KPMG

The need for agility and decisiveness

Insights from asset management CEOs

KPMG International

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Contents

Key findings for asset management CEOs

Confidence amidst uncertainty

CEOs show confidence in their company despite uncertain times

- **Concern for global economy**
  Asset management CEOs are the most pessimistic sector regarding growth for the global economy, however, 93 percent are confident in their company's growth.
- **Eyeing growth abroad**
  While 63 percent list emerging markets as their biggest priority for expansion, 59 percent list China's Belt and Road Initiative as their main priority. Only 37 percent listed developed markets as their top priority.

It's time to change

CEOs believe that they must shift business strategies for disruption

- **Environmental/climate change top risk**
  Sixty-eight percent say that organizational growth will be determined by the shift to a low-carbon/ clean tech economy. More than half believe they must look beyond purely financial growth to achieve sustainable, long-term success.
- **New risks gain prominence**
  Since the 2018 survey, emerging/disruptive technology has risen from third to second place among threats to growth. Cyber security risk is now a top five risk among CEOs.
- **Growth hinges on agility**
  While 73 percent highlight the ability to disrupt to drive growth, CEOs admit their need to improve innovation processes, build the future workforce and link their growth strategy with a wider social purpose.

Responding with bold steps

CEOs are eager to disrupt but admit there is work to be done

- **Willing to disrupt the business**
  Ninety-nine percent describe technological disruption as an opportunity versus a threat and 53 percent state that they are actively disrupting their sector rather than waiting to be disrupted by competitors.
- **But ready and able to disrupt?**
  Only 58 percent feel that they have a culture where 'fast-failing' or unsuccessful innovation efforts are celebrated. Seventy-two percent say that lead times to achieve significant progress on transformation seem overwhelming.
- **Boosting resilience**
  CEOs are prioritizing investments to improve company resilience with 63 percent placing capital investment in new technology and 37 percent investing in developing their workforce's skills and capabilities.

Top of mind for CEOs

CEOs are taking a fresh look at their role and ability to drive change

- **Taking a hands-on role**
  Eighty-three percent say they are actively transforming their leadership team to strengthen resilience. Seventy-five percent are taking responsibility for ensuring the connection between front, middle and back offices and 81 percent are personally leading their organization's technology strategy.
- **Challenging themselves**
  Seventy-eight percent say they must act with agility since the average CEO tenure is now just 5 years. They admit that there is work to do since 67 percent state that building customer connections is paramount, but to date 64 percent say they could significantly improve their understanding of their customers.

The need for agility and decisiveness for asset management CEOs

While they are confident about their immediate business prospects despite a fragile global economy, CEOs of the world's major asset management companies are alert to the need to adapt their businesses to reflect customer values and expectations, environmental risks and transformational technological change.

Although these c-suite leaders are bullish on near-term industry growth, they express uncertainty for their company's ability to innovate and disrupt itself, and embed that resilient spirit to sustain growth in the face of an uncertain future.

In response to the unfolding market challenges and opportunities, they are focused on making the strategic decisions required to increase internal agility and flexibility throughout their organization, processes, infrastructure and workforce.

Those are among the top themes emerging among asset management executives surveyed for KPMG International's 2019 Global CEO Outlook. This annual publication, which includes interviews with CEOs from the world's most significant businesses provides a unique snapshot of the views of more than 1,300 CEOs in 11 countries and key industries. With data collected in early 2019, the responses from the 81 global asset management CEOs offers a unique and timely perspective into their current mindset, business concerns and priorities.

The fifth annual Global CEO Outlook contains timely insights into the challenges and opportunities for CEOs of the largest corporations from around the world. The findings are based on nearly 1,300 CEOs in 11 of the world's largest economies and 11 key industry sectors.

The operating landscape: Ready for challenging conditions

To understand asset management CEOs' underlying view of their operating environment and the conditions driving their strategies, we asked them about their confidence in the growth prospects not only for their company, but also for their industry, home country and global economy.

As indicated in the adjacent chart, these leaders expressed low confidence in the global economy (54 percent). In fact, among 11 industries included in the 2019 Global CEO Outlook, asset management was the second least optimistic about global prospects, with manufacturing being the only industry in which CEOs held a more negative view.

That said, while asset management is one of the most pessimistic industries regarding worldwide growth, there are highly confident in growth for their individual company (93 percent) as well as for their home country and industry.

Tom Brown, Global Head of Asset Management, KPMG International, observed that this view is not surprising since industry growth is somewhat de-coupled from the broader economy: "We predict strong ongoing industry growth thanks in part to the growing pools of capital from investors who are living longer and saving for retirement, and this is consistent in many regions. Thus it makes sense that asset management CEOs feel optimistic about their company despite global unease. That said, these firms must remain focused on delivering strong returns with the capital they've amassed, especially in today's challenging markets and volatile geo-political environment, otherwise they risk losing those investors."

Overall confidence in growth prospects: next 3 years

2019 Global CEO Outlook — asset management data, KPMG International

Looking afar for growth

Unsurprisingly, asset management companies are turning their attention overseas in pursuit of new growth, with 63 percent listing emerging markets as their biggest priority for geographic expansion in the next 3 years. More than half (59 percent), said they are prioritizing geographies that form part of China's Belt and Road Initiative. A sizable 88 percent of those who were bullish on emerging market expansion said their rationale is to build their business resiliency.

In contrast, just a third of asset management CEOs (37 percent) listed developed markets as their biggest priority for expansion. More than half of those respondents ranked North America rank first.

"It's clear that the growth potential is getting better understood across developing markets. Asset management CEOs recognize the need to build local distribution networks in order to raise capital," notes Tom Brown. "While some asset managers are focused on the near-term investment opportunities closer to home, they realize the medium- to long-term opportunity in Asia and its potential to outstrip other markets."

> "We predict strong ongoing industry growth thanks in part to the growing pools of capital from investors who are living longer and saving for retirement."

Tom Brown
Global Head of Asset Management
KPMG International

Critical self-diagnosis: CEOs admit they must change

When we asked asset management executives to assess the challenges facing their own company's growth, we heard some frank comments on the need to change or be prepared to shift strategies.

When asked to rank the greatest threats to company growth, environmental/climate change risk, disruptive technologies and a return to territorialism were the top responses. Notably, in the wider global results, environmental and climate change risk rose from fourth place ranking in 2018 to first place in 2019. For asset management CEOs, it moved from second to first demonstrating how environmental issues have been and continues to be an important issue.

Specifically, 68 percent of CEOs in the asset management industry agreed that organizational growth will be determined by their ability to anticipate and navigate the global shift to a low-carbon, clean technology economy.

Tomas Otterström, KPMG's Global Leader of Sustainable Finance Services, agrees these findings mirror the rising focus on sustainability and environmental, social and governance (ESG) factors in the sector. "While the governance part of ESG traditionally has been high on the asset managers' agenda, environmental topics have gained greater attention as the financial consequences of climate change, fossil fuels, plastics and other wastes have become better understood," says Otterström. He explains that now asset managers need to analyze what these issues mean for their risk management, their data needs and analysis capabilities, and eventually the risk-adjusted return of their funds and mandates.

Furthering this emphasis on creating a sustainable business, more than half (53 percent) of survey participants agreed that they must look beyond 'purely financial growth' in order to achieve sustainable, long-term success. Otterström opines that, "Although good investment processes are primarily designed to deliver the targeted risk-adjusted returns, the starting point for an increasing number of investors are values and beliefs, which are typically ethical. Increasingly today, investors are looking to create societal value beyond current financial value. They recognize that, what is societal value today, and external to profit of investments, may soon enough be internalized by regulation, consumer choices and raw material markets. Asset managers have to respond to investors' needs for responsible investment."

Otterström describes how, from a sustainable finance perspective, many in the industry are now in the process of building strategic approaches to responsible investment: "To be successful in the new sustainable finance future, asset managers, asset owners, banks and insurance companies need to understand their clients and their ESG expectations, prepare for new regulation and think long-term to manage ESG in a systematic and targeted way."

Greatest threats to growth in descending order

2019	2018
Environmental/climate change risk	Return to territorialism
Emerging/disruptive technology risk	Environmental/climate change risk
Return to territorialism	Emerging/disruptive technology risk
Operational risk	Operational risk
Cyber security risk	Reputational risk

2019 Global CEO Outlook — asset management data, KPMG International

When asked about the day-to-day challenges impeding organizational growth, asset management CEOs highlighted issues relating to talent acquisition, innovation and process improvement and their ability to respond to disruptive forces. In this context, more than two-thirds of CEOs (68 percent), said that it is critical to be agile or else they will face irrelevance.

Organizational growth

2019 Global CEO Outlook — asset management data, KPMG International

Investors are increasingly looking to create societal value beyond current financial value.

Tomas Otterström
Global Leader
Sustainable Finance Services
KPMG International

Regarding asset management CEOs' second largest risk, emerging/disruptive technology, Kalpana Ramakrishnan, Advisory Services Partner, with KPMG in the US, agrees that the CEOs are feeling the pressure to innovate. "They definitely see the need to be more adaptable and agile in light of shifting markets and the need to be more responsive to investor demands than in the past. Part of the answer is becoming more digital, and accessing the data to better understand their customers. They understand that, clearly, whoever has the data is going to control the interactions with their customers."

Ramakrishnan points out that in addition to industry imperatives of becoming more digital and data-driven to improve customer-centricity, asset managers see the need to invest in technology to improve their operational efficiency, increase their scale, and begin to take advantage of the "adjacent plays" between asset and wealth management: "In the US market these two businesses often operated quite separately, so we see increased interest in linking them to better leverage the shared opportunities."

Putting the customer first

Tom Brown notes that this drive to customer centricity is also fanned by increased regulatory pressure for asset managers to take greater responsibility for their end consumers: "While historically many asset managers focused on their wholesale role, without much direct involvement with their end investors, the regulators are now pressing the industry to pay closer regard to consumer needs and benefit." He adds that asset managers are prudent to pursue greater collaboration with their distributors to share customer insights and build relevant and seamless products and service delivery.

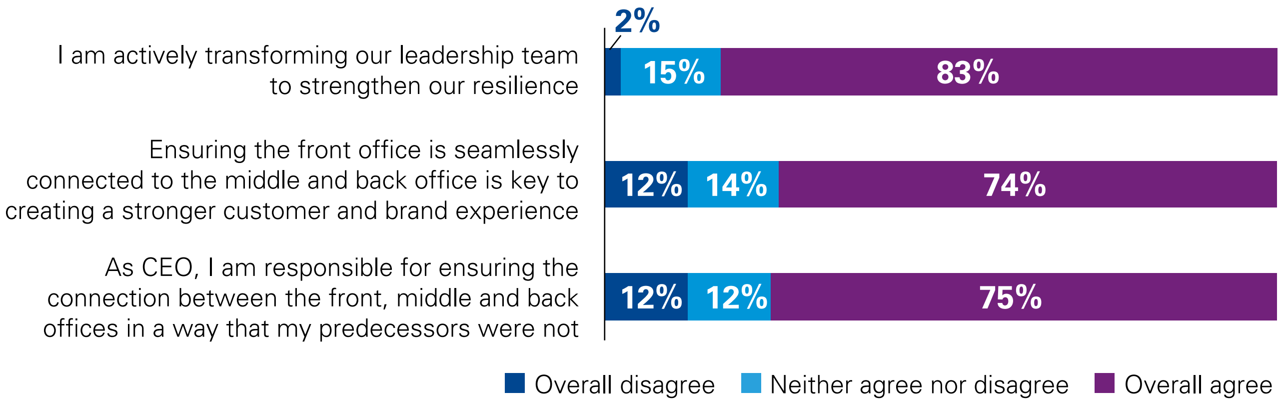
Regardless of asset managers' motivation, Brown points out that they face an uphill challenge engaging more closely with the end investor based on the traditional value chain model by which distributors closely guard their relationship with the consumer. "Whoever owns the customer has a lot of power, and that's starting to drive distributors to create their own in-house asset management teams and asset managers to develop their own direct to consumer channels, often by introducing robo-advisor services. The market is definitely changing and the clear lines between manufacturers and distributors are blurring."

In this context, 68 percent said that it is critical to be agile or else they will face irrelevance.

Responding to the challenge: Bold steps forward

In light of the growth challenges highlighted by asset management CEOs, our survey found that they are increasingly placing emphasis on driving operating model transformation.

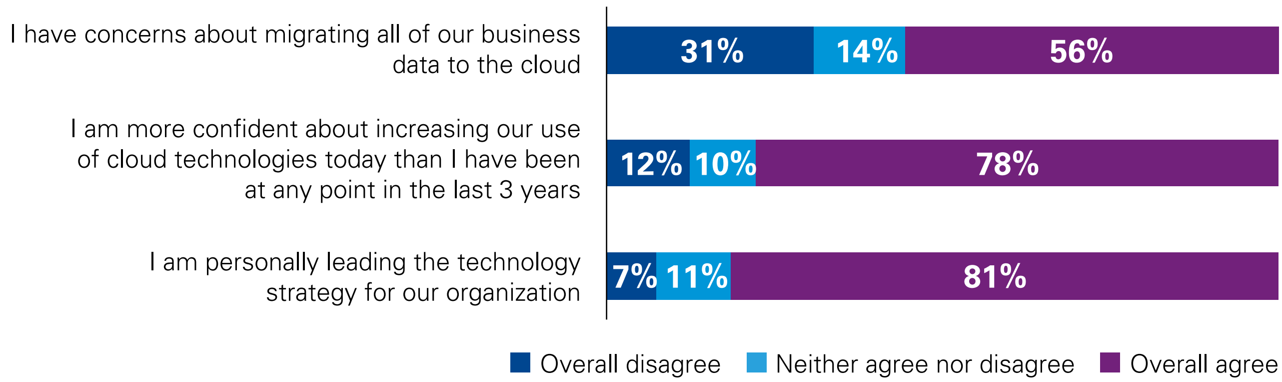
Oversight of functional areas



2019 Global CEO Outlook — asset management data, KPMG International

At the same time, these leaders acknowledge that the technology aspect of their role is challenging. They allude to a time-consuming and complex task, when 81 percent of CEOs note that they are personally leading their organization's technology strategy and more than half (56 percent) have concerns about migrating all of their business data to the cloud.

Technology strategy and confidence in cloud technology



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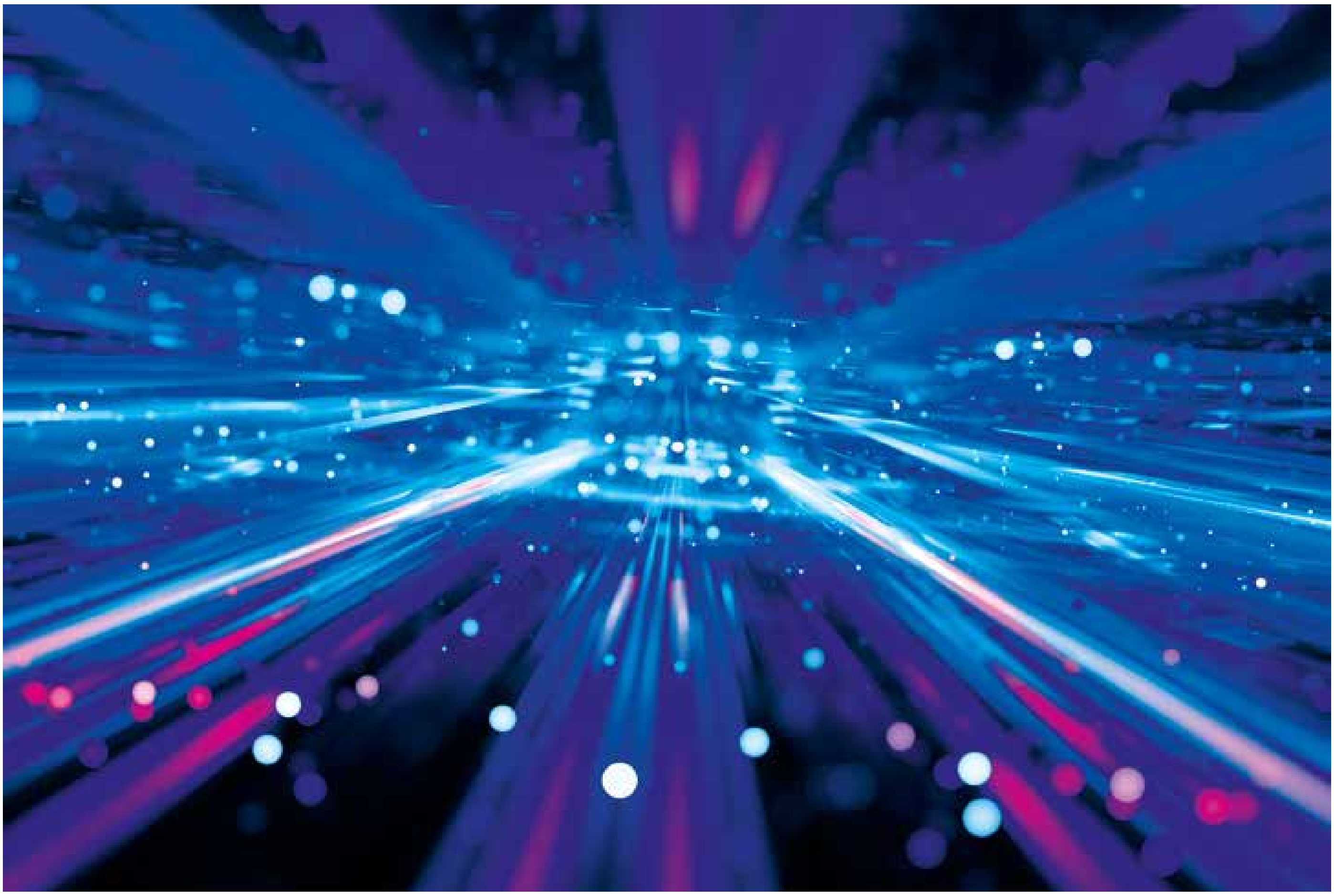


Observes Kalpana Ramakrishnan, "Asset managers are asking themselves what is really core to their businesses, after years of building home-grown systems and attempting to differentiate their front, middle and back offices. Now they are trying to determine what functions are non-core, could be outsourced, or transitioned to end-to-end vendor platforms that make them more agile and competitive from an operations standpoint."

She notes that this is forcing the c-suite to actively examine their aging legacy systems and look for technology architecture that can make them more nimble to react to market needs: "Beyond overseeing data strategies and application architecture plans, they need to look at the entire structure of their IT organization to make it more agile and responsive. It's not an easy role for the CEO to play when you have a business to run today and you also need to make decisions that address how the business is changing."

In response to this challenge, many asset management companies are creating new senior roles, such as Chief Digital Officer and Chief Change Officer, to help the CEO lead these key areas. Increasingly, they are hiring this talent from outside the financial services sector, so as to gain fresh insights and perspective from other industries.

> "Asset managers are asking themselves what is really core to their businesses, after years of building home-grown systems and attempting to differentiate their front, middle and back offices."

Kalpana Ramakrishnan
Advisory Services Partner
KPMG in the US

Are asset management CEOs ready for disruption?

Although asset management CEOs articulated a strong willingness to driving internal technology change, our survey findings found much less enthusiasm about their current ability to lead meaningful industry disruption.

When compared to 10 other industries included in the KPMG Global CEO Outlook, asset management had less appetite for driving disruption than the global average and the sector was less concerned than others with creating a fast-learning innovation culture. Only 58 percent of asset management CEOs feel that they have a culture in which 'fast-failing' or unsuccessful innovation efforts are celebrated.

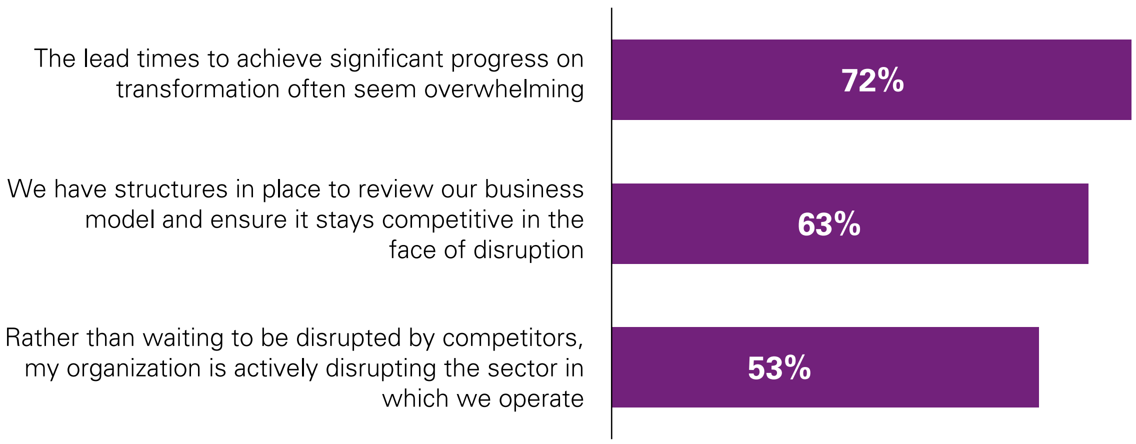
KPMG's Ramakrishnan says that the asset management industry has maintained a highly stable workforce for many years, without the sort of talent turnover that has occurred in other sectors in the past decade. She notes that, "We see that many asset management CEOs are now asking 'What must our future workforce look like to help us become more digital and customer-centric?' and 'What HR strategy do we need to get there, since we cannot turn on a dime?'"

Ramakrishnan recommends that CEOs take a holistic approach to build a cohesive strategy: "KPMG member firms see how each part of a company is looking at talent retention and acquisition, but rather than dealing with the talent issue in isolation, it's best to build an enterprise-wide strategy, to determine what needs to be tackled in sequence, get some quick wins, and plan for the future."

Thus, while 99 percent of asset management CEOs describe technological disruption as more of an opportunity than a threat, they admit to various challenges in developing their technology response, including lengthy project lead times, and an absence of structures or processes to spark proactive innovation. While CEOs face many disruptors, a root cause of these specific circumstances might be the reported absence of an internal 'innovation culture'.

Only 58 percent of asset management CEOs feel that they have a culture in which 'fast-failing' or unsuccessful innovation efforts are celebrated.

Technological disruption affects on business

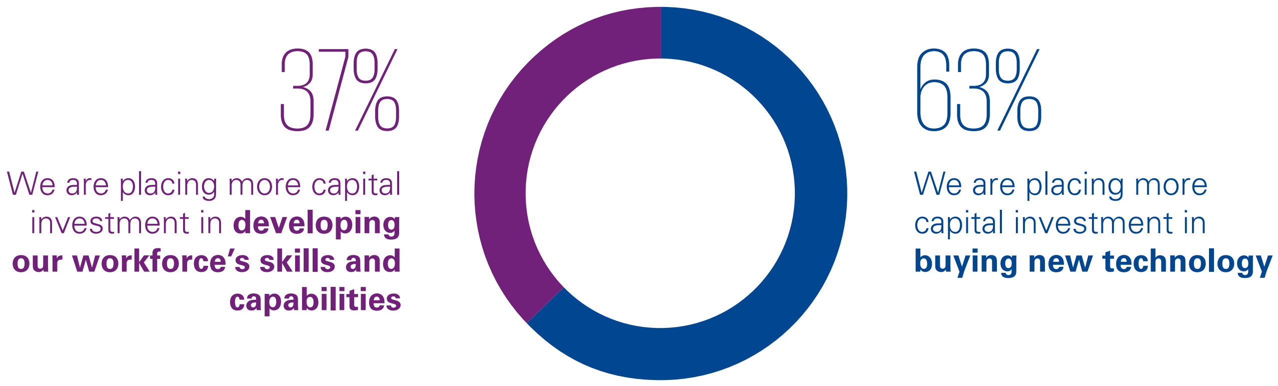


2019 Global CEO Outlook — asset management data, KPMG International

Strengthening organizational resilience

To address some of the gaps in their digital capabilities, we observe how many asset management companies are taking solid steps forward. For example, nearly half (49 percent) of these firms indicate they plan to upskill a significant part of their workforce over the next 3 years.

Investments CEOs are prioritizing to improve organization's resilience

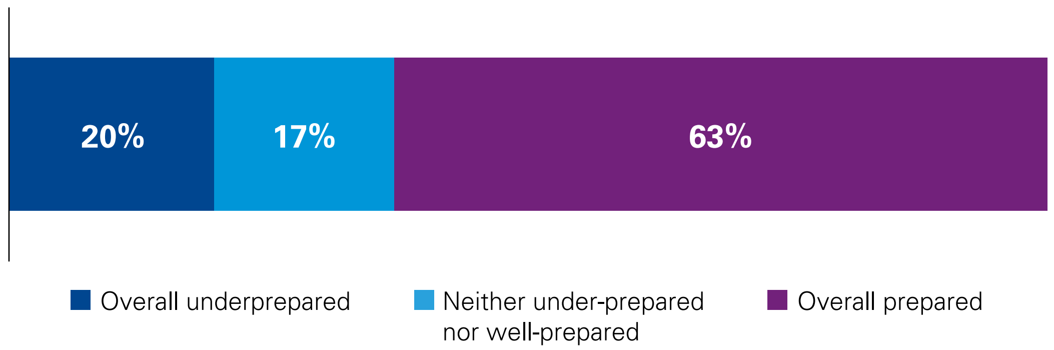


2019 Global CEO Outlook — asset management data, KPMG International

The pressing issue of cyber resilience is no doubt pushing these investments forward, since 67 percent of respondents said that becoming a victim of a cyber attack is inevitable. In addition, a sizable 20 percent of company CEOs acknowledged that they are under-prepared for an attack.

Kalpana Ramakrishnan of KPMG in the US acknowledges the considerable progress made by asset managers in recent years to bolster their cyber security: "As a regulated industry that is constantly being examined by regulators and internal compliance groups, the asset managers have been careful to put good security and controls in place. However, as these companies become more digital, and they replace traditional customer interaction models with new approaches, this is going to open up and expand their risk profile, forcing asset managers to double-down on cyber."

Preparedness for a cyber attack



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Top of the CEO agenda

In light of the shifting risks and opportunities identified by asset management CEOs, it's no wonder that many CEOs are taking a fresh look at their own role, both in terms of their priorities and the skills required to propel their firm forward.

The customer experience is at the top of CEOs' list, with 67 percent of these executives stating that building customer connections is paramount. In particular, they affirm a personal responsibility for ensuring that their organization's environmental, social and governance (ESG) polices reflect customer values. The majority (72 percent) state that protecting customer data is among their most important responsibilities in order to grow the company's future customer base.

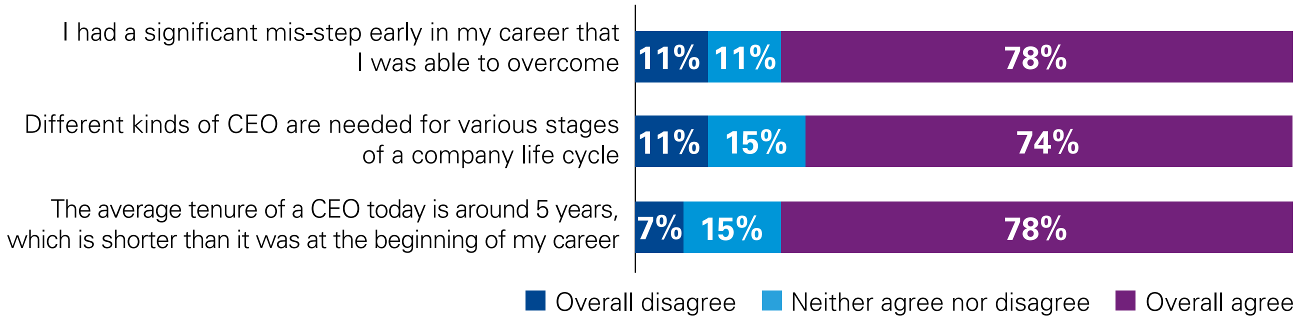
Tom Brown of KPMG International adds that, changing regulatory sanctions in financial services in many jurisdictions, including the UK, mean that CEOs must assume greater accountability for their business: "There's considerably more accountability placed upon CEOs under the current senior management regime and this is forcing them to be much more involved in the details, with a tighter grip on the business they are responsible for."

At the same time, these leaders admit that there is much work to be done, with a half (49% percent) stating that the investments made to date in personalizing the customer experience have not delivered the growth they hoped for. Almost two-thirds (64 percent) say that they could significantly improve their understanding of customers.

Adding to the challenge, our survey participants highlighted additional pressures. Among them, CEOs note that, with the average tenure of today's CEO now being around 5 years, they must act with greater agility to impact company growth and performance in a condensed timeframe. Nearly three-quarters of these CEOs added that they are putting in place measures to ensure their personal vision is achieved after they have left their current role.

Perhaps recognizing the evolving skillsets required to guide asset management companies in today's complex environment, 72 percent of respondents noted that different kinds of CEOs are needed at various stages of a company lifecycle.

The agile CEO



2019 Global CEO Outlook — asset management data, KPMG International

Reflecting on these findings, Tom Brown observes that, "The industry is changing dramatically and the skills and experience required by a CEO today are very different than in the past. They must now be more attuned to changing customer demands, as opposed to simply focused on the investing side of the business. They must also be skilled in customer distribution, technology and new markets, and possess a stronger understanding of risk management and operational matters because they are being held to greater account for their companies' actions."

Concludes Brown, "As asset management CEOs push themselves to rise to these new leadership challenges, they know they cannot wait to respond to the shifting marketplace before them. They know that the time is now, to make strategic business decisions to turn these new opportunities into strong and sustainable growth."

Conclusion

The 2019 KPMG Global CEO Outlook provides a clear picture of an asset management industry that is confident in its near-term growth prospects but is taking steps for considerable disruption ahead.

While immediate priorities may center around expansion into emerging markets, asset management CEOs recognize the need to strengthen their customer focus, including their connectivity with end customers/investors, including their interest in ESG values and issues. The CEOs also appreciate the importance of creating organizational agility and flexibility, by transforming their infrastructure and streamlining processes and operations to be more responsive to business environment change.

Although asset management CEOs understand the need to follow this path, they acknowledge the challenges of doing so, including the absence of a deep, internal 'innovation culture.' They also see the need to evolve their workforce in lock step with their technology investments, to fortify their digital and data capabilities, meet customer demands and protect against heightened cyber risks. While asset management CEOs admit that they may need to cultivate their own skills to help lead their companies effectively, they still possess a positive spirit to face these challenges and harvest the new opportunities in the shifting investment landscape.

Methodology

The KPMG Global CEO Outlook is a survey of 1,300 CEOs in 11 of the world's largest economies: Australia, China, France, Germany, India, Italy, Japan, the Netherlands, Spain, the UK and the US. The survey was conducted between 8 January and 20 February 2019.

Of the 1,300 CEOs, 310 came from companies with revenues between US$500 million and US$999 million; 543 from companies with revenues between US$1 billion and US$9.9 billion; and 447 from companies with revenues of US$10 billion or more.

The data presented in this report is based on the 81 respondents who identified themselves as working in the asset management industry.

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