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# EVOLUTION IN ASSET MANAGEMENT

The wealth management industry is changing at an exponential rate. Successful adaptation hinges on understanding the underlying trends and putting a robust and flexible operating system in place.

# Introduction

The history of the wealth management industry is a case study in “punctuated equilibrium,” the evolutionary view that says there are long periods of little change followed by short periods with bursts of great change. As in evolution, the slow and steady growth of this naturally conservative business is periodically rocked by dramatic events that leave lasting change in their wake. We are currently in the midst of another period of tumult and evolution.

Competition and convergence continue to be the age-old drivers of change, but their intensity is testing organizations’ infrastructures like never before. While portfolio management remains an asset manager’s *raison d’être*, their competitiveness and future success will be increasingly based on capabilities other than investment expertise. Likewise, gatekeepers and intermediaries are progressively more important, yet quantitative factors are no longer sufficient to differentiate managers in a crowded marketplace.

**Propelled forward by the rapid pace of innovation, the business of managing wealth is being reshaped before our eyes.**

This time, five interwoven factors are driving the change; we’ll briefly address each over the coming months:



**We systematically assessed the state of the asset management industry in our 2014 paper, *Evolving in the New Operational Frontier*. Revisiting the trends and challenges confronting managers, we found the macro themes have been relatively persistent. We noted the rapid pace of change then, but it is nevertheless surprising to observe today that it appears to be accelerating, with the industry now changing at an exponential rate.**

Technologies developed in one industry to solve one problem are now being used globally to solve problems people didn't even know existed or at least were considered unsolvable. Convergence is occurring throughout every industry and in different corners of the world. In the investments arena, asset classes are blurring, alternative and traditional product offerings are competing, differentiation between the front-, middle-, and back-office are indistinct, and demand for the same talent from within and external to the industry is increasingly competitive. The result? Clear delineations are tougher to determine, and we are more frequently competing against each other in unexpected ways.

The skill sets needed to perform newly created jobs, let alone drive the business forward in an uncertain future, differ vastly from even a decade ago. Competition for this talent remains robust, not just between asset managers and others in the wealth management ecosystem, but more broadly among fintechs, Silicon Valley technology firms and a variety of startups in other industries.

Adapting to a quickly changing environment is easier said than done in an industry that has often rewarded the methodical and meticulous. At the risk of seeming alarmist, the current pace of change threatens to leave behind any company that is not willing to at least adjust their approach. The implications are many, with every aspect of the organization affected. **Investment processes, sales strategies and talent management alike are ripe for reinvention.** Supporting and enabling every aspect of the business, effective operations will be more critical than ever before.

The most proactive firms are choosing to treat their operational capability as a catalyst for growth rather than a hindrance, leveraging their operational infrastructure for efficiency, flexibility, scalability and insight. Given what we're seeing today—exponential shifts in technology capabilities, the power of data analytics and predictive properties, consumers' desire for customization at the press of a button, and the evolving talent profile—firms that don't address today's reality will soon find that they are playing catch-up, possibly never to recover.



# Fierce competition

## Trends

**The buy-side business has always had a reputation for being more collegial than the more cut-throat sell side.**

That may still hold true for cultures within firms, but fierce competition between firms has otherwise rendered this a moot point. Four developments mean that heightened competition is likely to remain a feature of the industry for the foreseeable future: consolidation, new entrants, convergence and globalization.

It is the nature of the business that size begets size. Even without the effect of mergers and acquisitions, market appreciation and compounding mean that firms with the longest track records are often some of the biggest. Surviving over time and being in business longer generally means superior performance, more investors, more infrastructure and institutional characteristics that support additional growth. Size also enables investments in technology and marketing on a scale that is unthinkable for smaller firms, creating a positive feedback loop.

Size is not always a positive attribute, however, as it can lead to diminished nimbleness and saturation of investment opportunities. But its advantages are such that many firms relentlessly pursue growth, in many cases launching new strategies, entering new markets, adding distribution channels, acquiring competitors or lifting out teams. The net result has been a steady consolidation of assets among the largest firms.

It's important to note that industry consolidation has not kept new firms from emerging. A comparable trend unfolded in the banking industry, when M&A and consolidation in the wake of deregulation resulted in a handful of national and super-regional banks. In spite of, or perhaps because of, these megamergers, numerous new local banks sprung up to fill certain niches or meet specific needs. Similarly, despite periodic bouts of retrenching and restructuring, the number of funds continues to rise: regulated investment vehicles worldwide grew 42% over the past decade, resulting in an astonishing 119,000 open-end funds by the end of 2018 (Figure 1). Even hedge funds continue to proliferate despite facing particularly strong headwinds, and investors can now choose from approximately 8,300 different offerings. Other types of alternative investments are heating up too, as institutional investors pour even more capital into private equity and private debt funds.<sup>1</sup>

Competing effectively may be more complicated than it once was, but the barriers to entry are still relatively low. Economies of scale may be important, but not any more than a sound strategy. Massive scale is not critical, but critical mass is. This threshold, of course, differs considerably according to asset class and/or strategy.

We observed many years ago that barriers between different types of investments were starting to crumble. The trend is widely acknowledged today. Firm identities often used to be tightly integrated with certain types of investment vehicles, but this is increasingly rare. More firms are diversified, and product silos at many of these firms have been relegated to the past. Labels can be deceiving. Certain organizations are still known as private equity firms or hedge funds, for example, despite increasingly managing various investment strategies and structures across multiple asset classes. Even a firm like Vanguard, historically viewed as a leading passive fund provider, now earns a substantial amount from actively managed investments. Some firms are well known as both passive and active managers, offering traditional and alternative investment vehicles for retail and institutional investors, and providing technology infrastructure to boot. Not all things to all people, but specialists in each of the channels in which they operate.

Meanwhile, cross-border operations have become much more common as firms venture abroad in search of opportunities. North American firms have been particularly active, extending their reach not only into the developed markets of Europe and Asia, but also developing economies showing the promise of scale and growth amid demographic changes. Regional expansion by local firms within European and Asian markets is also accelerating. **All of this means that competition is no longer a localized phenomenon, but a global one.** None of these trends exists in a vacuum, and their ultimate effect is likely to extend far beyond their immediate impact. They also interact with one another, sometimes paradoxically. Globalization, for example, amplifies industry consolidation, but it also creates and expands opportunities for emerging managers.

## Implications

**Hitting the pause button and standing still can be a wise strategy in some fast-moving environments. This is not one of them.**

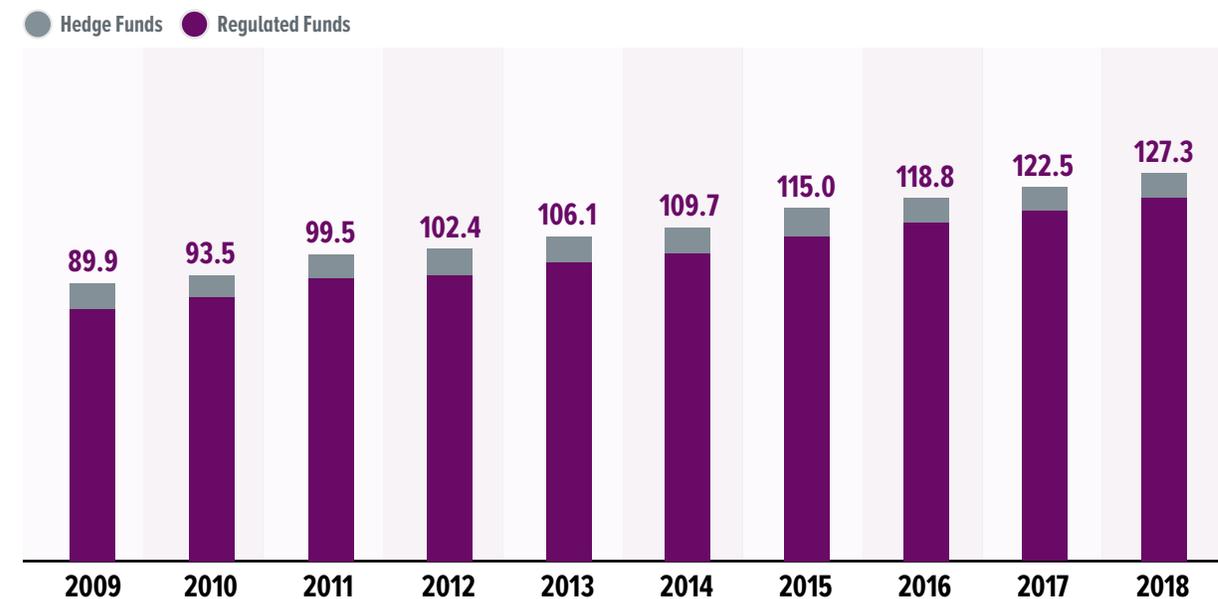
Most firms will need to consider any and all avenues toward growth, whether organically or through strategic partnerships. Assume that no niche is safe.

There is also growing pressure to articulate and deliver concrete value. A poor client experience will no longer be tolerated; to be truly successful in a sea of indistinguishable products, the experience must be distinctive. Superior investment performance is only the price of admission. Attracting new clients and even retaining existing ones will increasingly hinge on additional points of differentiation. The investment strategy might be unique. The quality of service could be extraordinary. Fees will almost certainly need to be competitive. All three would be ideal.

Delivering a distinctive experience will be virtually impossible to accomplish solo. Most firms already work with a variety of service providers, but a more holistic view of a firm's infrastructure focused on quality and differentiation will mean carefully integrating a network of specialists to maximize the value of time, expertise and data.

At a minimum, systems will need to be product-agnostic, support customization and enable improved reporting. Truly forward-thinking firms will abandon legacy systems and processes altogether in favor of a reinvention that leverages technology far more effectively. Operations, systems infrastructure and technology tools can no longer be viewed only as "engine rooms." Rather, they need to be recognized as potent differentiators and catalysts for growth. Indeed, cross-platform collaboration enables both firm-wide transformation and a broader range of customized solutions to be offered to an increasingly demanding customer base.

**FIGURE 1 | Number of Funds (thousands)**



Note: Excludes funds of funds

Source: HFR, International Investment Funds Association

# 2 Vulnerable economics

## Trends

**Stable and robust economics have always been attractive features of the asset management business, particularly in contrast to some of the more volatile parts of the financial services sector.**

Even amid sweeping changes in the wake of the global financial crisis, asset growth sustained many managers. Slowing revenue growth, however, hints at trouble: While global assets rose almost 54% between 2012 and 2017, revenues grew only 38.5% over the same five-year period.<sup>2</sup>

Fee pressure is widespread and easily apparent in the retail fund world. It may be even more noteworthy in parts of the less transparent institutional market.<sup>3</sup> Zero or near-zero fees for passive strategies is driving much of this, causing investors to ask themselves how much they are willing to pay for alpha. This is somewhat problematic for firms offering inexpensive beta as a loss leader and a means to sell other products with higher fees.

Revenue pressure is not limited to active, long-only managers. Many managers of alternative strategies have also felt compelled to lower fees and align their interests more closely to their investors. Management fees of 1% are now common among hedge funds,<sup>4</sup> and in some cases have fallen to zero. Some managers have radically altered their fee structures, trading a guaranteed management fee for the potential of higher performance fees. “One or thirty” is an approach pioneered by investors such as The Teacher Retirement System of Texas (commonly known as Texas Teachers) that appears to be gaining momentum.<sup>5</sup> Research from PwC suggests this trend will continue: Management fees for alternative products are expected to decline by another 13% to 15% by 2025 (Figure 2). Deteriorating economics are not limited to the top line. Growing competition means benchmarks for excellence are moving targets. Firms are spending more to deal with compliance, security and other concerns, persistently pushing up costs and pressuring margins. Having recovered to levels seen prior to 2008, margins are once again under pressure.

## Implications

**Fee pressure is likely to become a fact of life for a growing number of firms. Some may appear immune, but resistance may not be sustainable.**

It is difficult to pinpoint the ultimate degree of impact, but there will be no safe harbor. One plausible outcome will be a barbell-shaped market, with adoption focused on virtually cost-free beta products at one end and value-added strategies at the other, reflecting approaches that are not replicable in passive approaches. Many of these will be alternative strategies. Others will be multi-asset approaches. Customization and risk management will feature prominently.

As it stands, many firms report falling fees, but it's much less common to find anyone claiming it was a major issue. The lack of immediacy may in fact pose a threat in its own right. The slow pace of change can encourage complacency, and any firm that does not

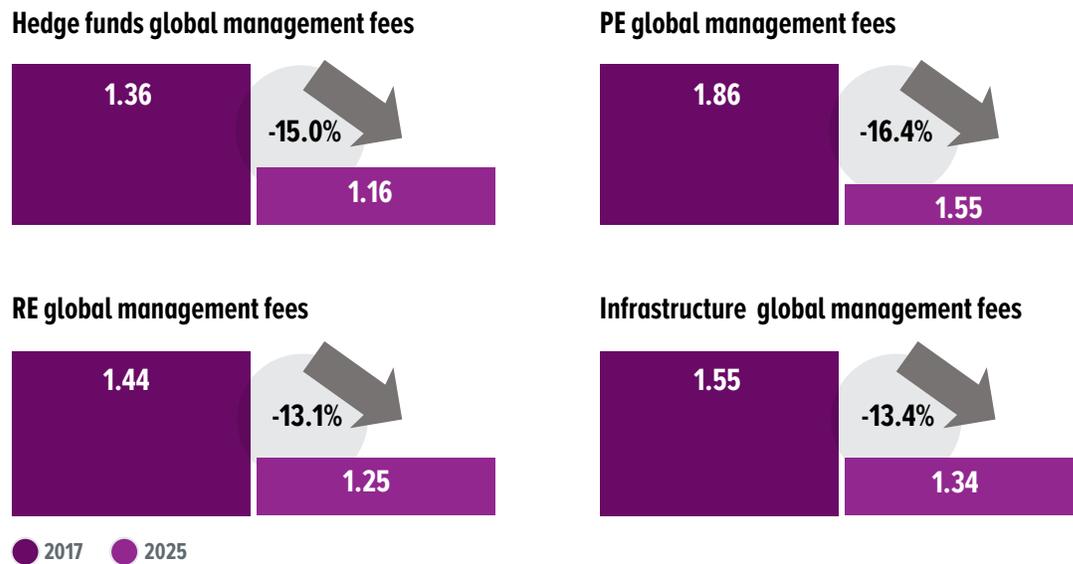
change runs the risk of succumbing to the boiling frog syndrome. The absence of acute pain in the present does not mean that adaptation is not necessary. Long-term survival may depend on it.

Operationally, there must be a focus on cost containment, efficiency and scalability. Counterintuitive as it may sound, this could mean hiring more talent. Building a resilient enterprise that can survive sustained margin pressure means upgrading operations and technology teams. New technology hires are more likely to be charged with reducing the amount of rote work, enabling other employees to focus on higher value activities, improving the overall client experience and driving revenue.

Technology budgets will also need to become much more strategic. Simple maintenance, incremental upgrades, or reactive technology adoption will be inadequate. Cost savings might be a goal, but it cannot be the only one. Sustained competitive advantage should be the primary objective, especially in light of the likely disruption caused by migrations to new systems.

Outsourcing is already pervasive. All aspects of asset management, including fund administration, middle office, data management, compliance, and even portfolio construction and investment selection can already be outsourced. The growth and maturation of specialist providers offering these services means outsourcing will increasingly become the new normal. Ultimately, technology and operations should provide leverage for organic growth, product launches and entering new markets.

**FIGURE 2 | Global Alternative Management Fees Decline**



Source: PwC Global AWM Research Centre analysis; past data based on Preqin and Hedge Fund Research



# Emboldened investors

## Trends

**Deteriorating economics do not mean managers can cut corners when it comes to servicing their clients.**

On the contrary, our research has consistently found a mismatch between manager claims and investor needs. Satisfied investors are not rare, but there will always be room for improvement. The industry does not favor the complacent: Expectations about transparency, access and performance continue to evolve.

A number of factors have conspired to raise expectations among institutional investors. The 2007-2009 global financial crisis shook everyone awake, spurring demands for greater transparency and communication. Increasingly complex portfolios (Figure 3) are driving the need for simplified, timely and integrated reporting. Platforms and other intermediaries wield greater influence in purchasing decisions. **The transformative potential of new technology has awakened many, opening another front in the battle for client loyalty and satisfaction alongside performance and price.**

How have client expectations evolved? Improved systems and processes mean reporting is already simpler, more informative and timelier. Meanwhile, managers have made strides with transparency, but there is always a desire for more. There is also a pervasive desire for more customization. Customized reports and detailed analysis are not particularly unusual, but they are still more likely to be available only to large investors.<sup>6</sup> The ability to create a unique experience for every investor would be a potent differentiator. Further improvements mean information flows will need to be better integrated going forward.

It would be a mistake to focus exclusively on client service or reporting. While both of these are important, investors have been conditioned by their experiences outside of the industry to expect a more integrated solution that seamlessly caters to their needs. A significant part of the fintech revolution that is now well underway focuses on addressing pain points across financial services. It is not a stretch to imagine a well-funded startup or an established player such as Amazon or Google leveraging their customer-centricity and data analytics prowess to revolutionize the wealth management client experience.

We pointed out this development in our 2018 study of branding in asset management, where we noted that, “Bolstered by millennials’ distrust of traditional asset management solutions, together with eye-grabbing marketing campaigns, innovative fintech firms ... promise to be objective and cost-effective one-stop shops for financial well-being, perfectly positioning to capitalize on several converging trends, not solely portfolio performance.”<sup>7</sup>

This means closely integrating CRM systems with other systems and sources of data to deliver a reliably excellent experience. The payoff should be tangible. As noted in our 2018 study, *Digitizing the Investor Experience*, executives see “a direct correlation between digitization of customer experience and the bottom line,” with firms identifying themselves as leaders in digital transformation expecting much stronger growth than their peers.<sup>8,9</sup>

## Implications

**Many firms are still playing catch up, but this is undoubtedly an opportunity to differentiate.**

As such, there are clear implications for operational infrastructure, processes and personnel. With investors commonly allocating to multiple asset classes and structures, consolidated and integrated reporting is critical. As it becomes more challenging to get new investors in a more competitive marketplace, faster onboarding with less friction is also desirable, if not a point of differentiation.

Understanding investor needs is challenging, especially at a time when so many relationships are indirect (via intermediaries, infomediaries, and/or platforms). Research by Hearts & Wallets has shown that “the majority of major mutual fund providers saw investor awareness erode in recent years” as managers “ceded so much influence to their distribution partners in terms of consumer discretion” that it has rendered many of them essentially “interchangeable and irrelevant.”<sup>10</sup>

Intermediaries such as OCIOs are often tasked with simplifying things for their clients, especially those faced with more complex portfolios. As such, OCIOs prefer to engage with asset managers who can help them deliver solutions seamlessly to their clients. This means “...some brand building will inevitably be done via intermediaries who are the primary point of contact for most investors today. Content marketing via intermediaries can be an effective tool for raising brand awareness for both advisors and end investors. But for highest impact, the messaging will need to be highly relevant and tailored to the audience, with material for end investors being significantly less complex than messaging meant for advisors or intermediaries.”<sup>11</sup>

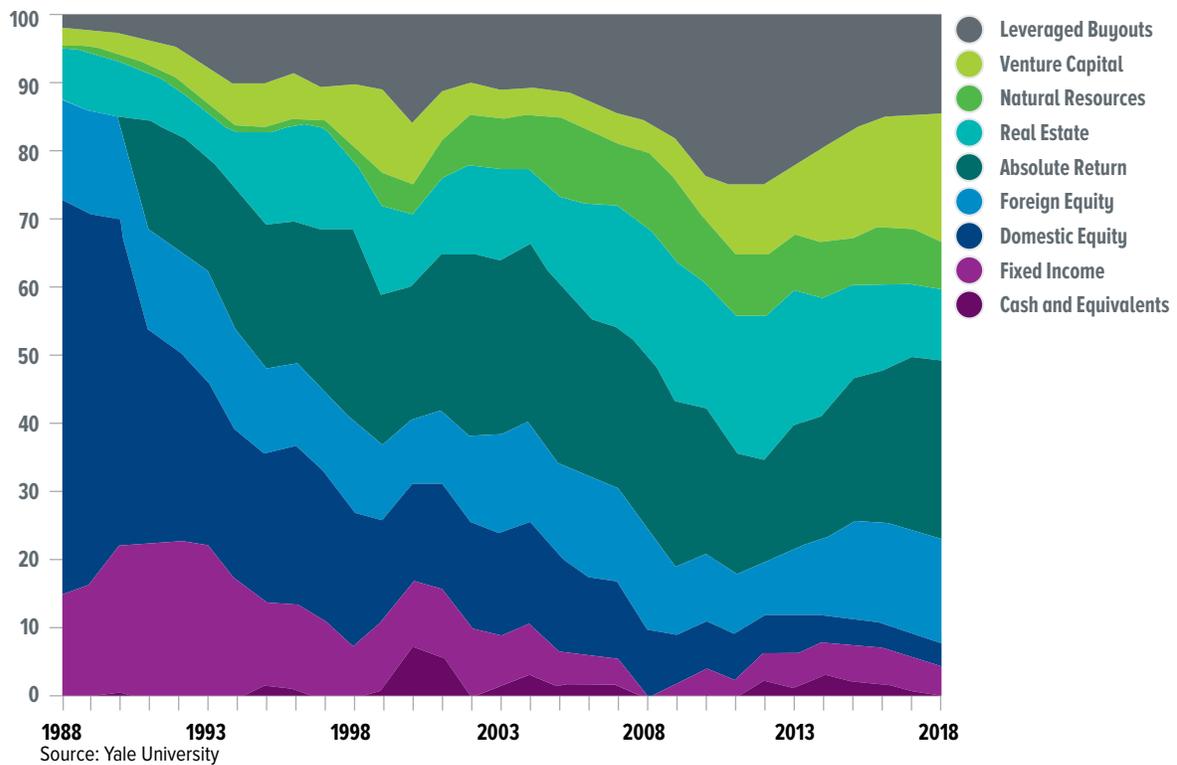
Regardless of whether the experience is oriented toward intermediaries or end investors, best practices are moving targets. Luckily, they may not even be particularly useful in this fast-moving environment, as they tend to be backward looking.



There are nevertheless three guiding principles that can help focus improvement efforts:

- 1. Listen to clients.** This is easier said than done for firms more accustomed to communicating “to” investors rather than “with” them. Whether it is done systematically or opportunistically, establishing a true dialogue should ultimately produce more satisfied clients, better long-term retention and a more attractive proposition for potential new clients.
- 2. Deliver data effectively.** Legacy systems can make it difficult to provide clients with the data they need, particularly if it is anything out of the ordinary. Processes may need to be redesigned.
- 3. Aim for real-time, customizable, client-driven reporting capabilities.** Even if clients are not yet demanding these things, their expectations are shaped by seamless, cloud-based apps in other parts of their lives, and they will inevitably expect them from you, too.

**FIGURE 3 | Average Asset Allocation by Yale University Endowment, 1988-2018**





## Complex Regulation

### Trends

**A cursory glance at recent headlines about Facebook should be sufficient to show that privacy, and who “owns” one’s data, has blown up into a controversial and pivotal issue.**

The investments business is no different. Europe regulators are taking the lead, leaving some firms wrestling with the recently implemented General Data Protection Regulation (GDPR).

Privacy will soon have a similar impact on U.S. asset managers when the California Consumer Privacy Act (CCPA) goes into effect in 2020. While similar to GDPR, it will affect managers collecting or selling Californians’ personal information, irrespective of where the manager is based. With numerous requirements, CCPA will impose a significant legal compliance burden. And even if a manager doesn’t have California-based clients, they will be subject to CCPA if using data containing California personal information.

As daunting as this prospect is, it comprises only a small part of the regulatory compliance picture most managers face. Cybersecurity is a related issue. Liquidity risk continues to be scrutinized. Sales practices are fair game. Operational risk management is also coming into focus as an area of enforcement. Making matters worse, the proliferation of regulatory bodies worldwide means that any firm with global operations (or ambitions) must contend with an increasingly complex landscape of rules and rule makers (Figure 4).

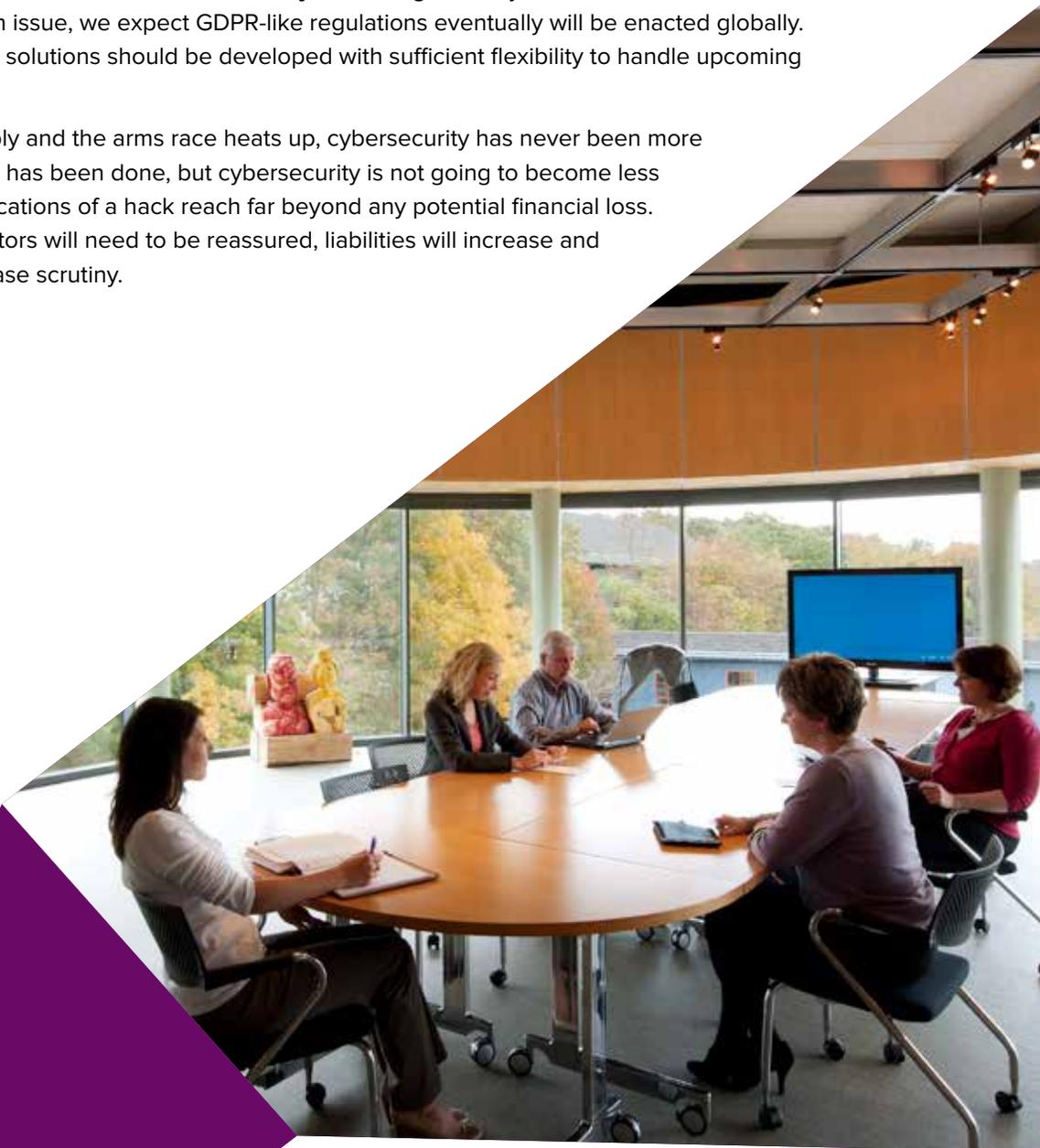
Some firms even struggle to adequately address existing regulation. There have been widespread teething problems associated with the EU’s MiFID II, which was implemented in early 2018. Data handling issues and the restructuring of payments for research are only two of the areas that have been widely reported as problematic. As noted by Vivien Crayston of Eureka Financial, “The process changes, data supply and vendor engagement to manage all these were perhaps mostly underestimated. Now firms through 2018/19 are still struggling to effectively and smoothly integrate into their business functions.”<sup>12</sup>

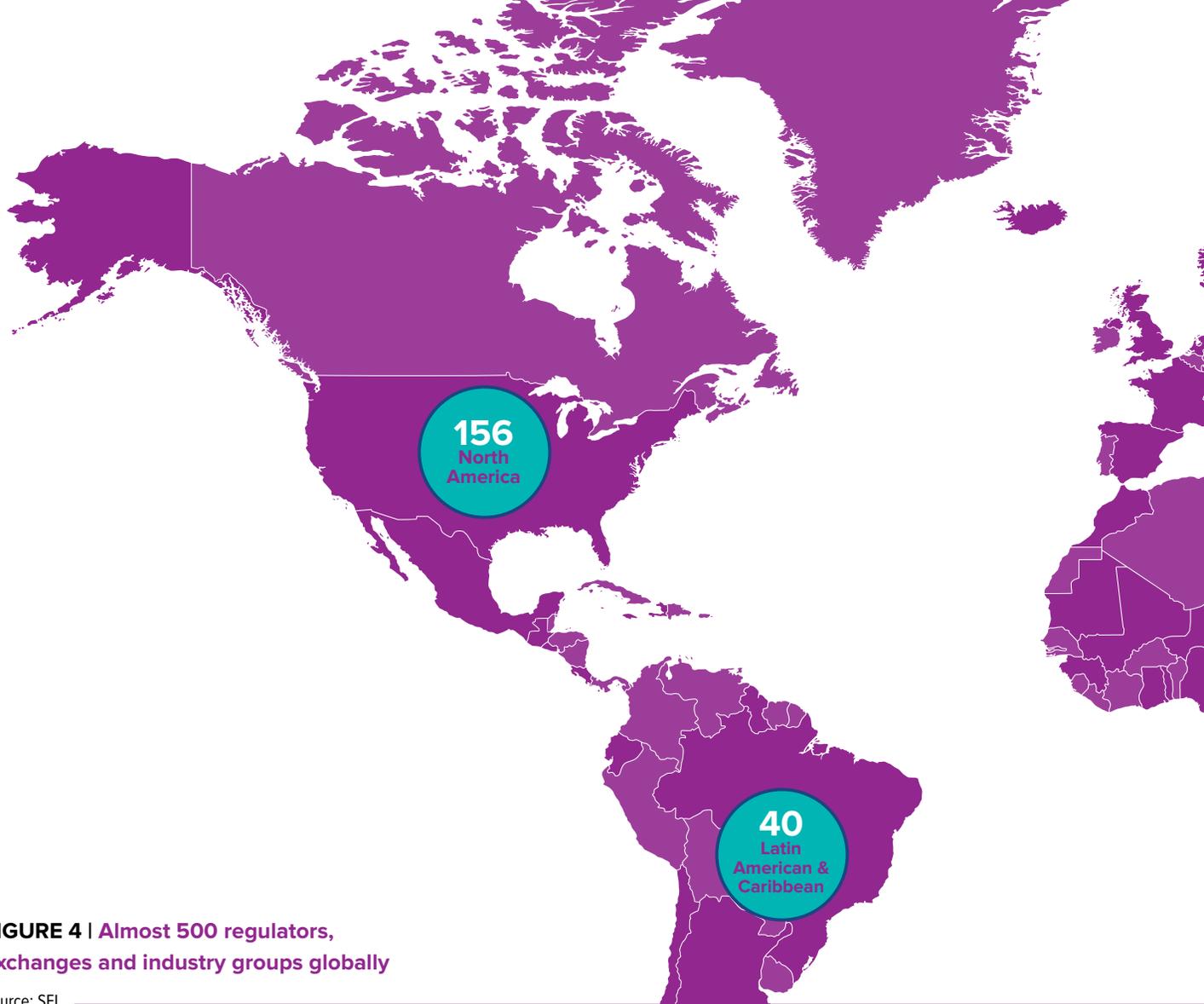
## Implications

**Privacy practices will only become more important, and the best firms will be proactive and ahead of the curve.**

Being perceived as loose with client data is a major strike against any firm in this environment. While currently a European issue, we expect GDPR-like regulations eventually will be enacted globally. As such, technology solutions should be developed with sufficient flexibility to handle upcoming requirements.

As bad actors multiply and the arms race heats up, cybersecurity has never been more critical. A lot of work has been done, but cybersecurity is not going to become less important. The implications of a hack reach far beyond any potential financial loss. At a minimum, investors will need to be reassured, liabilities will increase and regulators will increase scrutiny.





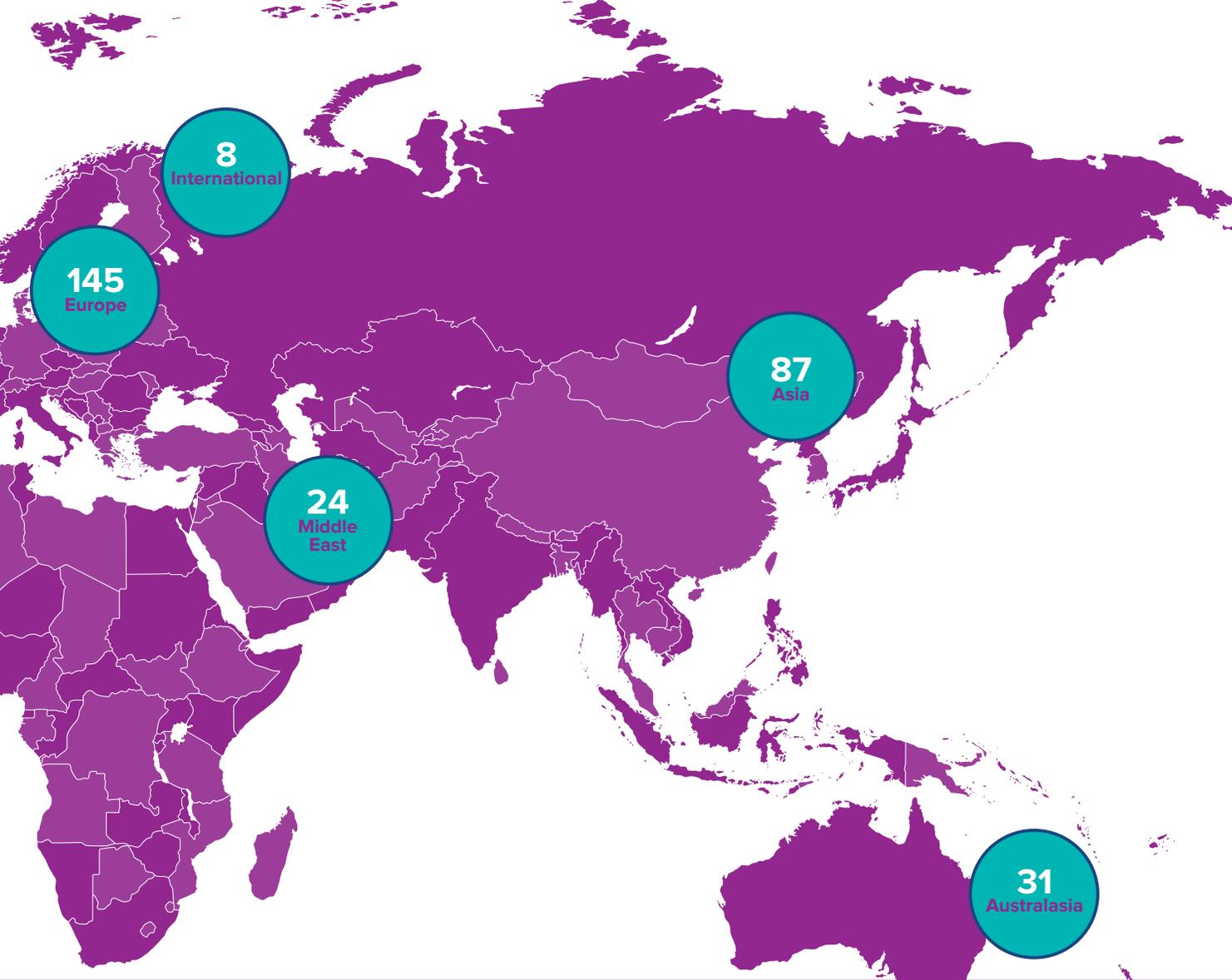
**FIGURE 4 | Almost 500 regulators, exchanges and industry groups globally**

Source: SEI

**Firms operating across multiple jurisdictions face the greatest challenge.** They'll likely need more personnel, but they may not be employees. Outsourcing will play an important role for many firms, and regulatory technology (“regtech”) will aim to streamline and transform cumbersome regulatory processes. Functions likely to be affected include anti-fraud and risk management, personal data consent, regulatory reporting, fund reconciliation and more.<sup>13</sup>

There is little doubt that the cost of compliance has risen dramatically in recent years. How spending will change in coming years is less clear. According to a Thomson Reuters survey, two out of three firms expect to increase their compliance budget in 2019.<sup>14</sup> Complying presents limited commercial value, but financial penalties and reputational risk from non-compliance are significant, meaning that additional margin pressure is inescapable.

According to research from Accenture, however, “About two thirds of global financial firms expect compliance teams to slash spending by 10% or more within the next three years.”<sup>15</sup> After years of rising expenses, firms are now looking to technology for ways to lower compliance costs. They are increasingly relying on technology to accelerate product development, make distribution more efficient, reduce redundancy, send alerts, monitor trades, track risk exposures, automate investor servicing, simplify purchase process across mobile devices, check investor identities and track rule changes across jurisdictions.



More cutting edge are predictive analytics that can assess whether past misconduct means certain employees might also commit wrongdoing in the future, or what investors are likely to redeem uncharacteristically. Also interesting is natural language processing, because of its ability to “help analyze large amounts of text and feed relevant information into new databases,” according to Dilip Krishna of Deloitte.<sup>16</sup> AI is also being used to monitor trade compliance and examine marketing material for noncompliant content.

All of this signals a sea change in approaches to compliance. Regulation is a resource-intensive, money-draining proposition that is affecting margins. Many firms are resigned to simply throwing money at the problem. While understandable, this is not sustainable. A more strategic approach that leverages technology not only streamlines compliance processes but lays the groundwork for more flexibility. Rather than reacting to every change in the regulatory landscape, Deloitte suggests that “regulatory change is driving many firms to commit resources to evaluate and change their operating models to meet their plans for growth and efficiency.”<sup>17</sup>

# 5 Transformational technology

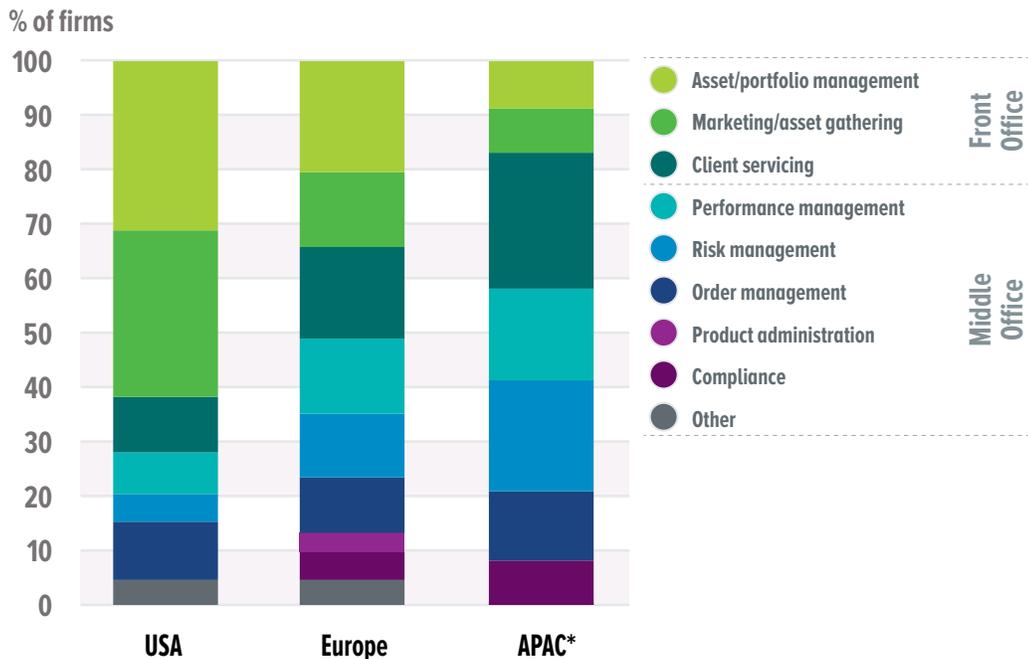
## Trends

Technology has long been central to investment management, but its critical role has sometimes helped to calcify processes and preserve substandard systems.

Fear of disruption can be a powerful antidote to innovation. Exponential rates of change and innovation make this untenable, and technology expertise is more important than ever. As we noted in *Digitizing the Investor Experience*, “...most industry executives agree that not keeping pace with digitization is potentially devastating, with almost three out of four saying that financial services firms not using today’s technologies to transform customer strategies, relationships and experiences are at risk of disruption or obsolescence.”<sup>18,19</sup>

Experts at PwC have pointed out that the asset management industry is “a digital technology laggard,” but “technology advances will drive quantum change across the value chain—including new client acquisition, customization of investment advice, research and portfolio management, middle and back office processes, distribution, and client engagement.”<sup>20</sup>

**FIGURE 5 | Top Priorities for Advanced Analytics Deployment**



\*Includes North Asia, South Asia and Southeast Asia  
Source: Ovum ICT Enterprise Insights Survey 2018-19

Significant attention has been showered on systems, but the focus on data is more recent. Virtually everyone is familiar with the potential value of data, but it is still not treated like a precious commodity by many firms. Through force of habit, data acquisition, integration, management, protection, analysis and disposal still often occur in an ad hoc way. Some of this stems from a lack of understanding of what good data management can actually achieve: automation, efficiency, (near) real-time analytics, new insights, quicker decision-making, more effective risk management and more satisfied clients.

This disconnect is finally being resolved as technology and data analytics move from supporting roles to the center stage, thanks to the appeal of monetizing data via investment performance, business development, client retention, risk management or some other application. North American firms are deploying advanced analytics primarily in servicing front-office activities like portfolio management and distribution (Figure 5). Priorities elsewhere might differ. Asian firms, for example, see a more prominent role for analytics in client service, risk management and performance management. European firms fall between these two groups.

## Implications

**As more and better tools become available, the most pressing question becomes how data can be used for competitive advantage.**

Unlocking this potential requires not only the right algorithms, but also the right people. This means more data specialists. Their contributions will not be maximized if they are set apart in dedicated data teams. At a minimum, there will need to be improved coordination between upgraded technology/data teams and other functions such as distribution and investments.

An even better approach is to embed this talent in functional teams, where their expertise can be seamlessly and immediately applied. More firms are also likely to draw on and integrate specialized knowledge from outsourcing partners, systems vendors and data firms to create virtual teams that possess far greater technical acuity than purely internal teams. A growing number of companies are taking the additional step of hiring high-profile senior data scientists, ensuring visibility and representation in the C-suite so data initiatives are considered strategically and prioritized accordingly.

Investment professionals with strong quantitative skills might be forgiven some skepticism about the need for data specialists. They may not have considered that their perception of data is likely outdated. Traditional concepts of data are limited (and limiting). Unstructured and previously inaccessible data sets are now full of promise. A growing number of investment strategies already rely on alternative data from sources as varied as satellite imagery, social media feeds and geolocation. The efficacy of these strategies is open to debate, but there is little doubt that the flood of usable data will continue to grow, sometimes in unpredictable ways.

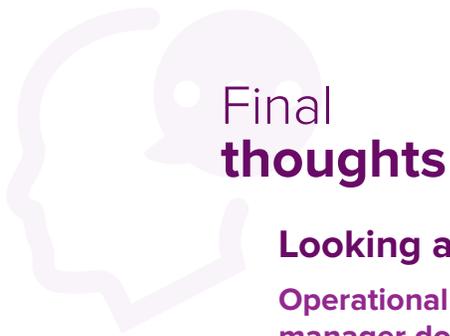
Quantitative investing is already moving beyond fast-moving, liquid markets. Some institutional investors are attracted to data-driven private equity funds, with the Massachusetts Pension Reserves Investment Trust, for example, recently allocating up to \$500 million to such strategies. This could herald the beginning of a profound change in the world of private equity and debt. As pointed out by Greg Bond, the Director of Research for Man Group's Numeric unit, " ... we're at an inflection point where we'll see the quantitative approaches we've seen in the public markets come to the private ones. We've seen systematic approaches in equities, high-yield, even sports and real estate. Private equity is different, but arguably you can apply systematic principles everywhere."<sup>21</sup>



Furthermore, data is being processed in ways that were almost unthinkable until very recently. Natural language processing and machine learning are only two examples of technologies that could fundamentally rewrite not only investment processes but also client interactions. Systems will be required that can integrate more internal and external data to support investment decisions and client reporting that does not yet exist.

Automation and machine learning tools will be recognized increasingly as key sources of efficiency, and flexibility will be prioritized as potentially transformative technologies are never far away. Risk management (client, portfolio, and enterprise) is also poised to evolve quickly, as the industry's data infrastructure becomes more integrated and information liquidity increases.

Legacy systems are like albatrosses. Platforms of the future will need to be truly agnostic (about everything) so they can be flexible and agile enough to handle any new product, channel, investor or regulatory requirement. As a result, asset servicing will continue to move away from siloed approaches based on archaic systems. In their place will be systems that can effectively manage the stack across more complex and customized investment strategies spanning a growing variety of asset classes. Data integration will happen across the enterprise. Cross-platform collaboration will be key. Managing these systems and processes will be a network of in-house resources, outsourced expertise and software vendors.



## Final thoughts

### Looking ahead

**Operational capabilities are at the core of everything an asset manager does.**

Even the most unique investment strategy or innovative business model cannot be sustained without effective infrastructure, processes and teams. The so-called plumbing of the industry has always been valued implicitly, but it is no longer taken for granted. Investors, consultants and platforms alike value operational expertise as a vital component of any value proposition. Combined with the transformative potential of data and technology, operations are now rightfully viewed by many managers as a powerful competitive weapon.

The very nature of operations is to focus attention on the day-to-day. Ensuring that reconciliation, reporting and regulatory compliance are correct and up-to-date are understandably the primary concerns of most people employed in operational roles. There is a tendency to trust the tried and true. Improvement, if it happens at all, is incremental. This tactical myopia means there is often little room for strategic maneuvering. While this may not have been consequential in a more benign environment, it is extremely problematic in the context of the challenges outlined in the five factors highlighted in this series. Efficiency, sustainability, resilience, value creation and long-term success are all at stake.

Merely meeting the needs of today is unlikely to be sufficient. The exponential pace of change means preparing a foundation for tomorrow is paramount. An arms race is already underway as firms attempt to extract competitive advantage out of every facet of their operations. Much of this activity is being driven by the growing recognition of data as not only the lifeblood of investment organizations, but their single most valuable asset. It is not a matter of simply investing in technology. Systems play an important—but secondary—role in optimizing operations in this new era. Cultivating an internal data culture is likely to be just as important. As McKinsey points out, this means a focus on hiring and developing the right talent, including people who effectively bridge data analytics and daily operations.<sup>22</sup>

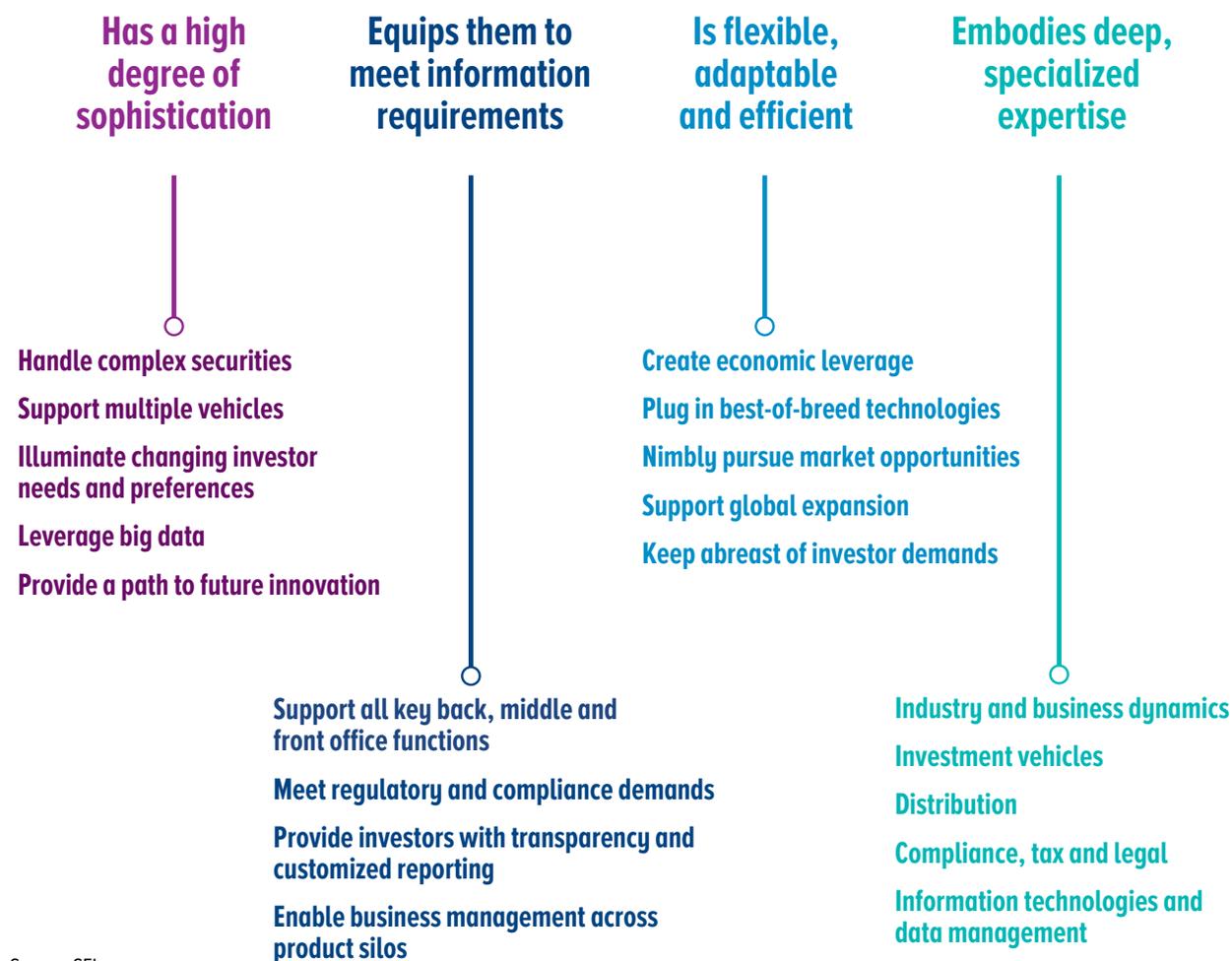
The optimal operating platform will support this culture in leveraging data for its greatest benefit. It needs to be sophisticated and flexible. It must be designed to meet information needs and facilitate decision-making. It should reflect deep, specialized expertise (Figure 6). Despite the formidable brainpower and talent to be found at most asset managers, it can be difficult to design, build and sustain such a platform without the assistance of key partners. **With roots in long-term business strategy and supported by external expertise, a well-conceived operating platform should provide a solid springboard into the future.**

Transitioning to a new platform can be wrenching, but there are many potential benefits. Greater efficiency is a welcome feature for firms facing margin pressure. Improved risk management is appealing to investors and intermediaries alike. Cost-effective regulatory compliance is an antidote to ever-increasing costs

and complexity. The ability to innovate quickly and enter new markets or scale the business rapidly is invaluable to managers. The client experience can be enhanced in multiple ways, not least by providing greater customization and transparency. Perhaps most important, the ability to derive greater insight from data means firms have the advantage of speed, allowing them to adapt and change course more quickly than competing firms relying on established protocol and tradition. This applies to investment and business strategies alike.

These benefits will accrue only to firms that take the accelerating pace of change seriously and take proactive steps to future-proof their operating platform. As the industry becomes even more multifaceted, solutions more customized, and business issues more complex, finding the right operating partners to design and construct a platform will become crucial for any firm wishing to take the initiative in adapting to meet challenges head-on.

**FIGURE 6 | The Optimal Operating Platform**



Source: SEI



## About SEI

After 50 years in business, SEI (NASDAQ:SEIC) remains a leading global provider of investment processing, investment management, and investment operations solutions that help corporations, financial institutions, financial advisors, and ultra-high-net-worth families create and manage wealth. As of June 30, 2019, through its subsidiaries and partnerships in which the company has a significant interest, SEI manages, advises or administers \$970 billion in hedge, private equity, mutual fund and pooled or separately managed assets, including \$335 billion in assets under management and \$630 billion in client assets under administration. For more information, [visit seic.com](http://seic.com).

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Investment Manager Services supplies investment organizations of all types with advanced operating infrastructure they must have to evolve and compete in a landscape of escalating business challenges. SEI's award-winning global operating platform provides investment managers and asset owners with customized and integrated capabilities across a wide range of investment vehicles, strategies and jurisdictions. Our services enable users to gain scale and efficiency, keep pace with marketplace demands, and run their businesses more strategically. SEI partners with more than 550 traditional and alternative asset managers, as well as sovereign wealth managers and family offices, representing over \$24.5 trillion in assets, including 45 of the top 100 asset managers worldwide. For more information, [visit seic.com/IMS](http://seic.com/IMS).

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The SEI Knowledge Partnership is an ongoing source of action-oriented business intelligence and guidance for SEI's investment manager clients. It helps clients understand the issues that will shape future business conditions, keep abreast of changing best practices and develop more competitive business strategies. The SEI Knowledge Partnership is a service of the Investment Manager Services division, an internal business unit of SEI Investments Company.

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