



# Reimagining ASSET MANAGEMENT

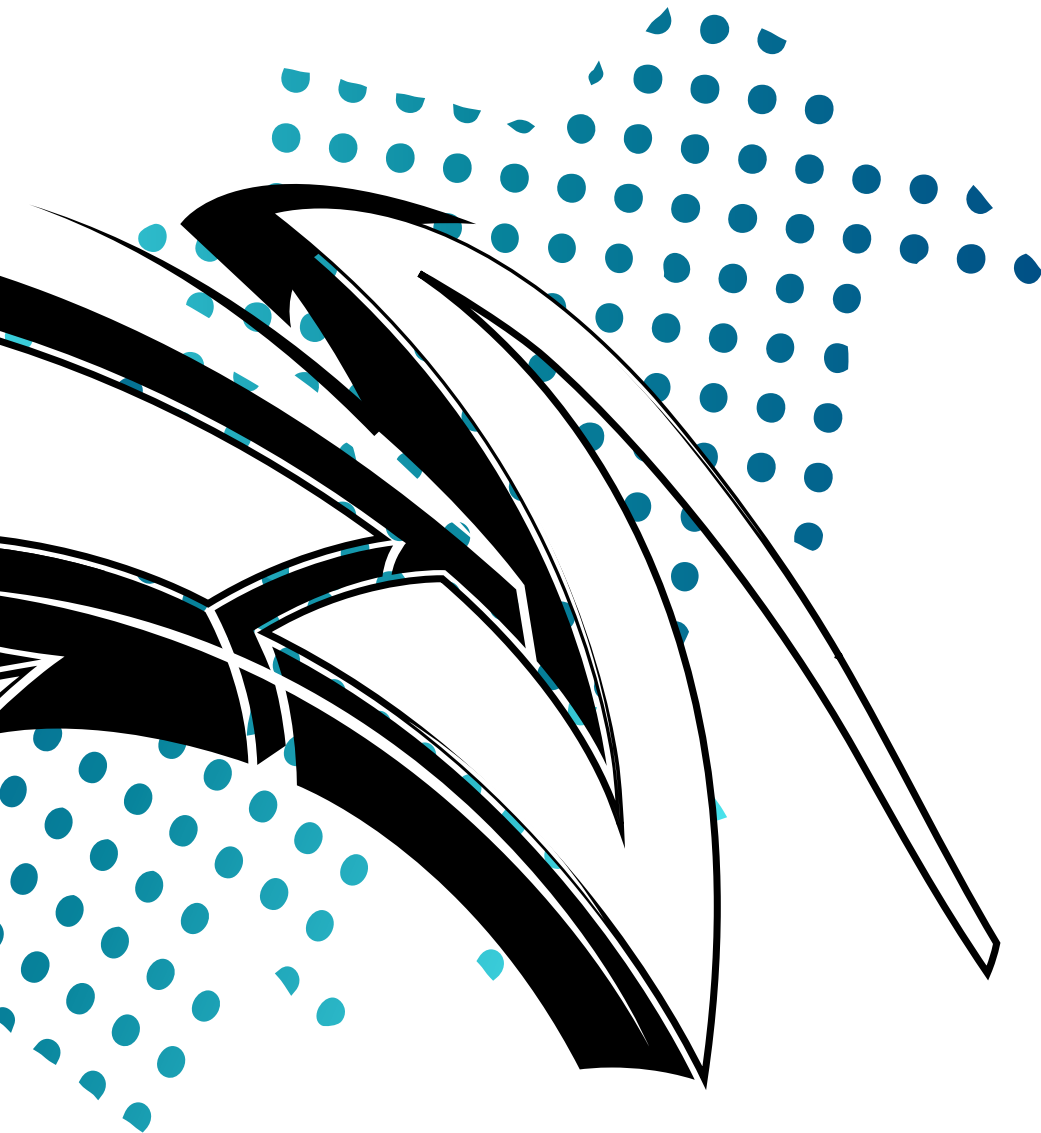
2021 Asset Management  
Opportunities and Risks Report

Executive Summary

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October 2021





Welcome to the executive summary of KPMG's 2021 Asset Management Opportunities & Risks Report. In the coming weeks we'll be releasing a series of deep dives on the themes explored in the executive summary. Ahead, we've collected key findings and insights from our national survey of Canadian asset managers representing assets under management greater than \$1.2 trillion dollars. Join us as we uncover what's driving and challenging today's industry leaders during one of the most transformative times in recent memory.

**When you're ready, let's do this.**

# Report overview

## Top 6 organizational opportunities

- 1 Launching new products and services (+19% from 2020)\* **73%**
- 2 Increasing penetration of existing client base (+10%) **73%**
- 3 Accessing new investor base, either within or outside existing market (+35%) **64%**
- 4 Focusing on distribution channel and client needs (+9%) **55%**
- 5 Improving data analytics capabilities to enhance product design, marketing, and pricing **45%**
- 6 Demand for solutions and specialties (+28%) **45%**

## Top 5 opportunities for asset managers

- 1 Launching new products and services (+18%) **64%**
- 2 Customer preference for direct and digital channels (+33%) **64%**
- 3 Improving data analytics capabilities to enhance product design **64%**
- 4 Enhancing operational processes through the use of technology (+12%) **55%**
- 5 Demand for solutions and specialties (+16%) **45%**

## Top 6 risks for organizations

- 1 Regulation and cost of compliance (+10%) **64%**
- 2 Lower management fee environment (-5%) **55%**
- 3 Cybersecurity (+12%) **55%**
- 4 Changing customer preferences (+10%) **36%**
- 5 Failure to adopt new technologies successfully (+25%) **36%**
- 6 Legacy systems (+13%) **36%**

## Top 3 risks for asset managers

- 1 Regulation and cost of compliance (+71%) **100%**
- 2 Lower management fee environment (+10%) **81%**
- 3 Product differentiation (+21%) **64%**

\* Data based on KPMG's 2020 Opportunities & Risks Report

# Industry outlook

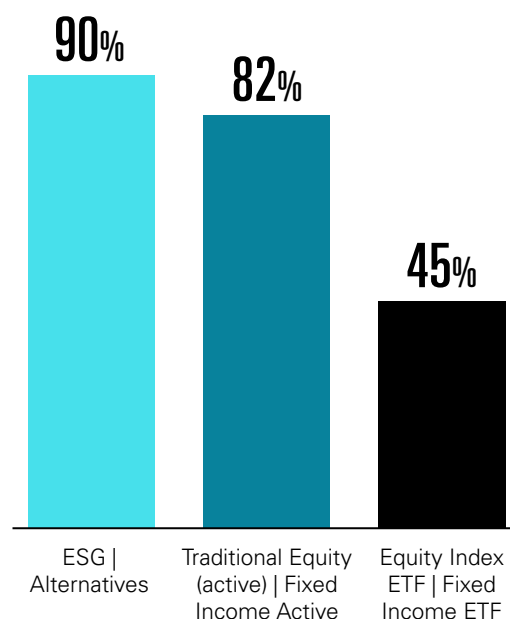
## Growth mindsets

Growth and transformation were top of mind for Canadian asset managers well before the pandemic. And while firms are now enjoying incredible growth in assets under management (AUM), they face enhanced obstacles to revenue growth in the form of increased domestic and global competition, the rising cost of regulatory compliance and tax reporting, and downward pressure on management fees, all of which are impacting the overall bottom line and challenging the traditional business models.

Despite these obstacles, 73% of asset managers are “somewhat” or “significantly more” optimistic about the future of their organization and the Canadian asset management industry, up a significant 47% from those who expressed the same optimism in our 2020 study. Notably, no 2021 respondents were pessimistic about their organizations' future, compared to the 40% who were pessimistic one year prior.

Surely, the last 18 months have been taxing, but if anything, demands for adaptation and evolution during the pandemic have accelerated transformations, providing asset managers with the tools, data, and flexibility to pursue profitable growth opportunities.

## Top products in demand



Demand for ESG products has grown exponentially as large institutional investors face ever-increasing pressure to allocate more of their portfolios to companies that are on the journey to net-zero emissions. Today, there are more than 3,400 open-end funds and exchange-traded funds globally that consider ESG factors in the way they invest. And in the next few years, KPMG expects that the proportion of global AUM being viewed through a sustainability lens will climb from 25% to 75%<sup>1</sup>.

<sup>1</sup> <https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/09/2020-kpmg-aima-global-hedge-fund-survey.pdf>

81%

of asset managers  
offer ESG  
investing, and

27%

offer both ESG  
investing and ESG  
impact strategies.

## ESG reporting

Nearly half of asset managers offering ESG investing and/or impact strategies have questions about the quality of the company data being provided. Until regulatory frameworks concerning ESG reporting are prescribed in the US and Canada, and aligned with those being proposed in Europe, concerns over data integrity will persist.

Alternative products are also in demand due in part to persistently low interest rate environments as well as tremendous market volatility. 82% of survey respondents tell us private debt/credit is the most in-demand alternative product, followed by hedge funds, private equity, real-estate, and infrastructure. (55% each). Cryptocurrencies ranked last in the list of in-demand alternative products (9%).

Alternative investments fulfill an important role in an investor's portfolio which has only been elevated as a result of increased economic risks and market volatility post-pandemic. This finding was supported by the KPMG International and AIMA (Alternative Investment Management Association) 2020 global survey<sup>2</sup>.

<sup>2</sup> <https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/09/2020-kpmg-aima-global-hedge-fund-survey.pdf>

## Hedging bets

Throughout the pandemic, the alternative investment class has shown its ability to manage risk and volatility while still producing above-market, risk-adjusted returns for investors. Considering most within the industry expect market volatility to remain elevated in the near- and medium-terms, demand for these products and increased allocations to this asset class will continue to drive demand. One of the largest challenges investment managers face in meeting this product demand is attracting the right talent to create, innovate and manage these new product classes as well as having the right leaders for the transformation of their existing business and operating models in order to accommodate and support these new products.

Many investment managers and advisors view the current environment as an opportunity. Some investment managers expect the industry to experience significant growth over the coming 12–18 months as

investors shift from a “60/40” balanced portfolio to a more diversified portfolio which includes the ability to preserve capital and/or provides the opportunity to source differentiated investment exposure with non-correlated returns. Asset managers must seek greater interconnectivity and interaction with other players in the industry supply chain if they want to benefit and scale from this growth.

**73%**  
of asset managers  
launching new products  
are focused on new  
fund strategies.

## Tailor-made

“Customization for the masses” will be a key product growth driver over the next five years. Alpha is becoming more difficult to attain, making personalized products an appealing alternative to low-cost beta investing, and one that can improve client experience and overall client centricity.

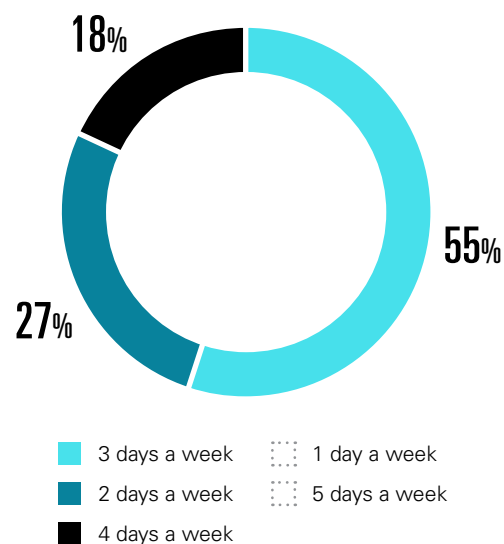
Over one-third (36%) of asset managers plan to enhance financial yields through investing in new asset strategies

# Hybrid workforces

Asset managers unanimously agree they will support a hybrid workforce (e.g., remote and in-office employees) for the foreseeable future. These findings align with KPMG's recent poll of Canadian workers<sup>3</sup> in which 77% like the idea of a hybrid workplace model and 71% believe a hybrid workplace should be the standard model for all organizations.

Opinions vary, however, when it comes to setting the boundaries for a hybrid workplace.

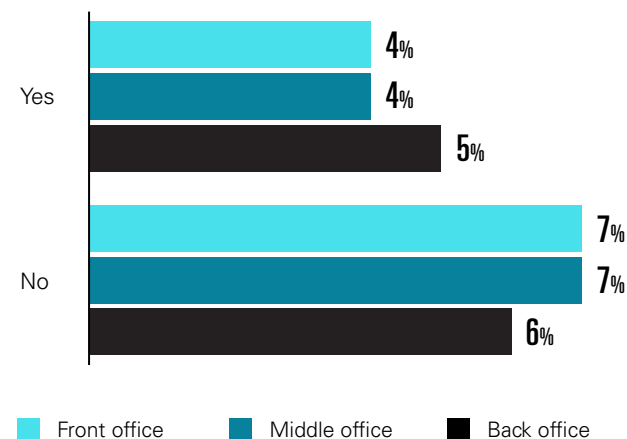
Asked how many days a week will their employees be required to work in the office, respondents said:



## Policy shifts

Preferences for hybrid workspaces will have minimal impact on employee policies as they relate to front, middle, and back office operations.

If managing a hybrid workforce, will your policies differ for employees in:



<sup>3</sup> <https://home.kpmg/ca/en/home/media/press-releases/2021/05/canadians-like-hybrid-model-concept-workplace-reboot.html>

## Adapting offices

Embracing hybrid workforces requires a shift in how physical office space is used, both in regards to protecting the health of occupants and supporting collaboration with remote employees. Here's how Canada's asset management leaders are planning to change their office space:

- 64%** Video technology to connect team members and/or customers working from home
- 45%** Collaboration spaces
- 45%** Protected desks/pods with barriers
- 45%** Workspaces with minimum two-metre distancing
- 27%** Ventilation system enhancements

Only **18%**  
of asset managers  
are not planning any  
changes to their  
physical office spaces.



# The digital imperative

Digital transformation is a recurring theme throughout KPMG's annual Asset Management Opportunities and Risks survey. And while firms are making progress on their digital initiatives, concerns linger regarding legacy and disparate systems, as well as the risks associated with adopting new technologies.

Nevertheless, 91% of respondents plan to increase their investment in digital technologies over the next 24 months, and all plan to do so over the next five years.

In the short term, digital investments are focused on:

## Front office

- 1 Sales and marketing/ investor relations portal
- 2 Portfolio risk management
- 3 Big data analytics | Research and securities selection | Due diligence practices

## Middle office

- 1 CRM that works in a more efficient and cost effective way.
- 2 Client onboarding
- 3 Asset gathering via digital platforms | Marketing and branding | Intermediary relationships

## Back office

- 1 Fund accounting
- 2 Trade and settlements
- 3 Transfer agent | Valuations of liquid assets

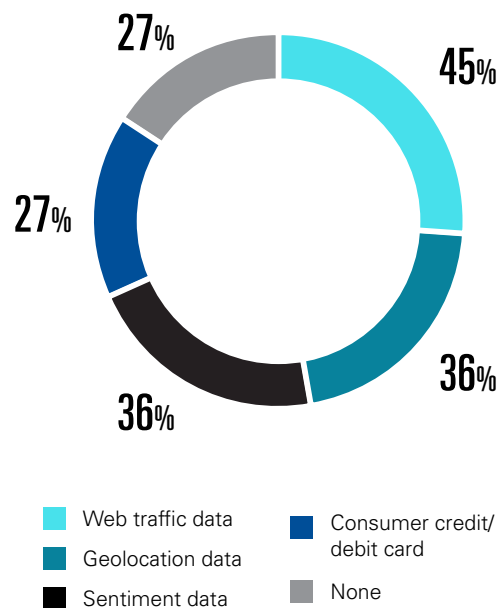
# 73%

of asset managers use statistical analysis and/or rule-based algorithms (not machine learning) to analyze financial markets or stock market data.

# 45%

of asset managers do not use any techniques to analyze news or unstructured data.

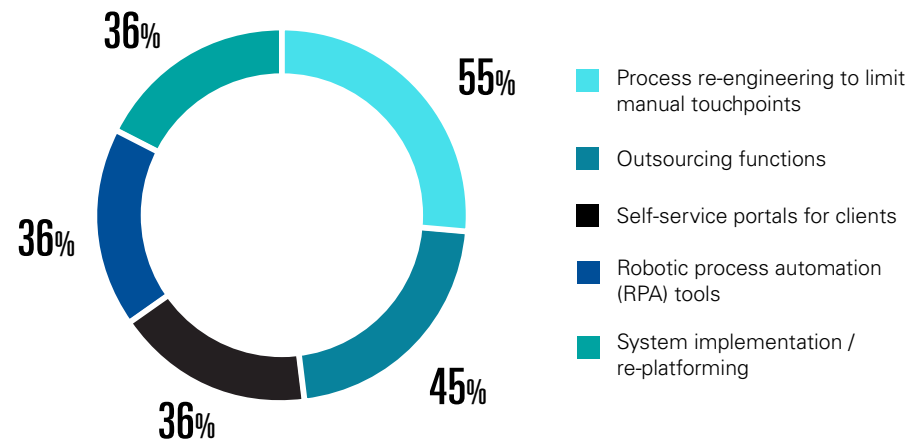
## Alternative datasets used to gain investment insights



## Driving efficiencies

Concerns for competition, a lower fee environment, and required digital investments continue to prompt the majority of asset managers to explore cost optimization or operational efficiency activities, primarily within the back office (91%) and middle office (82%).

## What functions are asset managers exploring to achieve benefits?



These insights offer a snapshot of the strategies, investments, and mindsets guiding Canada's asset managers as they push ahead. If you're interested in digging deeper, KPMG is ready to talk.

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