Redefining asset management in new realities

Leadership priorities for asset managers facing fundamental change
"The underlying principles of sound investment should not alter from decade to decade, but the application of these principles must be adapted to significant changes in the financial mechanisms and climate."

Benjamin Graham
Redefining asset management in new realities

Leadership priorities for asset managers facing fundamental change
Preface

With currency and debt issues dominating today's headlines, the world's financial markets remain volatile and uncertain. While uncertainty opens up opportunities for astute asset managers, it also exposes them to significant risks. Many asset managers are struggling to chart a clear course toward sustainable growth and strengthened competitiveness given the new realities in financial markets and the asset management industry. That is why we believe it is time to take a fresh look at asset management in light of the fundamental changes that are now taking place.

The study on hand is not a scientific paper, nor is it the consolidation of a questionnaire sent to industry representatives – instead, we take a pragmatic approach and provide you with a reality check of what we believe to be conventional wisdoms and develop workable recommendations from an entrepreneurial perspective. Our goal is to share our knowledge in order to help you rise to the challenges in the asset management industry. We highlight the key strategic issues, outline the available options and describe how you can successfully adapt to the fundamental changes.

To achieve this, we conducted extensive interviews with experts and combined their input with our own consulting expertise from a broad range of assignments in the asset management industry in both traditional and emerging markets around the globe. Our own asset management experts condensed the findings into insights, future scenarios and strategic recommendations that constitute the backbone of this study.

We believe that our study will prove to be an interesting and enjoyable reading, and provide guidance in the current market environment. We invite you to share your thoughts and experiences with us and look forward to our continued dialog.

Yours sincerely,

Dr. Udo Bröskamp
Global Head Financial Services
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Executive Summary

This global study explores the future development of asset management business models for both the retail and institutional investment segments in light of the new realities in financial markets and the asset management industry. Responding to uncertainties even among asset management professionals in the wake of the financial crisis, it questions what is commonly perceived as conventional wisdom, highlights key strategic issues for asset managers, illustrates the strategic options available to them and enables them to set clear leadership priorities in order to master the changes ahead. Specifically, it provides workable recommendations on how asset managers can position their business, sharpen their value proposition and improve their performance.

Focusing on four key factors, the study discusses what we believe is essential to an understanding of the asset management industry both today and tomorrow:

What is the market?

In discussing the nature of the market itself, the assets invested in it and the regulations that govern it (factor 1), we pinpoint three main drivers of structural change: a shift toward Asia, due largely to rising prosperity in this region’s emerging markets; regulatory changes affecting pension plans in particular; and, even more fundamentally, the demographic change toward an aging society.

Key questions for asset managers in relation to the market: How will financial assets and profit pools develop globally? What will be the impact of regulatory changes? Regarding the development in Asia, we readily admit that our view may not be fully in line with the market growth and profitability projections of certain players with ambitious plans.

How do asset managers operate?

Analysis of the business models operated by market players and how they seek to add value (factor 2) gives us a better understanding of how and where value can be generated. As the asset management value chain increasingly dissolves, many players must stop trying to "be all things to all men" and decide (a) where they want to position themselves in the value chain, and (b) what they want to do in-house and what they can outsource. To do so, they must first know their own strengths and put them to good use.

Key questions for asset managers in relation to players: Where do successful players position themselves in the value chain? How can operations be kept sustainably cost-effective? How can players turn core capabilities into profits?
What do clients really want?
In what is a traditionally product-driven industry, the balance of market power is gradually shifting toward the retail and institutional investment clients that make up the demand side of the equation (factor 3). Though clients long meekly trusted advisors to "know best", they are now becoming better informed, more professional, more focused on outcome-driven investing – and more willing to pull the plug when they are dissatisfied. Asset managers must pay much more than lip service to client-centricity – a capability that is as rare as it is valuable. Proving their ability to manage risks will in future be an integral part of the trust-building that is now more vital than ever.

Key questions for asset managers in relation to demand: In what direction are clients' needs and decisions evolving? What is key to gaining access to clients? What are trends in the asset outsourcing market?

What kind of products are offered and how do they add value?
Product offerings (factor 4) seem to be dominated by varying blends of equity products such as emerging market funds, sector funds, indexed funds or ETFs. In an uncertain world, however, standardization, modularization and customization must be used to simplify product design as asset managers rediscover the truth that "boring is beautiful". Especially in this area, the study provides a reality check in relation to commonly held beliefs about open architectures, the performance of active management and absolute return products, for example. It also examines why fund performance varies and discusses the influence of pricing changes driven by factors such as regulation.

Key questions for asset managers in relation to offerings: Which investment strategies are the most successful? What value does active management add? How can different pricing models be leveraged?

Current developments in many of these areas are heading in a different direction to that expected by the market. Yet the balance of financial market power is shifting within and between regions too. In light of this shift, the study asks four crucial questions based on a simple profit equation:

1. How will economies develop in the future?
2. Where will future asset growth come from?
3. How will margins develop?
4. What cost implications could affect profit margins?

These four questions are answered against the backdrop of four different scenarios describing how the future of the asset management industry may unfold:
In scenario 1 ("opportunities in emerging economies"), the emerging middle class and high savings rates drive faster growth in emerging economies than in advanced economies, where growth is eroded by the debt and currency crisis. Profitability declines in both.

As in the first scenario, growth in advanced economies is eroded in scenario 2 ("consolidation") by the debt and currency crisis. Furthermore, emerging markets are negatively affected by social unrest that causes asset pools to shrink and negatively impact profitability in both sets of economies.

In scenario 3 ("global growth"), growth rates rebound to pre-crisis levels and remain particularly strong in the emerging economies due to high and increasing savings rates. Profit margins return to pre-crisis levels in advanced economies and are very attractive in emerging economies too.

Scenario 4 – the one we see as the most likely to materialize – brings "profitable stagnation". Despite a likely second wave of the global economic crisis in 2012, development will stabilize in the medium term. Growth rates in emerging economies will return to a relatively high level, while net growth in advanced economies shrinks as the implications of the debt and currency crisis unfold. For both advanced and emerging economies we expect a recovery of the profit margins to pre-crisis level.

These scenarios and our findings in relation to the four key factors give rise to significant strategic implications for asset managers as they look to position their business models for future success:

> **Implications for the market:** The most attractive market segments in terms of future asset inflows will differ from region to region. Asset growth in specialities and in exchange-traded funds will be strong in Europe, whereas pension funds will lead the line in Asia.

> **Implications regarding players:** The trend toward specialization along the value chain will continue, as this approach holds out potential to add more value. Independent financial advisors (IFAs) will play an increasing role in asset management distribution. More generally, asset managers will have to adopt a clearer positioning in the value chain.

> **Implications for the demand side:** In the retail business, values-based client segmentation will lead to more actionable insights than a pure wealth-based approach. In the institutional business, greater professionalism will drive more outsourced portfolio management and underscore the importance of risk management.
> **Implications regarding offerings:** Asset managers will have to diversify to protect assets across multiple classes as core/satellite investment approaches require the combination of multiple strategies. Focusing on core capabilities will be decisive.

The study concludes by providing **specific recommendations on what asset managers can do now** to develop their value propositions and prepare their business models for the future that is now unfolding. Asset managers must focus on their specific strengths in five dimensions: financial market intelligence, products and pricing, distribution, branding and operations. At the same time, based on the strategy they choose, they must systematically come up with good answers to the following question:

1. **Who do we want to serve with what and where?**
   Asset managers must define a compelling market position and value proposition, especially as most asset managers are currently "caught between stools"

2. **What do clients really want?**
   Asset managers must also focus on client-centricity

3. **Is what we do in our clients' best interests?**
   Asset managers must deliver measurable added value for clients

4. **How can we ensure sustainability?**
   Asset managers must make their operations more efficient and their cost structures more flexible

Addressing these questions can help asset managers to focus their resources and capabilities, steal a march on rivals and position themselves as trusted allies to their clients – allies who can **flourish and grow even in a climate of ongoing uncertainty.**
Introduction

I. Aims of the study

With the first wave of the financial crisis still fresh in the memory and currency and debt issues dominating today’s headlines, the future of the asset management industry has, for some time, been the subject of heated debate. Right now, not only private (retail) investors are clearly disorientated. Professional asset managers too seem uncertain about the direction in which they should be heading.

This study seeks to fulfill four specific purposes: First, it aims to bring clarity to the debate by exposing widespread beliefs about asset management in the cold, hard light of a reality check. Second, it highlights the key strategic issues with which asset managers and their Executive Boards must concern themselves in the current climate. Third, it uses real-world case studies to illustrate the strategic options that are available. Lastly, it provides orientation in the form of a roadmap full of workable recommendations on how to position asset management businesses and improve their performance in the long run.

II. Scope

The study adopts a global outlook on asset management. On occasion, however, emerging and developed markets must be examined separately to do justice to the unique features of each.

The focus is on asset management as a business model rather than asset managers’ day-to-day operations and decision-making on specific issues. Close attention is paid to the strategic development of asset management organizations.

Both the retail and institutional segments are explored. On the retail side, we examine a broad selection of funds and focus on open-end funds. On the institutional side, we distinguish between captive and external assets and discuss both the trend in and reasons for outsourcing.
Our discussion identifies **four key factors** that we see as **vital to an understanding of the asset management industry**. The first is the essential nature of the asset management market, the assets invested and the regulations to which the market is subjected. Second, analysis of the business models operated by market players and their value creation logic gives us a better understanding of how and where value can be generated. Clients and their needs – with a distinction drawn between private and institutional investors – are the third key factor. Lastly, we investigate market offerings and how they are likely to develop.
III. Definitions

We define asset management as the professional management of securities and other assets (real estate, commodities, etc.). Its purpose is to meet investment goals specified by the client, to whom a fee is charged (either directly or via collective investment programs).

Asset managers seek to optimize risk-adjusted performance in light of the client’s attitude to and ability to cope with risk. Risk-adjusted performance can be measured either in relative terms (e.g. against a benchmark) or in absolute terms.

For the purposes of this paper, asset management comprises three concepts: asset structuring, investment management and investment management services.

> Asset structuring refers to all activities that play a part in structuring or “wrapping” assets (i.e. building a shell or umbrella around assets or portfolios of assets, as is the case in fund-of-funds solutions, for example). Long-term asset allocation linked to possible liabilities is a core result of this process. Legal wrappers, another core outcome, are not part of the focus of this study.

> Investment management is the core discipline in "classical" asset management. Although the terms are often used interchangeably, investment management refers only to the investment decisions made on a day-to-day basis within the limits of the defined asset structure.

> Investment management services include elements of financial analysis/research, plan implementation (e.g. trading services), ongoing monitoring of and risk analysis for investments, and comprehensive reporting on value added and value at risk, for example.

Distribution concerns itself with how asset management services and solutions are sold to either institutional investors or private investors (e.g. via funds). Distribution channels vary widely depending mainly on the business model.
This study covers the following market segments:

> Institutional clients such as insurance companies, pension funds, nonprofit organizations, etc.

> The retail segment, which focuses on mutual funds and discretionary mandates for private individuals (up to the high-net-worth bracket), and in which products can be sold either directly or via third-party channels

Pure distributors that offer no asset management services are regarded as third-party clients of asset managers and are therefore excluded.

**IV. Methodology**

Data about the asset pool and our estimates regarding future development lay the quantitative foundation of this study. For the purposes of this research, a market sizing model for the asset pool was built. The main segments include the retail segment (investment funds and private wealth/discretionary mandates) and the institutional segment (insurance, pension funds, sovereign wealth funds and nonprofit organizations). A bottom-up approach was used for market sizing and for forecasting.

Historical data was collected and refined systematically (OECD, SWF Institute, EFAMA etc.). Based on an understanding of industry trends, future development was then forecast (including inflows to, outflows from and shifts between the different asset classes, etc.).

A series of workshops were subsequently held with Roland Berger Strategy Consultants’ asset management industry experts to develop insights from this quantitative data and identify potential implications for the future development of the industry. The findings of these workshops were reviewed in collaboration with external industry experts.

To enable specific recommendations to be formulated for asset managers in the form of a CEO agenda, the quantitative and qualitative inputs were blended with experience gained from recent relevant Roland Berger assignments in the industry across the globe.
V. Structure

The study breaks down into three parts. Where useful and appropriate, break-out features highlight sub-topics that are of material importance to the development of the industry.

Chapter 1 seeks to separate conventional wisdom surrounding asset management from actual reality. It develops a better understanding of the current situation and challenges that asset managers currently face.

To support this analysis, we examine the industry’s current asset pools and, based on quantitative assessment, see how they break down into markets and segments. The beliefs that have become established as conventional wisdom are analyzed in light of four key factors for the asset management industry: the market, its players, demand and offerings.

In light of the reality identified, chapter 2 develops four future scenarios that take account of uncertainties regarding the industry’s development. Chapter 3 then discusses the strategic implications for asset managers and suggests a four-step plan of action.

The first step is to choose one of several sustainable business models and their respective key success factors. The second is to design a distinctive value proposition. The third is to deduce the future details of the business model. The fourth and final step involves distilling the strategic initiatives that will constitute the organization’s agenda.
1. Conventional wisdom – Fact or fiction?

To understand current developments in the asset management industry, we must first understand what is generally believed to be happening and what is really happening.

Will asset management return to normal? Well, if we define ‘normal’ as the turbulent conditions of recent years and the challenges of the ‘lost decade’, then yes, it will. This kind of ‘normality’ certainly looks set to persist. Fundamental change will come, however – not only in business models, but also in the structure of the asset management industry as a whole. This change will itself be driven by developments in the global financial services industry and in financial markets.

Many beliefs about asset management have entered our world and, over the years, gradually attained the status of conventional wisdom. Identifying whether these beliefs are rooted in fact or are merely common misunderstandings is the main purpose of this part of the study.

Belief: Asset management is essentially all about performance

Reality: Before we can discuss the extent to which this commonly held belief is true, we need to define what performance is. We define performance as how much more the assets are worth at the end of the period than at the beginning. If a fund’s risk-adjusted performance is better than the development of the corresponding benchmark, we speak of outperformance. Absolute return investments refer to consistent performance in terms of a defined percentage of value increase that a fund should achieve in every period.

The performance of an investment product is quite clearly touted as one of the major decision criteria for investors. However, comparing assets under management with the relative performance of the corresponding funds we see that this is only true to a certain extent, especially for plain vanilla funds.

Other powerful influences that drive and shape the industry include capabilities such as the control of distribution channels, the positioning and strength of brands that build credibility and attract assets, the ability to differentiate between products in the perception of demand, operational excellence and strategic agility. All these factors are at least as important as performance. To some extent, even individuals and their reputation can play a formative role: Just think of PIMCO founder Bill Gross, its CEO Mohamed A. El-Erian and a host of other famous investment managers. Especially given what we have witnessed on the financial markets in recent years, asset management probably has more to do with risk management and the management of uncertainty – the latter also being one of the most relevant opportunities we have.
As we saw in the introduction, we have developed a framework identifying the key drivers that will impact the future development of the asset management industry.

### Landscape covered by the asset management study

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Source: Roland Berger Strategy Consultants

### 1.1 Market

The **asset management** industry is directly and indirectly affected by **macro-economic development** and other developments in the market environment. Depending on external factors such as regulation and government interference, plus the impact of market conditions on asset managers and other financial service providers (given the pronounced likelihood of a severe second wave of the financial market crisis), asset managers will need to adapt their investment behavior and, ultimately, their business models too. We believe that, as in many other industries, the power base within the value chain has shifted toward demand.

We see **three main drivers of structural change in the global market** that have a powerful bearing on the asset management industry. One is a shift in the global weighting of assets under management, as rising prosperity in emerging markets tilts the scales toward Asia in particular. The second involves changes in the regulatory landscape (with regard to pension plans, for example), which will directly and indirectly affect asset managers. And perhaps even more fundamentally, the third driver is the aging population and the general demographic shift that the world is experiencing. As demographic patterns change, so does the spread of asset holders and what they do with the funds they have to invest.
With the older generation accounting for an increasingly large proportion of society, occupational pension funds for example face the risk of becoming underfunded. In several countries, net new assets have decreased in recent years as the benefits paid have exceeded the contributions received by funds. As a result, however, the relative importance of private pensions savings is increasing, which creates new opportunities for asset managers.

**Uncertainty – Threat or opportunity?**

The prevailing uncertainty is seen as a major threat to the asset management industry. Let us be honest, however: **Uncertainties** that lead to financial market volatility far in excess of past levels can actually become **a prime source of future profitability** for those who read the signs well and position themselves accordingly. For intelligent asset managers, the changes discussed in this study unquestionably create significant opportunities. For them, the clouds of uncertainty can definitely have a silver lining.

**1.1.1 How will the financial asset pool develop globally?**

This question is often asked – and the answers provided are consistently inconsistent. Nevertheless, a valid answer is needed if we want to pinpoint the most promising areas of development. Accordingly, we must first understand the existing breakdown of invested assets before looking at how asset management will develop.

**Breakout: Asset pool analysis/market size**

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In 2010, the global asset pool reached approximately USD 76.1 trillion, with institutional business accounting for two thirds of total assets. When both institutional and retail assets shrank following the slump precipitated by the financial crisis in 2008, however, the retail segment suffered larger losses. In the wake of the crisis, significant shifts in asset classes (mostly away from volatile equity toward more stable fixed-income and money market assets) occurred. Then, starting in 2009, global recovery eased investors' mood, such that assets returned to pre-crisis levels in the course of 2011.
Institutional investment business

The institutional investment business is concerned with providing investment services to institutional clients such as insurance companies, pension funds and sovereign wealth funds. It is the largest asset management segment, with a total volume of approximately USD 50.5 trillion in 2010.

Insurance

Invested assets totaling USD 25.8 trillion identify insurance funds as one of the most important focal points for institutional asset management in the future. Insurance assets decreased in 2008 as a result of the financial crisis but have since recovered past the pre-crisis level.

On a global scale, fixed-income assets are the most common form of insurance companies' investments. During the financial crisis, insurers in many countries increased the amount of cash and sight deposits in their portfolios and reduced their equity allocations.

Pension funds

Pension fund assets are the second-largest segment of institutional investments. Pension funds were hit even harder than insurers by the financial crisis, with assets declining by nearly 25% from 2007 to 2008. The overall invested volume has yet to return to pre-crisis levels. Pension assets stood at USD 19.3 trillion at the end of 2010 with funds in Asia and the Middle East growing faster than those in North America and Europe.

Half of the global pension fund assets are invested in equity today. North America holds the highest percentage of equity investments (60%), while in the Middle East fixed-income assets predominate at present.
Sovereign wealth funds
Sovereign wealth funds (SWFs) totaled roughly USD 4.3 trillion in 2010, most of which are located in Asia and the Middle East. The world’s five largest SWFs accounted for approximately 50% of total assets under management in this segment in July 2011, led by the Abu Dhabi Investment Authority (ADIA: USD 627 billion) and Norway’s Government Pension Fund-Global (NBIM: USD 572 billion). Growth in asset volume has been strongest in Asia, and particularly in China.

Nonprofit organizations and foundations
Nonprofit organizations have developed rapidly in recent years, causing global assets of nonprofit organizations to rise to USD 1.2 trillion in 2010. University and college endowment foundations represent a significant share of the assets entrusted to foundations throughout the world. Of those, US and UK institutions hold the majority of assets. The segment is expected to see further growth through both the set up of new foundations around the globe and continued inflows into existing organizations.

Retail business
Investment funds
The global volume of retail assets under management in investment funds, excluding discretionary mandates, totaled approximately USD 22.9 trillion in 2010. Funds mainly break down into three categories: (i) open-end mutual funds, (ii) closed-end funds and (iii) fund of funds.¹)

Open-end mutual funds
Open-end funds constitute the largest segment within the investment fund family, accounting for approximately USD 21.6 trillion of worldwide assets, excluding exchange-traded funds. The majority of funds are located in North America.

Equity investments declined in the period following the 2008 financial crisis, but then regained some of their strength as markets showed initial signs of recovery. The decline was mainly driven by shifts from higher-margin to lower-margin asset classes. This happened because alternative investments nose-dived, causing investors to run for the comparative safety of low-margin fixed-income or even money market instruments. Currently, nearly 43% of all open-end fund assets are invested in equity products again (compared to 37% in 2008). Only about 22% of open-end fund assets are held in bonds. In Asian markets, an even smaller proportion of assets (around 15%) is allocated to bonds, while a higher percentage (approximately 51%) is invested in equities.

Broadly speaking, a positive development in the Asian market is likely as the region’s open-end fund industry gains further momentum in established economies (such as Australia and Hong Kong) and in emerging markets (such as China), mainly driven by the increase in wealth and a high savings rate.

¹) The first two are covered by the market sizing model.
Belief: Asset pools are a key indicator of profitability

Reality: There is no question that size matters. Depending on the efficiency of the asset manager and the kind of investment vehicle used, the minimum size for a fund to be profitable will be somewhere between USD 15 million and USD 50 million. That explains why smaller asset managers very often struggle to become profitable: They simply do not have the size to do so.

Having said that, it is equally common knowledge that profitability is not driven by size alone. Pricing and, of course, costs are vital factors for profitability (and are explored later in this study). Astonishingly, this truth is still not mirrored in the majority of incentive systems, most of which are aligned with asset growth only. Should we therefore simply ignore size issues and focus on prices and costs alone?

By no means! Of course we must keep a watchful eye on these factors that were so glaringly neglected during the boom years at the start of the 21st century. However, if we take the trouble to explore where profitability might come from in the future, we can – in light of the ongoing discussion surrounding eroding margins and higher costs (see the sections on players and offerings) – assume that asset growth will definitely be a major driver.

Alongside the trend in asset classes, currency is another major driver in the asset management industry. Currency shifts affect both asset performance and asset growth to a degree that should not be underestimated.

1.1.2 What about Asia?

First things first: Speaking about ‘asset management in Asia’ is about as reasonable as discussing global private banking without considering any kind of differences in regional business models, such as the difference between Switzerland and the USA.

For asset managers, Asia is a singularly heterogeneous region. Any ‘strategy for Asia’ must therefore be based on a thorough understanding of country clusters and the required business models. Accordingly, we distinguish between four regional clusters in Asia:

> ’Emerging onshore’ (China, India)
   China and India present the greatest potential, as the onshore retail markets are still underdeveloped and expected to grow strongly
> 'Established onshore' (Japan, Australia, Korea, Taiwan)
Markets in the established onshore cluster differ sharply from country to country, yet still have a lot in common in terms of the level of development and the overall business volume.

> 'Asian hubs' (Hong Kong, Singapore)
Asian hubs are the region’s offshore centers.

> 'Feeder markets' (Indonesia, Malaysia, Thailand, Philippines)
The feeder markets exhibit highly developed cross-border business and are therefore suitable to be serviced by regional hubs.

Asia undoubtedly holds out significant growth potential. Overall assets under management are expected to grow between 5% and 10% p.a. over the coming years, depending on market performance. Yet this potential too is subject to huge differences across sectors and clusters. Moreover, retail and corporate banking – rather than private banking – serve as the primary growth engines. The potential for asset management must be considered in terms of institutional and retail business. While very considerable potential exists, especially with regard to sovereign wealth funds, it will very likely be difficult to realize given that a "local touch" is still a key success factor. We believe that, for many players, the rush to go east is the result of an overambitious and, hence, ill-considered overall plan.

The Asian hubs and established onshore clusters will continue to capture the largest share of the region’s asset management business, despite expected annual growth rates of up to 23% for emerging onshore markets. In particular, we expect China to outperform the Asian market in terms of growth for many years to come. Growth in asset management in key Asian markets is being driven mainly by institutional clients, especially in emerging onshore markets. Institutional assets are expected to grow at almost 14% per year in China, or up to 23% including performance potential.

In terms of offerings, we are witnessing increasing demand for sophisticated financial products that offer global diversification. Growth in feeder markets is being driven to a large extent by Islamic banking and in Asian hubs by UCITS products.

Demand and market regulation will force corresponding offerings to become more specific to country clusters. In this context, the key drivers of differentiation are the source of wealth and investment behavior (in Japan and China, for example).
In the most competitive countries – Japan, Australia, Hong Kong and Singapore – multinational players must focus on an effective long-term strategy. Peer analysis suggests that three different core strategies could be viable options for asset managers in Asia. These strategies can be described as ‘multilocal’ (positioning players as local banks with a broad local footprint), ‘focused differentiation’ (with a focus on most attractive markets) and ‘opportunistic growth participation’ (which applies a global business model).

Our analysis in recent years has revealed the latter option to be an inefficient strategy, especially as ramp-up times after cycle changes are simply too long. On the other hand, carefully crafted differentiation based on key assets can be a sustainable option capable of withstanding market turbulence.

1.1.3 What is the true cost of regulation?

Regulations are an external variable whose importance is growing. The financial crisis sparked off criticism that regulations had been too lax. Yet stricter and more complex control mechanisms also drive complexity and costs. Hastily or ill-conceived regulations have thus been counterproductive, destroying value for providers and clients alike.

**Belief:** For market players, regulatory changes are primarily a cost issue

**Reality:** Yes, regulatory changes are about costs – but not all asset managers struggle to the same extent. For larger market players that can cross-subsidize costs, the direct cost of regulation is not a critical issue. But yes, for smaller market players like niche boutiques, it can indeed present challenges, especially due to the increasing complexity of regulations that differ locally, regionally or internationally. As a consequence, barriers to entry will rise higher in the asset management industry. Unless they neither properly anticipate regulatory change, nor draw the right conclusions – and consequently fail or lack resources to adapt their business models – existing players should benefit from this situation.

**Breakout: Strategic implications of changes in regulations**

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In the aftermath of the financial crisis, the G20 leaders’ determination to focus on greater coordination of financial policy actions acknowledged that market players today operate in an interlinked world and that, in particular, macroeconomic implications can no longer be cleanly divided into separate areas.
The actions on which international coordination efforts are now focusing include investor protection, capital and organizational requirements, the remuneration of individual financial players and OTC derivatives.

Basel III is a global example of the perceived need to regulate capital requirements. Corresponding regional measures include the Dodd-Frank Act in the USA, as well as CAD/CRD III for banks and Solvency II for insurance companies in the EU. Furthermore, new financial market supervisors with wider-ranging competencies have been appointed to beef up macro prudential supervision and safeguard systemic stability on both sides of the Atlantic.

These new watchdogs are the FSOC in the USA and the ESRB, ESMA, EBA and EIOPA in the EU. Similar regulatory efforts recently undertaken by various Asian countries likewise deserve a mention, as does the US tax-driven FATCA. Even MiFID – a European directive that mainly targets transparency at the point of sale – is to be revised with a view to a safer, sounder and more responsible financial system.

This breakout restricts itself to an examination of three major post-crisis regulatory initiatives in Europe – UCITS IV/V, AIFMD and EMIR (for OTC derivatives) – all of which directly affect the asset management industry, particularly those professional investment (portfolio) managers for institutional/professional investors which are not part of a financial group division such as a bank.

**European regulatory initiatives affecting the asset management industry**

**UCITS IV/V – Undertaking for Collective Investment in Transferable Securities (mutual funds)**

The primary aim of UCITS IV, which took effect on July 1, 2011, is to further strengthen the single market by making operations and distribution more cost-effective and time-efficient. In light of this objective, the directive introduces improvements in four key areas: (1) simplified reporting procedures and supervisory cooperation; (2) cross-border UCITS mergers and master-feeder structures; (3) rules of conduct for UCITS management companies, in return to a management company passport; and (4) the key investor information document (KIID), a standardized disclosure document to replace the simplified prospectus (SP).

Even before UCITS IV is fully implemented, UCITS V is already on the way too. A legislative proposal is expected in fall 2011. The key changes envisaged by UCITS V concern managers’ compensation and stricter liability rules for depositaries. The latter align the requirements for mutual fund investments with the stricter rules adopted in the context of depositaries for alternative investment funds (see below). Since the content of UCITS V has not yet been finalized, it is difficult to assess the tangible opportunities and challenges to which the directive will lead. The feedback perceived from the industry so far has not been very positive.
AIFMD – Directive on Alternative Investment Fund Managers
AIFMD came into force on July 21, 2011, and must now be translated into national law by July 22, 2013. Given that UCITS was already in the pipeline long before the financial crisis, AIFMD can be seen as a direct response to systemic risks in the hedge fund and private equity market. The AIFMD applies to all collective investment programs that are not covered by the UCITS directives.

Although the AIFM directive applies only to the market for professional investors, it imposes a harsh regime. Essentially, the directive is intended to tighten up the rules at European level governing the authorization and supervision of alternative investment fund managers (AIFMs) and the conditions within which they operate, including capital requirements, business continuity, the management of conflicts of interest and remuneration issues. Compliant AIFMs in the EU will be able to apply for a "marketing passport" that is valid for the entire EU. Non-EU AIFMs will have to wait at least another two years for EU-wide market access. In the meantime, they will have to offer their alternative funds in the EU on a country-by-country basis.

EMIR – European Market Infrastructure Regulation (OTC derivatives)
The EU Commission published a formal proposal on the standardization of OTC derivatives, central counterparties' governance, interoperability for cash equities and trade repositories in mid-September 2010. The proposal constituted Europe’s response to the G20 commitment that the US adopted in the form of the Dodd-Frank Act. It prescribes the central clearing of most OTC derivatives through a central counterparty and central reporting to a trade repository by the end of 2012. To ensure consistent implementation across all the EU member states, EMIR will be adopted in the form an EU regulation that will apply directly to the industry. The new law will govern contracts entered into on or after the introduction of EMIR, which is slated for January 2013.

Conclusions
The recent European regulation on collective investment programs provides AIF and UCITS with similar product-structuring toolkits. However, whereas UCITS IV opens up a number of opportunities, AIFMD mainly adds to the burden on asset managers in Europe and beyond. On the one hand, EU-based AIFMs will face challenges with regard to operations, compliance and reporting and will be forced to review their product, distribution and organization strategies. On the other hand, third-country AIFMs operating in the EU will, as well as having to rethink and reorganize their entire business, be at a disadvantage as they cannot be granted an EU passport before 2015 at the earliest.
Another challenge will be posed by EMIR. The asset management industry, in particular specialized and bank independent niche players, must prepare itself to manage the operational aspects of separating centrally and non-centrally cleared contracts. It must also review any implications with regard to counterparty risk exposure for the central counterparties and whether or not their collateral is truly cordoned off from that of other participants.

Under these new circumstances, asset managers may look to diversify their clearing exposure by opting for multiple clearing agents and closing certain contracts before the end of 2012.

For the whole asset management industry, the new regulations will raise a series of operational and compliance challenges, especially given that these are just a few of the regulatory novelties in the constantly evolving constellation of international financial market rules. While the G20 are working continuously toward greater global regulatory convergence, the EU and US versions still differ significantly in a number of key aspects. One of the major challenges for the asset management industry encompassing multifunctional players, operating in various jurisdictions, will be mastering the interplay between these regulatory initiatives, reconciling their disparate content details, coping with the varying speed of adoption and ensuring consistent implementation across countries and regions.

1.2 Players

To help us understand the competitive landscape, this section looks at three key aspects of the players in the asset management market. As integrated value chains increasingly dissolve, the first issue – where players position themselves in the value chain – takes on greater importance. A second key aspect is how market players leverage their capabilities. Specialization allows them to improve both product performance and their reputation, and is thus seen as more important than broad skill sets. Third, efficiency initiatives remain highly relevant, as most players have yet to recover to pre-crisis cost/income ratios.

1.2.1 Where do successful players position themselves in the value chain?

First, we should have a look at the value chain to build a common understanding of what we consider to be the relevant processes of an asset manager. As things stand, many market players still try to cover the entire value chain in-house. The problem is that they lack a clear focus and do not know how to add value for the client at different links in the chain.
Sales, though largely product-centric, still seems to be a key success factor. And most global asset managers are able to distribute funds using their own sales organizations.

Larger integrated players such as global banks have so far been able to afford large in-house asset management units. They have been able to sell large numbers of products in-house and leverage their well-known brands to boost sales to institutional investors and wholesale channels.

Belief: Large players in particular enjoy a favorable position as they cover most of the value chain internally and offer the broadest range of products

Reality: Fact is that the value chain is disintegrating. Some major banks, such as Barclays and Credit Suisse, for example, have sold off parts of their asset management (investment management) business, partly for cost reasons, but also to focus on core competencies. Other large players, such as Deutsche Bank, have outsourced their custody services. Conversely, there is no indication of a trend toward the outsourcing of fund administration, even though it is not generally believed to add significant value.

This is mainly because players are trying to set themselves apart by providing specific add-on services that require special setups and are therefore reluctant to outsource these activities. Another factor that influences the decision to keep fund administration in-house may be the fact that despite the outsourcing some internal knowledge is necessary to fulfill regulatory requirements.
Further market consolidation can be expected. However, this will mainly take place within the individual links in the value chain, as we have already seen with custody services at Deutsche Bank, for example, and will be driven by pan-European regulations such as UCITS that allow greater cross-border flexibility.

It remains to be seen whether regulations such as MiFiD at last increase pressure to ramp up the use of open architectures in the fund selection process, thereby further driving the disintegration of the value chain and forcing integrated asset management players in particular to focus themselves more selectively.

The most successful asset managers are those with flexible structures and flat hierarchies. These structures enable market players to respond swiftly to market movements without losing sight of the need for adequate risk management.

1.2.2 How can operations be kept sustainably cost-effective?

In recent years, we have seen cost/income ratios increase throughout the financial services industry. These ratios dropped sharply in 2010. It could be argued that the decline experienced in 2010 is based on higher revenues. However, a close look at the margins of asset managers reveals that they too remained on the low side. Yes, asset managers began to actively manage their costs, but only by picking low-hanging fruits. So far, they have not started to manage their efficiency on a sustainable basis. To do so, they will need to ensure that business model structures remain flexible. Only then will they be able to react quickly and effectively to today’s ever-changing and, hence, volatile and uncertain market environment.
Belief: While costs must naturally be managed, they are not critical to long-term profitability and growth in asset management

Reality: Margins are perceived to be under pressure and will likely remain so for the next few years. Accordingly, while profitability can only be increased by professionally managing costs, it is important not to overdo it. As new regulations and opportunities for growth arise, staying flexible enough to adapt to a rapidly changing market environment must be balanced against the need to cut costs. This, of course, does not imply that we agree with the idea of purely revenue-driven profitability and see no need for strict cost management. It simply makes things more complicated.

Lean, cost-effective operations with low fixed costs and an astute mix of nearshoring or offshoring, outsourcing and pooling operations that allow them to control the cost base and at the same time create sufficient flexibility to explore new market opportunities and adapt to the changing market environment will thus become crucial. Although players already introduced efficiency programs in 2010, most players’ cost/income levels are still higher than in 2007, since many of these programs focused on tactical rather than strategic efficiency improvement. Further steps must therefore be taken to increase efficiency without eroding the necessary flexibility and agility.

1.2.3 How can players turn core capabilities into profits?

It is vital to understand why some business models outperform and what capabilities drive the performance of these organizations. The example of successful market players such as BlackRock and Allianz Global Investors clearly shows that there is no one recipe for success. Capabilities vary considerably. The important thing is therefore to know your strengths and make use of them.

Belief: A successful asset management business must be diversified and address a broad range of competencies in-house in order to ensure sufficient flexibility to shift between profitable products

Reality: Possessing or developing a key core competence that is recognized on the market and makes an asset manager stand out from the crowd is vital both to performance and to reputation-building. For smaller players in particular, it is very hard to build a reputation in several competencies. Each asset manager therefore needs to think long and hard about which core competence it really wants to foster.
Developing and maintaining several independent capabilities and failing to leverage them is costly and mostly requires a boutique approach that allows for a certain degree of independence for each competency. The downside here, however, is a negative impact on economies of scale.

At present, many asset managers still offer a wide range of products across many asset classes and styles. This works well for asset managers with powerful distribution channels or a strong brand. Yet even in the institutional side of the business, where brands and broad expertise across all asset classes are definitely a significant consideration, we are seeing that, here too, a reputation built around a core competence is becoming the most important selection criterion. As far as possible, smaller and boutique asset managers in particular need to leverage one core competence across several products. What they should avoid is trying to expand into too many asset classes and strategies (depending on their core competence), focusing instead on building credibility and developing a track record.

1.3 Demand

The balance of market power in the traditionally product-driven asset management industry is increasingly shifting toward the client.

Belief: Asset managers have made significant progress in making their business models more client-centric

Reality: We do not believe that asset managers have yet succeeded in aligning their interests with those of their clients, especially with those of private investors. True, there has been progress regarding business models, capabilities and the overall client experience, with large multinational players such as Credit Suisse focusing their asset management capabilities. In two areas at least, however, asset managers still have a long way to go. They still lag behind other industries in their understanding of clients (and their changing needs and decision-making in particular), as well as in their ability to actively and systematically build trust. Many clients, institutional as well as private, quite simply do not want to perform relative to this or that benchmark, nor do they need a specific asset class (there is no such thing as a natural need for European stocks for example). What they want is a solution that meets their financial requirements, such as a constant flow of income when they retire or for institutional investors meeting defined liabilities. In addition, few asset managers take the trouble to measure the financial impact of client-centricity – a clear indication that the prevailing mindset remains essentially product-centric.
On a fundamental level, players must know which clients they want to serve: retail clients, in-house (captive) clients or professional investors? Usually, professional investors – such as pension funds – blaze a trail and are later followed by retail clients.

As we saw in the financial crisis, the availability and accessibility of more and more information has not significantly improved retail investors' decision-making. Quite the opposite is true in fact. We see that retail investors tend to revert to old patterns that retail investors too tend to revert to old patterns just as quickly as the market. More than ever, retail investors need professional asset management that is backed by sound investment processes.

**Belief:** The availability of instant and high-quality data and information will make financial markets less volatile due to better decision-making

**Reality:** We believe the opposite is true. As a matter of fact, instant data on events can significantly increase volatility due to pronounced and instant responses from the demand side. An important distinction must be drawn here, however. In the case of significant but isolated events (such as losses due to unauthorized trading in a bank), markets respond by correcting sharply and then returning to business as usual. However, in the case of significant uncertainty related to broader issues that effect the entire economy, assets are more likely to move into a protracted sell-off period and could thus become the target of speculation strategies.

Among institutional investors, we identified a trend toward the outsourcing of asset management services. Many institutional investors – such as insurance companies – define their investment strategies internally and then entrust strategy implementation (within preset limits) to a mix of internal and external managers. That is good news for external asset managers, at least in volume terms, as the margins for these mostly low-cost investment chunks are not particularly attractive and are generally the object of tough negotiations by the outsourcing party.

### 1.3.1 In what direction are clients’ needs and decisions evolving?

To say that clients are – or should be – the focus of every business is a truism. Yet in service industries in general and the financial services industry in particular, client-centricity still seems to be more the exception than the rule.
This is especially true for the product-centric asset management industry, where complex new products have often been launched by production units without even verifying whether the market actually needed them. Accordingly, sales too were frequently driven more by the availability of products than by clients’ demand.

Astonishingly, clients have in the past largely accepted this approach, trusting their advisors and believing in what was offered to them. The same goes for institutional investors and their trust in investment consultants and well-known brands that have not always paid off in the past.

Slowly but surely, however, things are changing: Asset managers will in future need to respond to clients’ changing attitudes and behavior. The client base, in particular institutional investors and UHNWIs that usually hold a leading role in the industry, is becoming more professional, more heterogeneous and more demanding. Clients’ money will be less ‘sticky’ as better-informed investors become more willing to pull the plug when they are dissatisfied. In a more competitive setting, this will tilt the balance of power away from the asset manager and toward the client.

> Large asset pools such as professionally managed family wealth and key clients such as sovereign wealth funds will require asset managers to become more adaptable to individual and customized solutions, as both their global footprint and their regulatory context varies.

> More and more retail clients are beginning to focus on outcome-driven investing, e.g. meeting future cashflow needs, preserving purchasing power or achieving maximum long-term growth, and are thereby shifting the focus away from exceptional one-time performance in absolute terms.

> Institutional clients realize that asset and liability management is becoming more and more important, as are low risk thresholds in respect of financial market events.

> Proof of the ability to manage risks (based on individual clients’ expectations in terms of maximum loss or volatility, for example) will in future be an integral part of trust-building. This will in turn necessitate the use of better risk tools in order to identify, assess and mitigate key risks as asset managers align their interests with those of the client. Furthermore, client behavioral patterns that will not change in the long term need to be understood and taken into consideration.
Most economic theories assume that market players are pure 'wealth maximizers' who make essentially rational decisions. Reality tells a different story, however. Although investors define a time horizon and potentially even factor inflation and long-term currency development into the targets they set, the reality of market developments and underlying investment decisions is rarely driven by hard facts alone.

The importance of this subconscious element can hardly be overstated. Behavioral factors influence security and asset valuation decisions, portfolio design and relationships with asset managers. Recent investment bubbles provide ample evidence of irrational behavior on a grand scale – behavior that is driven by the biases explained in behavioral finance theory. Here too, there is no shortage of real-world examples:

> The bias known as 'herd behavior' can be seen when, driven by a collective sense of fear or greed, market players adopt me-too strategies, following the latest fads or the behavior of investment professionals – but usually arriving too late or failing to bail out on time.

> Similarly, when bubbles burst, huge losses are posted as investors, bound by an ingrained 'loss aversion' mindset, hesitate to sell even when the value of stocks crumble.

> Consistent with the bias known as 'money illusion', it has been demonstrated that people perceive a 2% cut in nominal income as unfair but see a 2% rise in nominal income as fair even when inflation is running at 4%, which effectively makes the two situations rational equivalents.

> 'Cognitive framing' leads people to prefer absolute numbers when choosing between gains but relative numbers when choosing between losses.

> People's aversion to risk is powerfully influenced by the way they categorize assets in a bias referred to as 'mental accounting'. The tendency is to be highly risk-averse when investing, say, money to be set aside for children's education, but to consciously take far more risks when investing what is perceived to be excess capital.

The findings and insights arrived at by behavioral finance research apply not only to private clients, but also to the institutional clients of professional assets managers. It is estimated that behavioral factors account for almost half of institutional investors' decision-making process.
Yet if we bear in mind that institutional investors rely on decision-makers who – despite being professionals – are vulnerable to the same core biases, this should come as no surprise.

Another important factor is that many decisions within institutional investor organizations are made by committees, which can actually exacerbate individual decision-making biases or even introduce new ones.

**Professional asset managers must make due provision for these irrationalities in the behavior of private and institutional clients,** as they can strongly influence the success of a client relationship. But exactly how can they take advantage of the insights yielded by behavioral finance research? There are two main answers.

First, the straightforward way – which many professional asset managers already follow – is to **adjust their products and marketing techniques in light of potential clients' known psychological biases.** One example is the practice of shifting from highly visible front-end sales fees to fee models – such as performance fees – that are linked more closely to value added. (On this score, it must nevertheless be admitted that there is still a long way to go. Moreover, the volatility of these fee structures presents a lot of challenges to asset managers' business models.)

Second, a more sophisticated application of behavioral finance findings involves educating clients, helping them to overcome psychological biases in a way that genuinely benefits them, and thereby nurturing a trusting relationship based on successful long-term cooperation.

Treading this path demands a major effort on the part of asset managers. It is time-consuming and therefore more expensive and more difficult to implement (given that few client advisors are trained in educational methods). If it is done properly, however, educating clients on how to make rational investment decisions can have a direct business impact for professional asset managers (increasing sales and raising asset volumes) without violating ethical rules.

This can, for example, be done:

> By helping clients to overcome their reluctance to enter the market (due to procrastination), or
> By helping to overcome clients' fear of investing in the wake of the crisis (due to loss aversion).

More importantly, helping clients in this respect improves the relationship between client and asset manager. **Relationships based on trust can set asset managers apart** and help them win and retain clients, earning their trust by honestly caring about their interests and helping them to make rational investment decisions.
Belief: Now that data and knowledge are more readily accessible, investors are increasingly well informed about risks, expected rates of return and the characteristics of assets products, and therefore make more informed and rational decisions

Reality: The notion that investors are toughening up their attitude toward asset managers has been doing the rounds for several years. Today's investors are undoubtedly better and faster informed, take a closer interest in investment decisions, investigate their asset manager's investment processes, ask questions about cost structures and challenge benchmarks. Having said that, however, their basic behavioral patterns remain the same. Being better informed but not fully understanding the market mechanisms can actually amplify behavioral patterns, making upturns better and downturns worse as investors follow the herd, for example. Asset managers should therefore take these patterns into consideration when they respond to demand from both retail and institutional clients. What is the best way to do so depends largely on the individual asset manager's value proposition (see chapter 3.2). Understanding how clients go about making decisions is also crucial if asset managers want to better understand what kind of products will be bought under what circumstances – and improve their offerings and advice accordingly.

1.3.2 What is the key to gaining access to clients?

Belief: Investors focus on performance and the size of a fund when choosing an asset manager, so brands are not important

Reality: The earlier discussion of investors' behavioral patterns shows that brands are one way to take advantage of inherent biases. If people feel safe with a brand and believe that the asset manager meets their needs (e.g. low risk but positive performance), then the reality is much less important than their perception. An asset manager's good track record is only as valuable as the brand's perceived ability to continue generating returns.

Besides the asset manager itself, the decision makers who guide the clients' final investment decision – or even make it on their behalf – have a huge impact on the perception of a fund. Gaining the trust of these decision makers is a further critical success factor that counts much more than pure performance or size.
Brands whose values align with those of the target group are clearly a powerful tool to gain access to clients. Moreover, brand differentiation can be increased by elements such as size, track record and specialist expertise.

A well perceived brand helps a lot when it comes to peace of mind. Investors believe that investing with a well-known asset management company exposes them to less risk of loss than with a smaller, less well-known one. This behavior is often motivated by the notion that "if they can't manage the money, nobody can".

It is therefore vital to build a brand around the core value proposition that fits to what target clients expect.

1.3.3 What are the trends in the asset outsourcing market?

Captive asset managers shift regularly between the ebb and flow of insourcing and outsourcing. Many initially turn to external suppliers, only to bring everything back in house after a crisis as they lose trust in their outsourcing partners. Whether or not outsourcing will gain in importance is thus a major issue. It is also very important to help asset managers to estimate demand.

Belief: As best-in-class strategies become more important, internal management will become less important as money management is increasingly outsourced

Reality: There is indeed a trend toward the outsourcing of investment management among captive asset managers. Not even insurance companies and large pension funds with low risk profiles manage all core investments in house. However, this trend merely affects either the execution of strategies and standard product investments in which size plays an important role, or specific investments that require specialized knowledge. On the other hand, a wave of insourcing followed the 2008 crisis when the value added by external asset managers was no longer visible in terms of performance. Outsourcing thus continues to ebb and flow. We do, however, expect future waves to grow larger in terms of outsourcing and smaller in terms of in-house management.

Swiss Re, for example, commissioned BlackRock in 2009 to manage corporate bonds and securitized products portfolios totaling around USD 21 billion.\(^2\) At Swiss Re, the investment strategy is defined internally and then executed by internal or external portfolio managers. A dedicated unit screens, monitors and negotiates with external managers.\(^3\)
Naturally, external asset managers are much in demand for their specialized knowledge – not only in niche markets and alternative investments, but also in more traditional asset classes such as corporate bonds. Building the required research capabilities internally also has the disadvantage of taking a lot of time and reducing asset managers’ flexibility in the choice of investment strategy. **Captive asset managers thus face a make-or-buy decision regarding execution of the defined strategy.**

### 1.4 Offering

As far as the product mix is concerned, portfolios currently seem to be dominated by varying blends of emerging market stocks and funds, thematic funds, indexed funds and high-quality bonds.

In the complex and uncertain world of financial investment, boring is beautiful. Clients are looking for easily understandable solutions and do not trust their advisors any more with complex structures. Necessary complexities still have to be managed, of course, and this can best be done by intelligently combining elements of standardization, modularization and customization. The critical issue is thus identifying how much complexity is really necessary. Embedded overlays, for example, have tended to make investment products more complex but – especially for retail investors – have often not been worth the expense.

In the retail business, open architectures are allegedly emerging as a core paradigm – as we have also seen for institutional investors who operate strict processes of asset manager selection.
While this is true as far as it goes, market players who tread this path must be careful to build the capability to effectively select and manage a broad range of counterparties and their offering, as sellers are ultimately held responsible to the client for the funds that end up in the client’s portfolio. Guided architectures involving a selection of preferred partners will therefore probably become the road more traveled, as they permit more efficient selection and control and the process is easier to manage.

At least for professional investors, uncertainty is a key driver of investment opportunities in distressed assets, hedge funds, commodities, private equity and foreign exchange. For all others, certainty can best be achieved in a portfolio of real assets or real asset-based businesses. Examples include real estate, businesses that deal in real assets and other cycle-independent businesses.

**Belief: Decumulation is a major driver of asset management opportunities**

**Reality:** Yes, decumulation in terms of dissaving (negative saving) behavior will happen due to the shift in the population pyramid in Europe and the USA. But no, we do not expect its impact on the business of asset managers to be as significant as some advisors might claim. In light of the other major developments currently taking place in the asset management industry and for reasons related to their attractiveness, even innovative products that truly add value for aging clients could fail simply due to the fact that they are hard to sell.

Questions have been asked about the value added by active management. Studies show that, while active management can indeed add some value, it only explains one-eighth of the difference in returns.

With margins under pressure, pricing too has become a key topic in the industry. Traditional fee structures used to generate revenue streams via sales only, thereby strengthening the product-driven philosophy. However, revenues are expected to become more volatile as more and more institutional clients demand performance fees.
1.4.1 Which investment strategies are the most successful?

**Belief: Substantial additional growth potential exists for exchange-traded funds (ETFs)**

**Reality:** Again, there is a measure of truth in this assertion, but that is all. Growth is likely to come, mostly from institutional investors who seek simplicity and want to leverage low-cost beta in times of great uncertainty. They are rebalancing their portfolios with a stronger focus on passive instruments. To this extent, ETFs present a relevant business opportunity. Some clients, eager for 'exotic beta', will also be drawn to ETFs that use synthetic replication techniques\(^4\) and will find them in different markets, sectors, commodities and geographies.

Caution is required for ETFs as it is for all investment products, as awareness of the risk implications is underdeveloped. As ETF volumes grow, index inefficiencies could lead to pricing anomalies. Similarly, many investors are still unaware of – and hence underestimate – the counterparty risk associated with synthetic ETFs.

The idea of absolute returns, as opposed to relative returns (benchmark-driven investments), became popular during the crisis at the beginning of this century. Investors who lost fortunes during the dot.com bubble started looking for risk-adjusted returns across all periods, irrespective of current market developments. Investment approaches such as constant proportion portfolio insurance (CPPI) were rediscovered after their initial rise in the late 1980s and their failure in the 1987 crash as one way to satisfy this demand.

Both the recent financial market crisis and this year’s climate of uncertainty have thus put absolute return products to a real test. While it is certainly possible to generate returns with relatively low correlations to general market development, the claim of completely market-neutral returns, if not impossible, is very hard to fulfill as the disappointing performance of most absolute return products during the two most recent crashes has shown.

One question nevertheless remains: Is it or is it not possible to constantly outperform money market returns?

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4) Synthetic replication must be distinguished from the physical replication of an index, i.e. through investing in the securities that build the index. Synthetic replication uses investors’ cash to buy a basket of securities from a swap counterparty. In exchange for the performance of this basket, the swap counterparty commits to deliver the performance of the reference index. If the swap counterparty fails, the ETF provider has a basket of securities as collateral that does not necessarily correspond to the securities in the reference index.  
(Morningstar ETF Research, Synthetic ETFs under the Microscope, July 2011)
Belief: Absolute return investment strategies outperform money market returns regardless of what the markets are doing especially in turbulent times

Reality: It is very difficult to find truly uncorrelated or negatively correlated investments, especially during times of crisis, when the need for uncorrelated investments is greatest. It is equally difficult to time long/short strategies to be on the right side of the market while keeping a cap on risk.

Research has shown that the correlation between hedge fund returns and market returns is often significant and positive, even for supposedly market-neutral funds. One study found that about one quarter of market-neutral hedge funds are significantly non-neutral. However, there was at least evidence to suggest that market-neutral funds are more neutral than other hedge fund categories in respect of market risk.  

Although research also shows that it is impossible to preserve capital in all market environments, demand for absolute return products is still increasing. Net new assets (NNA) in global absolute return funds totaled USD 41 billion in 2010, compared to USD 20 billion in 2009. Net inflows are expected to increase further while bond yields remain low and volatility persists. That is why asset managers are keen to service this market and launch new products – even though the performance of existing ones is not very promising. Growth in demand is expected to continue, for two reasons.

First, it reflects a structural trend that is partly related to tighter risk regulations that create the need for more risk-adjusted investments (especially for institutional investors). Second, it is partly due to investors' extremely cautious attitude in the current market environment, and to the ever-present question of whether conventional relative returns make sense at all and are in the interests of the client. To better understand this question, we need to look at the impact of active management.

1.4.2 What value does active management add?

Traditional active management includes tactical asset allocations, stock picking and market timing just to mention a few major categories. It is still very popular as it is perceived to "generate alpha" thus adding value for the client and therefore allowing for higher fees.

6) Lipper FMI, Cerulli Associates (Global Absolute Return Funds 2011, Cerulli Special Quantitative Update)
Alpha is the measure that shows the value an asset manager adds to (or subtracts) from a benchmark return. It compares a fund’s risk-adjusted performance to the performance of a benchmark index, with the result being the fund’s alpha. Though frequently debated in recent years, misapprehensions relating to active management still persist in the mind of the average investor.

Belief: Actively managed funds are better than passive funds as they generate positive alpha – even after costs have been deducted

Reality: As studies have shown in recent years, alpha in general averages out at zero. Some active managers produce positive alpha while others produce negative alpha. After deducting costs, passive funds actually produce higher returns on average than actively managed funds. Few active funds generate benchmark-adjusted returns that even cover their costs.7)

The performance of a fund depends on its strategic and tactical asset allocation. Strategic asset allocation defines the mix of asset classes in the portfolio and is at the core of any investment strategy. It is also the basis on which a benchmark can be identified for the fund. Tactical asset allocation refers to the short-term overweighting and underweighting of certain asset classes with the goal of generating alpha (returns in excess of the benchmark).

Active management is most often employed for investments in the small and medium-sized enterprise (SME) sector and specific hedge fund investments. However, selecting the ‘right’ stocks and getting the timing right has become ever more challenging over the past decade as markets have become more integrated and efficient. In the medium term, this approach may therefore no longer be a viable option, except perhaps in the less efficient SME sector. Be that as it may, many asset managers still insist they are able to beat the market (the better-than-average effect) and doggedly stick to their active management strategies.

Asset manager’s ability to identify market opportunities be it market inefficiencies or undervaluation of certain stocks and to manage risk is crucial in determining whether active asset management can generate positive alpha.

Quantitative models naturally play a role in active management. Having said that, not even the most sophisticated mathematic models will help if your return forecasts or risk assumptions are way off target.

Passive investors are affected by active return strategies because it is the active traders who shape market movements. Passive strategies merely mirror these movements. At the end of the day, the opportunities afforded and the value added by active management very much depend on the goals, skills, expectations, risk-aversion and constraints of the investor. This realization once again underlines the importance of understanding the clients' needs.

1.4.3 How can different pricing models be leveraged?

**Belief:** There is a limited need to adapt existing pricing programs, but margins will decline further and past profitability levels will rarely be achieved

**Reality:** There is certainly some truth to this belief. We have seen some changes in the asset management pricing environment. Thanks to the MiFID directive, for example, up-front fees must now be mentioned explicitly and are thus gradually dying out. Management fees, on the other hand, have not declined significantly for mutual funds.

Either way, retail investors are becoming more price-sensitive and are starting to invest in lower-priced ETFs rather than more expensive actively managed funds. Those that do buy into active funds usually do so with specialized investment in mind (to pursue a specific alpha strategy in a core satellite approach, for example) and tend not to worry too much about the price. Accordingly, we do not expect margins in terms of management fees to erode much further in the retail business. What we do expect in the retail segment, however, is a shift in active management strategies toward more value-based pricing models along the lines of performance fees, as we have already seen in the institutional business, as far as it is allowed and aligns interest of clients and asset managers without fostering risk taking by the manager.

Of course, if regulations change as we currently see with ongoing discussions about IFS renumeration, management fees in general may come down as kick-backs will be outlawed. For asset managers the margins nevertheless will likely remain the same as the rather high retrocession payments will cease to exist.
For institutional investors, a more professional selection process – involving investment consultants and beauty contests – has also impacted prices. In many cases, competitive prices can only be offered if efficiency is guaranteed, i.e. if a solution can be managed efficiently and at no extra cost.

Many small and medium-sized asset managers quite simply cannot achieve the efficiency they need to compete on these terms, although this naturally also depends heavily on the asset class and the selected strategy. While it is almost impossible to offer smaller bond investments at competitive prices, specialty investments such as small and medium-sized equity investments, specific investment topics and quantitative models can still command prices that deliver adequate margins.

The key issue is therefore not so much price pressure but the need to identify those niches in which value-based pricing still applies. In commodity segments, however, the pressure on prices is such that increased scale and efficiency are essential if an asset manager is to remain competitive.

Performance fees, a genuine trend now advocated by many advisors, merit a closer look. Admittedly, they constitute a means of aligning the interests of clients with those of asset managers as long as both want to maximize performance given a defined level of risk, as there is practically no downside risk for asset managers.

The second problem with performance fees is that they tend to be associated with investments that outperform the market. If the market heads south, however, investors are reluctant to pay a premium just because their investments decline by less than the market as a whole, a fact that has already been addressed with for example high water marks. Finally, with so many investors now demanding performance fees, the income pool is becoming more volatile and stable profitability is becoming harder for asset managers to achieve.

The second trend we have identified is a trend toward more transparent pricing, including all-in fees that give clients a guarantee of no nasty surprises on the cost side. All-in fees are not only very sensible for investors, who have a clear idea about how much they will ultimately pay, but also for asset managers, as they represent one of the most stable revenue streams – especially if they are combined with a fixed-price floor for smaller mandates.

Although prices have been negatively impacted by the crisis, they will return to normal levels as players adapt to the new realities. Satisfied clients are generally willing to pay for positive performance.
Given a measure of flexibility on the cost side, players that offer services based on solid all-in and performance-driven fees can still operate at a profit.

1.5 Identifying your strengths

Having discussed many aspects of what is perceived to be conventional wisdom in asset management, it becomes apparent that current developments are heading in a completely different direction to the one expected by the market.

Market conditions are clearly getting tougher as investors, legislators and the competitive environment all exert greater pressure (though not as much as generally expected) on asset managers. The asset management market as we know it today will undoubtedly change. To put it in a nutshell, we expect to see a "disentangling" of the industry. Small players will need to position themselves as dedicated specialists that can command higher prices due to the value they add, while larger players will need to focus on efficiency and will be able to offer low-cost passive solutions.

We acknowledge that it is therefore vital to identify your own strengths in order to optimally position your business for the future. Accordingly, the sections that follow provide insights into how we expect the asset pool to develop, what key success factors we anticipate and the positioning options that are open to you.

Before moving on to the projected outlook for the industry, however, we would therefore challenge you to pause for a moment and reflect on what you have read. Now is the ideal opportunity to ask yourself a few questions in order to identify your own strengths. Later on, your answers will help you to realign your business in light of the market’s new rules.

The questions we would ask are these:

1. Market: How well are you prepared for the regulations that are likely to come into force in the next few years?

2. Players: What are the key strengths of your business model? Which link(s) in the value chain can you serve best? What are your weaknesses?

3. Demand: Do you really understand who your clients are and what they expect of you?

4. Offerings: What is at the core of your offerings? Which products genuinely add value for your clients, and which ones are not really successful?
2. Scenarios: The future of the asset management industry

We have looked at shifts on the demand side, shifts in the industry’s value chain and anticipated changes in product and service offerings. Yet the balance of financial market power is shifting within and between regions, too. At the end of 2010, five out of ten of the world’s top stock exchanges were located in Asia. Moreover, some Asian stock exchanges have already been attracting Western companies. Prominent recent listings include Prada and Samsonite in Hong Kong, for example. Shanghai, already regarded as a major financial center within mainland China, has set itself the goal of becoming an international financial center by 2020 and has introduced a number of corresponding initiatives since 2010.8) It therefore makes sense for us to take a closer look at possible macroeconomic development scenarios for the different regions.

To arrive at these scenarios, we used neither models nor quantitative assessments other than the asset pool analysis discussed earlier. Instead, we formulated four key questions based on a simple profit equation and its inherent impacts. For each of the key questions, we then formulated hypotheses on which our four scenarios are founded.

The scenarios thus treat growth and profitability separately, identifying various combinations of outcomes across the key questions. The section below looks at the four key questions and defines the scenarios. It then takes a closer look at the implications of each scenario for market players.

8) For more details, see ‘European Business in China’, Asia Pacific Headquarters Study
1. How will economies develop in the future?

The market recovery was well on its way in 2010, although currency shifts and low interest rates pressured performance. In summer 2011, volatility increased once again, and the financial markets have been hard hit by the public debt and currency crisis. The question of future development in terms of overall market appreciation thus remains open. This issue is one key aspect of our scenario landscape.

The role of the developed countries as the main engine of the world economy has been called into question. Although stock indices developed very satisfactorily in 2010 (MSCI Europe +8.0%, DJ Industrial Average +11.0%), the financial crisis of 2008-2009, the current public debt crisis in Europe and the weak recovery of the US economy remain a challenge. While the EU and US struggle with domestic difficulties, Asia in general and China in particular are still growing and now own much of the world’s debt and currency reserves. China has become the largest holder of US Treasury securities (USD 1,166 billion in June 20119). Moreover, China had amassed foreign exchange reserves totaling USD 3,197 billion10) by the end of June 2011. Will the trend continue, causing the developed countries to see their importance to the global economy erode? Will China too be affected by the crisis? These are key issues regarding the world’s future economic equilibrium. For the asset management industry too, these answers are crucial to identify whether growth is still possible at all or whether we have to face up to a stagnating market environment.

2. Where will future asset growth come from?

Between 2007 and 2010, invested assets grew to roughly USD 76.1 trillion, implying a compound annual growth rate (CAGR) of 1.6%. Between 2010 and 2015, we expect to see an increased CAGR of around 2.7%, or up to 6.6% including the market performance potential. Growth in retail investment (3% or up to 7%, respectively) will be slightly ahead of that for institutional investment (2% – 7%). Especially high growth rates (incl. performance potential) are expected for SWFs (11%) in institutional assets and ETFs (12%) within retail assets.

Some argue that the advanced economies will remain the major centers of wealth in the coming decade, despite high growth rates in developing economies. It is nevertheless only a question of time before the largest and heavily populated emerging economies will have developed the largest asset pools.
In India and China, the rise of the middle classes and increasing demand for pension saving solutions indicate that this development has already begun. When exactly this development will be completed – and whether it makes sense to bet on it – is a further key question for our scenario development.

3. How will margins develop?

Revenue margins are a key driver of asset managers' profitability. They are influenced by the level of competition in the market, changes in demand, and a player’s business mix and pricing policy. The prevailing opinion – that margins will decrease in the years ahead – has been retold for several years, albeit without explicit results ever appearing in the income statements of most asset managers. After experiencing a dip in 2009, BlackRock, for example, was able to return its margin (revenues divided by assets under management) almost to the level posted in 2007. On the other hand, increasing demand for passive products must have an impact on margins at some point. The question is therefore: How can asset managers earn money in the future? How can players set their offerings apart and escape the pressure on margins?

4. What cost implications could affect profit margins?

Besides the trend in revenues, costs too have a significant impact on profitability. The spiraling cost of complying with regulatory requirements, high IT costs and the war for talent have already triggered a steady increase in the cost base. Improving efficiency by imposing strict cost management and leveraging economies of scale may be workable solutions in the short run. It is nevertheless questionable whether a cost focus alone is enough to ensure survival in the asset management industry.

2.1 Scenarios

Let us now explore the possible outcomes of these questions and formulate scenarios on the basis of our hypotheses about the course of development. Our scenarios are mapped out along two axes: market growth and profitability. We also distinguish between development in the advanced and emerging economies.

The emerging economies are: Argentina, Brazil, Bulgaria, Chile, China, Columbia, Estonia, Hungary, India, Indonesia, Latvia, Lithuania, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Romania, Russia, Slovak Republic, South Africa, Thailand, Turkey, Ukraine and Venezuela.
The advanced economies are: Australia, Canada, Czech Republic, Denmark, the euro area, Hong Kong SAR, Israel, Japan, Korea, New Zealand, Norway, Singapore, Sweden, Switzerland, Taiwan Province of China, the United Kingdom and the United States.

For the purposes of scenario development, questions one and two were aggregated into a single "growth" dimension: Where will future growth come from? Questions three and four constituted the "profitability" dimension: How will the industry’s profitability develop in the future?

Based on these two main dimensions, we envisage four possible scenarios that vary in terms of their impact on asset managers. Before we explain why we believe the scenario profitable stagnation is the most likely one, let us briefly outline our take on what each of them would mean for the asset management industry.

### 2.1.1 Scenario 1: Opportunities in emerging economies

This scenario delivers strong market growth in the emerging economies but relatively low growth in the advanced economies. Profitability is low in the advanced economies and relatively low in the emerging economies.
As its name suggests, this scenario would open up attractive growth opportunities for asset managers in emerging economies. A strong local presence and a knowledge of the local market would be vital if they were to develop specially tailored local offerings.

The emerging markets – and especially the BRIC countries – can best be entered by partnering with local distributors due to limited market access and asset managers’ lack of local distribution expertise. Private and retail banks, networks of independent financial advisors or investment consultants, and local asset managers – depending on the distribution power they have developed – could all be potential partners. Asian asset managers would become increasingly important, as they are well placed to benefit from this high growth environment and can further invest in their own practices by hiring skilled people.

Industry consolidation would be the probable result in advanced economies due to low profitability levels. Players that fall short of critical size or have no significant presence in growth markets would risk being taken over or marginalized.

2.1.2 Scenario 2: Consolidation

This scenario assumes low market growth and profitability in both advanced and emerging economies.

Limited growth opportunities for asset managers will lead to consolidation in the industry. Only large players with sufficient assets under management and a clear focus on efficiency will survive in the long run. Players lacking critical size risk being marginalized or taken over. On a positive note, however, there will be fresh opportunities for asset managers that successfully develop and market their expertise in inflation-proof investment solutions.

2.1.3 Scenario 3: Global Growth

Strong market growth in emerging economies and relatively strong growth in advanced economies are the characteristic attributes of this scenario. Profitability is high in both emerging and advanced economies.

Since market growth in the advanced economies is so promising, there is no need for incumbents to shift their focus to emerging markets and tackle risky market entries.
Market players can earn high margins if they improve client-centricity and offer value-added products or services, e.g. tailored solutions for the needs of the aging population in advanced economies.

Plentiful market opportunities will cause new market entrants to pose a threat to existing players who are naturally keen to defend their market share.

2.1.4 Scenario 4: Profitable stagnation

This scenario is posited on high growth in emerging economies and low growth in advanced economies. Profitability is high in both emerging and advanced economies.

The question this scenario poses to asset managers is: How should you position yourself in order to benefit from growth in emerging economies without neglecting profitable advanced economies?

Players need unique value propositions. We believe an intelligently nuanced position that builds on the asset manager’s known strengths and presents a sustainable value proposition is essential to a successful business model. Besides reaching critical mass and running efficient operations, it is also critical to improve client-centricity. Asset managers must be able to create innovative value-added solutions for clients if they want to earn high margins. Moreover, the portfolios of larger asset managers must reflect a balanced global footprint that spans both advanced and emerging economies. In addition, new players from the emerging markets will enter the market, as we expect even smaller asset managers to adopt more global strategies.

There are two possible development trajectories: Players will focus on either efficiency or client-centricity. Players that lack critical size, efficient operations or client orientation will find it difficult to survive. Further specialization in the industry could be the result.

2.1.5 Evaluation of hypotheses: Why we believe in profitable stagnation

The growth dimension

Growth rates in emerging economies are expected to be higher (annual GDP growth of around 8% in India and 4% in Russia through 2015\(^{11}\), for example) than in advanced economies. This differential indicates a fast growing emerging middle class and high savings rates in the emerging economies.

\(^{11}\) IMF (WEO database, September 2011)
China, for instance, is expected to overtake the USA in 2023 in terms of real GDP (at market prices in USD).\textsuperscript{12} In the advanced economies, growth rates in savings are lower but still increasing due to an aging population that requires people to focus more on their savings. In the USA, for example, the savings rate is expected to increase from 12.5% in 2010 to more than 16% in 2015.\textsuperscript{13}

Whether these GDP growth rates can be achieved given the current financial turmoil remains to be seen. These forecasts of course are based on the assumption that there will be no serious double dip and that global GDP growth will stabilize around 4.5%, an assumption that we are skeptical about.

While we expect growth rates in Europe to remain relatively high, we believe that the impact of the USA will significantly curb overall growth in the advanced economies. In Europe as in the USA, the public debt and currency crisis and social unrest will be the main drivers of this development.

The increase in the money supply accepted by many countries (such as the USA) as the price to be paid to bolster their export industries will drive inflation in traditionally low-inflation environments. **Expectations of rising inflation rates on a global level** are therefore another factor that will impact growth in advanced economies.

\textsuperscript{12} EIU
\textsuperscript{13} IMF (WEO database, September 2011)
Looking at asset pools, it is consequently Asia which will be the major driver of future asset growth. China's asset pool is expected to grow at 14% p.a. between 2010 and 2015, and including performance it has potential to reach a CAGR of up to 23%. The institutional market has been resilient to the crisis and is expected to continue to grow at very high rates in China, driven notably by increasing premiums in insurance business (expected CAGR of 20% excluding performance) and the development of pension funds (CAGR of 12% excluding performance). The retail market was impacted by the financial crisis but is expected to benefit from the wealth increase of the population and the development of the financing industry (expected CAGR of 11% for retail assets, excluding performance).

Having mentioned the growth in asset pools in India and China, it is important to point out that regional asset growth is a question of definition. The Asian market will definitely grow in terms of assets under management.

**However, many players who go there to try and get a slice of this cake will be disappointed.** Why? Because the Asian market is so fiercely contested; because legal and cultural aspects raise daunting barriers to entry; and because Western asset managers in particular will struggle with margin issues. The latter struggle will arise because they are likely to have larger, more costly structures than local players. They have to maintain international headquarters and will very often not have direct access to the market, which will necessitate cooperation at local level that tends to reduce their share of profits.
There always seem to be question marks over Europe. Demographic trends in Europe’s aging societies are driving private pensions. So too is the rediscovery of personal responsibility for provident saving, as statutory pension programs creak and groan under the strain of an ever thinner active population and more and more individuals take their pension savings into their own hands. At the same time, new EU regulations will drive growth in UCITS-approved funds and, in so doing, increase the attraction of investing assets in Europe. Interestingly, while consumption (rather than saving) is on the rise in Asia, the opposite is true of Europe, where savings are increasing and consumption is in decline. This factor, too, will drive future asset growth on the old continent, expected to be around 3% p.a. (7% incl. performance potential) for retail assets and 2% (6%) for institutional assets over the coming years.

In North America, the slow but steady increase in the closure of defined-benefit pension plans will flush new money into the next generation of target date funds and thus drive growth. This is reflected in our expected growth of 2% p.a. for North America, with retail asset growth of 2% (5% incl. performance potential) just ahead of institutional asset growth of 1% (4%).

The growth dimension therefore is in favor of the profitable stagnation scenario, predicting high growth rates in emerging economies, while advanced economies are held back by slow growth, especially in the USA.

The profitability dimension

High profitability is likely in both the advanced and emerging economies. The probability of high profitability is more than 50% in advanced economies and even higher in emerging economies. In the advanced economies, clients’ willingness to pay for customized pension solutions, for example, and for actively managed products that solve specific problems will enable players who can meet these requirements to keep their margins high.

Combined with a focus on cost management, this could return profitability to pre-crisis levels. In the emerging economies, profitability margins are expected to be very attractive due to relatively strong demand for actively managed products and the increasing need for more sophisticated investment solutions.

We do not subscribe to the widely held view that profitability will be low in both emerging and advanced economies. We do, however, acknowledge that profitability is not expected to return to the kind of levels witnessed prior to the financial market crisis.
The current shift in the product mix – such as the growing market share that ETFs are cornering (market share of 5% of total retail assets in 2010) is expected to continue. Passive, low-risk and hence low-margin products are expected to grow in importance, especially in the advanced economies, thereby increasing the pressure on margins for commodity products. Growing volumes of ETFs are merely one example of this shift. Since the margins on plain vanilla investments such as bonds and large-cap equities have also declined in recent years in the institutional segment, it is likely that, as usual, private investors will follow suit subject to a time lag. Accordingly, the asset managers that provide these kind of products will have to place considerable emphasis on efficiency.

The bottom line? Margins will indeed come under pressure. However, if they can achieve either efficient setups for commodity products or occupy a niche that continues to command attractive margins, asset managers will not have to struggle if they know how to position their assets.

2.2 Strategic implications for the asset management industry

What are the implications for asset managers if we believe in a profitable stagnation scenario? Starting once again from our four key factors for asset managers (the market, the players, demand and offerings), we have formulated hypotheses for each one from which we then derived strategic implications for asset managers.
2.2.1 Market

Based on our analysis of current reality in the asset management market and insights into potential future developments, we expect that the most attractive market segments in terms of future asset inflows will differ from region to region.

The hypothesis on which we based our market analysis in chapter 1 distinguishes between retail and institutional business, as we expect these two sectors to develop differently. To isolate strategic implications, we further subdivided these two market segments until we arrived at a level of detail from which we could derive useful estimates of future asset development.

In Europe, we expect two growth opportunities to materialize. Asset growth will be relatively strong in specialty products such as dynamic asset allocation products. ETFs too will increase their share of the commodity product segment, e.g., equities in advanced economies. Active products will showcase growth in alternative investment strategies (such as absolute return products) that require special expertise to manage.

In Asia, however, we expect insurance to be the segment with the highest growth rates. This hypothesis is based on the fact that there is an increasing share of middle-class families in Asian countries with an increasing need for security and safeguarding. While the market is still underdeveloped compared to advanced economies, we expect growth rates to be comparably high.
To make the most of these opportunities, players basically have two choices. First, they can **focus on efficient operations and economies of scale**. Doing so will let them offer commodity products at competitive prices. Second, they can **specialize in attractive market niches** and invest in the resources required to understand the needs of clients in these niches and, hence, outperform their competitors.

### 2.2.2 Players

As we have seen, different business models are springing up all along the value chain. Some players are specializing. Indeed, some are even selling their asset management business altogether. On the other hand, the process of consolidation is continuing. Profitability does not only depend on the asset volume and the product pool. **We expect the trend toward specialization along the value chain to continue, as this approach holds out potential to add more value.**

### Business models: Level of integration and position in the value chain

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<thead>
<tr>
<th>Asset management (AM)</th>
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<th>Investment Management</th>
<th>Fund Administration</th>
<th>Custody</th>
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<td>Fully fledged universal banks</td>
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Source: Roland Berger Strategy Consultants

As an example of the trend toward specialization, we **expect independent financial advisors (IFAs)** and **investment consultants** who focus strictly on providing top-class advice to **play a major role in asset management distribution in the future.**

In light of regulatory requirements and profitability considerations, many integrated banks (such as Barclays and Credit Suisse) have already sold or thought about selling parts of their asset management units.
Insurance companies have struggled both to run their captive asset management operations efficiently and to notch up an adequate performance record. As a result, captive asset managers will have to take a long, hard look at their decisions about outsourcing. We believe that those issues that genuinely add value, such as asset allocation, will remain in house, while more and more plain vanilla products will be outsourced to large asset managers.

For banks, access to an in-house distribution network remains crucial to their success. With a view to the trend toward open and guided architectures, universal banks are going to have to think carefully about how to integrate asset management activities in their value chain to add value for the client.

The question is whether the trend toward specialization will ultimately lead to open-architecture distribution. In our view, this is unlikely to happen. The immense number of funds and products on the market makes it impossible to thoroughly evaluate all of them. Instead of a true open-architecture approach, guided architectures might be more realistic to implement. Distributors will therefore cooperate with certain preferred and best-in-class suppliers based on a sound review and control of the partners. This policy will genuinely offer added value to clients.

As regulations and best practices move toward guided architecture strategies in distribution, integrated business models will need to be reviewed. A clearer positioning in the value chain might be required, for example to set offerings and client service apart from rivals' offerings.

2.2.3 Demand

We have already seen that, up to now, demand has not been the major driver in the asset management industry as sales have been very much product-driven. Tailored solutions were rarely offered, as asset managers had little understanding of clients' real needs. In the retail business, values-based client segmentation will increase asset managers' understanding of clients based on close analysis of what they need and what they want. This in turn will lead to more actionable insights than a pure wealth-based approach. In the institutional business, we expect to see greater professionalism, i.e. the increasing use of investment consultants and a continuation of the trend toward the outsourcing of portfolio management.

In the retail segment, distributors have in the past typically segmented clients by wealth or, in some cases, by lifecycle phase. Values-based segmentation, however, can deliver much more practical insights than segmentation that is based on wealth alone.
The institutional investment business is experiencing a trend toward greater professionalism. It can be expected that clients will continue to pressure players into becoming more transparent, e.g. through the more widespread use of standardized request for proposal (RFP) processes. This would intensify competition in the industry. Since the trend is moving in the direction of the best possible advice, clients will tend to use investment consultants to help them select external portfolio managers. Institutional clients’ willingness to pay for consultants is partly explained by some investors’ desire for a “second opinion” that backs up their own decisions. Consequently, the importance of the investment consultants as a sales channel will increase.

As clients make increasing use of third-party service providers such as investment consultants and external portfolio managers, they must also improve the way they manage and supervise these providers. Consequently, the importance of risk management or overlay management will also increase.

### 2.2.4 Offering

Both retail and institutional clients want more advice on and solutions for macroeconomic and financial market scenarios. In response, strategic asset allocation and new ways to increase its flexibility will more and more come into the focus of client-centric asset managers.

At the same time, the fact that institutional and private investors alike are gradually catching on to the benefits of greater diversification will be another driver that magnifies the importance of strategic asset allocation. Every single investment product, or at least the portfolio as a whole, with strategic asset allocation acting as the ribbon that ties it all together, will have to satisfy an array of qualitative criteria in future. Products must be crisis-proof, relatively non-volatile, sustainable, independent, transparent, liquid and focused on wealth preservation.

As far as investment product categories are concerned, we expect exchange-traded funds (ETFs) to exhibit further growth of about 10-15%, less than is generally expected on the market. This increase will be driven primarily by asset inflows from institutional investors who seek to leverage low-cost beta, uncertainty and simplicity as they rebalance their portfolios with a stronger focus on the passive side.

We also expect to see the emergence of “core and satellite” investment approaches that effectively combine multiple strategies. Long-term passive components based on dynamic allocation will be at the core of the approach.
The satellites around this core will be expected to generate alpha, i.e. returns that exceed the benchmark. The latter part of the approach can include actively managed components and will seek to exploit tactical opportunities presented by mispriced assets, such as distressed debt or short-term market imbalances. We expect professionally managed portfolios to combine all these aspects in an overlay (hedge) structure.

Given that "necessity is the mother of invention", today’s tough times can also drive product innovation as asset managers seek new ways to meet clients’ needs while improving the performance of their business models.

**Focus on core capabilities**

Most players currently offer a wide range of products. As discussed earlier, players would do well to focus their business models on either specialization or efficiency, as well as improving their understanding of clients. Players’ offering strategies should therefore be based on just a few selected core capabilities in order to build a reputation for expertise and performance (either in terms of market performance or efficient execution). The options for the pricing of asset management products or services have often been limited in the past. In the commodity business, fierce competition forces market players to focus solely on efficiency. Only the best-known brands can charge a slight premium. For more specialized offerings, however, client-centric pricing models will be more widespread in the future and will offer a little more flexibility.

Focus is the key for players’ offering strategies. Successful asset managers usually have a product strategy that concentrates on selected core capabilities. Especially for asset managers who depend on non-proprietary sales channels, focusing on their core capabilities is an absolute imperative. First, proven expertise and a proven reputation are essential in order to gain direct access to clients. Second, an excellent performance record and large funds are essential prerequisites in order to gain access to third-party sales channels. To build a reputation or develop an excellent track record, players should therefore concentrate their resources and investments on a few core products.

If profitable stagnation is indeed the scenario that materializes, we see two further developments as vital. One is the development in portfolio risk management; the other is the development in exchange-traded funds (ETFs).
Risk management

The greater professionalism that is expected in the institutional investor segment should also increase the importance of risk management. Therefore, let’s have a closer look at how risk management can build an integral part of the offering.

**Breakout: Risk management – A future differentiator?**

*Authors: Marc Grüter & Benjamin Hurni, Principals Roland Berger Strategy Consultants Zurich*

There are two reasons why risk management is currently the center of attention in the asset management industry. One is that investors’ appetite for risk has changed. The other is that asset managers’ internal operational risk management is experiencing a longer-term wave of significant revisions.

**Investors’ risk appetite and related impacts on risk measurement**

Setting risk objectives, that is willingness and ability to tolerate risk, is one of the first steps in designing any investment strategy. The extent to which an investor is willing to take risk depends heavily on the expected rewards – i.e. the expected return – for doing so. This is one of the key challenges in today’s market environment. Investors believe that it is difficult to estimate expected (long-term) returns. Partly for this reason, but partly also due to market volatility and unclear economic prospects, investors’ willingness to take risk is still significantly lower than it was before the first wave of the financial crisis (i.e. in 2007).

Regarding changes in the ability to take risk, a distinction must be drawn between two different types of investors:

> Since the first wave of the financial crisis, private investors’ ability to take risk has recovered to a level slightly below that of 2007. This rebound has been driven mainly by the recovery in equity markets between spring 2009 and spring 2011. Another factor is that private savings are now significantly higher than they were before the crisis

> Institutional investors’ ability to take risk has changed in different ways. Most corporate investors currently have no shortage of cash, indicating that their current ability to take risk is not lower than in pre-crisis times. The same also goes for mutual funds and insurance firms that base their ability to assume risk on investment policy statements or the liabilities side of the balance sheet, respectively. The funded status of pension funds is slightly below pre-crisis levels, leading to a lowered risk-bearing ability. Most other types of institutional investors are facing a lower risk-bearing ability than pre-crisis too
It is common practice to consider the lower of an investor’s willingness or ability to take risk as risk tolerance. Right now, willingness lags behind ability in most cases. Accordingly, investors’ risk tolerance is generally below pre-crisis levels at the present time. In light of the sovereign debt crisis, that may well be how things stay in the medium term.

One common observation across all investor types is that, compared to the period before 2008, risk measurement now focuses more on tail risks. This also helps to explain why scenario management has become a key tool to model the increasing complexity of today’s market environment. Scenario management has become well established as a complement to the traditional methods of risk measurement that are based on the variance of investment returns. There is evidence that this is the case for both institutional and private investors (e.g. wealth management clients). Banks have responded by adding appropriate analyses to their client reports. So far, these analyses tend to focus on historical rather than forward-looking scenarios, due to perceived legal risks associated with the latter.

Institutional investors, on the other hand, mostly work with hybrid scenarios, that combine the historical view with forward looking elements. One highly topical example is the possibility of a default scenario for Greece. Hybrid scenarios for Greece have frequently been formulated and applied to investment portfolios and corporate strategies – hybrid in the sense that historical data (such as recovery rates for defaulted sovereign debtors) are combined with forward-looking elements. The latter involve the potential second-round effects of a Greek default, such as a widespread crisis across the banking industry and Greece’s potential efforts to repatriate or legalize private offshore assets of Greek citizens.

**Asset managers’ internal operational risk management**

In many jurisdictions, the rules that govern asset managers’ approach to operational risk management have already been or are about to be tightened. One key example of such a new regulatory regime is the Directive on Alternative Investment Fund Managers (AIFM), which is due to be implemented in phases between 2013 and 2018. AIFM is expected to set new standards on a wide range of risk management issues. Asset managers will, for example, be required to separate their risk and portfolio management functions, and due diligence processes will need to be conducted for major investments.

Risks associated with each position will need to be explicitly identified, measured and monitored continuously, with stress testing also required on a regular basis. Appropriate steps – again including stress tests – will need to be taken to assess liquidity risks. Finally, the new directive will introduce extensive requirements with regard to the valuation of securities, again with a view to reducing or at least adequately managing valuation risks.
We are of the opinion that regulations such as AIFM will trigger far-reaching improvements to risk management in the asset management industry. Comprehensive risk management systems will thus emerge in this industry as they have done and still are doing in banking. Once again, the range of issues covered will be comprehensive: Processes for defining clients’ risk appetite and associated limit systems will be refined. Operational risk strategies will become all-embracing, taking in for example compliance and legal issues, asset managers’ reputation and the risk of fraud. Risk management functions will be kept strictly separate to ensure compliance with governance requirements and avoid conflicts of interest. Price checks, for example, will be introduced as an aspect of standard valuation processes. Indeed, a whole raft of methods will be defined and applied with regard to issues such as stress testing, scenario management and mean variance measurement. Both training and incentives for risk management staff will focus more strongly on risk orientation. And, of course, the IT systems that underpin the new systems will be revamped as steps are taken to ensure business continuity, for instance. Risk (overlay) management could be a key product in future. Strategies such as absolute returns have not lived up to their promise, as asset class correlations that change during a crisis do not show up in backtesting models.

Capital protection is a more important issue than ever for clients who lost both a lot of money and a great deal of trust during the financial crisis of 2008 or in the volatile summer of 2011. Furthermore, stricter regulations are likely to subject risk management provisions to closer scrutiny. Asset managers will thus have no choice but to improve their strategies.

Easy-to-understand risk management solutions that really work will become more and more relevant, especially for risk overlay management. CPPI structures and other modern insurance-like risk strategies are only the beginning of this development. The industry will have to look for innovative risk solutions that can genuinely add value for clients.

**Exchange-traded funds (ETFs)**

The rise of ETFs has been an important topic in the industry of late. The investment opportunities afforded by ETFs have consistently been broadened and diversified. For example, ETF-based leverage is no longer a myth but a fact. ETFs can be used for a variety of different strategies and can even enable investments in alternative asset classes.

New regulations (such as UCITS III) allow traditional ETF contractors to move their business model in the direction of traditional asset management, for example. The use of derivatives and flexibility as tools of leverage is no longer restricted (see swap-based ETFs, for example). It follows that ETFs can be used not only as a passive core, but also as satellite investments in modern institutional core satellite approaches.
The flip side of course is that with these synthetic structures new risks (such as counterparty risks and the risk of ending with a completely different portfolio) are generally less known especially to private investors.

**Breakout: Close-up on ETF market development**

*Author: Dr. Frank Heideloff, Partner, Roland Berger Strategy Consultants Hamburg*

Global exchange-traded fund (ETF) assets hit an all-time high of USD 1,442 billion in assets under management at the end of the first half of 2011. On the global market, some 146 providers were offering a total product range of 2,825 ETF products. These were listed on 49 exchanges worldwide, with an average daily trading volume of USD 68 billion in June 2011. In the years ahead, analysts expect to see strong growth in ETF markets. Deutsche Bank, for instance, expects asset growth of approximately 25% globally for 2011.

Going forward, short-term demand for ETFs will be generated mainly by institutional investors such as pension funds and asset managers jointly accounting for approximately 80% of assets under management. Institutional investors hold a larger share of niche products such as short and leveraged ETFs. Making their portfolios more robust some institutional investor are using retail ETF products in their portfolios as well. In the medium term, however, analysts expect private investors to play a more important role for ETF demand than they do today: A share of 50% of assets under management raised from private investors is possible.

This expected growth will be driven by various factors. Regulation and consumer protection are tightening. This fact, combined with customers’ demand for products that are simple and easy to understand, lays a solid basis for the growth of clearly structured and transparent products. Furthermore, recent discussions on potential risks embedded in ETF structures will likely shift the ETF mix away from synthetic products.

Market growth in the coming years will not necessarily be driven by a broader product range as it used to be in the past. The current ETF product range offers everything a private investor demands in terms of diversity. Further need for more complex products – such as leveraged ETFs and hedge fund-based ETFs – is driven mostly by institutional investors who will not play as dominant a role in medium- to long-term growth in the global ETF market.

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Private investors currently investing in ETF are mostly better informed than the average investor. They no longer rely heavily on financial advice for their investments. This assessment is supported by the fact that a significant share of ETFs are held in security accounts at direct banks. Whether strong projected growth in private ETF investments materializes or not depends largely on the right incentives for financial advisors.

Today, ETF products are still less attractive than other funds for advisors because fees and commissions are low. As a result, a large proportion of the potential private investor base (more than 80% in Western Europe) is not informed/knowledgeable about investment possibilities in ETFs.

The global market is dominated by a few major players. BlackRock's iShares is the largest, with 474 ETFs and a market share of 43% of assets under management, followed by State Street, which offers 137 ETFs and holds a market share of 14.2% of assets under management. With cost efficiency as one of the most important factors going forward, relatively high fixed costs and limited room for product creativity to gain substantial market share, the number of new players entering the market with a sustainable perspective is likely to be limited. Indeed, consolidation among smaller players is probably the name of the game.

The single most important challenge subsequently becomes the issue of managing captive and non-captive distribution channels. How do existing players develop their sales incentives, channels and dedicated sales structures to penetrate the vast potential for retail customers' investments in ETFs? Several levers enable players to master this challenge. One lever to increase volumes through traditional channels such as banks and financial advisors is to pay slightly higher commissions for ETF products. This can be done by passing a share of the management fee to the intermediary.

Sales volumes can be further increased by tailoring the sales structure to a multichannel approach. One practical aspect is to set up selective cooperation agreements with other (smaller) banks, third party distribution channels and independent financial advisors. Cooperation with banks and advisors that offer fee-based services is very valuable for the positioning of ETF players. Fee-based advisors are willing to propose products that do not yield commissions and are a good fit for consumer-friendly ETF products.

A strategy of white labeling for products also opens up a distribution channel to smaller banks. Currently, small players are entering the market in an attempt to satisfy customers' demand for passively managed products with their own brand. Large players offering a broad range of products and additional capacity on their trading platform are able to offer white-labeled ETF products to smaller banks in order to increase their own volumes and further leverage platform cost and product development.
In the next few years, specialization in different parts of the ETF value chain is likely to become more and more important. Already, companies such as ETF Exchange, Ltd., a platform specializing in managing ETFs and ETCs, are following this trend. The platform is supported by different global players such as Bank of America and Citibank. These partners are able to participate in different parts of the ETF value chain: trading, market making, index tracking, sales and swap providing. Deconstructing and reconstructing the value chain is an important lever to lower costs through specialization, greater scale plus superior economies of scope.

In our opinion, while ETFs will play a more important role in the future, active management will not disappear completely. Not only is a well managed active or hedge fund needed to free up some upside potential, it is also the cream in the coffee of asset management. Yes, investors do need solid capital protection investments to safeguard their wealth. Yet at the same time, they enjoy gambling on high-alpha investments that let them participate in the thrill of the markets.

Due to increasing volatility on stock markets, stricter regulations and the growing risk of inflation, demand for absolute return products will likely remain high in the future. As we have seen, it has so far proved extremely difficult to satisfy demand for value preservation. Static asset allocation must therefore be rethought. Dynamic risk strategies too will become more and more important, but will be as hard as ever to implement. As we saw during the most recent crisis, even sophisticated risk models were unable to deliver on their promise.

However important it becomes, the question therefore remains whether risk management will ever be able to deliver positive absolute returns in every market environment. Bearing in mind that we are currently experiencing fundamental changes that are birthing completely new realities, it will be almost impossible for any risk system to meet such expectations. By their very nature, risk management systems rely on the past to forecast the future. Yet what should they forecast if the future changes to such an extent that past frames of reference no longer apply? A first step in that direction can be seen with the rise of scenario based risk management, but this alone cannot solve the problem in our view.

Hence, while we certainly advocate stricter risk management, we do not believe that this alone can solve the problem. What is also needed is a better understanding of what is happening on the markets, accompanied by solutions that are transparent, easy to understand and focused on clients needs (such as steady income in ten years’ time).
**Pricing**
As far as offering is concerned, the pricing strategy is another key element we should consider. As discussed in the previous section on the present reality of asset management, performance fees have not been widely used.

There are three basic pricing models that need to be examined. The cost-plus and competition-oriented models are especially prevalent in the commodity business, e.g. index funds and ETFs. For more specialized products and advisory services, the client-centric approach is more common – and opens up different options.

In the commodity business, transparency about internal costs and a knowledge of market prices are critical pricing factors. Since individual players have limited means to influence market prices, the key lever is internal efficiency. Players should thus focus on sustainably cost-effective operations.

Even so, the best-known brands usually have the opportunity to charge slightly higher margins than other players. Investing in the brand can pay off if players run their operations efficiently enough to be able to spend continuously on marketing and branding.

Performance fees that kick in with high-water marks and models that combine low management charges with performance fees are the structures that look set to gain in importance. When pricing specialized products or advisory services, however, asset managers have more options to choose from. While cost transparency and a knowledge of market prices are also important input factors, the client-centric pricing approach can be further divided into three models based on level of income, volatility and complexity of implementation.

**Overview of different pricing models**

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<td>1 ALL-IN MODEL</td>
<td>[Diagram]</td>
<td>➢ Easiest to implement ➢ Very transparent</td>
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<tr>
<td>2 TRANSACTION-BASED MODEL</td>
<td>[Diagram]</td>
<td>➢ Moderately transparent ➢ Potential conflict of interests (excess trading)</td>
</tr>
<tr>
<td>3 VALUE-BASED MODEL</td>
<td>[Diagram]</td>
<td>➢ Strong client acceptance ➢ Potential conflict of interest (excess risk taking)</td>
</tr>
</tbody>
</table>

Source: Roland Berger Strategy Consultants
First, the all-in model: This is the easiest model to implement, because the fee charged to clients is calculated as a percentage of assets under management (or as a fixed price). Low income volatility and transparency about the total fee charged are the advantages of this model.

Second, the transaction-based model: The fee charged to the client is a percentage of the transaction volume, which is usually combined with a management fee or other fees. Where this model is used, it leads to greater income volatility than the all-in fee, as transaction volumes are conditional on overall stock market movements and economic business cycles, but it also represents a more cost-focused approach. Implementing this model requires internal cost transparency and can lead to conflicts of interest, as income can be increased by executing more than the optimal number of transactions.

Third, the value-based model: Performance fees charged as a percentage of excess returns are typical of this model. Since high-water marks can be defined in addition, performance fees can be charged only after compensation for any negative performance. Usually, performance fees are combined with all-in fees. The advantage of performance fees is strong client acceptance. The disadvantages are very volatile income, the level of complexity and the inherent conflict of interests, as the income can potentially be increased by assuming higher than optimal investment risks on behalf of the client.

Many institutional clients prefer the value-based model and pressure asset managers into introducing performance fees. In reality, however, not many players have acceded to this wish, as doing so would make their business more risky and returns more volatile.
3. The way forward

We have looked at the present reality in the industry, potential future developments and their strategic implications. Based on these insights, we have mapped out an action plan showing the way forward.

### Action plan for the way forward

The action plan consists of four steps that lead us to an agenda for asset managers’ CEOs for the years ahead. The first step is to identify the key success factors. Next, a sustainable value proposition must be formulated. In the third step, the business model then is aligned on the basis of this value proposition. Finally, when that has been done, it is possible to identify the required strategic initiatives. This chapter shows how these steps can be taken so that organizations can prepare themselves for the expected market environment.

#### 3.1 Key success factors

The key to earning a client’s trust is simple: The asset manager must credibly understand and serve the client’s interests. In the current climate of uncertainty, asset managers must become the client’s trusted allies.

Studies repeatedly point to consistent returns, a deep talent pool, a superior client experience, value for money, a suitable fee structure and a state-of-the-art infrastructure as the key success factors. We believe that asset managers need to be realistic: They need to work with what they have.
To understand how to position an organization in the market in terms of a value proposition and, subsequently, a business model, it is important first to understand the organization’s strengths and weaknesses in critical areas. Referring back to the SWOT analysis we recommended in section 1.5 helps us identify key success factors for the industry as a whole. Of course, not every organization will be equally successful in all areas. However, in order to develop a sustainable value proposition, it is vital to pinpoint those factors in which the organization’s specific strengths lie.

We identify five key success factors:

A) Financial market intelligence: Proven intelligence on financial markets

B) Product and pricing excellence: Distinctive value propositions for core products and service offering

C) Distribution excellence: Access to a strong internal distribution network, intimate partnerships with key distribution networks or exclusive distribution arrangements

D) Branding excellence: Strong, favorable and selectively focused brand positions for organizational brand and product/service brands

E) Operational excellence: Exploitation of operational synergies in complex business models

The sections that follow discuss each of these success factors in more detail and illustrate them with brief case studies.
3.1.1 Financial market intelligence

We understand financial market intelligence to mean proven intelligence on financial market developments. Players must cultivate the ability to repeatedly and effectively leverage their capabilities based on data, information and knowledge. Players with excellent financial market intelligence can anticipate changing market environments and are flexible enough to adapt their business models accordingly.

Scenario development is a tremendous way to increase financial market intelligence. The main advantage is that thinking in terms of scenarios allows asset managers to make decisions and act quickly – a particularly crucial benefit in times of crisis.

Scenario development techniques can be applied to help asset managers think about potential developments in the external environment that are important to the strategic alignment of their organization. Scenario thinking enables dynamic product development and paves the way to flexible business models.

Scenarios are not failsafe predictions. They simply paint several plausible pictures of the future. The most valuable part of the exercise is therefore identifying critical determinants for different views of the future.

Case study:
Scenario-based development of strategic options for a bank
In a project conducted on behalf of a bank, we used scenario techniques to develop strategic options. Based on scenarios depicting developments in the market environment, we derived implications for the banks’ strategy.
and business model. The aim was to deliver fast results without spending too much time on market research and quantitative analyses. To allow us to formulate hypotheses concerning market development, we collected statements by relevant stake-holders and evaluated them in order of relevance and probability. Next, scenarios were developed based on the most relevant and least predictable hypotheses. Finally, we evaluated the implications of each scenario. The impact on revenues and cost was estimated, as were the potential risks. Developing these scenarios proved to be a critical input factor for subsequent development of strategic options for the bank.

### Approach to developing scenarios based on hypotheses

*Source: Roland Berger Strategy Consultants*

#### 3.1.2 Product and pricing excellence

Asset management has traditionally been a product-focused industry. There has also traditionally been a gap between what clients expect and what suppliers deliver. Asset managers can close that gap, however, by developing distinctive value propositions. It is crucial for service offerings to be based on a value proposition that sets itself apart.

Accordingly, asset managers must move away from merely selling products and instead begin offering solutions that give the client’s need (steady income in five years’ time, say) precedence over investment targets and are built around their own core strengths (i.e. they do not offer everything to everybody).

The question that thus needs to be answered is how to deal with the common trade-off between quality (in terms of risk-adjusted performance that outstrips the market) and cost (in terms of cost-efficient market or absolute return performance).
Focusing on investment management, there are three key areas in which asset managers should develop their distinctive value proposition on the basis of core capabilities:

> **Asset class:** The basic asset classes that can be invested in, such as stocks, fixed-income securities (bonds), the money market and alternative investments.

> **Investment approach:** There is a fundamental approach to investment and a quantitative approach. The two differ in the way decisions are made. With the fundamental approach, investment managers make decision based on research and analysis. With the quantitative approach, investment decisions are the outcomes of computational models. A third alternative – the qualitative overlay approach – combines the quantitative and fundamental approaches.

> **Investment style:** A distinction must also be drawn between absolute and relative return investment styles. The absolute return style seeks to deliver an absolute return that is objectively independent of market movements. The relative return style aims to achieve returns relative to a predefined benchmark, e.g. an share index. Relative return strategies themselves then break down into two categories. First, there is active management, which aims to outperform the benchmark by means of astute stock selection, good timing, and so on. Second, there is passive management, which seeks to replicate the benchmark index’s risk/return profile.

**Dimensions of investment management – Example of UNFOCUSED player** (illustrative)

Source: Roland Berger Strategy Consultants
It is then possible to determine whether each cluster is really a core competence in product terms, or whether it is more of a me-too product (and, in the latter case, whether it is efficiently managed and of a decent size). This approach helps asset managers identify their individual core competencies on the product side.

Delivering sustainable outperformance and building up an impressive track record on performance requires focus. Accordingly, it is important to develop a clear position in the three areas of investment management.

**Case study:**

**Sharpening the focus of the value proposition and product offerings**

In one Roland Berger project, the client wanted to grow its business by developing the value proposition and realigning its business model for institutional asset management and retail fund business. Together with the client, we developed distinctive value propositions based on the company’s excellent reputation for client-centricity and its existing core competencies in investment management.

Prior to the project, the value proposition was not really differentiated. The product portfolio seemed to lack a little bit of focus. While the client had an excellent reputation in some product categories, the overall result was mediocre. We therefore identified the core competencies of the investment office by analyzing the skills that have driven the most successful funds in terms of past performance and size, taking these as the basis on which to streamline and realign product offerings for institutional and retail clients.

Several actions were initiated as a result of this exercise. A niche strategy was developed based on the client’s core capabilities and those areas in which its performance record was above average. The objective was to build several flagship funds that would open the door to new distribution channels. Next, the fund portfolio was consolidated. While the client continued to offer all the basic funds required by distribution partners, redundant funds were either closed or merged in order to sharpen the focus of offerings and increase efficiency by raising the average fund size.
A key question confronting the asset management industry touches on its very core: What trustworthy offerings does the industry have for private investors seeking effective protection for their assets in these uncertain times? In our view, most clients – bearing in mind their experience of absolute return recommendations – probably do not believe that the industry has an answer to this question at all. Some may even doubt whether past recommendations were ever in their best interests.

Let us nevertheless attempt to describe what such an offering might look like. By definition, it will include advice, products and add-on services. The advice should be based on an understanding of clients’ motives and beliefs. It should focus on their real needs, their financial situation and objectives and their risk profile, for example. Personal and market scenarios that factor in uncertainty can be useful to help asset managers understand the implications of potential events. Stress tests should demonstrate the robustness of the recommended investments. All advice and recommendations should be simple, straightforward, transparent and honest.

While all of this may seem obvious, we believe that most client relationships look very different in reality. Unless they are proficient enough to challenge complex structures, clients are therefore strongly advised to focus on simple products that can be easily understood and are clearly explained by the advisor. Furthermore, it is advisable to look for a solution that satisfies the identified needs, even if this may appear boring, instead of following every headlong rush for the next bubble. It is therefore advisable to pursue core satellite approaches that combine a steady core (to ensure a solid foundation for the investments) with optional elements that hold out the promise of a little fun and excitement – as well as genuine outperformance based on the choice of the right satellites.
Given clients’ need for strategic and tactical asset allocation that remains robust in the long term, one key competence of the advisor must be risk management.

The portfolio should differ from the standard investment portfolios that typically result from such advisory processes. The focus must be on strategic asset allocation, with no asset classes excluded a priori. Since real assets can account for a significant share of the portfolio, skills in handling real assets in general and real estate/other estate in particular must be carefully honed. Ultimately, however, the key to a distinctive portfolio and, hence, to a distinctive investment offering is a proprietary set of credible qualitative criteria for asset selection. This could include resilience toward economic and financial market crises, embedded value, the ability to add value and the long-term sustainability of assets – a unique combination of compelling criteria that can be applied to build a truly robust portfolio. Fine-tuning these criteria in light of market development and leveraging the concept to include more standardized investment solutions increases the level of sophistication.

Another important aspect is excellence in pricing. Usually, distinctions can be drawn between three price components. The minimum price must cover costs. Ideally, the market price will be higher than a player’s minimum price so that it can make a profit. Some players also manage to assert prices that include a mark-up on the market price. In such cases, clients are willing to pay more because they perceive added value in the product or service.

Two key levers provide greater pricing flexibility. One is cost-effectiveness. Players that run cost-effective operations can still earn a positive profit margin even if prices have to be set in line with market levels.
Product excellence is the second key lever, as clients may be willing to pay extra for added value – especially if this takes the form of superior performance or independent advice.

**Case study: Pricing strategy**

In one recent Roland Berger project, the challenge was to develop the pricing strategy for a bank. To structure the task, we broke it down into several layers. The level of sophistication increases as one progresses from basic pricing considerations to more sophisticated pricing dynamics.

At the base, variables such as costs and different fee models, e.g. success fees, all-in fees, etc. were investigated. In the definition layer, variables such as campaigns, automation or pricing discipline were analyzed. In the steering layer, the product or regional mix were the critical variables (if clients served by the Asian office were charged the same as clients served by the Luxembourg office, for example). In the dynamics layers, the focus was on dynamic pricing adjustments as a function of changes in demand or competition. All four layers were analyzed and levers to optimize pricing identified in order to align the pricing strategy with the organization’s overall strategy and, above all, with its product strategy.

**Roland Berger pricing framework**

**PRICING VARIABLES**

- Client demand
- Competition
- Client retention
- Product mix/offered services
- Geography/booking centers
- Business segments
- Campaigns
- Complexity
- Automation
- Pricing discipline
- Costs
- Success fee
- Volume/assets
- All-in fee

**BEST PRACTICES FROM DIFFERENT INDUSTRIES**

- Dynamic pricing with a pricing engine
- Optimization of pricing in transportation industry
- Development of a bundling strategy in the telco industry
- Development of pricing model for a wealth manager

Source: Roland Berger Strategy Consultants
3.1.3 Distribution excellence

Asset managers can choose from a variety of distribution models, such as multi-asset class assemblers, advice channels, guided architectures, fiduciary management, asset gatherers and direct sales. Excellence in distribution is rooted in smooth access to a strong captive distribution network or a close partnership with key distribution networks. Other aspects include client-centric sales and tactical marketing communication. In addition, professional sales management and controlling is required in order to consistently deliver excellent distribution.

In the past, asset management was dominated by large banks with proprietary sales channels. Independent asset managers such as BlackRock have nevertheless benefited from a trend toward open or guided-architecture distribution models. Large asset managers engage in strategic cooperation to gain access to distribution networks. In 2006, BlackRock signed a global distribution agreement with Merrill Lynch. The partnership, now with Bank of America (which bought Merrill Lynch), still exists.

In 2011, BlackRock then signed a business alliance agreement with the Japanese Mizuho Financial Group. Cooperation in this case focuses on product development and distribution in Asia, primarily in the sizeable Japanese pension solutions segment. With the trend moving toward guided architectures, selecting, negotiating with and managing distribution partners has become a vital capability. In the institutional investment business, investment consultants look likely to further increase their market share. Asset managers will increasingly need to partner with investment consultants in order to gain access to clients. Market players will therefore need the capability to develop and manage these relationships.

A structured approach to sales is critical in order to generate sustainable and measurable revenue growth and add value for the client. Accordingly, it is essential to first understand each client’s individual needs. Clients want specific solutions to their specific problems; but those solutions do not always have to be tailor-made products. Clients should thus be segmented into homogenous groups based on their values and needs. Only then can the value offered to clients be tailored to segment-specific needs. (For more details about client segmentation, see the following section on “Branding excellence”).

Although many players already put the client at the center of their communication, few have achieved tangible results so far. This situation can be improved by making sales more client-centric too, as this delivers fast results and a measurable effect. If a structured sales process is used, this causes little additional complexity and is relatively easy to implement.
Active top-down selling with the aid of sales campaigns is an example of a client-centric sales initiative. The goal is to stimulate revenue generation by shifting from passive bottom-up selling to an active top-down approach.

### Active top-down selling with the aid of sales campaigns

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<th>Active Top-Down Selling</th>
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<td>Traditional market approach</td>
<td>Focused cross-capturing approach</td>
</tr>
<tr>
<td>1. Allocation of revenue budget</td>
<td>1. Definition of/ agreement on action plans</td>
</tr>
<tr>
<td>2. Market development and sales by RMs</td>
<td>2. Execution of action plans by RMs</td>
</tr>
<tr>
<td>3. Periodic control of performance versus budget</td>
<td>3. Ongoing control of performance versus KPIs</td>
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Source: Roland Berger Strategy Consultants

Both the traditional and the new, focused approach involve three steps. Traditionally, passive bottom-up selling starts with allocation of the revenue budget, which is broken down into individual targets. Next, relationship or sales managers undertake more or less active advisory and sales efforts. Finally, performance is monitored periodically or ex post by comparing the actual results with the budget.

The focused approach, however, is more effective because it is more action-oriented. Active top-down selling begins with the definition of or agreement on action plans, which are broken down into individual campaigns and specific sales targets. Next, relationship managers implement the clearly defined action plans. Finally, performance is validated on an ongoing basis by monitoring pragmatic key performance indicators (KPIs) to ensure that early intervention – if required – is possible.

### Case study: Client-centric sales

The goal of the project was for sales to deliver sustainable added value. This was achieved by introducing key account management and defining action packages to intensify collaboration with selected sales partners, to significantly increase net new money and to increase the client’s market share in pension-related products.
Introducing key account management was an important step toward client-centric sales. We identified four key elements of the initiative: First, all activities should be centered around sales partners and their needs, for example by continually measuring and improving client satisfaction. Second, all needs should be covered by adequate products and services, for example by ensuring short times to market or introducing retention management. Third, the dedication and motivation of the account managers who shape the relationships should be ensured, for example by ensuring a good fit between sales partners and account managers. Fourth, sales partners should themselves bring all the necessary traits into the relationship, serving as reliable partners to their own clients and acting as service leaders, for example.

3.1.4 Branding excellence

Branding excellence is required to build a strong, distinctive and favorable position for both the organization’s brand (such as Deutsche Bank) and the product/offering brands (such as DWS for retail products, db X-trackers for passive products and DB Advisors for solutions for institutional investors). As we saw in section 1.3.2, this is necessary because clients rely on a brand they trust. It is also imperative for the brand attributes to line up with the profile of the target client groups in order to induce positive purchase decisions. Strong brands are important because they create trust and open up access to clients.

Before a strong brand can be built, however, it is necessary to understand the clients and the target group on whom the asset manager wants to focus. This in turn requires segmentation on the basis of clients’ values and, hence, what they expect of asset managers.

### Overview of retail and institutional clients

<table>
<thead>
<tr>
<th>RETAIL CLIENTS</th>
<th>INSTITUTIONAL CLIENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td></td>
</tr>
<tr>
<td>&gt; Private investors; portfolio size varies widely between retail and (U)HNWI segment</td>
<td>&gt; Institutions with professional investors who typically have large portfolios</td>
</tr>
<tr>
<td><strong>Types/segments</strong></td>
<td></td>
</tr>
<tr>
<td>&gt; Hedonist</td>
<td>&gt; Traditional performer</td>
</tr>
<tr>
<td>&gt; Emotionalist</td>
<td>&gt; Conservative</td>
</tr>
<tr>
<td>&gt; Minimalist</td>
<td>&gt; Maximalist</td>
</tr>
<tr>
<td><strong>Products/services</strong></td>
<td></td>
</tr>
<tr>
<td>&gt; Mutual funds (open-ended) most commonly</td>
<td>&gt; External portfolio management mandates</td>
</tr>
<tr>
<td>&gt; Discretionary mandates or closed-end funds mostly demanded by (U)HNWI</td>
<td>&gt; Investment consulting</td>
</tr>
<tr>
<td>&gt; Related services, e.g. administration/custody</td>
<td>&gt; Related services, e.g. administration/custody</td>
</tr>
<tr>
<td>&gt; Investment consultants</td>
<td>&gt; Direct</td>
</tr>
</tbody>
</table>

Source: Roland Berger Strategy Consultants
The congruity of client and brand values is decisive at the "moment of truth" when clients decide to buy or not to buy. There must be a fit between the client's brand perception and the asset manager's brand projection. When individuals absorb a brand's promises, they measure them (subconsciously) against their own personal values and needs. Where there is a fit between perception and projection, clients buy; where there isn’t, they don’t.

Distinct client segments can be formed using the values-based RB Profiler methodology. The methodology has three main objectives:

First, it seeks to engender a deeper understanding of the client, which can be the basis for client-centric sales or the development of marketing campaigns. Second, it aims to form homogeneous client groups. This leads to clearly defined profiles in terms of finance-related attitudes and expectations. Third, it seeks to achieve the targeted brand positioning, focusing on attractive segments.

Values-based client segmentation has implications for the target positioning as well. The approach enables the brand positioning to be aligned with the target group's attitudes. This in turn allows a market player to set itself apart from competitors, thanks to analysis of target clients' value affinities and the positioning of relevant competitors. Asset managers that manifestly stand for distinctive values will thus be attractive to specific client segments.
Case study: Values-based segmentation and brand positioning

The project objective was to achieve profitable revenue growth and strengthen the position of the client’s brand. The idea was to enter the market for pension solutions by leveraging the full potential of existing (retail banking and mortgage loan) clients, but also by developing new client relationships. Moreover, the client wanted to adopt a distinctive brand position by implementing a client-centric and innovative policy that focused on unsatisfied client needs.

We found that the targeted segment in the market for pension solutions was definitely attractive. Moreover, effective customer segmentation was executed that was based on the clients’ values with respect to their phase of life. Identifying target clients’ needs facilitated the development of an effective value proposition and brand position, which was the key to successful subsequent market entry. The offering and marketing mix was then aligned with the value proposition.

The target positioning of the client corresponded to the relevant needs of the most attractive target client group. Offerings were therefore based mainly on the needs of that group. The other target groups’ values were addressed through channel design in order not to dilute the basic brand position.

Three key insights flowed into the development of offerings. One was that advisory services are the key differentiator. The second was that the selected target client group wanted to be closely involved in the development of solutions. Moreover, employees should be recruited and educated based on the projected organizational brand values.
3.1.5 Operational excellence

The last key success factor we identified is operational excellence. Having focused mainly on revenues up to now, let us now also examine how to best manage an organization’s costs efficiently without sacrificing the differentiators identified earlier. As we saw in section 1.2.2, some players have already started to minimize costs and reduce their CIR as margins decrease. Nevertheless, we have also seen the importance of remaining flexible enough to respond to varying scenarios. Making costs more variable seems to be a highly promising option, albeit a very challenging one if asset managers are to prepare for excellence.

Operational excellence means reducing complexity and improving efficiency. Players must create and exploit synergies in the operation of complex business models. In addition, a sustainable cost advantage in all segments of the value chain should be achieved through efficiency in operations.

Asset managers often struggle with over-complex offering, operations and organizations. Reducing unnecessary complexity always has a positive effect on profitability. As far as the offerings themselves are concerned, however, the following distinction must be drawn: Complexity that is not paid for by clients must be reduced, for example by thinning out the product shelf.
On the other hand, where clients are ready to pay, complexity that sets an offering apart, say, can be maintained. In operations, complexity that does not add value must be reduced. This can be done by eliminating structures that tend to grow out of personal preferences rather than strategic needs of the organization. Cleaning up IT and operational infrastructures that have grown organically over time in this way is a powerful way to improve efficiency.

Efficiency improvement initiatives are an important tool. The goal is to reduce costs without jeopardizing future growth. Efficiency should be improved in line with clients’ culture and mindset and must respect governance structures. The commitment of key stakeholders within the organization is critical to any efficiency initiative.

Efficiency initiatives are based on four pillars, each of which is accompanied by communication activities to smooth the path of change management. First, targets are set from the top down. This leads to clear KPIs based on the targeted cost structure and operating model. Second, the necessary actions – structural, strategic, operational or tactical – are defined. Third, sufficient awareness must be generated throughout the organization to maintain momentum on the initiative. This can be addressed through a combination of policies, incentives, discipline, commitment, responsibilities and transparency. Fourth, a governance structure must be put in place to ensure the sustainability of savings through management processes, accountability and responsibility.

**Underlying concept of efficiency improvement solution**

Source: Roland Berger Strategy Consultants
Case study: Global efficiency program
We set up a global efficiency program for an international bank. The goal was to increase strategic flexibility by improving efficiency in the organization. The target was to reduce the costs by 10-15%. This was to be done by taking action with regard to control and support functions, IT, logistics/procurement and operations. Ultimately, savings of more than 15% were achieved in the organization thanks to the design and implementation of a global operating model and a reduction in product complexity.

3.1.6 Evaluating internal potential
Before moving on to develop the value proposition, it makes sense to identify the strengths to be built on and identify those areas where there is still potential for improvement. Asset managers should therefore reflect on their own potential in light of the key success factors identified.

Evaluation based on key success factors (KSFs)

While none of the key success factors should be neglected, not every value proposition or business model relies equally on all factors. That is why asset managers must know their strengths before formulating options for the development of their value position or the evolution of their business model.
3.2 Developing a value proposition

The future of the asset management industry is likely to be characterized by the clearer positioning and differentiation of value propositions. Absolute performance – consistent, risk-adjusted investment performance, in other words – is definitely a strong value proposition with outstanding relevance, especially in turbulent times. For most asset managers with a broad portfolio of clients or investment products, however, we believe this proposition will be hard to attain and sustain.

We have identified four possible value propositions that present options for asset managers’ future positioning. Promising value propositions are developed along two axes. Along the horizontal axis (see figure below), players can focus either on products or demand. In light of the traditional product focus of this industry, focusing on demand would be promising but challenging. The other axis reflects the breadth of offerings. Players will either be specialized and have a focused offering or players have a diffuse offering covering a broad product spectrum.

First, there are the **alpha hunters**, a term used to describe players with a product focus and sharply defined offerings. Alpha hunters operate niche strategies based on financial market intelligence. Superior, specialized investment strategies are their key differentiator. In investment management, they focus on tactical asset allocation in order to generate alpha. Increasing transparency as a result of regulations can be a challenge to them.
Second, there are "trusted advisors" with clearly defined offerings and a focus on demand. Building on a true understanding of the client’s values and risk-performance goals, trusted advisors develop modular solutions and customized (strategic) asset allocations. Independent and objective advice is their key differentiator. Asset structuring and overlay management enable these players to make sure the client’s targets are met. Asset allocation stays within the agreed restrictions. In reality, however, very few players have successfully developed this kind of value proposition.

Third, there are "beta gazers" that focus on production and have broad offerings. These players sell commodity products such as ETFs and index funds. Brand positioning and competitive prices are their key differentiators. They offer solutions for the key assets in the portfolio – such as index-linked funds with low tracking errors – at competitive prices.

Fourth, there are "demand experts". These companies, as the name suggests, focus on demand and have broad offerings. Thanks to their local market expertise and, in particular, their understanding of clients, they can offer innovative products catering to all kinds of local needs. The key differentiator is product innovation and time to market, as demand experts anticipate new trends early. Often, these players are the asset management units of large banks or insurers. They sell their products via proprietary channels under a well-known brand. In reality, only a few players have developed a value proposition with such a strong emphasis on client-centricity.

At present, most players are "stuck in the middle" and do not have clear, distinctive value propositions. Players that do succeed in setting themselves apart can therefore tap into vast potential. We would like to encourage asset managers to go beyond the four options presented above and develop a distinctive, individual value proposition that is tailored to their own skills and organizational characteristics.

### 3.3 Aligning the business model

Once a distinctive value proposition has been developed, the business model must be aligned with it to make sure the proposition can genuinely be delivered to the client. We therefore identify the organizational models that work best for specific value propositions. In addition, we define the key resources that must be leveraged to make an organizational model work and deliver the promised value to the client.
The best organizational model for alpha hunters is the multi-boutique model. It allows asset managers to develop and leverage their specialized investment expertise and ability to manage complexity. It is also the model that is best suited to helping asset managers survive in times of crisis, as it is based on a firm foundation of meritocracy, personal accountability and strong leadership.

Alpha hunters’ core offerings consist of superior, specialized investment strategies and niche products. Financial market intelligence and pricing and product excellence are the two key success factors that are most important if companies are to deliver on this value proposition. Within each individual business model, the core activity is clearly investment management. Multi-boutiques are organized as decentralized networks that utilize central support functions and common distribution channels. The recruitment, development and retention of excellent portfolio managers is critical, as they are the key resource for these asset managers. To run this model successfully, it is important for asset managers to leverage their specialized investment expertise.

For trusted advisors, the best organizational set-up is the partnership, because independence is a key lever to deliver on this value proposition. Since customized advisory services and risk or overlay management are what set this model apart, product and pricing excellence and distribution excellence are the most important key success factors. In the value chain, trusted advisors focus on sales and investment management. In investment management, they may also cooperate with external experts.
A partnership is an independent and flexible organization. Since the partners who own the firm can be assumed to have aligned their interests with those of their clients, the ownership model itself can be a powerful differentiator — and key success factor thanks to its superior governance model — in this case. Its core resources are the relationship managers or advisors themselves and referrals from clients. The sales, advisory and investment processes are the key processes in this model. A successful trusted advisor business must therefore leverage independent advice and client understanding.

Beta gazers have developed the business models of large independent asset management companies such as State Street and BlackRock. Their core offerings feature a broad portfolio of commodity products, including ETFs and index funds. Branding and operational excellence are the two success factors that are most critical for beta gazers. In the value chain, they focus on sales, investment management and fund administration. Since the market for commodity products is all about cost leadership, it is vital to exploit economies of scale at every relevant link in the value chain. These companies thus require greater centralization. The brand portfolio and central investment platforms are the key resources that allow them to leverage branding power and benefit from economies of scale.

Demand experts are sometimes the asset management units of large banks or insurance companies that can leverage the group’s brand and proprietary distribution channels. However, banks’ asset management units have traditionally been more product-driven than client-centric. To develop products for local and regional needs, financial market intelligence and distribution excellence are the two most critical key success factors for the demand expert model. The focus is on sales and investment management. While asset management units can make use of proprietary distribution channels and leverage the group’s brand, the group itself will expect a certain profit contribution. In the past, the low profitability of asset management units due to a lack of client-centricity led many players to divest them. The bottom line is that, once players have decided how to develop their value propositions, they must align their business models accordingly.

3.4 CEO agenda – What needs to be done

For players who want to develop their value propositions and align their business models, the right strategic initiatives must likewise be identified. The goal of strategic initiatives is to take an organization a huge step toward realizing the CEO agenda and, hence, acting on the key topics that will shape the industry in the years to come.
The portfolio of strategic initiatives must naturally be adapted to the asset manager's individual situation and to the results of careful analysis. A basic idea of what such a portfolio might look like is nevertheless provided below. The above discussion translates into a concise CEO agenda that breaks down into four main parts:

1. **Is what we do in our clients' best interest?**
   A convincing value proposition based on the clients' true needs as well as requirements is key to prepare asset managers for new realities. It must be clear how and where they deliver measurable added value for clients.

2. **What do clients really want?**
   Profitable growth can be achieved by focusing on making the organization more client-centric. Building on a values-based segmentation of the client landscape, the brand must be aligned with the attributes of the target client group. A compelling brand promise must then be defined to bring the organizational and product brands into line.

3. **Who do we want to serve with what and where?**
   First defining your core competencies and who you want to serve with them is essential for a client-centric approach. Then the product and pricing strategy must be consistent with both the value proposition and the business model.

4. **How can we ensure sustainability?**
   Asset managers must make their operations more efficient and their cost structures more flexible. Operational complexity must be optimized and reduced. Using shared service centers in cooperation with other players and outsourcing activities that do not add value or are essential to the core competencies can deliver additional value.

If they tackle this agenda resolutely and energetically, the CEOs of asset management companies will quickly be able to trigger the right initiatives to achieve sustained profitable growth.
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"The underlying principles of sound investment should not alter from decade to decade, but the application of these principles must be adapted to significant changes in the financial mechanisms and climate."

Benjamin Graham
Redefining asset management in new realities

Leadership priorities for asset managers facing fundamental change