



2016

GLOBAL ASSET MANAGEMENT & ADMINISTRATION SURVEY

On the road to digitization



FOREWORD

This is the sixth year of the Linedata Global Asset Management and Administration Survey, and we remain committed to exploring how we, as a vendor, can assist our clients in differentiating themselves and adding value to their clients. The survey plays a role in helping us to identify the areas of greatest challenge and potential risk as well as the possibilities for growth in this dynamic market. It forms part of our on-going dialogue with the asset management industry at large.

Now more than ever, intelligent application of technology plays a vital part in any firm's success and it is our role to support our clients through technological and industry changes, adapting our own offerings as appropriate and bringing new services and software to market. From trading, compliance and risk through to client and regulatory reporting our solutions and services can and do make the difference. Our clients tell us that digitization - which is defined by Gartner as the use of digital technologies to change a business model and provide new revenue and value-producing opportunities - can have a broader effect too, improving a firm's image and thus assisting with recruitment and new business, and can create a dynamic workplace which will encourage further innovation and promote staff retention.

A word, too, on legacy systems: it is important to remember that any incumbent system is a legacy system and that many are fit for purpose. It is our practice to regularly update the technology and functionality of our solutions such that they stay current and relevant. It is also worth noting that there are occasions where the full benefit of system capabilities is not leveraged, either because upgrades are viewed as onerous, or key in-house expertise is lost, and a small investment can often reap large rewards.

Beyond continuous investment in our existing systems to ensure that they remain best-of-breed, we are actively exploring greater digitization and how new technologies such as blockchain can usefully be deployed to meet our clients' needs in the future.

Linedata thanks our clients and industry colleagues who took time to complete this survey – your expert views are valued and appreciated.

We hope you find the survey thought-provoking and useful.

INTRODUCTION AND SURVEY HIGHLIGHTS

The asset management industry is changing. While the financial crisis of the last decade is well and truly behind us, it has left in its wake a legacy of legislation and restructuring which is changing the entire industry. Yet despite the challenges of reform, new practices and processes, the outlook is largely positive, with global assets under management topping US \$74 Trillion at the end of 2014 (Source: BCG) and a predicted growth rate of 6% in the next four years - faster than the predicted growth in GDP (Source: PWC). Such positive statistics have attracted the interest of diverse emerging forces, from potentially disruptive entrants to cybercriminals. These add further challenges to a market in flux and more complexity to the business of turning a profit whilst meeting obligations to regulators and stakeholders and keeping data secure.

The high level findings in our 2016 Global Asset Management Survey are as follows:

The main challenges firms see both now and in the near future are adapting to new regulatory regimes and maintaining operational efficiencies/cutting costs. They care about a broad range of regulation and recognize the potentially disruptive power of cyberattacks, new intermediary models and the move towards alternatives. Firms see client service as the route to differentiation, yet plan to spend their IT dollars on improving legacy systems and on risk and compliance solutions, presumably to address those key challenges. Data security is their main enterprise data management concern, and they do not plan significant migration to the cloud in the next twelve months. The stand-out market prediction for 2016 is volatility. Overall, it's a complex landscape, yet holds many possibilities.

METHODOLOGY



The data for this survey was gathered during the fourth quarter of 2015.



Over **200 people** completed the survey, either face-to-face at the Linedata Exchange events in London and San Francisco, or via an on-line survey.

The respondents include asset managers, hedge fund managers, fund administrators and other stakeholders in the asset management industry including custodians, prime brokers, consultants and advisory firms.

1. MAIN CHALLENGES

What are the main challenges to your firm right now?



Our first question to respondents was ‘What are the main challenges to your firm right now?’ asking them to identify the top three challenges. It isn’t a huge surprise that the foremost issue at 58% is adapting to new regulatory regimes: regulation has been the top concern and increasing every year bar one since our first survey was first published in 2011 (in 2014 regulation was a close second to investment performance, by 3%).

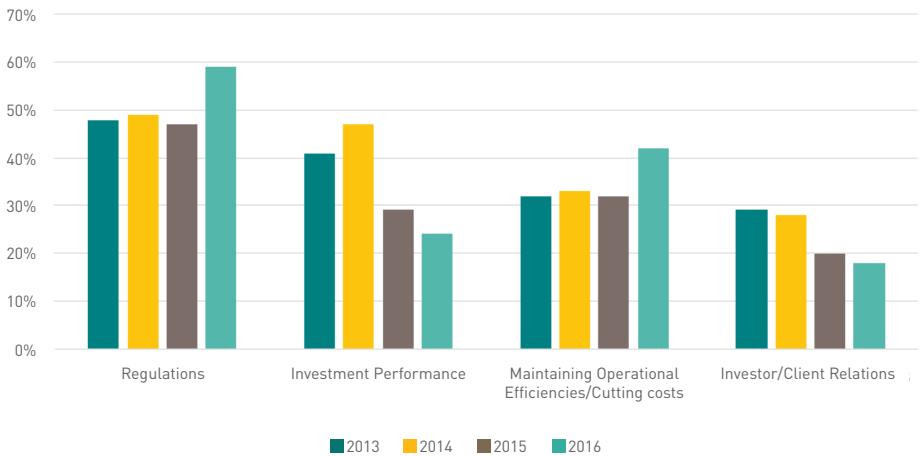
Maintaining operational efficiencies/cutting costs at 43% was a clear second place, up from 32% in 2013.

One observation is that these two priorities are somewhat conflicting, as it is hard to cut costs when paying the price for adapting to new regulatory regimes. Alternatively, we could interpret the rise in operational efficiencies/cutting costs as at least in part related to efforts to compensate for the costs associated with regulatory compliance, as well as a reflection of reduced margins across the industry.

The third overall priority in terms of challenges is managing data, reflecting the continuing rise of data as an important corporate asset. Interestingly, market conditions/maintaining investment performance has slipped down the rankings compared to previous years, perhaps a reflection of more buoyant market conditions rather than improved performance by individual firms.

The lowest ranking challenge is service provider oversight (such as a third party administrator). We see three possible interpretations of this: oversight is not seen as a challenge relative to other more pressing concerns, or because our respondents feel that they have appropriate measures in place in terms of service provider oversight, or that this has been an underestimated challenge to date. In all events, this is an interesting data point given the emphasis that regulators are putting on oversight, a concept which is addressed in AIFMD, UCITS, MiFID and local legislation such as the UK's FCA rules.

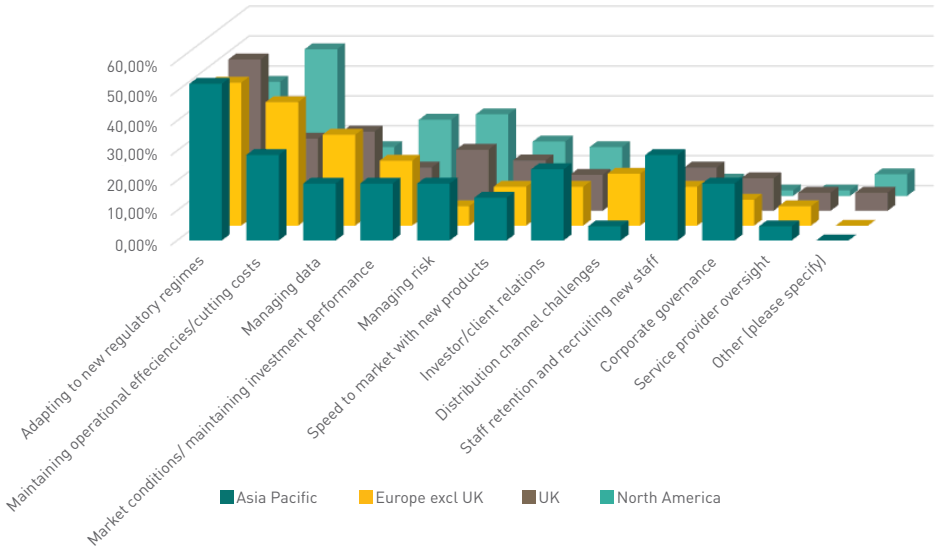
Key challenges - movement over time



When we consider some of the biggest movers over time, it becomes clear that regulations and maintaining operational efficiencies increasingly preoccupy the asset management world, whilst investment performance and client relations are viewed as relatively less challenging today than 4 years ago. This relative decline in investor/client relations is particularly surprising, as later in the survey, firms identify this as their strongest differentiator. Perhaps the general view is that, although key, this area is under control and presents no challenge.



Current main challenges by region

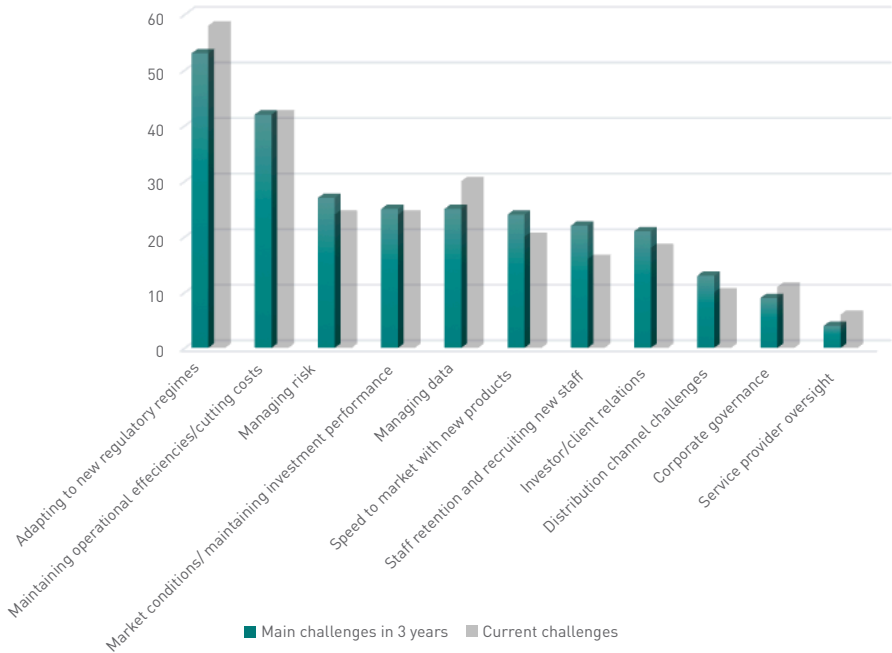


Regional splits

When this information is examined by region, it becomes clear that, whilst regulations are challenging for the rest of the world, they are slightly less so in North America, where the greatest challenge is maintaining operational efficiencies and cutting costs. This is possibly a reflection of the vast amounts of regulation in Europe and the growing raft of individual country regulations in Asia Pacific, covering different aspects of the industry.

As a counterbalance, market conditions and maintaining investment performance are seen as greater challenges for North America than elsewhere. Managing risk is not seen as a challenge in Europe excluding UK, which is curious given that financial regulation is typically Europe-wide. Other regional variances are the relative challenge that staff retention and recruitment presents in Asia Pacific, reflecting the growing market; and the importance placed on data management in Europe, including the UK, relative to the rest of the world. Initiatives such as IBOR (investment book of records) which originated in Europe may be indicative of this, and the increasing desire to centrally manage data.

Main challenges to your firm in three years' time



When we look at what firms predict will be their greatest challenges in three years' time, the picture is similar to the present but the differences are worth noting:

Concerns about regulations have diminished slightly. This may reflect that we are now in deployment phase and that this will be either completed or at least en route in three years' time. An alternative interpretation is that so much has been done to support the current raft of regulations, in terms of both data gathering and establishing methodologies, that respondents feel that their firms are in a good place to support any new regulation coming up.

Maintaining operational efficiencies/cutting costs remains the same whilst managing risk jumps to third place, ahead of market conditions and managing data – perhaps indicating that whilst we do not know what market conditions will be in three years' time, we know that risk management will not disappear! This may also – if a broad view of risk management is taken – reflect respondents' concerns about cybersecurity (coming up later on in the survey).

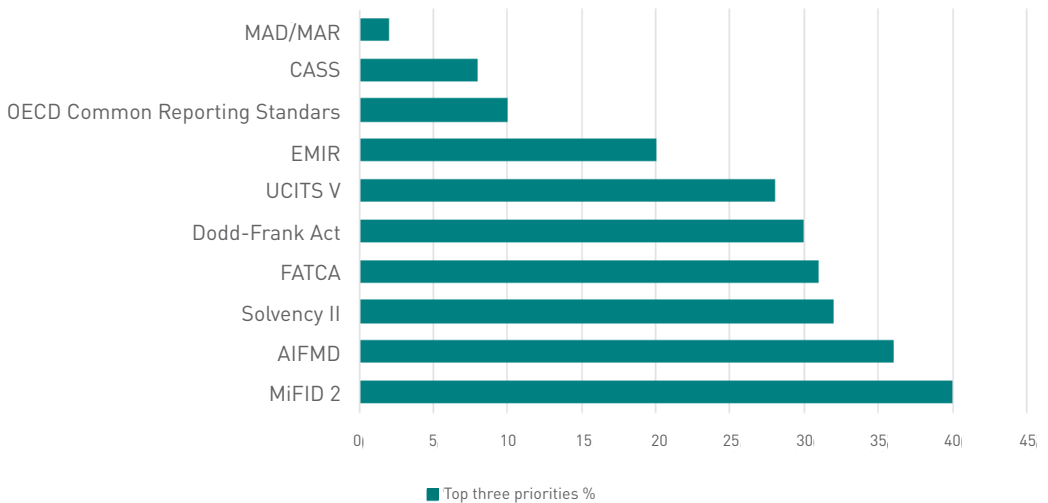
It is surprising that managing data is perceived to be less of a challenge in the future, given that the amount and complexity of data handled within the asset management industry is increasing every year. Note that Investor/client relations ranks higher for three years' time than now, as does speed to market with new products, denoting an uncertainty about what will be required and how it will be delivered in a world where disruptive models and new technologies are emerging on a daily basis. In an historical context, maintaining investment performance is becoming less of a focus. Twenty five percent predict it to be the greatest challenge over the next three years, significantly less than the 46% of respondents back in 2013. Staff retention and recruitment continues to grow as a challenge. It has risen from 7% in 2013 to 16% in 2016 and a predicted 22% of respondents see it as challenge in three years' time.

2. REGULATIONS

We asked ‘Which regulations do you consider to have the greatest impact on your business?’

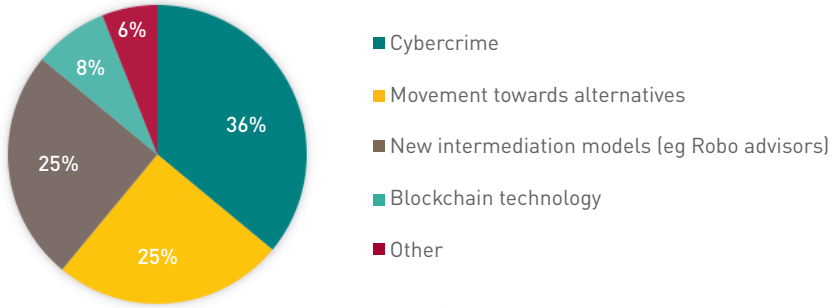
It seems that those regulations which are ranked as having the greatest impact are those which were designed to change behavior and consequentially fundamentally alter the environment in which we operate. We had more European than North American respondents, so we can see that Dodd-Frank ranked relatively low (although it was the top regulation for North American respondents at 77%). A relative late-comer to the regulation party, OECD Common Reporting Standards are ranked surprisingly low – perhaps because FATCA preparations cover many of the same data points, or because final deadlines are further ahead.

Regulations with greatest impact



3. DISRUPTION

Where is the greatest potential for disruption and risk over the next five years?



Looking beyond regulation, we asked the respondents to consider the greatest potential for disruption and risk to the industry and where this might come from. Over a third of the respondents identified cybercrime as the greatest risk. This ties in with concerns about data security identified later in the survey.

If we look back to Question One at the main challenges seen for today or indeed for three years ahead, concerns about regulatory regimes and maintaining operational efficiencies rank higher than managing risk (where you might expect a concern for cybersecurity to lie). Perhaps firms think this risk is being managed or that there is little further that can be done to prevent a cyberattack, or it may be that the imperatives of day-to-day business outweigh this theoretical risk. Alternatively, risk in this instance has been interpreted by our respondents as market risk rather than operational risk, where external events such as cybercrime reside.

In terms of industry game-changers, the movement towards alternatives, already in motion and widely documented, and the new intermediation models and the move to passive investment are also significant, with the potential to change the shape of the investment industry. Blockchain technology, so heavily debated in the media, concerns only 8% of respondents, which perhaps mirrors the fact that the industry is still exploring the potential of this technology rather than being an absolute measure of its final impact.



4. DIFFERENTIATION

We asked respondents how, in a crowded marketplace, they distinguish themselves from the competition. Interestingly, this open question elicited a consistent set of responses. Client service is the competitive edge that most firms claim. This is not surprising as, despite being in growth mode, the asset management market is becoming increasingly commoditized. Performance features as a distinguishing factor, and product offering is also significant, which, when taken alongside innovation and being a specialist, demonstrate that differentiation is taking a variety of forms.

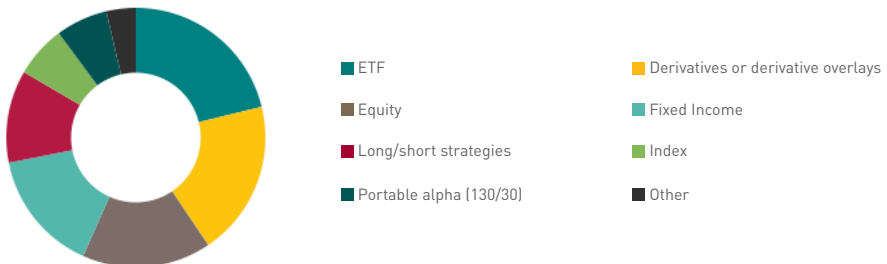
It is worth noting that this emphasis on client service does not tally with the current challenges our respondents encounter; presumably this is an area where resources have already been invested and results are being seen.



5. NEW PRODUCTS

We asked, ‘Which products are you thinking of adding or anticipating major growth in over the next 12 months?’ The most-voted for products were ETFs, reflecting the move to more passive investing. The spread of products anticipated indicates a trend for the broadening of portfolios to include a wider variety of instrument types and investment styles.

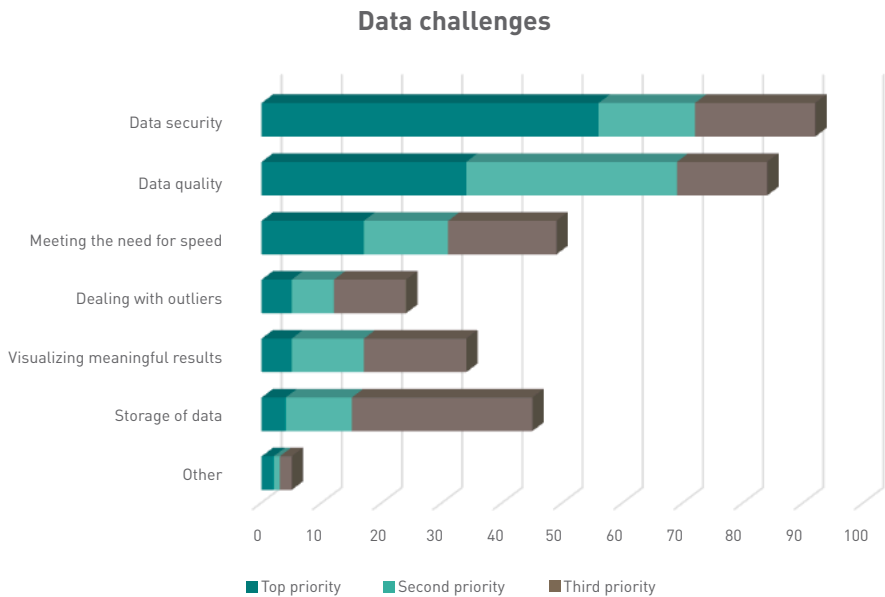
Growth products over next 12 months



6. ENTERPRISE DATA MANAGEMENT

We asked respondents, ‘What are the biggest challenges of enterprise data management?’ and in ranking the top three priorities, it is clear that data security is the overarching concern, echoing previous concerns about cybercrime and confirming that data is seen as a valuable asset. This is perhaps at odds with the low priority of cybersecurity as an IT spend in the next question.

Data quality ranks second, although arguably this should be paramount: low quality data would lead to incorrect calculations and records and may even attract the attention of regulators. It is interesting that visualizing meaningful results does not score particularly highly, despite having been a hot topic for the past 12-18 months (think IBOR, dashboards, redesigned GUIs). Perhaps this is a ‘nice to have’ when compared to the business critical nature of data security and quality. Possibly, as firms deal with the security and quality challenges, they will move on to examine how best to deploy data to help the business – we will wait for the results of our 2017 survey to find out!



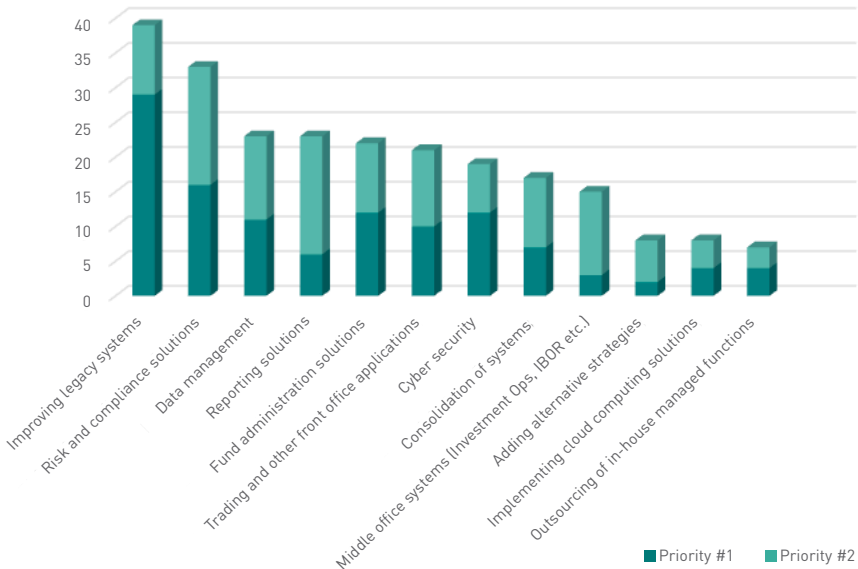
7. IT SPEND

When asked, ‘Where are you allocating the highest proportion of your IT spend in coming 12 months?’ our respondents clearly indicated that improving legacy systems was their primary IT spend priority. It is worth noting that a legacy system is any incumbent system and as such may well be fit for purpose. In an environment where technology is clearly a differentiator, it makes sense that firms are investing in improving existing systems, especially where swapping a system out involves vast upheaval and expense. This priority aligns with the second most cited challenge in Question One - maintaining operational efficiency/cutting costs – by maintaining and optimizing existing solutions to increase automation and enlarge functionality.

The second IT spend priority is risk and compliance solutions. This ties in with the main challenge cited in Question One - adapting to new regulatory regimes. It is worth noting that, although the threat to cybersecurity is clearly identified as a potentially disruptive force (Question Three above), it ranks no higher than seventh as an IT spend priority. It is possible that firms have put measures in place to counter this risk, or that this risk is seen as less of an IT spend, more of an overall issue requiring new general governance processes.

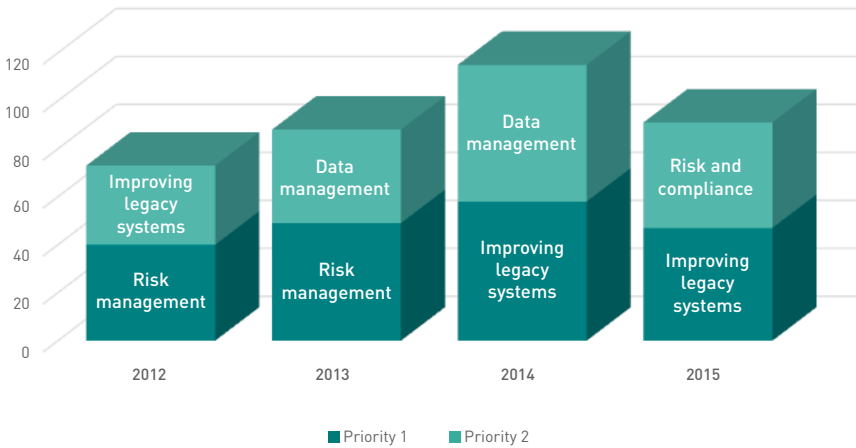
Finally on the question of IT spend, it is interesting that, despite firms’ emphasis on client service, systems which could be viewed as key to this area (data management, reporting solutions) are not the top choices.

IT spend priorities - next 12 months



If we consider global IT spend priorities over time, we see a move away from risk management and towards improving legacy systems – could this be a fundamental shift of priorities, or a sign that much of the risk management work has been completed, at least for now? The trinity of data management, risk and compliance, and improving legacy systems consistently appear in the top two areas of highest spend, which is consistent with the overall main challenges the industry sees.

Top two IT priorities over time

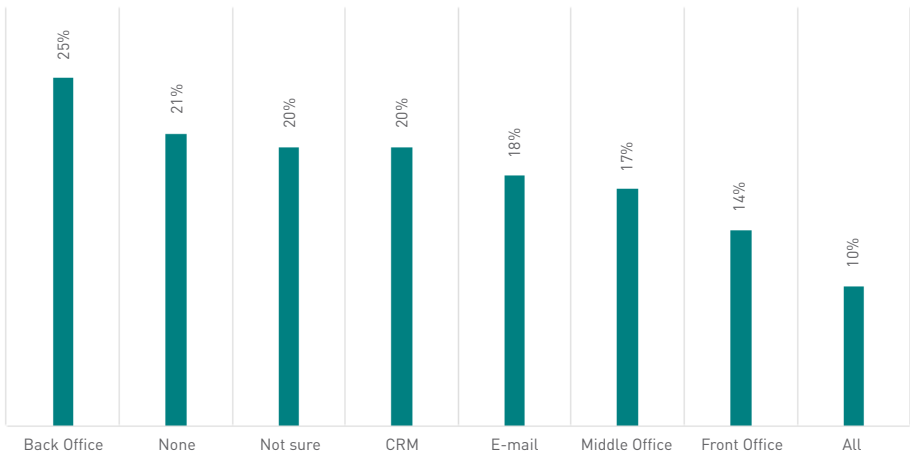


8. THE CLOUD

When asked, 'What business processes are you currently running or planning to run in the cloud/as a hosted solution?' the survey respondents demonstrated a lower level of enthusiasm for cloud applications than might have been supposed, with the highest level of activity being back office applications in the cloud (25%) and with 21% stating that they neither run - nor plan to run - any business processes in the cloud or as a hosted solution.

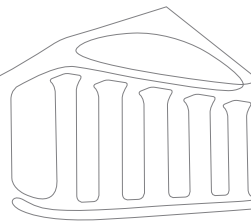
Taking into consideration that only 10% of respondents stated that they run all their processes in the cloud, it is clear that many firms still prefer to run most key business processes in-house. This may be for security reasons, to retain more control over processes or because existing systems (we have established that maintaining legacy systems is a priority) may not have the option of running in the cloud.

Business processes in the cloud



9. ONE MARKET PREDICTION

We asked our respondents for one market prediction for the coming 12-18 months. This was a free text question but produced a clear response, with a significant proportion of respondents predicting volatility for 2016 (early market experience in 2016 validates this) followed by predictions of interest rate rises in various countries, more regulation and more oversight. Respondents used this opportunity to express their fears. Among European respondents, issues such as Grexit, Brexit and another Scottish referendum featured. From North America we had predictions of US markets up and US markets down as well as further growth in Asia. Finally, respondents exhorted us to never predict and to hang on to our hats!



CONCLUSION

Whilst the key challenges of managing regulatory change and maintaining operational efficiencies/cutting costs have not changed since last year, there are some indications that the emphasis is now less on acting on regulation, as much of that is in place, and towards a better understanding of the long term systemic changes that regulation is having on the asset management industry. These indications take the form of moves towards different investment types and strategies, a greater concern for data management and a level of regulatory preparedness which will perhaps enable firms to move on from dealing with the essential challenges that are their current concerns to more strategic matters.

Increasingly, these are all areas where judicious use of technology, in addition to adoption of best practice, is vital for firms wishing to differentiate themselves and add value to their offering in this competitive marketplace. Digitization is everywhere. Be it through the provision of smarter, faster client servicing technology, more comprehensive and transparent reporting, improvements to data management and security and to underlying engines, technology is key. In the hunt for greater efficiencies, technology can also provide the automation necessary to reduce costs and maintain or improve margins. Meanwhile, new technology is now driving change in the competitive landscape both in terms of the products it can support and the way it can support them.

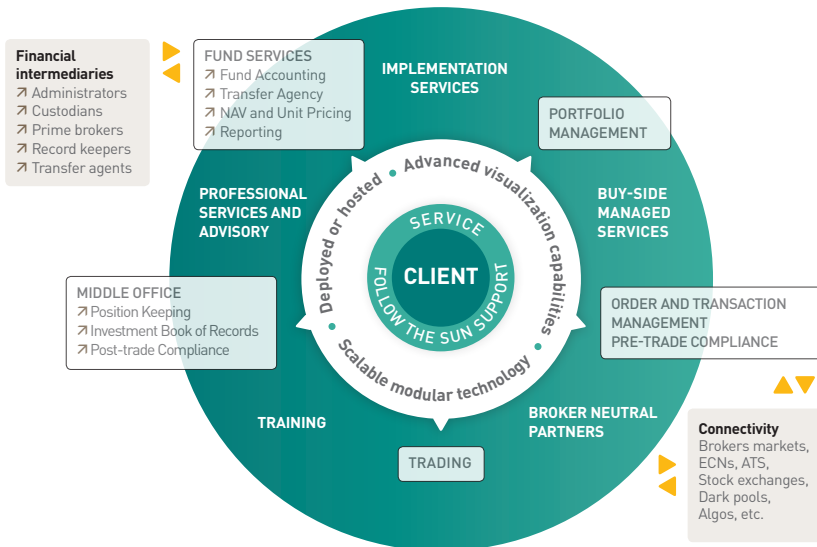
In this sixth year of Linedata's Global Asset Management and Administration Survey, the responses reflect this shift towards a more automated and technology-driven industry. This edition of our survey has documented market restructuring, predicted volatility, new threats and opportunities: 2016 should be an interesting year in asset management. A year on the road to digitization.

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ABOUT LINEDATA

Linedata is a global solutions provider dedicated to the investment management and credit community, with close to 1000 employees in 16 offices across the globe. Linedata has been at the service of the financial industry from day one, and applies its market and client insight to provide innovative and flexible mission-critical software and services that help its clients grow in over 50 countries. As a pioneer for over 15 years with the set-up of SaaS infrastructure for the financial industry, Linedata remains committed to this model throughout the global financial community and for its full range of products. Headquartered in France, Linedata achieved revenues of EUR 172.3 million in 2015. This company is listed on Euronext Paris compartment B FR0004156297-LIN – Reuters LDSV.LN – Bloomberg LIN:FP.



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