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News Release

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Unprecedented Fee Pressure and Slow Growth Will Force Many Asset Managers to Cut Costs and Adapt to Survive: Casey Quirk

NEW YORK and DARIEN, Conn., Dec. 7, 2016 — Unprecedented fee pressure and slow growth will force many asset managers worldwide to cut costs and transform their business strategies to survive, according to a new white paper from Casey Quirk, a practice of Deloitte Consulting LLP and a leading management consultant to the global asset management industry.

In "Survival of the Fittest: Defining Future Leaders in Asset Management," Casey Quirk outlines how asset managers should change to better compete in a new age. Some of the defining characteristics in the industry now are: lower capital market returns, shrinking growth in assets to manage, and widespread portfolio de-risking. Increasing government regulation of investment advice providers and disruptive technologies that circumvent traditional asset managers also pose long-term challenges.

Organic growth — new assets for managers to win — already has slowed from an average rate of 3.5 percent annually worldwide before the 2008-2009 financial crisis to 1.7 percent from 2009-2014. Growth likely will fall below 1 percent in the near future. China's asset management marketplace is an exception, and will likely grow as fast as the rest of the world combined, according to the Casey Quirk analysis.

Additionally, expected lower returns from capital markets can create dramatic pressure on asset management fees and profits. Near-zero interest rates and the end of a secular surge in growth worldwide could slice future capital markets returns in half. Asset managers and advisors will need to slash fees to maintain the same long-term ratio of fees to returns, which historically has hovered around 25 percent. Casey Quirk predicts median profit margins for asset managers will drop from 34 percent to 28 percent in five years.

"Asset managers face the strongest headwinds yet as an industry," said Ben Phillips, a principal at Casey Quirk. "Nevertheless, one-third of asset managers are still growing their market share by embracing new, differentiated strategies that reflect changing realities, as well as supporting products and services that appeal to skeptical investors."

The white paper outlines the four key characteristics that leading asset managers are developing:

- A broader investment toolkit that has transitioned from legacy benchmark-oriented products to in-demand actively managed capabilities
- A strong brand with well-regarded fiduciary and consumer attributes built on trust, investment leadership, and an ability to regularly meet investor expectations about outcomes
- A customer experience that positions the firm's value-added services for the investor
- Data about customers and markets that fuel proprietary analytics

"State-of-the-art distribution technology, investment advice that appeals to consumers, and better use of data will help successful asset managers secure their market positions," Phillips added. "Some future winners will be names the industry might not even consider now, and many of today's key players will face consolidation if they can't or won't change."

According to Casey Quirk, successful asset managers should make five bold changes to transform their businesses into powerful, efficient competitors:

- Allocate resources away from outmoded product lines and client segments experiencing outflows to new growth initiatives and buyers expanding more quickly
- Streamline operations for efficiency and ability to bring on new skills and technologies through mergers and acquisitions
- Differentiate investments with a broader array of active capabilities and strong product development processes
- Digitize distribution to reduce costs and more directly engage with customers
- Build a consumer-oriented fiduciary brand

Casey Quirk research also explores the effect of the U.S. Department of Labor's (DOL) fiduciary rule and similar legislation passed in the European Union under the Markets in Financial Instruments Directive (MiFID). Eighty-one percent of the $44 trillion in retail assets in the United States and European Union are expected to be subject to a fiduciary standard by 2018 versus only 33 percent in 2015, helping reshape the landscape of the asset management industry in the future toward retail investors.

About Casey Quirk

Casey Quirk, a practice of Deloitte Consulting LLP, 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 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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