Amid unprecedented economic turmoil and regulatory change, most asset managers have afforded themselves little time to bring the future into focus. But the industry stands on the precipice of a number of fundamental shifts that will shape the future of the asset management industry.

To help asset managers plan for the future, we have considered the likely changes in the asset management industry landscape over the coming years and identified key gamechangers which will impact the competitive environment.

Asset Management 2020
A Brave New World

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Contents

Introduction

It's March 11, 2020. As Wei boards her train in the suburbs of Beijing, heading for her office in the capital of the world's biggest economy, she checks her mobile device. She has been sent a message from international dating company eMatch's sister site, eMatch Investments.

The technology-based financial adviser has analysed her financial strategy and automatically matched her dating style with the funds and fund companies most likely to meet her future needs.

One of the recommended funds is the SearchCo Asset Management (SAM) Global 80 Big Cities fund, so Wei clicks on her SAM app and plays a video that presents key information about the fund. California-based SearchCo, an internet search engine used by more than half of the world's population, moved into the funds industry in 2015, and by 2020 was registered in more than 40 countries as an investment adviser. She clicks to select the fund and the fund is immediately added to Wei's eMatch Investments' mobile account. The order and payment is handled by eCommerce.com, SAM's service provider in China. eCommerce.com started out as an internet commerce company in China until it decided to apply its dominant position and sophisticated payment processing systems to other industries, including asset management (AM). SearchCo bought a stake in eCommerce.com in 2017 to handle payments' processing and transfer agency in the Greater China region. As a result of its new collaboration with SearchCo, eCommerce.com by 2020 is starting to process transactions in Europe and the US too. eCommerce.com sends Wei's order to her chosen fund provider, based in Germany, and deals with all the necessary back-office processes. Of course, Wei knows nothing of all this. She just expects that her cash will buy units in her chosen fund and that by around 2030 she will have made sufficient return on her investment to pay for her son's university education in the US.

Amid unprecedented economic turmoil and regulatory change, most asset managers have afforded themselves little time to bring the future into focus. But the industry stands on the precipice of a number of fundamental shifts that will shape the future of the AM industry.

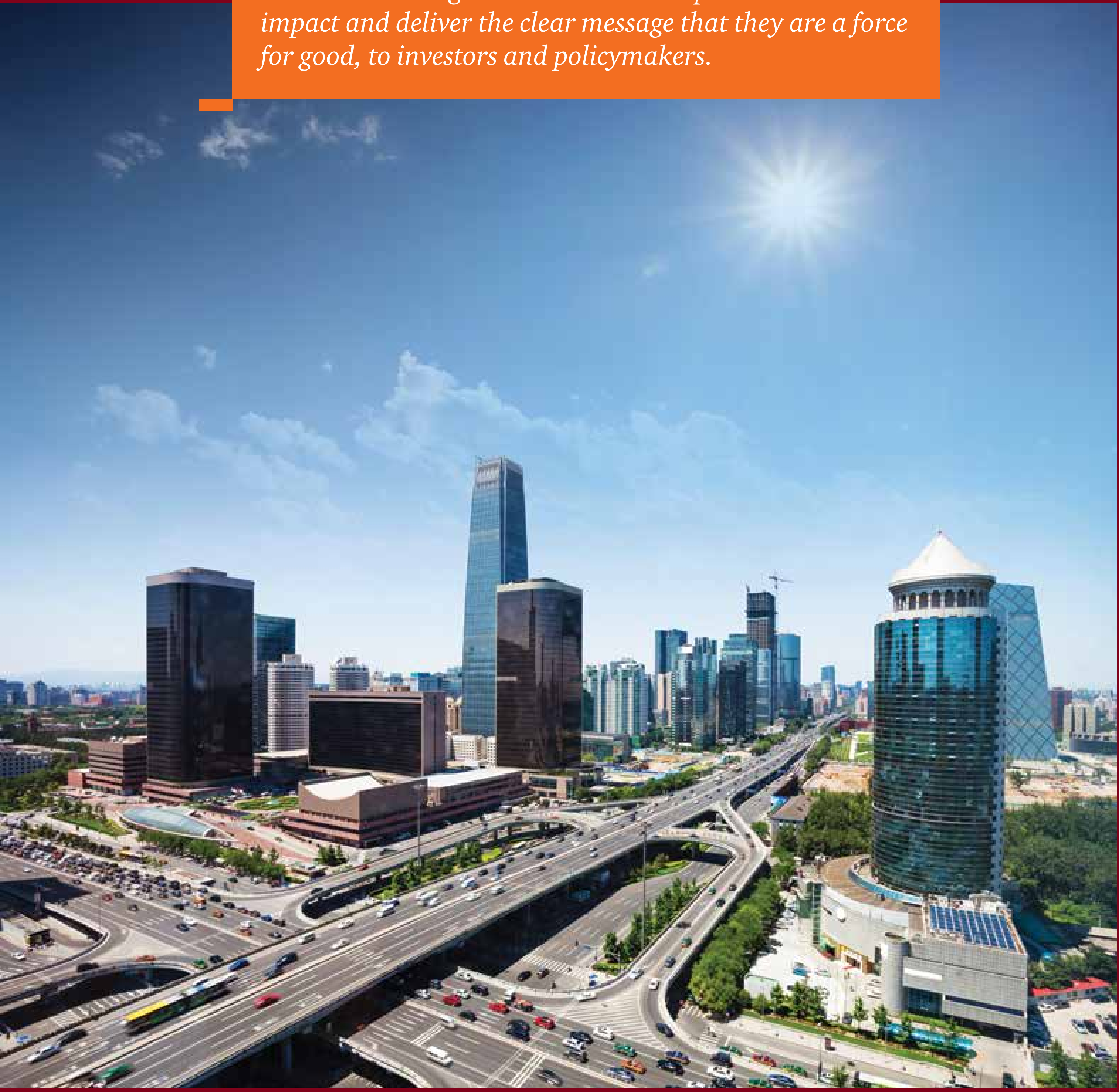
The way many asset managers operate in 2020 will be significantly different compared with the 2013 model. Our fictional investor, Wei, represents just one example of how funds might be sold and distributed in 2020.

To help asset managers plan for the future, PwC has considered the likely changes in the AM industry landscape over the coming years and identified key gamechangers that will impact the competitive environment. This paper first presents how the operating landscape for asset managers will change by 2020 and beyond. In the second part of this paper, we discuss how asset managers may prepare for the challenges these changes present and turn them into competitive advantages.

Disclaimer:

This paper makes a number of predictions and presents PwC's vision of the future environment for the asset management industry. These predictions are, of course, just that – predictions. These predictions of the future environment for the asset management industry address matters that are, to different degrees, uncertain and may turn out to be materially different than as expressed in this paper. The information provided in this paper is not a substitute for legal and other professional advice. If any reader requires legal advice or other professional assistance, each such reader should consult his or her own legal or other professional advisors and discuss the specific facts and circumstances that apply to the reader.

Global investable assets for the asset management industry will increase to more than $100 trillion by 2020, with a compound annual growth rate of nearly 6%. Asset managers must both create positive social impact and deliver the clear message that they are a force for good, to investors and policymakers.



The landscape in 2020: The industry expands, the investor base morphs

1

Huge rise in assets and shift in investor base

The future is bright. Few people in the asset management industry would have shared this sentiment in 2008 or 2009. Not many believed it even as asset prices recovered in 2010–12. However, changing markets and investor needs will combine to produce a positive environment and huge opportunities for asset managers through 2020 and beyond.

The rise in the volume of investable assets which has occurred over the last two or three decades is set to continue to increase in the future and investable assets are expected to be significantly higher in 2020 than today.

Global AuM to exceed $100 trillion by 2020

The Global Financial Crisis (GFC) of 2008–2009 was a major economic event affecting millions of people, but only led to a temporary detour in the long-term growth path for assets managed by the industry. They have continued to rise and today, worldwide assets under management (AuM) total $63.9 trillion. Our prediction is this will rise to around $101.7 trillion by 2020, a compound growth rate of nearly 6%.

The table overleaf summarises our estimates of global AuM by types of products (mutual funds, mandates and alternatives) and by clients within the AM industry.

To predict AuM growth, we examined the correlations between AuM and a number of economic factors over the past 13 years – including two financial crises (the late-1990s' boom-and-bust and the GFC). We found a strong correlation between nominal gross domestic product (GDP) and overall AuM growth, especially relating to the fund industry. We also analysed the main products offered by the AM industry and developments in institutional assets.

As global economies become increasingly integrated and interdependent, regional AuM is influenced by GDP growth in other regions. For example, changes in AuM in China can be caused by changes in US GDP. Therefore we, looked at the impact of GDP growth in strong economies such as the US when forecasting regional AuM.

Our prediction assumes a normal development of the world economy. Based on IMF predictions to 2018 and our own hypothesis for the period 2018–2020, we believe nominal global GDP will increase by 5.15%[1] annually between 2012 and 2020.

In addition to using the GDP, we supplemented our analysis with experts' points of view and specific industry trends. We also took the ageing population of European and some Asian countries into account as well as the generational shift of wealth.

The sections below identify and describe the drivers for the powerful growth in AuM in the years to 2020.

1 PwC analysis based on IMF predictions to 2018.

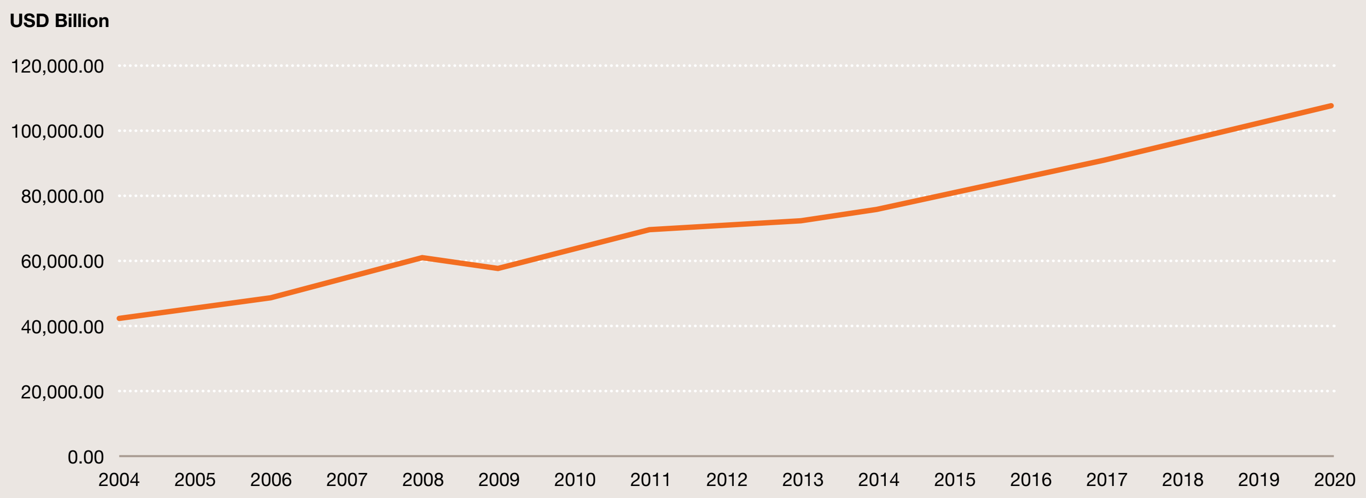
Figure 1: Global AuM USD Trillion

Products	2004	2007	2012	2020 (estimated)
Global AuM	**37.3**	**59.4**	**63.9**	**101.7**
of which mutual funds	16.1	25.4	27.0	41.2
of which active investments	*15.1*	*23.3*	*23.6*	*30.8*
of which passive investments	*1.0*	*2.0*	*3.4*	*10.5*
of which mandates	18.7	28.8	30.4	47.5
of which active investments	*17.6*	*26.5*	*26.6*	*35.3*
of which passive investments	*1.2*	*2.3*	*3.9*	*12.2*
of which alternatives	2.5	5.3	6.4	13.0

Source: PwC analysis. Past data based on Hedge Fund Research, ICI, Preqin, Towers Watson and The City UK.
Note: Differences in sums are due to rounding. Mandates exclude alternatives.

In addition to using the GDP, we supplemented our analysis with experts' points of view and specific industry trends. We also took the ageing of European and some Asian countries into account as well as the generational shift of wealth.

Figure 2: World Nominal GDP



Source: IMF and PwC analysis.

The rising importance of South America, Asia, Africa, Middle East (SAAAME)

Assets under management in the SAAAME economies are set to grow faster than in the developed world in the years leading up to 2020, creating new pools of assets that can potentially be tapped by the AM industry. However, the majority of assets will still be concentrated in the US and Europe.

In 2010, Asia ex-Japan's weightage in the MSCI World Index was only 9%, while its total contribution to GDP approximated 18%. By 2020, Asia ex-Japan's contribution to GDP could be well above 25%. As this becomes reflected in the MSCI World Index, it will result in new and substantial money flows into the capital markets of the East. These flows will be considerably enhanced by the likely internationalisation of the Chinese renminbi by 2020, which will open up what will eventually become one of the world's significant AM markets.

Global AuM growth will be driven by pension funds, HNWIs and sovereign wealth funds

Figure 3: Client AuM USD Trillion

Clients	2004	2007	2012	2020
Pension funds	21.3	29.4	33.9	56.5
Insurance companies	17.7	21.2	24.1	35.1
Sovereign Wealth Funds (SWF)	1.4	3.3	5.2	8.9
HNWI	37.9	50.1	52.4	76.9
Mass affluent	42.1	55.8	59.5	100.4

Source: PwC analysis. Past data based on Credit Suisse Global Wealth Data Book, SWF Institute, The City UK, OECD and Insurance Europe.
Note: Differences in sums are due to rounding. The sum of AuM by clients does not equal the sum of AuM by products shown above due to double counting.
The sum of the assets of all clients will also include double counting as a part of the assets of Mass affluent and HNWI will be invested with insurance companies and pension funds.

In 2012, the AM industry managed 36.5% of assets held by pension funds, sovereign wealth funds (SWF), insurance companies, mass affluent and high-net-worth individuals (HNWI).[2] Our model predicts that by 2020 the AM industry will manage $101.7 trillion of clients' assets, implicitly assuming the penetration rate to remain constant. However, given the AM industry is successful in penetrating these clients assets further, we believe that the AM industry would be able to increase their share of managed assets by 10% to a level of 46.5%, which would in turn represent a $130 trillion in Global AuM.

2 PwC analysis.

At the client level, the global growth in assets will be driven by three key trends:

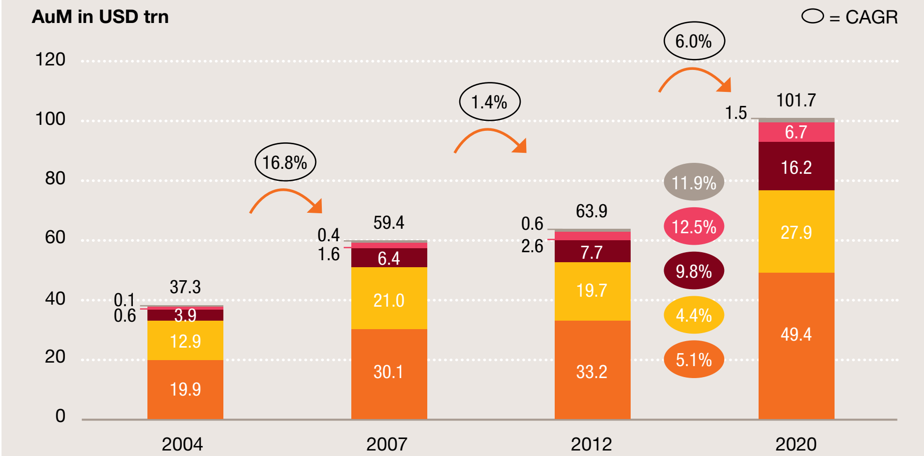
- The increase of mass affluent and high-net-worth-individuals (HNWIs)[3] from SAAAME.
- The expansion and emergence of new SWFs with diverse agendas and investment goals.
- The increasing defined contribution (DC) schemes partly, driven by government-incentivised or government-mandated shift to individual retirement plans.

Foundations and endowments will also continue to gather AuM as the generations born after World War II continue to bequeath part of their wealth. These foundations and endowments will rely predominantly on asset managers to earn returns on their capital.

The rise of SAAAME as an opportunity for asset managers

In a recent PwC survey, more than 40% of asset managers in developed countries looking to other countries for their long term future believe the most important geographical area of focus will be the SAAAME region. SAAAME markets will provide opportunities for existing global asset managers to tap new pools of wealth and significantly expand their franchises (as we explore in the second section of this report). But it will equally provide the backdrop for a number of fast-growing SAAAME-based competitors to emerge and not only take on the global managers in SAAAME regions, but in developed markets as well.

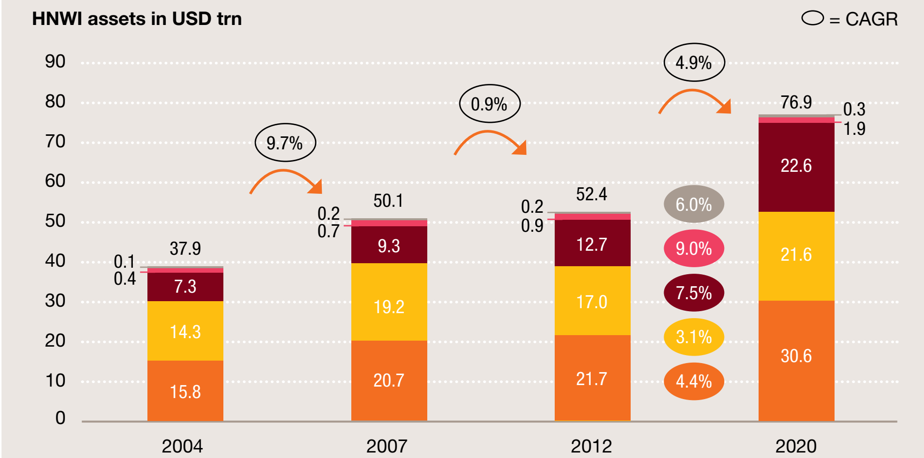
Figure 4: Global AuM projection by region for 2020



North America Europe Asia Pacific Latin America Middle East and Africa

Source: PwC analysis. Past data based on Hedge Fund Research, ICI, Preqin, Towers Watson, and The City UK data.

Figure 5: Global HNWI asset projection by region for 2020



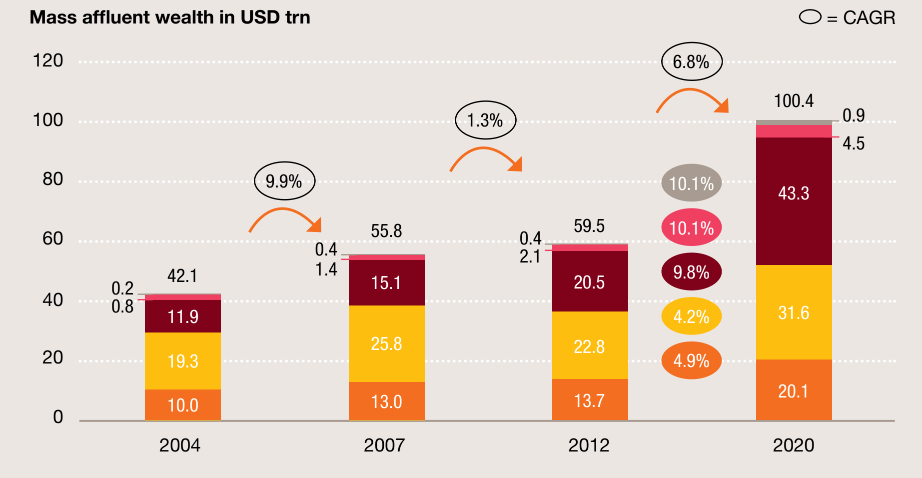
North America Europe Asia Pacific Latin America Africa

Source: PwC analysis. Past data based on Credit Suisse Global Wealth Data Book.

3 HNWI are defined as those having wealth of USD 1 million or more.

Between 2010 and 2020, more than one billion more middle-class consumers will emerge globally, representing the largest single-decade increase in customers in history.

Figure 6: Global mass affluent wealth projection by region for 2020



Source: PwC analysis. Past data based on Credit Suisse Global Wealth Data Book.

Mass affluent clients and HNWIs in SAAAME regions are key drivers of growth

From more than $59 trillion and $52 trillion, respectively in 2012, assets owned by mass affluent[4] and HNWI investors are expected to rise to more than $100 trillion and $76 trillion respectively by 2020. The growth is expected to be higher for the mass affluent sector (with a CAGR of 6.8%) than for HNWIs (4.9%). The single greatest contributor to this surge in mass affluent and HNWI assets is increasing SAAAME wealth. Mass affluent clients in SAAAME regions will, for instance, more than double their wealth between 2012 and 2020.

The global middle class is projected to grow by 180% between 2010 and 2040, with Asia replacing Europe as home to the highest proportion of middle classes, as early as 2015.[5] Between 2010 and 2020, more than one billion more middle-class consumers will emerge globally, representing the largest single-decade increase in customers in history[6]. This increasing affluence will fuel the need for financial products for a young and growing constituency. In addition to the HNWI growth, there will be a massive increase in the middle class in the developing regions. Although the growing middle class represents low individual wealth, there is significant opportunity to serve that demographic if done thoughtfully and efficiently.

4 Mass affluent are defined as those having wealth between USD 100,000 and USD 1 million.

5 Source: European Environment Agency; OECD Development Centre; PwC analysis.

Notes: Data is forecast and was last uploaded by the European Environment Agency on 29 November 2010; middle class is defined as households with daily expenditures between USD10 and USD100 per person in purchasing power parity terms.

6 OECD 2010, Homi Kharas, The Emerging Middle Class in Developing Countries.

A more prominent role for SWFs in global capital markets

Many countries have set up government-owned SWFs for a variety of macroeconomic purposes, such as stabilisation (insulating the public budget from swings in commodity prices), saving for future generations and investments in socio-economic projects.

There has been a rapid accumulation of foreign assets by many of these SWFs, particularly by oil-exporting and some Asian nations, thanks to high oil prices, financial globalisation and sustained large global imbalances. This trend is set to continue over the next decade. As a result, the size of SWFs is rising fast and their presence in international capital markets is becoming more prominent. SWFs' AuM are currently above $5 trillion and are set to surge to nearly $9 trillion by 2020.

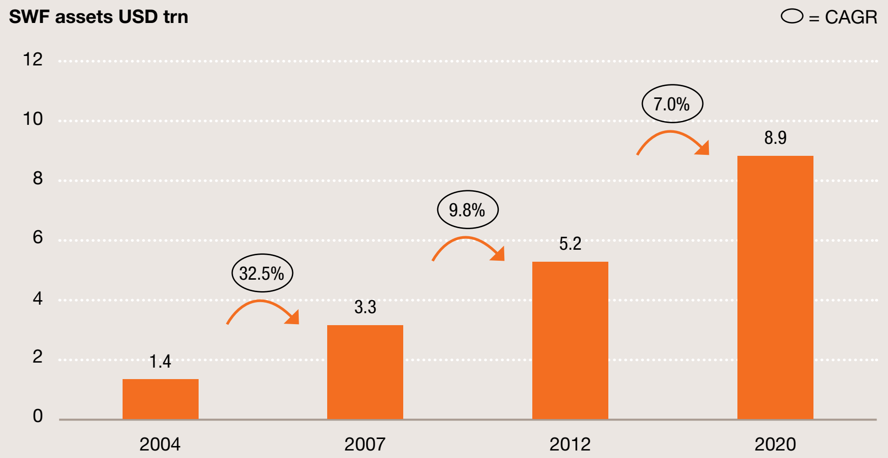
SWFs based in the Middle East and Africa will grow the fastest, with Asia Pacific also seeing a rapid rise in SWF assets.

Pension fund assets will reach close to $57 trillion by 2020

Retirement assets have risen from $21.3 trillion in 2004 to $33.9 trillion in 2012 and we predict they will grow by 6.6% a year to reach $56.5 trillion by 2020.

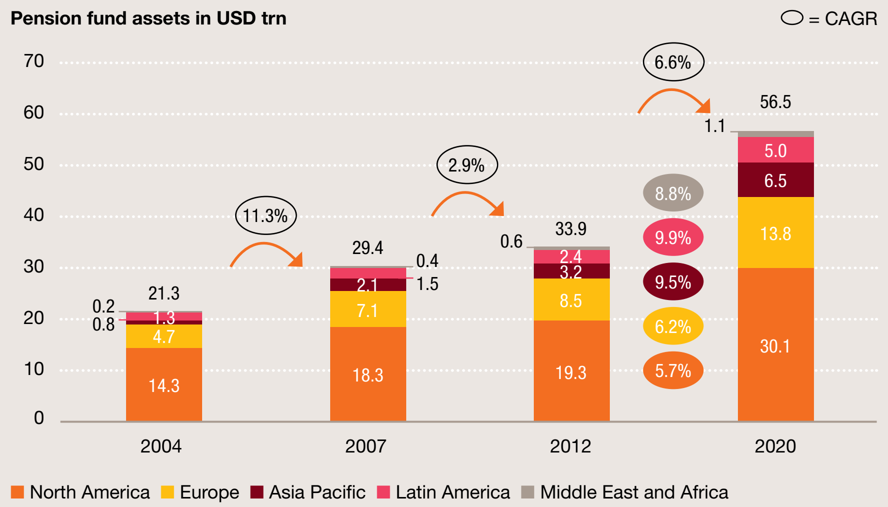
Defined Benefit (DB) schemes will persist for the balance of this half-century and even though the majority of them will be frozen and/or defeased, they will continue to represent a critical mass of AuM. However, the increase in investable assets mainly stems from DC schemes created in countries of fast-growing GDP and prosperity. By 2020, DB schemes will represent a far smaller, though not insignificant, pool of assets; however, DC will be the dominant model for retirement savings. The growth in pension assets and the regional breakdowns are shown below.

Figure 7: Global SWF assets projection for 2020



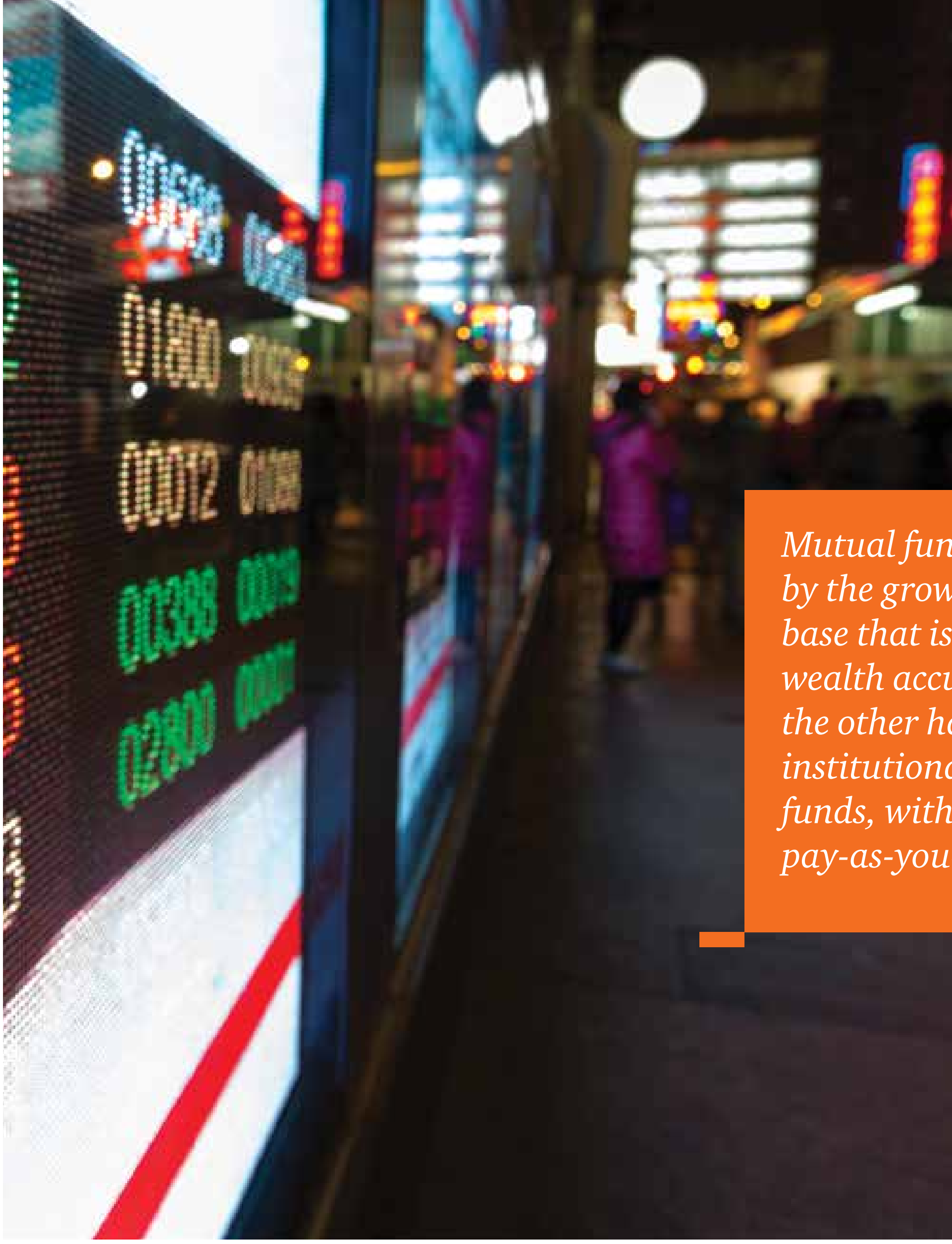
Source: PwC analysis. Past data based on SWF Institute data.
Note: These figures only include estimated investable assets, and do not include foreign reserves or gold.

Figure 8: Global pension fund assets projection by region for 2020



Source: PwC analysis. Past data based on The City UK data.

Pension funds will swell the total assets managed as both developed and developing countries attempt to bring more savers under the retirement umbrella. Growth in new pension assets will be strongest in Latin America and Asia Pacific with growth rates above 9% each. But the US and Europe will still have the largest pools of assets in 2020 – above $30 trillion in North America and close to $14 trillion in Europe.

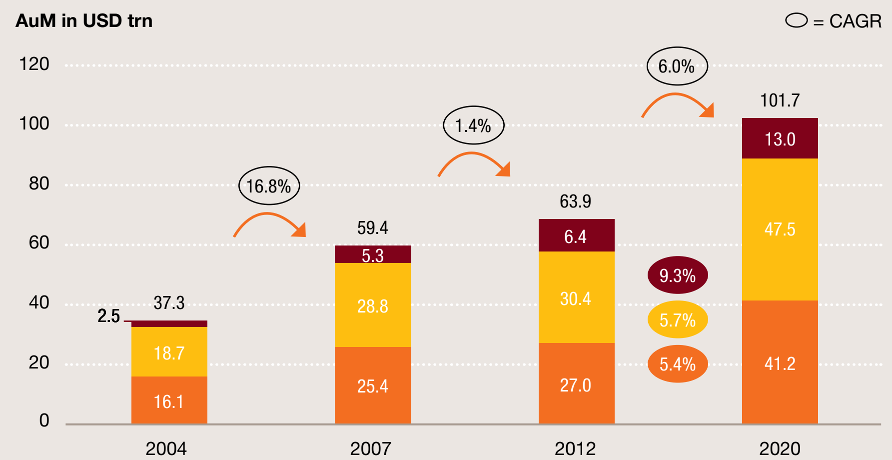


Mutual fund growth will be fuelled by the growing middle-class client base that is saving for retirement and wealth accumulation. Mandates, on the other hand, will see growth through institutional investors such as pension funds, with the ongoing shift from pay-as-you-go pension systems to DCs.

Mutual funds and mandates to grow in tandem

Mutual funds are expected to grow at an annual rate of 5.4% and mandates at an annual rate of 5.7%. Mutual fund growth will be fuelled by the growing middle-class client base that is saving for retirement and wealth accumulation. Mandates, on the other hand, will see growth through institutional investors such as pension funds, with the ongoing shift from pay-as-you-go pension systems to DCs. Mandates will also swell as a result of the rise of SWFs and HNWI clients, who are accumulating wealth at a fast pace.

Figure 9: Global AuM projection for 2020



Source: PwC analysis. Past data based on Hedge Fund Research, ICI, Preqin, Towers Watson, and The City UK data.

2

Pressures on the asset management industry

There are significant opportunities for asset managers ahead. However, there are also clouds looming in the future. Alongside rising assets, there will be rising costs. The costs of asset management will continue to soar as they have in recent years and margins in 2020 may be no higher – and may well be lower – than in the current post-financial crisis era. Profits today are still 15%–20% below their pre-crisis highs – according to industry analysis – and it is debateable whether they will have reattained these levels by 2020.

Why do we think this?

First, the costs of responding to, and complying with, regulation may plateau, but will likely remain high by historical measures.

Commercial cost pressures will also rise as firms grow their distribution networks and product manufacturing capabilities to take advantage of increased opportunity, particularly in SAAAME regions.

Fees earned by asset managers will be under continued pressure amid the ongoing push for greater transparency and comparability from investors as well as scrutiny from policymakers and regulators.

Meanwhile, product sets for global firms will have to be diverse to match the needs of scale clients such as large pension funds, endowments, insurers and SWFs. These clients will increasingly expect alternative strategies to be part of the product set offered. With this pressure comes an additional cost, mainly to the global firms by way of on-boarding clients and distributing these products.

Investment in technology and data management will also need to be maintained or increased to maximise distribution opportunities, or to benefit from new opportunities offered by new technologies and social networks, and to cope with the rigours of regulation and reporting. Based on our analysis, we see operations and IT spending to continue to rise over the next years. While a cooling-off period can be expected in major planned IT spending of the US in 2013–2014,[7] European firms are expected to catch up with the technology investments and spending through 2020.

Fund distributors will have stress on their resources in the years to 2020; therefore, the skills required for an increasingly complex and resource-intensive distribution landscape will test the industry's best. There will be a different focus for wealth managers, mainly due to changes in baby boomers' needs. Wealth managers will have to deal with decumulation rather than accumulation of wealth, helping clients manage retirement lifestyles and managing wealth transfer to the younger generation.

7 Source: Celent, Wealth Management Spending A Global Perspective, Oct 2012.

New entrants to the AM industry from other sectors could disrupt a structure that has existed largely, unchanged, for several decades. A potential source of disruption could come from social media or technology companies, which may combine their reach, knowledge and influence with banking alliances to provide compelling AM propositions. A social media firm such as Facebook or Twitter could, for example, provide distribution services, and partner with a bank or buy a back-office servicing firm to create an integrated AM structure. Equally, a payments' servicing specialist such as Paypal could provide an operating model challenge in the back and middle offices. This shift in focus is in large part due to the fact that the general public have high trust in the big technology companies. This is already evident in recent transactions in which Alipay bought Tianhong Asset Management Co. in Q3 2013. With this flexibility, Alipay's customers are able to invest their idle money in the Yu'E Bao money market fund. This will also put additional pressures on fees as efficient technology firms will be able to provide services at reduced cost.

Fund distributors will have stress on their resources in the years to 2020; therefore, the skills required for an increasingly complex and resource-intensive distribution landscape will test the industry's best.

So asset managers will enjoy ample opportunities over the coming years, but these opportunities will also be sought by a growing and diverse set of competitors.

3

Nothing to hide, nowhere to hide and nothing at risk

Beginning in 2013, successive waves of product legislation in Europe, European Market Infrastructure Regulation (EMIR), Packaged Retail Investment Products (PRIPs), Markets in Financial Directive (MiFID) II and III.

Alternative Investment Fund Managers Directive (AIFMD), Undertakings for Collective Investments in Transferable Securities (UCITS) V, VI, and VII, EMIR, PRIPS, MiFID II and III, AIFMD and UCITS V, VI and VII, Shadow Banking I and II) and the US (Dodd-Frank amendments to the Investment Advisors Act) have all placed greater demands on asset managers and their service providers – forcing changes in fund product features, service provider arrangements, regulatory and investor disclosure, distribution channels, compliance and risk management functions, etc. – and in some cases forcing revision of business models.

With the banking sector more under control, regulators are turning their attention to asset managers, scrutinising their culture, interactions with customers and effectiveness in implementing required regulatory changes.

This regulatory focus will continue to increase through 2020, with firms having to make corresponding increases in compliance staff to cope with increasing regulator demands and the challenges of implementing regulation effectively. The costs of not successfully meeting these challenges are likely to be increasingly significant – both in terms of monetary fines and reputational damage, both of which the industry can ill afford.

The G-SIFI debate – whether and which asset managers and funds are systemically significant – is only just getting started. By 2020 we will have a much better idea of what additional regulatory challenges the largest asset managers may have to bear, but expect it to focus on increased reporting requirements and better planning for recovery and resolution, particularly where clients' assets are at stake.

Increasing regulatory pressure to restructure the banking sector will play into asset managers' hands. As the deleveraging of banks continues from 2013 to 2018, in part driven by the European Central Bank's ongoing focus on stress testing the balance sheets of Europe's top banks, asset managers will continue to move into areas traditionally dominated by the banks.

Alternative asset managers will continue to broaden their product ranges to include primary lending, secondary debt market trading including distressed and non-performing loans, primary securitisations and off-balance sheet financing.

The move of alternative asset managers into the finance space vacated by banks will lead to a period of sustained product regulation. The early stages of portfolio and risk disclosure which has begun with Dodd-Frank and AIFMD transparency reporting, will be continued with shadow banking legislative initiatives from 2014 and 2016, and will have become the norm across the globe by 2020. Only the plain vanilla managed account will remain outside product regulatory reporting regimes. While the

Access to portfolio-level data will become the norm as institutional investors including pension funds, increasingly use portfolio-level data to manage their own risk levels and for reporting to their own home state regulator.

developed world has been at the forefront of this product reporting, increasingly Asia will follow suit as it is indirectly imposed to all jurisdictions through peer reviews.

By 2020, technology used by regulators may enable real-time access to the investment portfolios of asset managers, either via asset managers or from their administrators. Real-time portfolio data will be cross-referenced to market data and activity to support regulatory oversight of market conduct and product appropriateness.

Full transparency over investment activity and products will exist at all levels; there will be nowhere for non-compliant managers to hide as regulatory, tax and other information's reciprocal rights will extend across the globe. Access to portfolio-level data will become the norm as institutional investors including pension funds, increasingly use portfolio level data to manage their own risk levels and for reporting to their own home state regulator.

This need for greater portfolio-level transparency started with European insurers under Solvency II, but will spread to the US and Asia.

In 2013, Switzerland joined South Africa and other jurisdictions in requiring pension funds to provide detailed reporting to their home regulator. This requirement will spread across the globe as more countries introduce DC pension plans.

A consistent campaign of anti-tax avoidance measures, driven by the OECD since the Base Erosion and Profit Shifting (BEPS) report in 2013 will see asset managers operating in a world where country-by-country reporting of profits, tax paid and employee numbers is the norm.

As part of the response to BEPS, many offshore financial centres will raise the bar as to the level of substance that is needed within their jurisdiction in order to access double tax treaties (DTT); this process commenced with Mauritius and the Netherlands in mid-2013. This has shone the light on the level of substance and related profitability that asset managers have in offshore financial centres. In reaction to this, asset managers will increase cross-border passports and reciprocities and will have to decide in which key locations they will have activities. This will result in a consolidation of the number of jurisdictions from which asset managers operate.

The concerns that pre-dated the arrival of FATCA in 2014–15 will turn to acceptance as first the EU adopts a more comprehensive regime of tax disclosure under an updated EU Savings Directive, and then some other countries or country groups follow the US to put in place their versions of FATCA. By 2020, the globe will be criss-crossed with a network of Tax Information Exchange Agreements, which entwine all of the major offshore financial centres into the global tax data-sharing arrangements.

Asset managers will have to build extensive 'Know your Customer' and anti-money laundering (AML) systems in order to capture the key tax data needed to be able to deal with automatic tax data provision, not only to the tax authority where the manager and the fund reside, but also to each tax authority where investors reside. Local AML rules will include tax avoidance (and indeed aiding tax avoidance) as a money laundering offence, so asset managers' customer handling teams will be required to be trained to spot and test for investor's wealth to determine it has been generated by tax avoidance.

Sadly, little progress will have been made in aligning tax systems, so asset managers will have to grapple with a huge jigsaw puzzle of tax residency definitions for potential investors, as well as different bases of taxation of investment income and capital gains in each jurisdiction.

Portfolio-level disclosure, investor and regulator reporting and tax information exchange all demand huge capabilities for massaging fund data. These pressures all add to the huge technology and data focus and spend, which will be crucial for asset managers in 2020.

AM 2020: Gamechangers that will redefine the industry

The asset management industry will, as we have set out, operate amid a significantly changed landscape in 2020.

How can industry participants respond to the new world? PwC believes that there are six powerful gamechangers that they will have to analyse and address in order to capitalise on the opportunities this changing landscape presents.

We believe the six Gamechangers to be:

1. Asset management moves centre stage
2. Distribution is redrawn – regional and global platforms dominate
3. Fee models are transformed
4. Alternatives become more mainstream, passives are core and ETFs proliferate
5. New breed of global managers
6. Asset management enters the 21st century

1

Asset management moves centre stage

Asset management has long been in the shadows of its cousins in the banking and insurance industries. By 2020, it will have emerged definitively from their shadows.

Historically, banks have dominated the financial landscape and have traditionally been innovators, as well as first movers. At the same time, insurance companies have always enjoyed enviable asset flows, which have allowed them to create sizable captive AM divisions. Thanks to their sheer size and to their skills in lobbying, these institutions have had the ear of policymakers and have been able to have a voice in the market structure and the political agenda.

But their influence is expected to have diminished by 2020 and changing demographics and markets will thrust the AM industry to centre stage. What will be the drivers of this shift in the balance of power?

First, regulation imposed in the wake of the global financial crisis (GFC) will continue to provide a hindrance to the banks and insurers by forcing them to abandon proprietary investing as well as other non-core businesses. The rising cost of capital will severely curtail the ability of banks and insurers to provide and recycle capital. We estimate that European banks alone have a capital shortfall of more than $380 billion,[8] amid the drive to deleverage. This will create a vacuum into which asset management will step and place itself at the centre of efforts to reinvigorate the world economy.

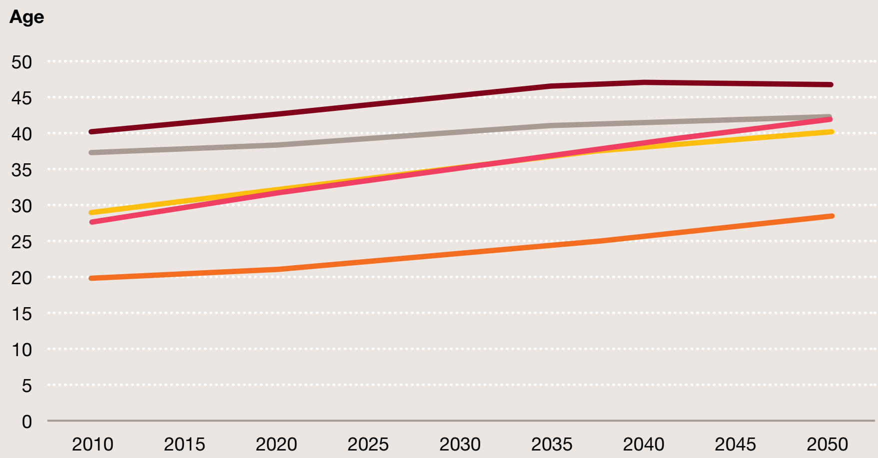
Second, as the world ages, retirement and healthcare will become critical issues – as opposed to the looming concern of today. The speed of change over the next generation is alarming: the old-age dependency ratio for the world is forecast to reach 25.4% in 2050, up from 11.7% in 2010.[9] Therefore, asset managers will need to focus on longer term accumulation of wealth, and a broader mix of accumulation and decumulation of their clients' assets. As longevity rises, there will be a concurrent increase in the costs of healthcare and AM clients will need to save more to pay for healthcare, particularly in the US. Retirement is a particularly pressing issue in the US, where 77 million Americans were born between 1946 and 1964.[10]

8 Source: PwC, De-leverage Take Two: Making a virtue of necessity, November 2013.

9 Source: 'Old-age dependency ratios', The Economist, 9 May 2009. Measures the number of elderly people (65+) as a share of those of working age (15–64).

10 Source: Immigration Policy Center.

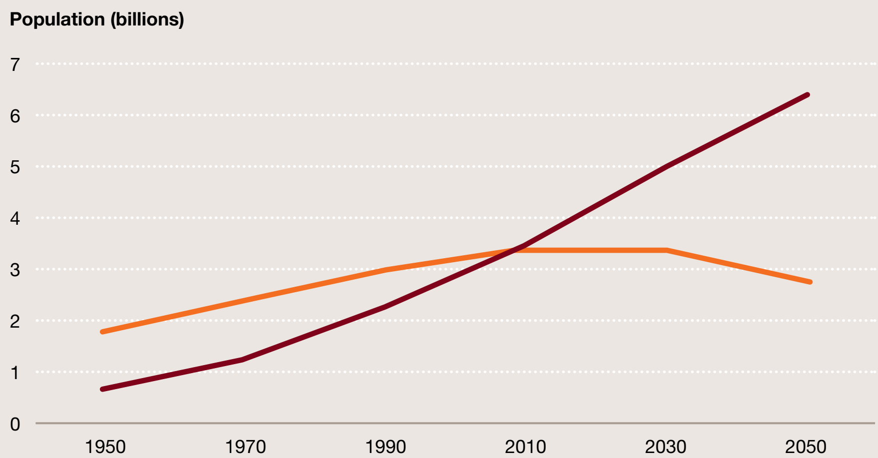
Figure 10: Median age by region



— Africa — Asia — Europe — Latin America and the Caribbean — Northern America

Source: United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects: The 2012 Revision, New York, 2013.

Figure 11: Global urban and rural population trends and UN projections



— Urban — Rural

Source: United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects: The 2012 Revision, New York, 2013.

As the median age increases, there will be a shift in portfolio allocations. Customers will demand more fixed-income and income-generating assets; in a recent PwC survey of asset managers, low-risk yield products are the single most important product type. But demand for solutions-based products tailored specifically for the retirement market will grow rapidly. Retirees will have increasingly disparate needs – some will favour hobbies over healthcare, some will favour spending over security – so solutions and the allocation within them will need to be tailored. While these tailored products already exist in the US and the UK, they do not exist in many other geographies. TIAA-CREF, for instance, one of the largest retirement systems notes that average allocations to life-cycle funds in the US rose from less than 1% in 2005 to 22% by 2011.[11] By 2020, most countries will offer tailored retirement products, in some instances by law.

Thirdly, asset managers can become more important financial actors in driving capital raising and deployment required to meet the demands of growing urbanisation and cross-border trade. The world urban population is expected to increase by 75% from 2010 to by 2050, from 3.6 billion to 6.3 billion. The urban profile in the East will see many more ‘megacities’ emerge (cities with a population in excess of 10 million). Today’s 23 megacities will be augmented by a further 14 by 2025, of which 12 will be in emerging markets.[12]

11 “Trends in Premium and Asset Allocations by TIAA-CREF Participants: 2005 – 2011,” TIAA-CREF Institute Research Dialogue #112, 2013.

12 Source: United Nations, Department of Economic and Social Affairs, Population Division (2012). World Urbanization Prospects: The 2011 Revision.

In a recent PwC survey of asset managers, low-risk yield products are the single most important product type. But demand for solutions-based products tailored specifically for the retirement market will grow rapidly.

This will create significant pressure on infrastructure. According to the OECD, $40 trillion needs to be spent on global infrastructure through 2030 to keep pace with the growth of the global economy. Some policymakers appear to have grasped the nettle: in Europe, after considerable debate, the European Long-Term Investment Funds (ELTIF) initiative was finally crafted in 2013, helping European asset managers to invest in infrastructure. But infrastructure investing will be disproportionately invested in emerging markets and emerging market asset managers have recognised this and already started to focus on it.

Fourth, asset managers will be at the centre of efforts by SWFs to deploy and diversify their huge pools of assets. Approaches to the SWF market will evolve, becoming more sophisticated and more targeted. The rapid growth of SWF assets will provide a ready pool of assets to tap; however, the winning asset manager will need to focus on the different needs and types of SWFs. They have diverse objectives, cultures, time horizons and risk appetites – specialist information on individual SWFs is already sought by asset managers who aspire to be successful and established in this space by 2020.

There is a clear opportunity for asset managers with sustainable, long-term capabilities to benefit from these trends. We believe that asset management will, by 2020, be widely viewed as an important part of the solution to the considerable challenges faced by policymakers and the public alike. To benefit from the long term capabilities the industry offers, individual firms will need to engage openly with policymakers and regulators alike.

The AM industry needs to further develop trust within the broader community and this starts with ensuring this community understands what AM stands for and how it works. Asset managers are not quasi- (or shadow) banks. They will need to demonstrate that they can serve the requirements of their clients by being client-centric, and of the broader economy by acting at all times in the best interest of clients and facilitating capital flows and capital allocation in the economy.

The asset management industry needs to further develop trust within the broader community and this starts with ensuring this community understands what asset management stands for and how it works, as well as the duty of care it practises on behalf of investors.

The regulatory and public backlash following the GFC has shown how weak the industry was in being able to effectively message its position. It is only in the last couple of years that we have seen asset managers outside the US invest in teams focused on policy and societal usefulness. Many firms remain hampered either by underinvestment in such teams or by the sharing of such teams within a broader group and resultant dilution of messaging. The industry by 2020 will increasingly focus on articulating its purpose, but on broader messaging and PR campaigns to ensure the community at large 'gets us' and views the industry as part of the solution rather than part of the problem.

The approach to achieving this should be based on firm, identifiable actions. These actions should start with a concerted effort at both the industry and the firm level to cultivate relationships with policymakers and the greater public through the press. This means staying close to decision-makers and the media. Local expertise and market intelligence are imperative to better understand regions, investor needs and geopolitical issues. Success requires considerable set-up time talking to investors, distributors, regulators and politicians outside of the home market. This creates challenges as the AM industry is more fragmented than many others and has many players. It is particularly important to devote resources for dealing with governments in regions away from one's traditional centre of business, since they will become important potential investment partners. Close cooperation can also help mitigate any protectionist measures imposed by individual countries which view outside asset managers as a potential threat.

Trust will also be derived from the creation of best practice governance regimes in which conflicts of interest are genuinely and demonstrably well-managed, or eliminated altogether. Policymakers, standard setters and investors will emphasise trust and will seek to reduce instances of conflicts of interest. This will change the manager–client compact: asset managers will need to actively manage the expectations gap between customers' short-term desire for performance and the natural shift to longer term assets such as private equity and infrastructure. Efforts to educate will show the greater social purpose of the industry.

To achieve this will mean greater investment in government and regulatory policy teams and associations at the regional level, or even better, global level, and a clear and well-signalled focus on investor alignment of interest and transparency. Transparency and alignment of interest will apply to portfolio management, product governance and distribution.

Asset management will become more proactive by 2020 as the industry learns to systematically deliver the message that it provides, enduring social value alongside strong investment returns. This message will be targeted broadly – beginning with clients and extending to national and pan-regional levels. The perception that AM is secondary to banks and insurers will have largely faded by 2020 and, through its efforts, the industry will be viewed as distinct and not as an adjunct to its close relations.

Messaging will need to be systematic and consistently focused on the value the industry brings. This will change the way that the industry approaches the media. A 2020 asset manager earnings' release could for instance read as follows:

Press Release – InvestmentCo earnings' announcement

For immediate publication January 7, 2020

Despite another challenging year in the financial markets, our focus on both our investors and the broader community has continued to be repaid many times over as new inflows totalled over RMB278 billion. Our launch in 2014 of our retirement solutions' range has led to us providing an average annualised return of over 5% net of fees to nearly 70 million retirees within the EMEA and South East Asian regions. Our innovative fee structure designed for the long-term horizons of such investors and enabled through technology continues to be a key success factor in this story. Our Real Assets arm has now established relationships with 24 cities from Panama City to Phnom Penh and has been hugely successful in working with these cities by funnelling over RMB140 billion of public and private investment into sustainable projects since 2015. This investment both serves the communities and provides a satisfactory yield to our investors. In particular, our projects in Laos and Guatemala have enabled the provision of low-rent housing and basic water and power provision to over 4 million people over the past 18 months. Our core asset solutions business remains key to our broader success, owing to our ability to provide diverse solutions to our mass affluent and high-net-worth clients. This has led to strong growth of over RMB20 billion and we have expanded our distribution to 17 more territories over the past 15 months through a variety of local partnerships. Effective risk management is at the heart of what we provide across our investor universe and is tailored to the individual needs of the investor as well as taking into account our social and macroeconomic impact. Finally, we were proud to have been instrumental in working with the governments of Ghana and Paraguay to establish their new state-sponsored pension regimes and look forward to supporting their growth by expanding our retirement solutions' range to meet their specific needs. Overall, our continued commitment to both our clients and the broader social agenda has enabled us to return a healthy 5% in dividend yield to you – our shareholders – while enjoying a steady growth in our underlying stock price of 3% above the industry average.

About InvestmentCo

InvestmentCo is an independent asset management firm responsible for the investments and savings of over 100 million individuals and institutions across the globe. We currently manage RMB14.3 trillion in assets ranging from passive mandates to real assets and private equity. Our core philosophy remains that of better serving our investors and the broader community in order to better serve our shareholders.

2

Distribution is redrawn – regional and global platforms dominate

By 2020, four distinct regional fund distribution blocks will have formed which will allow products to be sold pan-regionally. These are: North Asia, South Asia, Latin America and Europe. As these blocks form and strengthen, they will develop regulatory and trade linkages with each other, which will transform the way that asset managers view distribution channels.

The US will most likely not be a part of these efforts as it continues to adhere to its existing investment company regulatory model. Reciprocity within the four regions will facilitate far greater global distribution opportunities for AM firms. While inter-block linkages will begin to form, they will be rare until after 2020.

So how will these blocks form and linkages between them develop?

First, there will be far greater regulatory integration within the Greater China bloc including China, Hong Kong and Taiwan. The Hong Kong–China mutual recognition will be fully established and the framework will have been adjusted to enable flexible product with retail distribution from Hong Kong into China. Taiwan will also have joined the link-up.

In South-East Asia, the ASEAN countries' efforts to create a structure that allows recognition of mutual funds in all countries of the region will be well-established by 2020. The original ASEAN platform of Singapore, Thailand and Malaysia will now include Indonesia, the Philippines and Vietnam, all emerging countries with large numbers of wealthy middle-class investors.

Both the North Asia and South Asia regions will, by 2020, have created initiatives that facilitate cross-selling of investment funds. The APEC Asia Funds Passport initiative will be in existence, with the first fund launched in 2016 by the founding members – Australia, New Zealand, Singapore and Korea. By 2020, other countries such as Japan will have come into the fold. As a result, the regional cross-border fund passporting regimes will by 2020 have started to enter interregional bilateral agreements, paving the way for an integrated passport at a quasi-global level and allowing asset managers to distribute products across Asia.

At the same time, most of Latin America will have agreements that allow funds established in one country to be distributed in another without the need for full registration – and all the expense and resource this entails.

Meanwhile, the UCITS structure, which binds the European investment landscape will continue to gain traction within Europe and in Asia and Latin America, where it has already established strong roots. Reciprocity between the SAAAME markets and Europe will be developing quickly by 2020, building on the reciprocity of the AIFMD model, which allows non-EU alternative funds to be distributed in Europe. Already by 2013, 70 memoranda of understanding for AIFMD had been signed by the European Securities and Markets Authority.

The move to regionalisation will not result in the immediate creation of fund flows. The recognition and adoption of global platforms will be slow but steady. UCITS, which is the only regional platform that currently exists, saw assets rise steadily rather than spectacularly in the early years. Since the introduction of the Directive in 1988, UCITS have grown to 41% of total assets managed in Europe and above 50% of net sales[13]. It is likely that other investment funds will benefit from this precedent in terms of cross-border or global distribution. So Europe has an opportunity to open itself up to greater flows by 2020 and it is to be hoped that regulation does not focus on protectionism in the meantime. Although, this concern exists in 2014, we do not feel it will materialise in the longer term.

Beneficiaries in these burgeoning linkages will be territories that can demonstrate a framework of long-term stability and commitment to serving an international fund industry. This is likely to be the so-called gateway locations of Ireland, Luxembourg and, increasingly, Hong Kong and Singapore. They are small enough to ensure a limited domestic agenda and have demonstrated a proven focus on providing experienced resources to service the industry. In a world of increasing focus on systemic global risk, however, the price of such a position will be greater scrutiny by foreign regulators. We will also see some of the traditional offshore locations, such as Cayman or the Antilles, retool themselves as secure and regulated jurisdictions, and then potentially accessing the Mercosur block. Traditional AM hubs, such as London, New York, Frankfurt, and Paris will continue to dominate the management landscape, but this will begin to change as a new centre of AM will emerge with the shift in global assets.

The huge global platforms that will be created may be unwieldy and also involve considerable concentration in small locales. But this will be balanced by the benefits of scale and speed to market for new products. Managers will need to determine early which jurisdictions to focus on to establish their platforms and the product set which should be aligned to each.

Asset managers will require boots on the ground because a rapport will have to be established with policymakers and standard setters in every jurisdiction of operation. Although there will be greater linkages at a regulatory level between many countries and regions, due to pressure from international standard setters, regulators will remain idiosyncratic in some areas. The types of employees required by asset managers for these roles may be different from those currently operating in foreign jurisdictions. The soft skills of diplomacy and cultural knowledge and understanding will be as important as traditional functional skills.

The scale of opportunity combined with increased cross-border access will provide the backdrop for a number of fast-growing SAAAME-based competitors to emerge and not only take on the global managers in SAAAME regions, but in developed markets too. As AM moves centre stage, a great many players will seek to get in on the act.

13 Source: EFAMA.

3

Fee models are transformed

Most markets today operate with a model that embeds distribution and management fees in some shape or form and misaligns distributor objectives with those of the investor. This may be through embedded fee arrangements, such as in Europe or front-end fees as in Japan.

By 2020, virtually all major territories with distribution networks will have introduced regulation to better align interests for the end-customer, and most will be through some form of prohibition on having the asset manager allocate to distributors as evidenced in the UK's Retail Distribution Review (RDR) and MiFID II. This will increase the pressures of transparency on asset managers and will have a substantial impact on the cost structure of the industry.

RDR was conceived back in 2006, based on a 'fair deal' for retail investors to provide greater transparency and value-to-cost for the customer. Implemented in the UK in December 2012, RDR was designed to end the potential conflict of interest that arose when investors used independent financial advisors to source funds. The UK regulator believed some of these advisers were directing their clients to funds that would provide the largest commissions for the advisers. In short, investors were not necessarily receiving the best investment advice. The new regulation increases transparency by making firms outline the fees that an adviser is charging a customer.

RDR is now spreading, particularly in Europe, but also in other regions. Versions of RDR have already been created in India and Australia, and are in the process of being created in Switzerland, Germany, Italy and South Africa. We believe by 2020, RDR or similar regulation on fee models and the related disclosures will apply to all major markets including Asia.

The main implications for fund managers of this shift are:

- Investment firms will increasingly use different models for the mass affluent – it will simply be too expensive for many firms to service retail investors, so they will offer more self-directed services. They will instead move up the curve to wholesale platforms and HNWIs.
- The mass affluent market will become increasingly self-directed, which will benefit online direct retail platforms.
- It will drive a lower cost model across the AM spectrum, since a whole raft of commissions will be taken out of the structure.
- The absence of distribution commissions based on a management fee will eliminate any incentive for distributors to sell products with high-expense ratios that have no incremental value, further opening up the market for passive and other low-cost products, such as ETFs.

- Simple-to-explain products will benefit as advisers spend less time explaining strategies.
- Solutions that are demonstrably targeted to investor needs will become the norm as advisers and managers work together to provide a compelling overall value proposition. This will provide an opportunity for alternatives managers to participate more broadly in the DC market and retail marketplace, as they will be the alpha engines, albeit at a reduced fee from their historical levels.
- Increased focus on financial education initiatives, both as a means for managers to establish brand and for distributors to explain the value of advice.

Regulators may push on from RDR and regulate fees in their entirety. In India, a cap already exists and in the UK, the Financial Conduct Authority is currently carrying out a review of fee levels. The European Parliament recently suggested creating a pan-European observatory of fund fees. While regulators are already starting to compare and cooperate, by 2020 there could be full-scale 'contagion' and a global regulatory consensus could well be underway. With the unbundling of the value chain for products, asset managers will see decreased margins, placing the emphasis on scale and operational efficiencies.

In many countries, these reforms are directional in nature, with greater specificity expected in the years ahead. However, the message is clear: cost matters; transparency is key; and the firms who adapt quickly to this environment will be among the winners in 2020.

4

Alternatives become more mainstream, passives are core and ETFs proliferate

Traditional active management will continue to be the core of the industry as the rising tide of assets lifts all strategies and styles of management. But traditional active management will grow at a less rapid pace than passive and alternative strategies, and the overall proportion of actively managed traditional assets under management will shrink.

Alternative and passive assets will grow considerably faster in the lead-up to 2020, to become more significant components of portfolios. By 2020, both alternatives and passive products will represent 35% of total assets managed by the industry.[14] We consider passive investments to include exchange-traded funds and other index-tracking schemes. Alternative investments primarily include hedge funds and hedge fund-like products, private equity funds and real estate investments.

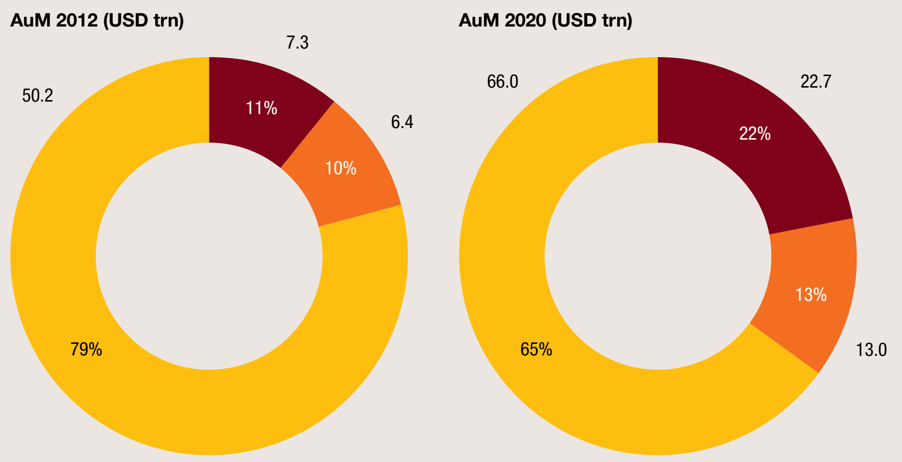
Passive investments to reach $22.7 trillion by 2020

The increased share of passive investments will be driven by both institutional and retail investors' demands.

The separation between alpha and beta currently observed in the industry will further accelerate as investors increase their investment allocation towards passive products in search of low management fees and broad beta market exposure.

An analysis of the top 10 global asset managers over the past five years confirms this trend, with Vanguard showing the most significant growth during the past years with its emphasis on passive products. It is followed by BlackRock, which has derived the dominant part of its growth from iShares.

Figure 12: Share of active, alternative and passive within Global AuM



Source: PwC analysis. Past data based on ICI, Lipper, Hedge Fund Research, Preqin, The City UK and Towers Watson.

14 Source: PwC analysis based on Hedge Fund Research, Preqin, ICI, Lipper, Towers Watson and The City UK data.

The increasing use of the core-satellite allocation, bridging active and passive exposures, will provide investors with better transparency for performance attribution through clear isolation of alpha and beta.

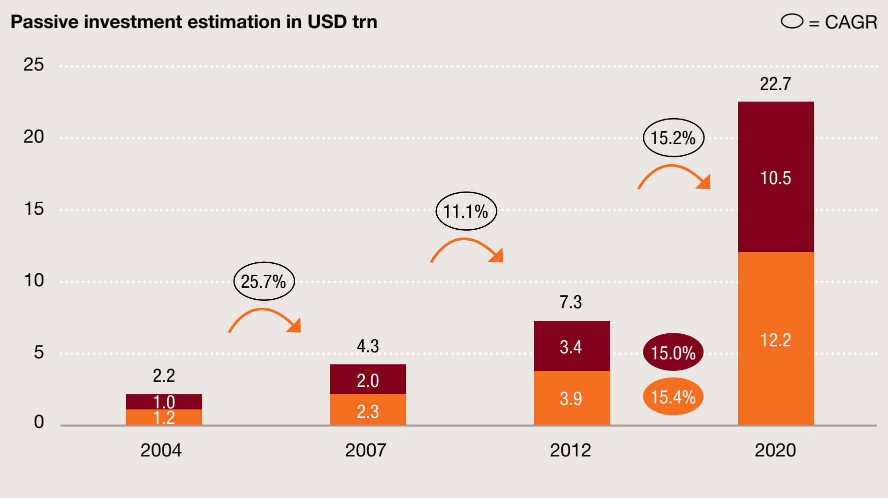
Arguably, there has been a barrier for the active managers because of the regulation from RDR and MiFID II in Europe; therefore, passive strategies are likely to be boosted as ex-US regions catch up with the US. Growth in passive will also be driven by bans and cost transparency through regulation and, eventually, investors' desires, along with the trend towards more widely diversified portfolios, which pursue greater return with reduced volatility.

In addition, new uses for ETFs will develop as the level of product sophistication continues to increase. For example, institutions will increasingly use them to achieve specific asset class or geographic exposures, while retail investors will employ ETFs as a lower cost alternative to both active and passive mutual funds and UCITs.

The growth of passive strategies will also be fuelled by new innovations in this space, such as factor investing. According to Morgan Stanley Capital International (MSCI), factor investing represents a genuine 'third way' between active and passive, which will continue to grow in popularity. Factor investing will 'cross over' from the realm of active managers, through highly sophisticated institutional passive investors, and into the mass-market retail space.

Most global fund managers will have significant ETF offerings by 2020 to service the huge and growing demand. These offerings will encompass both passive and active strategies, and will also service the need for swift market access to alternative strategies. They will likely provide higher margins to firms, given that ETFs have much lower operational costs.

Figure 13: Global passive investments AuM projection for 2020



Source: PwC analysis. Past data based on ICI and Lipper.

Most global fund managers will have significant ETF offerings by 2020 to service the huge and growing demand. These offerings will encompass both passive and active strategies, and will also service the need for swift market access to alternative strategies.

Alternative investments to reach $13 trillion by 2020

A wider range of investors including retail will be able to access alternatives investments as regulators allow specific regulated vehicles – such as alternative UCITS in Europe and alternative mutual funds in the US – to be more widely distributed. Alternative asset classes will feature more prominently in institutional as well as retail portfolios, especially in developed markets. In particular, their growth will be driven by the HNWI and SWF markets, while the traditional DB plans, foundations and endowments modestly increase their commitments. The demand for greater alpha will broaden the proportion of alternatives by DC pension funds as well.

Uncertainty about the pace and amount of state intervention creates disproportionate opportunities and impacts, and it slows the overall economy and bank activities including lending. When the rules are changing, many investors tend to withdraw, while those with higher risk tolerances place bigger bets. This creates a chasm that separates winners and losers. Institutional investors will exploit the illiquidity premium, many of them enjoy, by increasing allocations to alternatives with illiquid risk-return profiles. Alternative assets are expected to grow by some 9.3% a year between now and 2020, to reach $13 trillion.

Alternative assets will – with few exceptions – be regulated. No alternative structure, no matter what the distribution channel, will be allowed to operate outside the regulators' purview.

In some parts of the world, alternatives will effectively move into the mainstream to the extent that the term 'alternative' may no longer remain in common usage by 2020. Alternatives will become part of the toolset employed in retail products as investors seek strategies with the prospect of alpha and protection against downside risks. However, a blow-up in illiquid assets that affects retail investors could lead to a backlash and a retrenchment of this trend. Regulators in Europe and Asia are already watchful. The industry will provide more education on alternatives to convey the message that the time horizons for such investments are generally long and the natural progression of performance is sometimes slow and not as visible as traded investments.

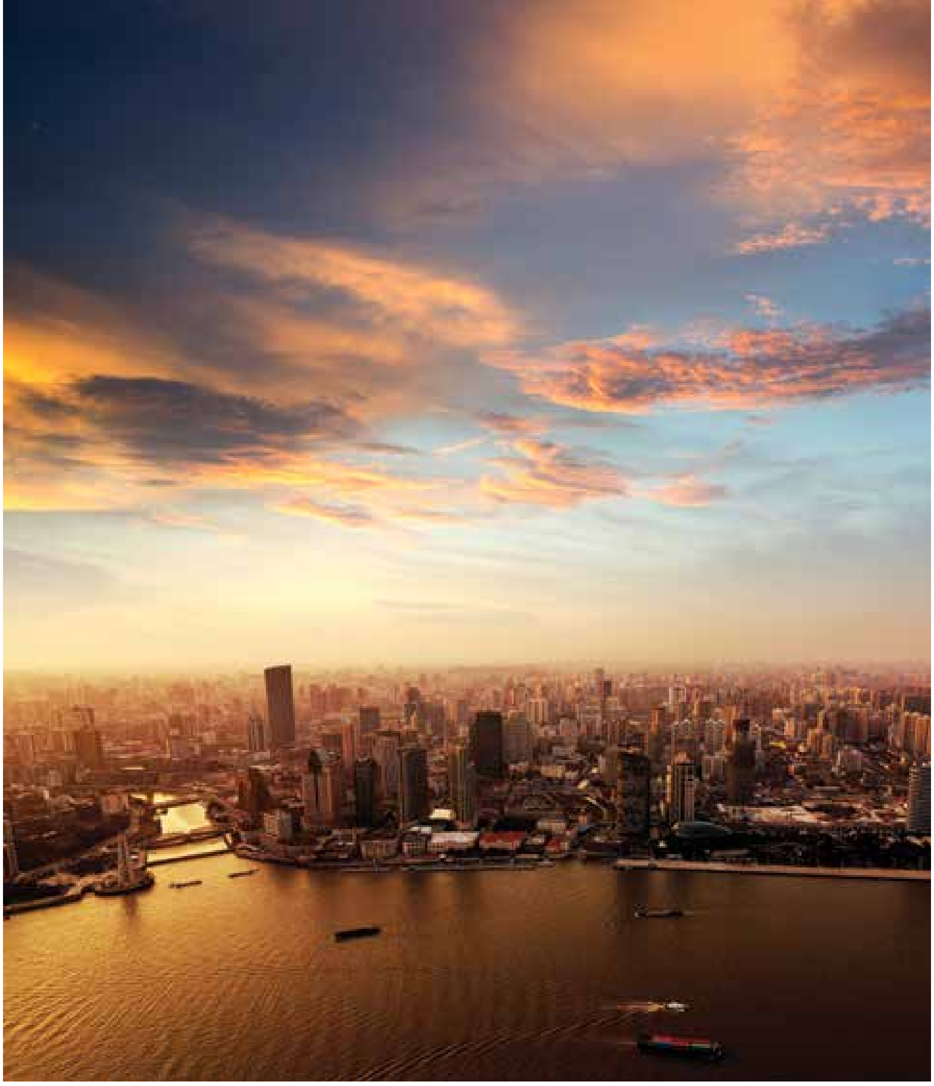
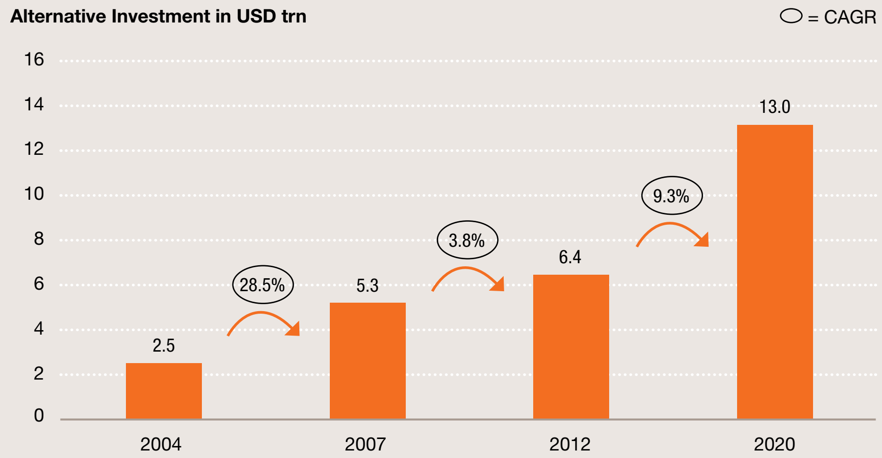


Figure 14: Global alternative assets projection for 2020



Source: PwC analysis. Past data based on Towers Watson, Preqin, The City UK and Hedge Fund Research.

Alternative assets will – with few exceptions – be regulated. No alternative structure, no matter what the distribution channel, will be allowed to operate outside the regulators' purview.

5

New breed of global managers

2020 will see the emergence of a new breed of global managers, one that will have highly streamlined platforms, targeted solutions for the customer and a stronger and more trusted brand. These managers will not only emerge from the traditional fund complexes, but from among the ranks of large alternative firms, too.

The fundamental drivers of this new breed of managers are:

- The creation of new regional blocks and new fund platforms to service those blocks will place the emphasis on cost, scale and efficiencies as never before. The ability to streamline and integrate processes will be critical to global success.
- Economies of scale will become more important. Some of today's large global managers will become mega-managers, with a foot in all geographies and channels. Similarly, some of today's larger alternative managers will become large global managers in their own right with full service alternative product offerings and distribution channels.
- The drive to achieve scale will be given further impetus as fee unbundling is rolled out across the world. Many regions will see a decline in the number and power of intermediaries who rely on commissions, so asset managers will have to develop or expand their own distribution capabilities through alliances with fee-only distribution channels. This will also allow the asset manager to be closer to the end-customer.
- Branding will play a major role in the desire to achieve greater scale. Brand will not just be important for asset gathering, but also for their own capital raising. The mega-managers of 2020 and beyond, as well as those firms that aspire to be mega-managers, will need to regularly tap capital markets to fund their expansion. In order to do this, they will need brands that are recognised in all the major markets.
- Similarly, large alternative managers that aspire to global growth will need to fund their expansion by tapping the capital markets, or through strategic relationships with others. Their global brands won't need to achieve the same global awareness as the mega-managers, but will still need greater recognition in the major markets and through major distribution channels.

Strong branding and investor trust in 2020 will only be achieved by those firms that avoid making mistakes that attract the ire of investors, regulators and policymakers.

- Few if any asset managers have created brands that are well-known in both developed markets and SAAAME markets. This is in stark contrast to the banking, consumer and automobile sectors. The emergence of a mega-manager model will provide the opportunity for a number of asset managers to establish brands that will become known and trusted in all jurisdictions.

- Strong branding and investor trust in 2020 will only be achieved by those firms that avoid making mistakes that attract the ire of investors, regulators and policymakers. This emphasises all office functions: front, back and middle, demanding an increased focus on investor reporting and transparency – accuracy, completeness and valuation, by way of third-party assurance – and country-by-country reporting. In addition, firms will make use of state-of-the-art technology that helps to identify, segment and retain key clients (see section 6).

- The shift to scale and the mega-manager model will also be driven by global regulation, which will provide a powerful barrier to entry to smaller firms. However, market structure will still leave room for local market specialists, spanning traditional, alternative and hybrid managers, who may or may not partner with the mega-managers. There will always be a place for best-of-breed specialist firms with deep domain and asset class expertise. However, the gap between these specialist firms and the mega-managers, which compete everywhere on everything, will widen dramatically.

Managers in the avant-garde of the new breed will have a number of characteristics in common:

- Attracting and developing talent will be at the forefront of their efforts to retain and enhance their competitive position. Talent development initiatives will continue to have a key role and will have evolved by 2020 to include innovative recruitment techniques with extensive use of social media in pursuit of diverse skill sets. They also will need to successfully partner with universities to tailor learning for the particular skill sets needed for successful careers.

- The most forward thinking firms will start now to recruit local teams in the key emerging markets – building and integrating them into the organisation before potentially redeploying them in their original territories as new distribution strategies are executed. For instance, regional hubs will be used to attract and nurture talent in Africa or China for training future risk and portfolio managers, as well as regional heads of distribution, compliance and policy.

- Remuneration models will be more aligned with investor needs rather than those of the firm. For example, a manager running a portfolio for a pension fund and also a portfolio for HNWIs will have distinct compensation structures. Their compensation relating to the pension fund may be a high base salary with uplift for sustained return and reduction for excessive risk, while their compensation for the HNWI channel may be a (relatively) lower base with a bigger uplift for short-term return. Overall, remuneration of managers will be more transparent and a key part of the sales process and ongoing investor communication. Investors will recognise and understand how their interests are aligned to those of the manager. In addition, non-financial performance will be increasingly important. Firms will evaluate and incentivise employees in pursuit of customer satisfaction, quality of service, team pursuit of opportunities and innovative thinking.

- Across the firm, there will be the flexible use of technology allowing for economies of scale, specialisation of needs and improved reporting. The outsourcing revolution that will take place among SAAAME asset managers will lead to the emergence of large SAAAME-based asset servicers. These groups will start to challenge existing global service providers from 2020 onwards.
- The trust of the general public must be regained by asset managers. They will have to articulate the social impact of the value that they are providing for all customers. This includes providing specific examples of the impact of their investments in the areas such as sustainability social policy and retirement advice.

Firms will evaluate and incentivise employees in pursuit of customer satisfaction, quality of service, team pursuit of opportunities and innovative thinking.

6

Asset management enters the 21st century

Asset management is a virtual business, but operates within a relatively low-tech infrastructure. By 2020, technology will have become mission-critical to drive customer engagement, data mining for information on clients and potential clients, operational efficiency, and regulatory and tax reporting. At the same time, cyber risk will have become one of the key risks for the industry, ranking alongside operational, market and performance risk.

The demand for a seamless, integrated and tailored solution for each customer will drive technology for asset managers in the future. There will be an emergence of strategic technology activities, and by 2020 most global asset managers will have hired a chief digital officer (CDO) to lead these activities. Already, we have recently seen such appointments at a number of the top AM firms.

Currently, 40% of asset managers are not actively involved in social media, other than hosting a website.[15] Technology in the form of social media, mobile phones and other devices will be pivotal in the collection and location of behavioural information that can be harnessed by asset managers to create appropriate products and reach more clients. At the moment, firms are adopting social media – the next step is social listening. Through social media, firms will, in 2020, be able to identify an emerging client need through data mining and from what they see and hear in social media, then offer timely products and services. This can be achieved through the creation of a digital intelligence infrastructure, which includes monitoring, dashboards, process flows and integration into CRMs. The desired result is: more leads, more qualified leads and deeper engagement with existing leads, resulting in a tailored product for the end-client.

Big Data will become more important for asset managers to better understand their customers and align products, pricing, risk and financial data to smooth the flow of information to the AM firm's leadership and sales' functions. The global cloud computing market, for instance, will grow from $41 billion in 2011 to more than $241 billion in 2020.[16] The influence of the retail sector, which has long understood the importance of Big Data in responding to clients' preferences, will pervade the AM sphere.

Asset managers will consistently deliver more operationally efficient organisations. Technology will play a key role in cost efficiency by 2020, providing stronger investor management and CRM capabilities. With the increase in global access there will be pressure on technology systems to provide accurate and timely information, while meeting security and privacy needs. Technology will have the flexibility and breadth to enable investor reporting as well as disclosure accuracy and completeness for investors, regulators and tax authorities. This will facilitate compliance with the plethora of overlapping tax and regulatory reporting requirements we will

15 PwC, #Social Media Studies, Asset Management in the Social Era, June 2013.
16 Source: Forrester, Information Archiving And Governance: A Market In Transition, August 2012.

It is not impossible to imagine mergers and joint ventures between asset managers and vendors. Cloud computing can significantly reduce fixed technology costs, particularly as security concerns over cloud computing are assuaged over time.

see emerge over the next few years. Technology is a necessary cost, reducing overall AM costs to AM firms, particularly when using outsourced technology solutions. For service providers, the competitive landscape will be red hot by 2020. Only those providers with the best technology offerings and with the scale to keep investing to develop new offerings will survive.

With fees under pressure and performance uncertain, creating the optimal infrastructure for front and back offices will be critical. This is likely to involve closer integration with vendors and the technology to plug and play with a number of vendors. It is not impossible to imagine mergers and joint ventures between asset managers and vendors. Cloud computing can significantly reduce fixed technology costs, particularly as security concerns over cloud computing are assuaged over time.

Risk products focused on avoiding reputational risk, in particular, will grow from being fringe strategies to material components of the portfolios of many institutional investors – particularly pension schemes and endowments. There will be a steady change in product demand and investment policies, due to increasing consciousness about natural resource risks and the scarcity of the natural resources in particular. As these risks become more material to the clients of AM firms, so AM firms will focus on them too. Going forward, AM firms will begin to consider natural resource risks in the same way as other risks they face.

The demand for scale will attract large and pervasive companies that currently operate in other sectors. In China, this new development is already evident. In 2013, Alipay launched an online money market fund, Tu'E Bao that now makes Tianhong Asset Management Co. the second largest asset management company in China. It was successful, in part, due to the strong trust of the general public, to being an affiliate of a technology company and to providing a tailored product.

In a recent PwC survey, more than a quarter of asset managers were not sure whether the use of mobile technology for distribution or communication would play a critical role in their business. We believe that the expectation gap between customer needs and asset managers' slow take-up of technology could provide opportunities for further new entrants to come into the industry. The most likely source of disruption will come from social media or technology companies, which may combine their reach, knowledge and influence with banking alliances to provide compelling AM propositions. A social media firm such as Google, Facebook or Twitter or product providers such as Apple (through iTunes) or Amazon could, for example, provide front-office services, and partner with, or even buy, a back-office servicing firm to create an integrated AM structure.

Overall, there will be a significant focus on technology by 2020 to make the best use of data and provide new product solutions that are both tailored and interactive.

A shared vision: Wei and the asset management industry

Will Wei achieve her dream of building a portfolio that will enable her son to study abroad? We cannot know for sure. But we do know that Wei and millions like her around the world depend on the asset management industry to help them fulfil their ambitions. The industry must respond to their ambitions and needs.

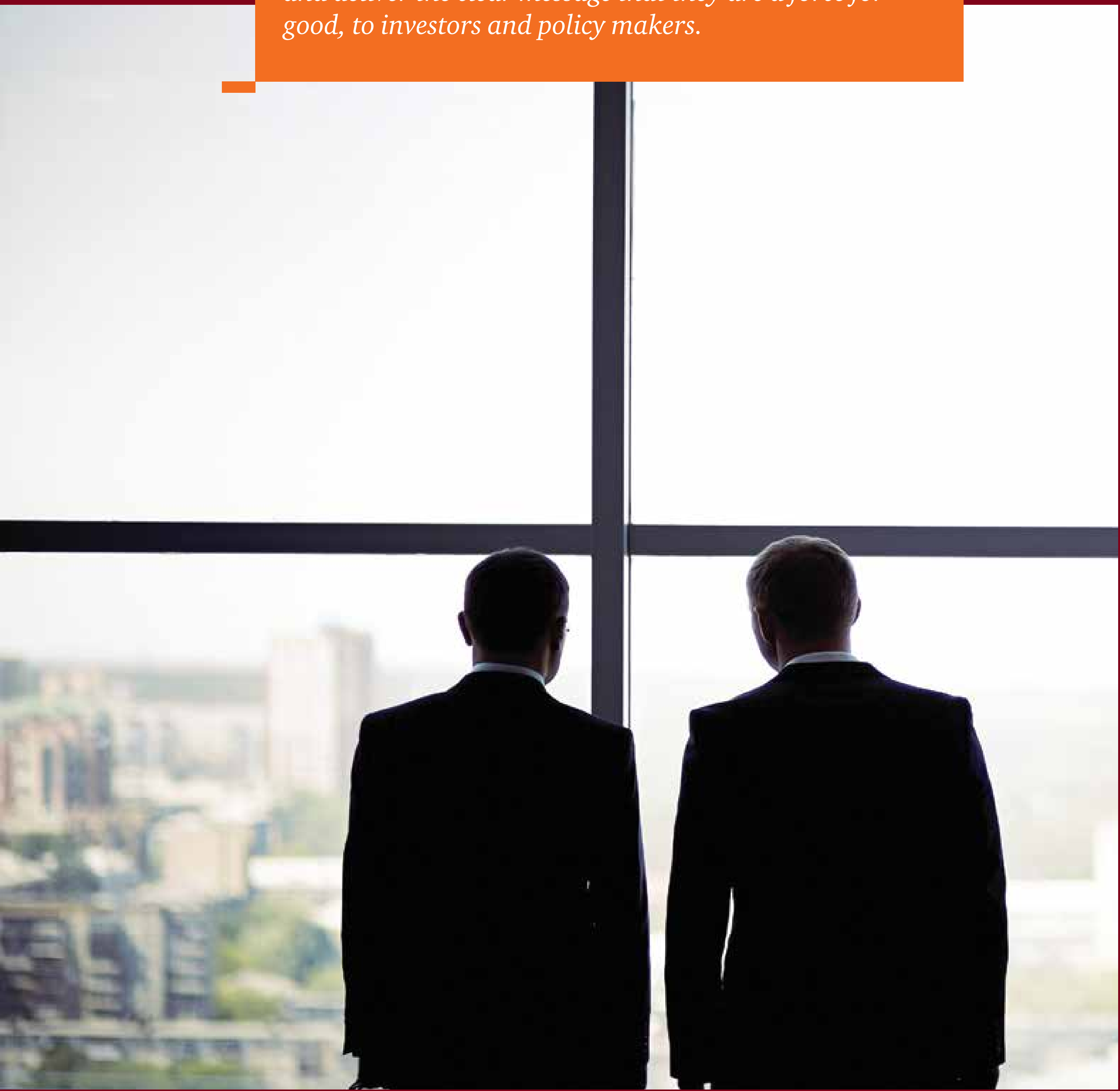
The coming years will bring the industry higher volumes of assets than ever before and this confers a responsibility on firms to manage these assets to the best of their collective ability. Asset managers must clearly outline their value proposition to customers while being fully transparent over fees and costs. Educating Wei in the products and solutions that exist and then showing her how to combine them in a portfolio will be critical to the mission. Equally, tailoring solutions to her specific needs will be crucial to maintaining her trust and for her specific needs.

In short, asset managers must both create positive social impact and deliver the message that they are a force for good to investors and policymakers. The efforts required to satisfy investors and policymakers cannot be left to others.

Equally, each asset manager must recognise the changing landscape and be ready to actively embrace change in order to meet investors' needs and to be successful. Asset managers should consider each of the gamechangers above separately, but also recognise that they are interconnected. The response to them will require considerable thought in order to create great strategy – there is no silver bullet to building the successful asset manager of 2020 and beyond.

The successful asset managers of 2020 will have already started to shape their responses to some or all of these gamechangers. Those that develop coherent strategies and act with integrity towards clients over the coming years are likely to build the brands that are not only successful in 2020, but that are still trusted in 2020.

Asset Managers must create both positive social impact and deliver the clear message that they are a force for good, to investors and policy makers.



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