Conoce los nuevos desafíos a los que se enfrenta la administración de activos financieros y patrimonio

PwC Colombia

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Contenido

El contenido de este documento es la recopilación de publicaciones PwC que evidencian los diferentes estudios recientes sobre la administración de activos financieros y patrimonio:

1. Asset & Wealth Management Revolution: Embracing Exponential Change - PwC.

2. Asset & Wealth Management trends 2019 - Part of PwC's 22nd Annual Global CEO Survey trends series.

3. Asset & Wealth Management Revolution Pressure on profitability - PwC

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Tendencias de la Industria *Asset & Wealth Management*

Cuatro Tendencias de Transformación en la Industria: ¿Cómo pueden las firmas adaptarse al entorno?

Las tendencias que deben entender las empresas para desenvolverse dentro del mercado:

Mercado de Inversionistas: El cambio de poder hacia los inversionistas ha incrementado, bajando los precios para los gerentes de activos y patrimonios.

Tecnologías Digitales: La adaptación de las empresas a las nuevas tecnologías indicará que tan prospero va a ser el negocio a futuro.

Financiando el futuro: Han surgido nuevas oportunidades dentro de un mercado rentable y en crecimiento.

Resultados: Los inversionistas requieren resultados y soluciones concretas a sus necesidades.

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Descripción de la industria

Crecimiento de la Industria (rápido pero desigual)

· Tensiones geopolíticas han aumentado las tasas de interés, y una posible desaceleración de la economía mundial.
· Tasas de Crecimiento en Asia y América Latina: Crecimiento 7.5% por año hasta el 2020, y un crecimiento de 10.4% de 2020 a 2025 por año.

Presiones para la Industria

· A pesar del continuo crecimiento de los precios de activos en el mercado, los gerentes de activos y patrimonio están bajo presión por la competitividad del mercado.

Transparencia absoluta

· Inversionistas y reguladores requieren la divulgación de costos y tarifas.

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Riesgos de la Industria

Pasos mejorar productividad de empresas dentro de la industria

1. **Adoptar nuevas tecnologías**
La tecnología y la competencia han comenzado a marcar el comienzo de un cambio transformacional. Este periodo de la reinvención se acelerará rápidamente en los próximos años, obligando a la industria a reinventarse.
2. **Fusiones y Adquisiciones**
Las fusiones y adquisiciones han aumentado durante los últimos años contrarrestando las tarifas, adquiriendo habilidades en nuevas clases de activos, o ingresando en nuevos mercados a través de nuevas alianzas.
3. **Talento Humano - Nuevas Tecnologías**
Nuevas Tecnologías están cambiando las habilidades, generando nuevos tipos de trabajos y definición de un nuevo talento.
4. **Beneficios de la Tecnología en la Operación**
¿Cuáles son los beneficios que traen las nuevas tecnologías a la operación de una empresa de gestión de activos y patrimonios?

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¿Cómo mejorar la estrategia empresarial?

Las empresas se deben de enfocar en las tres áreas para adaptarse a estos cambios (estrategia, tecnología, talento humano)

A. Articular Valor: Las empresas deben reaccionar frente a los cambios de las estructuras de precio de la industria. Nuevos modelos se han venido desarrollando, y los dueños de los activos buscan una firma que les brinde un mayor margen de su inversión.
B. Estrategia: Las empresas deben de reorganizar su estructura de negocio optimizando e invirtiendo en capacidades diferenciadoras, y buscando reducir costos.
C. Transformación Digital (Tecnología): Las empresas deben dirigir sus operaciones hacia nuevas tecnologías (AI, Robótica, Big Data y blockchain) que están transformando la industria. La tecnología determinará que empresas se adapten a los cambios de la industria.
D. Talento Humano: Las empresas deben desarrollar las habilidades de sus empleados adaptando sus modelos de retención y captación de talento humano.

5.

Puntos Clave

Fondos de cobertura o fondo de libre inversión: La mayoría de los fondos de cobertura o de libre inversión han vuelto a crecer. Los gerentes se deben de centrar en sus controles operativos,de cumplimiento y en modelos de inversión para satisfacer la creciente demanda de los inversionistas.

Capital Privado:
Las empresas de capital privado han entrado en una nueva era de su evolución. Generar valor dentro del mercado requiere de una gestión más activa de parte de las compañías y su portafolio; reevaluar sus estrategias de inversión, funciones de cumplimiento y nuevas tendencias, son claves para enfrentarse a la competencia y adaptarse al mercado.

Fondo de Inversiones:
Las empresas tradicionales de la industria, continúan bajo presión debido a la continua volatilidad y al bajo precio de los activos en el mercado. Las empresas deben de abordar una estrategia para abordar estas y otras amenazas, buscando generar nuevas oportunidades.

Asset & Wealth Management Revolution:
Embracing Exponential Change

Executive Summary

Change in the asset and wealth management industry (the 'AWM industry') is now accelerating at an exponential rate. Although the industry is set for growth over the next ten years, asset and wealth managers must become business revolutionaries, even disruptors, if they're to survive and prosper. Now is the time for action.

• Asset and wealth management has been in a period of upheaval globally since the 2008- 2009 Global Financial Crisis (GFC) that's intensifying. The modern-day industry has remained fundamentally the same since the last decade of the 20th Century; over the next ten years it will be substantially reinvented. There will be major changes to fees, products, distribution, regulation, technology and people skills.

• Assets under management (AuM) will continue to grow rapidly. We1 estimate that by 2025 AuM will have almost doubled – rising from US$84.9 trillion in 2016 to US$145.4 trillion in 2025.2 This growth will likely be uneven in consistency and timing: slowest in percentage terms in developed markets and fastest in developing markets. But there are risks. Rising populism in Europe, Brexit negotiations, China's transition to a consumer-driven economy, Asian geopolitics and the potential changes in US policies on regulation, tax and trade all create uncertainty.

• Four interconnected trends will drive the AWM industry's revolution. Between them, they will squeeze industry margins, making scale and operational efficiency far more important, and meaning that all firms need to integrate technology in all areas of the business and develop a clear strategy for the future.

1. Buyers' market.
Fees are being pushed
down by investors and regulators. Increased regulation, competition and new entrants are disrupting traditional value chains and revolutionising wealth managers' raison d'être. Regulations are being introduced worldwide to prevent asset managers from paying commissions to incentivise distributors, leading to lower cost retail products. Meanwhile, institutional investors have the tools to differentiate alpha and beta – they will pay more for alpha but not for beta. As low-cost products gain market share, and larger players benefit from scale economies, there will be further industry consolidation and new forms of collaboration. Asset and wealth managers must be 'fit for growth' or they can expect either to fail or to become acquisition targets. They must act now.

2. Digital technologies: do or die. The AWM industry is a digital technology laggard. Technology advances will drive quantum change across the value chain – including new client acquisition, customisation of investment advice, research and portfolio management, middle and back office processes, distribution and client engagement. How well firms embrace technology will help to determine which prosper in the years ahead. Technology giants will enter the sector, flexing their data analytics and distribution muscle. The race is on ...

3. Funding the future.
Asset and wealth managers have been filling the financing gaps that have emerged since the GFC. They have been first movers, providing capital in areas short of funding due to banks' regulatory and capital limitations, as well as investing in real asset classes. To generate alpha, their involvement in niche areas such as trade finance, peer-to-peer lending and infrastructure will dramatically increase. Equipping individuals to save for old age, as governments step back, will also support growth in AuM. Action is needed to capitalise on the gaps.

4. Outcomes matter.
Investors have spoken loudly. They want solutions for specific needs – not products that fit style boxes. Active, passive and alternative strategies have become building blocks for multi-asset, outcome-driven solutions (which will increasingly include environmental, social and governance outcomes). Demand for passive and alternative strategies will grow quickly. While active management will continue to play an important role, its growth over the near term will be slower than passive. Firms must either have the scale to create multi-asset solutions or be content as suppliers of building blocks. Managers must deeply understand their investors' needs, tailor solutions and focus on optimising distribution channels. They must also focus on their core differentiating capabilities and move to outsource non-core functions, such as tax compliance. Investors have great choice; they will move to optimal solutions regardless of prior loyalties.

These four trends will transform the industry's nature and structure. Scale, price, diverse people and technology capabilities will characterise the largest firms. Smaller, specialist firms will prosper if they offer excellent investment performance and service. The industry must act in three areas:

Strategy
Firms should reorganise the business structure to support their differentiating capabilities and to cut costs elsewhere.

Technology
Every firm must embrace technology as it impacts all functions.

People
Different skills are needed, backed by new employment models. Firms must find and develop people with new skills and adapt their employment models to nurture and retain them.

Asset Management 2020: back to the future

These transforming trends have evolved from the six game changers we identified in our Asset Management 2020 paper, published in 2014:

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

Looking forward to 2020, the paper successfully forecast the rapid growth in industry assets under management. It also predicted the shift from active management to passive, the rise of ETFs and continued expansion in alternative asset management. Notably, it also anticipated that regulations such as the Retail Distribution Regime (RDR) introduced in the UK in 2012 would be mirrored by regulators in other geographies, with a significant impact on asset management and wealth management revenue models. Since 2014, these changes have accelerated and evolved. They're in the process of revolutionising the sector.

Landscape

Set for rapid, if uneven, growth The burgeoning wealth of high-net worth individuals and the mass affluent, as well as a pronounced shift to defined contribution retirement saving, are propelling huge growth in the industry. By 2025, we anticipate that AuM will almost double in size.

If interest rates remain relatively low globally and economic growth is sustained, our projections foresee AuM growing from US$84.9 trillion in 2016 to US$111.2 trillion by 2020, and then again to US$145.4 trillion by 2025 (see figure 1). Retail (mutual) funds (including ETFs) will almost double assets by 2025 and institutional mandates will expand similarly. What's more, we think alternative asset classes – in particular, real assets, private equity and private debt – will more than double in size, as investors diversify to reduce volatility and achieve specific outcomes. Personal wealth is accumulating fast, mainly in developing countries, and individual retirement and pension funds are expanding. The industry is set to manage a greater share of this wealth. If current growth is sustained, the industry's penetration rate (managed assets, as a proportion of total assets) will expand from 39.6% in 2016 to 42.1% by 2025.3 Growing individual investor wealth, and comfort with entrusting financial assets to professional managers, will counterbalance a move by the largest pension funds and sovereign wealth funds (SWFs) to manage more assets internally.

But growth has challenges. Geopolitics, normalisation of interest rates, Brexit, China's transition to a consumer-driven economy and the potential changes in US policies on regulation, tax and trade all create uncertainty. Should things play out badly, there could be consequences for financial markets, especially fully valued bond markets, and US equity markets which are currently at a 15-year high on cyclically adjusted price-earnings ratios. Our most conservative scenario still projects growth although substantially slower, resulting in AuM of US$93.4 trillion by 2020 and US$107.8 trillion by 2025.

Highest growth rates in Asia, Latin America

Growth will be uneven; on a percentage basis, it's slowest in developed markets and fastest in developing markets (see figure 2). Even so, we anticipate assets growing at 5.7% a year in North America from 2016 to 2020, slowing to 4.0% from 2020 to 2025, lifting assets from US$46.9 trillion to US$71.2 trillion over the nine years. Similarly, Europe is projected to grow at 8.4% and 3.4% respectively over the two periods, with assets rising from US$21.9 trillion to US$35.7 trillion.

Developing Asia-Pacific's dynamism is set to spur growth of 8.7% a year from 2016 to 2020, accelerating to 11.8% from 2020 to 2025. This will lift regional assets from US$12.1 trillion to US$29.6 trillion. Latin America is likely to grow at similarly rapid rates of 7.5% in the former period, accelerating to 10.4% in the latter. From a low base of US$3.3 trillion, the region's assets are projected to increase to US$7.3 trillion.The continued introduction of individual retirement accounts and defined contribution pension plans across the globe is democratising investing, opening people's eyes to its possibilities.

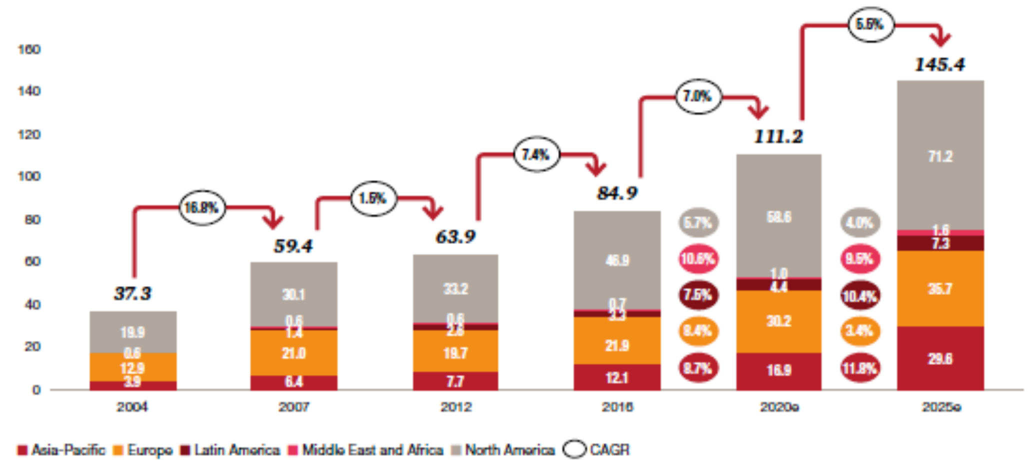
Figure 1: Total client assets in USD trillion

Clients	2004	2007	2012	2016	2020e	2025e	CAGR 2016-2025e
Pension funds	21.3	29.4	33.9	38.3	53.1	64.6	6.0%
Insurance companies	17.7	21.2	24.1	29.4	38.4	44.7	4.8%
Sovereign wealth funds (SWF)	1.9	3.3	5.2	7.4	10.0	13.6	7.0%
HNWI	37.9	50.1	52.4	72.3	93.4	119.9	5.8%
Mass affluent	42.1	55.8	59.5	67.2	84.4	102.2	4.8%
Total client assets	**120.9**	**159.7**	**175.1**	**214.6**	**279.3**	**345.0**	**5.4%**
Global AuM	37.3	59.4	63.9	84.9	111.2	145.4	6.2%
Penetration rate	**30.9%**	**37.2%**	**36.5%**	**39.6%**	**39.8%**	**42.1%**	**0.7%**

Sources: PwC AWM Research Centre analysis. Past data based on Lipper, ICI, Preqin, Hedge Fund Research, EFAMA, City UK, Insurance Europe, Financial Stability Board, Credit Suisse, Towers Watson, OECD and World Bank.

Note: Foundations and Endowments assets were not included as their total global assets represent less than 1% of all client assets.

Figure 2: Global AuM by region in USD trillion Base scenario



Sources: PwC AWM Research Centre analysis. Past data based on Lipper, ICI, EFAMA, City UK, Hedge Fund Research and Preqin

Pressures intensify from all angles

Even as continued growth in asset prices (especially equity index levels) serves as a tailwind, asset and wealth managers are under margin pressure, and regulators are zeroing in on the industry's competitive profile. Just as regulation and transparency requirements add to costs, so pricing power is being squeezed across the board. This is happening at a time when firms must invest in building outcome-based solutions, applying new technologies and investing in more diverse people and related skills (see people in a time of technology, page 19). Already, this is leading to mergers as managers scramble for scale.

Profit margins are falling globally. We estimate that they have declined by approximately 10% since the GFC due to the pressures exerted by passive players on pricing and flows, rising regulation and technology costs, and this will continue. The heydays of 30%+ profit margins will not be sustainable in the new world order. As one of the largest asset and wealth management centres, the UK is reasonably representative of the global industry. A recent study by the UK's Financial Conduct Authority estimated that UK profit margins averaged 34-39% from 2010 to 2015. Although the study covered only a small sample of firms, it shows that margins remain higher than in other industries.5 The average reported in the UK masks a broad spectrum. In fact, we estimate that margins vary globally from as little as 5% for a small retail asset manager up to 60% for some of the world's largest institutional managers.

This pressure on profitability is increasing at a time when firms need to invest in new talent, developing the products and technologies they will want as the industry moves towards a new paradigm.

In Europe, the MiFID II directive, to be implemented in 2018, will push up asset managers' costs and ban wealth managers' retrocessions. Most managers are now committing to absorbing research costs, historically borne by investors. This will have a knock-on impact on the research providers in investment banks. In the US, the new administration has committed to grant some relief to the new regulations that have proliferated since the GFC, but this remains a work in progress. The Department of Labor (DOL) Fiduciary Rule is under attack and likely to change with the Securities and Exchange Commission becoming more engaged in developing a uniform fiduciary standard. Whatever the final approach, the US is heading towards ensuring that high commissions do not influence advice, carrying on the initiative started by the UK Retail Distribution Review (RDR) in 2012. Most major asset managers and distributors have already made changes to their product shelves, pricing, revenue-sharing arrangements, advisor compensation and disclosure policies.

In developing Asia-Pacific, by contrast, regulation is priming new opportunities. Pan-Asian fund passports are slowly being introduced, although delayed by national interests, aiming to foster the regional industry.

When combined with a shift to outcome-based solutions and the expanding market share of passive strategies, this is relentlessly driving down the overall revenue pool. Passive strategies form the foundation of outcome-based investing, with active management (whether traditional or alternative) acting as an important component.

To gain scale, several international asset managers have merged. Some asset managers, mainly in Europe, have been acquiring wealth managers as they seek to control distribution. This also helps to protect margins as distribution fees appear more resilient to the factors described above, but may not be a long-term solution as regulation increasingly focuses on open-architecture distribution and pushes wealth managers towards greater disclosure and a fiduciary standard of care.

As if these pressures were not enough, Brexit is causing further uncertainty. Brexit appears to be manageable for asset managers and wealth managers with sufficient 'substance' in Europe, although the European Securities and Markets Authority's recent focus on preventing regulatory arbitrage may challenge their assumptions about substance and outsourcing to third countries. Depending on where the Brexit negotiations lead, there could be significant disruption to the current European industry (and beyond). There is uncertainty around access to clients, the future model for delegation of asset management from EU funds to UK-based asset managers (and vice versa), the continued equivalence or possible divergence of regulation post Brexit, and attraction and retention of key talent into the right locations.

In summary, firms are facing uncertainty and a margin squeeze at a time when they need to invest in developing new products, new technology and new skills to compete in a new age. Analysts have commented publicly on the need for investment, despite revenue pressures. Firms will succeed if they focus on being “fit for growth” in terms of investing in their areas of strength while cutting costs elsewhere.

Transparency becomes absolute

Investors and regulators are asking for complete disclosure of costs and fees. They’re also increasingly differentiating alpha and beta. What’s more, offshore jurisdictions worldwide have signed up to tax disclosure agreements.

A new era of full transparency is still evolving. Regulators are forcing the pace on fees and costs. In Europe, for example, MiFID II not only bans asset managers from paying opaque retrocession commissions to wealth managers, but also requires them to disclose research costs, which will lead to further pressure on profitability. In the US, the pressure on disclosures from regulations such as the DOL Fiduciary Rule is being reinforced by actions taken by some leading firms to increase disclosures and voluntarily make statements more self-explanatory.

Investors, too, are seeking clarity as inexpensive forms of beta become easier to access. Greater transparency is revealing where asset managers add value, allowing institutional investors to more aggressively negotiate down fees for specific outcomes and retail investors to benefit from fee competition. What’s more, millennial generation investors not only distrust opacity but also prefer transparent ETFs.

Turning to tax, over 50 countries have signed up to the Common Reporting Standard (CRS), agreeing to share information on residents’ assets and incomes automatically. CRS, which is being introduced from 2016 to 2018, effectively outsources responsibility for reporting on tax affairs to financial institutions. With the spotlight firmly on them, and threats of a blacklist by governments and international organisations, many offshore financial centres have joined.

Four transforming trends

Four trends that will incessantly revolutionise asset and wealth management How can firms adapt to the changing landscape? We believe that they must understand, analyse and act on four powerful trends, all of them interlinked, which are likely to revolutionise the sector from within.

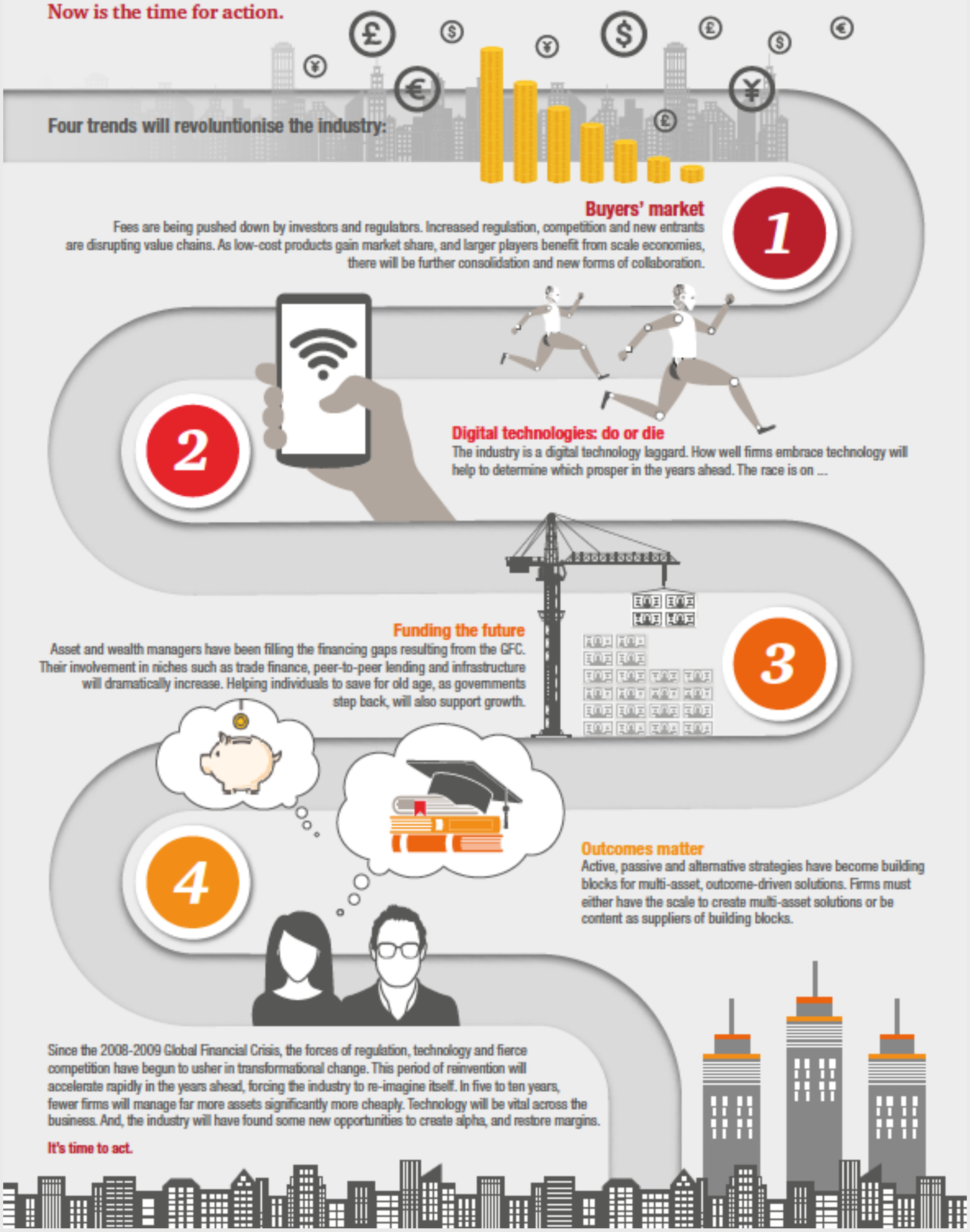
These four transforming trends are:
1. Buyers’ market
2. Digital technologies: do or die
3 .Funding the future
4. Outcomes matter

It’s difficult to predict how quickly these trends will play out. But they’ve been under way for some time and are accelerating. The difference is that firms must act now to fully understand them and adapt their business strategies accordingly.

Against a background of uneven growth:
Assets under management are set to grow from US$84.9 trillion in 2016 to US$145.4 trillion by 2025.

Change in asset and wealth management is accelerating. Although the industry looks set for rapid growth over the next ten years, asset and wealth managers must become business revolutionaries, even disruptors, if they're to increase profits and prosper.

Now is the time for action.



Four trends will revoluntionise the industry:

1 Buyers' market

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2 Digital technologies: do or die

The industry is a digital technology laggard. How well firms embrace technology will help to determine which prosper in the years ahead. The race is on ...

3 Funding the future

Asset and wealth managers have been filling the financing gaps resulting from the GFC. Their involvement in niches such as trade finance, peer-to-peer lending and infrastructure will dramatically increase. Helping individuals to save for old age, as governments step back, will also support growth.

4 Outcomes matter

Active, passive and alternative strategies have become building blocks for multi-asset, outcome-driven solutions. Firms must either have the scale to create multi-asset solutions or be content as suppliers of building blocks.

Since the 2008-2009 Global Financial Crisis, the forces of regulation, technology and fierce competition have begun to usher in transformational change. This period of reinvention will accelerate rapidly in the years ahead, forcing the industry to re-imagine itself. In five to ten years, fewer firms will manage far more assets significantly more cheaply. Technology will be vital across the business. And, the industry will have found some new opportunities to create alpha, and restore margins.

It's time to act.

Buyers' market

Regulation and knowledge are empowering investors. Regulation is pushing retail investors towards lower-cost products. Meanwhile, as the market place unbundles alpha and beta, institutional investors are happy to pay for alpha but beta is being commoditised.

The shift of power to investors is accelerating, pushing down pricing for asset managers and wealth managers alike. The trend among regulators worldwide either to ban or to regulate commissions for advice is still playing out. In the next five years, it will significantly reduce the level of retail fees and put pressure on revenues.

Meanwhile, technology, data and analytics are revealing everything, including if value is truly added. Investors are pressing home their advantage to gain cheaper and more innovative solutions, to deliver outcomes that match their needs more precisely as they seek to increase returns.

This shift in the balance of power will lead to many more innovative outcome-based solutions for investors, often with passive products such as ETFs at their core

So great is this seismic shift that industry revenues appear set to fall despite rising AuM. To protect profitability asset and wealth managers need to act now.

Retail fees fall

Regulations being introduced worldwide to prevent asset managers from paying commissions to incentivise distributors are altering industry economics. While the exact form of regulations differs from one country to another, they're promoting a shift to lower-cost fund products and reducing asset and wealth managers' revenues.

The UK's Retail Distribution Review (RDR) started the trend, banning commissions for advice in 2012. This trend is playing a major part in the anticipated pressure on industry revenues. PwC Strategy& analysis showed UK passive fund sales more than doubling in the years following RDR and the number of financial advisers falling by almost a quarter. Using the same analysis, we estimate that asset and wealth managers' fee levels will typically fall by 15 to 20% in countries introducing this type of regulation.

Countries such as Australia, South Africa and the Netherlands have introduced similar measures. Most recently, the European Union's MiFID II directive has followed suit. In the US, the DOL's Fiduciary Rule has already led to significant rationalisation of funds on brokerdealer platforms, changes to pricing and advisor compensation. The first set of requirements under this regulation was introduced on 9 June 2017 even as the DOL engaged in a broader review of the rule.

Looking to Asia, there are moves afoot in India where the Securities and Exchange Board of India is trying to drive mutual fund expense ratios down. The Financial Services Agency of Japan has also released a draft of principles concerning the operation of fiduciary duty. Elsewhere in the region, there is pressure from investors for greater transparency into fees and costs.

Globally, this regulatory trend towards fee transparency will hasten the shift to passive investments. As requirements for asset and wealth managers to demonstrate their focus on clients' best interests increase, they're increasingly recommending lower-cost passive ETFs. What's more, US distributors are rationalising the number of mutual funds on their platforms by 20 to 30%. In time, this regulatory trend will lead to significant fund consolidation worldwide.

Asset and wealth managers, too, will face broad and substantial revenue pressures due to the banning of commissions and greater competition. The biggest asset and wealth managers catering to the mass affluent are already launching price wars. This will drive far greater specialisation as managers differentiate themselves by offering focused active products targeting higher returns, albeit with higher risk, over a longer time horizon at higher prices. By contrast, passive products provide a market rate of return but do so at a low fee.

Institutions dissect alpha and beta Turning to institutional asset management, in what's expected to be a lower-return world, many investors have a razor-sharp focus on what they pay for alpha and beta. The proliferation of indexes and evolution of smart beta investing has given institutional investors the tools to customise portfolios to their needs, all for a lower price. Fees in unconstrained asset classes such as large capitalisation equities have fallen significantly since 2000 and are likely to fall further. Fees in asset classes where liquidity and size is constrained, and where there are more alpha opportunities, are likely to remain resilient. Such asset classes include convertible bonds, emerging markets, infrastructure, private debt, private equity, credit and real estate.

Even hedge fund fees are in flux. Several years of inconsistent average performance led to more funds closing than opening in 2016. Management and incentive fees have fallen, and the management fee has started to vary according to strategy. There have also been structural changes, with previously one-off negotiated terms now more broadly offered; these include lower fees for early, loyal or large investors. New models are being introduced to realign the interests of investors and managers, amid changing performance expectations.

Factor-based investing is providing the tools to replicate cheap beta, meaning that passive investing will make further inroads into active management, including hedge funds. Yet, there are alternative strategies where unique skill, knowledge and infrastructure does create alpha. Investors value this and are willing to pay for it.

Some of the largest pension funds, SWFs and endowments are 'in-sourcing' some investment strategies. They're taking core active strategies in house to reduce costs, with some SWFs even managing real assets such as infrastructure. But in-sourcing brings its own challenges and inconsistent results, as shown by recent examples of closing in-sourced investment departments.

Millennials shun traditional wealth management

The millennial generation is wary of wealth managers and it will determine the future. Millennial preferences around convenience (e.g. mobile apps), investment models (e.g. passive and non-traditional investments) and general scepticism about traditional finance will drive change (see taxes sidebar). Even the term 'wealth management' may need to be reimagined as millennials reinvent the future to fit their lifestyles, social consciences and goals.

This generation will increasingly turn to automated wealth management solutions. Automated asset allocation – the power behind robo advisers – is already reducing the need for human advice and increasing the use of passive funds for asset allocation. Technology is also enabling outcome-based planning. It can quickly identify important life goals and solutions to match. Finally, technology can automate the processes of wealth management. For example, new client 'on boarding' has typically involved 20 to 30 steps but only takes two to three with some online solutions.

Yet PwC research suggests that while automation and digitisation will greatly improve service, relationship managers will always play a part. When it comes to life's big financial planning decisions, people want empathy that machines can't provide. The ability of clients to pay different amounts for advice and service will lead to greater segmentation by wealth managers. Without significant scale, wealth managers will need to judge which segments they can succeed in and exit those where they cannot.

Just as the new generation prefers technologyenabled wealth managers to their more traditional predecessors, so technology will lead to more product innovation, lower cost products and greater scale. For example, technology might enable client advisors to serve ten times as many clients. The shift in the balance of power to investors is likely to lead to further consolidation. Many mid-sized asset managers and wealth managers will seek to significantly reduce costs or merge to maintain profitability.

Taxes – a trust issue

In an era of mistrust of financial services, especially among the millennial generation, tax will become important for the brand. Being viewed as not paying a fair share of tax or using questionable tax havens will be unacceptable.

In short, tax systems around the globe are broken. As tax information becomes publicly available, and strong populist sentiment continues, so the public will judge whether companies are paying their 'fair share' of taxes in an emotionally charged environment.

In the years ahead, tax will become an important operational business risk, just as valuation and regulatory reporting are naturally viewed as operational risks. As such, the tax function will play a more important role in the heart of the business. Tax technology will be key to performance and client satisfaction. Data analytics will equip investment firms to provide business, to make timely tax-informed investment decisions, and to provide investors and tax authorities with the transparency and reporting that they demand. It will also minimise uncertainty about tax liabilities.

Digital technologies

Do or die

Technology is set to disrupt all areas of the industry. From investment advice, to research and portfolio management, through the middle and back offices to client engagement and distribution, there will be far-reaching change. While some firms are leveraging technology in specific areas of their businesses, in the future, technology experts and data scientists will become vital for success across the business.

Technology will impact every aspect of asset and wealth management, although not without human oversight. But for the first truly technology-enabled firm to emerge, the barriers between the business and technology must be broken down. That is the big challenge. A firm cannot be nimble without having tech-enabled teams and executives.

It's likely that other big technology firms will follow the lead of China's technology giants, which have used digital distribution to quickly attract billions of dollars into money market funds. Showing how the

phenomenon of technology firms moving into finance is emerging elsewhere, Facebook secured a license from the Central Bank of Ireland in November 2016 for a payments service, in a move that showed its potential for distributing retail investment funds.

Illustrating the potential for disruption, 60% of respondents to our recent asset and wealth management FinTech survey viewed wealth management as one of the sectors most at risk from FinTech in the next five years.

End of the investment analyst?

While exponential advances in computing power, predictive analytics, artificial intelligence and big data are set to aid every area of investment research, people will generally still make the final investment decisions. The days of research teams with scores of analysts will soon be over. Instead, alternative intelligence-powered robotic processes will monitor and analyse every public company, as well as other financial and nonfinancial data. They can also process supply chain analysis and the other new forms of data that asset managers are able to source.

Already, some alternatives managers are successfully leveraging quantitative strategies and regard themselves first and foremost as technology companies.

We expect this trend to accelerate. Asset managers will generate alpha by harnessing the power of the largest data sets and the computing power to process data, identify correlations and back test investment strategies. Investment analysis is a task inherently suited to computers – human analysts will find themselves challenged. As some of the most innovative firms in asset management, it's likely that ETF managers will lead the way.

Technology will also simplify risk management. In the past, it was difficult to run a risk model. Now algorithms enabled by cloud-based computing make it easy and cost effective to calculate risk ratios and 'what if' scenarios.

Technology-enabled investing will also lead to a blurring of the lines between asset management, banking, insurance, wealth management and technology companies. Technology and data analytics will be used to construct multi-asset outcome-based solutions using low-cost building blocks such as ETFs or index trackers. For just a small fee, computer algorithms can create customised solutions.

Additionally, highly sophisticated portfolio management systems are being made available to wealth managers. This development has already led to the rise of US self-managed accounts and is likely to become far more widely used in retail asset and wealth management in the years ahead.

Driving the middle- and back-offices to zero

Digital technologies are already disrupting the client engagement model but this is the tip of the iceberg. FinTech investment is focusing on changing client engagement. Flows of digital information will become more customised and seamless.

How do you communicate in a digital age? How do you tailor this to B2B and B2C? How do you get knowledge about the end customer when someone else is distributing? How do you get data and develop meaningful analytics? How can you use that for servicing and marketing campaigns?

The more firms know about their clients, the better. Their risk profile. Family life. Professional life. Greater knowledge leads to better solutions. Whether it's a new birth in the family, changes of job or death in the family,

most key life events can be monitored and proactively responded to through social media, leading to better client relationships and service.

In the PwC Global 2016 ETF survey, about a third (32%) of participants expect automated advice to generate between US$10 and US$25 billion of new flows for ETFs in five years, while 25% expect that number to be between US$25 and US$50 billion. We believe that these numbers are far too low and that growth will dramatically accelerate as the cost benefit and ability to provide advice in an easy-to-use format will drive adoption.

People in a time of technology

The type of people needed for success will change hugely. In the future, data scientists will be just as sought after as research analysts. CEOs must be able not only to run a business but also to understand the next generation of technology. There'll be a far more diverse range of skills required, as well as more innovative and agile mind sets. What's more, firms will need new ways of attracting, motivating and organising people. (See PwC's The power to perform: Human capital 2020 and beyond).

Firms will have to look at new ways to hire and motivate. 'Gig economy' type models of employment may become commonplace, where individuals and

many of the millennial generation no longer work for a single employer. To hire the best people, diversity in all its forms, will matter more than ever – from gender, generation, ethnicity, sexuality and disability to people with a broader range of skills, experience and industry backgrounds. Diversity will become increasingly important to business success, especially as firms seek a broader range of skills in areas such as data analysis and digital content management.

Our research shows that firms still have a long way to go in making diversity a reality and realising the benefits. This includes creating an environment in which everyone can thrive.

Funding the future

New opportunities for profitable growth are emerging. Asset and wealth managers are filling financing gaps that have emerged since the GFC. They'll continue to provide capital for new types of real assets and new forms of corporate financing, learning new skills as they do so. They'll also play a vital part in bridging the retirement savings gap.

While this trend is already firmly established (and featured in Asset Management 2020), it will offer asset managers new opportunities as some areas of their businesses become less profitable and the need to generate alpha becomes more paramount. Over the next ten years there's great potential for asset management to generate alpha from financing real assets. At the same time, demographic trends will drive growth in assets under management globally.

There are huge financing needs. PwC has estimated that close to US$78 trillion will be spent globally on infrastructure from 2014 to 2025.10 And in Europe and North America, there's a shortage of funding for small and mid-sized businesses, as banks have pulled back in the wake of the Basel III capital restrictions and the Dodd- Frank Act.

Investment firms will provide capital in areas such as trade finance and peer-to-peer lending. They will be more active in all aspects of syndicated lending activities traditionally undertaken by banks, e.g. arranging a syndicate of investors for large infrastructure projects.

Turning to pensions and individual retirement needs, there's a funding gap in developed and developing markets alike. This is estimated at US$41 trillion by the Geneva Association, the insurance industry think tank.

From bridges to power grids and retirement homes

We anticipate soaring growth in real assets – mainly infrastructure and to a lesser extent real estate. Over the four years from 2016-2020, we forecast a 27.5% per annum growth rate in infrastructure, slowing to 15.0% from 2020- 2025. Infrastructure assets will expand more than fivefold, from US$0.6 trillion in 2016, to US$3.4 trillion in 2025. Alternatives as a whole are likely to expand, albeit at a lower rate of 8.5% from 2016-2020, followed by 8.7% from 2020-2025.13

As people in Latin America, Asia and Africa migrate to the cities, so there's urgent need for water, power and transportation facilities. Meanwhile, leaders in the US, EU and the UK have ambitious infrastructure spending plans. While infrastructure investing has been dogged by political and other issues, such is the funding gap that this asset class is likely to grow.

Infrastructure investors are likely to tackle a broader range of opportunities and risks. The transition from pure-play, low-risk infrastructure will require new skill sets and capabilities in deal sourcing, evaluation and asset management.

Asset managers will also expand their involvement in financing real estate. Investors are underweight in the sector, as measured by the Global Industry Classification Standard, particularly in Europe and Asia. They'll make greater use of ways to gain exposure such as REITS and expand more in non-traditional areas such as rented housing, logistics, multigenerational housing and affordable housing.

Replacing retrenching banks

As banks' lending activities continue to be restrained by capital- and liquidity-related regulations, so asset managers have been moving into the gaps. While the Trump administration's stated desire to roll back regulation may increase bank lending in the US, this trend remains powerful in other parts of the world. Within the EU, for example, there's a drive to increase the role of capital markets and therefore asset managers in funding business. The Capital Markets Union aims to establish the building blocks of a unified capital market by 2019.

Asset managers have also been expanding into private debt. They're funding real estate, private equity, SMEs and start-ups through private debt and peer-to-peer platforms. According to Preqin, the private debt industry managed assets of US$595 billion in June 2016, having quadrupled in size since 2006.

Taking responsibility for retirement

Finally, asset managers will play a growing part in investing for retirement. All over the world, governments are relying on individual retirement accounts and defined contribution plans to help people save for retirement. Expansion in these assets as the world population builds wealth and ages is one of the main forces driving our optimistic forecasts for growth in assets under management.

Even Asia's economies have rapidly ageing populations. Japan and China are greying fastest, but Singapore, Hong Kong and Thailand also have a problem. Pension provision is patchy and governments recognise the need for private pensions, although in many countries domestic tax legislation doesn't yet encourage pension saving.

Turning to Latin America, several of the leading countries have had mandatory defined contribution systems in place since the second half of the 20th Century. In addition to pensions, as longevity rises, people will need to save more to spend on healthcare, especially in the US.

Asset managers have great opportunities if they're innovative. They must design new products and services that meet changing needs. This vital social role is one of the reasons why regulators everywhere are making sure that fees are fair and advice is suitable.

Outcomes matter

Investors want specific outcomes rather than style-focused funds. Active, passive and alternative strategies are becoming building blocks for multiasset, outcome-based solutions. In this context,

demand for passive and alternative strategies will grow, but the place for active management will remain.

In the coming years, the value of active and passive management will be more clearly defined. As they focus more on specific outcomes, investors are distinguishing between alpha and beta and what they're prepared to pay for each, even in alternative strategies such as hedge funds. Yet, they will prize true alpha from active management where they can find it.

While passive investments will form the foundation of multi-asset solutions, active and alternative investments that deliver alpha will be important components that boost performance.

Firms seeking to build multi-asset solutions are likely to do so through one of three strategies: building, buying or borrowing. Builders grow by building out their internal organisations, leveraging and developing their existing capabilities and investment talent. Buyers expand their capabilities across asset classes and strategies by acquiring people, track record and scale overnight. Borrowers partner with other institutions, including asset managers, wealth µnmanagers and private banks, to expand their investment capabilities, access capital and take advantage of broadened distribution channels.

For investment firms developing solutions for institutional investors, having differentiated people will be key. Talented asset allocation specialists will be critical to winning mandates and a key differentiator when designing bespoke investment solutions for institutional investors.

Active and passive complement each other

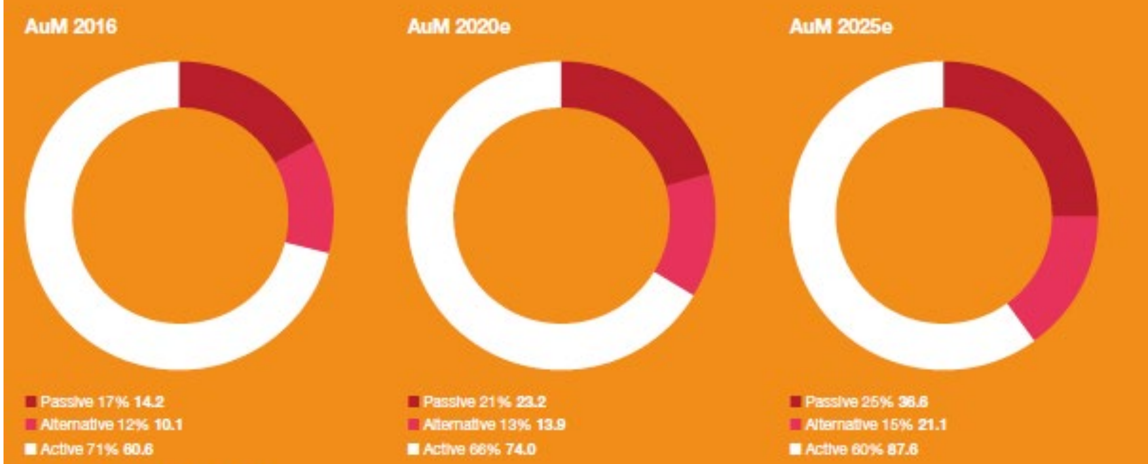
Even so, passive strategies will benefit most from the move to multi-asset solutions (see figure 3).
By 2025, we forecast that active management will represent just 60% of global AuM, down from 71% in 2016. Active AuM are likely to climb from US$60.6 trillion to US$87.6 trillion over the nine years. Passives will gain huge market share, rising from 17% of AuM in 2016 to 25%, while alternatives go from 12% to 15%. Passives' AuM will more than double, from US$14.2 trillion to US$36.6 trillion; alternatives from US$10.1 trillion to US$21.1 trillion.

Transparent, flexible and cheap, passive ETFs will remain popular, although ETFs will also increasingly have active strategies. ETF growth is quickening, led by US retail investors, especially younger, high-net-worth investors. But the international trend towards changing the asset and wealth manager distribution fee model and digitising advice will hasten the take up of these inexpensive funds globally. For example, self-managed accounts are becoming popular in the US and are built on just a few ETFs. In some jurisdictions, ETFs – both passive and active – are likely to become the most popular retail products.

But the liquidity-driven market environment that has favoured passive investment will peak at some point, possibly triggering a major market correction. Such an event would remind investors that passive funds offer no downside protection. By contrast, smart beta may be more resilient while active strategies should be the winners.

What's more, as quantitative easing declines, there will be greater dispersion, leading to a greater emphasis on active stock selection and asset allocation. And as passive management takes greater market share, so the relationship between a company's fundamental strengths and its stock price is likely to weaken, leading to inefficient markets that active managers can exploit. Not all managers will rise to the occasion but skilled active managers should do so. So-called closet tracking funds, which hug an index yet charge fees commensurate with active management, will become a thing of the past.

Figure 3: Global AuM projection for 2020 and 2025 in USD trillion Base scenario



Source: PwC AWM Research Centre

Alternative strategies' contrasting fortunes

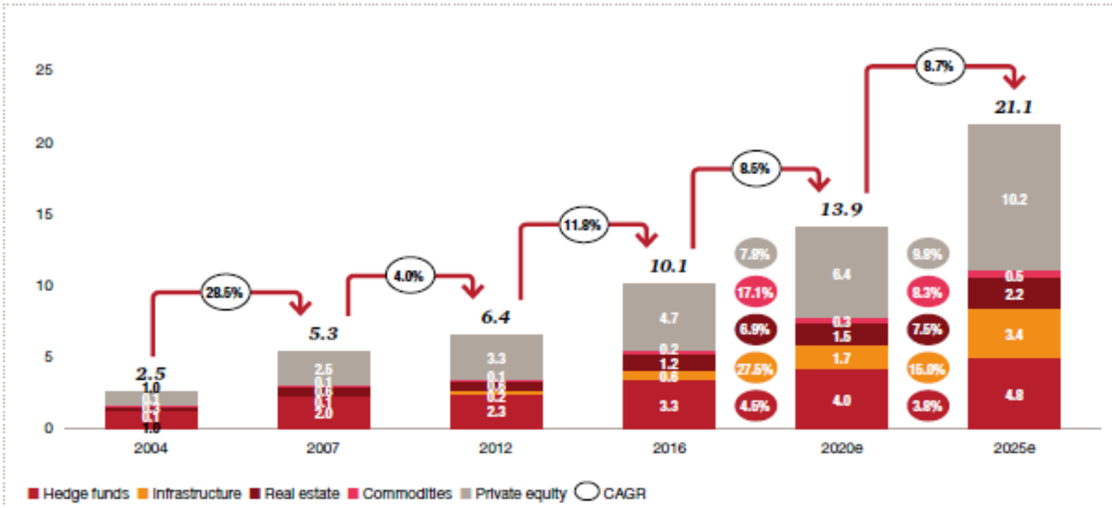
Alternative strategies will continue to grow. Real assets – including infrastructure and real estate – are set to be among the fastest expanding (see figure 4). Over the four years from 2016- 2020, we forecast a dramatic 27.5% per annum growth rate in infrastructure, slowing to 15.0% from 2020-2025. Infrastructure assets will expand more than fivefold, from US$0.6 trillion in 2016, to US$3.4 trillion in 2025. Real estate is likely to expand by 6.9% per annum in the first period, followed by 7.5% in the second, doubling AuM from US$1.2 trillion to US$2.2 trillion. Real assets will be rewarded for delivering alpha through operational expertise.

Private equity, which is a more mature asset class, will expand annually by 7.8% and 9.8% respectively for the two periods, rising from US$4.7 trillion to US$10.2 trillion.16 With surplus capital to put to work, private equity houses will continue to expand into specialist niches, such as technology and energy, as well as becoming even better at extracting value through, for example, longer holding periods.

Hedge funds, generally, will face differing fortunes following years of inconsistent average performance. Even so, our model forecasts that assets will grow at rates of 4.5% and 3.8% for 2016-2020 and 2020-2025 respectively, going from US$3.3 trillion to US$4.8 trillion by 2025.Survival of the fittest will see poor performers or undifferentiated niche strategies shrinking. Those offering multi-asset solutions, credit and special situations investing, and producingconsistent alpha, should prosper. What's more, a return to sideways moving markets, with more security price dispersion, should offer better opportunities to generate differentiated risk-adjusted returns.

Quantitative, factor-based investing has revealed that some of what was previously thought to be alpha resulting from manager skill is in fact market beta, which can be cheaply replicated. That said, many hedge funds will continue to deliver outcomes that investors seek, including attractive levels of alpha.

Figure 4: Alternatives by type in USD trillion Base scenario



Sources: PwC AWM Research Centre analysis. Past data based on Lipper, Hedge Fund Research and Preqin

ESG investing grows

Notably, environmental, social and corporate governance (ESG) investing will grow rapidly. By 2025, it will increasingly be accepted in the US due to rapidly increasing client demand and regulatory influence. Whether millennials, HNWIs or institutional investors, there is a rapidly rising demand for forms of ESG investing evident in thematic and ESG-integrated styles across mutual funds, impact investing private equity and bespoke institutional mandates. In Europe, ESG investing is already integrated into many institutional mandates and part of a favoured approach for HNWIs. In Asia, institutional investors increasingly look for asset managers with ESG capabilities.

At the same time, a growing body of evidence shows that companies with strong ESG credentials outperform. In particular, studies show that companies focusing on the ESG indicators most financially relevant to their industry tend to perform well.17 Additionally, companies are getting better at disclosing the ESG indicators that are most material to their long-term profitability.

This virtuous combination of burgeoning demand and investment rationale will drive the ESG asset pool's rapid growth. It's not only active managers pushing for better management of ESG issues; passive investors are also requesting this as part of their public commitment to longterm value creation. ESG outcomes are likely to become an integral part of investment solutions, and ESG analysis an essential investment tool.

Conclusion

The tail wind of rising asset prices, growing AuM and stable fees that has prevailed for more than 20 years is being disrupted by seismic changes. Since the 2008-2009 GFC, the forces of regulation, technology and fierce competition have begun to usher in transformational change. This period of reinvention will accelerate rapidly in the years ahead, forcing the industry to reimagine itself.

Things will look very different in five to ten years' time. Fewer firms will manage far more assets significantly more cheaply. Technology will be vital across the business. And, some firms will have discovered new opportunities to create alpha, and restore margins. With change accelerating, all firms must decide how they will compete in tomorrow's world. Will they be scale or niche players? How will they become more productive? In our view, asset and wealth managers must act now to focus on three things as their industry moves to a new paradigm:

1. Strategy

Asset and wealth managers must be more efficient and entrepreneurial, being prepared for success in some areas and failure in others. All firms must have a view of the landscape of tomorrow, a clear strategy and know their differentiating capabilities. They should reorganise their business structure to support the differentiating capabilities and cut costs elsewhere.18 As befits a time of great change, they must have a long view, take radical steps and invest in building their businesses strategically.

2. Technology

Every firm must embrace technology as it impacts all functions. Artificial intelligence, robotics, big data and blockchain are transforming the industry. Technology will determine which firms are the winners in a fast-changing landscape.

3. People

Old ways of hiring and nurturing people are changing. New skills are needed and new employment models must be embraced. Hiring and retaining the best will depend more than ever on diversity and inclusion, and meeting the needs of the whole person. Talent is a global challenge and excellent people with leadership skills will be absolutely vital as firms reinvent themselves – moving into new countries, new technologies, different distribution channels and leading-edge products.

Asset and wealth management trends 2019

AWM CEOs are cautious but a focus on productivity could improve their outlook

Part of PwC's 22nd Annual Global CEO Survey trends series

A focus on productivity

For traditional asset and wealth management (AWM) firms, the biggest disruptor in recent years has been the growth of passive investments and their associated lower fees. Declining fees, along with shrinking shelf space as distributors streamline the range of the funds they offer, are among the main reasons productivity has become such a key issue. Indeed, the growing popularity of passive funds — which are often tied to indices and lower-fee products such as smart beta funds, which use technical filters rather than market cap to rank asset selection — could cut fees by almost 20% on an asset-weighted basis across the mutual fund industry by 2025. This is a somewhat troubling forecast as assets under management are expected to continue to increase during this time.

80%

of insurance CEOs said that AI was already a part of their business model or would be within the next three years.

Other, more widespread factors are impinging AWM firms as well. For instance, globalisation of the industry has opened new markets and opportunities for managers, but it also has increased the complexity of operating in those markets. And uncoordinated regional and global regulation is swelling the cost base, exposing the weaknesses of legacy technology that cannot produce the information required to satisfy either in-house needs or policymakers' requirements without significant additional costs.

Ratcheting up the pressure, volatility has returned to financial markets with no end in sight. Tense geopolitics, such as US– China trade talks and Brexit negotiations, have combined to form a potent mix with quantitative tightening, rising interest rates, and early signs of a possible synchronised global economic slowdown. Equity and bond markets alike are jittery. Facing these headwinds, it is not surprising that AWM CEOs are less optimistic than they have been in years. According to PwC's 22nd Annual Global CEO Survey, more than one-third of respondents foresee global economic growth declining in 2019, and only one-third said that they are 'very confident' about their company's revenue prospects in 2019 — the lowest level in five years (see Exhibit 1).

Dealing with the crisis

Navigating this perilous environment is not easy, particularly because it is still in so much flux. However, we've identified three interrelated steps that AWM firms can take to improve productivity and put themselves in a better position to compete.

1. Adopt technology more aggressively

Central to improving productivity is better data management. Data is the 21st-century fuel businesses can use to be faster, smarter and more responsive to market conditions.

After a decade or more of specific and uncoordinated technology investments, today's successful firms are treating data as a true corporate asset. The result is organisations that share data and information seamlessly throughout the enterprise, leverage market insights and customer feedback faster, and adopt emerging technologies and innovations quickly. It's not simply a matter of applying technology — it's a matter of moving away from the status quo that sees islands of technology and data within a firm. Integrating knowledge about clients, markets and productivity within a firm creates a platform from which organisations can benefit and thrive in today's competitive market environment.

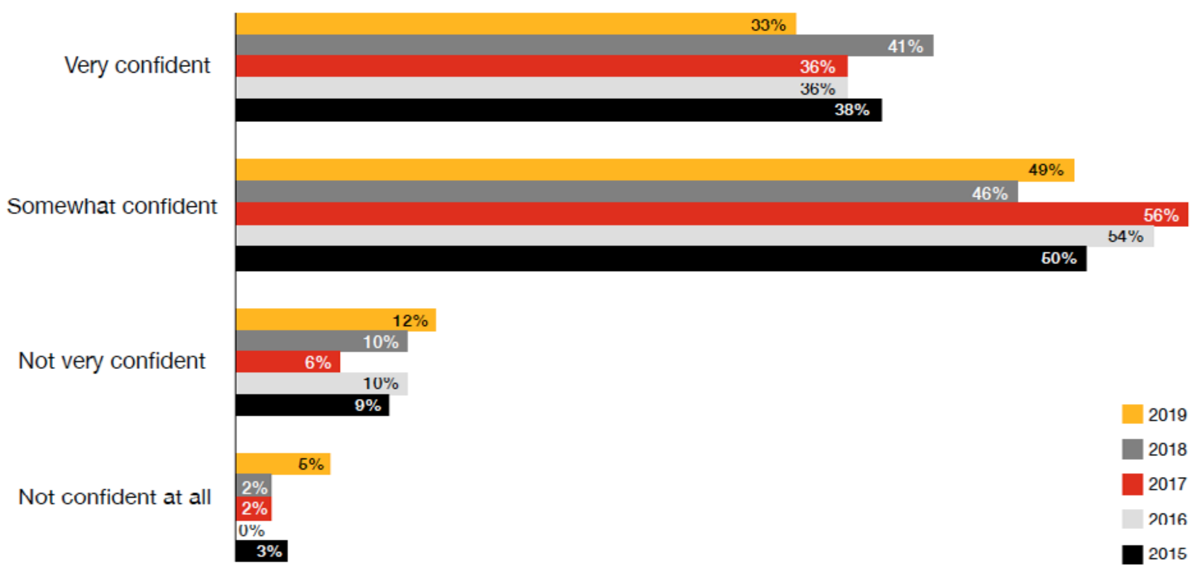
Complex and disparate IT systems have kept costs high. But increasingly AWM firms are trying to mitigate this by, for example, assessing the possibility of IT

EXHIBIT 1

AWM CEOs' 'very confident' outlook has decreased from that of previous years

QUESTION

How confident are you about your company's prospects for revenue growth over the next 12 months?



Source: PwC, 22nd Annual Global CEO Survey
Base: Asset and wealth management (2019, 164; 2018, 126; 2017, 185; 2016, 189; 2015, 155)

outsourcing for tasks including front-office investing and back-office processing. That can be effective if it is strategically planned. But in our view, data is a core competency for asset managers. An integrated frontto-back platform that can track all aspects of data throughout an organisation as well as provide reporting and analytical tools is crucial. To this end, many companies are making use of large service providers or technology firms to provide a uniform data platform, one that spans the value chain, asset classes and geographies, which will in turn lead to greater workforce productivity. These platforms introduce digital innovations that vastly improve effectiveness and efficiency, especially in cost-intensive areas such as the front office.

Turning to artificial intelligence (AI), nearly all AWM CEOs who participated in the 2019 survey said that the technology has huge potential for their firms (see Exhibit 2). AI will be especially valuable in the front office as analysts seek to distil investment signals from huge data sets. But although AWM CEOs clearly recognise the importance of data and analytics, they generally don't regard the data that their companies amass as comprehensive, with only 15% satisfied with data about customer preferences.
What's more, just 24% of AWM CEOs regard 'speed of technological change' as a top threat to their businesses, far lower than the 32% average for financial services generally, suggesting some complacency. Cybersecurity is viewed as a top threat by a little more than one-third of respondents, again lower than other financial services sectors. As AWM firms become more reliant on technology, they'll have to limit the danger of cyber threats.

As technology takes on increasing importance in the AWM arena, it will be essential that management firms lift the digital IQ of their workforces as a prelude to boosting productivity with new tools. To do this, a strategy that includes training, incentives, productivity metrics and communication is required. For example, some managers are now using productivity tools that track and analyse how workers spend their time within the context of the firm's business goals. Often the analysis will expose inbuilt inefficiencies or old work practices that add no value but increase complexity and rework. As a corollary to this, some asset managers are using assessment apps to enable their workforce to 'self-monitor' their digital fitness, identify areas needing improvement and use self-learning tools to meet goals. Others are investing in digital accelerators to determine the best talent for off-site, indepth digital training; these employees are then asked to share and embed the skills learned with the rest of the organisation.

29%

of CEOs said they expect to merge with another firm in the coming 12 months.

EXHIBIT 2

Nearly all of AWM CEOs agree that AI will significantly change the way they do business

QUESTION

To what extent do you agree or disagree that artificial intelligence (AI) will significantly change the way you do business in the next five years?

Source: PwC, 22nd Annual Global CEO Survey
Base: AWM CEOs (164)
'Don't know' responses not shown

2. Agile M&A

Mergers and acquisitions (M&A) have increased in the last few years within the AWM sphere to counter fee pressures through scale, acquire skills in new asset classes or enter new markets through innovative distribution alliances. Yet looking at M&A simply in terms of announced mergers and large-scale acquisitions misses another trend that shows great innovation in the industry.

Fresh-thinking managers are achieving the benefits of M&A without the drawbacks through joint ventures, the right-sourcing of back-office arrangements to share economies of scale and partial acquisitions (which look more like private equity investments). One reason for the inclination to avoid M&A is the gap between sellers' expectations and what buyers are prepared to pay: often this is simply too great. Indeed, some firms may no longer be worth what they once were because their role is diminishing as changes in investment products, distribution and technology leave them behind.

Joint ventures are a good way to access new skills. Often, fintechs are eager to team up, matching their culture of innovation with an AWM firm's brand, distribution and regulatory expertise. Or, in looking to diversify outside their domestic markets or narrow product sets, AWM firms may find it attractive to buy a minority stake in a complementary overseas business or enter reciprocal distribution arrangements.

Our 22nd Annual Global CEO Survey confirmed this collaboration trend. Just under one-third (29%) of AWM CEOs said they expect to merge with another firm in the coming 12 months, which seems low given the pressures facing the sector. But nearly half (41%) are seeking strategic alliances or joint ventures. It is critical, post deal or alliance integration, for a lens to be applied to the productivity of the workforce to realise the desired efficiencies that greater scale brings.

3. Nurture 21st-century talent

New technologies are changing the skills that AWM firms need, the way jobs and tasks are completed, and the very definition of talent. Asset management firms are not only battling each other for the best people, but also challenging innovative new startups and large established technology companies for talent. Managers who strategically analyse and manage their cost base are already reallocating budget to invest in talent for critical growth opportunities.

Yet these efforts are stymied somewhat because to the prospective talent pool, the sector is viewed as overly traditional and hierarchical. That perception will have to change if AWM firms hope to attract, develop and retain 21st-century talent. Companies with a more modern expression of work–life balance, diversity and inclusion are the types of places that attract young people who have the digital savvy that asset managers need. Unfortunately, despite attempts to become more diverse, AWM is still behind other industries. The sector should redouble its efforts to be more open to a multifaceted workforce in all forms, valuing diversity in skill and knowledge, as well as in gender, age and ethnicity. Indeed, where will the balance lie between human and AI, data analytics and automation technologies? Data scientists are likely to be as sought-after as research analysts in the coming years, and the industry will compete for talent with top technology companies with vastly different cultures and approaches to talent engagement.

Supporting talent is essential because AWM staff have an important role to play in helping the firm to change direction. Developing strong resources, particularly around change management and business analysis, depends on better talent sourcing and expanding mentorship programmes,

“ Supporting talent is essential because AWM staff have an important role to play in helping the firm to change direction.

41%

are seeking strategic alliances or joint ventures.

12%

of AWM CEOs plan to greatly increase headcount at their organisation.

But in all of these training and recruitment campaigns, AWM executives shouldn't forget to consider improving the technical skill sets of their best employees from the old 'analogue' worker pool. These people know the organisation well, and institutional knowledge is often missed when it is allowed to leave. Only by also boosting productivity in the existing workforce can firms achieve significant efficiency gains and advance to the next level.

Talent development is a core prerequisite of the best companies in any industry. And AWM CEOs are well aware of their need to expand their workforce. But more than half (55%) of the respondents to the survey concede that it's becoming more difficult to hire workers.

For AWM firms, successfully evolving and adapting to a new era will depend not only on how artfully they manage new technology, M&A and talent, but, more importantly, on how they use those aspects of operations to become more productive. As fees shrink and competition expands, some managers may find their cost bases unsustainable.

We believe the AWM industry will need to push efficiencies through tech-savvy employees, scale and streamlined methodologies, while balancing costs as it adapts to the changes ushering in a new era.

It's clear that CEOs' optimism has been shaken this year. Yet many CEOs still believe in their ability to drive organic growth. They can do so through differentiated products and distribution, leveraging new technologies, building a twenty first century workforce and learning from versatile M&A. That will drive a future that looks very different, but that will be just as bright.

Strategy made real

What are the benefits that advanced technology can bring to the operational side of an asset and wealth management firm?

Unparalleled levels of digital disruption and an increasingly complex regulatory environment are putting asset and wealth managers under severe pressure. At the same time, concerns about rising fees mean that costs will only grow as revenues decrease in the future. As many managers struggle, those who have embraced technology throughout their value chain have seen some reprieve.

Implementing a new way of working, which includes removing costly and cumbersome legacy systems and replacing them with new technology platforms across the business, has many implications for managers. They have the opportunity to utilise their workforce to the fullest, up-skilling where necessary and creating synergies between departments. As businesses become more data-driven, we will see continued changes to operating models as they search for the best way to use this data in-house. For example, as managers leverage automation technology from end to end, roles will free up and traditional back-office employees could become more client-facing. Additionally, repetition-heavy roles will benefit from advances in robotic process automation and machine learning, and P&Ls will improve as expenses decrease. Changes will be seen not only in the back and middle office, however, as AI-based trading and portfolio management become increasingly more common across the industry.

In addition to increasing efficiency within the organisation, new technology makes partnering with fintech firms increasingly easy for managers, which only enhances managers' value proposition. As managers search for ways to attract millennials, both as clients and as workers, an investment in technology will continue to be crucial.

Asset & Wealth Management Revolution

Pressure on profitability

October 2018

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Four foundations for a future-fit operating model

Articulating value for money

As calls intensify for the AWM industry to provide value for money, managers have no place to hide, and so they have begun to align themselves with investors' interests. While some of this is accomplished by tying fees to performance, managers must work to understand more comprehensively what investors truly want. Outcome-based solutions will become more important as managers strive to provide holistic investment solutions to both retail and institutional investors and to offer investment advice that helps clients achieve their long-term goals.

The AWM industry needs to lower costs and manage fee pressure to deliver more for less. It is remarkable that standard fee models have survived for so long, without evolving or changing significantly over time. As transparency increases so, too, does investors' knowledge. By 2025, investors will know where every dollar of management fees has been spent and what value it is providing to them.

Fees are, however, only one part of the equation. Investors and regulators are increasingly aligned on the fact that the AWM industry should provide value for money. MiFID II in Europe and RDR in the UK are evidence of this trend, with RDR now bolstered by the Value for Money regulatory framework, under which, beginning in 2019, managers might need to complete an annual report on the wider value their firms provide. The US, despite shelving the Department of Labor's fiduciary rule, also has made great strides in this space. The Securities and Exchange Commission has introduced consultation on Regulation Best Interest, a rule that would require broker–dealers and registered investment advisers to act in the best interest of retail clients, for both retirement and other investments. In the coming years, as these types of regulations become more prevalent, it'll be imperative that managers articulate their value proposition. We believe that managers that fail to align themselves with investors' interests will become easy prey for acquisitions or simply be left behind.

In today's environment, it is increasingly common for leading AWM players to focus on the use of emerging technologies in solidifying the current customer base while simultaneously broadening their reach. To truly provide value to their clients, PwC's Customer Insights Platform (CIP) can equip managers with in-depth analytics to help drive customer acquisition and retention, facilitate engagement, sustain growth and support a customer-centric business transformation.

Pricing will reflect investor demand

As we've pointed out, in response to price pressure, market leaders have already introduced either fulcrum or performance-linked fee structures – though performance-based fees account for a minor portion of the industry – and we expect an uptick in these sorts of models. We've also noted that firms will look for more innovative ways to manage their margins and cross-sell, particularly in the US and Europe, and that price pressure in Asia-Pacific is coming mainly from large institutional investors, which are looking to significantly reduce base management fees. In Asia, ETF penetration is significantly less, as distributors continue to be incentivised to promote mutual funds over ETFs. As such, there is less pressure there for managers to bring new pricing structures to market.

For example, Japan's Government Pension Investment Fund has introduced a new revenue scheme for managers that reduces the base fee to passive levels but removes the performance cap. At the same time, a carryover mechanism encourages the long-term performance of managers: those that underperform can expect to see a revenue cut. With one of the largest institutional investors taking the lead, we expect that many institutions in Japan will begin to consider new fee structures in the coming years.

Product innovation will prioritise outcomes

Active managers are innovating through new fee models, but passive managers, beginning to feel pressure on already low fees, will turn to smart beta and active ETFs, which provide more sophisticated strategies to achieve investors' target outcome at lower prices than actives do. These sorts of products can also justify higher fees than plain-vanilla passive strategies. Smart beta, in particular, has become increasingly popular, with ETFGI reporting AuM skyrocketing from US$181bn in 2012 to US$630.4bn in 2017, a CAGR of 28.35%. Reducing risk, enhancing returns, improving diversification and reducing cost are often cited by FTSE Russell as reasons to take on smart beta.

Active ETFs are looking good to investors. With lower fees than traditional mutual funds and the benefit of active management, active ETFs are able to gain benchmark, beating returns that can be adapted to market conditions.

If the fee war should further intensify and spill over to higher-fee passive products, players will need to focus on other differentiating factors, such as brand and added-value services, to be able to demand premium fees. At the same time, we believe traditional active products will continue to decline in popularity while concentrated actives, including solution-based products incorporating alternatives, will dominate.

Money isn't everything

Although funds with lower fees will continue to draw investors, price is not always the most important thing. We've already predicted that managers that are able to provide consistently above-average returns might be able to charge higher fees. We've also pointed out that those offering a streamlined and technologically enabled client experience will be on the track to success, because they'll provide new value to their clients.

It's also becoming increasingly critical to consider the role the industry should play in society, and this discussion is changing the AWM landscape. Investors are letting managers know they care about diversity, environmental responsibility, governance and inclusion. Managers must take all of these themes to heart, prioritising these issues within their businesses, aligning on strategy, and setting achievable targets. Firms should promote initiatives both internally and externally. Managers must turn the socially responsible spotlight on themselves so they don't appear to be at odds with their own investment guidelines, especially on the institutional side, where many managers that do not meet requirements will struggle to take on new clients.

As managers seek to include environmental, social and governance (ESG) factors in their investment mandates, short-term costs are likely to increase due to the need to hire new talent, incorporate new data sets, and embed new policies and compliance and risk processes to monitor ESG criteria.

"To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society."

Larry Fink, BlackRock CEO

But it's essential that managers respond to what investors want and raise the moral purpose of the AWM industry by asking themselves what their purpose is, other than generating returns. As BlackRock CEO Larry Fink pointed out in his annual letter to CEOs this year, "To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society."

Strategic positioning — what's the plan?

Costs are increasing due to regulatory and reporting demands, while at the same time, pressures are forcing managers to prepare their future position. They'll need to determine whether they'll be niche or scale, which products are underperforming and should be reconsidered, and how they contribute to society overall.

In order to be fit for the future and able to adapt operations in a low revenue-to-AuM environment, we believe managers must focus on their current strategic position and plan for a future in which the majority of costs are variable and therefore easier to manage. It's also important to evaluate how to scale through sourcing strategies.

Planning a future position

A segment's specific needs will determine how managers within that segment position themselves for the future. We believe managers will need to expand their analytical capabilities by embracing new technologies and hiring tech-savvy team members. Managers must ensure they are more agile in reacting to market changes, such as regulatory issues, and develop their trading models to support increasingly complex strategies.

Niche vs. scale:
Large players are getting larger, increasing their already substantial AuM and expanding operations. At the same time, niche managers are shoring up their expertise and client base. In the coming years, we believe midsized firms that don't have a specific niche will find it difficult to operate efficiently and will need to either move to a niche or gain scale to survive. Scale can be achieved through building, buying or borrowing. Firms can build with ambitious growth plans via new markets and products, lift-outs and targeted talent hires, new distribution channels and vertical integrations. Buying involves acquisitions or mergers – vertical and horizontal – and borrowing is increasingly attractive because joint ventures or alliances mean sharing the costs of expansion. To move into a niche, midsized managers will need to be better or brave, either by outperforming competitors or by specialising in particular areas, markets, channels and products. Midsized firms in the active space need to differentiate themselves or risk failing.

Smaller firms that wish to operate on a niche scale should look to develop specific insights in specific areas, outsource noncore functions and lower costs. Having a lean operating model will help these firms be more proactive in meeting clients' needs. Being highly specialised might lead to higher risk, though, and vulnerability to sudden market changes.

In this era, firms need to anticipate, innovate and disrupt in order to win. PwC approaches building a winning company through our experience centres, where we employ our Business, eXperience and Technology (BXT) philosophy. BXT unites a management team's fragmented viewpoints to focus on developing a single purpose and appropriate solution. Our centres provide the perfect environment for our client teams to reimagine the possible. Firms that follow our BXT philosophy have achieved a new way of working across their organisations – boosting their productivity by 20% and increasing transformation execution threefold.

Large players, on the other hand, are more easily able to provide an integrated offering by leveraging their scale. As multi-asset, outcome-based strategies become more popular in the AWM industry, every large player will need to become an investment solution provider more than a manufacturer of products across all asset classes.

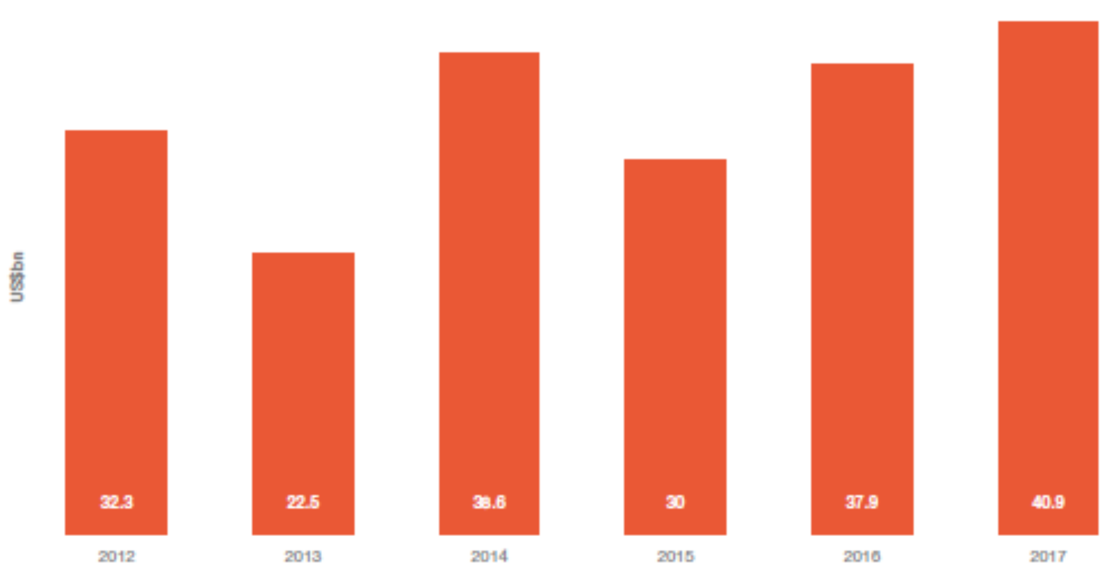
Product rationalisation:

As distribution shelf space shrinks and the remainder comes at a premium, managers will need to close underperforming and costly funds. While we do not expect the net number of Undertakings for the Collective Investment in Transferable Securities, including ETFs, to decrease globally, there won't be many new funds added either, as intense rationalisation takes place. In developed markets, the number of mutual funds is expected to decline by up to 25%. In the US, for example, the large number of small mutual funds is expected to decrease dramatically due to poor performance, a lack of profitability or shrinking product platforms. However, the number of ETFs is expected to grow rapidly in the US and Europe, and more slowly in Asia, making it important for managers to examine and streamline their product range. New funds, including smart beta, active ETFs and quantitative funds, will emerge.

M&A:

Although organic growth will still be best for most of the largest managers, we will see more M&A activities in the coming years as managers strive to enhance their scale, acquire expertise in new asset classes, and gain access to new distribution channels and markets (see Figure 9). In the past, most M&A transactions in the AWM space have led
to insufficient integration (e.g., by keeping multi-boutique arrangements or separate operating silos) and therefore have not achieved the estimated scale benefits. Combining front-to-back investment operations, distribution functions and data delivery mechanisms requires careful planning, resource investments and focused execution. Opportunity exists for niche players seeking to be acquired or for middle-tier managers to merge to achieve scale and consolidate their position. We expect cross-border mergers to grow in popularity too, as companies search for global propositions, especially Asian managers looking to establish a global foothold. We have seen M&A activity pick up since 2017 and we believe it will accelerate with a wave of consolidations. Active managers that operate independently and fail to provide a clear value proposition to their clients or occupy a niche will be easy targets – or casualties. Market leaders have already started to position themselves by acquiring vertically, horizontally or both, while building out their product and geographic reach.

Figure 9: Global investment management M&A deal value (US$bn)



Source: PwC Global AWM Research Centre analysis based on Dealogic

Tax: a tough nut to crack
AWM industry tax services have been under particular fiscal pressure in recent years. Unharmonised reporting systems and new country-specific regulations, along with traditional ones, make the tax maze difficult to navigate.

And these are not the only challenges internal tax departments are facing. Tax problems can also severely affect a firm's brand, making tax risk management important. Handling all of these tax issues in-house is expensive – technological and human resource costs related to tax functions continue to swell, which is challenging managers that are trying to cut costs. Many looking to mitigate tax and compliance risks are therefore considering outsourcing tax functions to new and innovative partners. These partners provide tax reporting services, tax efficiency services, impact analysis, compliance functions, and tax screening and assessment services. As managers search for a deeper understanding of their business, the insights that data analytics can provide are invaluable.

Given the global nature of many managers' operations, we recommend a regular tax review to assure that the facts and law on the organisation's tax positions have not changed, and that risk levels are consistent with the firm's operational risk management perspective.

Leveraging a future position through 'right-sourcing' strategies

Managers should evaluate their sourcing strategies – what functions are core and should be kept in-house (insourcing), what functions should be outsourced, and whether there are opportunities to co-source. When thinking about how to leverage outsourcing, managers should consider three areas: human capital, technology and scale.

In terms of human capital, managers should evaluate if certain competencies should be outsourced. A shortage of experts with the right skills can make recruiting difficult. This is especially true for the types of positions that are needed now in the AWM industry, such as data scientists and engineers. Firms might want to consider outsourcing to technology companies, which are more competitive and appealing for such skilled workers. A perfect example of this is the tax function, which can be run much more efficiently in an outsourced model by specialists with global reach.

To determine whether to outsource technology, managers must consider how much it will cost to replace legacy technologies with new ones and stay on the forefront of technological development. There are many players offering cutting-edge technology for each competency, but evaluating which provider is the right one requires resources.

Managers often struggle to scale their business while simplifying their operations and data environment because they depend on multiple acquired or bespoke systems for various asset classes. The reconciliation functions and multiple data transformations that result use a lot of resources. An outsourcing arrangement can help achieve scale and simplification and change management considerations in a sustainable and profitable way.

Managers must look to their value chain, determining when services currently performed internally should be outsourced, to achieve best practice and state-of-the-art capabilities. Firms can make use of these outsourced providers to reduce their liability, cost and risk exposure.

Transform through technology – or be eliminated

Digital technology investments are helping managers innovate and serve investors by transforming many business functions. As managers look to integrate their front, middle and back offices onto one platform, the lines between these functions will blur. Data is becoming a core competency and strategy for managers, and those who are able to convert it into actionable insights will lead the industry.

As we've said, investing in digital technologies is critical to cutting costs and improving operations, and therefore margins. Managers with legacy systems need to become state-of-the-art and focus on implementing resources such as artificial intelligence (AI) and machine learning in the front office. Uncompetitive firms that haven't invested in technology and have survived despite poor investment performance will find themselves orphaned with few, if any, strategic options.

Using technology to boost business – case study

PwC conducted an assessment to identify front-to-back intelligent automation opportunities in multiple business functions for one global asset manager that was facing the fee pressures, costs and market conditions we've described in this report (see Figure 10).

Figure 10: Technology case study

Capacity released (estimate)	Bots in production	Opportunity assessment
~50,000 working hours per year	~40 Bots	7+ Business functions
New way of working Prepared business to be ready for new ways of working resulting from investment in innovation, disruptive technologies and associated workforce upskilling	**Targeted capacity released: 140 FTEs by 2020** • Leveraged PwC's Intelligent Automation assessment framework to identify opportunity for automation across the firm • 30 full-time employees released in the first 6 to 9 months of the program	**Machine learning and optical character recognition** • Achieved front-to-back automation with machine learning and optical character recognition to ride on the benefit of robotic process automation • Conducted proof of concepts within the portfolio services and compliance function • Developed machine learning assessment framework and made progress with core delivery

Source: PwC

Figure 11: Technology and operations

Client processing	Technology's contribution
1. Know Your Customer/anti-money laundering	• Facial recognition • Blockchain technology • Machine learning software
2. Transfer agency/order processing/ administrative	• Blockchain software • Use of automatic software to directly add the order in the database
3. Client engagement	• Software to track clients' contacts and optimise the content you serve to them • Digital engagement analyses • Client relationship management and digital e-marketing
Investment product processing	**Technology's contribution**
4. Portfolio management	• Machine learning and Big Data management • Advanced data analytics • Natural language processing
5. Risk management	• Advanced data analytics • Advanced behavioural analytics
6. Operational and administration	• Accelerated the trading process • Optimised software and hardware to control and better manage the flow of client orders
General data management processing	**Technology's contribution**
7. Compliance/legal	• Natural language processing • Blockchain technology
8. Data management	• More efficient management of large volumes of data • Interesting insights and forecasts

Decreasing costs through data and technology

A future-fit operating model will require increased technological integration across tasks to reduce the silo effect, and will demand optimal use of data, analytics and the cloud. Simplifying and optimising in this way (see Figure 11) will also reduce costs and enable employees to be redistributed into roles that add higher value for clients.

However, digitising carries its own expenses. Short-term costs will increase as managers upskill existing talent, employ new tech-savvy workers, and purchase and implement tools. Although returns will surely outweigh the initial costs, it is crucial that managers prepare for the financial outlay of adapting their business. Scale will be a huge benefit, because larger managers can leverage their size to mitigate the financial effect of digitisation.

Many managers have already begun the process of a core platform replacement – making use of large service providers or technology firms to supply a uniform platform. We believe it's most likely that one or more large service providers will provide an integrated platform that spans the value chain, asset classes and geographic differences. It's also possible that managers will build or buy core technological capabilities and keep them in-house. Otherwise, the multi-platform, cloud-based world might prevail, with managers outsourcing operations to best-of-breed open-architecture service providers whose plug-and-play platforms make it easy to connect application programming interfaces to other systems. The digital innovations these platforms bring, specifically in more cost-intensive areas such as the front office, have been successful in improving companies' effectiveness and efficiency. In discussions with managers around the globe, we've seen that those who've initiated the process of redesigning their target operating model have mostly focused on integrating a single technology platform. These managers are optimising their business from front to back and are ready to face the new reality of lower revenues and sustained fee pressure.

New investment strategies, such as factor investing, smart beta and quantitative investing, are also becoming more pronounced as innovations allow managers to enhance their product ranges and allow players to either move to higher-fee products or decrease the cost of research and investment. Data analytics systems have enhanced research, increased its quality and minimised costs related to data management. PwC estimates that as much as 45% of the tasks for global work activities can be automated through the use of robotic process automation – cutting down the time spent on systematic tasks, decreasing the number of errors, and reducing head count.

Taking technology to new heights

The world is getting more complex and data-rich, making analysis a more daunting task for managers. Those who make use of new technologies will be able to implement more advanced investment strategies and bolster risk analysis and decision making. Managers using such advanced strategies will be able to make better investment decisions and provide higher returns to their investors, thus ensuring higher fees.

AI, while still in its infancy, already has been used in some aspects of the front office and has the potential to truly upend the industry in the coming years. According to Opimas, the use of AI could eliminate as many as 90,000 jobs within the AWM industry and increase the cost-income ratio of financial institutions by 28%. As analysts look for actionable insights in massive data sets, and portfolio managers try to better understand market movements, AI will be key in the front office. Real-time optimisation of sales, marketing, client interaction, predictive modelling and near-instant processing of data will enable the AWM industry to rise to the next level, making AI a technology that managers should invest in at an accelerated clip.

AI and machine learning are already being used to mine data for insights, with humans helping to make these insights actionable. As machines become more advanced, they will be able to accomplish what a team of research analysts could. This does not herald the end for human investment analysts, but instead forecasts a powerful collaboration between analysts and data. There isn't enough data available yet in the AWM industry to power fully informed, nonhuman AI, but as analysts build and fine-tune these systems, less human intervention will be necessary.

AI's footprint across the industry is too clear to ignore. Natural language processing, speech and text recognition programmes, machine learning and neural networks are just some examples of applications already used by a variety of investment firms. AI will

have a significant effect across the entire value chain, cutting overhead costs and possibly boosting revenues. Ultimately AI will change, and already is changing, the internal workings of the AWM industry.

Technology, however, needs to be implemented with purpose. Being truly client-centric means that managers should deploy capital in an intelligent manner, searching for technologies that will bring the most important improvements to their business operations and to their clients' experiences. By using technology to provide value-added services to clients, players can differentiate themselves from competitors and justify premium fees. Leading firms, from small to mega, have proven nimble. By leveraging data, analytics and various forms of AI, they are improving processes and streamlining capabilities across their firms.

AWM – fight the battle for talent

Without good talent, you can't transform or build for the future. New technologies are changing the skills that workers need, the way jobs and tasks are completed, and the very definition of talent. Managers are competing with each other, startups and established technology companies to attract talent and build the workforce of the future.

Building an AWM business with new talent requires a different way of hiring. Additionally, as a fresh generation of investors brings new expectations into the market, technical knowledge and financial experience will change. We have already seen this, as ESG investing has become more prominent and managers scramble to attract the best talent. New manager profiles are needed too, as alternatives, quantitative investing and smart beta increasingly become part of the investment landscape. And as firms turn to new technologies to mine data, people who are able to work with both the technologies and the analytics will become more important.

In 2025, we expect that humans will remain the dominant workforce, but technology will play a much stronger enhancement role than it does today, allowing the workforce to focus energy on core duties. According to the World Economic Forum's Future of Jobs 2018 report, 56% of financial services companies surveyed are expecting to reduce their workforce due to automation. Given the advanced level of education in the industry, these displaced individuals could be redeployed to higher-value roles. As the competition for talent intensifies, redeployment or retraining of existing talent become viable options.

The AWM industry has long been considered traditional and hierarchical. As managers look to attract, train and develop talent, they will need to change both the public perception of the industry and their way of doing business. Managers need to think about themselves as technology companies, and not as in opposition to technology, to build a culture that will resonate with and attract the future workforce. This is increasingly important as managers are now missing out on a new wave of digital talent being lured by technology companies. New generations are no longer simply looking for a paycheck; they are searching for a company that reflects their values, rewards hard workers – not just vocal ones – and promotes a more even work–life balance.

Managers need to be thinking about upskilling current talent too. Transforming a business can be deeply unsettling for its people, and firms need to ensure they take their workforce on the journey with them. Business areas likely to be most affected include the following:

- Traditional analyst and research roles, which will be transformed by technology and data science.
- Client relationship and engagement, due to increased digitisation of distribution channels.
- Back- and middle-office functions, some of which can be automated for efficiency.

According to PwC's CEO survey, 29% of AWM CEOs are implementing continuous learning and development programmes, in part to attract and develop digital talent. This is lower than the global average of 42%. The AWM industry is behind the global average in all other aspects of workforce planning too, except for "implementing new, flexible ways of working" and "outsourcing to external providers." This could be cause for concern, because it shows the industry's lack of willingness to change and adapt. One example of a learning programme is PwC's digital fitness tool, which allows firms to assess their employees' capabilities and analyse and leverage the results to build a comprehensive digital talent strategy, with ongoing training to improve their digital acumen.

Building a diverse and inclusive workplace

The AWM industry is behind the curve, and this needs to be acknowledged. In the United States, according to the New York Times and Morningstar, less than 10% of mutual fund and ETF portfolio managers are women. Globally, this number is slightly higher, standing at approximately 20%, but it hasn't changed since 2008. The gender pay gap is high, according to several studies. Something must be done to build a better future. Many initiatives already have been introduced, but managers need to increase their efforts. By doing so, companies can boost their brand and marketability, which raises investors' perception of value.

Managers that wish to have the right workforce for the future will need to be brutally honest about talent. They should consider a complete redesign of the organisational model, including a reevaluation of roles that could become redundant, ensuring that they are staffing correctly for the challenges that lie ahead. Winning managers are creating diverse, inclusive, flexible and exciting workplaces, offering internship initiatives and careers with international programmes and digital upskilling. Laggards in this space risk an analog death spiral as they fall behind leaders, financial technology firms and technology companies that will attract the top talent.

Many of our clients use PwC's productivity hub, which gathers and visualises data on a variety of talent metrics. Gathering data on risks, project plans, utilisation rates, task performance and productivity gives managers critical information on how to optimise their talent structure and increase their value.

Conclusion

According to our analysis of the annual reports of 64 managers, operating margins have returned to the levels they were at before the global financial crisis and assets continue to show strong growth. Despite this, fees are falling quickly, and although managers have lowered costs, the real challenge will be protecting or improving profitability in the future. The AWM industry will need to continue pushing efficiencies while balancing costs as it adapts to changes ushering in a new era. The future will look very different, but just as bright.

Managers will need to focus on the four key themes we have outlined in this paper:

1. Articulating value for money
Managers must react to the industry's changing price structures. New fee models are being developed, and asset owners are searching for a firm that will provide superior investment returns with excellent client service at competitive prices. Specifically, the ability to deliver an innovative, technologically enabled and seamless client experience will continue to create value for both investors and managers. In addition, new individual investors, along with traditional institutional investors, are increasingly being drawn to managers that support social-cause investing. ESG has now migrated into a broader set of social, economic and cultural priorities.

2. Strategic positioning – what's the plan?
Every manager needs to determine its strategic operating position for the future. Niche players should have high-conviction strategies and focus on their specialisations. Scale players should leverage their ability to be a complete solution provider and focus on outcome-oriented products. Managers in the middle need to decide which direction to head in and adopt a stance that sets them firmly on that course.

3. Transform through technology – or be eliminated
For a firm to be efficient and competitive, it needs to adopt an integrated platform that manages all activities – investments, distribution, valuation, reporting, operations and regulatory compliance. Winning firms will gain better insights by using AI, data and analytics. Those that are able to make those insights actionable will be ahead of the curve.

4. AWM – fight the battle for talent
Despite pressures on profitability, investment in top talent is essential to ensure the ability to transform and drive success into the future. As technology becomes more central to the AWM industry, talent needs are changing. Firms are competing with large technology companies and startups for skilled workers. Data science is becoming a more crucial skill, and teams that can successfully develop and integrate with cloud-based technologies are fundamental for the future. And managers that build a diverse and inclusive workspace will reap the rewards.

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