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cutting through complexity

FINANCIAL SERVICES

Investing in the future

How megatrends are reshaping the future of the investment management industry

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KPMG INTERNATIONAL

Nobody can predict the future. However, one thing is clear, it will be very different to today. We believe that a number of deeply-rooted forces - **megatrends** - are driving fundamental changes within the **investment management industry.**

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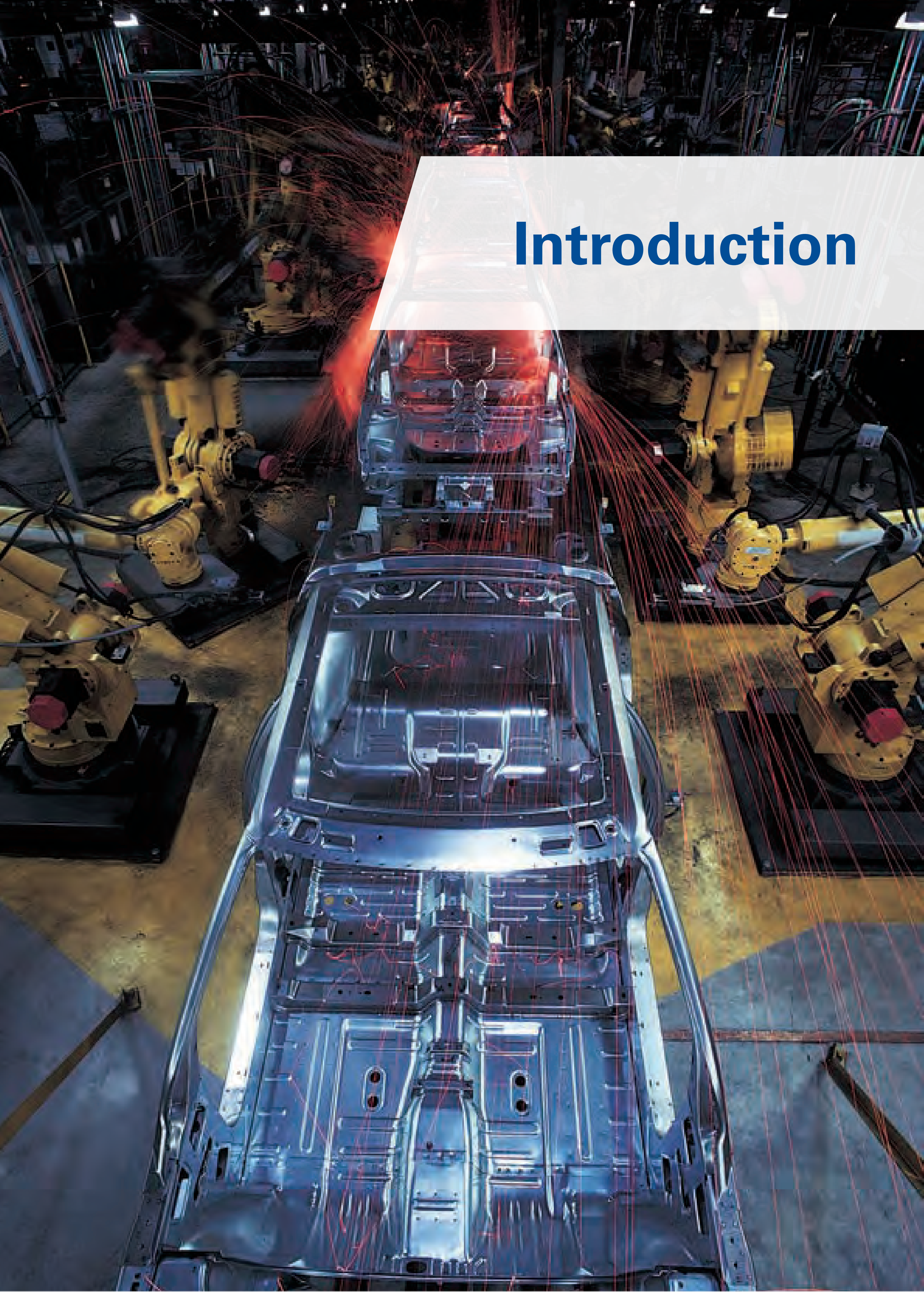
Introduction



At KPMG, we believe that the future for the investment management industry is very positive and yet to capture the opportunities presented, it will have to overcome unprecedented challenges.

Have you ever considered what the investment management industry will look like in 2030? Nobody can predict the future…but one thing is clear, it will be very different to today. The pace and complexity of change is overwhelming and it will only increase.

The world in which we live and work is changing rapidly, driven by a number of deeply-rooted forces – megatrends. We have been tracking these trends and considering the potential implications for the industry.

The industry has grown considerably over the past 30 years. This has been driven primarily by the industry's focus on the Baby Boomers through three decades of strong market growth. It has also been underpinned by rapid globalization and an exponential increase in international capital flows.

However, the Baby Boom generation is now approaching retirement and drawing down on its savings. At the same time, deleveraging in the world's major economies is putting a cap on growth rates, which only exacerbates the tensions stemming from generational and economic differences. When these lower growth rates are considered in the context of waning trust between financial services firms and investors in the aftermath of the financial crisis, it is clear that the industry faces significant challenges.

Against this backdrop we believe that the industry needs to consider how megatrends are driving change. However, in our experience, not enough attention is being paid to them. We believe that demographic changes, technological advancement, changes in the environment and evolving social values and behaviors will reshape the industry of the future.

An aging population, combined with low birth rates, low savings rates and high levels of fiscal debt are creating a growing retirement burden which is shifting increasingly to the individual. The growing middle class in many developing countries is increasing demand for savings solutions. The digital revolution continues to impact on almost every aspect of our lives, creating new opportunities and disrupting existing business models. The increasing speed of technological change, growing ubiquity of technology and explosive growth of data are perhaps the most pervasive examples.

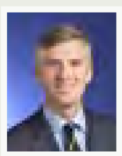
Resource insecurities are changing the nature, structure and timeline of investment opportunities and generational shifts are driving demand for immediacy, transparency and personalization. Social networks and communities are developing and expanding and peers will become as important as providers for many.

We believe that the confluence of these trends will change the needs, requirements and behaviors of investors of the future; the clients of tomorrow are likely to be very different from the clients of today. This presents significant opportunities for the industry, but also unprecedented challenges and raises a number of key questions for executives.

This paper does not attempt to predict the future, present forecasts based on historical data or attempt to second guess government policy or regulation. Our intention is simply to stimulate debate and encourage the industry to think more laterally about how clients' needs will evolve and the implications for investment managers' – their proposition and how they structure, organize and manage their businesses. As you read the paper, we ask you to consider which trends will impact you most? Do you need to take action now? Which do you need to monitor and track going forward? How might the rules of the game change and what would you do?

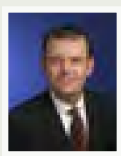
We are excited by the industry prospects and we hope that you find this paper thought-provoking. We encourage you to consider and reflect on the themes covered and contact us or reach out to your local KPMG member firm to discuss how these megatrends will play out in your jurisdiction.

KPMG in the UK



Tom Brown

Global Head of Investment Management



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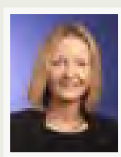

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Throughout this document, "KPMG" ["we," "or" and "us"] refers to KPMG International, a Swiss entity that serves as a coordinating entity for a network of independent member firms operating under the KPMG name, and / or to anyone of such firms. KPMG International provides no client services.

Headlines

The megatrends referenced in this paper have the potential to significantly impact the investment management industry of 2030. However, the highly interconnected and interrelated nature of these trends is likely to magnify the overall ramifications for the industry.

We believe that over the next 15 years:

1. **Demographic transformation, combined with technological advancement and social shifts, will significantly change the profile, needs and requirements of investors.** Clients will be considerably more diverse in terms of who they are, where they are located and what they need, want and expect from the industry. In order to effectively target and service this increasingly diverse client base, we believe client profiling, data analytics and operational flexibility will play increasingly important roles going forward.

2. **There will be opportunities for investment managers to play a broader role in the industry's value chain as client demands of investment providers continue to change.** We recognize that alpha generation and return delivery will remain key to the overall value proposition, particularly as investors seek to provide for what could be an increasingly uncertain financial future given current savings rates. Interestingly for investment managers, delivering the level of return sought may be increasingly challenging in an environment in which these megatrends are present, as we have very limited historical precedent on how to achieve this. However, as investor engagement improves (more out of necessity than desire), we believe they are likely to value broader or newer aspects of the proposition set, outside the core investment management process.

This could include:

- the level of advice, support, information and education a provider offers its investor base.
- the ease of use and simplicity of the up-front asset allocation process.
- the access provided both in terms of breath of proposition set, asset classes available and ability to aggregate solutions and financial positions across a range of financial providers.
- the depth of understanding of a client's individual needs, risk-return appetite and the readiness to tailor a personalized financial solution and service model accordingly.
- the degree of certainty and protection offered that intended outcomes will be delivered.

Asset managers will have to make strategic choices in terms of where they want to position themselves to capture opportunities and what value they bring.

Furthermore, in addition to the potential for significant value chain shifts, we believe a number of aspects of investment theory are being called into question which will challenge core elements of the investment process and approach.

3 **Operational flexibility and agility will become key competitive advantages.** While asset managers have been working diligently to improve operational efficiency, cost flexibility and to incorporate new technologies and new media into their existing infrastructure, we believe much of this work has been focused on addressing the legacy of yesterday and issues of today rather than preparing for the future. Going forward, some tough decisions may need to be made. We believe as asset managers look to take advantage of the opportunities presented by some of the longer-term shifts and respond to the subsequent challenges posed by an increasingly fast-paced world, it is likely to necessitate:

- a robust core platform which can be customized and tailored to address increasingly diverse client needs, differing expectations of service and deliver a personalized offering.
- a more rigorous focus on harnessing and leveraging a wider pool of data to drive investor insights, enhance the investment process and direct internal effort and investment.
- a more effective organizational structure, capable of managing the challenges created by further geographic expansion, withstanding the ongoing scrutiny of risk management frameworks by regulators and clients alike and providing better connectivity with other organizations in the asset manager's broader network or value chain.
- a review of HR policies and practices to ensure they accurately reflect the evolving nature of the global talent pool, employees' changing expectations of working models and potential shifts in the core competencies for which asset managers are searching.

4 **Finally, there is the potential for the industry to see more radical disruption.** With retirement systems under considerable strain in many global economies, existing savings and investments models will need to change, providing opportunities for more radical shifts. This could either be as a result of new entrants (perhaps with established brands) looking to move into what remains a relatively high-margin industry or for more innovative product solutions to challenge the existing proposition set by increasing outcome certainty. Would investors be more prepared to save if they were able to 'lock down' value in physical goods or services earlier in the product lifecycle? Could this create a paradigm shift?

"The future belongs to people who see possibilities before they become obvious."

Ted Levitt
American economist and professor at Harvard Business School

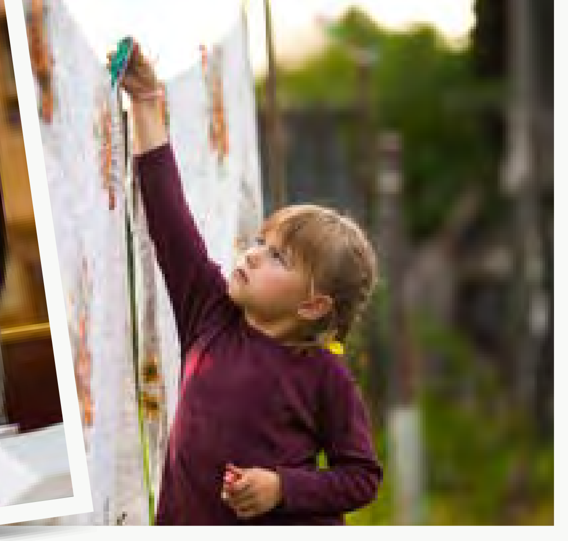
What could an investor look like in 2030?

Profile:

- While there may be fewer 'typical' investors, there are likely to be more investors located in different places, with different needs, social, political and economic attitudes, lifestyles and income patterns.
- Institutional investors are also likely to continue to change in profile. Sovereign wealth funds are likely to play an even greater role. Defined benefits providers will probably continue to decline and be replaced by new collective defined contribution schemes, new risk-sharing pensions or healthcare savings vehicles. The advent of megacities could also act as important force shaping the institutional client landscape.

Needs:

- Investors are likely to need to increase their level of engagement with the industry. A greater proportion of the population will probably need to manage their finances more actively to take control of their financial future.
- They are likely to look for financial support to cover a greater proportion of their lives, rather than focusing exclusively on saving for retirement.
- With financial literacy remaining low across the globe, the industry may be expected to provide better advice, information, education and support as investors seek to better manage their personal finances.
- As investors experience an increasing number of life events, the flexibility to adapt and change their investment portfolio will become more critical.


Wants and expectations:

- Investors are likely to expect organizations to understand them, treat them as individuals and customize and tailor service models to suit their specific requirements.
- Investors will increasingly look for brands they can trust. In an industry currently suffering from high levels of consumer mistrust, investors are likely to assign increased value to trusted brands, particularly as awareness of issues such as data security, confidentiality and privacy increases.
- In tomorrow's world, simplicity, transparency, honesty and integrity, are likely to be regarded as more important buying criteria.
- Investors will probably want less risk and more certainty so they can be confident that the products in which they are invested will deliver the intended outcomes. As a result, they are likely to expect better solutions to their individual needs and may also want to 'lock down' value earlier in a product lifecycle.
- Interactive service models, 24/7 connectivity and access to relevant and timely information via a wide variety of media types will increasingly be expected as the norm.

Behaviors:

- Investors may increasingly trust and value advice from alternative sources. Decisions are likely to be influenced not only by their peers, friends and colleagues, but also the opinions of online groups and social media communities, which may span countries, cultures and which will almost certainly be comprised of strangers.
- Investors are likely to be more willing to consider non-traditional alternatives to 'traditional' savings and retirement products, either as a result of increased availability and investor awareness, social and peer pressures or ongoing mistrust in the traditional financial services industry.
- As the pace of technological advancement continues to increase, investors' willingness to adopt new products and technologies is also likely to grow. Their dependency on such technologies will almost certainly increase at the same time.
- Multitasking and time scarcity is likely to continue to escalate, prompting more investors to look for time-saving solutions, single point of access and aggregation across a range of providers.



Megatrends

The drivers of change

Seismic shifts in demographics, technology, the environment and social values and behaviors are set to re-draw the investment management landscape.

The future is being shaped by a wide range of global megatrends which are already bringing about profound changes to the global political and economic outlook, social norms, personal lives and the corporate world.

Most people are already aware of the broad direction of change and some of the more immediate aspects. In the investment management industry, many of these themes have been reflected in investment strategies. However, we believe the implications for investors' needs and requirements (as well as for asset managers' business and operating models) need to be more fully explored.

KPMG has done a considerable amount of work in this area and developed thinking around six key megatrends. In this paper we have focused on the four megatrends we believe are the most relevant and pertinent to the investment management industry: Demographics, technology, environment and social values, behavior and ethics.

It is also worth noting that many of these megatrends are likely to be impacted by developments in global and local government policy, as well as the shape and nature of future regulatory change. While we recognize the significant roles such factors have had in shaping the industry of today, forecasting future change is inherently difficult and hence has not been directly incorporated into this paper.

In addition, we encourage you to consider and evaluate the potential impacts of these trends, not only in isolation, but perhaps more importantly in combination.

While most risk/return theories and corporate strategies can cope with each of these trends on an individual basis, where they typically fail is with the unprecedented combinations and high level of interconnectivity which exists between these trends.

We believe that while megatrends present challenges, they also bring unprecedented opportunities. If the investment management industry seizes the chance to understand the implications, reshape and transform itself, it will have the opportunity to add considerable value in the marketplace of tomorrow.

Demographics

Demographic trends will not only magnify the need for effective investment management, but over time, they will radically change the nature of the challenge and an investment manager's potential client base.

Technology

Technological developments continue to act as major drivers of social, economic and environmental change, creating new opportunities and disrupting existing business models.

Environment

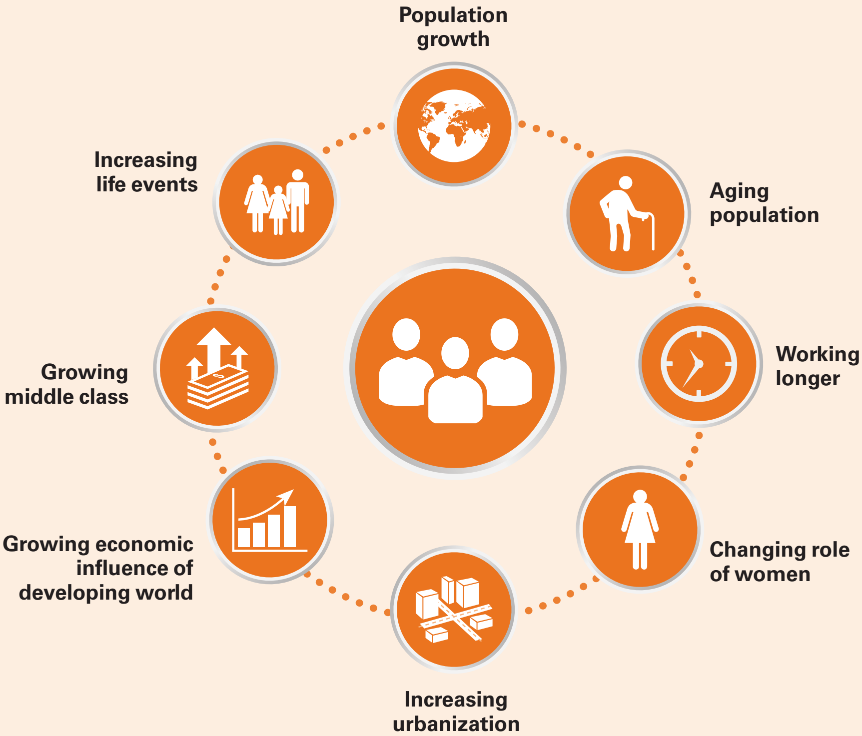
Resource insecurities are changing the nature of investment opportunities and demand for risk protection, as well as increasing the importance of socially responsible corporate behaviors and investment strategies.

Social values, behavior and ethics

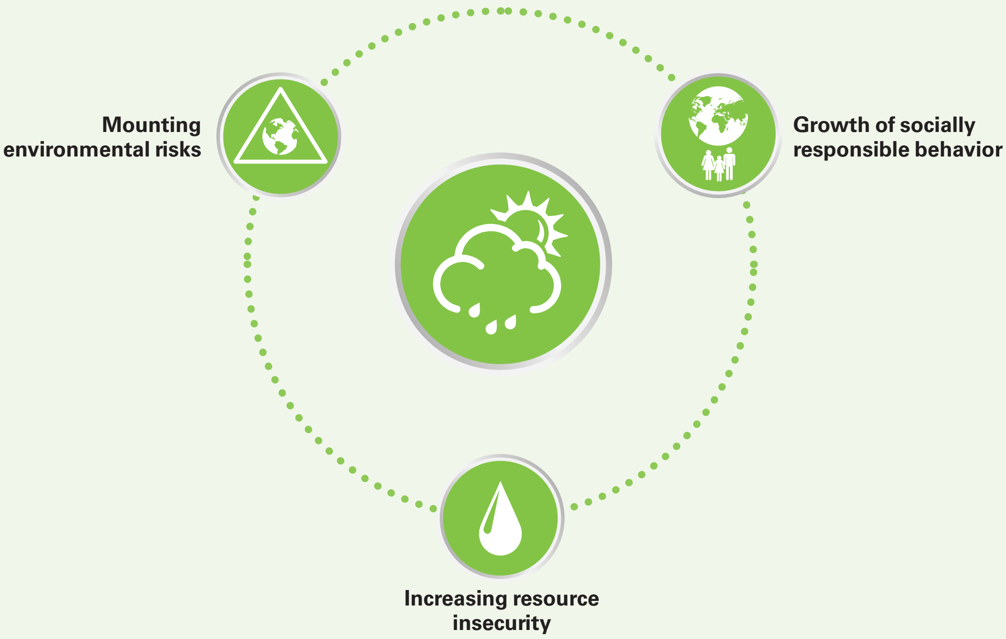
Technology and the internet have combined to revolutionize how a large proportion of the world's population interacts, communicates and behaves.

MEGATRENDS

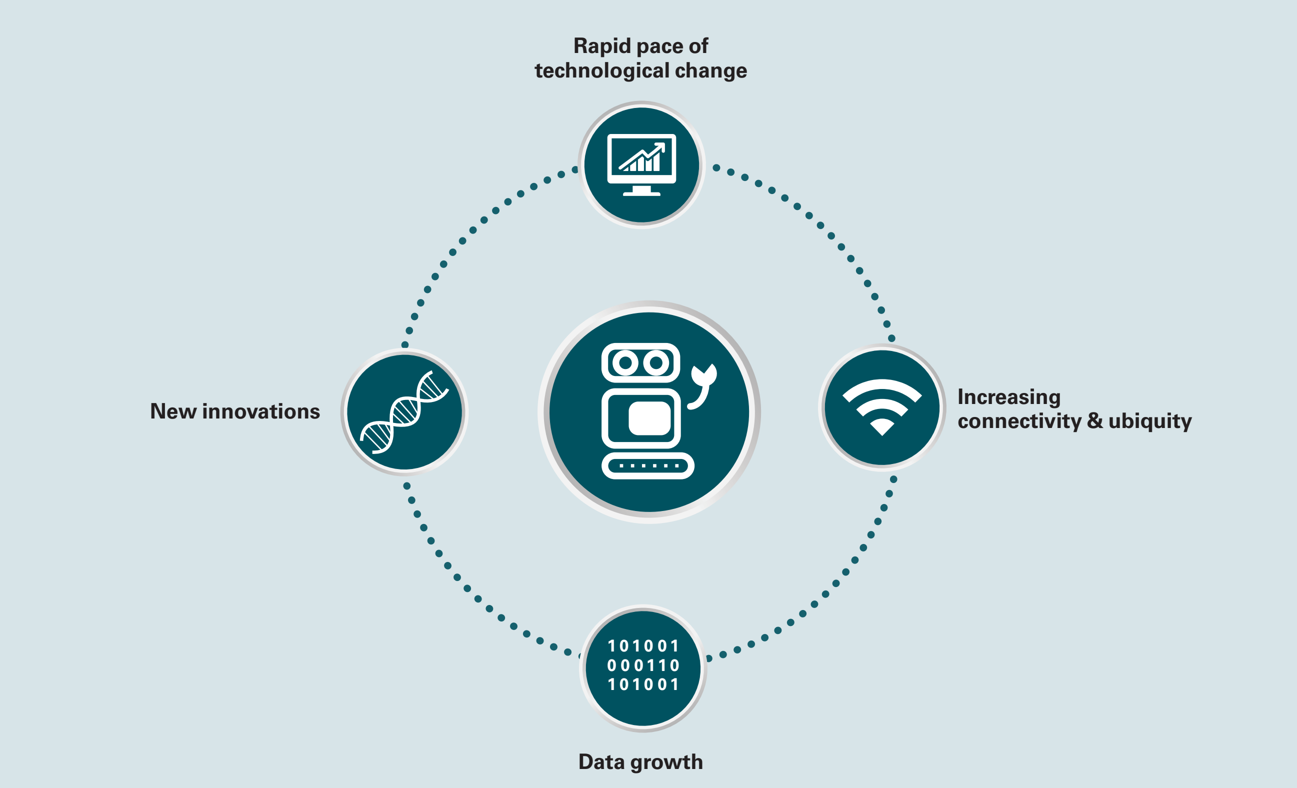
DEMOGRAPHICS



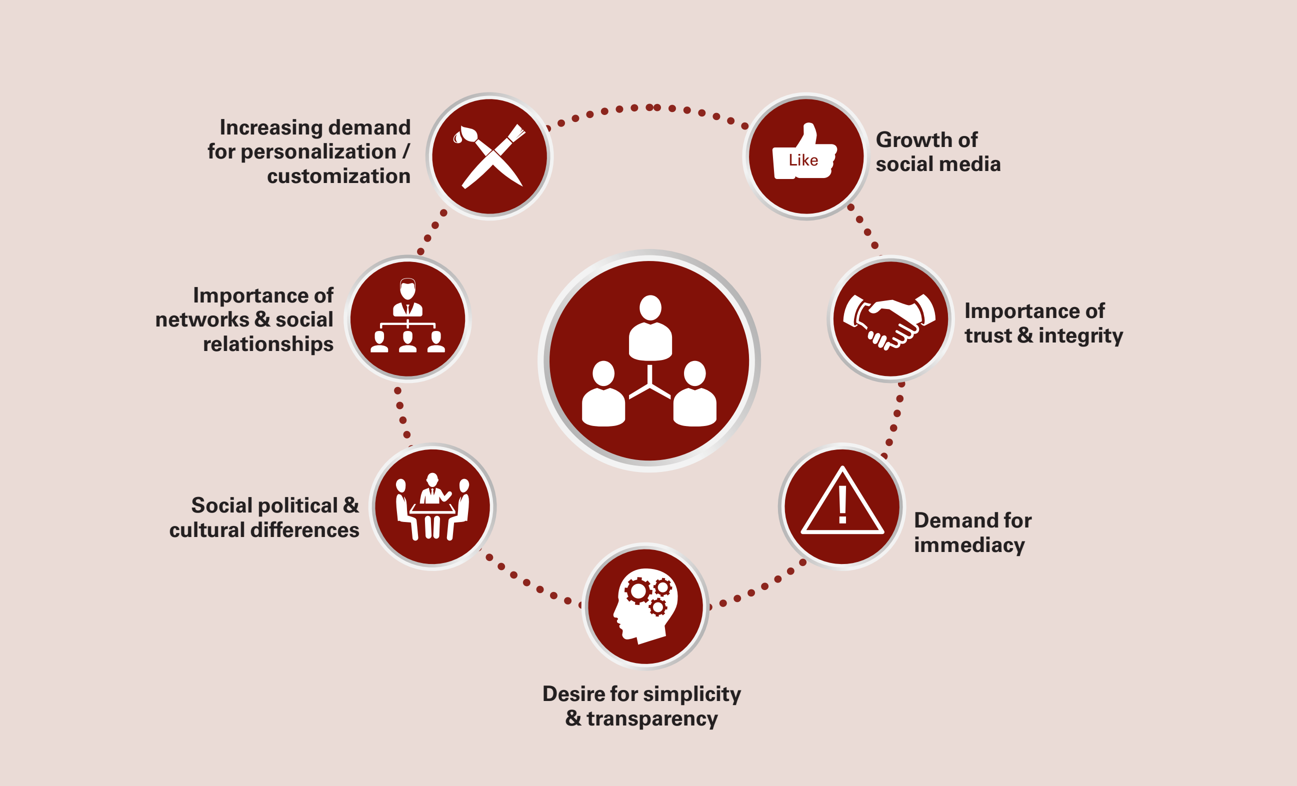
ENVIRONMENT

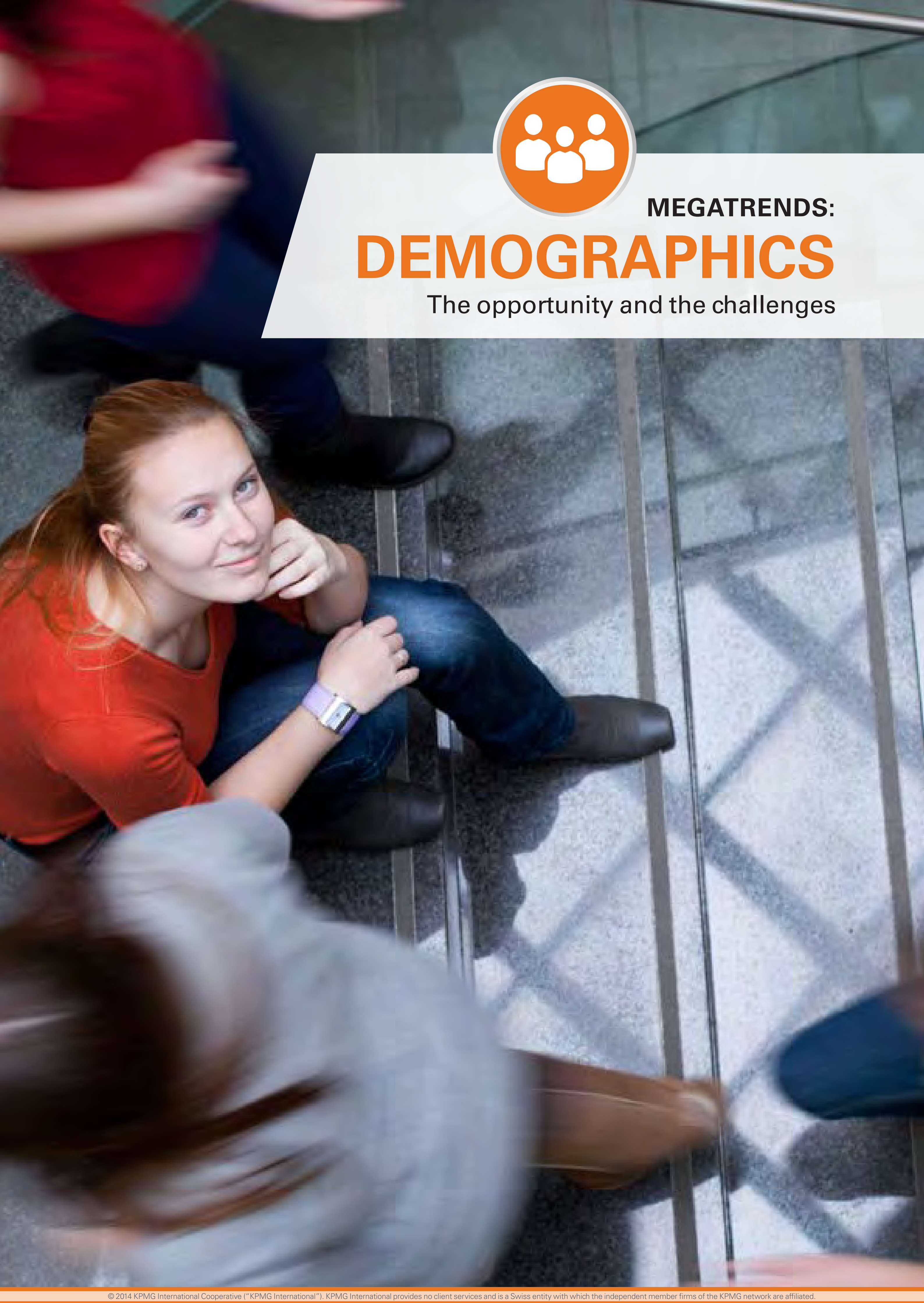


TECHNOLOGY



SOCIAL VALUES, BEHAVIOR AND ETHICS





MEGATRENDS:

DEMOGRAPHICS

The opportunity and the challenges

Demographic trends will have a material impact on the investment management industry. Not only do these trends magnify the need for effective investment management, but over time, they will radically change the nature of the challenge and an investment manager's potential client base.

Population **growth**

- The world population continues to grow, although the rate of increase is now slowing.
- The global population is predicted to peak at approximately 9 billion before declining slightly by 2100.
- Developing regions are expected to account for 99 percent of population growth until 2050[1] although some of these regions will no longer be classified as developing by this point.

The global economy is facing unprecedented demographic changes. Perhaps most importantly for the investment management industry, aging populations, low birth rates, low savings rates and high levels of fiscal debt are creating a retirement burden which is shifting increasingly to the individual.

Aging **population**

- Increased life expectancy and falling birth rates are creating unhealthy population pyramids in most developed countries.
- While Asia, Africa and Latin America are enjoying a 'youth dividend', sub-Saharan Africa could be the only population not to be aging by 2030.
- With responsibility shifting increasingly to the individual from governments and corporates, this is creating a considerable healthcare and retirement burden.
- While an opportunity, this also represents a sizable challenge for the investment management industry in terms of how to provide these individuals with the retirement lifestyles they expect.

Population growth of 65+ bracket[2]

Today

8% of the population is 65+

2030

13% of the population is 65+

Working **longer**

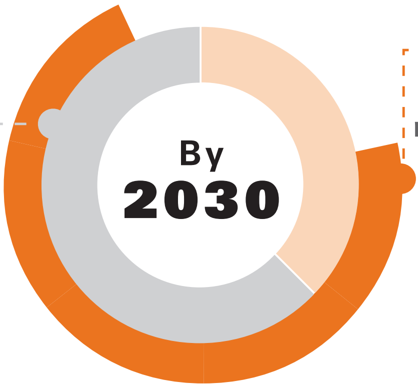
- Medical advancements and the need to fund longer lives will inevitably mean longer working careers for most people.
- For employers, this is likely to mean a greater number of generations in the workplace at the same time, each with different requirements and expectations of working culture, style and location.

Changing role **of women**

- Women are playing an increasing role in global boardrooms and controlling a greater proportion of financial assets and decision making.
- In the United States, it is reported that women control about 60 percent of all household wealth and drive approximately 80 percent of all consumption.[3]

Growth of the global middle class[4]

60%
of the world's population will be middle class. Up from 27% in 2009.



80%
of the global middle class reside in developing regions. Up from 58% in 2010

Increasing **urbanization**

- More than 60 percent of the world's population is predicted to live in cities by 2030[5] with the majority of this urban growth taking place in Africa and Asia.[6]
- This brings with it the potential for large-scale infrastructure investment to upgrade legacy cities or develop new Greenfield sites and could present some of the highest growth opportunities for investment managers in the future.

Growing **middle class**

- The middle class is projected to grow considerably, especially in emerging markets, with more people expected to be middle class than poor by 2022.[8]
- This trend is changing the production and consumption dynamics of the world economy and, combined with an appropriate political environment, will help open up investment management opportunities globally.

Growing economic influence **in the developing world**

- The emerging and developing economies in the East and South are growing in power, influence and potential.
- By 2030, some experts predict that Asia will have surpassed North America and Europe combined in terms of global power, with China projected to overtake the United States as the largest economy a few years before this.[7] Others challenge such statistics, commenting that while China is projected to overtake the United States economically on the basis of purchasing power parity, forecasts do not take into account the declining working age population in China or China's high debt to GDP ratios.
- Regardless of the economic specifics and timings, the increasing economic influence of eastern and southern economies will bring with it significant religious and cultural shifts.

Increasing **life events**

- People are experiencing more complex and multi-faceted histories, with multiple life-events and more varied investment requirements.
- We are having our children later, providing financial assistance to them for longer periods and increasingly providing for elderly parents at the same time. For example, 49 percent of babies born in England and Wales in 2012 had a mother who was aged 30+.[9]
- There is a shift toward more frequent employment breaks, changes of career and growth in international assignments. In the United States, the average employee tenure is 4.4 years, but for the youngest employees, it is about half of that.[10]

"We are continually faced with a series of great opportunities brilliantly disguised as insoluble problems."

John W Gardner

Former US Secretary of Health, Education and Welfare

MEGATRENDS:

TECHNOLOGY

A revolutionary force disrupting business models

Technological developments continue to act as major drivers of social, economic and environmental change. As well as underpinning many of the trends impacting the industry, technology also presents an ever-increasing range of solutions to deal with the challenges presented.

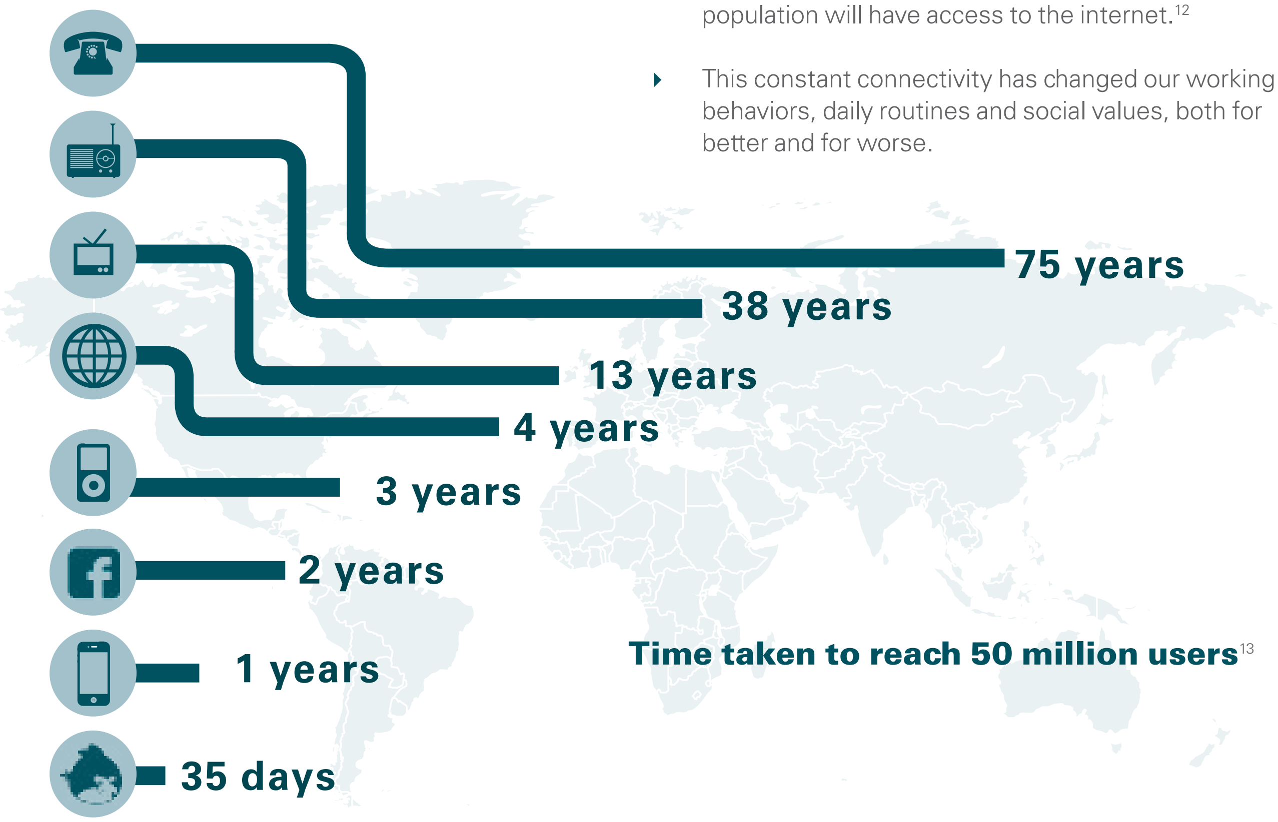
Rapid pace of **technological change**

- The increasing speed of technology adoption is one of the most obvious and pervasive examples of the information technology revolution.
- New technologies are being adopted faster, innovation cycles are shortening and diffusion rates are increasing throughout the developed and developing worlds.
- For radio to reach 50 million users, it took 38 years. For TV, it took 13 years and for the internet, only 4 years. For Angry Birds to reach the same 50 million users, it took only 35 days. This trend will only intensify.

The digital revolution continues to change every aspect of our personal and business lives, creating new opportunities and disrupting existing business models.

Increasing **connectivity & ubiquity**

- Technology has become ubiquitous, with digital and mobile devices embedded into every aspect of our personal and business lives.
- Seventy five percent of the global population now has access to a mobile phone and, in some countries, more people have access to a mobile phone than to a bank account, electricity or clean water.[11] By 2030, 50 percent of the world's population will have access to the internet.[12]
- This constant connectivity has changed our working behaviors, daily routines and social values, both for better and for worse.



Time taken to reach 50 million users[13]

For investment managers, keeping abreast with investors changing expectations in terms of access, connectivity and service is likely to create significant challenges. At the same time, leveraging the exponential volume of data created in relation to investor needs and behaviors is likely to become an increasingly important competitive differentiator.

Data **growth**

- In 2010, Eric Schmidt of Google said that in the entire history of the world to that point, 5 exabytes of data had been created. In 2010, that same amount of data was being created every 48 hours.[14]
- Aside from the inevitable storage challenges created by this explosive growth, organizations and governments worldwide are grappling with how best to capture, analyze and leverage these large data sets or 'big data'.
- Harnessing the increasing volume of data provides valuable insights into clients' needs, requirements and behaviors and helps personalize products and services, thereby building increased loyalty.
- Those that can successfully distill this information have the potential to unlock a key source of competitive advantage.

New **innovations**

- Technological breakthroughs in fields such as robotics, nanotechnology, natural resources and healthcare and life sciences continue to transform all aspects of both our private and business lives. Furthermore, concepts such as virtual reality and the internet of things are not as distant a possibility as they may sound.
- Robotic usage is anticipated to increase considerably, particularly in the domestic setting, with the Japanese aiming to have a robot in every home by 2015 and South Korea to achieve this goal by 2020.
- Nanotechnology continues to make the miniaturization of products possible, with 15 percent per annum growth forecast from 2003-2015.[16]
- Advances in areas such as alternative energy, micro-irrigation technology or precision farming will be key to increasing the security of natural resources and meeting the increased demand created by population growth and economic advances.
- Medical technology, pharmaceuticals and biotechnology will be key areas of life science research over the next two decades.

The world of data[15]

Emails sent every second	**2.9** MILLION
Data consumed by households every day	**375** MEGABYTES
Video uploaded to youtube every minute	**20** HOURS
Data per day processed by Google	**24** PETABYTES
Tweets per day	**50** MILLION
Total minutes spent on Facebook each month	**700** BILLION
Data sent and received by mobile internet users	**1.3** EXABYTES
Products ordered on Amazon per second	**72.9** ITEMS

“To a one year old, a magazine is an iPad that’s broken”

Kevin Kelly
Editor of Wired magazine

MEGATRENDS:

ENVIRONMENT

Risks and the more socially conscious

Resource insecurities are changing the nature of investment opportunities and demand for risk protection. At the same time, with consumers increasingly incorporating sustainability into purchasing decisions, the importance of socially responsible behavior is rising up the investment management agenda.

Growth in socially **responsible behavior**

- Environmental awareness has continued to grow and is becoming an increasingly important purchasing criteria.
- The younger generations have been born into an environmentally conscious world and are increasingly critical of environmentally unfriendly or unethical behavior.
- Being 'visibly' green and 'ethical' will no longer be a 'nice to have' for asset managers. Investors will expect ethical and socially responsible behavior to be baked into operating practices.
- The growing acceptance among fund managers and investors about the importance of environmental, social and governance factors to investment returns is anticipated to fuel growth in socially responsible investment strategies.

Environmental consciousness is increasing globally as demographic changes and economic expansion fuel more resource-intensive lifestyles.

With younger generations being increasingly critical of unethical behavior, investors will expect social and ethical responsibility in all aspects of corporate operating practices.

Increasing resource **insecurity**

- Economic expansion is driving more resource-intensive consumption and greater resource insecurity in areas such as water, food and energy.
- By 2030, a 50 percent increase in food production is anticipated to be required to feed a wealthier and more demanding population[17] and the world is projected to face a 40 percent global shortfall between forecast water demand and available supply.[18]
- The economic and social risks associated with scarcity are creating a range of interesting investment opportunities which many organizations have already incorporated into investment strategies.

Projected resource stress in 2030[19]

40%
shortfall between water supply & demand by 2030

50%
increase in food production will be needed by 2030 to feed a more demanding population

Mounting **environmental risks**

- Accelerating environmental degradation, combined with the need to meet the world's demand for fundamental commodities, such as energy, water, food and rare metals is presenting issues such as the risk of supply disruption, volatile pricing and growing potential for conflict. The search for alternatives presents not only an environmental priority, but also offers a range of new investment opportunities.

- Water supply has the potential to act as a major source of global conflict for decades to come. While about 70 percent of the earth's surface is covered in water, 97 percent of it is saltwater. Of the remaining 3 percent, 2.5 percent is frozen and locked up in Antarctica, the Arctic and glaciers.[20] Additionally, water is not evenly distributed around the globe. As an example, a large proportion of India and Pakistan rely on rivers arising on the Tibetan plateau for water supply. China is already talking about damming the flow of one or more of these rivers.

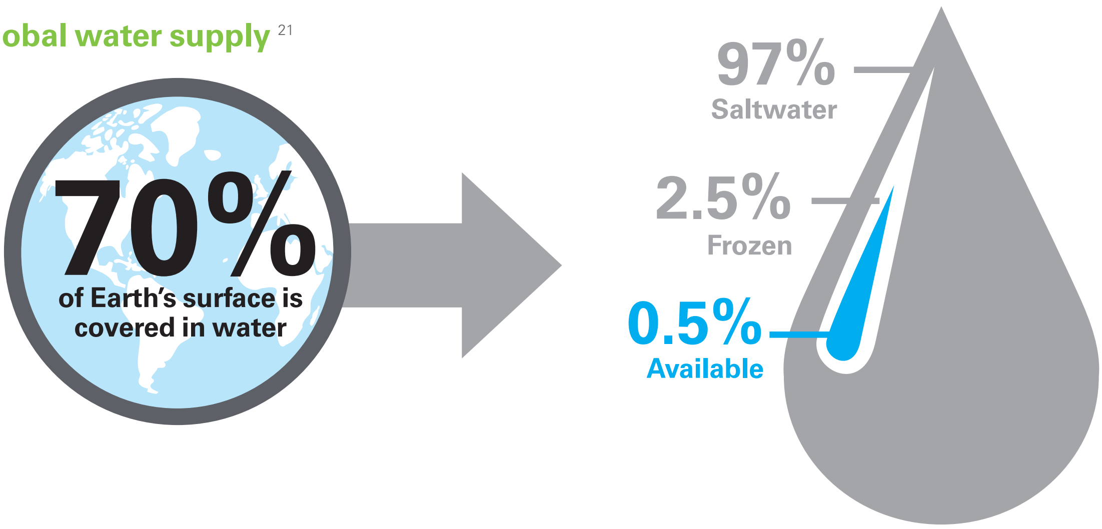
- The extraction of rare earth metals has become increasingly critical to the production of renewable energy, smart devices and the mobile revolution. Currently, China produces 97 percent of the world's output of such minerals and has already indicated that it is prepared, when it deems necessary, to put home consumption ahead of global supply.

- Urbanization and the growing tendency for human populations to cluster in areas at risk of natural disasters also increases the potential impact of environmental damage caused by floods, storms, earthquakes or other natural hazards as they occur.

- Not only does this highlight the importance of effective urban planning, it also raises questions for the corporate world around location strategy, risk protection, disaster recovery and contingency planning.

- From an investment management perspective, it also creates evident opportunities to invest in industries which are well-positioned to benefit from infrastructure and development projects.

Global water supply[21]



“We are seeing the birth of a new perspective of the world, where ecology and economics are two sides of the same coin.”

Leif Johansson

President and CEO of the Volvo Group from 1997 to 2011.
Chairman of Ericsson since 2011 and of AstraZeneca since 2012.

MEGATRENDS:

SOCIAL VALUES, BEHAVIOR & ETHICS

A changing way of life

Technology and the internet have combined to revolutionize how a large proportion of the world's population interacts, communicates and behaves. While this presents considerable opportunities, it also presents deep challenges to business models in an age when trust in financial services has been severely damaged.

Growth of **social media**

- In 2013, it is estimated that nearly one in four people worldwide will use social online communities, networks or platforms.[22]
- The rapid rise in social media is transforming not only contemporary behavior and the way in which individuals interact and socialize with each other, but its implications are considerably more widespread.
- It has revolutionized the way information is disseminated, transformed the way consumers interact with businesses and governments and underpinned the rapid creation of mass movements.
- By 2030, social media could replace many of the more traditional types of media and information sharing mechanisms, with some expecting it to be deeply integrated into corporate IT platforms.
- For investment managers, this creates not only an ability to better connect and interact with its client base, it could also create new investment opportunities in industries that will benefit from these technologies.

Tomorrow's investor is likely to be even more demanding, characterized by a desire for immediacy, valuing simplicity and transparency and expecting a more personalized service.

Generational shifts combined with technological advancements have transformed the way the world's population communicates, behaves, who they trust and what they expect from businesses.

Importance of **trust & integrity**

- A number of trends have come together to create an entirely new trust paradigm.
- Increasingly, people are trusting 'people like me' rather than corporations or professionals and, as such, word of mouth and viral messages are becoming more powerful than traditional advertising.
- Trust is increasingly binary in nature. It is given instinctively but can be removed immediately if abused.
- This poses a particular challenge for the financial services industry, in which trust remains at an all time low. It will inevitably take time to rebuild.

Time spent on social media per hour[23]

Demand for **immediacy**

- Today's society is characterized by the desire for instant gratification and time scarcity, with younger generations often depicted as the 'impatient generation'.
- Shortening attention spans, combined with a thirst for information and a constant need to multitask are increasing consumer and investor demands for immediacy and 24/7 access across a wide range of media types.

Desire for **simplicity & transparency**

- Whereas in the past technological innovation and advancements often resulted in companies increasing the complexity of products and services, consumer demand is now clearly favoring transparency and simplicity.
- This is particularly true in the financial services industry as it grapples to restore trust, recover post-crisis and respond to a raft of regulatory changes designed to improve transparency.
- Early signs of this can now be seen in investment management, with providers starting to use captions such as 'total transparency', 'let us do the hard work' or 'set up a portfolio in under 10 minutes' to advertise their proposition set.[24]

Social, political & **cultural differences**

- The world is globalizing and more generations and cultures are working side-by-side.
- These demographic shifts are creating cultural, social and political differences within consumer segments.
- Understanding these shifts and adapting and tailoring approaches which recognize these differences will become increasingly important.

Importance of networks **& social relationships**

- While almost all organizations continue to operate in traditional hierarchies to manage and control their businesses, today's rapidly changing and complex environment is increasing the importance of concepts such as innovation, flexibility and transformation, concepts which can struggle to succeed in an overtly hierarchical organization.
- This, combined with the growth in networking technologies and social media, has promoted the importance of a more networked organization with higher levels of employee interconnectivity both within and outside the traditional corporate boundary.
- How well connected and networked are your employees? Have you considered what you can do to improve your network within the industry as well as facilitate networks within your client base?

Increasing demand for **personalization / customization**

- The consumer of tomorrow is increasingly going to expect personalized service and customized or tailored propositions.
- From a supply perspective, increased connectivity combined with technological enhancements such as the advent of 3D printing and big data analytics are all acting as key enablers and facilitating the ease with which products and services can be tailored.
- From a demand perspective, significant behavioral changes and an expectation driven by social media of a consumer's ability to like, share, comment and create is impacting consumers' patience for impersonal service and generic propositions.
- While this trend remains relatively nascent, there are already numerous examples of how the corporate world is starting to respond, ranging from a consumer's ability to personalize their credit card to retailers' marketing strategies tailored to individual consumer preferences, behaviors and buying characteristics.

“If you can’t explain it simply, you don’t understand it well enough.”

Albert Einstein

Theoretical physicist

Implications for investment management

We believe the confluence of megatrends has the potential to have a profound impact on the investment management industry and that it will look very different in 20 years time. With clients needs, requirements and behaviors expected to change considerably and the industry trying to capture long term, sustainable and profitable growth, it has a unique opportunity to reposition itself.

We believe that:

Value chain:

There are significant opportunities for investment managers to play a more important role in clients' lives and the industry's value chain.

Clients:

The clients of tomorrow are likely to be very different from the clients of today, both in terms of who they are, where they live and what they expect from the industry.

Products and brands:

Traditional products will increasingly become components of outcome-orientated solutions, niches will become more mainstream and aspects of investment theory may be called into question.

Market:

Globalization will continue to open up new opportunities for the industry and may necessitate a fundamental review of asset managers' market footprints and market entry strategies.

Technology:

As the pace of change increases, asset managers will need to transform their operating models to create more flexible, efficient and agile platforms.

Governance:

Asset managers need to create an organizational structure which can adapt and handle the complexities created by further geographic expansion.

People:

The challenges associated with the search for and retention of talent will intensify.

We believe the industry will be significantly larger and have a more important role to play in society than today. However, in order to be part of this, many investment managers will need to drastically change their value proposition to remain relevant.

IMPLICATIONS

VALUE CHAIN

1

- Power will continue to shift towards those who control the client relationship
- Outcome, aggregation, education and access may be valued as highly as the underlying investment performance
- Investment managers have choices to make

CLIENTS

2

- Client engagement strategies will need to be tailored to reflect the diversity of the investor base
- Advice and financial education will be increasingly important
- Engagement levels will vary significantly, albeit in the main, are anticipated to increase
- Investors' expectations of and interactions with the industry will change considerably
- Client profiling and a flexible operating model which can accommodate diverse client needs will be key

PRODUCTS & BRANDS

3

- Outcome-orientated propositions will continue to gain in popularity
- Pensions innovation is required to help address the retirement challenges
- Retail product sets will need to extend beyond pensions
- Core aspects of the investment process could be called into question
- Mainstreaming of current investment niches
- Product flexibility will become increasingly important
- Pricing is likely to be under a more intense spotlight
- Effective brand management will be key to success

MARKETS

4

- Emerging and developed markets will increasingly converge.
- Market entry strategies will need to be much more robust
- Market strategies may benefit from a multi-level approach

TECHNOLOGY

5

- A core platform and simple user interface will be critical
- Delivering the service promise will highlight the importance of process efficiency and organizational agility
- Client profiling and effective data analytics will increasingly act as a differentiator
- Value-added outsourcing, if executed successfully, will offer numerous advantages

GOVERNANCE

6

- Increasing complexity of international organizational structures and governance
- Intensifying scrutiny of risk management frameworks
- Growing importance of third party relationships

PEOPLE

7

- The profile of the talent pool will change considerably
- Employees expectations and work patterns are being redefined
- Different skill sets will become more critical.

IMPLICATIONS:
VALUE CHAIN

The new investment management value chain

We believe there are significant opportunities for investment managers to play an increased role in the industry value chain. Indeed, on the premise that product and performance are inevitably perishable, it may be crucial to capture sustainable growth and diversify risk.

Power will continue to shift towards those who control the client relationship:

Investment return will continue to be important. However, we believe that the pendulum is continuing to swing from manufacturing to distribution and that client proximity and understanding will become increasingly important differentiators.

While the industry has already invested considerable effort in moving from the 'product-push' model of the past, genuinely getting closer to clients involves developing a deeper understanding of their needs and maintaining a relationship over a greater proportion of their life. We believe this will be paramount to long term success, enabling those who achieve it deliver the personalized and tailored customer experience clients increasingly expect.

This is often easier said than done, particularly in an industry where intermediaries are prevalent. Building stronger partnerships with key intermediaries will be increasingly important as the investment manager will need greater visibility into the profile and behavior of the end-investor to effectively develop relevant solutions. If it is unable to achieve this, it faces the prospect of remaining simply a manufacturer of components for others to combine into value-add client solutions.

Controlling the client relationship is likely to become an increasingly important differentiator.

Outcome, aggregation, education and access may be valued as highly as the underlying investment performance:

For the more sophisticated and financially literate investor, the underlying investment philosophy, process and of course performance will inevitably continue to be at the heart of where they see the industry delivering value.

However, history suggests that performance is very difficult to sustain over the long term. It is inevitably perishable.

In our experience, many industry participants recognize the inherent risks in relying on the consistent delivery of market leading absolute or even relative returns to attract flows, particularly in a highly competitive environment where this is becoming increasingly difficult to achieve. They also recognize that for many investors of today – and more importantly those of the future – outcomes, solutions, information, education and greater visibility and transparency will be as, if not more, important than performance.

Investment managers have a range of inherent capabilities which could be better leveraged to play a more important role in the value-chain. This could be through bringing to bear research and asset-allocation competencies to provide clients with a broader range of solutions rather than just product, helping intermediaries better understand the end-investor needs and requirements, supporting the flow of information and helping educate the end-investor. There are also opportunities for investment managers to act as aggregators, providing a more holistic view of individuals' assets and liabilities, something which we consider will be increasingly in demand.

Investment managers will need to understand their clients better than they do now; no easy task when the use of intermediaries means that they may already be one or two steps removed from them.

“Tell me and I forget. Teach me and I remember. Involve me and I learn.”

Benjamin Franklin
American inventor, journalist, diplomat and statesman

This is not to suggest that investment managers will dis-intermediate intermediaries although vertically integrated D2C models will in our view increase. However, we can see an opportunity for the relationship between the two to develop and change such that it is far more cohesive and more effectively brings together the combined strengths and resources of both organizations to support a more diverse client demographic with significantly different expectations.

The industry also has a key role to play in helping to demystify the world of investment and savings. Education will be critical to help improve trust and engagement with the industry. From a product perspective, simplicity and transparency will help to deliver propositions in a more relevant and engaging way.

There are numerous options and we are already starting to see signs of this transition within the investment management sector. This supports our view that for many players, future success will not be solely driven by investment product and performance as it has often been in the past.

User-friendly access and up-front asset allocation:

Newly emerging business models are seeking to demystify some of the complexities of investing and to provide simple user-friendly access to a broader range of investors. Such propositions aspire to provide investors with input and control over key inputs such as risk, time horizon and investment objectives, but take away the complexities of the investment decision and underlying investment management. Instead, investors are offered a discretionary service underpinned by a series of ready-made, yet customized investment portfolios and an asset allocation engine. A few examples of organizations adopting this approach include Nutmeg, rplan and FutureAdvisor.

Aggregation and packaging:

From a product perspective, since the launch of multi-manager funds several decades ago, there has been considerable growth in asset allocation solutions as a means of achieving diversification through a single investment vehicle. More recently, in today's low return and volatile investment environment, multi-asset and diversified growth funds have seen rapid inflows as a means to invest and easily reallocate across several asset classes and fund managers. Such funds have also benefited from the ramifications of the Retail Distribution Review (RDR) in the United Kingdom, as Independent Financial Advisors (IFAs) increasingly choose to focus on core skills of life and inheritance planning and consequently outsource the asset allocation decisions. In addition, target date funds are taking a growing proportion of average retirement plan asset allocations, both as a result of growing availability and changes to product features which encourage target date investing. In the future, we anticipate this trend for aggregated solutions to continue to increase in popularity.

The industry will need to radically change its value proposition to remain relevant in 2030.

Investment managers have choices to make:

With investors increasingly demanding a more customized service proposition, a generalist 'one-stop shop approach' is likely to be less successful, unless all components are provided to the same level or better than specialist providers and the solution can be personalized to meet individual needs.

We believe this is likely to be the preserve of the larger managers with a combination of financial strength, brand, global footprint, depth of client relationship and breadth of product access. For the rest of the market, we believe they will need to be much clearer in terms of the value they add and the markets in which they want to play and focus their respective strategies accordingly.

The decisions are not easy to make especially given the significant opportunities available. Choices will have inevitable implications on the size of addressable asset pools and margins, with the latter already under pressure given increasing competition and regulatory and investor scrutiny. This pressure is only anticipated to increase as potential hardships felt by many in retirement lead to increasing questions being asked of an industry which has generated healthy returns during accumulation, yet not necessarily delivered in line with investor expectations.

We believe that the highest operating margins are likely to be the preserve of the more specialist boutique managers. However, while global waterfront players are likely to be achieving significantly lower operating margins, with higher asset bases and a broader service proposition extending beyond alpha provision, we believe there will be opportunities to maintain

Operating margin is likely to be impacted by the choices managers make in terms of where in the value chain they will focus, as well as the level of investor pressure and scrutiny on the returns delivered relative to the fees paid.

“If you don’t know where you’re going, you will probably end up somewhere else.”

Lewis Carroll
English writer

IMPLICATIONS:

CLIENTS

Radical changes to client demographics & expectations

The clients of tomorrow are likely to be very different from the clients of today, both in terms of who they are, where they live and what they need and expect from the industry. How will the industry respond to evolving investor needs?

Client engagement strategies will need to be tailored to reflect the diversity of the investor base:

We believe the profile of the investor base is likely to change materially and become considerably more diverse.

- **Generational shifts:** To date, much of the industry has focused on the management of wealth accumulated by Baby Boomers preparing for retirement. As these Baby Boomers move into retirement, can the industry confine itself to managing their assets in the decumulation stage? What engagement strategies does your organization already have in place for Generations X and Y and how will this need to change for the Millennial, Digital Natives or Generation Z? Does your business understand their different engagement styles, preferences and expectations? How will you establish a dialogue with the younger generations? This theme has already received considerable media coverage, with a recent report by a company called Hearts & Wallets concluding that if acquiring new clients is the industry's top priority, it is overlooking considerable opportunities by focusing on older investors with 'big pockets'. In fact, it estimates that firms are currently only spending 16% of resources on marketing strategies tailored to younger investors.[25]

- **Gender shifts:** It is fair to say that the financial services industry has for too long focused on engaging the male investor. With wealth shifting to new demographic groups and women typically outliving men by five to six years[26], investment managers needs to re-evaluate how to engage the female investor and whether or not they will be looking for a different investment philosophy or risk / return equation. The benefits of getting it right could be sizable not least in terms of the potential to attract new assets. Numerous studies have demonstrated that the behavioral characteristics evidenced by women are exactly what the industry is looking to attract. As clients, they demonstrate greater loyalty, assign a higher value to the advice they receive and have a preference for a planning-based approach versus an investment performance based approach.[27] We are starting to see a shift in client marketing strategies, with a greater proportion seeking to engage a more female audience.

- **Wealth shifts:** Similarly with economic developments in eastern and southern economies, investment managers need to consider how distribution and client engagement strategies need to vary to accommodate what can be significantly different philosophical, cultural and religious differences. There are very few brands currently that recognize and make a play on the need for a global / local approach.

Demographic transformation, combined with technological advancement and social shifts will significantly change the profile, needs and requirements of investors by 2030.

1945[28]

Baby Boomers	**1945 - 1965**
Generation X	**1960s - 1980s**
Generation Y **Millenial generation**	**1980s - 2000s**
Generation Z **Digital Natives**	**1995 - 2010**
Generation Alpha **Google kids**	**2010 onwards**

2030

Advice and financial education will be increasingly important:

Financial illiteracy is prevalent globally and with individuals being asked to assume more responsibility for their financial well being, education and advice will continue to gain importance. This issue is being compounded by:

- the increasingly complex range of products, services and financial instruments available.
- the need for investors to engage earlier in their life when financial literacy rates are typically at the lowest.[29]
- the financial crisis, which both dented trust in the industry and created an even greater need for investor information. A recent TIAA-Cref survey of 1,000 American adults found that 46 percent say they need a trusted place to go for financial advice now more than ever.[30]

But where will people turn to for advice?

We are already starting to see the industry respond to the growing need for financial education. For example, a number of asset managers have recently introduced personal financial advice sections on their websites, featuring written guidance or videos which cover a wide variety of individual life stage events, such as financial considerations when starting your first full-time job, moving to part-time work or starting a family. At the same time, we are also seeing an increasing number of organizations establishing 'content-only' websites with the intention of helping educate investors take greater control of their financial affairs.

Investors are likely to increasingly look outside the industry to peers or like-minded individuals for investment advice.

However, is this sufficient? With consumers placing increased value on advice from peers and social networks, how will this influence the advice spectrum? Will they look outside the core of the industry for support? We believe that while there will remain a place for professional investment advice, investors are increasingly likely to be influenced by peers, social media, investment clubs and may even be prepared to crowd source investment ideas. As such perhaps asset managers should ask themselves what more could they do to help connect and create networks of like-minded individuals? There are early signs of asset managers picking up on this trend, with a number of new providers looking to incorporate the concepts of social media into the investment arena, allowing investors to learn from, interact with and copy other members' investment decisions.

Finally, perhaps the industry needs to think about the issue differently. While certain organizations have started to invest resources in this area, it is worth contemplating whether financial education should start earlier and whether the industry has a social responsibility to help the government in its quest to improve financial education in schools.

Engagement levels will vary significantly, albeit in the main, are anticipated to increase:

As with financial literacy levels, consumer engagement levels with the financial services industry remains considerably lower than the industry and global governments would like. With regulatory changes and government intervention continuing to amplify the need for individual engagement, how to do this remains a key challenge. We believe that by 2030, engagement levels will have increased markedly, both as a result of increased auto enrollment and individuals becoming increasingly aware of their savings shortfalls. This is likely to be also driven by experiential learning. Younger generations may see their parents struggle in retirement and face the prospect of actually having to take care of them. This is likely to increase the focus on their own retirement planning.

Early signs of this trend are already starting to emerge. Research from BlackRock in the United Kingdom suggests that people are taking financial planning more seriously and starting to save at a younger age, with those aged 24-35 now saving 18 percent of what they earn in contrast to only 12 percent for those aged 45-54.[31] Research from Merrill Edge supports these findings. In the spring of 2013, it released a report that noted young investors are starting to save much earlier, at an average age of 22, whereas Baby Boomers started saving on average 13 years later at the age of 35.[32] In its same report in the fall of 2013, Merrill Edge went even further, suggesting that within the mass affluent segment, financial priorities have shifted considerably from the start of the recession, with 'saving for retirement' cited as a number one priority for Generations X, Y and Baby Boomers, beating other priorities such as paying off debts or securing a job.

We believe investor engagement will have to increase, simply because falling state provision, issues around corporate pensions and the prospect of reduced inter-generational wealth transfer mean that they will have to take greater responsibility for their own retirement planning. No-one else will do it for them.

Despite what appears to be nascent signs of increased engagement, we do recognize that there will remain those who are either time-poor or simply uninterested and who see financial planning as a nuisance. Such individuals are likely to be happy to either avoid the issue (which is going to become increasingly difficult) or to look for someone to 'take the problem away'. We are already starting to see this theme play out in marketing strategies, with one asset manager's advertising tag line being, "Let us do the hard work."[33] The challenge for the industry will be how to address the needs of this segment of the market while also providing a service model which suits the more empowered and engaged investor.

As a result perhaps we will see three types of retail investor emerge:

1. those who are highly engaged in their personal finances, likely to be quite self directed and active on the investment front as well as heavy technology users expecting a customized, highly interactive service.

2. those who are interested and do engage from a planning perspective, using technology to keep an eye on the aggregate position of their assets and liabilities but happy to also seek professional expertise and discretionary management.

3. those who remain relatively disengaged or only engaged to the extent they need to be for the 'problem to be taken away' and as such likely to invest via a standardized, simple, almost fiduciary savings system - if at all.

Investors' expectations of and interactions with the industry will change considerably:

We foresee client service models undergoing significant change in response to the evolving client profile. We are already seeing consumers' increasing thirst for information, demands for multiple touch points and growing acceptance of digital solutions. Such trends are anticipated to accelerate, particularly for the more empowered or engaged investors. Gone are the days when investors will be satisfied with quarterly meetings or statements. Tomorrow's investor will expect 24/7 access, full transparency and the ability to self-report, review and re-balance investments via a range of channels, including extensive use of mobile technologies. We are not suggesting that all investors will use this functionality and we are not advocating that a standard retail investor re-balances his / her portfolio on an overly regular basis. However, we do foresee that successful investment managers will need to be equipped to service a more demanding client type, while continuing to satisfy the expectations of more conventional clients, who remain satisfied with more limited interaction.

We have witnessed similar shifts in other segments of the financial services sector as well as other industries. Limited opening hours, basic branch networks and telephone or limited internet banking facilities have been replaced by significantly upgraded retail stores, satellite branches with extended opening hours and comprehensive online and mobile services. The investment management industry is already making similar shifts, with certain players more advanced than others. As an example, one large global manager recently announced it is analyzing the times of day when people use different computer devices in order to better tailor its marketing and client service approach.[34]

The industry will have to capture new customers far earlier and keep them longer, by offering products tailored to a younger, less affluent and potentially less financially literate market.

Client profiling and a flexible operating model which can accommodate diverse client needs will be key:

Finally, but perhaps most importantly, client profiling and data-driven analytics will become an increasingly important source of competitive advantage. Not only will this enable investment managers to more accurately anticipate client needs and buying behaviors and hence customize product, marketing and service strategies and service models, it will also help improve internal efficiency and productivity.

To prosper in such a radically redesigned investment landscape, investment managers will need to understand and profile their clients better than they do now.

Similar disruptive, yet highly positive, changes are being seen in virtually every industry. For example, in the medical sector, doctors used to ask questions about family histories in order to determine the likelihood of prognosis based on current symptoms. With modern genome analysis, individual DNA testing has revolutionized diagnostic capabilities so that an individual patient's DNA can be analyzed to determine his or her potential for contracting a particular disease or disorder. What would such predictive analysis and profiling look like in investment management?

It is highly likely that the 'one size fits all' solution or service model will disappear, with investors instead insisting on individually designed solutions to meet their specific needs, requirements, profiles and situations.

Please refer to the 'operating model' section for more information on this topic.

“The first step in exceeding your customers’ expectations is to know those expectations.”

Roy H Williams

Author and marketing consultant

IMPLICATIONS:
PRODUCT

Evolving product requirements and the importance of brand

The core investment product will remain key as the industry continues to strive for greater client centricity. However, we believe traditional products will increasingly become components of outcome-orientated solutions, niches will become more mainstream and aspects of investment theory may be called into question.

Outcome-orientated propositions will continue to gain in popularity:

In a low-return, low-trust and potentially more-volatile environment and with the investor base undergoing significant demographic changes, clients will increasingly focus on target-driven results as opposed to individual investment strategies or asset classes. We are already seeing this with the growth of investment solutions, multi-asset products and lifestyle funds.

While there are certain segments of the market that question whether the multi-asset trend is sustainable or merely a result of the current market environment, we believe the broader 'solutions' trend is here to stay and likely to trigger significant changes to product sets and the way they are marketed to investors. While the more engaged investor may continue to be interested in the specifics of the underlying investment, the majority of the client base are likely to assign greater value to products which deliver against specific, quantified outcomes and pre-determined time horizons and risk objectives. For some, particularly the less engaged or sophisticated investor, we believe these individuals may be willing to sacrifice some of the upside potential in exchange for increased certainty that a stated outcome will, in fact, be delivered. How will this be achieved? Dynamic asset allocation will be at the core, combined with access to all of the necessary components to deliver the solution, or 'componentry' as the Global CIO of Russell Investments describes it,[35] along with appropriate risk overlays.

Together, the ability to package this solution within a simple, clear proposition that demystifies some of the industry's complexities and focuses on how it delivers against investor needs will be key.

Pensions innovation is required to help address the retirement challenges:

Aging populations, low birth rates and high levels of fiscal debt are creating a well-publicized global pensions 'time bomb'. In countries with well-developed pension systems, the issue is one of increasing dependency ratios, low savings rates, a low interest rate environment and high levels of consumer mistrust and disengagement. For less developed economies, the challenges are compounded by even lower levels of pension provision. It is estimated that less than 5 percent of the current African workforce is building up any pension provision.[36]

While the industry is well aware of the problem, very little has fundamentally changed over the last 30 years. For example, in the United Kingdom, while there has been a shift from Defined Benefit (DB) to Defined Contribution (DC), the introduction of concepts such as the workplace pension and recent changes to annuity rules, is this sufficient? We believe further product innovation is required. How will the industry innovate sufficiently to encourage saving and to help investors live the kinds of retirement lifestyle they expect? Will it even be possible for individuals to live the lifestyle they envision? Will it be the design and launch of a radically different pension proposition in the accumulation or, perhaps more importantly, decumulation space? Or will it be more subtle innovations which make the current product set more effective, less costly and which increase the breadth of appeal?

We believe investors will be looking for increased certainty and protection that the outcomes intended will actually be delivered, even if this involves an element of performance sacrifice.

“Never innovate to compete, innovate to change the rules of the game.”

David O. Adeife
Innovation author

The industry needs to broaden its proposition set to be more relevant from 'cradle to grave'.

We believe pension innovation is particularly important in the following two areas:

1. improving the levels of advice individuals receive when entering into a pension arrangement and when making choices throughout the life of the scheme.

2. improving risk management within the product to increase the certainty of outcomes.

3. enhancing the current decumulation product offering to improve the simplicity and transparency of current annuity offerings.

If we take the first point and use the United Kingdom pension system as an example, the shift from DB to DC transfers the risk and responsibility almost entirely to the individual. While the financial motivations are clear, we believe the majority of the population is not sufficiently investment-savvy or engaged to make appropriate and informed choices. As such, we believe investor education, protection and support in the pensions arena needs to increase. There is financial services regulation to protect investors in all other forms of investment. However, in one of the most important financial decisions an individual will make, they are left almost entirely without support. Is it right or even efficient and appropriate that each member of a DC scheme needs to seek independent investment advice or could the industry provide better support and education to inform decision making?

In terms of the second point, we believe there is a need for improved risk management and potentially greater risk sharing to improve participation and investment certainty. In the current DC system, individuals bear all the investment risk, yet the majority invest via a standardized asset allocation model which moves to fixed income as an investor nears retirement age. Very few individuals pro-actively change their asset allocation dynamically through the life of the product or as their personal circumstances change. In today's low interest rate environment, the absence of interest rate hedging can often result in annuity levels which are significantly below expectations. We believe there could be opportunities for a more fiduciary solution in the pension arena, with asset managers taking on a greater oversight role. This role could include more active management of the assets against a defined target and even potentially the inclusion of some form of embedded guarantee or a guaranteed floor to help improve confidence that the intended outcomes will be delivered.

Finally, when turning to decumulation, in addition to improving the simplicity and transparency of the annuity purchase process and enhancing the way liquidity is provided, we believe that with healthcare improving, careful consideration should be given to how to extend beyond the traditional 'at retirement' product marketplace to help the older generations fund healthcare and the more active retirement lifestyles they are likely to expect.

Retail product sets will need to extend beyond pensions:

In many countries, the investment management industry remains highly pension-orientated. With a need to engage investors younger in their lives and to help them prepare for a wider range of life events, the industry needs to think about how to broaden its product focus to enable it to be more relevant from 'cradle to grave'. Unfortunately, while providers already offer a range of general savings propositions and are looking to increase the prominence of such product offerings, the emphasis remains on pensions.

More needs to be done to devise and market products which are tailored and designed to help individuals with broader savings and investment requirements throughout their lives - ranging from supporting them as they get their first job, buy their first house, get married, start a family through to considering healthcare options. We are already seeing signs of this shift with an increasing number of providers tailoring product sets to meet investors' different life stages.

Retirement systems are under strain globally. Pensions innovation will be critical to increase investor protection and improve savings rates.

Core aspects of the investment process could be called into question:

The confluence of these megatrends could also bring into question certain aspects of modern portfolio theory. Algorithmic and computer trading is on the increase. Opportunities for arbitrage are decelerating. The boundaries of diversification are being retested and so too are previously held assumptions about correlation. These are fundamental issues, striking at the core of investment management and which have the potential to significantly disrupt the investment process.

If we look at investment theory, traditionally sophisticated mathematics have been applied to past data and combined with subjective qualitative analysis to help portfolio managers devise investment strategies for the future. Going forward, this could need to change due to three material factors:

1. the aftermath of the financial crisis and the resulting monetary and fiscal intervention, combined with the advent of each of these megatrends, is resulting in a future which is shaping up to be very different from the past. The sophisticated models which underpin quant or algorithmic hedge funds have made limited allowances for this and for the extent to which these trends are shaping the future. With trend following 'quant' funds having lost money in 4 out of the last 5 years[37] and automated or algorithmic funds have underperformed the broader hedge fund universe by between 2.07 percent to 3.7 percent in 2013,[38] there appears to be appropriate evidence that the impact of megatrends and the manner in which they are affecting markets needs to be better reflected in investment models and process.

2. continuing improvements in computer technology could create a situation in which computers take on more aspects of the qualitative investment process. Standard Life recently claimed that many jobs performed by fund managers could be replaced by machines. The primary rationale being that while man "has to deal with fear and greed, intellectual constraint and fatigue", a machine is "agnostic, tireless and has no bias in decision-making."[39]

3. with the advent of social media and big data, what data should be analyzed in order to inform successful investment decisions? Could big data or social media feeds, if properly analyzed, be a better alternative to traditional practices and analysis? We are already seeing new business models emerge in the industry which claim to be able to identify signals from millions of social media messages, which could subsequently be reflected into investment strategies, trades and hedging arrangements. Similarly, other sectors are beginning to be disrupted by new data sources. For example, in the insurance sector, the analysis of policyholders' spending habits is starting to displace traditional actuarial data as a more appropriate predictor of individuals' risk (and therefore pricing) profiles. Can this happen in investment markets in an analogous manner? What would investment analysis look like in the face of big data going forward and what could it mean for alternative investment strategies?

Mainstreaming of current investment niches:

While the search for return is likely to further increase the diversity of the underlying investment base, we also believe we will see many of the current investment niches become more embedded in standard industry practices:

- **Socially responsible investing (SRI):** SRI or environmental, social and governance (ESG) investment strategies are expected to experience a further revival and become an increasingly mainstream component of the industry, as environmental and social awareness levels and concepts such as responsible capitalism continue to grow. Despite the exponential growth that SRI has witnessed in many global economies, it remains a small proportion of the industry's total assets under management (AuM), given concerns regarding a perceived performance trade-off.[40] While in other industries, consumers may be prepared to pay a premium to support sustainable and/or ethical behavior, fiduciary responsibilities within the investment management industry could pose a more significant barrier. Similarly, many of the qualifications required within the industry do not currently fully embrace the ethical imperative of socially responsible investment. However, the industry has taken a proactive approach in attempting to change this perception. Research published by Bank of New York Mellon in 2012 based on a survey of 1,100 of its clients suggests that 80 percent of firms believe there is no performance trade-off between SRI/ESG strategies and traditional investments.[41] Similarly, a study by Harvard Business School, which analyzed the share price of 180 companies over 18 years, found that the 90 companies at the forefront of implementing sustainability programs were significantly outperforming their peers.[42]

Current investment niches are likely to become increasingly mainstream as the pool of available alpha reduces.

These factors, combined with increasing investor demand and increasing international coordination on responsible investment, are raising it up the corporate agenda. The United Nations-supported Principles for Responsible Investment Initiative (UNPRI), an international network of investors working together to put the six Principles for Responsible Investment into practice in the sector, now represents over 1,200 of the world's leading investors and accounts for approximately US$35 trillion in investment assets.[43]

Increasing awareness of environmental and social issues also raises important questions for the industry in terms of its investment approach. Is the industry going to genuinely embrace longer-term investments? Is it willing to accept that investment is no longer just about the optimization of a single metric (shareholder returns and its interplay with risk) and that there are other broader considerations which need to be taken into account?

- **Alternatives:** We have already seen a significant blurring between traditional and alternative investments in the institutional marketplace. This trend is only likely to intensify as alternatives and hedge funds in particular become increasing important components of retail portfolios. While hedge funds are the first of the 'alternative' segment to be increasingly adopted by retail investors, the continuing demand for absolute and non-correlated returns, combined with the transparency, liquidity and regulatory oversight that new regulated investment vehicles deliver, is likely to lead to asset classes such as Real Estate, Private Equity, Infrastructure as well as even more esoteric investments becoming part of the mainstream retail industry by 2030.

- **Sharia compliant investing:** The economic shift from West to East is also bringing with it an important religious shift and prompting significant growth in Islamic banking and finance. However, with Muslims representing nearly a quarter of the world's population, it is estimated that currently less than 1 percent of financial assets are Sharia compliant.[44] This fact can be attributed to a range of factors, including a lack of credible propositions, a reputation for a lack of diversity, a perception of poor performance and high fees and the timing of the financial crisis, which damaged confidence in the heavily equity-skewed Sharia funds industry. We foresee this position changing quickly over the period to 2030, both as result of supply and demand. From a demand perspective, the Muslim population is expected to grow at about twice the rate of the non-Muslim population over the next two decades, such that Muslims make up more than a quarter of the global population by 2030.[45] In addition, we anticipate a growing demand for Sharia offerings from non-Muslim groups. Supply is expected to follow suit, with the availability of Sharia compliant funds and Sukuks increasing considerably as more non-Islamic markets show heightened interest in Islamic finance and such propositions become more integral components of an investment manager's proposition set.

Product flexibility will become increasingly important:

We believe that the product and portfolio of the future will need to be considerably more adaptable in the sense it:

- can be flexed quickly, efficiently and at a low cost to cope with changes in personal circumstances or the market environment. With the pace of change increasing, the ability to respond quickly to events and triggers, including those which could be outside of the portfolio manager's initial control, will become more important for both the investor and the investment manager.

- offers the flexibility to pull together individual components into a range of wrappers. As discussed, the value assigned to aggregation and packaging is increasing, both within investment management and other industries. While we have already seen this with the growth in open architecture and wrap platforms, we anticipate this trend will accelerate, necessitating more comprehensive links and working relationships with other investment management providers to enable better financial aggregation. Over time, the blurring of boundaries between providers in the investment management and financial services industry more broadly is likely to increase considerably as investors look to create a more complete and single view of their assets and liabilities. This trend will inevitably raise questions for providers in terms of their areas of focus and appetite for 'co-opertition' - a combination of cooperation and competition.

- is portable. Pre-crisis investor and wealth mobility increased considerably. While many experts expect migration and mobility to remain relatively static or to fall in the period to 2030, the flexibility to transfer products, vehicles and assets across borders and to invest in multi-currency products will continue to be an important feature.

In a rapidly changing world, product flexibility and the ability to respond quickly to outside events will be increasingly critical.

Pricing is likely to be under a more intense spotlight:

With the growing trend for transparency, both in the investment management industry and beyond, we expect to see a growing focus on product pricing and fee levels. Such a trend is only likely to increase in light of additional regulatory and client scrutiny. We are already starting to see visible impacts of this trend in the retail marketplace, with a range of new online providers actively marketing their proposition sets on the basis of simple, flat fee structures or using tag lines such as "now quality investment management does not have to cost thousands."[46]

This trend is only likely to be intensified by the changing risk return expectation, with investors potentially becoming increasingly reluctant to pay hefty fees for limited investment return while still bearing considerable investment risk.

Effective brand management will be key to success:

The trust issue within the financial services industry will need to be resolved. Not only will this be critical in order to drive improved investor engagement, but other issues such as data security, confidentiality and data privacy are likely to heighten the need for a trusted brand. While it will take time and considerable effort to regain lost ground, we believe a trusted brand will become an increasingly important differentiator or, conversely, could act as a potential threat to incumbent players. Could there be an opportunity for an established investment manager to partner with a more trusted, higher-profile retail brand?

Effective brand management needs to extend beyond a new logo, Facebook page or simple tweet. A trusted brand and corporate identity needs to be built on action and performance. Furthermore, with younger consumers increasingly trusting 'people like me' rather than corporations or professions, branding strategies need to extend beyond traditional corporate advertising campaigns. We are already seeing growing recognition of this across the industry, with digital campaigns complementing more traditional media in order to reach a younger, more tech-savvy audience. However, there are downsides and risks inherent in operating in a more interactive social media world, the most notable of which being that it allows everyone to have an opinion, including a disgruntled customer or investor. This, in turn, increases the importance of brand protection strategies relevant to the new social media environment. With a rapid and appropriate response, a bad client experience can be turned around.

“Products are made in the factory but brands are created in the mind.”

Walter Landor
Brand designer

IMPLICATIONS:

MARKETS

New market opportunities

Globalization has been a critical driver underpinning the scale and significance of many of these megatrends. We believe this trend will continue and that investment managers have an opportunity to extend their footprints to capture new and emerging opportunities.

Emerging and developed markets will increasingly converge:

This convergence is likely to create significant growth opportunities for investment managers, as wealth increases and retirement and savings markets grow and develop. To achieve this, technology will be particularly critical to gain ground and shape markets. Without the legacy and cumbersome systems that often hinder rapid technological adoption in developed economies, emerging markets can often be faster adopters and, hence, further ahead in certain areas of technology usage, such as micro payments.

Market entry strategies will need to be much more robust:

The growing potential in current emerging markets and developing economies resulting from demographic shifts in the South, East and Africa is much-publicized. While most players have already diversified beyond national boundaries, some into more developing or emerging economies, many have failed to gain the intended levels of traction in new markets, often having created a disparate collection of models. Successful market entry requires considerably more than just positive macroeconomic indicators.

These new markets, particularly the less-developed, will not suit the culture and risk profiles of every established investment manager in the West. They are much more susceptible to political and social upheaval, are governed by considerably different regulatory regimes, cultural and religious belief systems and need to be assessed against a range of qualitative criteria to determine genuine attractiveness and entry strategies. Even those markets that may appear attractive may not necessitate a full service model to be established. Certain markets may be more attractive from an asset gathering perspective, while others may have opportunities which warrant the establishment of a local investment expertise. While the risks may be higher and some of the choices may be difficult to make, the rewards associated with getting it right can be high.

A wealth of new opportunities exist in many of the less developed markets but such countries will not suit the culture and risk profile of every established western manager and will require a carefully defined and executed market entry strategy.

In most instances, while players will strive for global consistency, local cultural, market and regulatory differences are likely to require a tailored business and operating model. Furthermore, the means of market entry will need to be flexed not only by organizational preferences, but heavily influenced by regulatory requirements and local market practices. In some markets, an organic market entry strategy, driven by the relocation of trusted personnel from overseas offices, may be successful. In others, a joint venture (JV) with an incumbent player or acquisition may be the only entry option.

When considering new market entry, a range of factors should be considered. While the following list is by no means exhaustive, it does provide a high level overview of some of the key areas for consideration:

- **Local regulatory frameworks, tax environments and licensing arrangements:** Does the local regulator environment actively encourage or hamper new market entry? What are the key regulatory differences from your existing market footprint? How will the legal entity be taxed locally and upon repatriation of profits to the head office country? What are the licensing arrangements? Are new licenses available or would an existing license need to be acquired?

- **Financial stability:** How stable is the local financial market? Can investors readily access local stock exchanges or are there investment restrictions or legal risks that need to be considered?

- **Target investor base:** How financially literate or sophisticated is the target population? Which segments of the population offer the greatest potential? What would local investors expect from an investment management provider? What are the potential and available asset and revenue pools? What do international financial flows tell you about where local investors are currently investing (e.g. domestically or internationally)?

- **Competitive environment and channels:** How well-served is the local market by incumbent financial and investment management providers? What are the key channels to market and how accessible are these? How well-developed are local distribution networks?

- **Foreign competitor activity:** Have foreign investment managers already entered the region? How successful have they been and how have they entered (e.g. via JV, acquisition or organically)? Are there any restrictions on market entry arrangements, particularly for foreign players?

- **Operating model:** What organizational structure would be necessary to meet local requirements? What are the rules around the need for local management structures? Do data and systems need to be hosted and managed locally? What are the restrictions on transferring data cross-border? How well do you understand local business culture and operating practices?

Regardless of market, successful market entry will require a well defined strategy that is tailored to local market specifics, aligns with and leverages existing capabilities and is agile enough to withstand what could be considerable flux as markets develop.

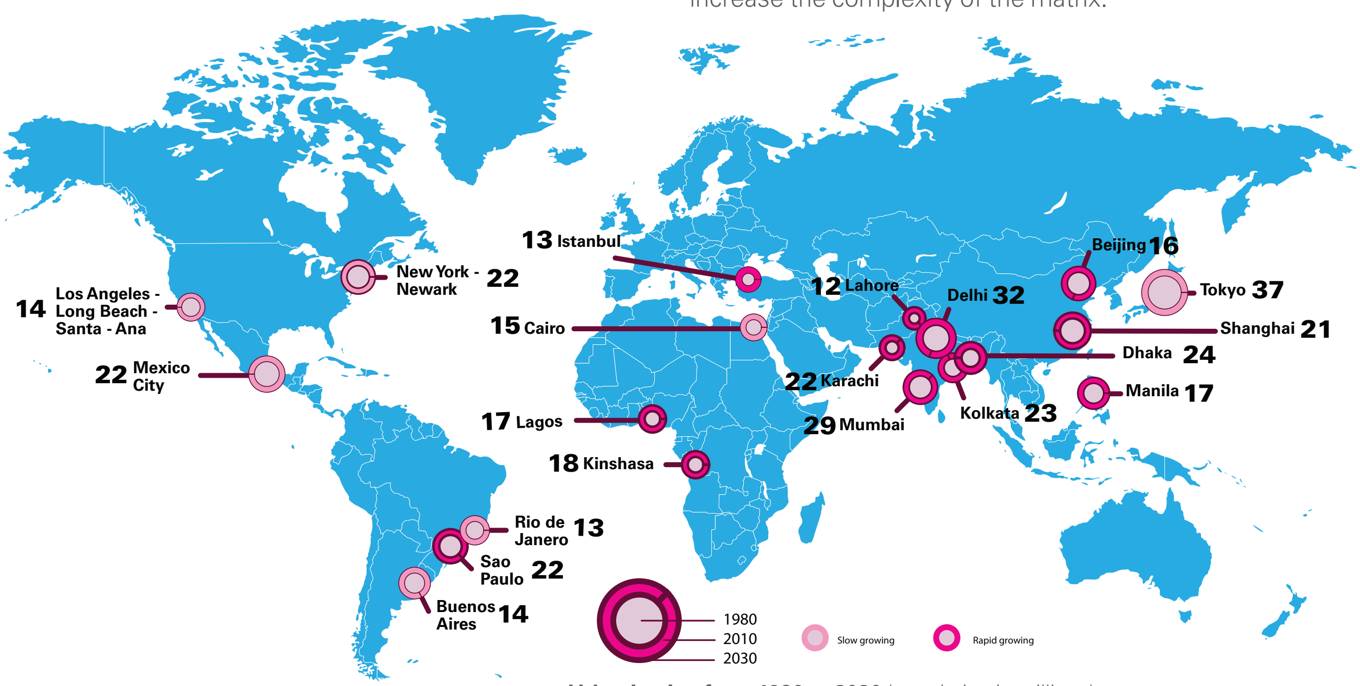
Market strategies may benefit from a multi-level approach:

Over the last few years, many global asset managers have devoted considerable focus to refining and managing the complexities of a global business. A matrix structure has been commonly adopted as the most appropriate means to leverage and share capabilities more effectively on a global basis, while maintaining sufficient proximity to local market nuances.

As local markets develop and evolve driven by the implications of these megatrends, it is likely to raise questions as to how best to target and penetrate individual markets. While previously strategies were developed at a regional or a country level, we question whether market strategies and groupings should be created primarily on the basis of geographic location or whether local market and investor characteristics and dynamics should play a greater role in strategy development. Market maturity, investor sophistication and behaviors may be more appropriate criteria to consider than simply geography when considering the optimum organizational structure.

Urbanization could also present opportunities. With megacities increasingly becoming powerful communities and markets in their own right, we believe a situation could arise in which individual city-level strategies are required to complement a broader market based approach. Such changes are likely to further increase the complexity of the matrix.

The 20 largest cities in 2030[47]



Urbanization from 1980 to 2030 (population in millions)

“Think globally, act locally.”

Akio Morita
Co-founder of Sony

IMPLICATIONS:

TECHNOLOGY

A focus on operating infrastructure and technology

As the pace of external change increases, so does the need for flexibility and agility in the core operating model. Technology will need to move far higher up the agenda and more radical options will need to be considered to drive the step change required to support sustainable growth.

A core platform and simple user interface will be critical:

Many investment managers are characterized by a myriad of legacy systems. While work has been ongoing for some time to improve the connectivity and integration of these systems, it is questionable whether many have gone far enough. In fact, many clients recognize that a large proportion of technological development has focused on resolving the problems of yesterday.

We believe that a robust core platform which can support customized and tailored propositions to address clients' increasingly diverse needs and service expectations will be crucial. As we have seen, generational differences alone will necessitate a platform capable of dealing with clients who will want to interact in different ways, through different types of media and who expect information to be provided in a wide variety of formats.

In addition, the ability to allow others to 'plug and play' on the platform may also be increasing important as open architecture becomes more prevalent. Finally, with a growing number of consumers valuing the concepts of transparency and simplicity, anything that can be done to simplify client portals and web applications is likely to pay dividends in customer acquisition, retention and satisfaction levels.

Case in point is Apple's iTunes platform. The real power of iTunes is in its simplicity. While it acts as the backbone to the operating platform, it can be easily flexed and tailored to an individual's requirements and others can add to it via the creation of Apps. The manner in which any two users interact with the iTunes platform can vary greatly. Yet, each user can be accommodated via the one simple platform. Could the same be said for many asset managers' platforms? How easily can they be customized and tailored to suit different investor needs? Do asset managers' platforms enable the organization to respond rapidly to a quickly changing world?

While asset managers have already been working hard to improve operating platforms, we believe much of this work has been focused on addressing the legacy of yesterday and problems of today, rather than preparing for the future.

Asset managers will need to invest for the future to design and create new platforms with the flexibility and scalability to support a much more diverse client profile expecting a personalized and customized service.

Delivering the service promise will increase the importance of process efficiency and organizational agility:

Process efficiency and organizational agility will also become more important to delivering the service promise and reinforcing the brand values. For many organizations, this will present major technology and people challenges, particularly given that current structures are typically built for constant and well-defined demands, something that could well be increasingly rare in the fast-paced world of the future.

Building an organization which can more easily support change is likely to require innovation, imagination and creative problem solving. In addition, in the post-crisis world, where the focus for many asset managers has been on cost optimization and downsizing, there is the potential risk that these strategies could impair an organization's ability to respond to an increasingly volatile world. Commentators are starting to consider whether the industry has the capacity and capability to create inbuilt organizational agility and corporate resilience for use in times of unforeseen stress and change.

Client profiling and effective data analytics will increasingly act as a differentiator:

The amount of data available about investors (e.g. their needs and lifestyles) and about markets (e.g. their profiles and dynamics) is increasing exponentially and is typically disparate, inconsistent and difficult to interpret. Sources range from internal customer relationship management (CRM) data to information from distribution partners, advisors and other external market data feeds. Over time, this is only likely to increase as feeds from other sources, such as social media, are integrated into corporate systems.

There are further challenges in managing data quality issues, ensuring that insights are relayed effectively to the relevant functions and that the business remains compliant with regulatory requirements, particularly around data privacy. Making sense of this efficiently, creatively and using it to predict behaviors will be one of the core sources of competitive advantage. The opportunities presented by efficient data analytics are recognized across the industry.

We are seeing an increasing number of clients investing heavily to harvest, scrub and leverage data to improve operational effectiveness and, more importantly, help inform and shape the relevance of client engagement strategies. There has also been considerable media coverage about how firms are looking to make data useful to their sales teams.[48] As an example, one global asset manager has focused heavily on the cleaning up and definition of data and recently announced it was even moving an IT function into the distribution organization to align the technology to work better with the needs of the sales teams. Others are focusing on how to use data to identify which distribution partners they should be targeting, which are likely to be most receptive to the managers' offering, what topics they should be talking to them about and how often they should call on them.

The sophistication of consumer profiling techniques can be clearly seen in other industries, particularly retailing, where marketing and spend-based promotions are increasingly tailored to individual buying behaviors. While there are evident regulatory considerations within the financial services industry associated with recommending products or predicting services required based on the profile of a particular investor or of similar investors, rather than an individual's specific needs and requirements, the potential presented by getting this right cannot be underestimated.

Finally, it is not all about the information and data that investment managers have available about their clients. Let's not forget that investors can now access significant quantities of data in real time, meaning this is no longer the exclusive domain of the professional investment manager. How will you handle a potentially better-informed investor?

To effectively target and service an increasingly diverse client base, we believe that client profiling, data analytics and operational flexibility will be increasingly critical.

Value-added outsourcing, if executed successfully, will offer numerous advantages:

IT systems are no longer simply about transaction processing and number crunching. Those functions can and, in many cases, have already been outsourced. Increasingly, we are seeing a trend towards more managers outsourcing more middle- and back-office functions in an effort to focus technology on delivering genuine differentiation, to move the cost base to a more variable model and to enable business resources to focus on their core competency of managing money and client relationships. There are also potential advantages in using outsourcing as a means to keep up-to-date with the rapid pace of technological advancement and support more rapid proposition development.

If executed successfully, outsourcing can significantly improve cost flexibility and agility and could better equip an organization to capitalize on the opportunities and respond effectively to the challenges created by the marketplace of 2030. However, many have focused too much on the cost agenda and have found a subsequent lack of flexibility. The trend is moving towards broader and deeper strategic partnerships. The importance of this trend is only going to increase as businesses move towards a more networked model, increasingly incorporating relationships with businesses outside the traditional corporate boundaries into the organization's core structure and governance model.

“It’s not information overload. It’s filter failure.”

Clay Shirky
American writer and new media professor

IMPLICATIONS:

GOVERNANCE

Revised organizational structure and governance models

Investment managers need to create an organizational structure which can manage the challenges created by further geographic expansion, withstand ongoing regulatory and client scrutiny and connect more effectively with other organizations in its broader network.

Increasing complexity of international organizational structures and governance:

Global investment managers are already finding it challenging to manage an organizational matrix on three continents. This will become even more challenging as organizations continue to diversify internationally and consider how to manage the business across five continents and an increasing array of time zones. Add to this the need for rapid decision making processes in what is likely to remain a largely uncertain world and it is not surprising that we believe optimizing the effectiveness of organizational structure will become an increasingly pressing management issue.

For those seeking geographic diversification, we expect management teams to focus on how to build and manage a cross-border investment business. This is perhaps most effective when structured as a federated matrix to enable it to harness the economies of scale and knowledge-sharing opportunities, but at the same time can be suitably adaptive to accommodate local variances. Many global investment managers have already implemented such models and for them, the focus is on how to optimize the model by reducing inherent tensions and removing any resulting silos. For example, many organizations have structures which constrain local input into key decisions, are structured around key people rather than to meet business needs and are overly influenced by head office cultures and time zones. Addressing some of these imbalances can deliver significant benefits, creating better equilibrium between global and local requirements.

Organizational structures and risk management frameworks will continue to be under the microscope with pressure coming from internal and external stakeholders.

There is also the potential for technological advancements to simplify aspects of the challenge. While there is often no replacement for face-to-face contact and it is unlikely that even by 2030, technology will have completely replaced the need for local physical presence, the rapid pace of advancement in the field of communications and connectivity is only likely to aid collaborative cross-border working.

Globalization, digital connectivity and resource scarcity are forcing businesses to operate in an increasingly complex world.

Intensifying scrutiny of risk management frameworks:

With trust in financial services organizations remaining significantly below most other industry sectors and having been further damaged as a result of a range of recent scandals, we know investors are already looking very closely at risk management frameworks, controls environments and fund governance arrangements. We believe this scrutiny is only likely to intensify, both in direct correlation to increasing investor awareness, engagement and financial literacy, but also a result of the amplification of the potential risks in a more connected, mobile and globalized world. For asset managers, it will be critical to ensure that a risk focus is embedded within the organization, but in such a way that it does not stifle innovation.

It isn't just investors who want greater assurances on risk metrics, transparency at the level of counterparty exposure and increased due diligence on manager operations. This is being compounded by more intensive supervisory pressure on how investment managers organize their businesses to meet regulatory requirements. It is unlikely that this scrutiny will subside. Furthermore, despite global financial systems being increasingly interlinked, it appears unlikely that even by 2030 there will be a globally consistent regulatory framework. That said, we do expect to see a growing level of international, political, economic and regulatory coordination as the number of issues requiring global consideration and resolution grows.

Along with rapid globalization and the increasingly interconnected nature of risk, comes the need to review and reassess business continuity planning exercises. While other industries such as manufacturing, sourcing or insurance may be at increased risk of supply chain disruption, no sector is immune. Investment managers will need to consider how to best mitigate against future disruptions. The consideration of factors such as the risk of natural catastrophes, pandemics, terrorism or other aspects of environmental, political or economic uncertainty may play a more important role when planning geographic expansion and local market strategies.

In an increasingly networked economy, better leveraging business relationships can help maximize value.

Growing importance of third party relationships:

In an increasingly networked and connected economy, investors are likely to expect and value aggregation across a broad number of financial services providers, as opposed to having to manage a series of separate financial relationships. For such a shift to take place, relationships, networks and connections with peers and competitors, or 'co-opertition', will be paramount to support future propositions and service models. Such a transition would significantly impact organizational structures, as processes will extend beyond existing organizational boundaries. In addition, as outsourcing relationships continue to develop into partnership models, providers are likely to be seen as extensions of the asset managers' organizational structures, presenting its own challenges.

We are already seeing signs of this trend in the relationship between investment managers and distributors. The value chain is shifting and presenting new opportunities to develop and enhance their respective propositions but clarity will be key to optimize benefits. The same could be said with the growth and development of the wrap and platform market. Are there any other players or competitors in your network with whom there may be mutually beneficial ways to create value?

In addition, still on the theme of networks and connections with external organizations, we are witnessing an increasing number of investment managers looking to either help their clients become better connected internally based on their own interactions with their organization or to establish an internal organizational structure which mirrors that of key distributors in order to improve working models and deliver mutual benefits.

“If you want to be incrementally better: Be competitive. If you want to be exponentially better: Be cooperative.”

Unknown

IMPLICATIONS:

PEOPLE

The people challenge

We believe the challenges associated with the search for and retention of talent will intensify as the profile of the talent pool changes, employee's expectations and work patterns evolve and the industry seeks different skill sets.

The profile of the talent pool will change considerably:

Employees share many of the same characteristics, motivations and attitudes as clients. Employees are equally impacted by demographic shifts, technological developments and changes in social attitudes and expectations. They will expect to communicate in the same ways and will be quite prepared to share judgments, both positive and negative, not only about their experiences with different organizations but also their employers. This will have considerable implications for investment managers' HR strategies.

In the workplace of 2030, talent will be in different places, with different religious and cultural beliefs. What are your strategies for appealing to and engaging with a more diverse talent pool? With women controlling a greater proportion of financial decision making, how will the industry increase the equality balance within its workforce? According to BestInvest, only 5 percent of United Kingdom retail funds are run by female managers, suggesting the industry has significant improvements to make to attract more women into the profession.[49] The same can probably be said for other aspects of the diversity agenda.

Many commentators also believe that the war for talent will intensify. Western Europe, the United States and China are all expected to suffer a serious shortage of qualified employees as the proportion of working age people continues to decrease along with decreasing employer loyalty. This trend will increase the importance of a compelling employee value proposition to attract and retain talent. There will also be opportunities to better leverage HR data, enabling employers to create the working conditions and environments in which the best people will thrive and develop.

In the workplace of 2030, talent will be in different places, with different beliefs, social attitudes and expectations. Identifying, attracting and retaining this talent is only likely to become more difficult.

Employees expectations and work patterns are being redefined:

As a consequence of the considerable demographic and social shifts, employers are likely to find that by 2030 they could have four or five different generations of employees in the workplace. While there are considerable upsides to having such a breadth of experience in the workforce, each generation is likely to have very different expectations.

Asset managers may need to review HR policies and practices to ensure they accurately reflect both the talent requirements of 2030 and changing employee expectations.

- **Employee expectations:** We believe that understanding generational differences will be fundamental to building a successful multi-generational workplace. While generational groupings are seen by some as nothing more than stereotyping, these groupings can help to provide an overview of expectations and demonstrate how working styles have changed over time. What are your strategies to fit an increasing non-traditional workforce in a largely traditional workplace? How will you manage the potential for conflict which could arise from Millenials or Digital Natives expecting autonomy and responsibility early in their working lives at the same time that Baby Boomers are firmly established in and accustomed to management roles?

Traditional work patterns are being redefined. Flexible resourcing models and revised competency frameworks will be critical to best capture, leverage and motivate the talent of tomorrow.

- **Working patterns:** Societal pressures and technological advancements are redefining tradition patterns of work, including what percentage of the population works in a traditional 'job', adheres to 'core hours' (9:00 a.m. to 5:00 p.m. Monday to Friday), is part-time versus full-time or works independently versus being associated with a centralized office. These changing employment models, as well as improvements in remote working technology, will lead to the creation of new and more innovative employment models which, if designed and implemented correctly, should establish a 'win-win' for employers and employees alike. For employers, increasingly flexible resourcing models and working patterns should better help them retain highly skilled employees, improve morale, enable their organizations to better meet client requirements which are likely to be subject to similar flux and, at the same time, increase the flexibility of their cost base. From an employee perspective, flexibility is likely to better meet generational differences in expectations and should contribute to greater loyalty and talent acquisition.

Different skill sets will become more critical:

As investment processes and transactions become increasingly automated and as technology increasingly replaces roles and value shifts towards effective client management, the core competencies asset managers are searching for are likely to also change. Investment leadership will remain sought-after. However, other skills, such as client relationship management, communications skills and, in technical areas, data analytics and technological know-how, will be increasingly sought after skills. Networks, joint ventures and outsourcing could offer new channels to access these skills. Again, we are seeing early signs of this trend, with a number of asset managers having announced partnership models with games manufacturers in order to access the technological capabilities required to keep pace in today's marketplace. Such partnerships will only be possible once investment managers have determined the skills they will need in the future. By allocating some time to think about these trends today, you can pave the way for more strategic workforce planning to occur in the future.

“Leaders must encourage their organizations to dance to forms of music yet to be heard.”

Warren G Bennis
American scholar

Is there potential for more radical disruption?

Given the combination of positive market prospects, the current lack of innovation and the speed of technological development, we believe there is potential for more radical disruption from new entrants and new propositions.

New entrants:

Clayton Christensen, Professor of Business Administration at the Harvard Business School argues that most established firms fail because they are focused solely on sustaining innovation, in other words, innovating from the existing base. They are, therefore, vulnerable to disruptive innovation, which can create completely new products, services, markets and value networks. Based on our experience, the investment management industry may be similarly vulnerable.

We are seeing some signs of new entrants challenging the status quo. While relatively small at this stage, there are a number of emerging models leveraging a combination of technology, data, social networks and communities to bring fresh propositions to market which play to the evolving megatrends and could have the potential to cause some waves in the industry. A few examples include:

- Wealthfront: An SEC-registered online financial advisor catering to the young and tech-savvy Silicon Valley community. The company, which only offers investments in ETFs and index funds, is already thought to have millions of customers using its services. The company has adopted a 'freemium' model, in which the first US$25,000 is managed free of charge and the next US$10,000 is managed free if the user introduces a friend to the service.

- Dataminr: This real-time social media analytics company picks up more than 340 million tweets each day, which it then uses to predict events on behalf of clients in the financial and government sectors. The company represents an entirely new category of social media analysis and has the potential to provide one of the 'earliest-warning systems' on the market.

- SNTMNT: Along the same lines as Dataminr, SNTMNT describes itself as the first Application Program Interface (API) in the world that gives predictions based on Twitter sentiment for all S&P 500 stocks. The company says its algorithm provides an extra indicator on top of fundamentals and technical analysis. SNTMNT's 'machine learning' algorithms generate an indicator capable of predicting share price movements between 1 and 7 days into the future with an accuracy rate of 56 percent. The company employs a two-step process as part of its offering. The first is natural language processing that is sourced from Twitter, Facebook, blogs and news sites to identify what it calls 'mood states'. They then employ machine learning and predictive analysis to make its predictions.

We believe there is the potential for new entrants with established brands or more innovative product solutions to cause more radical disruption.

- Nutmeg: The United Kingdom's first online discretionary investment management company which seeks to demystify the wealth management industry by removing the jargon, opaque benchmarks and fee structures and creating a proposition for all levels of wealth. It builds and manages diversified portfolios underpinned by an asset allocation engine and since its launch in 2011, has apparently seen aspects of its model replicated in both the United States and in continental Europe by organizations like FutureAdvisor and rplan.

- Motifinvesting: An ideas-based stock investing business which gained the backing of Goldman Sachs as part of a US$25 million financing round in April 2013. The company allows customers to invest online in theme-based portfolios, 'Motifs' and offers a social platform which allows customers to tap into and share ideas with other investors, claiming to have made investing 'social'.

- eToro: A marketplace to trade currencies, commodities, indices and stocks online in a 'simple, transparent and more enjoyable way'. [50] Its key differentiator is its online investment platform and active trading community, which enable investors to learn from, interact with and even automatically copy the investment styles of other network members in real time.

One of the key challenges many new entrants will have is creating a brand and building an appropriate profile and distribution footprint. This has been a perennial issue for many players, including existing incumbents seeking to extend beyond existing markets and clients segments.

A trusted brand which resonates and appeals to a more diverse client demographic and a new generation of investors with widely different values and behaviors will be increasingly crucial to build scale. Financial services brands are struggling to achieve this having been hammered in the aftermath of the crisis.

The only financial services organizations to be ranked in the top 20 of Fortune Magazine's 2013 list of the world's most admired companies are Berkshire Hathaway at number 8 and American Express at number 13. The highest-ranked firm with investment management operations is JPMorgan at number 28.[51] While the survey and ranking methodologies may be open to question, such results capture an important truth: these judgments drive behavior.

It will take time to rebuild trust and polish brands tarnished as a result of the crisis. Indeed, many have questioned whether this is indeed possible, especially in the eyes of the younger generations who are apathetic about the traditional financial services sector. This potentially provides opportunities for non-traditional new entrants.

The top three companies in Fortune's list are Apple, Google and Amazon. It may seem a little clichéd but could these be the next powerhouses in investment management? Instinctively they have the attributes and capabilities: brand ubiquity which is increasingly trusted by younger generations; propositions that engage and are relevant; business models which put them at the center of extensive networks designed to make clients lives easier, solve problems and change behaviors; enviable distribution footprints; huge client bases spread across all demographic groupings and an ability to capture and leverage data to understand their clients and infrastructure which can deliver personalized and tailored services.

We are not suggesting that these players will enter the fray with full investment management models although that cannot be discounted. It is more likely that they will look to partner with established providers. However, it is in our view very pertinent to consider what a Google, Amazon or Apple proposition may look like. How would they look at and address the challenges the industry is facing? How would they address the opportunities? How would you respond?

It is certainly not far-fetched. The industry cannot rely on its history – as it says itself, the past is no indication of the future! We have seen many other industries which have been radically disrupted by the sudden emergence of new entrants from traditionally non-competing industries. Why could the same not be true for investment management?

Indeed, some of these consumer giants have already started to diversify into aspects of the broader financial services industry. Recognizing the potential for regulatory hurdles and constraints, would it be such a dramatic shift for these entities to move into investment management in some way?

- Apple has more than 400 million iTunes accounts, each attached to a valid credit card holder. That is a sizable and loyal client base from which to build a potential banking entity.

- Facebook: With more than one billion registered users who already use the site as their 'virtual ID', Facebook has access to more personal data and information on users' behaviors than any other company on the planet. And in 2011, 15 percent of the company's revenue was generated by processing payments (primarily by users making purchases within social games). Having already succeeded in the difficult task of convincing nearly a billion people to use their site as a virtual ID online, the road to becoming a virtual wallet could prove simple in comparison. In fact, in April 2014 Facebook announced plans to enter financial services in the form of remittances and electronic money.

- Google has already challenged the telecoms, Global Positioning System (GPS), new media and advertising industries. It has made early moves into the banking sector with the launch of Google Wallet and, more recently, its late-stage investment fund, Google Capital, invested in a peer-to-peer lending marketplace called Lending Club, suggesting further interest in financial services. Why would Google not be looking at an industry characterized by high levels of customer loyalty and high margins?

There are plenty of technology driven organizations outside of the investment management industry which can deliver the customer service, personalization and brand ubiquity that clients are looking for.

New propositions:

Given the lack of genuine product innovation in the sector and the likely impact of a number of the megatrends, we also believe that there may be the potential for more radical propositions to shake up the industry and perhaps even present new solutions to the pension's time-bomb.

It is clear that retirement systems are under intense pressure. It is also clear that while investment performance is likely to continue to be important for many, outcome certainty is an increasingly important criteria driving savings and investment decisions. Demand for this is also likely to heighten as an increasing number of individuals realize, possibly through experiential learning gained from observing the struggles of their parents, that they need to take greater responsibility for their future retirement.

According to a survey conducted by Allianz Life, 61 percent of employees in retirement plans fear outliving their money more than death, with that percentage rising to 82 percent among respondents in their 40s, married and with dependents.[52] Similarly, 69 percent of those surveyed said they would prefer a product that was 'guaranteed not to lose value' than one providing a 'higher return'.[53]

The direction of travel seems set. The issue is how to solve the problem?

Solutions, outcome orientated products, protection and target date funds are increasingly prominent but to a large extent these are incremental developments based on the existing product set.

Typically we find incumbent players can struggle to think of genuinely new and innovative propositions, as their ideas can be limited by the restrictions of today. Similarly, as Henry Ford once said, "If I had asked what my clients wanted, they would have said a faster horse."

However, could we not look at the problem through a different lens? Cash at retirement is a means to an end rather than an end itself. People need the cash to buy products and services which they aspire to in retirement; holidays, cars, healthcare etc. The amount reflects to a large extent their expectations of retirement and what these will cost. However, it is increasingly difficult to anticipate what the world may look like and what things will costs given the difficulty in predicting the future.

One potential solution is to take away the risk around cash or transfer the risk from an industry which is perceived to have underperformed against its original promise.

This could potentially be achieved by locking-down value earlier at regular points during your working life. It could also be achieved by taking away the 'means' and moving directly to the 'end' itself; contributing during your working life to guarantee a new car every three years, regular holidays, health checks and care etc. It could be feasible that individuals would be willing to build relationships directly with the product or service providers and make regular payments during their working life to guarantee these in retirement. While potentially fraught with regulatory challenges and does not necessarily obviate risk, it is feasible in our view. Indeed, we are already familiar with time-shares which is a similar concept. We believe that such a concept, if appropriately worked through could have the potential to improve investor engagement and individuals' readiness to save.

Modern day consumerism is a tough addiction to break. We believe investors will increasingly look for alternative options to secure a comfortable retirement, potentially looking to lock down future access to products and services to provide greater certainty.

Conclusion:

Key questions for top management teams

We are not attempting to predict the future. We are simply looking to better understand the megatrends at work and how the confluence could impact the investment management industry – the profile of the future client base, their needs, requirements and behaviors, the industry value chain and business and operating models.

We believe that while these trends present a range of challenges, there are also significant opportunities for the industry.

We also recognize that the spectrum of potential outcomes is broad and the pace of change could differ substantially in a number of areas. However, we are firmly of the opinion that industry participants should consider these trends and agree:

- Which trends will impact you most? Where do you need to act today? What do you need to do?
- What do you need to monitor and track going forward?
- What will you need to keep an eye out for and act upon if it occurs?
- What could happen which could change the rules of the game and what will you do about it if it does?

Clearly, investment managers are likely to be impacted in different ways by a different combination of trends. There is also no 'one-size fits all' response or strategy. Each should consider the impact of the trends taking into consideration the:

- Current market and competitive position
- Vision and strategic and financial ambition
- Core capabilities
- Willingness and ability to change
- Appetite for investment and risk

We hope that this paper stimulates debate within your organization. We also encourage you to think carefully about how your business may be impacted and more importantly how you should respond.

We have set out what we regard as the top ten questions to help you consider how you and your business may need to respond:

1 What will your clients of the future look like?

- How will their needs, requirements and behaviors change? What will they expect and value in 2030? How will their expectations differ from those of today's clients and how well equipped are you to respond?
- Where will they be?
- What strategies do you need to engage with the Millenials, Digital natives and Google kids as opposed to the Baby Boomers?

2 How will the industry value chain be impacted and what role do you want to play?

- How will this impact your relationships with other industry participants?

3 How will your proposition and service model need to change to meet evolving client needs?

- How will you offer a product suite that better meets clients' broader savings and investment objectives?

4 What are the implications for your brand and market profile?

- How can this be strengthened and improved?

5 What opportunities are available to extend or reshape your existing geographical footprint to take advantage of emerging market developments?

- What could be done to help create and manage a truly global organization?

6 How well positioned is your operating model to support the propositions required and satisfy investors increasing demand for information, education, personalization and immediacy of access across a range of media?

- How can greater efficiency and effectiveness be embedded in the operating model?
- Does the model have the agility to enable you to respond to effectively to opportunities and threats?

7 How are you capturing and leveraging internal and external data to help you better engage with clients and remain relevant?

8 How are you ensuring that a risk focus is embedded within your organization to meet the increasing scrutiny demanded by regulators and investors alike but in such a way that it does not stifle innovation?

- How do you anticipate the regulatory environment to change and how well will you be prepared?

9 What people skills and capabilities will you require in the future?

- How will they differ from today and where will they be located?
- How will you position yourselves to attract and retain talent moving forward?

10 Where do you see the key risk of market discontinuity coming from?

- What could this look like?
- How would you respond?
- How could you change the rules of the game?

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“Changing the answer is evolution. Changing the question is revolution.”

Pep Guardiola
Spanish football manager and manager of Bayern Munich

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