



K&L GATES



2018 BOSTON INVESTMENT MANAGEMENT  
CONFERENCE – November 28, 2018

# Outlook for the Global Asset Management Industry

Michael S. Caccese, Chairman of Management Committee  
and Co-Practice Area Leader - Financial Services

# AGENDA

- Where we are
- Major challenges and opportunities
- What the future holds

## PARAMETERS OF PRESENTATION

- Focus on Buy Side firms that manage third-party assets
  - Institutional
  - Retail
  - Funds
- Views based on experience, observations, consultant reports, and K&L Gates Asset Management lawyers in Australia, Germany, Hong Kong, Milan, United Kingdom and United States
- Limited to 15 minutes

## WHERE WE ARE - OVERVIEW

- Survived the Great Financial Crisis
- Longest Bear Market in history
- Industry Managed Assets - \$80 Trillion (2002-\$27.3 Trillion)
- Industry net flows \$3.1 Trillion
- Major growth markets
  - North America – 13% - \$37.4 Trillion
  - China 22% - \$4.2 Trillion

## WHERE WE ARE – MANAGED ASSETS

- China – 4<sup>th</sup> largest asset management market
  - US – \$36 Trillion
  - UK – \$10 Trillion (11% increase since 2016)
  - Japan - \$6 Trillion
  - China - \$4.2 Trillion
- Funds
  - United States
  - France
  - Ireland
  - Luxembourg
  - United Kingdom
  - Australia

# WHERE WE ARE CATEGORIES

- **Passive is fastest growing category**
  - 25% managed assets increase in 2017
  - 20% of managed assets but produced revenues of \$17 Billion
- **Active continues to decline**
  - 33% of managed assets (57% in 2003)
  - 80% of Japan assets passive
- **Alternatives**
  - 50% of managed assets (33% in 2003)
- **Watch out – Passive – Smart Beta's coming**
  - 30% growth since 2012
  - 0.50% of total managed assets
  - 0.35% management fee versus 0.50% for active

## WHERE WE ARE NOW - PROFITS

- 2017 record profit year – profit margin of 37%
- 2017 record year of cost increases
  - 69% increase of average managed assets
  - Large inefficiencies
  - Help in downturn

# POSITIVE TRENDS

- Excess savings
  - Savings culture (China, Europe, rising Middle Class)
  - Aging population
    - Asset accumulation age
    - Retirement savings
- New participants
  - Sovereign Wealth Funds
  - Shadow banking/ restrictive banking regulations



# POSITIVE TRENDS

- Federal Reserves
  - Fueling equity markets / abundant liquidity
  - Technology
    - Research tools
    - Risk and attribution analysis
    - Trading costs

# HEAD WINDS

- Fierce Competition
  - Investment giants and specialized firms
  - Fund mergers (fund affiliates)
  - Shrinking product lines
  - Buyers' market
- Proactive Regulators
  - Dodd Frank, MiFID II, Australian Royal Commission, AIFMD, GDPR
  - Liquidity Rule, Fiduciary Rule
  - “Broken Windows”, Regulatory Enforcement, State and Federal Attorney Generals

# HEAD WINDS

- Significant barriers to entry
  - Also positive tail wind
- Distribution, Distribution, Distribution
  - Controlled by few and powerful
    - Banks
    - Wirehouses
    - Platform providers
    - Consultants
  - High Distribution Fees
    - Revenue sharing
    - Shelf space fees
    - Payed by managers not investors

## RISKS - UNKNOWN

- Brexit
- Uninformed regulators and politicians
- Competing regulations (MiFID II, 28(e) Soft Dollar)
- Trade wars

# RISKS - KNOWN

- Major Fraud / Failure
  - Madoff
  - Reserve Money Market Fund
- Less liquidity
- Unregulated shadow banking
- Less tools available by Federal Reserves to control crisis
- Lower investor confidence
- Deglobalization
  - Restricting cross border flow of capital
  - Closing markets to outsiders



# FUTURE

- Very bright
- Industry creative, resilient, adaptive
- Positive steps
  - Major acquisitions
    - Federated/Hermes
    - Standard Life/Aberdeen
    - Henderson/Janus
    - Amundi/Pioneer
- APAC Passport (Australia, Japan, New Zealand, South Korea, Thailand)
- UCITS expansion in Asia
- Increasing middle class in emerging markets

# FUTURE

- ESG – restoring investor confidence
- Opening of Chinese Fund markets
- China – London Stock Connect (end 2018)
  - European investor eligible to trade on LSC can buy listed companies on Shanghai Stock Exchange
  - Eligible PRC investors invest in LSE-listed companies
- Hong Kong – London Stock Connect (Brexit Hold)
- United States lighter regulations
- Transparency
  - Fees
  - Expenses

# TECHNOLOGY

- AI / Robo Advisers
- Mobile payment systems
- Distributors – Facebook, Google, Amazon and Others
- Block Chain
  - AML, KYC controls
  - Financial reports
  - Trading
  - TAs
- Technology as differentiator





Questions?

K&L GATES