2021 Top Trends to Watch

Firms adjust to new norms amidst proliferating fintech capabilities, responsible investing goes mainstream, and ESG incorporation becomes table stakes for allocators and global asset managers.

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Global

- In 2021, the global asset management industry will set out on the road to recovery after seeing its first decline in total assets under management in a decade, brought on by the COVID-19 global pandemic and the economic crises that ensued in many regions around the globe. Manager consolidation, which largely paused in the first half of 2020 due to the pandemic, will return as markets stabilize and multinational investment giants look to broaden scale and access new markets. Meanwhile, distribution and marketing/sales teams will continue to contend with the challenges of a remote work environment and travel restrictions. An upshot of the recent turmoil is advanced fintech and broadened adoption of digital platforms that give firms inroads to growing investor segments.
- Globally, in the realm of environmental, social, and governance (ESG) investing, greater emphasis will be placed on various "S" and "G" elements, spurred on by the inequities highlighted by the pandemic. Meanwhile, extreme weather events continue to drive home the ongoing financial risks linked to "E" issues such as climate change, viewed by many as the world's foremost environmental challenge. Gatekeepers evaluate the core values of asset managers to ensure ESG considerations are consistently reflected in different aspects of an organization's operations—including transparency into proxy voting, lobbying, and engagement activities. Involvement and collaboration with industry trade groups, coalitions, and partnerships with industry associations (*e.g.*, Task Force on Climate-Related Financial Disclosures) demonstrate growing commitment.

The Americas

- For distribution teams, the pandemic accelerated pre-existing trends. As executives plan for the future, they will address several prevalent challenges—namely, ongoing margin pressure, shifting centers of influence, increasing competition, and changing preferences for communication among advisory firms. Asset managers will look to leverage their distribution teams and equip sales personnel with the resources needed to adapt to these challenges.
- In the US institutional market, due diligence processes will be more robust as asset owners seek to better understand how ongoing volatility could impact the long-term outlook of their portfolios. Pension plans will exhibit increased demand for liability-driven investment, glidepathing, and other derisking strategies.
- Market conditions will drive more asset owners to seek investment advice from consultants and OCIO organizations. Volatility will compel more clients to seek consultant intermediation. In particular, the adoption of OCIO models increases, as it did in the wake of the 2008-2009 financial crisis.
- Mass-affluent Latin American investors will spearhead growth as digital platforms multiply. Brazilian institutional investors boosting equity allocations leads to a gold rush among global managers eager to establish relationships with corporate pension plans, which have the ability to form subadvisory-type agreements to access international markets.

- Active managers look to bolster revenue opportunities by promoting the core strengths behind their brands, harnessing technological innovation to improve service offerings, and delivering investment solutions to advisors through home-office partnerships.

- ETF issuers mitigate fee compression with the rollout of active (both transparent and semi-transparent) and thematic and defined outcome/risk-managed ETFs that offer a wider variety of exposures across a wider spectrum of clients.

- Those aiming to distribute ETFs in Canada enjoy tailwinds as adoption increases during the next decade.

- Use of investment asset allocation models is more prevalent as advisors' home offices embrace their consistency. Managers deliver models through broker/dealer platforms, clearing and custodial firms, managed account technology providers, fintech model marketplaces, and wholesalers.

- More merger and acquisition (M&A) activity looms as the secular trends that made the environment rife for recent deals—fee compression, outflows from higher-cost active strategies, and rationalization—won't disappear anytime soon. In the wake of major acquisitions in the brokerage and digital spaces over the last two years, more firms look to leverage digital providers as conduits toward expansion into mass-affluent and self-directed markets, with digital advice solutions leading toward more established, hybrid advice relationships.

- Deeper scrutiny of ESG-focused processes is becoming more firmly entrenched among institutional investors and there is broader progress in the retail investor and retirement segments. Asset owners place top importance on asset managers having an articulated mission and culture in which gender and racial diversity and inclusion (D&I) is central. Allocators are digging deeper into firms' D&I policies, requesting greater transparency into pay equity, profit sharing, and equity ownership.

- ESG integration approaches prioritize climate change risk. Amid the pandemic, asset managers are also more deeply evaluating how companies' labor standards and policies ensure employee health, safety, and economic wellbeing.

- From an ESG product standpoint, more retail separate account options are coming to market through institutional-quality ESG-focused unified managed accounts and dynamic custom indexing solutions. Advances in algorithmic portfolio techniques and the growth of fractional shares make direct indexing solutions options more accessible to retail investors. Despite regulatory challenges, defined contribution (DC) plan managers will increase marketing and distribution efforts associated with their ESG products—education around terminology and ESG investing methods—which could help promote future adoption by plan sponsors.

Europe

- In Europe, distribution teams face differing layers of complexity due to COVID-19. Asset managers' sales teams are accustomed to conducting business face to face, so the remote approach is new to them. Firms are therefore reviewing their sales functions, seeking a formula that will enable new sales, including the adoption of new technology and the reassessment of their resources and targets.

- Managers in the UK look to grow marketshare in a variety of ways, with subadvisory business gaining steam. As the industry consolidates, providing niche investment expertise for a premium is a way for specialist teams and smaller players to maintain their place in the market, accessing larger players' distribution networks.

- ETF issuers broaden their product suites to fend off the arrival of new players. Firms with newly launched fixed-income ETFs aim to expand their ETF capabilities to meet increasing demand from European investors. Managers expect the highest level of growth in passive ETF assets over the next several years to be in Switzerland, UK, and Sweden.

- Demand for smart beta and active ETFs is still limited in Europe. However, so-called "mega trends" and application of ESG factors will help drive further growth and fee expansion in the market as issuers dedicate more resources to creating winning propositions underpinned by data-backed, sustainable research.

- Asset managers increasingly provide customized product solutions rather than just off-the-shelf products. Although providing customized solutions means that managers have to expend greater resources—and the additional costs will not be recouped from fees in all instances—it provides an opportunity to develop strategic partnerships with asset owners and improve the longevity of existing relationships.

- The UK DC market, representing more than 30% of total European DC assets, increases their investments in illiquids as assets become more consolidated in master trusts.

- Europe's regulatory drive on ESG has outpaced that of all other global markets, and the development of the EU taxonomy could make Europe a global standard setter.

- Climate change is the most important topic within responsible investment across Europe. Managers will devote more resources to development of strong capabilities in climate risk management and other carbon reduction solutions.

- Broadening the spectrum of ESG mutual funds and ETFs is a strategic priority for many cross-border managers. Opportunity abounds for fixed-income and multi-asset funds catering to more risk-averse investors.

- Institutional investors ramp up private asset exposure. Regulatory easing at the national and European level has offered institutional investor greater flexibility in accessing private assets, fostering a sanguine market. In particular, interest in infrastructure equity and debt is expected to increase considerably.

- Most institutional managers will seek to develop innovative fee structures for traditional investments. However, European pensions will prefer standard fee structures at a lower fee level.

Asia-Pacific

- In the retail market, thematic investments in robotics, education technology, supply chain logistics, frontier technologies, and medicine are garnering interest. While investors are warming up to ESG inveseting, product availability varies—from China, where products are in their infancy, to Hong Kong, where managers are more aggressively raising ESG profiles. Investors in Taiwan set their sights on themes such as sustainable agriculture, while investors in Singapore largely focus on consumption and healthcare.

- Fintech capabilities are a chief priority for asset managers in Southeast Asia looking to enhance the customer experience and their direct-to-consumer servicing capabilities. Indonesia is furthest ahead while local banks in Singapore are also ramping up offerings due to increasing competition from robo-advisors. Fund houses in the region are looking to tap third-party platforms and some are developing portals in-house to meet demand.

- Liberalization measures in China boost growth potential for foreign firms looking to broaden institutional relationships. Star managers and strong distribution plans are the keys to success. Digital transactions increase and the ongoing pandemic environment will further accelerate growth. Managers are likely to partner with fintech start-ups rather than trying to directly compete.

- COVID-19 has pushed many younger investors in Japan to start saving for the first time and to use online investing tools. Online brokerages and nonfinancial institutions are well positioned to appeal to these tech-savvy and cost-conscious investors.

- In the retirement market, the most lucrative opportunities reside in Taiwan, Korea, and China. Pension reform includes third-pillar developments in Taiwan and China and efforts by Korea's National Pension Service to grow its overseas and alternative allocations.

- In Australia, early withdrawals from superannuation and market movements are exacerbating fears of a shrinking asset pool and may spur consolidation.

- Increasing demand for robo-advisory/digital platform services and increased availability of ESG-focused products will fuel near-term asset growth in Asia. Among expanding cohorts of wealthy clientele, managers are peddling strategies that help preserve wealth, promote absolute return, and generate income.

- Increased recognition of the need for long-term savings within retirement accounts is taking hold. In Korea, target-date funds thrive as banks and asset managers ramp up product marketing and distribution efforts. In India, fund companies are using digital marketing and educational campaigns to champion the need for capital preservation.

- Sustainability is being heavily promoted by some of the largest allocators. Japan's Government Pension Investment Fund is one of the largest ESG investors in the world. The Monetary Authority of Singapore operates a USD 2 billion investment program focused on green public market strategies.