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ADVISORY PARTNERS

Distribution Barometer 2020

Executive Summary

The asset management industry continued to evolve in 2019. Continuing fee compression is the biggest concern amongst asset management professionals, and the need to rebuild client trust and innovate with new strategies are key challenges for 2020. Geopolitical concerns regarding things like Brexit and global trade tensions have fallen away substantially. The continuing shift in investor preference towards alternative asset classes and illiquid strategies is clear and continues to dominate.

Building on our survey in 2019, we have once again spoken with 60 senior Heads of Distribution across the asset management sector in EMEA, Asia and the Americas to gauge industry sentiment towards asset growth, retention and the challenges presented in 2020.

We asked respondents to contribute five predictions for the year ahead:

- Which asset classes will be most popular?
- Which regions do you have the highest hopes for in terms of flows?
- Which regions will pose the biggest challenges for asset retention?
- What is the biggest challenge facing asset management?
- Does your team have plans to grow headcount?

We have distilled the key themes from each area to provide a balanced view from a broad range of firms and individuals.

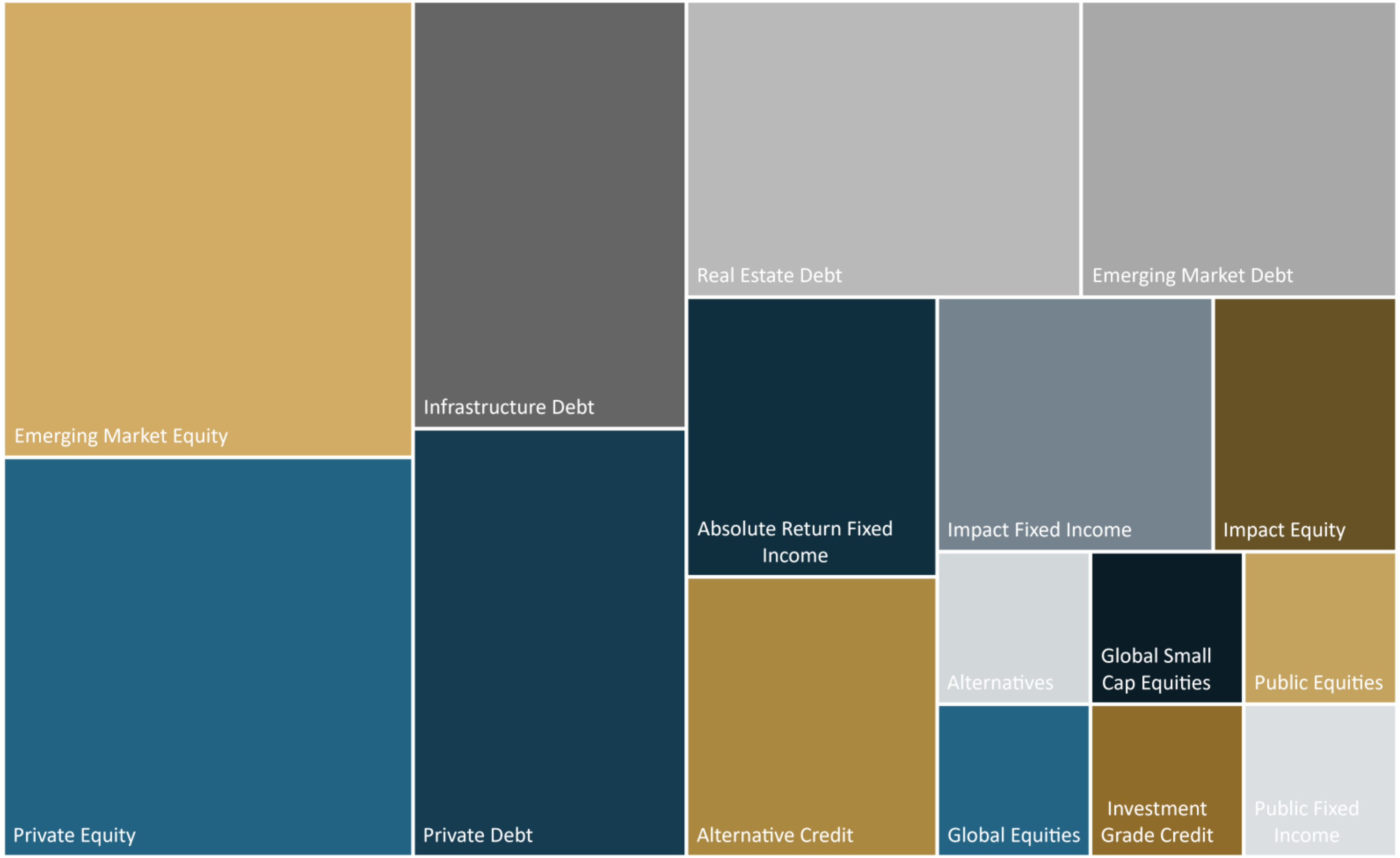
Most Popular Asset Classes 2020

Senior asset management professionals foresee a large demand for Emerging Market Equity strategies in 2020 with 16% of respondents citing the strategy as an area of focus for their distribution teams. Global Equities and Global Small Caps are also highlighted as potential areas of demand for Public Equities and dedicated regional strategies such as European, US and Japanese Equities remain less popular.

Illiquid strategies dominate predicted demand across the globe with Private Equity and Private Debt products highlighted as the most in demand. Alongside the broader umbrella of investor interest in Private Debt, survey respondents highlight Real Estate Debt, Alternative Credit and Infrastructure Debt in particular.

Another area that was mentioned in 2019 and highlighted again in our 2020 survey is impact investing. Impact strategies on both the Fixed Income and Equities side are predicted to do well this year.

In Public Fixed Income, Absolute Return strategies remain the priority alongside Emerging Market Debt although some demand for Global Investment Grade Credit is predicted to continue. Regional strategies such as long-only US Credit and European Rates remain less popular.



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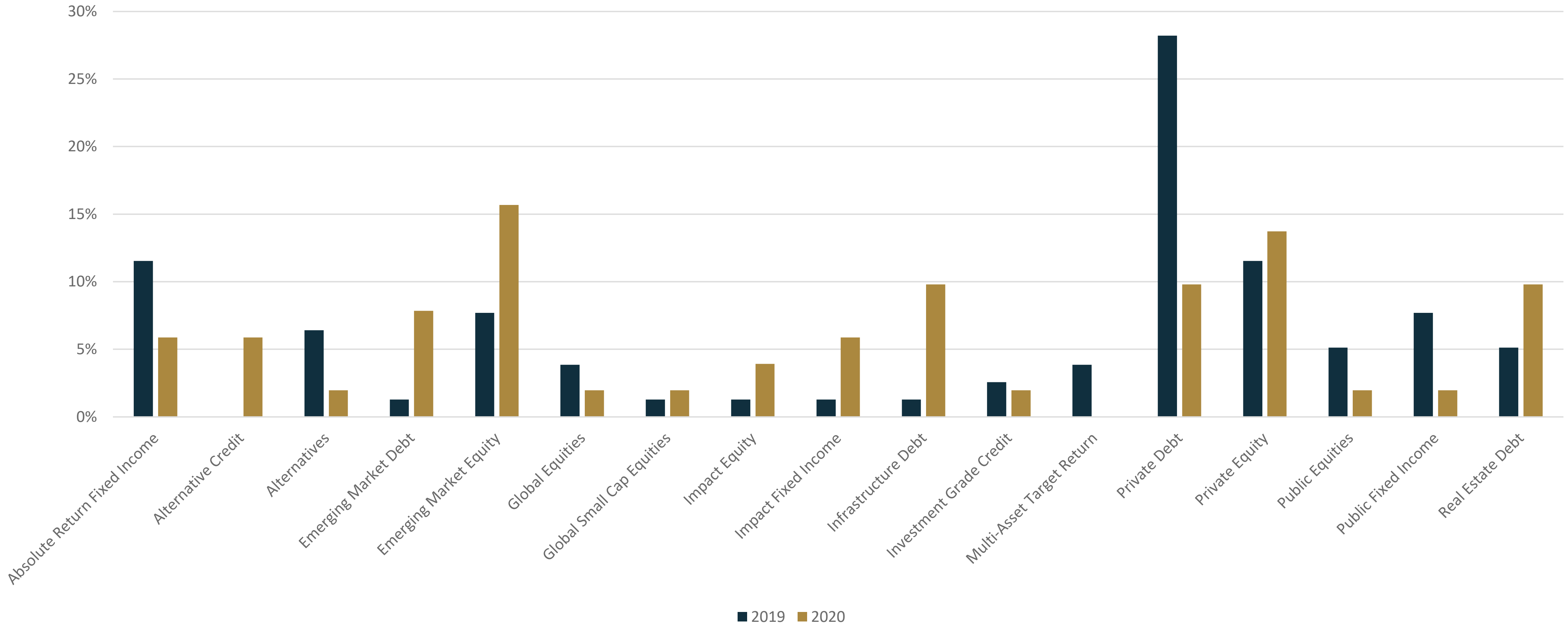
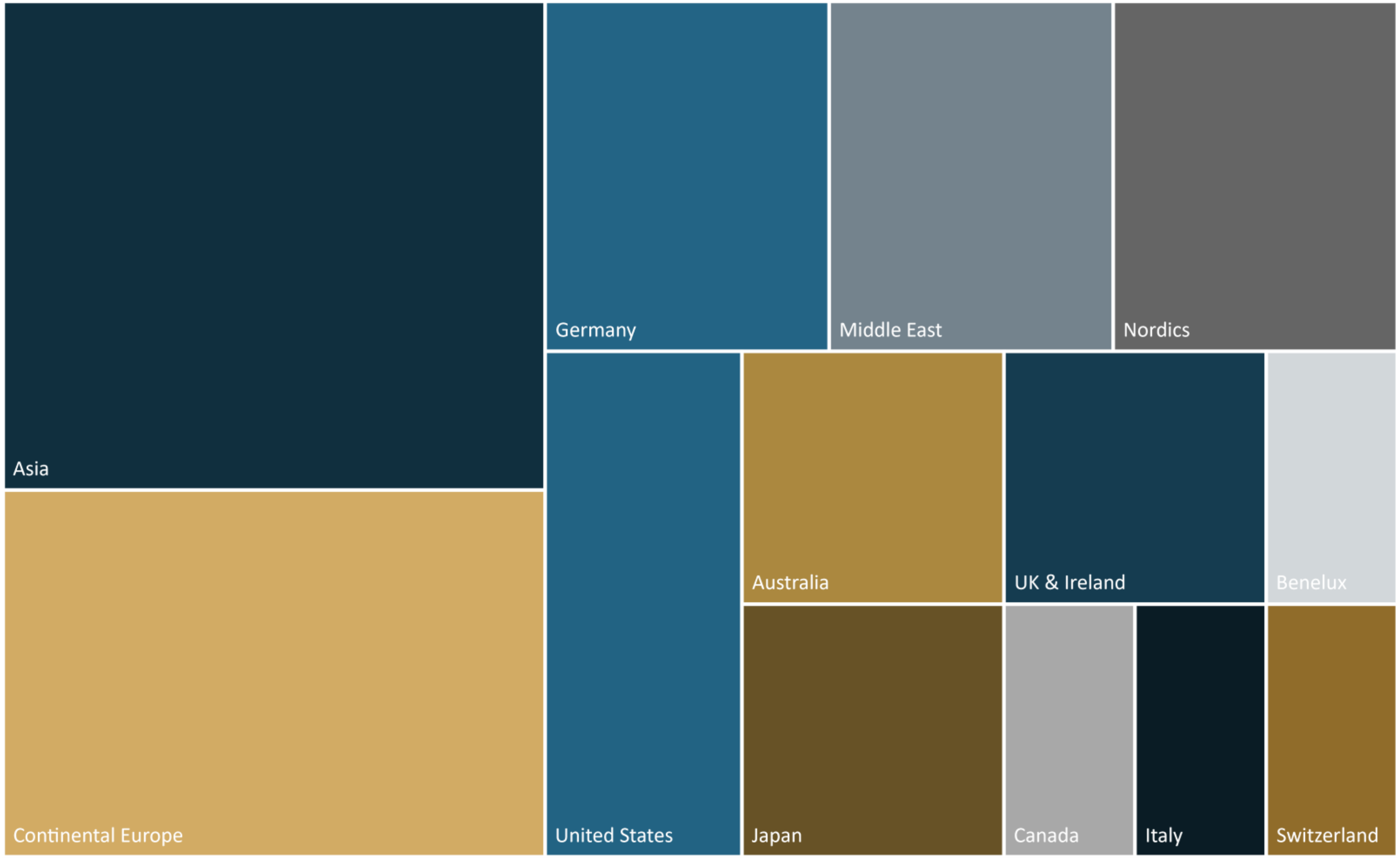
Marketable Asset Class Forecasts



Compared with last year's data

Regional Inflows 2020



Asia ex-Japan is the most popular prediction for the region with most expected inflows in 2020. Many managers have beefed up their local offices, predominantly out of Singapore or Hong Kong but some have gone deeper, establishing footprints in mainland China or branching out into South East Asia.

Within EMEA, Continental Europe is the major focus. Germany and the Nordics continue to lead on expectation levels, but we have seen interest in the Middle East rise substantially versus expectation levels in 2019. Hiring activity reflects the expectation levels on the Continent however, it is not yet evident in the Middle East, with most firms maintaining their resource levels in the UAE rather than expanding.

Distribution heads also have positive expectations for the US, Australia and Japan as the dominant players in those markets have underperformed, leaving the door open for challengers and new entrants.

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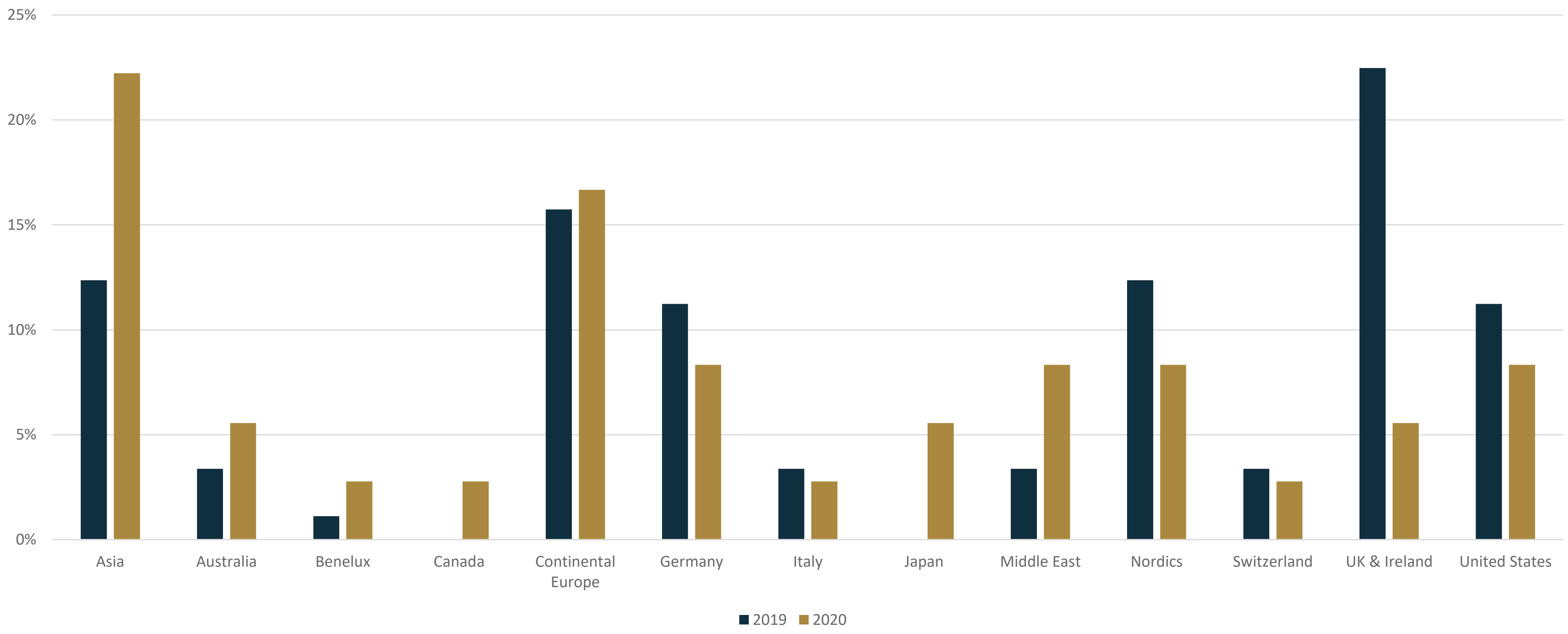
Regional Inflow Forecasts



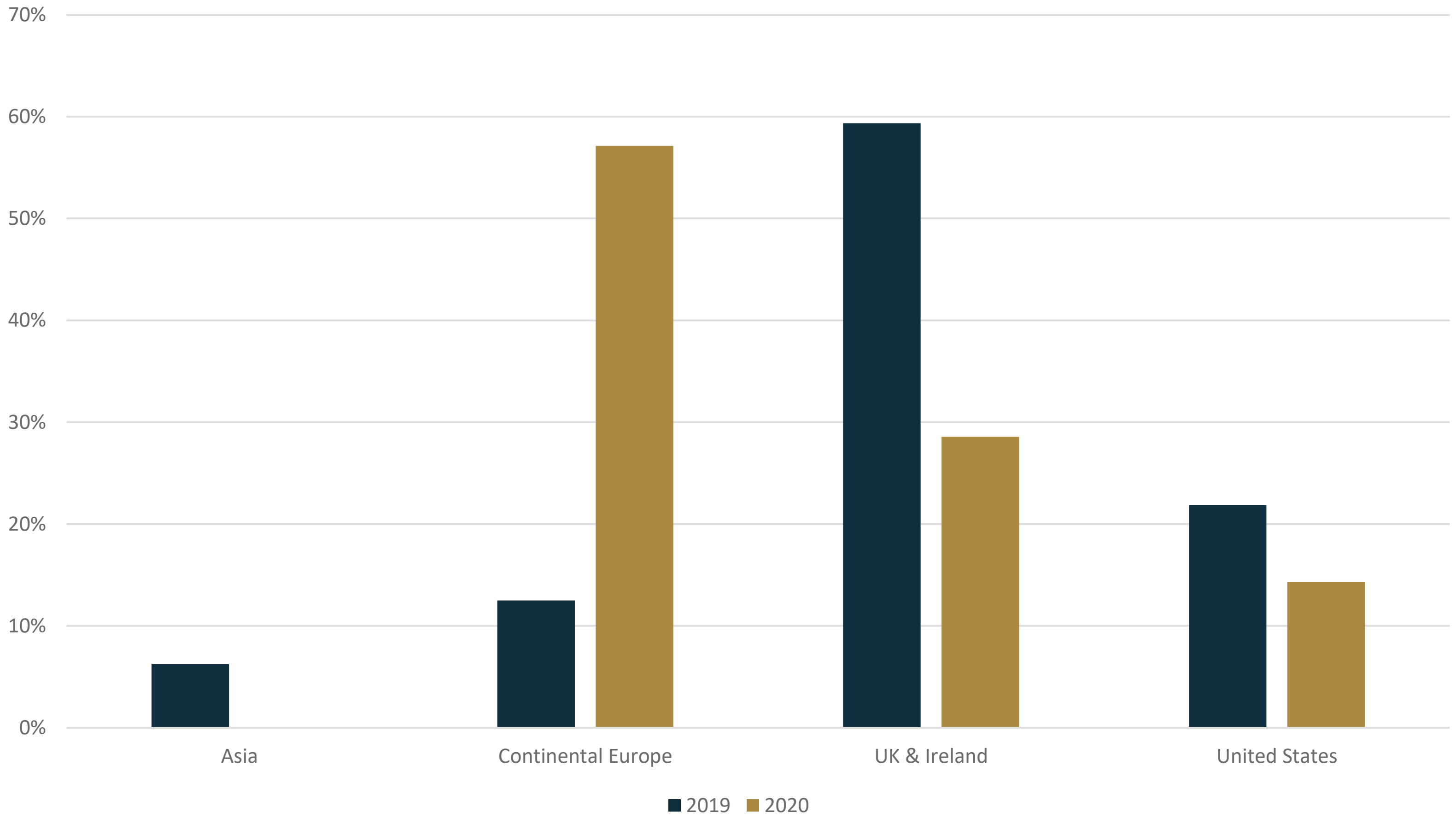
Compared with last year's data

Regional Retention 2020

Expectations that Continental Europe is going to present managers with client retention challenges are once again evident in this year's survey. 57% of team heads expect the challenge of retaining assets in Continental Europe to be their most significant. Specialist players in Germany, Switzerland, the Nordics and the Benelux are winning market share from more established multi asset houses and, in Southern Europe, the threat from Passive strategies remains.

The UK & Ireland is predicted to be the next biggest headache for asset managers when it comes to client retention. The UK Institutional market, in particular, continues to become increasingly consolidated and competitive with consultant buy ratings not necessarily translating into flows. Outside of Institutional, the UK Wholesale landscape continues to become more sophisticated with more and more global players competing in the channel and having reasonable success leading to incumbent players seeing outflows.

As in 2019, the US is another predicted battle ground for defending market share. US Retail was the major focus in 2019 but, in 2020, this seems to be shifting toward the US Institutional market. Established players in Fixed Income, Multi Asset and Equities have had performance issues leading to the door being ajar in the US for credible new players to win assets.



Compared with last year's data

Challenges in Asset Management

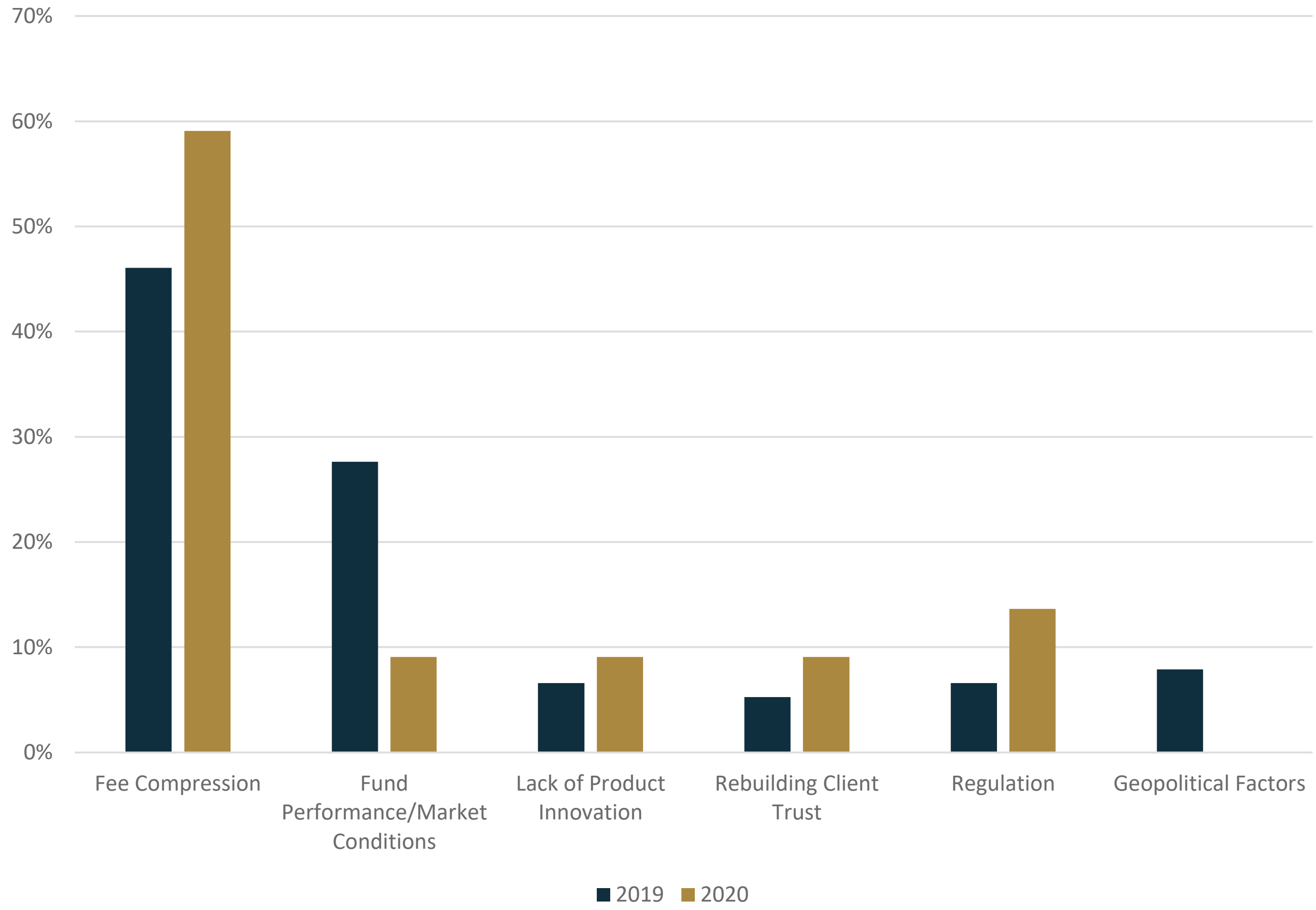
Fee compression continues to be the biggest challenge facing the asset management industry. Justifying fees with a lack of differentiation between asset management houses is an ongoing issue for global distribution teams.

Respondents specifically highlight ESG reporting and transparency requirements as a big challenge for their firms in 2020. "Green washing" has been a strategy adopted by global marketing teams in firms that have clients with ESG needs but, in reality, they lag behind what is really required by clients regarding ESG. Asset Managers that do go beyond this, and specifically cater to ESG client requirements, are significantly outperforming their rivals, especially in markets like the Nordics and the Netherlands where ESG is a top priority when assessing asset management partners.

The need to rebuild client trust is cited in 2019 and 2020. The indications are that firms that can adapt quickest to the evolution of client investment necessities are managing to keep clients onside. An enhanced relationship management capability supported by customised client reporting and use of digital marketing infrastructure are other factors mentioned in helping to keep clients on side.

The harnessing of AI to help build a firm's sales strategy and deploying budget to build dedicated IT for distribution is also cited as a way to improve productivity and efficiency within distribution.

Interestingly, geopolitical factors are not mentioned at all in the 2020 survey. The looming spectre of Brexit and concerns about China trade wars were mentioned in a number of responses in our 2019 survey but these factors seem to have fallen away when it comes to the most pressing concerns for the asset management industry.



Compared with last year's data

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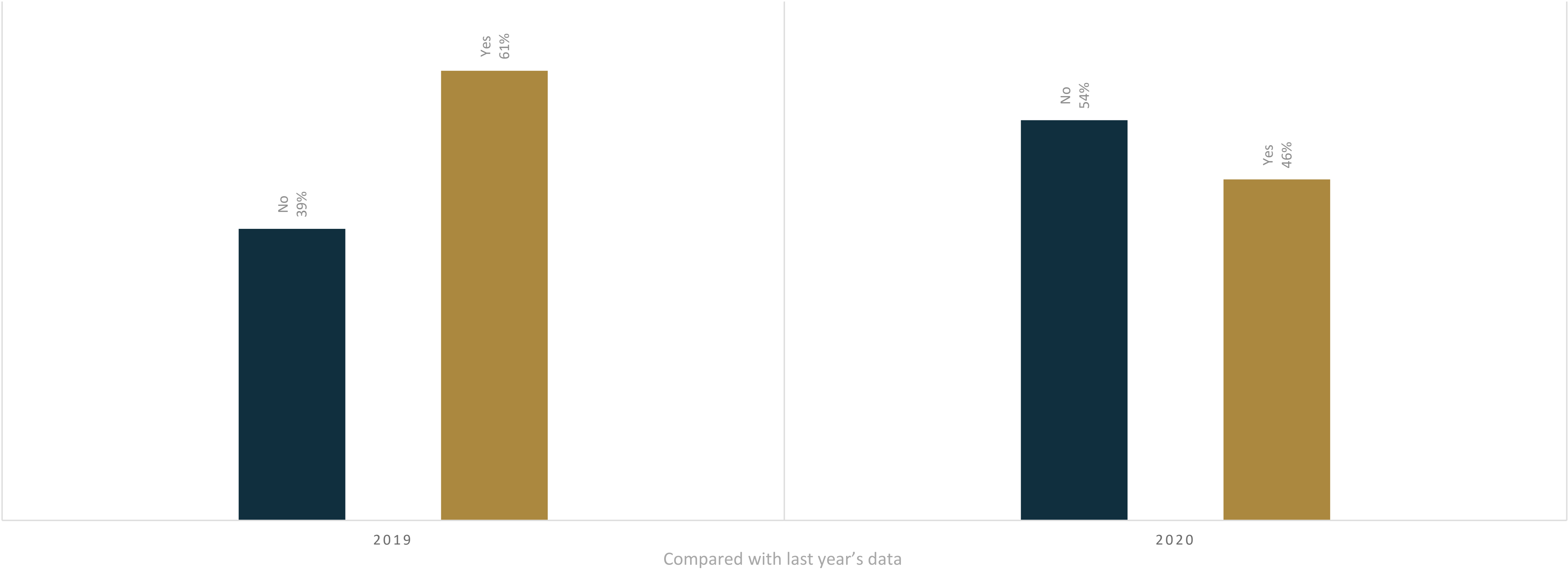
Hiring Sentiment

Just over 46% of respondents indicated that they will be growing their global distribution team headcount in 2020. This is down from 2019's projection of 61% reflecting the more cautious mood amongst asset managers. Our own conversations and meetings with market sources reflect a much more pragmatic and strategic focus when it comes to utilising hiring budgets. The clear message seems to be that distribution budget is better spent on going deeper in markets where it is known there is reasonable chance of success, rather than broadening the geographical footprint into markets that are untested and may take longer to build traction.



Predicted Hiring Trends in 2020

From the data collected, we have condensed the responses to give a rough indication of where we may expect to see the highest volume of hiring.

From respondents who expressed a regional bias to expected inflows, there is a considerable slant towards Asia and, more specifically, Asia ex-Japan and Japanese Institutional clients. 66% of respondents who answered “Yes” when asked if they would be expanding their team, also hope to see inflows from the Asian Institutional channels. We can therefore assume that either asset managers will be increasing their Asia ex-Japan and Japanese sales team headcount or leveraging their existing Institutional/Wholesale team in the regions.

Interestingly respondents that cited Continental Europe as their biggest hope for inflows in 2020 also raised the same market as a potential concern for outflows which indicates the highly competitive landscape in the region with factors such as ESG, performance and fees being highly significant to a firm’s success or failure in the region.

As a result we are already seeing increased activity on the Continent, specifically in markets such as Germany, Iberia, Italy and Switzerland.

Contact

London

125 Old Broad Street
London
EC2N 1AR

New York

1330 Avenue of the Americas
Suite 23A
New York, NY 10019

Hong Kong

Suite 901 Level 9,
The Hong Kong Club Building
3A Charter Road,
Central Hong Kong, China

www.magellanap.com