

Lunch Presentation

# Roaring 20's – Will They Be So Roaring?

## Overview of the Asset Management Industry

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# AGENDA

- 2018 Overview
- Industry Challenges
- Key Trends Through 2020
- Roaring 20's



## 2018 - OVERVIEW

- Challenging Year For:
  - All asset classes
- Volatility was dominant
- Passive marches forward
- Globalization continues
- Year of the no fee Mutual Fund



## 2018 – OVERVIEW

- Bear Market continued (10<sup>th</sup> year)
- Industry Managed Assets Declined
  - \$74 Trillion
  - \$4 Trillion lower than 2017
- Profit Margins Declined
- Expenses Increased
- Passive Continued to Grow
- Rush to Technology



## DECLINE OF MANAGED ASSETS

- U.S. – Ten Largest Independent Asset Managers as a group Increased AUM by \$20.7 Trillion
  - + BlackRock
  - + Vanguard
  - + Fidelity
  - + Capital Group
  - - PIMCO
  - + T. Rowe Price
  - + Invesco
  - - Affiliated Managers Group
  - - Franklin Templeton
  - - Legg Mason



## DECLINE OF MANAGED ASSETS

- Europe – Ten Largest Asset Managers as a group Increased AUM by \$4.7 Trillion
  - + Amundi
  - + Standard Life Aberdeen
  - - DWS
  - + Schroders
  - - Janus Henderson
  - + Anima SGR
  - + Baille Giffurd
  - + GAM
  - + Man Group
  - + Ashmore



# MARCH TO PASSIVE

## 2018

- U.S. 33% (30% 2017)
- Europe 19% (17% 2017)
- Asia 31% (80% Japan)



# PROFIT MARGIN

- 2018 – 34% (37% 2017)
- U.S. Funds (Mutual / ETF) 6% management fee decline
- Fidelity and others have index funds with no management fees
- Fund expense ratio decline over 10 years
  - Active equity - .18 (.76%)
  - Active bond - .10 (.65%)
  - Index equity ETFs - .09 (.20%)
  - Index bond ETFs - .03 (.16%)
  - Index equity - .10 (.08%)
  - Index bond - .09 (.07%)



# FALLOUT

## ■ Lay Offs

- Legg Mason (120 positions)
- BlackRock (500 positions)
- State Street (2,000 positions)
- Invesco (1,300 positions)
- BBH (136 positions)
- Lazard (60 positions)
- Others

## ■ CEO Turnover

- 10 new CEOs at Europe Fund Firms
- Half of large Asset Managers have been in position less than 5 years

## ■ Mergers

- 253 Transactions announced in 2018
- Deal value \$27.1 Billion (29% rise from 2017)



# KEY TRENDS THROUGH 2020

- More Fee Erosion
  - Active will need to justify its costs v. return
    - Where are Lynch, Vinick, Miller, Gross?
  - Hope for a Bear Market
- Technology is Critical ... but need to get it right
  - New focus/new business models
  - Expensive
  - Training
  - New/Different client relationship
- China
  - Becoming second largest region for asset managers (now third)
  - Opening its Markets to Asset Managers
  - Rising/Aging Middle Class



# KEY TRENDS THROUGH 2020

- Emerging Markets/Sovereign Wealth continue to grow
- Brand recognition, distribution dominance, scale will continue in importance
  - Boutiques will survive
  - Alternative managers begin to be similar to traditional asset managers
- ESG – Critical to attract younger investors
  - Need to implement without harming returns
- The Unknowns
  - Google, Amazon, Facebook, Apple – will they follow Alibaba's lead?



## WILL THE 20'S ROAR?

- Resilient, Creative Industry
- Survived the “Nifty 50”, “DotCom”, “GFC”
- As Government and Corporate schemes shrink - savings will need to be invested
- Emerging Markets will continue to expand their middle class
- CHINA





# QUESTIONS?



K&L GATES