GLOBAL ASSET MANAGEMENT & ADMINISTRATION SURVEY

2017 Drivers and Disruptors

A global survey carried out by Linedata

INTRODUCTION AND HIGHLIGHTS

Over seven years, Linedata's Survey has asked the global asset management community about trends shaping and challenging their businesses. Responses this year reflect an industry that is accustomed to continuing themes – the massive growth of passive strategies and the technological changes required by global regulation - but one that is uneasy about how it will adapt to the tests and opportunities these trends represent.

Challenges to the operating model and cost-cutting pressure

In 2016 client service was an element of differentiation firms depended on to propel their businesses forward. This year asset managers appear instead to be aiming for a strategy of effective paring down on the cost side combined with product or strategy diversification on the revenue side to stand out. Meanwhile relationship-based factors: being a trusted partner, client service and reputation, are still highly valued by asset managers.

The data seems to point to a convergence of concerns over cost-cutting, investment performance and regulatory pressures, with half of all respondents identifying "adapting to regulation" as their top challenge today as well as in three years. The impact of this triple threat is significant in terms of how asset managers will manage top and bottom lines and potentially reconsider aspects of their operating models.

The impact of passive strategies and ETFs

This potential disruption is fueled by last year's monumental results in ETF growth (over $3T globally) and passive adoption over active strategies which has continued to push managers to adopt smart beta and a low fee set of product structures. This trend is also spurring the growth of "boutique" shops which has resulted in both large managers and smaller boutiques putting pressure on mid-sized firms (Aite).

Regulation challenging efficiency and disruption

Many of the challenges identified by survey participants are unchanged over the next three years. Regulation remains top of the list and is dominating mindshare, particularly MiFID II with its imminent deadlines and broad reach. The view 3 years out is that maintaining operational efficiency and investment performance may be harder to achieve with fewer resources due to continued cost-cutting.

Nearly a quarter (24.2%) of respondents cited political and policy change as the primary disruptive force in asset management over the next 3 years: a concern that did not even rank in last year's survey. The Brexit vote, the election of Donald Trump and the possibility of a swing towards right wing populism in a host of European nations has become the year's defining trend in the eyes of asset managers across all geographies.

Focus on data

While asset managers say they will expand and diversify their investment lineups to include both more alternatives and passive strategies, investment operations models must also evolve to accommodate growing data volumes, bringing together multiple sources, and accessing and analyzing them. Data quality, data security and data consistency across the organization ranked 1, 2, and 3 to the question of enterprise data challenges. New, more nimble technology will be needed to harness this data for investment decision support, risk management, and all types of reporting.

Digitization and security

Digitization will increasingly shore up regulatory demands but true digital transformation continues to be elusive – the market is not providing transformational offerings. Developed from the realm of "big data" and analytics, digitization includes the notion of being able to combine structured and unstructured data to make better business decisions. 24% of the top 50 global asset managers (by AUM) have a chief digital officer (CDO) today. (Aite Group)

Methodology

This is the seventh year Linedata conducted its Global Asset Management and Administration Survey. The data was gathered in January 2017 via on-line survey with 126 respondents from the Americas, Europe and Asia. Participants include asset managers, hedge fund managers, fund administrators and other stakeholders in the global asset management industry including custodians, prime brokers, consultants and advisory firms.

Geographically respondents are based in:

- UK **(13%)**
- France **(16%)**
- Mainland Europe **(24%)**
- North America **(40%)**
- Asia **(13%)**

Some commentary was produced in conjunction with Aite Group (aitegroup.com), with content from their Institutional Securities and Investments group research and a webinar co-lead with Linedata on February 28th 2017.

CHALLENGING TIMES

The response to the survey question, "What are the main challenges to your firm today?", is far from unexpected: 50% of participants identified keeping up with the myriad changes to global regulation as their top current concern, as it has been every year bar one since we launched the survey in 2010. (In 2013 it was edged out by investment performance). Operational efficiency and performance follow as two of the main three challenges.

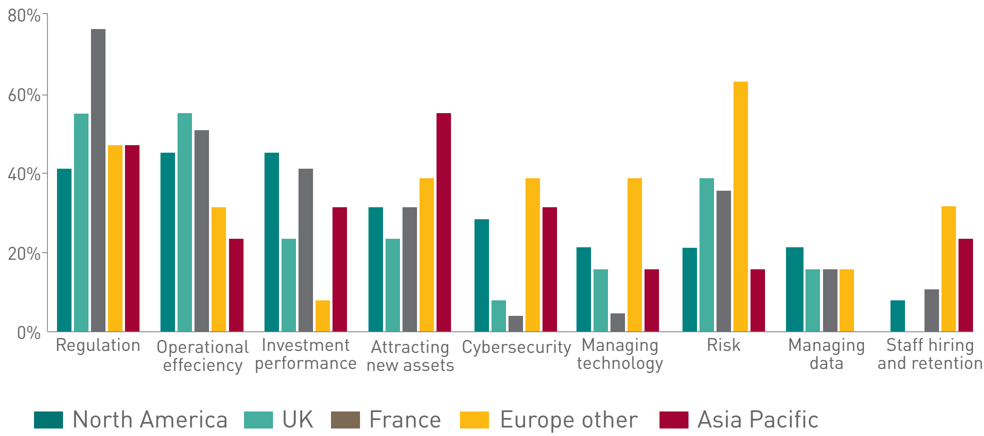
Respondents predict that it will still be the effects of regulation that are top of the pile over the next three years, pushing to capture an even larger lead. Interestingly, while the pain of managing data is expected to increase more than any other category (up 6%), asset managers believe that in three years they will have a firmer grip on risk management (down 7%) than they do today.

Main challenges affecting your business

Regional perspective

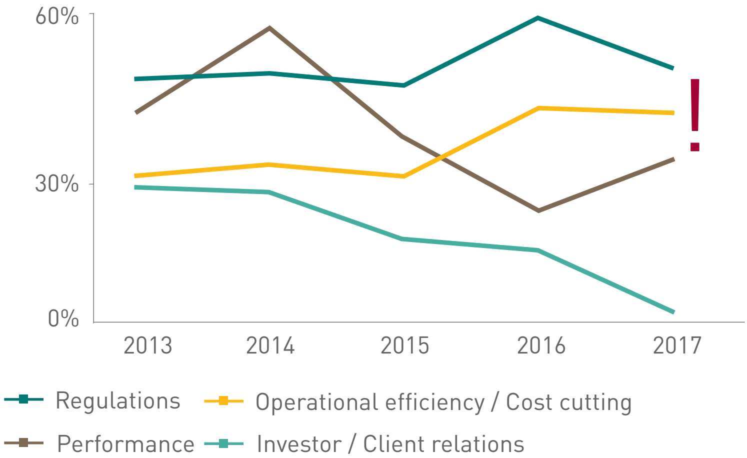
When we account for regional differences, the perspective changes. The most noteworthy challenge identified by Asian respondents is attracting new assets (54%), perhaps due to the fragmented and varied markets within the region and increasing competition, followed as elsewhere by a strong showing for regulation. Increasing regulatory requirements have had a hold across Europe for years - In the UK adapting to regulatory changes is equally an issue to maintaining operational efficiency (both 54%), and in France 75% say regulatory regimes is top. Elsewhere in Europe, managing risk (62%) is followed by regulation (46%). While across the pond, Donald Trump hasn't yet had a significant effect on cost-cutting and maintaining investment performance (both 44%). Despite its role in helping firms adhere to regulation, managing data was noted by a surprisingly low number of respondents.

Regional Challenges



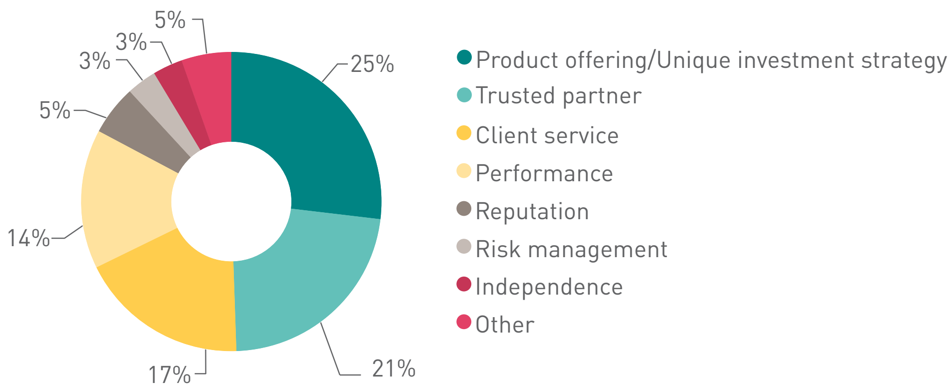
Survey data on main business challenges over 4 years points to a convergence in the impact of three pressures bearing down on global asset managers: 1) the need to maintain operational efficiency, 2) investment performance and 3) managing regulatory constraints. These together may be influential as to how firms evaluate and manage their businesses and operating models.

Convergence of pressures



WHAT FIRMS SAY SETS THEM APART

Client service is no longer seen as the top driver of differentiation as it has been in the last two years. In an environment of continued low fees and performance, in 2017 more firms will try carving a niche with more unique investment strategies and products (21%). Overall, however, relationship-based factors are still highly valued by asset managers: trusted partners, client service and reputation.



REGULATORY DRIVERS

We asked 'Which regulations do you consider to have the greatest impact on your business?'

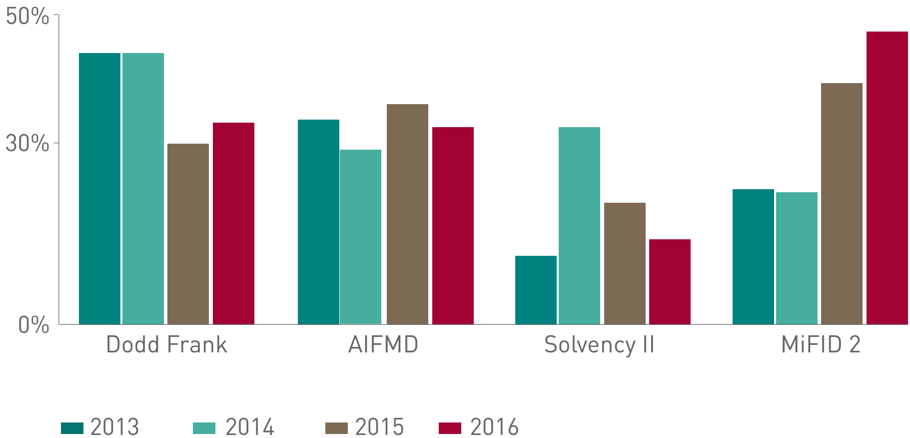
Regulatory scrutiny has been the biggest driver of compliance changes over the past few years; in 2017 globalization of regulation is expected to play an even bigger role. Buy-side firms are much more concerned with the challenge of new regulations than are other firm segments (Aite).

Although only 14% of respondents hailed from the UK, there was agreement that MiFID II is the regulatory regime responsible for the most sleepless nights. MiFID II looms with its January 2018 deadline; and with this, outstanding questions impact firms from Los Angeles to Edinburgh to Tokyo performing investment activities through an established branch in the EU: What precisely will be required? How stringent will regulators be? What is acceptable as a "best effort" in, for example, demonstrating best execution? Answers are not certain.

Despite being in place for almost four years, AIFMD reporting requirements for alternatives managers is still of concern to 33% of respondents. One explanation is that initially firms may have felt AIFMD could be handled with home grown, manually driven operations. As these firms have grown, so too has their risk and need for finding automated solutions.

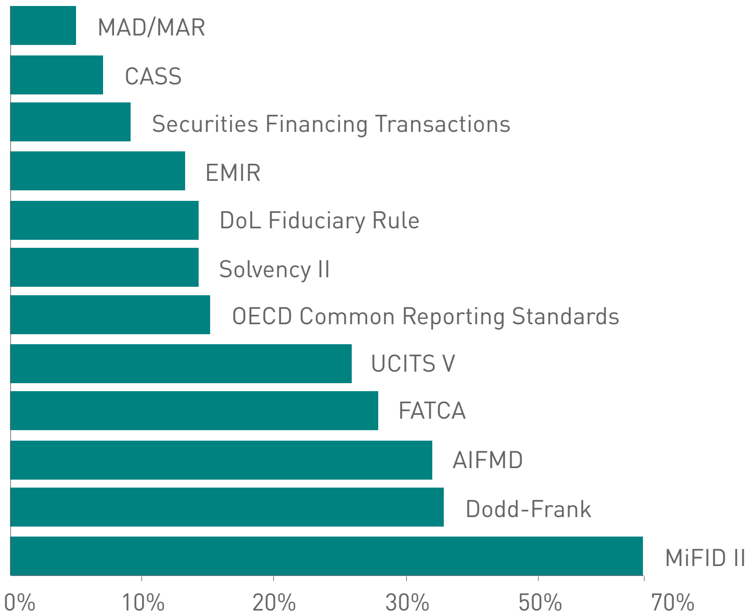
Regulatory alerts, compliance policy management, and trade surveillance requirements will be the areas of highest importance for buy-sides over the next year (Aite).

Four regulations with impact



However, another observation of the survey this year is that the number of regulations we felt it was important to include prohibited full analysis with any other year – there are just too many. It is a surprise to no one that the array of regulations affecting global asset managers show no sign of shrinking, despite what the Trump administration may be planning.

A broader view of the global regulatory landscape

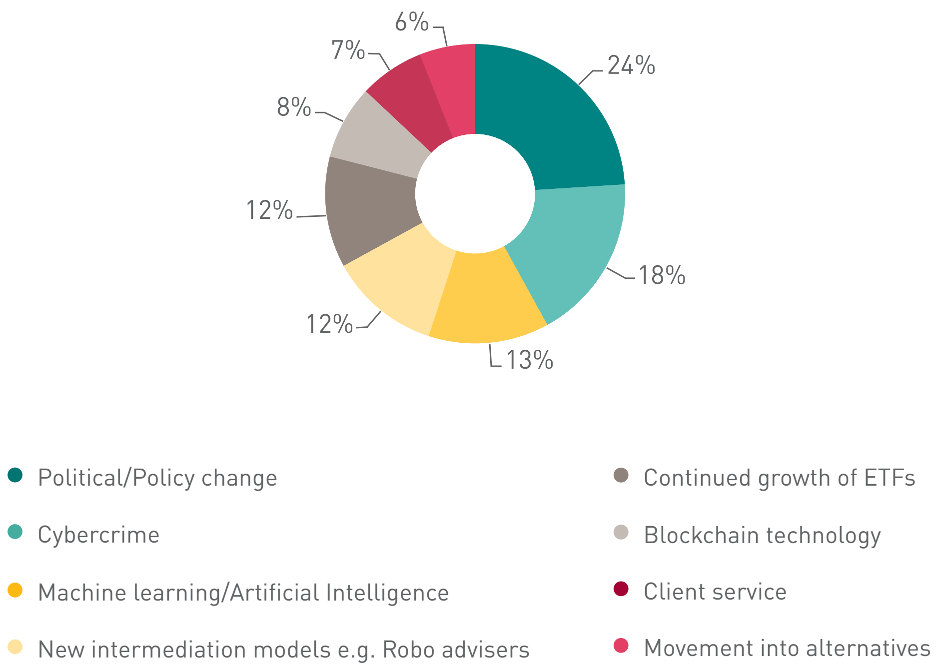


SIGNALING DISRUPTION

Looking beyond regulation, we asked respondents to consider where other threats to the industry might come from. Last year's geopolitical surprises forced revision in expectations that few predicted - the Brexit referendum and the US presidential elections. That 24% of people pointed to political and policy change also aligns with their heavy focus on adapting to regulation. This is thrown into further uncertainty by both Brexit with a beginning exodus of firms to other EU locales, and the Trump presidency with its promise to both roll back regulation and enact protectionist trade policies.

Last year's survey had 36% of respondents identifying Cybercrime as their top concern. Cybercrime is still top of mind in 2017 at 18% and is closely tied to fundamental questions about data management and security. What's interesting is that while asset managers seem to feel that they have the tools to build systems that meet regulatory change or create more efficient ways of operating that will reduce costs, cybersecurity and cybercrime pose a threat that is still elusive.

Blockchain, or distributed ledger technology, continually debated in the media, concerns only 8% of respondents, which perhaps mirrors the fact that the industry is still exploring its potential rather than being an absolute measure of its final impact. Blockchain is a must-know issue but not anticipated to significantly affect IT spending over the next 3 years.

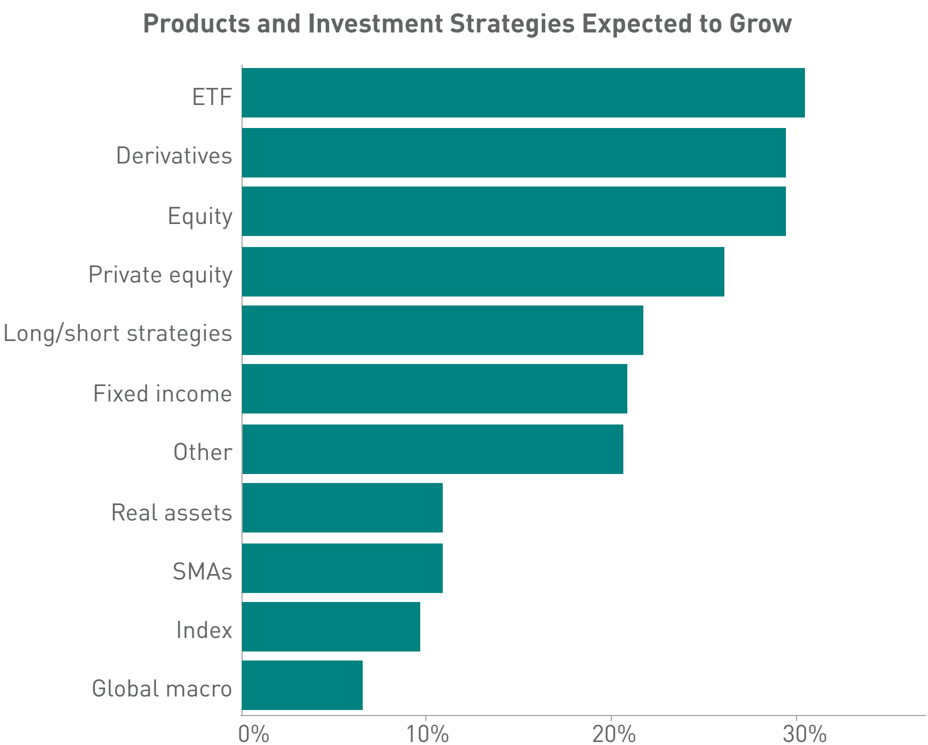


NEW PRODUCTS COMBAT LOW PERFORMANCE AND PASSIVE INROADS

We asked, 'Which products or investment strategies are you thinking of adding or anticipating major growth in over the next 12 months?' The most-voted for products were ETFs reflecting the continued huge momentum to passive.

ETFs continue to cast influence within portfolios of all types and sizes, but alongside specialized strategies as managers seek sources of alpha, and the fees that go along with it. Seventy eight percent of firms see ETF AuM today of $2.6trn growing to at least $5trn by 2020. That's twenty-three percent cumulative annual growth. (PWC)

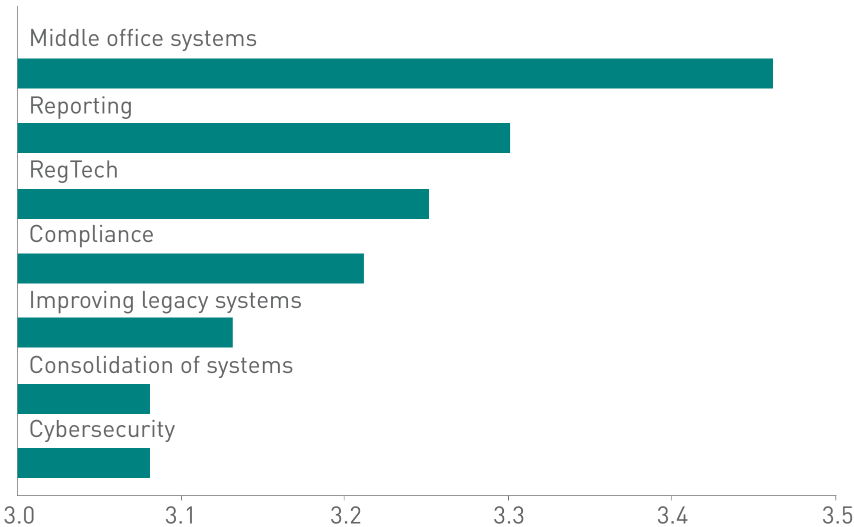
Fee competition and poor active performance has been driving managers into passive strategies for years. There could be disruption brewing for some as traditional asset managers find their businesses being upended by the 80/20 rule. Increasingly the percentage of strategies earning active fees is 20%, and not the 80% on which their business were built.



IT SPEND

Responses to the question of priority of IT spend which were ranked on a scale of 1-5 indicated that focus areas match the industry's main concerns. To improve efficiency, asset managers are retiring and consolidating systems. But what are they consolidating? While the full reason for doing so is not always clear, reducing cost seems always to be a goal. Interestingly when considering firms' top priority spend not on a ranked scale, improving legacy systems rises to number one. This has been true over the last 3 years. Compliance with future regulatory requirements is a growing priority and will continue to garner IT spend. If regulation in the US is dialled back, where will freed up IT spend be allocated? Cybersecurity is another strongly emerging concern, related to cloud and technology stack. According to Aite Group, the industry is heading toward more standardization in addressing cybercrime as big business.

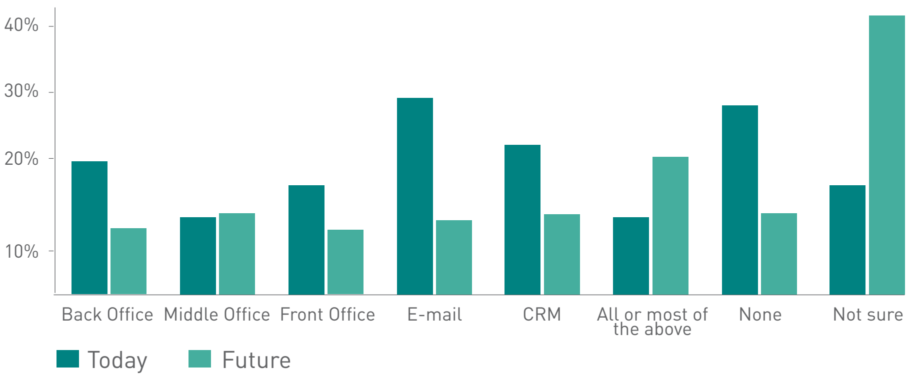
Top 7 Areas of IT Spending in the next 12 months (Scale 1-5)



CLOUD

We asked "What, if any, business processes are you currently running in the cloud/as a hosted solution today? We then followed up with the same question but focused on the future.

Processes Running as Hosted Solutions



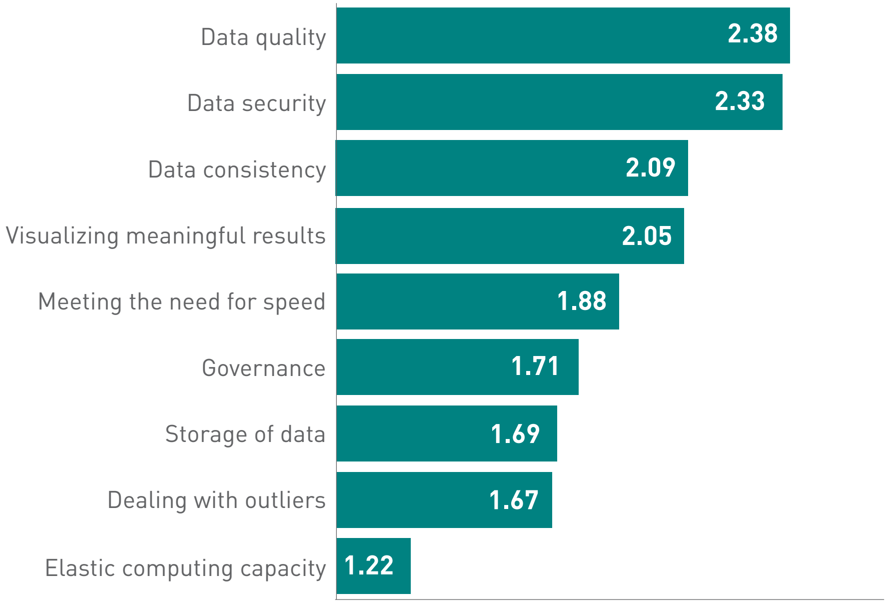
No one's asking "what is the Cloud?" these days, but there remains a lack of clarity about public versus private cloud viability for hosted solutions, among other issues. Moreover, there is no longer debate that cloud is a practical solution for many in the global asset management community, though not for a majority of core functions. This survey found respondents using the cloud: 29% for email, 22% for CRM, 20% for back office, 16% for front office, 12% for middle office and 28% none.

According to Aite Group, the buy-side has been the front-runner in moving to adopt off-the-shelf vendor solutions or managed services approaches; Hedge funds and asset managers have been particularly active in their assessment of cloud technology, with hedge funds taking the lead in implementing public cloud-based solutions.

The largest number of responses to the question of future cloud adoption was "Not Sure" which mirrors Aite's findings that many will wait for first movers to either sink or swim before they venture to implement cloud technology themselves.

ENTERPRISE DATA MANAGEMENT

Ranking of Enterprise Data Management Challenges (1-3)



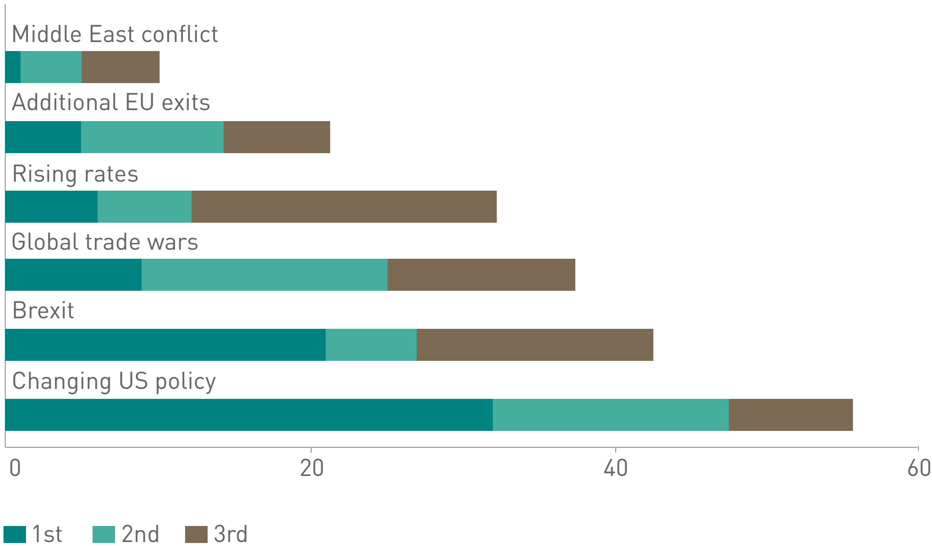
The survey asked, "What are the biggest challenges of managing data across the enterprise?" Mirroring responses in other questions, participants told us that data quality and data security are their main concerns. However, the proximity between these and the other answers, all of which garnered interested responses, indicates that what firms experience and how they address enterprise data management problems varies widely.

From every angle - regulatory, operational, performance-based, risk - firms are challenged to make sense of the data they have access to, which is often spread across multiple systems and platforms, and integrating, analyzing with third party, new data streams to help answer regulatory and growing security demands.

THE GLOBAL SCENE

With the shakeup provided by the UK's decision to leave the EU combined with the election of Donald Trump in the US, we decided it was time to include the following question: How would you rank the following potential impacts on your investment strategy over the next 12-18 month (1-6 highest)? Fully 25% of respondents identified actions by the US Administration as of most concern. This is a powerful factor when combined with the 24% who responded to the previous question that political/policy change has the greatest potential to disrupt the industry.

Geopolitical Impact



PREDICTIONS

Lastly, survey respondents were asked to make one prediction for 2017 and they are nothing if not consistent. Every year since this survey began in 2010, the most predicted outcome has been volatility. Across all regions and firm types it is a relatively safe bet, well supported by the choice of words across other answers: decline, rise, wars, up, correction, etc. Our prediction is that this trend continues.

CONCLUSION

The asset management industry is not typically known for its quick adaptation to new technologies and environments. The trends identified in this year's survey leave little doubt, however, that this is not the time to take a wait and see approach. With the combined pressures from fee compression, the drive for operational efficiency and the ongoing demand for agility in adhering to global regulatory requirements, asset managers of all sizes may do well to evaluate today how these trends, and the changing geopolitical landscape, may impact their operational plans, business models and technology looking ahead.

ABOUT LINEDATA

Linedata is a global solutions provider dedicated to the investment management and credit community, with close to 1250 employees in 20 offices across the globe. Linedata has been at the service of the financial industry from day one, and applies its market and client insight to provide innovative and flexible mission-critical software and services that help its clients grow in over 50 countries. As a pioneer for over 15 years with the set-up of SaaS infrastructure for the financial industry, Linedata remains committed to this model throughout the global financial community and for its full range of products. Headquartered in France, Linedata achieved revenues of EUR 166.8 million in 2016. This company is listed on Euronext Paris compartment B FR0004156297-LIN – Reuters LDSV.LN – Bloomberg LIN:FP.

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