



Investor &  
Treasury Services

# Efficiency, Experience & ETFs

Australian Asset Manager Survey  
2019

# Contents

- 3 Executive summary
- 4 Key findings
- 5 Market confidence
- 6 Challenges
- 8 Efficiency
- 10 Technology
- 11 Product
- 13 Investor sentiment
- 14 ESG
- 15 Respondent profile

# Executive Summary

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Australian asset managers are addressing a raft of challenges impacting the industry. As they face increased regulatory oversight and market volatility, they are actively finding ways to grow their investor base to manage the rising costs of doing business. The survey highlighted three key areas that managers are focusing on in the year ahead.

## Efficiency

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## Experience

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## ETFs

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The survey highlights planned technology investment in process automation and data analytics to drive **internal efficiency**.

There's a strong focus on firms' Front Office to improve their sales, distribution and service offering in order to build and enhance their investor **experience** and support growth.

**Exchange traded funds (ETFs)** are clearly identified as the product set that will see the strongest growth in the next 12 months over 70% of respondents ranking it in their top two while over half of the firms surveyed stated they planned to launch ETFs in the next year.

## About this Survey

RBC Investor & Treasury Services conducted its second annual survey of the Australian asset manager sector in August and September 2019 to gain insights into the challenges facing the industry, the opportunities they present and the key areas of focus for asset managers for the year ahead. This report outlines the aggregate response across 35 asset managers in the Australian market.

# Key Findings

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## Confidence in the market

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Only **27%** of respondents are confident in the Australian market outlook for the next 12 months.

## Challenges

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**Increased regulation and oversight** tops the list of challenges facing firms in the next 12 months (24%) with market volatility (17%) ranked second.

Firms are planning to overcome these challenges by **growing their investor base** (25%), improving efficiency (20%) and enhancing their service offering (19%).

## Technology

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Investment in technology over the next 12 months will be focused on **process automation** (26%) followed by **data analytics** (20%) and **regulatory compliance** (20%).

## Efficiency

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**32%** of respondents will be focusing their efficiency improvements on their Front Office function to support an enhanced service offering and investor acquisition. Some 23% of firms will be concentrating on the Back Office and 20% on their Middle Office.

More than half the respondents will look to **drive these programs internally** (53%) while one in five (21%) will look to partner with their Fund administrator / Custodian.

## Product

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**Exchange traded funds (ETFs)** were ranked number 1 for growth in the next 12 months and over half of respondents stated **they would be introducing ETFs (52%)** in the year ahead.

## Investor sentiment

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**Low net returns** (41%) was the standout issue raised by investors to their asset managers. **Investors' concerns about their administrative burden** were highlighted by a quarter of respondents (24%) emphasizing the need for managers to focus on investor experience enhancements.

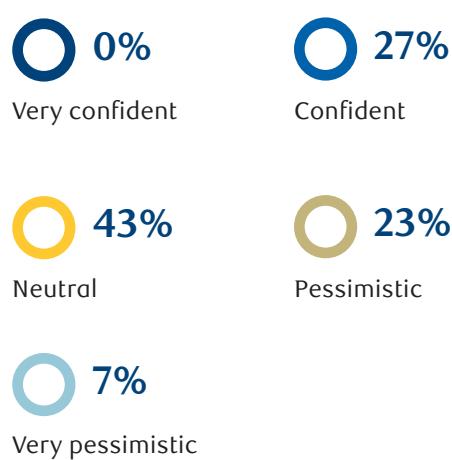
## ESG

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**54%** of respondents ranked ESG factors as important to their investors with **Governance ranking as the most important** ahead of Environmental and Social.

# Market Confidence

How confident is your business on the outlook for the Australian market over the next 12 months?



The impact on the Australian market from local and global economic headwinds such as negative yield curves, trade concerns between China and the US, ongoing tensions in the Middle East and the potential for government intervention and stimulus measures has seen confidence remain fairly muted.

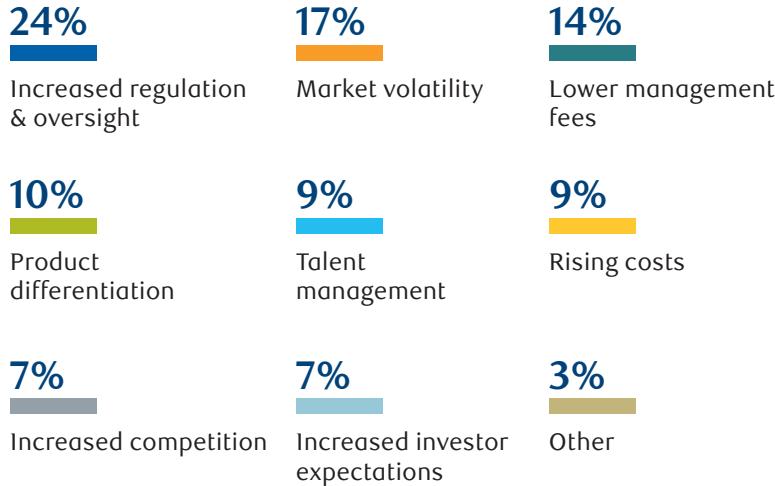
Industry-specific trends such as declining investor transactions and a shift to low-cost funds driven by strong growth in passive investment vehicles have negatively impacted asset managers' fee revenues. Increasing regulatory oversight and the need to lift investment in technology and digital transformation have also impacted managers' cost bases.

In addition to the impacts on revenue and costs, the scrutiny of the sector and the recommendations from the recent Royal Commission into misconduct in the industry, have also caused uncertainty in the market and damaged investor confidence.

Larger asset managers are less likely to be pessimistic (24%) about the market over the next 12 months than managers of funds under \$5bn (44%). A neutral outlook to the market is the strongest sentiment across asset managers of all sizes, reflecting market conditions that have largely been in place over the past few years.

# Challenges

What are the two biggest challenges your firm faces over the next 12 months?



The Australian asset manager market highlights the burden of increased regulation and oversight as the biggest challenge facing firms in the next 12 months with 24% identifying this issue as a top challenge. This is an increase of 4 percentage points from 2018.

Market volatility has prompted the largest year on year increase, identified by 17% of respondents, an increase of 8 percentage points from last year.

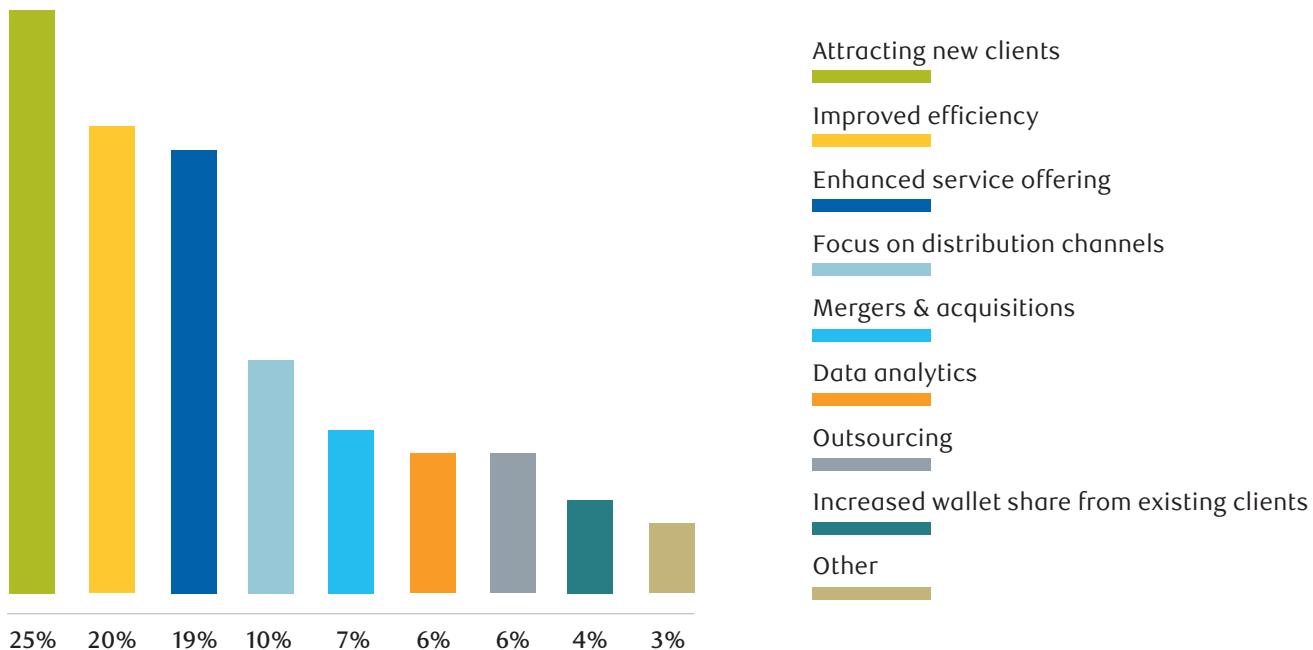
Lower management fees have also seen significant growth from last year's survey with an increase of 6 percentage points. This being driven by the continued

growth in passive investments, ETFs in particular. There is a trend showing increased levels of in-housing of certain asset classes. A recent global study by bfinance<sup>1</sup> identified that a quarter (24%) of surveyed investors had begun or were about to begin to manage an asset class/strategy in-house that was previously managed externally. This trend is driving competition and reduced fee revenue for asset managers.

Rising costs are perceived as less of a challenge than they were a year ago with responses citing costs as a challenge reducing from 15% to 9%.

<sup>1</sup> bfinance Asset Owner Survey: Innovations in Implementation, September 2018

## How are you planning to address these challenges?



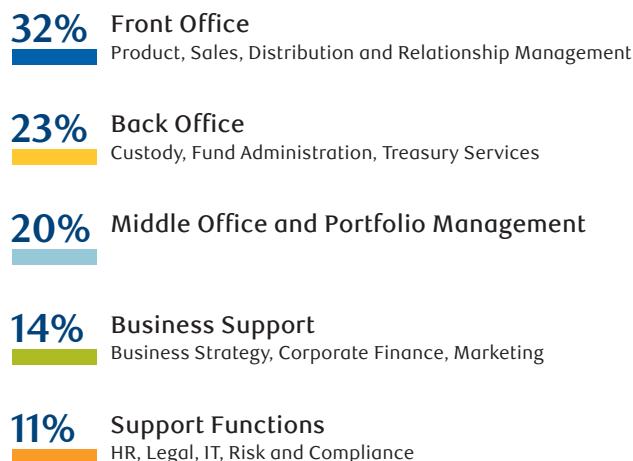
While the burden of increased regulation and oversight registers as the highest reported challenge over the next 12 months, Australian asset managers are focused strongly on attracting new investors to overcome the key challenges of market volatility and reduced fees. This is supported by their focus on enhancing service offerings and efficiency improvements.

A quarter (25%) of respondents are planning to drive investor acquisition in the next 12 months to address the challenges identified. This demonstrates the focus on building scale and revenue for the business to help offset the cost impact of an increased regulatory burden.

Asset managers' focus on improving efficiencies in their firms has remained the second-rated area of focus to overcome the challenges in the market, as it was in 2018. Firms are looking for efficiency improvements across the business, across Front, Middle and Back Offices. This will not only help reduce their cost base but also drive enhanced investor experience to underpin the number one area of focus - investor acquisition.

# Efficiency

What areas of your business are you looking to focus on to improve efficiency over the next 12 months?



Efficiency improvements over the next 12 months will be heavily focused on enhancing product and service offerings and growing the investor base. The focus on Front Office efficiencies supports the overarching theme of the survey that Australian asset managers are determined to enhance their competitive service proposition to grow their revenues through investor acquisition.

While respondents are heavily focused on enhancing their product, sales, and distribution channels, there is still plenty of scope for efficiency improvements across their entire supply chain. One-fifth of respondents plan to drive opportunities from their Middle Office while just under a quarter plan to drive efficiency improvements in the Back Office.

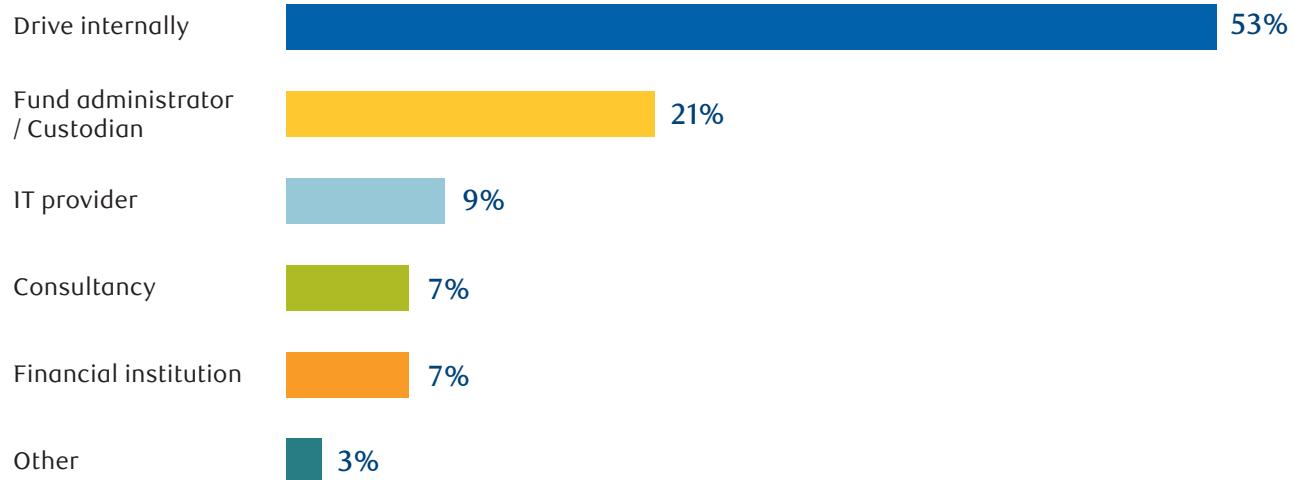
## Efficiency to drive investor experience

The planned investment and focus on Front Office efficiencies over the next 12 months should flow through to an enhanced investor experience - a key insight from the survey. Enhancements in product and distribution channels will undoubtedly lead to an improved investor experience through superior digital propositions, greater insights delivered to investors, and product innovation.

The focus on efficiency supporting and driving investor experience provides the opportunity for Australian asset managers to differentiate themselves in the market and supports their drive for investor acquisition and growth in funds under management.



## Who are you looking to partner with to drive efficiencies in your business?



The majority of respondents are focused on driving efficiency improvements internally through their own programs with 53% stating they were looking to enhance efficiencies internally rather than partnering with a service provider. This insight aligns strongly with respondents' focus on Front Office efficiencies.

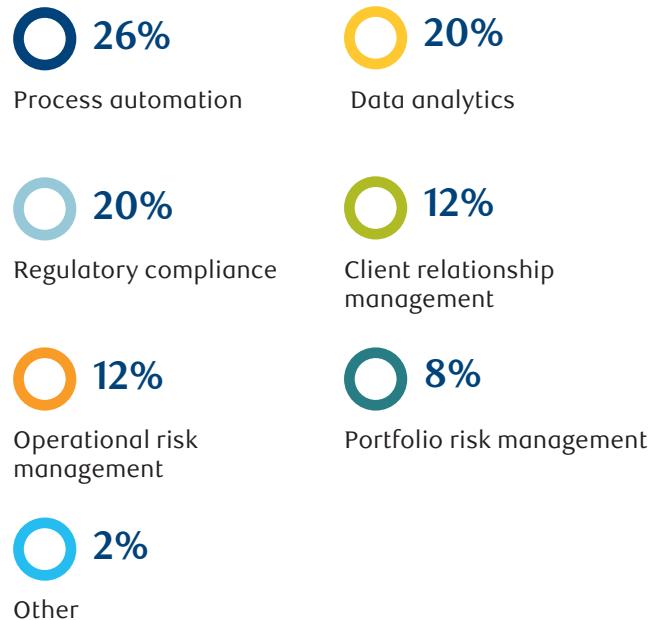
When looking for support to drive efficiency across their business, one in five Australian asset managers partner with their fund administrator or custodian for guidance on how to deliver improvements.

While traditionally these partners have focused on driving efficiency across the Middle & Back Office functions, they are increasingly driving and shaping productivity and effectiveness across the business and helping deliver enhancements for investors.

Improvements in the provision of timely, accurate data and insights to asset managers provides greater opportunity to deliver an enhanced investor experience. Through the provision of personalized, real-time information and insights on-demand to investors, firms are better enabled to differentiate themselves in a challenging and competitive market.

# Technology

## Where will you focus your firm's technology investment over the next 12 months?



Technology investment over the next 12 months will focus on process automation, data analytics, and regulatory compliance. Two-thirds of all respondents identifying one of these areas of focus.

Process automation has jumped 14 percentage points from being ranked 4th in line for technology investment in 2018 to being the leading technology investment area for the year ahead. Driven by the challenging market conditions, the industry continues to look to reduce expensive manual processes, operational cost and inefficiency. Alongside cost benefits, process automation should also enable managers to deliver an enhanced investor experience through automated end-to-end fulfilment and the reallocation of resources to enable their firms to get closer to the investor and meet their needs.

Data analytics remains a prominent area of investment but has dropped 7 percentage points from 2018. While analytics and data transformation programs bring complexity and cost to the business, the potential upside of successful execution of these programs ensures they remain a key area of focus for technology investment in the year ahead.

A significant increase in focus on technology investment in regulatory compliance underpins the insight that the increased regulatory burden is the most identified challenge for the year ahead.

# Product

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What product do you expect to see growth in over the next 12 months?  
Please rank in order of expected growth. (Select all that apply)

Product	Rank
Exchange traded funds	1
Cash / Fixed income	2
Passive managed funds	3
Active managed funds	4
Alternative investments	5
Listed investments	6
Listed investment vehicles	7
Hedge funds	8
Others	9

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ETFs were clearly ranked as the leading product predicted to grow in the next 12 months with 76% of respondents ranking ETFs first or second.

Globally, ETFs continue to grow impressively with global ETF assets under management increasing to US\$5,639bn<sup>1</sup> at the end of Q2 2019, representing ~ 6% growth for the quarter. In the 12 months to June 2019, the US ETF market has seen positive inflows of \$178bn into equity ETFs versus equity mutual fund outflows of \$315bn<sup>2</sup>. These trends illustrate the market sentiment behind the continued growth of ETFs over the coming 12 months in the Australian market.

Alongside the global trend of funds flowing towards ETFs, the Australian market remains relatively underpenetrated when compared to the larger and more mature markets of the US and Canada. Figures from Betashares' *Global ETF Review*<sup>3</sup> show that in the US ETFs represent approximately 16% of the broader mutual fund industry while Australian penetration sits at around one-tenth of that (1.5%). This suggests the Australian market is well positioned to continue its strong ETF growth.

Alongside ETFs, the trend to passive and fixed income products continues, with respondents predicting strong growth in these funds in the year ahead.

1. Source ETFGI. Includes all exchange traded products. (Aug 19)

2. Source Bloomberg Q2 2019

3. Betashares Global ETF Review Q1 2019

# Product

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Which of the following new products is your firm planning to introduce in the next 12 months?

52%

Exchange traded funds

17%

Private debt

9%

Other

9%

Real estate

9%

Infrastructure

4%

Private equity

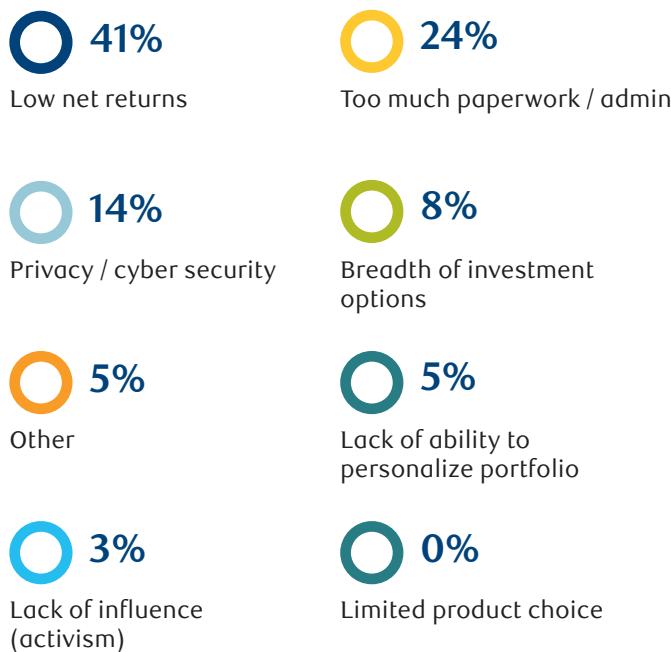


The expected growth in ETFs in the next year unsurprisingly correlates to the focus of new product launches in 2020. 52% of respondents stated they would be looking to introduce ETFs. This is a huge jump from last year's survey where only 17% of managers were planning to introduce ETFs.

Private debt was ranked second by respondents with almost 1 in 5 managers planning to launch private debt funds in the coming 12 months. This represented an increase of 2 percentage points from last year's survey.

# Investor Sentiment

What are the two biggest issues being raised by your investors?



Perhaps unsurprisingly the biggest concern raised by investors in the Australian market is low net returns from managers, with nearly half of respondents identifying it as a top issue raised by their investors.

Investor experience is another strong driver, with a quarter of respondents citing paperwork and administration as a key issue for investors. The increase in 'digitally native' millennial investors alongside increased regulatory requirements placing a growing administrative burden on investors are the key drivers behind this theme.

Interestingly, the respondents to the survey highlight very few investor concerns around product breadth, choice or the ability for personalization. This indicates that innovation in the industry over the coming 12 months will be focused on enhancing investor experience while addressing the concerns about future low net returns.

## What are the two biggest ESG issues being raised by your investors?

ESG Factor	Rank
Governance	1
Environmental	2
Social	3
Not important	4

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54% of those surveyed stated that ESG factors are important to their investors. Governance was ranked as the most important factor for investors with over half (53%) ranking it number 1. Environmental factors came second with 40% ranking them as the most important, while social factors barely rated with just 7% ranking them as the most important element.

Corporate Governance has been in the spotlight in Australia during the Royal Commission into misconduct in the financial services industry in 2018-19 and this is an issue that resonates with investors. Driven by the strong correlation to corporate performance there is a continuing investor and regulatory expectation on improvements in governance practices.

# Respondent Profile

 The 2019 Australian Asset Manager Survey was completed by 35 asset managers between 27 August and 20 September 2019.

## Size of Firm - AUM

 66%

More than \$5 billion

 11%

\$1 billion to \$5 billion

 23%

Less than \$1 billion



## Your Role

 40%

Executive

 9%

Operations

 20%

Business development

 6%

Investment

 6%

Risk & compliance

 3%

Technology

 17%

Other



## Head Office Location

 63%

Sydney

 11%

Melbourne

 6%

Brisbane

 17%

Overseas

 3%

Other



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Learn more at [rbcits.com](http://rbcits.com)

(1) RBC quarterly results released August 21, 2019

(2) Global Custody Survey, Global Investor ISF, 2011 to 2018, unweighted

(3) Standard & Poor's (AA-) and Moody's (Aa2) legacy senior long-term debt ratings of Royal Bank of Canada at May 22, 2019

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