

TSAM Series: Trends in Asset Management

In association with BackBay Communications

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By TSAM and BackBay Communications

| Foreword

Among the issues asset managers are contending with are changes in investor behaviour, the tirade of regulations and digital transformation.

How firms respond to these challenges and position themselves now, at this key point in the evolution of the industry, will determine their ultimate long-term success.

Ahead of TSAM London 2018 Congress and Expo, we surveyed nearly 100 senior decision-makers from our network across all areas of operations at some of the world's leading asset management companies.

They provided their views on their business priorities and the areas that they are currently focusing on to future-proof their company.

The findings reveal that asset managers aren't standing still with many focusing on how they can better serve the needs of their clients and establish a competitive edge through technological innovation, operational efficiency and enhanced product offerings.

We hope you find this study of interest and would welcome your feedback and observations.

Jonathan Wiser
Director, Osney Media

| Contents

Methodology.....	4
Executive summary.....	5
Business priorities.....	7
Gender and equality.....	11
The customer experience.....	13
Regulation.....	15
ESG.....	16
Technology.....	18

Methodology

88 senior decision-makers at asset management companies from Osney Media’s contact database were polled between 9th February and 21st February using an online collection methodology. Respondents came from across all areas of operations, including client reporting, technology, marketing, investment, accounting and finance, performance measurement, risk management, senior management and product development (see fig 1).

Companies ranged in size from boutique firms with less than \$1 billion assets under management up to global investment managers with over \$1 trillion of assets under management (see fig 2).

The majority of the respondent sample are at firms headquartered in Europe, with most of the remainder in North America (see fig. 3)

Fig 1: Which of the following areas within your organisation are you responsible for?



Fig 2: What is your company's AuM?

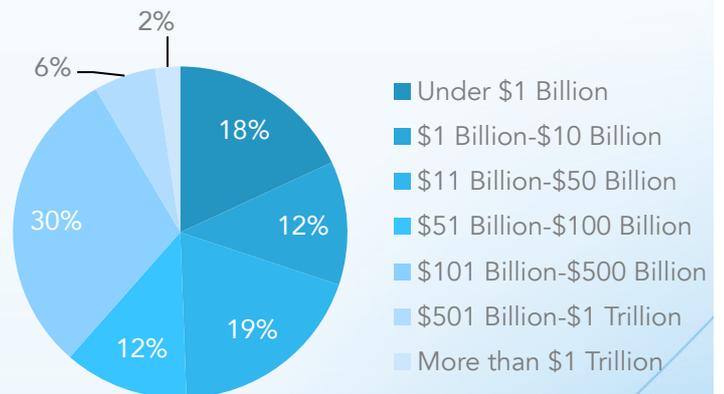
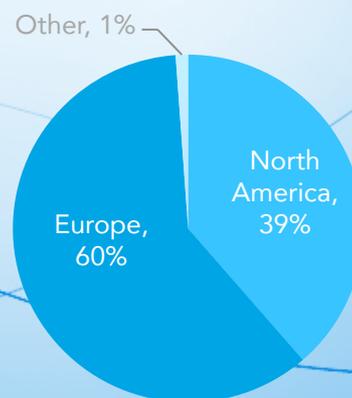


Fig 3: Where is your company headquartered?



Executive summary

Business priorities focus on client experience improvements

Asset managers have a wide range of business priorities over the next 12 months; chief among these are initiatives designed to improve the customer experience.

This is one of the primary drivers for digital transformation projects, which are ubiquitous in the industry. The vast majority of respondents say their firm is either currently undergoing a digital transformation project, has recently completed one or is about to embark on one.

Cybersecurity

With many well publicised cyber attacks over the last 12 months, the perceived threat from cybercrime is greater this year than in 2017. Only 2% said that it poses less of a threat this year than last.

A significant minority of respondents cited cybersecurity improvements as a key business priority this year and investment devoted to cybersecurity looks set to swell with half of all respondent organisations plan to increase expenditure in this area.

Executive summary

Diversity

Most think their organisation is doing a good job when it comes to gender equality and diversity issues. This is despite only 34% having policies in place to encourage women into senior positions.

The wider industry, however, is not seen to be doing such a great job, with more than one in three describing it as 'poor' or 'very poor'. It will be interesting to see how this perception evolves as a co-ordinated industry response develops.

ESG reaches a tipping point

Is 2018 the year that ESG enters the mainstream? Over half the respondents surveyed say their organisation includes ESG metrics in their client reporting. An even greater majority say that their firm offers, or is planning to offer, ESG investment products.

Business priorities

Asset managers identified a broad range of priorities over the next 12 months, with client-facing issues dominating their efforts. Over half the respondents said that improving the customer experience was a key business priority, while client reporting is in focus for four in ten.

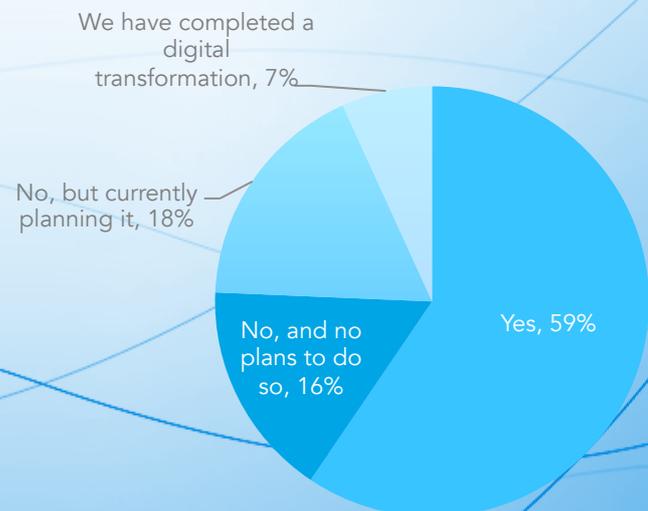
That so many firms are looking to improve in so many areas is encouraging for clients and the health of the industry in general, although they will need to ensure they are sufficiently focused on achieving their goals and avoid spreading their efforts too thinly. With nearly half (47%) the respondent sample identifying five or more key business priorities for the next 12 months, and nearly one in 10 (9%) identifying 10 or more, this must be a risk. (fig 4)

Digital transformation continues to be a key priority for many firms and no doubt is at least part of the identified solution as businesses look to deliver on their goals. Indeed, the proportion of firms undergoing a digital transformation is increasing, with the majority of organisations now in the midst of a transformation programme. This is up from 41% when the research was last conducted in October 2017. The proportion saying they have no plans for a digital transformation has fallen from 21% to 16% over the same period. (fig 5)

Fig 4: Which, if any, of the following are key business priorities for your organisation over the next 12 months? (Select all that apply)



Fig 5: Is your organisation currently undergoing a digital transformation?



Business priorities

The most common driver for digital transformation is to improve or automate middle- and back-office processes, although it is closely followed by improvements to the client experience and distribution. One in three respondents said that improved research and investment decision-making is one of the primary reasons for undergoing a transformation project. (fig 6)

Digital transformation is not without its challenges with only four percent of those that have completed projects or currently have projects underway encountering no issues in the process. The most common issues experienced were difficulties in identifying the right technologies to invest in and budgetary issues which were cited by over half of respondents. Data quality issues and getting buy-in from across the organisation were barriers for one in three. (fig 7)

Fig 6: Which of the following were reasons for undergoing a digital technology transformation? (Select all that apply)

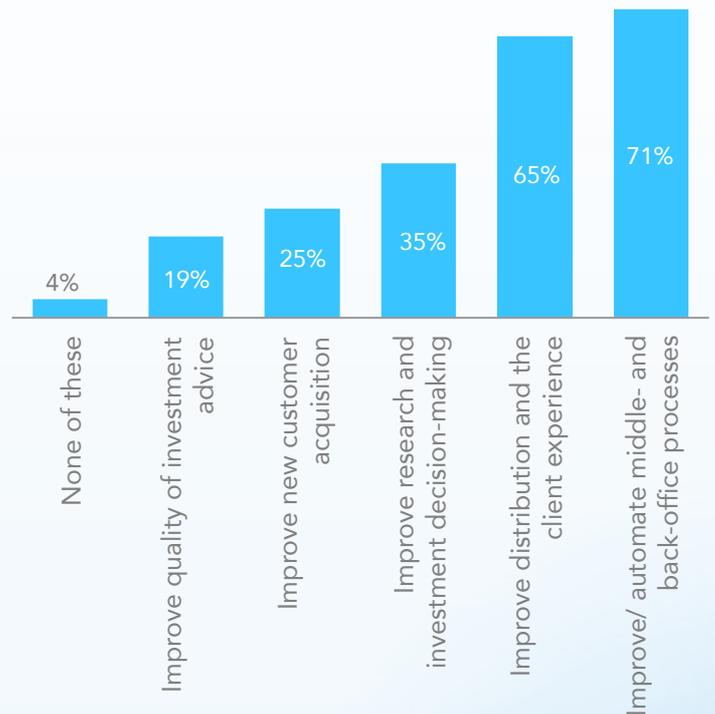


Fig 7: What were/have been the biggest barriers in pursuing your digital transformation?



Business priorities

Business intelligence, improved CRM and digital markets are most commonly identified as the most important technology investments required by asset managers to deliver on their business goals, with around one in three identifying at least one of those areas. With a focus on the customer experience taking centre stage, this is unsurprising. Cloud-based services, artificial intelligence and cybersecurity were also commonly cited – by around one in four. Blockchain and data centres were only seen as crucial investments by one in 10. (fig 8)

Over half (52%) of the firms surveyed have taken action in response to the rise in popularity of passive investing. The most common response has been to reduce management fees and/or operating costs. Around one in seven respondents say they now look more closely at the drivers of performance while one in ten have increased automation, adopted new distribution strategies or introduced new product lines. (fig 9)

Fig 8: Which technology investments do you believe are the most crucial to being able to achieve your business goals? (Select up to three)

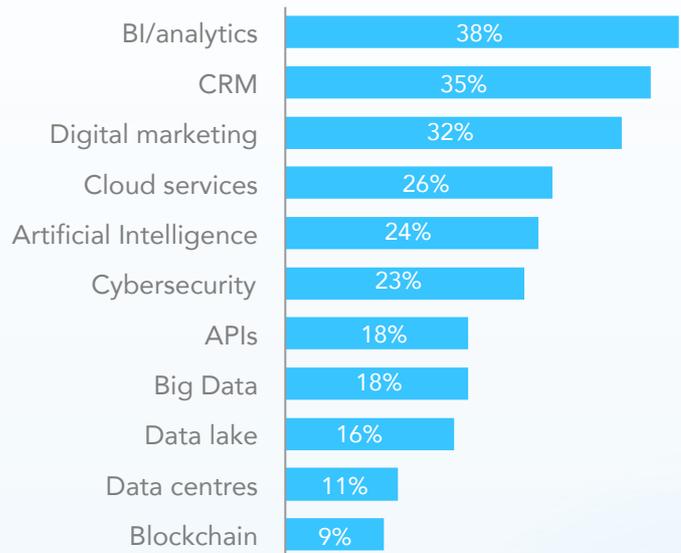


Fig 9: Has the rise in the popularity of passive investments led you to do any of the following?



Business priorities

The majority of respondents describe their use of data as 'good' or 'very good' across many areas of their organisation, particularly when it comes to front-office functions including investment advice and investment decision-making. However, data usage in some areas could be improved; this is particularly the case for marketing and sales functions, with one in three saying that use of data is 'poor' or 'very poor'. (fig 10)

Cybersecurity issues are seen to represent a greater threat this year than in 2017 by the majority. Against this backdrop, half of respondents said their organisations plan to increase expenditure on cybersecurity in 2018.

Fig 10: How would you describe your organisation's use of data in each of the following areas?



Fig 11: Do you believe that cybersecurity poses more or less of a threat to your organisation in 2018 than it did last year?

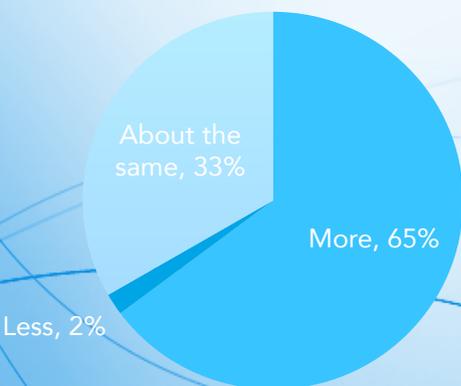
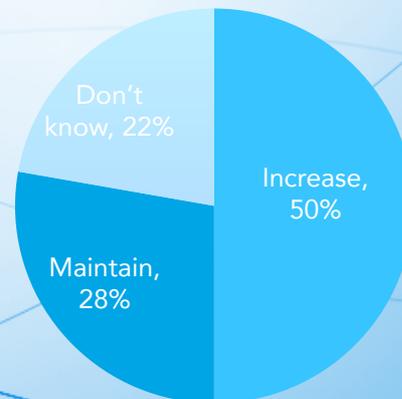


Fig 12: Does your organisation plan to increase, decrease or maintain expenditure on cybersecurity in 2018?



Gender and equality

While the vast majority of respondents see their own firm's approach to gender equality and diversity issues as 'good' or 'very good', their perception of the asset management industry's efforts overall is not so positive. Only 6% say the industry's approach is 'very good', while more than a third describe it as 'poor' or 'very poor'. (figs 13 & 14)

This dislocation might be explained in part by the historical absence of a co-ordinated, collaborative industry-wide approach to tackling inequality, diversity and inclusion. This is something that is changing with the likes of the CFA's UK gender diversity network and the Diversity Project. It will be interesting to see how perceptions change as a co-ordinated industry response develops.

Fig 13: How would you rate your firm's approach to promoting gender equality & diversity?

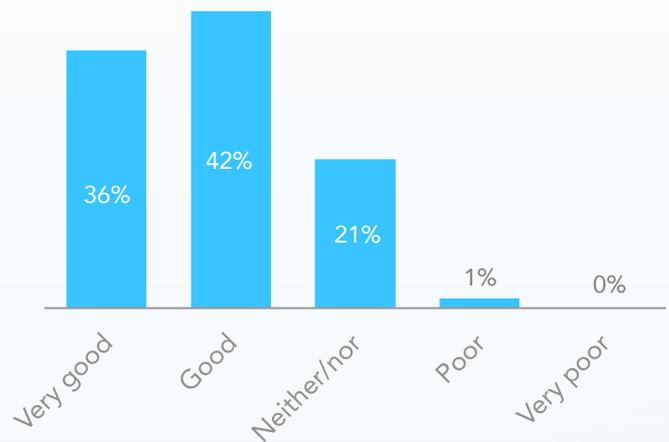
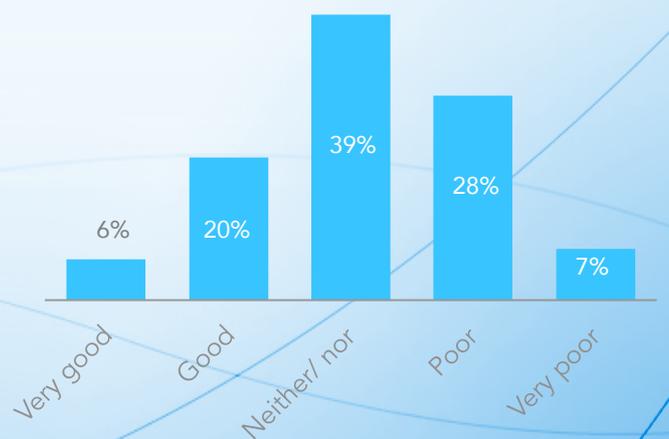


Fig 14: How would you rate the approach of the asset management industry as a whole, towards promoting gender equality and diversity?



Gender and equality

One in three respondents say their organisation has policies in place to encourage women into senior roles and a further quarter are planning to introduce them. (figs 15 & 17)

Well over one-third of respondents said they have not received any training on workplace personal conduct.

Fig 15: Does your organisation have policies or quotas in place to encourage women into senior positions?

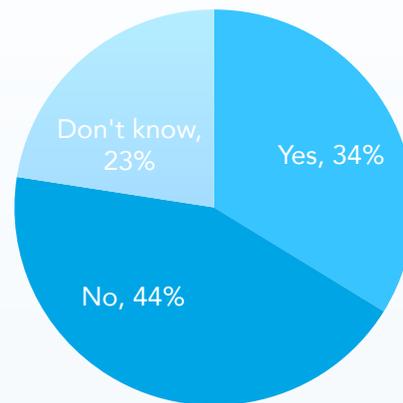


Fig 16: Have you received training at your current employer on inappropriate conduct (i.e. what it is, how to spot it and what to do about it)?

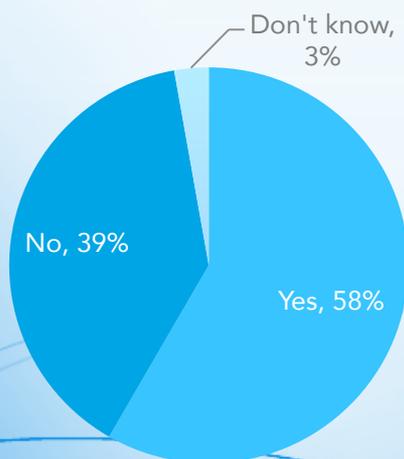
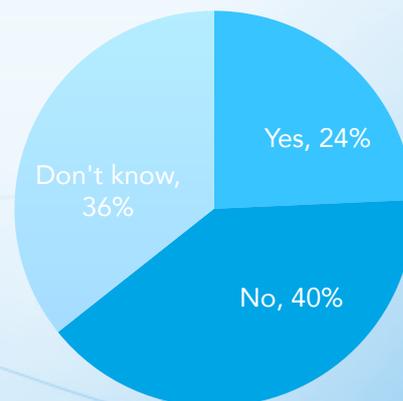


Fig 17: Is your organisation planning to introduce policies or quotas to encourage women into senior positions?



The customer experience

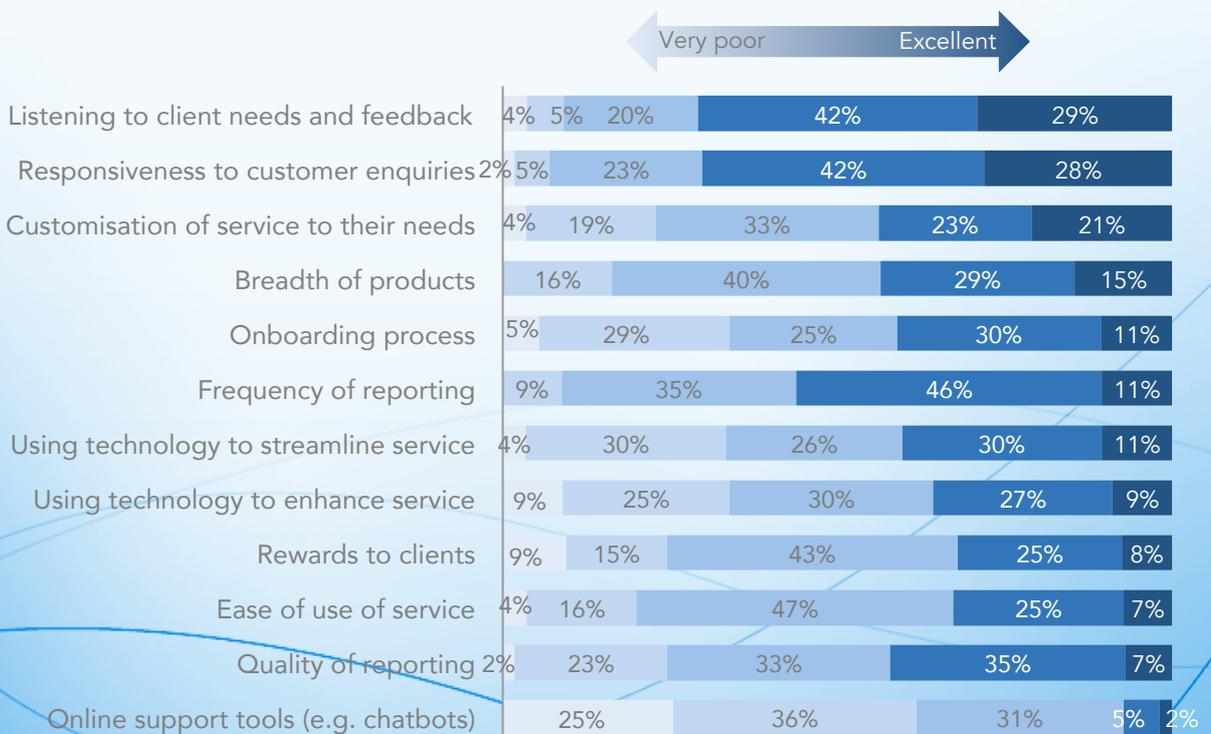
While improving the customer experience is a strategic area of focus for asset managers, respondents are generally positive about their organisation's performance on most aspects, particularly when it comes to front line customer services. More than a quarter of respondents rank their organisation as 'excellent' at listening to client feedback and for their responsiveness to customer enquiries.

Very few aspects of the client experience are rated poorly with online support tools the main exception. Here, one in four

rated their organisation as 'very poor' while over a third described it as 'poor'. Conversely, only 7% described their online support tools as 'good' or 'excellent'. This might be one area that firms look to address as part of their effort to improve the customer experience.

Another area of focus could be the quality of reporting. A quarter of all respondents describe this as 'poor' or 'very poor'. (fig 18)

Fig 18: On a scale from 1 to 5 where 1 is very poor and 5 is excellent, please rate your organisation on the following aspects of the client experience:



The customer experience

Customer experience improvements have been an increasing areas of focus for marketing teams at asset managers over the last five years, with over half of respondents saying this.

Half of respondents also say that there has been a greater emphasis on thought leadership. It is interesting to note that more firms have put an emphasis on this than social media engagement. (fig. 19)

Fig 19: In what ways have your firm's marketing efforts have evolved over the last 5 years? (Check all that apply)



Regulation

Two months on from the introduction of MiFID II, firms have, on the whole, coped well with the reporting requirements with a quarter saying they have coped 'very well'. Only four percent said they have coped poorly. (fig 20)

Looking ahead to upcoming regulatory changes that will impact the industry, just under one-third of respondents report that their organisation is currently ready for the introduction of GDPR in May. (fig 21) The vast majority are relaxed about the impact of GDPR; most see it as neither an opportunity or a threat. Only around one in 10 identify GDPR as a threat. (fig 22)

Fig 20: How has your organisation coped with the reporting requirements of MiFID II since its introduction?

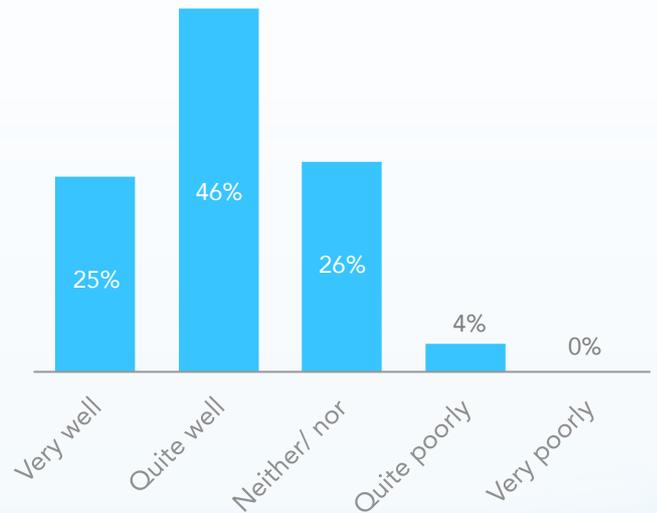


Fig 21: Is your organisation ready for the introduction of GDPR in May?

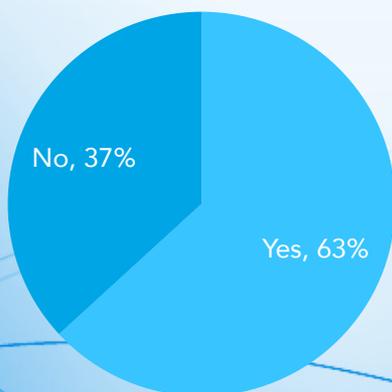
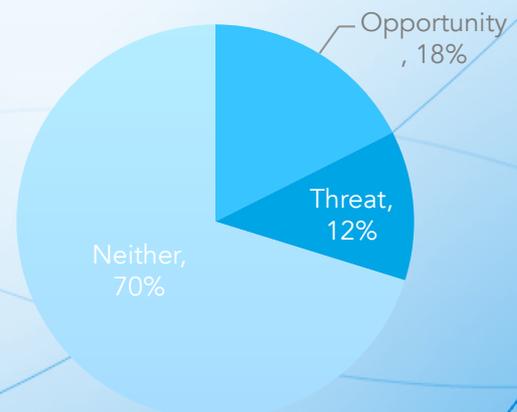


Fig 22: Do you see GDPR as an opportunity or threat?

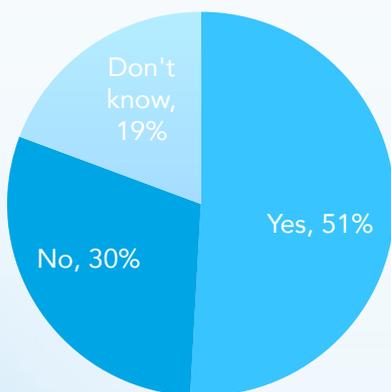


ESG

With the increasing popularity of ESG considerations among investors, it is perhaps not surprising that the majority of respondents say their organisation includes ESG metrics as part of their investor reporting. (fig 23)

In most cases respondents feel that the quality of reporting on ESG metrics is of a decent standard; however, there is some room for improvement with more

Fig 23: Do you include ESG metrics in your client reports?



than one in three describing it was 'not very' or 'not at all' comprehensive. (fig 24)

Data issues such as quality and availability are likely to be a factor in this with well over one-third of respondents encountering data issues that have affected their reporting of ESG metrics. (fig 25)

Fig 24: How comprehensive do you think your firm's reporting of ESG metrics is?

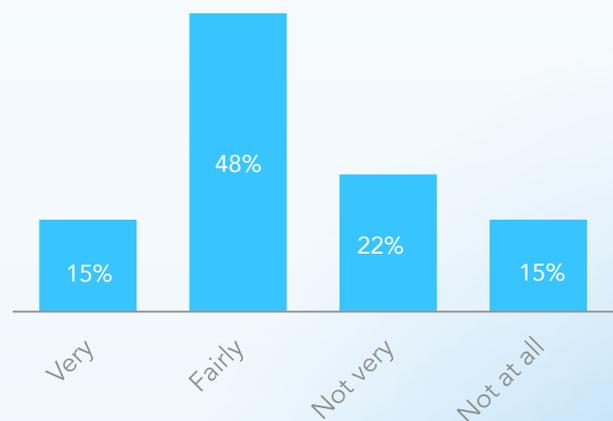
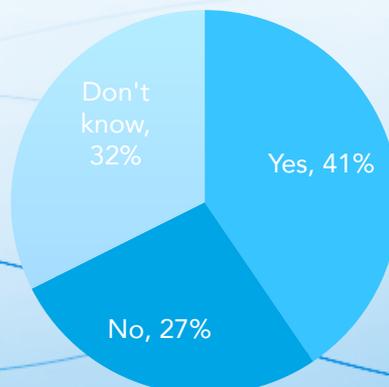


Fig 25: Have you experienced data issues that affect how you report performance of ESG metrics/impact?



ESG

The uptake of responsible investment and ESG-based products is also high with three in five organisations currently offering such products. (fig 26)

Among those firms that don't currently offer such products, one in five plan to start offering them in the next 12 months. (fig 27) Half of those not

currently offering and not planning to offer ESG products cite strategic fit as their main reason with data issues and lack of client demand also mentioned. (fig 28)

Fig 26: Does your firm currently have ESG or RI investment products?

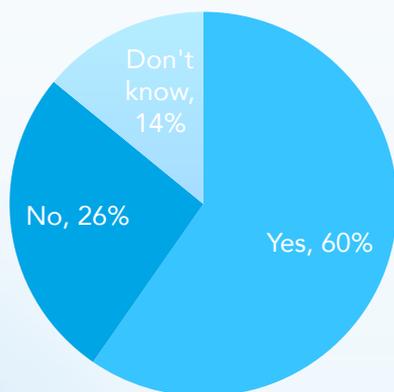


Fig 27: [If not] Does your firm plan to introduce any ESG or RI investment products in the next 12 months?

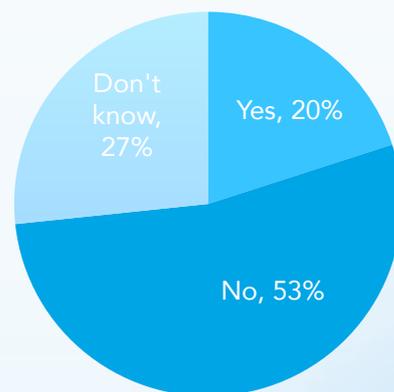


Fig 28: Why not?



Technology

With the rise of robo-advice, it's perhaps unsurprising that investment advice is most commonly seen as the area of asset management that stands to be most impacted by artificial intelligence and machine learning. Investment decision-making is also widely viewed as an area likely to be impacted, cited by one in four. (fig 29)

Reporting – both to clients and the regulators – were among the least

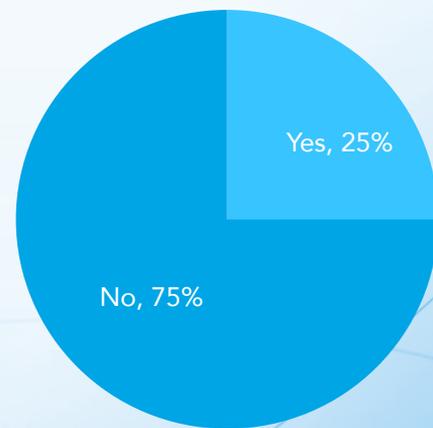
Fig 29: Which areas of an asset manager's operations stand to be most impacted by artificial intelligence/machine learning?



mentioned areas that face disruption from artificial intelligence and machine learning.

Currently one in four respondent firms use artificial intelligence, machine learning and/or big data techniques as part of their investment decision making. (fig 30)

Fig 30: Does your organisation currently use AI/ML/Big Data as part of its investment decision-making?



Technology

The vast majority of respondent firms are not currently exploring the use of blockchain for any business practices. Among those that are, clearing and settlement is the most common area being looked at. (fig 31)

There are, however, many firms waiting in the wings with well over one-third of firms not currently looking at using blockchain planning to in the coming months and years. It could be that many firms are looking for signs of early success and some momentum to be gained before developing blockchain technologies themselves. It also suggests that although peak blockchain hype in the media may have passed for now, interest among asset managers has not and that many are keeping a careful eye on the technology develops, alert to its transformative potential.

Fig 31: Is your organisation currently looking to use blockchain for any of the following? (Select all that apply)

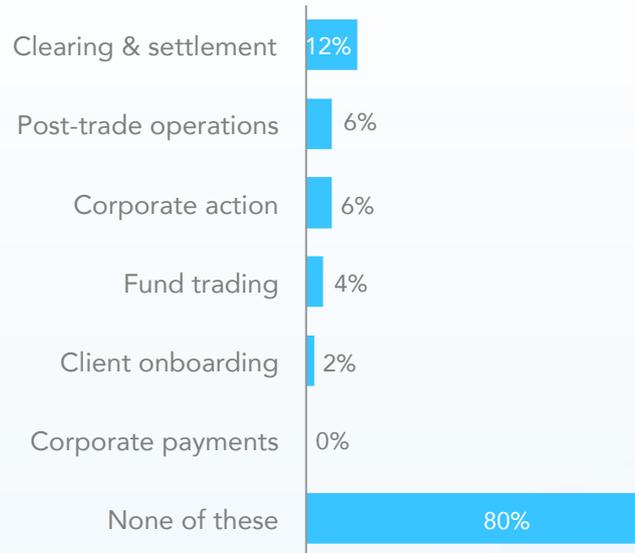
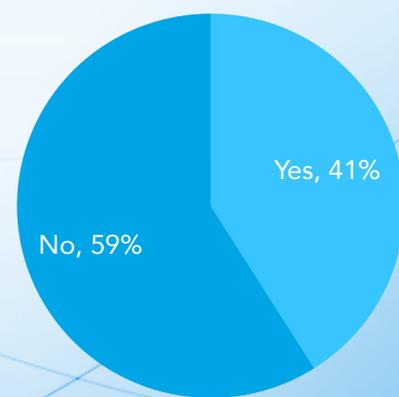


Fig 32: If not, does it plan to?



About

OsneyMedia

Osney Media is a provider of world class learning and networking events. Specialising within Financial Services, it hosts The Summit for Asset Management (TSAM) - a global series of conferences taking place in New York, Boston, London and Hong Kong. TSAM brings together stakeholders from across asset management and the wider buy-side community, in addition to the industry's leading service and solution providers. Catered for professionals across the value-chain of the business, TSAM co-locates six conferences focused on: Technology & Operations; Data Management; Marketing & Sales Communications; Client Reporting & Communications; Performance & Risk; Regulations & Compliance.

In addition to these events, Osney Media host two key industry groups: The Performance & Risk Association (PRA) and Ops50.

For more information, please contact us at info@osneymedia.com or call the main switchboard on +44(0) 207 336 4600.

BackBay Communications

BackBay Communications is a strategic branding, marketing and public relations firm focused on the financial services sector including financial technology companies, asset managers, investment advisors and private equity firms. BackBay takes a brand-centric approach to developing messaging and building integrated communications programs.

BackBay offers a unique combination of content and creativity. BackBay's services include public relations, branding, website development, marketing materials, videos, advertising and social media. BackBay is highly regarded for its thought leadership initiatives and relationships with the major business media. With offices in Boston, London and New York, and international agency partnerships, BackBay serves financial and professional services companies around the world.

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