paradigm

The report anticipates a number of key drivers of change and resulting scenarios for the industry. Overall, the research found that drivers such as regulatory developments the shift of global economic power toward SAAME (South America, Asia, Africa and the Middle East) 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 current traditional patterns.

***Ideal Advice* -** June 2010

A step-change in the industry's relationship with the individual investor

Within this report we examine the state of play of financial advice within Europe and provide 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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