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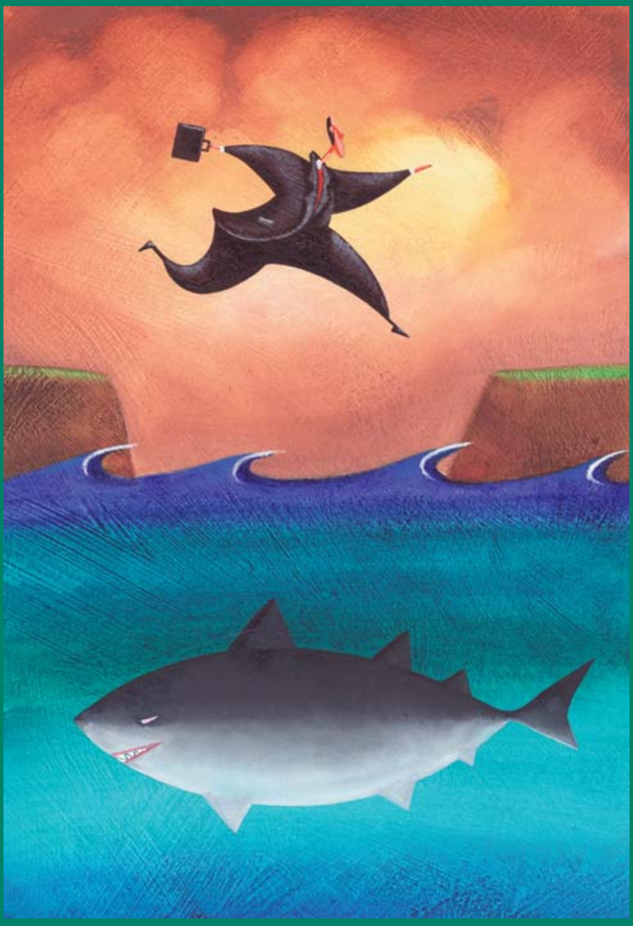
Report

Global Asset Management 2009

Conquering the Crisis



The Boston Consulting Group

Conquering the Crisis

Global Asset Management 2009

Kai Kramer

Brent Beardsley

Monish Kumar

Andy Maguire

Philippe Morel

Tjun Tang

Hélène Donnadieu

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E-mail: bcg-info@bcg.com
Fax: +1 617 850 3901, attention BCG/Permissions
Mail: BCG/Permissions
The Boston Consulting Group, Inc.
One Beacon Street
Boston, MA 02108
USA

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Preface

Conquering the Crisis: Global Asset Management 2009 is The Boston Consulting Group's seventh annual study of the worldwide asset-management industry. As in our previous reports, this edition contains a comprehensive market-sizing effort. We covered 32 major markets (representing more than 95 percent of the global asset-management market) and focused exclusively on assets that are professionally managed in exchange for a fee. We also conducted a detailed analysis of the forces that are shaping the fortunes of asset management institutions across the globe.

Moreover, this report contains conclusions drawn from a detailed benchmarking exercise of leading industry competitors that BCG conducted early in 2009. Our goal was to collect data on fees, products, distribution channels, and costs in order to draw insights into the current state of the industry and its underlying drivers of profitability.

In our 2008 report, *Winning Strategies in Uncertain Times,* we concentrated on the events surrounding the global financial crisis that first began to unfold in the summer of 2007. Today, despite some positive market trends that have developed since the beginning of 2009, the crisis is far from over. We therefore devote considerable space in this report both to the consequences of the crisis up to the present time and to the dilemmas that asset managers currently face in their efforts not only to survive the ongoing turmoil but also to emerge from it in a strong competitive position. The winners will be those that most astutely adapt to the evolution of investor behavior and leverage new opportunities—such as acquisitions—that will arise as the industry reshapes itself. Reducing costs even further and adapting core business and operating models will also be key factors for success.

We hope that this report will engage readers and raise provocative questions. We also hope that it will encourage asset managers to review the strength and integrity of all aspects of their businesses and prompt them to take the actions necessary to ensure not only the viability but also the prosperity of their institutions in the future.

About the Authors

Kai Kramer is a partner and managing director in the Frankfurt office of The Boston Consulting Group and leader of the firm's global Asset Management practice. **Brent Beardsley** is a partner and managing director in BCG's Chicago office. **Monish Kumar** is a partner and managing director in the firm's New York office and the leader of BCG's global Wealth and Asset Management segment. **Andy Maguire** is a senior partner and managing director in the firm's London office. **Philippe Morel** is a senior partner and managing director in BCG's Paris office. **Tjun Tang** is a partner and managing director in the firm's Hong Kong office. **Hélène Donnadieu** is a principal in BCG's Paris office and manager of the firm's global Asset Management practice.

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

The ongoing financial crisis has had a profound effect on the asset management industry in numerous ways. The following six points provide a glimpse of the industry's essential characteristics today.

- *In 2008, the global value of professionally managed assets fell by 18 percent to $48.6 trillion.*[1] This sharp decline followed average growth of 12 percent per year from 2002 through 2007. Sliding equity markets around the world were the primary driver of this decrease.

- *In 2008, investors fled asset classes that were perceived as risky, illiquid, or nontransparent, gravitating toward asset classes that were perceived as safe.* Investors that chose to remain in riskier asset classes often chose less expensive vehicles such as exchange-traded funds (ETFs) instead of staying with actively managed products. Money market funds, cash deposits, and ETFs were beneficiaries of the crisis. From the end of 2007 through the end of 2008, global equity allocations lost 9 percentage points. Conversely, assets under management (AuM) in both money-market and fixed-income instruments rose by 3 and 6 percentage points, respectively. Other asset classes, including alternative investments, remained stable in overall asset allocation. Traditional actively managed products—particularly long-only equity funds—will continue to be squeezed by passively managed products and probably to a lesser degree by innovative products, although the risks associated with innovative offerings must become more transparent.

- *Economics have deteriorated for asset managers.* The average profit (operating margin) of asset managers fell from 38 percent of net revenues at the end of 2007 to 34 percent at the end of 2008—the lowest level in five years. While this decrease may appear to be modest given the depth of the crisis, the differences among asset managers were substantial. About 30 percent of asset managers were hit extremely hard, seeing their profits decrease by 30 percent or more. Overall, about 80 percent of asset managers saw their profits fall in 2008, while about 70 percent saw their revenues decrease as well. The revenue effect of declines in 2008 AuM will not be fully apparent until the end of 2009.

- *Many asset managers have already reacted to the crisis by adopting a series of initiatives aimed at protecting their business and positioning themselves for the postcrisis era.* The question of the moment concerns which additional steps asset managers should take now in order to prepare themselves for all market possibilities. Both opportunities and risks should arise because a record number of investors are expected to switch asset managers in the coming months. In our view, asset managers need to devise contingency plans for various market scenarios, define the core value proposition of their business models, strengthen their core value propositions, and continuously refine their operating models. They should also take a hard look at potential acquisitions. Opportunities have arisen that were not feasible 18 months ago.

- *The crisis could still worsen.* Equity markets could decline further and remain distressed, a dramatic rise in competitiveness could further constrain revenue pools, and additional cost cutting could prove to be extremely

1. Owing to changes in methodology or in data provided by external sources, market-sizing totals may not be consistent with those stated in BCG's previous Asset Management reports.

difficult. Once asset managers identify and fully understand such potential threats, they must devise ways to cope with and even benefit from them. They must also gauge the likely actions of their closest competitors.

- *The crisis presents a unique opportunity for asset managers to review what they do best so that they can adjust their business models and ensure the viability of their institutions in the future.* Such a reassessment includes initiatives such as defining target clients and distribution means, and aligning product offerings accordingly.

In parallel to a strategic review of their business models, asset managers need to keep pushing the initiatives that many have started implementing in recent months to refine their operating models. Such initiatives include staying close to core clients, bolstering risk management, and continuing to search for additional cost-cutting opportunities.

A Snapshot of the Industry

As the worldwide financial crisis has evolved, the prospects for the asset management industry have become uncertain. The impact of the crisis has shaken, to some extent, the foundation of many investors' core beliefs in the integrity of investment advisors and fund producers—an effect that may not be just a short-term phenomenon. Asset managers, in order to regain both their financial footing and the trust of their customers, must overcome some tough challenges. They must also adapt fast and make potentially radical changes to the way they do business if they hope to forge and maintain business models that will serve them well in the coming years.

Critical questions remain: Is the industry capable of remaking itself into a leaner, more trustworthy, more robust enterprise? Have industrywide profit margins of more than 40 percent of net revenues, such as those witnessed in 2006, become a quaint relic of the past? In our view, asset managers must begin the journey toward better times by fully understanding the depth of the current crisis and the dynamics that it has set in motion. These dynamics include the decline of global asset pools, the loss of investor trust, the flight to "safe" asset classes, and deteriorating economics for asset managers. Ultimately, the landscape of the industry is changing, and those institutions that best grasp the nature of this change—and that take bold action—will be best positioned to benefit.

The Decline of Global Asset Pools

In 2008, the global value of professionally managed assets fell by 18 percent to $48.6 trillion. (See Exhibit 1.) This sharp decline followed average growth of 12 percent per year from 2002 through 2007.

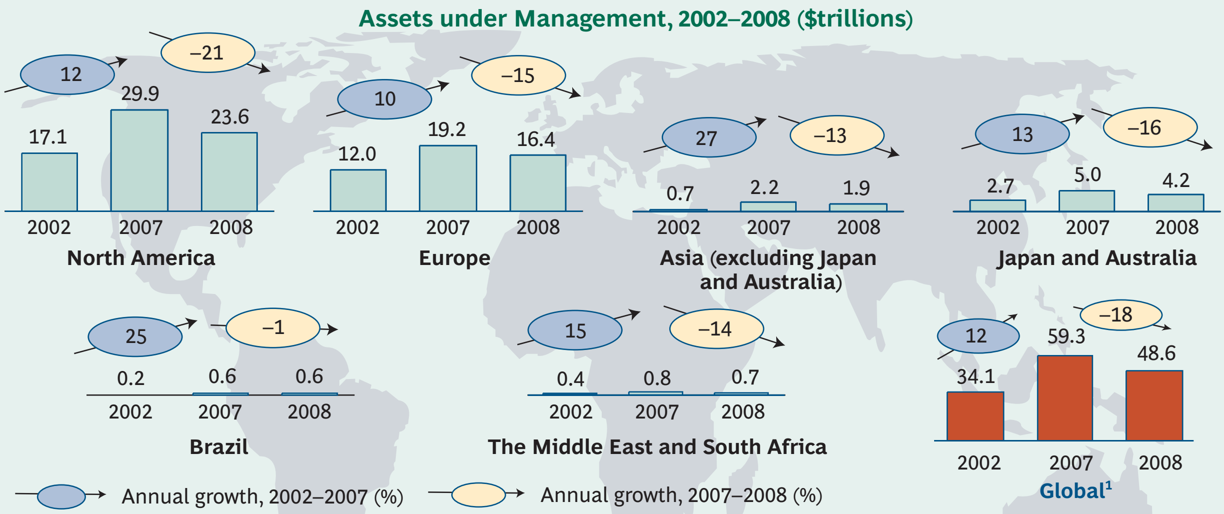
Sliding equity markets around the world were the primary driver of this decrease. Overall, we estimate that global AuM declined by 19 percent owing to asset depreciation and that net inflows—if money market funds are included—contributed to slight growth in AuM of 1 percent.

On a regional basis, North America was hit hardest by the crisis, with the value of AuM falling by 21 percent to $23.6 trillion. Europe experienced a decline of 15 percent to $16.4 trillion, and Asia-Pacific suffered a similar drop of 15 percent to $6.1 trillion. Overall, the decline in the value of AuM differed widely across countries in 2008. (See Exhibit 2.)

The Americas remained the largest asset-management market, dominated by the United States, which had $22 trillion in AuM at the end of 2008 compared with $28 trillion at the end of 2007. Net U.S. inflows (including both retail and institutional money) were roughly $350 billion. However, if assets flowing into money market funds were excluded, the U.S. market suffered from roughly $300 billion in outflows. The Canadian market weathered the year relatively well by comparison, with AuM decreasing by 15 percent to $1.6 trillion. Brazil, the third-largest market in the Americas, was one of the few countries witnessing only a slight decrease in AuM—roughly 1 percent to $590 billion. Such a small decrease, amid a collapse of more than 40 percent in Brazil's equity market, can be explained by the fact that fixed-income investments accounted for more than 80 percent of AuM in Brazil.

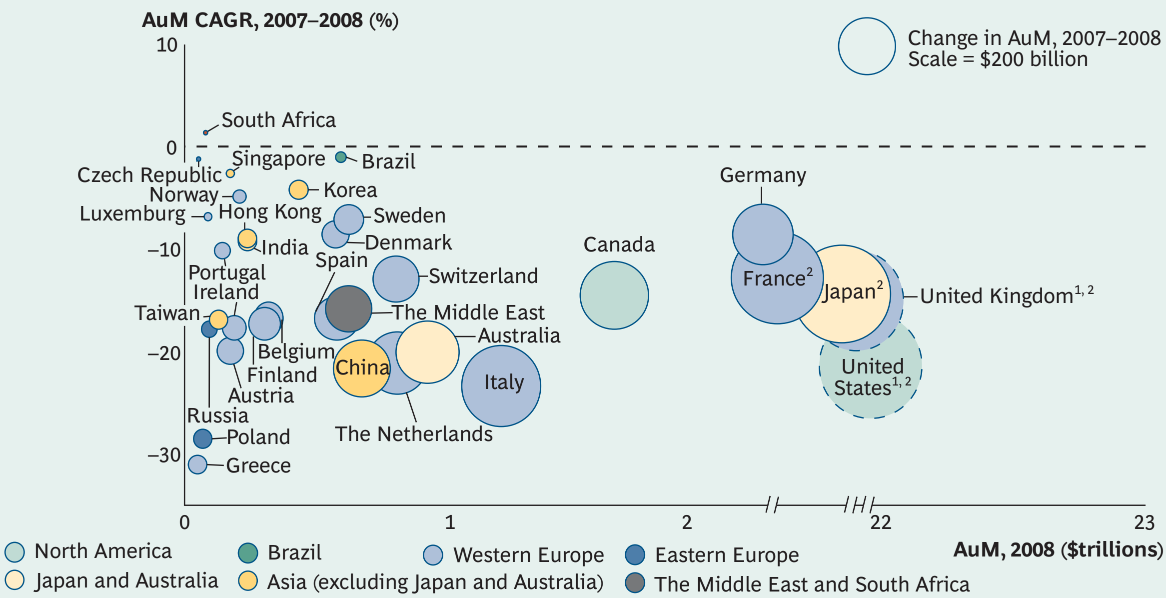
In Europe, total outflows from retail funds were significant—approximately $492 billon. These outflows were driven principally by two factors: the flight of investors from mutual funds to cash deposits, which were widely

Exhibit 1. The Value of Global AuM Fell 18 Percent in 2008



Source: BCG Global Asset Management Market Sizing database, 2009.
Note: North America consists of Canada and the United States; Europe of Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, the Netherlands, Norway, Poland, Portugal, Russia, Spain, Sweden, Switzerland, and the United Kingdom; and Asia of China, Hong Kong, India, Korea, Singapore, and Taiwan. For all countries whose currency is not the U.S. dollar, we have used the average 2008 exchange rate for all years to avoid a currency impact in growth rates. Owing to changes in methodology or in data provided by external sources, market-sizing totals may not be consistent with those stated in BCG's previous Asset Management reports.
[1]Global includes offshore money not already included in specific market sizing.

Exhibit 2. The Decline in AuM Varied Across Countries in 2008



Source: BCG Global Asset Management Market Sizing database, 2009.
Note: For all countries whose currency is not the U.S. dollar, we have used the average 2008 exchange rate.
[1]AuM change was $6 trillion for the United States and $860 billion for the United Kingdom in 2008.
[2]Total AuM were $3.1 trillion for France, $3.3 trillion for Japan, $4.9 trillion for the United Kingdom, and $22 trillion for the United States.

perceived as safe and government protected, and the efforts of banks—which dominate fund distribution in continental Europe—to push deposit products in order to meet refinancing needs.

Across Europe, these dynamics varied by country. Italy and Spain, for example, each saw 2008 outflows from mutual funds reach 20 percent of end-2007 AuM. Yet the United Kingdom witnessed positive net inflows (albeit just barely) thanks to independent financial advisors—key distributors in the U.K. landscape—who continued to steer clients toward mutual funds.

In Asia-Pacific, four key markets—Australia, China, India, and Japan—varied in their 2008 performance. In Japan, the value of total AuM was $3.3 trillion at the end of 2008, down from $3.9 trillion a year earlier. The decline was driven by AuM decreases of 32 percent on the retail side and 9 percent on the institutional side, where the asset mix is skewed more toward fixed-income investments than equities. The Australian market was hit harder because of its higher share of equity. Overall, the value of AuM in Australia fell 20 percent to $921 billion in 2008. In China, after AuM more than doubled in 2007 (thanks both to growing asset values and to robust inflows), the situation deteriorated in 2008 with AuM decreasing by 22 percent to $671 billion. On the retail side, amid falling equity markets and low net inflows, AuM fell by 33 percent. The decline was partly compensated for by relatively stable AuM on the institutional side, which was buoyed by growing insurance assets. In India, overall AuM decreased by about 9 percent as the country experienced a 17 percent decrease in retail AuM—driven primarily by falling equity markets—and a 1 percent decline in institutional AuM.

The Loss of Investor Trust

Investor confidence in the asset management industry has been clearly damaged by the crisis. Indeed, the impact of the crisis has gone beyond traditional fears about market capriciousness. Investors are concerned about dubious advice, unforeseen market correlations, and even fraud.

Dubious Investment Advice and Poor Product Transparency. The subpar performance of many products that had been highly touted by investment advisors led many private investors to believe that the advisors had only their own best interests at heart—not those of their clients. The overall damage was worse than that inflicted by the bursting of the dot-com bubble because more investors were hurt in asset classes that were presumed to be reliable. Even a small percentage of money market funds had used credit default swaps and other structured products to sometimes generate superior performance. When such funds, some of which came highly recommended, started to suffer losses, investors began to question both the advice they had received and the risk management skills of producers. They also began to wonder about the competence of distributors that failed to carry out the necessary due diligence to understand and communicate the true nature of these funds to buyers.

Unforeseen Market Correlations. The strong growth in recent years of many satellite and alternative investments was fed by the promise of reducing portfolio risk though diversification. When many of these promises failed, some high-net-worth and institutional investors had to learn the tough lesson that some alternative asset classes are more correlated with equity markets than they previously had thought. Even some large institutional investors with benchmark asset allocations—such as state pension funds and university endowments in the United States—lost substantial assets in the crisis. Investors in this category that have been exposed to alternative and satellite investments for a long time may be content to wait out the downturn and maintain their asset allocations. Others that are new to these asset classes may act differently.

Fraud. The most egregious example of bad investment advice, the headline-grabbing Bernard L. Madoff scandal, certainly contributed to the image of high-powered investment gurus as people who have nothing but their own interests and wealth in mind. As a result, future promises of steady, superior returns with little volatility or risk—no matter who in the financial world is making such pledges—will be met more with skepticism, even cynicism, than with genuine interest and a willingness to invest.

Ultimately, asset managers must face the fact that investor trust has taken a severe hit—one that may reverberate for many years—and that they will have to work extremely hard to regain the loyalty they once enjoyed. Regulators, for their part, will be scrutinizing the investment industry more closely.

The Flight to "Safe" Asset Classes

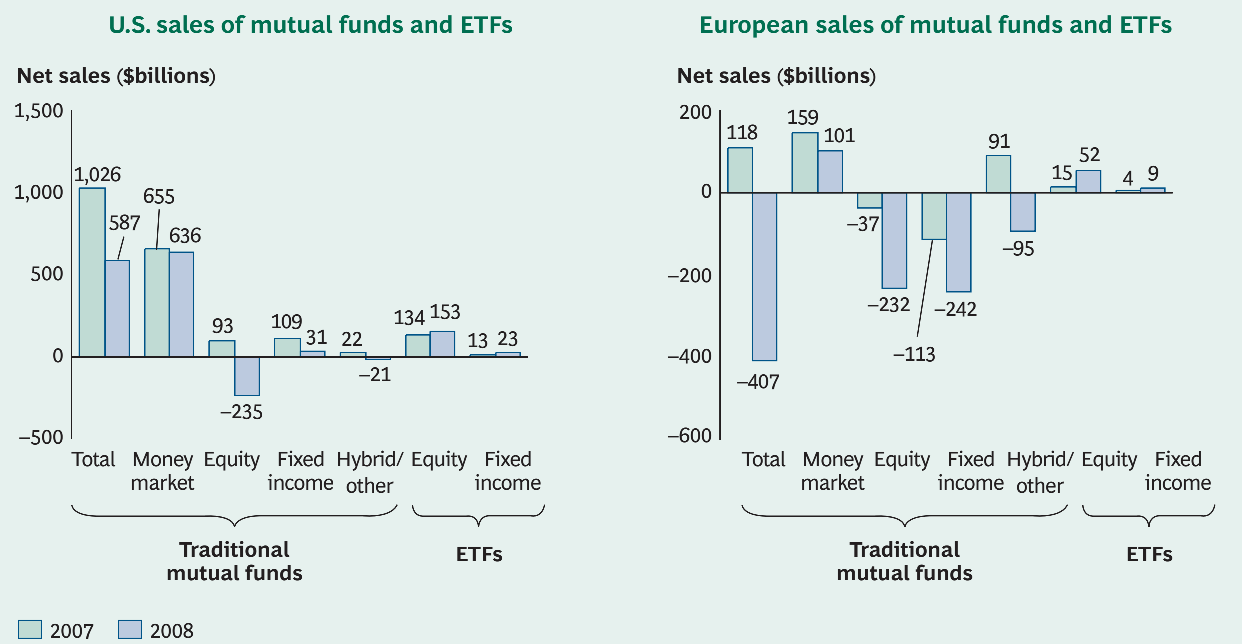
A dominating trend in 2008 was the global flight away from asset classes that were perceived as risky, illiquid, or nontransparent toward those perceived as safe—or at least safer. Investors that chose to remain in riskier asset classes often chose less expensive vehicles such as ETFs instead of staying with actively managed products.

Beneficiaries of the Crisis: Cashlike Vehicles and ETFs. Globally, from an asset allocation standpoint, the winners since the crisis first hit home have been money market funds, which benefited from a total of more than $1.5 trillion in net inflows in 2007 and 2008, and savings deposits, which grew collectively in the United States and Europe from $17.9 trillion in July 2007 to $20.6 trillion at the end of March 2009. In addition, as the performance of actively managed funds has increasingly come into question, we have witnessed a stepped-up search for beta (passively managed) investments, owing to lower management fees and a higher degree of liquidity and transparency. This has occurred despite the fact that beta investments have obviously suffered from falling equity markets as well. Sales of mutual funds and ETFs in the United States and Europe in 2007 and 2008 illustrate these dynamics. (See Exhibit 3.)

The Decline of Long-Only Equity. Long-only equity funds suffered greatly in 2008 as global equity markets fell by about 42 percent, according to the MSCI World Index. There were, of course, significant variations across regions: 30 percent in Japan, for example, compared with 48 percent in Europe and 55 percent in emerging markets, according to MSCI regional indexes. Indeed, asset managers suffered from net outflows in long-only funds across all regions and client segments, with Europe being hardest hit.

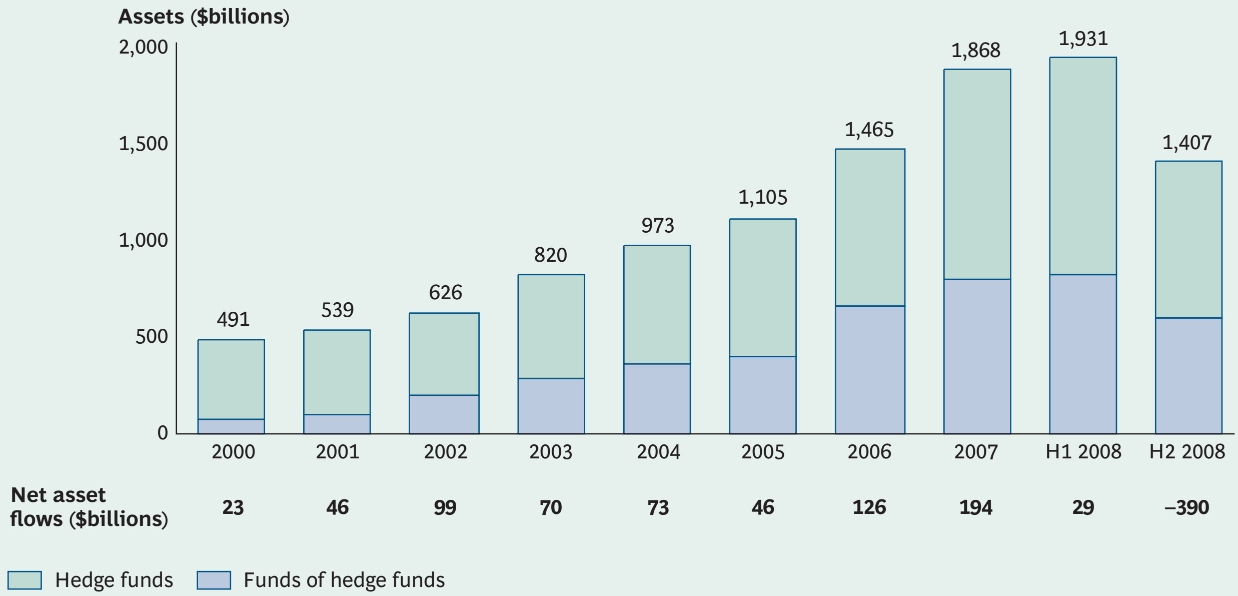
The Exit from Hedge Funds. AuM in hedge funds plummeted to around $1.4 trillion at the end of 2008 from a peak of approximately $1.9 trillion in June 2008. (See Exhibit 4.) The decline was driven both by negative returns, which accounted for two-thirds of the decrease, and by outflows, which accounted for the remaining one-third. Retail and high-net-worth investors, exiting because of poor performance, accounted for roughly 80 percent of outflows. Many alternative strategies turned out to be more linked to the market than had been envisioned.

Exhibit 3. Money Market Funds and ETFs Have Benefited from the Crisis, While Equities Have Suffered



Sources: EFAMA; Feri; ICI; press; BCG analysis.

Exhibit 4. Hedge Fund Assets Plunged in the Second Half of 2008



Sources: Hedge Fund Research.

Other reasons for exiting from hedge funds were a lack of transparency and a fear of illiquidity when some hedge funds put up redemption barriers.

Within the hedge fund segment, funds of hedge funds (FoHF) were hit particularly hard for several reasons. First, a large share of FoHF investors perceived these investments as short term and liquid, often because the investments were sold as such by some distributors. Second, FoHF posted even lower returns than standalone hedge funds because they were often burdened by very high management fees. Third, FoHF were even less transparent than standalone hedge funds. Fourth, the Madoff scandal helped tarnish the reputation of managers of FoHF, notably their ability to carry out sufficient due diligence.

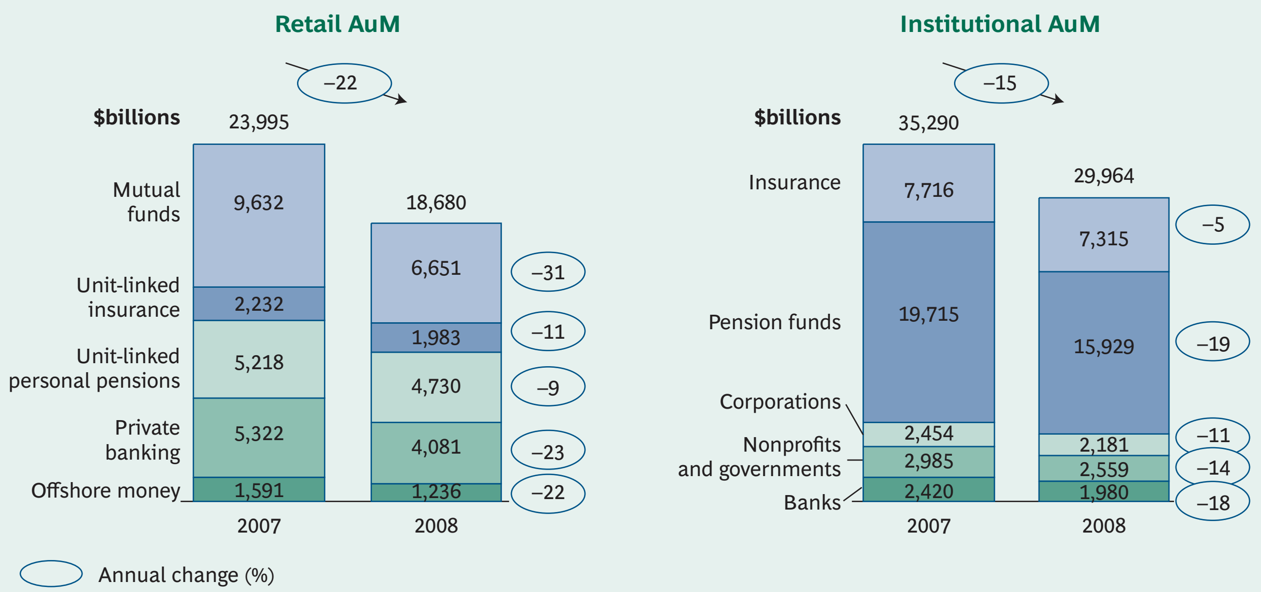
The Private-Equity Slowdown. Investors grew more conscious of the higher risks of private equity only late in 2008. After three strong quarters in which private-equity firms were slightly ahead of their record 2007 pace, fourth-quarter fund raising slowed to a virtual standstill.

Unclear Trends in Structured Products. Although there were clear winners and losers in the crisis when it came to some product areas, the trends were less clear in other categories such as structured products. In fact, structured products are a very broad category with significant differences in investment strategies. As a result, various types of these products faired differently.

Generally, structured products that are sold as investment certificates—typically issued by investment banks and legally bearing a counterparty risk—lost significant value, mainly in Europe where they are relatively common. In Germany, previously the European market leader for such products, the value of nonguaranteed certificates fell by almost 60 percent—from €104 billion at the end of 2007 to €44 billion at the end of 2008 after the collapse of Lehman Brothers made investors more aware of the risks involved. Still, structured products that provided a capital guarantee fared comparatively well, with positive inflows of €3.7 billion in France and €5.8 billion in Germany in 2008.

Relative Stability in Institutional Funds. Putting all these trends together, it is not surprising that retail funds have suffered more in the crisis than institutional funds. (See Exhibit 5.) Since retail funds have carried a high

Exhibit 5. Retail Assets Have Been Hardest Hit, While Institutional Assets Have Been More Resistant



Source: BCG Global Asset Management Market Sizing database, 2009.
Note: For all countries whose currency is not the U.S. dollar, we have used the average 2008 exchange rate for all years to avoid a currency impact. Some figures may not add up to totals shown because of rounding.

share of equities, legions of private investors switched from them to savings deposits. As a result, the global percentage split between retail and institutional AuM moved from 40-60 at the end of 2007 to 38-62 at the end of 2008. A clear message for asset managers is that although institutional business is less profitable than retail business, it is also more resistant and more stable—and therefore able to provide welcome diversification to an asset manager's business portfolio.

So far, the crisis has altered the dynamics of global asset allocation considerably. (See Exhibit 6.) From the end of 2007 through the end of 2008, equity allocations lost 9 percentage points. Conversely, AuM in both money-market and fixed-income instruments rose by 3 and 6 percentage points, respectively. Other asset classes, including alternative investments, remained stable in overall asset allocation.

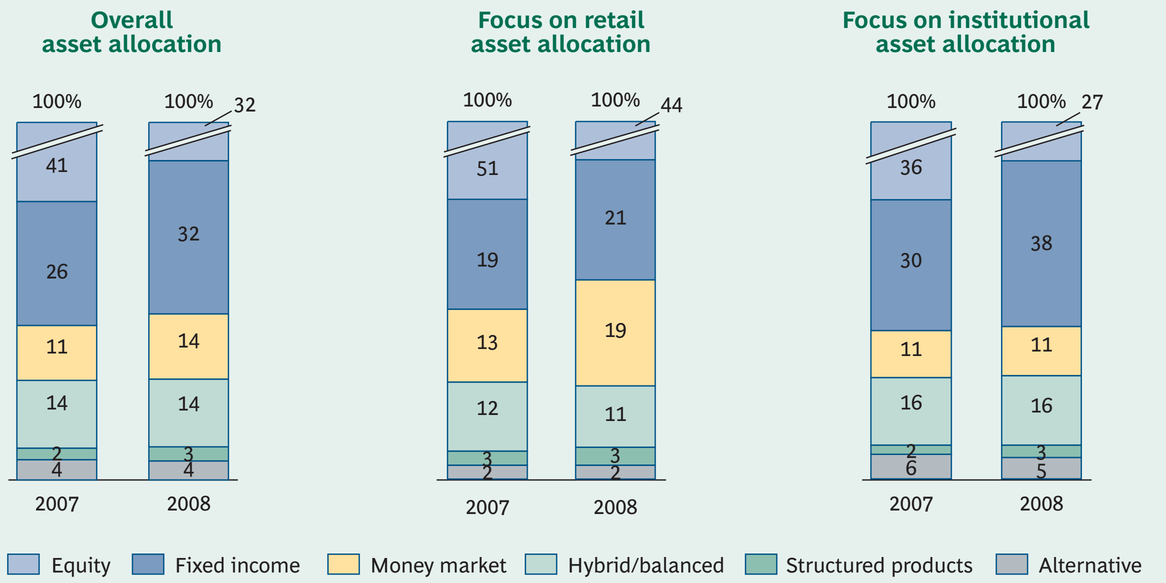
Deteriorating Economics for Asset Managers

According to our benchmarking survey, the global asset-management revenue pool shrunk by 12 percent in 2008. This was less dramatic than the 18 percent decline in global AuM because equity markets in the first half of 2008 held their own before declining more sharply in the second half of the year. Overall, the revenue decline was driven by a 5 percent drop in average AuM value over the year, as well as by a shift to lower-margin products and channels.[2] However, the full revenue effect of the 2008 decrease in the value of AuM will not be evident until the end of 2009. Even if markets recover somewhat in the second half of 2009, year-end revenues are likely to show a significant decline.

The average profit (operating margin) of asset managers fell from 38 percent of net revenues at the end of 2007 to 34 percent at the end of 2008—the lowest level in five years. (See Exhibit 7.) Although this decrease may appear modest given the depth of the crisis, the differences among asset managers were substantial. About 30 per-

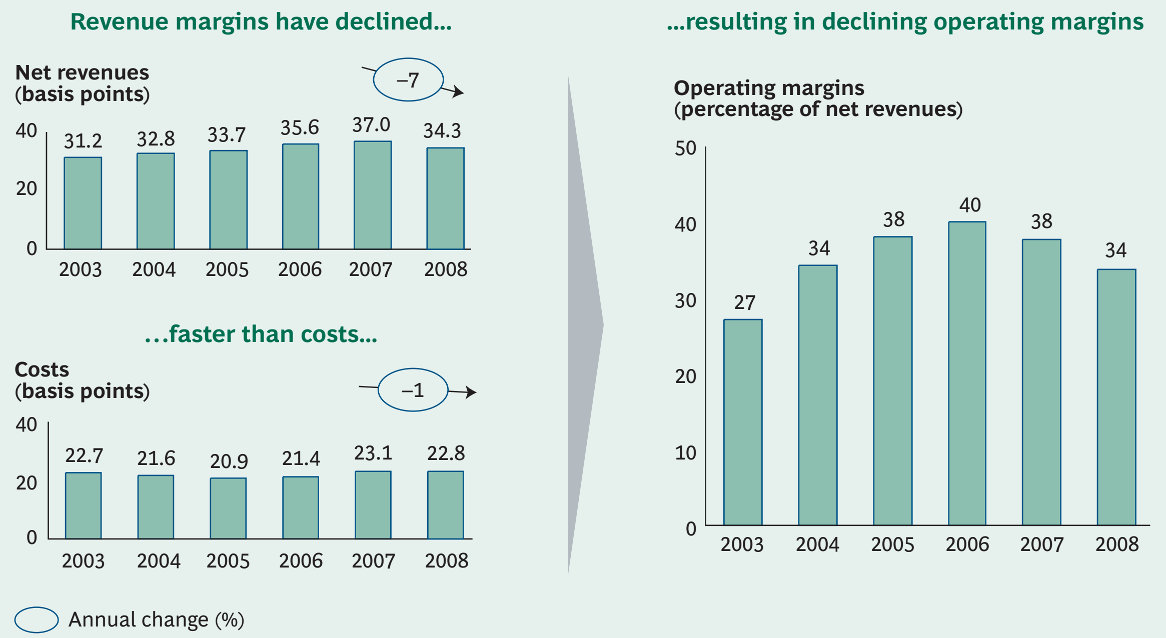
2. The decline of average AuM in 2008 was less than the decline of end-of-year AuM in 2008. The reason is that average 2007 AuM was below end-of-year 2007 AuM (owing to a growing market), while average 2008 AuM was above end-of-year 2008 AuM (owing to a declining market).

Exhibit 6. The Crisis Has Shifted the Allocation of Global Assets



Source: BCG Global Asset Management Benchmarking, 2009.
Note: Estimates are based on 50 global asset managers. Some figures may not add up to totals shown because of rounding.

Exhibit 7. Economics for Asset Managers Have Deteriorated



Source: BCG Global Asset Management Benchmarking, 2009.

cent of asset managers were hit extremely hard, seeing their profits decrease by 30 percent or more.

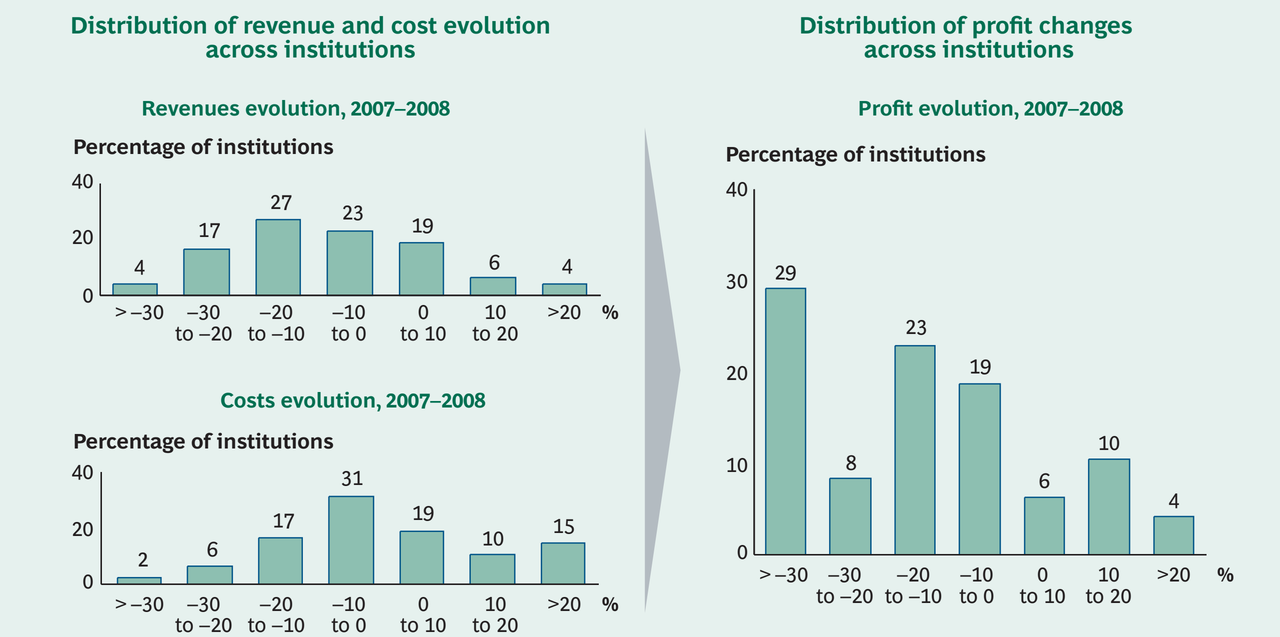
Overall, about 80 percent of asset managers that participated in our study saw their profits fall in 2008, while about 70 percent saw their revenues decrease as well. (See Exhibit 8.) Still, roughly 20 percent of asset managers posted higher profits. Some of these successes were driven by product focus—such as alternative specialists whose products performed unusually well or institutions that benefited from extraordinary growth in money market funds. Others were driven by a regional focus—for instance, on select emerging markets that bucked downward global trends. The few traditional asset managers able to increase profits in 2008 were helped by aggressive cost-cutting programs. While about 57 percent of asset managers were able to reduce their total costs, only about 25 percent were able to make cuts of more than 10 percent.

A Shifting Asset-Management Landscape

The deep drop in profits has forced numerous asset managers to look beyond cost-cutting efforts and fundamentally rethink their business models. As a result, the industry landscape is shifting. Some institutions have decided to exit all or part of their asset-management activities. Others have begun redesigning their operating models—including through partnerships or mergers.

We have seen new types of mergers and acquisitions designed to industrialize the entire production of funds or individual parts of it. We have also witnessed some drastic steps—such as aggressively cutting management fees for some products—that never would have been considered before the crisis. Virtually all asset managers in the United States and roughly 80 percent of those in Europe have already undergone one or two rounds of cost cutting since the crisis began. Many such cost efforts are still in progress and are far from being completed. The lingering question is whether the cost reductions will be sufficient if the markets take another turn for the worse. In any event, the shifting landscape will almost certainly lead to a new wave of consolidation in the industry.

Exhibit 8. Around 80 Percent of Asset Managers Saw Their Profits Decrease in 2008



Source: BCG Global Asset Management Benchmarking, 2009.

How Will the Asset Management Industry Change?

There is no doubt that the asset management industry will undergo some fundamental changes as a result of the current crisis. Exactly how these changes will manifest themselves over the next five to ten years is still, of course, a matter of speculation. At this stage, no one can predict what will happen next. And, as history shows, things could get worse. The current downturn has led to losses worse than those of both the oil crisis of the 1970s and the dot-com crash early in this decade. But they are still not as bad as those of the Great Depression. (See Exhibit 9.)

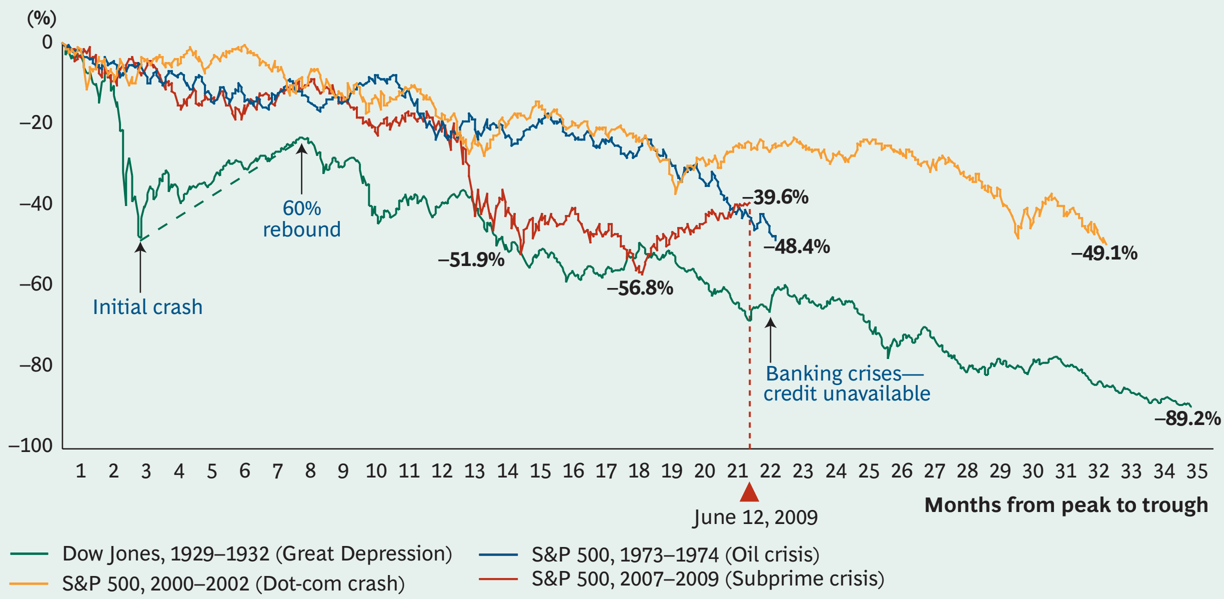
Yet in order to prepare for any eventuality, asset managers need to examine how different market scenarios might determine the course that their business takes. Broadly speaking, the markets could take a sharp turn for the worse, recover modestly and gradually, or take a strong turn for the better. Let's briefly look at the three scenarios, which we call *Armageddon, Recovery,* and *Happier Days.* Our objective is not to predict which scenario is the most likely to occur but to illustrate how the asset management industry would feel the impact of each scenario.

- *Armageddon.* In our worst-case scenario, we envisage a long and deep recession with markets falling by as much as 60 percent from their 2007 peaks. (See Exhibit 10.) Markets would come back very slowly, investors would remain extremely risk averse and biased toward passive products, and regulation would be aggressive. In such a scenario, we would see a dramatic decline of AuM and revenues—as much as 35 percent for each—from 2007 through 2012. Asset managers would be forced to carry out massive cost-cutting efforts in order to offset the revenue collapse. The cost cutting typically would involve such steps as exiting activities in certain asset classes or in certain geographies. Such actions would alter business models. Average industry profitability would fall close to zero, and many asset managers would be forced out of the business altogether. A massive wave of consolidation would occur.

- *Recovery.* In a more optimistic scenario, the value of global AuM would begin to rebound in 2010, rising to within 10 percent of its 2007 peak by 2012. (See Exhibit 11.) Yet despite a recovery in asset levels, revenues would not keep pace, lagging by as much as 20 percent behind their 2007 high point. Again, players would be forced to carry out additional cost cutting, although not as drastically as under the Armageddon scenario. Industry profitability would remain 5 to 15 percentage points below its 2007 level. We would see wide variations in performance across institutions, with a fair number suffering from very low (less than 10 percent) or even negative profitability through 2012.

- *Happier Days.* In our most optimistic scenario, the asset management industry would more or less return to business as usual by 2012, with AuM back to or higher than its 2007 level. (See Exhibit 12.) Financial markets would regain upward momentum quickly, investors would gradually go back to precrisis asset allocations and product preferences, and regulation would be benign. Even so, profitability might not quite keep pace with rising asset levels, owing to lower revenues stemming from the crisis-driven shift toward lower-margin products. Given wide variations in how successful institutions would be at cutting costs and maintaining sufficient revenues, some asset managers could still have low or negative profitability through 2012.

Exhibit 9. The Current Crisis Has Been Less Dramatic than the Great Depression



Sources: Bloomberg; Thomson Datastream; BCG analysis.
Note: S&P 500: current per June 12, 2009; Dow crash, 1929: September 3, 1929 to August 8, 1932; oil crisis crash, 1973: January 5, 1973 to October 3, 1974; dot-com crash, 2000: March 24, 2000 to October 9, 2002; subprime crisis: October 9, 2007 to present.

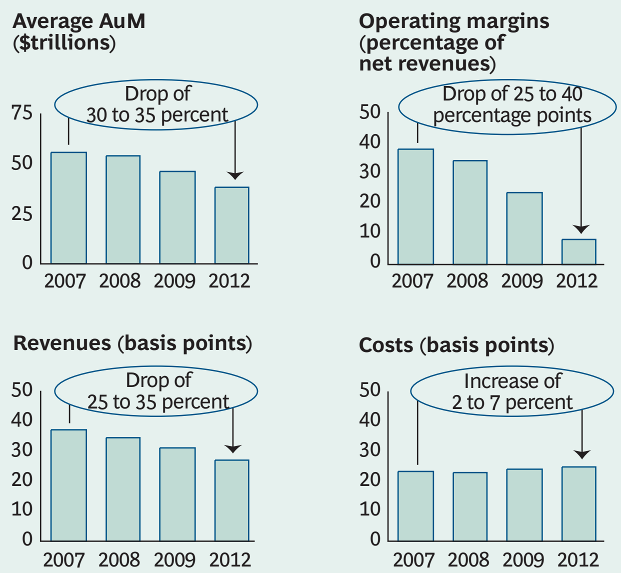
Exhibit 10. The Armageddon Scenario

A Sharp Turn for the Worse

Key assumptions

- Deep economic recession continues
- Inflation is restrained as the economy fails to recover
- Severe outflows are comparable to the worst period since 1970
- Long-term decline of equity continues
- Within equity and fixed income, there is a major shift to passive products
- Revenues fall owing to decreasing AuM, product shift, and price pressure on alternative products
- Costs are cut back as much as possible as the economy fails to recover

Implications



Source: BCG analysis.

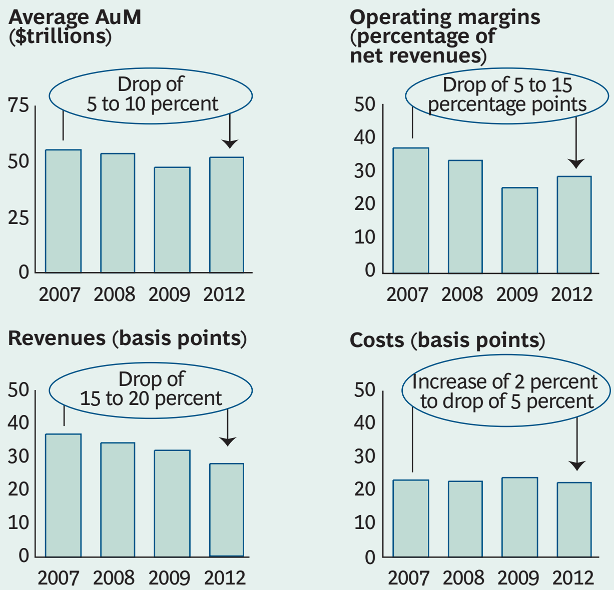
Exhibit 11. The Recovery Scenario

A Modest and Gradual Rebound

Key assumptions

- The economy fails to return to growth before 2011 but still experiences a gradual recovery
- Inflation is restrained as the economy falters
- Slow outflows occur in 2009 owing to low interest rates—inflows then return but remain lower than precrisis levels until 2012
- Long-term decline of equity continues
- Within equity and fixed income, there is a major shift to passive products
- Revenues fall owing to decreasing AuM, product shift, and price pressure on alternative products
- Costs are contained until the economy recovers

Implications



Source: BCG analysis.

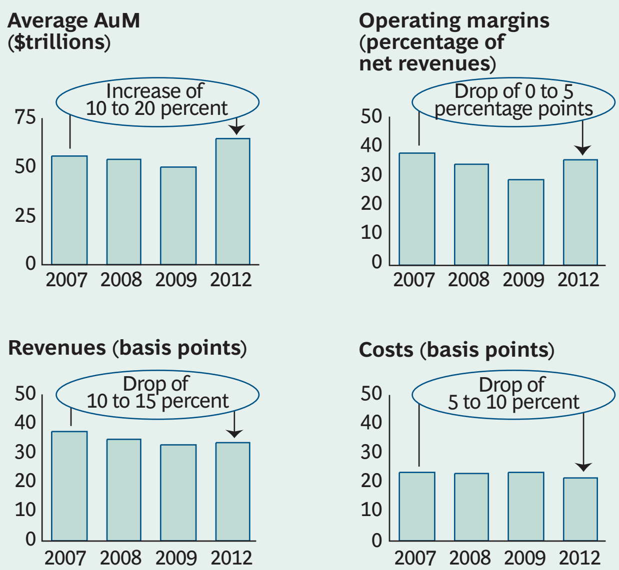
Exhibit 12. The Happier-Days Scenario

A Strong Turn for the Better

Key assumptions

- The economy is positive in 2010, with a return to consumer confidence
- Inflation is restrained until the economy recovers
- Inflows increase strongly, making up for some of the crisis
- "Investor amnesia": investors return to equity at precrisis levels
- Revenues fall owing to product shift and price pressure on alternative products
- Overall costs are reduced until the economy recovers and increase again afterwards, but more slowly than AuM

Implications



Source: BCG analysis.

Several factors will determine which scenario—or any number of variations thereof—actually comes to pass. Of course, first and foremost will be the state of financial markets. Other factors include the evolving health of the overall financial-services sector and the changing regulatory climate. In any event, certain trends in investor behavior and product dynamics that have been unleashed by the financial crisis will be with us for some time to come. Let's look at these trends in more detail.

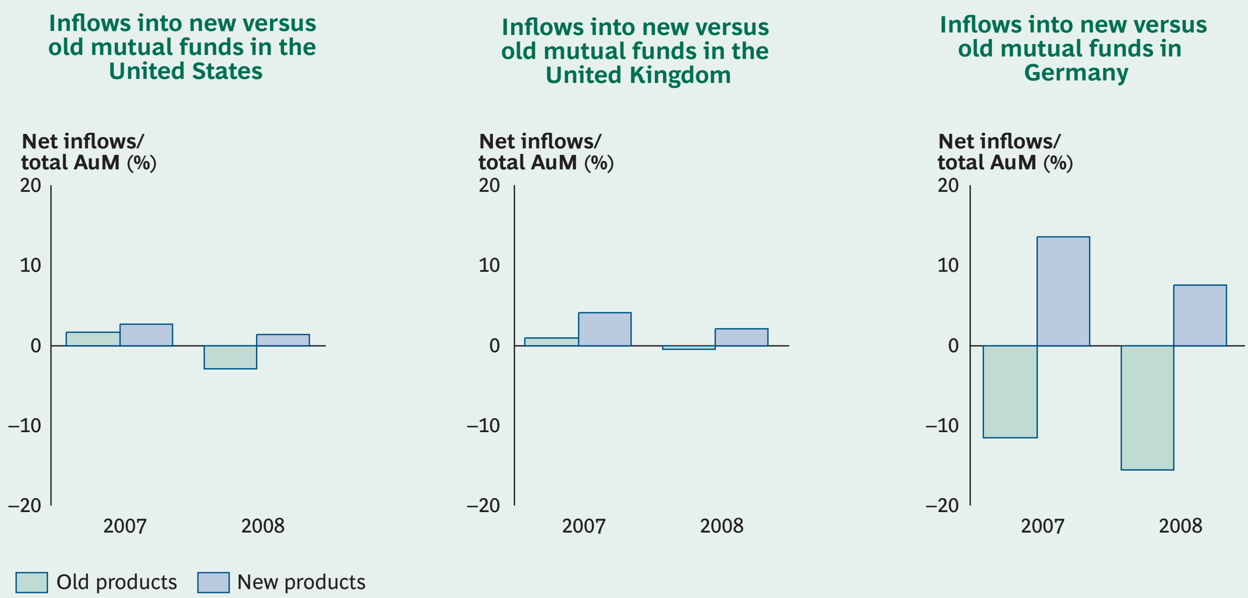
Investor Trends: The Return of Caution

We believe that the depth of the current financial crisis will prompt investors to be more conservative and more deliberate in their decisions about a wide variety of issues—including the matter of whom they entrust their assets to—in the medium to long term. But there will be variations among different investor categories, such as mass affluent, high net worth, and institutional.

Mass-Affluent Investors. Many investors in this segment have now suffered two rounds of substantial losses within a relatively short period because of sharply declining equity markets. (The first round was the dot-com crash at the beginning of the decade.) Their investment decisions have often been influenced by marketing stories that promise attractive equity returns. Yet because these investors have become more risk averse and will likely stay that way, their allocations to equity investments will decline. Indeed, their caution will extend beyond equities to fixed-income and innovative investments. Distributors, for their part, will be prompted by regulators to be more diligent in their sales approach and more transparent about the risks associated with different types of investments—and about fee structure as well. Nonetheless, analysis shows that marketing innovation was still effective in attracting inflows from this segment in 2008. Across markets, products that were less than three years old managed to maintain strong net inflows—albeit lower than 2007 levels—whereas older products suffered from outflows virtually everywhere. (See Exhibit 13.) We believe that, going forward, marketing innovation will remain critical to success in retail asset management, even if its effect may be less than it was before the crisis.

High-Net-Worth Investors. Since the key goal for many high-net-worth investors is to preserve rather than to grow wealth, we believe that this client class will main-

Exhibit 13. Marketing Innovation May Remain Critical to Success in Retail Asset Management



Sources: Morningstar and Feri databases; BCG analysis.
Note: New products consist of mutual funds that are less than three years old.

tain a relatively conservative outlook. In a highly uncertain environment, wealth management solutions based on excellent asset-allocation skills will gain importance. The debate over whether fees for actively managed equity investments are justified or whether cheaper, passive management is sufficient will rage on. The taste for alternative products will fade somewhat, given that many such investments have either lacked sufficient liquidity or proved to be more correlated with the market than previously was thought—and thus performed poorly.

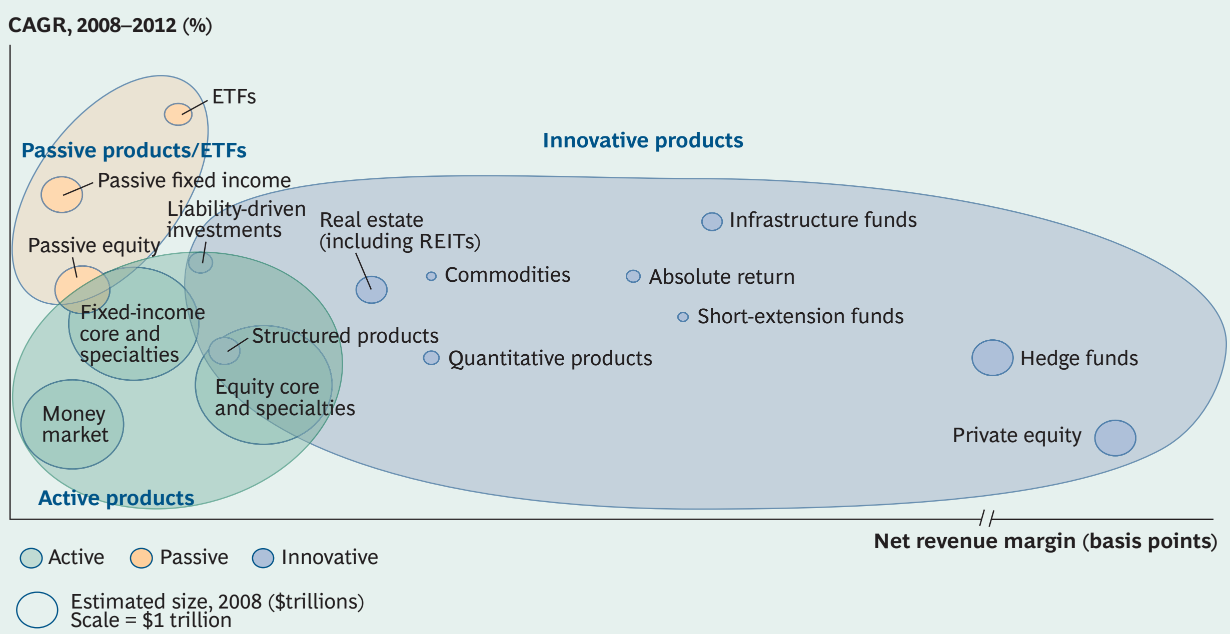
Institutional Investors. Institutional investors have sustained substantial losses during the crisis despite highly diversified strategies. They will likely continue to increase the diversification of their portfolios and seek innovation to help them achieve this goal. But as they more deeply reassess the average long-term returns and volatility associated with equities, they may structurally review their asset allocation and decrease their share—at the same time striving to find new pockets of diversification. To improve net returns on their remaining equity allocations, they will likely push to negotiate lower fees and move from active toward passive management. The growing sophistication of institutional investors and the deepening complexity of their needs mean that asset managers will have to offer such investors increasingly customized approaches.

Product Trends: The Reevaluation of Asset Classes

In past reports on the global asset-management industry, we have highlighted the ongoing squeeze on traditional actively managed products exerted by both passively managed and innovative offerings. This dynamic should continue for the foreseeable future, albeit probably to a lesser degree when it comes to innovative products. In addition, the crisis is leading to a fuller reevaluation of many asset classes and their attractiveness to investors. Exhibit 14 provides an overview of growth expectations across products, assuming the economic context of our Recovery scenario. (Under the Armageddon or Happier Days scenarios, the picture would look considerably different.) Let's examine some of these asset classes in closer detail.

Passively Managed Products. Even though research has long shown that active managers beat the market barely 50 percent of the time over one-year periods—and even less over longer periods—many investors have taken note

Exhibit 14. The Crisis Will Lead to a Reevaluation of Asset Classes



Source: BCG analysis.

of this reality only in the wake of the current crisis. For this reason, among others that we have already addressed, the growth of passively managed products such as ETFs that offer cheap beta will accelerate. Indeed, in an environment in which expectations of long-term risk-adjusted returns are decreasing, investors will favor lower-cost products that provide average, market-tracking returns. ETFs often fit well with the strategic or tactical objectives of institutional and high-net-worth investors because they establish a broad index-tracking position or provide interim beta during the search for a better opportunity. More specifically, ETFs can help institutional investors rebalance their portfolios and can even represent an alternative to derivatives. Despite increasing concern regarding counterparty risk, ETFs are poised for further growth, particularly on the institutional side.

Actively Managed Products. Perhaps the foremost trend in actively managed products is the continuing shift out of long-only equity allocations. An analysis of asset mixes in U.S. mutual funds, for example, shows how equity allocations can decline during tough economic times. (See Exhibit 15.) In our view, the most recent downward trend will help drive a fundamental change in investor perception regarding the risk-return profile of equity instruments. To be sure, the traditional belief that equities provide better long-term returns than other asset classes is coming under scrutiny. Analysis shows that the average difference between equity and fixed-income returns on 20-year investments has actually decreased over the past ten years. Since 1925, the historical difference has been 5.9 percent. But for 20-year investments from which investors divested from 1998 through 2008, that difference narrowed to 2.7 percent.

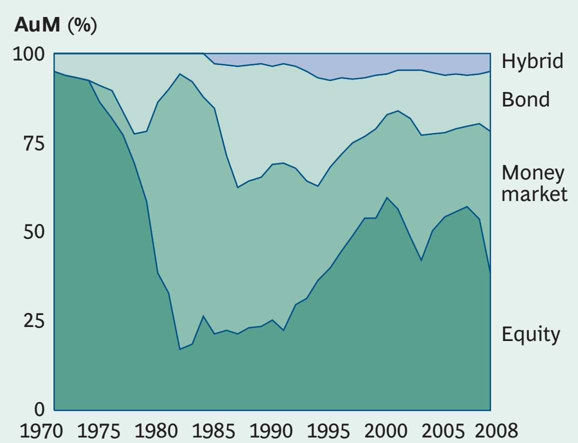
The perceived risk level associated with equities has clearly come under review. It is interesting to note that out of the nine major downturns suffered by equity markets since 1970, seven of them occurred more than 15 years ago. Only two happened within the past ten years. (See Exhibit 16.) Given the lower overall volatility of equity markets over the past decade, we believe that many investors simply lost sight of the true risk associated with equities and that the current crisis has brought the issue back to the fore.

Equity allocations are also declining because baby boomers are starting to reach retirement age. (See Exhibit 17.)

Exhibit 15. Equity May Be Losing Its Luster

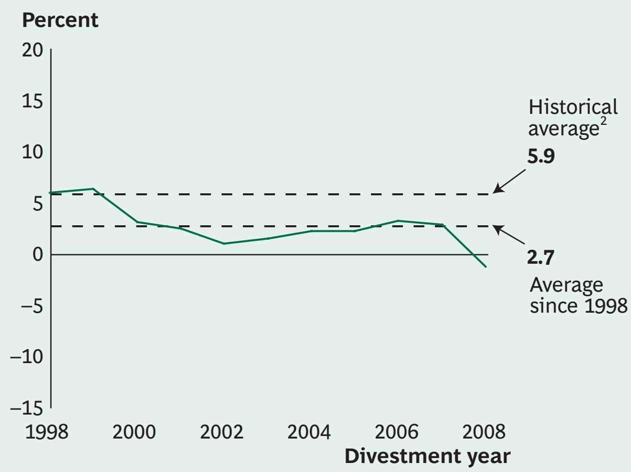
Asset mixes change significantly in downturns

The evolution of the asset mix of U.S. mutual funds



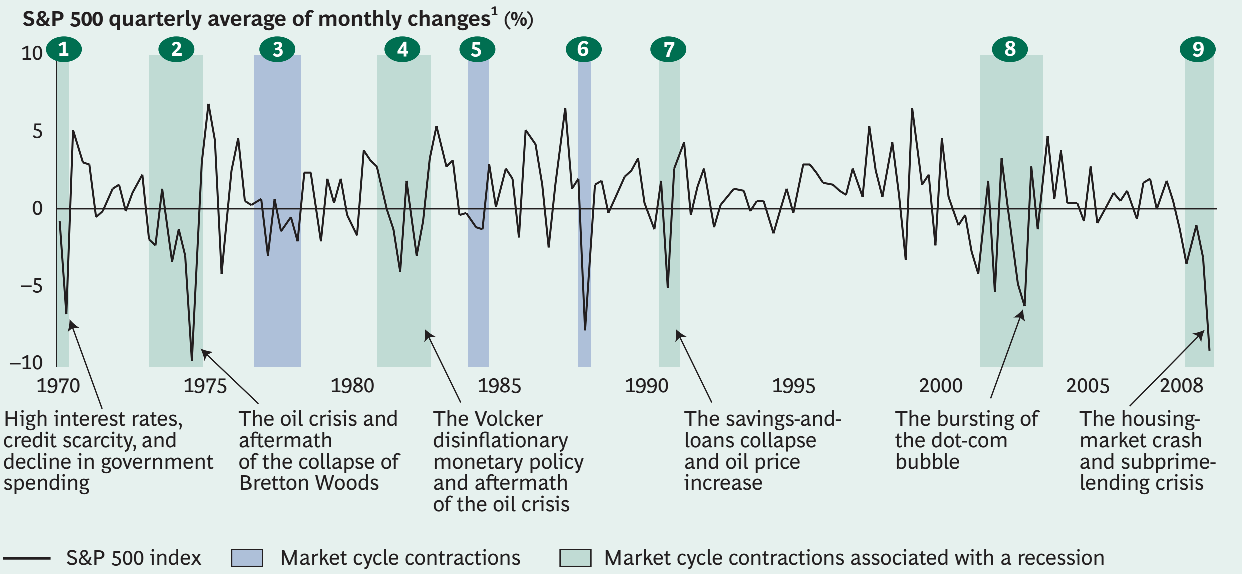
Average excess equity returns have fallen

The difference between U.S. equity annual average rates of return[1] and U.S. government-bond annual average rates of return for 20-year investments



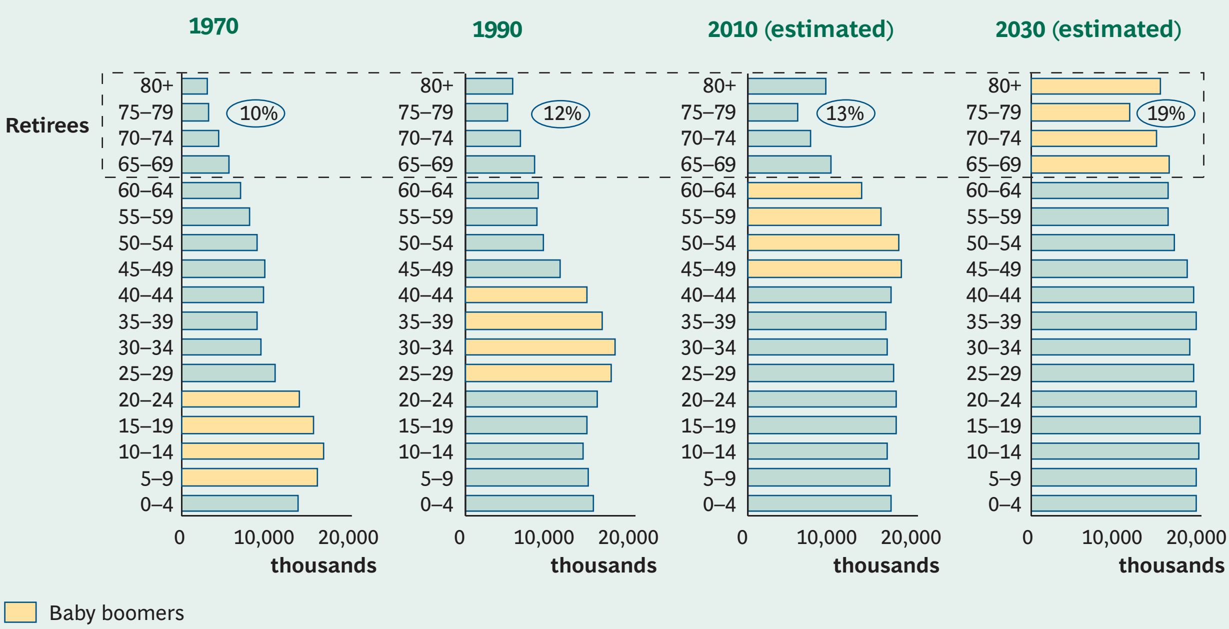
Sources: ICI; *Barclays Equity Gilt Study 2009;* BCG analysis.
[1]Annual average rates of real returns with gross income reinvested.
[2]Average delta between annual average rates of real return for U.S. equity and annual average rates of real return for U.S. government bonds, for investments since 1925.

Exhibit 16. Only Two Severe Market Downturns Have Occurred in the Past Ten Years



Sources: National Bureau of Economic Research; Standard & Poor's Financial Services; ICI.
[1]Corresponds to the quarterly average of month-to-month changes. For example, Q1 averages December-to-January, January-to-February, and February-to-March changes.

Exhibit 17. The Number of Retirees in the United States Is Soaring as Baby Boomers Retire



Sources: U.S. Census Bureau; U.S. Social Security Administration; BCG analysis.
Note: U.S. baby boomers are the generation born between 1944 and 1964.

As this happens, pension funds will need to switch large chunks of equities in their portfolios to less volatile asset classes. Some industry experts predict that equity allocations in pension funds will fall from roughly 55 percent in 2007 to as low as 20 percent by 2015. We foresee a less precipitous drop to between 35 percent and 45 percent.

Actively managed fixed-income products will benefit from retiring baby boomers. Accordingly, asset managers with strong track records in fixed income will gain most from this growth since investors have become much more sophisticated about this asset class. Both retail and institutional investors seem to have realized that returns on fixed-income products do fluctuate and that there are many points of differentiation between government and corporate debt. As a result, they will become more systematic in their own due diligence and will be better able to evaluate the skills of their asset managers in the fixed-income arena.

Actively managed fixed-income products will benefit from retiring baby boomers.

Within traditional products, offerings focused on asset allocation will gain in importance. In retail and private banking, for example, there is a greater need for superior asset-allocation expertise as a result of increasingly complex macroeconomic trends. We believe that products generating their alpha chiefly from asset allocation rather than security selection will prosper. If asset managers cannot deliver on their promises in this realm, they will be increasingly at risk.

Innovative Products. Alternative investments such as hedge funds and private equity may have ground to gain, but they will remain significant as an investment approach. Still, the value of AuM in hedge funds, on the heels of the sharp decline in 2008, will likely decrease again in 2009. One factor is that positive returns since the beginning of the year have led to considerable redemptions.

In our view, hedge funds will remain somewhat attractive to institutional investors, many of which will maintain their allocation for reasons of diversification. But the industry will grow from a smaller base, slower than it has historically and with a more institutional and North American focus. Despite a limited recovery beginning in 2010, global AuM in hedge funds is not likely to surpass its 2008 peak by the end of 2012. Increased regulation, which is expected, will support continued interest from institutional investors, but regulatory improvements will not result in a massive return to these products by high-net-worth individuals in the short to medium term. In our Recovery scenario, the annual growth rate for hedge funds from 2008 through 2012 would likely be comparable to that of traditional actively managed products.

The most successful hedge funds will be those that have maintained some liquidity (and have not put up redemption gates) and that provide true transparency and strong risk management. Those that focus on absolute returns may have an advantage. FoHF, which before the crisis were favored by high-net-worth individuals, may continue to suffer. But strong multimanagers that have provided clear value in selection will benefit from a less competitive hedge-fund environment, especially if they did not impose redemption gates. In addition, managed accounts are likely to be successful based on their liquidity, transparency, and strong risk-management profiles. Competence in selecting the underlying funds will be a strong differentiating factor among managed-account providers.

When it comes to private equity, fund raising reached an all-time high of $625 billion in 2007, only to fall to $550 billion in 2008. The outlook for 2009 is gloomy. In fact, private equity is in the midst of a perfect storm with the bursting of the debt bubble, the drop in corporate earnings, and the collapse of market multiples. What is more, many of the largest investors have reached their private-equity limits. All of these factors will translate into a shakeout in the sector, which could result in the demise of 20 to 40 percent of the 100 biggest leveraged-buyout private-equity firms.

This shakeout will significantly change the shape of the private-equity landscape. Pure debt, along with multiple players, will disappear. The winners will consolidate the market and lay the foundation for superior long-term returns by investing in cheap assets during the downturn. Indeed, history demonstrates that the most advantageous deals are often made during tough economic times. (See Exhibit 18.) Also, the winners will emerge with an even greater focus on operational value creation.

Overall, we foresee a decrease in the value of private-equity AuM from about $1.5 trillion at the end of 2008 to

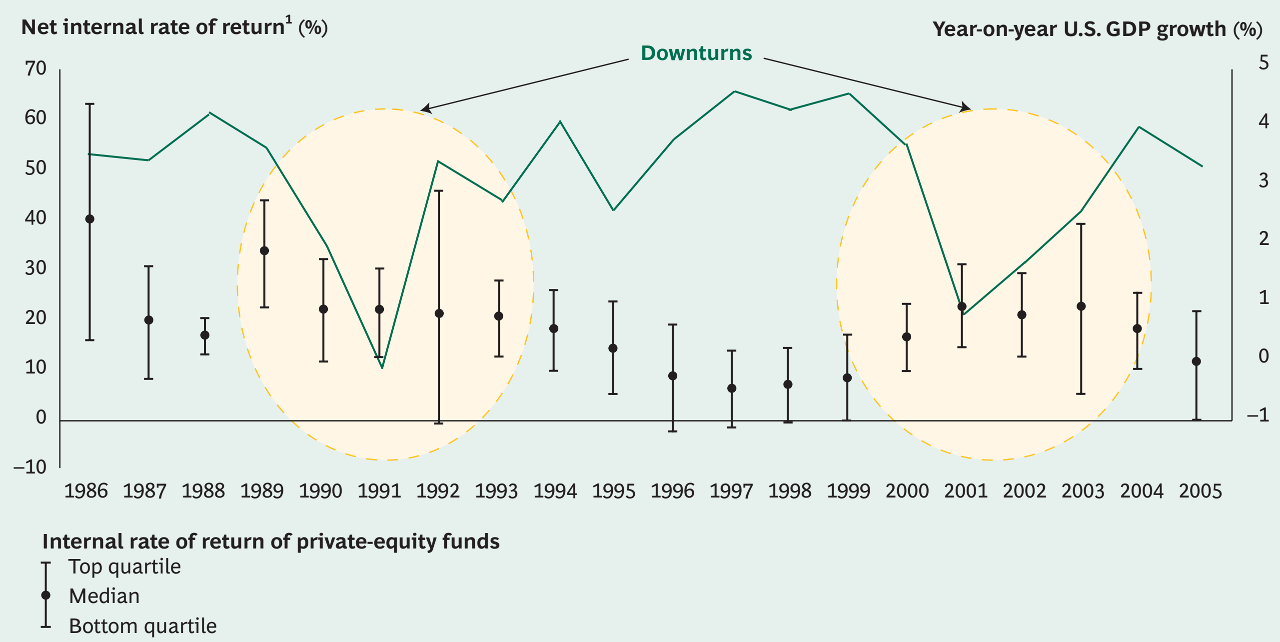
$1.3 trillion by 2012, driven by major write-downs in 2009 (representing more than one-third of the assets). There may be a slight rebound in 2011 and 2012. In our Recovery scenario, the annual growth rate for private equity from 2008 through 2012 would be slightly lower than that of traditional actively managed products.

The picture is less clear for a number of products such as infrastructure funds, absolute-return and short-extension funds, commodities, and real estate investments, which are typically considered innovative products. Many investors have been disappointed by weak returns and the fact that some innovative products turned out to be somewhat correlated with the market and thus unable to reduce portfolio risk. Still, on the retail side, innovative products can help marketing efforts. Overall, the outlook for these products varies considerably.

- *Infrastructure Funds.* These funds have offered long-term stable cash flows, providing protection against inflation and diversification. Given default risks and declines in asset values since the crisis began, however, the picture has become less clear. Still, infrastructure funds should show above-average growth by 2012.
- *Absolute-Return and Short-Extension Funds.* Given major reverses in 2008, it is questionable whether fund providers can restore investor confidence in absolute-return and short-extension funds (also known as long-short funds). Still, we believe there will be continued interest in absolute-return products that focus on asset allocation. Such products may not be the panacea that some have claimed them to be at times, but there is still room for strategies that are not constrained by benchmarks.
- *Commodities.* Commodities can offer portfolio diversification and above-average long-term growth prospects, although they are still volatile. Given the continued search for diversification, the penetration of commodities into investment portfolios is likely to grow.
- *Real Estate.* Real estate will remain an important asset class for investors. Given fears of inflation and the search for diversification, this asset class is likely to offer above-average growth prospects.

Tailored Investment Solutions. Liability-driven investment (LDI) and structured products are just two illustra-

Exhibit 18. The Best Deals Are Made in Downturns



Sources: Preqin; The Economist Intelligence Unit.
[1]Buyout funds with a focus on the U.S. market.

tions of tailored investment solutions. We believe that such solutions are ready for growth, for two principal reasons. First, on the supply side, asset managers have enhanced their skills in tailoring solutions to specific client constraints. They have done so by developing either new product and analytical skills—such as in liability analysis, allocation analysis, and complex hedging strategies—or organizational focus. For example, some institutions have cultivated dedicated teams to work with specific segments, such as insurance companies. What's more, other asset managers have developed skills that used to be solely the domain of investment banks. Second, on the demand side, there is growing interest in tailored solutions among both retail and institutional investors.

The asset management industry will be forced to cope with a decline in profitability.

On the institutional front, more pension funds—in the midst of a low-interest-rate climate—are seeking ways to hedge liabilities or even to transfer liability risk. Some asset managers that have lacked capabilities regarding derivatives are now bolstering their expertise by hiring people who have left the investment banking world because of the crisis. Also, some market data confirm a growth trend for solutions such as LDI. Market by market, the penetration of LDI varies widely given the high variability of tactical approaches—which can range from pure pension outsourcing to solutions for inflation and rate hedging. Statistics vary, but by some accounts up to 40 percent of pension funds are already using LDI, with an additional 40 percent considering using it.

Within the solutions space, we believe that multimanagement in its current format will remain flat, largely because of relatively low returns and relatively high fees. But we also believe that platforms or solutions that leverage typical multimanagement skills will develop over time. For instance, many investors will be interested in selection skills if they can be provided at a fixed or otherwise reasonable price. Also, total solutions such as defined-benefit outsourcing arrangements (in which the plan sponsor outsources the entire investment-management function to a single multimanager provider) will continue to experience above-average growth.

Structured Products. We also see a positive trend for guaranteed products because these offerings appeal to retail investors whose top priority is capital preservation. Still, the growth potential for these products will depend on which macroeconomic scenario comes to pass, as well as on the ability of producers to develop attractive offerings despite low interest rates and rising options prices (owing to higher volatility). In some markets, such as the United Kingdom and the United States, the guaranteed market is extremely small.

Other types of structured products most likely will not follow the general positive trend in guaranteed products, even if they offer more opportunity than traditional funds to customize investment strategies by providing flexibility in terms of duration or risk. Such products carry fees and counterparty risks that many retail investors are no longer willing to bear, and these products often lack sufficient transparency when issued by investment banks.

Competitive Trends: The Battle for Profitability

In the coming years, the asset management industry will be forced to cope with a general decline in profitability, the extent and duration of which will depend largely on which market scenario transpires. In any case, profitability is not likely to return to its precrisis peak by 2012. And as we have discussed, there will be wide variations across institutions depending on which asset classes they offer and whether they live up to promises such as consistent alpha, reliable beta, and absolute returns. Equity specialists will feel the pain more sharply than beta or fixed-income specialists. Each institution's ability to cut costs will play a major role. In addition, the above trends—paired with the fact that many large financial groups need capital—will create unique opportunities for acquisitions.

Indeed, in our view, we will see an increased level of M&A activity, some of which will be driven by an industrialization logic and by a wider gap between the profitability of the best- and worst-performing institutions.

Increased M&A Activity. Opportunities for acquisitions have risen markedly since the onset of the crisis. Over the past year, 3 out of the top 15 asset managers have announced large acquisition or merger deals. Other deals are in the works but have not been made public. This trend is being driven partly by the fact that more large financial groups have become interested in exiting the asset management business in order to focus on other activities—and because many need capital.

Moreover, in a hypercompetitive market, subscale players or those with weaker value propositions will in fact have no option but to leave the business. This rather unique situation will allow some asset managers to consider M&A options to reinforce core businesses or to move into markets that were previously seen as too expensive or closed. Given the current fragmentation in open markets such as the United Kingdom and the United States, such exploration may not be enough to drive extensive consolidation. Meanwhile, in continental Europe, M&A deals should foster a greater degree of open distribution.

Industrialization. Some of the coming M&A activities will be driven by an industrialization logic. More asset managers will create a "factory" for their traditional range of funds in order to gain scale advantages. In some of the recent, large consolidation deals—typically between players with geographic or product overlaps seeking cost synergies through integration—it has been interesting to note that traditional scaleable businesses have tended to get industrialized. Deal participants tend to keep activities in which they can truly differentiate themselves and obtain higher margins. These activities usually include alternative investments, client solutions, structured products, and even areas with higher growth possibilities such as ETFs.

Because cost cutting has historically not been the highest of priorities and scale has seldom been leveraged to its full potential, the industrialization trend represents a key structural shift in the asset management industry.

The Widening Gap Between Winners and Losers. Asset management used to be a more reliable business to manage than it is now. It featured hefty profit margins and growth rates often driven more by rising equity markets than by inflows. As these dynamics have changed, management skills in some markets and at some institutions have eroded, a fact that the crisis has brought to the fore.

Apart from some captive institutions that benefit from access to the assets of affiliated companies, asset managers have no choice but to fight to retain assets and win new money in order to protect their profitability. Today's volatile environment, combined with more demanding investors and regulators, means that asset managers must excel along the entire value chain. This translates into upgrading both distribution and products. Operations and support functions must also be enhanced to help asset managers control costs while still providing optimal service levels.

We believe that there will be wide variations in the performance of asset managers not only because different business models will be affected differently by market trends but also because weaker institutions that cannot differentiate themselves on products, service, or any other critical factor will slowly disappear. This dynamic will be more pronounced than in the past because a growing number of institutional investors are likely to change asset managers. The most successful players in the future will be those that best prepare for the rapidly changing environment and are ready to make tough decisions when reviewing their business models.

Seize the Moment

Actions for Asset Managers

Many asset managers have already reacted to the crisis by taking various initiatives aimed at protecting their business and positioning themselves for the post-crisis era. The problem is that the current downturn may deepen further and may last much longer than have previous, similar crises. Despite some signs of economic recovery, the question of the moment therefore concerns which additional steps asset managers should take in order to prepare themselves for any possibility. In our view, they should plan for the worst, define the core value proposition of their business models, strengthen their core value propositions, continuously refine their operating models, and leverage acquisition opportunites.

Plan for the Worst

The current crisis has different origins and dynamics than previous financial upheavals. The outlook for international markets remains highly uncertain. Asset managers must therefore think carefully about how they would react to circumstances such as the following:

- Equity markets decline further and remain distressed for a long period, leading to a complete reevaluation of this asset class by investors
- Fixed-income investments, perceived as safer than equities, take a sharp turn for the worse
- A dramatic rise in industry competitiveness, brought about by shrinking revenue pools, leads to further client losses and tighter pricing pressure—adding to the existing problem of lower revenues from a declining AuM base
- Further cost-cutting efforts prove to be unfeasible and jeopardize the viability of the business

Once asset managers fully understand potential threats such as these, they must devise ways to cope with them. They must also identify specific factors that will trigger the need for action on their part. Contingency plans will of course vary depending on the strengths and weaknesses of individual asset managers.

Define the Core Value Proposition of Your Business Model

Amid steeper client expectations, a more competitive environment, and a shifting industry landscape, we do not believe that asset managers that try to offer all types of products to all client segments will be successful. Indeed, the time has come for asset managers to review what they do best so that they can adjust their business models and ensure the viability of their institutions for the future. Such a reassessment includes initiatives such as defining target clients and distribution channels, aligning product offerings accordingly, and deciding on which administrative services to provide.

Define target clients and distribution channels. Retail and institutional investors are clearly different strategic segments that require different products and services—as well as a mix of distribution skills. Some asset managers prefer to serve both segments. Retail investors, on the one hand, provide more attractive margins, whereas institutional investors, on the other, tend to be more stable and resilient. Within the retail segment, the needs of mass-affluent and high-net-worth individuals will increasingly differ in the future, requiring varying approaches from asset managers. Now, more than ever, asset managers must narrow their focus and hone in on the customer segments for which their talents and capabilities are best suited. They must also ask themselves which means of distribution will serve them best. For example, do they excel at serving a captive channel, a network of independent financial advisors, or by employing salespeople who offer tailored investment expertise?

Align the product offering with target client segments and distribution channels. In the past, asset managers have often followed "flavor of the month" product trends without ensuring that these trends suited their target clients. Yet the current crisis has shown that more careful deliberation on such critical matters will be necessary in the future. Consider the following questions: Which of your clients are seeking alpha from you? Does it make sense to offer cost-efficient beta if your target clients are served by a captive banking channel? How much diversification beyond traditional long-only products will help you serve institutional clients? For too long, far too many asset managers have not searched for answers to such questions. But addressing them and adjusting your product portfolio accordingly will be imperative for the postcrisis environment.

Adjusting your product portfolio will be imperative in the postcrisis environment.

Decide on administrative services. In some countries, many asset managers still define key back-office functions such as fund administration and accounting as core value propositions. Although it might be feasible for some institutions to continue to provide such services, others will not be able to do so. Each asset manager must take a position on which administrative services to provide given its primary market and the evolving needs of its customer base.

Strengthen Your Core Value Proposition

Once the core of the franchise has been reviewed and redefined, asset managers must follow through rigorously to strengthen their capabilities and market positions. Indeed, the current hypercompetitive environment will force many to do so. And bold strategic moves may be required, the likes of which might have been seen as folly in the past when market fortunes were flying high.

When it comes to distribution, such moves could consist of abandoning certain channels or client segments entirely. When it comes to investment management, it could mean pursuing alpha less aggressively in certain product categories—or potentially abandoning it completely. Focusing more on key competencies such as asset allocation rather than on stock picking—perhaps by offering asset allocation funds to institutional investors and offering beta to individual equity classes—may become a better approach. Changes could also include new pricing schemes for retail investors with a different balance of loads and management fees—the goals being to increase asset volume and rebuild client trust.

Regarding production, potential moves could include partnering with another institution to industrialize parts of the process in order to gain scale advantages—but keeping some specialized alpha investment expertise for oneself. Actions could also include introducing a generally lower salary range. Analysis shows that the gap between average compensation in the financial industry and other industries has widened over the past 20 years. A similar gap existed before the 1929 crisis but completely disappeared in the 40 to 50 years following the Great Depression. As profitability declines, the asset management industry as a whole may be forced to consider implementing a somewhat more modest salary structure, accepting the risk that some top talent may leave the industry to seek other opportunities.

Strengthening your core value proposition also includes, of course, reconsidering which activities are potential candidates for outsourcing. Natural candidates are certain support, back-office, and even middle-office functions—although we believe that middle-office outsourcing needs to be done with caution, especially for institutions with complex offerings or with solutions using complicated financial instruments. The key is not to jeopardize risk management.

Continuously Refine Your Operating Model

In parallel to a strategic review of their business models, asset managers need to keep pushing the initiatives that many have started implementing in recent months to refine their operating models. Such initiatives include staying close to core clients, bolstering risk management, and continuing to search for cost-cutting opportunities.

Stay close to core clients. In today's difficult market environment, asset managers' first priority should be to protect their existing businesses. This involves identifying the highest-value clients and exploring how best to secure their assets. Possible initiatives include examining ways to provide superior services and support, and can even escalate to reviewing pricing if necessary. For institutional investors—beyond performance and pricing matters—providing access to superior research and acting as a valuable thought partner on topics such as risk management and performance analysis can help fortify relationships. For retail investors, offering top-flight support to captive networks—perhaps through designing an adapted, simple offering—as well as providing high-level training, can help cement relationships.

Bolster risk management. The crisis has uncovered wide gaps in the risk management organizations of many asset managers. Many have moved to close the gaps through a variety of means. One action has been to ensure that the internal risk function is independent and large enough to monitor all types of risks. Another has been to upgrade skills and systems. Indeed, asset managers must have systems that are fully capable of monitoring highly complex products and all types of risks—including those that tended to be overlooked in the past, such as liquidity risk. Still another initiative has been to try to embed a strong risk culture, including the close partnering of risk and investment teams. The crisis has revealed that risk managers must rely less on systems and metrics and more on strategic thinking to develop relevant scenarios and stress testing.

Continue to search for cost-cutting opportunities. Amid the ongoing deterioration of profits, continuous cost improvements remain a must. High-level benchmarking or a review of the entire organization can help asset managers identify key inefficiencies across the value chain. Costs can then potentially be reduced in different ways—for instance, by removing those activities that are not critical to the business, reengineering selected processes, or reducing management layers in the overall organization.

Leverage Acquisition Opportunities

The current market offers unique opportunities to consider acquisitions that can help reinforce core value propositions and take them to the next level. Asset managers should actively explore potential targets and postmerger integration issues, recognizing how challenging integration can be.

Ultimately, severe financial downturns such as the current crisis—bleak as they may be for a certain period—present clear opportunities, not just threats, to institutions that formulate the most sound business models and the most forward-thinking strategies. The current crisis presents a unique moment for asset managers to review what they do best and to take bold steps.

For Further Reading

The Boston Consulting Group publishes other reports and articles that may be of interest to senior financial executives. Recent examples include:

Collateral Damage, Part 7: Green Shoots, False Positives, and What Companies Can Learn from the Great Depression
A White Paper by The Boston Consulting Group, June 2009

IT Performance in the European Banking Industry: BCG's Sixth Annual IT Cost Benchmarking Study
A White Paper by The Boston Consulting Group, June 2009

Renovate in Winter: Taking Advantage of the Downturn to Modernize Core Systems in Banking
A Focus by The Boston Consulting Group, May 2009

Collateral Damage, Part 6: Underestimating the Crisis
A White Paper by The Boston Consulting Group, April 2009

Collateral Damage, Part 5: Confronting the New Realities of a World in Crisis
A White Paper by The Boston Consulting Group, March 2009

The Next-Generation Investment Bank
A White Paper by The Boston Consulting Group, March 2009

Weathering the Storm: Global Payments 2009
A report by The Boston Consulting Group, March 2009

Living with New Realities: Creating Value in Banking 2009
A report by The Boston Consulting Group, February 2009

Collateral Damage, Part 4: Preparing for a Tough Year Ahead–The Outlook, the Crisis in Perspective, and Lessons from the Early Movers
A White Paper by The Boston Consulting Group, December 2008

Thriving in the New Normal: Corporate Banking 2008/2009
A report by The Boston Consulting Group, December 2008

Collateral Damage, Part 3: Asia, Advantage, and Action
A White Paper by The Boston Consulting Group, November 2008

Winning Strategies in Uncertain Times: Global Asset Management 2008
A report by The Boston Consulting Group, November 2008

Collateral Damage, Part 2: Taking Robust Action in the Face of the Growing Crisis
A White Paper by The Boston Consulting Group, October 2008

Collateral Damage, Part 1: What the Crisis in the Credit Markets Means for Everyone Else
A White Paper by The Boston Consulting Group, October 2008

A Wealth of Opportunities in Turbulent Times: Global Wealth 2008
A report by The Boston Consulting Group, September 2008

Note to the Reader

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For Further Contact

If you would like to discuss your asset-management business with The Boston Consulting Group, please contact one of the following leaders of our global Financial Institutions practice:

The Americas

Monish Kumar
BCG New York
+1 212 446 2800
kumar.monish@bcg.com

Brent Beardsley
BCG Chicago
+1 312 993 3300
beardsley.brent@bcg.com

Ashwin Adarkar
BCG Los Angeles
+1 213 621 2772
adarkar.ashwin@bcg.com

Jorge Becerra
BCG Buenos Aires
+54 11 4317 5900
BCG Santiago
+56 2 338 9600
becerra.jorge@bcg.com

Bruce Holley
BCG New York
+1 212 446 2800
holley.bruce@bcg.com

Paul Orlander
BCG Toronto
+1 416 955 4200
orlander.paul@bcg.com

Antonio Riera
BCG Boston
+1 617 973 1200
riera.antonio@bcg.com

Shubh Saumya
BCG New York
+1 212 446 2800
saumya.shubh@bcg.com

André Xavier
BCG São Paulo
+55 11 3046 3533
xavier.andre@bcg.com

Europe

Kai Kramer
BCG Frankfurt
+49 69 9 15 02 0
kramer.kai@bcg.com

Andy Maguire
BCG London
+44 207 753 5353
maguire.andy@bcg.com

Philippe Morel
BCG Paris
+33 1 40 17 10 10
morel.philippe@bcg.com

Hélène Donnadieu
BCG Paris
+33 1 40 17 10 10
donnadieu.helene@bcg.com

Massimo Busetti
BCG Milan
+39 0 2 65 59 91
busetti.massimo@bcg.com

Ludger Kübel-Sorger
BCG Frankfurt
+49 69 9 15 02 0
kuebel-sorger.ludger@bcg.com

Huib Kurstjens
BCG Amsterdam
+31 20 548 4000
kurstjens.huib@bcg.com

Asia-Pacific

Tjun Tang
BCG Hong Kong
+852 2506 2111
tang.tjun@bcg.com

Steven Chai
BCG Seoul
+82 2 399 2500
chai.steven@bcg.com

Ranu Dayal
BCG Singapore
+65 6429 2500
dayal.ranu@bcg.com

Andrew Dyer
BCG Sydney
+61 2 9323 5600
dyer.andrew@bcg.com

Nicholas Glenning
BCG Melbourne
+61 3 9656 2100
glenning.nicholas@bcg.com

Kosuke Kato
BCG Tokyo
+81 3 5211 0300
kato.kosuke@bcg.com

Alain Le Couédic
BCG Hong Kong
+852 2506 2111
lecouedic.alain@bcg.com

Hideaki Saito
BCG Tokyo
+81 3 5211 0300
saito.hideaki@bcg.com

Alpesh Shah
BCG Mumbai
+91 22 6749 7000
shah.alpesh@bcg.com

THE BOSTON CONSULTING GROUP

Abu Dhabi
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