Seeing beyond
Unlocking the long-term opportunities in wealth and asset management

In association with:

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## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOREWORD</td>
<td>2</td>
</tr>
<tr>
<td>ABOUT THIS RESEARCH</td>
<td>3</td>
</tr>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>7</td>
</tr>
<tr>
<td>UNDERLYING GROWTH, EXTRAORDINARY CHANGE</td>
<td>11</td>
</tr>
<tr>
<td><strong>Case Study</strong> GLENNMEDE: UNDERSTANDING NEXT-GENERATION CHALLENGES</td>
<td>16</td>
</tr>
<tr>
<td><strong>Case Study</strong> FIDELITY: BIG DATA SAYS “ONE SIZE FITS MOST”</td>
<td>17</td>
</tr>
<tr>
<td>THE RELENTLESS PURSUIT OF EFFICIENCY</td>
<td>19</td>
</tr>
<tr>
<td><strong>Case Study</strong> NEXT-GENERATION OPERATIONS TECHNOLOGY</td>
<td>22</td>
</tr>
<tr>
<td>TECHNOLOGY: WHERE CUSTOMER NEEDS MEET OPERATING EFFICIENCY</td>
<td>23</td>
</tr>
<tr>
<td><strong>Case Study</strong> MASS MUTUAL TRUST SEEKS TO OUTSOURCE ITS BACK OFFICE</td>
<td>30</td>
</tr>
<tr>
<td><strong>Case Study</strong> TIAA-CREF’S BLUEPRINT FOR TRANSFORMATIVE GROWTH</td>
<td>31</td>
</tr>
<tr>
<td>IMPROVING CHANNEL PERFORMANCE</td>
<td>33</td>
</tr>
<tr>
<td><strong>Case Study</strong> TECH-SAVVY WEALTH MANAGEMENT: PERSONAL CAPITAL</td>
<td>39</td>
</tr>
<tr>
<td>UPDATING THE PRODUCT AND SERVICE PORTFOLIO</td>
<td>41</td>
</tr>
<tr>
<td>NO TIME TO REST ON LAURELS</td>
<td>48</td>
</tr>
</tbody>
</table>
These are lucrative times for the wealth and asset management industry. Bouts of Greece- or China-driven volatility notwithstanding, the years since the downturn of 2008 have seen extraordinary growth in valuations and assets under management (AUM). Total mutual fund assets have grown from $9,603 billion year-end 2008 to $15,852 billion as of year-end 2014, according to the Investment Company Institute (ICI). Similarly, the S&P 500 closed at 903.25 on Dec. 31, 2008, and then rose to 2058 on Dec. 31, 2014.

But this is no time for complacency. Revenues may be “up” overall, but client by client and product by product, competitive pressures and increasing client sophistication are driving unit prices downward. Add to this a wide range of destabilizing forces, including shifting investor demographics, a broad array of new product and service needs, stunning advances in technology, analytics, surging expectations in terms of customer experiences, all accompanied by worldwide regulatory activism—to name just a few.

So how should the industry respond? How are firms making strategic investment decisions to align their competitive capabilities to build scale and market share? Leaders are focusing their efforts on opportunities to optimize their:

- **Cost base**—seeking not simply lower costs overall, but more to the point, closer alignment between the cost of delivering a product or service and its associated revenues

- **Technology footprint**—providing a more compelling user experience while simultaneously reducing costs and improving front-to-back-office efficiency

- **Channels**—not merely expanding their pipelines, but working hard to achieve growth and scale by placing the right products and services within the right channels at the right pricing

- **Products**—developing an optimal mix of products and services for specific clients

The following report uses both a comprehensive survey and in-depth case examples to sound the collective pulse of the wealth and asset management industries. The survey reveals that while the majority are well aware of the undercurrents and opportunities, related initiatives are well under way at only a minority of firms. Certainly, each firm must establish its own priorities. And while we cannot offer a one-size-fits-all prescription, we nonetheless submit this work to inform, inspire and support further progress.

**Bruce Rogers**, Chief Insights Officer, Forbes Insights
The insights and commentary found in this report are derived from both a survey and qualitative interviews. Forbes Insights, in conjunction with Ernst & Young (EY) and SEI, conducted a global survey of 407 senior executives from the wealth and asset management industry. Completed in July 2015, key demographics include:

**Firm type:**

- Asset manager—including mutual fund advisors (20%)
- Bank or trust (11%)
- Providers of insurance-related investment products (9%)
- Hedge fund (8%)
- Broker-dealer (7%)
- Wealth manager (6%)
- RIA (6%)
- Real estate (5%)
- Law firm (5%)
- Private equity (5%)
- Institutional investor (4%)
- Family office (3%)
- Other (11%)

**Role in the wealth and asset management industry:**

- Wealth manager (29%)
- Asset manager (21%)
- Hybrid (24%)
- Service provider (25%)

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*Firms were asked: which best describes your role in the wealth and asset management industry: asset manager, wealth manager, service provider or hybrid (some combination of the three).
Title:

- CEO or president (10%)
- Partner (5%)
- Director (23%)
- CFO (4%)
- COO (4%)
- CIO (3%)
- Vice president (26%)
- Other (25%)

Function:

- Operations (27%)
- Distribution (25%)
- Technology (20%)
- Investments (19%)
- Other (9%)

Assets under management:

- $1 trillion or more (11%)
- $250 billion to less than $1 trillion (14%)
- $100 billion to less than $250 billion (6%)
- $50 billion to less than $100 billion (9%)
- $10 billion to less than $50 billion (11%)
- $5 billion to less than $10 billion (10%)
- $1 billion to less than $5 billion (10%)
- $500 million to less than $1 billion (9%)
- $100 million to less than $500 million (19%)
INTERVIEWEES AND ACKNOWLEDGMENTS

In developing the survey instrument and the interpretation of key findings, discussions were held with 16 senior executives.

On-the-record interviewees:
• Carol Deckbar, EVP and CEO, TIAA-CREF Asset Management
• Gordon Fowler, CEO and Chief Investment Officer, Glenmede
• Mark Goines, Chief Strategy Officer, Personal Capital
• David Hanson, CEO of Fulton Financial Advisors
• Robert Moser, CEO, Laird Norton Wealth Management
• Joseph Rokowski, President and COO, Mass Mutual Trust Company
• Derek Young, President, Fidelity Investments, Global Asset Allocation; Vice Chairman, Fidelity Institutional Asset Management

Background interviewees:
• Kevin P. Barr, Executive Vice President, Head of Investment Management Unit, SEI
• Albert Chiaredonna, Senior Vice President, SEI Wealth Platform, North America Private Banking
• Ross Ellis, Vice President and Managing Director, Knowledge Partnership, Investment Manager Services, SEI
• Michael S. Farrell, Managing Director, SEI Private Wealth Management
• Marcelo Fava, Partner, Wealth and Asset Management Business Consulting Lead, Ernst & Young
• Samar Ojjeh, Partner, Wealth and Asset Management Advisory, Ernst & Young
• Gregory Smith, Partner, Wealth and Asset Management Advisory, Ernst & Young
• Wayne M. Withrow, Executive Vice President, Head of SEI Advisor Network

Special thanks goes to Lesley Keefe, Executive Director, Wealth and Asset Management Advisory, Ernst & Young, and Alfred P. West, Jr., Chairman and CEO of SEI, for their significant editorial contributions and reviews. In addition, Rob Lamb, President, Grayson Group LLC, made significant contributions to the research launch and development of the survey.

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About SEI
SEI is a leading global provider of institutional and private client wealth management solutions, including asset management, investment processing and investment operations. We help professional wealth managers, institutional investors and private investors create and manage wealth—and enable their long-term success by providing solutions that are both comprehensive and innovative. For more information, visit seic.com.

Forbes Insights, as well as the sponsors Ernst & Young and SEI, extend our thanks to quoted interviewees as well as background contributors and survey respondents.
IN SPITE OF OVERALL GROWTH, 58% AGREE AND 25% STRONGLY AGREE THAT THEY ARE FACING SIGNIFICANT COMPETITIVE PRESSURE.
EXECUTIVE SUMMARY

Though the wealth and asset management industries are in growth mode, this is no time for complacency, as participants face both headwinds and opportunities:

HEADWINDS

Competitive pressure
In spite of overall growth, 58% agree and 25% strongly agree that they are facing significant competitive pressure. While asset managers (74%) are significantly more likely to hold this belief than are wealth managers (52%), to say that half of executives hold this view indicates that the industry is experiencing considerable stress.

Fundamental change
Just under half of executives in the survey say they believe their segment is undergoing significant change, with asset managers leading this group (66%).

NOTE IN PARTICULAR:
• Nearly half say the pace of change in composition and needs of clients challenges their ability to keep up.
• 44% of executives believe the number and quality of competitors is making it increasingly difficult to differentiate or brand products and services.
• 42% of firms say the growing sophistication of clients is straining their ability to meet or exceed expectations—a figure rising to 56% among asset managers.

Key sources of competitive pressure include:
• Lower-cost traditional competitors
• New Digital competitors—another contributor to the sense of “change”
• Firms with stronger brand recognition

In responding to the above and related challenges, only one in three respondents (34%) indicate their strategies and implementation are up-to-date.

OPPORTUNITIES

Amid such challenges, companies are meanwhile taking steps to:

Optimize the cost base
56% of executives say their firms are in hot pursuit of greater operating efficiency and cost reductions.

Key steps include:
• Enhanced and refined management reporting and insightful decision-making capabilities
• Infrastructure investment to reduce operating costs and/or increase efficiency
• Negotiating with service providers
• Targeted mergers and acquisitions
• Cloud migration
• Outsourcing

Harness technology
Survey participants believe technology can help them achieve a wide array of important objectives.
• Fifty-seven percent say that client-facing technology is a priority, with the figure rising to 67% for asset managers and 69% for broker-dealers
• 81% believe technology can help them improve client experience
• 80% are using technology to expand reach to new clients and markets
• 73% believe technology can enhance products and services
Significant majorities of firms have projects under way in these and closely related areas.

In terms of specific investments in improving capabilities, the top three most frequently cited:
- Digital transaction execution (46%)
- Advice and research delivery (44%)
- Payments and settlements (44%)

Over one-third of companies are also investing in improved technologies for client service (39%) and expanded device accessibility (37%).

As for areas where respondents note that they need to make greater technology investments, the most frequently cited include:
- Real-time performance reporting for clients (40%)
- Total wealth solutions (37%)
- Account data security (36% overall but rising to 55% for broker-dealers)

Though technology plans are ambitious, firms meanwhile face an array of challenges including:
- Legacy IT platforms (such as client recordkeeping and reporting) and data footprints/strategies (44%)
- Complexity of needed integration (41%—rising to 62% of firms with over $1 trillion AUM)
- Limits on technology budgets (35%)
- Long IT development/implementation lead times for systems, applications, etc. (35%)
- Lack of in-house technology resources (29%)
- Complexities in client segmentation (27%)

**Optimize channels**

Advances in technology, greater competition, a wider array of increasingly sophisticated products mean firms have more work to do in terms of optimizing their distribution. Within this setting, some of the key channel challenges and initiatives the survey identified include:
- Optimizing customer experience by demographic (76%)
- Choosing the right data management and analytics technologies to optimize profitability by channel (74%)
- Defining the optimal pricing strategy by channel (69%)
- Gauging profit channel by channel (69%)
- Other initiatives include:
  - Assessing the arrival of the digital advisory model
  - Developing specific sales and service teams by segment according to services offered and customer willingness to pay
  - Understanding the role of brand in client investment decisions

Amid the above challenges and opportunities, the survey sheds light on a range of channel-focused actions the industry is undertaking. These include:
- Expanding product knowledge—making sure intermediaries, investors and others have the information they need—channel by channel (56%)
- Identifying—and pursuing—new channels (51%)
- Implementing digital tools (48%)
- Expanding offers in the defined contribution space (55%)

Firms are also:
- Actively rationalizing channels to achieve better alignment between costs and product/service fees (55%)
- Although still relying on existing channels, actively pursuing closer relationships with ultimate investors or end clients (61%)
- Increasing investment to improve brand recognition and standing (including traditional and digital channels—61%)
Optimize product and service offerings

Observable trends include:

- **A shift to indexed investments.** Nearly three out of five executives say demand is shifting to indexed investments. This view is particularly strong among asset managers (79%).
- **A need to offer a wide range of new products.** Just over half of survey respondents say their customers are seeking products that address newly specified investment objectives such as exceeding inflation or reaching optimum value on a specific date, or new products such as liquid alternatives.
- **Greater demand for alternative classes.** About half of survey respondents say demand is shifting from managed funds to alternative classes. At 64%, asset managers are significantly more likely than other types of executives to hold this view.

Key forces driving changes in product and service offerings include:

- Increased diversity of products and strategies (47%)
- Changing investor demographics (47%)
- Rising demand for alternative products (42%)
- Increasing sophistication of investors (42%)
- Growing influence of institutional investors (33%)
- Expanding regulatory frameworks, including demands for greater transparency (33%)

Within this context, firms are moving to update and optimize their client offerings. Steps include:

- Building volume and scale (51%)
- Rationalizing the suite of products (51%)
- Simplifying pricing (48%)
- Aligning fee structures with specific investors (47%)
- Adding outcome-oriented products (47%)

Specific revenue models vary significantly by type of firm, and pricing varies by product and service. General findings, however, include:

- The most frequently cited form of pricing is performance-based: 62% overall and 73% of asset managers.
- Specific fees for specific services is practiced at 60% of firms overall but 90% of broker-dealers and 73% of asset managers.
- Fifty-three percent of firms say they are pricing based on AUM (72% of asset managers), and 52% present clients with some form of hybrid fee (rising to 69% of asset managers and 63% of hedge funds).
- Flat fees are also widely utilized, by 50% of firms overall and 61% of asset managers.

Other key product challenges include:

- Regulatory compliance and reporting (73%)
- Driving product innovation (70%)
- Providing training and knowledge to wholesalers (64%)
- Accelerating time to market for new products (65%)

The report also offers details on the sorts of products being offered today—and those likely to be on offer within 18 months.
THE TIMES TODAY ARE GRAND—BUT FORWARD-THinking EXECUTIVES ARE ALREADY EVALUATING THE WAYS THEY CAN HArNESS TODAY’S EARNINGS TO PROPEL TOMORROW’S OPPORTUNITIES.
UNDERLYING GROWTH, EXTRAORDINARY CHANGE

The wealth and asset management industries are in growth mode. Not only are assets under management (AUM) on the rise, but, thanks to cost-saving measures and efficiency gains, even margins—which are under intensive long-term pressure—have in the short term rebounded from 2008 lows. Nonetheless, competitive pressures and demographic shifts are a fact of life. This report focuses on the product, technology, channel and related strategies firms are using to build and protect both market share and margins over the long term.

This is no time for complacency. Beneath the surface lies a range of opportunities with the potential to mildly or even significantly improve performance amid growth. Moreover, should conditions cool over the whole industry or any part of it, actions taken now can help place firms at an advantage relative to their competitors. The times today are grand—but forward-thinking executives are already evaluating the ways they can harness today’s earnings to propel tomorrow’s opportunities.

An era of change

Behind surging AUM and rising revenues, a sound majority recognizes simultaneous undercurrents of profound change, heated competition and margin pressures.

The forces of change are everywhere. Interviewees and the survey point to:

- Aging populations, rising wealth levels, a coming intergenerational wealth transfer—and related demographic shifts
- Enormous advances in information technology, reporting engines, analytics and data strategies
- Greater sophistication and therefore rising expectations of investors/clients
- Continuous evolution in product and service offerings—as well as the form and nature of providers/competitors
- Greater maturity and range of providers in outsourcing and even cloud computing markets
- A wide range of shakeups and forward-facing opportunities in the global M&A landscape
- Rising talent acquisition, development and retention challenges

—to name just a few.

For these and many related reasons, in spite of overall growth, 58% agree and 25% strongly agree that they are facing significant competitive pressure. While asset managers (74%) are significantly more likely to hold this belief than are wealth managers (52%), to say that half of executives hold this view indicates that the industry is experiencing considerable stress.

A good example of this sense of work to be done amid already strong performance comes from Carol Deckbar, EVP/CEO of TIAA-CREF Asset Management, a fast-growing arm of a parent that once exclusively focused on the retirement needs of educational professionals but is now a diversified financial services organization serving a wide range of clients. As Deckbar explains, although growth for both the parent and for its asset management business has been strong, the organization strives to continue growing. “The core [group] aspiration is to go beyond retirement to become one of the best-recognized global asset managers.”
Getting there requires achieving growth across a range of wealth and asset management disciplines. For example, the company today ranks 15th in the U.S. retail space. But one of its goals, says Deckbar, “is to become a top 10 player.” Similarly, the group is making strides to become a top 10 global player in alternatives. Today, says Deckbar, “we’re right on the fringe,” and are taking actions to reach this objective.

The situation overall, says Deckbar, is “that the opportunities are there.” However, the wealth and asset management industries are experiencing profound change. Navigating these changes and seizing related opportunities requires firms to address an array of challenges, from optimizing the cost base to installing the right front- and back-office technologies; from fine-tuning the product line and individual products and pricing to expanding and improving channel support; from solving the talent equation to evaluating the challenges and opportunities of evolving distribution and advice models. In a fast-moving global marketplace, maintaining the status quo “isn’t enough,” says Deckbar, but rather, “we have to evolve; transform.”

**Scale matters**

The larger the firm, the more likely it is that a respondent from that firm will sense competitive pressure. The figures below are the percentages of executives choosing a four or five on a five-point scale, where one indicates no competitive pressure and five equals significant competitive pressure. Of companies with AUM of $250 billion and over, two-thirds indicate that they are experiencing significant competitive pressure. Moreover, the very largest firms, those with AUM of over $1 trillion, are significantly more likely to strongly agree with this characterization (a five on the five-point scale—39% versus 25% overall).

Focusing on the split between asset managers and wealth managers, the competitive pressure story becomes more complex. Asset managers say they sense competitive pressure much more often than do others in the survey. Though this is the case for all sizes of asset managers, the surge is particularly noticeable among those with AUM from $100 billion to $250 billion (88%) and those with over $1 trillion (82%). Wealth managers as a whole score significantly lower than average. But again, assets under management and scale matter, as the figure reaches 80% for those in this group with AUM over $1 trillion.

**The case for action**

*So why are so many firms adopting a competitive posture amid a period of high growth? The key contributor is the degree of overall change taking place in society, markets, demographics, technology and related elements. As Derek Young, president, Fidelity Investments, Global Asset Allocation and vice chairman, Fidelity Institutional Asset Management, explains:*
“We are living in an era of unprecedented change: profound demographic shifts such as globalization and an aging population, digitization of the economy and wealth on the rise not only in the U.S. but around the world.”

On net, the result is significant change for the wealth and asset management industry overall. Just under half of executives in the survey (49%) say they believe their segment is undergoing significant change, with asset managers leading this group (66%).

Note that larger wealth managers, however, are far more likely to report a sense of significant change than are smaller wealth managers. A number of factors may be behind this. For example, larger firms have significant legacy infrastructure—systems, applications, client expectations, products and services, geographic footprint—than smaller, and possibly newer, entrants.

But whatever the orientation, overall, there is no one-size-fits-all solution for the industry. As David Hanson, CEO of Fulton Financial Advisers, explains, at a recent peer group exchange, “I came to the realization that this is a remarkably complex set of challenges and opportunities—and that no one is approaching any of this with the same set of needs and prioritizations.”

Some may focus most acutely on cost optimization, says Hanson, or others on the operating model, technology, M&A, outsourcing or the full array of product and service offerings and pricing. “For us,” says Hanson, “our most pressing opportunities are in talent management—improving how we attract, develop, retain and get the most from the best people.” Ultimately, says the executive: though “undoubtedly” this is a period of significant change for wealth and asset management, each company, “ours included, has to take actions that are correct for their specific set of circumstances and opportunity.”

**Underlying challenges**

It's a tribute to the industry’s forward-looking attitude that so many executives recognize that even in a period of strong market appreciation in AUM and industry growth they can still focus resources to enable market share growth. Asset values and AUM may be healthy and growing today, but executives are mindful that this is no time for complacency. In particular, executives clearly recognize that beneath the surface of today’s growth in industry AUM and top-line revenue there are numerous challenges to maintaining management fees and preserving operating margins, including:

- **Keeping up with clients: composition and needs**
  Nearly half say the pace of change in composition and needs of clients challenges their ability to keep up. This figure rises to 63% among asset managers and 57% of hedge funds, while falling to 45% with wealth managers and 41% of service providers.

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**Change Versus Size of Firm: Asset Managers Are More Consistent; Scale Matters to Wealth Managers**

<table>
<thead>
<tr>
<th></th>
<th>Overall</th>
<th>$100bn to $250bn</th>
<th>$250bn to $1tr</th>
<th>Over $1tr</th>
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<tbody>
<tr>
<td>Asset managers</td>
<td>66%</td>
<td>75%</td>
<td>64%</td>
<td>63%</td>
</tr>
<tr>
<td>Wealth managers</td>
<td>44%</td>
<td>63%</td>
<td>63%</td>
<td>60%</td>
</tr>
<tr>
<td>All types of firms</td>
<td>49%</td>
<td>60%</td>
<td>64%</td>
<td>56%</td>
</tr>
</tbody>
</table>
• *Keeping up with clients: sophistication*
Investors are becoming increasingly sophisticated, with greater access to information about products, pricing and relative performance. This is so much the case that 42% of firms say the level of sophistication of clients is straining their ability to meet or exceed expectations, a figure that rises to 56% among asset managers.

• *Standing out in the crowd*
The survey shows that 44% of executives believe the number and quality of competitors is making it increasingly difficult to differentiate or brand products and services. This figure rises to 61% among asset managers and to 49% among wealth managers.

**Forces of change**
The survey goes on to assess a range of specific forces driving competitive pressure and change. The most frequently cited overall source is lower-cost traditional competitors. These are firms already in the industry who have reached some degree of scale in distribution or manufacturing—and exploit their advantages through pricing. New digital competitors—including existing competitors resorting to digital channels—weigh in as a close second. Third on the list are firms with stronger brand recognition than that of the respondent firms. The top three most frequently cited factors are the same for asset managers and wealth managers, the only key difference being the precise order of priority.

Additional challenges include firms with more-diverse or more-specialized service offerings. The form of challenge is highly specific to each firm’s unique set of clients and prospects. Pressure also stems from a lack of scale relative to competitors, as well as the shift of traditional managers toward providing alternative investments.

**Awareness versus action:**
avoiding complacency
Recognizing the forces of competitive pressure and change is one thing. Responding to such forces is another. Strong growth can mask many such drains on performance and potential, a circumstance that more than likely explains why only a minority of firms is moving deliberately to address such challenges. Specifically, only 34% of firms indicate their strategies and implementation are current: 18% say theirs are in continuous evaluation, refinement and adjustment; 16% say theirs are fully defined and implemented. Note that the largest firms in the survey are significantly more likely to be “current” in strategy and implementation. Whereas the figure is 34% overall, it rises to 39% for firms with AUM from $250 billion to $1 trillion and to 41% for those with AUM over $1 trillion.

The remaining two-thirds of firms fall into two camps, both of whom have considerable work to do:
- *Camp A: implementation under way.*
  In the first camp, 31% say they have defined strategies to address the challenges of competition and change—but have only partially implemented these strategies.
- *Camp B: lots more to do.*
  The remaining 35% fall into three smaller groups: 15% say they have defined strategies but have not implemented any component; 12% recognize that they need strategies but have not yet defined any; 8% are wholly uncertain of their strategic position. All three groups are more than likely missing out on opportunities to improve performance, as well as exposing themselves to greater strategic risk, for example, at the hands of “first movers.”

<table>
<thead>
<tr>
<th>Fundamental Challenges</th>
<th>Total</th>
<th>AM</th>
<th>WM</th>
<th>SP</th>
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</thead>
<tbody>
<tr>
<td>The pace of change in composition and needs...</td>
<td>47%</td>
<td>63%</td>
<td>45%</td>
<td>41%</td>
</tr>
<tr>
<td>...of clients challenges our ability to keep up.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The rising number and quality of competitors...</td>
<td>44%</td>
<td>61%</td>
<td>49%</td>
<td>37%</td>
</tr>
<tr>
<td>...is making it difficult to differentiate or brand.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rising client sophistication strains...</td>
<td>42%</td>
<td>56%</td>
<td>41%</td>
<td>37%</td>
</tr>
<tr>
<td>...our ability to meet or exceed expectations.</td>
<td></td>
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### Key Sources of Competitive Pressure

<table>
<thead>
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<th>Source</th>
<th>Total</th>
<th>AM</th>
<th>WM</th>
<th>SP</th>
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</thead>
<tbody>
<tr>
<td>Lower-cost traditional competitors</td>
<td>68%</td>
<td>78%</td>
<td>63%</td>
<td>70%</td>
</tr>
<tr>
<td>New digital competitors</td>
<td>63%</td>
<td>62%</td>
<td>65%</td>
<td>66%</td>
</tr>
<tr>
<td>Firms with stronger brand recognition</td>
<td>59%</td>
<td>65%</td>
<td>62%</td>
<td>67%</td>
</tr>
<tr>
<td>Firms with more-diverse service offering</td>
<td>51%</td>
<td>52%</td>
<td>55%</td>
<td>59%</td>
</tr>
<tr>
<td>Traditional managers shifting to alternatives</td>
<td>46%</td>
<td>48%</td>
<td>44%</td>
<td>43%</td>
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<tr>
<td>Firms with more-specialized product offerings</td>
<td>44%</td>
<td>59%</td>
<td>58%</td>
<td>61%</td>
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<tr>
<td>Ability to provide transparency</td>
<td>43%</td>
<td>50%</td>
<td>38%</td>
<td>53%</td>
</tr>
<tr>
<td>Lack of scale in key products</td>
<td>41%</td>
<td>44%</td>
<td>40%</td>
<td>47%</td>
</tr>
</tbody>
</table>

Figures are the percentages of executives indicating a four or five on a five-point scale (where one equals no change and five equals significant change).

### Sources of Pressure for Asset vs. Wealth Managers Vary in Priority/Intensity

<table>
<thead>
<tr>
<th>Source</th>
<th>AM</th>
<th>WM</th>
<th>SP</th>
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</thead>
<tbody>
<tr>
<td>Lower-cost traditional competitors</td>
<td>78%</td>
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<td></td>
</tr>
<tr>
<td>New digital competitors</td>
<td>65%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firms with stronger brand recognition</td>
<td>65%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Only a Minority of Firms Have Strategies in Place

<table>
<thead>
<tr>
<th>Strategies</th>
<th>BEST</th>
<th>NEUTRAL</th>
<th>WORST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuous strategic evaluation, refinement, adjustment</td>
<td>18%</td>
<td>31%</td>
<td>15%</td>
</tr>
<tr>
<td>Strategies fully defined and implemented</td>
<td>34%</td>
<td></td>
<td>20%</td>
</tr>
<tr>
<td>Strategies defined but only partially implemented</td>
<td>16%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategies defined, have taken no steps to implement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not begun or not sure</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total and by Segment:

<table>
<thead>
<tr>
<th></th>
<th>AM</th>
<th>WM</th>
<th>SP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>18%</td>
<td>11%</td>
<td>18%</td>
</tr>
</tbody>
</table>
Glenmede is a wealth management firm with AUM of over $30 billion. Its business comprises three principal segments: families and individuals, endowments, and foundations and institutions. For families and individuals as well as endowments and foundations, the firm manages discretionary multi-asset portfolios and offers advice on the financial planning and structuring of holdings. For institutional clients, Glenmede specializes in managing single-product portfolios within U.S.-based large cap, small cap and fixed income markets.

Growth at Glenmede, says CEO Gordon Fowler, has been “tremendous.” While revenues and AUM are trending upward across most of the group’s operations, the growth of single-product portfolios “is exponential,” says Fowler. The firm’s small cap equity AUM has grown from $140 million in 2010 to just short of $2.2 billion today. As for large cap equity, the pool has grown from $370 million in 2010 to approximately $4 billion today. “We had the top-performing U.S. equity fund in 2014,” says Fowler.

**Issues to watch**

Asked about the biggest challenges going forward for Glenmede, Fowler points to two focuses: next-generation talent and next-generation investors. Both, says Fowler, “are occupying our attention.”

For the industry overall, the principal issue in the area of talent is that financial advisors that have relied on baby boomers to drive the bulk of their business are today experiencing rapid attrition. As this group retires, firms lose not only expertise, but also close ties with clients. Particularly when it comes to more-experienced executives, says Fowler, the wealth management industry is currently in a bit of a “war for talent—which for us is particularly challenging since we’re growing.”

Glenmede addresses this challenge from a range of angles. For some time, the company has been hiring and developing its people “across the generational spectrum,” says Fowler. Still, the firm has a significant number of more senior staff, many of whom have close personal ties and vast experience with private or institutional clients. Says Fowler, “We are doing more in terms of retention.” The company is also making it easier and more attractive for these executives to continue in their roles beyond what might have been their planned point of retirement. Specific actions include everything from clearer recognition of their contributions to more-flexible working conditions.

The company is also pursuing mid-career executives—those already well versed in the industry and its operations. But perhaps most important, Glenmede is looking to recruit “the best and brightest,” says Fowler, coming out of today’s business schools. From there, “we are investing in training and coaching, and we have just hired a manager of talent development.”

Glenmede is also concentrating on the needs and attitudes of Gen X and Gen Y investors. One of the most striking differences between these and previous generations of investors is their mode of interaction and communication. “The wealth business is very hands-on,” says Fowler. But younger investors “are much more comfortable with electronic engagement.”

Couple this with the enormous wealth transfer that is already taking place—from baby boomers to Gen X and Gen Y beneficiaries—and it becomes clear that “wealth firms have to learn how to better manage intergenerational planning and communication.” Consequently, the firm is investing not only in a wider array of digital and mobile tools, “but also in training on how to deal with interfamily and intergenerational issues.”
Derek Young is president, Fidelity Investments, Global Asset Allocation, and vice chairman, Fidelity Institutional Asset Management. According to Young, one of the most interesting opportunities in retail investing today “is addressing the needs of younger investors.”

Retirement versus other outcomes
Overall, wealth management is demonstrating a trend toward outcome-based investing. However, Fidelity’s data—and the firm collects and analyses enormous amounts of information—indicates the need for both “one size fits most” and personalized investing plans that emphasize more than simply having enough money for retirement.

Outcome-based investing tends to appeal to older investors, who have more wealth and are nearer to retirement. These investors “are looking for a tailored ‘can you build a plan that suits me?’” approach, says Young. Their goals extend beyond mere comfort in retirement to include funding tuitions, charitable giving and intergenerational wealth transfer. Here, Fidelity provides a variety of investment options, including diversified portfolios through managed accounts that are geared to meeting investors’ specific needs.

Younger investors, the executive is happy to report, “appear to be saving at higher rates than boomers” at comparable stages in their lives and careers. To some degree, this is likely due to the diminished presence of benefits such as formal, defined benefit retirement packages throughout the economy. But the most likely driver, says Young, is the “default setting” on most of today’s 401k plans, which is automatically shifting earnings into tax-deferred savings.

Regardless, the needs of younger investors are much more straightforward. Simple questions such as when they want to retire and how much risk they’re willing to accept generally provide solid information. Indeed, says Young, “when you start investing early, ‘one size fits most’ investment strategies can be very effective.”

Technology—scale matters
One of the keys to success for Fidelity, says Young, is keeping up with technology. The company knows that in order to appeal to retail and even institutional clients, “we need to offer a full range of tools and channels” for everything from tracking investments to customer service.

In this arena, says Young, scale creates advantage. The company’s massive size means that “anytime we build an effective solution, we usually achieve scale.” The focus today is on building technology-enabled tools that allow clients to consolidate their holdings across multiple accounts and asset classes to achieve a single view of their portfolio. It is only through such a single view, accompanied by appropriate analytical tools, says Young, “that investors can create a clearer perspective to make the right, goal-based decisions.”

Yet another aspect of technology is its ability to harness big data to achieve goals, including improvement of investment strategies and outcomes. Technology allows firms to analyze not only the effectiveness of tools and services provided to clients, but also the overall quality of the client experience.

Sharing one slice of insight recently gleaned from big data, Young says Fidelity was pleased to see that trading behavior supports the view that clients understand the ins and outs of brokerage versus tax-deferred accounts. Investors, Young explains, “are leaving their long-term strategies in place in their 401ks, but then do their short-term trading in their brokerage accounts.” This, he says, “is as it should be from a retirement savings perspective, and it leads us to believe we’re doing a good job of educating our clients in this area.”
Clients across the industry are also today far more likely to demand more and better-quality services for the same or even less money than before.
THE RELENTLESS PURSUIT OF EFFICIENCY

Opportunity: Optimize costs

In spite of rising AUM, the industry faces major headwinds. Greater sophistication of investors and a wider range of ever-hungrier competitors all contribute to the phenomenon of tougher negotiations on management and service fees. Clients across the industry are also today far more likely to demand more and better-quality services for the same or even less money than before. So while overall AUM for any given firm may be on the rise, growth in revenues will likely lag as downward pressure on product and service fees suppress top-line growth and the need to invest short term in cost-intensive technology pressures margins.

Consequently, to preserve firm-level margins and where possible even expand product-level margins, 56% of executives say their firms are in hot pursuit of greater operating efficiency and cost reductions. Though variance is slight among asset managers (58%), wealth managers (52%) and service providers (59%), the figure rises significantly among hedge funds (66%) and providers of insurance-related investment products (62%).

Differences arise, however, in the prioritization and frequency of cost reduction and efficiency efforts. Nearly two-thirds of asset managers say they are investing in management reporting and decision-making processes to help them better identify, assess and allocate costs across their operations. The figure falls to 59% of wealth managers, and more significantly, to just 36% of industry service providers.

Asset managers are also significantly more likely to make infrastructure investments to reduce costs than are these other two segments. Other steps they are undertaking include tougher negotiations with service providers and outsourcing.

A good example of the latter comes from a major services provider interviewed for the report. Growth in revenues, AUM and net income remains strong, says a key executive. Nonetheless, underlying margin pressure is evident throughout the whole of asset and wealth management.

<table>
<thead>
<tr>
<th>The Industry Is Seeking to Significantly Reduce Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
</tr>
<tr>
<td>AM</td>
</tr>
<tr>
<td>WM</td>
</tr>
<tr>
<td>SP</td>
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</tbody>
</table>
Consequently, in spite of an overall growth trajectory, the firm, like other service providers, often encounters resistance when introducing new or even modestly higher fees for various services. For example, “These days, when we say, ‘We have to begin charging X fee for Y service,’” says the executive, “increasingly the client will think about it for a few days, then come back with the answer, ‘In that case, you may stop providing Y service.’” So even as growth is evident throughout the industry, many of the firm’s customers remain price sensitive. “It’s their clients applying the pressure, and it trickles down,” says the executive, “telling us we have to be that much more efficient ourselves.”

Another area deserving of additional discussion is cloud migration, which 43% of firms overall and 50% of asset managers are considering. The cloud promises lower fixed costs and greater scalability. However, system security remains a key concern. Until the industry is convinced that providers are delivering state-of-the-art security, such forays will for the most part take the form of pilots or relatively limited rollouts of low-risk data and applications.

### Achieving alignment

There is a vast difference between cost-cutting across the board and cost optimization. One of the key areas of focus for the industry is allocating costs for specific products, services and clients. Understanding and defining product profitability based on appropriate and effective cost-allocation methodologies, followed by cost optimization, is paramount. However, understanding the complexities of cost—as they apply to specific and often unique products, services and customers—requires a holistic view of governance and the business.

The most successful firms are investing the time and resources necessary to achieve a more accurate understanding of the root drivers behind total manufacturing and distribution costs for all products—as well as the costs to service specific clients or client segments using such products. When evaluating existing or launching new products or services, firms must better understand and align product costs with product revenues and profitability by client or client segment. Only then are they in a position to decide where to make strategic infrastructure investments.

### What steps are you taking?

<table>
<thead>
<tr>
<th>What steps are you taking?</th>
<th>Total</th>
<th>AM</th>
<th>WM</th>
<th>SP</th>
<th>Hybrid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investing in management reporting and decision making</td>
<td>52%</td>
<td>65%</td>
<td>59%</td>
<td>36%</td>
<td>48%</td>
</tr>
<tr>
<td>Infrastructure investing to reduce operating costs</td>
<td>50%</td>
<td>64%</td>
<td>58%</td>
<td>37%</td>
<td>43%</td>
</tr>
<tr>
<td>Negotiating with service providers</td>
<td>50%</td>
<td>52%</td>
<td>56%</td>
<td>46%</td>
<td>44%</td>
</tr>
<tr>
<td>M&amp;A (acquire, partner or be acquired)</td>
<td>43%</td>
<td>63%</td>
<td>44%</td>
<td>36%</td>
<td>32%</td>
</tr>
<tr>
<td>Cloud migration (to optimize costs)</td>
<td>43%</td>
<td>50%</td>
<td>44%</td>
<td>39%</td>
<td>37%</td>
</tr>
<tr>
<td>Outsourcing non-core functions</td>
<td>38%</td>
<td>51%</td>
<td>42%</td>
<td>33%</td>
<td>28%</td>
</tr>
<tr>
<td>Near- or off-shoring</td>
<td>37%</td>
<td>57%</td>
<td>34%</td>
<td>33%</td>
<td>37%</td>
</tr>
</tbody>
</table>

*65% real estate. *70% real estate; 66% hedge funds; 59% broker-dealer. *60% hedge funds. *54% hedge fund; 52% broker-dealer.
For many firms, cost optimization is a strategic exercise. Firms that have grown over time—through M&A, for example—may not have devoted enough attention to defining and optimizing their baseline operating model. Consequently, they may have many functions that are inefficient if not redundant. In too many instances, firms may have three, four or five groups performing the similar activities and sharing the same clients but using different platforms. The approach being taken by leading firms: align people, process, technology and controls in a manner that drives efficiency, speed to market and enhanced client experience, then measure these aspects at a product or client segment level.

Questions to ask include:

- Does your operating model align with and enable your business strategy?
- Are the major components of your operating model, such as product development, designed in the most effective manner for responding to changes in your industry or strategy?
- Are you making infrastructure investment decisions based on KPIs that accurately measure quality, scale, growth, client experience?

The bottom line is that companies need to map their current operating model to determine where to look for the greatest gains in aligning infrastructure and capabilities with their business strategy. Instead of strict cost-cutting, firms should take a strategic approach, identifying the most attractive opportunities and managing the migration in a thoughtful, sequenced manner.
Wealth and asset management on the whole “is enjoying strong growth,” says a key executive at a major service provider. Nonetheless, “fee pressure is global—even on the passive side.”

Invariably, management fee pressure trickles down to custody and administration. Couple this with key changes in fee models throughout the industry. In the past, service providers such as custodians did not always charge direct fees and instead made their living based on earnings from spreads, float and similar activities. Today, however, “clients want complete transparency in servicing fees.” The trouble here, says the executive, is that clients balk when asked to pay a specific fee “for services that were once ‘free.’”

Technology to the rescue
Fee pressure “is not going away anytime soon,” says the executive. As a result, many service providers are investing in technology infrastructure to enable scale.

According to the executive, legacy trading and administration platforms are relatively mission specific. That is, firms tend to run systems tailored to specific segments such as hedge funds, PE or perhaps fixed-income or equity portfolios. As a result, larger firms with a wide range of offerings—and even many mid-size or smaller firms—may manage two, three, four or many more disparate platforms.

“That’s very inefficient,” says the spokesperson. “So what we’re doing is building systems that, from the ground up, are instrument based.” That is, instead of looking at an investment strategy and working backward, the firm’s systems start with the most basic elements of investing—valuation, settlement, special characteristics such as dividends, stock splits or call provisions—and customize reporting and accounting by instrument. The goal is enabling the scale required by all the large asset servicers as the investment management firms increasingly look to outsourcing middle- and back-office infrastructure as their long-term solution.
TECHNOLOGY: WHERE CUSTOMER NEEDS MEET OPERATING EFFICIENCY

Opportunity: Harness technology

Three key trends are driving the pursuit of improved technology:

1. Leading firms are hard at work optimizing their business models and operating platforms from a cost perspective. A technology architecture that delivers decision support and client data to the right places at the right times, in this instance, can be a powerful enabler.

2. Amid incessant competition and increasingly knowledgeable and demanding clients, firms are looking for ways that data management and analytics technology can help create new products and services, attract new business, earn greater loyalty and in general, build competitive advantage. This includes greater demand for online and mobile access, anywhere and anytime.

3. With advancements in everything from processing power and communications to data collection, storage and analysis, technology can do more than ever before. Companies, accordingly, are updating their data strategies, reporting engines and related enablers and infrastructures.
Combined, these trends help explain why even in a period of strong growth, technology is a critical priority for so many firms.

**Hampered by legacy**

Optimized performance requires a keen understanding of technology, or firms risk being hobbled by legacy infrastructure and falling behind. As TIAA-CREF Asset Management’s Deckbar explains, “It’s safe to say we’re in a new age of technology—what you could do 24 months ago is, today, already antiquated in some respects.” Meanwhile, “there’s already a lot of catching up to do,” in terms of re-investment. “Immediately following the financial crisis, a lot of companies may not have been making investments to stay ahead of the curve at the pace they needed to.”

The question becomes, how far and how fast are firms moving to upgrade and evolve their operating models, adopting new, more-effective technologies? The reality may be not fast enough. For example, for many if not most firms in the wealth management industry, the last tech surge they experienced was the preparation for Y2K. Consequently, many of the systems out there today “are creaking,” explains one background interviewee, when compared to what today’s technologies can achieve.

**ASSET MANAGER (AM)**

<table>
<thead>
<tr>
<th><strong>What are your digital goals?</strong></th>
<th><strong>Project under way?</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve client experience</td>
<td>81%</td>
</tr>
<tr>
<td>Expand reach to new clients and markets</td>
<td>84%</td>
</tr>
<tr>
<td>Enhance products and services</td>
<td>80%</td>
</tr>
<tr>
<td>Enhance employee productivity</td>
<td>77%</td>
</tr>
<tr>
<td>Improve internal communication</td>
<td>79%</td>
</tr>
<tr>
<td>Ensure cross-channel consistency</td>
<td>81%</td>
</tr>
<tr>
<td>Automate business processes</td>
<td>65%</td>
</tr>
</tbody>
</table>
Moreover, younger baby boomer, Gen X and Gen Y clients crave technology—in both their working and investing lives. So while some aspects of the wealth and asset management industry may resist the advance of technology, eventually all elements will need to pick up the pace.

Robert Moser, CEO of Laird Norton Wealth Management, says that technology is rapidly changing the face of his industry, in particular the nature of interaction between client and advisor. As Moser explains, “It’s safe to say that many of our baby boomer clients want to be serviced very differently than our clients who are posting on Facebook and Twitter and who send their documents through emails and texts.”

This is not to say technology is poised to replace the human element. New entrants such as “robo-advisers,” says Moser, “are still very limited in terms of capabilities.” So while new, tech-based tools “are pushing us to be even better at what we do,” in the end, “our clients will always need very personalized, professional, sophisticated and customized service.”

Meanwhile, a tremendous shift is taking place in the wealth management arena toward outcome-based products and services. Instead of focusing solely on return, wealth management offerings increasingly address specific goals such as having enough money...
to retire, put a child through college, buy a second home or endow a charity. Such an approach places an enormous strain on legacy systems, and many in the industry are recognizing that they need to find a way to sell and service these new forms of investing.

Another driver of technology investment is the fact that many institutions are narrowing the number of firms with which they have dealings. A range of factors drives such reductions. One is a desire to streamline operations—and certainly the more counterparties a firm has to deal with, the more interfaces required. But in addition, firms are also coping with increasingly rigorous due diligence and regulatory processes that add costs with each additional relationship.

Consequently, many asset managers, especially those focused on a single product or asset classes, need to expand the range of products they offer to become more relevant and valuable to larger clients who are seeking to pare relationships. Recognize, however, that moving from acute specialization to greater diversification means that specialized technology platforms have to evolve to support a vast range of investment characteristics, such as corporate actions, paydowns, dividends and calls. So the shift from specialist to broader-based provider can be complex.
What digital capabilities for clients will you be offering or upgrading?

<table>
<thead>
<tr>
<th>Service</th>
<th>Total</th>
<th>AM</th>
<th>WM</th>
<th>SP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction execution</td>
<td>46%</td>
<td>53%</td>
<td>39%</td>
<td>48%</td>
</tr>
<tr>
<td>Advice and research delivery</td>
<td>44%</td>
<td>47%</td>
<td>48%</td>
<td>26%</td>
</tr>
<tr>
<td>Payments and settlements</td>
<td>44%</td>
<td>50%</td>
<td>39%</td>
<td>35%</td>
</tr>
<tr>
<td>Client service</td>
<td>39%</td>
<td>28%</td>
<td>36%</td>
<td>46%</td>
</tr>
<tr>
<td>Device accessibility&lt;sup&gt;a&lt;/sup&gt;</td>
<td>37%</td>
<td>33%</td>
<td>30%</td>
<td>35%</td>
</tr>
<tr>
<td>Advanced analytics—in-house</td>
<td>31%</td>
<td>33%</td>
<td>33%</td>
<td>28%</td>
</tr>
<tr>
<td>Greater access to advisors</td>
<td>28%</td>
<td>28%</td>
<td>32%</td>
<td>22%</td>
</tr>
<tr>
<td>Compliance processes&lt;sup&gt;b&lt;/sup&gt;</td>
<td>26%</td>
<td>24%</td>
<td>20%</td>
<td>35%</td>
</tr>
<tr>
<td>Third-party analytics</td>
<td>20%</td>
<td>22%</td>
<td>25%</td>
<td>17%</td>
</tr>
</tbody>
</table>

<sup>a</sup> 50% $50 billion to $100 billion.  <sup>b</sup> 39% hedge fund.

Where do you need to make additional client-focused digital investments?

<table>
<thead>
<tr>
<th>Service</th>
<th>Total</th>
<th>AM</th>
<th>WM</th>
<th>SP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real-time performance reporting for clients</td>
<td>40%</td>
<td>36%</td>
<td>42%</td>
<td>37%</td>
</tr>
<tr>
<td>Total wealth solutions</td>
<td>37%</td>
<td>31%</td>
<td>42%</td>
<td>35%</td>
</tr>
<tr>
<td>Client data security&lt;sup&gt;a&lt;/sup&gt;</td>
<td>36%</td>
<td>24%</td>
<td>38%</td>
<td>46%</td>
</tr>
<tr>
<td>Advanced analytics</td>
<td>33%</td>
<td>26%</td>
<td>38%</td>
<td>24%</td>
</tr>
<tr>
<td>Product knowledge</td>
<td>27%</td>
<td>26%</td>
<td>23%</td>
<td>43%</td>
</tr>
<tr>
<td>Progress toward investor goals</td>
<td>24%</td>
<td>22%</td>
<td>32%</td>
<td>20%</td>
</tr>
<tr>
<td>Portfolio accounting and analytics</td>
<td>24%</td>
<td>19%</td>
<td>26%</td>
<td>22%</td>
</tr>
<tr>
<td>Access to client data</td>
<td>23%</td>
<td>21%</td>
<td>23%</td>
<td>26%</td>
</tr>
<tr>
<td>Regulatory and compliance</td>
<td>21%</td>
<td>17%</td>
<td>19%</td>
<td>20%</td>
</tr>
</tbody>
</table>

<sup>a</sup> Broker-dealer 55%.
Where are the technology investments?

Survey participants believe investment operations and client-facing technology that provides for a total wealth view and interactive investment tools can help them achieve a wide array of important objectives. A key technology goal is improving the overall client experience. Fifty-seven percent say that client-facing technology is a priority, with the figure rising to 67% for asset managers and 69% for broker-dealers.

Meanwhile, with little variance by type of firm, executives say they believe technology can help them improve client experience (81%), expand reach to new clients and markets (80%), and enhance products and services (73%). Not surprisingly, this is also the order in which firms report having specific projects under way.

Other key technology objectives include enhancing employee productivity, improving internal communications and ensuring cross-channel consistency.

Drilling even more deeply into specific customer-facing technology investments, the survey shows that the top three most frequently cited capabilities include digital transaction execution (46%), advice and research delivery, and payments and settlements (both at 44%). Over one-third of companies are also investing in improved technologies for client service (39%) and expanded device accessibility (37%).

As for areas where respondents note that they need to make greater technology investments, the most frequently cited include real-time performance (40%), total wealth solutions (37%—again highlighting an increased focus on outcome-based investing) and account data security (36% overall but rising to 55% for broker-dealers).

Asked specifically about the breakdown between online and mobile tools as well as client-facing versus internal operations-facing technology investment, the most frequently cited investments are in client-facing online services. While on average, this is the priority—with significant investments—at 79% of firms, the figure rises to 85% of wealth managers while falling to 67% of asset managers.

Next, with significantly less variance by firm type, are investments in client-facing online advisory services (73%). Investments in internal-facing operations-oriented tools come next, and again, a significant variance by firm type arises: at 66% overall, the figure climbs to 78% for asset managers while falling to 55% for wealth managers.

Technology challenges and enablers

Though plans are ambitious, firms meanwhile face an array of challenges. Foremost of these are the existence of legacy IT platforms (e.g., client record-keeping and reporting—44%), the complexity of needed...
integration (41%—rising to 62% of firms with over $1 trillion AUM) and limits on technology budgets (35%).

Other challenges include long lead times for IT solutions (35%), lack of in-house technology resources (29%) and complexities in client segmentation (27%).

In terms of addressing such technology challenges, beyond simply getting to the tasks at hand, companies are also taking advantage of various enablers. Many decide to hire third-party solutions developers—an option that 61% overall and 69% of asset managers are likely choosing.

Half of firms say they are also likely to migrate more of their technology platforms to the cloud, a figure rising to 83% among hedge funds and 65% for broker-dealers. (Note that earlier, 43% mentioned cloud migration as a likely means of cost optimization.) And 46% of firms will pursue outright outsourcing of more of the IT function, rising to 61% among hedge funds and providers of insurance-related investment products and 60% among asset managers. Finally, 40% of firms say they are likely to acquire another firm or assets—or go through a merger themselves—to gain access to needed skills and technology.

### What are the key challenges in implementing your technology strategy?

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Total</th>
<th>AM</th>
<th>WM</th>
<th>SP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legacy IT</td>
<td>44%</td>
<td>38%</td>
<td>36%</td>
<td>33%</td>
</tr>
<tr>
<td>Complexity of integration</td>
<td>41%</td>
<td>48%</td>
<td>30%</td>
<td>39%</td>
</tr>
<tr>
<td>Technology budget</td>
<td>35%</td>
<td>40%</td>
<td>29%</td>
<td>37%</td>
</tr>
<tr>
<td>Long lead times</td>
<td>35%</td>
<td>36%</td>
<td>29%</td>
<td>41%</td>
</tr>
<tr>
<td>Lack of in-house technology skills</td>
<td>29%</td>
<td>33%</td>
<td>25%</td>
<td>35%</td>
</tr>
<tr>
<td>Complexity of client segmentation</td>
<td>27%</td>
<td>34%</td>
<td>29%</td>
<td>22%</td>
</tr>
<tr>
<td>Limitations of intermediaries and service providers</td>
<td>18%</td>
<td>10%</td>
<td>29%</td>
<td>17%</td>
</tr>
<tr>
<td>No firm-wide tech strategy</td>
<td>17%</td>
<td>16%</td>
<td>17%</td>
<td>22%</td>
</tr>
<tr>
<td>Limitations of vendor-developed apps</td>
<td>15%</td>
<td>3%</td>
<td>19%</td>
<td>20%</td>
</tr>
</tbody>
</table>

*78% providers of insurance-related investment products. *56% hedge funds. *Firms with AUM over $1 trillion: 62%.

### How likely are you to...?

<table>
<thead>
<tr>
<th>Action</th>
<th>Total</th>
<th>AM</th>
<th>WM</th>
<th>SP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use a third-party solution developer</td>
<td>61%</td>
<td>69%</td>
<td>60%</td>
<td>54%</td>
</tr>
<tr>
<td>Migrate to cloud*</td>
<td>51%</td>
<td>58%</td>
<td>53%</td>
<td>44%</td>
</tr>
<tr>
<td>Outsource IT</td>
<td>46%</td>
<td>60%</td>
<td>44%</td>
<td>39%</td>
</tr>
<tr>
<td>Acquire or merge to gain skills and tech</td>
<td>40%</td>
<td>50%</td>
<td>42%</td>
<td>41%</td>
</tr>
</tbody>
</table>

*77% providers of insurance-related investment products. *83% hedge funds. *65% broker-dealer. *61% hedge funds. *61% providers of insurance-related investment products. *55% hedge funds.

*Note: although the differences in findings are statistically insignificant, an earlier question relates to cloud as a means of reducing costs as opposed to general implementation.
As far as challenges go, says Joseph Rokowski, president and chief operating officer of Mass Mutual Trust Company (MMTC), “high growth is a great challenge to have.” In the past five years, the private wealth management-focused division of Mass Mutual Financial Group has grown in AUM from $39 million to over $400 million. Growth is so strong, says Rokowski, that “if we had the service team and infrastructure in place to run things at the level of quality and service that our clients deserve, we would triple the sales force.”

As for other wealth managers, the primary challenge MMTC is facing, says Rokowski, is talent. The group already has an excellent sales channel—the parent’s captive sales force with over 5,000 agents. But for now, MMTC is focused on recruitment and development, managing growth in its client and AUM base to keep pace with its staffing. Says Rokowski, “We will not grow front-end sales for our business unless we are certain of our ability to maintain the highest quality of service and expertise.”

One area where the firm is looking for outside help is in building up its operational backbone. Specifically, Rokowski is looking to outsource the lion’s share of its back-office processes, including accounting, back-office support, client statements and reporting. As a relatively new startup, says Rokowski, MMTC is not burdened with massive legacy architecture. The promise of an outsourced model is greater flexibility and scalability, as well as ongoing access to the latest and most effective advances in technologies. Consequently, he says, “we are looking for a provider with the right cultural fit and the right long-term vision: we want someone who will work as hard for us as we do for our clients.”
Nearly a century ago, TIAA-CREF began life focusing on the retirement needs of educators. But according to Carol Deckbar, EVP/CEO of TIAA-CREF Asset Management, “we’ve realized that if we want to remain relevant for the next 100 years, we need to retool, pivot and transform.”

Key steps
So the company today is seeking to build on its core strengths, which include retirement, comprehensive wealth solutions for individuals and asset management.

In terms of retirement planning and comprehensive wealth solutions, the firm has always “focused on getting people to and through retirement,” says Deckbar. However, the firm now is embracing ideas such as outcome-based investing, “to help clients take care of more of their broader life needs.” Deckbar says this broader, outcome-focused approach applies equally to individuals as well as to broader pension plans, endowments and similar investment pools.

A related goal is expanding distribution channels and platforms for its products. “Distribution is king,” says Deckbar. Nonetheless, “it’s becoming increasingly difficult to get products onto the right distribution platforms. Branding is more challenging; so is the ability to differentiate yourself.”

The 2014 acquisition of investment manager Nuveen not only adds scale in mutual funds, closed-end funds and separate accounts, but also provides deeper access to the intermediary channel for the firm’s products and services. But by no means is the firm done in terms of channel expansion and optimization. For example, says Deckbar, the company is very focused on global markets and is hard at work building a portfolio of products and services with global appeal. She also said the firm continues to actively evaluate M&A and related partnerships to expand worldwide.

Industry headwinds
Though TIAA-CREF continues on its growth trajectory, Deckbar recognizes the need to stay focused on the fundamentals. In particular, she notices three key challenges, including:

• Pressure on pricing
According to Deckbar, anyone looking out over the past 20 years knows that margin pressure is here to stay. Moreover, this is evident “in both alpha and beta products.” Certainly, such pressure can be largely offset “when equity markets are flying,” says Deckbar, but in general, pressure is ongoing and everywhere. It may be most prevalent in traditional equity and fixed income markets, and even in the index space; it’s less evident in alternatives but still a factor, especially among the largest and most sophisticated institutional investors. But across the industry, says Deckbar, “the trend toward lower fees is relentless.”

• Costlier distribution
Margins are being squeezed not only from the top but also from the bottom. Certainly, says Deckbar, TIAA-CREF and similar firms are pursuing scale and harnessing technology to achieve greater operating efficiency. But at the same time, end-investors and intermediaries are demanding more and more services. Currently, says Deckbar, “client demands are leading to higher costs” faster than technology and process optimization “are able to improve efficiency.” The net result, says Deckbar, “is lower margins” for those firms not operating at scale or in a strong enough financial position to make the needed investments.

Consequently, TIAA-CREF’s asset management business focuses acutely on pricing and continuous improvement in operations. As Deckbar explains, “you have to keep an eye on costs” as well as understand “what it costs to deliver specific services to specific segments.”

Continued on page 32
A war for talent
In all of its disciplines, TIAA-CREF faces considerable competition in retention and recruitment of a top-flight workforce. Consequently, the group maintains sophisticated programs designed to engage employees, providing targeted training, flexible work arrangements and a wide range of career development opportunities. In addition, says Deckbar, “we pay close attention to succession planning across the organization.” Overall, “in this climate,” says Deckbar, a company cannot afford to overlook its workforce.

Opportunities in alternatives
A key area of focus for TIAA-CREF Asset Management is building scale in alternatives. TIAA-CREF “has always been very active” in alternatives on behalf of its large-scale portfolios, says Deckbar. But now, “alternatives are moving more down market,” providing a key tool for diversification “as well as alpha” for return-focused investment clients.

Traditionally, the group’s efforts focused on illiquid alternatives such as timber, agriculture and other long-term, steady-yield investments. But increasingly, “we are doing more with liquid alternatives—like commodities or long/short equities—focusing on innovation and working to bring these investments more into the mainstream.” Adds Deckbar, “Whether they are seeking alpha or beta, we are working to provide our clients with a wide range of alternative tools.”

Much of the focus on alternatives today is among large institutional investors, including sovereign wealth funds. But according to Deckbar, even endowments, foundations, high net worth portfolios and pension funds are increasing their alternative allocations. “Seven percent to 10% of portfolios used to be a fairly standard allocation,” says Deckbar. However, “in many cases we’re seeing this increase to 20% or 25%,” particularly among investors pursuing high growth.

Maintaining momentum in alternatives to build scale and efficiency requires global investment. “Alternatives are a global game,” says Deckbar. “We’re now working in 40 countries and have offices in 14.” In short, the firm is growing—in skills, capacity and global reach—into a leading alternatives player.

An eye on technology
Another key focus area is technology. “The industry is shifting, rapidly, from B2B to B2C,” says Deckbar. End-customers “want more tools in more places,” she explains. Meanwhile, “we have to make sure we are providing tools to our intermediaries to help them do business with their clients.”

Asset managers, “ourselves included,” says Deckbar, “have a long way to go.” However, her group is taking steps to bring more transactional and informational tools to the web and mobile environments. Often, the enhancement is something as simple as redesigning a process. “Can we offer more real-time information? Can we simplify the steps needed to make changes? Can we offer more tools around asset allocation?”

Similarly, the firm’s asset management business is looking at the rise of robo-advisory and related automated wealth and asset management trends—and formulating its response. Technology is a game changer, says Deckbar. So the company is investing both in back-office systems “to bring our costs in closer alignment with revenues” and front-office tools “for clients.” Though “there’s a lot of work to be done,” in this area, “we’re committed to the journey.”
IMPROVING CHANNEL PERFORMANCE

Opportunity: Optimize channels

In yet another principal source of both risk and opportunity, the wealth and asset management industry is striving to better optimize its distribution channels. As financial services firms adopt the innovative customer experience and user-centric mobile technology pervasive in retail commerce and social media, there are more means of connecting with clients and prospects than ever before. At the same time, this leads not only to better-informed clients but also to more competition as barriers to entry diminish. Having more competitors in turn means any one firm has less ability to dictate pricing. Add a proliferation of investment products, plus the need to coordinate sales and service platforms across multiple client access points, and the realization takes hold: channel management deserves significant attention.

Within this setting, some of the key channel challenges and initiatives the survey identified include:

- **Optimizing customer experience by demographic.** Different clients have different needs. Moreover, different clients represent varying value to any wealth and asset management industry provider. Consequently, about three out of four firms, with only limited variance by firm type, find matching the right experience to each core demographic segment significantly challenging.

- **Choosing the right data management and analytic technologies to optimize profitability by channel.** Just shy of three-quarters of executives (74%), again with little variance by firm type, find a challenge in selecting which technologies to apply to each specific channel.

- **Defining the optimal pricing strategy by channel.** Sixty-nine percent of executives are struggling to optimize pricing customer by customer, segment by segment and channel by channel.
AS FINANCIAL SERVICES FIRMS ADOPT THE INNOVATIVE CUSTOMER EXPERIENCE AND USER-CENTRIC MOBILE TECHNOLOGY PERVERSIVE IN RETAIL COMMERCE AND SOCIAL MEDIA, THERE ARE MORE MEANS OF CONNECTING WITH CLIENTS AND PROSPECTS THAN EVER BEFORE.
• **Gauging profit channel by channel.** Perhaps the key lever to optimizing channel management is understanding profitability by channel. In order to gauge profitability, a firm must also understand by channel and by demographic which products and services a technology can deliver and at what price. Consequently, 69% of executives say gauging the costs and net flows associated with each product, advisor, client segment or investor represents a key challenge. The figure rises to 80% for asset managers, many of whom are just beginning to apply greater rigor to distinguishing profitability based on products, customers and channels.

• **Other initiatives.** By no means do the hurdles—and therefore the opportunities—end there. Sixty-eight percent of survey respondents say they are working to assess the arrival of the digital advisory model. Note that this is statistically an equal concern for asset managers, wealth managers and service providers alike. Executives are also hard at work developing specific sales and service teams by segment according to services offered and customer willingness to pay—66% overall but rising to 75% for asset managers. Yet another key challenge is understanding the role of brand in client investment decisions, in particular how it varies by client segment.

**More channel initiatives**

Amid the above challenges and opportunities, the survey sheds light on a range of channel-focused actions the industry is undertaking. These include:

• **Expanding product knowledge by channel.** One of the most visible of these actions, evident at 56% of firms, consists of initiatives designed to improve the product knowledge within each channel. For intermediary channels, asset managers are focusing resources to ensure that dealers or other representatives understand products and their applications well, and that end-users are receiving up-to-date information. In direct channels, firms are doing more to inform end investors directly. Note that the figure rises to 79% among broker-dealers (indicating this is a relatively more frequently mentioned consideration in their segment).

• **Identifying—and pursuing—new channels.** About half of firms are actively seeking new channels to reach customers—a figure that climbs to 65% for providers of insurance-related investment products and 62% for broker-dealers. As the rest of the report indicates, this might include everything from new online or mobile channels to expanding the stable of distributors and partnerships. In a closely related trend, 43% are differentiating service

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### Channel Challenges and Opportunities

<table>
<thead>
<tr>
<th>Channel Challenge</th>
<th>Total</th>
<th>AM</th>
<th>WM</th>
<th>SP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimizing customer experience by demographic</td>
<td>76%</td>
<td>80%</td>
<td>80%</td>
<td>73%</td>
</tr>
<tr>
<td>Choosing the right technologies by channel</td>
<td>74%</td>
<td>76%</td>
<td>80%</td>
<td>56%</td>
</tr>
<tr>
<td>Gauging profit (costs and fees by channel)</td>
<td>69%</td>
<td>80%</td>
<td>69%</td>
<td>54%</td>
</tr>
<tr>
<td>Designing the optimal pricing strategy</td>
<td>69%</td>
<td>73%</td>
<td>69%</td>
<td>54%</td>
</tr>
<tr>
<td>Assessing digital advisor threats and opportunities</td>
<td>68%</td>
<td>71%</td>
<td>68%</td>
<td>67%</td>
</tr>
<tr>
<td>Optimizing sales and services segment profitability</td>
<td>66%</td>
<td>75%</td>
<td>66%</td>
<td>57%</td>
</tr>
<tr>
<td>Customizing service models by client or segment</td>
<td>66%</td>
<td>67%</td>
<td>69%</td>
<td>59%</td>
</tr>
<tr>
<td>Aligning offerings to shifting demographics</td>
<td>65%</td>
<td>71%</td>
<td>66%</td>
<td>57%</td>
</tr>
<tr>
<td>Understanding the role of brand in investment decisions</td>
<td>58%</td>
<td>62%</td>
<td>62%</td>
<td>53%</td>
</tr>
</tbody>
</table>
models to align with individual RIAs (to target unique investing styles), and 42% are exploring the digital advisory model (57% among hedge funds).

- **Implementing digital tools.** Roughly half of firms are actively using digital channels to offer more outcome-based or “total wealth” products and services. The figure climbs to 59% for broker-dealers.

Almost surprisingly, the figure is significantly higher for asset managers (62%) than wealth managers (54%). A possible explanation is that asset managers are actively building such capabilities to, in turn, share with intermediaries who may not have the resources or scale to develop such tools on their own. Such tools in the hands of asset managers may also be explained by their investments in digital advisory models.

- **Expanding offers in the defined contribution space.** Firms are also designing products and services for delivery within corporate 401k plans and related defined contribution programs.

Worth highlighting at this point is the degree to which the wealth and asset management industry perceives growth in the defined contribution channel as a significant growth opportunity. Here, 50% of firms—69% of asset managers (48% of wealth managers)—say they are taking specific steps to reach this channel, either directly or through vehicles such as white-label products. But be warned that of those pursuing this route, 92% say regulatory issues are a significant concern.

### Other initiatives

In the broadest terms, key actions include:

- Actively rationalizing channels—moving to achieve better optimization and alignment between costs and fees (55%)
- Although still relying on existing channels, actively pursuing closer relationships with ultimate investors or end clients (61%)
- Increasing investment to improve brand recognition and standing (including traditional and digital channels—61%)

### What time frame?

Though the channel agenda is ambitious, a minority of firms, 14%, are moving ahead on an aggressive schedule. The majority, 59% (71% of wealth managers), are moving ahead on a self-described moderate basis, while 28% expect merely steady progress. As for time frames, 16% believe they will achieve their principal channel objectives within six months, 43% in the next year, and 30% within the next two years. Only 11% say they have already achieved their channel ambitions.
### Channel Initiatives

<table>
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<tr>
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<tr>
<td>Actively rationalizing channels to achieve closer alignment between costs and fees</td>
<td>55%</td>
<td>64%</td>
<td>60%</td>
<td>47%</td>
</tr>
<tr>
<td>Actively seeking to get closer to end clients</td>
<td>61%</td>
<td>64%</td>
<td>63%</td>
<td>54%</td>
</tr>
<tr>
<td>Investing to improve brand value and recognition</td>
<td>61%</td>
<td>71%</td>
<td>67%</td>
<td>60%</td>
</tr>
</tbody>
</table>

*a69% broker-dealer.  b70% AUM $250 billion to $1 trillion.  c53% AUM over $1 trillion.

### Accomplishing Channel Goals

<table>
<thead>
<tr>
<th>Character</th>
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<th>AM</th>
<th>WM</th>
<th>SP</th>
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<tr>
<td>Aggressive</td>
<td>Within six months</td>
<td>14%</td>
<td>13%</td>
<td>9%</td>
<td>16%</td>
</tr>
<tr>
<td>Moderate</td>
<td>Next year</td>
<td>59%</td>
<td>45%</td>
<td>71%</td>
<td>64%</td>
</tr>
<tr>
<td></td>
<td>Next two years</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Steady</td>
<td>Already</td>
<td>27%</td>
<td>42%</td>
<td>20%</td>
<td>20%</td>
</tr>
</tbody>
</table>
WHERE ARE WEALTH AND ASSET MANAGEMENT FIRMS HIRING EXTERNAL RESOURCES?

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Total</th>
<th>AM</th>
<th>WM</th>
<th>SP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tech strategy and system implementation</td>
<td>41%</td>
<td>50%</td>
<td>39%</td>
<td>32%</td>
</tr>
<tr>
<td>Data management</td>
<td>35%</td>
<td>36%</td>
<td>32%</td>
<td>39%</td>
</tr>
<tr>
<td>Outsourcing</td>
<td>31%</td>
<td>43%</td>
<td>23%</td>
<td>32%</td>
</tr>
<tr>
<td>Investment operations and operating model strategies</td>
<td>20%</td>
<td>42%</td>
<td>18%</td>
<td>11%</td>
</tr>
<tr>
<td>Regulatory compliance</td>
<td>20%</td>
<td>15%</td>
<td>18%</td>
<td>21%</td>
</tr>
<tr>
<td>Distribution and channel strategies</td>
<td>18%</td>
<td>27%</td>
<td>20%</td>
<td>14%</td>
</tr>
<tr>
<td>Client engagement and experience</td>
<td>17%</td>
<td>13%</td>
<td>23%</td>
<td>12%</td>
</tr>
</tbody>
</table>

*46% providers of insurance-related investment products.
Technology is enabling a range of new tools and challenges to business as usual. Personal Capital, a wealth management firm whose core offerings include free online software, is taking first-mover advantage.

Mark Goines, a serial entrepreneur and chief strategy officer of Personal Capital, says the business model is simple, compelling and very much what the industry needs. “For the average customer worried about their financial life, the first step is getting organized.” Whatever their goals, says Goines, “they need to be able to view their financial holdings in one place, so they can see what they have and develop a plan to move forward.”

The average Personal Capital client maintains 15 financial accounts housed across five or six primary relationships. These include brokerage and 401k accounts, the latter often derived from multiple employers. Tools on the website assist users to migrate their accounts to Personal Capital. Once the funds are there, clients can analyze their holdings, see their consolidated allocations, assess their net worth and gauge performance against specified goals.

In addition, based on a range of criteria, the site crunches the investment and goal specific data to formulate personalized portfolio and investment recommendations. While some might call such recommendations “robo-advisory,” Goines says that characterization misses the point. “The recommendations may be data driven, but they are based on human insights and experience.”

Even so, Goines recognizes that data-driven investment advice can only go so far. Once an investor reaches the $100,000 threshold, “then we introduce them to an investment advisor,” says Goines.

Is it disruptive?
A key element of the firm’s analytics is the ability to isolate fees within portfolios, making such costs more transparent. Says Goines, “Most small investors are shocked when they learn how much they’re paying in fees” and when they see how much such costs reduce performance over time. As more and more retail investors come to this realization, says Goines, “this will have a strong tendency to pressure asset and wealth managers to reduce their fees.”

Today the company has 860,000 users tracking over $160 billion in financial resources. Another 5,500 clients are using Personal Capital’s RIA-based services. Growth, says Goines, is exponential: “This is a very powerful set of tools and services for a very fair price. We may be relatively small today, but this is just the start.”
KEY TRENDS SUCH AS THE RISE OF OUTCOME-ORIENTED INVESTING OR INTEREST IN LIQUID ALTERNATIVES ARE LEADING COMPANIES TO DEVELOP NEW PRODUCTS AND CAPABILITIES.
UPDATING THE PRODUCT AND SERVICE PORTFOLIO

Opportunity: Optimize product and service offerings

Strategies in the product and service arena come in all forms. In some instances, firms are seeking to expand their offerings. Key trends such as the rise of outcome-oriented investing or interest in liquid alternatives are leading companies to develop new products and capabilities. In still other instances, firms are abandoning low-margin or even unprofitable lines, electing to concentrate on their most lucrative or promising vehicles. In the end, each firm will choose its own best way forward based on unique circumstances. Nonetheless, the survey offers insight into the key product strategies in play.

Observable trends

Before delving into specifics, first consider several general observations:

• A shift to indexed investments. Nearly three out of five executives, 58%, say demand is shifting from actively managed products to indexed investments. This view is particularly strong among asset managers (79%).

• A need to offer a wide range of new products. About half of survey respondents say their customers are seeking products that address newly specified investment objectives such as exceeding inflation or reaching optimum value on a specific date, or new products such as liquid alternatives.

• Greater demand for alternative classes. Half of survey respondents say demand is shifting from managed funds to alternative classes. At 64%, asset managers are significantly more likely than other types of executives to hold this view.

Fundamental Product Trends

<table>
<thead>
<tr>
<th>The shift is on:</th>
<th>Total</th>
<th>AM</th>
<th>WM</th>
<th>SP</th>
</tr>
</thead>
<tbody>
<tr>
<td>To indexed investments</td>
<td>58%</td>
<td>79%</td>
<td>57%</td>
<td>54%</td>
</tr>
<tr>
<td>To outcome-oriented investing and new products</td>
<td>51%</td>
<td>64%</td>
<td>49%</td>
<td>38%</td>
</tr>
<tr>
<td>From managed funds to alternative classes</td>
<td>51%</td>
<td>64%</td>
<td>53%</td>
<td>51%</td>
</tr>
</tbody>
</table>
Regarding not only the trends just mentioned but all others presented earlier in this report, the survey specifies the degree to which key forces are driving changes in product and service offerings. Some of the most frequently cited factors include:

- Increased diversity of products and strategies
- Changing investor demographics
- Rising demand for alternative products
- Increasing sophistication of investors
- Growing influence of institutional investors
- Expanding regulatory frameworks, including demands for greater transparency

Within this context, firms are moving to update and optimize their client offerings. Steps include:

- **Building volume and scale.** About half of respondents, 51%, rising to 57% among asset managers, say one of their principal product strategies is to attempt to build economies of scale. Of course, scale can be relative: if a firm focuses on a niche market, it can pursue first-mover advantage to become the scale provider in a single area, making it more challenging for competitors to follow.

- **Rationalizing the suite of products.** Fifty-one percent of firms overall—and 65% of asset managers—are taking a critical look at their product and service offerings. This is not always a simple process of slashing marginal or unprofitable lines but rather a process of optimization. Which products are essential to relationships with which customers? What is the profitability of each product or service line? How does this product or service fit in with the rest of the business and what are its growth prospects? Also, what about cyclicity or correlation with other assets?

- **Simplifying pricing.** Nearly half of firms and three out of five asset managers say they are moving to more-simplified pricing for both investment products and wealth management advisory. A key goal is to meanwhile build fee structures that are more closely aligned

### Which of the following is having significant impact on your product offerings?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Total</th>
<th>AM</th>
<th>WM</th>
<th>SP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased diversity of our products and strategies</td>
<td>47%</td>
<td>55%</td>
<td>43%</td>
<td>46%</td>
</tr>
<tr>
<td>Changing investor demographics</td>
<td>47%</td>
<td>38%</td>
<td>45%</td>
<td>49%</td>
</tr>
<tr>
<td>Rising demand for alternative products</td>
<td>42%</td>
<td>53%</td>
<td>33%</td>
<td>49%</td>
</tr>
<tr>
<td>Increasing sophistication of investors</td>
<td>42%</td>
<td>35%</td>
<td>38%</td>
<td>46%</td>
</tr>
<tr>
<td>Growing influence of institutional investors</td>
<td>33%</td>
<td>33%</td>
<td>33%</td>
<td>38%</td>
</tr>
<tr>
<td>Growing regulation and focus on transparency</td>
<td>33%</td>
<td>27%</td>
<td>34%</td>
<td>33%</td>
</tr>
<tr>
<td>Pressure to align products to investor goals and outcomes</td>
<td>31%</td>
<td>22%</td>
<td>40%</td>
<td>13%</td>
</tr>
<tr>
<td>Increased investor risk appetites</td>
<td>30%</td>
<td>36%</td>
<td>24%</td>
<td>31%</td>
</tr>
<tr>
<td>Rising demand from affluent and retail investors</td>
<td>28%</td>
<td>22%</td>
<td>36%</td>
<td>28%</td>
</tr>
<tr>
<td>Rising influence of intermediary (that is, DC) platforms</td>
<td>24%</td>
<td>27%</td>
<td>24%</td>
<td>26%</td>
</tr>
<tr>
<td>Product white-labeling</td>
<td>10%</td>
<td>11%</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Need for scale</td>
<td>10%</td>
<td>5%</td>
<td>3%</td>
<td>13%</td>
</tr>
</tbody>
</table>
to product cost. While mutual fund managers have long been required to understand and allocate appropriate costs to managed funds, and alternative managers have set fees based on performance and assets, firms continue to assess how to better allocate indirect costs as well as provide investors with a simplified pricing model.

- **Aligning fee structures with specific investors.** Forty-seven percent overall, 59% of asset managers, say their pricing is structured to align to the pricing and service preferences of targeted client segments. For example, across the industry mutual fund managers are simplifying share class offerings and aligning share class pricing with the targeted investors of specific funds. Note also that 56% of survey respondents say the rise of the digital model is placing a significant strain on fee-based models.

- **Adding outcome-oriented products.** Asset managers in particular, 69%, are heeding the call of investors and developing products that focus on specific outcomes. Again, these can range from investments designed to reach full potential at a specific maturity date relative to inflation, real estate values or other customized benchmarks.

One thing wealth managers should keep in mind in this area, says Gordon Fowler, CEO and chief investment officer of Glenmede, is the need to help clients understand the importance of a portfolio approach to the whole of their investments. “When clients put ‘this money’ into that objective—say, college—and then ‘that money’ into another objective—say, retirement—treating each basket separately, they can be giving up the benefits of pooling, of optimization and plotting a portfolio on the efficient frontier.” The point with outcome-based investing, says Fowler, “is that the industry has to combine two ideas: a total portfolio that takes into account the client’s desired outcomes.”

- **Other strategies.** Asset management firms will also be seeking to introduce new, high-margin products beyond those already mentioned, including products of greater complexity and products that create exposure to new markets or alternative assets. At the same time, a significant number of firms, seeking balance in their offerings and intending to address the needs of clients and prospects, will also be adding an array of lower-cost, index-oriented products.

### What steps are you taking?

<table>
<thead>
<tr>
<th>What steps are you taking</th>
<th>Total</th>
<th>AM</th>
<th>WM</th>
<th>SP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building volume and scale</td>
<td>51%†</td>
<td>57%</td>
<td>53%</td>
<td>49%</td>
</tr>
<tr>
<td>Rationalizing suite of products and services</td>
<td>51%‡</td>
<td>65%</td>
<td>47%</td>
<td>43%</td>
</tr>
<tr>
<td>Simplifying pricing to align with product cost</td>
<td>48%§</td>
<td>59%</td>
<td>53%</td>
<td>40%</td>
</tr>
<tr>
<td>Aligning fee structures with specific investors</td>
<td>47%¶</td>
<td>59%</td>
<td>46%</td>
<td>41%</td>
</tr>
<tr>
<td>Adding outcome-oriented products</td>
<td>47%‖</td>
<td>69%</td>
<td>48%</td>
<td>35%</td>
</tr>
<tr>
<td>New, high-margin products and services</td>
<td>45%¶</td>
<td>57%</td>
<td>49%</td>
<td>38%</td>
</tr>
<tr>
<td>New markets or alternatives</td>
<td>45%</td>
<td>60%</td>
<td>44%</td>
<td>44%</td>
</tr>
<tr>
<td>Offering more-complex products</td>
<td>43%</td>
<td>62%</td>
<td>43%</td>
<td>36%</td>
</tr>
<tr>
<td>Adding lower-cost index products</td>
<td>39%</td>
<td>52%</td>
<td>40%</td>
<td>37%</td>
</tr>
</tbody>
</table>

*†63% hedge funds; 62% broker-dealer. **66% hedge funds; 60% AUM $100 billion to $250 billion. †72% hedge funds; 60% AUM $100 billion to $250 billion. ‡66% hedge funds; 59% broker-dealer. §60% hedge funds. ¶59% broker-dealer; 57% hedge funds.
As the market evolves, current low-cost producers are able to capture new business. Higher-cost producers, meanwhile, focus on new product introductions and simultaneously evaluate how to redesign operating models with greater variable costs and lower fixed-cost infrastructures over the longer term. Wealth managers and advisors, likewise, are increasingly segmenting their clients and advisory fees to better align with the level of product sophistication and services, as well as investor preferences for technology.

The need for evolution in fee structures in the industry is evidenced by the rise of outcome-based investing. David Hanson, CEO of Fulton Financial Advisors, says that to some degree “outcome-based investing is not something thrust on wealth managers by their clients so much as it is something the industry realizes we need to promote and develop to help our clients.”

But when it comes to paying for such services, most wealth managers would agree, says Hanson, “that the ability to beat some benchmark is insignificant compared to the impact of having the right planning or tax strategy.” Helping a client define and make progress against goals “is far more important than whether or not we beat the S&P.” In essence, says Hanson, “we need to move toward greater alignment between how we get paid and where we add value.”

### Regulatory challenges
Nearly three-quarters of firms overall say that regulatory compliance and reporting is a significant challenge for their product and service lines. Interviewees are nearly unanimous in agreement that regulatory requirements are becoming significantly more complex and more challenging. The apparent wave of new regulatory pressures is evident not only in the U.S.,

<table>
<thead>
<tr>
<th>What fee models do you believe will be attractive to clients?</th>
<th>Total</th>
<th>AM</th>
<th>WM</th>
<th>SP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance based</td>
<td>62%</td>
<td>73%</td>
<td>64%</td>
<td>56%</td>
</tr>
<tr>
<td>Specific fees for specific services</td>
<td>60%*</td>
<td>73%</td>
<td>55%</td>
<td>49%</td>
</tr>
<tr>
<td>Strictly off AUM</td>
<td>53%*</td>
<td>72%</td>
<td>52%</td>
<td>35%</td>
</tr>
<tr>
<td>Hybrid</td>
<td>52%†</td>
<td>69%</td>
<td>44%</td>
<td>46%</td>
</tr>
<tr>
<td>Flat fee</td>
<td>50%</td>
<td>61%</td>
<td>56%</td>
<td>42%</td>
</tr>
<tr>
<td>Monthly retainers</td>
<td>28%</td>
<td>48%</td>
<td>28%</td>
<td>20%</td>
</tr>
</tbody>
</table>

*90% broker-dealer. †81% hedge fund. ‡63% hedge fund.

### What fee models do you believe will be attractive to your clients?

<table>
<thead>
<tr>
<th>Asset managers</th>
<th>Wealth managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific fees for specific services</td>
<td>Performance based</td>
</tr>
<tr>
<td>Performance based</td>
<td>Flat fee</td>
</tr>
<tr>
<td>AUM based</td>
<td>AUM based</td>
</tr>
</tbody>
</table>
but globally, leading to a growing lack of consistency. However, this does not appear to be inhibiting growth, performance or international expansion to any appreciable degree. Rather, leading firms are implementing global solutions combining people, process, data and technology solutions in recognition that effective response to regulatory requirements is a core capability.

Another key challenge is driving product innovation—noted by 70% of firms overall but climbing to 80% among asset managers. Interviewees indicate that they are always on the watch for new product or service opportunities, but recognize the need to find more ways to institutionalize and enable greater effectiveness in this area.

Closely related, firms recognize they need to accelerate time to market for new products as well as structure products to achieve widespread market appeal. Moreover, with so many new strategies, products and services in the marketplace, firms recognize they need to do more to provide knowledge and training to intermediaries.

### How challenging are the following product issues?

<table>
<thead>
<tr>
<th>Issue</th>
<th>Total</th>
<th>AM</th>
<th>WM</th>
<th>SP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory compliance and reporting</td>
<td>73%</td>
<td>65%</td>
<td>76%</td>
<td>71%</td>
</tr>
<tr>
<td>Driving product innovation</td>
<td>70%</td>
<td>80%</td>
<td>75%</td>
<td>59%</td>
</tr>
<tr>
<td>Providing training and knowledge to wholesalers</td>
<td>64%</td>
<td>65%</td>
<td>69%</td>
<td>56%</td>
</tr>
<tr>
<td>Accelerating time to market for new products</td>
<td>65%</td>
<td>74%</td>
<td>61%</td>
<td>67%</td>
</tr>
<tr>
<td>Structuring products to create wide appeal</td>
<td>62%</td>
<td>64%</td>
<td>66%</td>
<td>66%</td>
</tr>
<tr>
<td>Educating and updating channels on products</td>
<td>63%</td>
<td>73%</td>
<td>62%</td>
<td>57%</td>
</tr>
<tr>
<td>Optimizing investment operations</td>
<td>61%</td>
<td>65%</td>
<td>55%</td>
<td>64%</td>
</tr>
<tr>
<td>Balancing disclosure with the need for secrecy</td>
<td>60%</td>
<td>63%</td>
<td>58%</td>
<td>59%</td>
</tr>
<tr>
<td>Understanding the needs of our customers</td>
<td>59%</td>
<td>58%</td>
<td>57%</td>
<td>59%</td>
</tr>
<tr>
<td>Aligning revenues with product costs</td>
<td>59%</td>
<td>70%</td>
<td>59%</td>
<td>62%</td>
</tr>
<tr>
<td>Designing an adequate control environment</td>
<td>58%</td>
<td>58%</td>
<td>62%</td>
<td>59%</td>
</tr>
<tr>
<td>Attracting key investors, brokers, distributors</td>
<td>57%</td>
<td>64%</td>
<td>54%</td>
<td>64%</td>
</tr>
<tr>
<td>Managing products on platforms</td>
<td>54%</td>
<td>53%</td>
<td>52%</td>
<td>62%</td>
</tr>
<tr>
<td>Paying platform providers for distribution costs</td>
<td>50%</td>
<td>64%</td>
<td>45%</td>
<td>56%</td>
</tr>
<tr>
<td>Getting platform shelf space</td>
<td>47%</td>
<td>60%</td>
<td>38%</td>
<td>54%</td>
</tr>
<tr>
<td>Discontinuing unprofitable products</td>
<td>42%</td>
<td>51%</td>
<td>40%</td>
<td>42%</td>
</tr>
</tbody>
</table>
WHAT PRODUCTS AND FUNDS ARE YOU OFFERING TODAY—AND IN 18 MONTHS?

As referenced throughout the report, wealth and asset management clients are seeking a wider range of product and strategy choices than ever before. The survey offers indication of what firms are offering today and what they will be adding within the next 18 months.

<table>
<thead>
<tr>
<th>What products are you offering today and within 18 months? (More firms are offering more products)</th>
<th>Today</th>
<th>18 months</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutual funds</td>
<td>80%</td>
<td>14%</td>
<td>94%</td>
</tr>
<tr>
<td>REITs</td>
<td>56%</td>
<td>25%</td>
<td>81%</td>
</tr>
<tr>
<td>ETFs</td>
<td>52%</td>
<td>24%</td>
<td>76%</td>
</tr>
<tr>
<td>PE products</td>
<td>51%</td>
<td>24%</td>
<td>75%</td>
</tr>
<tr>
<td>Hedge-based products</td>
<td>45%</td>
<td>28%</td>
<td>73%</td>
</tr>
<tr>
<td>Commodities and FX</td>
<td>50%</td>
<td>22%</td>
<td>72%</td>
</tr>
<tr>
<td>Precious metals</td>
<td>44%</td>
<td>21%</td>
<td>65%</td>
</tr>
<tr>
<td>OTC derivatives</td>
<td>36%</td>
<td>26%</td>
<td>62%</td>
</tr>
<tr>
<td>CTFs</td>
<td>35%</td>
<td>26%</td>
<td>61%</td>
</tr>
<tr>
<td>Sovereign wealth-focused products</td>
<td>36%</td>
<td>24%</td>
<td>60%</td>
</tr>
<tr>
<td>Oil and gas products</td>
<td>27%</td>
<td>31%</td>
<td>58%</td>
</tr>
</tbody>
</table>
### What sorts of funds?

<table>
<thead>
<tr>
<th>Category</th>
<th>Today</th>
<th>18 months</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed income</td>
<td>72%</td>
<td>22%</td>
<td>94%</td>
</tr>
<tr>
<td>Equity long/short</td>
<td>66%</td>
<td>23%</td>
<td>89%</td>
</tr>
<tr>
<td>Multi-strategy</td>
<td>61%</td>
<td>25%</td>
<td>86%</td>
</tr>
<tr>
<td>Separately managed accounts</td>
<td>62%</td>
<td>23%</td>
<td>85%</td>
</tr>
<tr>
<td>Global macro</td>
<td>53%</td>
<td>30%</td>
<td>83%</td>
</tr>
<tr>
<td>Funds of funds</td>
<td>57%</td>
<td>25%</td>
<td>82%</td>
</tr>
<tr>
<td>Event driven</td>
<td>56%</td>
<td>24%</td>
<td>80%</td>
</tr>
<tr>
<td>Funds of one</td>
<td>46%</td>
<td>30%</td>
<td>76%</td>
</tr>
<tr>
<td>Short bias</td>
<td>45%</td>
<td>29%</td>
<td>74%</td>
</tr>
<tr>
<td>Precious metals</td>
<td>43%</td>
<td>31%</td>
<td>74%</td>
</tr>
<tr>
<td>40 Act</td>
<td>40%</td>
<td>28%</td>
<td>68%</td>
</tr>
</tbody>
</table>
NO TIME TO REST ON LAURELS

Growth in asset values as measured by the S&P; surging AUM totals as documented by ICI; an industry featuring case studies demonstrating the active pursuit of growth, performance optimization and even transformation: for the wealth and asset management industries, this is an era of profound opportunity but also challenge.

The challenges are everywhere. Industry participants say that in spite of strong performance and surging AUM, they are still driven by strong senses of both competitive pressure and change. Margin pressures remain omnipresent. Needs and wants of investors, intermediaries and clients are shifting. New products and forms of competitors are arriving daily. Webs of regulation expand incessantly both at home and worldwide.

Horizontally, vertically and globally, the competitive landscape is fast-evolving. The pace of change is such that in spite of strong current performance, complacency will soon prove a mistaken option. So rather than resting in comfort, leaders are revisiting core strategies and implementing bold action plans to sustain and enhance competitive advantage. As summarized within this report, the key opportunities involve optimization of:

- **The cost base**—along the way creating closer alignment between revenues and costs to deliver specific products and services through specific channels to specific clients

- **Technology**—focusing on efficiency as well as the embrace of today’s back-office data-driven decision-support capabilities and surging front-office experiential demands of clients and investors

- **Channels**—with key moves including optimizing customer experience by demographic, client value and cost to service—not to mention addressing the rise of robo-advisory

- **Product, services and pricing**—refining the menu, including moves to offer more indexed investments, address the needs of outcome-oriented investors and managers, as well as offer greater new product innovation, including more alternative investments

The list of opportunities is extensive, complex and interrelated. Meanwhile, challenges requiring focus and foresight include transitioning from legacy technologies, achieving the right balance between outsourcing and insourcing, achieving greater value from M&A as well as revisiting talent acquisition, development and retention. But for those firms that take the needed steps to develop a long-term vision and strategy, and who follow through with committed implementation and continuous reevaluation and refinement—the opportunities are huge.
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