

Asset Management: *Transformation Is Already Here*

The Industry's Data-Driven Future Has Arrived

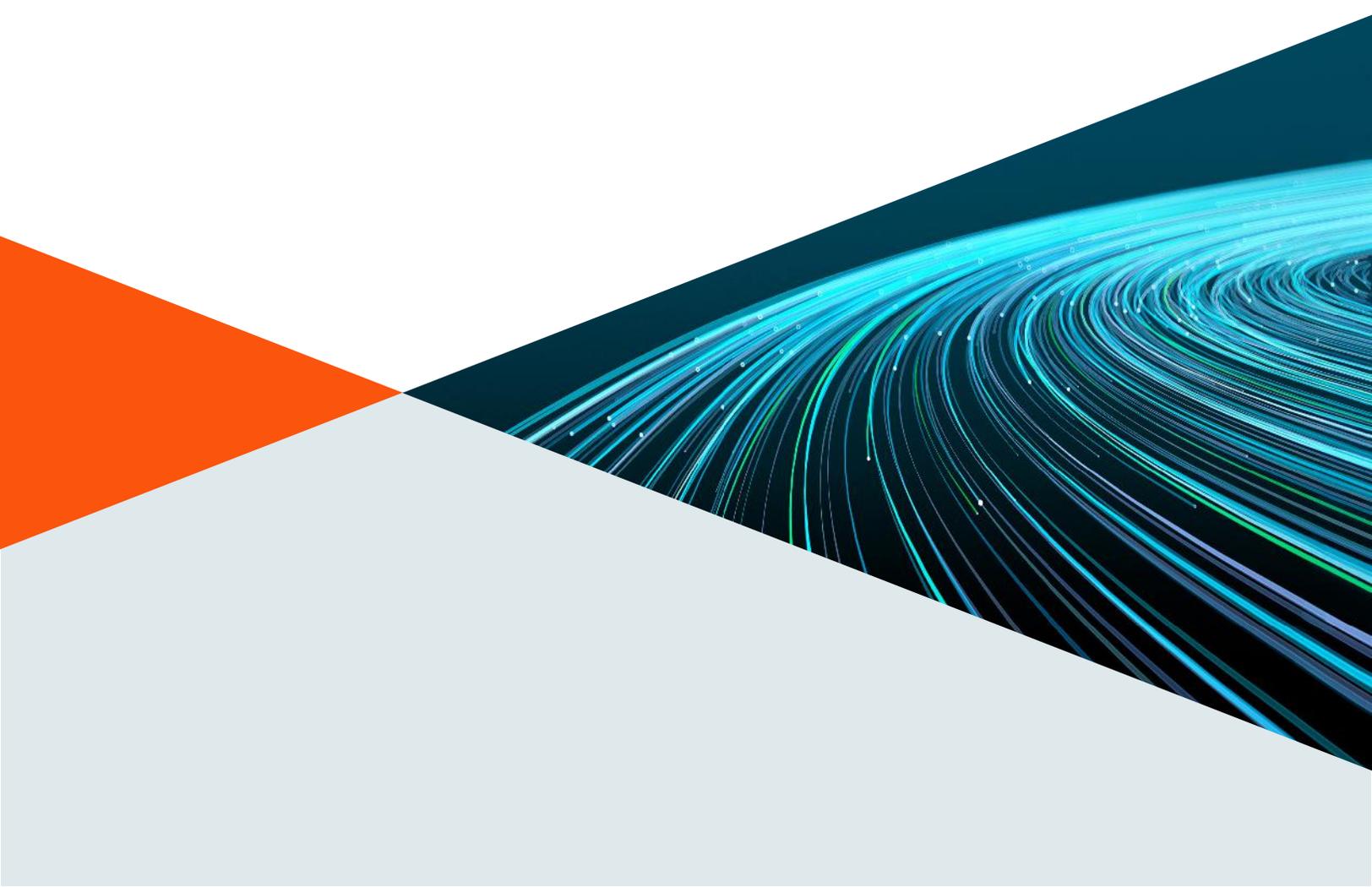


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Foreword

What does it take for asset managers to succeed in a data-driven world? BNY Mellon's study "Asset Management: Transformation is Already Here" asked more than 200 forward-thinking leaders to take a holistic view of the seismic challenges impacting the asset management industry and specifically, how these challenges were impacting every aspect of their business, from front- to back-office.

Asset managers worldwide are balancing operational complexity and efficiency, data management, and risk and resiliency with the need to generate value and achieve growth for their clients. So it should come as no surprise that respondents in our research are rethinking their operating models and considering leveraging service providers to address challenges that fall outside their core investment functions.

They envision a future in which technology platforms, transparency, and data continue to fundamentally alter what's possible. Over the next few months, I invite you to explore their perceptions and concerns in depth, including how:

- Data determines destiny
- Digital imperatives dominate
- The product roadmap is realigning
- The distribution game has new rules
- Focus on the core is key

Our research also highlights how the nature of the asset management industry is changing. Asset managers are moving away from a “go it alone” approach to using data for competitive advantage, and relying on asset servicers as true partners. As a result, asset servicing business models are evolving. I see providers becoming orchestrators of modular, flexible solutions and of information across investment processes.

The ability to support asset management transformation depends on servicers being able to play an essential role in creating a streamlined, frictionless, fully integrated ecosystem from front- to back-office. At BNY Mellon, we were a pioneer in our open-architecture approach, and it’s enabling us to engineer high-quality solutions for our clients, while preserving client choice and independence.

Roman Regelman

Chief Executive Officer of Asset Servicing and Head of Digital
BNY Mellon



Introduction

Fundamental changes in the asset management industry have been building for some time. A new and wide-ranging BNY Mellon research study covering 200 asset managers around the globe shows that such changes have reached a point of no return.

Geopolitical and demographic shifts have redefined the market landscape. The global COVID-19 pandemic has intensified the industry's focus on the ability to operate digitally with resiliency. Our survey participants told us again and again—there is no going back.

ASSET MANAGERS UNDERSTAND THAT EVOLUTION IS IMPERATIVE TO SURVIVE AND THRIVE IN THE NEW REALITY THAT HAS EMERGED.

“Once there is an integrated platform to assess and derive actionable information, asset managers will increasingly rely on these features. They are a definite value-add for any organization, especially if paired with automation software.”

—Germany-based Chief Investment Officer

How Asset Managers *See Their Future*

Our research uncovered five themes that illustrate asset managers' perceptions of the industry's future, along with the concerns they have about what it takes to succeed in such a future.

In summary, these themes are as follows.



1.

Data determines destiny:

Asset managers are harnessing the tools, expertise and infrastructure needed to turn data into actionable insights that can drive growth in investments and their investor base.

2.

Digital imperatives dominate:

Asset managers are trying to harness digital technologies to support a data-centric world while growing and serving their investors with agility.

3.

The product lineup is realigning:

Asset managers know they need to stand out from the crowd and meet the shifting demographic preferences of an increasingly outcomes-focused investor base.

4.

The distribution game has new rules:

Digital channels compel asset managers to root out inefficiencies and find innovative, customizable and scalable solutions for greater reach in a competitive marketplace.

5.

Focus on the core is key:

Asset managers see operational complexity and concerns as deciding factors in their ability to focus on generating value and to achieve growth in an already complex world.

An Initial Snapshot *of Market Thinking*

The transformative power of technology and the importance of data underlie all of the themes that asset managers highlighted in our surveys. Forward-thinking leaders in asset management take a holistic view of technology's impact on every aspect of their business, from front-to-back office.

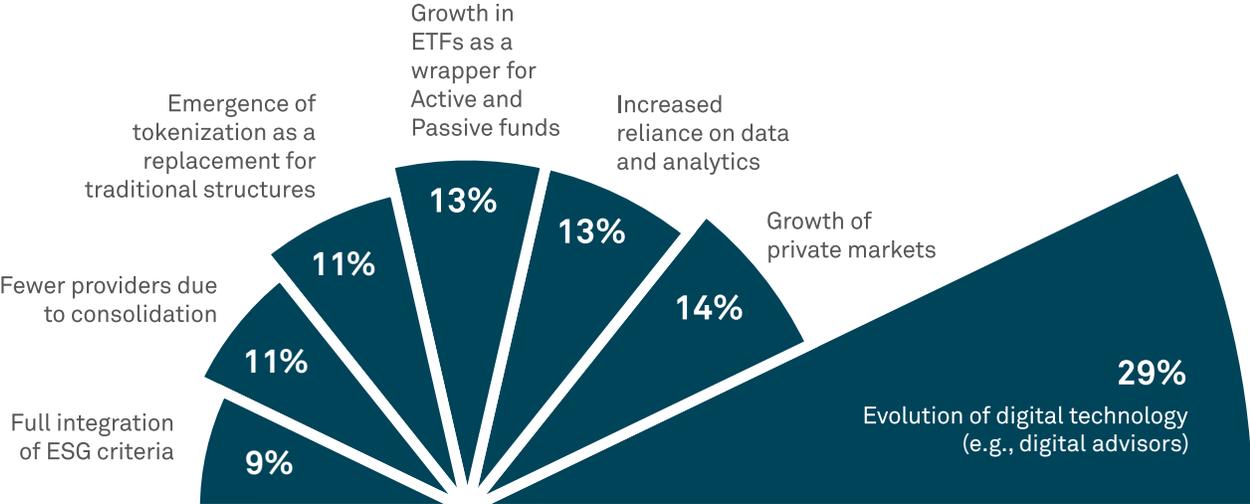
A plurality of our survey respondents highlighted this view. They named the evolution of digital technology as the top trend in asset management over the next three to five years. Combined with other digital concerns—data/analytics and tokenization—technology becomes the majority view, with 54% of respondents designating a technology-based trend as their top choice.



“After COVID-19, there is a real need for accelerated adoption of new tools that will drive inorganic growth and innovation. Digital technology will provide asset managers with a competitive edge if they can offer unique solutions.”

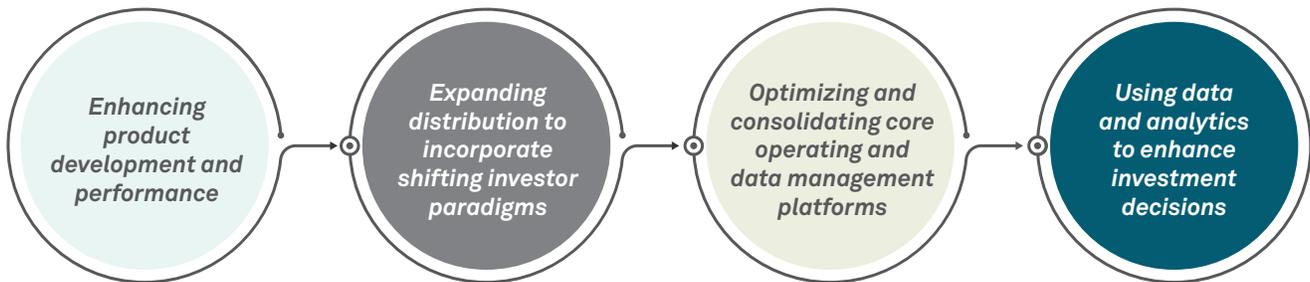
—Spain-based Chief Investment Officer

Top trends in asset management over the next 3-5 years as identified by survey participants



In this technology-driven world, every aspect of the end-to-end investment lifecycle is open to fundamental redefinition.

Asset managers are evaluating their entire value proposition



Product- and market-related trends rank next in the hierarchy of asset managers' thinking. Growth of private markets, use of ETFs as a wrapper for active and passive funds, and integration of ESG criteria combine as the top trend for 37% of respondents.

Although a minority view, we would also note the emergence of consolidation as a top-of-mind trend. More broadly, we see an increased rate of consolidation within the industry.

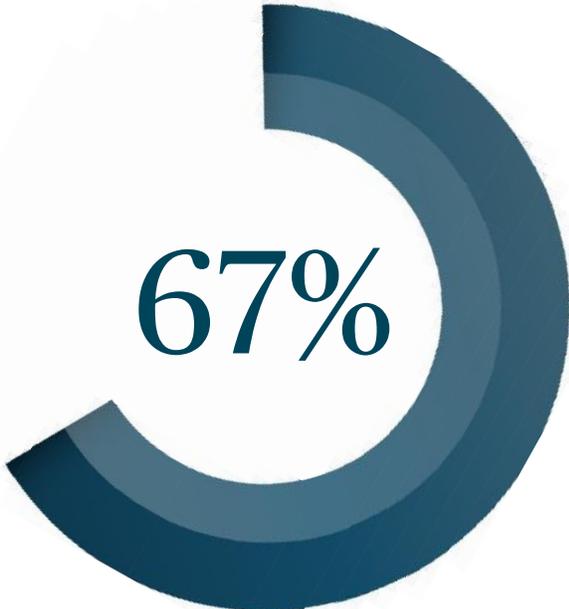
Consolidation helps give firms a lever for gaining access to new products and markets, achieving economies of scale, and succeeding with an ambitious technology agenda. The consolidation trend is likely to continue and potentially accelerate in the coming years.

Asset Managers *Unlikely to Go It Alone*

Intensifying industry pressures and challenges are forcing asset managers to reevaluate the way they do business. To fuel the front-to-back engine, asset managers must combine data with complex operating platforms while simultaneously scaling, achieving resiliency, and managing transparency and oversight requirements. COVID-19 has thrown additional variables into an already complex mix of imperatives.

In this context, asset managers have begun to realize they must focus on their core competencies. The question for many is where to start and how to address the critical technology, data management/analytics, and operating platform challenges that fall outside that core.

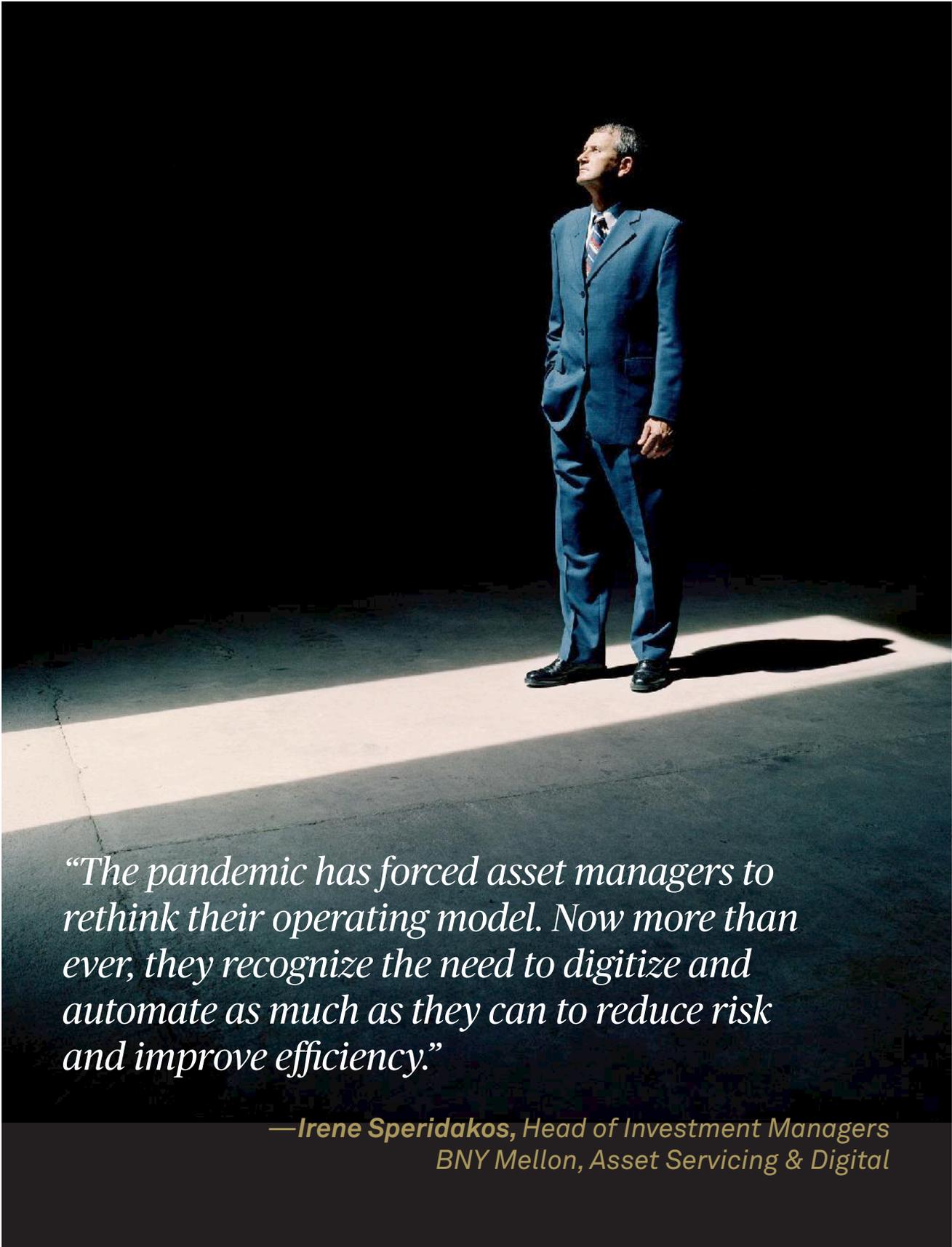
For many firms, it is undesirable or impossible to bring all of the required expertise in-house. As a result, they are considering outsourcing non-investment functions as a strategy for growth.



67%

67% of respondents in our research said they plan to increase their reliance on service providers as a way to meet their digital challenges.

67% are looking to leverage service providers to improve their operational efficiency.



“The pandemic has forced asset managers to rethink their operating model. Now more than ever, they recognize the need to digitize and automate as much as they can to reduce risk and improve efficiency.”

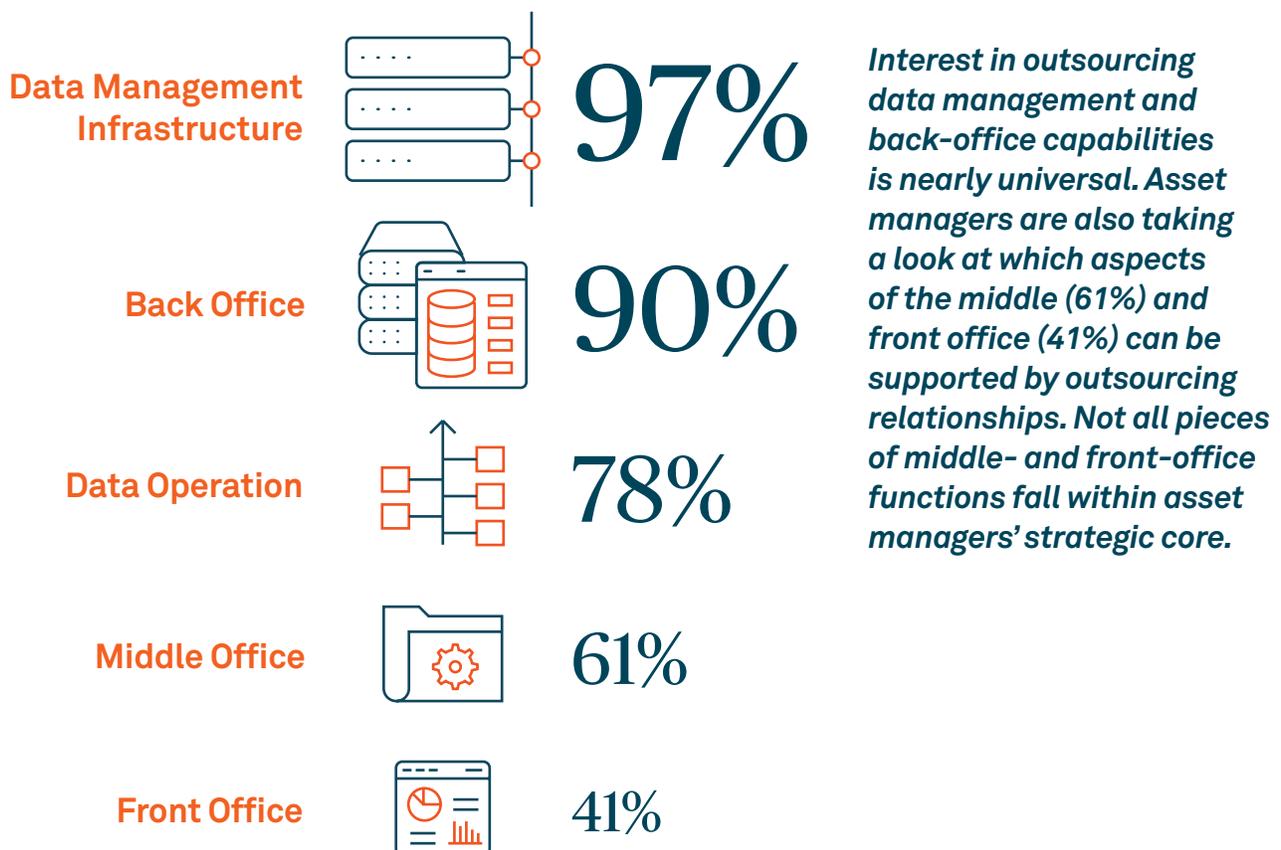
*—Irene Speridakos, Head of Investment Managers
BNY Mellon, Asset Servicing & Digital*

Getting outsourcing decisions right is more important than ever because of the increased complexity of the industry. Asset managers need outsourced assistance to help bring together and evaluate disparate data. They seek out those who can deliver modular and flexible solutions that enable them to adapt.

The key to success is to find providers who have invested in their technology and infrastructure and are committed to supporting long-term initiatives. Successful relationships require both asset managers and their providers to engage fully, with collaboration and agility, to limit risk and help identify opportunities for transformation now and in the future.

Data management, back-office capabilities and data operations represent the largest areas where significant majorities of asset managers plan to explore or expand such outsourcing.

Outsourcing: asset manager's area of focus in the next three years





“An open architecture can help Asset Managers adapt their existing operating models to meet the demands of the future, realizing synergies, taking advantage of opportunities and minimizing risk - without undertaking timely and costly system conversions.”

*—Christine Gill, Head of Commercial Development
BNY Mellon, Asset Servicing & Digital*

The Future Is Agile, The Architecture Is Open, *and the Stakes Are High*

The survey results track well with broader industry trends that we see in the asset management landscape. Client demand for investment growth and performance has increased and, at the same time, has become more nuanced. Flexibility and collaboration are needed for firms to evolve to a new level of data-centric processes. In other words, frictionless operating models must be offered that lets asset managers focus on serving their end clients and achieve long-term growth in this newly arrived future.

Still, asset managers do not want to chase every technical innovation. There is a greater recognition that firms must have a small number of core providers that offer scale, resiliency and the expertise to support integrations and enable agile change.

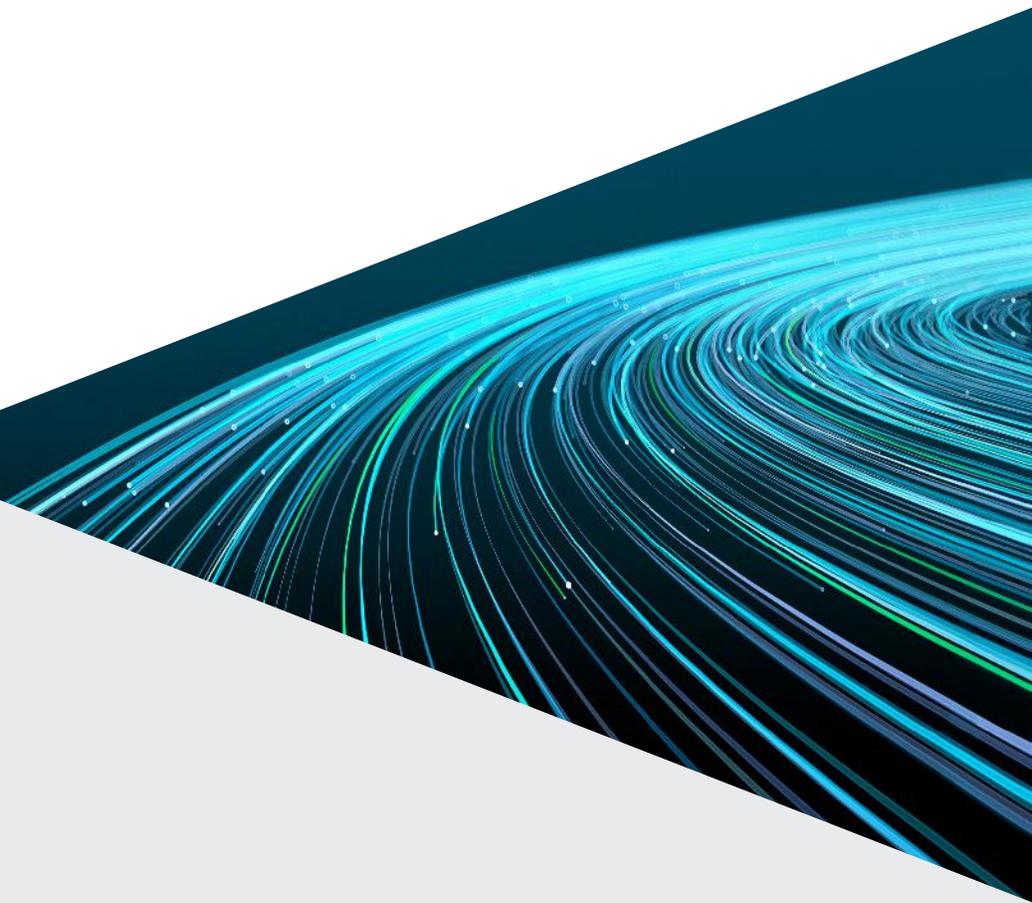
Simpler times are not coming back. Firms that successfully move past this point of no return will put data and new technology at the core of their transformation. Integrated, modular approaches will give them the agility and flexibility to thrive. But those that stay with the status quo may soon reach the end of the line. As the industry advances, they will struggle to meet the evolving needs of new generations of investors seeking lower fees, new products and enhanced transparency.

Both our survey and our broader experience point to five critical areas where potential providers or collaborators help firms achieve operational transformation and future-proof their business:

- ***Orchestrating solutions and information across the entire investment process***
- ***Bringing together disparate data across the entire enterprise to gain new insights***
- ***Enabling preservation of choice and flexibility through a modular, open-architecture, data-centric platform***
- ***Building a provider-agnostic model that incorporates flexible technology for future providers and partners***
- ***Creating a resilient, frictionless, front-to-back operating model that lets asset managers focus on their priorities***



Data Determines *Destiny*



As sources and types of data have proliferated, the ability to interpret data and convert it into usable, relevant information has become a key differentiator in the asset management industry. Having a mountain of data and being able to utilize it effectively, however, are two very different things.

This chapter provides an understanding of how asset managers perceive the challenges and opportunities presented by harnessing, governing and analyzing data to fuel growth.

Margin compression across the industry is increasing the need for operational efficiencies. At the same time, firms are pursuing market and product expansions to compete and grow. Effective and efficient data management is the key to solving these two (sometimes competing) priorities.

“Asset management firms are looking to turn data into useful insights. This cannot be done unless there is more reliance on newer analytics models and functions. Teams will need to undergo training, but the end result will be worthwhile.”

—France-based Chief Investment Officer

The hunger for new and greater sources of data is driven primarily by the front office as it looks to keep up with investor demands in areas such as ESG and customizable Separately Managed Account offerings. The global pandemic has simultaneously increased pressure to digitize operations and highlighted the inefficiencies most firms have in the data supply chain supporting their middle and back offices. Data capabilities will transform nearly every area of the business, from corporate functions and product development to distribution, sales, and marketing.

In parallel, asset management service providers have evolved their data capabilities to better support their clientele. Data management software, delivered through both private and public clouds, continues to develop rapidly. Operational support to optimize data utilization has long been a part of the offerings delivered by outsourced providers. What has changed is their new focus on providing data that enables a wider range of analytical capabilities, providing clients the capability to unlock strategic value from data as an engine of growth. Innovation across the fintech world has also fueled a new crop of tools and technical prowess that add to the capabilities of the industry.

At the same time, the asset managers in our survey clearly recognize that achieving the value of the data opportunity requires dedication to data strategy, specialized management, technical skills and investment in technology.

Process inefficiencies and systems limitations make it difficult to pursue data ambitions. In many ways, survey respondents told us that they fear the growth potential of data capabilities may be out of their reach. However, their responses and comments also help point the way to a successful data-driven future.



Data Will *Reshape the Industry*

The majority of asset managers, when asked in which parts of their organization they plan to deploy data and analytical tools, stated they plan to do so in every core process of their business, as indicated in the chart on page X. Even for the lowest-ranking function, product development, a majority (53%) reported plans to increasingly leverage data as a strategic tool.

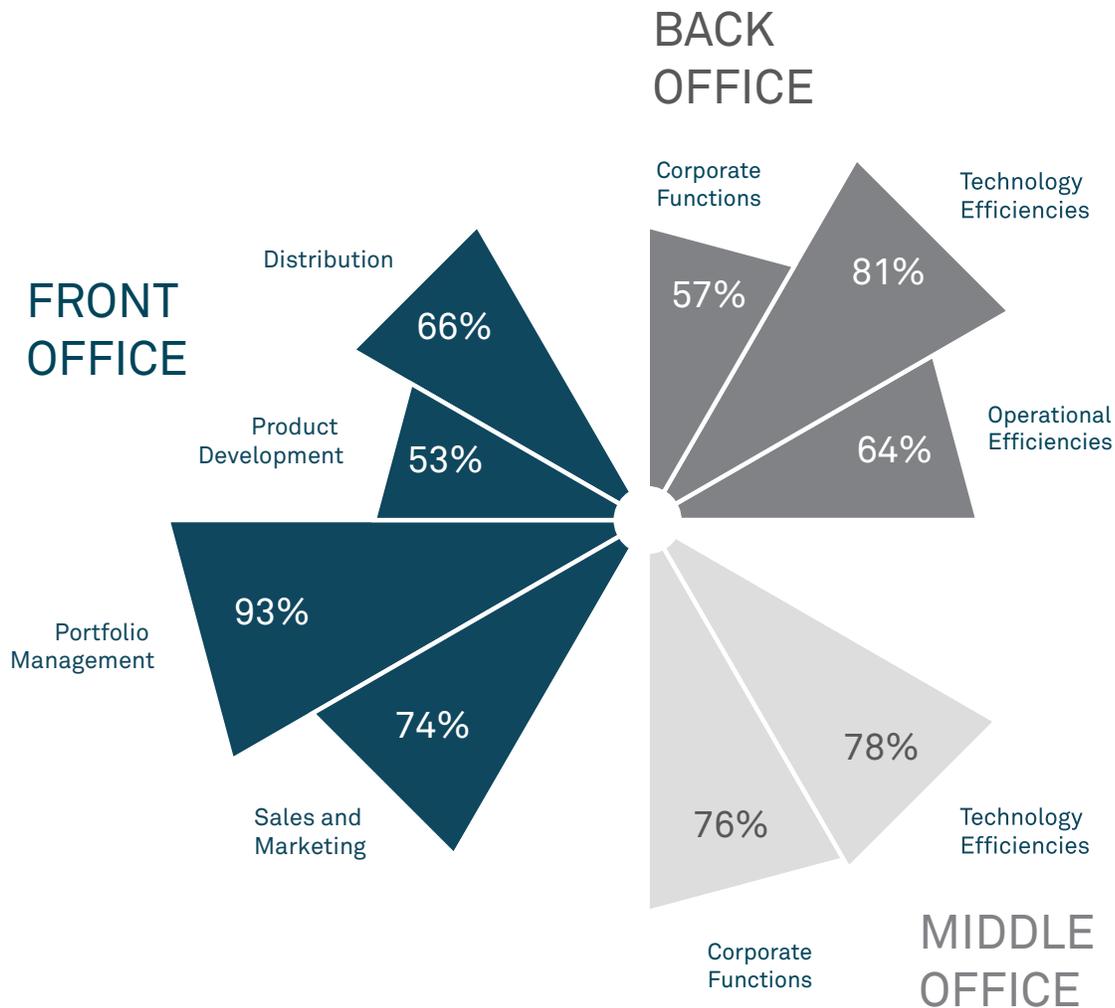
Nearly all asset managers (93%) indicated plans to expand the use of analytics and insights in portfolio management, indicating many of their growth strategies rely on leveraging advanced data and analytics. This response highlights the importance of data to these firms, as informed investment decisions are the fundamental value that asset managers deliver to their investors.

As data reshapes the role of central portfolio management, these changes flow through to every other part of an asset manager's business model as well. Sales and marketing (74%) and distribution (66%) also are likely to see impacts from data capabilities.

While front-office responses indicate a desire to increase data-based decision-making, the middle- and back-office responses indicate the work being done on costs, revealing that front offices plan to deploy data analysis and insights to achieve efficiencies.



Asset Managers plan to deploy data analysis and insights in all areas of their business.



“Data is the connective thread across the front, middle and back office. It must be integrated in a way that allows our clients to find what they need, mine it and generate new insights from it.”

—Mal Cullen, Head of BNY Mellon OMNI Digital Services

Why Portfolio *Management?*

In considering the top use cases for data analysis and insight, portfolio management rises to the top of asset managers' data priorities for good reasons.

First and foremost, data can support more robust investment analyses, decreasing costs to generate alpha or generate beta. With the proliferation of data sources, the volume and complexity of data is increasing exponentially. Effectively integrating new types and volumes of data can help managers identify opportunities, make more informed investment decisions and monitor performance.

These needs drive the rapid development of tools to visualize increasingly granular information such as predictive analytics dashboards and artificial intelligence-driven heatmaps. Meanwhile, cloud-based technologies support the scaling requirements of data growth as new database capabilities allow for the inclusion of both structured and unstructured data types.

Our survey responses reflect these trends. The top use cases for deploying data analytics are performance and risk management (45%) and asset selection and allocation (43%). Identification of new client profiles (37%) also make a strong showing and, even in the front office, operational efficiencies are still important (41%). In other words, data analysis touches on the use cases by which investment managers are able to deliver more value to investors, optimize their costs and expand their investor base.

In a competitive world where transparency, efficiency and finding new growth opportunities dominate asset managers' strategic agendas, these top use cases demonstrate how data analysis can determine a firm's destiny.

In addition to experiencing difficulties in managing data, asset managers further described challenges in extracting meaningful insights from it. The most common responses appearing in respondents' top four barriers to gaining insights included the complexity of data (54%) and the obsolescence of existing data management platforms (54%), closely followed by a lack of analytical tools to cover unstructured data types (52%) and the complexity of the analytical tools (49%).

The primary use cases for data analysis intend to allow asset managers to deliver more value to investors, optimize their costs and expand their investor base.

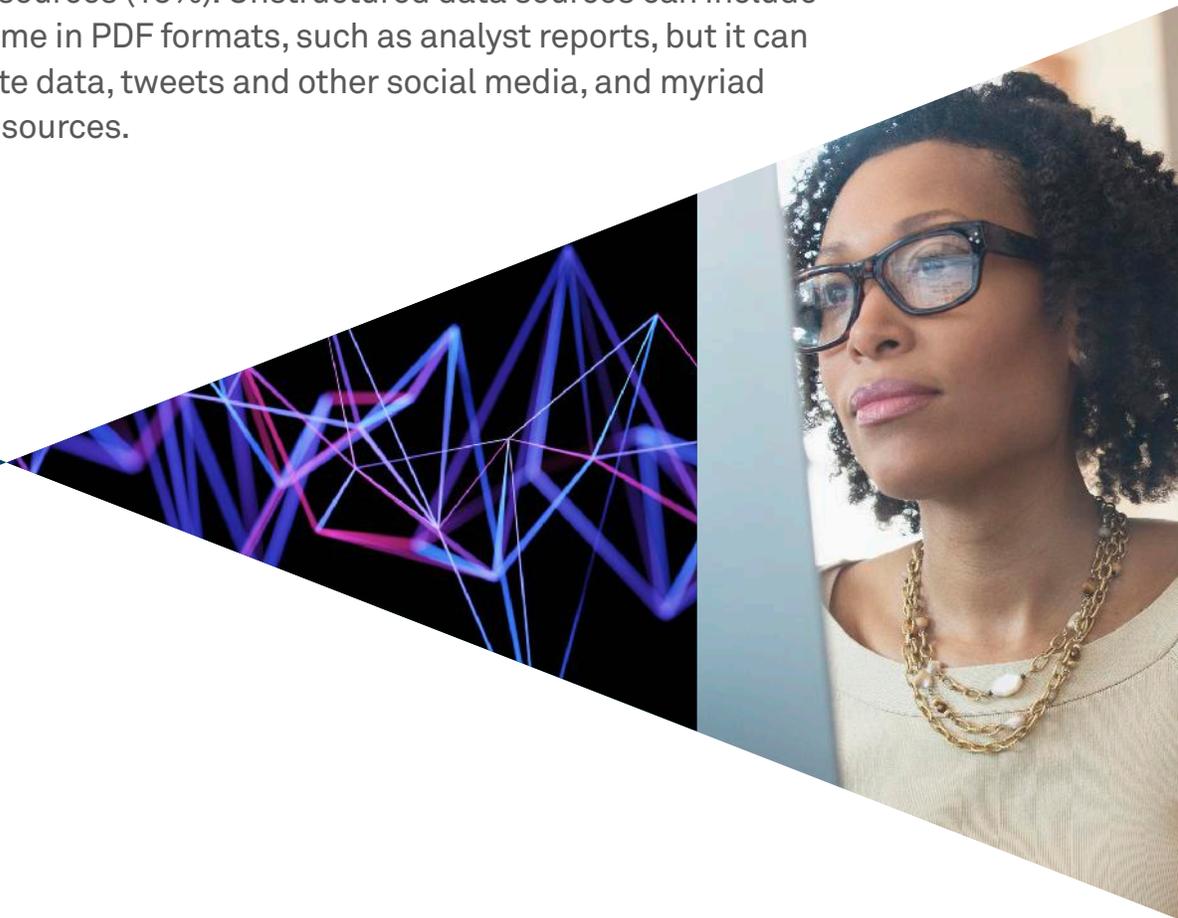


Challenges in Climbing *the Data Mountain*

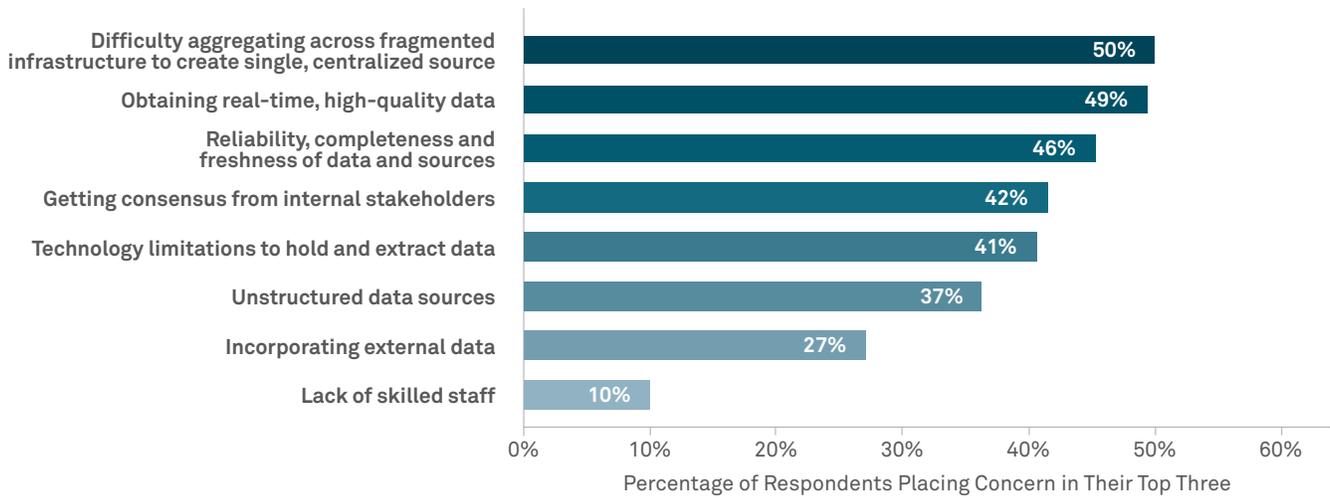
Industry consensus reflects the importance of flexibility and scale to manage the variety and growth of data. Our survey respondents also clearly acknowledged the challenges in keeping up with these changes. Meaningful data tends to be stored across disparate systems and functional silos, making it challenging to aggregate, catalog and interpret in a timely manner.

The most common challenge respondents cite in effectively managing data is aggregating it across fragmented infrastructure to create a single, easily accessible source to serve the enterprise's needs. One-half of respondents placed that barrier in their top three challenges. Reflecting the demands of front-office portfolio management, other challenges that respondents cited among their top three included obtaining real-time, high-quality data (49%) and the reliability, completeness and freshness of data and sources (46%).

Finally, 19% of respondents reported data aggregation as their single most important barrier to managing data and extracting insights, followed by unstructured data sources (18%). Unstructured data sources can include documents that come in PDF formats, such as analyst reports, but it can also include satellite data, tweets and other social media, and myriad other newly mined sources.

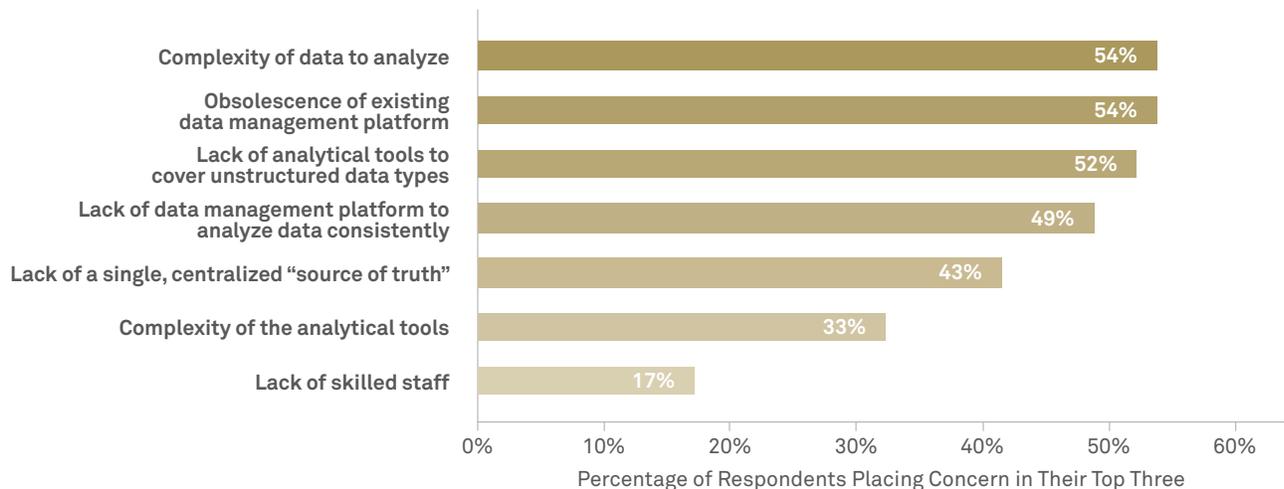


Industry consensus reflects the importance of data but also acknowledges the challenges of managing it.



Beyond merely accessing the data, asset managers described further hurdles in extracting meaningful insights from it. The most common are the complexity of data and the obsolescence of existing data management platforms (54% each), closely followed by a lack of analytical tools to cover unstructured data types (52%) and the complexity of the analytical tools (49%). Because the consumers of data are not just data scientists but portfolio managers, client-facing teams and others across the organization, it’s critical to offer intuitive, readily available tools in order to leverage the power of aggregated data.

Asset managers also identified challenges with extracting meaningful insight from their data.

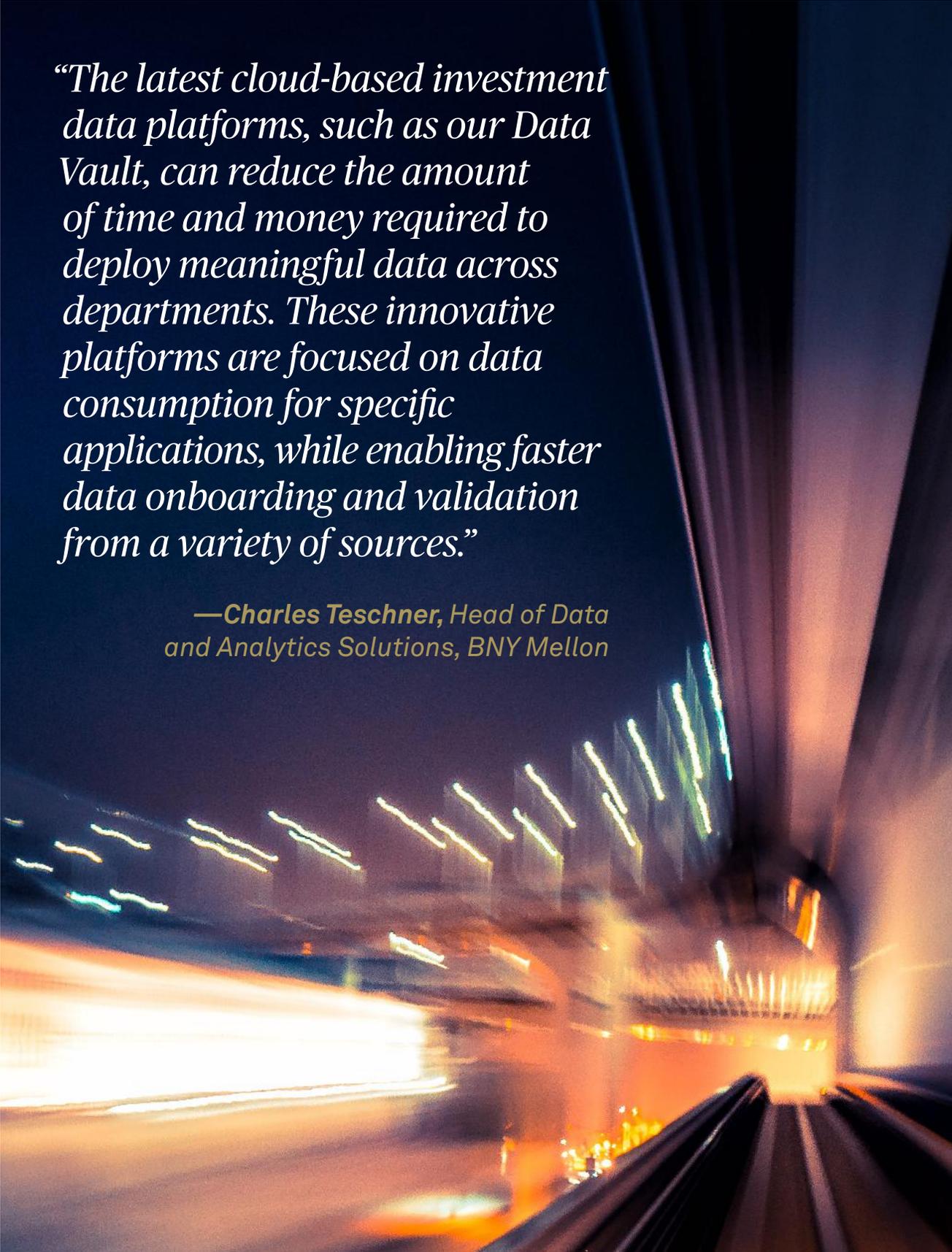


The Right Equipment *for Mountain Climbing*

Technological advances in data management are starting to make inroads into the challenges the survey calls out. The scale required by an ever-increasing volume of data, uncertainty in future volume and a need to keep operational costs low lead directly to the door of cloud-based solutions. These platforms address scaling concerns while delivering needed resiliency. They also provide the ability to invest in infrastructure only as it is needed, at a lower overall cost for storage and computing power. In fact, our survey results show that 96% of respondents are already using cloud technologies, making them almost ubiquitous today.

Database technologies also continue to evolve rapidly, no longer forcing users to predict how data will be used or in what format it must be delivered. The ability to load data in an “as is” format and convert data to required formats reduces the need to duplicate data for different purposes, reducing costs and increasing the efficiency of the supply chain.

Finally, artificial intelligence (AI) and machine learning tools continue to make advances in their speed and ability to consume data of all types. Coupled with improved accessibility and usability, no longer are AI engines solely the purview of PhDs.



“The latest cloud-based investment data platforms, such as our Data Vault, can reduce the amount of time and money required to deploy meaningful data across departments. These innovative platforms are focused on data consumption for specific applications, while enabling faster data onboarding and validation from a variety of sources.”

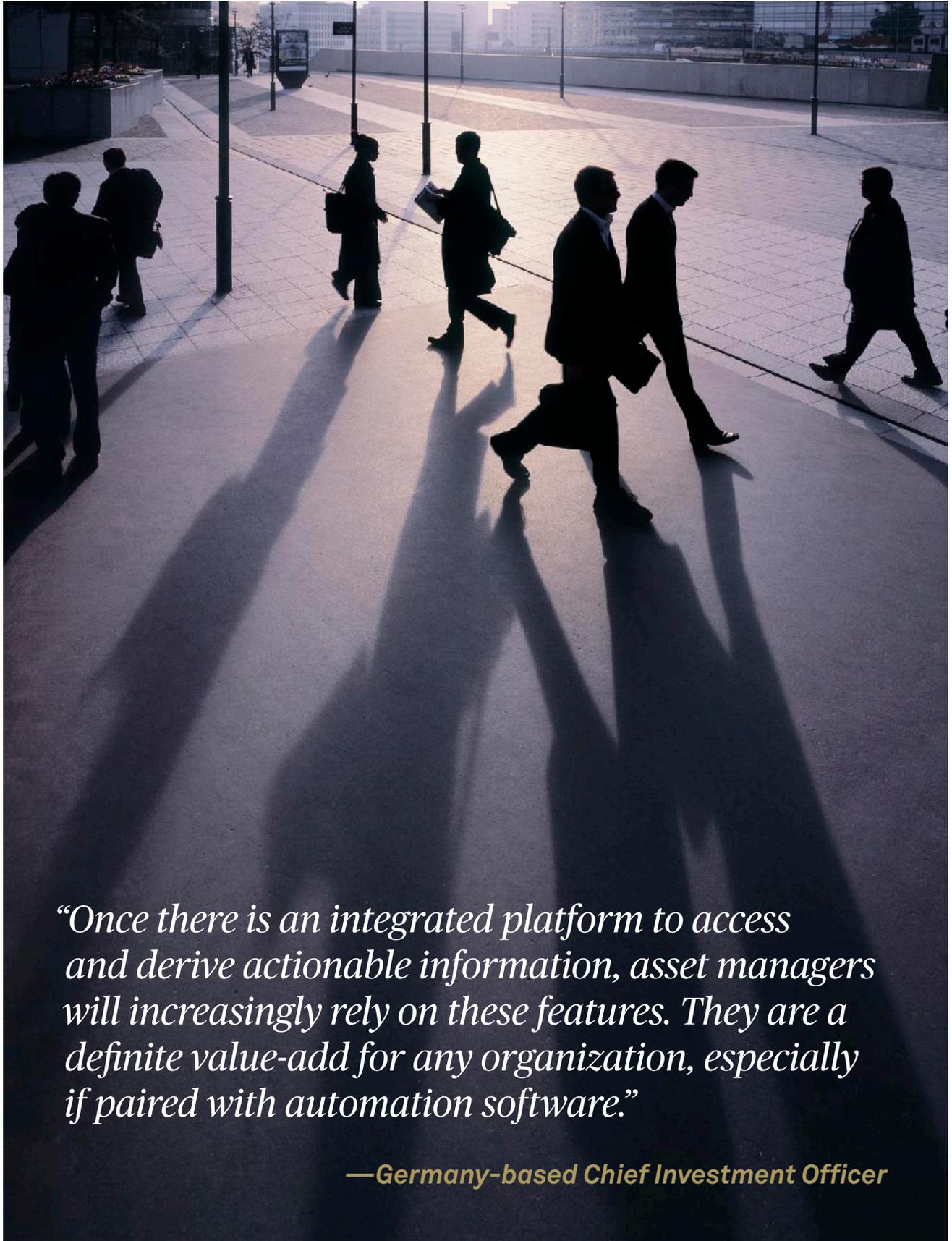
—Charles Teschner, Head of Data and Analytics Solutions, BNY Mellon

Sourcing *Data Talent*

Creating a base level of data literacy, including the use of new tools related to data management and analysis, will be as vital for asset managers as integrating those tools into the firms' everyday operations. Success will demand high levels of collaboration between different teams. Firms will need to draw on functional knowledge as well as data science techniques to create and proliferate needed capabilities.

Collaboration with service providers also is essential. Given the importance and complexity of data management, it is not surprising that companies are seeking external expertise. In the [overview section](#) of this series, we highlighted that 97% of respondents looking to outsource over the next three years will consider doing so with data management infrastructure. Data operations also are set for further outsourcing, mentioned by 78% of respondents. These responses reflect the difficulty in acquiring the skills and technology required, coupled with cost pressures and the increasing need for asset managers to focus on their core value proposition.

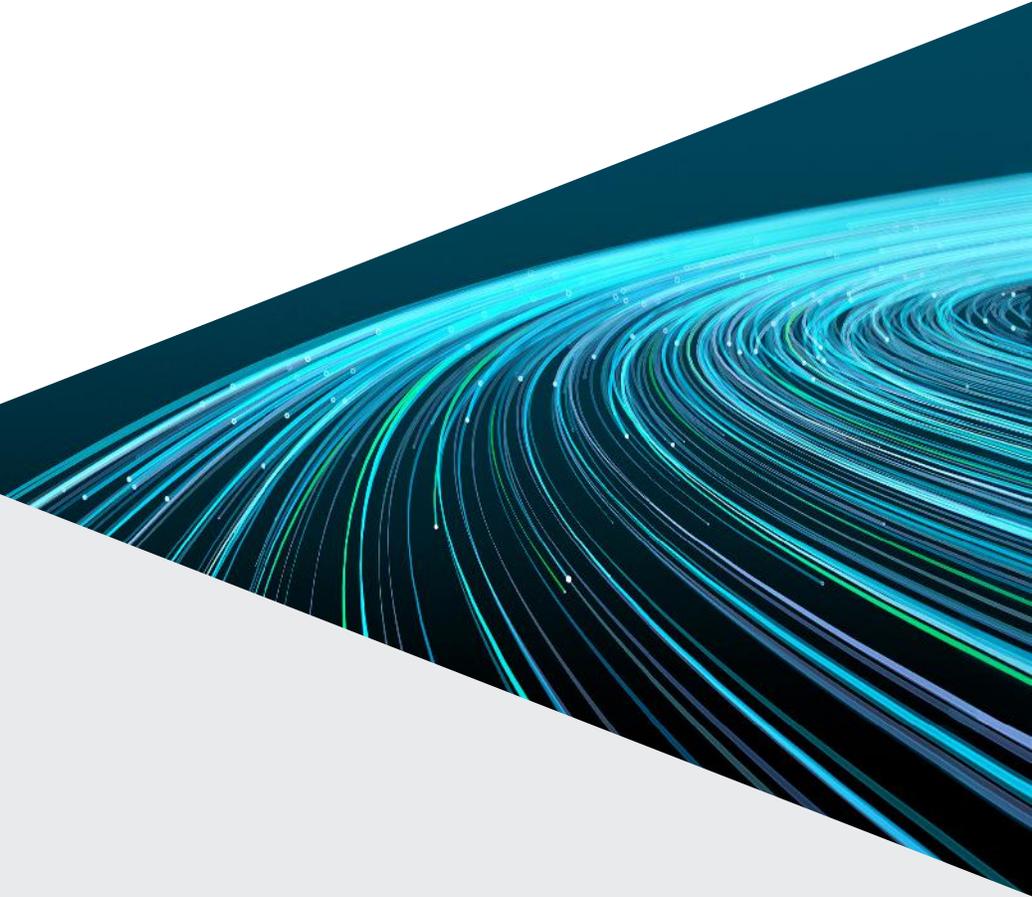
Transitioning these systems and processes to third parties will pave the way for further streamlining of investments. Asset managers have choices along a spectrum from building the technology themselves, to buying the technology and building the processes, to fully outsourcing their data management.



“Once there is an integrated platform to access and derive actionable information, asset managers will increasingly rely on these features. They are a definite value-add for any organization, especially if paired with automation software.”

—Germany-based Chief Investment Officer

Digital Imperatives *Dominate*



Digital technologies enable organizations to drive top-line growth by transforming the client experience. How can asset managers meet these digital imperatives to find organic and inorganic growth?

In the Data section of [“Asset Management: Transformation is Already Here.”](#) we discussed how as the sources and types of data have proliferated, the ability to interpret and convert it into usable, relevant information has become a key differentiator in the asset management industry. We also showed how having a mountain of data and being able to utilize it effectively are two very different things.

Data management fits into a picture of broad digital imperatives that the asset management industry must address. The need for better investment outcomes has driven the industry towards digitization for some time, but COVID-19 accelerated the trend. Business continuity and resiliency rapidly became urgent and critical, going from a sensible planning exercise to a means of keeping businesses running day-to-day. The pandemic brought the connections between better investment outcomes, better data and transformed operations starkly into the foreground.

We asked our survey participants a range of questions about digital capabilities to put a data-driven future and a crisis-influenced present into context. They identified several foundational technologies and organizational obstacles they see on the path to improved investment outcomes and the operational transformation needed to deliver them.

They also highlighted the importance of service providers sharing this path with them. They recognize the need for robust services that help them navigate complex changes to their firm’s strategy, investment management approach and operations.

Covid-19 Put *Theory into Practice*

Many asset managers had already embarked on digitalization before the pandemic. Business continuity has long been part of the conversation. However, the arrival of COVID-19 amplified the need to adopt and integrate new technologies.

Many of our survey respondents commented on the impacts of COVID-19. Market volatility increased the need for faster responses to rapidly changing conditions. Remote working exposed the shortcomings of relying on manual and paper-based processes. The ongoing pandemic resulted in extended needs for social distancing and remote work, making growth more difficult to achieve. Above all, it highlighted the importance of business process resiliency and the kind of agility that enables asset managers to respond to—or even predict—new opportunities and risks.

“After COVID-19, there is a real need for accelerated adoption of new tools that will drive inorganic growth and innovation. Digital technology will provide asset managers with a competitive edge if they can offer unique solutions.”

—Spain-based CIO

“Engaging clients requires technology to be integrated into every possible business aspect. The use of AI and machine learning for personalised suggestions, the gamification functions and online chat functions are all important in engaging clients.”

—U.S.-based Chief Operating Officer

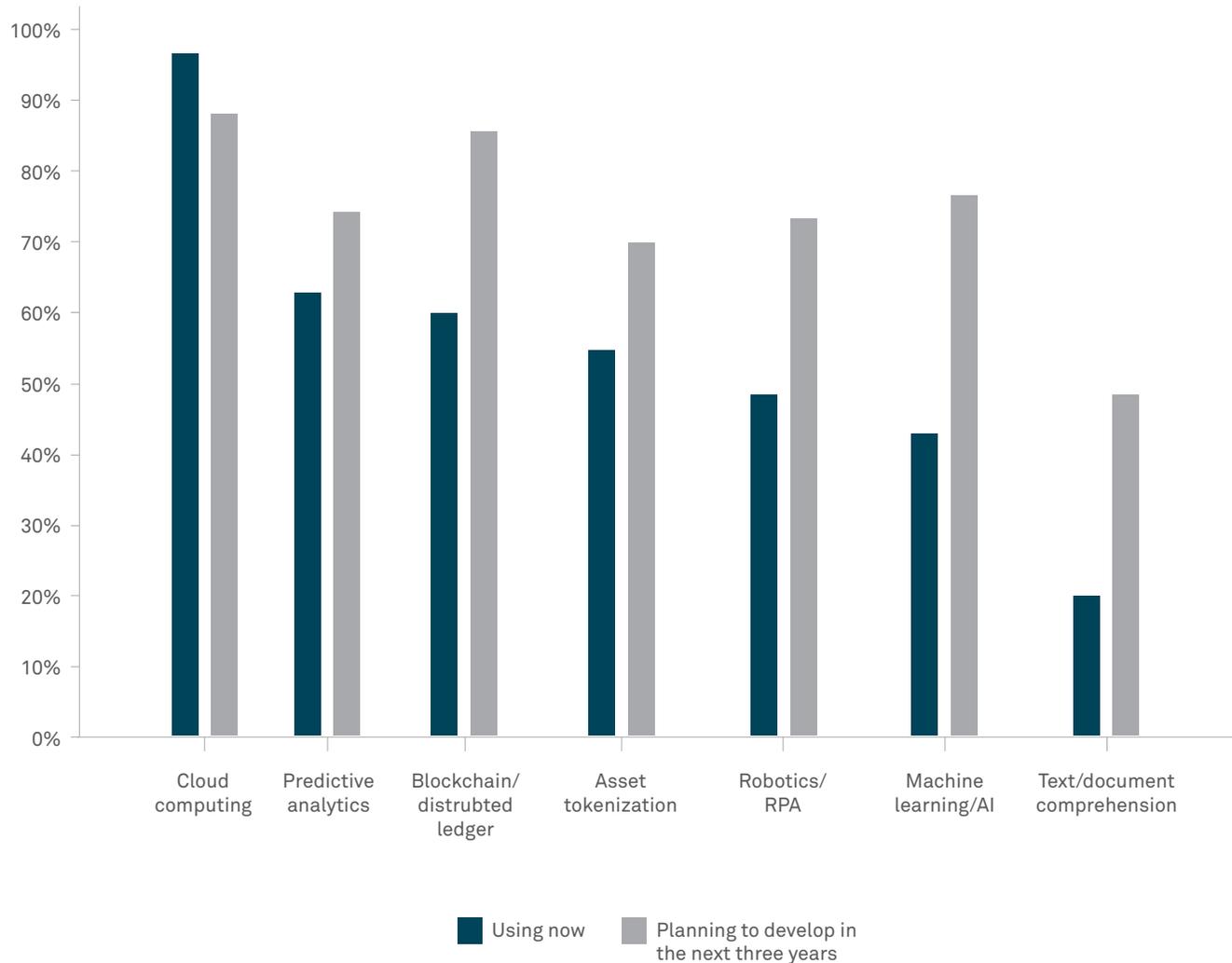


Building Blocks for a *New Client Experience*

Survey respondents said they are prioritizing more established and proven technologies as they continue or embark upon their digitalization initiatives. However, they have not lost sight of an ambitious lineup of technologies that can unlock future innovation.



Which of the following digital capabilities/technologies are you leveraging to drive digital and operational transformation?



Current utilization

Cloud computing dominates today's digital imperatives. Almost all (96%) respondents said they are currently leveraging cloud computing to drive digital and operational transformation. They also rank it as the single most important technology at present.

In fact, cloud computing has become so ubiquitous that the role it plays is also evolving. Using specific cloud-based applications, such as CRM platforms, has become a matter of course. The industry is now moving to using cloud as more than a way to access specific feature sets and save costs.

Because cloud infrastructure provides the building blocks for the adoption of advanced digital technologies, it allows managers to bring new digital services, products and experiences to clients. It also provides the foundation for greater collaboration between staff. In other words, it is delivering advantages in business agility, allowing asset managers to work more seamlessly internally as well as with service providers and other third parties.

Future utilization

Cloud computing still holds a dominant position among asset managers' digital imperatives in their planning for the next three years. Other technologies also rise to a similar level of importance.

“Asset managers that use the latest technologies have a definite market advantage.”

—U.K.-based Chief Information Officer

Using now
(Top Five)

Planning to Develop
(Top Five)

96%

Cloud
computing



88%

62%

Predictive
analytics



75%

60%

Blockchain/
distributed ledger



84%

56%

Asset
tokenization



72%

47%

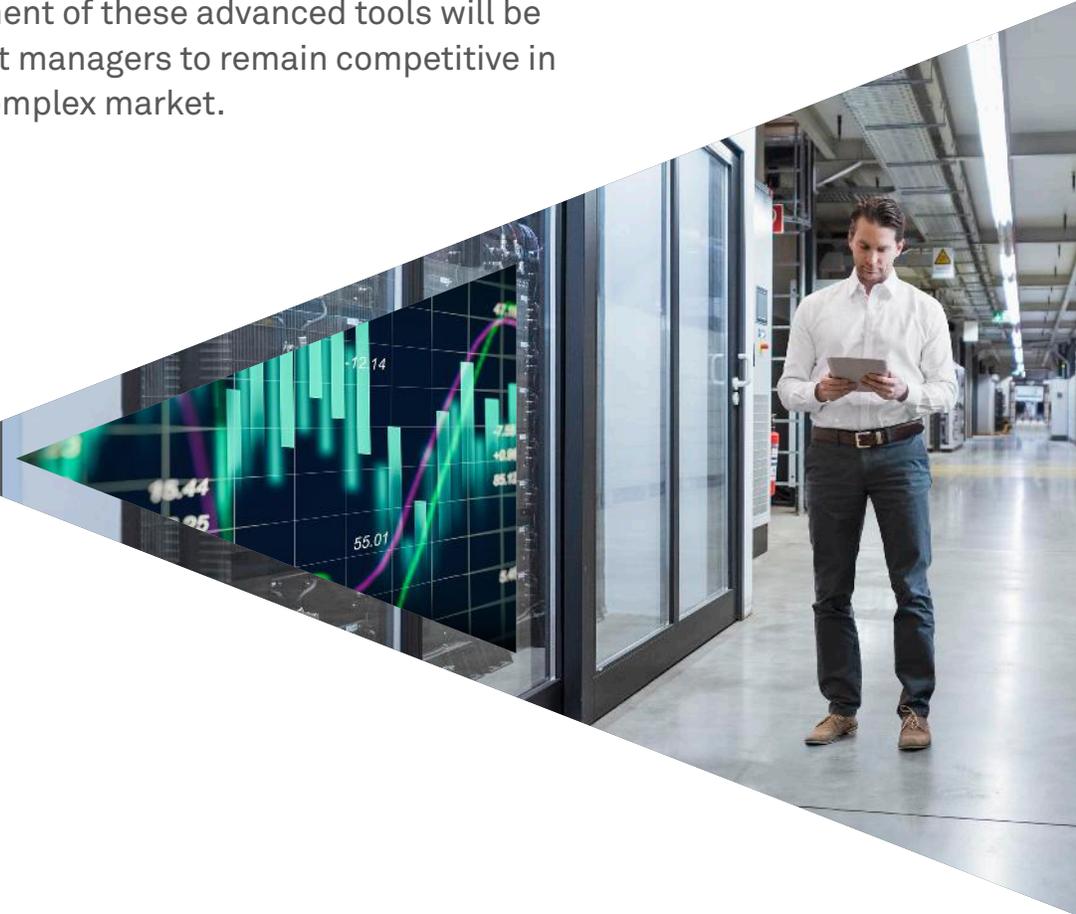
Robotics/
RPA



75%

Looking ahead, 84% of asset managers are planning to develop blockchain and distributed ledger technology to synchronize data and processes. The uptake of blockchain technology goes hand in hand with plans to leverage asset tokenization, with 72% of respondents planning to develop digital assets over the next three years. Together, these technologies could open up product development opportunities and broaden investment options for new pools of investors. It could also offer liquidity to investors in traditionally illiquid investments, such as alternatives.

Technologies that bring additional enhancement to clients' experiences and their investment returns also rank high on the list of digital imperatives for asset managers within the next three years. These efficiency technologies include machine learning and artificial intelligence (78%), predictive analytics (75%) and robotic process automation (75%). Effective deployment of these advanced tools will be essential for asset managers to remain competitive in an increasingly complex market.



“Digital assets are here to stay. Enabled by distributed ledger technologies, digital assets including cryptocurrencies, stablecoins as well as tokenized forms of other assets will be an important part of the financial ecosystem.”

*—Mike Demissie, Head of Digital Assets Unit
and Advanced Solutions at BNY Mellon*

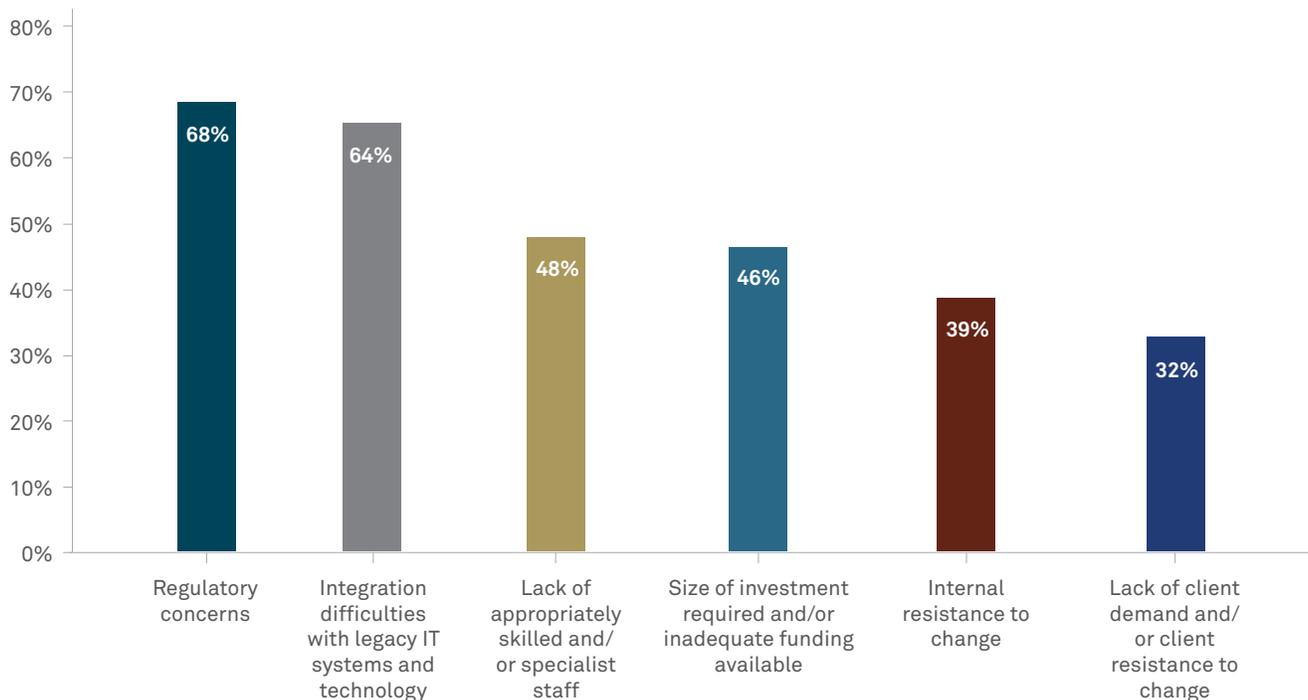


Realism, but *Not Pessimism*

Our research also finds that asset managers have few illusions about the ambitiousness of these digital imperatives for transformation.

Achieving full-scale transformation is far from straightforward given the complexity of many managers' operations, which may span different markets, products and geographies. Internal resistance came up as an implementation challenge for 39% of respondents.

Which of the following factors will pose the biggest challenge to the implementation of digital and operational transformation in your organization?



Respondents view regulatory concerns as their biggest challenge (68%). Implicit in such concerns are issues around data protection, the difficulty of digitizing information and processes across different jurisdictions with differing regulatory requirements, meeting mandated security and compliance requirements, and addressing the need to meet varying quality management standards.

Not far behind is the perennial issue of integrating new technologies into legacy IT systems (64%). Like many organizations, asset management firms tend to operate using various disparate, closed systems installed at different times or locations, for multiple functions, or to meet specific regulatory requirements. M&A activity often exacerbates this situation because merged entities rarely achieve full IT integration.

Such technology barriers create some of the most significant inefficiencies in asset management. When information is unable to flow to different departments, it leads to duplication of effort and unnecessary manual processes. Maintaining multiple separate systems also adds significant cost.

“The top trend will be the integration of new digital technology into various asset management functions. Distribution and client management will come to rely on technology for maximum output.”

—U.S.-based Chief Technology Officer

It Takes *a Village*

Asset managers believe that high levels of collaboration and trust between internal functions and with external providers can help transcend the inherent barriers to achieving digital imperatives.

In the past, many asset managers saw themselves as one firm competing against the world. They often saw themselves as self-contained entities.

Our research shows that view has shifted significantly. More than two-thirds of respondents say they are planning to streamline relationships with a few best-of-suite vendors and providers (i.e., those that can best meet the broadest range of business needs versus those focused on a small subset of use cases). Because of perceived internal skills gaps (48%), many asset managers are looking to outside experts to accelerate their digital transformation.

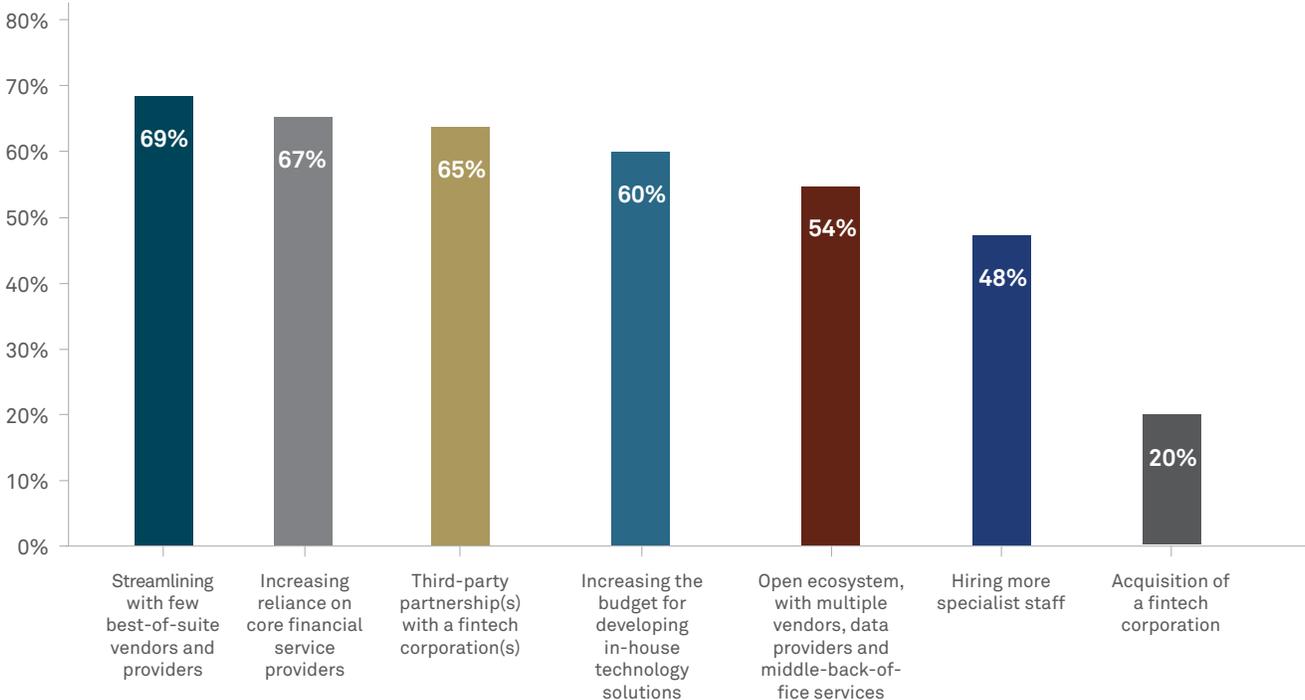
Broadly, asset managers have evolved from a “survival of the fittest” mentality to seeing themselves as part of an ecosystem. As a result, they place open ecosystems (54%) highly in the ranking of ways to accelerate innovation.

This approach to infrastructure creates a balance between choice and openness. It streamlines the ability to integrate various vendor solutions according to their individual needs and strategies.

In addition, respondents showed a strong preference (67%) for relying on core financial service providers. This strategy allows them to take advantage of the investments their providers have made in digital technologies and innovation. It results in a common platform and an ecosystem where they collaborate closely with a handful of vendors and providers.

Balancing choice and openness also creates a stable platform for collaboration with fintech companies, mentioned by 65% of respondents. Such arrangements give them the ability to bring in compelling and pioneering innovations that may be slightly outside the mainstream—without losing the strength of core best-in-suite providers.

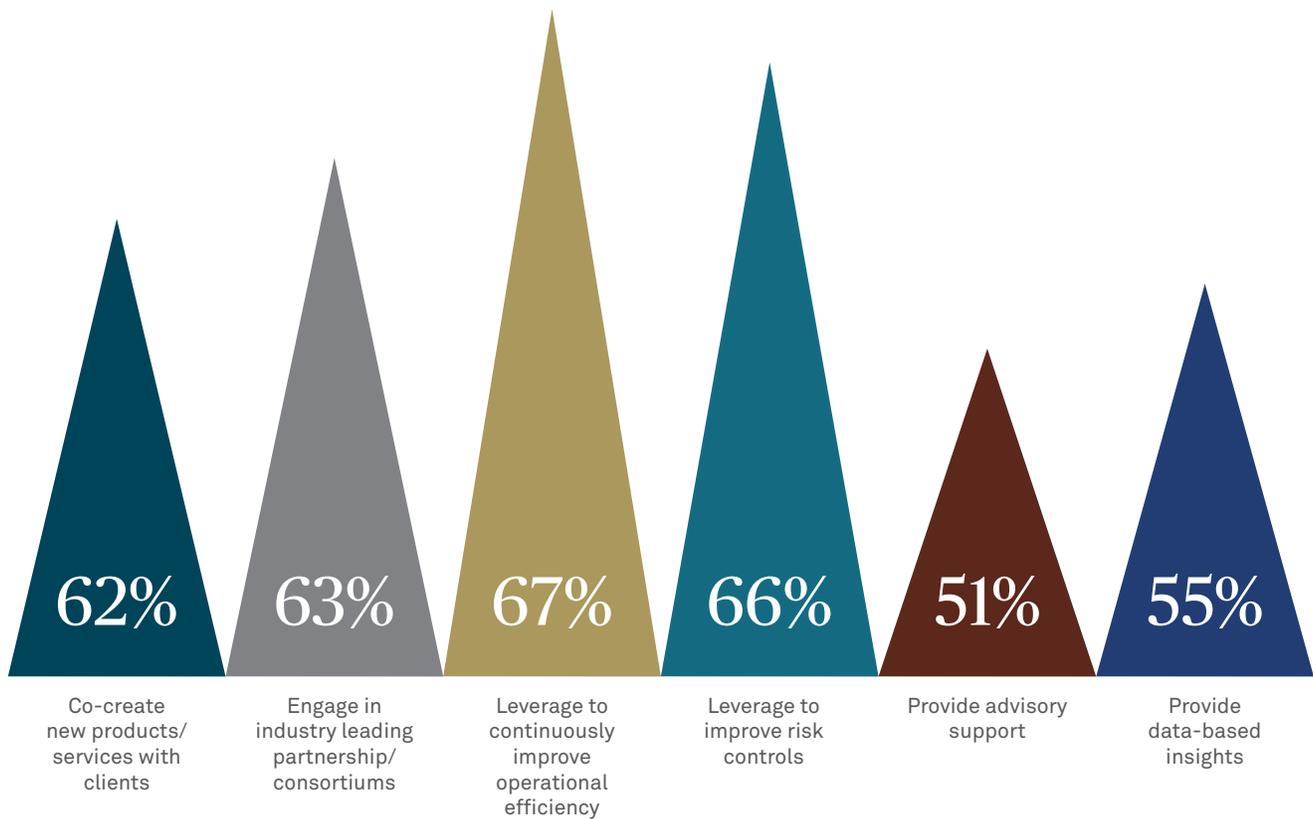
Which of the following strategies, if any, is your company planning to employ in order to accelerate digital innovation?



Asset Managers Have *Strategic Expectations*

Respondents see financial service providers as playing a key strategic role, with 67% looking to providers to improve operational efficiency continuously, 66% seeking improved risk controls, and 63% desiring more engagement in industry-leading partnerships and consortiums in a way that will increase their capacity for innovation.

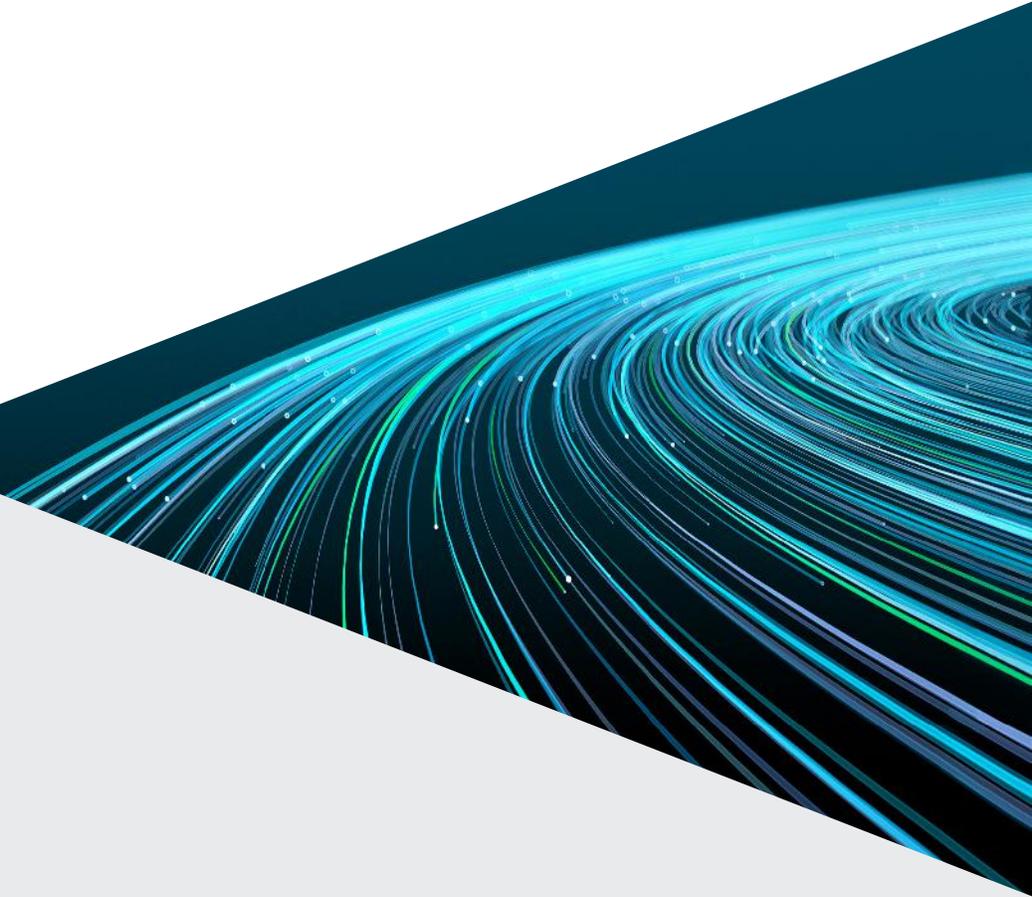
What is your expectation of what financial service providers can offer to support your digital capabilities?



More broadly, it is becoming clear that asset managers no longer view financial service providers as merely third parties working in the background to process transactional information. Instead, asset managers want to tap into service providers as strategic assets that can help support growth and innovation. The digital imperatives for business transformation call for intensive, high-trust collaboration.



The Product Lineup is *Realigning*



The increased operational complexity required of asset managers to meet the demands of new generations of investors has fast-tracked the adoption of digital and data analytics technologies. How are asset managers finding ways to cut through this complexity and differentiate their products?

Above, we described the ways that digitization has transformed asset management. As we concluded, few companies are taking this path alone.

Product innovation has benefited significantly from this trajectory. As asset managers address the industry's digital imperatives, they create opportunities for new offerings. These offerings could include new strategies and vehicles, access to more asset classes or potentially even products for emerging investor segments. Participants in our study suggested that product innovation will likely center around providing greater access to different types of investments for individual investors as much as for institutional investors.

Asset managers also know they need to stand out from the crowd and meet the shifting preferences of an increasingly outcome-focused investor base. In addition, 43% of respondents describe restructuring and rationalizing their product offerings as a top three strategic priority.

Asset managers highlighted two overarching principles in their efforts to fend off competition from existing and emerging players—changing demographics, and new or evolving asset classes, strategic themes, and mandates.

Digital Natives *on the Rise*

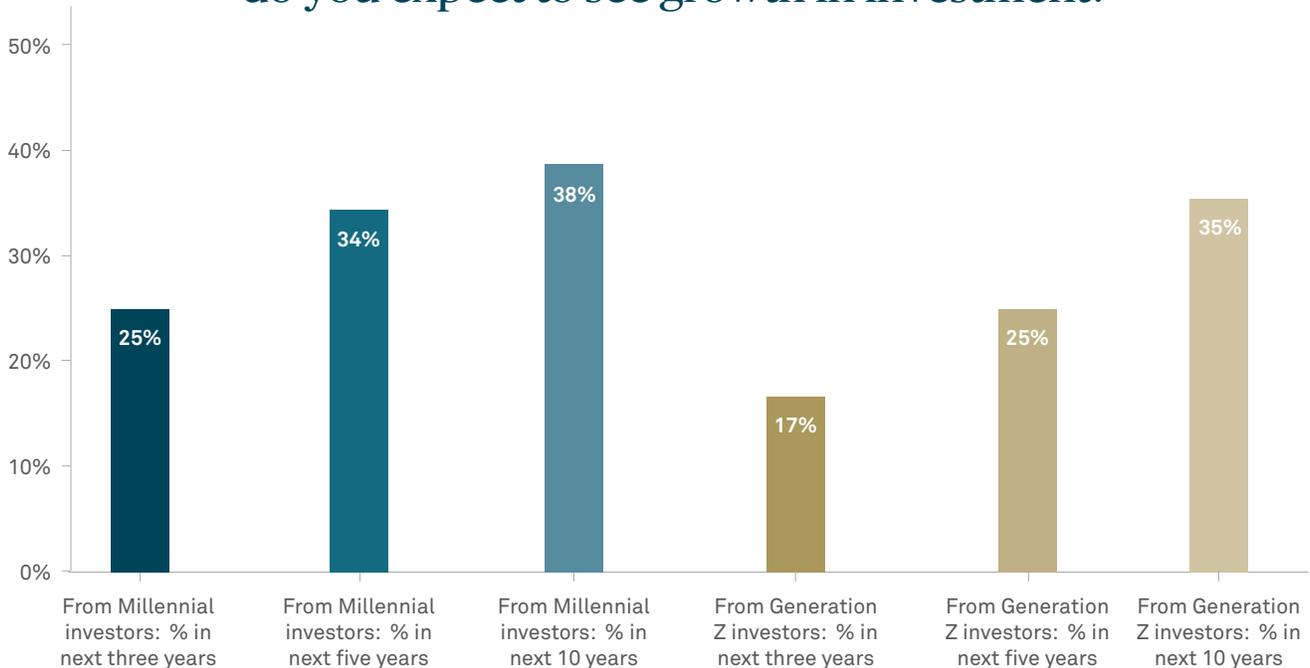
Asset managers are already preparing for the next two generations of investors: Younger Millennials and Generation Z.¹ The impact of these younger investors will be felt as soon as three years out, then intensify over the next ten years. Our survey results indicate that asset managers anticipate the largest growth in investment in the next 10 years from Millennials and Generation Z. These younger generations are also entering the industry as professionals in portfolio management and other functions.

In both cases, they have grown up with digital tools at their fingertips from their early adulthood (for the first wave of Millennials) to their earliest childhood (for the second wave of Millennials and after). They often expect to have products tailored to deliver specific investment outcomes that align with their values and interests.

¹ Per Pew Research Center, millennials typically include people born between 1981 and 1996. Generation Z typically includes people born between 1997 and 2012. Dimock, Michael, "Defining generations: Where Millennials end and Generation Z begins," Pew Research Center, January 17, 2019.



As investor demographics shift, do you expect to see growth in investment?



In the past, innovation often took place at a product-by-product level. Now, it's coming from changing investor needs and internal skillsets transforming the industry across the board.

The survey responses showed that attracting new investor generations requires responding to their expectations for speed, ease, flexibility and seamless access across channels. Beyond being operationally ready to deliver on these expectations, firms should also transform their approach to attracting new, digitally native investment management talent that can serve the needs of new, digitally native clients.

New *Assets*, New *Values*, New *Priorities*

New strategies and alternative asset classes have increasingly moved into the mainstream. As with demographic shifts, these investor demands have amplified the need for new talent and front-to-back transformation.

While passive ETFs have reshaped the industry, asset managers in our survey stated that several active strategies would become more relevant. Two-thirds of asset managers expect to increase their offerings in data-intensive automated quant and smart beta strategies. Active management strategies (61%) and active ETFs (49%) are also on the rise as investors seek options to help them meet specific objectives.

ESG also holds a key place in asset managers' product plans, with half expecting to increase ESG strategies and 40% expecting to increase green bond offerings. These increases reflect a wide range of investor segments seeking investments that align with their values.

For asset classes, the increase in alternatives stands out—72% of respondents expect to increase their offerings across hedge funds, private equity, private debt, infrastructure and real estate vehicles.

Further, the survey results told us that Institutional clients are also seeking alternatives to the traditional 60/40 equities/fixed-income split to gain exposure tailored to their risk tolerance and performance expectations. Multi-strategy mandates and separate, customized accounts are rising in popularity. At the same time, retail clients are looking for holistic financial plans that align with specific life events or objectives.

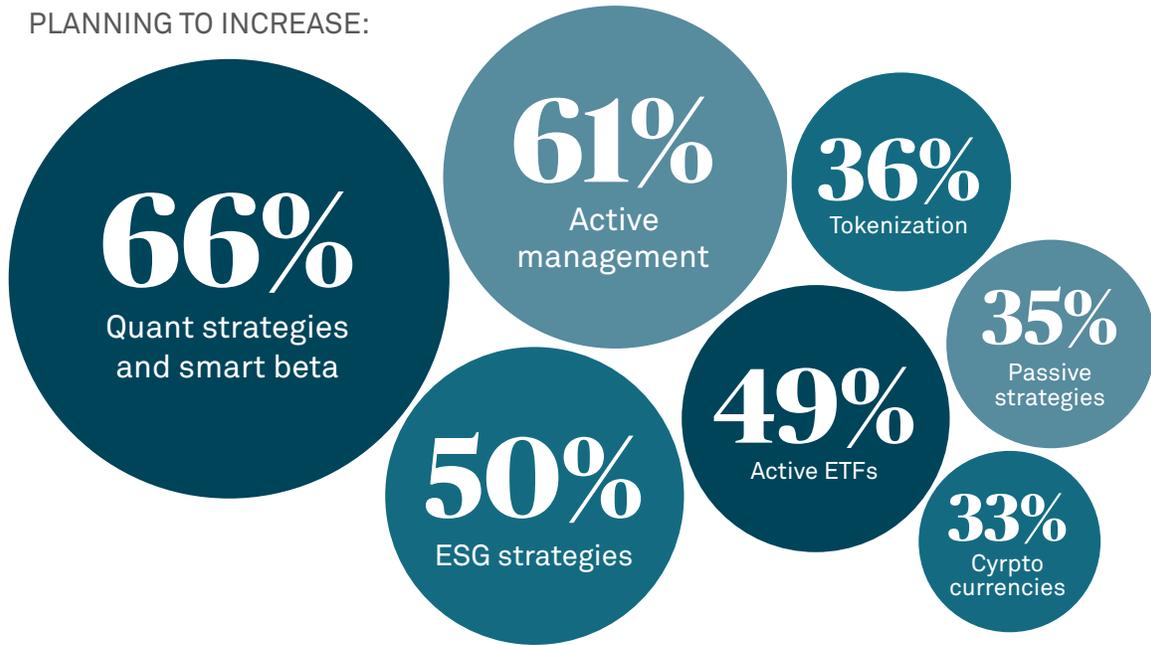
“These new and growing investor audiences are tech-savvy and prefer to associate with companies with the same mind frame. Moreover, they are more inclined to invest in companies with a comprehensive ESG framework. Teams are determining plans based on these criteria.”

— U.S.-based Chief Investment Officer



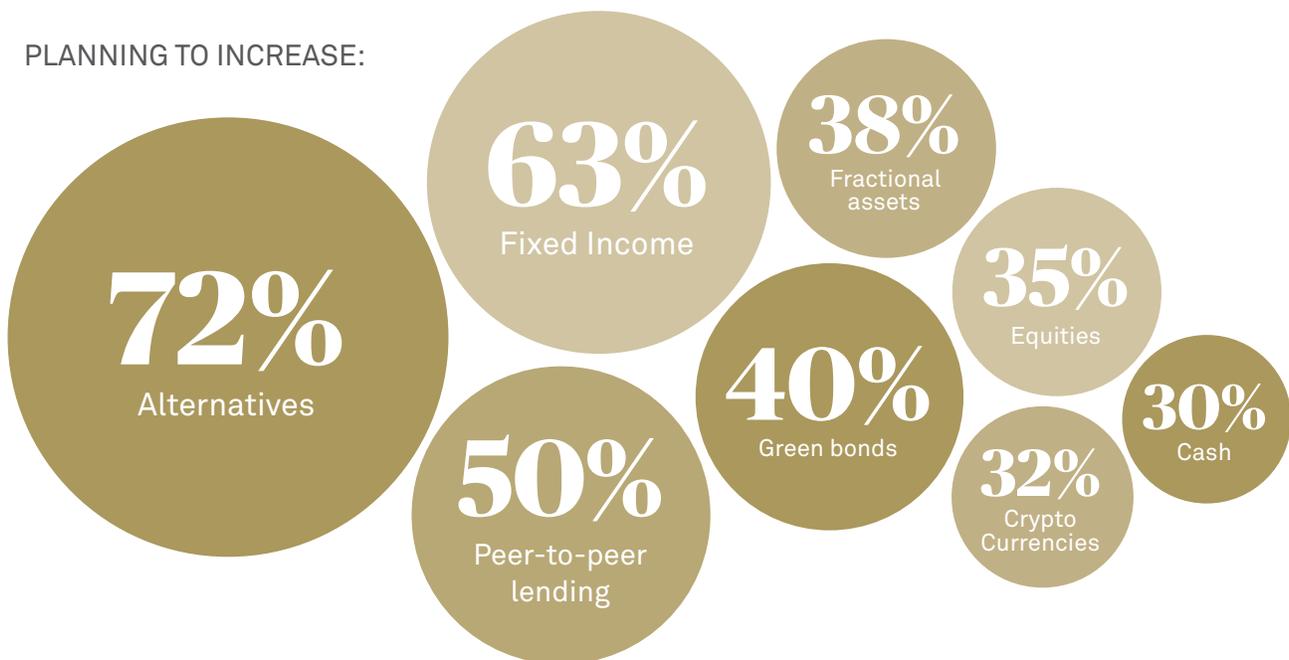
How do you expect your organization's offerings of the following strategies and vehicles to change over the next five years?

PLANNING TO INCREASE:



How do you expect your organization's offerings of the following asset classes to change over the next five years?

PLANNING TO INCREASE:



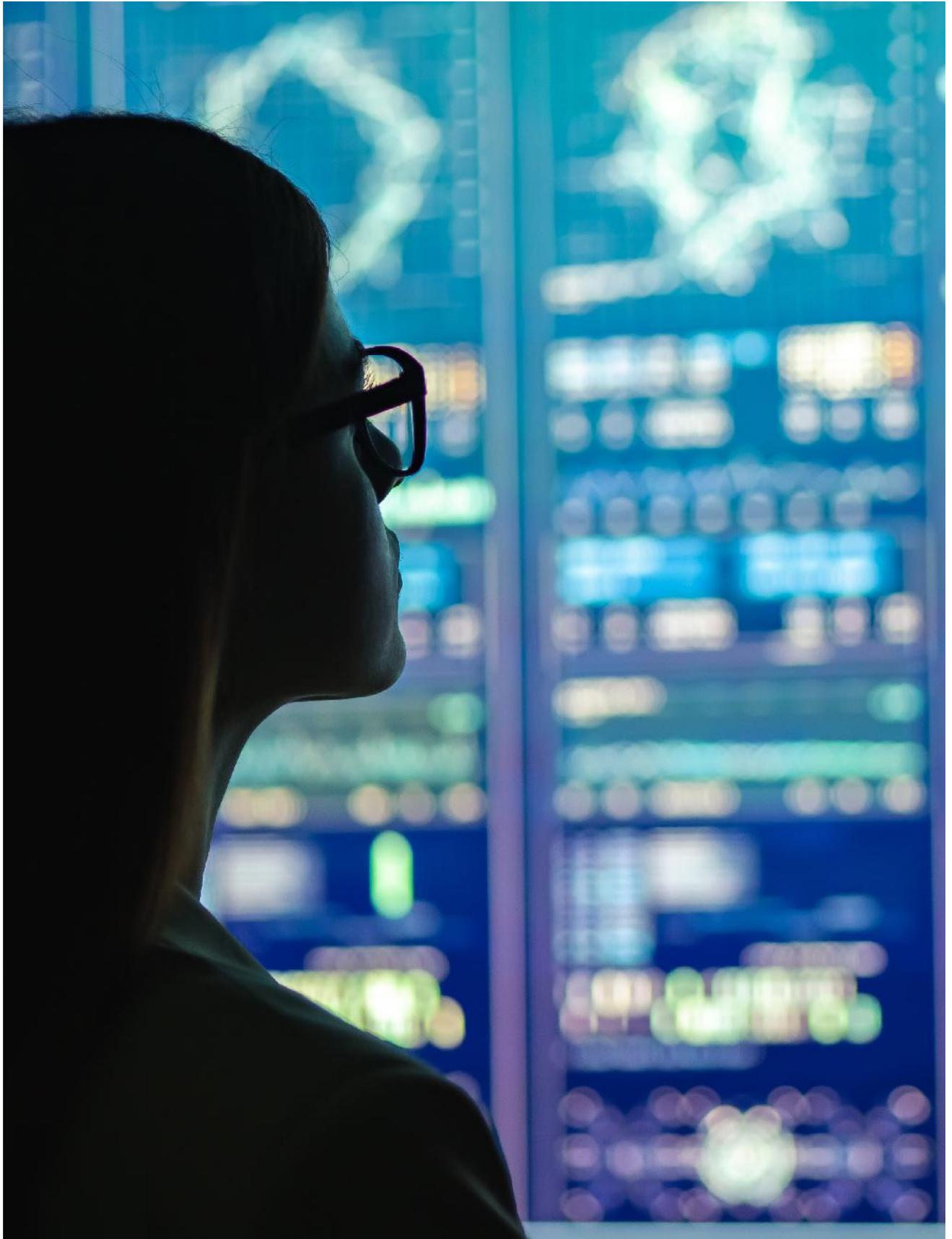
“Investors are becoming savvier because they have more tools and analytics at their disposal. Overall, we’ll see growth in outcome-based investing, and that really turns the industry on its head. It’s a completely different way of thinking.”

— Ileana Sodani,
Global Head of Client Sales, BNY Mellon

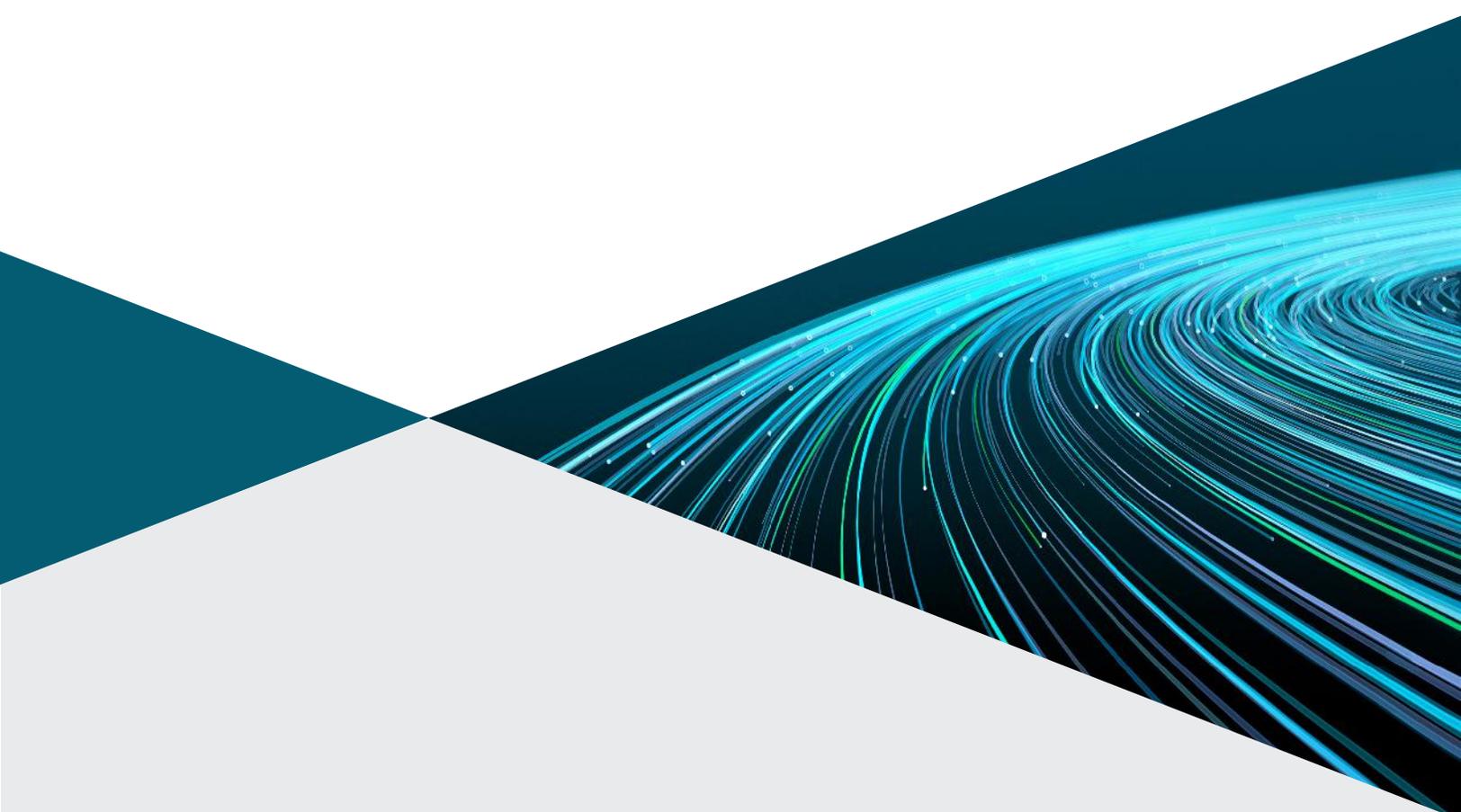


These new assets, values and priorities bring data and technology questions to the forefront. Most alternative investments (except hedge funds) and ESG strategies produce large volumes of unstructured data. To offer compelling products in these areas, asset managers need the ability to analyze effectively, identify opportunities, make investment decisions, monitor portfolios and report to investors. In addition, alternatives and ESG require specialist expertise and have historically needed separate technology solutions. As a result, they are only adding to the complexity of asset management operations.

These changes in both investors and investment managers represent a significant realignment of the product lineup. Launching and then managing a suite of asset classes and products encompassing traditional and alternative investments will require new skills, such as data science techniques and insights. Asset managers will also need to leverage data science to create innovative solutions that more closely meet client needs while delivering specific investment outcomes.



The Distribution Game Has *New Rules*



The increased adoption of new technologies is shaking up the way asset managers distribute their products. The pandemic has further highlighted inefficiencies in distribution models and underscored the need for digitalization and innovation. How can managers up their distribution game?

Asset managers must contend with increasingly complex data management and technical infrastructure imperatives to survive and thrive in the industry's future. Those underlying topics affect their ability to bring compelling new products to market with emerging investor segments, new asset classes, and changing preferences for investment approaches (see *The Product Lineup is Realigning*).

Fundamental changes in distribution add to the pressure of data and technology's impact. With these changes come new channels and new rules for bringing investment offerings to market.

Per our analysis, several of the broader industry trends propelling fundamental change in distribution include:

- Reduced minimum ticket sizes as a result of growing retail distribution.
- Savers shifting to defined contribution pension plans.
- New geographies coming into the investment products arena, including emerging markets.
- Investors shifting towards lower-fee products (such as passive ETFs) and alternatives.
- New product launches that mean asset managers face much greater competition for shelf space with intermediaries.
- Intermediaries reducing the number of products they offer, focusing on players of scale who can offer customizable solutions.

“Plans to accelerate distribution through enhanced digital standards have been influenced by COVID-19. We’ve had to implement plans earlier than expected, because of social distancing norms and the overall threat to employees. Dealing with the competition at the same time the market conditions are changing has impacted our decisions.”

—U.S.-based Chief Investment Officer



Changing Channels

Will Require New Skills

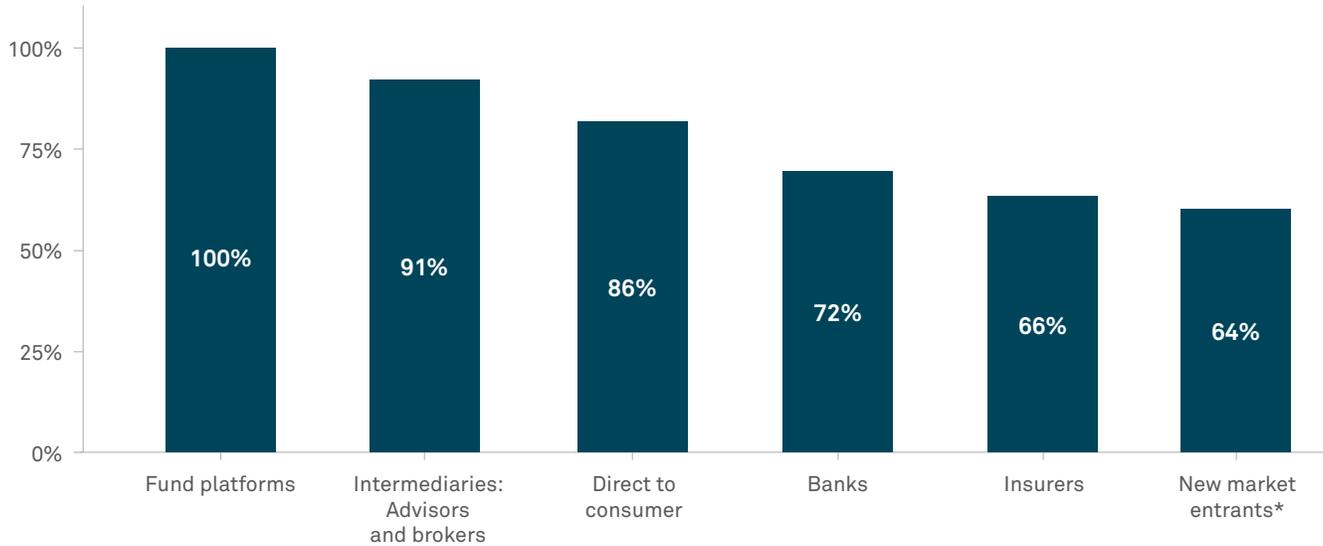
Shifts in distribution channels were already underway before the pandemic, but as we show below, our research suggests COVID-19 has only hastened the demise of more traditional models. We expect self-service and digital platforms to continue to replace in-person meetings with financial advisors even as the pandemic's impacts ease.

Throughout our research, survey responses of 200 global asset managers loudly echo these trends, as distribution channels look set for a shake-up. Currently, a full 100% of respondents use fund platforms, and 91% distribute via advisers and brokers. Usage of these channels will either increase or stay the same over the next three years.

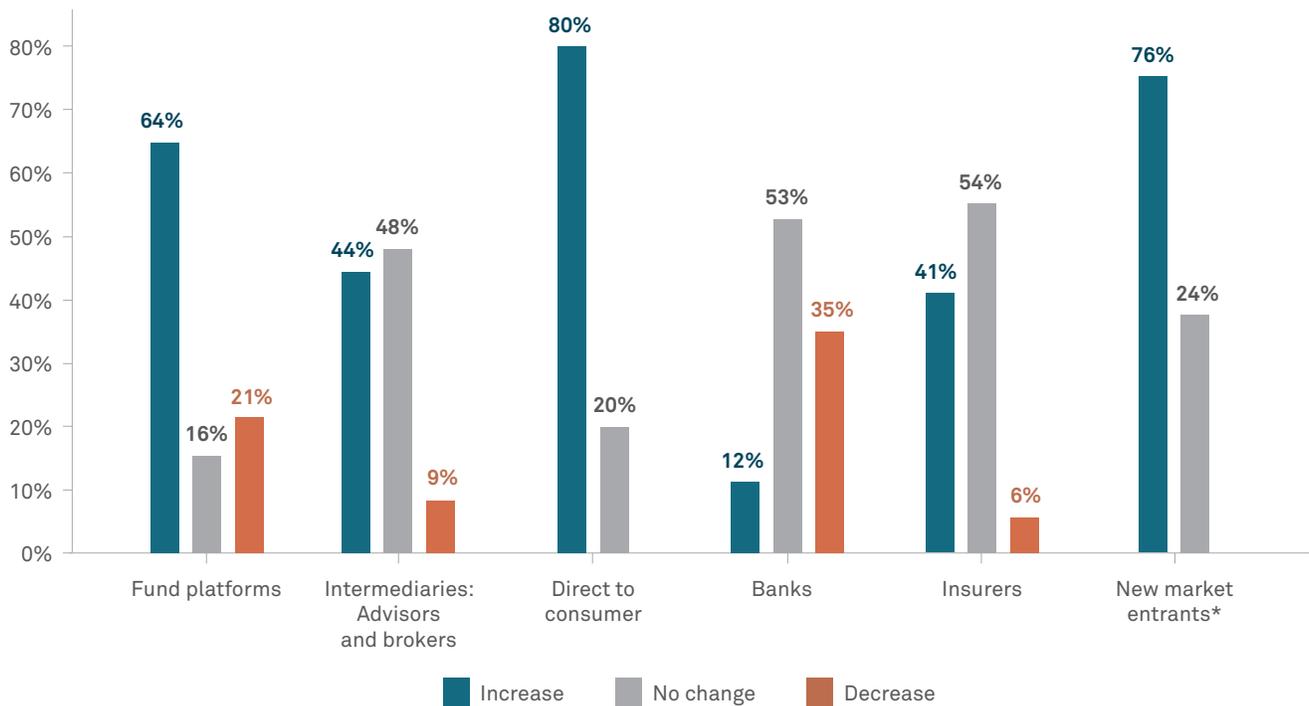
Our research also indicates that traditional channels will also sit side-by-side with channels that will experience dramatic growth. Large majorities of respondents expect direct-to-consumer distribution (80%) and new market entrants (76%) to increase over the next three years.

These growing channels present new criteria for success in the market. Attracting new clients will depend increasingly on brand recognition. New investors expect seamless, user-friendly interfaces with a strong focus on mobile access and information delivery with the user experience of social media and messaging platforms. Meeting such expectations goes beyond good interface design; data and technology should also deliver seamless experiences in websites and apps.

What channels do you currently use to deliver your products to your target market?



For those channels, do you expect to see an increase, no change or decrease in use in the next three years?



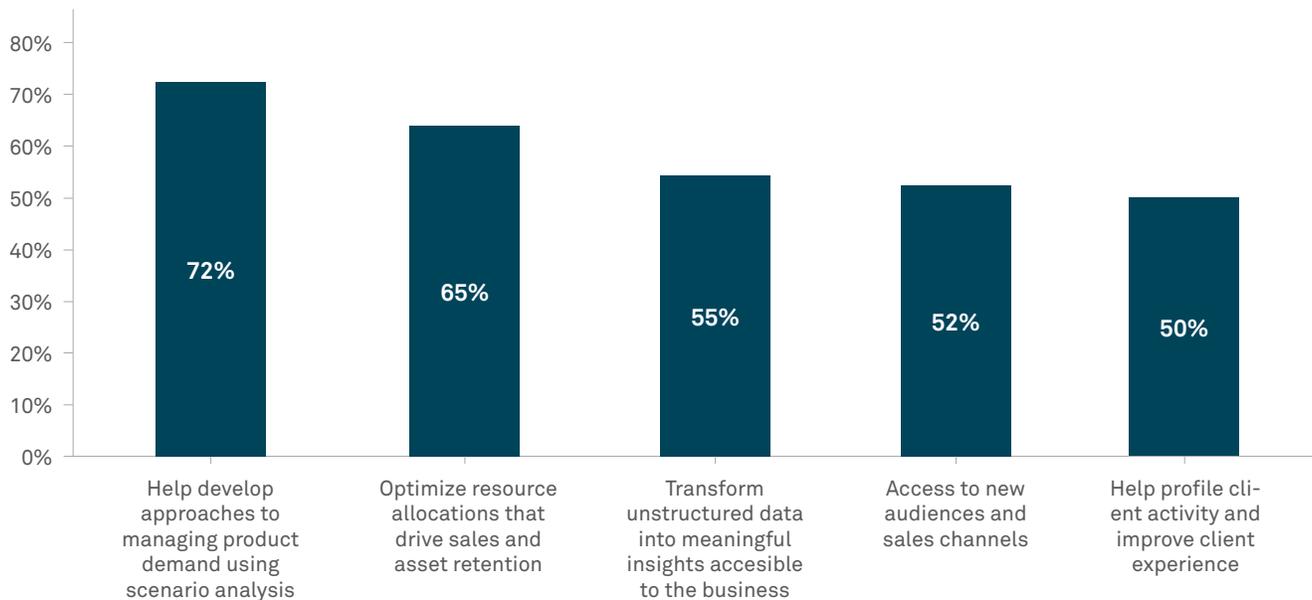
*Inclusive of fintech, tech and those currently outside the distribution market but are actively looking to access investors.

Digital, Data-Driven *Distribution*

The increased complexity of using a mix of distribution channels obliges asset managers to hone their digital capabilities at every level. Beyond the investor experience, use of data insights can help to ensure that asset managers can target products and solutions across channels effectively, efficiently, and at lower cost.

As discussed in our chapter on digital priorities above, 83% of respondents are seeking to deploy digital capabilities for product distribution, and 66% are doing the same for data analysis and insights.

Based on your experience, how has or how will technology and advanced data science techniques improve distribution for your organization?





“The top trend will be the integration of new digital technology into various asset management functions. Distribution and client management will come to rely on technology for maximum output.”

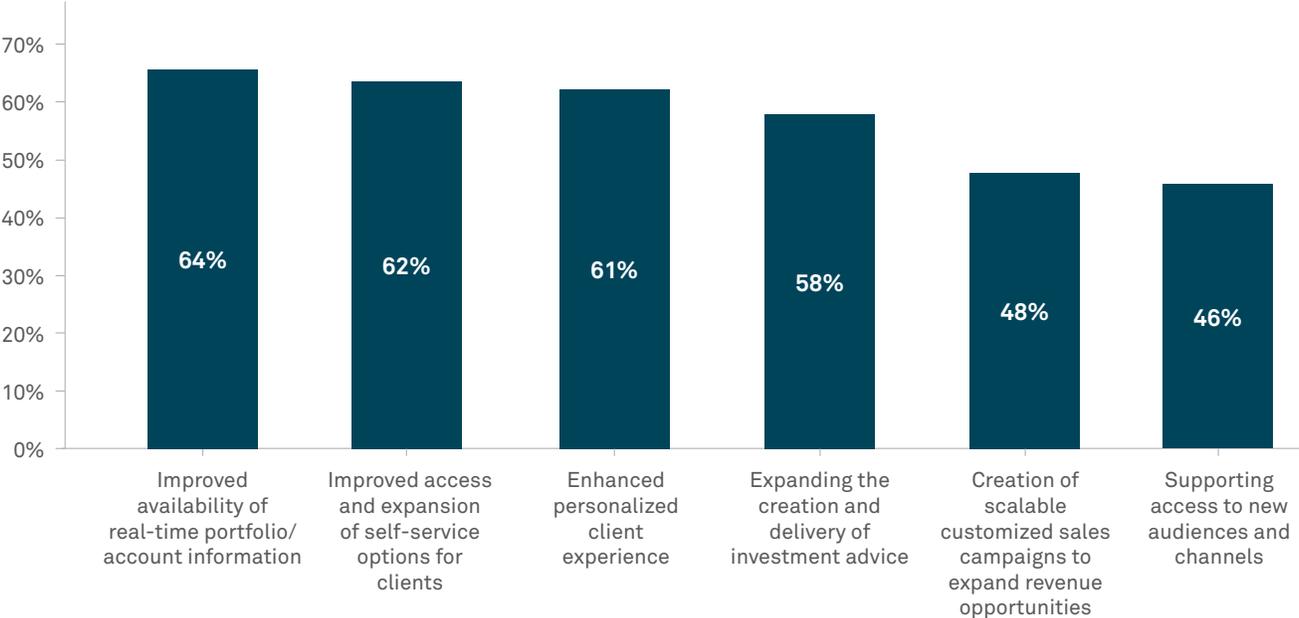
 **U.S.-based CTO**

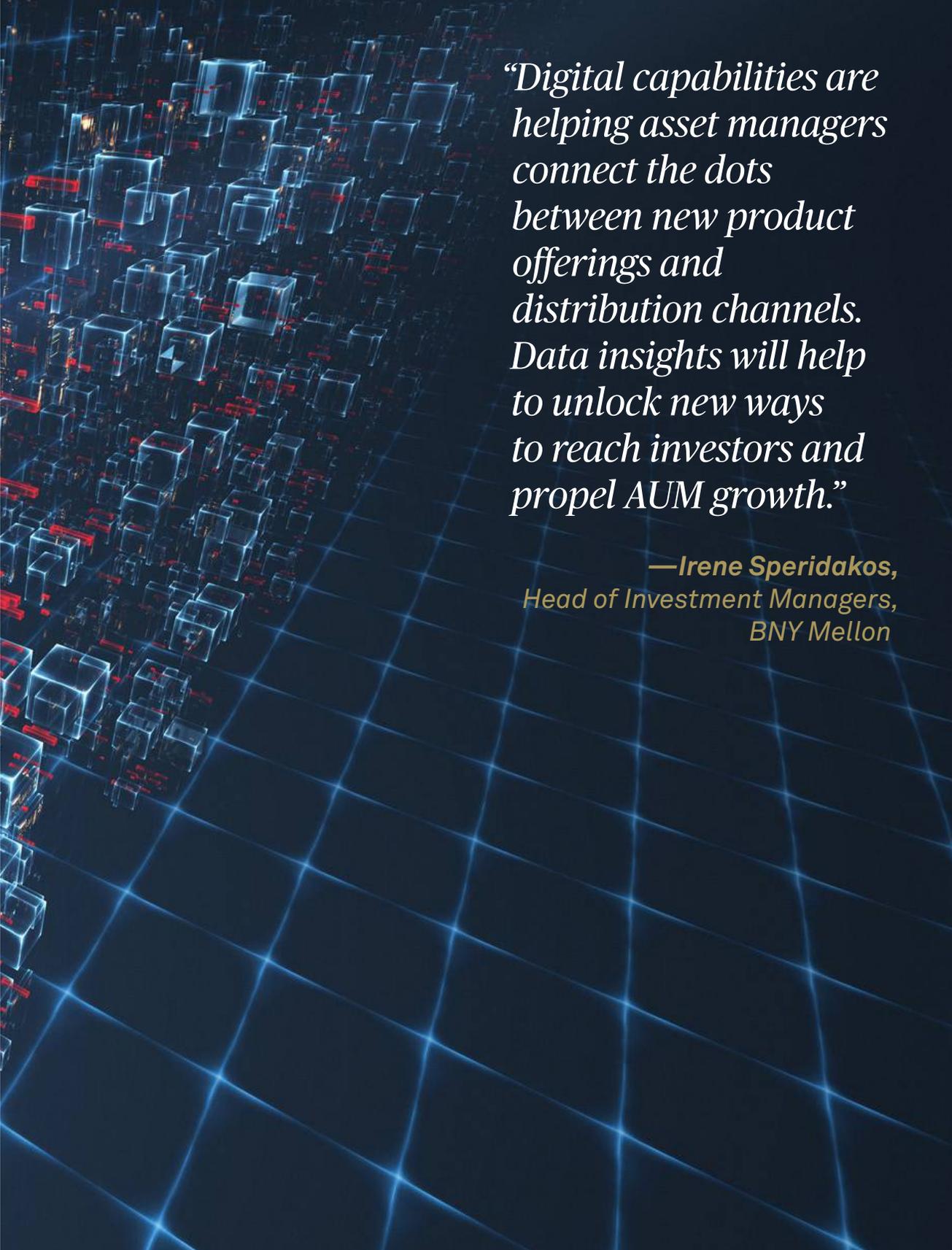
Data science techniques help asset managers create more innovative, more customizable solutions for clients. Nearly three-quarters (72%) of respondents in our study say they use or will use these to help develop approaches to manage product demand using scenario analysis. In addition, 65% say such approaches can help optimize resource allocations that drive sales and asset retention.

The rise of alternatives also entails increased use of data science techniques. Alternatives are less quantitatively driven than traditional investment types. More than half (55%) of respondents believe data science can assist with transforming unstructured data into meaningful insights.

When it comes to supporting distribution through digital channels, survey respondents call out four main areas: improving real-time portfolio and account information (64%), improving access and self-service options for clients (62%), enhancing the client experience through personalization (61%), and expanding the creation and delivery of investment advice

In what ways are you planning for your digital capabilities to help drive distribution?





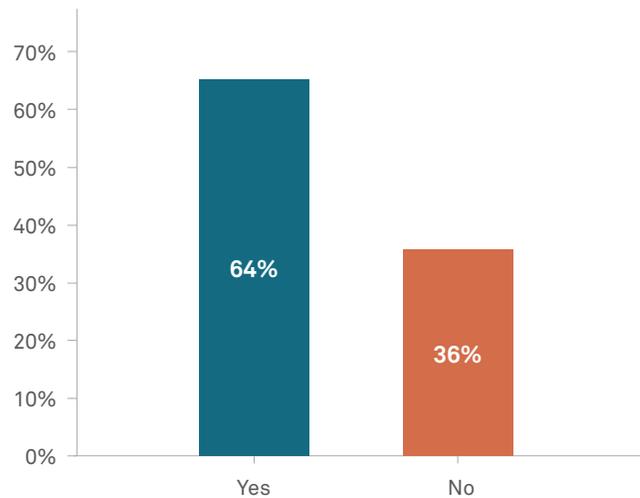
“Digital capabilities are helping asset managers connect the dots between new product offerings and distribution channels. Data insights will help to unlock new ways to reach investors and propel AUM growth.”

*—Irene Speridakos,
Head of Investment Managers,
BNY Mellon*

New Rules *Require Teamwork*

As with other trends covered in our research, asset managers may need to find ways to concentrate their focus onto their core competencies. To accomplish this, they may need access to non-core capabilities through providers that specialize in these areas. Our survey respondents say they are looking to service providers to help them play by these new, technically sophisticated distribution rules. They name distribution channels (71%) and distribution support services (64%) as the most sought-after expertise from third-party service providers.

Do you expect your service providers to offer distribution support services?



If yes, within which of the following areas?

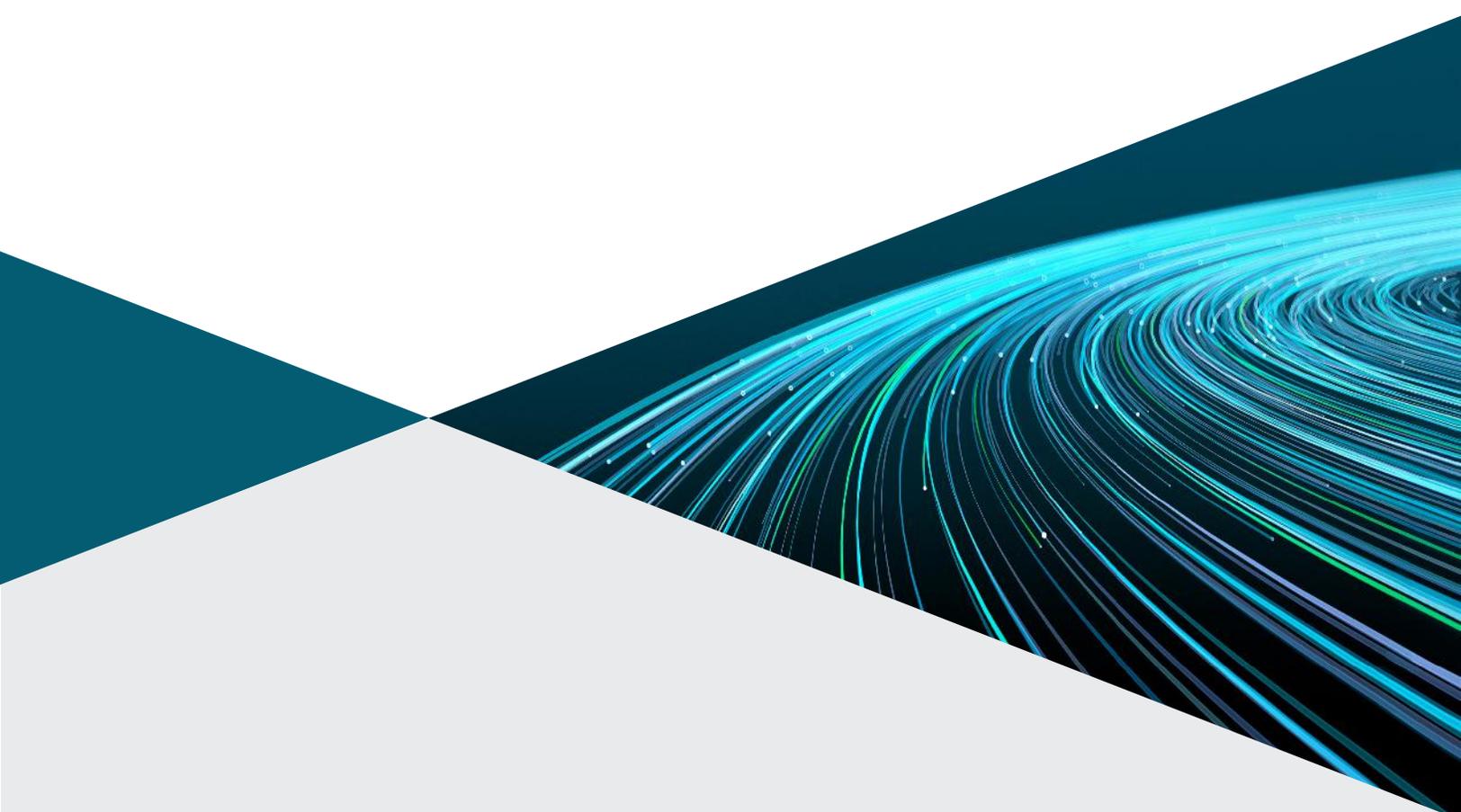


Distribution support services can play a significant role in addressing the many levels of newness in the industry. They can also help asset managers tap into new markets and segments and evolve to meet future needs.

“The most progressive asset managers are becoming more ingrained in the portfolio construction process so they can offer products, solutions, or sleeves that can add specific dimensions to what financial advisors are trying to achieve. It’s no longer about sales; it’s built around investor outcomes.”

—Dennis Kelleher, BNY Mellon

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.

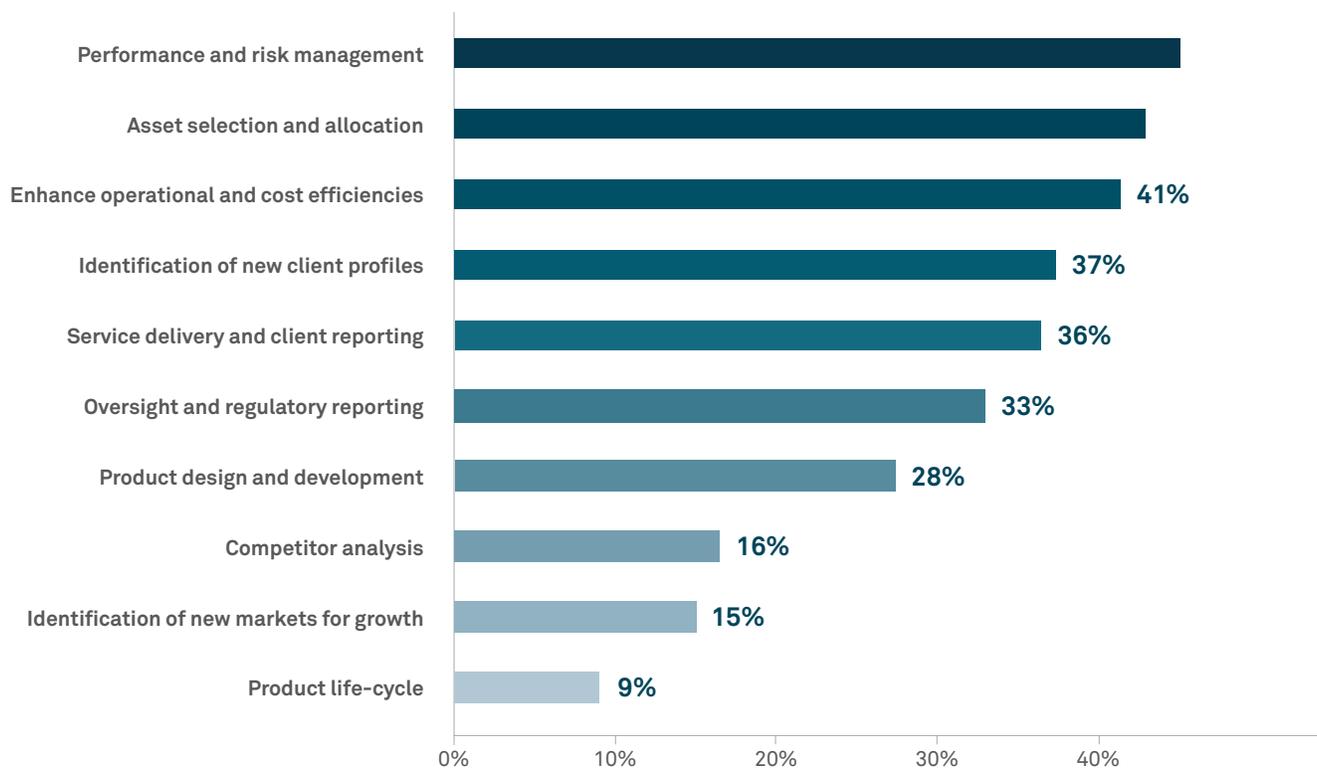
The first chapter of our series “Asset Management: Transformation Is Already Here,” focused on the core as the primary asset management industry trend to follow. As evolutionary pressures have built up to a point of no return, we return to this theme by way of conclusion.

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.

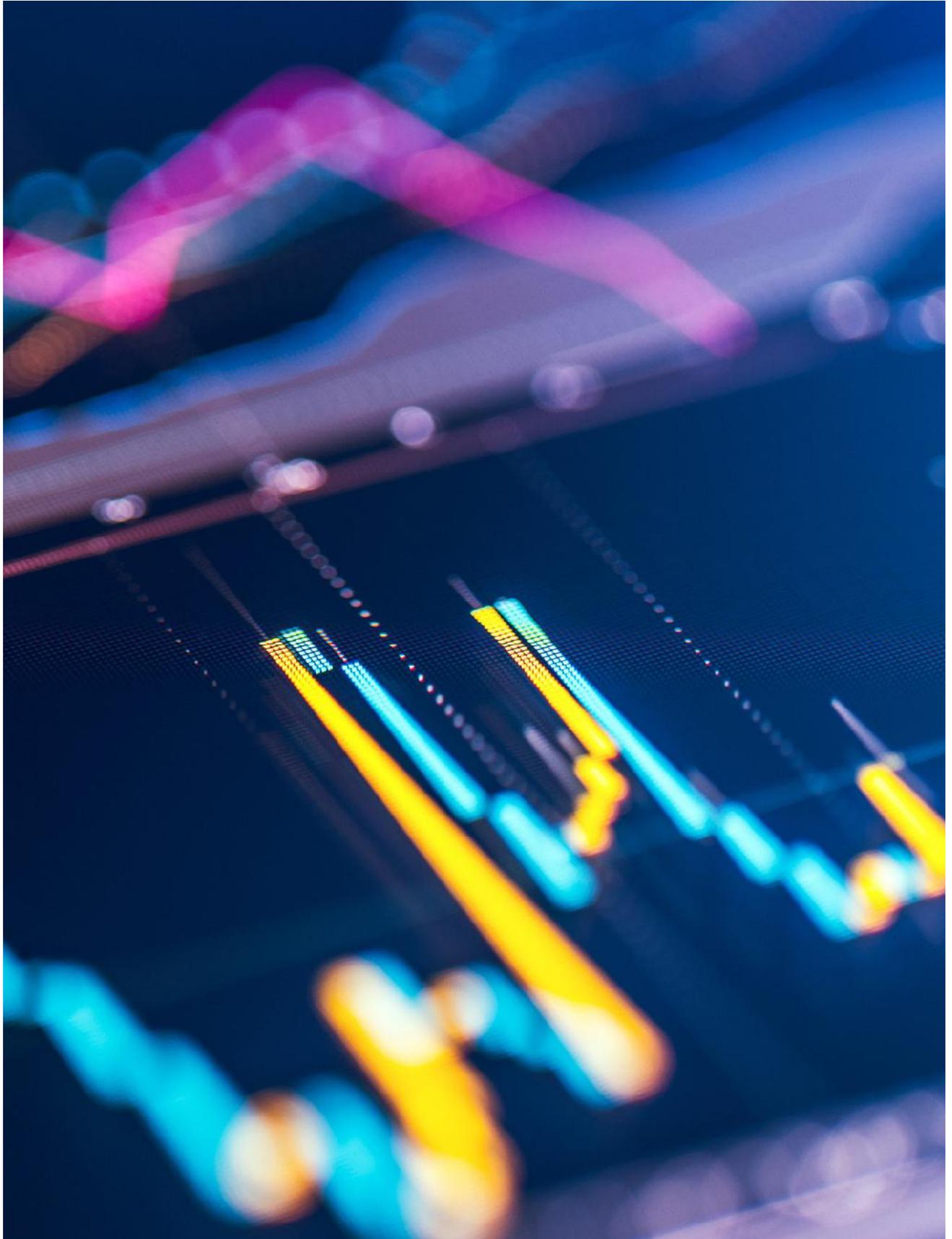
All of these trends contribute to the need for greater operational resiliency. As we discussed in “Data Determines Destiny,” the top use cases for deploying data analysis are performance and risk management (45%) and asset selection and allocation (43%). Enhancing operational and cost efficiencies (41%)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

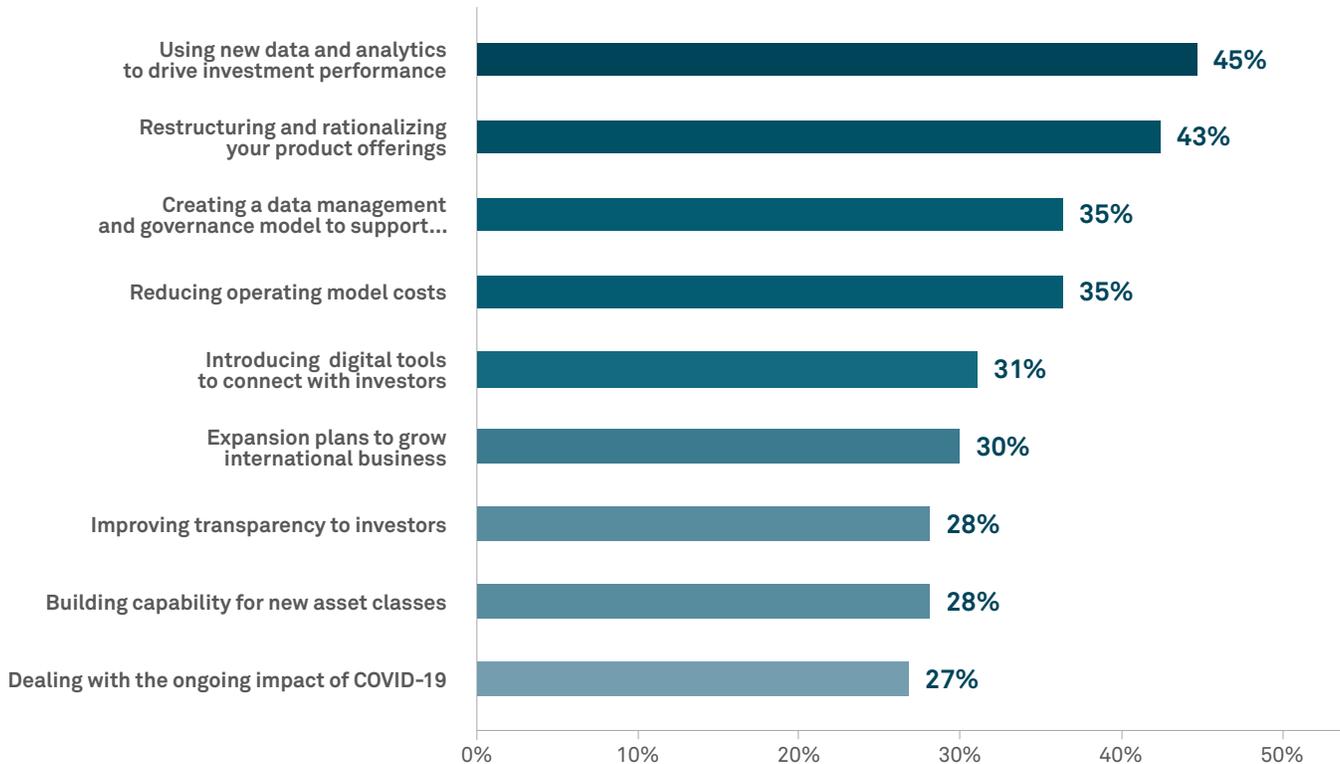


These findings align with what respondents said about their strategic and operational priorities. Respondents called out imperatives such as using data and analytics to drive investment performance (45%) and rationalizing product offerings (43%). Other notable growth drivers included introducing digital 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.

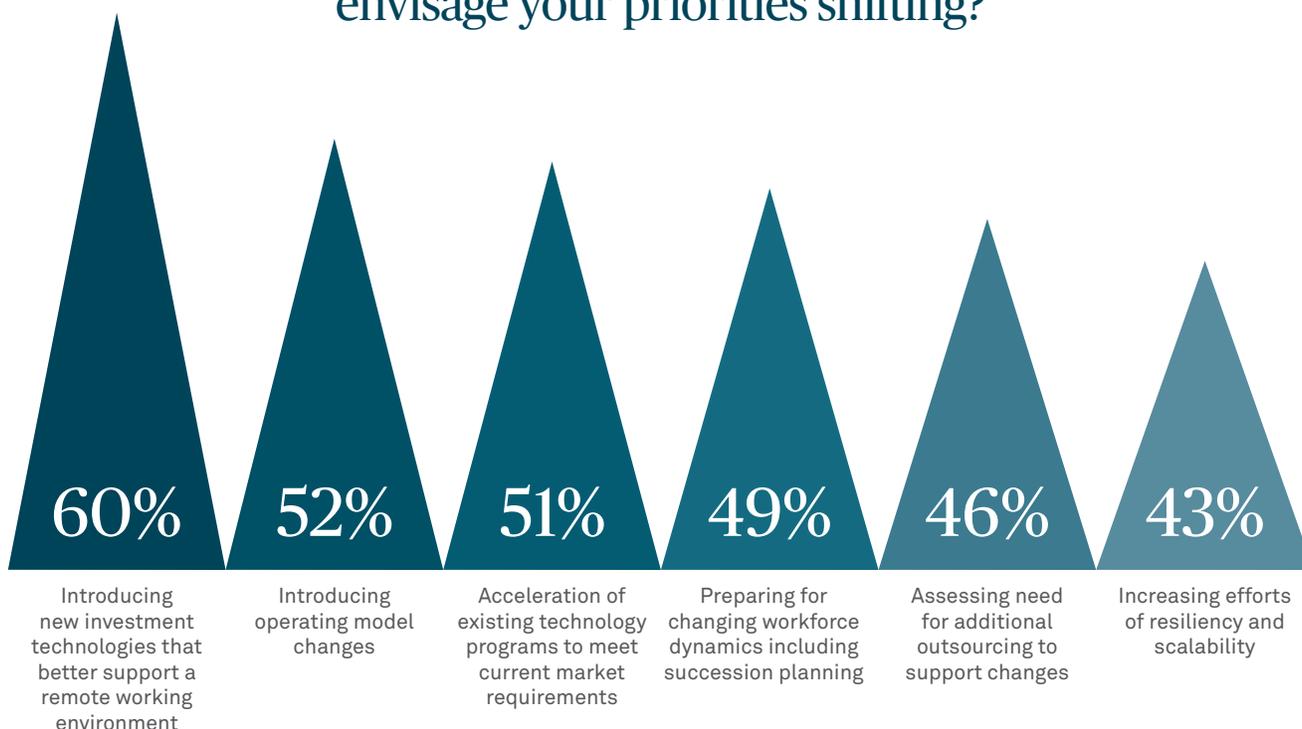
“Legacy platforms asset managers currently use will be left behind as new digital concepts are introduced to the market. The technology landscape is changing rapidly, and implementation can bring about improvements across the board, from governance to investment returns.”

—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 the viewer. The background is a dark, abstract digital space filled with glowing blue lines and nodes, resembling a network or data flow. The lighting is dramatic, with the hand and the glowing elements being the primary light sources against a black background.

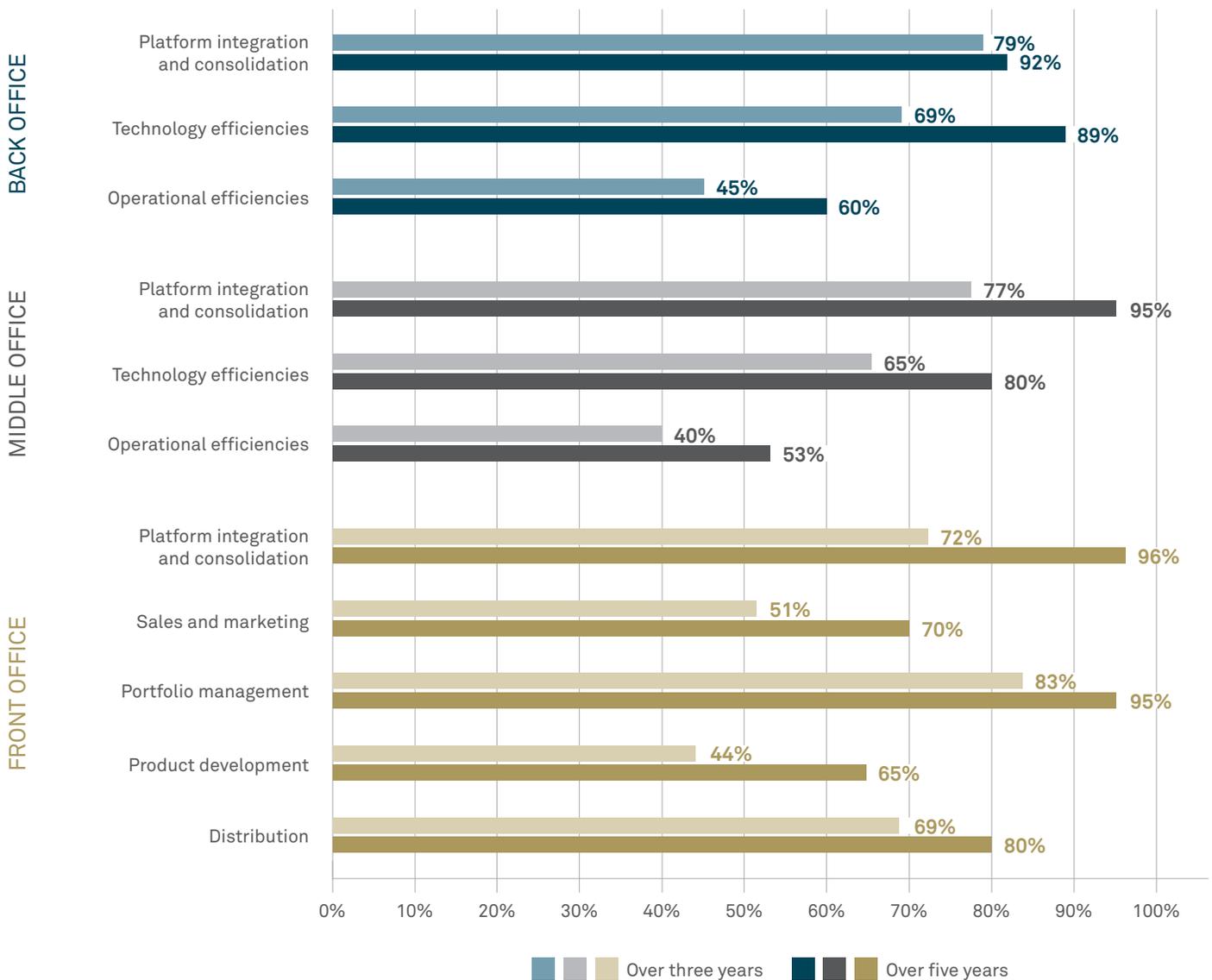
“Asset managers want to offload low value-add activities – everything after the investment decision – so they can focus on what they do best and remain agile.”

*—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.

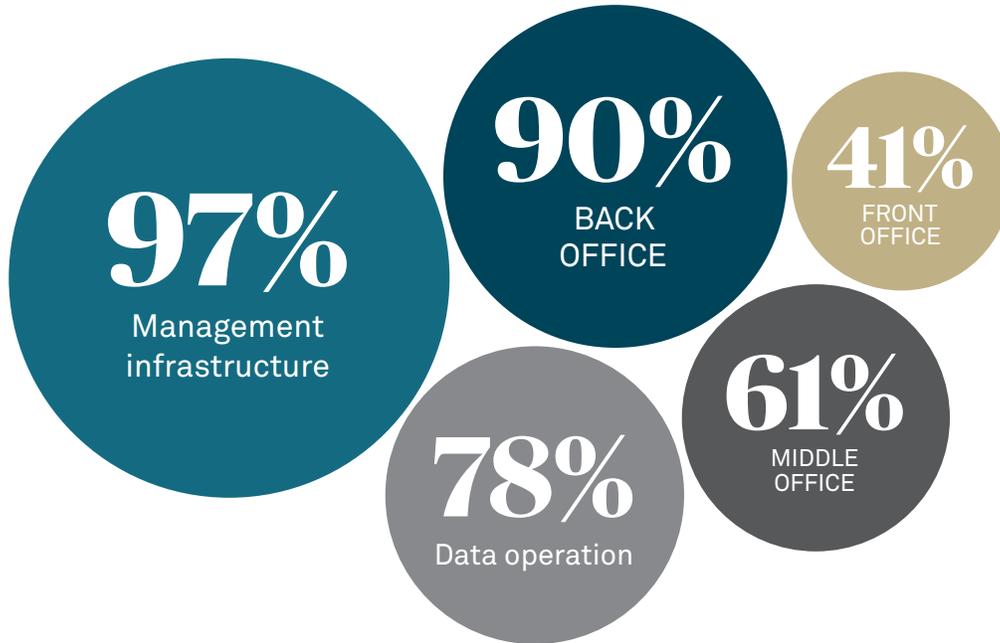
Getting Back *to the Core*

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).

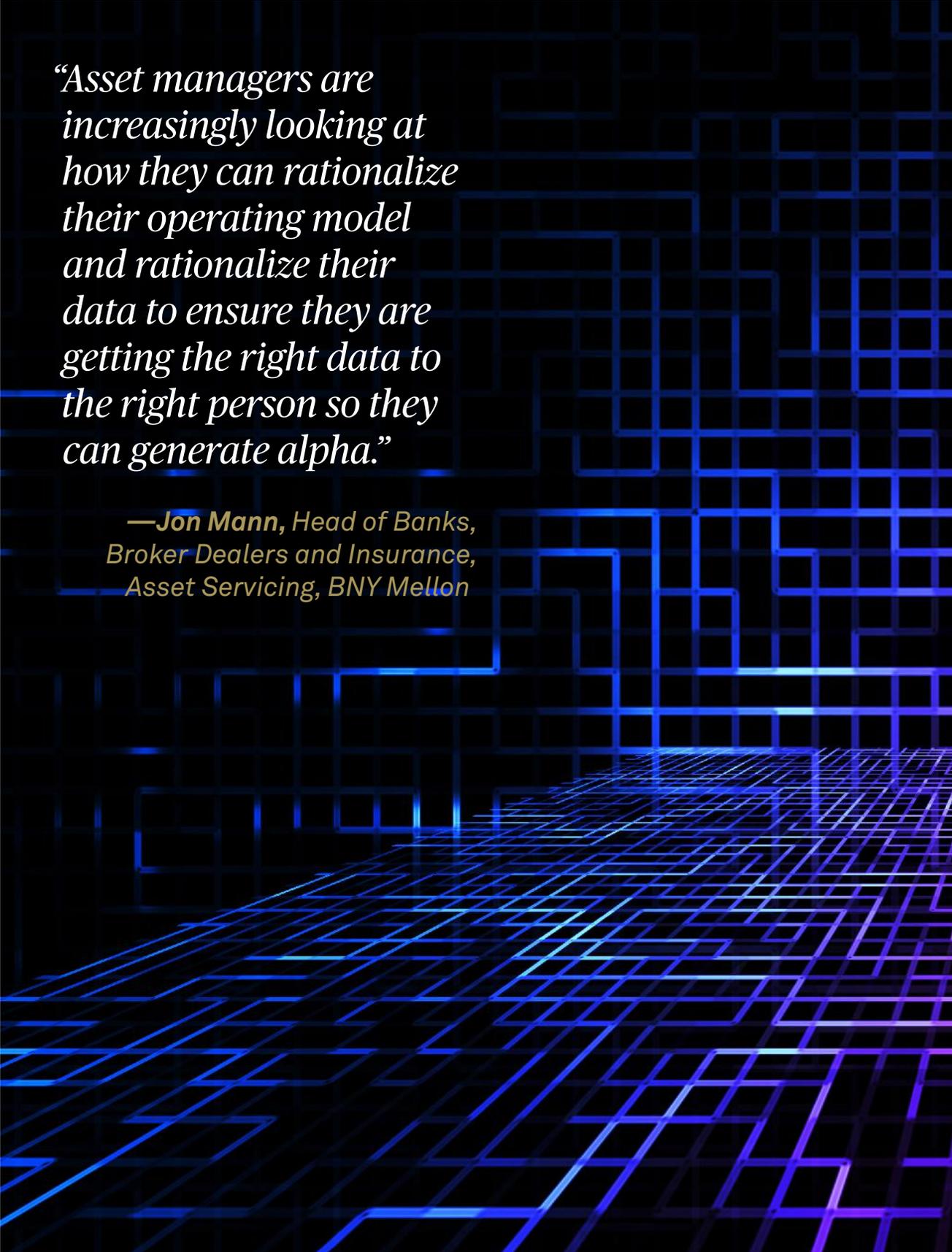
Investment in data management and analytics such as data aggregation, data warehousing and data lakes will contribute to these trends; all of these approaches allow for more seamless access across the organization and by trusted third parties.

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.



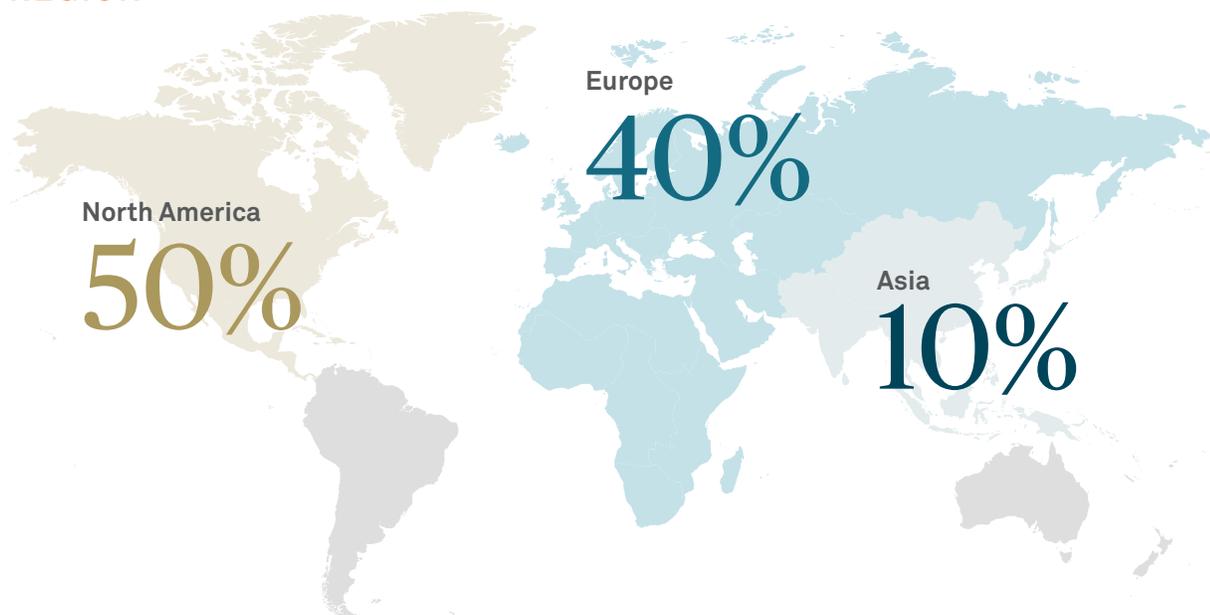
“Asset managers are increasingly looking at how they can rationalize their operating model and rationalize their data to ensure they are getting the right data to the right person so they can generate alpha.”

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

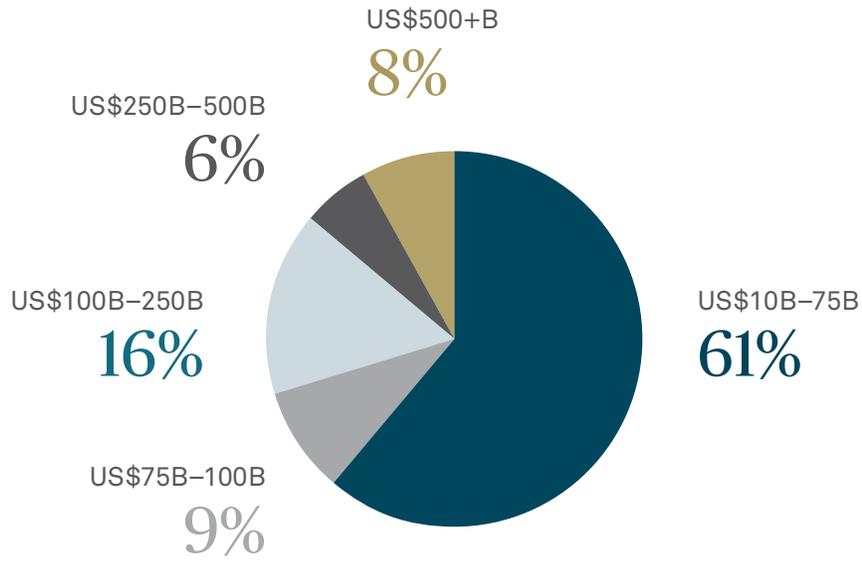
Appendix: *Methodology*

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



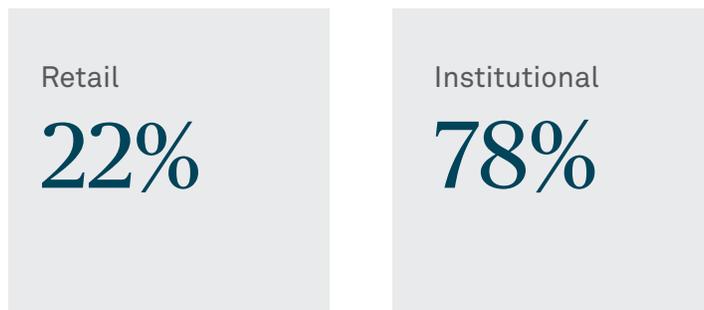
ASSETS UNDER MANAGEMENT



TYPE OF FIRM



CLIENT BREAKDOWN



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The Bank of New York Mellon SA/NV operates in Ireland through its Dublin branch at Riverside II, Sir John Rogerson's Quay Grand Canal Dock, Dublin 2, D02KV60, Ireland and is registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E. The Bank of New York Mellon SA/NV, Dublin Branch is subject to limited additional regulation by the Central Bank of Ireland at New Wapping Street, North Wall Quay, Dublin 1, D01 F7X3, Ireland for conduct of business rules and registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E.

The Bank of New York Mellon SA/NV is trading in Germany as The Bank of New York Mellon SA/NV, Asset Servicing, Niederlassung Frankfurt am Main, and has its registered office at MesseTurm, Friedrich-Ebert-Anlage 49, 60327 Frankfurt am Main, Germany. It is subject to limited additional regulation by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany) under registration number 122721.

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