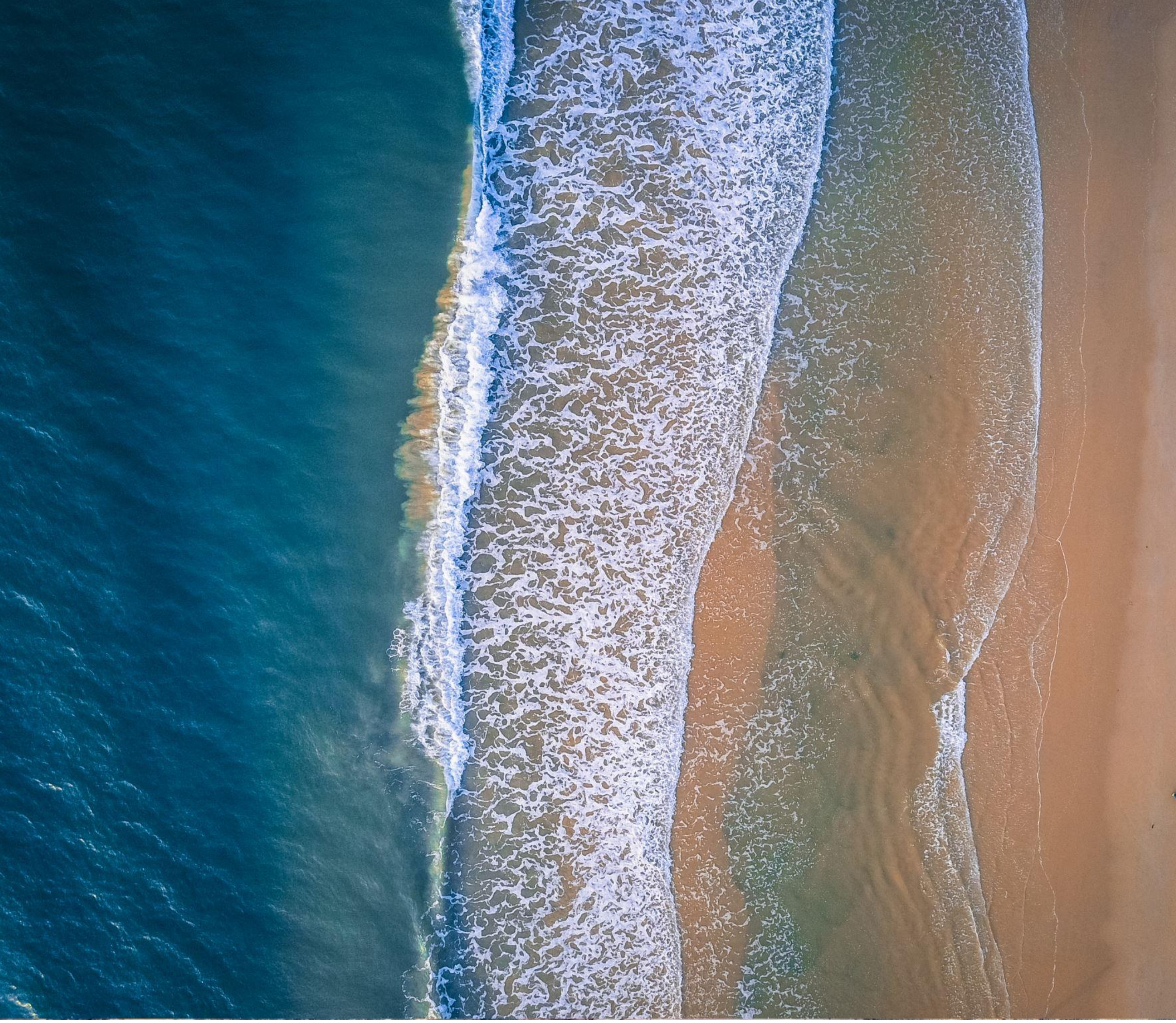

MAGELLAN ADVISORY PARTNERS

Distribution Barometer 2024

Outlook and Activity

Alongside continued fee pressure and unfavourable macroeconomic factors, client teams are gearing up for an eventful 2024. With Fixed Income and Alternatives leading the way in expected inflows, asset managers will be competing for assets in an industry that is consolidating at a rapid pace. The prevalent themes for 2024 will be an increased focus on wealth clients, further investment in technology platforms and continued resourcing of dedicated private markets client teams. These themes will be tested and scrutinised by the need to improve cost efficiencies amidst dwindling revenues.

MAGELLAN ADVISORY PARTNERS

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ABOUT THE

DISTRIBUTION BAROMETER 2024

METHODOLOGY

All data collected is self-reported by asset management professionals and has been aggregated to evaluate views and predictions across global client groups. We have carefully reviewed all data received and included all data points collected.

SAMPLE SIZE

Magellan Advisory Partners has collected data from over 80 heads of teams. To get an accurate representation of the market, we have surveyed firms whose AUM range from less than $1bn to more than $1trn.

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GDPR DECLERATION

As a 'Data Processor' Magellan Advisory Partners fully comply with GDPR legislations and all data subjects have been reassured that their data will be held securely and treated confidentially.

DISCLAIMER

This report is based on the results of a survey conducted to gather the opinions, views, and predictions of individuals on the asset management industry. The information presented in this report reflects the responses obtained from the survey participants and is intended for informational purposes only.

This report does not provide professional advice or make any guarantees regarding the accuracy or reliability of the information presented. The future is inherently uncertain, and external factors beyond the scope of this survey may influence outcomes.

By accessing and utilising this report, readers acknowledge and accept the limitations outlined in this disclaimer.

EXPECTED ASSET CLASS INFLOWS

	Low Inflows/Retention	Moderate Inflows	High Inflows
FIXED INCOME			
Investment Grade Credit			●
High Yield Credit			●
Cash/Money Markets			●
Multi-Sector Credit		●	
Emerging Market Debt		●	
EQUITIES			
Global Equity		●	
Emerging Market Equity		●	
Growth Equity	●		
Value Equity	●		
MULTI-ASSET			
Multi-Asset Growth	●		
ALTERNATIVES			
Private Credit			●
Infrastructure Debt		●	
Infrastructure Equity	●		
Private Equity	●		
Real Estate Debt	●		

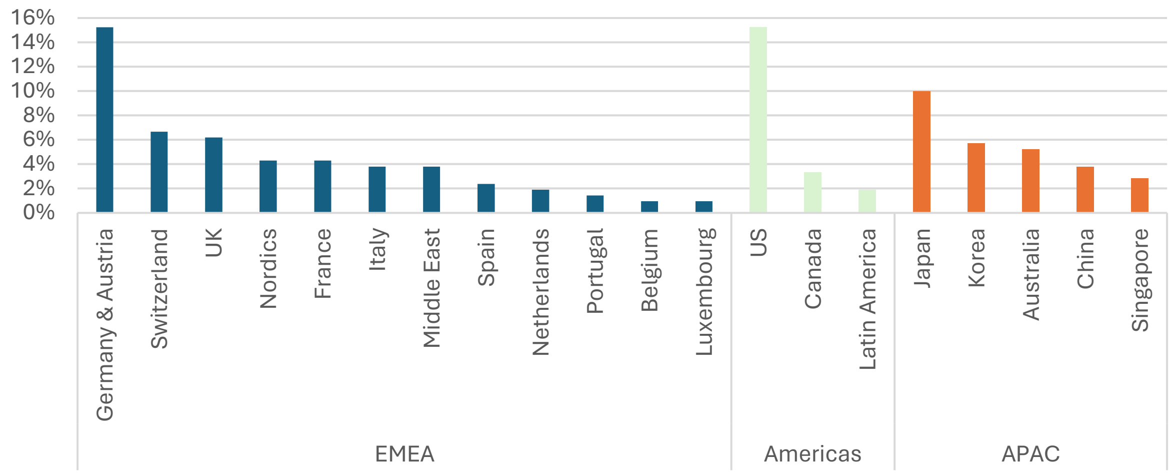
Following a difficult year for Fixed Income, 2024 poses a ripe opportunity for asset managers. With rates supposedly having reached a peak, investors expect central banks to begin cutting in H2 of 2024. There is optimism that high quality **Investment Grade Credit** and **Money Markets** will perform particularly well as inflation declines and growth decelerates. **High Yield Credit** is also expected to generate attractive risk-adjusted returns supported by the expected rate cuts.

With investors looking to position for economic uncertainty, the expectation is that many will be looking to seek out high quality **Global Equity** strategies that can weather the tougher economic environment. Respondents feel that areas like **Value Equity** will largely remain flat as investors will want to capitalise on quality stocks that are better placed to ride out any market volatility.

Many respondents have alluded to the fact that the Multi-Asset approach could provide a solution to investors looking to capitalise on high income Credit whilst also locking in the growth potential of high-quality Equities. **Multi-Asset Growth** could offer longer-term returns to investors with lengthier time horizons while mitigating potential downside.

With the **Private Credit** market expected to rise to USD2.3 trillion by 2027, it's no surprise that respondents overwhelmingly classed it as the highest prospective growth area, with asset managers plugging the gap left by traditional bank lending. Respondents also expect a pivot in **Private Equity** towards Secondaries given liquidity issues facing LPs and GPs in the space and attractive valuations. **Infrastructure Debt** can also offer steady returns that are relatively uncorrelated compared with other asset classes.

EXPECTED REGIONAL CAPITAL INFLOWS



Institutional investors in Germany continued to walk a tightrope in allocation decision-making between certainty and higher yields in illiquid markets over 2023. Going into 2024, German pensions have stated their aim for an alternative investment quota of over 50%, which presents opportunities in popular areas like Private Credit to be a source of inflows.

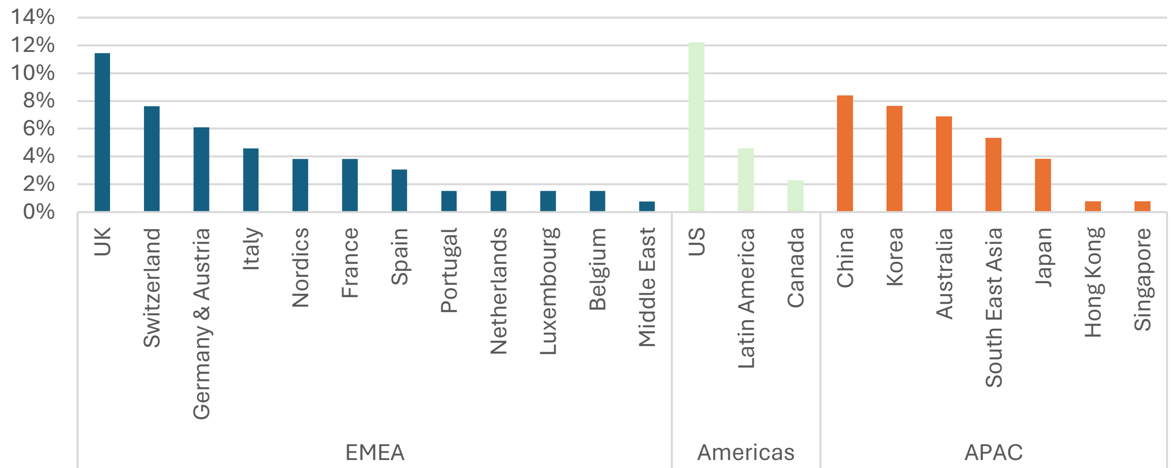
The best performing Swiss Institutional investors last year were the ones with the highest allocations to alternatives, and in particular Real Estate. The expectation is for the others to follow suit and increase their exposure to illiquid asset classes. Pension funds are in tandem reallocating to greener investment strategies through impact investing, renewable energy, and green bonds.

Public pension funds are the primary focus for Institutional sales teams given the number of public schemes and the size of the asset base - even in mid-sized entities. Over 2023 there were substantial inflows coming through RIAs and Wirehouses which led to a spate of hiring across Wealth teams. This coverage often requires someone to embark on long roadshows typically outside major financial hubs, and thus regional presence has increased significantly.

Traditionally, the main route into the Japanese Institutional market had been through placement agents or through the “gatekeeper” trust banks. However, given the increased demand for international strategies, asset managers are deploying more resource in the region to cover Japan as it is a highly relationship-driven market that relies on local presence, consistent quarterly updates and cultural understanding of business practices.

Korean Institutions have an appetite for international investments with relatively low requirements for entry (a minimum fund size and at least five years track record). Many firms targeting the Korean market have alternative investment strategies fitting those requirements that will be saleable in the region, so the expectation is that this will be a key area for inflows in 2024.

EXPECTED REGIONAL CAPITAL RETENTION RISKS



With DB pension assets swiftly diminishing and consolidating, DC is an emerging battleground for asset managers to target. With 2% of the asset owners controlling 80% of the assets and further consolidation of the 36 Master Trusts in the UK, there will be a significant fight for retention across a market segment that is pivoting into private markets at a rapid rate.

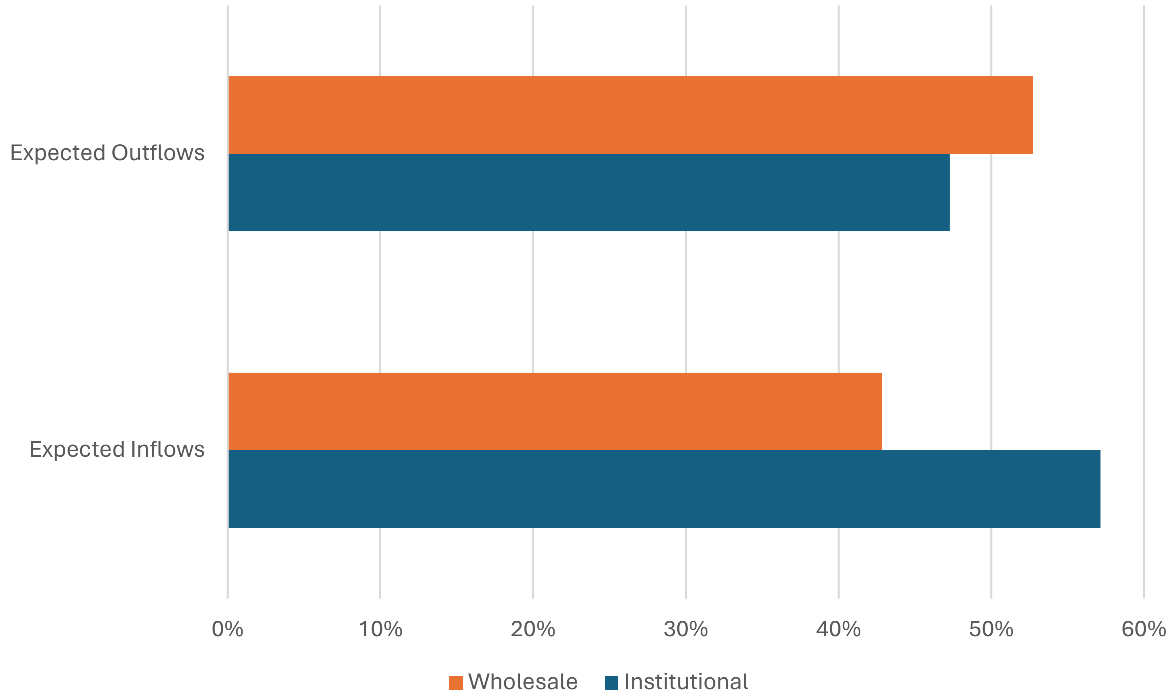
Given the turbulence in the Swiss banking sector and the fact that this sector accounts for 11% of the Swiss market, there are big shifts to be expected in allocations across the board. While this has created opportunity for some asset managers, others expect that this will be an area to focus resource on to uphold retention of assets.

The public/corporate pensions and insurance space in the US have the slowest to move towards private assets because of their liabilities, liquidity requirements and deep consultant intermediation. Firms are becoming ever more reliant on attaining strong consultant buy-ratings through specialist consultants such as of Callan Associates, NEPC, Wilshire Advisors and StepStone to compete in a growing segment of the market.

With strong domestic competition and large multi-national asset managers bowing out of China, respondents expect Chinese investors to pose a retention risk in 2024. While many firms have opted to form distribution partnerships or JVs in the Chinese market, those who have retained internal sales teams have developed their strategy to accommodate the Chinese market by being more driven by marketing and PR than in other Asian markets.

With larger tickets in Korea typically going to the bigger and more established international players, the expectation is that assets from some of the smaller pension funds and other Institutional clients will be targeted by a large number of asset managers looking to differentiate themselves from one another. Conversely, some of the larger public pension funds have already begun to increase their allocations to international private markets.

CHANNEL FLOWS



57%

Of respondents believe that the majority of inflows will come through the Institutional channel

53%

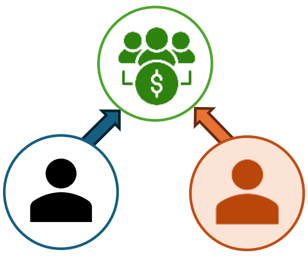
Of respondents believe that the majority of outflows will come through the Wholesale channel

PRIVATE MARKETS SALES

Only **38%** of respondents indicated that they had a dedicated Private Markets Sales team. However senior heads of team need to be able to navigate various hurdles that come with marketing a sophisticated range of Private Markets strategies including:

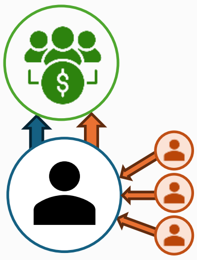
- Higher levels of complexity
- Increased investor sophistication
- Dedicated Private Markets allocation teams
- Democratisation of Private Markets

With **72%** of respondents indicating that they plan to sell Private Markets through the Wholesale channel in 2024, landing on an effective model will be crucial in pushing those resourcing plans forwards.



15%

Of respondents use the dedicated Alternative Sales team model

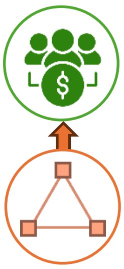


77%

Of respondents use a variant of the dedicated "Strategy Specialist" model to support the sales team – these specialists can either be more commercial or more investment focused

4%

Of respondents exclusively use Placement Agents



4%

Of respondents use a combination of all of these depending on region

Distribution team heads are still evenly split on where **Product Specialists** sit within the broader org chart. The models we often see fall into three camps:

i) Former Portfolio Managers/Analysts that sit with the investment team/investment committee that are usually named on the funds as a Portfolio Manager. These Product Specialists will provide technical education to the distribution team and are called in for pitches as a replacement to the Portfolio Manager.

ii) Commercial Product Specialists that sit with the sales & distribution team. These Product Specialists are less "reactive" than the first type and actively work to achieve Consultant ratings and get onto approved lists, organise road shows and actively represent particular asset classes through the marketing channel.

iii) Solutions-driven Product Specialists that sit in their own team that are actively assisting with product development and dedicated segregated mandates for clients. These Specialists will still be commercial in nature and share the proactive responsibilities of the second description, while retaining the strong investment team links of the first.

57%

Of respondents have Product Specialists reporting into Investments

41%

Of respondents have Product Specialists reporting into Sales/Distribution/Client Group

1%

Of respondents have Product Specialists reporting into a separate Product Management line

TECHNOLOGY TRENDS

In a recent McKinsey report, *Everything everywhere all at once: North American asset management 2023*, they define three emerging technology platform models that allow asset managers to increase engagements and relationships with clients by "extending reach into different parts of the investment management value chain, moving beyond simply creating investment products".

Using their definitions, we asked respondents which models are being utilised by their teams.

CLIENT PLATFORMS

Often firms affiliated with banks, brokerages, or retirement-focused businesses that have proprietary access to large and growing groups of clients, as opposed to stand-alone asset managers that need to gain access to clients through an intermediary.

These platforms can offer existing clients additional services such as wealth management.

37%

ENABLEMENT PLATFORMS

Firms that combine more traditional asset management with technology, operations support, and access to outsourced portfolio construction and manager selection capabilities.

These platforms serve a broad range of clients across the investment management ecosystem, including smaller wealth managers and other asset managers.

13%

ASSET ORIGINATION PLATFORMS

Firms with a unique ability to both originate and manage assets at significant scale across multiple asset classes, often by tapping sources of "permanent capital" such as pension or insurance liability assets.

14%

NONE OF THE ABOVE

36%

CHALLENGES FOR 2024

CHALLENGES	Low Risk	Moderate Risk	High Risk
Fee pressure			●
Increased competition			●
Geopolitical environment			●
Macroeconomic environment			●
Increased business costs		●	
Client consolidation		●	
Competition from passive	●		
Regulation	●		
Internalisation of assets	●		

HEADWINDS TO COME

Competitive fee levels across the industry are by no means a new phenomenon and have been a high concern for asset managers since our 2019 Distribution Barometer. Fee pressure and increased competition signal a maturing industry facing slower growth which will directly affect revenues.

The continued consolidation of the industry through M&A activity will also pose a threat to smaller firms looking to compete in the market. It is predicted that by 2027 the top 10 asset managers will control around half of all mutual fund assets globally. Outside of this, the large Alternatives houses will be looking to uphold the number of acquisitions made in 2023 as they continue to diversify.

The geopolitical and macroeconomic landscape is expected to trigger indecision from allocators and subsequently make planning for investors more difficult. Instability is expected to grow off the back of a significant global election cycle, uncertainty from bad geopolitical actors, and ambiguity in Equity markets. These factors could lead to a “risk-off” attitude that could stifle AUM growth.

Increasing costs and slow, if not, receding revenues are forcing asset managers to take stock. With many firms facing additional bottom-line pressure through launch costs for private markets strategies, technology transformation costs through the development AI applications, and additional upskilling costs for distribution, the focus will be on taking strategic action to streamline teams and product sets.

Client consolidation and internalisation of assets are having a direct impact on the global asset pool available to client teams. This tied with the inevitable demise of DB is posing hurdles for capital raising teams across the industry. The expectation is that asset owners will demand more stringent requirements across performance, fees and brand security, adding additional pressure to asset managers.

HIRING & RETENTION

The number of respondents expecting turnover of key staff is significantly lower than in Q1 2023, going from **75%** to just **30%** this year.

This group of respondents expect the three key reasons behind departures to be:

- A proliferation of competitor bids for talent
- Firm restructurings i.e. following a merger/acquisition
- Decreased bonus pools

	Low Importance	Moderate Importance	High Importance
RETENTION			
Positive company culture			●
Attractive career progression routes			●
Senior management engagement			●
Competitive LTIP/benefits/carry		●	
Offering a high-quality product set		●	
WFH/office flexibility	●		
Effective team structure	●		

50% of respondents are looking to add additional headcount in 2024, so heads of teams will be looking to assess the most important practices that will keep key staff on board and entice high quality candidates to join.

	Low Importance	Moderate Importance	High Importance
HIRING			
Positive company culture			●
Offering a high-quality product set			●
Attractive career progression routes		●	
Buy-in from senior management		●	
WFH/office flexibility	●		
Competitive LTIP/benefits/carry	●		
Effective team structure	●		

Flexible working initiatives have fallen out of favour as both an incentive to lure potential hires and as a retention tool for existing staff compared with 2022 and 2023.

75% of the pool have indicated that **three days** in the office is the new minimum standard.

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