

Thriving in the New Abnormal

North American Asset Management



Financial Services Practice

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Introduction

Introduction

“An era can be said to end when its basic illusions are exhausted . . .”

– Arthur Miller

The North American asset management industry is on the brink of a once-in-a-generation shift in competitive dynamics, due to five converging trends that may be unprecedented in their combined impact. All asset management firms will face challenges in the new environment—including those that have been consistent leaders over the past several years.

Overall, 2015 was a strong year for North American asset management. According to McKinsey’s Global Growth Cube, year-end assets under management (AUM) hit an all-time high of \$68.6 trillion, with healthy net flows of 3.1 percent. However, when the year is viewed as two halves, the signs of change become clear. At mid-year, volatility and geopolitical

uncertainty began to weigh heavily on global markets, and North American asset managers were the first to feel the pain. In the U.S., long-term net flows were negative for the third and fourth quarters, and profitability for the full year declined for the first time in seven years. The second half of 2015 can be seen as a harbinger of what McKinsey expects will be a general lowering of the baseline for investment returns—and potential flows—over the next 20 years.

McKinsey expects five major trends to transform the asset management industry:

- **The end of 30 years of exceptional investment returns**, and of any expectation that these returns would continue indefinitely, is the first major trend. Research from McKinsey Global Institute (MGI) indicates that the global market returns of the past three decades have been an historical anomaly and that the macro trends fueling these returns are all fading to some degree. The result will be a decline in average returns for equities of 150 to 400 basis points and of 300 to 500 basis points for fixed-income assets. This decline has implications that extend well beyond the asset management industry, but for the industry the impact will be unambiguous. The reduction of average returns will trigger urgent needs across client portfolios—both institutional and retail—many of which already face wide gaps in their liabilities. There will be opportunities for asset managers to help clients close these gaps, both with superior returns and new so-
- **The second major shift impacting the asset management industry will be a shake-up in active management.** McKinsey expects that a large pool of benchmark-hugging active assets—up to \$8 trillion—will be up for grabs over the next several years as clients re-examine their core investment beliefs and manager relationships. This “money in motion” will be a battleground over the next decade where low-cost passive managers, high-conviction fundamental managers and innovative alpha generators will compete intensively for share. As average market returns from passive products begin to decline, McKinsey expects a surge of innovation from leading active managers. These managers will restructure their platforms for greater efficiency, develop new levers for value creation, and move beyond security selection to grow new capabilities in risk budgeting, sector selection and asset allocation and embed these as differentiators in their products.
- **The decline in average returns will also spur a third significant trend, a boost in the steady stream of assets moving into alternative investments.** McKinsey expects that these flows will be redirected heavily toward illiquid private markets, as investors

seek alpha in less efficient segments of the market. Several years of underperformance in the hedge fund sector will add momentum to this shift. Real assets, such as infrastructure, represent an especially large growth opportunity.

- **The fourth trend reshaping asset management is a true digital revolution** that incorporates advances in data and analytics to expand beyond a narrow focus on disintermediation in retail distribution (e.g., “robo advice”) to become a driving force for radical improvements across the entire asset management value chain, including portfolio management, capital markets activities, and the back and middle office. Digital tools and advanced analytics have the potential to generate vast improvements in the effectiveness and efficiency of operating models. Asset managers will use digital tools to increase engagement with clients, achieve significant productivity gains in areas such as product innovation, develop a differentiated edge in portfolio management, improve market access, and drive “operational alpha”—radical and sustainable improvements in back- and middle-office processes with meaningful cost savings. Firms that can deliver both investment and operational alpha will be industry leaders in the coming years.
- **Finally, the asset management industry is entering an era of heightened regulation** that will force asset managers to reframe their distribution relationships and retool their products

to position themselves as fiduciaries in the service of investors. The DOL fiduciary rule—which goes into effect in April 2017—represents the leading edge of this new era. While it applies more directly to wealth managers, the rule will accelerate several current trends in asset management, including the demand for passive strategies and ETFs, the shift from brokerage to advisory programs, the growth of digital advice, and a culling of asset management partners by wealth managers. Additional waves of regulation are expected: the potential extension of DOL-like rules to retail assets beyond those focused on retirement, as well as regulations governing liquidity management, stress-testing and the allocation of client expenses. The rise of regulation will add to the already high legal and compliance costs the industry is currently shouldering, but will also serve as a disruptive force to well-established segments of the market (e.g., channels with a high share of proprietary products). There will be new opportunities for asset managers with innovative propositions that are clearly aligned with client interests.

These five trends will fundamentally rewrite the rules for success in asset management. Some strengths, of course, are evergreen. Firms with superior investment capabilities and an efficient operating model—particularly those with both—will always have an advantage. But to succeed in a reshaped industry landscape, firms will also need to commit to transformation across four dimensions:

- Investor needs will change as a result of the deep shifts in the macro landscape. To retain and grow share in an environment where retail intermediaries and institutional investors are looking to have fewer but more strategic relationships with asset managers, firms must develop new value propositions. In particular, they will need to shift their focus from top-quartile performance to consistent results delivered at scale, from relative returns to outcomes, and from maximizing assets to meeting liabilities.
- New value propositions will require robust new capabilities in both investment and distribution, and technology will play an outsized role in determining success. These new capabilities will focus on asset allocation over security selection, on providing access to private versus public market investments, and on strategic partnerships rather than product-driven sales.
- In an era of intense pressure on growth and margins, executives at leading firms will also rethink the economic models that underpin their business to ensure profitable growth. For several years now, the market has rewarded firms for being in the right place at the right time and executing well in hot product areas. Picking the right spots will continue to be an important skill, but in an environment of muted net flows, the ability to tap into unmet client needs and access new pools of assets will be more important.
- Finally, asset managers who succeed in the new landscape will build advantage

by taking a strategic lens to their operating models, viewing them as an integrated business system that delivers not simply lower costs, but also improves their delivery of alpha and client service. This transition from a focus on operational efficiency to “operational alpha” will be powered by investments in technology and new types of talent. Above all, success in a changing environment will require a strong measure of “strategic agility”—that is, a willingness to question old orthodoxies, an openness to rebuilding operating models from the bottom up, and, perhaps most importantly, an ability to reallocate resources to areas of the business that will drive a disproportionate share of future growth.

Unprecedented change will bring unprecedented opportunity to the North American asset management industry. McKinsey believes that success will become increasingly difficult for firms that continue to rely solely on the traditional approaches to growth and profitability. For firms that are willing to embrace fundamental change, think deeply about how to serve clients and execute with conviction, the future is bright.

This report is based in part on insights from McKinsey's Performance Lens data and analytics solution for wealth and asset management, and McKinsey's 16th Global Asset Management Survey. The survey includes more than 300 participants representing \$40 trillion or 60 percent of AUM globally, and more than 100 participants and 85 percent of AUM in North America.

Asset Management In 2015: A Tale of Two Halves

On the face of things, 2015 was a strong year for the global asset management industry. Organic growth remained robust, with net flows recovering to pre-crisis levels and industry AUM hitting an all-time high. All geographic regions contributed to growth, and the global revenue pool expanded to \$189 billion, an increase of some 60 percent over its size at the nadir of the financial crisis in 2008-09. These metrics paint the picture of an industry in a position of strength, particularly in the context of the macroeconomic uncertainty that marked the year.

However, a granular look at the industry's performance in 2015 is far less encouraging. It was a tale of two halves—encapsulating the best of times and the worst of times. Market volatility kicked into high gear halfway through the year, bringing a multi-year rally for risk assets to a halt. A number of geopolitical risks rose to the fore, further weighing on the

markets. The impact was particularly marked in North America, where net flows turned negative in the second half.

At the same time, an important cyclical shift took hold in 2015. The rising tide of the markets had been lifting all boats, even those that were less well constructed. The turning of this tide will have important implications for the performance, health and competitive dynamics of the industry.

A strong year for global asset management, with signs of significant change

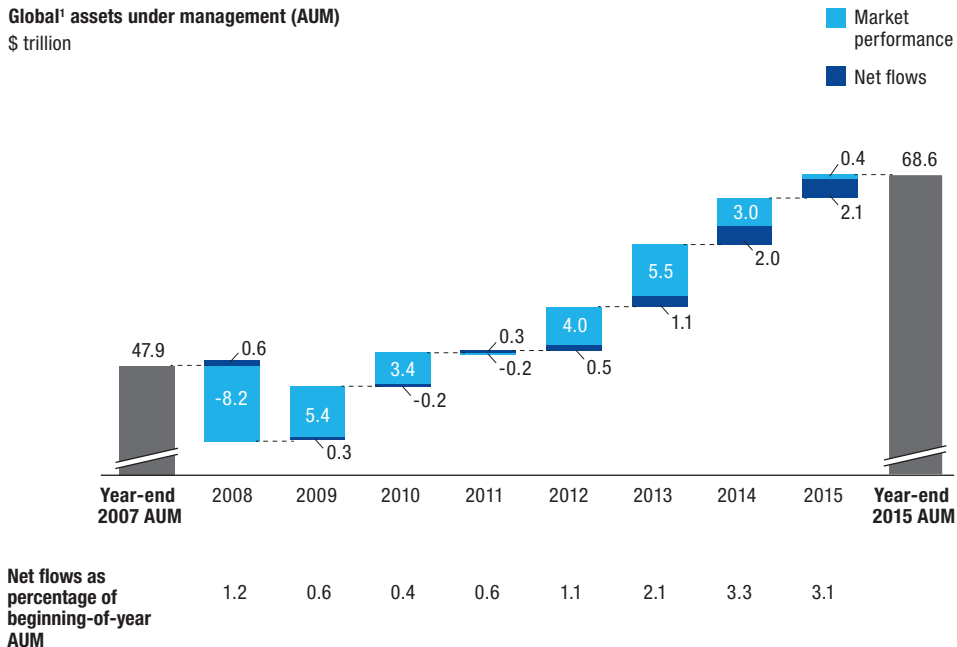
Globally, the first six months of 2015 saw a continuation of the robust trajectory of

growth that characterized the industry over the prior four years. Even with the second-half retreat, the full-year global figures are strong: year-end industry AUM stood at \$68.6 trillion—a new high-water mark.

The year was also marked by several encouraging signs. More than \$2 trillion of new assets flowed into the industry, taking the place of cash balances and individually held securities. Net flows grew at a healthy 3.1 percent, sustaining the momentum from the prior year, which represented a return to pre-crisis flow norms (Exhibit 1). Furthermore, net flows were positive in all global regions, but particularly so in Europe and the emerging Asian

Exhibit 1

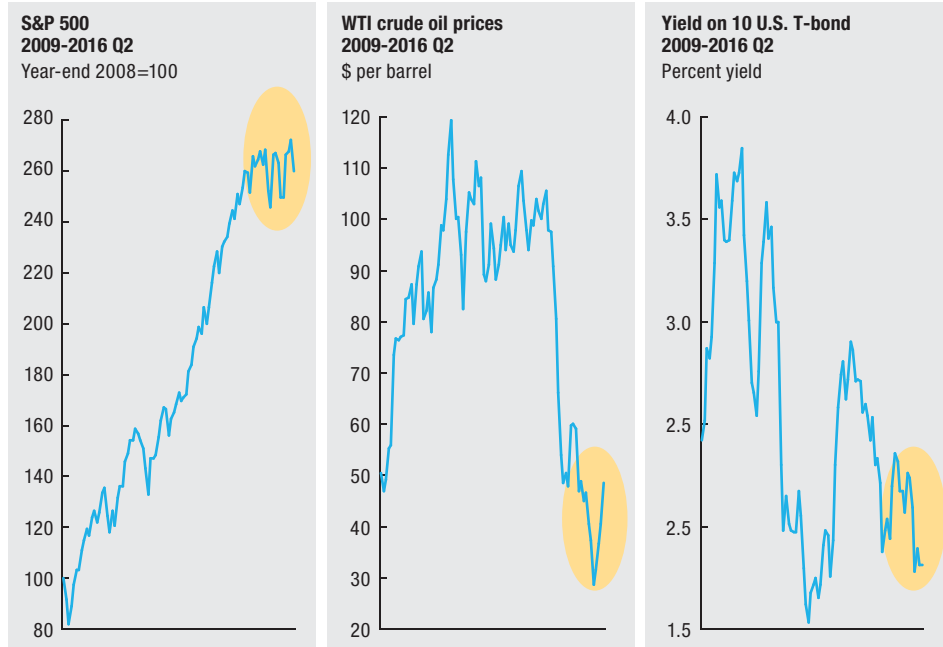
Global assets under management reached new highs in 2015



¹ Includes "liquid" alternatives. Net flows excludes private equity and other private market asset classes. Source: McKinsey Performance Lens Global Growth Cube

Exhibit 2

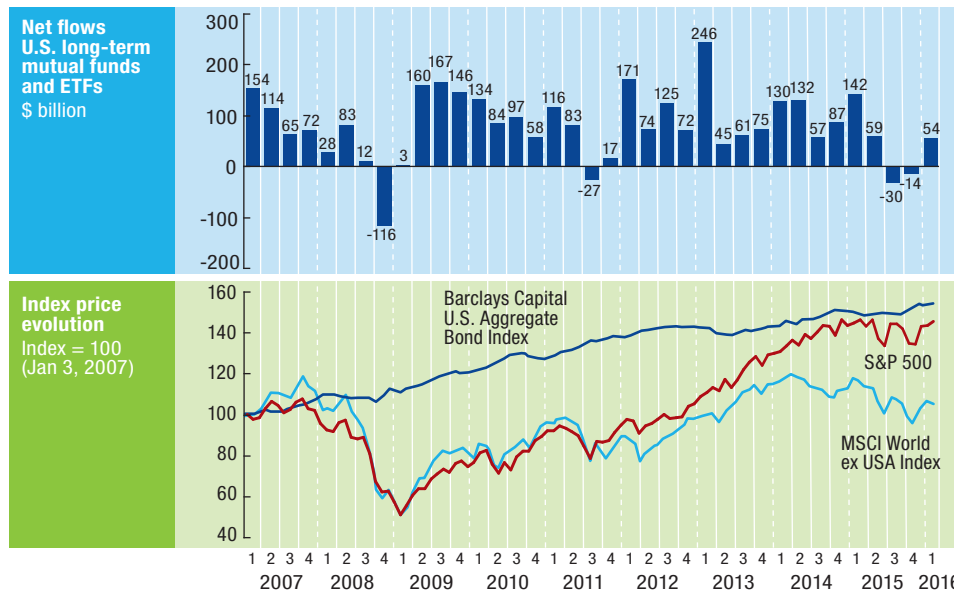
Market volatility surged in the second half of 2015



Source: U.S. Federal Reserve Selected Interest Rates; eInvestment Alliance; Standard & Poor's; Macrotrends

Exhibit 3

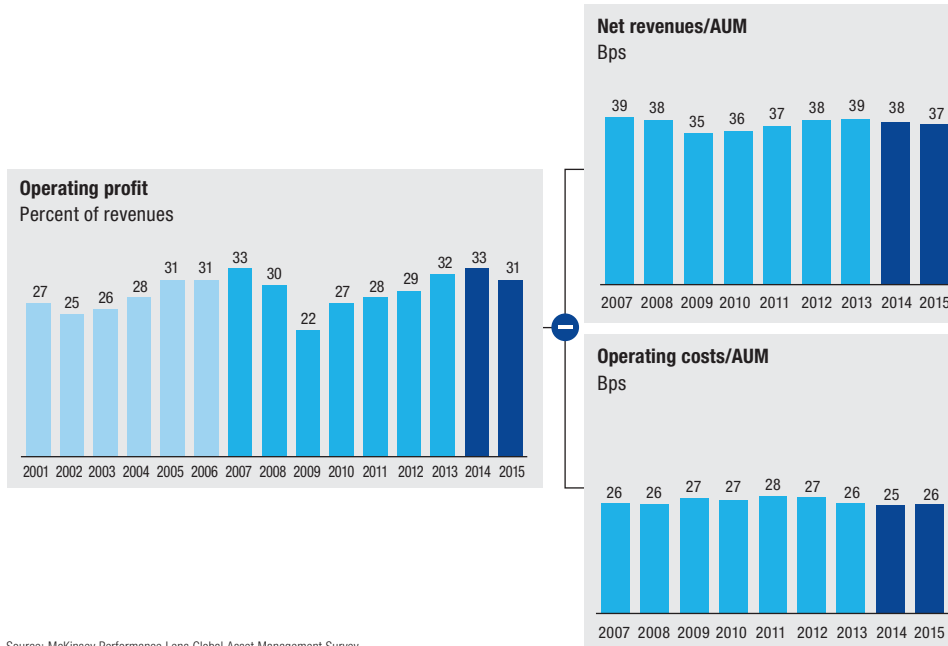
Capital market volatility drove U.S. long-term net flows negative in the second half of 2015



Source: ICI; Simfund; Datastream; McKinsey analysis

Exhibit 4

Average profit margins in North America took a turn for the worse in 2015 as revenue and cost margins deteriorated



Source: McKinsey Performance Lens Global Asset Management Survey

markets, which together accounted for nearly 80 percent of the increase.

The full-year figures, however, disguise a more complicated picture. Financial markets rediscovered the laws of gravity in the second half, and volatility re-emerged, taking its toll on investor confidence and overall investment performance (Exhibit 2). In Europe, for example, net inflows for open-ended funds declined 40 percent from the first half (\$508 billion) to the second half (\$285 billion) of the year.¹ In Asia-Pacific the slide was less pronounced (about 32 percent), but still significant. And in both regions, net inflows for the first quarter of 2016 were sharply lower: \$40 billion for Europe and \$11 billion for Asia-Pacific.

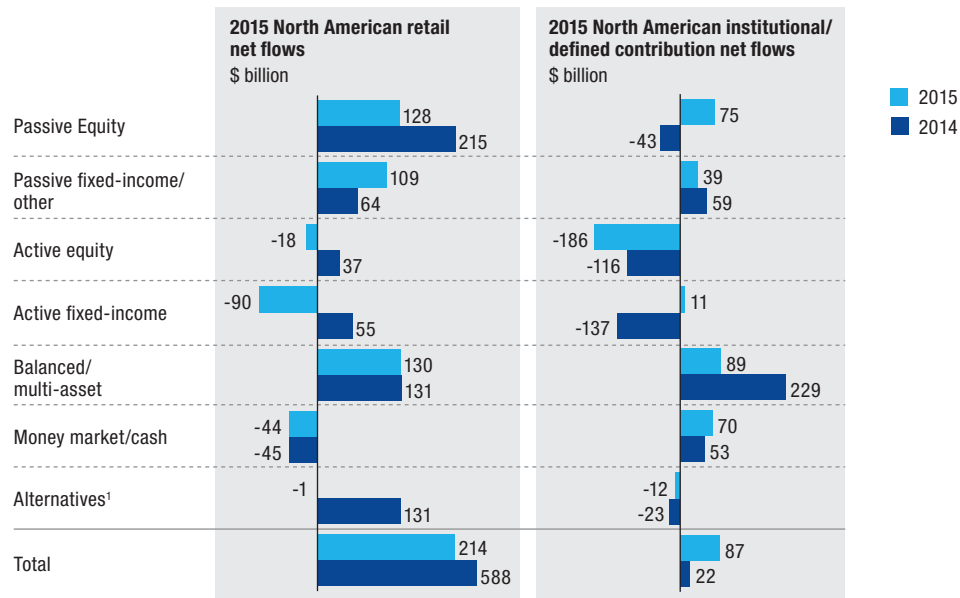
North American asset management 2015: Signs of things to come

Nowhere was the mid-year reversal more pronounced than in North America, which in McKinsey’s view represents a harbinger of changes that will have an impact on the broader global industry as the economic cycle shifts into a new phase. Driven in large part by capital markets volatility and an associated dampening of “animal spirits,” U.S. long-term net flows for mutual funds and ETFs turned negative in the second half of 2015 (Exhibit 3). The upward march of profitability over the past five years came to a screeching halt and profits actually declined by almost 200 bps (Exhibit 4).

¹ European Fund and Asset Management Association.

Exhibit 5

Passives continued to grow in 2015, especially in retail



¹ Includes "liquid" alternatives. Net flows excludes private equity and other private market asset classes.

Source: McKinsey Performance Lens Global Growth Cube

This downtick, the first since 2009, was driven by shrinking revenue margins, stubbornly constant costs (relative to AUM) and by the sudden reversal of the markets, which hitherto had provided a steady boost to the industry revenue pool. For the many North American managers with significant overseas exposures, foreign exchange rates further dampened profits, as a flight to safety pushed the U.S. dollar to new highs. From June 2015 through the first week of 2016, the S&P 500 experienced a 7 percent decline, creating a corresponding tailwind to the beta-sensitive component of industry revenues.

The vast majority of managers responding to McKinsey's global survey expect pressure to continue well into 2016 and

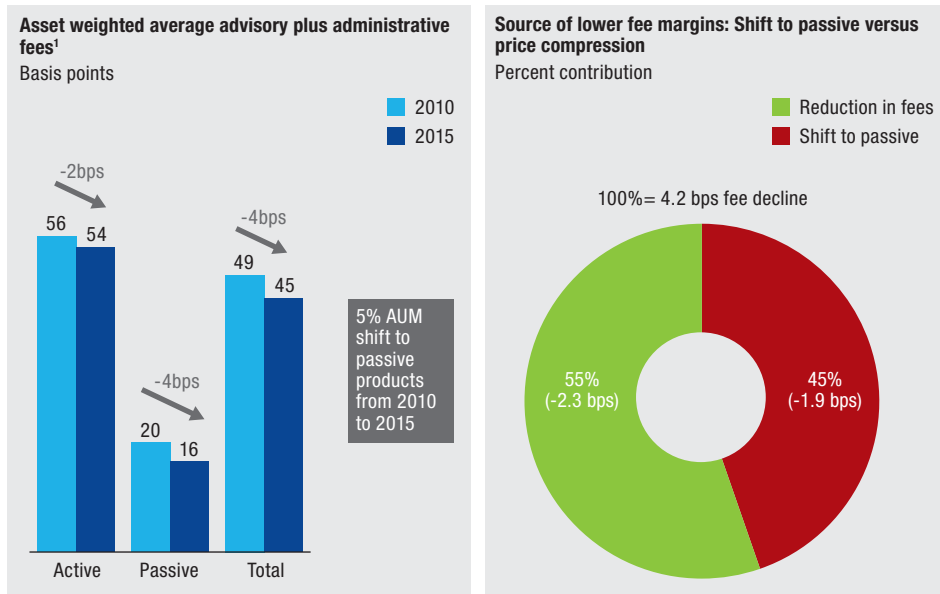
for profit margins and results to fall short of forecasts. Despite the relatively healthy state of the markets, macro uncertainties kept flows at tepid levels (e.g., less than 1 percent growth in the U.S. retail market for the first half of 2016).

This cyclical downturn was compounded by structural shifts that have been playing out over the past few years, and which stood out more starkly against a backdrop of macroeconomic weakness:

1. The passive revolution continued with vigor. In 2015, passive investments continued their multi-year march in share gain, accounting for \$351 billion of net flows, compared to net outflows of \$51 billion for active investments. The year 2015 was notable for the fact that retail

Exhibit 6

Price competition has intensified, with fee reductions accounting for at least half of the margin compression over the last 5 years



¹ Based on sample of all non-fund of funds mutual fund and ETF portfolios with reported prospectus advisory and administrative fees in 2010 and 2015
Source: Strategic Insight Simfund MF

investors began to decisively follow the lead of their institutional counterparts in swapping out active exposures for plain vanilla strategies and asset classes. Fixed income, in particular—previously an active stronghold within retail—witnessed a significant mix shift, with \$90 billion of outflows from active and \$109 billion of inflows into passive (Exhibit 5). Passive growth in retail has been driven in equal measure by increasing fee sensitivity and the decreasing confidence of home offices in the ability of the average active manager to outperform in the most mainstream of asset classes. Over the past five years, 5 percent of AUM in North America has shifted to passive with a resulting decline in revenue yields of 2 bps.

2. Price competition intensified, particularly in large established categories (e.g., passive equities, active domestic equities, core strategies in ETF), due to a mix of defensive moves by incumbents and aggressive low-cost product launches by new entrants. Over the past five years, fee reductions have had almost as much of a dampening effect on industry margins as the overall shift to passive. Across North America, fees for both active and passive funds in retail declined by 4.2 basis points, almost half of which was driven by price reductions on funds (Exhibit 6).

3. Product proliferation continued apace. With North American asset managers launching close to 800 new prod-

ucts per year (and retiring less than 500 a year), the collective retail product shelf has grown to some 11,000 mutual funds and exchange-traded products, up 17 percent since 2009. This has been matched by the parallel growth of separately managed accounts (SMAs) and customized mandates for institutional clients. The flourishing of new products has in large part been a response to an ongoing shift in client preferences to next-generation asset classes and strategies (for example, alternative investments, ETFs and multi-asset strategies). Viewed through this lens, the refreshing of the asset management product shelf has been a prerequisite for growth. In the past five years, new products have captured almost 70 percent of net flows in

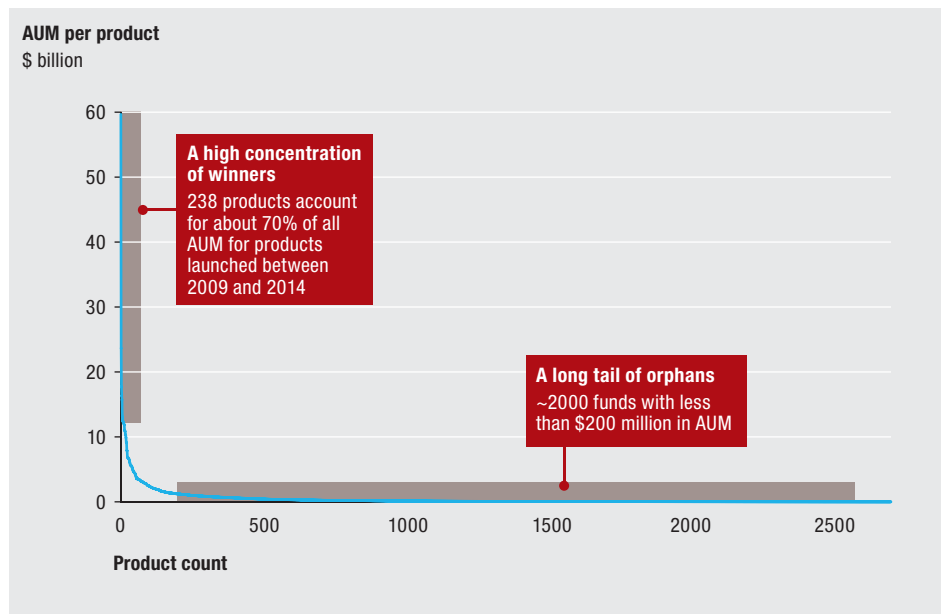
the industry (Exhibit 7). At the same time, the industry has been better at launching funds than achieving scale and rationalizing funds that have not gained traction. Of the approximately 3,000 active mutual funds launched between 2009 and 2014, a mere 238 account for 70 percent of flows gathered. Meanwhile, the industry is awash in more than 2,000 sub-scale orphan funds with under \$200 million in assets that are barely (if at all) earning their keep. This proliferation of products has resulted in significantly increased operational complexity and an associated rise in fixed costs.

4. The industry's cost base grew despite a downturn in assets and revenues. Over the past seven or eight years,

Exhibit 7

A long tail of orphan funds is adding operational complexity to the industry

New active products launched in the U.S. between 2009-14 (distribution by size)



Source: Strategic Insight Simfund MF

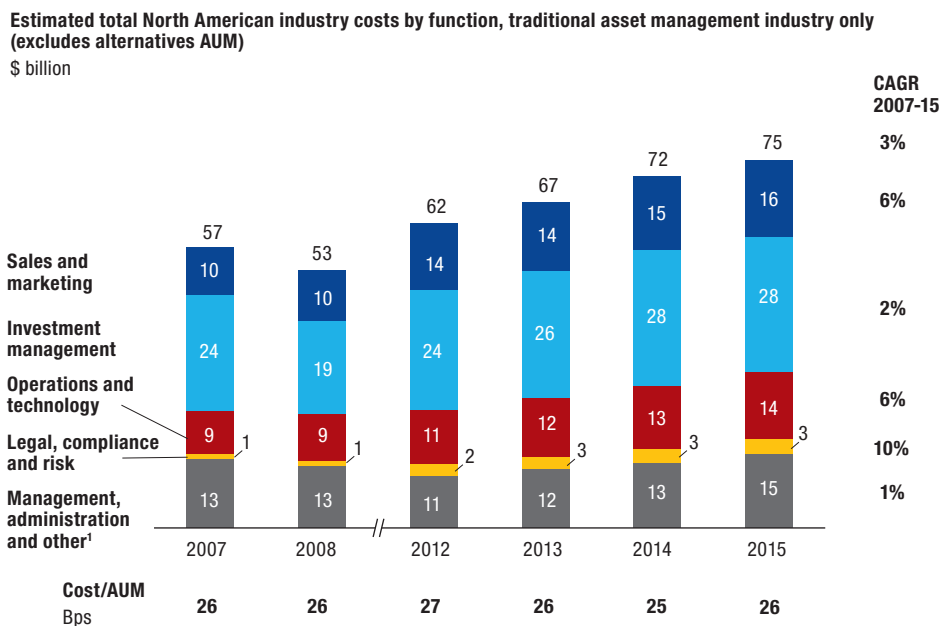
the asset management industry has failed to achieve or sustain operating leverage in an era of rising markets and robust organic growth. In short, operating costs have been rising in lockstep with asset growth—the measure of costs over AUM has remained remarkably constant at around 26 bps, the same level as in 2008. Over the same period, the industry's cost base grew by \$23 billion. Costs have grown most prominently in three areas: sales and marketing, operations and technology, and legal, compliance and risk. Respectively, the cost drivers in these areas are the ongoing “arms race” in distribution, the rise in operational complexity caused in part by new product innovations, and increasing regulation (Exhibit 8). The rising markets of the past several

years have spared the industry from having to confront the issue of costs. But in the face of an imminent cyclical shift, an inflexible cost base represents a threat to the health of the industry.

If the past five years were characterized by a rising tide, the uncertainty of 2015 and the waning of the market forces that propelled the industry to new heights are now paving the way for a new era in which excellence—in both investment performance and business execution—will be truly rewarded. In 2015, the performance gap between top- and bottom-quartile performers remained significant. Leading firms posted an average operating margin of 48 percent, compared to 13 percent for the laggards.

Exhibit 8

Total costs continued to grow, with the highest percentage increases in distribution, O&T and legal/compliance/risk



¹ Includes executives, finance, HR, strategy, facilities and other administration
Source: McKinsey Performance Lens Global Growth Cube; McKinsey Performance Lens Global Benchmarking Survey

Top-quartile firms actually gained ground in terms of the critical measure of long-term flows, and bottom-quartile firms fell deeper into negative territory (Exhibit 9). Contrary to popular perception, McKinsey analysis shows that there is no single structural variable—not size, asset-class focus or client focus—that correlates with a firm being in the top tier of performers. In short, broad-based markers of business mix did not determine success. What leaders did share was a consistently “bifocal” approach—that is, a dual focus on managing costs and investing in growth. This approach enabled these firms to position themselves behind a targeted set of growth vectors while growing and sustaining their operating

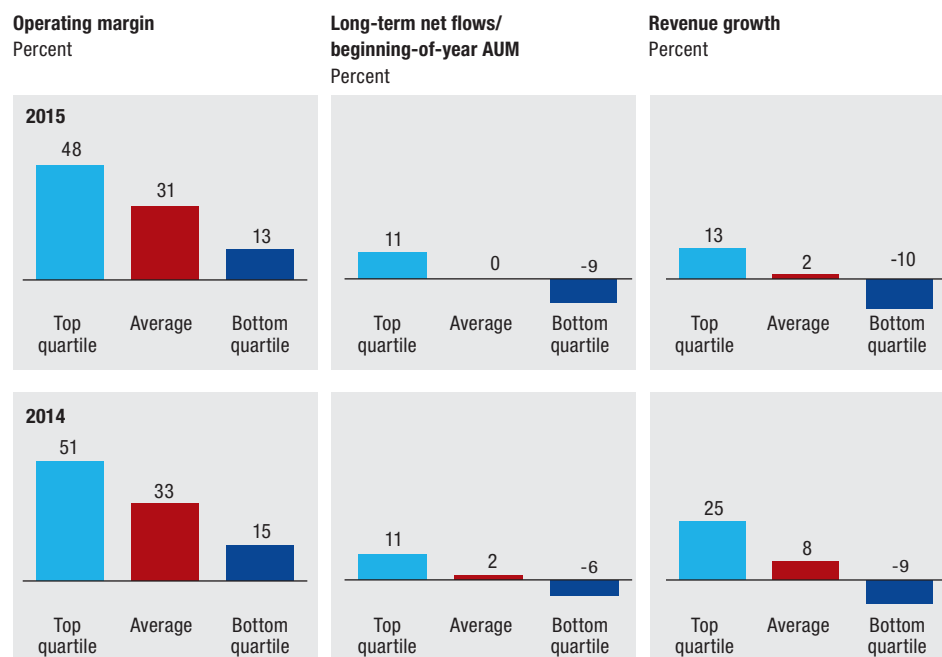
leverage. These organizational competencies will become even more critical as the industry enters a more challenging part of the growth cycle.



The extended bull market that preceded 2015 led to an unusual period of growth for the asset management industry. At the same time, however, it proved fertile ground for a set of challenges around product mix, pricing and cost that have had an impact on the industry at a structural level. These problems were easy to deprioritize during the buoyant markets of the past few years. However, the cyclical inflection point of 2015 laid bare the threat that these issues represent to the

Exhibit 9

The gap between top- and bottom-quartile North American asset managers remains significant



Source: McKinsey Performance Lens Global Benchmarking Survey

overall performance and long-term health of the industry.

This cyclical change comes at a time when the industry is facing a second, secular inflection point. A set of five structural shifts will reshape North American asset management over the next

five years, with a radical impact on industry structure and competitive dynamics. As the rules of the asset management industry are rewritten, even the leaders of today will need to rethink their operating models to find success in a new environment.

Five Secular Shifts Are Rewriting the Rules of Asset Management

These are no ordinary times for the asset management industry. In addition to pressure from cyclical forces, asset managers face the confluence of several unprecedented secular shifts that will profoundly reshape both the structure and conduct of the industry over the next three to five years. The rules of the game are being rewritten, and even outperforming managers will need to reinvent their underlying business models to succeed.

The first of these shifts—the end of a 30-year period of exceptional returns—will have an impact well beyond the asset management industry. Within the industry, it will give rise to a new set of urgent client needs and reveal which firms are truly superior in terms of investment performance and operational efficiency. The second shift is a shake-up in active management—centered around \$8 trillion of

benchmark-hugging assets. To prevent this money in motion from flowing into passive investments by default, active managers will need to rethink their value proposition and take an innovative approach to redesigning their manufacturing models. The third shift involves the other big growth story of the last few years—alternatives. Alternatives will continue their growth, but it will shift towards the private markets as investors try to eke out liquidity premia to compensate for a lower beta environment and as the hedge fund market restructures in response to a period of disappointing performance.

If there is an inconvenient truth in the asset management industry, it is that the financial profile of the “average” asset manager is a levered play on market beta.

The fourth secular shift reshaping the asset management industry is a digital and analytics revolution that is expanding beyond a narrow focus on disintermediation in retail distribution (e.g., robo advice) to become a driving force for radical improvements across the entire asset management value chain, including portfolio management, capital markets activities and the back and middle office. Finally, increased regulatory intensity will force asset managers to reframe

their distribution relationships and retool their products to position themselves as fiduciaries in service of investors.

1. The end of exceptional returns

If there is an inconvenient truth in the asset management industry, it is that the financial profile of the “average” asset manager is a levered play on market beta. The industry has benefited tremendously from the past 30 years of above-average returns. It also stands to reason that the industry will face significant pressure if this period comes to an end.

Analysis by MGI shows that the return environment of the past 30 years was an historical anomaly. It was a golden age characterized by declining inflation and interest rates, strong global economic growth fueled by demographics, productivity and rapid growth in China, and robust corporate profits boosted by access to new markets, low tax rates and the rise of automation and sophisticated supply chains.² These trends are all winding down in highly predictable ways and an unprecedented rise in productivity would be required to close the resulting gap. While productivity gains related to digitization and other disruptive technologies will certainly help, they are unlikely to counter a substantial long-term decline in the rate of global economic growth and the corresponding “mean reversion” of long-term returns for both equities and bonds (Exhibit 10, page 18).

MGI estimates that as a consequence, average annual returns for equities in the United States and Western Europe could

² “Why Investors May Need to Lower their Sights,” McKinsey Global Institute, April 2016.

decline by approximately 150 to 400 basis points over next 20 years, relative to the past 30. The gap in fixed-income returns could be even wider, with long-term returns between 300 to 500 basis points lower relative to the past 30 years.

The effect of above-average returns has been amplified by the unusual macroeconomic conditions and central bank policies of the past five to seven years, resulting in an extended wave of beta that has lifted even weaker asset managers to respectable performance. This rising tide also masked a multitude of ills—among them rampant growth in complexity, product proliferation and compliance challenges. Warren Buffett once quipped, “Only when the tide goes

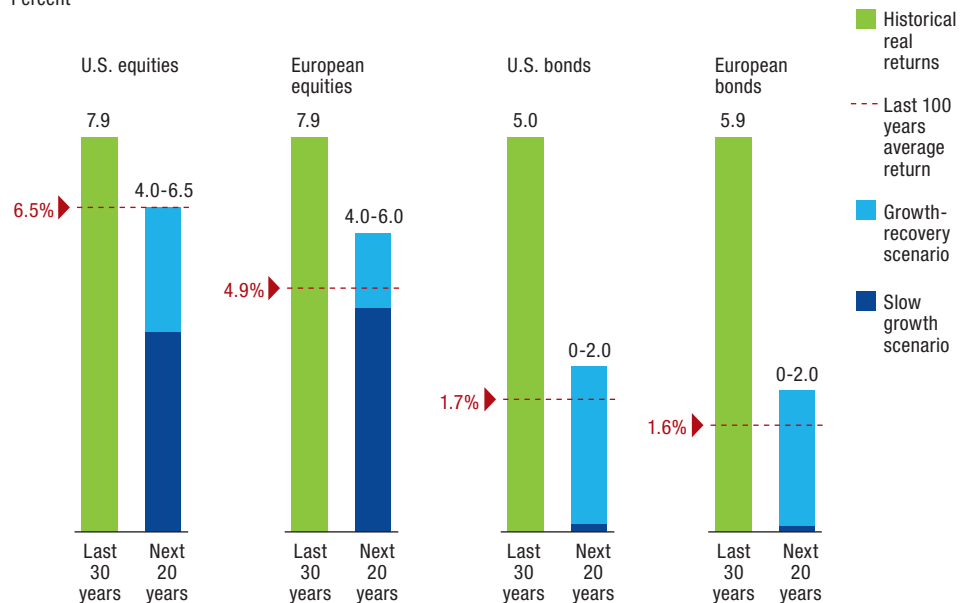
out do you discover who’s been swimming naked.” In some ways, we may have reached this awkward moment.

The end of the era of exceptional returns will also create an unprecedented and urgent set of client needs. As this downshifting takes hold, institutional and retail investors will face ever-wider gaps in meeting their liabilities. The average public pension fund in the U.S., for instance, has an actuarially required rate of return of 7.6 percent, which was a somewhat realistic goal with a variant of the classic 40/60 portfolio, assuming returns at recent historical rates of 7 to 8 percent for equities. The most optimistic scenario in MGI’s long-term outlook for returns leaves pension funds with a 2.9

Exhibit 10

Over the next 20 years, average returns are expected to decline by a significant amount

Historical asset returns and potential scenarios for next 20 years
Percent



Source: McKinsey Global Institute

percent funding gap, assuming a similar portfolio mix; a more pessimistic slower-growth scenario results in a 5.2 percent shortfall (Exhibit 11).

The end of the era of exceptional returns will place a new premium on alpha—not just investment alpha, which clients will need to shore up their investment portfolios—but also “operational alpha,” the ability to keep costs on a short tether. New investment orthodoxies are also likely to take root, favoring new models of portfolio construction (e.g., beyond traditional cap weightings toward new sets of risk factors) and innovative ways to generate investment returns.

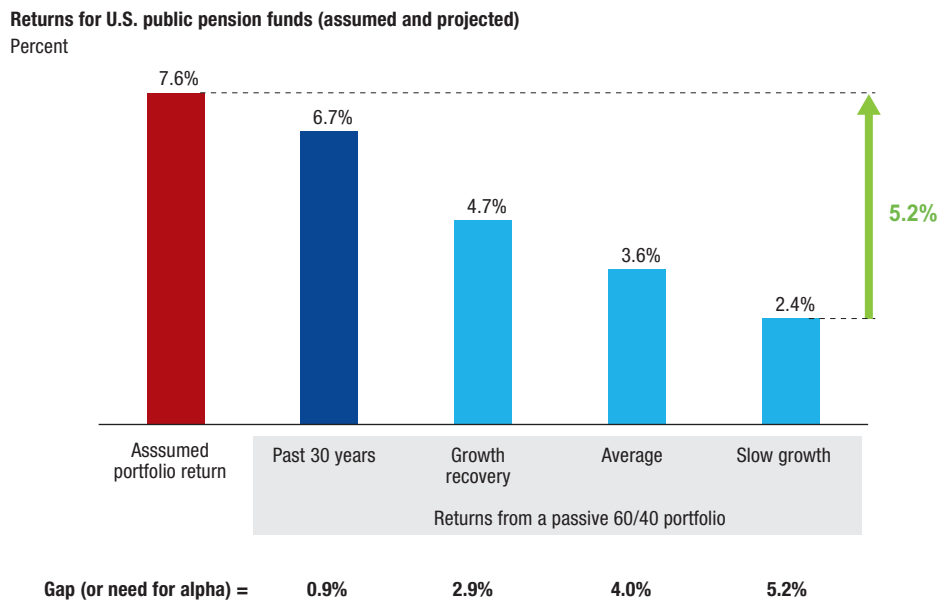
2. A shake-out in active management will set trillions of dollars in motion

The expected downshifting in the macro-economic backdrop of the industry—and the corresponding demand for alpha—comes at a time when the ability of the average active manager to deliver superior returns has been steadily declining. Over the last five years in particular, it has been extremely challenging for many active managers to outperform the indices (Exhibit 12, page 20).

The rising tide of beta in recent years has not only made it a challenge for active firms to add value, it has also diminished the relative importance of the several per-

Exhibit 11

The decline in average returns will leave a gap that investors will need to fill



Source: National Association for State Retirement Administrators; McKinsey analysis

centage points of additional alpha that the best managers are able to deliver. In addition, higher costs and inherent “cash drag” in an active portfolio are both a hindrance to outperformance in an extended period of rising markets. Some active managers have suggested that their true mettle would be shown once the tide turned and volatility increased, for a critical component of active management is the ability to actively manage risk. The second half of 2015 offered a test of this belief, and the results were discouraging for all but the best managers. During the period of market volatility from mid-2015 to the start of 2016, U.S. equity indices fell by 10 to 19 percent, and the majority of active funds continued to underperform their passive counterparts on a net

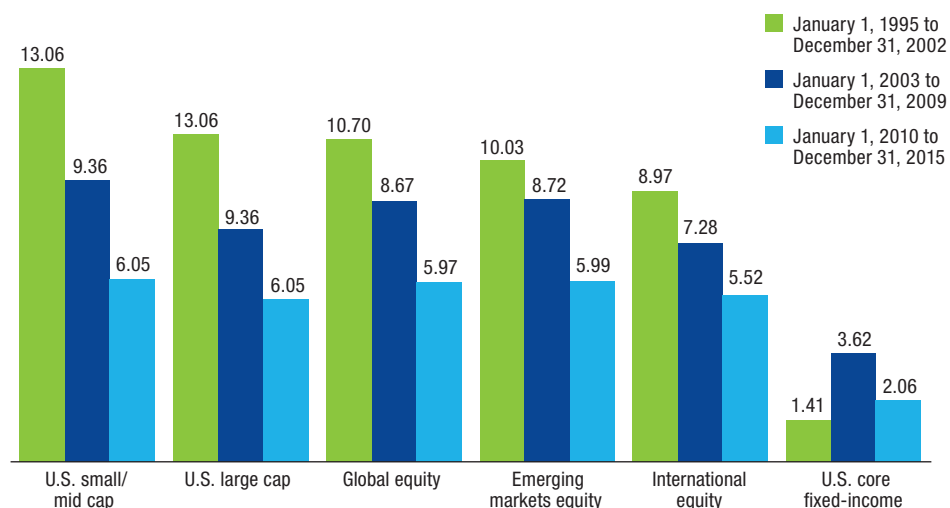
basis (Exhibit 13). While this is not an exhaustive example or a comprehensive set of results across a full market cycle, it should be enough to convince underperformers that they will need to do more than simply hold the course and expect to benefit from the increased demand for alpha. To outperform, they will need to rethink how they deliver value to clients.

For some industry observers, the steady march of passives is casting a shadow of uncertainty over the future of active management. Indeed, certain segments of active management—benchmark-hugging strategies or assets in sub-asset classes where market efficiency makes performance differentials almost irrelevant for everyone but the best man-

Exhibit 12

The ability of active managers in the U.S. to distinguish themselves from peers is declining

Spread between top- and bottom-quartile returns for U.S. actively managed strategies, 1995-2015
Percentage points



Methodology: (1) calculate spread between top and bottom quartile on an annual basis; (2) calculate average spread for all the years in the time period. Analysis includes all actively managed investment strategies using the same preferred benchmark index as follows: International equity = MSCI EAFE; U.S. small/mid cap = Russell 2000; U.S. large cap = S&P 500; Global equity = MSCI World; Emerging markets equity = MSCI EM; and U.S. core fixed-income = Barclays US aggregate Bond

Source: McKinsey Global Asset Management Practice; eVestment

agers—are facing an existential crisis after a sustained period of underperformance that has eroded clients’ confidence. McKinsey estimates that the value of these “at risk” assets could be up to \$8 trillion—or roughly 25 percent of the U.S. market (Exhibit 14, page 22). The shake-up of active management—particularly for funds that have effectively hugged benchmarks—will be a major money-in-motion event over the next five to 10 years.

The one-dimensional view of this dynamic assumes that passives will be the sole beneficiary of the mass movement of money, but McKinsey expects that the shake-up will create opportunities for high-quality active managers that add

demonstrable value. The shake-up will lead to a new era of innovation in active management. Put simply, managers that meet client objectives—whether to minimize costs or achieve more predictable outcomes—will capture share of the money in motion. Successful managers will represent a diverse range of competitors, including traditional active strategies from outstanding managers that are rooted in high-conviction insights, alternative investments that offer a broad range of levers of active value creation, outcome-oriented solutions and “smart beta” products.

The shake-out in active management will open up a rich field for innovation. McKinsey expects a wave of restructuring of

Exhibit 13

Fewer active funds are outperforming the market

Percentage of U.S. domiciled equities funds in each style box outperforming their relevant index¹ May 22, 2015 to January 15, 2016²

	Growth	Blend	Value
Large	23%	31%	40%
Medium	31%	38%	31%
Small	61%	60%	53%

¹ Funds categorized by Morningstar Style Box (market capitalization of holdings vs. investment style); performance judged against relevant Russell index for each group of strategies (e.g., Russell 1000 Large Value Index)

² Relevant indices fell by 10 to 19% over this period driven by macro uncertainty

Source: Morningstar

Exhibit 14

Up to 25% of U.S. assets and revenues are at risk of disintermediation by passives, high-conviction active or new-era products

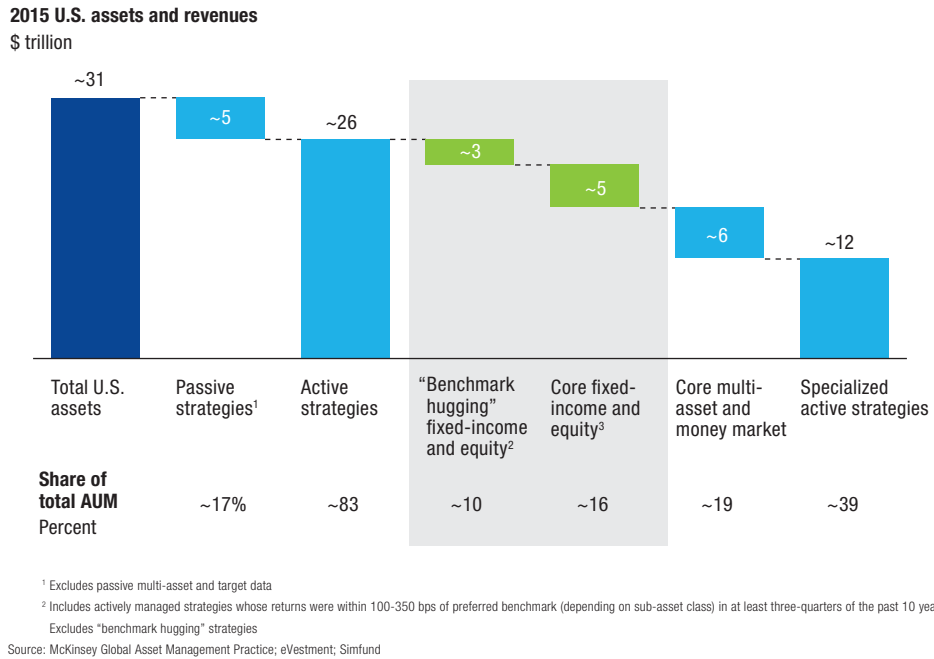
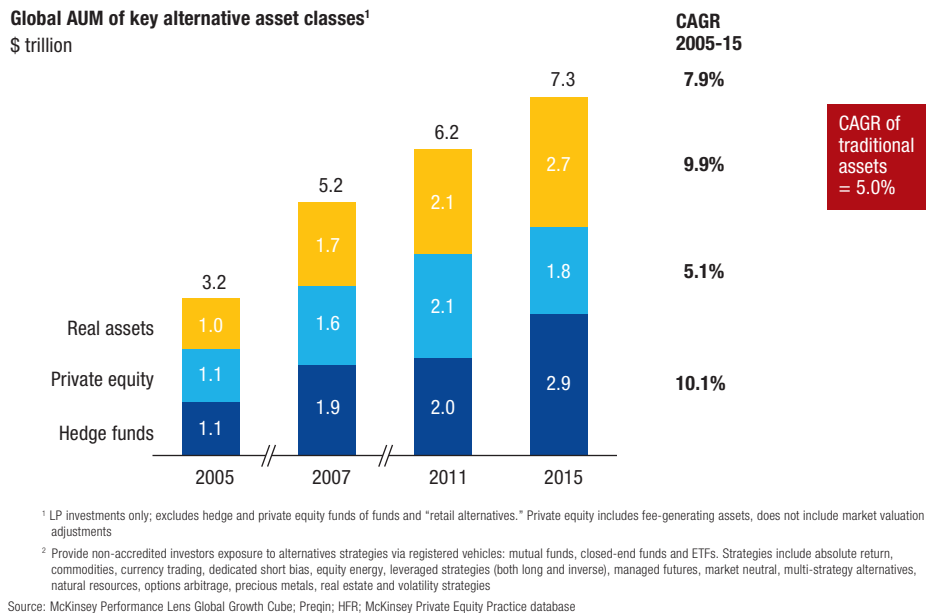


Exhibit 15

Global growth in alternatives continues to outstrip that of traditional assets



active investment platforms (particularly equities), as active managers enhance the rigor of their investment processes, develop new levers of value creation and optimize the efficiency of their platforms in an era of challenged growth. Innovation will be evident not just in next-generation tools (e.g., big data as a source of active insight), but also in the more fundamental evolution of the active management skill set, which will move beyond narrow security selection to broader capabilities in sector selection and asset allocation. Active managers with demonstrated records of outperformance across the cycle will continue to succeed, but even this select group will need to rethink how they communicate the value proposition of their strategies to clients.

3. New directions for alternatives

Alternative investments have been an ongoing story in asset management—both in North America and across the globe—with growth continuing to outstrip that of traditional assets (Exhibit 15). The alts boom is likely to be one of the richest asset management growth opportunities in the years to come. The low-beta environment—and the challenges that more traditional strategies have had in delivering alpha—have only accelerated the tailwinds for alternatives, as investors place a larger premium on assets with the ability to deliver both yield and diversification.

However, *within* alternatives, there are clear signs of a shift in demand toward particular segments of the broader alts family. Over the past 12 to 18 months,

demand has been robust in the illiquid private market segments, as investors seek to capture liquidity premia and look for alpha generation in less efficient segments of the market. As an indication of this phenomenon, fundraising in private markets has already bounced back to pre-financial-crisis levels. McKinsey expects this trend to continue, driven in equal measure by a disappointing period in the hedge fund industry. Investor confidence has been tested by several years of sub-par hedge fund performance, and the mood has shifted, with a number of large investors publicly questioning the value-add of their hedge fund portfolios (Exhibit 16, page 24). As with active management, the hedge fund industry is undergoing its own shake-out, and the distinction between quality managers and closet indexers will be reflected in flows.

Demand for private market asset classes is also being driven by a significant increase in the accessibility of new and diverse sub-asset classes that offer “surface area” for growth. Private credit, for example, has grown rapidly over the past three to five years, as traditional and alternative asset managers alike have moved to fill the void created by the decline in bank lending. Investors seeking to bolster the flagging yields of their traditional fixed-income portfolios have embraced this shift to private market asset classes.

McKinsey expects significant growth in areas that offer predictability and scalability of returns, as investors seek to deploy assets into alternatives at far greater

scale. Real assets (e.g., infrastructure) in particular represent a distinct opportunity for growth, given the confluence of real world needs (e.g., a \$57-trillion infrastructure financing gap globally as estimated by MGI) and investor demand (Exhibit 17).

4. The (real) digital revolution

The impact of digitization in financial services has been profound, transforming the customer experience and streamlining back-office processes. But in asset management, the understanding of digital's potential has only recently started to shift from a narrow focus on disintermediation in retail distribution (e.g., robo advice) to a broader perspec-

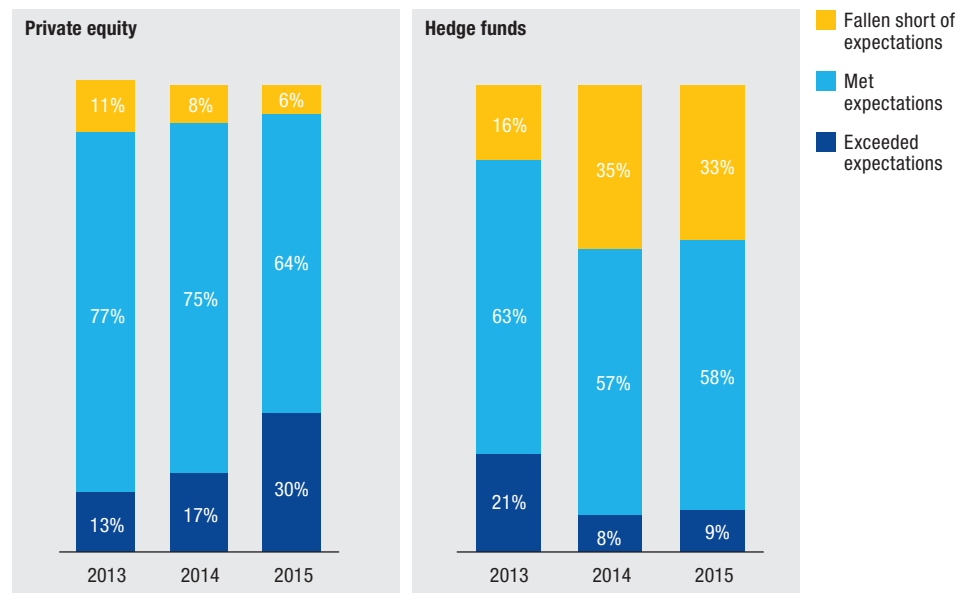
tive that encompasses the entire asset management value chain. As asset managers combine digital technology with the creative use of data, leveraging advanced analytics, powerful use cases will evolve and radical—even structural—improvements in efficiency and effectiveness will emerge.

The digitization of asset management will be propelled in large part by innovation emerging from the FinTech sector, which has been a steady source of new ideas for the broader financial services industry. According to Panorama, McKinsey's proprietary FinTech database, one in five FinTech firms in 2016 is focused on innovation in capital markets, asset management or wealth management.

Exhibit 16

Investor confidence in hedge funds is waning, while private equity continues to meet investor expectations

Investor confidence in hedge funds is waning, while private equity continues to meet investor expectations



Source: Preqin Investor Interviews, December 2011-2015

Over the past several years, the asset management industry’s appreciation of digital disruption has matured. Disruption began in the wealth management industry, with the rise of robo-advice attackers, such as Betterment and Wealthfront, and investments in tech-enabled platforms by firms such as Charles Schwab (Intelligent Portfolios) and Vanguard (Personal Advisor Services). Digitization was viewed as a direct-to-consumer play. Recent acquisitions of tech firms by several major asset managers and the expansion of these platforms into services that support distributors and their financial advisors signals a critical shift. Digitization is not simply a means of disintermediation for niche insurgents; it

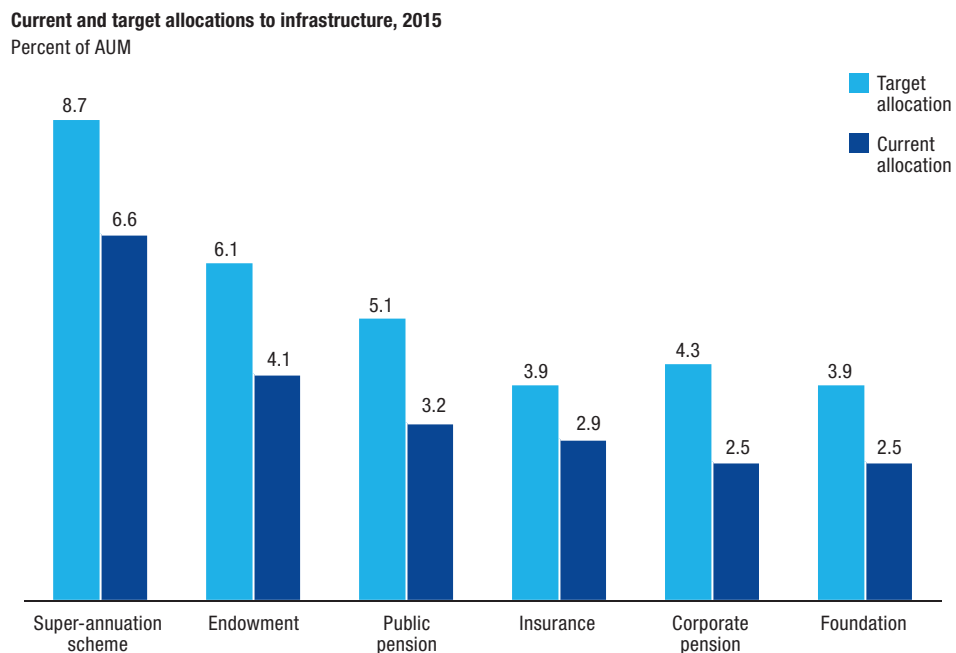
is a tool for driving major transformations across the value chains and ecosystems of large incumbents.

The next five years will offer asset managers an unprecedented opportunity to use digital tools and advances in analytics to restructure their operating models and achieve step changes in effectiveness and efficiency across every major process, from manufacturing through distribution. The most powerful digital use cases to emerge in the near term will include:

- **Next-generation wholesaling models** that “double the coverage with half the resources,” leveraging digital portals to boost client engagement, ad-

Exhibit 17

Real assets represent a robust growth opportunity, as many institutional investors are hungry for yield but below target allocations



Source: Preqin

vanced analytics to enable precision targeting of customers and clients, and omnichannel client outreach (e.g., social media, targeted digital advertising, greater use of inside sales models) to increase the reach and efficiency of sales teams.

The next five years will offer asset managers an unprecedented opportunity to use digital tools and advances in analytics to restructure their operating models.

- **Innovation in products** powered by digital technology that facilitates mass customization and personalization of investment products at significantly lower costs (e.g., model portfolios with dynamic tilts, individualized target-date funds, thematic exposures via individual securities).
- **An edge in active management**, with active managers retooling the manufacturing process by embracing new sources of data (e.g., real-time satellite data, gauging of sentiment through social media scrapes) and corresponding machine learning algorithms to capture new insights. The automation of routine tasks (e.g., scanning of financial reports) will also free up analyst time.
- **“Operational alpha”** through streamlined platforms and redesigned end-to-

end client processes that radically reduce processing times and error rates in back- and middle-office processes such as fund accounting, trade reconciliations and client onboarding.

- **Improved access to securities markets** with associated benefits to pricing and liquidity through the embrace of new capital markets technologies that enhance connectivity and transparency with trading venues and counterparties.

The digital revolution, particularly the unprecedented power of data and analytics, offers asset managers a once-in-a-generation opportunity to revamp their operating models and processes to create new structural advantages. For example, experiences from other segments of financial services suggest that the restructuring and simplification of end-to-end client processes can deliver not just a superior client experience, but also a 10 to 20 percent cost advantage. Of course, not all asset managers will embrace the transformative opportunities presented by digitization, and many will dabble in new technologies rather than using them to reboot their operating models. McKinsey expects to see a widening gulf in performance and health between those that act decisively to capture digital opportunities and those that do not.

5. A new age of asset management regulation

The asset management industry was somewhat sheltered from the surge of financial services regulation that followed

the financial crisis, which focused on balance-sheet heavy sectors of the industry. If there were any doubts, however, that the regulatory focus would expand to asset management, they were put to rest with the announcement of the DOL Fiduciary Rule, which will take effect in April 2017. Strictly speaking, the rule applies to wealth managers rather than asset managers, but the second-order implications for manufacturers are significant and will reshape the way \$14.5 trillion of assets in qualified (DC and IRA) accounts are serviced.

The DOL Fiduciary rule constitutes one of the largest shocks to the wealth management industry in over 40 years.

The DOL Fiduciary Rule constitutes one of the largest shocks to the wealth management industry in over 40 years. It strikes at the core of the business model—financial advisor compensation, the range of products and the nature of advice itself. Combined with concurrent macro forces—including the aging of baby boomers, intergenerational wealth transfer, an aging advisor force and the rise of digital solutions—the wealth management industry is on the cusp of significant disruption. The impact of these forces will increase the amount and source of retail investment dollars in mo-

tion in the U.S. (currently \$4 trillion annually), creating opportunities and threats for both wealth managers and their partners.

McKinsey expects the DOL Fiduciary Rule to accelerate a number of current trends affecting asset managers that rely on third-party distribution:

- the demand for passive strategies and ETFs
- the shift from brokerage to advisory platforms
- greater scrutiny of revenue-sharing and distribution loads
- the growing influence of home office and research teams in product selection
- the rise of the registered independent advisor channel and growth in digital advice.

The impact of the rule will vary for asset managers based on their product mix (e.g., passive manufacturers will benefit) and client and channel mix (e.g., challenges are greatest for firms that are highly dependent on brokerage sales). It will create opportunities for asset takeovers (e.g., underperforming funds, proprietary assets, and product vehicles with heavy sales loads such as unit investment trusts). Wealth managers are likely to manage their risk by winnowing their product shelf, eliminating products with weak performance and focusing on a smaller and more strategic group of asset management partners.

Given these trends, it is imperative for asset managers to take a proactive approach to understanding their exposure and determining the actions required to adapt to the new regulatory environment.

The DOL rule is only the first of several regulatory waves expected to hit the industry. In addition to the potential extension of DOL-like provisions to all retail assets (as opposed to just retirement assets), future regulation is likely to focus on liquidity management, stress-testing and allocation of client expenses, and reshape the rules under which products can be created and managed.

This ongoing wave of regulation will create challenges, for example, the continued growth of legal and compliance costs. However, there will also be opportunities (e.g., money in motion across distributors) for those firms that take a proactive and strategic approach. For an example of how regulations can have a silver lining, consider how the Pension Protection Act

of 2006 paved the way for auto-enrollment in 401(k) plans and made target-date funds the default option in defined contribution plan line-ups.



On their own, each of the trends discussed above unleashes forces that will have a major impact on the structure and conduct of the asset management industry, changing the revenue-cost equation, creating new bases for competitive advantage, and setting new pools of money into motion. Taken together, these trends represent a once-in-a-generation shift in industry dynamics and a rewriting of the industry playbook. The traditional operating model that has served asset management firms over the past several decades will not carry them forward in the new environment. Asset managers seeking to grow and thrive in the coming years will need to embrace major changes at the core of their businesses.

New Models for a New Era in Asset Management

The magnitude of the changes underway in North American asset management will demand an equivalent response from firms in the industry. To win in the new environment, firms will need to transform their operating models across many dimensions. They will need value propositions that are more closely aligned with the evolving needs of clients; new technology-enabled investment and distribution capabilities; and new vectors of growth and productivity (Exhibit 18, page 30). In addition, asset managers will need to embrace the notion of “strategic agility” and retool their organizations, change internal mindsets, culture and processes, and reallocate resources to areas of future growth. Finally, asset managers must now take a “bifocal” approach to resource allocation. The choice between bold, through-the-cycle business investments and sustained operating discipline is a false one. Both will now become preconditions for success.

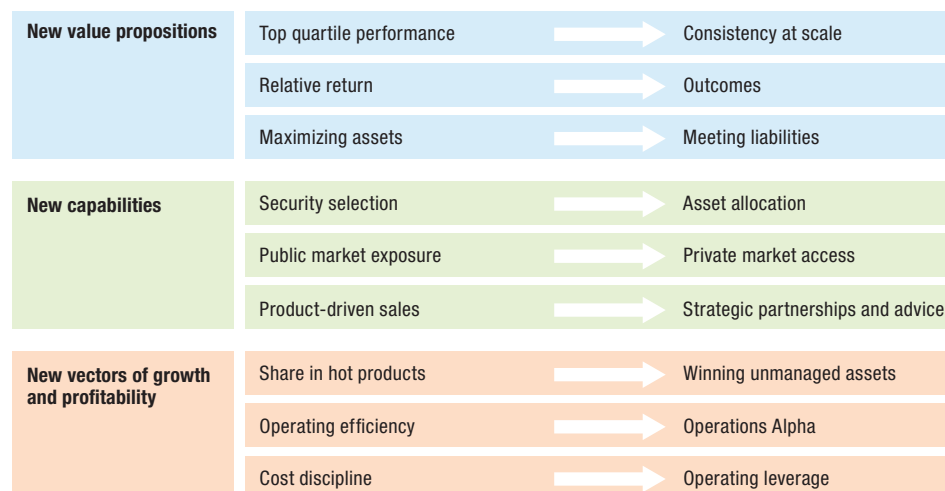
New value propositions

Investor needs will change as a result of the deep shifts in the macro environment. As the cushion of healthy beta erodes and markets grow more volatile, clients will turn to asset managers for more than simple delivery of investment returns that beat a market benchmark. In discussions with large retail intermediaries and sophisticated institutional investors, McKinsey has noted a desire for fewer but more strategic asset management relationships. To make it onto the shortlists of important clients, asset management firms must help clients and their investors achieve their most critical investment and strategic objectives through the cycle. Every leading asset manager must have a unique value proposition, and each will need to meet shifting needs along three important dimensions:

- **From top-quartile performance to consistent results delivered at scale.** Investment performance will always be key in asset management, but as clients revisit their asset allocation models and turn to portfolio construction to capture value, an asset manager's ability to meet client needs will be rooted as much in consistent long-term performance as in outperforming peers over short periods. In addition, clients with large and growing pools of capital—such as sovereign wealth funds and large pension funds—are increasingly focused on the scalability of strategies. Asset management firms must therefore develop and institutionalize processes that enable them to deliver consistent results at meaningful scale.
- **From relative returns to outcomes.** The shift to the delivery of outcomes in

Exhibit 18

The confluence of cyclical and secular turning points is driving a fundamental shift in the asset management business model



Source: McKinsey analysis

asset management has been underway for several years, but it is bound to accelerate in the uncertain market environment that lies ahead. This is particularly true in retail asset management, where the most significant pools of assets belong to retirees and pre-retirees who are increasingly focused on decumulation. These assets will flow to firms that construct products and deliver exposures that provide income, inflation protection and volatility mitigation in precise ways (e.g., next-generation target-date funds).

funded status of their plan (or how they deliver against strategic objectives like supporting a stated level of distributions) over a period of time. With this incentive to take a “whole portfolio” approach, clients will gravitate toward asset managers with an in-depth understanding of their unique liability profiles and who can construct portfolios that match these sensitivities to important internal and external variables.

New capabilities

New value propositions for clients will require a foundation of robust new capabilities in investment and distribution.

Leading firms will develop new investing skillsets, target new markets, and overhaul traditional product-centric models of distribution. Technology will play an important role in the delivery of many of these new capabilities, as both a critical interface with clients and as a scalable backbone that facilitates greater reach and customization. Asset management firms will need to develop three distinct sets of capabilities:

New value propositions for clients will require a foundation of robust new capabilities in investment and distribution. Leading firms will develop new types of investing skillsets, target new markets, and overhaul traditional product-centric models of distribution.

- **From maximizing assets to meeting liabilities.** Liability-driven investing, with roots in the world of corporate pensions, will move further into the mainstream. This shift will be boosted by a trend toward evaluating senior investment professionals at leading institutional investors based not only on their performance against the policy portfolio benchmark, but also on the

- **From security selection to asset allocation.** In a challenging environment for active management, asset managers will need to expand their investment capabilities in order to deliver new sources of active value to their clients. In particular, the ability to move “up the value chain” and master investment disciplines beyond pure security selection will be in high demand. This shift is already underway, with the rise of “unconstrained” products where

value is centered on the ability to construct a superior portfolio and dynamically pivot its exposures, and with the emergence of smart beta and factor-based investing, where the major value is delivered through research and risk-based portfolio construction.

In an environment of near-zero interest rates, fixed income in particular is ripe for innovation, as demonstrated by the recent growth of credit and alternative lending products.

- **From public to private market access.** As client demand for private markets exposure grows, driven by the search for yield, an increasing number of asset managers will look to apply their active skills in private markets, both as direct market participants and indirectly by helping clients gain access and build illiquid portfolios (e.g., through fund-of-fund or advisory services). In an environment of near-zero interest rates, fixed income in particular is ripe for innovation, as demonstrated by the recent growth of credit and alternative lending products. McKinsey expects continued growth in response to the demand for “alternative fixed-income exposure,” particularly in the market for real assets and infrastructure.

- **From product-driven sales to strategic partnerships.** In an uncertain environment, clients will increasingly turn to asset managers for intellectual capital that extends beyond the provision of individual products. The transactional model will give way to more holistic partnerships, with asset managers working with distributors to serve the interests of investors. New regulations will add further impetus to this shift. In the case of institutional clients, strategic partnerships will focus on the provision of advice and access (e.g., via co-investments) and on the build-up of internal capabilities.

New vectors of growth and profitability

The trends underway will put significant pressure on the growth and margins of the asset management industry. As the tide of securities markets begins to ebb, and fixed costs rise in response to new legal and compliance requirements, firms will need to rethink their economic models to ensure profitable growth. There are three areas where asset managers should consider major strategic shifts:

- **From selling “hot” products to serving unmet needs.** For some time, profitable growth in asset management has meant being in the right place at the right time. The rules were as follows: establish a position in areas of strong growth, and be ready to execute a robust sales campaign behind well-performing “hot” products. To be clear, picking the right spots will re-

main a strategic necessity. However, in a highly competitive environment with more moderate flows, opportunities for outsized growth will more often arise from innovation that creates and captures new pools of assets. For example, leading firms will target the \$2-trillion pool of cash that lies largely dormant on the balance sheets of North American corporations and develop solutions to serve the long tail of unadvised customers that could emerge in the wake of regulatory reform in the retirement market.

With the waning of market-driven tailwinds, the need for a fundamental restructuring of the operating model—even for operational leaders—will become starkly apparent. This restructuring goes well beyond spend optimization. Firms will need to rationalize their global footprints and create functional centers of excellence that improve scalability. And these changes must focus not only on the back and middle offices, but also on the core front-office functions of sales and distribution and the investment engine, where the bulk of the industry's costs are centered.

Industry leaders have bucked the widespread post-crisis deterioration of operating leverage, but their outperformance has been partly hidden by market forces that enabled weaker firms to get by.

- **From cost discipline to operating leverage.** The past few years have demonstrated that high-performing asset managers have the ability to create and sustain significant operating leverage, ensuring that incremental growth is not simply profitable, but also margin accretive. These industry leaders have bucked the widespread post-crisis deterioration of operating leverage, but their outperformance has been partly masked by market forces that enabled weaker firms to get by.

- **From operational efficiency to operational “alpha.”** Finally, in a more performance-constrained era, leading firms will increasingly look to their operational functions not simply as sources of greater efficiency, but as sources of competitive advantage. Forward-thinking asset management firms are investing in technology and talent and seeking to innovate in their business practices to deliver improved market access, more economical trade execution and superior insights. Digitization and technology will play an outsized role in this effort across the value chain.

The challenge of a new operating model

Most North American asset managers are aware of the need for an operating model overhaul. The results of a recent McKinsey survey of 25 U.S. asset managers on strategic investment priorities over a

three-year horizon signal a shift away from the status quo. On the investment front, the development of new capabilities in solutions is a top priority for three-quarters of the firms surveyed. In retail distribution, digital investments and enhancements were the biggest area of focus for half of respondents. Institutional firms are focused on delivering a higher level of expertise—with greater scalability—by using product specialists to complement generalist sales forces (Exhibit 19). From this vantage point, firms across the industry appear to be embracing change.

But by another measure—the percentage of revenues being devoted to these strategic investments—asset managers are underestimating the magnitude of

change required. On average, surveyed firms are projecting investments in strategic growth of 4 percent of revenues, and the majority are expecting these investments to be self-funding or funded through operating efficiency. While the nature of the operational changes required is fundamental, significant and long-term in nature, the approach to funding these changes is incremental and focused on the near term. Many executives—particularly those at parent-owned or publically owned asset management—cite the difficulty of balancing long-term strategic growth investments with the plethora of pressing near-term business needs. They describe a budgeting process

Exhibit 19

Planned investments indicate that asset managers are aware of the need for new operating models

Major strategic investments expected over the next three years

Investment capabilities/products	Retail sales and distribution	Institutional sales and distribution
Solutions (e.g., tactical asset allocation, target date, retirement income, global macro) 73%	Digital enhancements to sales tools and processes 50%	Increase number of product specialists 53%
Alternatives (e.g., private debt, private equity, real estate, hedge funds) 50%	Increased marketing spend 44%	Increase number of sales professionals 47%
Absolute return/liquid alternatives 45%	Increase number of wholesalers 38%	Increase number of sales professionals 40%
“Smart beta” (ETFs or mutual funds) 36%	Increase internal wholesalers/call center staff 25%	Expand number of client service professionals 33%
Active ETFs 36%	Pursue digital distribution (robo) 25%	
New product vehicles 27%	Predictive sales analytics 25%	

¹ Average annual spend over next 3 years

Source: Performance Lens Survey on Growth and Resource Reallocation in Asset Management

bogged down by inertia and over-reliant on the prior year's allocations. Budget deliberations lack a common language for discussing the tradeoffs across growth opportunities. Industry executives agreed without reservation that their legacy operating models were a far cry from what they would be had they been "clean-sheeted" today. On the other hand, they cited the difficulty of adopting the zero-based budgeting approach that such a fundamental redesign would require. As one executive put it: "We are far better at investing behind growth opportunities than we are at investing in front of them."

cal" approach to resource allocation that combines a disciplined focus on traditional measures of productivity with a willingness to invest in a focused set of priorities that will deliver a disproportionate share of growth in the years ahead.

A changing landscape

Fundamental changes and uncertainty will bring realignment to the North American asset management industry. League tables are likely to shift as firms that embrace the new industry dynamics and execute effectively against emerging opportunities pull ahead of those that hold on to orthodoxies from a previous generation.

The scale and scope of the operating model transformation required will likely lead some firms to turn to inorganic levers to accelerate change.

The scale and scope of the operating model transformation required will likely lead some firms to turn to inorganic levers to accelerate change. McKinsey therefore expects the current wave of targeted lift-outs and acquisitions to continue as firms seek new capabilities. Transformative acquisitions could also loom large as up-and-coming firms take advantage of more moderate valuation multiples and seek to acquire established rivals to serve as chassis for building and restructuring investment platforms with global scale.

The prospect of truly significant change in the asset management industry will put a premium on firms' ability to respond quickly and effectively to uncertainty and to emerging trends. Successful firms will require "strategic agility" to adapt as traditional business models, operating platforms and investment orthodoxies are upended. Adjusting to this environment will require a fundamental shift in mindsets, culture and processes and a "bifo-

Growth opportunities will abound for a variety of firm types, from large, scale-advantaged firms with the wherewithal to invest in cutting-edge technology, to asset-class specialists with highly efficient operating models, to specialist boutiques with distinct investment cultures. However,

there will be limited competitive space available for mid-sized active managers trying to be all things to all clients and lacking a distinct source of advantage.

The rules of the asset management industry will be rewritten over the next five years, and the broader investment management ecosystem will be reconfigured. It will be a fascinating time for observers of the industry and an exciting one for those firms that act on the need for change.

Questions for management

As they consider their strategy and competitive positioning in the face of unprecedented change, asset management executives could start with a back-to-basics approach to some foundational questions:

1. What is our true source of competitive advantage? How resilient will it be in the face of significant change, and how is it unique compared to our peers?
2. What is our value proposition to clients? Will it be relevant if the trends discussed in this report take their expected paths? How does it need to change?
3. Does our operating model support our value proposition in an economically advantaged way? How can it be improved?
4. How distinctive and differentiated is our talent strategy? And to what extent is it optimized to attract and retain new types of talent that will be important to our future success (e.g., technology and analytics focused)?
5. How can we create greater flexibility and dynamism in our resource allocation, in order to invest with conviction?
6. How can we ensure that we are taking a “bifocal” approach to resource allocation, focusing simultaneously on running the business efficiently and innovating to create new vectors of growth?

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McKinsey & Company is a management consulting firm that helps many of the world's leading corporations and organizations address their strategic challenges, from reorganizing for long-term growth to improving business performance and maximizing profitability. For more than 85 years, the firm's primary objective has been to serve as an organization's most trusted external advisor on critical issues facing senior management. With consultants in more than 50 countries around the globe, McKinsey advises clients on strategic, operational, organizational and technological issues.

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February 2015

The New Imperatives: Gaining An Edge in North American Asset Management

December 2014

The Trillion-Dollar Convergence: Capturing the Next Wave of Growth in Alternative Investments

August 2014

Blending Science with Art to Capture Growth in U.S. Retail Asset Management

July 2014

About the Research for This Report

This report is based in part on insights gleaned from McKinsey's Performance Lens data and analytics solution for wealth and asset management. Performance Lens provides fact-based, actionable insights to improve business performance by combining industry-leading benchmark data, analytics and tools with McKinsey's deep industry expertise.

Global Growth Cube

The Global Growth Cube is grounded in the understanding that asset growth, flows and revenue trends vary greatly across the major regions of the world, reflecting fundamental differences in market maturity, industry structure and regulatory frameworks.

To provide deep insights on where to compete and to help asset managers make effective strategic growth, resource allocation and product decisions, the Global Growth Cube dissects growth and revenue trends into over 4,000 micro-segments across 44 regions and countries, 9 client segments, 15 asset classes and 5 product vehicles.

Global Asset Management Survey

The Global Asset Management Survey is the leading survey of its kind, with unrivaled coverage (over 300 participants representing \$40 trillion or 60 percent of AUM globally, and over 100 participants and 85 percent of AUM in North America), data quality and depth (8,000 business performance benchmarks), and the longest track record in the industry.

Now in its 16th year, the survey helps asset managers assess their operational effectiveness versus relevant peers and identifies actions to improve growth and profitability.

Sales Alpha

McKinsey's Sales Alpha methodology measures the value-add of sales and marketing (adjusting for investment performance), utilizing a factor analysis of over 10,000 retail and institutional products.

This tool conducts detailed fund-level analyses of gross sales, redemptions and net flow metrics that are aggregated at the channel and company level to help asset managers identify opportunities to improve distribution effectiveness and stimulate faster growth.

Wealth Management Survey

The Wealth Management Survey provides granular growth, operational and financial productivity benchmarks for wealth managers in North America with a full-cycle industry perspective based on an eight-year track record. The survey covers 36 participants (14 of the top 20 players in North America) and more than \$12 trillion in client assets (more than 60 percent of the industry in North America).

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