

Transformation in Asset Management: **Canada vs. the World**

3 CHAPTER 3



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 chapter three of our “Canada vs. the World” research series, we draw 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.

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As Canadian asset managers address the industry’s digital imperatives, they create opportunities for new offerings. These offerings could include new strategies and vehicles, access to more asset classes or potentially even products for emerging investor segments.”

Joe Lacopo

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



The Product Lineup is Realigning

The increased operational complexity required of asset managers to meet the demands of new generations of investors has fast-tracked the adoption of digital and data analytics technologies.

How are asset managers finding ways to cut through this complexity and differentiate their products? For starters, 45% of Canadian asset managers state that reducing operating model costs is one of their top strategic priorities.

In the previous chapter our global enterprise outlined the ways that digitization has transformed asset management, and from what we've seen, few companies are taking this path alone.

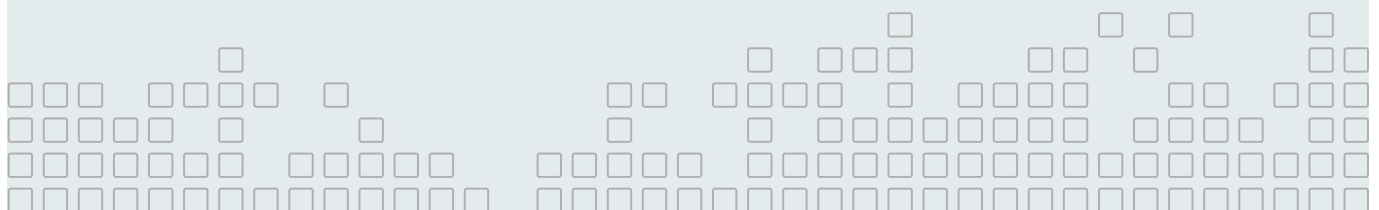
Product innovation has benefited significantly from this trajectory. As Canadian asset managers address the industry's digital imperatives, they create opportunities for new offerings. These offerings could include new strategies and vehicles, access to more asset classes, or potentially even products for emerging investor segments.

Asset managers also know they need to meet the shifting preferences of an increasingly outcome-focused investor base. Canadian asset managers highlighted two overarching principles in their efforts to fend off competition from existing and emerging players — changing demographics, and new or evolving asset classes, strategic themes, and mandates.

Digital Savvy Generations Come to Market

The survey results indicate that Canadian asset managers anticipate the largest growth in investment in the next 10 years from Millennials and Generation Z. These younger generations are also entering the industry as professionals in portfolio management and other sectors.

In both cases, they have grown up with digital tools at their fingertips from their early adulthood (for the first wave of Millennials) to their earliest childhood (for the second wave of Millennials and after). They often expect to have products tailored to deliver specific investment outcomes that align with their values and interests.



The Pathway to Inclusive Investment: how increasing women's participation can change the world

BNY Mellon Investment Management's (BNY Mellon IM) series focuses on the multifold benefits that come with closing the gender-investment gap. The research surveyed 8,000 respondents across 16 markets, and 100 asset managers from across the world with US\$59.6 trillion in combined assets under management to provide an industry perspective.

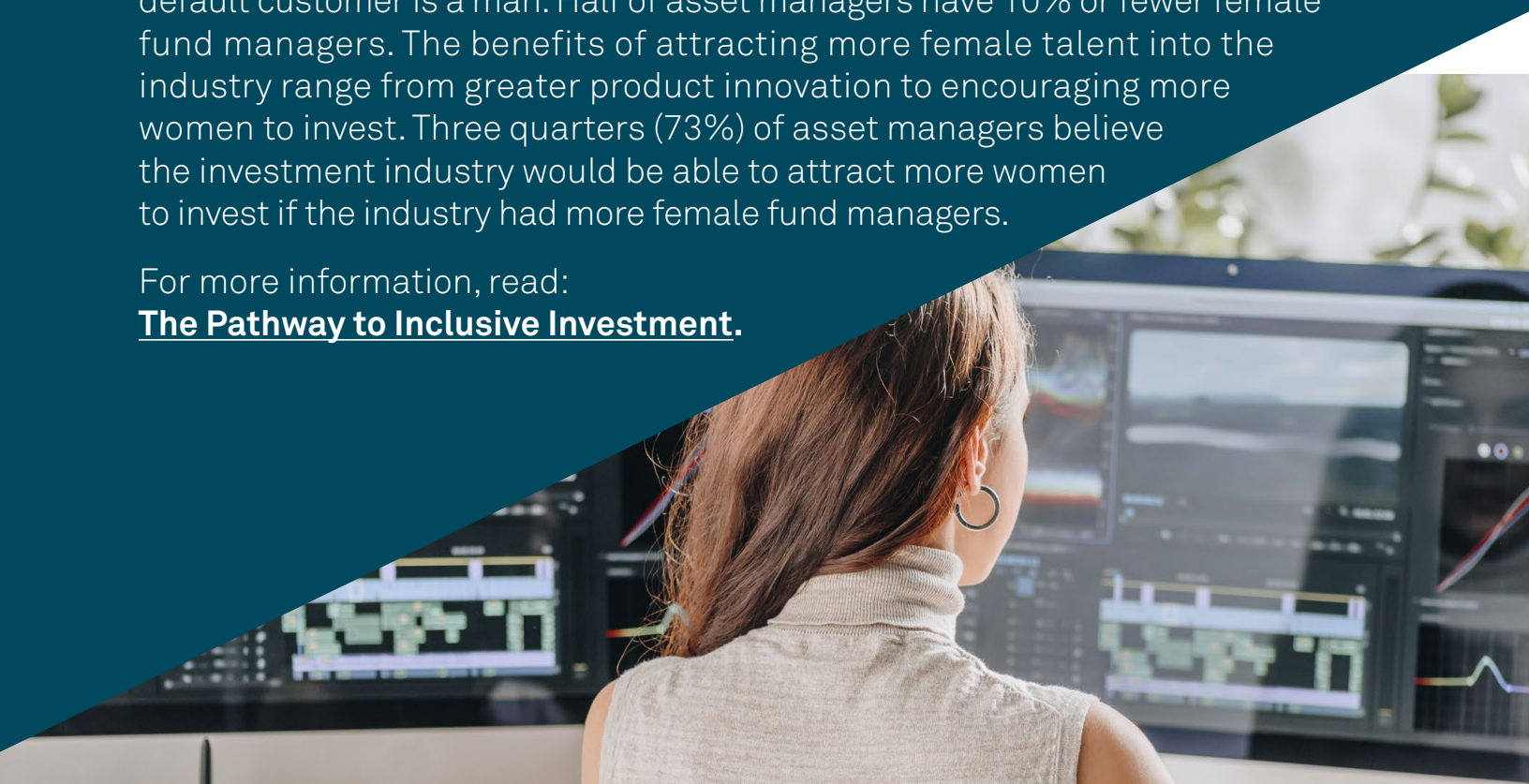
The research found that if women in Canada invested at the same rate as men, there would be at least an extra \$77 billion of assets under management from private individuals today. Perhaps more importantly, the research also reveals that women are more likely to make investments that have positive social and environmental impacts, meaning that there would be an influx of \$21 billion of additional capital into investments that have positive impacts if women in Canada invested at the same rate as men.

Globally, more than half of women (55%) would invest (or invest more) if the impact of their investment aligned with their personal values (60% in Canada), and 53% would invest (or invest more) if the investment fund had a clear goal or purpose for good (61% in Canada).

The study of asset managers reveals that for almost nine in 10 (86%), their default customer is a man. Half of asset managers have 10% or fewer female fund managers. The benefits of attracting more female talent into the industry range from greater product innovation to encouraging more women to invest. Three quarters (73%) of asset managers believe the investment industry would be able to attract more women to invest if the industry had more female fund managers.

For more information, read:

[The Pathway to Inclusive Investment.](#)



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To offer compelling products, managers need to analyze market trends, nimbly deliver new products, use timely and accurate data to make investment decisions, and monitor portfolios and then report results to investors in a transparent and consumable manner.”

Gord Kosokowsky

Executive Director,
Relationship Development
and Segment Co-lead,
Asset Managers



As investor demographics shift, do you expect to see growth in the retail sector from Millennials and Generation Z over the next (a) three years, (b) five years and (c) 10 years?

In next three years

In next five years

In next 10 years

Growth in investment from Millennial investors:

23%

32%

39%

Growth in investment from Generation Z investors:

20%

26%

37%

In the past, innovation often took place at a product by product level. Now, it's coming from changing investor needs and internal skillsets transforming the industry across the board. The survey responses showed that attracting new investor generations requires responding to their expectations for speed, ease, flexibility and seamless access across channels.

In addition, 45% of Canadian respondents stated introducing digital tools to connect with investors was one of their top three strategic imperatives over the next year. Beyond being operationally ready to deliver on these expectations, firms should also transform their approach to attracting new, digitally native investment management talent that can serve the needs of new, digitally native clients.

How are asset managers finding ways to cut through this complexity and differentiate their products? For starters, 45% of Canadian asset managers state that reducing operating model costs is one of their top strategic priorities.





New Assets, New Values, New Priorities

New strategies and alternative asset classes have increasingly moved into the mainstream. As with demographic shifts, these investor demands have amplified the need for new talent and front-to-back transformation.

While passive ETFs have reshaped the industry, the majority of Canadian asset managers in the survey (70%) stated that several active strategies would become more relevant. Canadian respondents fall significantly higher than their global counterparts here (50%). Canada has a long history of innovation, particularly in the ETF space.

Canada continues to see many world firsts in terms of markets and instruments. We launched the world's first ETFs nearly 30 years ago. We saw cannabis and psychedelic ETFs come to market. Canadian regulators have been the first to authorize retail investment funds to invest in both Bitcoin and Ether digital assets.

Canadian regulators have been the first to authorize retail investment funds to invest in both Bitcoin and Ether digital assets. When asked how they expect their organization's digital assets and cryptocurrency offerings to change over the next five years, 40% of Canadian asset managers don't expect a change, while the world sits much lower at 26%. In keeping with the innovation theme, this could be due to the fact that a number of CIBC Mellon asset managers have stepped to the forefront to lead the market. Interestingly, a portion of Canadian market respondents indicated their plans to decrease digital asset offerings — perhaps because the passive strategies available in the market provide an outsized flows to first movers.

A significant portion of Canadian institutional investors are exploring various use cases for digital assets, including cryptocurrencies, tokenization and blockchain/DLT operational uses designed to enhance data synchronization or processes efficiencies. Today, we service the vast majority of the 26 digital asset products trading in the Canadian retail market including Bitcoin and Ether offerings. We continue to collaborate with global and domestic financial services industry stakeholders to evaluate and implement potential digital asset servicing solutions to support this segment, such as support for additional coins.

Half of Canadian asset managers expect to increase their offerings in data-intensive automated quant and smart beta strategies. Active management strategies (55%) and active ETFs (70%) are also on the rise as investors seek options to help them meet specific objectives.

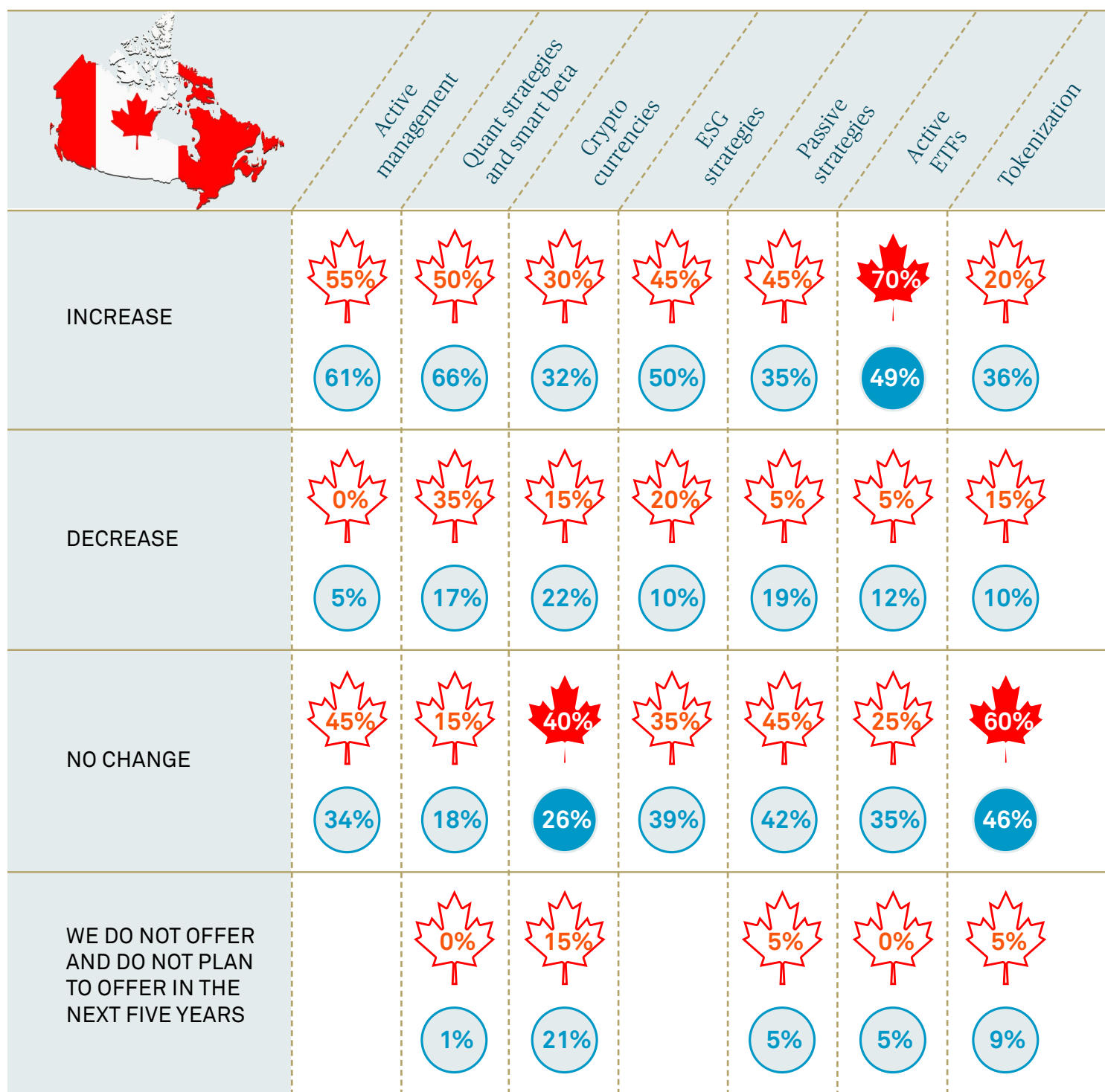
Environmental, Social, and Governance (ESG) integration also holds a key place in asset managers' product plans, with half expecting to increase ESG strategies and 40% expecting to increase green bond offerings. These increases reflect a wide range of investor segments seeking investments that align with their values.

The Government of Canada issued its inaugural Canadian-dollar-denominated green bond on March 23, 2022. The inaugural green bond creates new financing opportunities that will speed up projects ranging from green infrastructure to nature conservancy, while also growing Canada's economy and creating new jobs across the country.

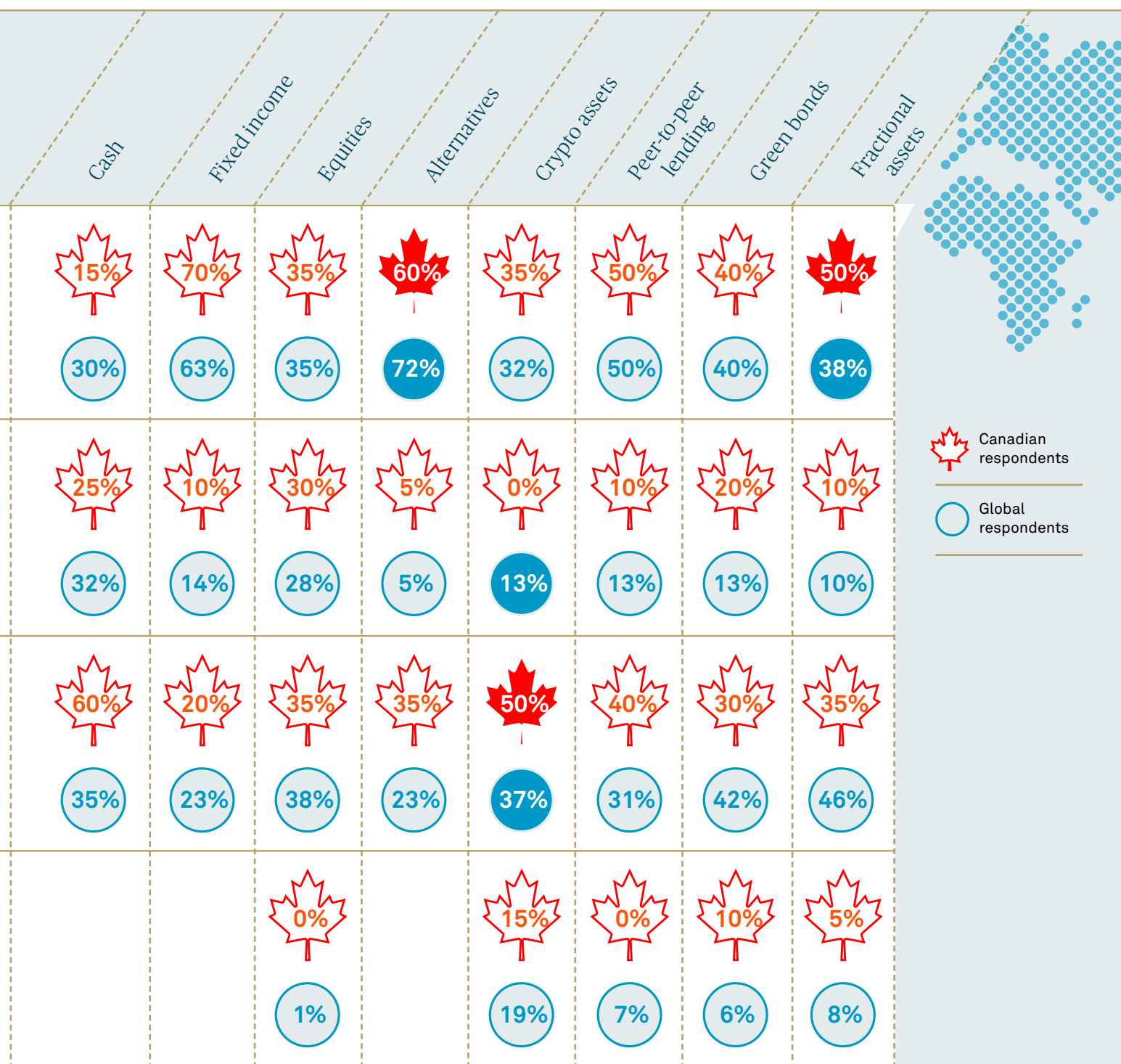
For asset classes, the increase in alternatives stands out — 60% of Canadian respondents expect to increase their offerings across hedge funds, private equity, private debt, infrastructure and real estate vehicles. Multi-strategy mandates and separate, customized accounts are rising in popularity. Furthermore, liquid alternatives provide investors with exposure to alternative strategies without a large minimum commitment, while adding diversification and market downside protection to a portfolio. They also include the opportunity for asset managers to apply borrowing, shorting and derivatives strategies to alternative investments. Creating a liquid-alt structure opens the door to more traditional investors who may not have been able to access certain alternative strategies in a traditional hedge fund structure.



How do you expect your organization's offerings of the following strategies and vehicles to change over the next five years?



How do you expect your organization's offerings of the following asset classes to change over the next five years?



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The dynamic nature of data and analytics teams are evolving in this high governance, high innovation landscape. Tackling the quintessential question, “what does it take to build a strong, secure data foundation?” requires an organization to consider how to centralize and democratize their data, take advantage of technologies such as cloud computing, and hone in on people and processes to drive efficiencies and value-driven execution.”

Eric Nguyen

Head of Data and Analytics
Trans-Capital Canada



These new assets, values, and priorities bring data and technology questions to the forefront. Most alternative investments (except hedge funds) and ESG strategies produce large volumes of unstructured data. More than half (55%) of Canadian respondents stated improving transparency to investors as a top strategic priority.

To offer compelling products in these areas, asset managers need the ability to analyze effectively, identify opportunities, make investment decisions, monitor portfolios, and report to investors. In addition, alternatives and ESG require specialist expertise and have historically needed separate technology solutions. As a result, they are only adding to the complexity of asset management operations. These changes in both investors and investment managers represent a significant realignment of the product lineup. Launching and then managing a suite of investments across asset classes and products will require new skills, such as data science techniques and insights. Asset managers will also need to leverage data science to create innovative solutions that more closely meet client needs while delivering specific investment outcomes. Furthermore, asset managers will need new ways of distributing these offerings to investors.

In the next chapter of “Asset Management: Transformation Is Already Here,” we will focus on findings and analysis from our research on distribution. The changing world of distribution compels asset managers to root out inefficiencies in the quest for greater reach in a competitive marketplace.

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Darcie James Maxwell

Head of OMNI Digital Services
Canada



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Outside of new product offerings, the innovation imperative is coming from changing investor needs and new internal skillsets. The survey responses showed that attracting new investor generations requires responding to their expectations for speed, ease, flexibility and seamless access across channels.”

Ronald C. Landry
Head of Product and
Canadian ETF Services





To register for advance copies of forthcoming research or to learn more about some of the performance, accounting and data solutions available through our global enterprise, contact your relationship manager.

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