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Rapid Insights: New Imperatives and Evolving Operating Models

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BNY Mellon is in a privileged position as a trusted provider to asset owners worldwide, and this gives us the unique opportunity to bring our clients differentiated insights from across the industry. We're conducting an exciting piece of research that some of you already know about, looking into the pressures asset owners are facing, how they're adapting their investments, and crucially, what this means for operating models and the different paths that asset owners are taking as they prepare for the future.

We'll have plenty more details to share with you, but here are a few of our initial findings.

The asset owners we spoke to discuss a range of pressures, liquidity, security, the low yield environment, the relentless technological change, ESG, demands for transparency. Among these, the low yield environment is frequently the most immediate force pushing institutions to diversify. In our partnership with OMFIF, their GPI survey found that 40% of respondents cited the quest for yield as the main reason behind diversification.

Central banks, for instance, are looking into corporate bonds and even ETFs, and more than ever before, they're considering and exploring equities. Among pension funds and sovereign wealth funds, there's a doubling down on alternatives, and this is despite the complexities alternatives bring, not least to data models.

And also, these funds are looking at the industry as a broad ecosystem in which to find new investment opportunities and co-investments, looking along the lifecycle of trades. This is also where we see some of the most forward thinking in terms of ESG.

China is also a big theme. Central banks are holding renminbi like never before, and some funds see investing in China directly as an opportunity to exert ESG influence.

Where else are asset owners looking to find yield? Securities lending. In many ways, it's back. But we also heard from many institutions that there's a desire to better understand how today's sec-lending processes and tools have evolved from a decade ago. This is not least so they can pursue even more securities lending and discuss it correctly with their boards and regulators.

Now, what does all of this mean for operating models? Well, the tip of the spear for any operating model is the asset manager. And the big question here is whether to go with external managers or to bring management in-house. There isn't a one-size-fits-all model. However, as we see asset owners diversify, there's certainly a desire to find the right practitioners externally who will be able to use their niche knowledge to bring performance. However, there's also a clear trend towards internalization over time, at least among those asset owners that are able to overcome some of the challenges to this, namely costs, talent acquisition, and other pressures.

And indeed, people are a topic that comes up time and time again, from the most advanced sovereign wealth funds to small central banks, getting the right talent through the door is a crucial concern. And this isn't just about quality, and stature, and engagement, but there are also new forms of talent that are increasingly important. Digital capabilities and ESG experience are sought out like never before.

Otherwise, operating models, you probably won't be surprised to hear that reconciliation remains a perennial challenge. There are different options to tackling this. Of course, there's putting more resources behind it and being able to confront the data you see from your custodian with what you're getting from external asset managers. But there's also the opportunity to outsource middle office functions.

And then finally, there's having a data system that essentially eliminates the need for reconciliation if everyone can be looking at the same golden source of truth.

And that brings me to systems and data management. Pension funds, in particular, are motivated to bring data to the fingertips of not just their decision-makers and managers, but to the public they serve. We've heard from several pension funds that they want their members to be able to really understand the wealth that will come to them once they reach a pension age.

This desire for data and transparency, however, also extends to central banks. There are more and more demands for transparency, in general, and on ESG. There's also pressure coming from the media, and some asset owners are looking at new analytical tools that may surprise you. For instance, to be strategic about what news may be coming out about investment portfolios, we see asset owners considering tools that will help them analyze the social media chatter if it surrounds their portfolio.

And of course, you won't be surprised to hear that finding new and exciting sources of data to cover alternatives is also a priority. Ultimately, getting a dynamic, real-time, total portfolio view is the ideal, but there's a recognition that this can be an elusive horizon, so really, it can be about finding the right partner to be right beside you along that data journey.

I hope much of this resonates with you, and we very much look forward to bringing you more.

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