

REPORT

GLOBAL ASSET MANAGEMENT 2008

Winning Strategies in Uncertain Times



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Note to the Reader

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Preface

Winning Strategies in Uncertain Times: *Global Asset Management 2008* is The Boston Consulting Group's sixth annual study of the worldwide asset-management industry.¹ As in our previous studies, the report contains a comprehensive market-sizing effort—this year taking in more than 30 markets—and a thorough analysis of the trends and dynamics that are shaping the industry for various types of players in diverse regions.² As in the past, we have focused exclusively on assets that are professionally managed in exchange for a fee.

This year, we also pay particular attention to the events surrounding the subprime crisis. The crisis—which began to unfold in the summer of 2007 and whose effects are still having a tremendous impact on the global financial-services industry, including the asset management sector—is clearly one of the most serious financial market events in history. We explore in detail how the crisis has affected asset managers so far and examine the steps they must take both to weather the storm and to emerge as stronger, more robust players in the future. These steps include—first and foremost—rebuilding client trust, which encompasses better addressing client needs and enhancing risk management. Other critical steps are containing costs and finding ways to explore new growth, especially in Asia-Pacific.

We hope that this report—together with its sister publication, *A Wealth of Opportunities in Turbulent Times: Global Wealth 2008* (BCG report, September 2008)—will engage readers and prompt asset managers to reflect on the implications of current industry dynamics for their businesses.³ Indeed, times have rarely been more uncertain for the asset management industry—all the more reason

why each player must strive to find a winning strategy given its particular market, its unique strengths and weaknesses, and its aspirations.

1. A report based on the study has been published annually since 2003, with the exception of 2005.

2. The markets included in our study are as follows. Americas: Brazil, Canada, and the United States. Europe: Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Russia, Spain, Sweden, Switzerland, and the United Kingdom. Asia-Pacific: Australia, China, Hong Kong, India, Japan, Singapore, South Korea, and Taiwan. "Other" represents South Africa, sovereign wealth funds of the Middle East, and offshore money (not included in any country statistics) that cannot accurately be allocated to a specific country and segment. For more details, see the Methodology.

3. Market totals in the two reports vary considerably because of different methodologies used in the market sizing. The Global Wealth report uses a broader definition of assets that includes asset classes and revenue sources (including net interest income) that are relevant to wealth managers.



Seven Things to Know About Today's Asset-Management Market

At a time when so many diverse forces are shaping the global asset-management landscape, it can be challenging to identify the dynamics that are having the greatest impact. The following seven points provide a glimpse of the industry's essential characteristics today.

- ◇ *After five years of strong growth, the climate for asset managers has become extremely challenging.* This shift began in the second half of 2007—when the subprime crisis started to take hold—and has continued through the third quarter of 2008. The crisis, which has severely hit assets under management (AuM) and made investment decisions more difficult, has brought issues such as risk management, product transparency, asset loss, and the overall stability of financial institutions to investors' attention globally. Although the fundamentals of the asset management business remain sound and profitable, 2009 promises to be a difficult year as well.
- ◇ *In 2007, the value of professionally managed assets rose globally by 13.9 percent to \$58.9 trillion.* The depreciation of the U.S. dollar exerted a strong influence on the growth of AuM—net of which growth would have been 10.3 percent. There were clear differences between the first half of 2007, when growth was robust, and the second half, when the impact of the crisis was first felt.
- ◇ *Growth is found in all regions, but Asia-Pacific is gaining ground.* AuM in the Americas grew by 11.1 percent to \$30 trillion in 2007, and the United States remained the largest global market with \$27.5 trillion in AuM. European AuM grew by 5.2 percent to nearly \$20 trillion (€14.5 trillion). Emerging markets in Eastern Europe continued to show significant AuM growth rates, typically between 15 and around 25 percent (as measured in local currencies). AuM in the Asia-Pacific region grew by 27.3 percent in 2007 to \$6.5 trillion. AuM growth in Asia-Pacific (net of currency effects) surpassed that in Europe; and China for the first time broke into the ranks of the top ten global markets with roughly \$900 billion in AuM at the end of 2007.
- ◇ *Investors in the United States, Europe, and Asia-Pacific reacted differently to the crisis, causing asset managers to rethink their strategies.* Mutual fund sales in Europe suffered greatly in 2007, when the subprime crisis began to spread—a trend that has worsened in 2008. Bond and equity funds were particularly hard hit, with much of the outflows from those products going into cash deposits. Yet in the United States and Japan, 2007 brought record inflows into mutual funds—most heavily into money market funds.
- ◇ *The fallout from the crisis will strongly influence investors' choices of asset managers, asset classes, and the overall structure of the revenue pool.* New asset classes will continue to squeeze the traditional core of actively managed funds. Portfolios will put more emphasis on passively managed products, with a large share going to exchange-traded funds (ETFs). Alternative and innovative products will increasingly be expected to provide alpha and true diversification. With investors becoming more familiar with these vehicles and seeking them out more often, such alternatives will become far more mainstream despite the negative impact of the crisis in the short term.
- ◇ *Four factors will lead to lower, or at least more volatile, fee volume for asset managers.* These factors are a bear mar-

ket, leading to a proportional decrease in regular fees and severe cuts in performance-based fees; margin pressure, owing to increased investor skepticism and negotiating power because some active/alpha products have not proved their value; a rising share of fees that are based on performance; and an increasing share of low-margin products.

- ◇ *Asset managers need to take forceful, short-term actions to surmount the crisis, but now is also the time to prepare for the next growth wave in the asset management industry.* First, asset managers must rebuild client trust. Second, they must contain costs. Third, they must find ways to explore new growth, particularly in Asia-Pacific and also in Brazil. Regaining the faith of clients can be achieved through improved distribution practices that better address client needs and through enhanced risk

management practices. Cost containment can be aided by structural changes and strategic initiatives. In Asia-Pacific, as growth in developed markets slowly regains its footing, AuM growth can be expected to rise at a rapid rate when the woes of the subprime crisis have waned. This expectation is underpinned by higher GDP growth in the region and by a continuing trend of assets shifting from cash-dominated holdings into investment products. For growth-minded international asset managers, it is therefore critical to find ways to participate in the opportunities that Asia-Pacific has to offer. Although the effects of the subprime crisis still weigh heavily on financial markets—and the memory of it will take many years to fade—opportunities for asset managers will be abundant as the harshest effects of the crisis ease and market confidence rebounds, however slowly that may occur.