

Fundamental changes in the asset management industry have been building for some time as institutional investors have pursued innovation for competitive advantage – however, the pandemic market dislocation and remote operating environment have rapidly accelerated the pace of transformation. In a new and wide-ranging research study covering 200 asset managers from Canada and around the world, our global enterprise shows why such changes have reached a point of no return.

In the first chapter of our "Canada vs. the World" research series, we took from BNY Mellon's global insights and our local experience to contextualize selected areas where Canadian asset managers are leading or trailing the global consensus in terms of data management.

Digital technologies enable organizations to drive top-line growth by enhancing the client experience. In the second chapter of our research, we outlined the ways that digitization has transformed asset management.

The third chapter of our research explored how Canadian asset managers are addressing the industry's digital imperatives and creating opportunities for new offerings.

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Delivering data to clients is only a starting point, as firms are facing additional pressures and expectations around modelling unique securities, dissecting performance results to distinguish exposure to high risk sectors, and more."



#### **Asset Management: Transformation is Already Here The Distribution Game**

The investment management landscape continues to change rapidly. In addition to a volatile market environment in Canada and globally, investment managers are navigating rising complexity, including shifting regulation, technological advancement, changing investor demands, business transformation initiatives, industry consolidation and more.

The increased adoption of new technologies is shaking up the way asset managers distribute their products. The pandemic further highlighted inefficiencies in distribution models and underscored the need for digitalization and innovation. Fundamental changes in distribution add to the pressure of data and technology's impact. With these changes come new channels and new rules for bringing investment offerings to market.



Distribution support services can play a significant role in addressing the many levels of newness in the industry. They can also help asset managers tap into new markets and segments and evolve to meet future needs."

Joe Lacopo Vice President, Relationship Management and Segment Co-lead, Asset Managers



#### Changing Channels Will Require New Skills

Shifts in distribution channels were already underway before the pandemic, but our global enterprise's research suggests COVID-19 has only hastened the demise of more traditional models.

In the research, survey responses from Canadian and global asset managers suggest distribution channels are on the brink of change. Currently, a full 100% of global respondents use fund platforms, and 91% distribute via advisers and brokers. For Canadian respondents, 100% distribute via advisors and brokers. Usage of these channels is expected to increase or stay the same over the next three years.

Furthermore, our research indicates that traditional channels will also sit side-by-side with channels that will experience dramatic growth. Large majorities of Canadian respondents expect direct-to-consumer distribution (74%) to increase over the next three years. Distribution and client management will come to rely on technology for maximum output.

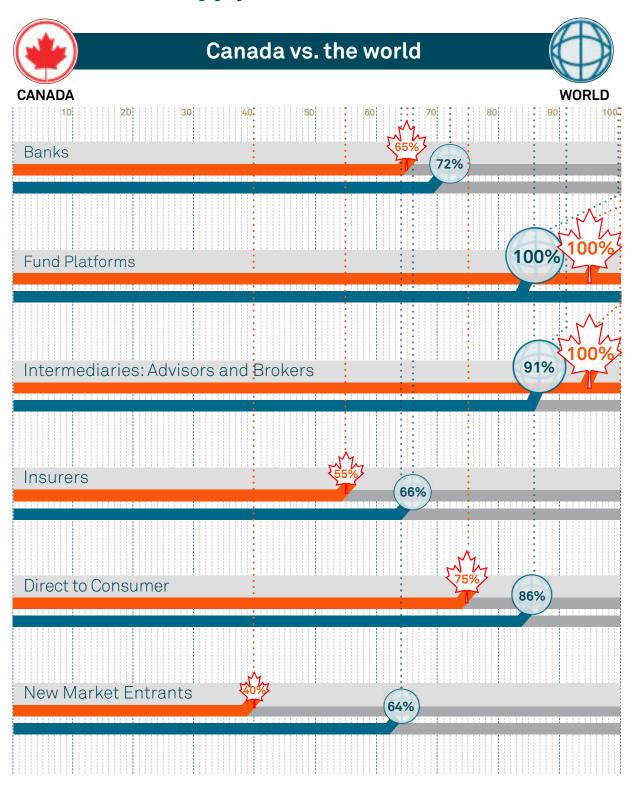
These growing channels present new criteria for success in the market. New investors expect user-friendly interfaces with a strong focus on mobile access and information delivery. Meeting such expectations goes beyond good interface design; data and technology should also deliver seamless experiences in websites and apps.

Only 40% of Canadian asset managers cited new market entrants as a channel to deliver their products, this is significantly lower than the world at 64%. Perhaps insinuating the sophistication and level of ease with which Canada's fund platforms, direct to consumer, and intermediaries serve as a priority. This may also indicate the level of complexity and sophistication in the Canadian market means the barriers to entry may be higher versus other markets. Global players may also see the Canadian market as offering a highly competitive bar: relative to GDP, Canada has one of the largest fund industries in the world, at 97.8% of national output and one of the largest bases of advisors per capita, with over 110,000 registered advisors.<sup>1</sup>

The domestic investment fund industry offers Canadians a wide range of distribution channels and pricing structures, from commission-based to fee-based to do-it-yourself. Canadians also value advice: according to the Investment Funds Industry of Canada (IFIC), approximately 80% of mutual fund investors and 50% of ETF investors make their fund purchases through an advisor. <sup>2</sup>

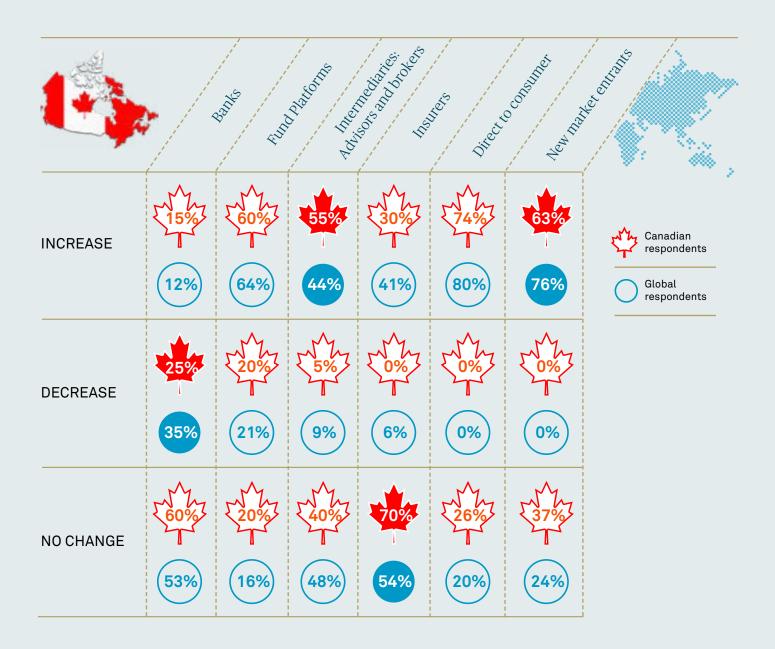


### What channels do you currently use to deliver your products to your target markets? (Select all that apply)



The differences between Canada and the world reflect the unique nature of Canada's markets. The lower usage of bank platforms perhaps suggests Canada's consolidated banks and insurance companies are being selective regarding the funds available via their retail networks. The universal use of advisors and broker networks among Canadian respondents point to the maturity of that channel. Responses appear lower for direct to consumer and new market approaches, this may point to future opportunities for asset managers seeking to leverage channels to reach consumers. For example, as they confront new expectations from digital natives for access to investments via online and mobile channels.

# For those channels, do you expect to see an increase, no change or decrease in use in the next three years?





Over the years, the lines have continued to blur between asset owners and asset managers. Asset owners are increasingly competing with asset managers to distribute innovative products, attract co-investors or assimilate plans. We have seen asset owners themselves become more operationally aligned to asset managers as they seek out timely data, potential risks and portfolio management statistics."



#### **Digital, Data-Driven Distribution**

The increased complexity of using a mix of distribution channels obliges Canadian asset managers to hone their digital capabilities at every level. Beyond the investor experience, use of data insights can help to ensure that asset managers can target products and solutions across channels effectively, efficiently, and at a lower cost.

Delivering data to clients is only a starting point, as firms are facing additional pressures and expectations around modelling unique securities, analyzing performance results to discern exposure to high risk sectors, and more. These expectations assume that firms have the ability to aggregate, calculate, validate and distribute data quickly. In the data space, Canadian firms show they are aligned to the global consensus that data and technology are key areas for competitive focus, however Canadian firms seem to slightly trail the global consensus — suggesting that this may be an area in which competition and progress may increase further within the Canadian market.

Data quality, consistency, availability and accessibility stand as the enduring challenges of data management. These factors are at the forefront of considerations for institutional investors as they receive varied demands from compliance officers, accountants and risk managers, as well as the operational requirements of portfolio management and trade processing systems. In addition, new challenges are emerging, such as rising data volumes and the need to manage alternatives and unstructured data sources.

Data science techniques help asset managers create more innovative, customizable solutions for clients. Nearly three quarters (72%) of global respondents say they use or will use these to help develop approaches to manage product demand using scenario analysis.

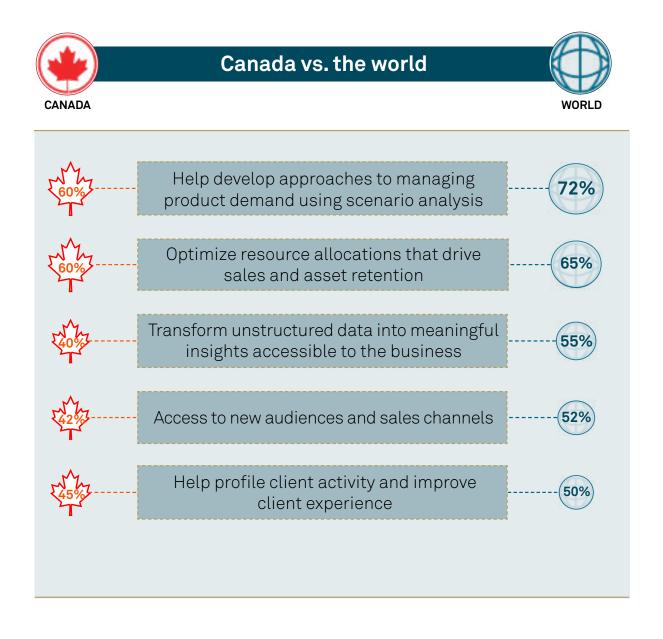
In addition, 60% of Canadian managers say such approaches can help optimize resource allocations that drive sales and asset retention. The rise of alternatives also entails increased use of data science techniques. Alternatives are less quantitatively driven than traditional investment types. Almost half (40%) of Canadian respondents believe data science can assist with transforming unstructured data into meaningful insights.

When it comes to supporting distribution through digital channels, **Canadian respondents are aligned to global results across all four main areas:** improving real-time portfolio and account information (55%), improving access and self-service options for clients (55%), enhancing the client experience through personalization (65%), and expanding the creation and delivery of investment advice (55%).



Digital capabilities are helping asset managers bridge the gaps between new product offerings and distribution channels. Data insights will help unlock new ways to reach investors and propel AUM growth."

**Ash Tahbazian** Chief Client Officer Based on your experience, how has or will technology and advanced data science techniques improve distribution for your organization? (Select all that apply)



### In what ways are you planning for your digital capabilities to help drive distribution? (Select all that apply)

#### Canada vs. the world





Improved availability of real-time portfolio/account information





Improved access and expansion of self-service options for clients





Enhanced personalized client experience





Expanding the creation and delivery of investment advice





Creation of scalable customized sales campaigns to expand revenue opportunities





Supporting access to new audiences and sales channels







ESG has been a catalyst in transforming product availability and product distribution in asset management as the demand from institutional investors has become imperative. With powerful inflows into ESG-focused funds not showing any sign of a slowdown, asset managers and issuers can expect demands for greater transparency around ESG investing in portfolios from internal and external stakeholders."



#### **New Rules Require Teamwork**

As with other trends covered in our research, asset managers may need to find ways to concentrate their focus onto their core competencies. To accomplish this, they may need access to non-core capabilities through providers that specialize in these areas.

Distribution support services can play a significant role in addressing the many levels of newness in the industry. They can also help asset managers tap into new markets and evolve to meet future needs.

Global respondents name distribution channels (71%) as the most sought-after expertise from third-party service providers. Canadian respondents on the other hand seek distribution support services, but do not have the same appetite for distribution channels (42%), as they do for fund regulation processes (75%). Canadian asset managers also score lower on the need for regulator, tax and financial reporting requirements (42% vs. 60% globally), and jurisdictional information (17% vs. 34% globally).

With a relatively complex regulatory environment, Canada's asset managers seem to possess the relevant expertise and wherewithal of the subsequent effects that the provincial regulators, federal regulators and industry self-regulatory organizations have over their procedures.



Asset managers are finding new ways to focus on their core competencies. Distribution support services can help investors tap into new markets and evolve to meet their future needs."



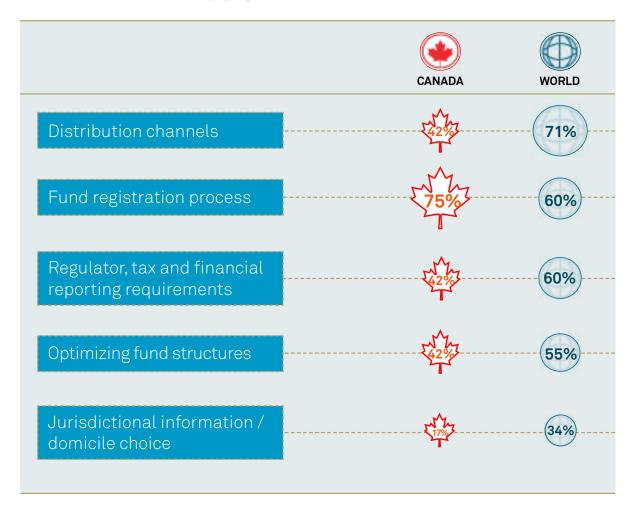




## Do you expect your service provider(s) to offer distribution support services?

CANADA	Canada vs. the world	WORLD
40%	No	36%
60%	Yes	64%

# If yes, within which of the following areas? (Select all that apply):



## Our global enterprise has identified the following industry trends propelling fundamental changes in distribution:

- Reduced minimum ticket sizes as a result of growing retail distribution
- Savers shifting to defined contribution pension plans
- New geographies coming into the investment products arena, including emerging markets
- Investors shifting toward the ends of the spectrum, gravitating either to lower-fee
  products such as passive ETFs, or into specialist and complex strategies where
  investors are prepared to pay a premium for long term alpha, such as alternatives
  and derivatives
- New product launches that mean asset managers face much greater competition for shelf space with intermediaries
- Intermediaries reducing the number of products they offer, focusing on players of scale who can offer customizable solutions
- New opportunities and new frontiers of competition, for example liquid alternatives rules in Canada paving the way for investment funds to bring alternatives strategies to the retail mutual fund market

In the next and final chapter of "Asset Management: Transformation is Already Here," we will discuss various approaches to reducing complexity, focusing on core competencies, and working with service providers on their roadmap to transformation.



CIBC Mellon Industry Perspectives

Canadian Market Innovation: Platform Traded Funds



Lisa-Marie McDermott









This episode is hosted by Bart Roter, Relationship Executive, CIBC Mellon, featuring Lisa-Marie McDermott, Head of Wealth Management Platforms, Invesco Canada; Erik Sloane, Chief Revenue Officer, the NEO Exchange; and Ronald C. Landry, Head of Product and Canadian ETF Services, CIBC Mellon.

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<sup>&</sup>lt;sup>1</sup> https://www.ific.ca/en/articles/who-we-are-our-industry/

<sup>&</sup>lt;sup>2</sup> https://www.pollara.com/wp-content/uploads/2022/10/IFIC\_2022\_MF\_ETF\_Investor\_Study.pdf