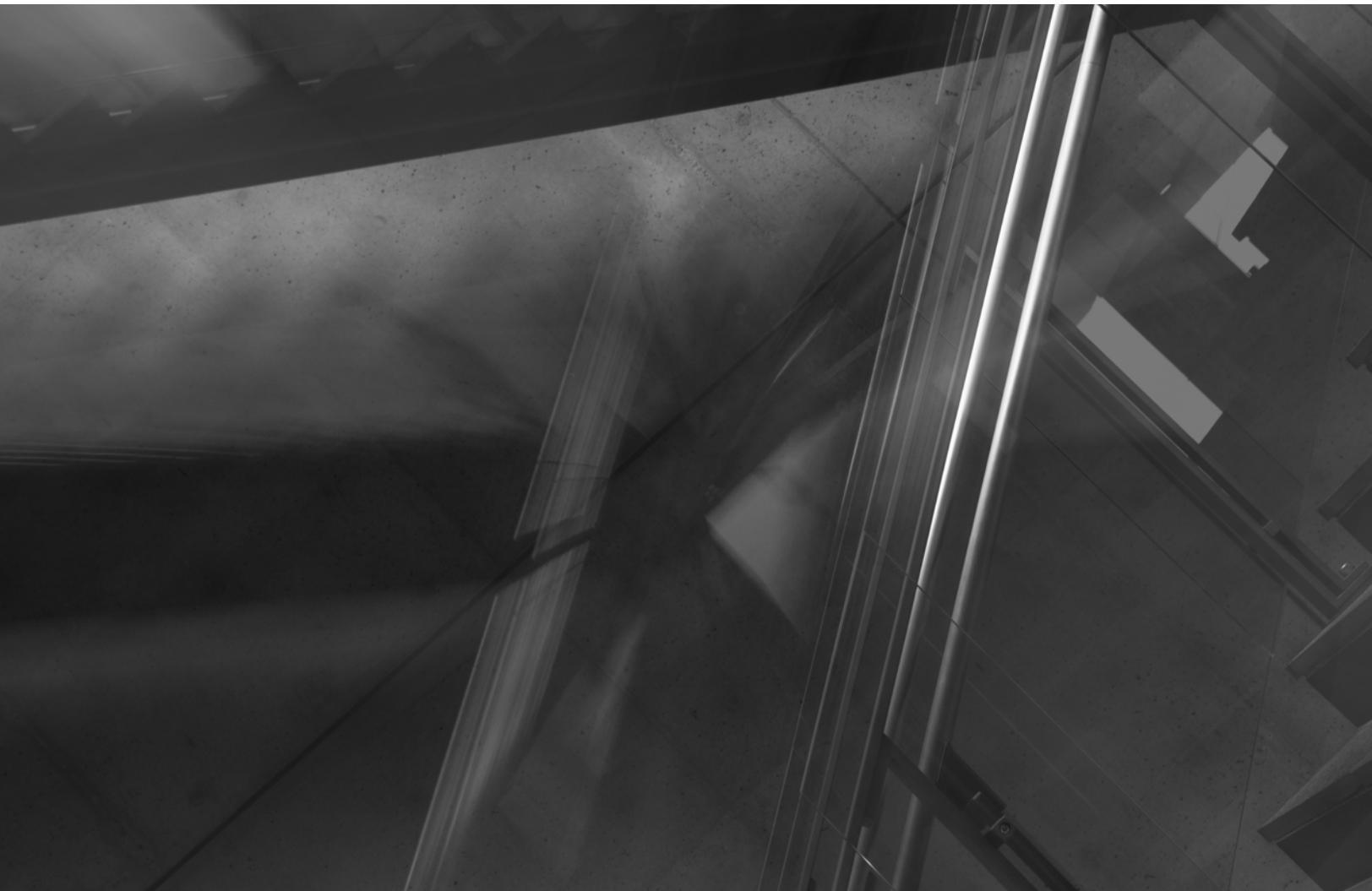


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11 ASSET MANAGEMENT TRENDS TO WATCH IN 2021



Fallout from the COVID-19 pandemic, changing product demands from investors, and a challenging global regulatory environment contributed to making 2020 a tumultuous and unprecedented year for the asset management industry.

Some of the previous year's trends will persist, including passive investments continuing to outpace active investments, alternatives and ETFs continuing to grow their market share at the expense of mutual funds, continued challenges from global regulatory authorities, and a continued focus on cost optimization.

In addition to these historical trends, 2021 will also see:

- Surge of environmental, social and governance (ESG) products
- Acceleration to next-gen ops
- Planning data strategies
- Focus on investment in digital technology
- Artificial Intelligence
- Exploration into fintech partnerships
- Re-assessment of location strategy
- Industry consolidation through mergers and acquisitions

In 2021, asset managers will not only have to make good portfolio investment decisions but also steer their businesses through considerable change.

Pay attention to the 11 trends for 2021 in order to create an opportunity to leapfrog your competition and propel your results.

1. The rise of ESG and its implication for firms

In 2020, Goldman Sachs, Vanguard, and Black Rock launched their first wave of Environmental, Social and Governance (ESG) friendly products. In the era of COVID-19, investor demand for products with ESG considerations increased significantly and that trend is likely to gain momentum as it remains at the forefront of

the industry in 2021. ESG investing, and specifically, investment considerations for climate change, is currently the biggest fundamental change in the industry.

As asset managers look to capitalize on this shift of investor values, firms will reprioritize their ESG approach, seeking to offer meaningful new products while restructuring their operations to deliver them.

2. Accelerating the transformation to next-gen ops

Middle and back office operations have historically been an expensive cost-center for asset managers, who are constantly under pressure to provide value for money to their investors. One of the largest opportunities for minimizing operational costs is making big improvements to manufacturing efficiency. Most firms are not set-up to understand how new products can be efficiently supported. Outsourced operating models can make it hard to react quickly, and technical debt in application estates can make it hard to automate.

Asset managers need to understand the root causes of work and issues, forecast and plan capacity, improve outsourced relationships, increase operational automation and efficiency, and launch new products quickly and cheaply.

3. Data strategies across investing, sales, and distribution

Data is at the core of developing a distribution and sales strategy. A comprehensive data strategy will become paramount in 2021. Most global asset managers will continue to accelerate the investment in data scientists, data analysts and technology (e.g. knowledge graphs).

4. Digital assets – redefining business models and services

Asset management firms will make material investments in technology in 2021, yielding new digital tools and capabilities within the industry. Asset managers who are most successful in developing differentiated technologies, applications, and tools that

minimize operational costs, enhance the customer experience, or improve their products will look at these digital capabilities as assets that could be sold externally, providing new business opportunities.

The packaging and external sale or licensing of these digital assets will help refine their business model and enhance their revenues.

5. Delivering the regulatory change agenda

Over the last few years global regulators have instituted an assortment of new rules impacting the asset management industry, including, but not limited to, the U.S. Securities and Exchange Commission (SEC) and Essential Services Maintenance Act (ESMA) liquidity rules, the ETF Rule-6c, Uncleared Margin Rules, the Securities Financing Transaction Regulation, and the move away from London Inter-Bank Offered Rate (LIBOR).

Regulators will continue with their pre-pandemic agendas into 2021. The European asset management industry will particularly continue to face a challenging regulatory environment as regulators look to finalize rules such as the Sustainable Finance Disclosure Regulation, the European ESG Template, and continued complications with MiFID II.

6. Artificial intelligence scales-up

The use of artificial intelligence in portfolio management, investment decision-making, and other areas may become a differentiator in 2021. As the scramble to “go digital” and apply advanced analytics and big data accelerates, firms that demonstrate their performance and cost benefits utilizing this technology will benefit from both economies of scale and growth of assets under management (AUM).

7. Product innovation: direct / custom indexing and the decline of the mutual fund

Investment allocation to passive products will continue as investors search for low fees while broadening their market exposure. The decline of the mutual fund relative to other investment vehicles will continue through 2021.

More adventurous asset managers will start making use of cryptocurrencies and other digital assets for hedging or speculative purposes. In addition to the continued growth of ETFs, the launch of ESG products, and making alternatives available to the masses, custom indexing will be explosive in 2021.

8. Leveraging partnerships and fintech

With an increased focus on technology, many asset managers continue to look externally for solutions. Developing application programming interfaces (API) technology allows firms to plug into larger ecosystems, making previously missing tools accessible, as well as allowing for the seamless exchange of data and information. Expect to see asset managers partner more closely with their administrators, custodians, and digital innovators in 2021.

9. COVID-19 shapes location strategy and cost optimization

The era of COVID-19 has brought to light a number of cost optimization opportunities across financial services. The most pronounced opportunity is around location strategy. The pandemic has taught us that working remotely may be a viable option. Exploring this option further, firms can downsize their office spaces while improving employee work/life balances and, ultimately, improving efficiency.

10. Digital client experience

As asset management products become commoditized, product performance and pricing play a less meaningful role in the investment allocation decisions. A digital client experience across the end-to-end journey, from prospecting to reporting, becomes the differentiating factor. Envisioning and designing a differentiated client experience can support the position as a “best in class” global institutional manager.

11. Merger & Acquisition (M&A) consolidation

In line with Morgan Stanley’s purchase of Eaton Vance in 2020, acquisition is top of mind for executives of asset managers and banks in 2021. JP Morgan, Goldman Sachs, and others have openly communicated they are in shopping mode for asset managers. Improved economies of scale help lead to decreased operational costs and increased margins. M&A is the most direct route to achieving this scale.

In the face of increased technology spend, downward pressure on management fees, and costly regulatory change, expect to see a massive consolidation of the industry over the next decade.

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ABOUT CAPCO

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