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Headwinds, Tailwinds & Opportunities An Uncertain Future

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AGENDA

- 2001 to 2022—Growth Years
- Tailwinds
- Headwinds
- Changing Markets, Products, Investors
- Opportunities
- Future Areas of Focus

2001 TO 2022—GROWTH YEARS

2012 TO 2022: OVERVIEW

- **Decade of unprecedented global equity growth created strong tailwinds establishing unprecedented industry growth in:**
  - AUM
  - Products
  - Products
  - Strategies
  - Participants
  - Regulatory Oversight
- **2022 created even stronger headwinds forcing industry to:**
  - Re-evaluate products
  - Consolidate products
  - Seek alternatives
  - Focus on ESG

PAST DECADES-2001 TO 2021: INDUSTRY VIEW

- **Unprecedented growth in industry**
- **Longest and strongest equity market run in history, despite GFC and Covid**
- **Global Aum**
  - $112 trillion, 7% average annual growth rate (2001-2021)
  - 2021 with: 12% growth rate │ Positive net asset flow of 4.4% or $4.4 trillion
- **Tailwinds of**
  - Historical low interest rates
  - Unprecedented government expansionary policies
  - Investors taking high risk
  - Tripling of S&P 500

PAST DECADES-2001 TO 2021: FIRM VIEW

- **Continually expanding global markets required firms to:**
  - AUM
  - Products
  - Products
  - Strategies
- **Unprecedented revenue growth from inflow:**
  - $50 billion 2005-2021 ***but…***
- **Increasing revenue pressures**
  - Shifting assets into passive
  - 2005-2021—$10 billion revenue from active
  - Dependence on market performance for increasing revenue—$110 billion
    - 2005-2021: main driver of firms' revenue growth

TAILWINDS AND HEADWINDS

TAILWINDS-2021: PROFITABILITY

- **Asset Management Industry still one of the most profitable businesses globally**
  - 36% (2020)
  - 38% (2021)
- **Primarily supported by AUM increasing higher (17%) than costs (15%)**

TAILWINDS V. HEADWINDS

- **2021: Legacy Products**
- **Majority of AUM are in legacy funds and ETFs, creating historic compounding effect on returns**
- **Innovation, costly and less successful**
  - 80% of all new ETFs, 60% of all new mutual funds closed within 3 years
  - Limited performance record v. legacy funds
  - High expenses requiring manager fee waivers v. legacy funds

TAILWINDS V. HEADWINDS

- **Passive continues to surge over active**
  - Difficult to beat a rising market
  - 2003 to 2021—passive growth exceeded active 4x over
  - More pressure on active to deliver value
- **Alternative boom—retailization of alternatives**
  - PE
  - Hedge
  - Real Estate
  - Retailization Of Alternatives
    - Interval funds and tender offer fund of PE funds
    - Vanguard offering PE fund with 14 year lockup

CHANGING MARKETS, PRODUCTS, INVESTORS

ACTIVE V. PASSIVE

- **PASSIVE │ Highly concentrated among 10 firms**
  - 75% of new inflows past 10 years
- **ACTIVE │ Less concentrated, more fragmented**
  - 33.33% of new inflow went to top 10
  - Strong performance, alpha, and value pricing wins over time
  - Boutique big differentiator
- **Still, 75% of globally managed assets are active**

SOURCE OF CAPITAL

- **Retail—2021 │ 6.6% of global inflows**
- **Institutional—2021 │ 2.8% of global inflows** WHY?
- **Technology has lowered costs and increased access to retail investors**
  - SMA
  - Model indexing
  - Investment analysis tools
  - Robo advisers
  - Fractional shares
  - Digital distribution (Ali-Baba)
- **Global wealth shift to Asia-Pacific**
  - Burgeoning Middle Class
  - APAC economies quadrupled in 20 years

OPPORTUNITIES

WHAT TO DO NOW FOR FUTURE TURBULENCE

- Inflationary economies
- Rising interest rates
- Global trade model contracting
- Aggressive regulators
- Politicizing asset management
- Old ways of designing products, managing assets, and distribution may not work under new uncertainties

HOW TO PREPARE FOR TOMORROW

- **20 Years of positive growth and expansion will be forced to change to address the new headwinds and/or grow**

- **Competition with increased technology, investor changing priorities, asset growth moving to APAC, retail being king**

FUTURE AREAS OF FOCUS

FUTURE AREAS OF FOCUS | TECHNOLOGY

- **Direct Indexing**
  - Low cost
  - Addresses investor priorities
  - Inexpensive
  - Investor focus
  - Enhances 1:1 advisor-client relationship
  - Easily specialized/differentiate

- **Tokenization of Assets**
  - Connects financial and material market
  - Bypasses middle man
  - Additional asset class
  - Gives retail investor access to pieces of illiquid asset as tradeable tokens

FUTURE AREAS OF FOCUS | ALTERNATIVES

- **Room for growth**
  - AUM
  - Products
- **High fees**
- **Locks up investors**
- **Additional assets class allocation**
- **Acquisition opportunities**
  - **2021** | 50% M&A activity included alternative manager
- **Infinite flexibility in designing strategies and specialization**

FUTURE AREAS OF FOCUS | SUSTAINABLE INVESTING

- **All roads lead to net-zero carbon emissions by 2050**
- **Asset manager firms and products need to adapt**
  - Investors demanding
  - Regulators requiring
  - Politicians forcing firms to specialize
- **Asset managers will be the new "Captains of Capital" to raise assets to fund sustainable products**
  - $100–$150 Trillion in capital to meet net-zero pledge
  - Much front loaded
- **New area of products, strategies, and differentiators**

CONCLUSION

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CONCLUSION

Growth & Profit

Past 20 years have given the industry tremendous growth and profit

Headwind

Next 5+ years will require the industry to address significant headwind

Survivors & Expanders Will Focus On

Specialization
Technology
Change in investor makeup
Alternatives
Decarbonization

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One of the most profitable industries with some of the most creative minds will fly though the headwinds with only a few bumps, and will come out in a stronger position than when it entered.