TOP TRENDS TO WATCH IN 2018

In 2018, global asset management is seeking:

1. Pockets of growth
2. Risk-adjusted returns and higher-margin products
3. Broadened distribution

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1. POCKETS OF GROWTH

- **Globally,** mutual fund industry net revenues are set to rise at a compound annual growth rate of nearly 4% over the next five years. This includes growth in key emerging markets such as Brazil and India, and continued strong business in the U.S. and Europe.
- **In the U.S.,** exchange-traded funds (ETFs) have benefited from some of the biggest themes underpinning the industry. Cerulli projects that U.S. ETF assets will reach nearly US$6 trillion by 2021. Advisors expect to increase their allocation to strategic beta ETFs over the next two years. Strategic beta will gain the strongest foothold among registered investment advisors (RIAs).
- **In U.S. institutional,** the rise of discretionary consulting, or outsourced chief investment officer (OCIO) services, is blurring the lines between managers and consultants. OCIO assets have more than doubled since 2011 and will be flirting with US$2 trillion by 2021.
- **In U.S. subadvisory,** increased product complexity and higher barriers to entry for fund distribution point to growth of outsourced mandates.
- **In U.S. managed accounts,** platform consolidation re-emerges as the top initiative for sponsors. For managers, this means even tighter shelf space and increased need to deliver model portfolios.
- **In U.S. retirement,** there are early signs of plan sponsors thawing to the concept of the defined contribution (DC) plan as a retirement income solution. Firms must take stock of how to address obstacles, including plan design, product complexity, and tradeoffs in product offerings.
- **In Europe,** total return is the main strategy that cross-border managers will be promoting, in the form of multi-asset or fixed-income vehicles.
- **In the U.K.,** pension schemes are keen to reduce their investment costs in the near term. Smaller schemes outsource investment operations, representing an opportunity for managers and other providers.
- **In Latin America,** despite recent headwinds, cross-border allocations by the private pension industries of Latin America (Chile, Mexico, Colombia, and Peru) and the Brazilian corporate and individual retirement markets should outpace growth of the sector overall.
- **In Asia,** subadvisory and product partnerships are gaining traction. Notably, these have taken two forms: global or regional firms with Asian firms, and between Asian firms. A stark difference is that global firms are far more open to white-labeling their funds than their Asian peers.
- **In Southeast Asia,** further opportunities for master-feeder arrangements are likely. About one-third of Southeast Asian fund houses plan to engage external managers on new funds over the next year. There are clear investment strategies in which they seek partnerships: global/developed market equities, emerging market equities, and thematic equities.
- **In India,** strong growth continues over the medium term due to declining interest rates in small-savings schemes, investor education initiatives, sustained flows through systematic investment plans, and efforts to reach remote cities.

2. RISK-ADJUSTED RETURNS AND HIGHER-MARGIN PRODUCTS

- **In the U.S.,** two-thirds of asset managers say they are considering launching strategic beta products in response to the growing interest in passive investments. Advisors have favored passive, cap-weighted ETFs, but they are increasingly using strategic beta as a means of mitigating downside risk.
- **In the U.S.,** those preparing for rising interest rates are considering alternative fixed-income products. Some of the most sought-after strategies include long/short credit, nontraditional unconstrained products, and multi-sector bond strategies.
- **In U.S. alternative markets,** asset managers see the most interest for their multialternative and long/short equity alternative mutual fund products.
- **In U.S. institutional,** managers and consultants advise their clients to prepare for a variety of market conditions with illiquid alternative assets such as private equity, private debt, private real estate, infrastructure, and natural resources.
- **In U.S. retirement,** asset managers closely watch product development in the DC space, as there is budding opportunity for multi-asset-class solutions, such as next-generation target-date funds.
- **In Europe institutional,** two-thirds of managers plan to focus on high-margin asset classes such as liquid alternatives and private investments. Many are interested in risk premia strategies.

- **In Europe,** the private market— private equity, private debt, infrastructure, and real estate—looks to continue its five-year rally. Solid performance and healthy inflows have resulted in nearly 30% growth since 2012.
- **In France,** Cerulli expects interest in alternatives to remain high over the next several years; managers that can gather alternatives together under one roof will be well placed to win more business.
- **In Asia,** asset managers and fund selectors identify regular income and low volatility among the most popular product features.
- **Korea** became the first country in Asia to authorize active ETFs, which bodes well for firms looking to offer these products.
- **In Taiwan,** ETFs are proliferating with numerous new products such as leveraged and inverse futures ETFs, a volatility ETF, Nifty-based ETFs, and RMB-denominated ETFs.
- **In China,** the private funds market is drawing foreign managers' attention. In May 2017, the first foreign asset manager launched a private securities fund through its wholly foreign-owned enterprise.
- **In Southeast Asia,** top-tier institutions set their sights on investments in new sectors, including overseas, for portfolio diversification. The technology sector continues to attract the interest of many large investors, particularly sovereign wealth funds.

3. BROADENED DISTRIBUTION

- **In the U.S.,** "robo-advice" platforms have found their greatest success as supplements to human advisors in a hybrid advice delivery construct. **In Europe,** robo-advice is also more an enabler than a disruptor. Most cross-border managers expect the banks to be the main beneficiaries of this trend in the U.K. and on the Continent.
- **In the U.S.,** nearly half of alternatives managers identify the retail advisor-sold channel as being the most important distribution target for their investment products; a large majority of managers is targeting the RIA channel.
- **In U.S. institutional,** insurance companies continue to look for third-party asset managers in nontraditional asset classes in order to capture sources of better risk-adjusted income.
- **In U.S. institutional,** health and hospital systems represent a greenfield opportunity due to a variety of capital pools and fewer in-house investment professionals.
- **In Europe institutional,** managers are increasingly developing specialist insurance capabilities of their own to strengthen direct sales efforts. The German and U.K. insurance markets are the most attractive to managers thanks to their high addressability rates.
- **In Latin America,** the private banking channel, despite recently losing a bit of marketshare, is hotly competitive as large locally owned banks, boutique brokerage firms, and multi-family offices are competing for these accounts. Private bank clients usually have a portion of their total portfolios offshore, sweetening the pot for firms able to capture new clients.
- **In France,** retail investors are beginning to take their long-term savings more seriously and are seeking independent advice.
- **In Asia,** as robo-advisors make efforts to gain the necessary scale, those that have won big clients and offer ease of transactions may act as enablers for the mutual fund industry in enhancing distribution reach. For the rest, the likelihood of being acquired by banks or even asset managers cannot be ruled out.
- **In China,** the distribution landscape is tilting toward institutions, with the outsourcing business driving the market. Some distributors, especially those with strong online transaction capabilities, provide tailor-made platforms and investment advisory to institutions. Chinese institutions sometimes select outsourcing managers through distributors or investment advisors, but seldom pay for consultancy.
- **In India,** as parts of the government's digitalization focus, investments through e-wallets have been approved. However, independent financial advisors need to connect to the masses and penetrate rural cities.
- **In Southeast Asia,** fund distribution channels are expanding as regulators liberalize their markets. Malaysia, for example, issued guidelines for robo-advisory companies in May 2017. Meanwhile, Thailand has expanded distribution beyond banks to department stores, post offices, and convenience stores, and Indonesia has allowed online platforms, insurers, and multi-finance companies to distribute funds.

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