Remarks and Discussion

U.S. Securities and Exchange Commission
Asset Management Advisory Committee

January 14, 2020

Ben Phillips, Principal, Deloitte Consulting LLP
The strongest shifts seen in 40 years are transforming U.S. asset management

Changing buyers + maturing economics = transition from product to service industry

1. **Demand**
   - Demographic changes
   - Customized, outcome-oriented advice needs
   - Consolidating intermediaries
   - Fee sensitivity
   - Lower organic growth

2. **Supply**
   - Vendor oversupply
   - New capital markets
   - Passive investing
   - Rising fixed costs
   - Margin pressure

3. **Impact**
   - Holistic advice as value proposition
   - Less registered product
   - Different pricing
   - More direct-to-consumer sales
   - More automation
   - Investor data as a core asset
   - Activism and social-impact investing
   - More public-private portfolios
**Demand overview**

Buyers are becoming younger, older, more outcome-oriented and fee-sensitive

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<table>
<thead>
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</table>
| 1 | Demographic changes | • Baby boomers shift from accumulation to income  
• Debt-heavy, risk-averse millennials favor cash flow |
| 2 | Customized, outcome-oriented advice needs | • Investor emphasis on objectives, not only excess return  
• Individuals seek advice across investment, tax, protection  
• Focus on client experience, trust, personalization |
| 3 | Consolidating intermediaries | • Fiduciary risk, tech needs favor scale advice providers  
• Exodus of advice talent spurs consolidation  
• New professional buying dynamics emerging industrywide |
| 4 | Fee sensitivity | • QE’s smaller risk-free rates highlight management fees  
• Fee budgets favor providing income rather than return |
| 5 | Lower organic growth | • Retirement funds in decumulation mode  
• Fewer new asset pools to tap for professional management  
• Without new money, asset managers must compete to grow |

Additional data: 5, 6, 7, 8, 15
# Supply overview

Tighter client opportunities are fueling more rivalry among asset managers

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<tbody>
<tr>
<td>1</td>
<td>Oversupply</td>
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<td></td>
<td>• Investment quality accrues to subset of providers</td>
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<td></td>
<td>• Only a minority of asset managers are growing organically</td>
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<td>2</td>
<td>Changing capital markets</td>
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<td></td>
<td>• Fewer publicly traded companies frustrates stockpickers</td>
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<td></td>
<td>• Private markets perceived as higher-yield in low-rate world</td>
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<tr>
<td>3</td>
<td>Passive investing</td>
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<tr>
<td></td>
<td>• Outcome-oriented advisors emphasize allocation skills</td>
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<td>• Fee pressure favors exposures, not stock selection</td>
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<td>4</td>
<td>Rising fixed costs</td>
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<tr>
<td></td>
<td>• Tech for customization, client experience boosts expenses</td>
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<tr>
<td></td>
<td>• Poor leverage across wide range of subscale business lines</td>
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<tr>
<td>5</td>
<td>Pressure on profits</td>
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<tr>
<td></td>
<td>• Lower growth, higher cost pressuring margin</td>
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<tr>
<td></td>
<td>• Widening range between winners and losers</td>
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Additional data

9,10

11

12

13

14
**Impact overview**

Combined, demand & supply catalysts are reshaping U.S. asset management

<table>
<thead>
<tr>
<th></th>
<th>Additional data</th>
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</table>
| 1 | Advice as the value proposition  
   • Asset managers extend intellectual property beyond portfolios  
   • More focus on additional tools, services, models and overlays  
   | 15 |
| 2 | Less registered product  
   • Customization demands, tax concerns disadvantage pooled funds  
   • Distributed-ledger technology aids customization initiatives  
   | 16 |
| 3 | Different pricing methods  
   • Outcome-oriented advisors emphasize allocation skills  
   • Fee pressure favors exposures, not stock selection  
   | 17 |
| 4 | More direct-to-consumer distribution  
   • Seeking more client data, access, asset managers offer advice  
   • Technology blurs lines between asset and wealth managers  
   | 18 |
| 5 | More automation  
   • Cost concerns, alternative data mechanize some investments  
   • Advice provision relies more on AI and algorithms  
   | 19 |
| 6 | Focus on data accumulation  
   • Client data plays a strategic role in shaping advice offers  
   • Increasing use of economic models trading data for advice  
   | 19 |
| 7 | More listed-unlisted investing  
   • Wider individual investor exposure to private equity  
   • Innovations around liquidity and unitization fuel usage  
   | 20 |
| 8 | Activism and social-impact investing  
   • Active investors seeking differentiation wield more voting power  
   • ESG demand from younger investors reshapes investment processes  
   | 21 |
Additional data: Demand

Demographic changes

**Wealth in the U.S. by Generational Cohort**

- **2015**
  - Baby Boomers: 33%
  - Millennials: 14%
  - Gen X: 4%
  - Boomers+: 50%

- **2030**
  - Baby Boomers: 9%
  - Millennials: 45%
  - Gen X: 16%
  - Boomers+: 4%

**U.S. Defined Contribution/IRA Assets by Generational Cohort**

- **2015**
  - Pre-Retirees: 69%
  - Retirees: 31%

- **2025E**
  - Pre-Retirees: 56%
  - Retirees: 44%

Notes: Millennials (born between 1982-2002), Generation X (1961-81), Baby Boomers (before 1960), Boomers + (before 1960, net worth > U.S.$250K); Retirees are age 65+

Sources: Deloitte Center for Financial Services, Investment Company Institute, Vanguard (“How America Saves”)
Additional data: Demand
Customized, outcome-oriented advice needs

U.S. Individual Investor Preferences

1. Outcome-Oriented Advice
   - More variable performance against benchmarks
   - 72% of financial advisors plan to increase their focus on financial outcomes
   - 73% of investors believe that achieving outcomes is the most important factor

2. Holistic Financial Services Offering
   - Fragmented advice oriented around standard products
   - 52% of advisors believe holistic financial planning is the most important outcome for investors
   - 81% of investors who prefer holistic financial advice that considers all stages of life

3. Customized Individual Advice
   - Standardized advice delivered around products
   - Advisors only spend an average of 3 hours on a customized portfolio per year
   - 43% of retail investors believe their advisors effectively protect their portfolios from losses

Current Service Model

Client Demands

72% of financial advisors plan to increase their focus on financial outcomes
52% of advisors believe holistic financial planning is the most important outcome for investors
Advisors only spend an average of 3 hours on a customized portfolio per year

Sources: Casey Quirk 2017 MMI Study, Yale School of Management International Center for Finance Stock Market Confidence Indices, Statista
**Additional data: Demand**

**Consolidating intermediaries**

### Number of U.S. Advisor Investment Decisionmakers

<table>
<thead>
<tr>
<th>Year</th>
<th>Exiting</th>
<th>Teaming</th>
<th>Outsourcing</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>170K</td>
<td>31K</td>
<td>15K</td>
<td>102K</td>
</tr>
<tr>
<td>2021</td>
<td>22K</td>
<td></td>
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</tbody>
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### Influence of New Professional Buyers

**2018 U.S. AUM**

- **Legacy Retail**: 27%
  - **Private Bank**: 11%
  - **Brokerage Home Office**: 12%
  - **Subadvisory**: 11%
  - **Customized 401(k)**: 9%
  - **Outsourced CIO**: 3%

**5 Year U.S. Net New Flows**

- 2021: 102K Outsourcing

**2019-2023E, $T**

- **Legacy Institutional**: -0.9T
- **Professional Buyers**: $3.1T
- **Outsourcing**: -$1.0T

*Source: Casey Quirk Advisor Database, Casey Quirk Global Demand Model, Cerulli*
Additional data: Demand
Fee sensitivity and lower organic growth

Change in Global Effective Fees

Global (ex-China) Industry Organic Growth
Net flows as % of AUM

Sources: Casey Quirk/McLagan Performance Intelligence, Casey Quirk research
*Consistent outperformance defined as consecutive periods of 5-year trailing positive excess returns net of fees from 2014-2018

Sources: Morningstar, eVestment, Casey Quirk analysis

Additional data: Supply
Oversupply: quality
**Number of Global Asset Managers > $20B AUM**

- 2015: 117
- 2018: 136

- **Equity**
  - 2015: 95
  - 2018: 103

- **Fixed Income**
  - 2015: 120
  - 2018: 140

**% Global Asset Managers with Positive Net Inflows**

- 2015: 60.0%
- 2018: 40.0%

**Sources:** Strategic Insight, eVestment, Casey Quirk analysis
Additional data: Supply
Changing capital markets

Number of Listed U.S. Companies

Number of U.S. Registered Investment Products in thousands

**Additional data: Supply**

**Passive investing**

**Passive Net New Inflows Worldwide**

$billions

Sources: Morningstar, eVestment
Additional data: Supply
Rising fixed costs

Year-over-Year Changes in Costs and Revenues: U.S. and European Asset Managers

Notes: C&B=compensation and benefits (variables costs). Source: Casey Quirk/McLagan Performance Intelligence
Additional data: Supply Pressure on profits

Operating Margins: U.S. and European Asset Managers

Sources: Casey Quirk/McLagan Performance Intelligence, Standard & Poor’s
**Additional data: Impact**

Holistic advice as value proposition

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**Investor Fee Budgets in % AUM**

<table>
<thead>
<tr>
<th>Year</th>
<th>Advice</th>
<th>Intermediary</th>
<th>Administrative</th>
<th>Asset Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>24% 1.65%</td>
<td>20% 28%</td>
<td>32% 28%</td>
<td>24% 23%</td>
</tr>
<tr>
<td>2015</td>
<td>1.47% 28%</td>
<td>21% 35%</td>
<td>28% 23%</td>
<td>23% 22%</td>
</tr>
<tr>
<td>2021E</td>
<td>1.35% 21%</td>
<td>35% 23%</td>
<td>23% 22%</td>
<td>22% 21%</td>
</tr>
</tbody>
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**Expected Future Fee Shifts**

- Advisors look to maintain their economics, but will be challenged due to oversupply of inefficient advisors and lower yields.
- Technology and proprietary differentiators are critical to the intermediaries’ survival.
- Distribution and marketing will be significantly compressed by efficiency gains.
- Managers will need to have a strategic response to passive and cost conscious options.

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**Notes:** Administrative fees includes transfer Agent, administrative fees, and 12(b)-1

**Sources:** Casey Quirk Advisor Database, Casey Quirk Global Demand Model, Investment News, Casey Quirk Analysis
**Additional data: Impact**

**Less registered product**

### U.S. Advisor-Sold Investment Vehicles\(^1\)

**AUM in $billions**

<table>
<thead>
<tr>
<th>Product Type</th>
<th>2014</th>
<th>2018</th>
<th>CAGR</th>
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<tbody>
<tr>
<td>Individual Securities</td>
<td>13,075</td>
<td>14,984</td>
<td>4.4%</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>35%</td>
<td>30%</td>
<td>0.1%</td>
</tr>
<tr>
<td>ETFs</td>
<td>6%</td>
<td>11%</td>
<td>15.8%</td>
</tr>
<tr>
<td>SMAs</td>
<td>7%</td>
<td>8%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Advisor-Sold DC</td>
<td>10%</td>
<td>7%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Variable Annuities</td>
<td>10%</td>
<td>7%</td>
<td>-2.1%</td>
</tr>
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\(^1\)Advisor-sold products only. Excludes alternative vehicles, insurance products, structured notes, REITs, 529 plans, commodities and other vehicles.

Sources: Morningstar, ICI, Cerulli, Ignites Research, Casey Quirk Global Demand Model, Casey Quirk Defined Contribution Model, Casey Quirk Retail Demand Model, Casey Quirk analysis
Additional data: Impact

Different pricing methods

U.S., European Asset Managers
Using Performance Fees, 2018

- No Usage: 65%
- Considering: 18%
- Implemented: 12%

Performance Fees as % of Net Revenues:
U.S. and European Asset Managers

Sources: Casey Quirk Performance Intelligence Survey, Casey Quirk 2018 Strategy Officer Study and Casey Quirk Analysis
Additional data: Impact

More direct-to-consumer distribution

**U.S. Individual Investor Preferences**
By demographic; 5 = highest preference

![Chart showing U.S. Individual Investor Preferences](chart.png)

- **Personalized Advice**
- **Digital Engagement**
- **Human Touchpoints**
- **Real-Time Research**

**Capabilities**

- **Millennials**
- **Generation X**
- **Baby Boomers**
- **Boomers +**

**Notes:** Millennials (born between 1982-2002), Generation X (1961-81), Baby Boomers (before 1960), Boomers + (before 1960, net worth > U.S.$250K)  
**Source:** Deloitte Center for Financial Services
Additional data: Impact
More automation and focus on data accumulation

Most Important Goal for Organic Growth: U.S., European Asset Managers, 2019

- Invest in technology: 69%
- Hire additional sales professionals: 54%
- Enhance marketing organization: 54%
- Refocus efforts on high growth segments: 46%
- Change incentive structures: 46%
- Retooling existing skill sets: 23%

Role of Data Analytics in Distribution: U.S., European Asset Managers, 2019

- 2018:
  - Data analytics are a primary input: 6%
  - Data analytics are a secondary input: 35%
  - Data analytics are minor input: 50%
  - Data analytics are not an input: 13%
- 2019:
  - Data analytics are a primary input: 10%
  - Data analytics are a secondary input: 29%
  - Data analytics are minor input: 38%
  - Data analytics are not an input: 13%

Source: Casey Quirk Distribution Benchmarking
Additional data: Impact
More listed-unlisted investing

Global Asset Management Revenues
2019-24E

Revenue, $B
Net New Flow, $T
Revenue Growth, $T

Private Market
- 2019: $336, 28%
- 2024: $404, 32%
- Net New Flow: $0.9T
- Revenue Growth: $75%, $404B

Solutions
- 2019: $36, 13%
- 2024: $48, 13%
- Net New Flow: $0.2T
- Revenue Growth: 19%, $13B

Hedge Funds
- 2019: $42, 12%
- 2024: $74, 11%
- Net New Flow: $2.2T
- Revenue Growth: 6%, $4B

Fixed Income
- 2019: $54, 16%
- 2024: $54, 16%
- Net New Flow: $2.0T
- Revenue Growth: 6%, $4B

Equity
- 2019: $81, 24%
- 2024: $85, 21%
- Net New Flow: $2.4T
- Revenue Growth: 7%, $48B

Passive
- 2019: $23, 7%
- 2024: $23, 7%
- Net New Flow: $0.0T
- Revenue Growth: 0%, $2B

Sources: Casey Quirk Global Demand Model
Additional data: Impact
Activism and social-impact investing

ESG Investing Progress: U.S. and European Managers
2019

Key ESG Initiatives

- Integration of ESG in investment process: 8%
- Sales / investment team articulation of ESG integration: 8% 8%
- Firm’s articulation of ESG as part of brand / value proposition: 0% 38% 23% 38%
- Brand recognition as leading ESG provider: 8% 23% 15% 54%

ESG Competitive Positioning
% of Participants, self-reported

- Market Leading: 8%
- Competitive: 46%
- Adequate: 38%
- Lagging: 8%

Sources: Casey Quirk Distribution Benchmarking
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