



Distribution Barometer
2022

Executive Summary

The asset management industry continues to evolve, with further commoditisation of liquid markets, the rise of investor appetites in ESG, Private Markets and Passive strategies and an increased focus on gender, ethnic and neuro-diversity in hiring practices. Many asset managers see this as a tipping point for firms to find a niche or be left behind by the large Tier 1 institutions that continued their M&A activities well into 2021. The prediction for this year is that client interest will be largely dictated by yield and thus an increased interest in Private Credit, Private Equity, Infrastructure and Real Estate.

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 2022.

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 ESG is being adequately represented via the distribution function in your firm?
- ✘ Which model do you believe is the most effective to raise assets for Alternatives/Private Markets investment strategies?
- ✘ What do you feel your firm has done well to improve Diversity & inclusion?

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 2022

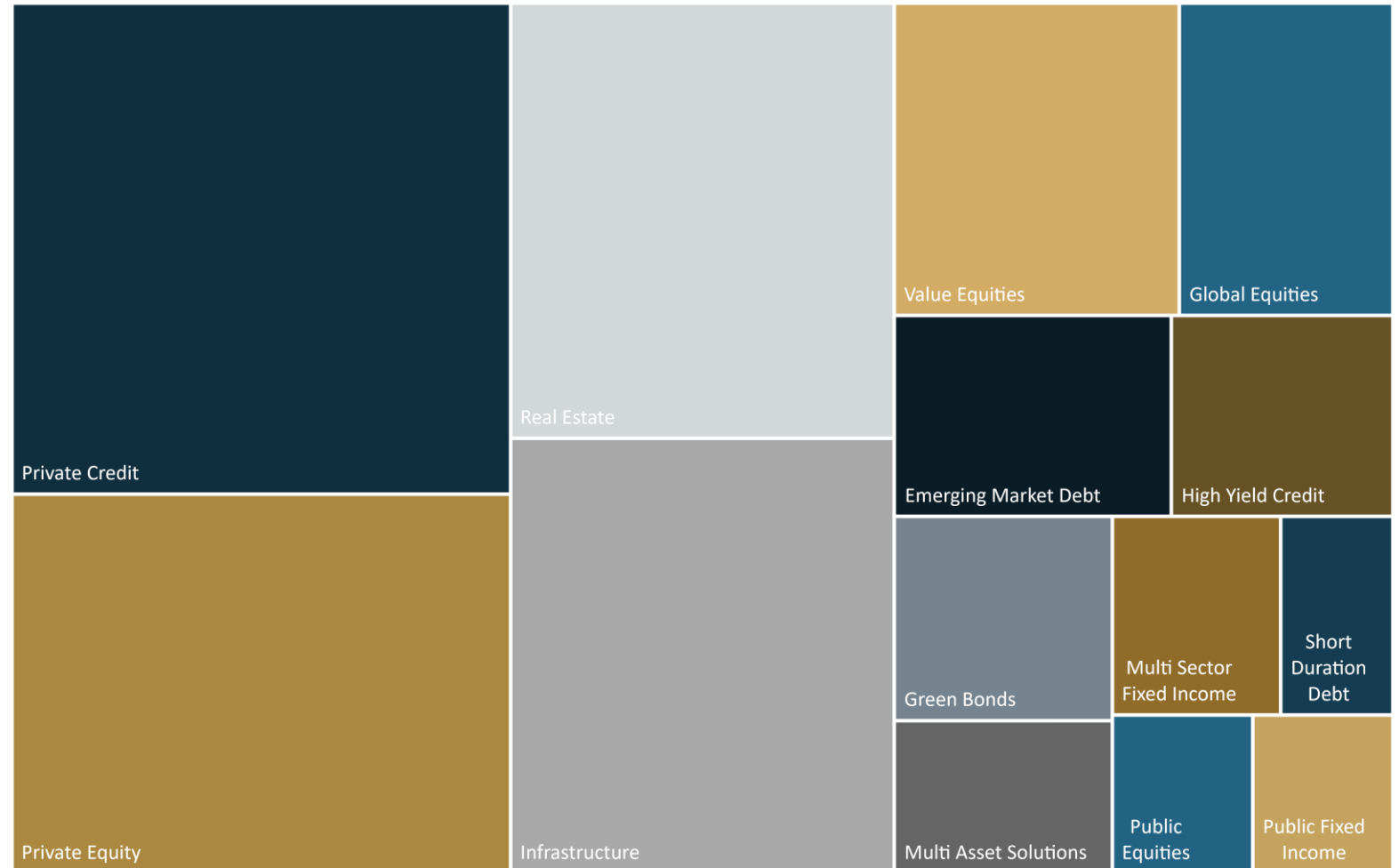
Private Markets (Private Credit, Private Equity, Real Estate and Infrastructure) accounted for 60% of all responses, up 21% over 2021. Private Credit in particular (19%) is an area where distribution team heads anticipate there will be the most demand. With residual, undeployed dry powder from 2019 and 2020 driving transactions in the space in 2021, many asset managers anticipate that macro themes like inflation and interest rates will continue to propel interest in the space.

Similarly, Private Equity (15%) saw a record year in 2021 in terms of global transaction volumes with appetite for club deals and co-investments amongst some of the larger global diversified Alternative firms (Blackstone, Apollo, Carlyle) being driven by large pools of available capital.

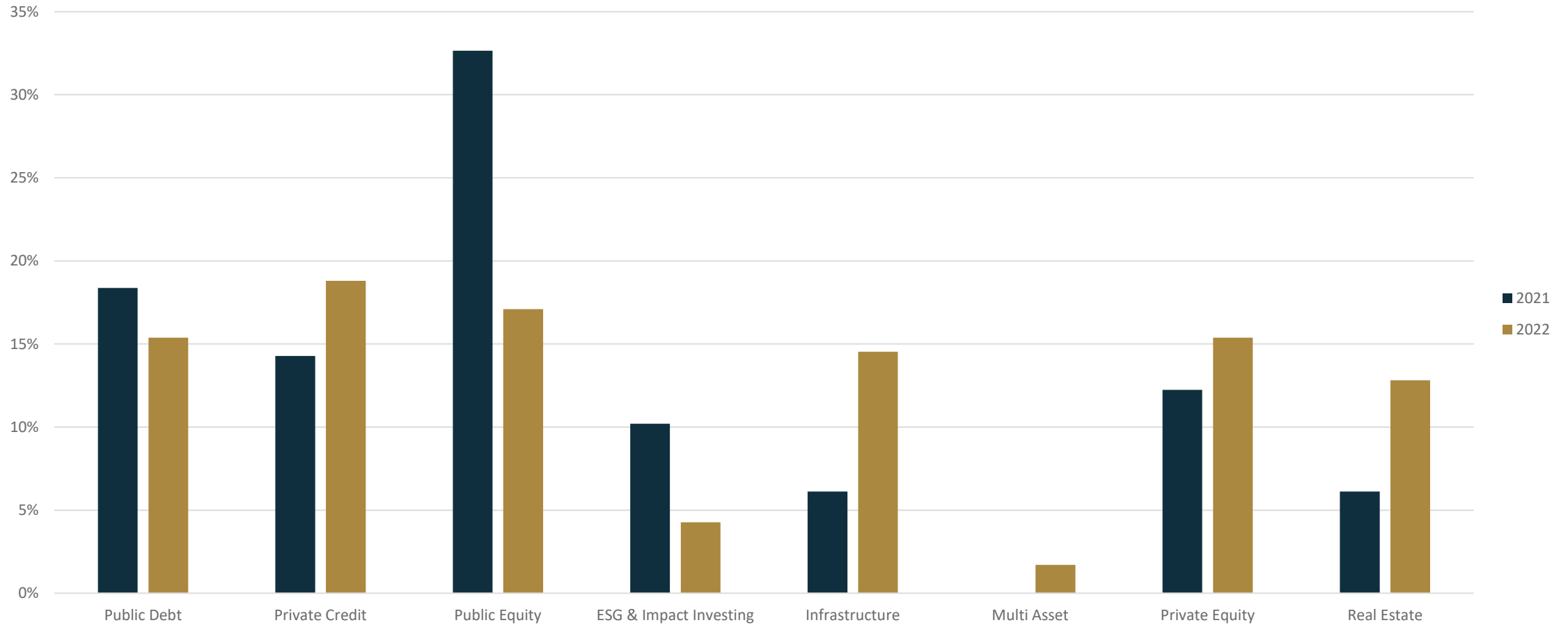
Real Estate (12%) is expected to see a resurgence in 2022 following a year of strong demand from investors in Opportunistic and Value-Add strategies that have taken advantage of the thriving logistics space and more sector-specific strategies such as healthcare and data centres.

As for liquid markets, respondents anticipate that yield will remain at the forefront of investor requirements. With Value Equities (7%) outperforming their Growth counterparts in 2021 many investors see the rotation out of tech stocks into financial and industrial sectors to be a trend that will continue into 2022.

There is continued interest in High Yield Credit (3%) and Emerging Market Corporate Credit (4%) as Covid recovery continues to present opportunities in high-growth sectors and regions.

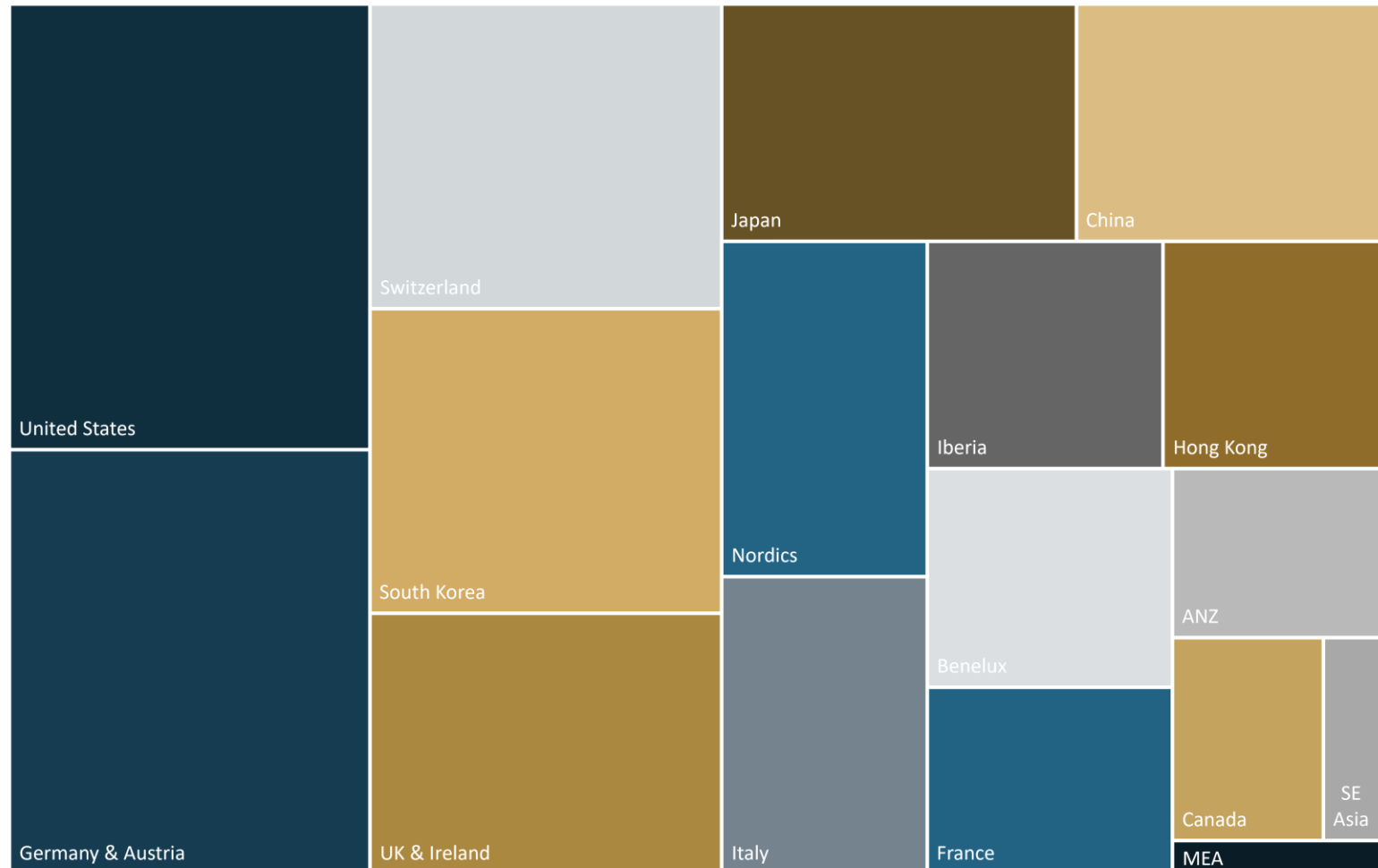


Marketable Asset Class Forecasts



Compared with previous year's data

Regional Inflows 2022

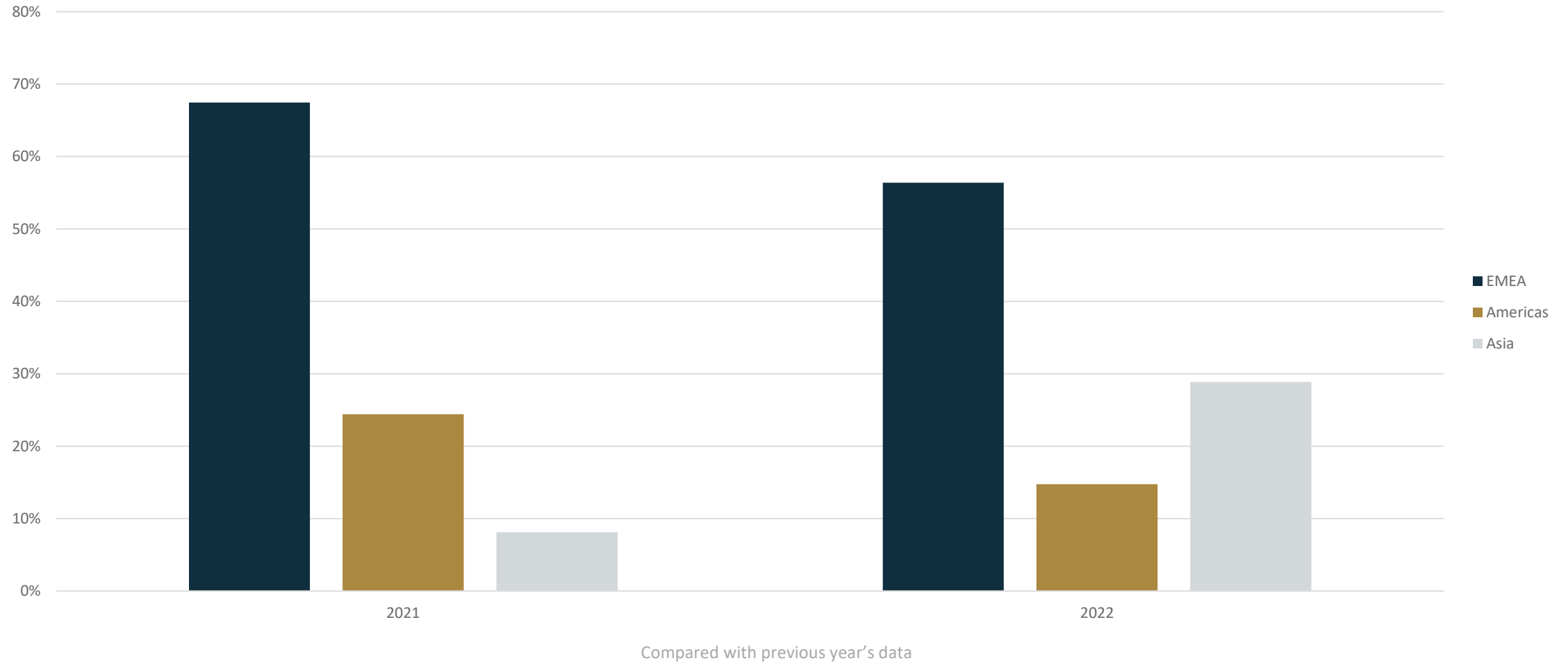


Distribution heads expect a large increase in inflows from the US as international managers continue to erode the domestic share of the market. With a third of all addressable assets being managed by third-party asset managers, this provides great potential for asset managers to provide innovative solutions to the market.

The South Korean market has grown significantly over the past three years with a large amount of Retail investors being drawn to mutual funds through digital platforms provided by retail banks. The increasing number of “self-managed” investors provides an opportunity for global asset managers to provide access to their funds and services via intermediaries.

Within Europe, the DACH region, the UK & Ireland and the Nordics continue to dominate as regions that present the most competition for assets. Continuing the theme of repatriation, global asset managers continue to build out dedicated sales teams on the ground in Continental Europe with more focus on key product channels. Alternative specialist sales units continue to increase in size across Germany, Austria, Switzerland and the Nordics as investors continue to demand more sophisticated solutions.

Regional Inflow Forecasts



Regional Retention 2022

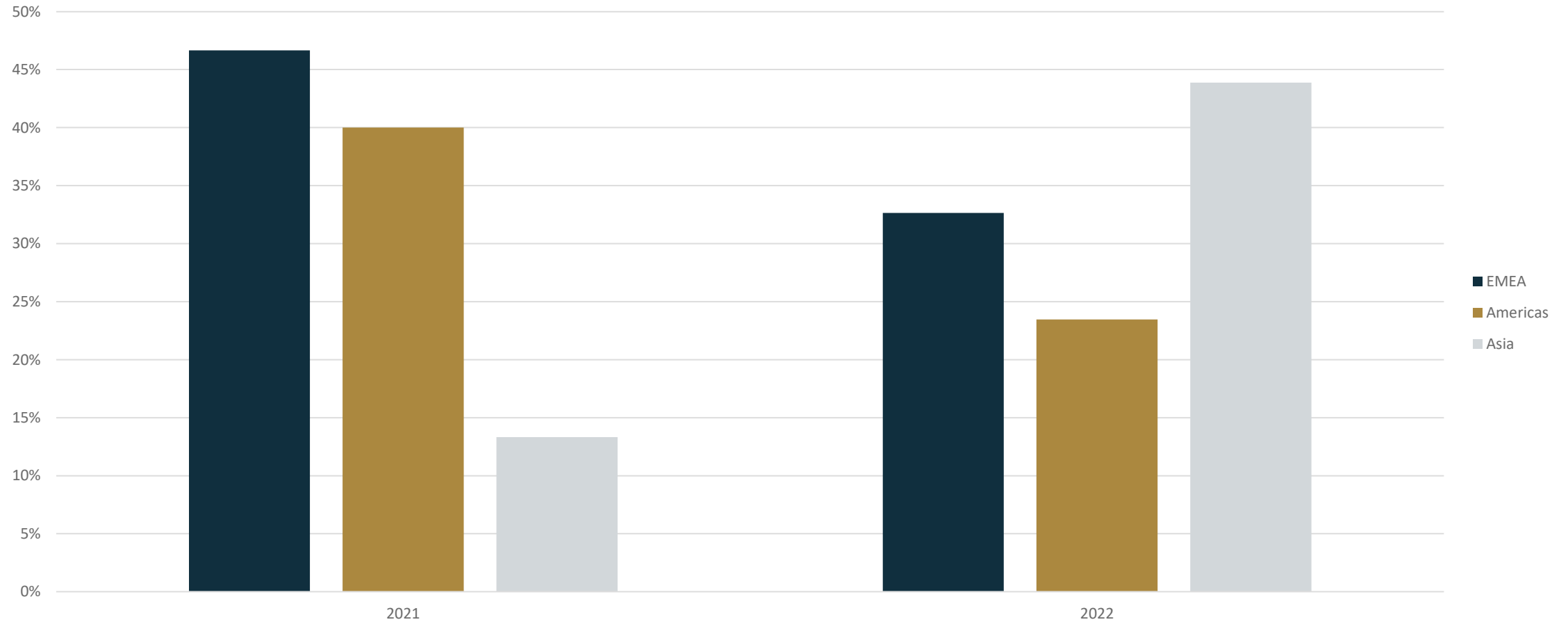
China is set to continue as a challenging market for asset managers going into 2022. Joint ventures continue to be the most cost-effective way of entering the Chinese market, however rising competition amidst the Retail market have pushed firms to invest more heavily in technology. Given the heavy reliance on banks to sell products in the region, joint ventures or strategic partnerships are expected to continue into 2022. Further to this, Chinese Institutions are continuing to delegate larger pools of assets to third-party managers and the churn this may represent could cause issues in a more competitive landscape.

The United States continues to be a fragmented market when it comes to the breadth of asset managers present in the region. This presents opportunity but also issues for retention as the highly competitive landscape is expected to heat up as asset managers fight for a share of the available assets.

Hong Kong and Singapore are areas that are expected to have increased levels of competition. Singapore in particular is an interesting case given the new corporate structures introduced in 2020. The VCC (Variable Capital Company) structure is seen by many as a game changer for asset managers in the region, further cementing their role in the region.



Regional Retention Forecasts



Compared with previous year's data

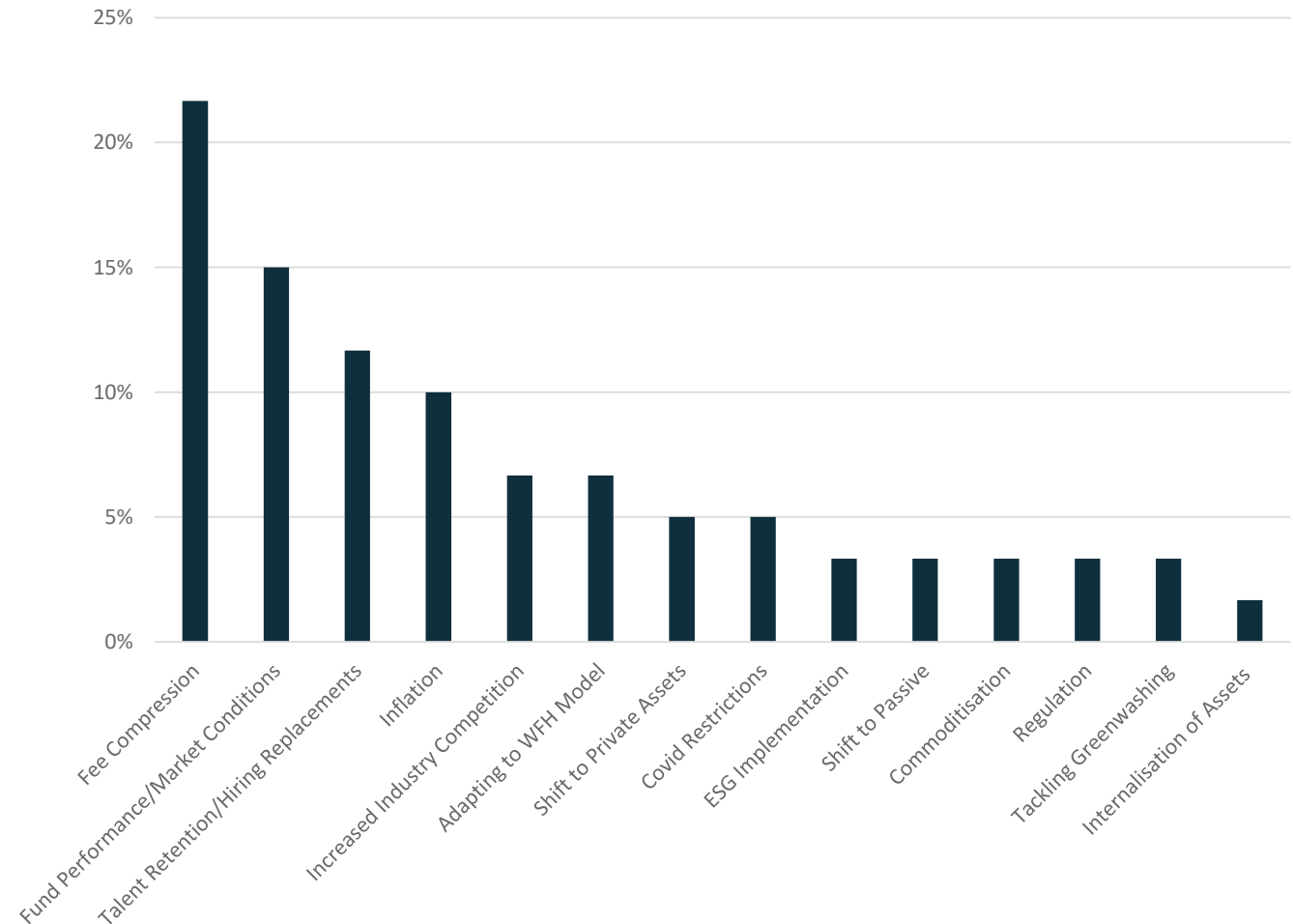
Challenges in Asset Management

Fee compression is still the biggest challenge facing the asset management industry with increased industry competition and fund performance/market conditions being contributing factors in the justification of fees. In hyper-competitive markets, fees continue to be driven down, making margins a key concern for salespeople going forward.

One of the key concerns for distribution heads last year was the uncertainty around Covid and travel restrictions. This year, teams are primarily concerned with talent retention and replacement hiring given the build up in demand that we saw in 2020 and 2021.

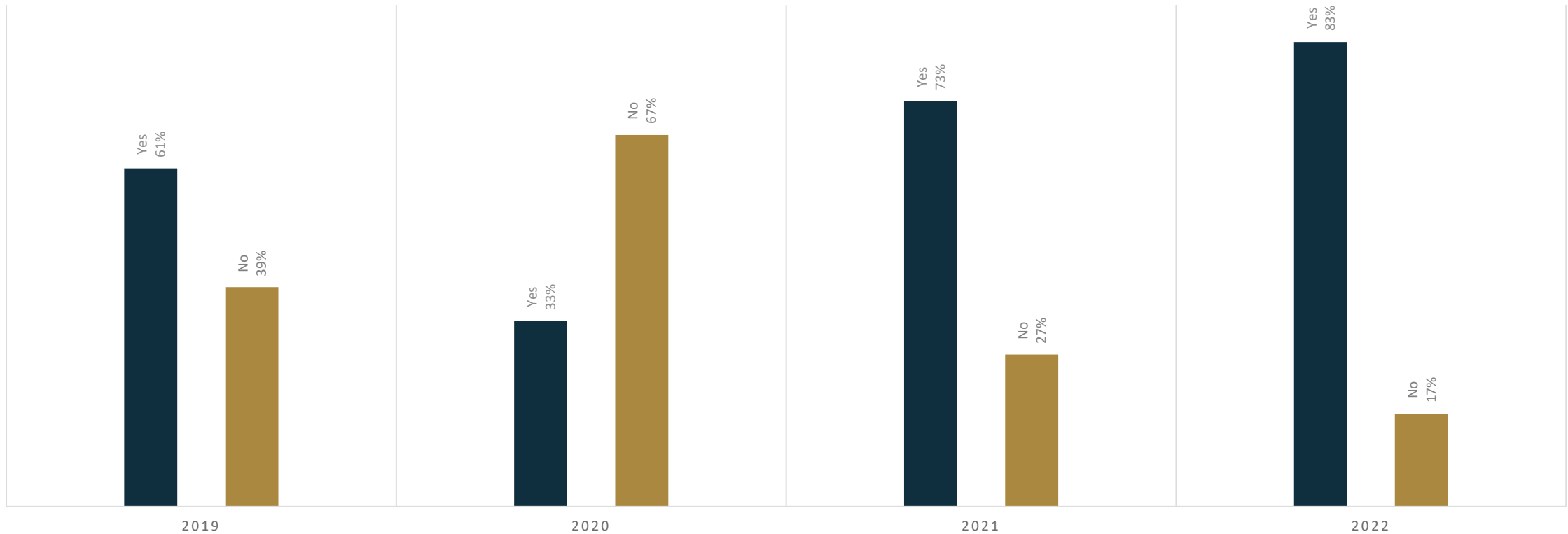
Adapting to the work-from-home (WFH) model is something that asset managers have had to take a decisive stance on, a topic we covered in depth in our Post-Pandemic Working Environment survey last year. With many asset managers opting for a “3-days-in” approach, alignment on distribution teams has been a key concern. Many firms have had to augment office infrastructure and layouts to accommodate a more “tech-heavy” environment that relies on conferencing systems and virtual meeting infrastructure. While most managers agree this is a positive shift, consideration for these changes will have to adapt further going into 2022.

Inflation and interest rates are largely cited as some of the key reasons behind the shift to Private Assets. Distribution heads have been hoping that there is a quick adoption of Private Market strategies but there have been examples of internal disputes when it comes to how those strategies are distributed. Team heads have had to consider how best to implement specialist sales processes for Private Credit, Private Equity, Infrastructure and Real Estate capabilities.



Hiring Sentiment

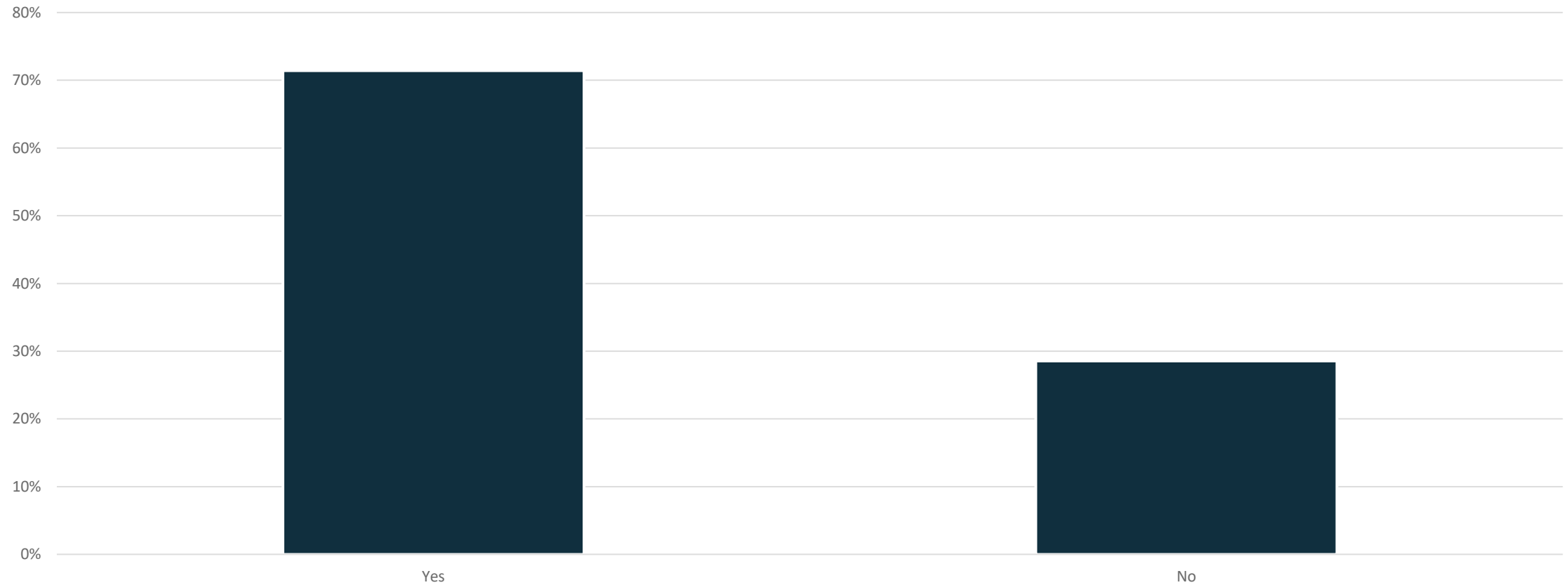
Does your team have plans to grow headcount?



Compared with previous year's data

ESG in Distribution

Do you believe ESG is being adequately represented via the distribution function in your firm?



ESG in Distribution

ESG is increasingly becoming a fixed requirement in the asset management world, with investors seeking out transparency and dedicated ESG functionality within external managers. Because of this, firms have been keen to ensure that their ESG integration has been internalised, not just within the investment team, but commercially through their distribution platforms.

Respondents generally feel that ESG is well represented amongst their team with 71% of respondents agreeing that their firm has done a good job of demonstrating the strength of their ESG capabilities.

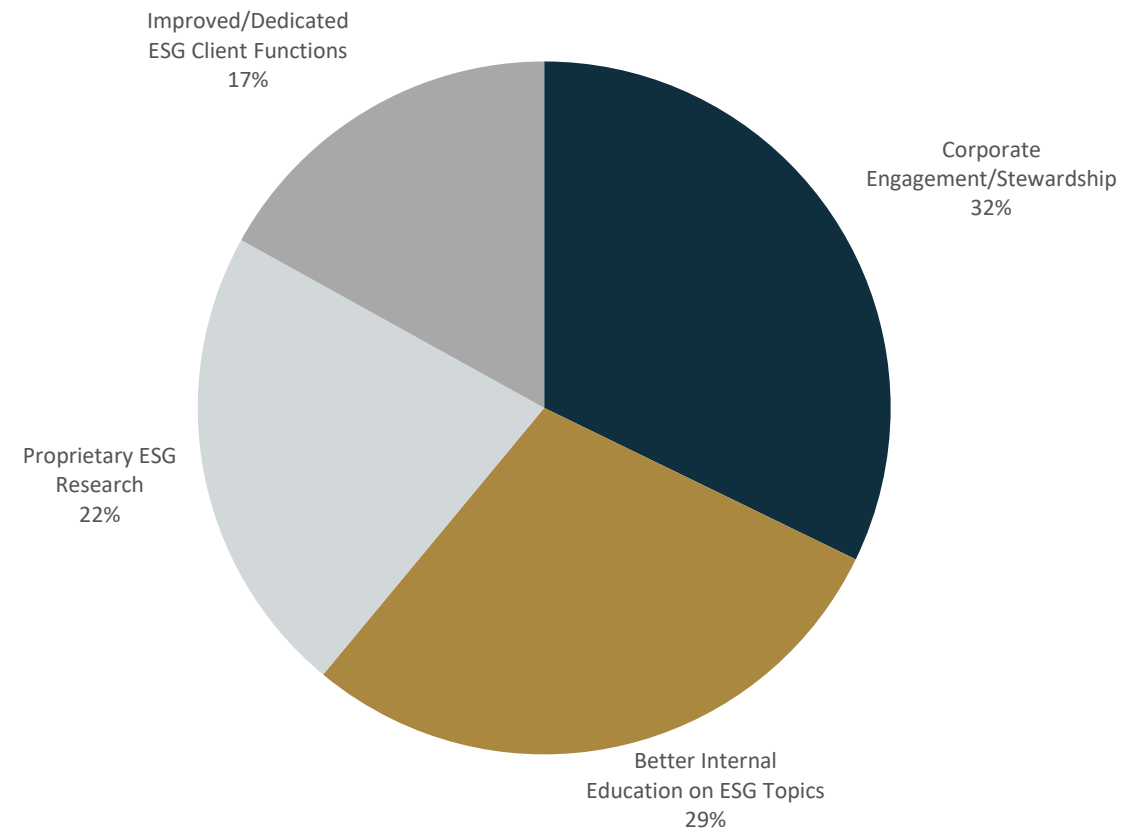
When it comes to how the commercialisation of ESG could be improved, respondents for the most part feel that an increase in corporate engagement and stewardship activities would provide a much stronger narrative for clients and prospective investors.

Another route in which ESG capabilities can be conveyed more effectively is through internal education of ESG topics to distribution teams. Typically the most cost-effective route, ESG research teams have in many cases provided a bridge between investments and distribution to ensure that the ESG processes are being correctly conveyed to clients.

Proprietary ESG research that can be presented in a client-friendly format is a way in which firms can maintain conversations with investors, reporting on changes in regulations and requirements such as the Net Zero initiative and the Task Force on Climate-Related Financial Disclosures (TCFD) legislation for UK investors.

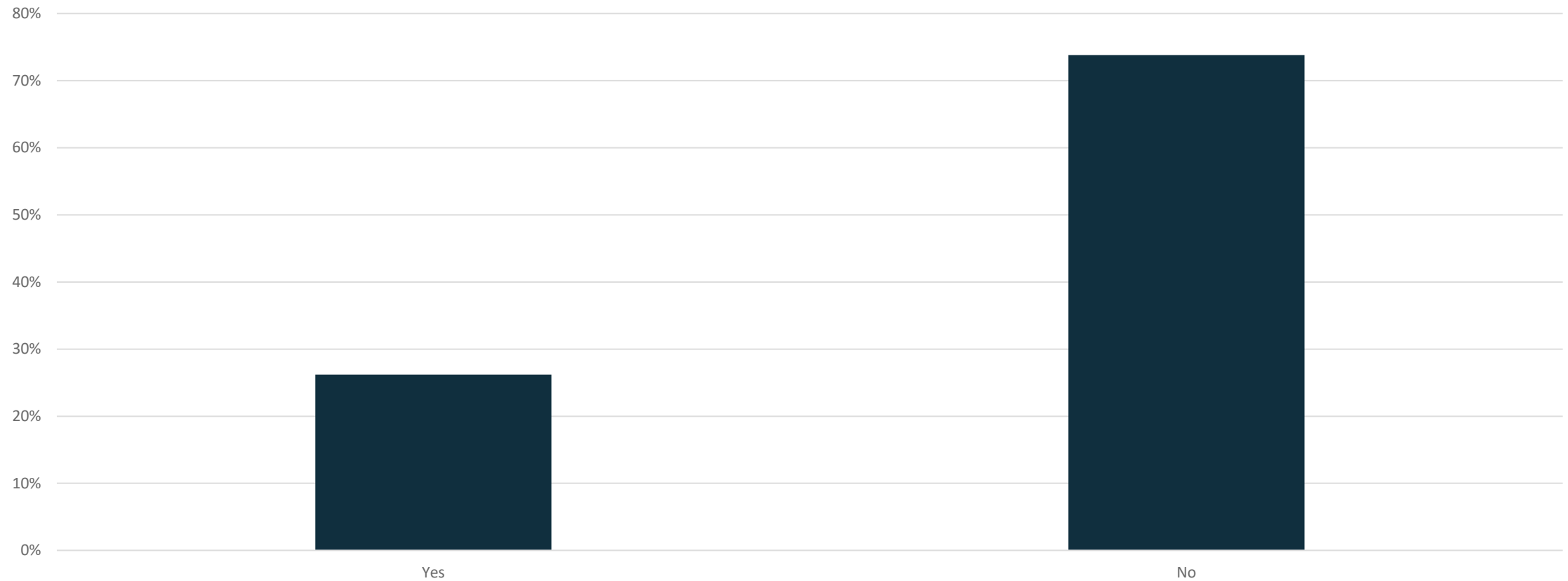
Some firms with dedicated ESG platforms that provide third-parties with ESG advice and portfolio analysis have been pushing for dedicated ESG client functions to maintain engagement with clients at a high-level.

Which areas could your firm improve on to best commercialise your ESG capabilities?



Alternative Sales

Does your firm have a dedicated Alternatives/Private Markets Sales team?



Alternatives Sales

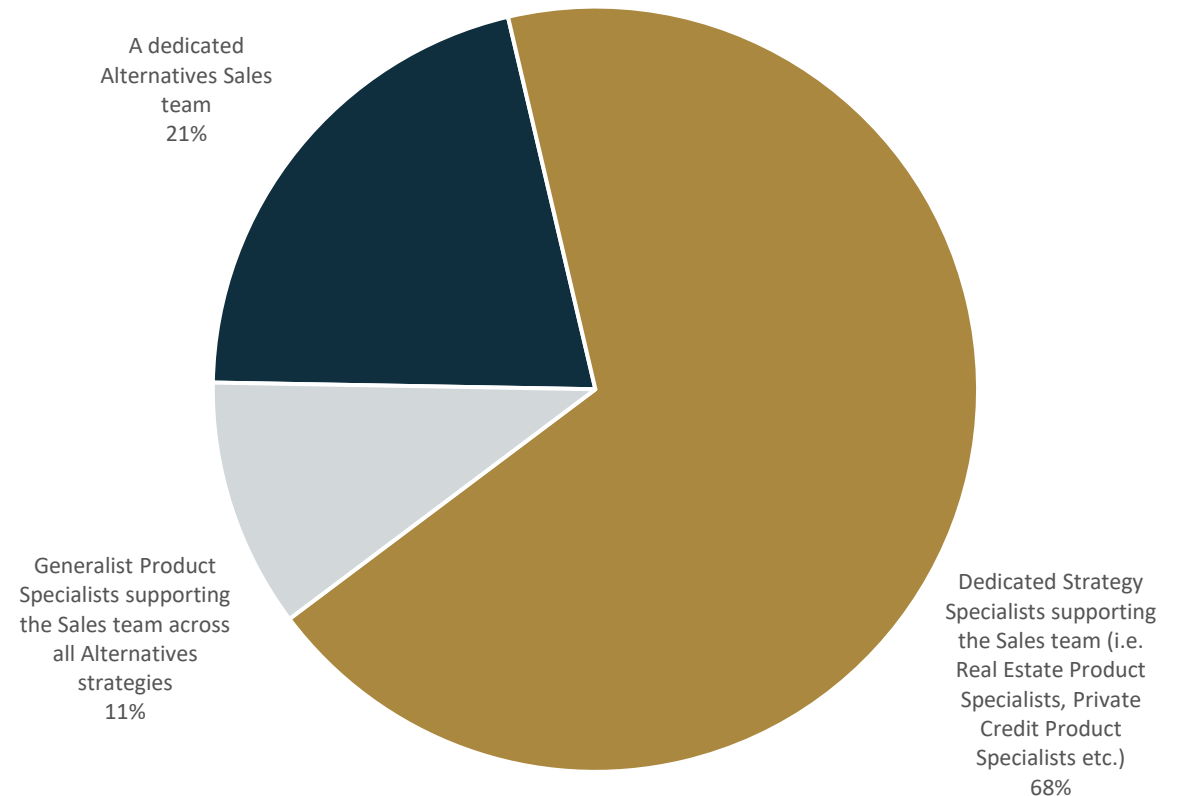
What is the optimal model to sell Alternatives strategies?

Best practice for global sales teams tends to differ from house to house and building a cohesive and well-performing sales unit that can take advantage of complex Alternatives strategies is a top priority.

The majority of respondents believe the best way to service Alternative investment capabilities is through a team of dedicated Product Specialists, that support on dedicated strategies. The positives of this model are that individual teams can speak to investors with a laser-like focus on product, and there is little need to involve the Portfolio Managers in pitches as the Alternative sales teams double up as de-facto PMs.

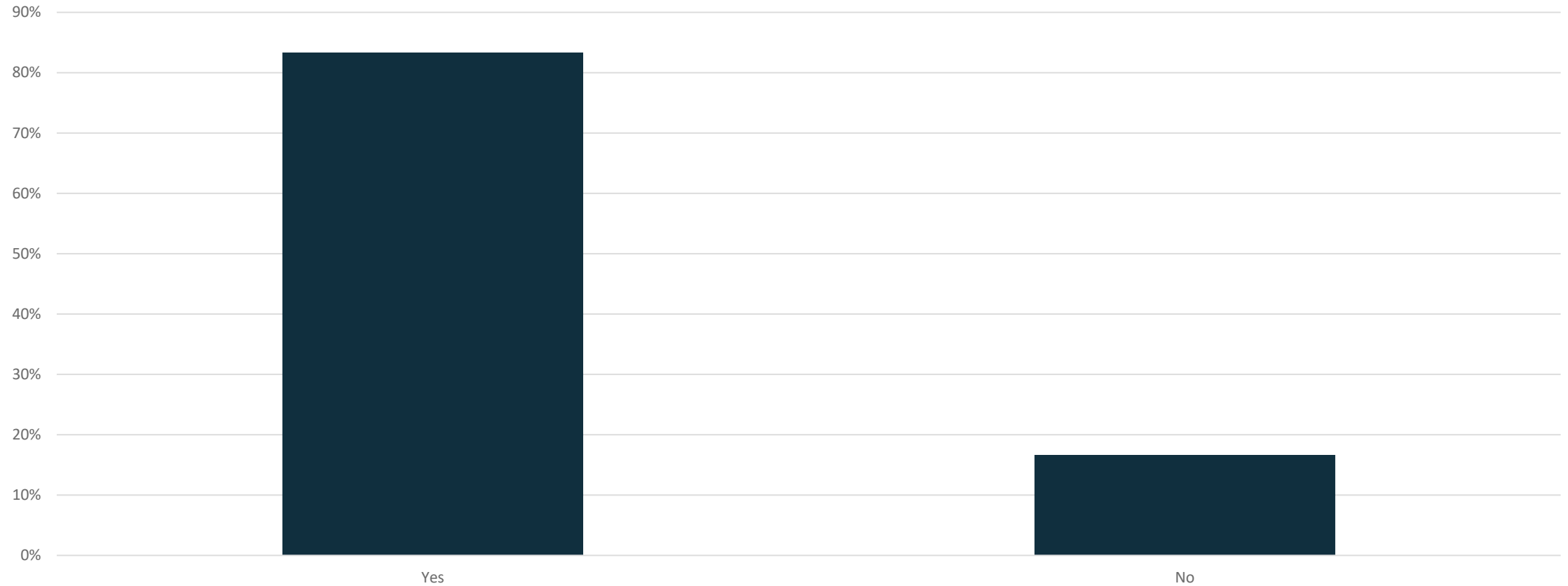
A smaller percentage of respondents believe a dedicated Alternative Sales team would be the optimal model. The positives of this model are that the team broadly stay aligned on where their product remit begins and ends, and firms can organically develop Alternatives specialists from their existing sales team.

The remaining 11% of respondents believe that generalist Product Specialists that cover all Alternatives strategies is the most efficient way of covering illiquid strategies. The positives of this model, are that it provides the sales team with one centralised function that they can leverage for all things Alternatives, and the Product Specialists can be the face of the Private Markets business with little to no conflicts of interest.



Diversity in Distribution

Does your firm have an active focus on improving Diversity & Inclusion on the sales team?



Diversity in Distribution

A theme that is likely to continue into 2022 and beyond is the diversity and inclusivity within asset management firms across gender, ethnicity and neurodiversity. Over the past few years asset managers have on the whole been proactive in how they tackle issues of inequality.

According to our respondents 83% have implemented active initiatives in order to address the issue.

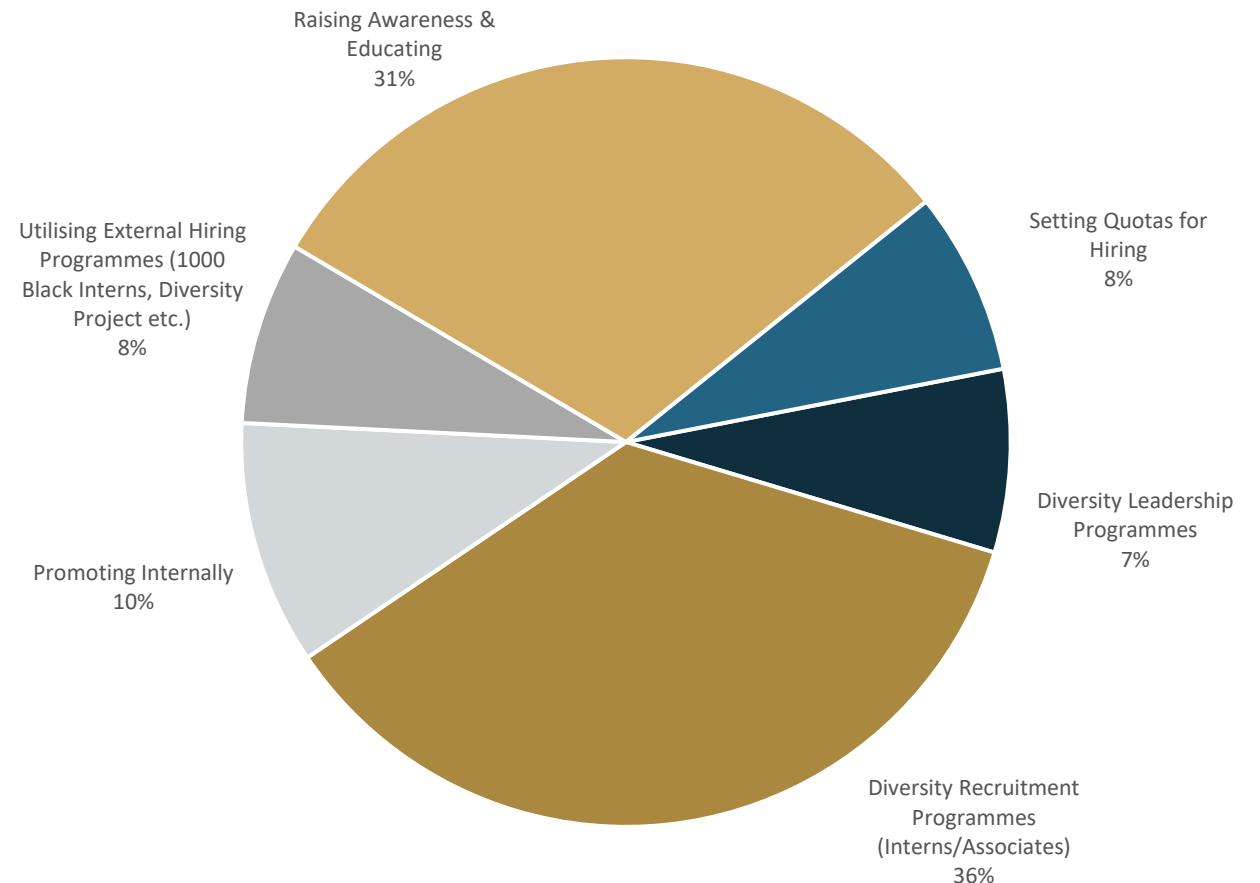
The majority of firms have taken action through diversity recruitment programmes at the junior level to employ a more steady and stable flow of diverse candidates. This will ultimately provide a representative mix of professionals that will gain experience in the industry and move into senior roles over the next decade. Around 8% of respondents have done this through external hiring schemes such as 10,000 Black Interns or the Diversity Project.

31% of respondents feel that their firm have been vital in raising awareness and educating both internally and externally, keeping the issue at the forefront of the agenda.

Some firms have addressed inequality at the senior level by running diversity leadership programmes for mid-level/senior staff and promoting internally.

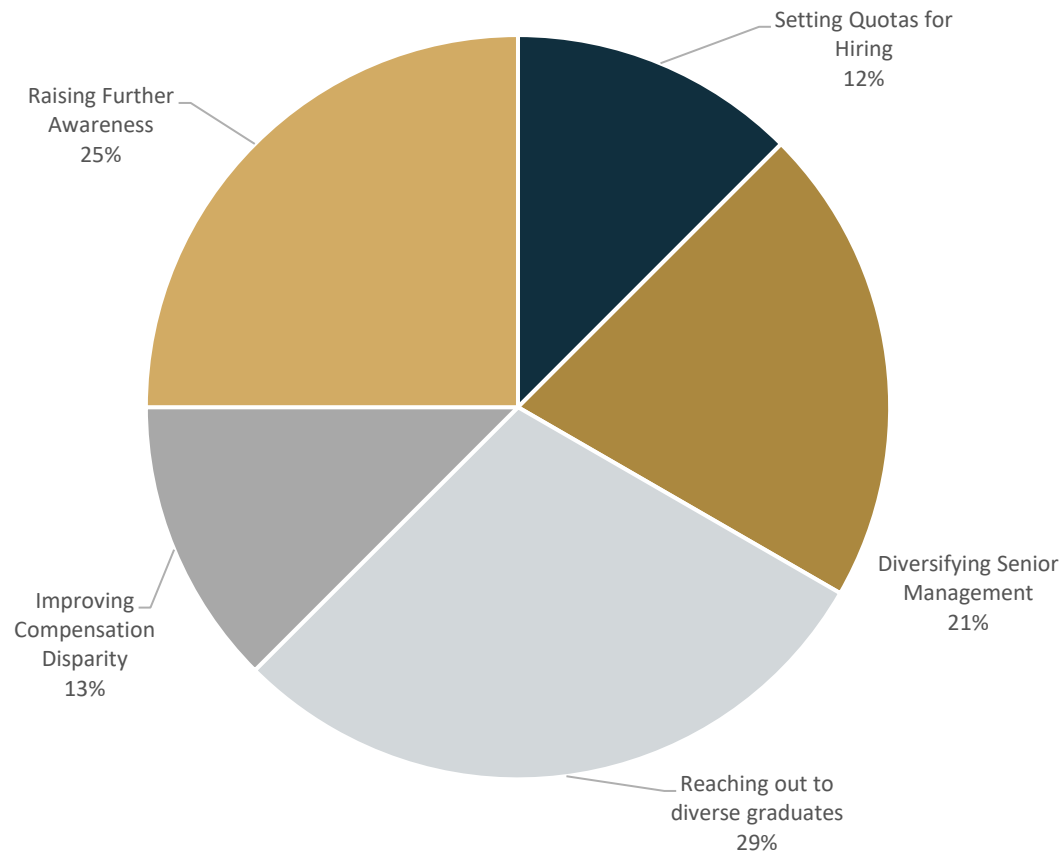
Hard metrics have been put in place by some firms when running hiring processes to ensure that a diverse short list of candidates is achieved. By setting quotas for hiring, firms have been able to ensure that any new hires aid any existing disparity of the sales team.

What do you feel your firm has done well to improve Diversity & Inclusion?



Diversity in Distribution

What could your firm do better to promote Diversity and Inclusion within the sales team?



Looking forward to 2022, the goals of hiring managers within sales teams largely remain the same, however there are different perspectives on how this can be achieved going forward and improvements that can be made on existing processes.

29% of respondents believe that organic diversity should be the focus by reaching out to a diverse pool of graduates with specific emphasis on demographics that may not have previously considered a career in financial services.

25% believe that simply keeping the conversation alive and relevant is something that their firm should be doing to evoke actionable change.

21% say that diversifying senior management is an area that could be improved and should be a focus going forward.

13% think that improving compensation disparity should be an issue that is addressed in 2022 to ensure that the pay gap is successfully bridged in the asset management industry.

12% would like further quotas to be put in place and believe it is an area where their firm has not been as proactive.

Predicted Hiring Trends in 2022

- ✘ **Institutionalisation of Wholesale.** Asset Managers that have historically shied away from the Wholesale channel have been drawn into the space because of the growing traction that they have had via investment consultants. Wealth has become more institutional in their approach to manager selection and players like Redington and, in particular, Mercer continue to make a big push into this segment of the market.
- ✘ **Commercialisation of ESG.** Regional client facers are being hired in to focus on winning clients in the ESG space. Some of these are product specialists but, within stronger ESG houses, many of these hires are regional sales people with a remit to focus on the commercial growth of the firm's ESG client footprint in a particular country or region.
- ✘ **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 2022, with many firms choosing to build dedicated private market sales teams to gain real traction in a space that is unfamiliar to many traditional managers.
- ✘ **The Next Generation.** In the latter part of 2021 there was a shift in focus towards firms hiring good talent at the mid-level. Quite a few distribution teams are top heavy, in terms of seniority, and there has been a subsequent strategic plan to bring in the next generation of rising stars in distribution teams.
- ✘ **D&I.** Attention has expanded beyond gender and ethnicity, with a focus on more broadly ensuring diversity of thought, perspective, personality and approach. There is even greater importance of Diversity initiatives becoming a CEO topic, as opposed to solely a 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 within their businesses, and having a diverse workforce and an inclusive culture goes a long way to facilitate this.
- ✘ **Local Presence.** Due to continued 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.
- ✘ **Frontier Markets.** Firms are switching their focus back to new territories having had a two year period focusing almost entirely on existing relationships and cross selling in countries where they had traction prior to the pandemic.

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