

Asset Management: *Transformation Is Already Here*

The Industry's Data-Driven Future Has Arrived



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?

In the previous chapter of [“Asset Management: Transformation Is Already Here,”](#) called “Digital Imperatives Dominate,” 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.

“Customization and multi-strategy mandates, combined with the rise of alternatives, are adding operational complexity for asset managers.”

— Alan Flanagan,
Head of Fund Services, BNY Mellon



Digital Natives *on the Rise*

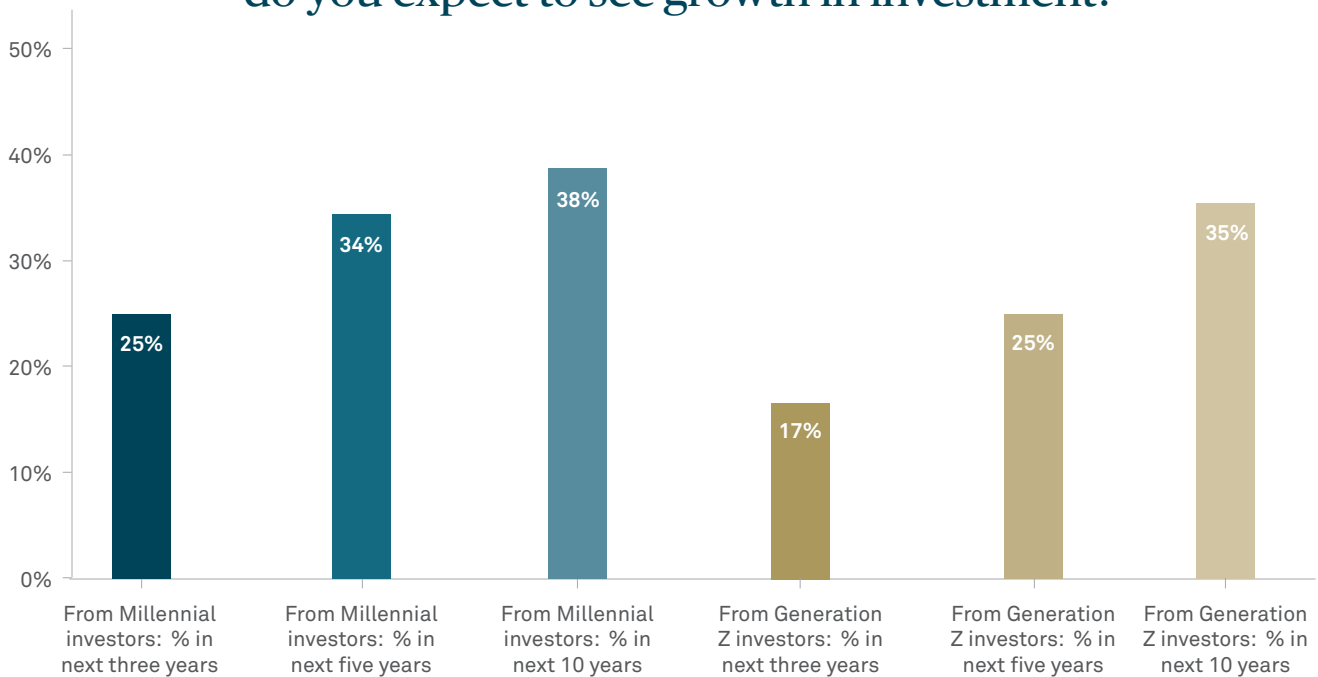
Asset managers are already preparing for the next two generations of investors: Younger Millennials and Generation Z.¹ The impact of these younger investors will be felt as soon as three years out, then intensify over the next ten years. Our survey results indicate that asset managers anticipate the 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.

“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



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.

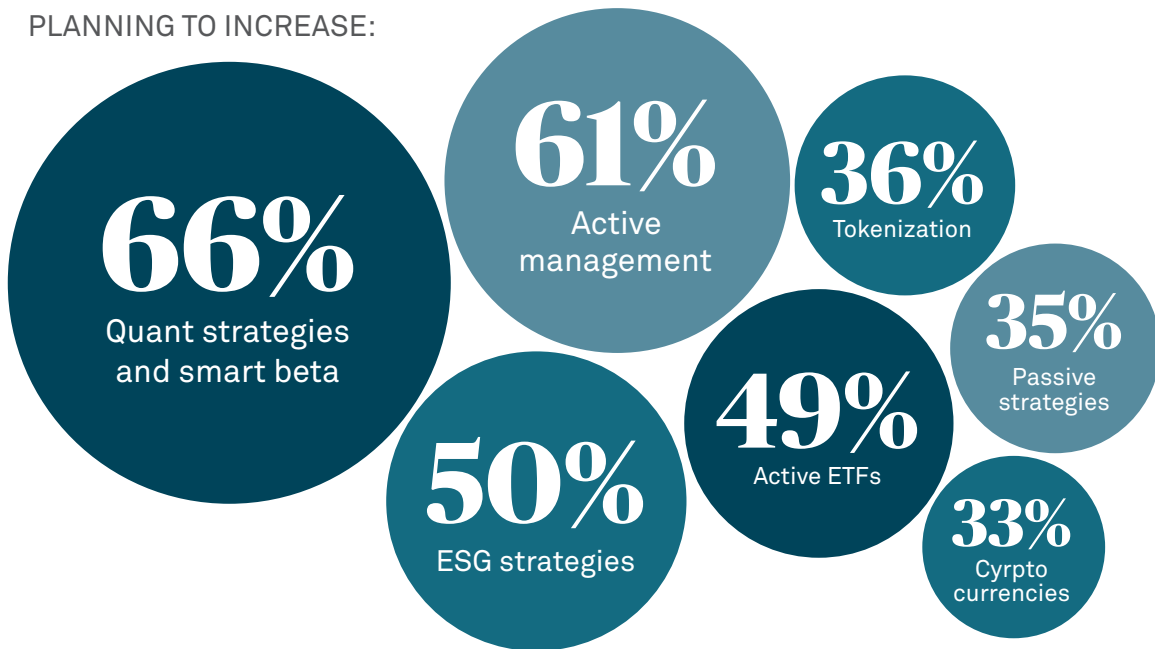
ESG also holds a key place in asset managers' product plans, with half expecting to increase ESG strategies and 40% expecting to increase green bond offerings. These increases reflect a wide range of investor segments seeking investments that align with their values.

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.

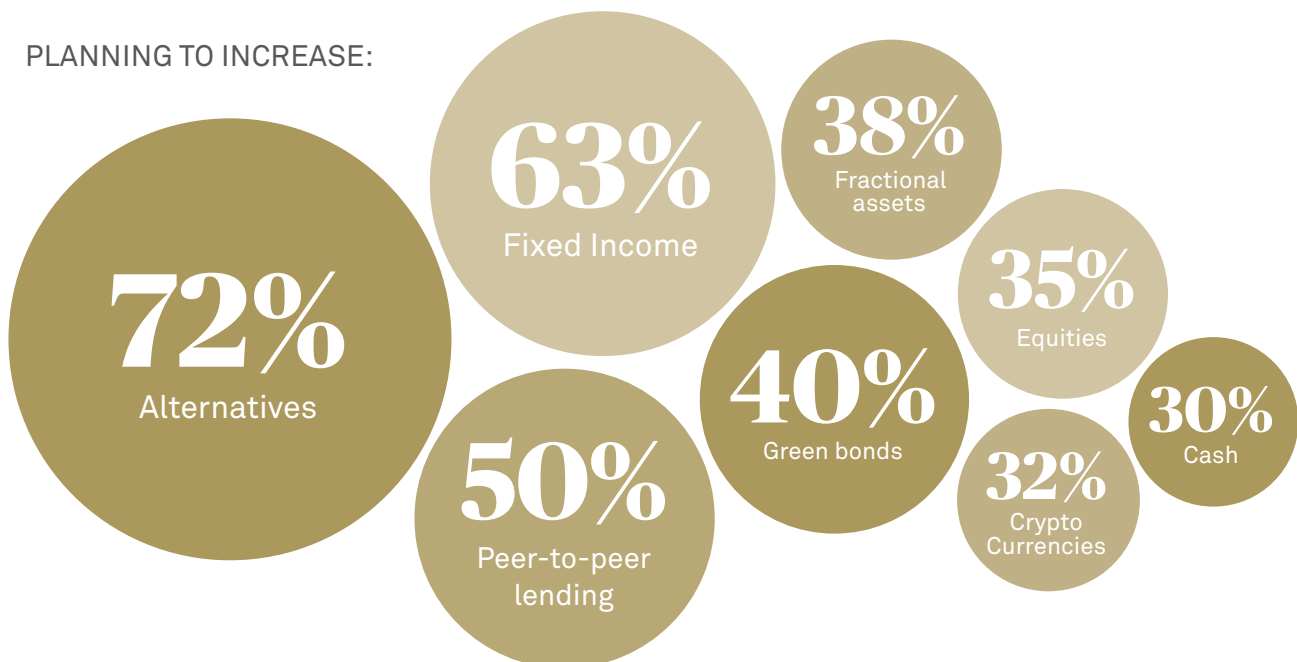
How do you expect your organization's offerings of the following strategies and vehicles to change over the next five years?

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.”

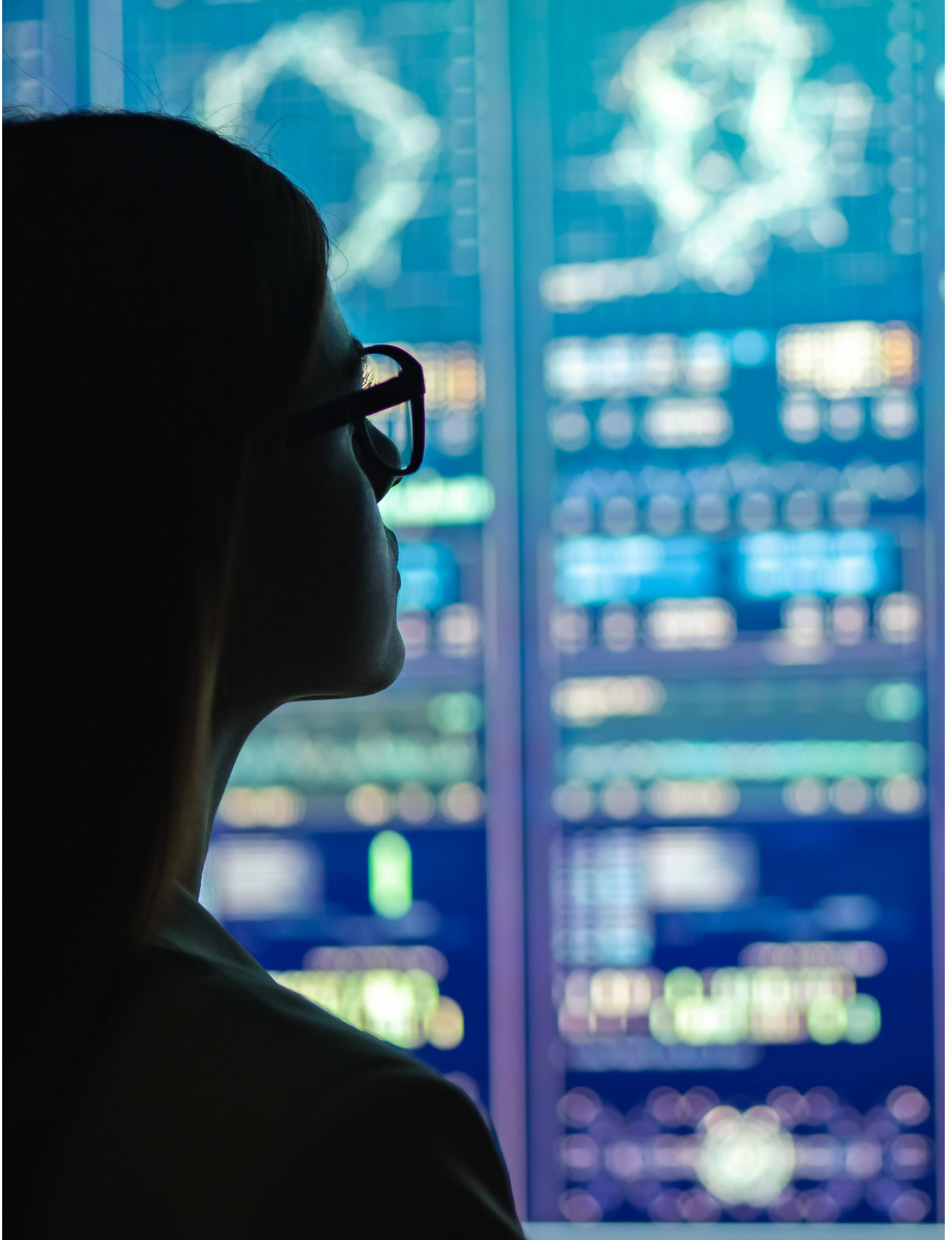
— Ileana Sodani,
Global Head of Client Sales, BNY Mellon



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.

Furthermore, asset managers will need new ways of distributing these offerings to investors. In the next chapter of “Asset Management: Transformation Is Already Here,” we will focus on findings and analysis from our research on distribution. The changing world of distribution compels asset managers to root out inefficiencies in the quest for greater reach in a competitive marketplace.



In Case You Missed It

Here is what we covered in previous chapters of our wide-ranging study:

- **Overview:** Fundamental changes in the asset management industry have been building for some time. Our Overview chapter provides the key findings of our research study covering 200 asset managers around the globe. One clear message emerged – these changes have reached a point of no return.
- **Data Determines Destiny:** Explores the challenges and opportunities presented by data management and analysis, from data mountains to data lakes.
- **Digital Imperatives Dominate:** Find out what asset managers said about how they utilize digital technologies to drive top-line growth by transforming the client experience.

Coming Attractions

Following the overview, data, digital and product chapters, BNY Mellon will release additional findings from this wide-ranging study. Each chapter offers deeper insights and strategies to help you thrive in a data-driven world.

- **The distribution game has new rules:** Shows how the distribution mix is making it more complex to compete and survive.
- **Focus on the core is key:** Illustrates the industry's most promising future, with streamlined operations and focus on the core.

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