



Perspectives on Asset Management

Roundtable Discussion

JANUARY 2023

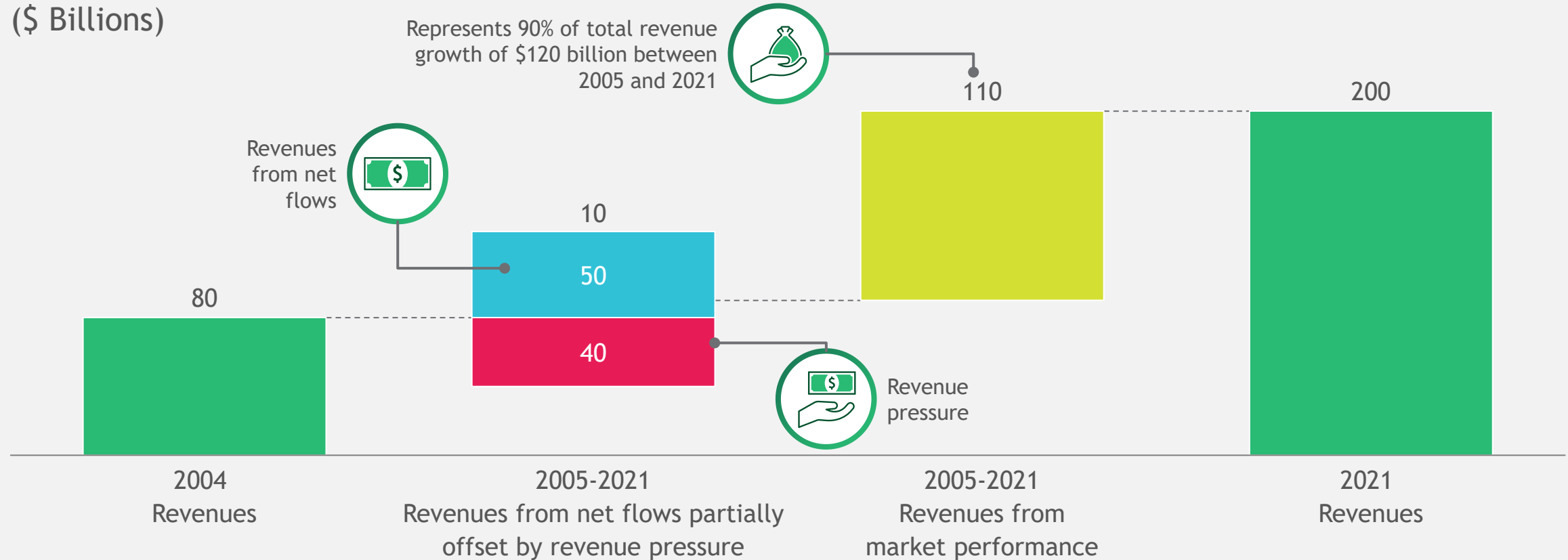


Key Takeaways

- Asset Management still a great business
- New environment: tailwinds to headwinds
- Key themes for next few years
 - Profitability
 - Personalization
 - Private Markets

Market performance has been the key driver of revenue growth

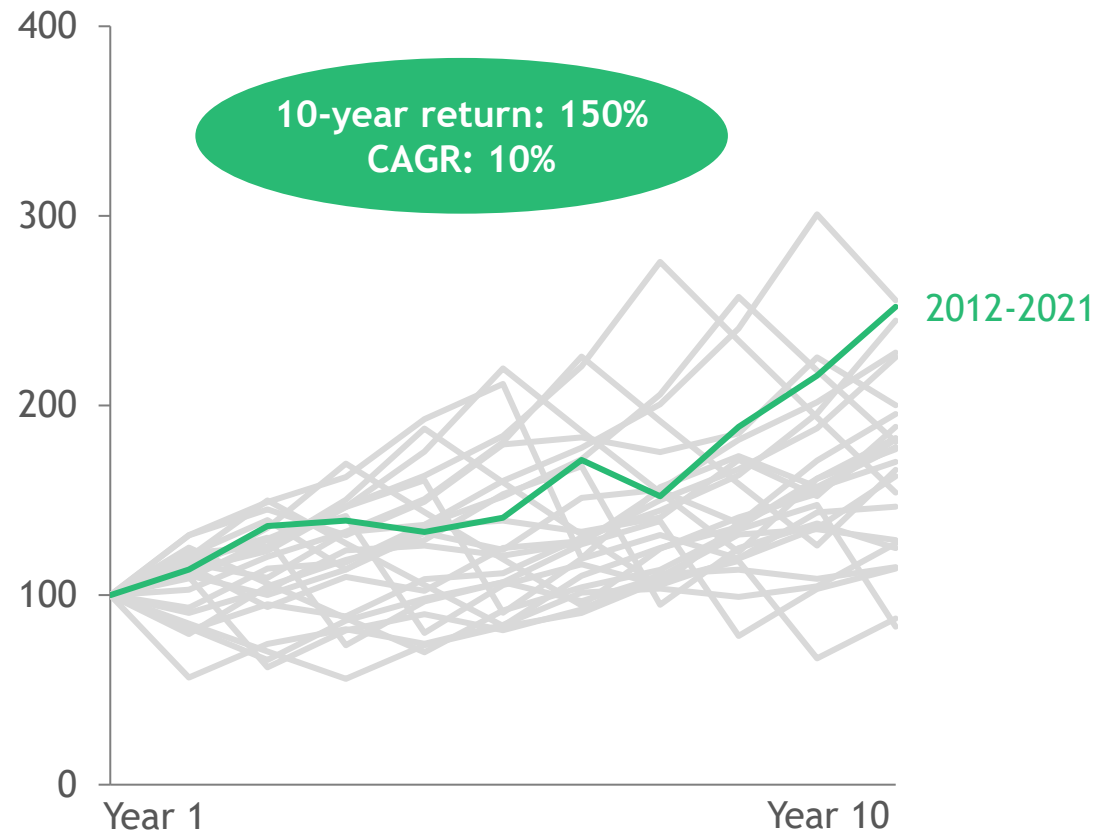
(\$ Billions)



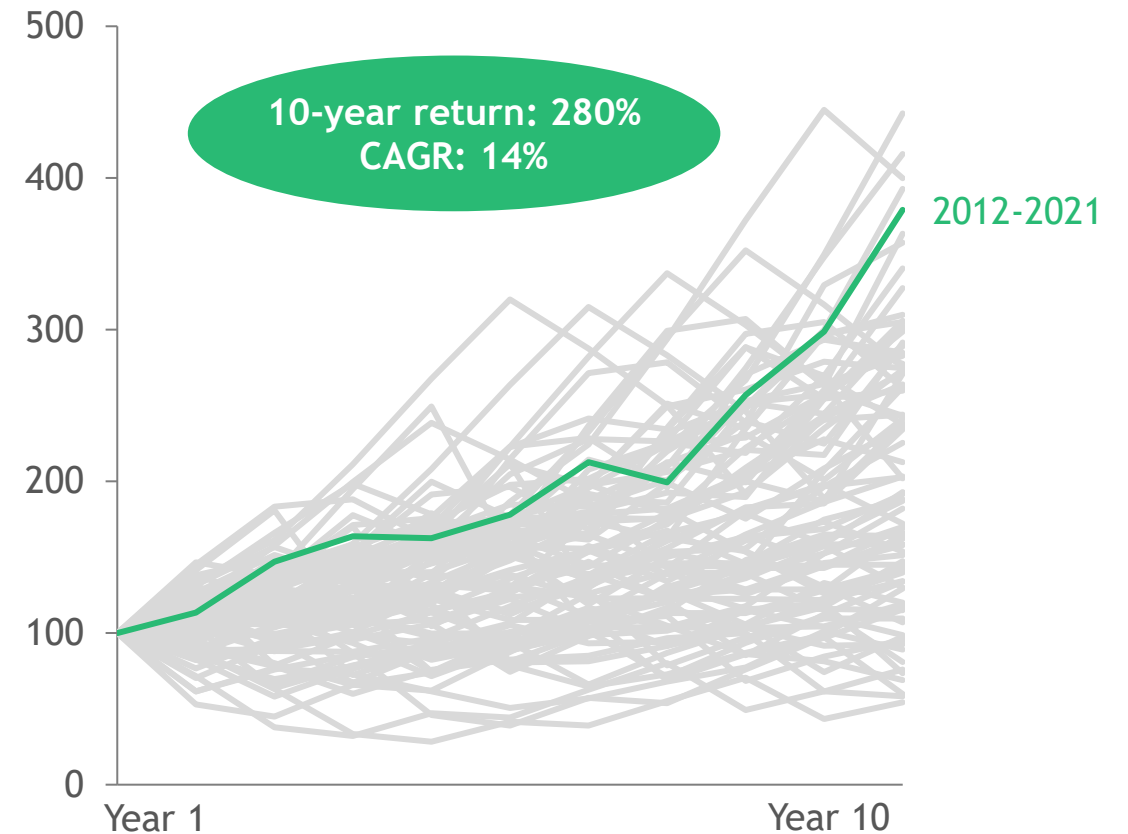
Note: Approximated, rounded figures; revenue pressure includes impact of both shift in product mix and change in pricing pressure. Scope of the analysis is active core, active specialties, solutions and passives; it excludes alternatives
 Sources: BCG Global Asset Management Market Sizing 2022; BCG Global Asset Management Benchmarking 2022

Market returns last 10 years among the best in history

MSCI World Index return



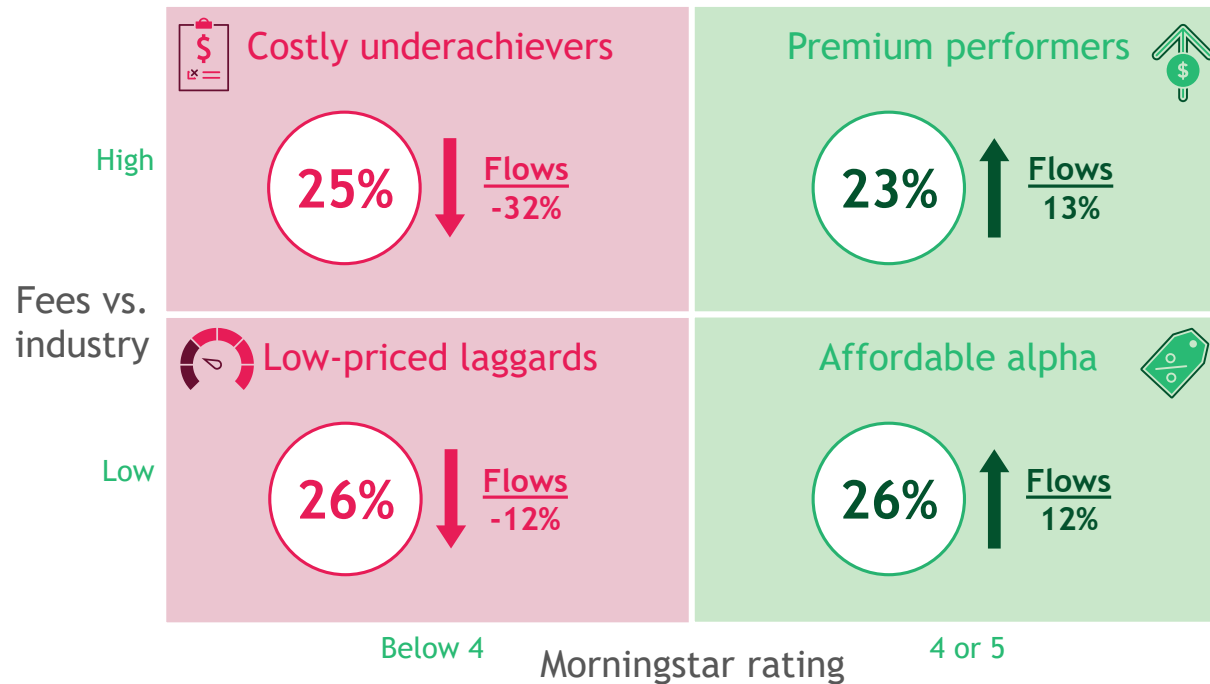
S&P 500 Index return



Note: 10-year rolling basis, level of index in first year of each run normalized to 100, timeline is 1927-2021 for S&P 500 and 1987-2021 for MSCI World
Source: Bloomberg; MSCI; Macrotrends; BCG analysis

Clients willing to pay for good performance

Active mutual fund assets (2016-21)



○ % Total category AUM Net flows = 5-year flows/AUM in quadrant

Note: AUM and flow data above relates to active mutual funds and ETFs only in the North American market; International products not considered due to lack of historical fees & lesser data quality; Not all AUM in market used in analysis as not all funds have a Morningstar rating & reported/consistent fee data; Highly passive-oriented players excluded from analysis

Source: Strategic Insight; BCG analysis

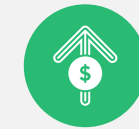
Product portfolio performance matrix

The PPP matrix defines four product categories based on their performance and fee by assessing AuM and net flows



Affordable alpha

- Competitively-priced & outperforming industry peers, "high value for money" products



Premium performers

- High-priced & above average performance vs. industry peers, can be some specialty products



Low-priced laggards

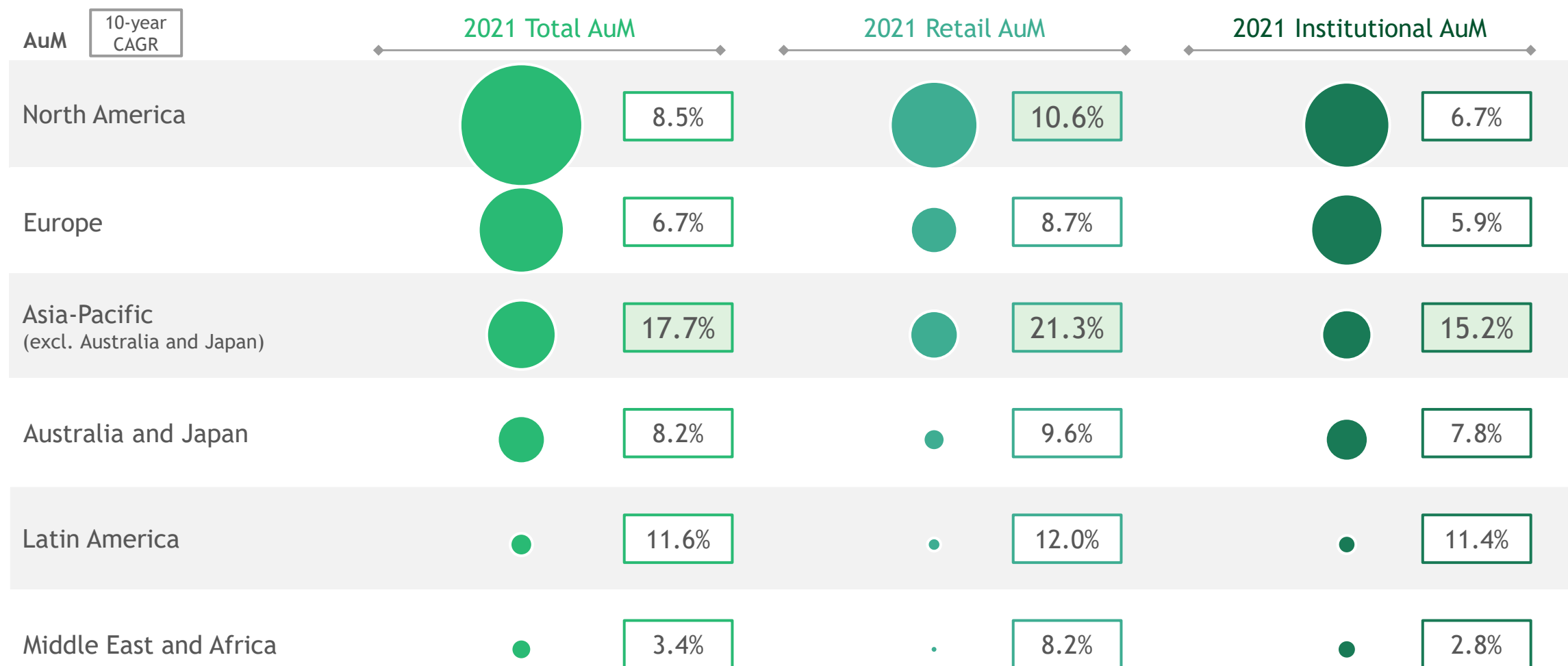
- Competitively priced or discounted but still underperforming vs. industry peers



Costly underachievers

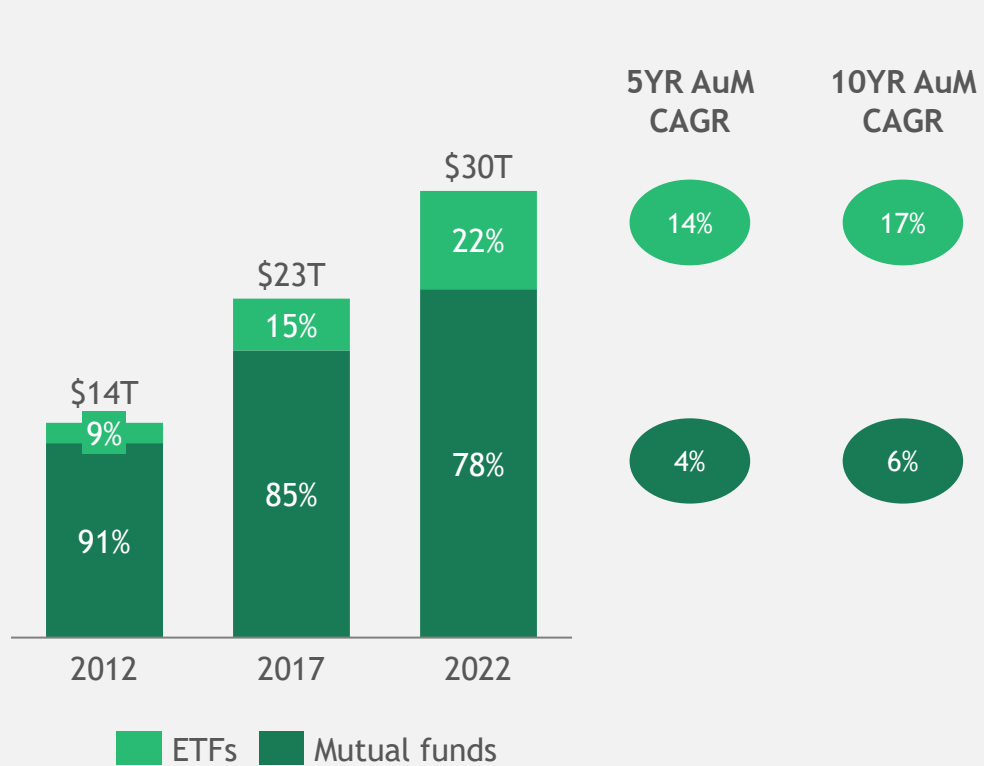
- Highly-priced for category and underperforming vs. industry peers, under-delivering on premium

Retail investors gaining importance and outpaced institutional growth in all regions over the past 10 years; Asia-Pacific is fastest growing region globally

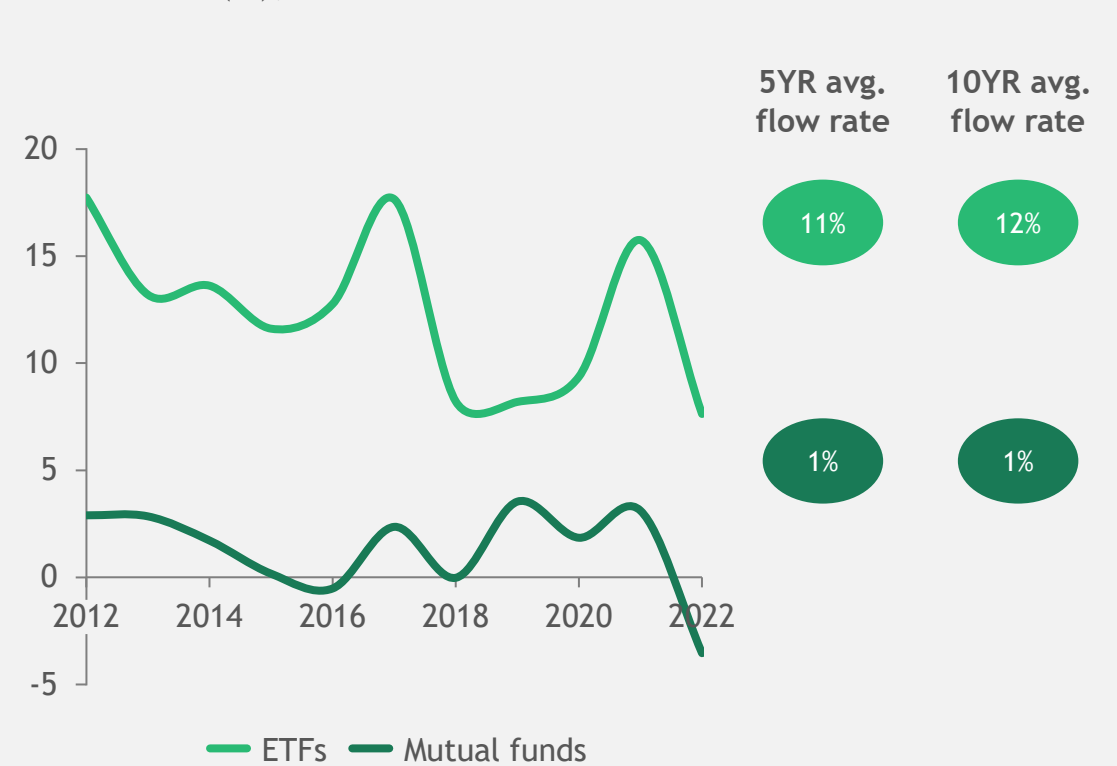


ETFs continue to gain share

US mutual fund & ETF AuM share (%), 2012-2022



US mutual fund & ETF AuM annual flow rates (%), 2012-2022



Note: Net flow rate calculated as current year net flows divided by previous year AuM; Mutual fund & ETF data only
 Source: Strategic Insight/Simfund; BCG analysis

Mutual fund to ETF conversions in the early innings

\$60B+

...in US mutual fund assets converted to ETF vehicles

40+


...known mutual funds converted to active ETFs

20+


...US active managers that have converted legacy funds to ETFs

Many well-known brands are leading the charge...

 **Dimensional** Over \$50B of AuM in converted ETFs

 **J.P.Morgan** Asset Management \$7B+ in converted ETFs, more in process

 **Fidelity** INVESTMENTS Announced¹ 6 MFs to convert to active ETFs

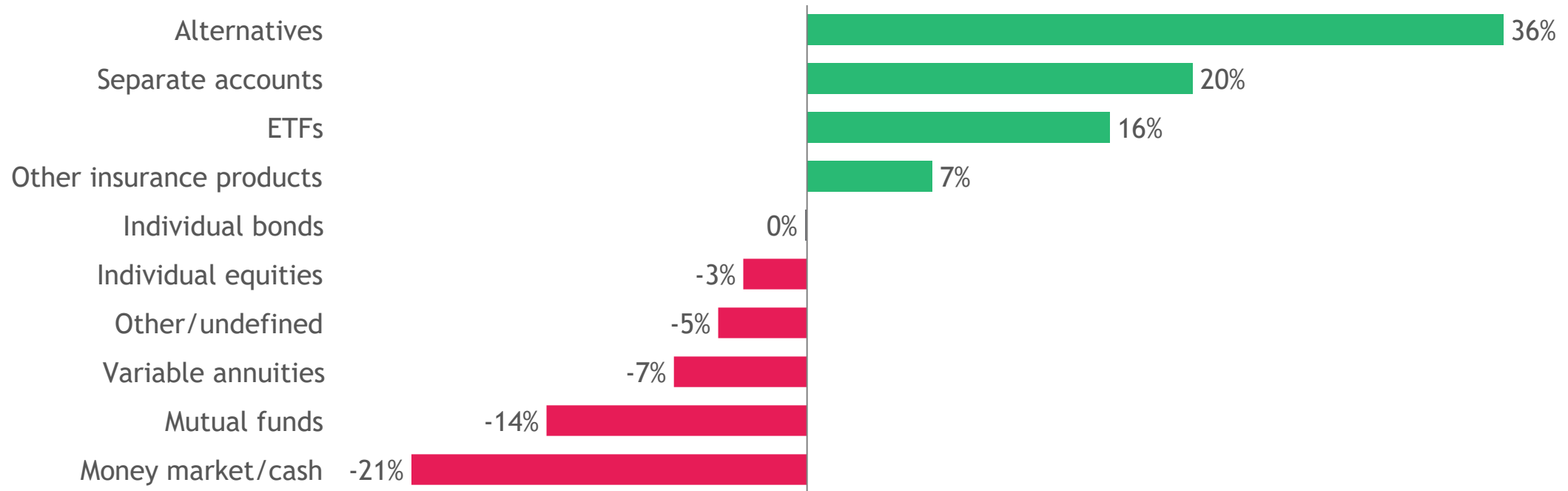
 **Goldman Sachs** Launched GS ETF Accelerator, a white-label ETF offering²

...but managers face key questions relating to ETF conversions

- Will this mitigate outflows & generate stronger future inflows?
- What is the best path for ETF conversion & at what cost?
- What operational hurdles must be overcome? How long does it take?
- What're the key benefits & how to communicate to clients?

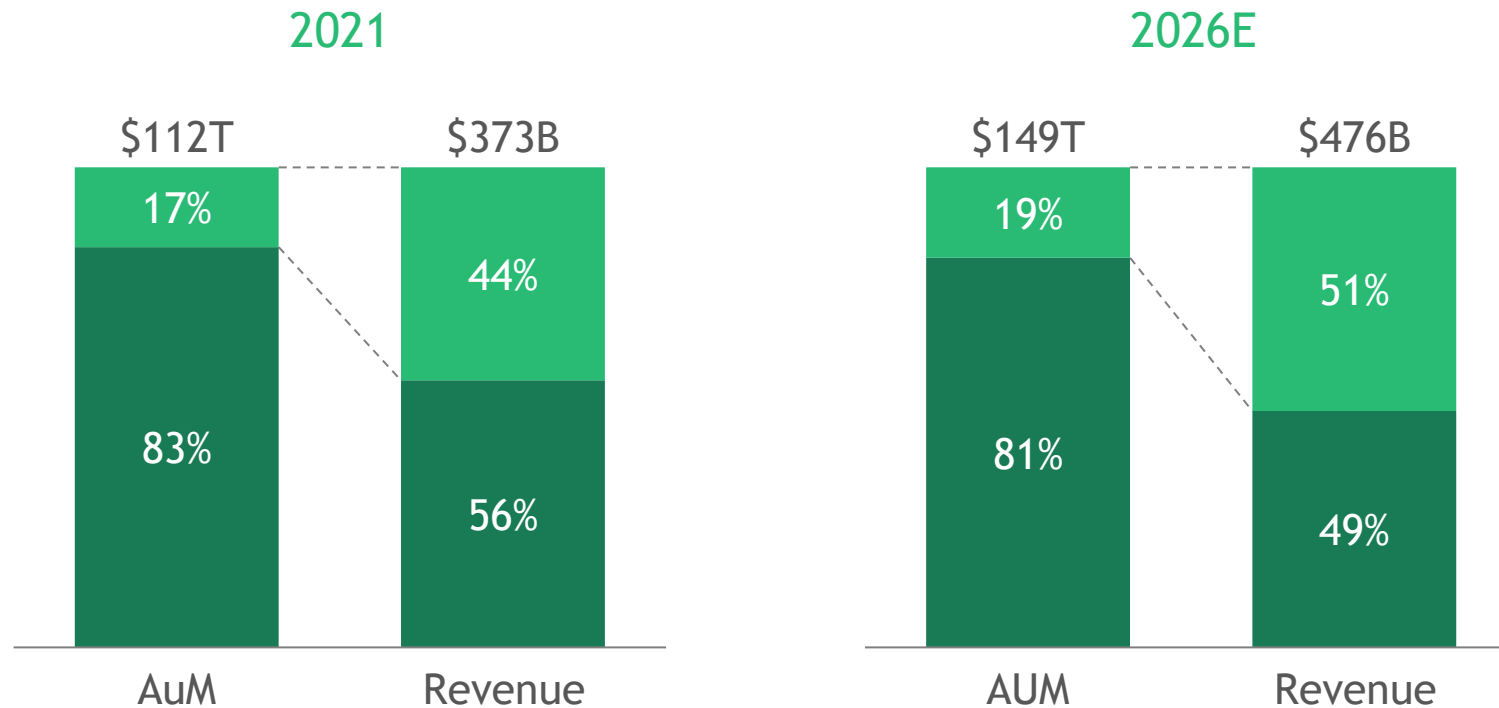
Advisors product preferences tailwind for Alts, SMAs and ETFs

Advisor-reported product mix percent change, 2022 vs. 2024E (%)

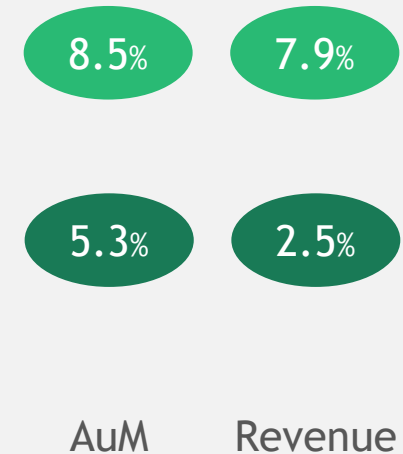


Note: Figures as captured by Cerulli Associates' advisor survey; Other insurance includes fixed annuities, variable life, & long-term care; Alternatives exclude liquid alternatives; Mutual funds include liquid alternatives; Other/undefined products represents any product or asset class not further defined/categorized by advisors
Source: Cerulli Associates; BCG analysis

Alternatives will soon be >50% of industry revenue



CAGR 2021-26E



1. Includes hedge funds, private equity, real estate, infrastructure, commodities, private debt, and liquid alternative mutual funds (such as absolute return, long and short, market-neutral, and trading-oriented); private equity and hedge fund revenues do not include performance fees; 2. Includes active core (actively managed domestic large-cap equity, domestic government and corporate debt, money market, structured products), active specialties (foreign/global/emerging markets/small & mid-cap/OCIO/themes equity specialties and emerging markets/high-yield/flexible/inflation-linked fixed-income specialties), passives, and solutions/liability-driven investment/balanced (target-date, target maturity, liability-driven, OCIO, multi-asset balanced, multi-asset allocation)

Sources: BCG Global Asset Management Market Sizing 2022; BCG Global Asset Management Benchmarking 2022; Strategic Insight; P&I; ICI; Preqin; HFR; INREV; BCG analysis

Alternative assets
Traditional assets

How to access the retail opportunity?

There are two (very different) ways to access capital from the retail channel...



1 In-house distribution team

- Build (or acquire) in-house distribution capabilities
- Requires significant scale, capital, and patience
- May take years to build a team that can effectively sell product to retail at scale, with no guarantee of success
- Once established, an effective retail distribution team provides a meaningful competitive advantage

2 Utilize a fintech/digital platform

- GPs can form relationships with fintechs/digital providers, who will then offer the GP's products on their platforms
- Fintech/digital platforms aggregate commitments from retail investors, bundling them into large singular commitments
- These firms act as the bridge between a highly fragmented pool of investors and the GPs, receiving a small cut of the economics in return

Access point #1: Pursue a built-out of in-house distribution capabilities, which requires scale, capital & patience

Blackstone

- Private banking/wealth management is currently 20% of AUM; aiming for 50%
- Plans to double 160-person private wealth distribution unit
- Targeting \$270B in private wealth AUM by 2027
- Raised \$50B in 2021 for 16 products tailored to retail investors across all asset classes and strategies

KKR

- Plans to build similar distribution arm to Blackstone (currently 30 professionals); also pushing into Asia through KKR-Asia Pacific Wealth
- Expect capital raised from individual investors to grow to 30%-50% of annual fundraising "over the next several years"; individuals are currently 15% of fee-paying AUM
- Identified retail capital raising as one of "three main areas of focus" during Nov. 2. 2021 earnings call

ARES

- Unveiled 90-person Wealth Management Solutions (WMS) distribution team on Oct. 25. 2021
- Currently have \$45B of AUM from retail and HNW investors

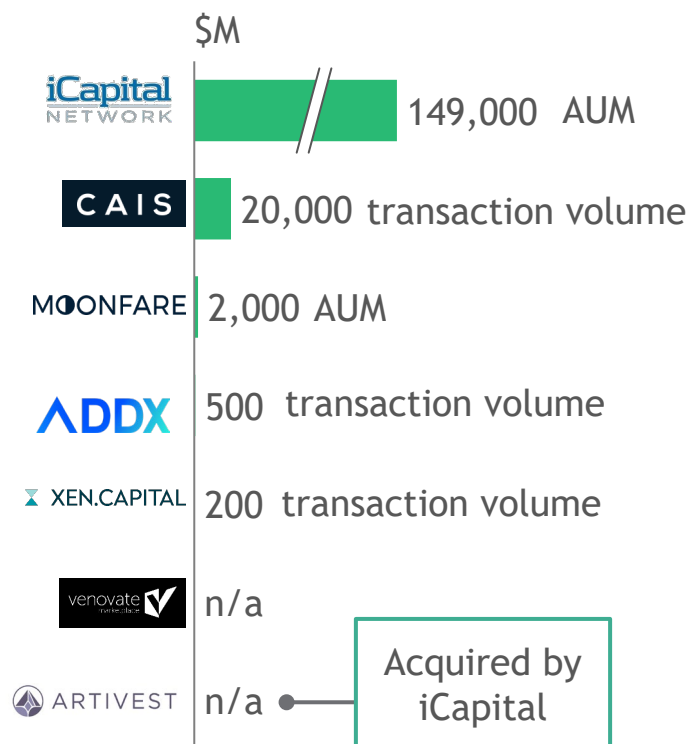
APOLLO

- Acquired parts of Griffin Capital Co. LLC's U.S. wealth distribution business (focused on independent broker dealer channel) on Dec. 2. 2021
- Expect retail capital to represent 30% of annual fundraising by 2026, vs. ~5% per annum from 2018-2020
- Expansion into retail cited as one of Apollo's three "key bets" moving forward on Nov. 3. 2021 earnings call

Access point #2: Utilize fintech/digital platforms, who aggregate fragmented commitments into one LP while offering GP products on their platform



Leading start-ups by AUM or volume



Forged strategic partnerships

- **iCapital:** Partnerships with North American asset/wealth managers including State Street, PIMCO, AMG, Schwab, Janney Montgomery Scott and Barings
- **Moonfare:** Partnerships with European wealth managers to allow its private clients access to private equity + partnership with Lexington Partners to provide liquidity
- **Vanguard:** Partnered with HarbourVest, creating a buyout- and FoF-type of PE fund each year managed by HarbourVest



Investors in startups

- **iCapital:** Blackrock, Blackstone, Carlyle, Morgan Stanley, Hamilton Lane, Ping An, AMG, UBS, BNY Mellon, WestCap, Blue Owl, Goldman Sachs, Apollo
- **Moonfare:** Insight Partners, Vitruvian, early-stage funding from other VCs
- **CAIS:** Franklin Templeton, Apollo, Motive Partners, Reverence Capital Partners
- **ADDX:** Singapore Exchange, Heliconia Capital (Temasek), JIC Venture Growth Investments, Development Bank of Japan

Personalization at scale will follow path of consumer and technology industries

All knowable data...

...to generate personalized engagement...

... accessed via common tools

General advisor information
(e.g., location, length of relationship)



Trade behavior
(e.g., purchases, redemptions)



Holdings
(e.g., fund positions)



Interactions
(e.g., inbound/outbound calls, web)



Demographics
(e.g., median income of office location)



Macro factors
(e.g., CPI, inflation)



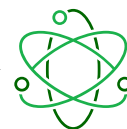
Marketing signals
(e.g., lead gen, segmentation)



Ensure consistent identifiers, scope, history, etc.



Consistent database with sophisticated features from multiple domains



Advisor 360°

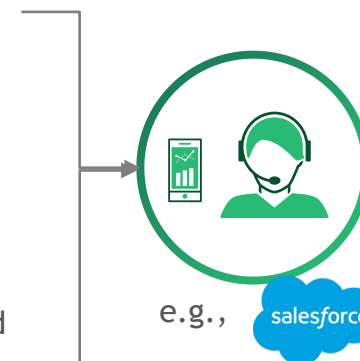
Consistent data foundation

Sales can review important customer data, activity, insights and more for efficient calendaring and preparation of customer conversations and reviews

Smart List & Advisor Insights




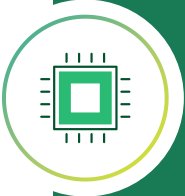





Consistent database crucial building block for most advanced analytics solutions, incl.

- Redemption
- Cross-Sell
- Content Topic Suggestion
- Interaction Model
- Client Acquisition



e.g., salesforce


Emerging technologies foster broader investor access and reimagine activities across the value chain


Technology	Select examples today	Potential future impact
 <p>Direct indexing</p>	<ul style="list-style-type: none">  Launched retail DI (2022)¹  Acquired a top DI player (2020-2021) 	<ul style="list-style-type: none"> Replacement of traditional fund structures with real-time, fully customizable portfolios, democratizes personalization for all investors
 <p>Tokenization of assets</p>	<ul style="list-style-type: none">  First allocation tokenized from a leading PE firm (2021)²  Digital assets market size to grow to \$15T+ in 2025³ 	<ul style="list-style-type: none"> Ability to invest in illiquid asset classes (including virtual & other intangible assets), democratizes access to assets
 <p>E2E DLT-enabled value chain</p>	<ul style="list-style-type: none">  Piloted DLT distribution platform (2021)  Launched first investor-facing DLT fund services platform (2020) 	<ul style="list-style-type: none"> Integration and efficiencies across AM internal operations (e.g., distribution, client onboarding and KYC, data silos, compliance and regulatory reporting)


1. Fidelity launched first retail-targeting direct indexing product with \$5K minimum investment in January 2022; 2. ADDX tokenized Partners Group's \$6.43B Global Value SICAV Fund in September 2021; 3. BCG analysis including substantial conversion of 'traditional assets' to 'digital assets'
 Note: DI = Direct indexing, DLT = Distributed ledger technology
 Source: Press; BCG analysis

Personalized portfolios set-up for growth

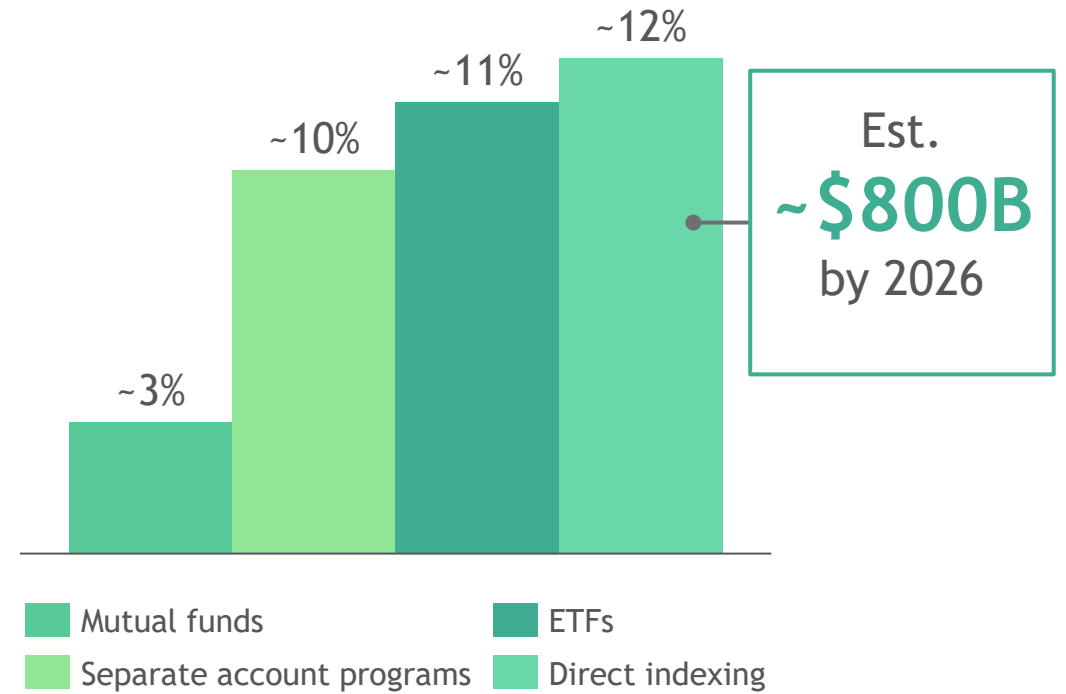
Innovative retail offering quickly growing in US allows for hyper customization at scale

 52% of global retail investors are interested in personalized index products

 Investors with an advisor are more likely to utilize direct indexing

 Markets with fractional share trading & applicable tax codes most suitable

US asset management products with expected 5-year growth rates



Notes: Projections based on Cerulli Q122 estimates; ETFs = exchanged traded funds, SMAs = separately managed accounts, MFs = mutual funds
Source: Cerulli Ass.; CFA Institute; Press; BCG analysis