Remarks and Discussion:
Asset Management’s Pandemic Response

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

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

Flight to safety

<table>
<thead>
<tr>
<th>Global Net New Flow, 1Q 2020 $B, Registered Product and B/D SMAs</th>
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<tbody>
<tr>
<td>Money Market Total ex-MMF</td>
</tr>
<tr>
<td>$416.8</td>
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Retail investors led outflows

<table>
<thead>
<tr>
<th>Global Net New Flow as a % of BoP AUM$B, Registered Product and B/D SMAs 1Q2020</th>
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</thead>
<tbody>
<tr>
<td>Retail Institutional</td>
</tr>
<tr>
<td>-0.6%</td>
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</table>

A shift away from active equity and credit

<table>
<thead>
<tr>
<th>Global Net New Flow, 1Q 2020 $B, Registered Product and B/D SMAs</th>
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<tbody>
<tr>
<td>Equity Alternative Allocation Fixed</td>
</tr>
<tr>
<td>Passive Active</td>
</tr>
<tr>
<td>154</td>
</tr>
<tr>
<td>-133</td>
</tr>
</tbody>
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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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## Market Environment

But asset declines are already taking their toll on investment manager financials...

<table>
<thead>
<tr>
<th>Assets under pressure ...</th>
<th>... already impacting manager economics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset Growth</strong>&lt;br&gt;Quarterly Growth in LT AUM (YE 2019 to end-Q1), Global Industry Estimate</td>
<td><strong>Revenue Growth</strong>&lt;br&gt;Q1 Total Revenue (vs. Q4), Diversified Public Asset Managers</td>
</tr>
<tr>
<td><strong>Cost Growth</strong>&lt;br&gt;Q1 Total Operating Expense (vs. Q4), Diversified Public Asset Managers</td>
<td><strong>Margin Change</strong>&lt;br&gt;Q1 Margin Change Growth (vs. Q4), Diversified Public Asset Managers</td>
</tr>
<tr>
<td>-14.4%</td>
<td>-6.7%</td>
</tr>
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Source: Morningstar, eVestment, Public Filings, Casey Quirk Performance Intelligence Benchmarking Study

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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
Market Environment
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

Dry powder is at an all-time high

Total Available Dry Powder
$T, 2000-2020

Central bank assets are at historic levels

Top 5 Global Central Bank Assets
$T, 2008-2020

- Investors worldwide may need to examine a broader mix of assets
- Private markets investors have a greater role in supplying and managing capital
- Governments will rank among the world’s largest asset managers

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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
Medium-Term Implications for Asset Managers

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
Return Generation in a Low-Interest Rate World

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

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.

Risk Allocation & Capital Deployment

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

Long-Term Perspective

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

Long-Term Implications for Asset Managers

Asset management will play a critical role in the recovery.