FLEISHMANHILLARD

The Future of Asset Management

Global Report 2023

GLOBAL EXECUTIVE SUMMARY

The asset management industry has always faced a myriad of opportunities and challenges, but 2023 has presented some of the most complex that the industry has seen.

Geopolitical risks coupled with regulatory pressures in local regions have had a cascading effect, all of which operate independently but rely on cross-border operations to function as a whole.

Technology and innovation continue to disrupt, with ChatGPT and AI dominating headlines but also enabling firms to discuss their own adaptation of technology, and how when implemented, it is for the good of the industry and clients.

Technological advances are also relevant in the context of demographic shifts. As both investors and industry practitioners alike age, how we engage and invest in the next generation of asset managers and investors will be heavily guided by technology adaptation.

In addition, what it means to be a "responsible investor" has taken on various shapes and forms, depending on which market you're looking at. In the United States, Environmental, Social and Governance (ESG) has been used for a long time and evokes different responses[1] from various audiences, even as the United States remains the largest market for ESG and continues to rapidly develop its ESG ecosystem.

On the other hand, expectations in the EU on transparency and authenticity are increasing as investors demand more choice, which provides both an opportunity and challenge as asset managers flex to meet the evolving marketplace.

But the need to be a "responsible investor" remains a high priority for institutions and younger generations. Globally, 38% and 25% of respondents indicated that they intend to invest in AI and thematic products respectively in the next 12 months, presenting tremendous opportunities for asset managers expanding into this category.

As asset managers flex to meet the evolving marketplace, the need for engaging communications remains paramount — whether it's to engage with external or internal audiences and stakeholders. The onus is on asset managers to demonstrate authentic actions with tangible results, as 78% of respondents said that "walk the talk and action in proxy voting in listed companies" is the most important ESG commitment they want from asset managers.

This report breaks down and analyzes retail investors' outlook on the asset management industry, including their expectations for firms and managers, how they plan to engage, and what matters most. This report analyzes the United States, EU (UK, France and Germany), and APAC (Mainland China, Hong Kong SAR, Singapore, South Korea) regions, disseminating the general sentiment, while opining on how communications can serve this industry — both globally and regionally.

UNITED STATES

Tom Laughran
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Asset Management Landscape in the U.S.

The asset management industry has been in a period of transition over the last decade, and the past year was no different. Inflationary pressures, rising interest rates, and lingering supply chain and labor constraints have created uncertainty within the U.S. economy and the asset management industry alike.

Ending a historic stretch of low interest rates and expectations, the U.S. Federal Reserve (The Fed) repeatedly raised interest rates to combat inflation and cool the economy, raising fears of a recession and increasing market volatility, which was exacerbated by regional bank failures and a tech sell-off. Although optimism abounds, the industry continues to proceed with caution.[1]

In response, investors showed more interest in diversifying their portfolios as a way to cushion their investments against the market turmoil, which created opportunity for different types of asset classes.[2]

In the midst of this industry transition, authentic and transparent communication between the financial services institutions and their stakeholders — both internal and external — was paramount in order to instill faith and confidence.

This was especially crucial as culture shifts were happening. Diversity, equity and inclusion (DE&I) initiatives that have been built and established over the past several years were called into question regarding their efficacy. The lack of standards around measuring DE&I return on investment was highlighted as firms pumped millions of dollars into programs that supported a range of diversity and inclusion initiatives.[3]

The regional banking crisis itself was a pivotal moment for the industry for many reasons, but it also revealed an anti-woke sentiment brewing within some segments of the U.S. market. When Silicon Valley Bank and Signature Bank failed, one stream of commentary focused on how the banks would have been more stable — and perhaps not have failed — if the boards were not so focused on DE&I practices. This commentary came not only from within the financial services industry but from members of government and local legislatures, though others were quick to dispel the notion that "wokeness" was a factor in the bank's collapse.[4]

For some firms, this was cause to take stock of DE&I programs and slow communications. Some others paused the initiatives — and related communication — altogether.

Add the complexities around the ESG environment — including how it's defined and its politicization on Capitol Hill — as well as the emergence of disruptive technology such as AI and ChatGPT, and the industry has several fronts on which it needs to engage and mollify investors.

Amid the business and cultural changes, investors are wary and cautious. As a result, investor expectations that their financial services firm will proactively engage and communicate with them on a variety of topics — ranging from investment health to their DE&I progress — are high.

At the heart of these insights is the importance of strategic communications in engaging investors. Investors are seeking education from financial services firms to make prudent investing decisions, including thought leadership, that is delivered on accessible platforms, such as social media and the mainstream news. And there is an expectation that firms will engage them proactively to earn their business — including on DE&I initiatives and ESG.

Following are some of the key takeaways from our U.S. survey results and the communications lessons they may hold for the asset management industry.

U.S. SURVEY RESULTS

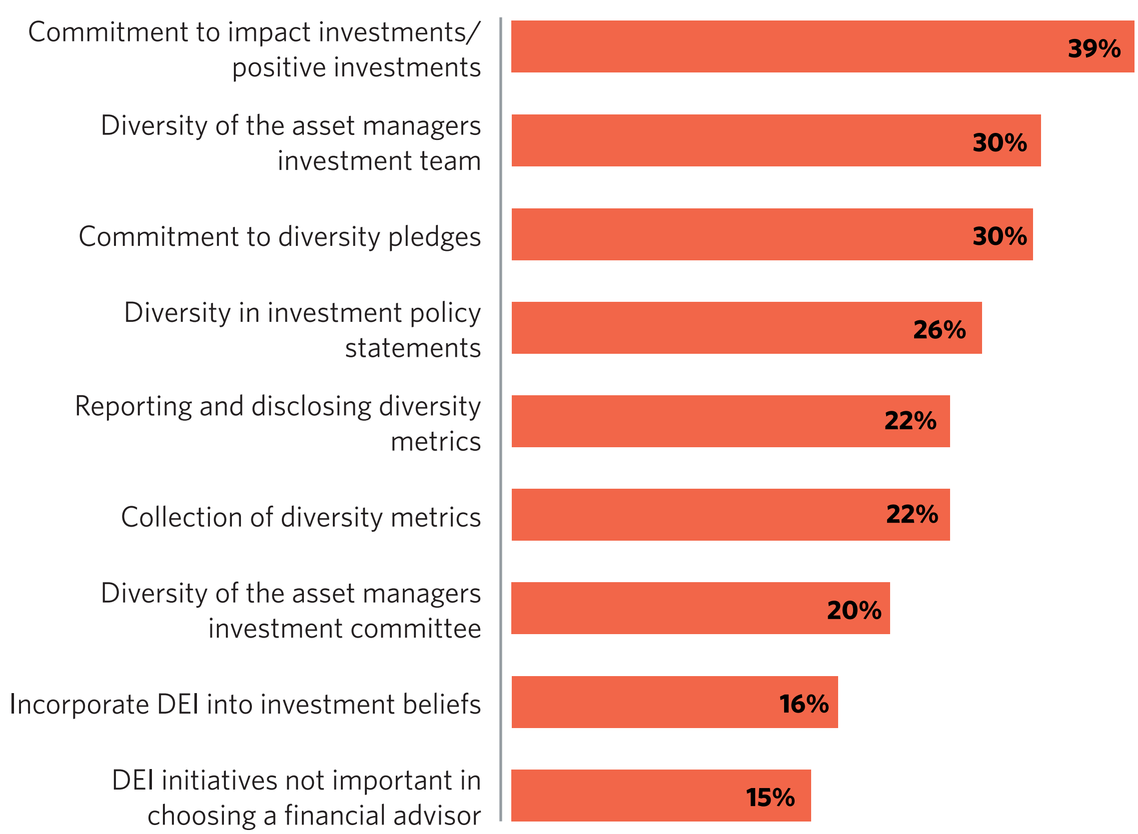
The continued value of DE&I for investors

The financial services industry's emphasis on DE&I over the past decade has spurred many firms to take steps to address the perceived lack of diversity in the industry, including investing in community-based programs and launching internal initiatives to engage employees. Investors are not only paying attention, but they indicate that a firm's DE&I commitment is important when they're seeking a financial partner.

More than three-quarters (78%) of respondents cite DE&I policies and commitment as important considerations in selecting a financial advisor specifically. In assessing a financial advisor's DE&I initiatives, investors are specifically examining firms' commitment to impact investing (39%) and diversity of the asset manager's investment team (30%).

Accountability is also an important factor in choosing a financial advisor, with nearly one-quarter (22%) citing reporting and disclosing diversity metrics as important.

Importance of DE&I initiatives in choosing a financial advisor — very and somewhat important



Investors expect financial firms to align with their ESG interests

The term ESG, first coined in the early 2000s, is an evolution of what was referred to as Socially Responsible or Ethical Investing and has evolved into actionable and purpose-driven outcomes, outside of the standard bottom-line metrics. Despite continued debate around ESG in the U.S.[5], sustainable indexes beat the market in Q1 2023[6], giving weight to the growing emphasis on sustainable investing within the asset management sector.

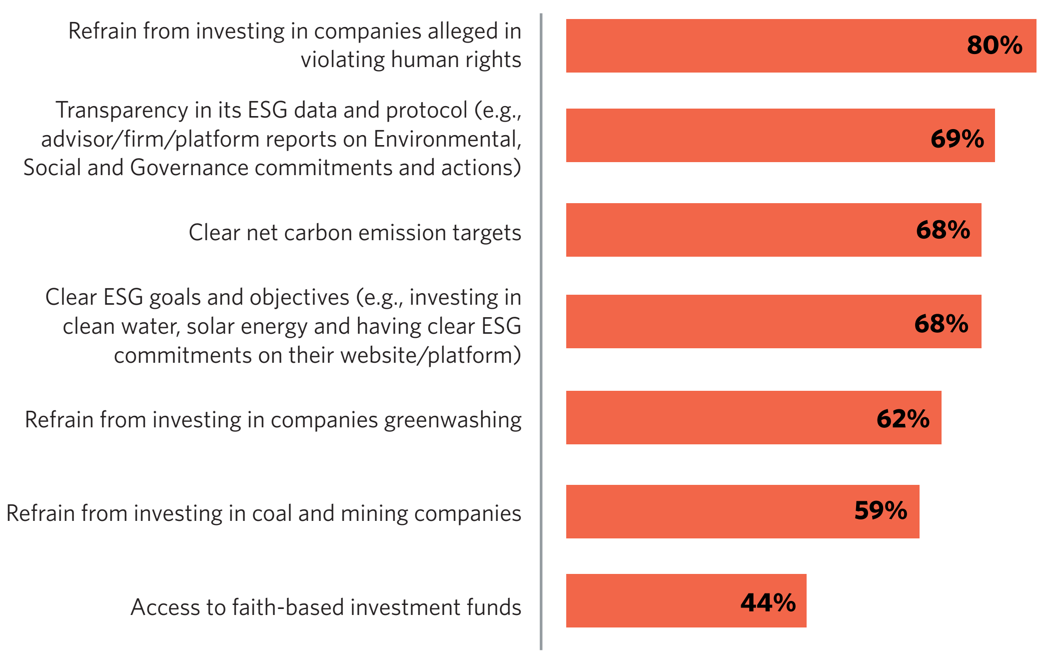
Investors are showing a heightened interest in ESG factors when making investment decisions, which is being underscored by the slew of U.S. Securities and Exchange Commission (SEC) ESG regulatory changes in 2022.[7]

Despite the industry grappling with the politicization of ESG overall, financial organizations which operate in a manner that includes functions that look to improve lives, strengthen communities, and protect the planet are being prioritized by investors. As a result, asset managers are offering a more comprehensive range of sustainable investment products and integrating ESG considerations into their investment strategies.[8]

Investors are demanding this, as reflected in the results of our survey, with a large majority of investors citing the commitment of their financial advisor or investment platform across a host of ESG factors as important:

- More than three-quarters (80%) of respondents say it's important to avoid investing in companies which are allegedly violating human rights.
- Nearly 70% of respondents demand transparency in the firm or advisor's communication of its ESG data (69%) and ESG goals and objectives (68%), backed up by clear net carbon emissions targets (68%).
- Fewer, though still clear majorities would refrain from investing in companies that engage in "greenwashing" (62%) or in certain industries viewed as harmful to the environment (i.e., coal and mining).

ESG importance — very and somewhat important



AI and Technology: What does this mean for the future of investing?

Asset managers have continued to embrace technology and innovation to enhance their operational efficiency and deliver better client experiences. Firms are investing heavily in advanced data analytics, artificial intelligence (AI), and automation tools to improve investment decision-making, risk management and client engagement.

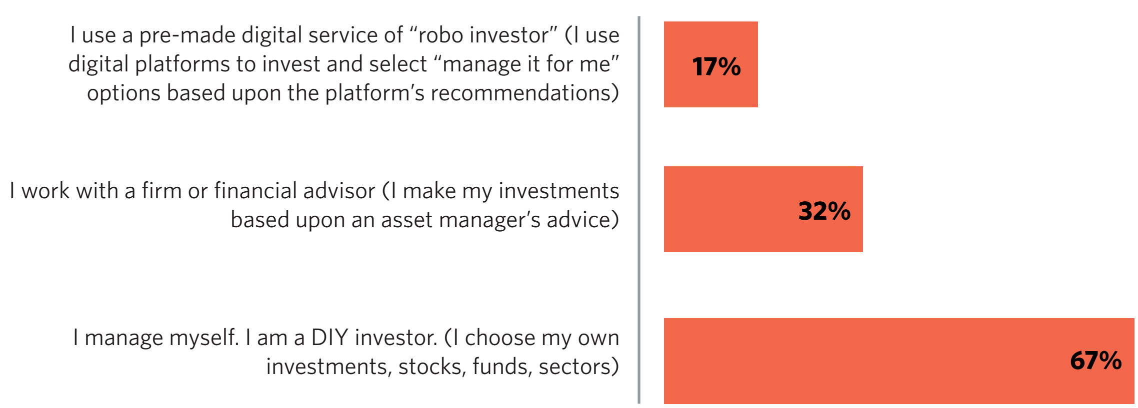
Digital platforms and robo-advisory services continue to gain significant traction, providing convenient and cost-effective investment solutions. An estimated U.S.D $2.76 trillion will be managed by robo-advisors in 2023, and robo-advisor revenue has also seen explosive growth, though overall penetration remains low with our survey showing that only 17% of investors currently use a robo-advisor while nearly a third (32%) rely on a professional financial advisor. Additionally, the market for artificial intelligence in asset management is expected to grow by U.S.D $10,373.18 million from 2022 to 2027.[9]

With AI and machine learning (ML) making their mark and leaving the industry wondering what the future of investing will look like, it's also impacting how investors manage their investments and the resources they are tapping for assistance. Over half (67%) of respondents said that they manage their own investments, whereas about one-third (32%) work with a financial services firm or financial advisor.

Given the majority of respondents are partly or fully DIY investors, it is interesting to note that 40% of respondents have used ChatGPT and/or AI tools for investment-related decisions.

AI and technology-enabled sectors and products figure prominently in where investors are looking to invest over the next 12 months, with 36% of respondents expecting to invest in cryptocurrency, 22% interested in NFT or digital collectibles, and 20% considering investing in metaverse-themed assets. AI-managed and thematic (healthcare, biotech, etc.) funds and actively managed ETFs also garner considerable investor interest.

Investment management methods



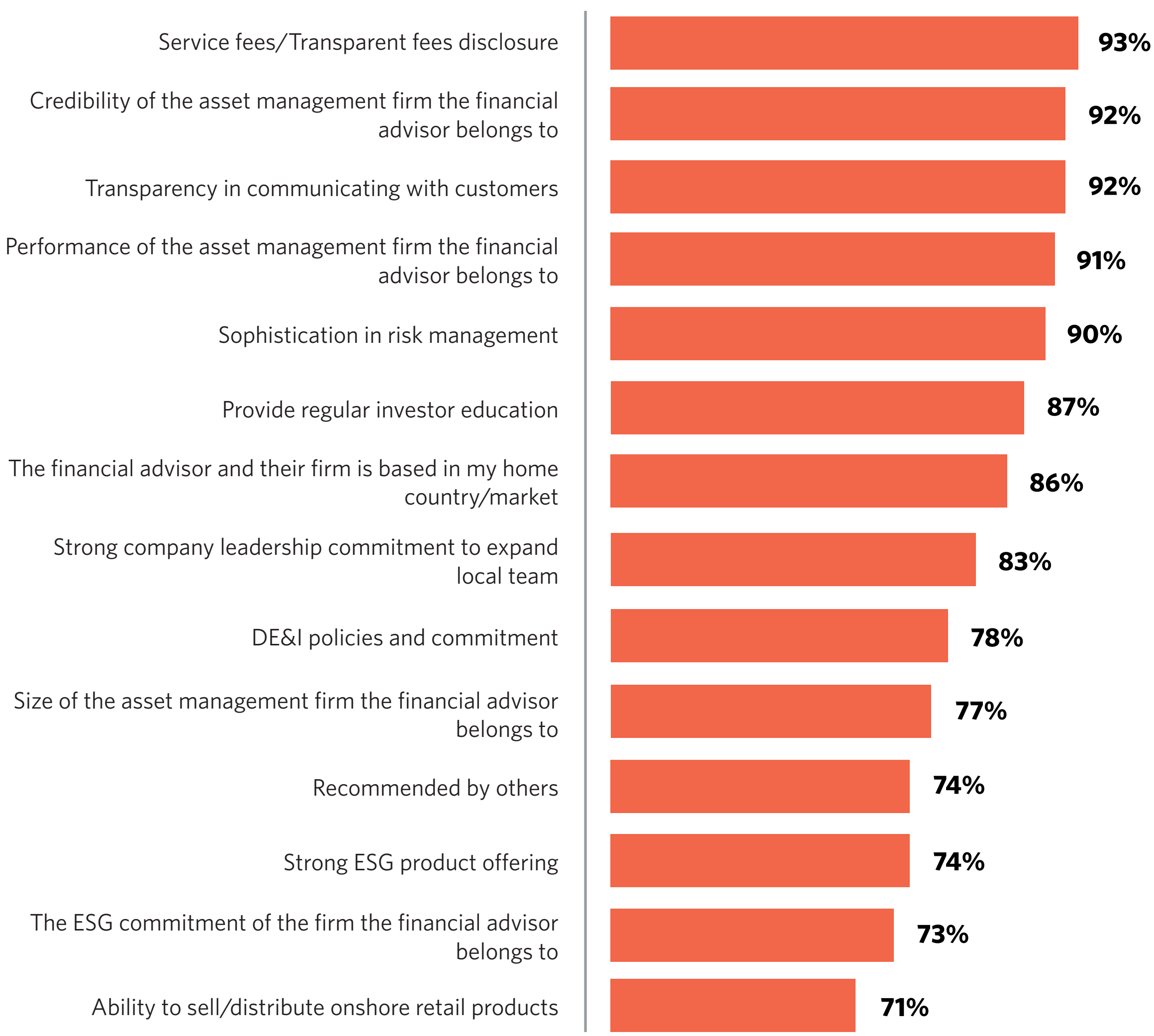
Investors seek transparency and accessibility in their financial advisors and firms

Given the various complexities and transitions the asset management industry is experiencing, it's no wonder that the role of communications has never been more important.

Authentic and transparent communications are among the most important factors for investors when looking to select their financial advisor or investment firm, underpinned by the ability to access their financial advisor when needed. This is especially true during periods of uncertainty when more than half of respondents (53%) expect their financial advisor or investment manager to proactively communicate with them.

- The majority cite communication transparency and credibility (92%, respectively) as the driving factors when selecting a firm or advisor, on par with transparent fees (91%) and performance (92%).
- More than three-quarters of respondents also cite the importance of providing investor education (87%).

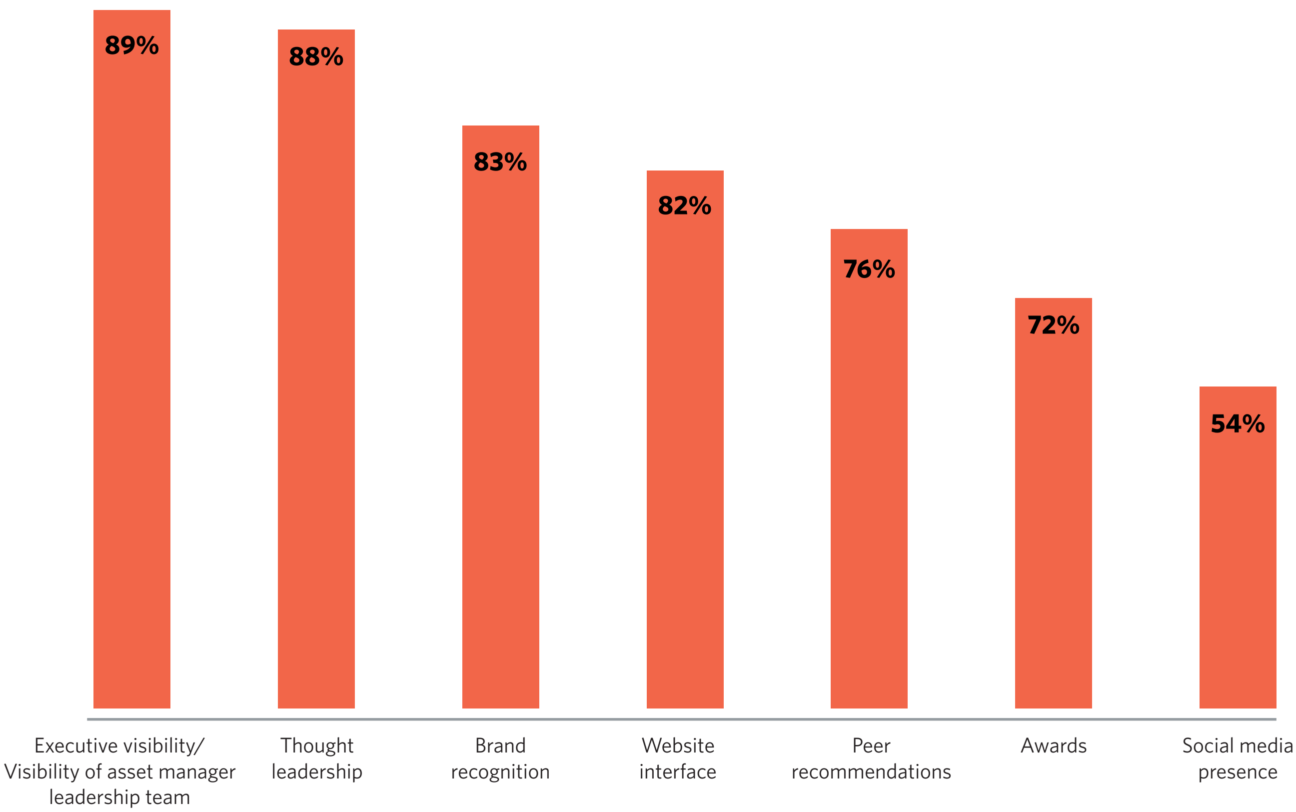
Financial advisor selection — very and somewhat important



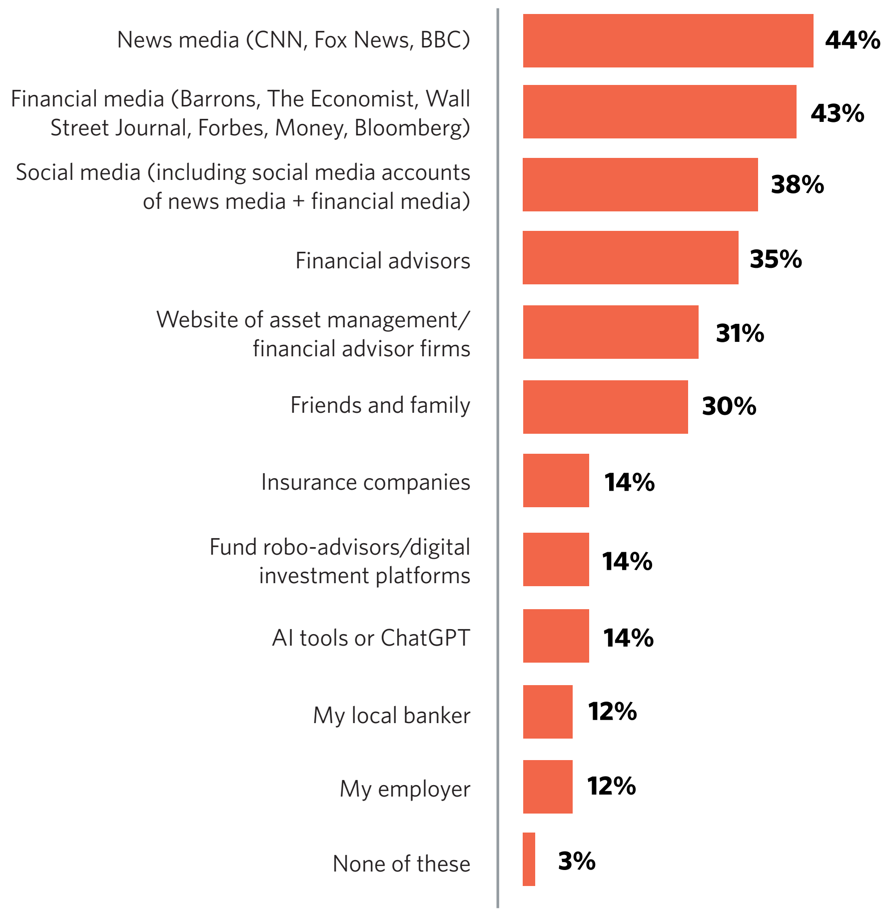
YouTube and Facebook are investors' "go-to" for financial services education, with ChatGPT usage on the rise

What helps determine an asset manager's credibility in terms of their communication efforts? The majority of respondents believe that executive visibility (89%) and thought leadership (88%) from financial services firms are important, while half (54%) of respondents thought having a social media presence was key. Brand recognition and website interface are also significant considerations for investors, scoring 83% and 82% respectively.

Asset manager credibility — very and somewhat important



Channels for investment information



Understanding where investors turn to get their information is essential to effectively reaching them. News media (44%) and financial media (43%) are the most common sources of information on investment funds, platforms and products. Investors turn to the media for investment information more often than to financial advisors (35%) and asset managers' websites (31%).

Over a quarter (26%) of U.S. investors say they don't use social media for investment information. However, for those who do turn to social media, YouTube (48%) and Facebook (38%) are the most frequently accessed social platforms for investment information.

Interestingly, while ChatGPT has not yet celebrated its first birthday, 14% of respondents have received information about investment funds/platforms/products through AI tools and 40% claimed to have actively used ChatGPT for investment-related decisions including selecting fund managers, research or general help in making investment decisions.

In terms of the type of information investors seek on social media, investor education leads the stack at 43%, followed by product information (37%) and education content coming in third at 35%.

EUROPEAN MARKETS

Liz Willder
Senior Vice President and Partner
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Financial and Professional Services Sector

Asset Management Landscape in European Markets (UK, France and Germany)

As in the U.S., the asset management landscape in Europe has been through a decade of change, and the past 12 months have seen turmoil across the markets, competitive market pressure and political instability. Whilst UK inflation may be starting to fall, it still remains well above the official target set by the government, and the era of higher inflation and higher interest rates will endure for the medium term at least.

Pressure to preserve wealth, let alone grow it, remains a challenge, and investors are looking to asset managers and platforms to steer them through the economic headwinds, whilst at the same time, becoming increasingly autonomous in their investment research and decision-making.

Optimism in equities is mixed, and a traditional portfolio of assets may not be inflation-resilient, so investors are needing to diversify to navigate choppy markets as inflation and recession concerns ebb and flow.

Asset managers are having to adapt and differentiate to keep pace with regulatory reform, investor demand and innovation.

Our research has raised some interesting questions around AI and ESG.

Without doubt, AI serves as a valuable tool for both asset managers and investors to empower and inform, but its misuse and its impact on the ESG agenda poses some interesting challenges for the months ahead.

There is a multitude of ways that AI can play a part in the asset management industry such as by analyzing large volumes of data at speed beyond human capabilities, enhancing risk management, and informing decision-making and trading strategies. But can AI ever replace human expertise and judgment when it comes to the nuances of the economic climate or geopolitical situations?

There are also myriad and much-reported risks with AI. One of the most obvious threats is its misuse and consequent liability for human rights issues linked to AI, but the risks are widespread and include issues around its use for surveillance or unauthorized facial recognition, as well as concerns that AI will lead to mass layoffs as people are eliminated due to efficiencies offered by the technology.

These are questions and issues many are raising. Understanding the nuance and assessment of risk around AI must be considered throughout the strategic decision-making process. In the coming years, regulatory frameworks will likely evolve to ensure responsible and ethical use of AI by investment managers.

While investor demand for AI stocks is increasing across the UK, France and Germany, its use as a channel for information on funds and investment is still relatively low in these European markets vs. the U.S. and countries across APAC.

For many retail investors, investment experts are selected on their experience, track record and approach, and fees and costs are structured accordingly. To fully automate these roles not only poses ethical and performance issues but also challenges to fees and charges for active management.

AI will become an integral part of institutional and retail asset management. The tide has turned and its benefits acknowledged. Now the conversation must focus on how its challenges are managed and mitigated. The organizations driving innovation in AI have a responsibility to prevent harm to the environment and society linked to their products. The ethics of AI touch on the E, S and G in ESG as its breadth of impact is a growing concern.

EUROPEAN MARKETS

When they hear ESG, most investors probably still think first of the "E" and not issues like AI. Much of the new regulation in Europe in recent years has focused in this area too — Task Force on Climate-Related Financial Disclosures, Sustainable Finance Disclosure Regulation, EU Taxonomy, and the new Corporate Sustainability Reporting Directive, to name a few.

This tidal wave of regulation varies from country to country and is being constantly reviewed and reassessed. This makes the landscape challenging for the asset management industry to navigate.

This is far from the only challenge the asset management industry is navigating when it comes to ESG. Data is often still inconsistent and incomplete. It's hoped that the increasing availability of data, in part driven by the EU's Corporate Sustainability Reporting Directive, will help investors make informed decisions. However, many large firms aren't prepared for this, and it doesn't apply to smaller firms. Some hope that regulation married with investor questions will shift the dial and improve transparency around ESG in investments, but this is yet to be tested. Generally speaking, ESG initiatives continue to be concentrated in public equities and, more recently, fixed income. Historically, bond practitioners have adapted materiality and sustainability frameworks as well as techniques used by equity investors to meet their needs; however, there's been a lack of fit-for-purpose support across these asset classes. Changes are underway; the Sustainability Accounting Standards Board (SASB) materiality map spans equities, fixed income, private equity and real assets, and the Principles for Responsible Investment (PRI) has dedicated resources on climate change in private markets. ESG remains front of mind for investors, and the continued regulatory reform, data and reporting poses both a challenge and an opportunity for asset managers. Expectations of transparency and authenticity are ramping up, and investors want more choice, which is posing a challenge for smaller asset managers, where resources are constrained.

Looking at these two leading themes together, it remains to be seen what influence asset management firms have over the technology companies driving the AI agenda over the next 12 months, and whether they help to shape a commitment to ethical codes of conduct or start to diverge.

The survey also highlighted the continuing importance of brand and reputation, which rank as one of the most important factors when choosing an asset manager. Additionally, with media and social media a key source of information for investors, often ranking above fund managers' own marketing materials, there is increased importance placed on corporate communications and reputation management. Not only do asset managers need to ensure they have effective engagement strategies across multiple platforms and are tailoring output for institutional, intermediary and end investor audiences, asset managers also need to ensure authenticity is at the heart of every piece of communication across earned, owned and paid channels. Scrutiny on what an organization says versus what it does will only intensify across all audiences in all markets.

Looking ahead, it will be interesting to see to what extent the AI and ESG agendas converge and how this translates into a way to engage with investors to demonstrate innovation, transparency and responsibility — and in turn, how this strengthens or weakens corporate reputation.

Below are some of the key takeaways from our survey results across the UK, France and Germany and the learnings they may hold for the asset management industry.

EUROPEAN MARKET SURVEY RESULTS

Investor demand for AI stocks

A sense of FOMO — the fear of missing out — is driving retail investors to increase exposure to tech stocks and ride the wave of AI, with younger investors leading the way. With the awareness of AI-related stocks growing, there has been a notable turnaround in risk sentiment which has led to a shift in retail investment demand.

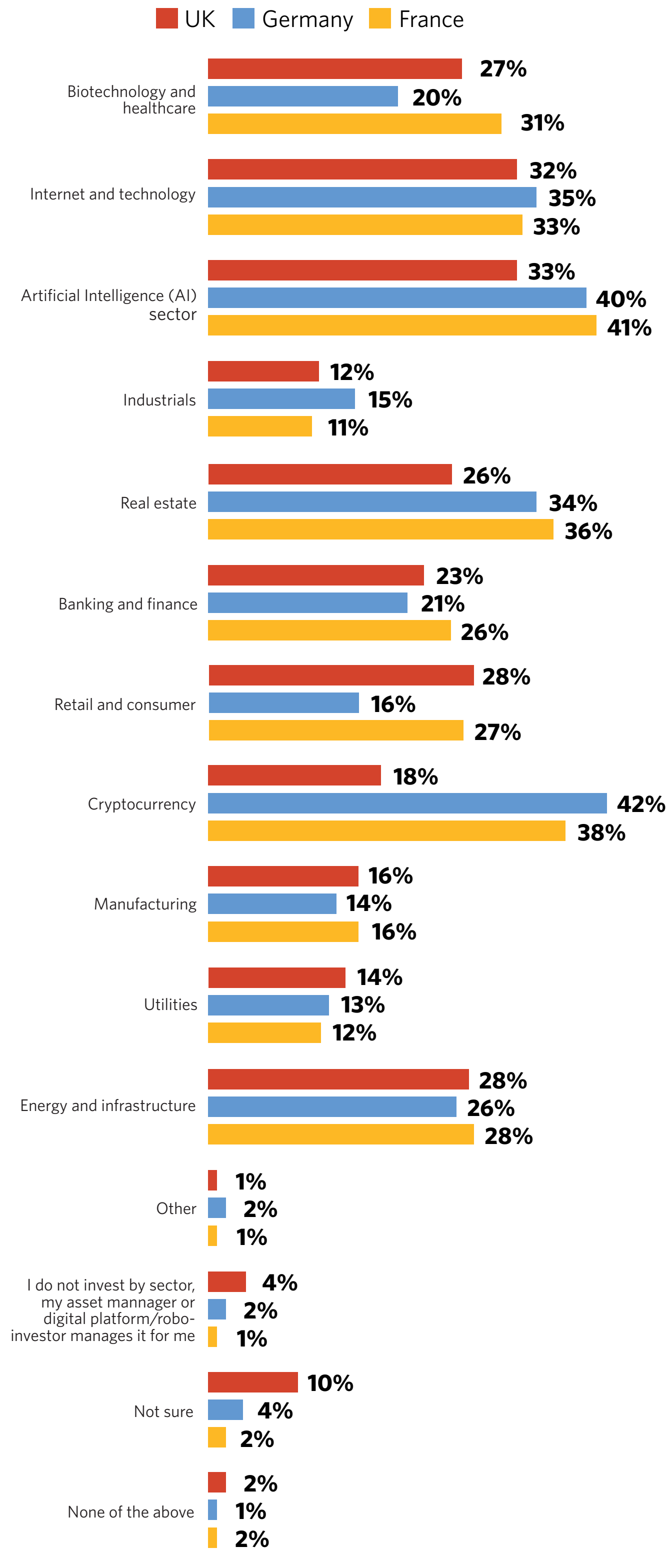
In the UK, investors have piled into companies at the heart of the AI revolution such as computer chip designers and tech manufacturing companies, banking on demand for these companies' products leading to a share price rally.

That said, the UK lags behind its continental neighbours in France and Germany in terms of both sector and stock interest when it comes to AI. Looking ahead to the next 12 months, respondents across the UK, France and Germany all expressed a keen interest in investing in AI (41% France, 40% Germany and 33% UK). Across all three European markets, AI is attracting more interest than biotech and healthcare, real estate and industrials.

Whilst there is retail investor appetite to invest in stocks linked to AI, individual investor uptake of AI tools to research and inform stock picking and investment behavior is still in its infancy. The use of AI in this way could democratize retail investment, giving all the ability to uncover patterns and correlations and potentially predict market behavior regardless of their knowledge and expertise.

However, the use of AI tools to research and inform retail investment decisions is lower than perhaps expected. UK investors are embracing it the least across all EU markets researched.

Sectors of intrest in investing in the next 12 months



Does AI take us into a new frontier of ESG?

Investors want real commitment and greater choice when it comes to ESG

In the current landscape, asset owners have made it clear sustainability is important to them, as have governments and regulatory bodies, and the asset management industry is working hard to understand and support ESG initiatives. However, it's a landscape that's increasingly complicated.

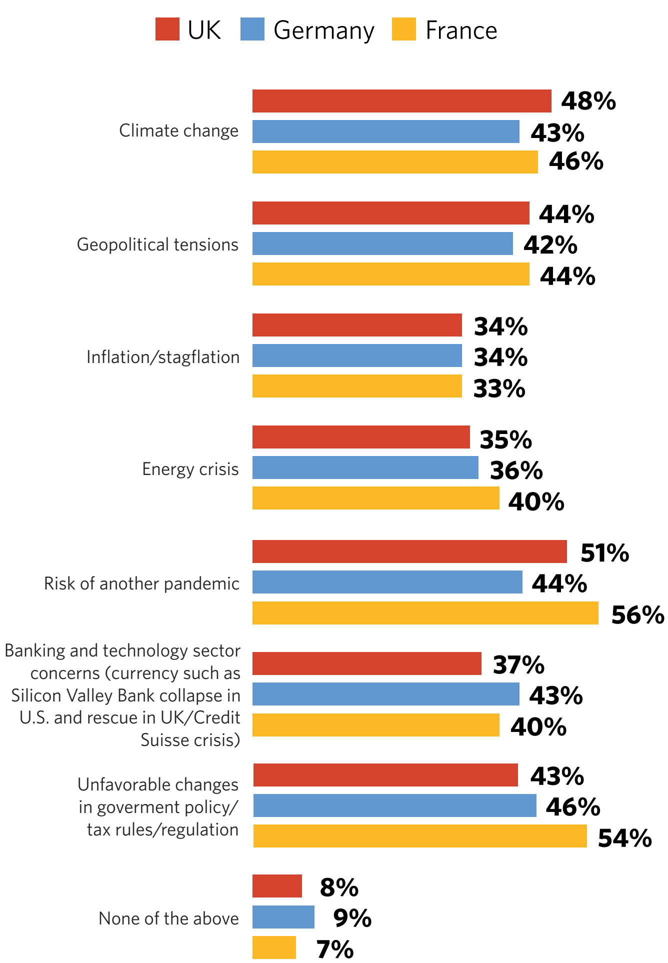
Demand for green remains

Environmental factors have frequently dominated the ESG debate over the past few years, and Europe comes second only to the U.S. as being home to where the most sustainable and responsible investing assets are domiciled globally. Indeed, climate change is seen as one of the biggest financial risks for investors over the next two decades.

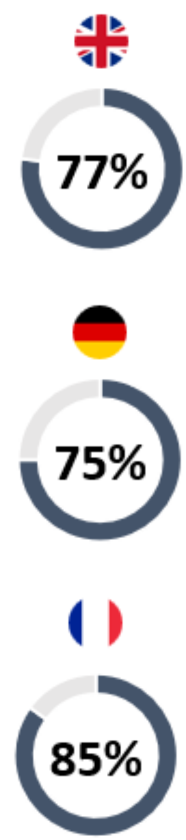
Across the UK, France and Germany, around three-quarters of respondents say they won't invest in companies that are allegedly greenwashing. Investors want transparency and the industry must continue to respond to that. Those who do, will likely be rewarded as investor appetite remains strong. Indeed, more than three-quarters of investors across these markets would like more sustainable investment products to be available (77% UK, 75% Germany, 85% France).

While the opportunity is there, the move towards responsible investing isn't easy and is posing a particular challenge for small asset managers who are resource-constrained. They, as well as their larger counterparts, are scrambling to upskill and hire the right talent. There's also been a reduction in the number of new sustainable funds launched in Europe due to tightening regulation, making retail investors feel even more frustrated and potentially let down by the industry if they aren't aware of this.

Financial risks in the next 2 years



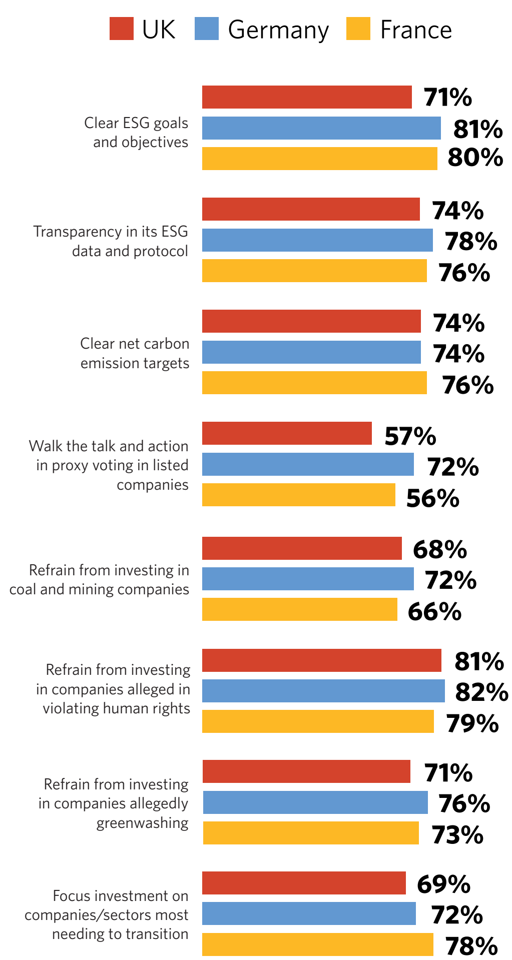
Would like more sustainable investment products to be available



Beyond the 'E' in ESG

As 2024 approaches, the focus is now increasingly on the social factors in ESG. The survey highlights that investors want to be confident their fund managers won't be investing in companies alleged to violate human rights (81% UK, 82% Germany, 79% France). Investors want funds that avoid all washing, not just greenwashing. Just because regulation, like taxonomy, focuses on the environment, it doesn't mean a similar logic can't be applied when evaluating the S and the G. The PRI do this. When considering taxonomy alignment, they also assess labor compliance, human rights compliance and UN Global Compact Compliance. It is essential that asset managers are clear on where a fund aligns and communicate this transparently to investors.

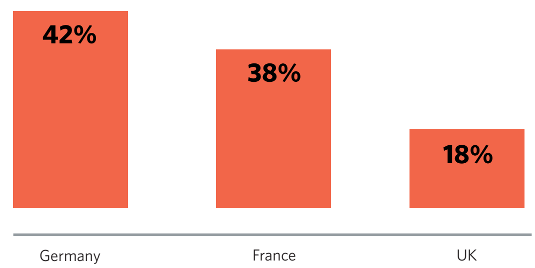
Importance of ESG commitments from asset managers



Crypto: more than a buzzword?

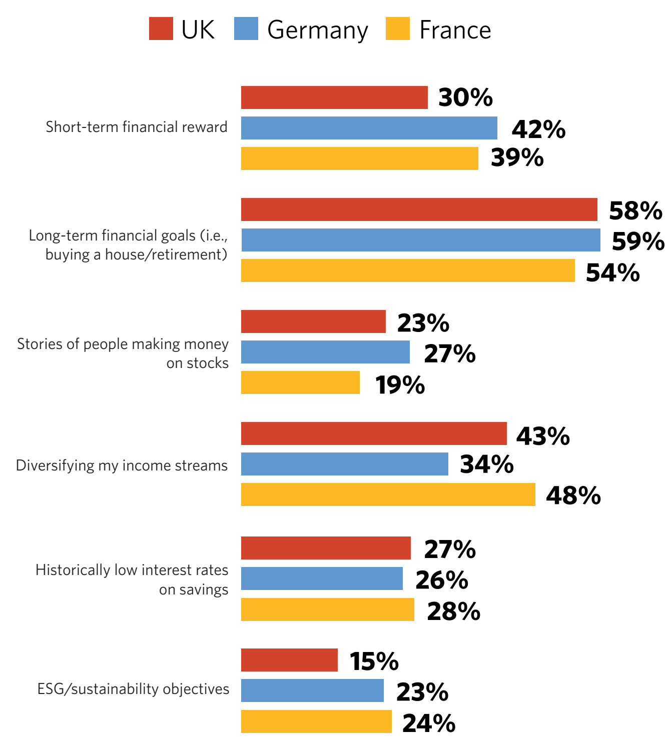
Across France, the UK and Germany, there is notable divergence in investor sentiment towards cryptocurrencies. Despite the high-profile collapse of firms such as FTX in 2022, the appetite for crypto shows little sign of abating in Germany and France particularly.

Interested in investing in crypto sector in the next 12 months



This interest is perhaps spurred on by reports of some investors making very healthy returns on crypto — and while most investors are focused on longer-term goals, for those looking for short-term reward or diversity of income streams, the attraction remains.

Motivations to invest



It's not all smooth sailing for the crypto world

Many of the largest players in the asset management industry continue to adopt a cautious approach to crypto and they aren't commonly featured in investment portfolios. Some highlight the risks of asset classes without intrinsic values and the history of volatility. Notwithstanding, this and recent estimates suggesting crypto assets make up just 0.8% of the EU's financial sector, moves are being made to regulate a market anticipated to enter the mainstream.

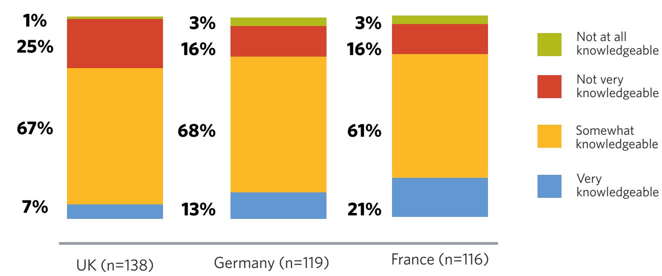
Germany has already moved ahead and, in 2021, began allowing specific funds to allocate up to 20% of assets under management to crypto and digital assets. While across the EU, Markets in Crypto-Assets Regulation (MiCA) is seeking to establish standards around governance and risk management. Additionally, by 2024, firms operating within the EU will need a license to issue and sell digital tokens. These regulatory advancements will change the shape of the industry and may remove some of crypto's competitive advantage.

Another way that blockchain technology, which underpins crypto, may reshape asset management is in its application to issue digital tokens rather than traditional shares to investors. This utilization of the technology is already in play in the U.S., and this is a trend we'll be watching for in Europe.

A crisis of confidence among self-directed investors

In an age of information across all elements of life, the fund management industry is no different. And yet, information doesn't always translate to knowledge or confidence. In fact, although the majority (55%) of those surveyed in the UK said they manage their own investments — more than in Germany (48%) and France (46%) — it has the lowest proportion of DIY investors who say that they are 'very knowledgeable' (UK 7%, Germany 13% and France 21%).

Knowledge level of DIY investors



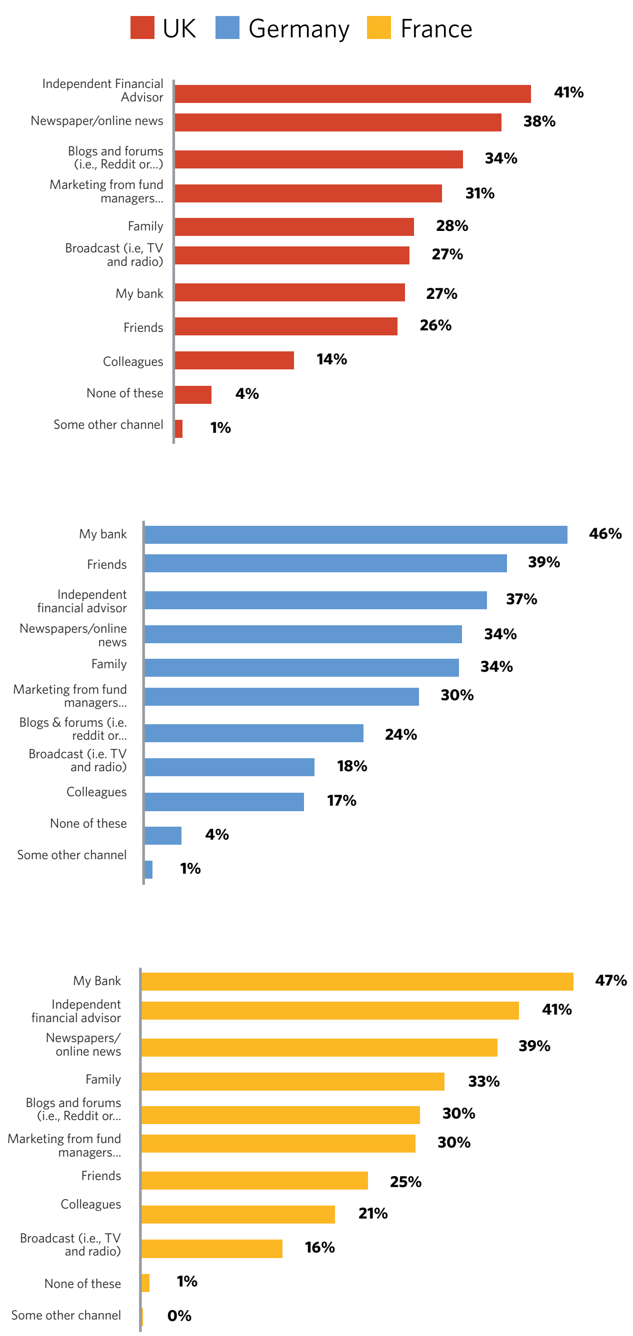
As with crypto and AI, it also seems the UK is behind its European counterparts in adopting and embracing new technologies. Just 10% of UK investors say they've used 'robo investment' platforms despite the UK having been home to several successful robo platforms in recent years. By contrast, 20% of German investors and 23% of French say that they have used a 'robo' platform to invest.

Sources of information to inform investment strategy

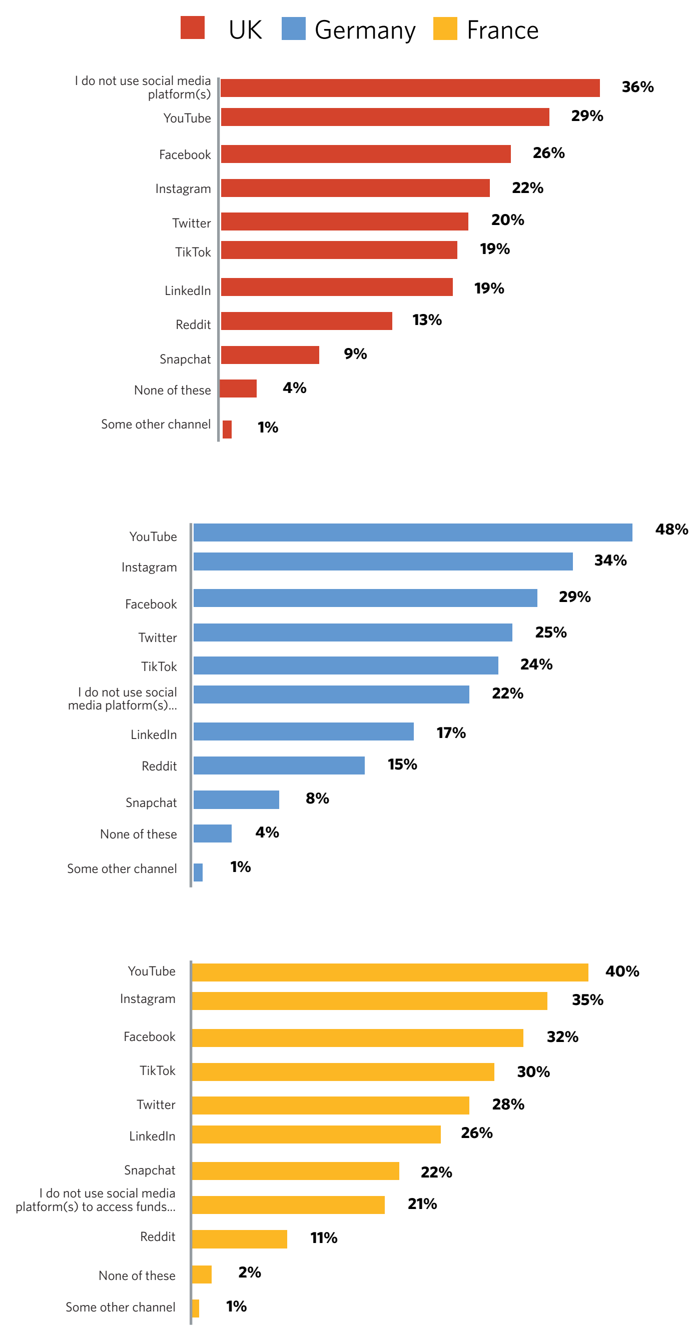
Aside from information from their Index Fund Advisor (IFA) or bank, the media is a key source of information for investors. In the UK, investors get financial information from the media (38%) or blogs/forums (34%) — both ranking above fund managers' marketing materials (31%). In Germany, 34% of investors turn to the media, but more (39%) tend to rely on friends.

Alongside the media, social platforms are also a very popular way to access investment information. In the UK, 36% of investors say they don't use social media at all — a figure much higher than in Germany (22%) or France (21%). YouTube comes out as the top platform for fund information and, while TikTok is rising in popularity, it's still less used than Instagram or Facebook.

Source of information used to inform investment strategy



Social media accessed for fund information

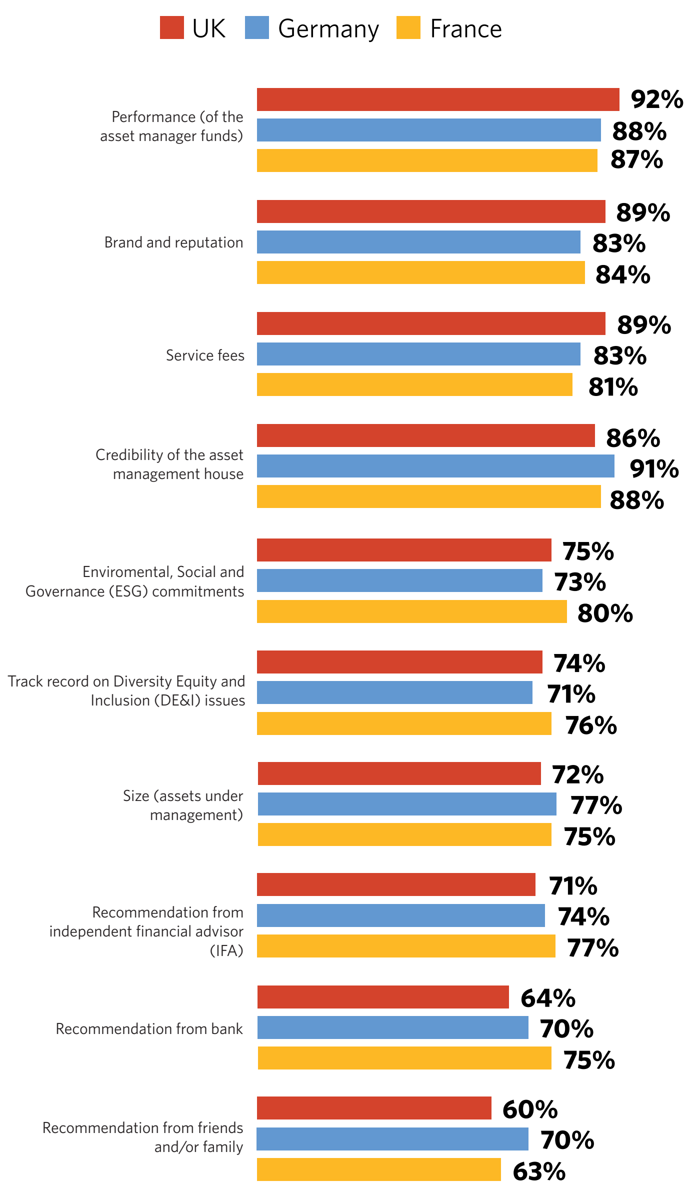


It's clear that for asset managers' communications to be effective, they need to engage their audiences across a breadth of platforms with content that's appropriate to each. For those with operations across markets, even closely located geographically, the approach must be tailored and nuanced. There isn't a one-size-fits-all.

Reputation and credibility remain the most important factors for investors choosing an asset manager — there is no time for complacency. In today's world, overall brand reputation is shaped by issues of governance and DE&I. Those issues don't only sit separately, and a reputational storm caused by, for example, an executive's unacceptable behavior can spark a client exodus and undermine the business's ability to operate.

Asset managers' brand and reputation matter

Importance of factors when choosing an asset manager — very and somewhat important



A word from our experts: European investors balance performance with cost-consciousness amid economic uncertainty

Martin Halusa

Head of Media Relations and Content, Germany

"Asset management will have a growing significance in the investment strategy of both institutional and private investors as more and more people are looking for alternatives to the German public pension systems."

"While the interest in investments in ESG is gaining more relevance, investors and regulatory bodies are examining ESG investments more carefully to prevent greenwashing."

"Due to economic uncertainty, the geopolitical situation and rising interest rates, the growth of asset management might cool down by the end of 2023 and the beginning of 2024. However, a turnaround might occur in the spring and summer of 2024."

Viviane Nardon

Senior Vice President, Omnicom PR Group France

"Like other countries, France is currently living through the most complex environment for investment(s) it has seen in the last 15 years. These complexities, including issues from geopolitical, economic and environmental matters at a macro level to dropping real estate prices and rising interest rates creates new questions, risk and opportunities and highlights the need for intelligent navigation of the investment and asset management landscape. There is less room for error, and retail investors need education and guidance from asset managers. While generally in France we are eager and curious about adopting new technologies and diversifying our source of counsel, there is a definite need for expertise and reassurance when investing. AI can play an interesting role in helping asset managers build client profiles and better understand their expectations in terms of performance and global commitments, notably on the ESG front, while further educating a generally risk-averse population."

Emily Rushgrove

Financial Services Associate Director, UK

"It's been a tricky few years for investors in the UK — from the changes caused by Brexit to the pandemic and the current inflationary environment — and on the retail and institutional side, caution remains king.

"As we look towards 2024, investment managers need to be equipping investors with information on established and emerging sectors in digestible formats. For example, it's likely that the UK will start to catch up with other markets globally in terms of the use of and investment in AI technologies and the firms ready with salient insight and advice will build trust with investors and confidence in their approach.

"Next year's General Election will also no doubt lead to periods of economic pause as the businesses and individuals await certainty on the outcome. It'll be an interesting year ahead."

APAC

Patrick Yu
GM, Senior Vice President and Senior Partner
Asia Pacific Lead,
Financial and Professional Services Sector

Asset Management Landscape in Mainland China, Hong Kong SAR, Singapore, South Korea

In 2022, the resilience of Asia's asset management sector came to the fore amid a catalog of negative influences from rising interest rates and slowing economies due to Covid-19, the war in Ukraine and geopolitical issues, all of which created a challenging environment that saw a sharp drop in net inflows overall, with net outflows in certain types of funds.

Despite a strong start to 2023, as Asian funds saw a rise in flows with markets reopening post-Covid, there was a slowdown in market conditions in the second quarter of the year. Investors in Asia changed their focus from equity funds to fixed-income funds, hinting at their preference toward cutting risk appetite. While challenges such as the continued possibility of recession in the U.S. are present, Asian investors will likely look for safety and maintain cautious positioning.

Saying that, the prospects for the sector have improved discernibly, as inflation has slowed in recent months, suggesting that the cycle of central bank interest hikes is set to slow, if not end.

Our report shows that asset managers must up their game in strengthening performance (94%) and credibility (93%), as these two are considered the most important factors when investors choose asset managers. The growing use of ChatGPT and AI tools (23%) to obtain information on investment products are also factors that asset managers need to consider in product and technology innovation.

The new global standard in ESG and sustainability reporting and disclosure was introduced in 2023, with a view to implement at the start of 2024. The objective is to harmonize global sustainability and climate disclosure standards, so that they are understandable and enforceable, and bring transparency, accountability and efficiency to the markets. In Asia, 80% of respondents clearly stated that they view a strong ESG product offering as one of the most important qualities for an asset manager.

We hope you find this report insightful to help you navigate the complexities of asset management in Asia.

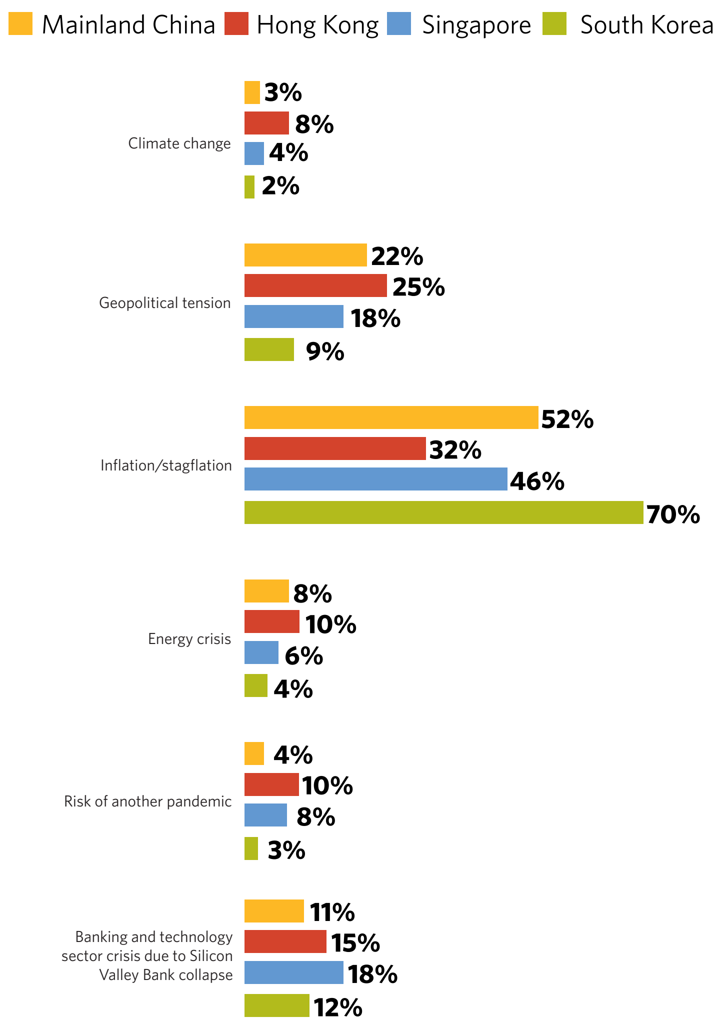
For our full findings in Asia, please refer to our report in May 2023.

APAC SURVEY RESULTS

Risk: What would investing be without a little bit of it?

Inflation and stagflation are viewed as the biggest financial risk across all four APAC markets surveyed

Looking across the APAC region, respondents stated that inflation and stagflation (50%) are the biggest financial risks they face, followed by geopolitical tensions. The ongoing geopolitical tensions around the world and within Asia have caused considerable disruption in the region, creating market volatility and prompting managers to exit certain portfolios for downside protection. However, compared to other parts of the world, investors in Asia are also less concerned about the financial risks associated with climate change.



With so many sources of information, how do investors know where to turn?

Effective investing requires credible information that is both timely and relevant. So, it was no surprise that financial media remains the key channel of information on funds and investment products for investors across all APAC markets. However, more investors in the region are using social media to receive investment information, and asset managers are increasingly sharing insights on investment trends online to raise their profiles. In fact, social media outstrips the websites of fund houses (39%) and independent financial advisors (36%) as a means to absorb investment information.

Interestingly, more mainland Chinese investors said that they use Weibo (79%) to access fund information more frequently than WeChat (71%). Another interesting phenomenon is that YouTube has outpaced Facebook to become the top social media platform for investors outside of mainland China. This finding underscores that asset managers should prioritize visuals and add video elements when sharing product or corporate information on their social channels, as high-quality visuals and video content increases viewer engagement and can spark investors' interest.

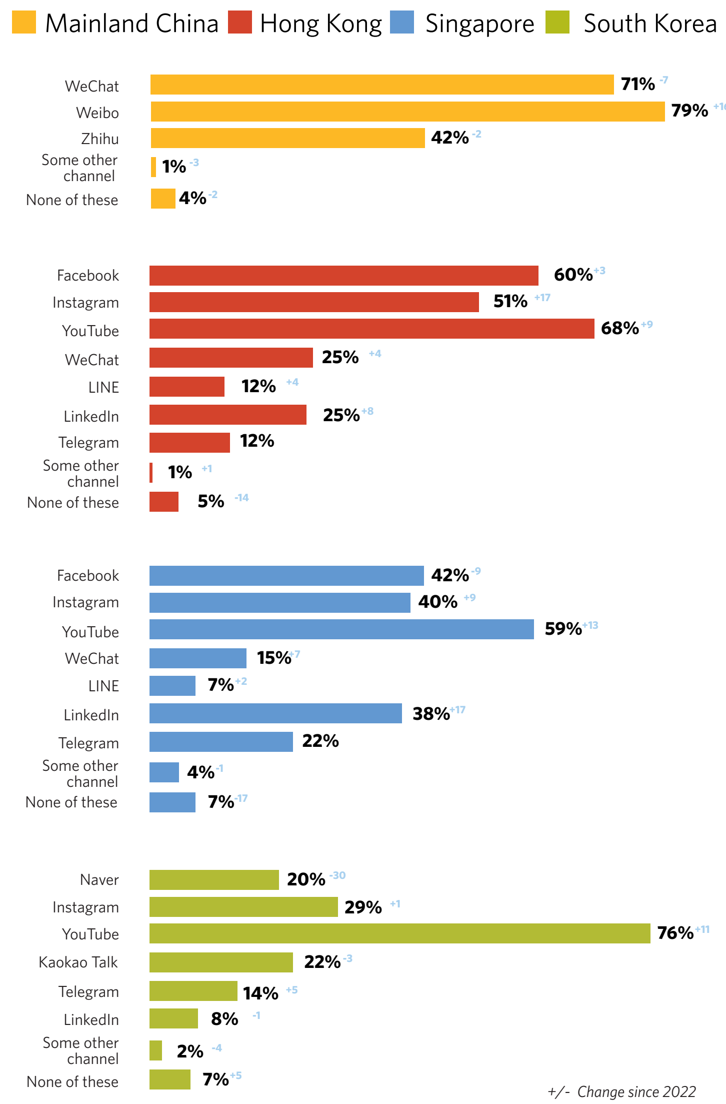
More than half of mainland Chinese investors (56%) said they have used ChatGPT or other similar AI tools for making investment decisions, followed by investors in Hong Kong (48%) and Singapore (45%). South Korean investors (38%) are generally less likely to use new technology when making serious investment decisions.

However, it is interesting that although many investors who tried ChatGPT or similar AI tools found them easy to use (86%), and able to provide useful guidance and advice (82%), over half of the respondents (54%) found that these tools are not helpful at all for investment decisions. Although many decision-makers use big data and AI algorithms to analyze market trends and identify potential risks and opportunities, it is still to be seen if ChatGPT or other AI tools will replace humans in making investment decisions.

When specifically looking to the kind of information respondents seek from asset managers' social media channels, there were three main categories:

1. Corporate information which includes both global and local
2. Product information
3. Investor education

Social media platforms accessed for fund information



Product information (49%) and corporate information (48%) are most sought-after on the social media channels of asset managers. At the same time, investors frequently look for thought leadership articles (38%) and information related to investor education (38%) through social media channels.

Meanwhile, an increasing number of investors in South Korea and mainland China also seek investor education information from social media platforms. For asset managers that make more efforts to create educational content, it is an effective way to elevate their brand in front of target audiences.

Where are investors turning to in terms of their platforms of choice?

More than half of the investors covered in the survey use virtual banks or online fund platforms to access their fund products. These online methods are the most popular among Asian investors (56%) for fund patronage. Independent financial advisors or bank intermediaries continue to be important (43%), alongside wealth managers (40%).

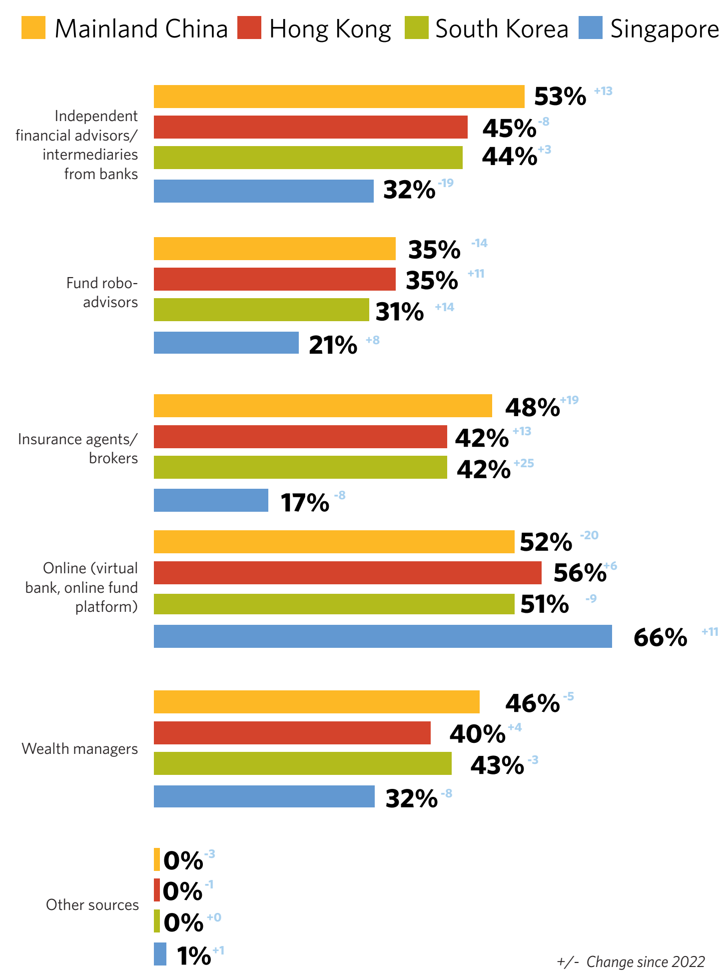
In some markets, there is a greater willingness to change from face-to-face interaction and become more comfortable with online channels, but it is evident that a substantial number of investors will continue to prefer to receive expert advice through in-person meetings.

However, digital platforms are now a mainstream way for investors to purchase mutual funds — more than three-quarters of investors in Hong Kong (75%), Singapore (76%) and mainland China (77%) said they have used digital platforms to purchase such. Although South Korean investors' use of digital platforms to purchase mutual funds lags behind the other three markets, nearly half the South Korean respondents (48%) have experience in using such platforms for mutual funds because they are easy to use and offer a variety of fund choices. Investors in South Korea also appreciate the low management fees offered by these digital platforms, an increasingly important reason for them to shift online. Close behind digital platforms are independent financial advisors and intermediaries from banks: mainland China (53%), Hong Kong (45%), South Korea (44%), Singapore (32%).

Insurance agents or brokers scored higher than wealth managers: mainland China (48%), Hong Kong and South Korea (42%), but only 17% in Singapore.

Over half of the investors use online methods for fund patronage, followed by independent financial advisors/ banks

Sources used for fund patronage



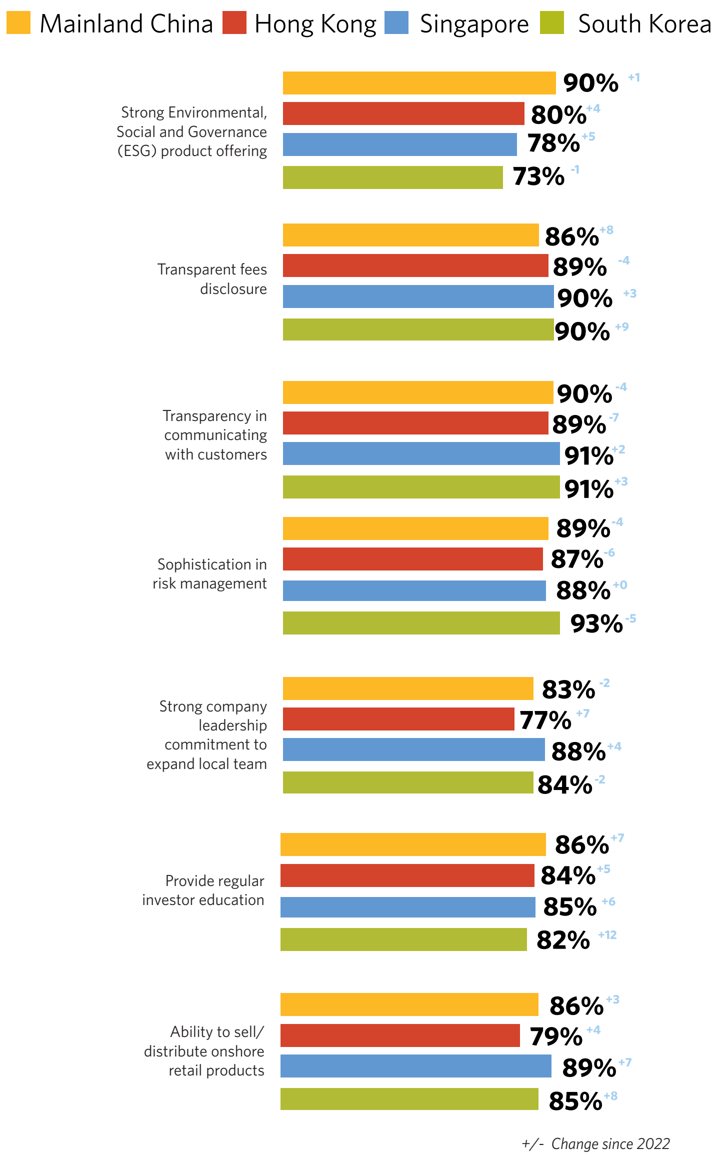
Communication is key — so what are the core pillars?

For overseas asset management houses operating in markets across the region, an important element of success is ensuring they know how investors want to be communicated with and about what. The survey highlighted the high level of transparency foreign asset managers need to uphold when it comes to customer communication, especially around fees disclosure and risk management. They also hope these global asset managers are able to perform sophisticatedly in risk management (89%) with high transparency in fees disclosure (89%).

It is also worth noting that over 90% of mainland Chinese investors rank foreign asset managers with strong ESG product offerings higher.

Transparency in communicating with customers is key for all investors

Importance of overeseas asset management houses operating in your market to have each of the following



ESG on the rise

ESG investments have evolved over the years in Asia as increasing numbers of investors in Asia show more interest in national climate and development policies, energy security and sustainable finance, all of which have led to greater demand for asset managers to promote sustainable investments.

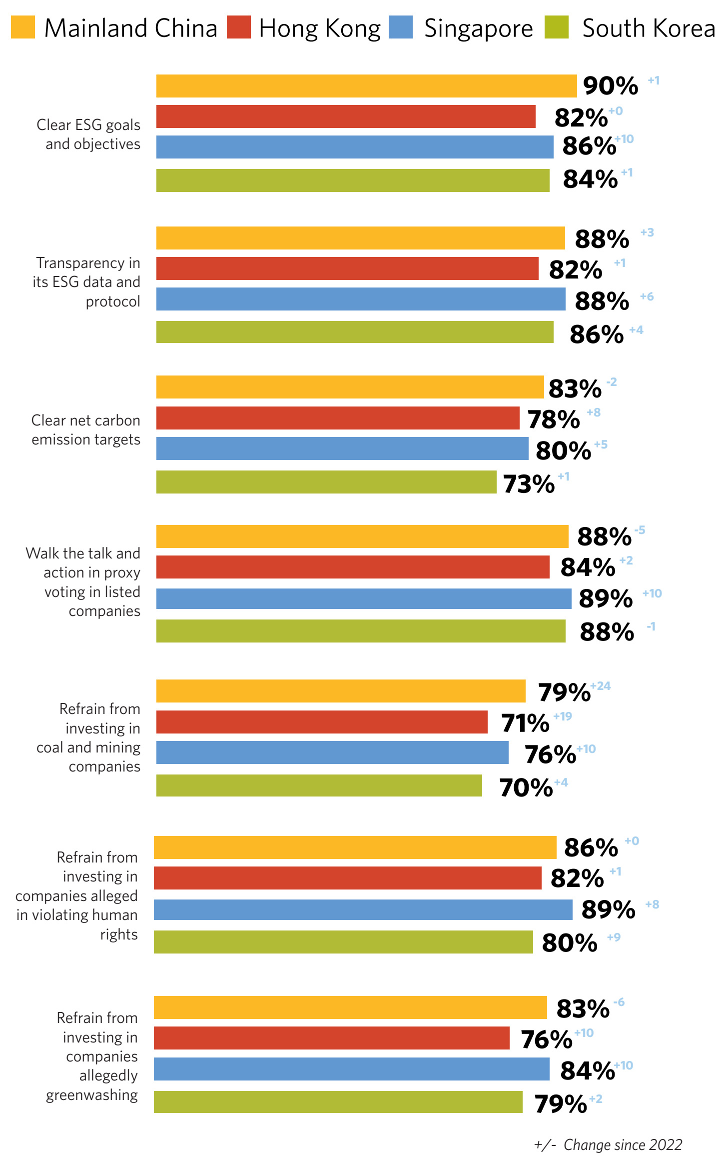
The International Sustainability Standards Board (ISSB) global sustainability disclosure standards, which were issued earlier this year, sets the global ESG reporting standard baseline for local regulators to adopt or follow.

Asset managers will need to monitor how the regulatory standards evolve globally, regionally and locally. Asset managers also need to demonstrate authentic actions with tangible results as 88% of respondents say that "walk the talk and action in proxy voting in listed companies" is the most important ESG commitment they want from asset managers.

That is followed by asset managers' transparency in ESG data and protocols (86%), and then clear ESG goals and objectives (85%). The survey respondents put more emphasis on the importance of not investing in companies allegedly involved with human rights violations or greenwashing, and setting clear net carbon emission targets.

'Walk the talk and action in proxy voting in listed companies' is the most important ESG commitment investors seek from asset managers

Importance of ESG commitments from asset managers



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