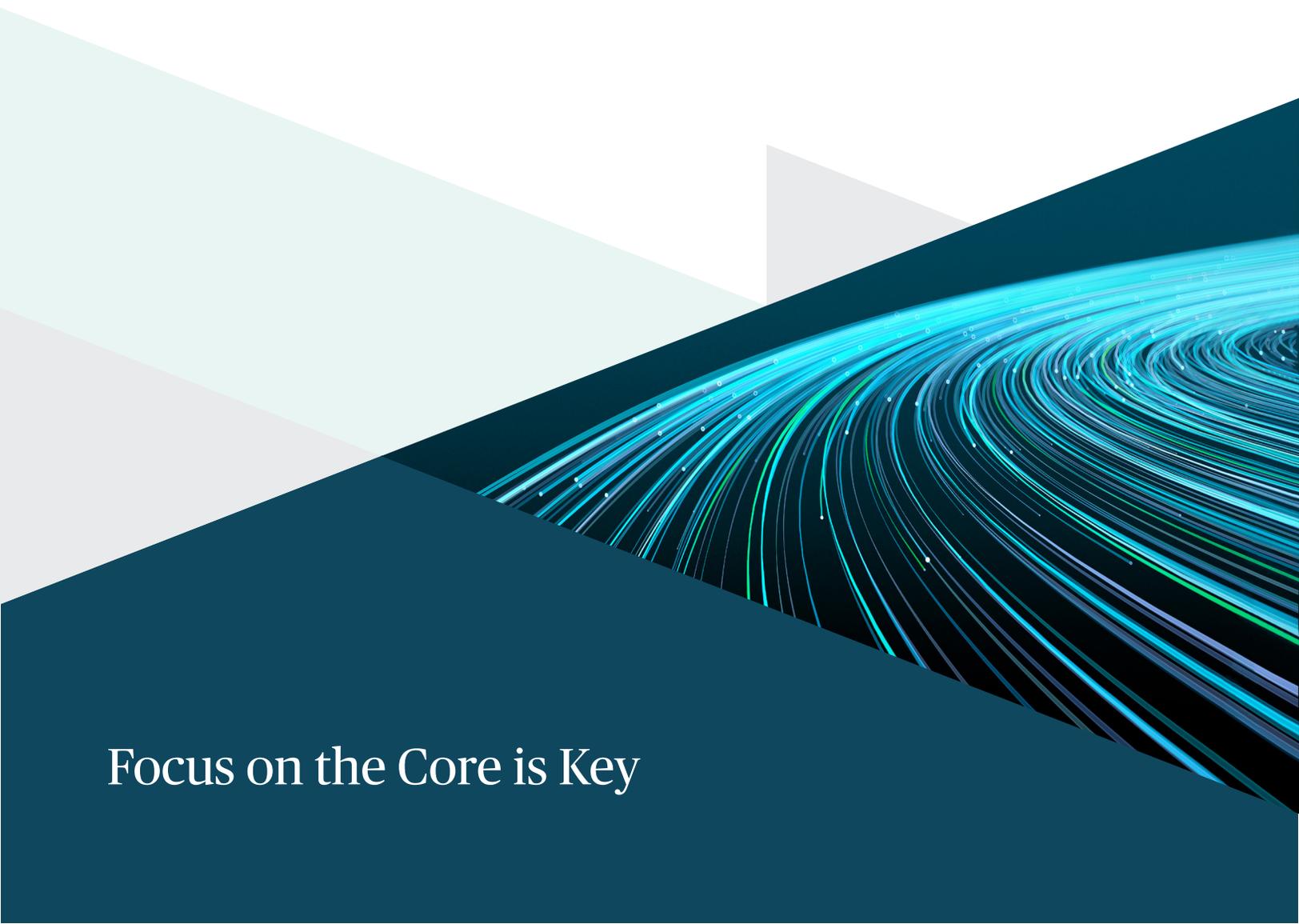


Asset Management: *Transformation Is Already Here*

The Industry's Data-Driven Future Has Arrived

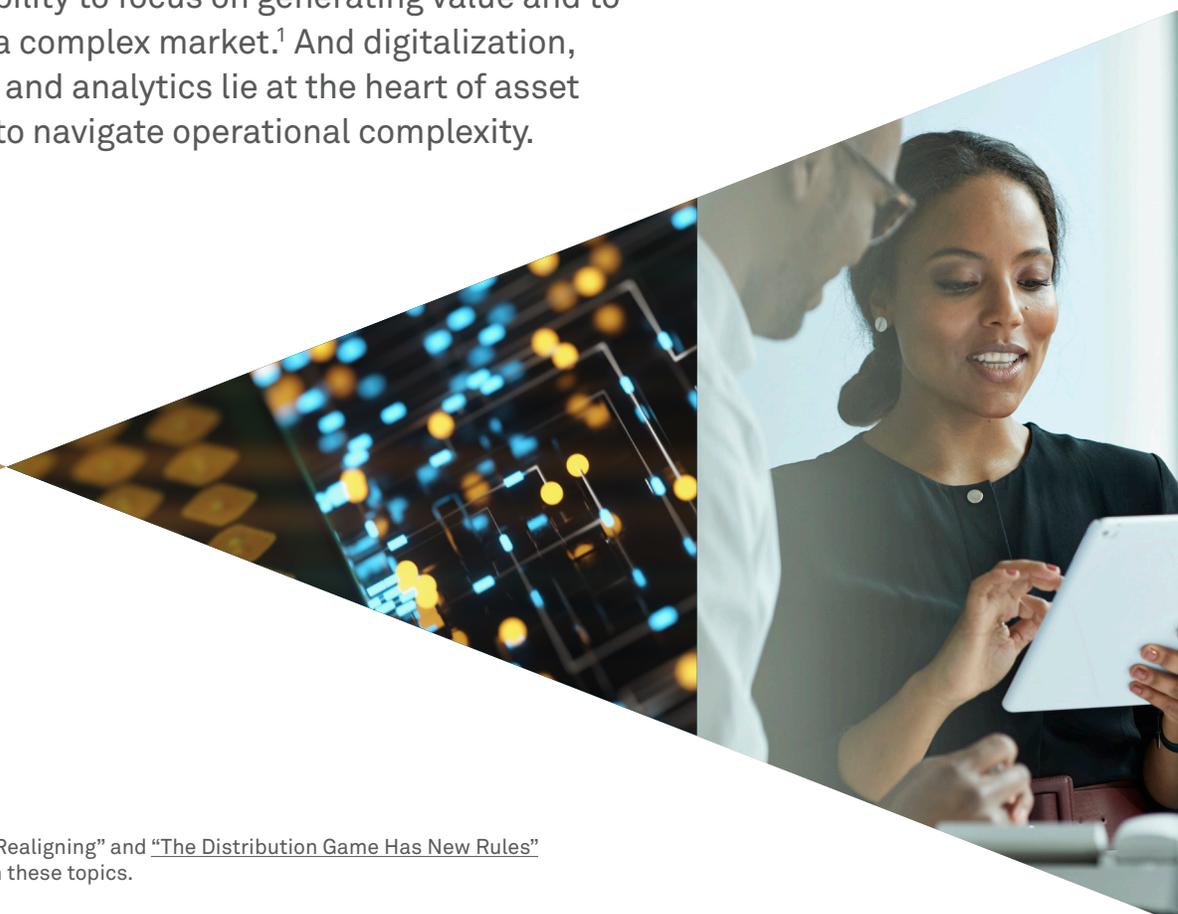


Focus on the Core is Key

As the asset management industry deals with exponentially increasing levels of complexity, asset managers must streamline operations to focus on value for investors and organic AUM growth.

The first chapter of our series “Asset Management: Transformation Is Already Here,” focused on the core as the primary asset management industry trend to follow. As evolutionary pressures have built up to a point of no return, we return to this theme by way of conclusion.

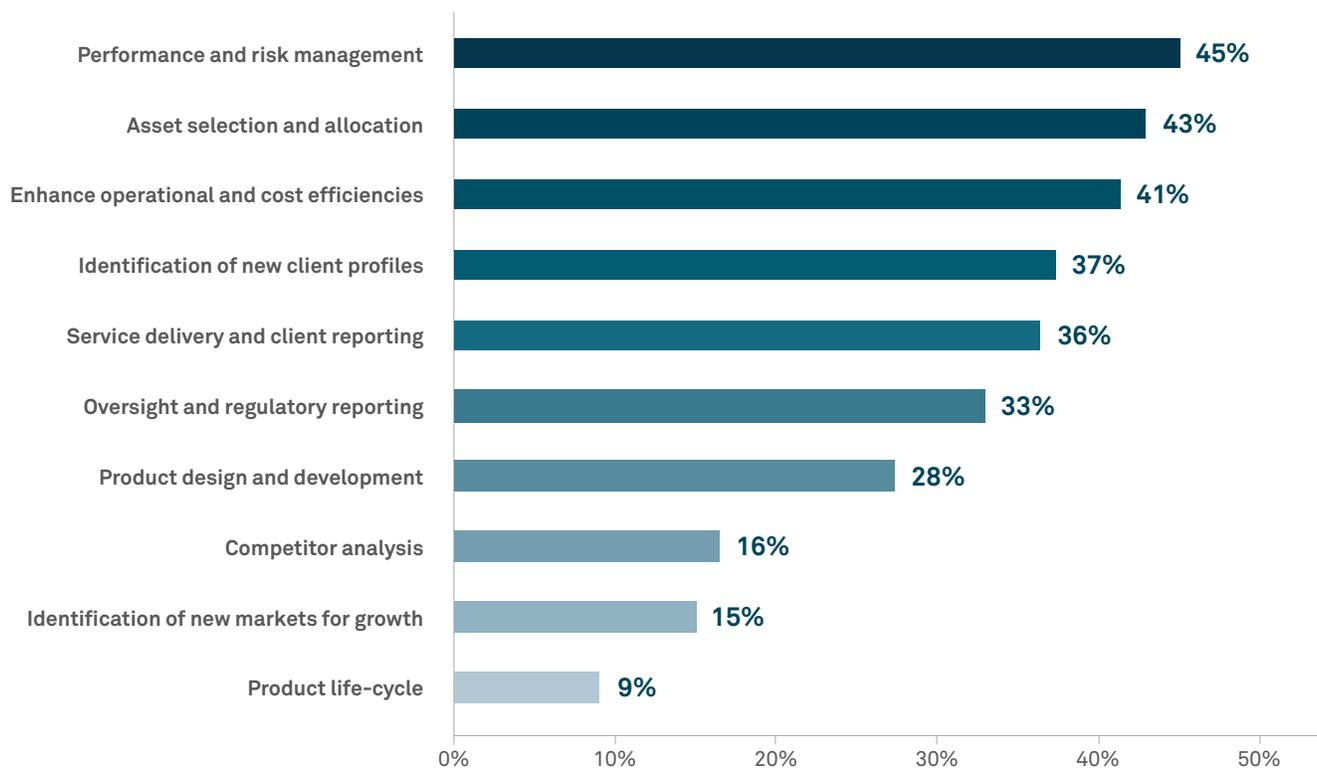
The global COVID-19 pandemic crisis intensified the industry’s focus on the ability to operate digitally with resiliency. But more change is coming. Geopolitical and demographic shifts have begun a fundamental, end-to-end transformation of the market landscape. Product innovation and distribution, internal complexity and concerns are deciding factors in asset managers’ ability to focus on generating value and to achieve growth in a complex market.¹ And digitalization, data management and analytics lie at the heart of asset managers’ efforts to navigate operational complexity.



¹ See “The Product Lineup is Realigning” and “[The Distribution Game Has New Rules](#)” for detailed perspectives on these topics.

All of these trends contribute to the need for greater operational resiliency. As we discussed in “Data Determines Destiny,” the top use cases for deploying data analysis are performance and risk management (45%) and asset selection and allocation (43%). Enhancing operational and cost efficiencies (41%) and identification of new client profiles (37%) also make a strong showing.

What are your top use cases for deploying data analysis?



“Since client centricity has been increasing, and personalization will be one of the priorities to engage clients, there will be more reliance on effective use of data and analytics. It will increase the standard of asset managers.”

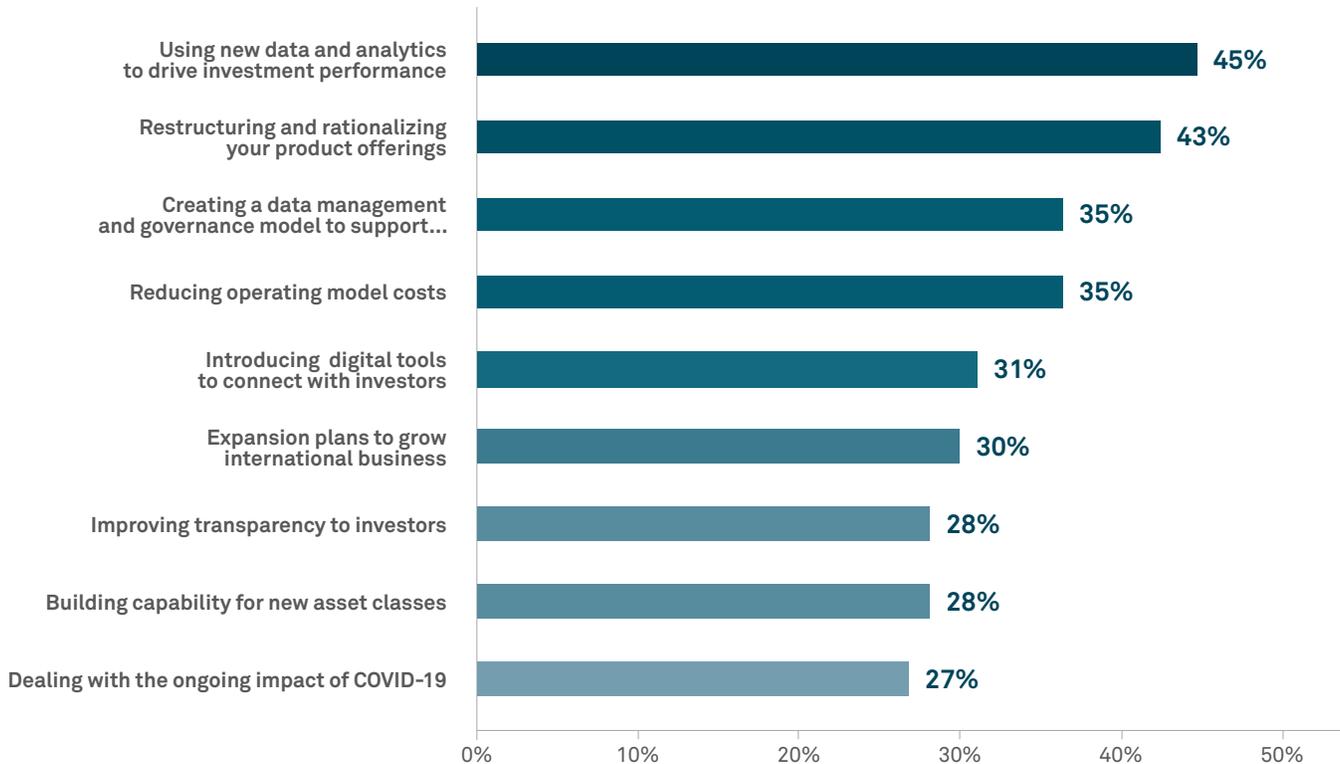
—U.S.-based Chief Data Officer

These findings align with what respondents said about their strategic and operational priorities. Respondents called out imperatives such as using data and analytics to drive investment performance (45%) and rationalizing product offerings (43%). Other notable growth drivers included introducing digital tools to connect with investors (31%), international expansion (30%), capabilities to offer new asset classes (28%) and improving transparency to investors (28%), as well as dealing with the ongoing impact of COVID-19 (27%).

The array of reported priorities reflects the growing demand for multi-asset strategies among institutional investors and outcomes-based investment strategies among retail investors. It is also a response to the shrinking shelf space offered by traditional distribution channels, such as financial advisors.



What are the main strategic and/or operational imperatives facing your organization over the next 12 months?



The practical implication of these imperatives is that many asset managers need to focus on creating resiliency and agility in their organizations. They see technology as the facilitator, while COVID-19 has acted as an accelerator.

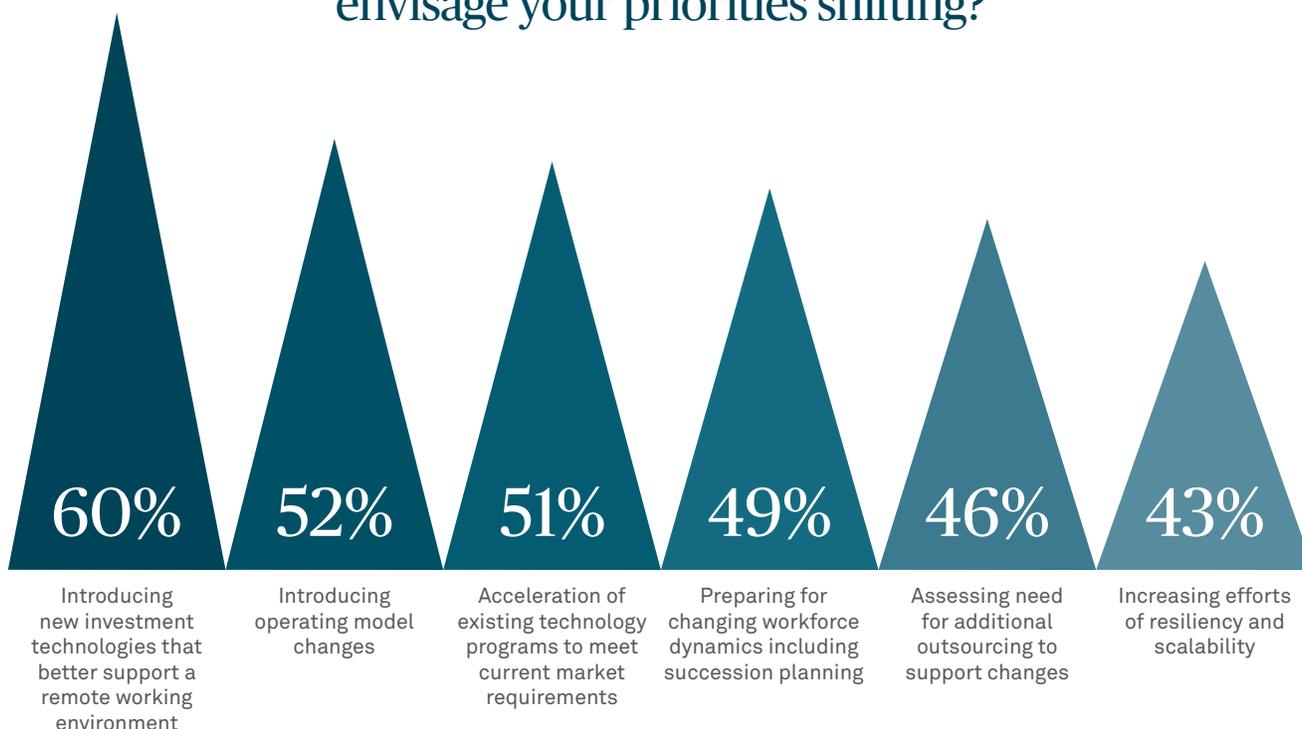
“Legacy platforms asset managers currently use will be left behind as new digital concepts are introduced to the market. The technology landscape is changing rapidly, and implementation can bring about improvements across the board, from governance to investment returns.”

—U.S.-based Chief Data Officer

When asked about the specific effect of COVID-19 on their priorities, 60% of respondents rank introducing new investment technologies to support remote working at the top of their list. Traders continued to work remotely through lockdowns—a concept that previously would have been unthinkable in many organizations primarily because of compliance and security concerns. Asset managers also accelerated their digitalization of trading because of the pandemic.

More than half (52%) of asset managers in our survey are planning to introduce operating model changes as a result of the pandemic. Accelerating existing technology programs to meet current market requirements (51%) and preparing for workforce dynamics including succession planning (49%) are close behind.

As a result of the shifting pandemic, how do you envisage your priorities shifting?



A close-up photograph of a hand with the index finger pointing towards a glowing blue digital interface. The interface features abstract, branching patterns and lines, suggesting a complex data network or a futuristic user interface. The lighting is dramatic, with the hand and the glowing elements standing out against a dark background.

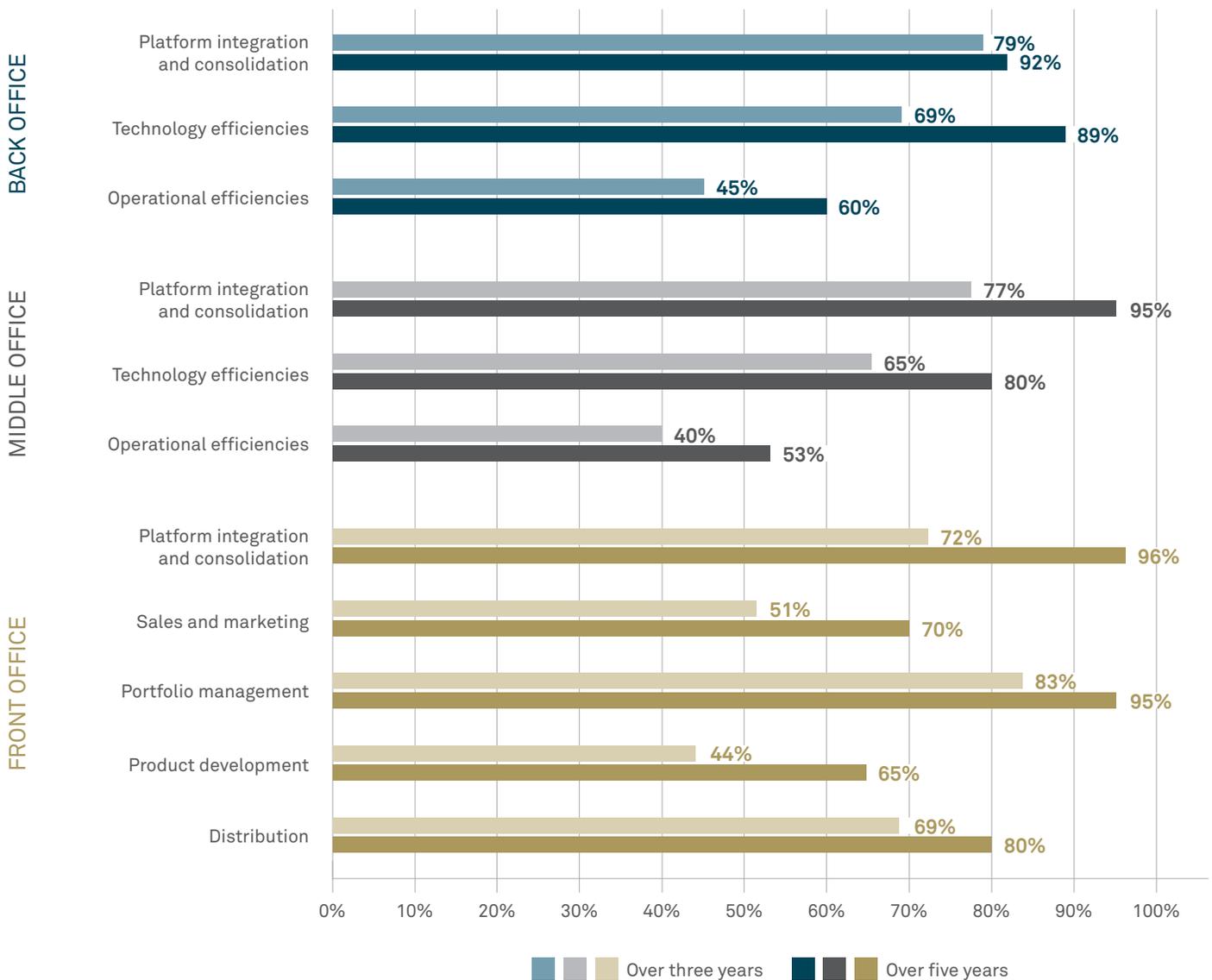
“Asset managers want to offload low value-add activities – everything after the investment decision – so they can focus on what they do best and remain agile.”

*—Matthew Thornton, Strategist,
Asset Servicing, BNY Mellon*

New Beginnings

The breadth and depth of transformation to come in every aspect of asset management is palpable in our survey, with the greatest expectations for shifts in the next three years in platform integration and consolidation of the front, middle and back offices. This integration will provide the foundation on which to expand digital capabilities through the entire organization.

As operational models continue to evolve, where do you envisage the greatest change in your end-to-end investment life cycle?



Where do you envision platform integration to create the greatest change in your organization over the next five years?



Looking deeper into respondents' intentions over the next three years, they named portfolio management as the standout area across the entire business.

This and other medium-term changes are likely to be driven by the rise of passive ETF strategies, the need to reduce fees and the move toward outsourcing beyond the back- and middle-office functions to include front-office activities, such as reporting, analytics and trading. Such broader industry changes set the stage for longer-term change.

Looking further ahead to the next five years, respondents predict even more

widespread change. Platform integration across all functions becomes nearly universal for front, middle and back office (96%, 95%, 92%, respectively). Asset managers have similar expectations for portfolio management, with 95% seeing the greatest transformation.

Other functions rise notably in priority on a five-year horizon. These functions include technology efficiency in the back office (from 69% to 89%) and technology efficiencies in the middle office (from 65% to 80%). Distribution and sales and marketing increase in importance, to 80% and 70%, respectively.

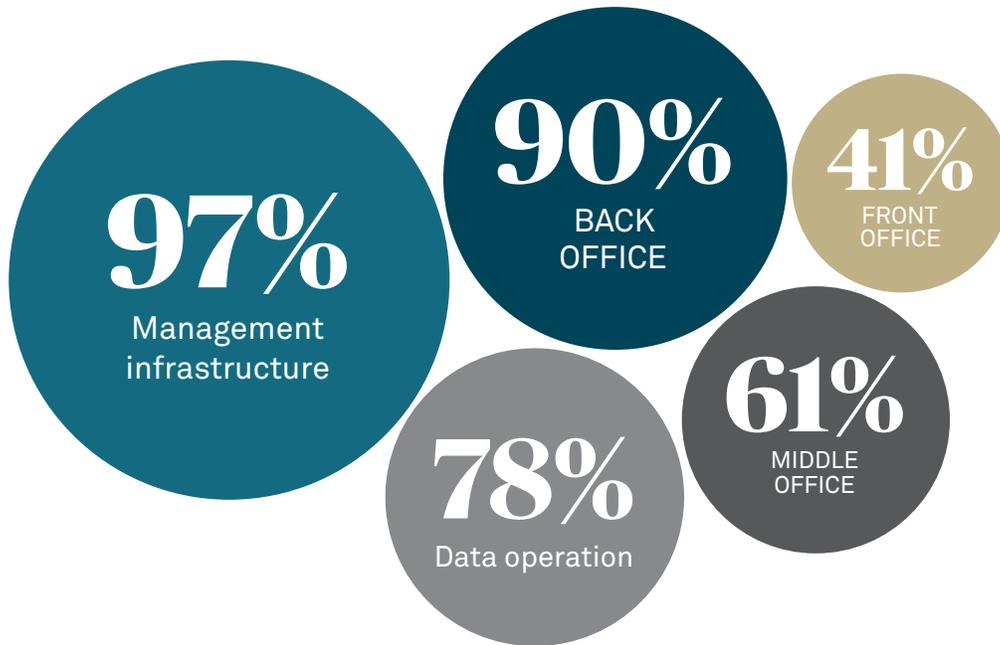
Getting Back *to the Core*

Changes in the end-to-end investment lifecycle raise questions about the most effective course of action. As we look at activities further back in the value chain, asset managers are more likely to say they are to consider outsourcing as a way to help them return to their core focus.

The role of outsourcing fits a clear pattern for asset managers, who are pulling back on directly handling non-core investment servicing activities, particularly data functions. They are refocusing on core value-adding functions. Of the respondents looking to outsource, 97% will consider doing so with data management infrastructure (i.e., the technology used to store, manage and retrieve data) over the next three years, and 90% are re-examining the back office. Data operations functions (i.e., the business processes that use data) are also set for further outsourcing, as mentioned by 78% of survey respondents.



If you are planning to explore or expand your outsourcing relationships, in which areas of your business would you consider outsourcing in the next three years?



Asset managers are increasingly looking more widely into their organizations to cordon off non-core areas. Nearly two-thirds (61%) are considering outsourcing middle-office functions, and more than two-fifths (41%) are considering at least some of the front office. In many cases, we expect asset managers will consider outsourcing parts of the lifecycle that are further from their core (e.g., front-

office platform integration, some portfolio management activities and elements of distribution).

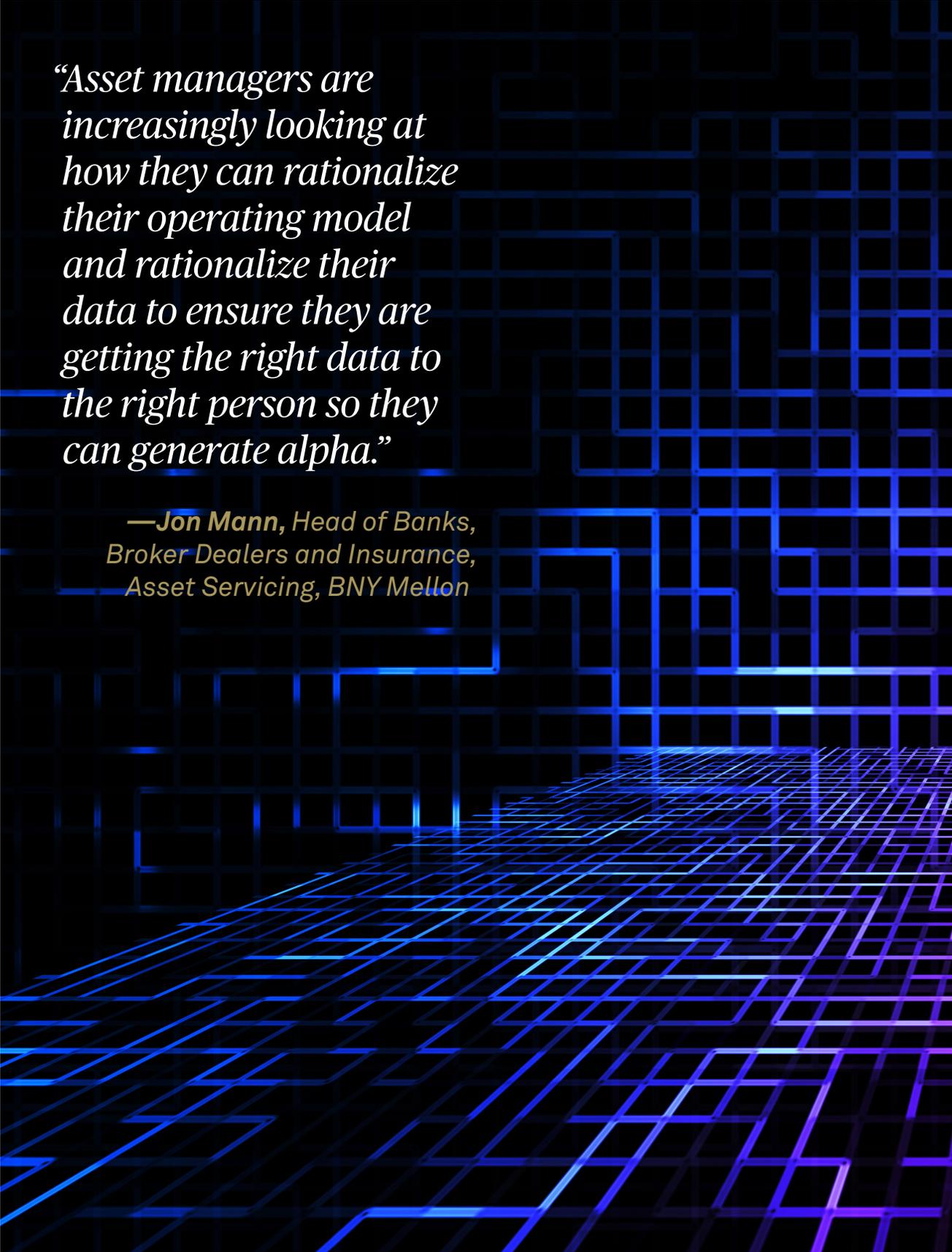
Investment in data management and analytics such as data aggregation, data warehousing and data lakes will contribute to these trends; all of these approaches allow for more seamless access across the organization and by trusted third parties.

Conclusion

Long-term trends and secular themes represent a continuum in the evolution of the asset management industry. Many of the main motifs are not new. Product innovation and distribution, for instance, have faced competitive tailwinds for decades. In somewhat more recent history, data and analytics have moved to the forefront as firmly entrenched performance drivers.

Yet, the past two years introduced a radical catalyst in the form of COVID-19. Remote work, together with increasing digitization, has accelerated the impact and upheavals of technology. The transformation is penetrating every corner of the business. There are high expectations for integration through all areas of the front, middle and back office. At the same time, integrating outside the organization by outsourcing non-core functions plays a leading role in shifting priorities toward alpha-generating activities.

The fruits of today's technological innovation will likely feed operational resiliency for years to come. Asset managers are coming to expect and rely on advanced digital tools and capabilities as basic and indispensable elements of their business model. We heard the explicit, overarching message from our survey participants—there is no going back.



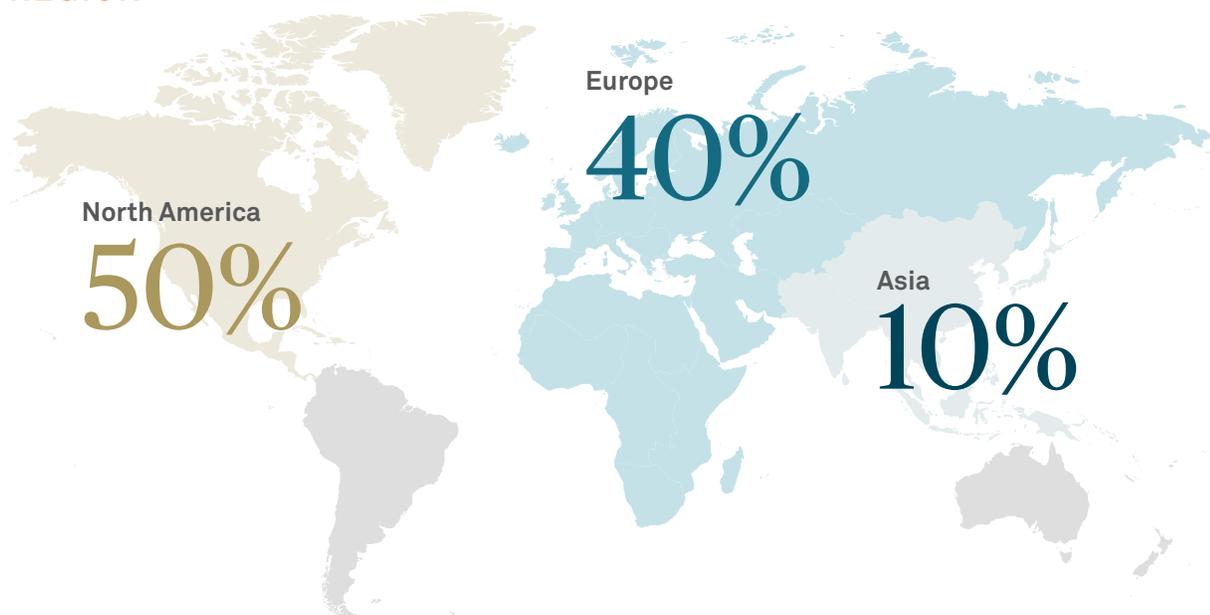
“Asset managers are increasingly looking at how they can rationalize their operating model and rationalize their data to ensure they are getting the right data to the right person so they can generate alpha.”

*—Jon Mann, Head of Banks,
Broker Dealers and Insurance,
Asset Servicing, BNY Mellon*

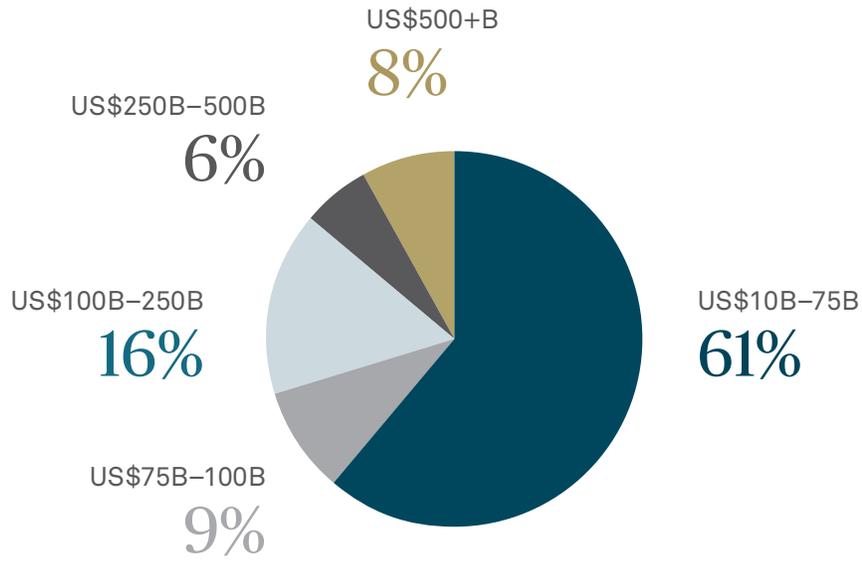
Appendix: *Methodology*

In the third quarter of 2020, 200 asset managers from around the world participated in an in-depth study of trends and concerns in the asset management space. C-level executives (job titles: Chief Executive Officer, Chief Operating Officer, Chief Data Officer, Chief Investment Officer, Chief Information Officer and Chief Technology Officer) from firms with at least US\$10 billion in AUM participated in the survey. All responses and participant comments are anonymous. Data is presented in aggregate.

REGION



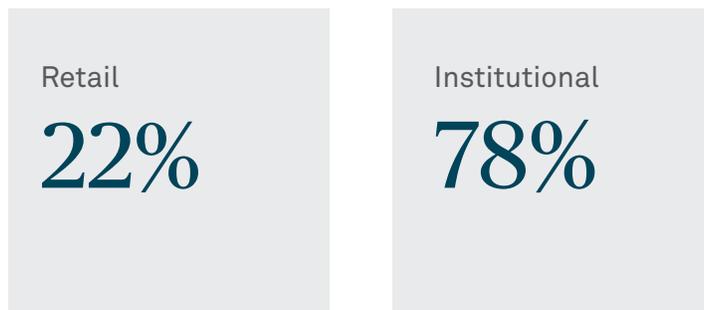
ASSETS UNDER MANAGEMENT



TYPE OF FIRM



CLIENT BREAKDOWN



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