

GLOBAL ASSET MANAGEMENT 2015

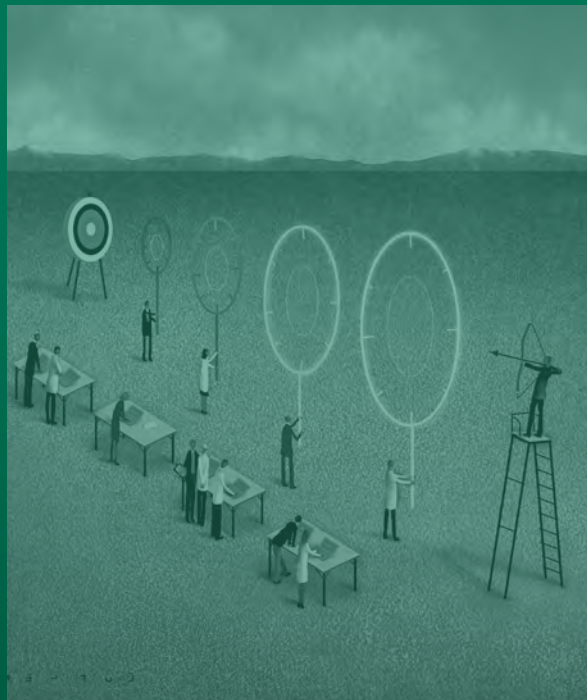
SPARKING GROWTH WITH GO-TO-MARKET EXCELLENCE



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INTRODUCTION

IN 2014, THE GLOBAL value of professionally managed assets grew to \$74 trillion—the third consecutive annual record—and the industry’s profits rose to match their historic peak of \$102 billion. Operating margins remained steady, sitting just below the record level achieved before the financial crisis.

These data points, among others, offer an encouraging snapshot of the global asset-management industry. A more complex portrait emerges in the full details of this report—*Global Asset Management 2015: Sparking Growth with Go-to-Market Excellence*, The Boston Consulting Group’s thirteenth annual study of asset management worldwide.

This report begins by profiling the industry’s overall evolution in 2014. Next, we discuss how leading managers are improving their go-to-market approach, in particular through more data-driven decision making. These findings were supported by an in-depth measurement of managers’ capabilities based on BCG’s framework for excellence in go-to-market functions—including market intelligence, product development, client communications, sales coverage model, sales performance monitoring, and organization setup and incentives. Finally, in the third chapter, we offer a deep dive on the expanding opportunities in Asia-Pacific and how managers can access them.

Professional asset management continues to rank among the world’s most profitable businesses, and it’s a growing one for managers that get it right.

The past year’s performance shows that the industry has moved beyond the dynamics of the postcrisis period. At the same time, a new competitive environment is coming into sharper focus. It is a challenging environment.

Although the industry’s profit pool rose 7 percent to \$102 billion, matching its historic peak, those profits, once again, were largely driven by rising asset values on global markets. Growth driven by net new assets remained unchanged from the year before, at 1.7 percent of assets under management (AuM). Net flows, the lifeblood of growth, are likely to remain in the low single digits—well below precrisis levels. At the same time, net revenue growth fell short of the growth of average AuM as pressure on fees squeezed price realization.

This isn’t the first year that fee pressure has contributed to declining revenue margins. Institutional investors are monitoring fees more

closely, challenging and renegotiating them. In the retail segment, channel consolidation and increasing transparency driven by regulation are driving fees lower.

The product shift of recent years—from traditional actively managed products to passives, solutions, and specialties—held true in 2014. This structural shift will continue in the medium term, we believe, squeezing the share of active core products and managers.

The gap in business performance by segment widened between managers in the retail market and those in the institutional market. For the second year in a row, retail-focused managers outperformed those focused on institutional markets by relatively wide margins in AuM, revenue, net flow, and profitability growth.

Whatever their segment or product focus, asset managers today face a future in which growth isn't a given. Superior investment performance does not guarantee greater market share. The dynamics of competitive advantage have changed.

Achieving growth will require managers to ramp up their execution game in order to differentiate themselves. In particular, they will need to generate more value through end-to-end, go-to-market efforts—from design to execution—by leveraging their marketing, sales, and pricing capabilities.

Although the traditional framework for maximizing go-to-market performance remains intact, the competencies needed to achieve excellence are shifting. In many cases, the winning managers gain advantage by developing and deploying advanced capabilities in data-driven decision making.

Many of today's most effective managers focus their efforts on three capabilities: marketing effectiveness, sales force productivity, and enhanced customer experience.

In addition to sparking growth through their go-to-market capabilities, asset managers should look for growth potential in Asia-Pacific as the industry rebalances toward that region. That shift is already overdue, and there is plenty of room for more growth, as we discuss in this report's third chapter. (See the chapter "Catching the Rebalancing Wave Toward Asia.")

How should managers access this opportunity? Asia-Pacific must be approached as a set of diverse markets. Differences in market maturity, scale, regulation, demand, and channel economics make Asia a complex environment, where each opportunity is paired with its own challenges and success factors.

If global managers get only one market right, it must be China. Still, gaining access to China's domestic investors can be complex.

This report, like its predecessors, is the product of market-sizing research and an extensive benchmarking survey. The benchmarking

involved 135 leading asset managers—representing \$39 trillion, or 53 percent, of global AuM—and covered more than 4,000 data points per player. The aim of our annual research is to gain insights into the state of the industry and its underlying sources of profitability to help managers build prosperous paths to the future.

The additional assessment of go-to-market functions conducted this year, noted above, covered managers' organization setups across those functions, product innovation metrics, sales and marketing efficiency ratios, incentive policies and drivers, performance-monitoring metrics, use of advanced data analytics including big data, and digital and social-media metrics.

A SNAPSHOT OF THE INDUSTRY

THE PROFIT POOL OF the global asset-management industry rose 7 percent to \$102 billion in 2014, matching its historic peak reached in 2007 before the financial crisis. Profits were buoyed by the increasing market value of professionally managed assets, which hit a record high for the third consecutive year, and by new flows unchanged from last year's level.

Assets Under Management Rise to a Record \$74 Trillion

Globally, assets under management (AuM) increased 8 percent in 2014 to a record \$74 trillion—a healthy advance but slower than the pace in recent years, including the 13 percent increase in 2013. While market impact was the main source of AuM growth, net new flows provided support by remaining steady at 1.7 percent of 2013 AuM, compared with 1.6 percent of 2012 AuM in 2013. Still, net flows remained well below their peak years before the 2007 financial crisis. (See Exhibit 1.)

The return of industry profits, in absolute terms, to their precrisis peak of \$102 billion was mostly driven by the rise in AuM. Operating margins—or profits as a percentage of net revenues—remained at 39 percent of net revenues as in 2013, compared with the precrisis high of 41 percent.

However, net revenue growth of 7 percent fell short of the greater than 9 percent growth of average AuM in 2013 as pressure on fees squeezed price realization. (See Exhibit 2.) Indeed, net revenues measured in basis points—or on an asset-adjusted basis—continued to decline. (See Exhibit 3.) This occurred despite the slightly faster growth of the higher-price retail business over institutional business discussed in detail below.

Europe's Net Flows Rebound, Catching Up to Those in the U.S.

Growth driven by net flows rebounded in Europe in 2014, catching up with that in the Americas and making Europe one of the fastest-growing regions for net flows after being the weakest following the crisis. European net flows in 2014 reached 1.7 percent of prior-year AuM, compared with 1.3 percent in 2013. Growth was driven in particular by very high net inflows in Spain and Italy and continued healthy flows in Scandinavian countries and Germany—despite weak performance in France and the UK.

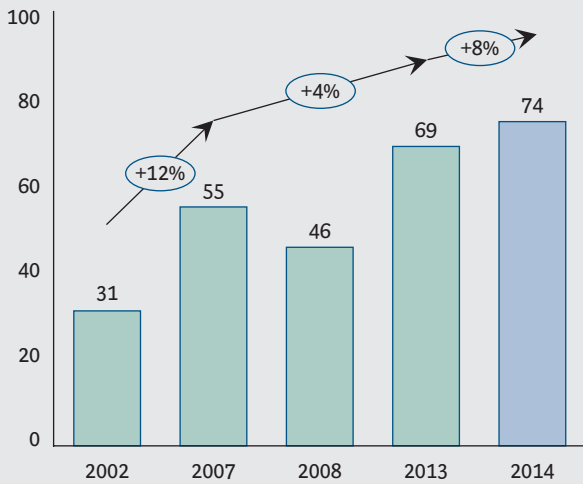
The rise of net flows in Europe reflected, in part, the progressive resumption of mutual fund sales by European banks. In the initial years following the crisis, the banks focused instead on deposit account sales in order to fulfill regulatory mandates to improve their balance sheets.

EXHIBIT 1 | Global Assets Under Management Grew to a Record \$74 Trillion in 2014 as Net Flows Remained Steady

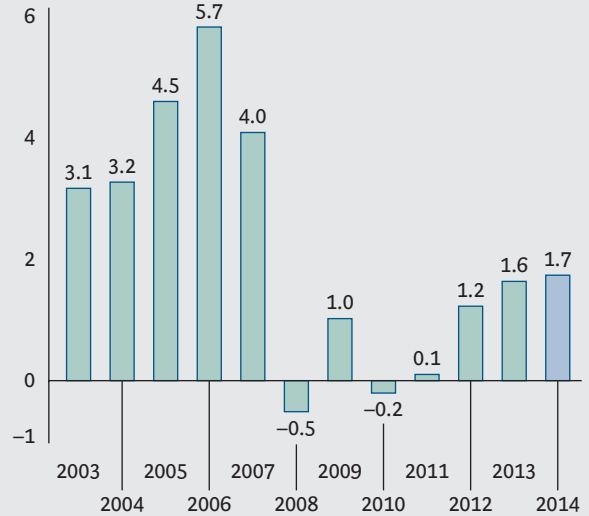
Global AuM grew 8 percent to \$74 trillion...

... as net flows inched slightly higher

Global AuM (\$trillions)



Average net flows as a share of AuM at the beginning of each year (%)

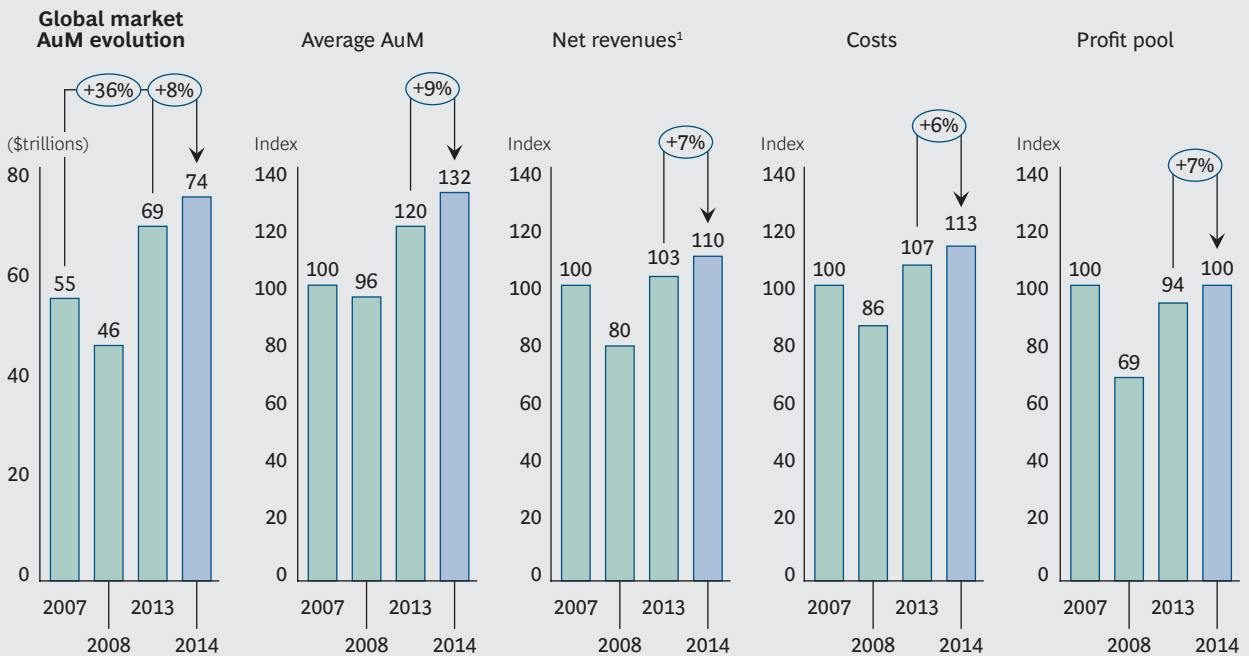


Sources: BCG Global Asset Management Market Sizing Database 2015; BCG Global Asset Management Benchmarking Database 2015.

Note: Market sizing is based on AuM sourced from each region and professionally managed in exchange for management fees; includes captive AuM of insurance groups or pension funds if those AuM are delegated to asset management entities with fees paid; 43 markets covered globally, including offshore AuM. For all countries whose currency is not the U.S. dollar, we applied the average 2014 exchange rate to all years.

EXHIBIT 2 | The Global Profit Pool Returned to Its Precrisis Level, Driven Largely by Growth of Average AuM

The evolution of key economics in absolute terms for all managers

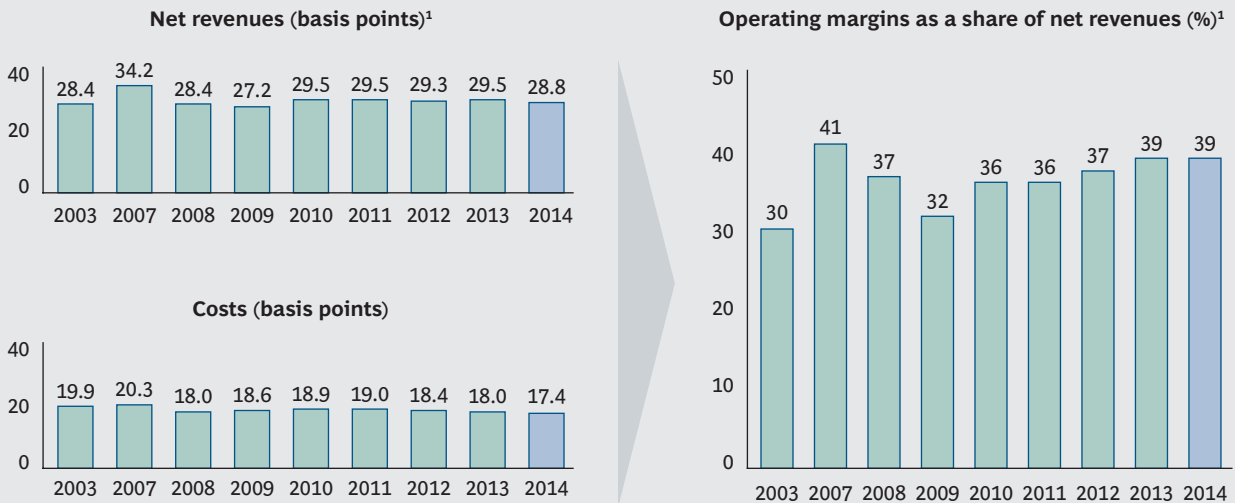


Sources: BCG Global Asset Management Market Sizing Database 2015; BCG Global Asset Management Benchmarking Database 2015.

Note: Values are based on fixed year-end 2014 exchange rates.

¹Management fees net of distribution costs.

EXHIBIT 3 | While Profitability Remained Steady at Precrisis Levels, Net Revenues in Basis Points Continued to Slip



Players continue to focus on cost management

Source: BCG Global Asset Management Benchmarking Database 2015.

Note: Based on our benchmarking sample.

¹Management fees net of distribution costs.

In the Americas, net flows inched up to 1.7 percent of prior-year AuM, compared with 1.6 percent in 2013—with a repeat performance of 1.6 percent in the U.S. and even stronger performance in both Canada and Latin America at 2 percent and 3 percent, respectively.

In Asia-Pacific, growth of net flows slowed to 3 percent—following robust growth of 4 percent in 2013—owing largely to lower risk appetite in Japan and Australia. Excluding those two markets, flows in the rest of Asia-Pacific grew more strongly, at 4 percent—a higher rate than was expected in developed markets.

Viewed by segment, assets in the retail segment grew more rapidly than institutional assets, thanks to very solid net new flows of 3.7 percent of 2013 AuM, while net new institutional asset flows were just 0.1 percent of 2013 AuM. However, the higher retail net flows had little impact on retail assets' share of total industry AuM, which remained at 39 percent.

Growing Pressure on Fees Impacts Net Revenues

This is not the first year that fee pressure has contributed to a continuing decline in reve-

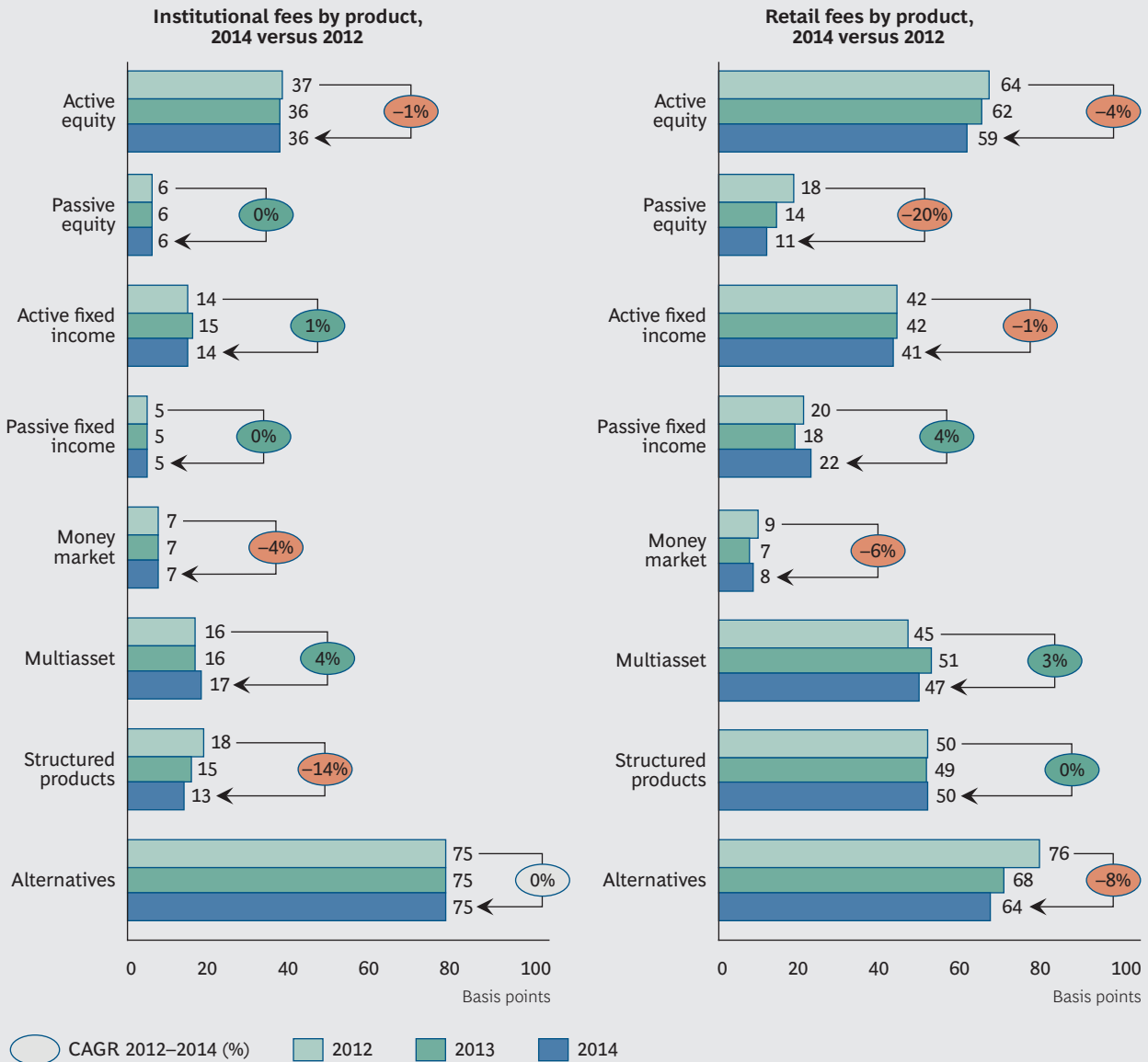
nue margins for both retail and institutional managers. (See *Global Asset Management 2014: Steering the Course to Growth*, BCG report, July 2014.) Institutional investors continue to monitor fees more closely, challenging and renegotiating them.

In the retail segment, channel consolidation resulting in a more aggressive posture by intermediaries—particularly in the U.S.—and regulatory measures that bring increased transparency are both driving fees lower.

Product mix also continues to put pressure on fees, but only marginally. The continued stronger-than-average growth of low-price categories, such as passive products and liability-driven investments (LDIs), was offset by growth of higher-price products, such as retail solutions and real estate funds, and the decreasing value of money market assets. (See Exhibit 4.)

This trend is visible in the evolution of net revenues and costs in basis points as shown in Exhibit 3: revenues decreased from 29.5 basis points in 2013 to 28.8 basis points in 2014, and costs dropped from 18.0 basis points to 17.4 basis points. As a result of price pressures, many companies remained vigilant

EXHIBIT 4 | Fee Pressure Was Evident Notably in Equity, Money Market, and Structured Products and in Alternatives



Sources: BCG Global Asset Management Benchmarking Database 2015; BCG analysis.
 Note: Any apparent discrepancies in CAGRs are the result of rounding.

about their costs and kept the growth in costs at 6 percent in absolute terms—lower than the growth in average industry AuM at 9 percent.

Regulation, as noted earlier, is contributing to the pressure on fees in the retail segment. More broadly, regulatory change continues to be a substantial element of the challenging and uncertain environment that asset managers face globally. (See the sidebar “Surviving Regulatory Change and Vanishing Liquidity.”)

Positive Results Across All Regions and Segments

Results by managers were positive in all regions of the world in 2014, with relatively narrow differences in growth of AuM, revenues, and profits. This contrasts with previous years when, overall, U.S.-based managers fared better than others. This year, managers based in Asia-Pacific increased their average AuM slightly faster on average than those in the Americas and Europe—12 percent for Asia-Pacific, compared with 10 percent for the Americas and 9 percent for Europe.

SURVIVING REGULATORY CHANGE AND VANISHING LIQUIDITY

Despite sustained record-level asset growth and profits, asset managers continue to face a challenging and uncertain environment, particularly regarding regulation—whether it addresses them directly or is part of a broader regulatory initiative such as that related to market liquidity.

In the U.S. market, regulation is driving profound change. In May 2015, the U.S. Securities and Exchange Commission announced a series of new reporting initiatives that will boost its industry oversight. As a first step, the agency is significantly increasing the volume of data it collects, requiring mutual fund firms to provide more detailed information—and to report with greater frequency—about fund assets. The initiatives require funds to give an account of their use of complex and potentially risky derivatives products. Currently, that data is captured neither frequently nor consistently.

Compliance with the new measures will increase costs and require additional screens and challenges for managers weighing new products in the U.S. market, as it will for managers based outside the U.S. that are considering whether or not to enter the U.S. market.

There is increased regulatory pressure and uncertainty in other regions as well. In Europe, the Markets in Financial Instruments Directive now impacts managers across the value chain—from product

offerings and distribution to investment and operations.

At the investment level, too, there is increased uncertainty in major product areas, such as fixed-income, as well as in money market funds. Liquidity, or the lack of it, is a real issue for specific fixed-income instruments. In corporate debt, for example, the buy side today holds much more than sell side banks. This significant reversal of the historic norm is largely driven by banks' inability or unwillingness to hold those assets and take the balance sheet hit, thereby diminishing their historical market-making role. Meanwhile, buy side institutions continue to seek out higher-interest-bearing products. This new dynamic may be fine—that is, until the buy side becomes motivated to get out of its positions and banks are not there to step in as they once did. Some players have called for reforming corporate-debt issuance, making the process much more commoditized and therefore much more liquid. Yet little has changed.

As a result, asset managers must develop greater capabilities in pricing assets, taking into account enhanced risk analyses. Furthermore, despite recent growth, they need to continue to manage costs closely.

While positive results were recorded across all regions on an averaged basis, not all managers benefited or did consistently well. Indeed, about 20 percent of managers experienced declining profit in absolute terms.

Measured by profit growth, Asia-Pacific and European managers fared slightly better than U.S. managers by boosting revenues faster than costs. U.S. players' revenues increased 6 percent, but their costs rose 7 percent,

resulting in operating-profit growth of just 4 percent. By comparison, Asia-Pacific players' revenues and profits advanced 9 percent and 13 percent, respectively, while those of European asset managers advanced 6 percent and 10 percent.

Overall, this means that global asset managers should push for strong performance in every region and segment. Yet they must also recognize that positive results in one region

or segment are not necessarily transferable, because success factors are often quite different from one region and segment to the next.

Unlike prior years, independent managers and managers affiliated with banking or insurance groups achieved, on average, very similar asset- and profit-growth rates. In the four years that ended in 2014, independent managers, on average, performed better than affiliated managers.¹ Their AuM and profit growth rose 41 percent and 51 percent, respectively, compared with 29 percent and 27 percent for affiliated managers. But this year, there was no variation between segments in average AuM growth or profit growth.

Some active core products staged a comeback, reversing their performance.

Some managers with affiliated distribution networks benefited from the recovery of retail distribution networks, especially in Europe. Still, their results continued to suffer in comparison with those of unaffiliated clients. Indeed, mostly captive players—those with more than 75 percent affiliated AuM—suffered net outflows from their unaffiliated business, registering -0.4 percent of their 2013 AuM in external retail channels and -3.8 percent with third-party institutional investors.

Success in unaffiliated channels for managers with mostly captive assets is challenging—because of their generally simpler, less diversified offerings—but it is not impossible. Some managers have succeeded by leveraging their captive business to fund innovation efforts against unaffiliated channels. Still, few of these players have managed to build the internal culture needed to promote this type of innovation and third-party focus in parallel with a captive focus.

The most significant difference across managers was the higher growth in AuM and profits of those focusing on the retail segment. Retail-oriented managers' assets grew 12 percent in 2014, and their revenues and profits

rose 9 percent and 11 percent, respectively. In contrast, managers focused on institutional markets increased their assets by just 8 percent and revenues by only 3 percent, while their profits shrank 1 percent.

The Product Shift Continues to Passives, Solutions, and Specialties

The product shift of recent years—from traditional actively managed products to passives, solutions, and specialties—held true in 2014, although the move toward specialties slowed.

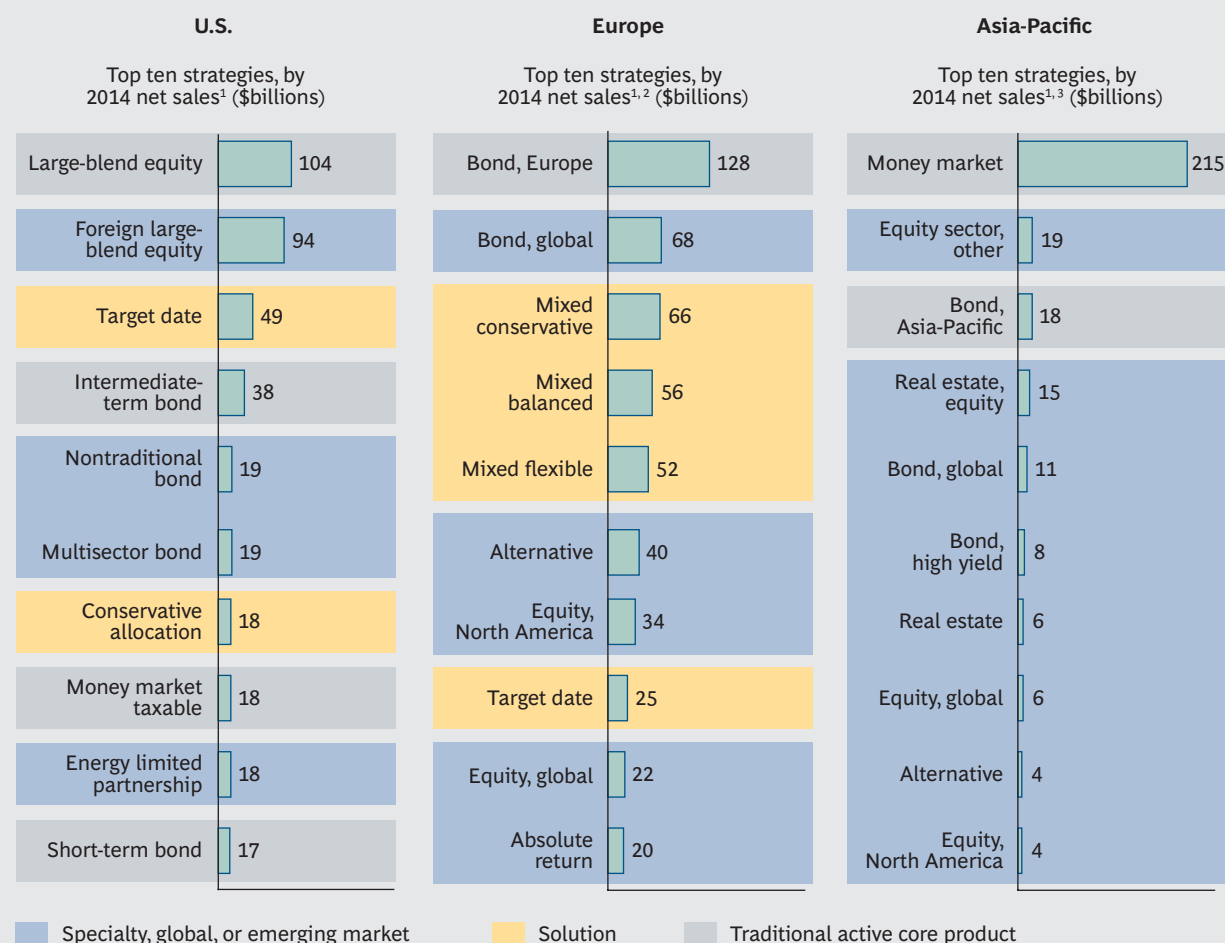
The AuM of traditional active products represented 39 percent of AuM at the end of 2014 compared with 59 percent in 2003, while alternatives grew from 6 percent to 11 percent, passive products from 8 percent to 14 percent, solutions from 6 percent to 13 percent, and specialties from 21 percent to 24 percent.²

This ongoing shift reflects investors' persistent hunt for more outcome-oriented products, greater portfolio diversification, and less-expensive products in core categories. Asset managers' efforts to meet those needs helped drive 16 percent growth in assets held in solutions, including LDIs and retail solutions. In the U.S. and Europe, for example, target date funds and flexible funds have contributed to this growth.

In parallel, the ever-changing macroeconomic environment continues to drive the rotation of successful products. In 2014, the growth of specialty asset classes slowed, while active core product growth was boosted by rising equity markets and continued solid bond returns in Europe as rates continued to decline.

These trends were evident in the net flows ranking of mutual-fund product strategies across all regions. (See Exhibit 5.) Some active core products staged a comeback. European bonds in Europe and money market funds in Asia—both typical core products—took top positions in the rankings, reversing their comparatively weak performance in recent years. Specialties such as foreign equity, global bonds, and nontraditional bond funds still generated a hefty share of the net flows.

EXHIBIT 5 | Net Flows in All Regions Were Driven by Specialties, Solutions, and Traditional Active Core Products



Sources: Strategic Insight; BCG analysis.

¹Based on mutual funds and exchange-traded funds, excluding, for instance, assets of mandates.

²Out of 28 strategies defined by SimFund database.

³Out of 27 strategies defined by SimFund database.

We continue to believe that the structural shift from active core products to solutions, alternatives, passive products, and specialties will continue. In particular, solutions and passives are likely to get a disproportionate share of the net flows, relative to their current size. They therefore will remain the fastest-growing categories, squeezing the share of active core products and managers as those products suffer net outflows. (See Exhibit 6.)

“Winner-Take-All” Accelerates in the U.S., Flattens in Europe

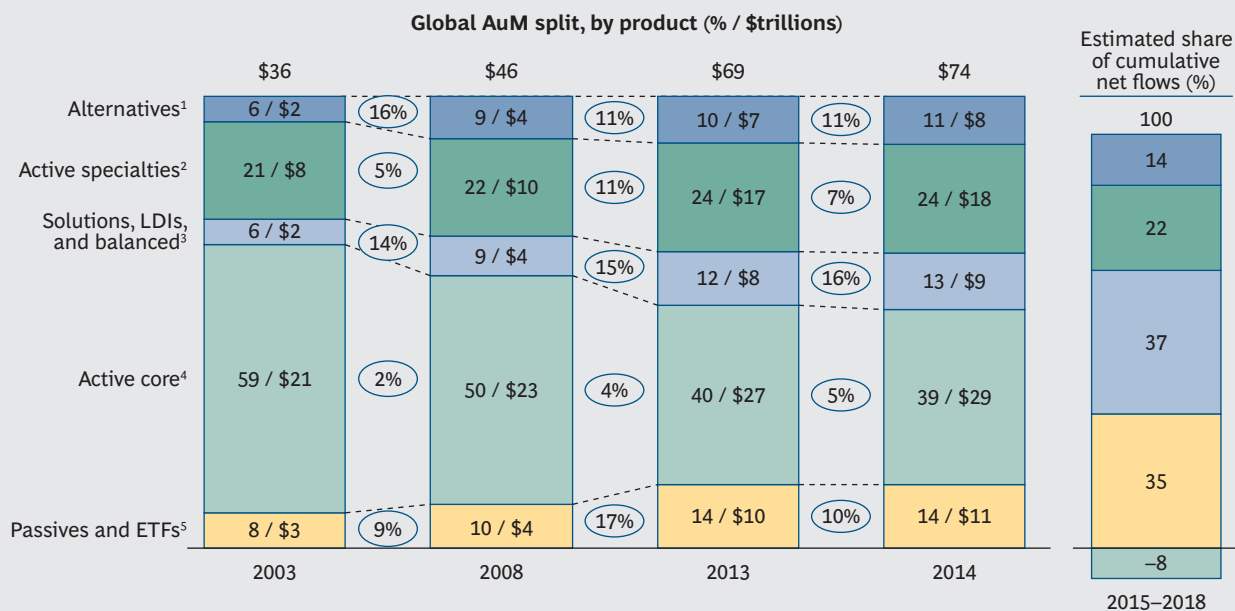
The winner-take-all trend of recent years—in which the top managers in mutual fund flows also capture a large share of net new asset

flows—accelerated in the U.S. in 2014. The top ten U.S. managers, based on mutual fund flows in 2014, captured 68 percent of all flows from players with positive flows, compared with 53 percent in 2013. (See Exhibit 7.)

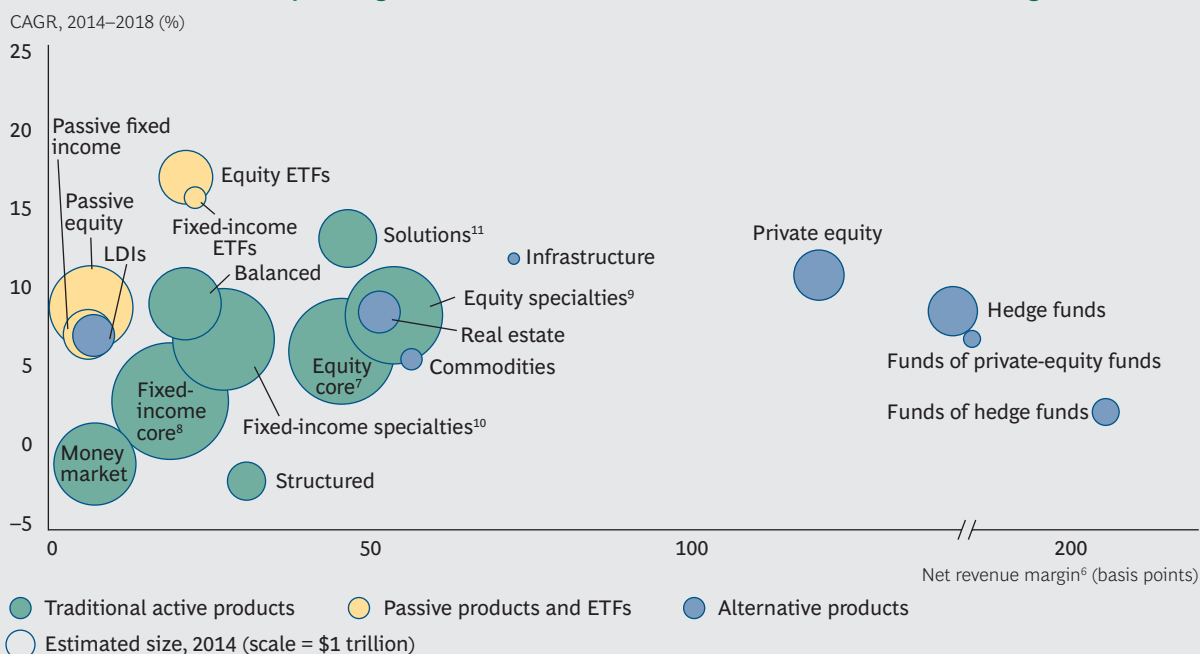
In Europe, the winner-take-all phenomenon remained unchanged and less pronounced. The top-ten table there comprises just 31 percent of players with positive flows, the same share as in 2013. This is not a surprise in Europe’s more fragmented markets, where local managers are still the leading players in each country.

The higher concentration in the U.S. market relative to Europe is driven largely by the

EXHIBIT 6 | Solutions, Alternatives, Passives, and Specialties Will Win a Disproportionate Share of Future Net Flows...



... Squeezing the Share of Traditional Active Core Products and Managers



Sources: BCG Global Asset Management Market Sizing Database 2015; BCG Global Asset Management Benchmarking Database 2015; ICI; Prequin; HFR; Strategic Insight; BlackRock ETP report; IMA; OECD; Towers Watson; P&I; Lipper; BCG analysis.

Note: ETF = exchange-traded fund; LDI = liability-driven investment. Any apparent discrepancies in totals are due to rounding.

¹Includes hedge funds, private equity, real estate, infrastructure, and commodity funds.

²Includes equity specialties (foreign, global, emerging market, small and mid cap, and sector) and fixed-income specialties (credit, emerging market, global, high yield, and convertible).

³Includes absolute-return, target date, global asset-allocation, flexible, income, and volatility funds; LDIs; and multiasset and traditional balanced products.

⁴Includes active domestic large-cap equity, active government fixed-income, money market, and structured products.

⁵Includes passive equity, passive fixed-income, equity ETFs, and fixed income ETFs.

⁶Management fees net of distribution costs.

⁷Includes actively managed domestic large-cap equity.

⁸Includes actively managed domestic government debt.

⁹Includes foreign, global, and emerging-market equities; small and mid caps; and sectors.

¹⁰Includes credit, emerging-market and global debt; high-yield bonds; and convertibles.

¹¹Includes absolute-return, target date, global asset-allocation, flexible, income, and volatility funds.

EXHIBIT 7 | The Winner-Take-All Trend Accelerated in the U.S. but Flattened in Europe

The top ten asset managers, on the basis of mutual fund flows in the U.S.

Asset manager	2014 net flows (\$billions)	Cumulative share of total market net flows (%)	Cumulative share of net flows of players with positive net flows (%)
Vanguard	219	55	31
BlackRock	98	80	45
Dimensional Fund Advisors	27	87	49
TCW	26	93	53
Dodge & Cox	26	100	57
JPMorgan Chase	25	106	60
Goldman Sachs	15	110	62
Natixis Global Asset Management	15	114	65
State Street Global Advisors	14	117	67
TIAA-CREF	13	121	68
Total market	397		

2013 ratios

73

53

The top ten asset managers, on the basis of mutual fund flows in Europe

Asset manager	2014 net flows (\$billions)	Cumulative share of total market net flows (%)	Cumulative share of net flows of players with positive net flows (%)
BlackRock	48	9	6
UBS	28	14	10
Nordea	27	18	14
JPMorgan	24	23	17
Intesa Sanpaolo-Eurizon Capital	21	26	20
Vanguard	20	30	23
Deutsche AWM	20	34	25
Pioneer Investments	17	36	27
Allianz Global Investors ¹	16	39	30
Standard Life	13	42	31
Total market	565		

42

31

In 2014, three of the top ten managers in Europe were U.S. players, compared with five in 2013

Xx = New player in top-ten ranking in 2014, compared with 2013 rankings

Sources: Strategic Insight; BCG analysis.

Note: Analysis excludes money market funds.

¹Excludes PIMCO.

shift in investor preferences, particularly toward passive products such as exchange-traded funds (ETFs), and the high concentration of leaders in those products, compared with smaller or slower-growing product categories. ETFs represented 50 percent of mutual fund flows in the U.S., 12 percent in Europe, and 20 percent in Asia-Pacific. The increased penetration of passive products in the U.S. in 2014 explains the rising strength of the winner-take-all trend there.

Once again, the composition of the top-ten asset-manager lists for each market remained relatively consistent with the year before, with six holdovers in the U.S. and seven in Europe. Top positioning, as always, was achieved by managers that dominated in the right product categories. Distribution capabilities also play a strong role. Both

underscore the importance, understood by leading managers, of taking a systematic approach to the critical levers of go-to-market excellence.

NOTES

1. Independent managers are those with less than 25 percent of their assets affiliated—that is, assets distributed through group networks or affiliated institutional investors.

2. The numbers reflect a change in methodology from previous years. Multiasset products, previously divided between traditional active balanced products and solutions, are now fully allocated to solutions.

THE DATA-DRIVEN PATH TO GO-TO-MARKET EXCELLENCE

ASSET MANAGERS FACE A future in which growth isn't a given but cost and pricing pressures are constant. Although AuM is rising, revenue margins continue to erode. Superior investment performance and historical distribution strength are not assured paths to greater market share.

In short, the basis for competitive advantage has changed. Managers need to execute better—and with sharper differentiation—to gain a disproportionate share of net new flows, which seem likely to remain well below precrisis levels in the low single digits.

Generating value through go-to-market excellence is more crucial than ever before. Our go-to-market excellence framework comprises six sets of fundamental capabilities or functions. They include market intelligence and strategic priority setting, product development and portfolio management, marketing and customer communications, sales platform management, performance monitoring, and, finally, underlying organizational enablers. Each component has its own array of metrics and KPIs. (See Exhibit 8.)

Although this framework includes many traditional elements to maximize performance, the crucial competencies for achieving success in each dimension of the framework are shifting, and managers are responding by adopting best practices—such as marketing

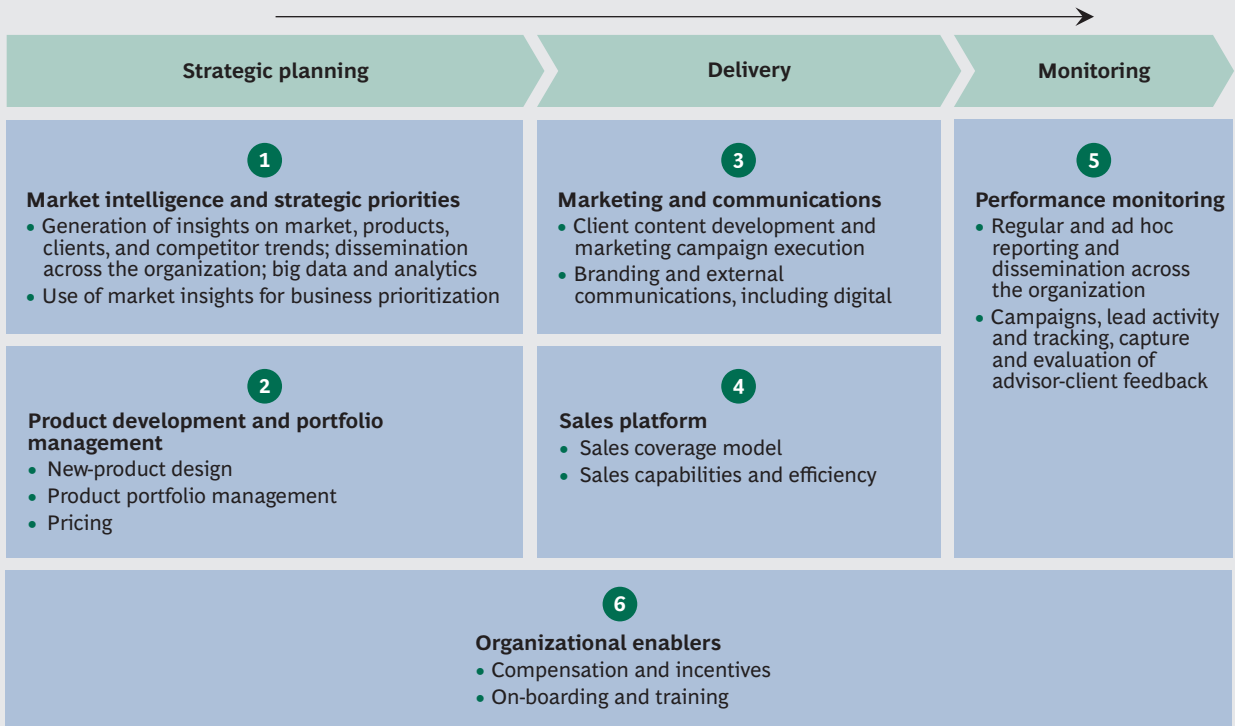
analytics—from other industries and porting them into the asset management space.

The new environment is forcing many managers to be more selective and rigorous in their approach to becoming best in class. For example, many are focusing more sharply on where they place investments for the data and digital capabilities they need to remain competitive. Others are successfully launching new lines of differentiated funds by developing focused capabilities in coordinating customer insights, sales, marketing, and product activities.

As a result, in an era of diverse global markets, areas of focus now vary widely among managers—influenced by such factors as client base, market competition, and regulatory environment.

The most successful managers now prioritize two or three components of the capability framework to achieve truly best-in-class performance. These managers, by very selectively pushing the envelope in go-to-market performance, capture a disproportionate share of net flows. Their highly focused efficiency and effectiveness improvements unlock money and free up management attention for product innovation, entry into new asset classes, enhanced client relationships, and new marketing initiatives. They are taking market share at a time when superior investment

EXHIBIT 8 | A Framework of Six Capabilities for Building and Monitoring Go-to-Market Excellence



Source: BCG analysis.

performance—although more difficult to sustain—is just a minimum requirement, not a sufficient differentiator.

In many cases, the winning managers gain advantage by developing and deploying advanced capabilities in data-driven decision making. In the U.S., such decision making is enabled by an enhanced use of big data, as well as digitally driven advanced analytics, such as use of transaction data to customize physical interactions.

These successful players stand in contrast to a broader set of managers polled in our latest benchmarking survey, which measured participants' perceptions of their own go-to-market capabilities. The collective responses reflected a lack of insight or critical judgment by many asset managers, who tended to overrate their own overall capabilities across the framework. At the same time, they reported critical gaps and lack of progress in specific capabilities and components that they also ranked as being crucial for commercial success. These included customer insights, marketing spending-productivity tracking,

and product development and innovation. (See Exhibit 9.)

The gap between managers' aspirations and reality was particularly wide in managers' use of big data and market intelligence. Although most rated market intelligence and big data capabilities as relevant and important, their use and ability levels were generally low. Only a third of managers looked at competitor activity using specific research. Relatively few applied big data to harvest retail investor or institutional client insights. (See Exhibit 10.)

Data-Driven Decisions and the Role of Big Data

The advantages won by today's strongest managers, as noted above, are often rooted in their advanced capabilities in data-driven decision making. Innovation, increasingly enabled by digital technologies and data, has become a critical driver of that advantage. For many top-performing managers, the competition to achieve data sophistication now affects their approach to every element of the traditional go-to-market framework.

EXHIBIT 9 | Many Managers Were Too Positive in Assessing Their Own Overall Go-to-Market Capabilities

Self-assessment of go-to-market capabilities

Market intelligence and strategic priorities

- Customer insights and understanding of needs
- Product innovation
- Business prioritization

Product development

- Product innovation
- Multiasset-class new-product development

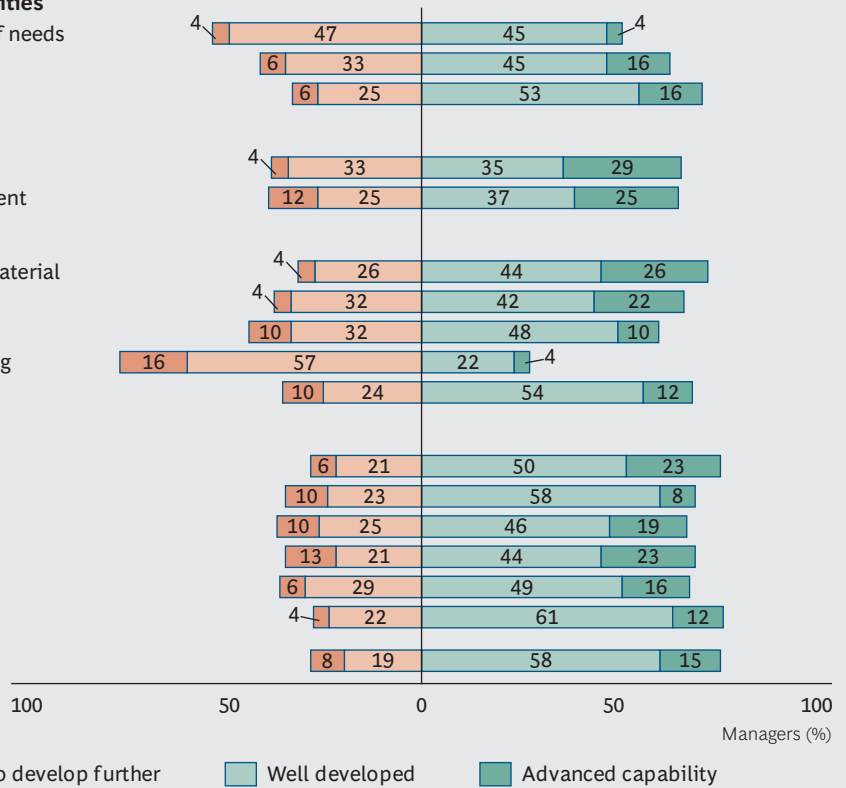
Customer communications

- Quality and consistency of marketing material
- Thought leadership
- Marketing campaign design
- Marketing spending-productivity tracking
- Brand visibility

Sales platform

- Coverage model
- Capacity deployment and allocation
- Sales efficiency and productivity
- Incentive model
- Talent retention
- Expertise of sales reps

Performance monitoring



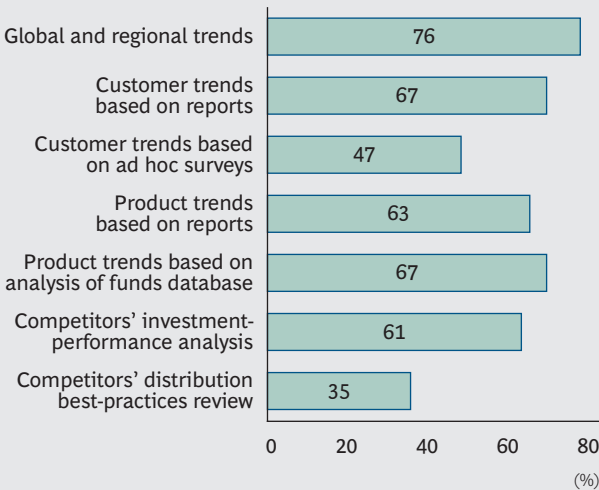
Source: BCG analysis.

Note: Because of rounding, some percentages do not add up to 100.

EXHIBIT 10 | Managers' Efforts in Big Data and Market Intelligence, in Particular, Reflected a Gap Between Aspirations and Reality

Scope of market intelligence efforts

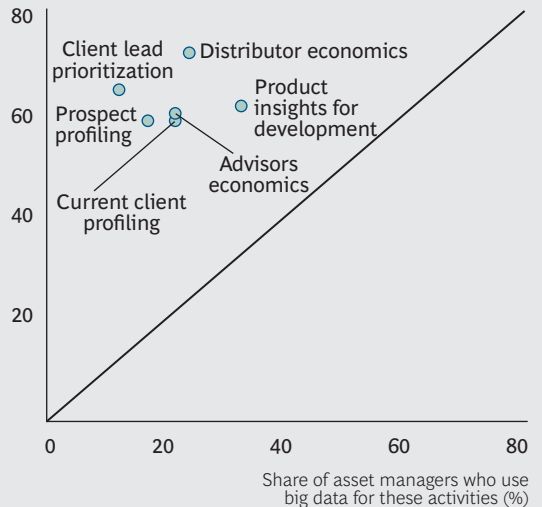
Share of asset managers performing market intelligence (%)



Source: BCG analysis.

Relevance and use of big data

Share of asset managers who think that big data can be used for these activities (%)



In pursuit of this goal, managers are refining their data, digital, and analytic capabilities, whether or not they use or even have access to big data.

Big-data capabilities are mostly relevant in the U.S., where the larger and more uniform market and greater data availability allow leading managers to develop this approach. But outside the U.S., data-driven decision making, not limited to big data, is still highly relevant. For example, leaders elsewhere do the following:

- Use client-relationship-management systems to track and understand preferences of distributors and advisors
- Continuously crunch data from mutual fund and institutional mandates for product insights
- Use data-driven insights, such as transaction data and interaction history, to prioritize products and create messaging for distribution campaigns to specific advisors and companies

The role of data needs to be adjusted to the scale of each market and the costs and benefits at stake. Focus and prioritization are crucial. Since U.S. data practices are currently the most advanced, leading managers in the U.S. will achieve a more sophisticated level of data-driven decision making before most others elsewhere.

In the future, current U.S. practices will influence practices in other markets—for example, by expanding data availability. U.S. managers have already achieved a sustained leadership position in European markets and will be quick to export their U.S. capabilities there. Non-U.S. players would be wise to begin investing in analytic capabilities in preparation for this evolution, staying alert to data-driven developments in the U.S.

Data tools and capabilities are relevant to all six components of the traditional go-to-market framework. The most effective players today often focus their priorities on three capabilities, which we will examine individually. They are marketing effectiveness, en-

hanced sales-force productivity, and enhanced customer experience.

The Future State of Marketing Effectiveness

Current models of marketing effectiveness allow teams to create a message and position it within the marketplace. But in today's environment, those models generally fail to distinguish an asset manager from its peers and competitors. Furthermore, current practice provides little tracking of return on marketing investment (ROMI), limited understanding of its implications, and little nuanced segmentation by distribution channel.

The most successful players offer a strong, distinct brand and value proposition.

The future state of marketing effectiveness being developed by the most successful players offers a strong, distinct brand and value proposition. ROMI is measured and tracked more accurately, employing synchronized metrics and analytics that are aligned across the organization to meet common decision-making targets. And there is a keener understanding of customer segmentation and needs, allowing marketing that is tailored to those needs. This is achieved more systematically and brought to the next level with additional, timely information.

The future state of marketing effectiveness, in short, improves ROMI, drives increased sales, and employs advanced data and analytics to help create a virtuous circle.

Another hallmark of future marketing is global consistency in an increasingly globalized world, with nuanced messaging by distribution channel, customer segment, and market. The rising focus on the needs of retail customers has increased the complexity of that task.

Marketing and branding have always focused mostly on B2B efforts even within retail

channels. Today, direct marketing is increasingly relevant, especially in more open markets such as the U.S., the UK, and Australia, where many retail investors are becoming self-directed. Defined contribution plans have shifted from single-source to best-in-breed models, which allow retail investors to decide where to invest a large portion of their retirement income. Large companies increasingly use a provider to host defined contribution programs, such as 401(k) programs in the U.S., offering the investor a selection of multiple fund families.

However, even in this more retail-driven environment, B2B marketing to advisors also needs to be strengthened and nuanced. Many of the most sophisticated retail investors use advisors and increasingly value a strong brand. Finding effective ways to reach these high-potential clients as well as their advisors is therefore critical.

Enhanced Sales-Force Productivity: Data-Driven ROI

Current models of sales force productivity generally support business as usual using a rearview mirror approach based on data from past sales. Most productivity efforts offer little return on investment (ROI) insight regarding time or money invested in clients or sales activities.

The strongest managers have begun to develop data on sales potential to inform their decision making. To achieve best-practice productivity levels, data-driven coverage and support models must employ multiple information sources. Incorporating both past performance and future potential can be done more deeply and tracked more easily over time. Increasingly, dedicated sales teams are fully equipped with tools to provide customer insights. Boundaries between territories and client segments are defined and enforced through periodic review. Sales managers prioritize time spent on clients and activities in order to generate the highest ROI.

Sales models that track ROI for time and money spent can also test returns on the basis of specific scenarios and can provide narratives and recommendations for sales teams.

Digital data and analytic programs incorporating Web traffic can track client activity and interests, in turn identifying more productive client-outreach opportunities for sales teams.

Better Customer Experience: Serving by Segmenting

Current approaches that employ customization are limited. They provide little institutional knowledge of the customer beyond what is remembered by sales managers. Customization of client investment proposals is often limited to a few generic offerings, such as account size. Customer feedback is generally just qualitative, and little quantitative data is captured.

Best-in-class capabilities in customer subsegmentation lead to better value propositions and enhanced client experience. Advanced analysis of client portfolios and purchase histories can help customize sales communications and refine product offerings. These results are possible because analytics teams increasingly are equipped with more accurately integrated data sources.

Finer segmentation is also possible today because clients—institutions, advisors, and end investors—now have access to more data through online and other digital means. Sales managers are no longer the single source of information. That means that they waste less time responding to random, nontransactional, and generally lower-value generic queries that can be channeled to digital and other direct communication channels.

The outcome is a client better served by a more tailored offering, and an asset manager with an enhanced brand perception.

CATCHING THE REBALANCING WAVE TOWARD ASIA

AT THE BEGINNING OF 2015, on the basis of fundamental measures such as household wealth and banking assets, Asia-Pacific represented about a third of the world economy and global finance. The asset management industry, however, has not kept pace. Asia-Pacific's portion of global AuM—only about 15 percent—is unchanged since 2007.

Judging by the numbers, a rebalancing of the global industry toward Asia is already overdue. And there is plenty of potential for more growth: three of the world's most populous, high-growth economies are Asian markets that now rank lowest in AuM penetration. (See Exhibit 11.)

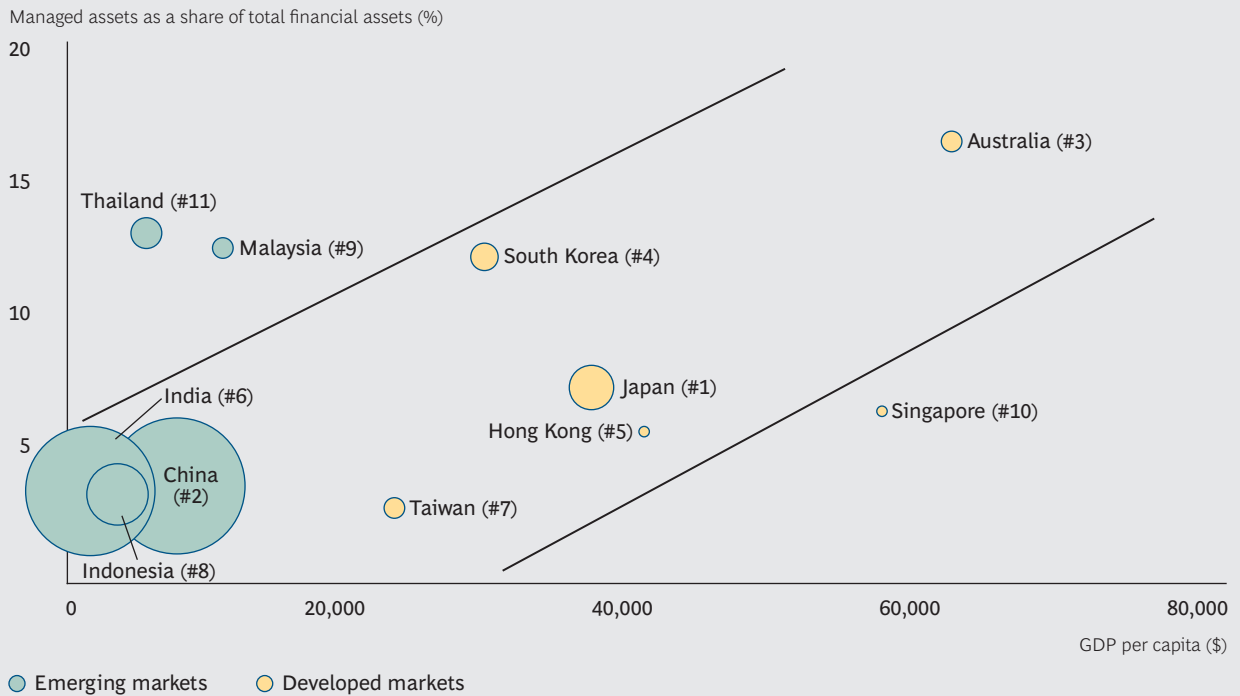
But are the conditions actually in place for Asia's asset-management moment? What challenges will global managers face in riding the wave and expanding access as markets evolve?

BCG asked senior industry executives who collectively represent more than \$1.5 trillion in regionally sourced AuM to explore these questions. Their responses reflect, foremost, that Asia-Pacific must be approached as a set of diverse markets.¹ Differences in market maturity, scale, regulation, investor demand, and channel economics make Asia-Pacific a complex environment, where each opportunity is paired with a set of challenges:

- If managers get one Asia-Pacific market right, it must be China, the region's second largest. The Chinese market is already larger than Australia's and has grown to half the size of Japan's, up from just one-quarter in 2007. For global managers, current means of market access to China's domestic investors do not offer straightforward solutions. However, further opening of the market and the capital account are under way.
- Growth of the Asia-Pacific industry will increasingly be driven by wealth and retirement savings. Asia—particularly China—is on the verge of a shift toward retirement offerings. This is the result of the demographic wave of retirements, as well as upcoming pension reforms. In the near term, preferences for local products will challenge overseas-focused managers to decide how, when, and where to localize. At the same time, both local and foreign asset managers need to gear up to serve outbound flows from China and Japan into overseas asset classes.
- The wealth and retirement trends will drive more retail savings and investment. But this opportunity will also create a challenge because the retail fund business is widely seen as a failure in Asia, and this is exemplified by weakening investment in mutual funds. Managers in many Asia-Pacific

EXHIBIT 11 | Asia's Asset-Management Markets Have Room to Grow, with Three High-Growth Economies Trailing in AuM

2014 AuM as a share of total financial assets versus GDP per capita¹



Sources: BCG Global Asset Management Market Sizing Database 2015; Economist Intelligence Unit; BCG analysis.

Note: Bubble size corresponds to the relative size of each market's population. The number reflects its ranking among Asia-Pacific markets on the basis of AuM sourced from each market and professionally managed in exchange for management fees; includes captive AuM of insurance groups or pension funds if those AuM are delegated to asset management entities with fees paid; EIU data is based mainly on government statistic-office data and partly on estimates from the International Monetary Fund.

¹Market financial assets may include offshore assets that are not included in managed assets. This affects Hong Kong and Singapore in particular.

markets fear that the retail business isn't sustainable in its current form.

Virtually every manager wants to target high-net-worth segments because of the region's expanding prosperity. Yet, so far, asset managers haven't succeeded in capturing its wealth. Asia-Pacific, excluding Japan, overtook Europe in 2014 to become the world's second-wealthiest region with \$47 trillion. (See *Global Wealth 2015: Winning the Growth Game*, BCG report, June 2015.) With a projected \$57 trillion in 2016, Asia-Pacific is expected to surpass North America (a projected \$56 trillion) as the wealthiest region in the world.

Weighing Near-Term Concerns and Long-Term Growth

As the U.S. Federal Reserve prepares to tighten monetary conditions, Asia's high-growth macroeconomic environment shares the stage

with slowing economies and monetary easing. This raises near-term concerns about market volatility and outflows.

At the same time, the global growth trends toward passive strategies and fee compression in alternatives have been more muted in Asia-Pacific and other emerging markets. Market structures and discontinuities continue to offer greater opportunities for alpha generation than in more stable, mature environments. Many regional asset managers believe that a well-designed active-management platform remains the model best suited to meet regional demand.

The hunt for yield by investors in Japan and elsewhere in the region is supporting regionalization and globalization of investments. Some regional governments are pursuing policies and initiatives to put capital toward driving their economies, promoting growth of the

asset management industry. This is particularly the case for China through its Stock Connect program, which opened Shanghai's stock market to overseas investors, and through quota enlargements for the Qualified Foreign Institutional Investor (QFII) and Renminbi QFII programs. The mutual fund recognition between Hong Kong and China, scheduled for July 1, 2015, will open the door wider.

However, the industry's growth will increasingly be driven by onshore wealth and retirement savings. Both regulators and investors will likely continue to prefer local vehicles for a high proportion of these assets, but there is a strong wave of support for local managers to develop their international asset-management capabilities to serve expected outbound investment flows.

The industry's growth will be driven by onshore wealth and retirement savings.

Industry executives express strong support for local market development, but they are concerned by the possibility of financial protectionism. Asset managers that have traditionally focused on overseas fund vehicles, including Undertakings for Collective Investment in Transferable Securities in the European Union, face a clear challenge: should they localize and if so, where and when? For China, the largest prize, the various and evolving means of market access offer no straightforward answers for global managers.

Regulatory inconsistencies—on issues such as client data migration, outsourcing, and localization of operations—are another source of concern. In a number of jurisdictions, it is becoming more difficult to centralize or regionalize middle- and back-office activities.

Industry executives would also like to see more action from regulators on product approvals, risk transparency, and suitability standards. One potential opportunity, many say, would be to receive speedier approvals in exchange for more homogenous product structures.

The Institutional Market Offers New Inroads

Institutional business in Asia remains a comparative bright spot. Asset owners' desire to build their capabilities has had a positive impact for managers. While some asset owners are making efforts to internalize capabilities—particularly for direct investing and local asset classes—external managers have retained their value. They have broadened inroads in areas including asset allocation, portfolio construction, global diversification, risk, and talent management.

While large public and sovereign owners of assets are both still of prime importance, another tier of institutions is emerging in insurance and pensions. These institutions are the foundation for long-term industry growth. For nonlocal managers, however, they remain challenging and costly to serve due to their relatively smaller mandates, customized reporting requirements, and regional dispersion. Their emergence reinforces the need for client segmentation and tiering, as well as the need for specialized sales teams.

Asia-Pacific institutions continue to show strong demand for alternatives, particularly illiquid classes such as private equity, real estate, and infrastructure. From a yield and risk standpoint in the current fixed-income environment, they are seen as attractive substitutes. There is a growing interest in Asia-Pacific underlying assets, although the focus remains on North America and Europe. There are few, if any, signs of fee pressure on illiquid alternative asset classes: asset owners appear to recognize, in most cases, that they struggle to match the external managers' expertise. On the passive end of the spectrum, a number of managers highlight increased interest in exchange-traded products from Asia-Pacific institutions as a means of managing short-term exposures.

Competing Visions for the Retail Fund Business

Asset managers continue to voice concerns about the attractiveness and sustainability of the retail fund business in many Asia-Pacific markets. Most observers agree that the current formula is not working. Retail investors remain accustomed to trading mutual funds

as if they were individual stocks—as short-term speculative instruments rarely linked to an asset allocation or investment strategy. Knowing this, distributors persistently switch attention to newer fund offerings within a few months. The majority of new mutual funds experience a rapid short-term peak, followed by large-scale redemptions and permanent decline. Fee structures featuring high entry and exit charges for retail investors arguably reinforce these patterns. The overall result is that Asia-Pacific retail investors express little interest in mutual funds: the mutual fund share of household wealth has drifted downward for several years.

Optimists argue that there is a time lag effect: Asia-Pacific retail banks are investing heavily in upgrading wealth and advisory offerings targeted at affluent segments. Once these gain traction, a boost in demand for fund products should follow. To support this, a number of fund manufacturers have invested heavily in direct marketing—with both branding and investor education in mind—to encourage a shift toward solutions and outcome-oriented products, which offer broader exposures and, potentially, lower volatility in both performance and investor sentiment than do traditional funds.

However, according to the bear market case, current distributor and investor behavior poses intractable challenges for mutual funds. The industry's future lies instead in life insurance and retirement: various large markets, particularly China, are reforming their pension systems and introducing defined-contribution components. This will, perhaps, be a longer, slower development and will require tax incentives for long-term investments that have yet to be put in place.

A Digital Future?

Despite a rush of interest in direct fund distribution, which is driven by the success of Chinese money-market funds linked to Internet giants, most asset managers anticipate limited disruption to their current intermediary relationships with banks and securities firms.

Few managers are keen to embrace direct-distribution models, citing the risk of harm

to existing channel partners, lack of regulatory support, and additional complexity for on-boarding and servicing customers. However, there is perceptible interest in direct digital models that could serve as potential market-entry mechanisms, as well as a desire to adopt digital technologies to improve effectiveness. As in other regions, asset managers see significant potential to improve the customer experience by increasing connectivity, including creation of investor communities, providing portfolio analysis and education tools, and building demand-prediction functionality.

The Way Forward: Global-Local Partnerships

The outline of the industry's Asia-Pacific future is already visible. Demographic and policy shifts will drive an expansion of onshore retirement markets, drawing a significant pool of regional savings into the asset management industry as a key source of global AuM rebalancing.

A broad range of local institutions and wealth intermediaries will emerge as key partners for global asset managers seeking expertise and diversification. But they will also demand delivery through local or regional platforms, and they will expect segment and channel specialization, requiring managers to invest more in sales functions. To meet these demands, local managers will need to build outward-looking alliances with global firms that go beyond existing domestically focused joint ventures.

NOTE

1. The Asia-Pacific region, for the purposes of this study, comprises Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan, and Thailand.

FOR FURTHER READING

The Boston Consulting Group has published other reports and articles that may be of interest to senior financial executives. Recent examples include those listed here.

Global Wealth 2015: Winning the Growth Game

A report by The Boston Consulting Group, June 2015

Global Capital Markets 2015: Adapting to Digital Advances

A report by The Boston Consulting Group, May 2015

Operational Excellence in Retail Banking 2015: Creating Digital Banks with a Human Touch

A Focus by The Boston Consulting Group, April 2015

Global Risk 2014–2015: Building the Transparent Bank

A report by The Boston Consulting Group, November 2014

Global Asset Management 2014: Steering the Course to Growth

A report by The Boston Consulting Group, July 2014

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