News Release

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With Passive Investment and Industry Consolidation Rising, 44 Percent of Asset Managers Suffered Outflows in 2015, According to 2016 Performance Intelligence Survey

NEW YORK, August 1, 2016 – Index-linked and multi-asset class (MACS) investment strategies attracted more than 90 percent of net new money worldwide last year, adding to the challenges confronting a global asset management industry. The industry historically has been dependent on traditional active funds for most of its revenue and profits. These are among the findings from the "2016 Performance Intelligence Asset Management Benchmarking Survey."

Negative returns from capital markets contributed to low growth overall, according to the 15th annual survey. Global assets under management barely rose to an estimated $69 trillion in 2015, from $68 trillion in 2014, according to Casey Quirk by Deloitte and McLagan. Additionally, industry revenue slid to an estimated $344 billion from $346 billion in 2014, with aggregate average fees declining to 50.1 basis points, or 0.501 percent, from 51.4 basis points, or 0.514 percent, in 2014. Operating margins also fell to an estimated 32 percent from 34 percent in 2014.

The global survey participants comprise members of the U.S. Institute and European Institute—forums for senior leaders at investment management firms—and the executive teams of leading asset management firms. Casey Quirk by Deloitte, the premier strategy specialist for the global asset management industry, conducted the analysis with McLagan, the leading provider of compensation consulting services and pay and performance data for the investment management industry. The firms surveyed privately held, publicly traded, and wholly or partly owned enterprises with assets under management ranging from below $5 billion to more than $1 trillion.

"Individual investors—increasingly skeptical of active management, fee-sensitive and outcome-oriented—are the drivers of industry growth," said Jeffrey Levi, Casey Quirk by Deloitte, principal, Deloitte Consulting LLP. Through 2020, individual investors are projected to generate 90 percent of all new money invested, with 10 percent from institutions, according to the survey.

Of the firms surveyed with more than $10 billion in assets under management, only 56 percent reported positive net flows in 2015, compared with 60 percent one year earlier and 63 percent in 2013. By contrast, 44 percent reported net outflows last year, against 40 percent in 2014 and 37 percent in 2013. The survey also found net flows into passive strategies globally doubled in the past two years to reach 72 percent of the total in 2015. Traditional active strategies suffered outflows in 2015 against gains in 2014. More net new money flowed to multi-asset class strategies—24 percent of the total compared with 18 percent in 2014. New investments into alternatives slowed to 8 percent of total net flows in 2015 from 10 percent in 2014.

"Many traditional active managers must adapt because their business models are outdated in a world in which individual investors and their need for advice are the revenue generators," said Levi. "Fees are under increasing scrutiny, and regulatory pressures are on the rise. This shifting marketplace will in turn drive greater convergence in the industry across wealth management, asset management, insurance and financial technology."

Asset owners' buying preferences are increasingly diverging as the industry shifts from a product to an advice-orientation. Four buyer archetypes are emerging—outcome oriented, cost conscious, those influenced by gatekeepers, or those interested in investment quality. Each has a distinct set of preferences and behaviors.

The largest group, those who favor traditional investment quality, account for roughly half of industry assets under management, but are projected to shrink in the future. The other three groups will see the majority of growth. Winning asset management firms will need to reorient their business propositions, investment capabilities and distribution organizations around one or more of these buyer segments, according to the survey.

Adam Barnett, a partner at McLagan, said, "Asset management firms need to recognize that although the battle for average talent is over, the war for top talent remains fierce, and they must intensify their focus on performance management."

"The asset management industry is now in an era of disruption and consolidation, similar to what Wall Street firms underwent in the late 1970s and 80s," said Fred R. Bleakley, director of the U.S. Institute. "Surviving asset management firms will be leaders in specialty active management, Smart Beta passive, and multi-asset class solutions," he added.

The study included more than 100 investment management firms headquartered in North America, Europe, and Asia Pacific, investing more than $20 trillion for institutions and individuals.

About U.S. and European Institutes
The U.S. Institute, founded in 2000, is an exclusive membership organization that brings together senior officials from the leading investment management firms in the United States. The U.S. Institute provides this innovative group with a unique platform to meet with peers, share ideas, and stay ahead of their competition. The European Institute, formed in 1988, is an exclusive private membership that brings together senior representatives from the investment management divisions of banks, insurance companies, and leading independent firms in Europe. For more information on the U.S. and European Institutes please visit www.iimemberships.com.

About McLagan
McLagan helps financial services companies make better decisions by applying market pay and performance information to their business problems. Clients include virtually every leading global financial services firm, including investment, commercial and retail banks, securities firms, investment management organizations, hedge funds, and insurance companies. For more information please visit www.mclagan.com.

About Casey Quirk by Deloitte
Casey Quirk by Deloitte is a leading management consultancy that focuses solely on advising asset management firms. Casey Quirk was established in 2002 and acquired by Deloitte in June 2016. The firm has advised a majority of the 50 largest asset management organizations worldwide, including eight of the top 10. Casey Quirk by Deloitte provides senior leadership teams with broad business strategy reviews, investment positioning and strategy consulting, market opportunity evaluations, organizational design, ownership and incentive structuring, and transaction due diligence. For more information please visit www.caseyquirk.com.

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