

Asset Management: the next evolution

15 June 2017

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We estimate conservative growth in AUM

- ▶ AUM estimated to grow at 4-5% per annum over the next 3-5 years, exceeding world GDP

Contributing to AUM

1. Increasing need for long-term savings
 - ▶ Demographics
 - ▶ More financial responsibility on the individual
 - ▶ Rise of the middle class
2. Need for asset management during accumulation and decumulation life phases
3. Asset owners diversify assets in the search for yield

1. Asset owners increasingly manage more assets themselves
2. Sovereign wealth funds are withdrawing assets
3. DB assets are being drawn down and not replaced at the same pace
4. Poor savings habits of younger generations
 - ▶ Attitudes towards savings vs. experiences
 - ▶ Mistrust towards financial services providers

Pressure on AUM

But unlikely to generate significant revenue growth . . .

Beyond cyclical to structural shifts



Responsibility for long-term savings shifting from state to employer to employee



Price is an increasingly important determinant of NNA flows



Value for money of active management is being questioned by stakeholders



Customer propensity to buy products through digital channels increasing



Winner takes all phenomena accelerating



Changes in manufacturer to distributor compensation model



Continued low interest rate environment



Increasing expectation that institutional shareholders should exercise stewardship



Significant fee compression

These structural changes are resulting in ...

1

Acceleration in the barbell resulting in a rise of passives and a new breed of alternatives

Passives

- ▶ 80% of NNA flow in 2016
- ▶ Regulation driving growth into passives, often via ETFs
- ▶ Fees compression
- ▶ Passive bond funds and smart beta strategies
- ▶ Asia Pac: passive = active fund flows
- ▶ Big players using efficiency and scale to drive share – innovating to zero price



Core alpha

- ▶ Multi asset
- ▶ Unconstrained
- ▶ High concentration
- ▶ Operational alpha

New breed of alternatives

- ▶ Clients increasingly searching for additional sources of income and uncorrelated returns, asset managers are enhancing the diversity of alternative products
- ▶ Alternatives beyond hedge funds – private equity, private debt, alternative credit, real estate, infrastructure

These structural changes are resulting in ...

2

Institutional asset owners managing more assets themselves

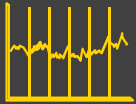
3

New entrants focused on customer experience and low cost, delivered through digital automation

4

Further consolidation through M&A

How should the industry respond?



Recognise investor expectations are changing



Use alternative data and new technologies to improve investment decision making



Digitalise distribution



Deliver sustainable cost reduction



Evolve the core proposition



Invest in further education of the investors

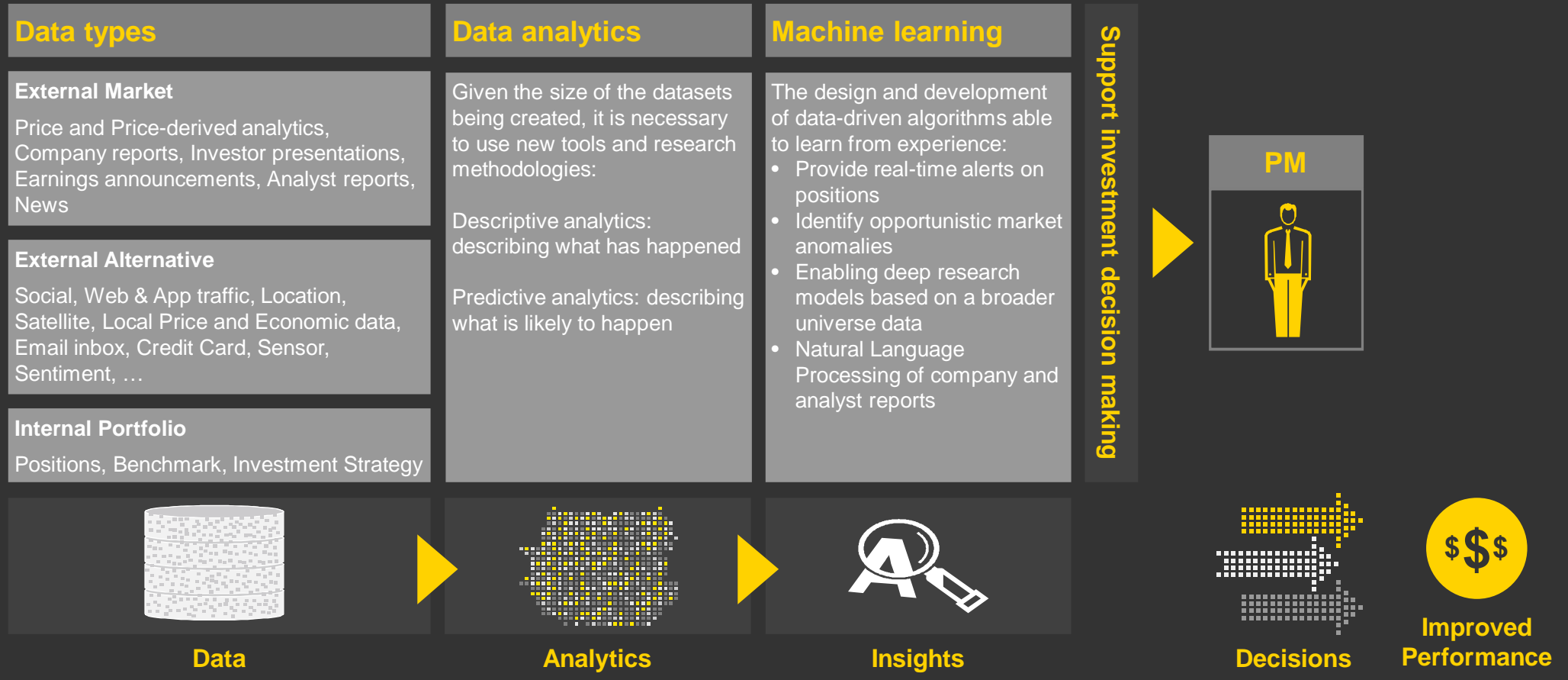
Recognise that investor expectations are changing

- ▶ Investors increasingly focused on outcomes over relative returns
- ▶ Requirement for solutions during accumulation and decumulation phase of life
- ▶ Willingness to self educate and invest through digital platforms
- ▶ Increasing focused on environmental and social impact of their investment approach
- ▶ Over half of investors view trust as important as performance and experience
- ▶ Desire for greater fee and performance transparency; and clarity of fees is the top driver of trust
- ▶ Investors can trust non financial services brands more than traditional financial services organisations

Digital will transform the distribution landscape

Industry characteristics	Existence of execution only services, alongside advice platforms	Advice is becoming digitally enhanced or fully automated	Focus on enhanced customer experience
Existing players	Banks focus is shifting from short to long term savings	From Insurance to Wealth Management	From Manufacturing to DTC distribution
New entrants	Robo-Advisors raising the bar on customer experience	Non FS brands considering the distribution of LTS products	

Will alternative data, analytics and AI enhance alpha?



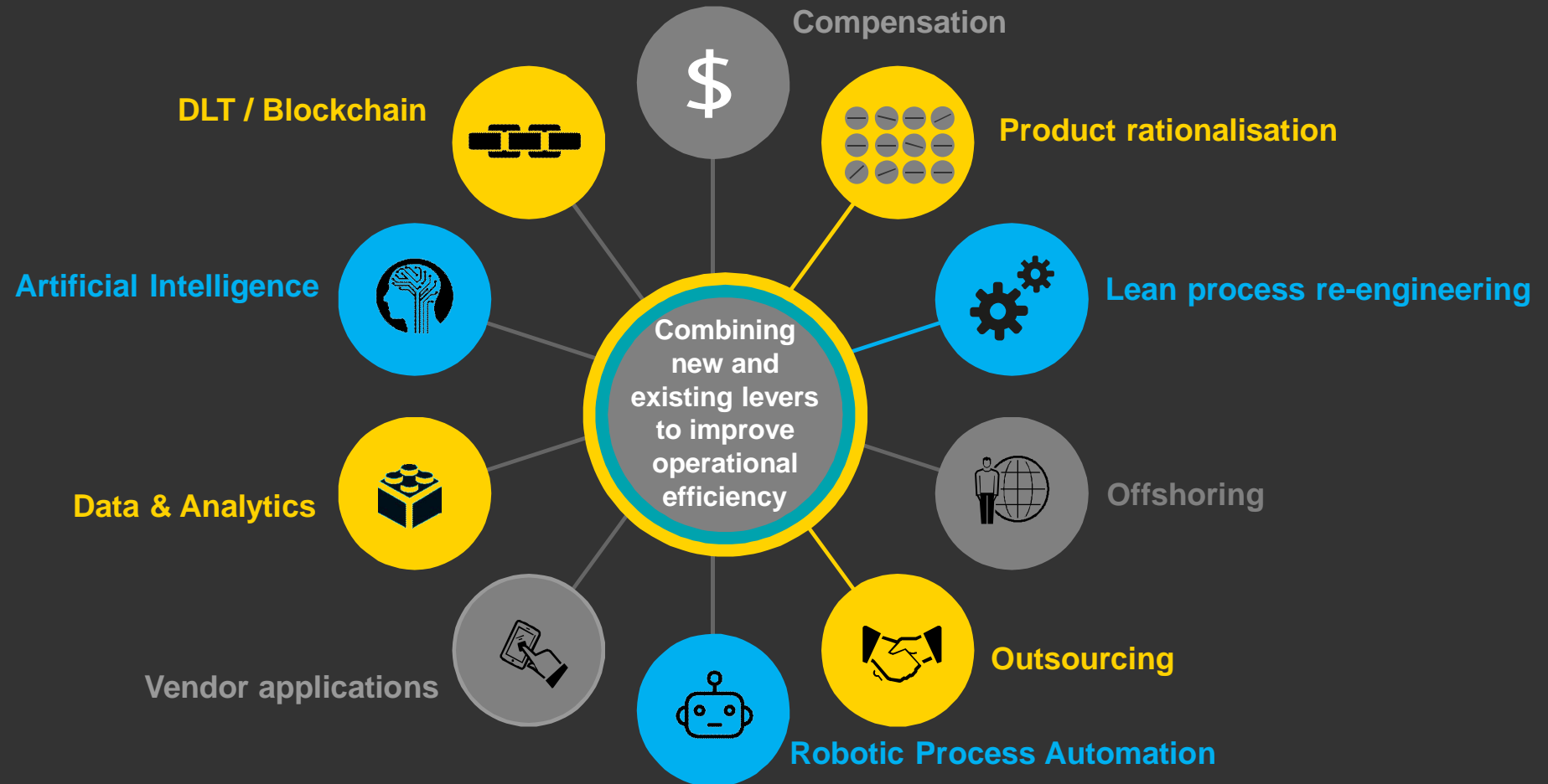
Hedge funds using AI are starting to outperform

Table 1: Performance in numbers – AI/Machine Learning Hedge Fund Index vs. quants and traditional Hedge funds

	EurekaHedge AI/Machine Learning Hedge Fund Index	EurekaHedge CTA/Managed Futures Hedge Fund Index	EurekaHedge Trend following Index	EurekaHedge Hedge Fund Index
Five year annualised returns	7.35%	2.68%	1.80%	5.51%
Three year annualised returns	9.57%	3.41%	3.31%	3.71%
Two year annualised returns	10.56%	0.42%	(1.40%)	3.12%

Five year annualised returns of the hedge funds = 5.51%; AI/Machine Learning funds = 7.35%
Three year and two year figures are even better: are the ML algorithms improving ?

Enhancing operational efficiency will protect margins



Could the Investor Servicers enable the transformation?

- ▶ Developing a comprehensive offering – across asset classes, services and geographies
- ▶ Providing data analytics to help managers better understand their customers needs and effectiveness of their investment strategies
- ▶ Providing an end to end platform – from distribution, manufacturing, administration and custody
- ▶ Using technology to increase quality, efficiency and to reduce costs
- ▶ Creating industry utilities, leveraging DLT where it is efficient and commercial to do so – KYC/AML

A perfect storm

History shows that our industry evolves slowly, but is there a 'perfect storm' brewing?

- ▶ Macro economic changes
- ▶ Increased investment in the sector
- ▶ Clients and regulators questioning whether it 'does what it says on the tin'
- ▶ Individual investors demanding a digital experience
- ▶ New entrants raising the bar on customer experience
- ▶ Structure and unstructured data analytics as a new source of information edge
- ▶ New technology to radically shape the operating model and improve efficiency

Will the industry experience more change in the next 5 years than it has in the last 25 years?

Thank you

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