



Distribution Barometer
2021

Executive Summary

The asset management industry continued to evolve in 2020. Continuing fee compression remains the biggest concern amongst asset management professionals, but volatile markets/performance issues and COVID-19 travel restrictions are causing concern amongst the distribution community for 2021. The continuing shift in investor preference towards high alpha alternative and illiquid asset classes alongside passive is clear and continues to dominate. Many predict that the Americas will be an area of significance for their business in 2021.

Building on our survey in 2020, we have once again spoken with 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 2021.

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

- ✘ Which asset classes will be most popular?
- ✘ Which regions do you have the highest hopes for in terms of inflows?
- ✘ 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?
- ✘ Do you believe technology is adequately servicing the distribution function in your firm?
- ✘ Where do you think improvements could be made to integrate technology into your sales process in 2021?

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 2021

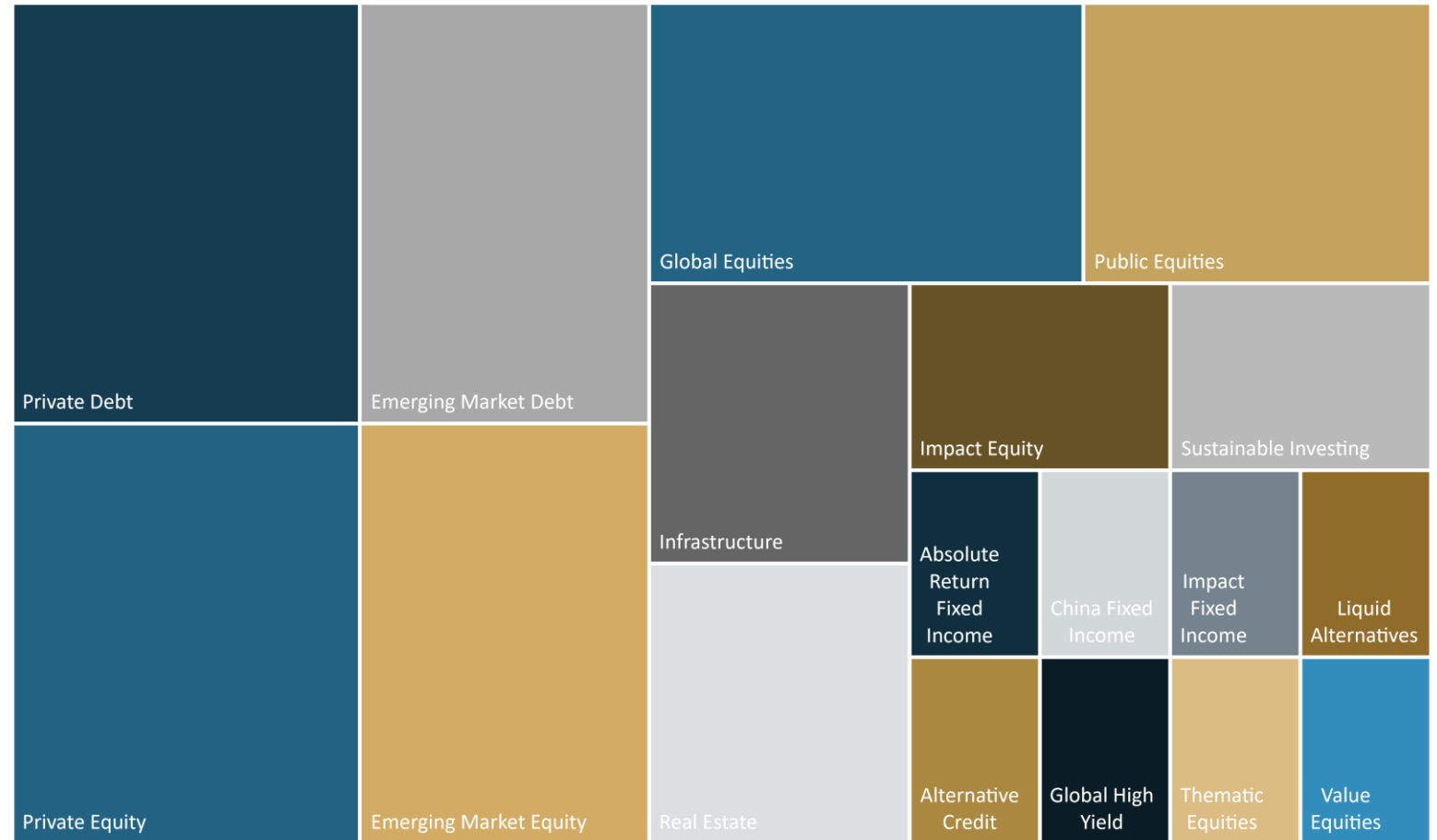
Participants foresee a large demand in Alternatives in 2021. Illiquid strategies dominate anticipated demand across the globe with 26% highlighting Private Equity and/or Private Debt. 13% predict that Infrastructure and/or Real Estate will also do well this year. The predictions are mirrored in the industry with a continued focus on building out Real Asset and Private Market investment and distribution capabilities to capitalise on products with long-term, secured, inflation-adjusting cash flows.

One area that was mentioned in 2020 and highlighted again in our 2021 survey is Impact Investing. Market activity in Impact strategies on both the Fixed Income and Equities side are predicted to increase further.

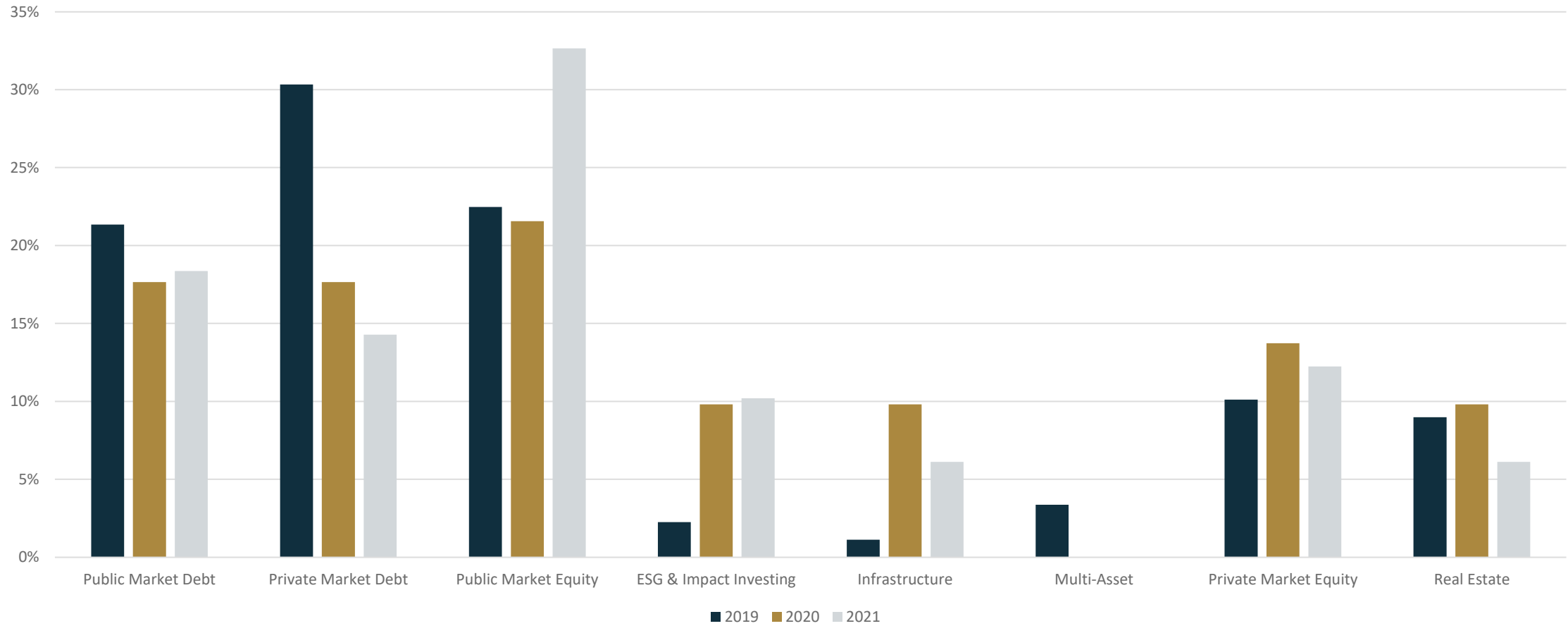
9% feel that dedicated Sustainable Strategies will be popular, with many firms launching dedicated Sustainable Equity, Credit and Multi Asset strategies to sit alongside their existing flagship counterparts.

In Public Equities, 22% predict that Global Equities demand will increase. Within that, highly concentrated active strategies and strategies that focus on small caps are predicted to do best. Others cite Thematic (including Tech, Healthcare and Renewable Energy) and Value as potential areas of client interest.

In Public Fixed Income, Emerging Market Debt leads the way with 22% expecting traction with EMD strategies. Other contributors felt that Absolute Return Fixed Income, Global High Yield and dedicated China Fixed Income could be of interest amongst their clients.

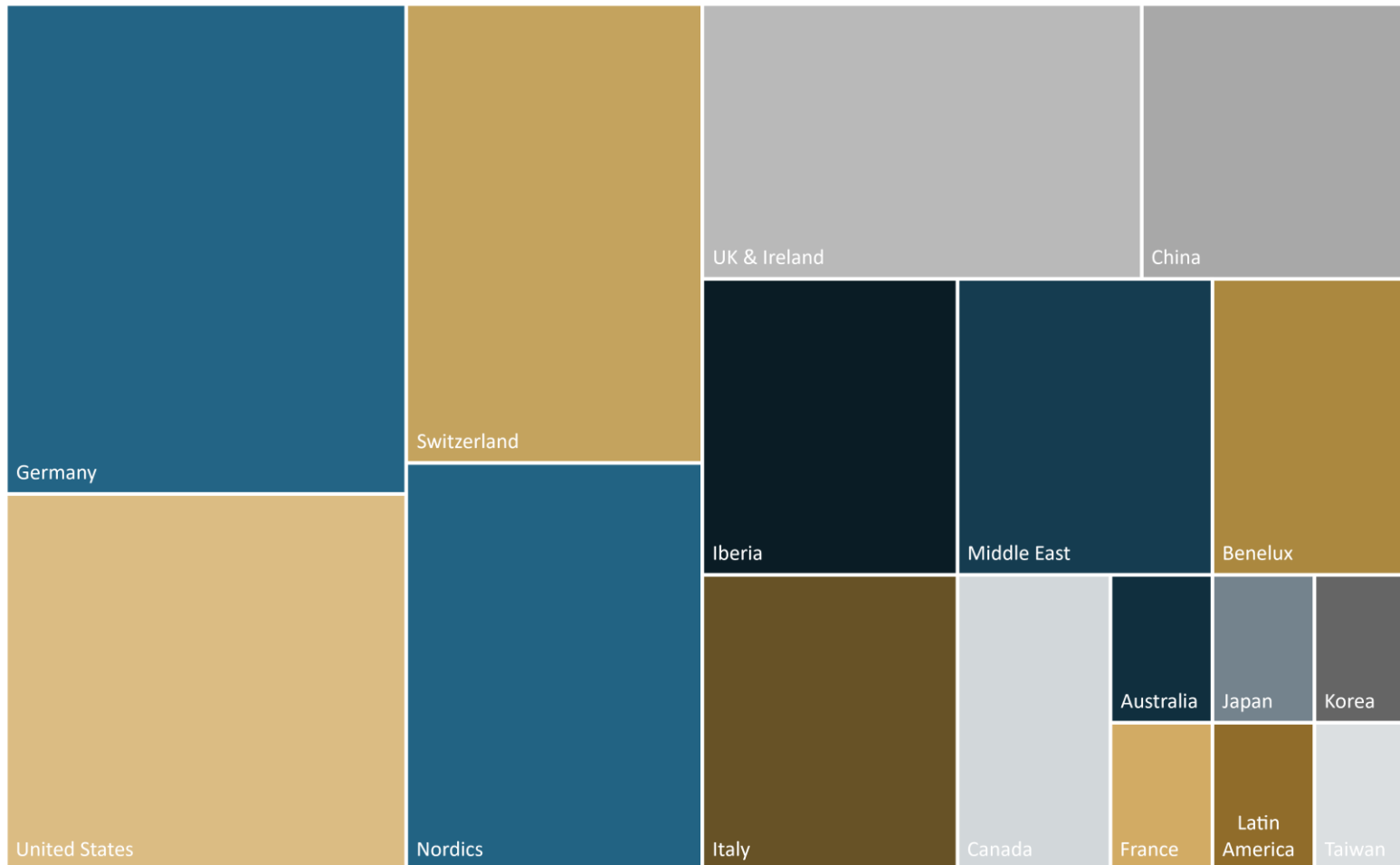


Marketable Asset Class Forecasts



Compared with previous year's data

Regional Inflows 2021



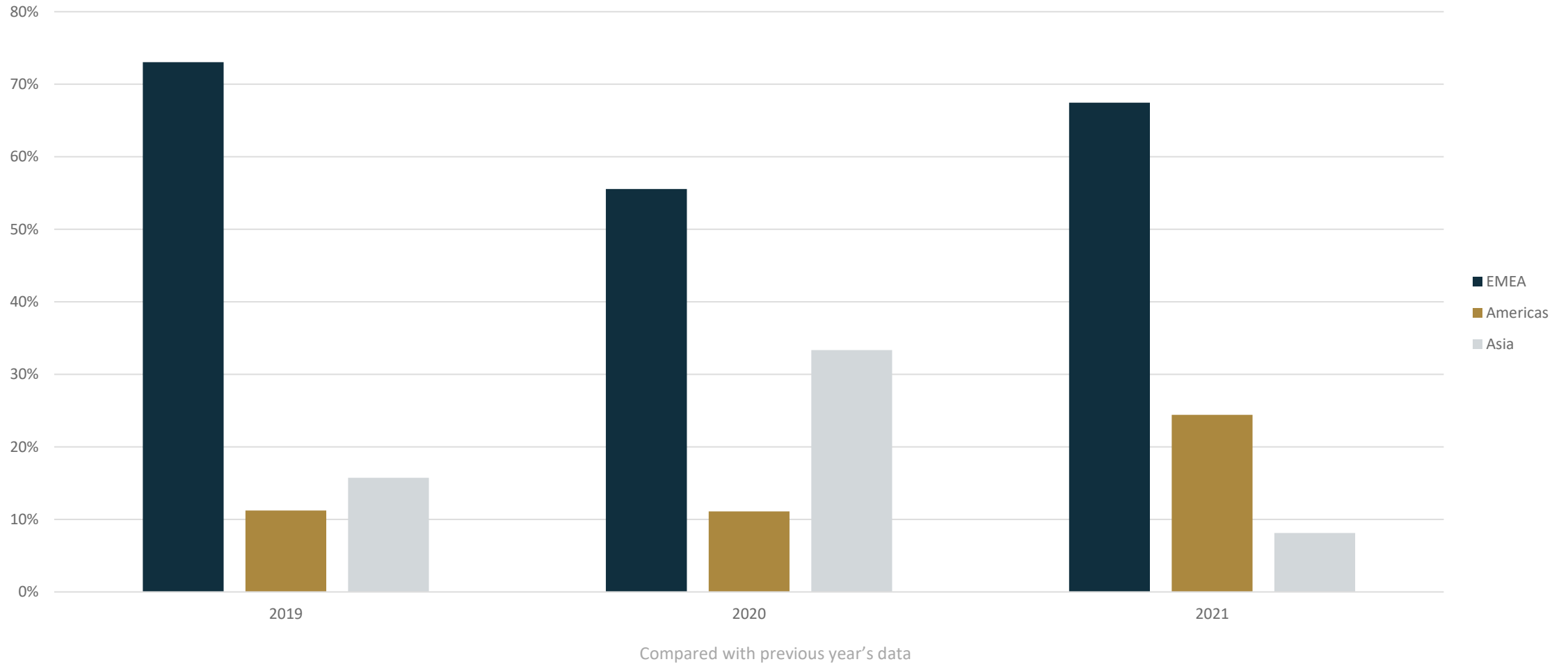
Distribution leaders continue to have high expectations for the US. The big US players continue to lose market share to international competitors and continued activity is expected in 2021.

APAC was the most popular prediction in 2020 and once again in 2021 it is a region predicted to do well with participants expecting to see inflows from China, Australia, Japan, Korea and Taiwan.

Interestingly, there seems to be a renewed expectation for the Middle East which is a region that has underwhelmed for many in recent years.

Within Europe, the DACH region is the major focus where Germany tops the chart for expectation levels, closely followed by Switzerland. The Nordics follow closely behind alongside renewed hope for flows from the UK & Ireland, particularly within the Wholesale channel. Hiring activity reflects this expectation level with many opening local offices or adding more resource in Germany, Switzerland and the Nordics.

Regional Inflow Forecasts

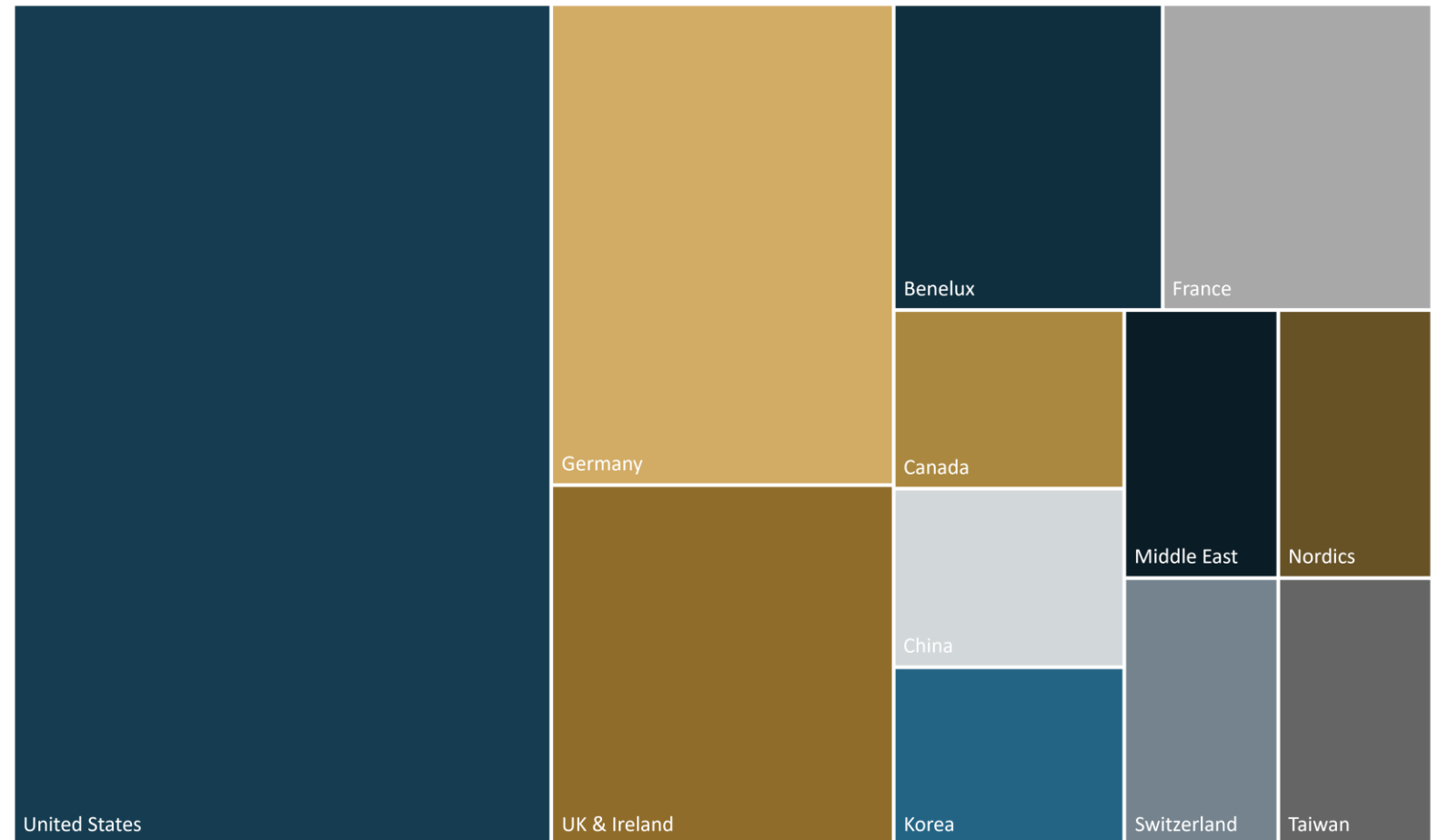


Regional Retention 2021

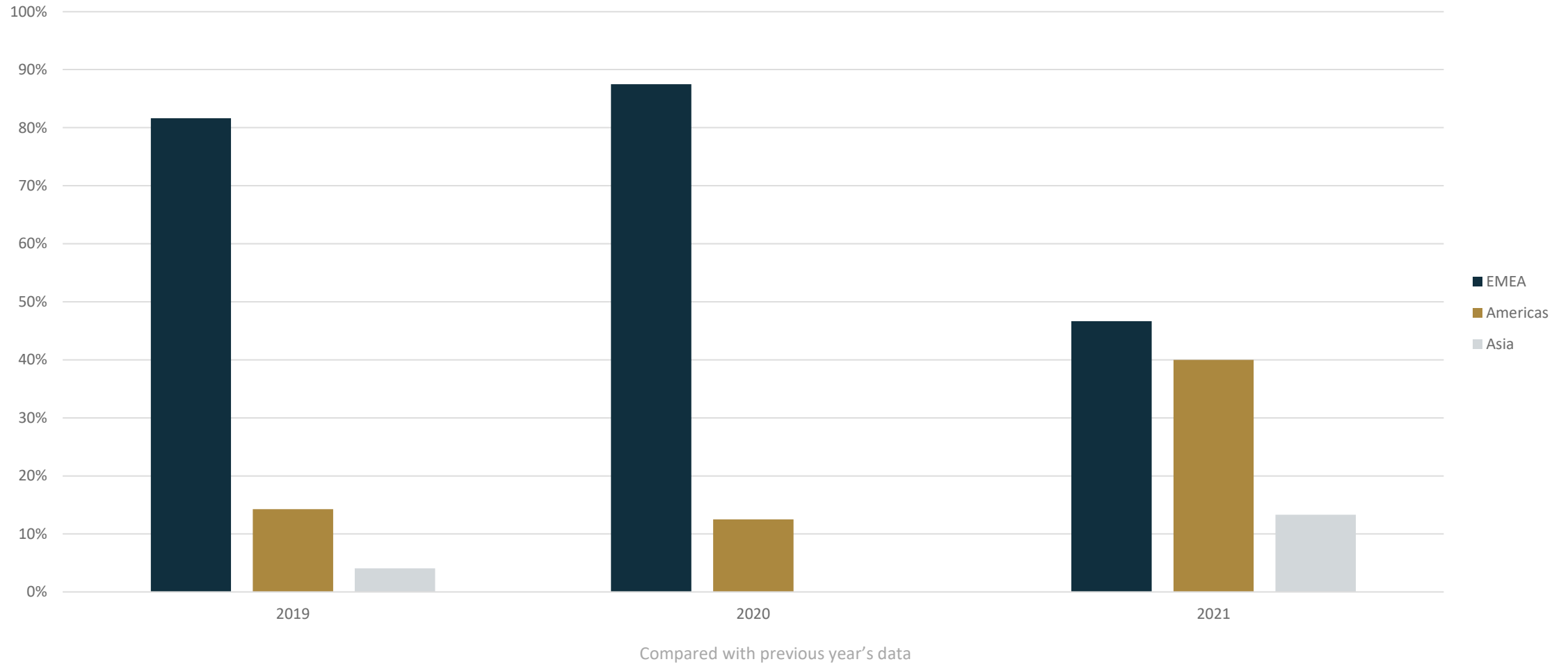
The expectation seems to be that the US is going to present managers with the biggest client retention challenge. 48% of distribution leaders expect the challenge of retaining assets in the United States to be their most significant. New entrants to the region as well as new names in the US are continuing to take market share from the big names that have traditionally dominated that market. This expectation extends to Canada which is also mentioned as a concern around retention across North America.

17% mention Germany and 14% mention the UK & Ireland as the next biggest headache for retaining current market share. Germany continues to see new entrants establish themselves with a number of non-domestic players now succeeding in the region. There is also a clear increase in allocations towards Private Market players which has seen them open representative offices in Frankfurt and Munich. The UK Institutional market continues to be dominated by the Consultants and, in recent months, there has been evidence of new players winning business via completely virtual processes without ever meeting the client in person, which has left some firms concerned about losing clients in 2021.

In Asia, China, Korea and Taiwan have been flagged by respondents as countries of concern. Once again, many players see these countries as drivers of new growth so this concern may well be incumbent players worrying about increased competition in their markets.



Regional Battleground Forecasts



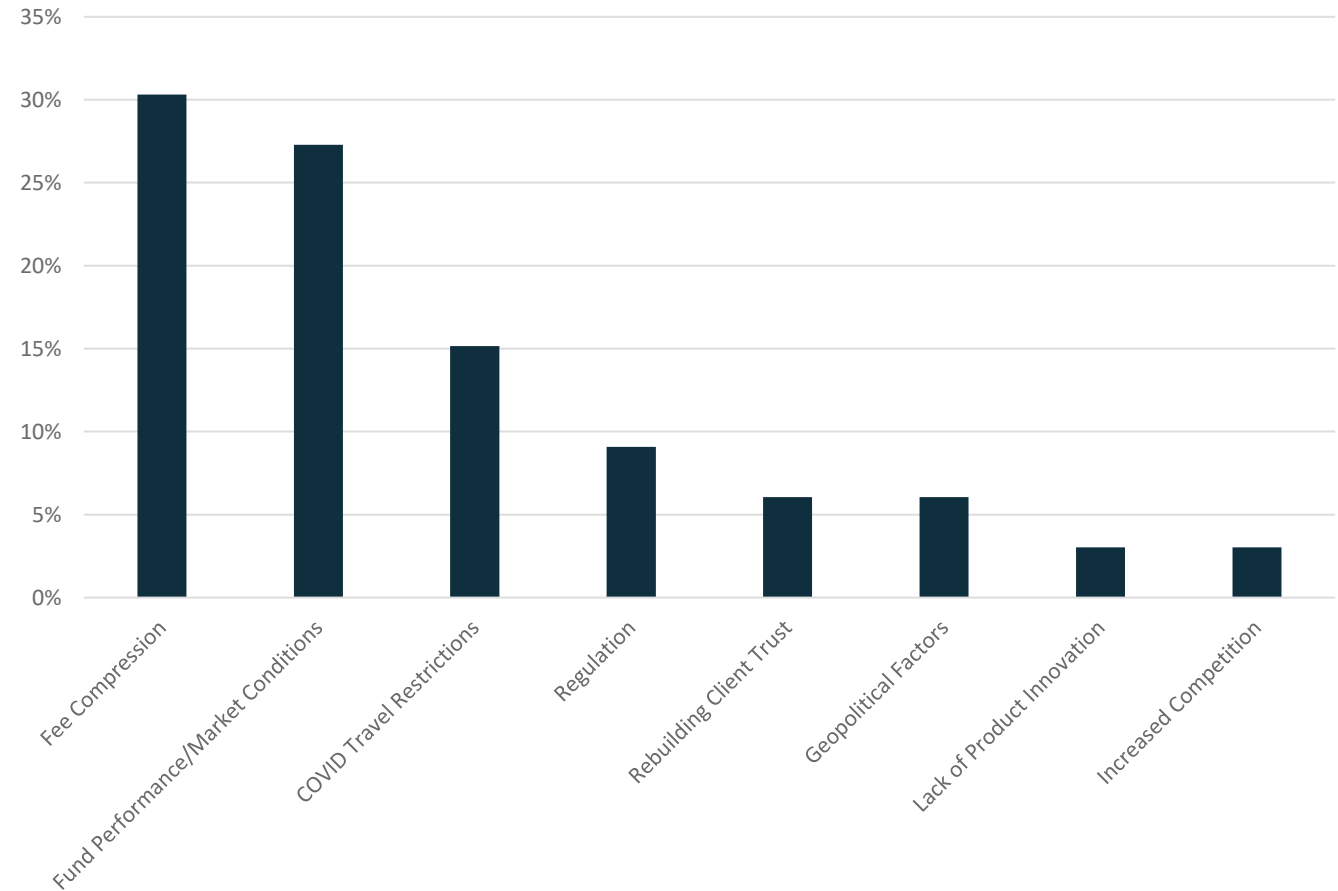
Challenges in Asset Management

Fee compression continues to be the biggest challenge facing the asset management industry as fees now require further justification given the relative lack of differentiation between asset management houses. Increased competition is also a contributing factor, especially in markets like the US and Nordics where it has never been so crowded, making competitive fund performance amongst volatile market conditions a concern to salespeople.

COVID restrictions on travel are a clear worry amongst the sales community. Many salespeople crave a return to in-person meetings and are suffering from virtual meeting fatigue. The hope is that, like in August/September of 2020, some sales teams will be able to have face-to-face meetings with prospects and clients, even if shoehorned between lockdown periods. Distribution professionals have commented that the restriction of travel has already begun to affect new product launches and initiatives.

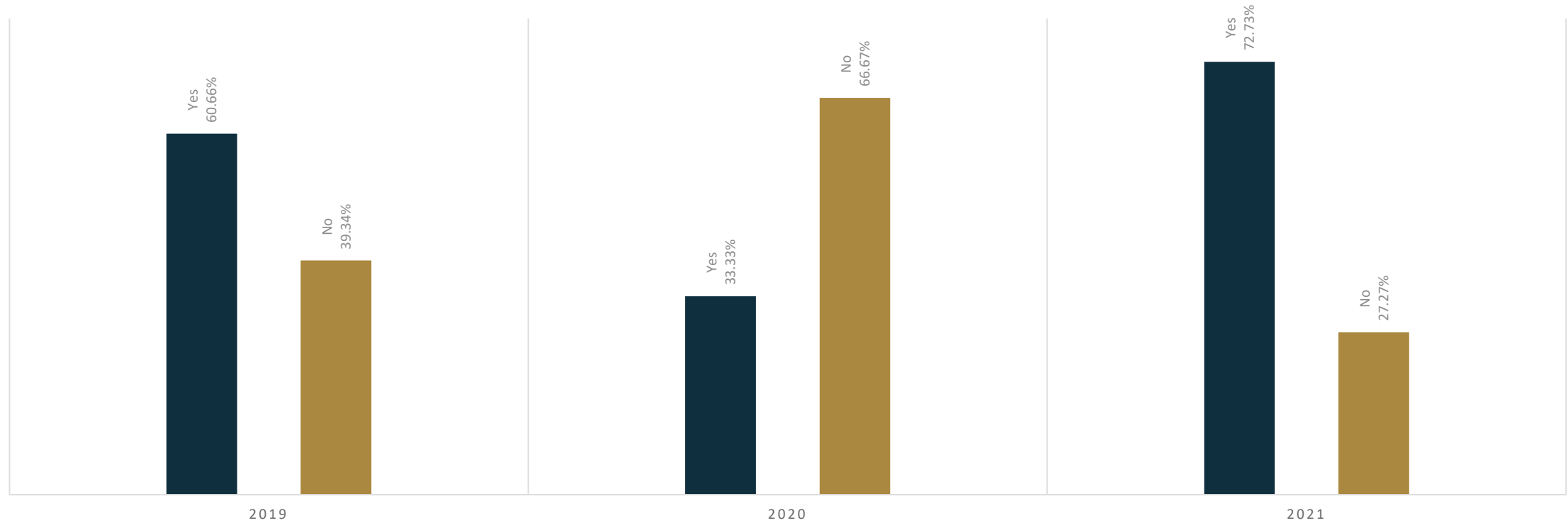
The need to rebuild client trust is once again cited, as it was in both 2019 and 2020. Distribution teams did manage to keep the majority of clients happy and onboard through the first few months of the pandemic. Most only slightly trimmed or topped up existing positions, however there is more to be done to further build client engagement and trust that has stagnated through the pandemic.

Geopolitical factors have returned as a hurdle in the 2021 survey, having been a diminished factor in our 2020 survey. Respondents mentioned concerns over post-Brexit fallout in Continental Europe and continue to be concerned about their existing resource in Hong Kong. As a result, we are seeing new entrants to the APAC region set up distribution hubs in Singapore, a stark difference to previous years where Hong Kong was the preferred base of operations in Asia.



Hiring Sentiment

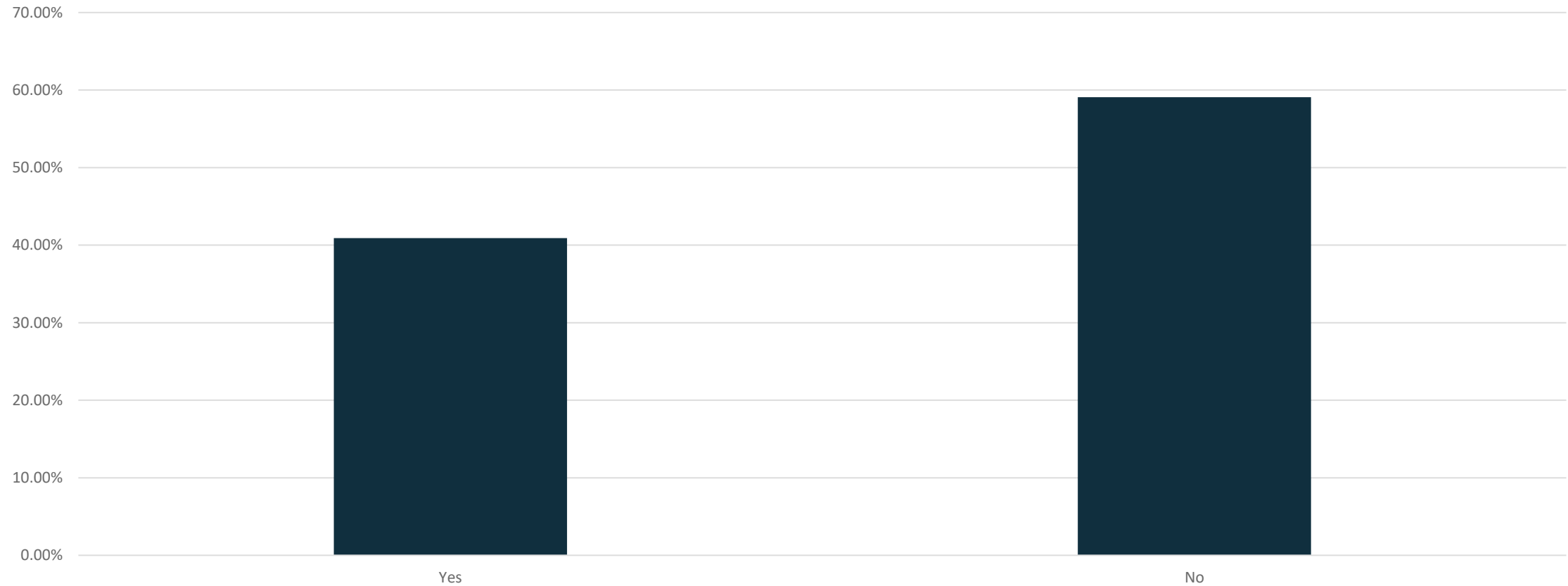
Just under 73% of respondents indicated that they will be growing their global distribution team headcount in 2021. This is up significantly from 2020's projection of 33%, reflecting the more optimistic mood amongst asset managers. Our own conversations and meetings with market sources show us that hiring budgets are often hard earned and there continues to be a clear strategic focus when it comes to deploying budget for sales professionals. Before entering a market, firms are doing more background research than they have done historically, as the danger is that executive committees will not support a new business case without a robust plan to commercialise the investment.



Compared with previous year's data

Technology in Distribution

Do you believe technology is adequately servicing the distribution function in your firm?



Technology in Distribution

In almost all of our conversations over the past 12 months, investment in technology has been highlighted as something that is needed to help distribution teams to succeed. 59% of participants do not feel that their organisations have adequately invested in technology that aids the distribution function.

Client Reporting is highlighted as the area most in need of technological innovation and support. Many distribution leaders feel that technology could enhance their client reporting functions and more easily provide clients the up-to-date content and anytime access they desire.

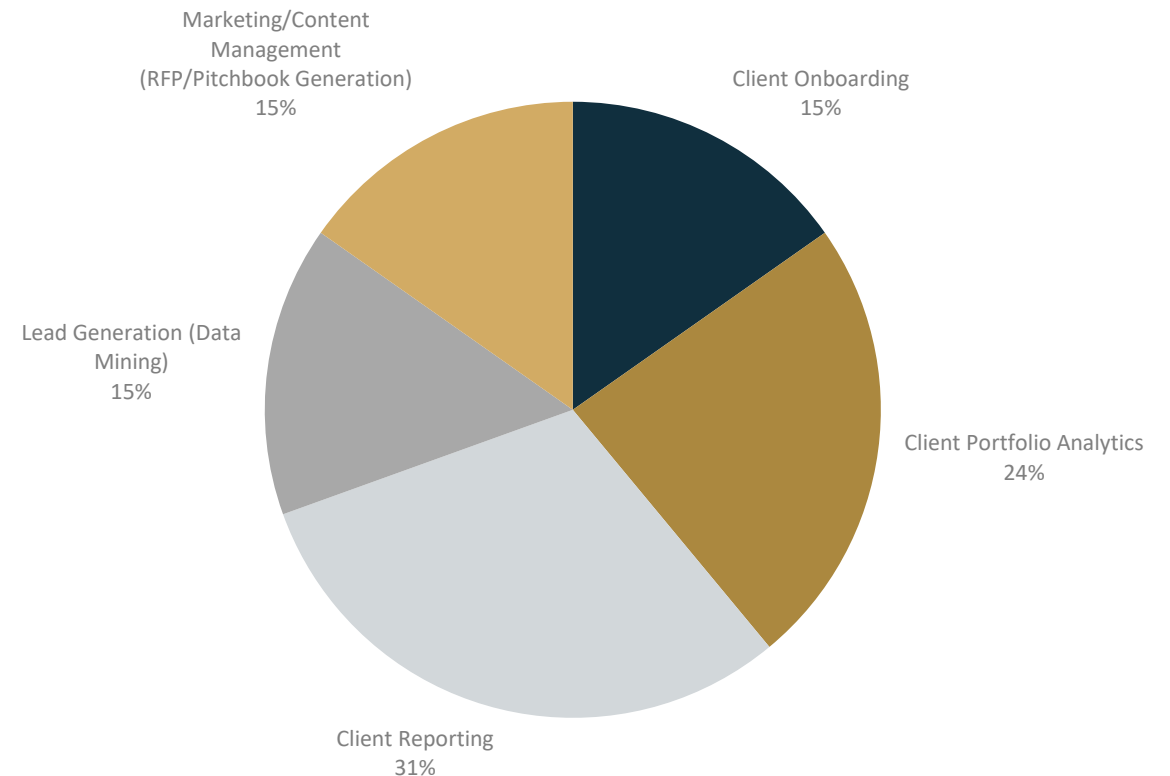
Just under a quarter of respondents specified that Client Portfolio Analytics tools would be additive to the distribution function. Firms such as JP Morgan Asset Management and Lazard Asset Management have built their own in-house tools, and there are now external providers looking to provide this technology to asset managers.

On the prospecting side, 15% wanted technological advancement in lead generation. A number of firms are utilising data mining strategies to work out when, what and how to prospect new and existing clients. Many firms have found this easier to do in the US where differences in data protection regulation expedite the process. Similar models have proven less efficient in Europe or Asia.

Marketing is a big focus when it comes to technological intervention. Many distribution leaders feel that investing in technology to support marketing campaigns, webinars, virtual events and targeted content campaigns could be vital in the coming year with huge restrictions on travel and in-person meetings.

On that note, the need for technology to play a key role in new client onboarding is one that has continued to be the most common priority for distribution teams across the industry during the pandemic.

Where could more resource be deployed in technology?



Predicted Hiring Trends in 2021

- ✘ **Understanding Alternatives.** As asset managers across the board invest in and improve their alternatives capabilities, the need for the sales teams to understand complex products such as Private Debt and Private Equity becomes greater. Many firms have supplemented their generalist teams with further Private Markets experience and we see demand for this skill set continuing in 2021.
- ✘ **Redeployment of Resource.** Hiring budgets have been under pressure this year, so hiring managers have started to become more creative and pragmatic in how they get budget sign-off and where it is deployed. Some managers have taken the view that certain countries do not need a priority focus, whereas some require increased resource, so we have seen a trend of redundancies in one region followed by redeployment of resource in another.
- ✘ **A broader focus on Diversity.** Attention has expanded beyond gender and ethnicity, with a focus on also ensuring diversity of thought, perspective, personality and approach. Diversity initiatives have become a CEO topic in many firms, as opposed to an HR initiative. As a result, diversity is becoming a focus and has been systematically ingrained into corporate culture. More and more leaders recognise the benefits of having different views in their businesses, and having a diverse workforce goes a long way to facilitate this.
- ✘ **Local Offices vs Fly-In Fly-Out.** Due to travel restrictions, the need for local presence has been heavily debated. Most firms are moving away from a fly-in fly-out model and are favouring a local approach. We anticipate that hiring new salespeople will be done to facilitate a more local approach to existing clients and prospecting.
- ✘ **The Value of Relationships.** In recent years, the focus of many hiring processes has been to find new talent in distribution, preferably CFA or CAIA holders, who are able to engage with clients on a deeper, more technical level. However, as a result of lockdown and the restriction on client access, the need for existing relationships and access to prospects has returned as a high priority. We feel that this will continue into 2021 but, as we approach the “new normal”, the need for salespeople to do both, i.e. open doors as well as be technically proficient, will return as key criteria for new hires.
- ✘ **The Player Coach.** Within both large and small houses alike, the need for team heads to sell and to manage key client relationships is evident. Firms want distribution to produce results and feel that regional heads should be part of achieving that target. Many suggest that it keeps them engaged in their markets and makes them better sales leaders. We see that trend continuing in 2021 where we expect firms that do expand to new territories or make senior management changes, will want their sales leaders to be profit generators.

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