



Remarks and Discussion: Asset Management's Pandemic Response

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

Ben Phillips, *Principal, Deloitte Consulting LLP*

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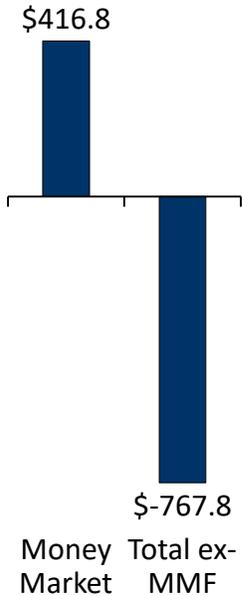
Market Environment

So far, investor behavior directionally has mirrored that seen in the last economic downturn

Flight to safety

Global Net New Flow, 1Q 2020

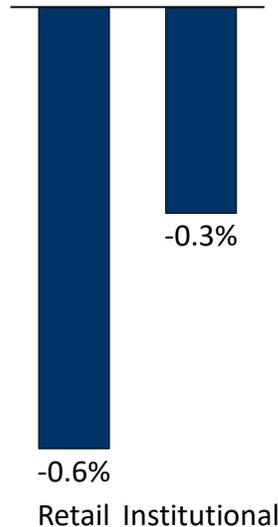
\$B, Registered Product and B/D SMAs



Retail investors led outflows

Global Net New Flow as a % of BoP AUM¹

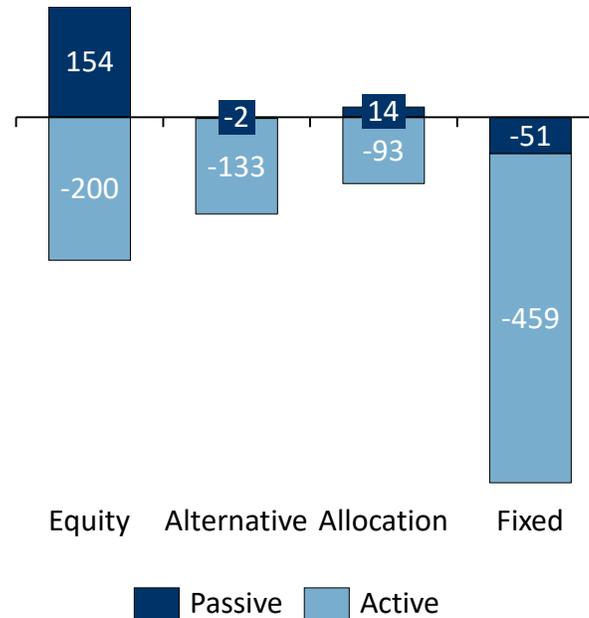
1Q2020



A shift away from active equity and credit

Global Net New Flow, 1Q 2020

\$B, Registered Product and B/D SMAs



Key differences from 2008

- Health crisis
- Faster government intervention
- Better bank capitalization and financial systems operations to date
- Different structure and depth of capital markets

Risks

- Operational stress from rapid shift in working model
- Liquidity concerns with potential for systemic issues
- Health and safety concerns for personnel

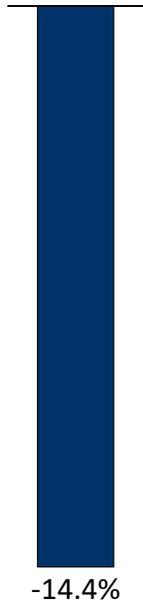
Source: Morningstar, eVestment, Casey Quirk analysis
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But asset declines are already taking their toll on investment manager financials...

Assets under pressure ...

Asset Growth

Quarterly Growth in LT AUM (YE 2019 to end-Q1), Global Industry Estimate



... already impacting manager economics

Revenue Growth

Q1 Total Revenue (vs. Q4), Diversified Public Asset Managers



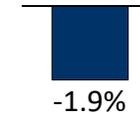
Cost Growth

Q1 Total Operating Expense (vs. Q4), Diversified Public Asset Managers



Margin Change

Q1 Margin Change Growth (vs. Q4), Diversified Public Asset Managers

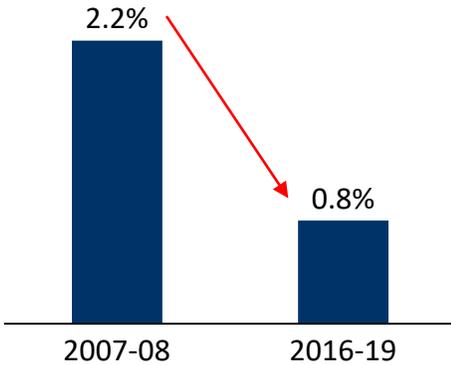


Market Environment

...and the starting point for asset managers today is substantially weaker than it was in 2007

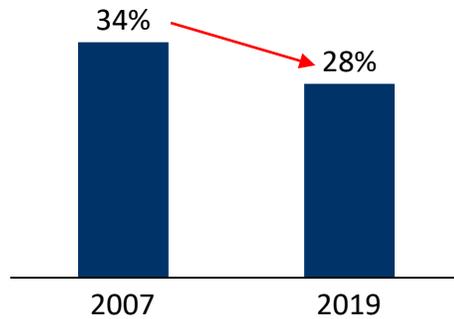
Lower Growth

Organic Growth
2007-08 vs. 2016-2019
Average over period



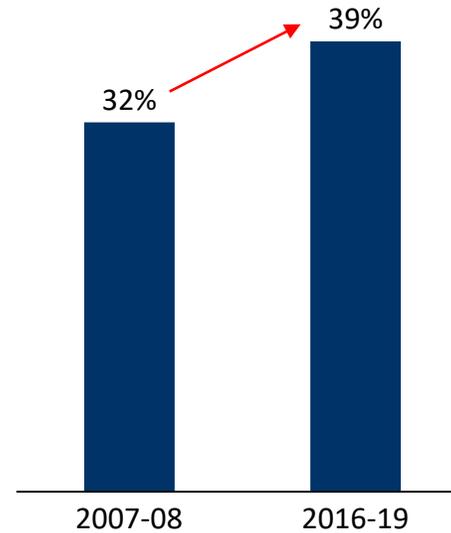
Less Profitable

Median Operating Margin
2007 vs. 2019



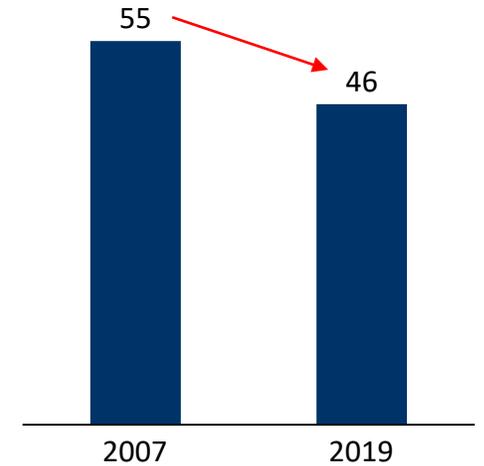
Higher Fixed Costs

Non-C&B as % of Total Cost
2007-08 vs. 2016-2019
Average over period



Lower Fee

Median Realized Fee
2007 vs. 2019, bps



Source: Casey Quirk Performance Intelligence, S&P Capital IQ, eVestment, Morningstar

Unlike the financial crisis, this health crisis also has social impacts that will influence asset managers



Digital & AI

Investment managers **ahead of the digital curve** will outperform in the recovery



Health Tracking

There will likely be a heightened need for **surveillance and risk management** as employees return to the workplace



Corporate Purpose

Businesses with strong corporate purpose are **stepping up to support response efforts** and communities thru ESG and activism



Boundaries

People are more focused on boundaries – operating across physical and geographic distances will become crucial for asset managers



Innovation

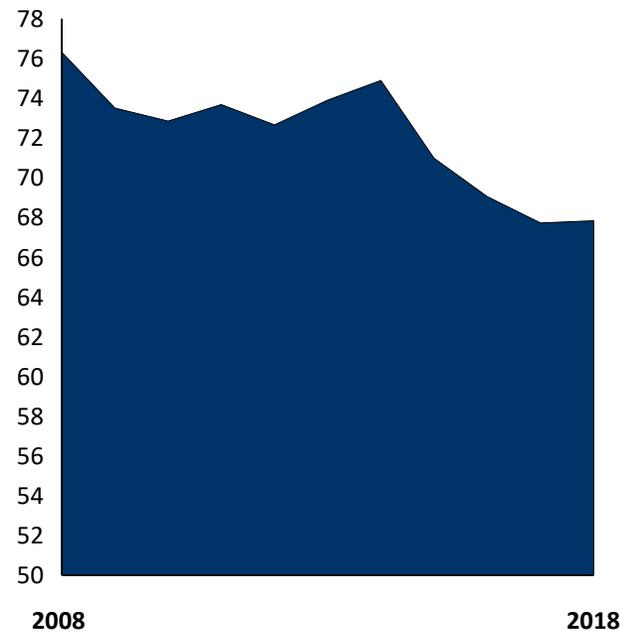
Brand and customer trust will lead the recovery of risk appetite for investors

Market Environment

A low-rate world also may continue to rearrange sources and uses of capital

Fewer firms are listing on exchanges

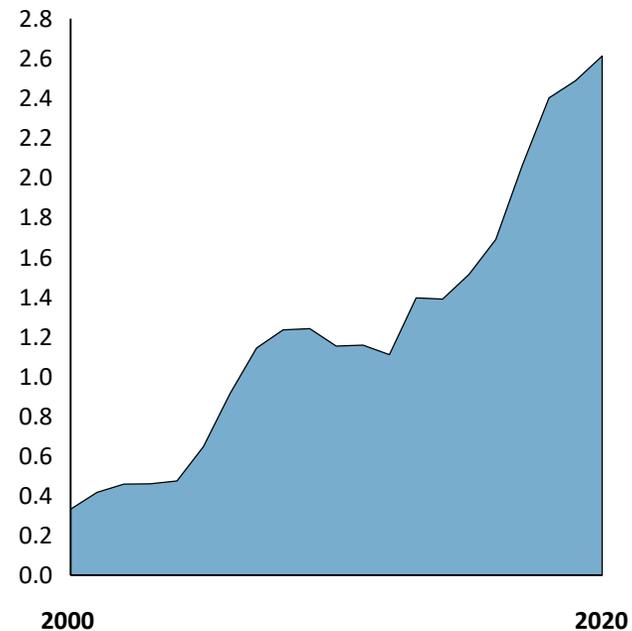
Number of Listed Companies
Developed Countries, Thousands, 2008-2018



Investors worldwide may need to examine a broader mix of assets

Dry powder is at an all-time high

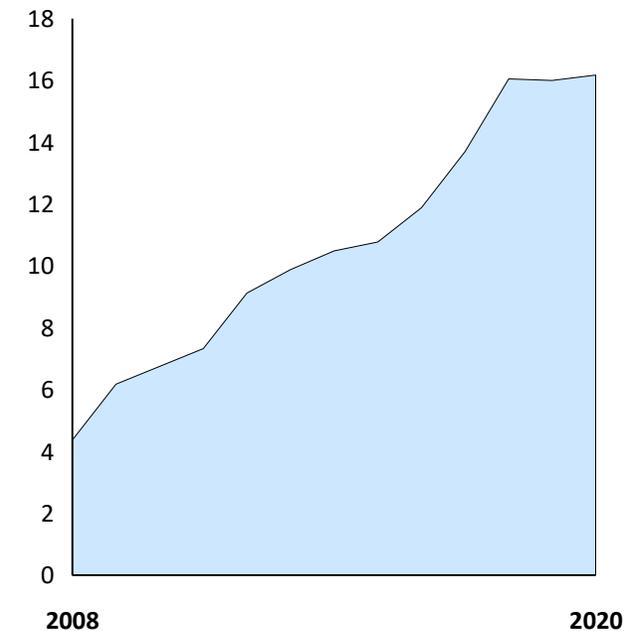
Total Available Dry Powder
\$T, 2000-2020



Private markets investors have a greater role in supplying and managing capital

Central bank assets are at historic levels

Top 5 Global Central Bank Assets¹
\$T, 2008-2020



Governments will rank among the world's largest asset managers

¹Includes: U.S. Federal Reserve, Bank of England, European Central Bank, Swiss National Bank, Bank of Japan
Source: World Bank, Thomson Reuters, World Development Indicators, Prequin, Central Bank News
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Near-Term Implications for Asset Managers

During this uncertain time, asset management firms can be sure of at least four primary principles



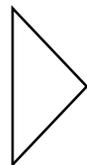
The **economic cushion** is much lower than the GFC, requiring action



Building a **flexible business** becomes a higher priority – cost optimization, focus, and investment in technology become your best friends



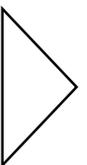
Health and safety are the priority as we attempt to 'return to normal'



Communicating a '**return to business**' plan is job #1 – HR And Operations leadership will be essential over the next year



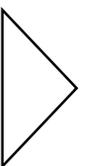
Virtual interactions will become far more the norm



Constructing a **durable virtual operation** is necessary now – sustainable WFH operations and long-term work culture protocols must be developed



Credit and liquidity risk may amplify



Investors and intermediaries will seek asset managers with strong, transparent **risk management** protocols to navigate potential defaults

The crisis will lead many asset managers to explore transformational change



Redesign Organizational Culture

As the working model is upended, reinforce and remake the culture for the next-generation



Relocate, Outsource and Automate

Firms will look to drive efficiency and cost reduction in repeatable or non-essential processes and locations



Modernize Client Engagement

Traditional distribution models, heavily reliant on in-person engagement, will adapt in a potentially protracted environment



Reactivate Active Management

Active management must adapt to different capital markets, a new focus on social outcomes, and delivering long-term value in multiple ways



Reevaluate Globalization

Rising national boundaries, travel interruptions, and different recovery rates necessitate evaluation on role and impact of global operations



Leverage M&A to Drive Value

In market stress, well capitalized firms will use M&A to access new markets, acquire new capabilities, and drive scale benefits

Long-Term Implications for Asset Managers

Asset management will play a critical role in the recovery

Risk Allocation & Capital Deployment

Asset managers remain at the intersection of risk allocation and capital deployment, both critical recovery dynamics



Return Generation in a Low-Interest Rate World

Expansionary monetary policy continues to elevate the portfolio role of risk assets



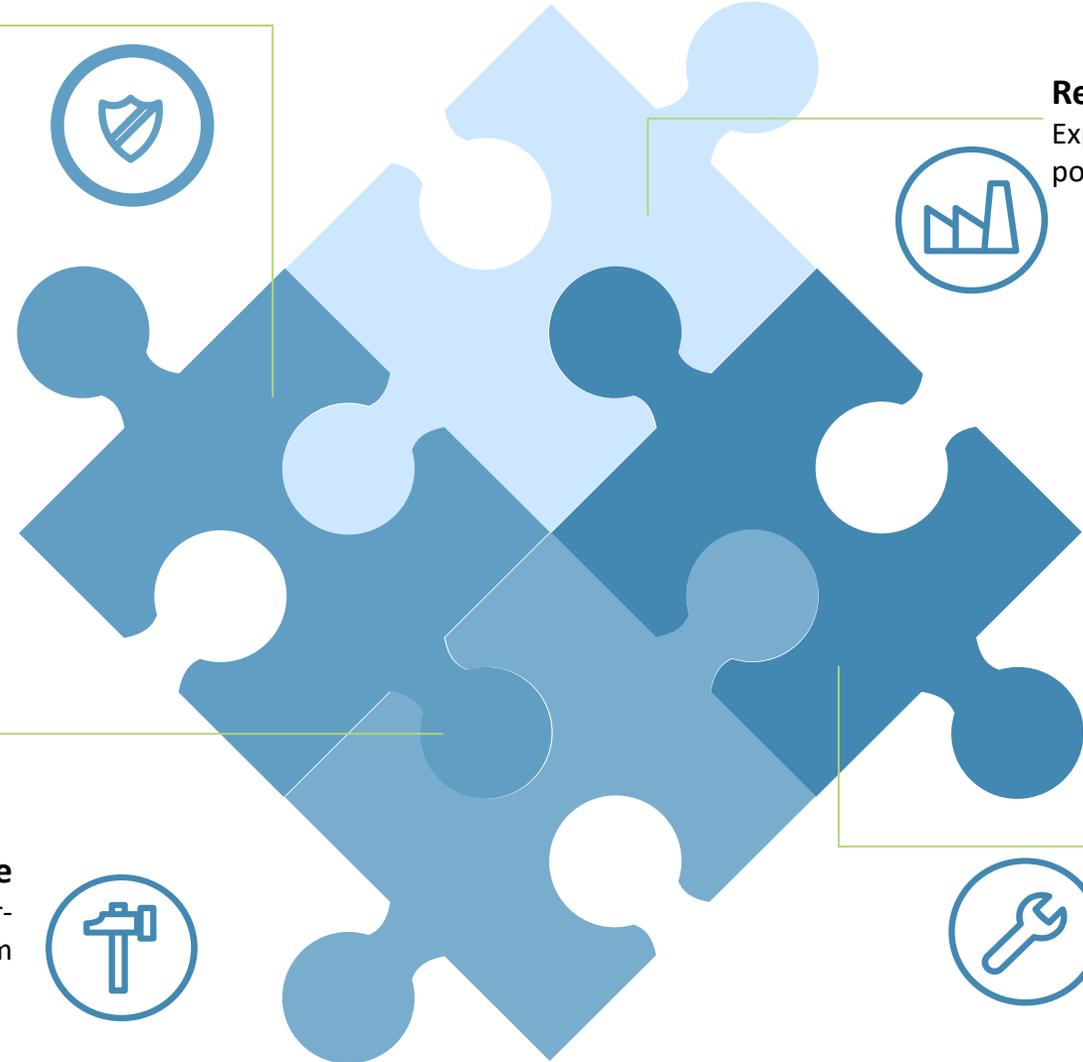
Long-Term Perspective

Asset managers remain one of the longer-perspective participants in the financial system



Portfolio Guidance to Savers

As practitioners, investment managers will deliver market-leading allocation advice providing savers with the confidence and clarity to achieve their objectives



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