

CIBC MELLON

Asset Management: Looking to the Future of Transformation

Canada vs. the World

CHAPTER 5

5



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 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 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.

We thank the many clients, industry stakeholders and colleagues across CIBC Mellon, CIBC and BNY Mellon whose insights helped bring this series to market.

We welcome feedback at research@cibcmellon.com

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Asset managers are increasingly looking at how they can rationalize their data to ensure they are getting the right information to the right people so that they can focus on generating alpha.”

Joe Lacopo

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



Asset Management: Looking to the Future of Transformation

As the Canadian asset management industry deals with exponentially increasing levels of complexity, asset managers must streamline operations to focus on both growing assets under management (AUM) and on delivering value for investors.

This paper is the fifth instalment in our asset management transformation series.

- **Chapter 1** drew 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.
- **Chapter 2** explored how technologies enable organizations to drive top-line growth by transforming the client experience, and in turn how digitization has transformed asset management operations.
- **Chapter 3** reviewed digital imperatives as opportunities for new offerings by asset managers, including new strategies and vehicles, access to more asset classes, or potentially even products for emerging investor segments.
- **Chapter 4** focused on how the increased adoption of new technologies is shaking up the way asset managers distribute their products, including new channels and new rules for bringing investment offerings to market.

In **our fifth and final chapter**, we return to the theme of transformation, exploring how evolutionary pressures have built and accelerated past the point of no return, and we explore how the future of digital enterprise operations for asset managers must be rooted in three core principles: resilience, innovation and scalability.

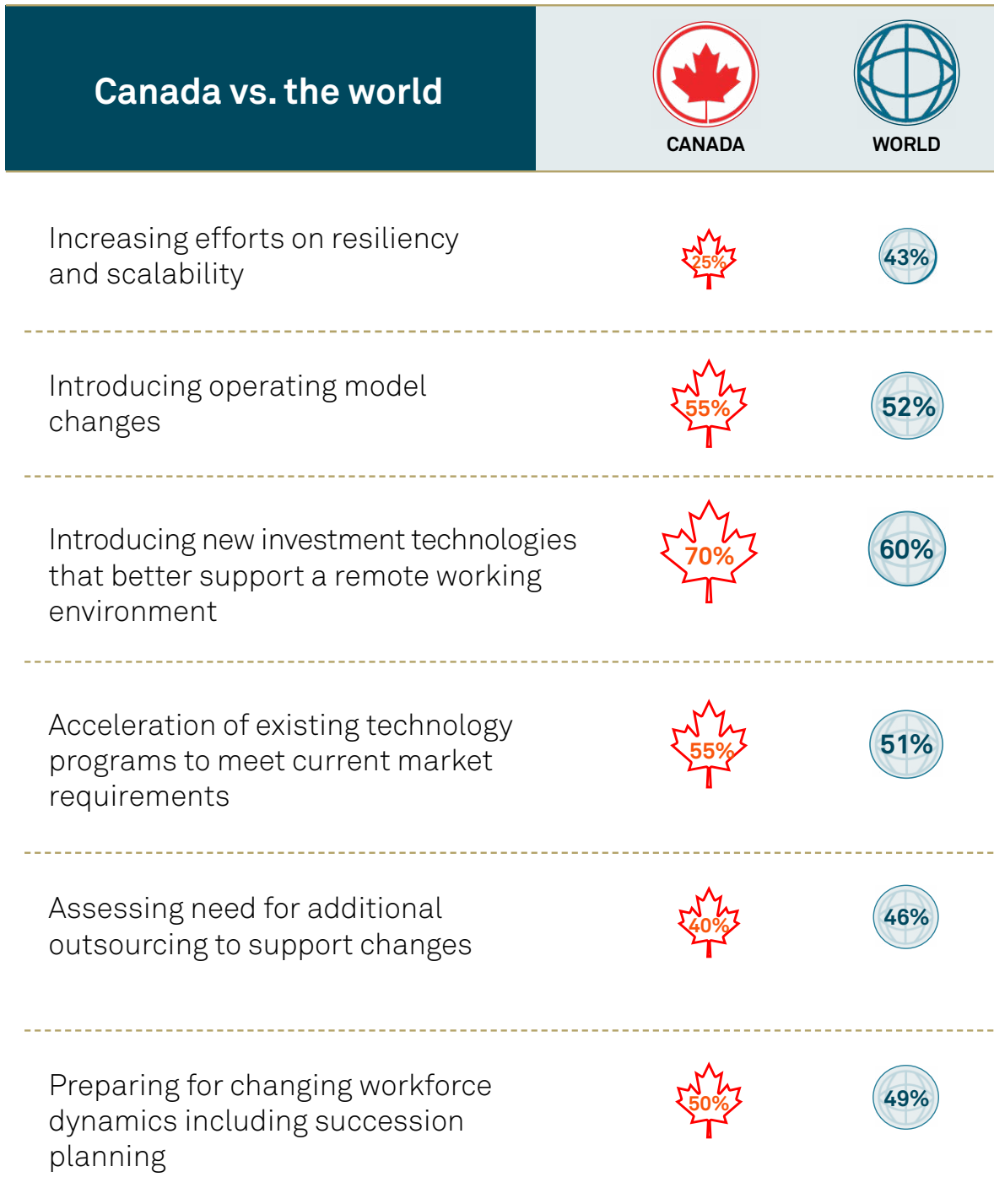
The past two years have intensified the industry's focus on the ability to operate digitally with resiliency. Geopolitical and demographic shifts have begun a fundamental, end-to-end transformation of the market landscape. Product innovation and distribution, internal complexity and related concerns are deciding factors in asset managers' ability to focus on generating value and to achieve growth in a complex market. Digitalization, data management and analytics lie at the heart of asset managers' efforts to navigate operational complexity. The practical implication of these imperatives is that many asset managers need to focus on creating resiliency and agility in their organizations.

When asked about the specific effect of pandemic on their priorities, 70% of Canadian respondents rank introducing new investment technologies to support remote working at the top of their list. Canadian asset managers also accelerated their trade digitization because of the pandemic. More than half of Canadian asset managers in our survey are planning to introduce operating model changes as a result of the pandemic. Accelerating existing technology programs to meet current market requirements (55%) and preparing for workforce dynamics including succession planning (50%) are close behind.

Institutional investors look to their asset servicing providers for local insights, a consultative service experience, and to proactively explore new solutions to help clients achieve their goals. Therefore, one of the most important investments in an organization is into its people. The outlook for 2023 is one where employees, workforce, and talent are rapidly coming into sharper focus. Many organizations are confronting both challenges and opportunities related to retaining or capturing top talent that can help drive organizational outperformance. Firms are looking to build and reinforce an engaged employee culture that is collaborative, insightful, and puts clients at the centre.

Indeed, the world's leading organizations are investing more capital and their best talent to capture the opportunities inherent to this transformative moment for the industry. The very best institutions are learning to drive innovation at scale, beyond one single product or system, and operate with the mentality of a fintech firm, in order to deliver a superior client experience.

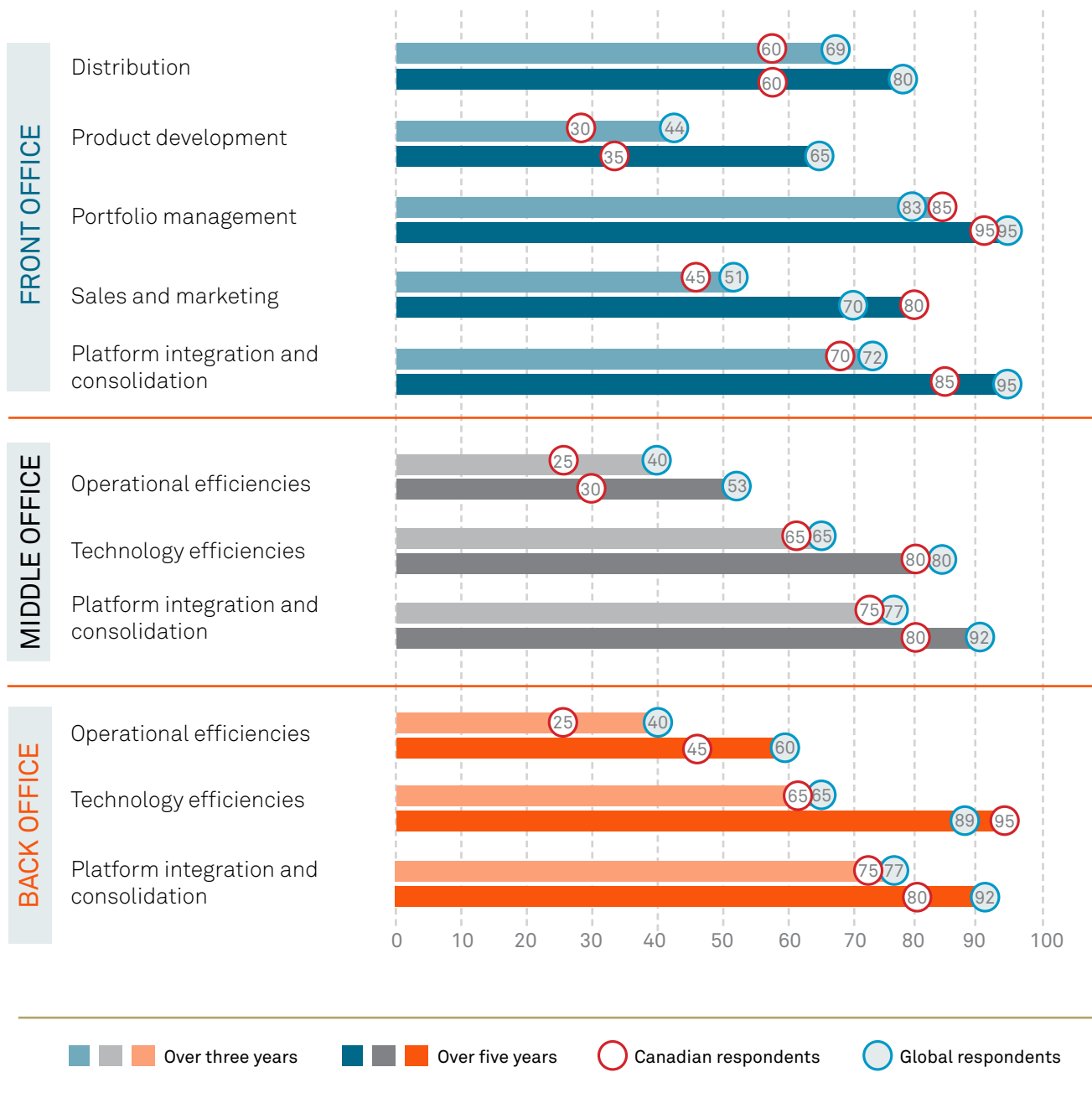
As a result of the pandemic, how do you envisage your priorities shifting? (Select top three)



New Beginnings

Canadian asset managers have great expectations for shifts in the next three years in portfolio management and consolidation of the front, middle and back offices. This integration will provide the foundation on which to expand digital capabilities through their entire organization.

As operational models continue to evolve, where do you envisage the greatest change in your end-to-end investment life cycle over the next three to five years?



Looking deeper into respondents' intentions over the next few years, Canadian and global asset managers named portfolio management as a standout focus for the front office. Medium-term changes are likely to be driven by the further rise in ETF strategies that include passive investment, as well as a constant hunt for advantage as market complexity and challenges continue to rise.

Market and competitive pressure will likewise continue to drive pressure around fees, as well as a move to more broadly consider the potential for outsourcing beyond the back- and middle-office functions to include activities that directly support the front-office, such as reporting, analytics and trading.

The potential to outsource trading of equities, ETFs and/or other asset classes was a rising global trend that appears to be gaining momentum in Canada. Asset managers have long grappled with rising costs as fees have declined amid an ongoing shift toward passive investment strategies. Dealing with evolving regulations also has added to operational complexity and costs, further increasing the pressure on managers to focus on core activities and transfer more of the operational and technology burden to their providers.

Such broader industry changes set the stage for longer-term change. Looking further ahead to the next five years, respondents predict widespread transformation. For example, platform integration and consolidation is in focus across the front, middle and back office (85%, 90%, 80%, respectively). Canadian asset managers have similar expectations for portfolio management, with 95% seeing the greatest transformation, but in some areas Canadian firms may yet see greater acceleration as they report lower rates of consideration than global peers across many aspects of transformation.

Other functions rise notably in priority on a five-year horizon. These functions include technology efficiencies in the back office (from 69% to 95%) and technology efficiencies in the middle office (from 65% to 80%).

Five years out, one area where Canadian managers seem to be ahead of global peers is in focus on sales and marketing. This may perhaps be rooted in Canadian market participants' efforts to get it right and ensure their teams are equipped with the correct data regarding their products to meet regulatory changes affecting their front office and distribution partners.

Financial institutions are responsible for supporting the infrastructure of the regulatory system in which they operate. As part of this obligation, staying informed and abiding by regulatory requirements are vital components of upholding the integrity of the financial services industry. For example, the Canadian Securities Administrators implemented the Client Relationship Model Phase 2 (CRM2) as a set of requirements for investors to receive information about the costs and performance of their investments.

As market participants continue to assess risk appetites and adjust controls, the need for Know Your Client (KYC) verification processes will continue to evolve as governments seek to counter money laundering, market manipulation and terrorist financing more effectively.



Focusing on Core Competencies

Changes in the end-to-end investment lifecycle raise questions about the most effective course of action. As we look at activities further back in the value chain, asset managers reported higher rates of consideration of outsourcing as a way to help them return to their core focus. The role of outsourcing fits a clear pattern for asset managers who are pulling back on directly handling non-core functions activities, particularly data functions. Moving to a fully outsourced model whereby the teams and technology are operated by a provider allows clients to leverage a standardized service that can be integrated into their existing operations. For many clients, this is an ideal choice as it reduces the need to hire resources or invest in technology and provides a predictable cost structure.

Of the respondents looking to outsource, it was universal among Canadian asset manager respondents (100%) to consider doing so with data management infrastructure (i.e., the technology used to store, manage and retrieve data) over the next three years. Outsourcing back office functions received similar focus, with 90% considering doing so over the next three years.

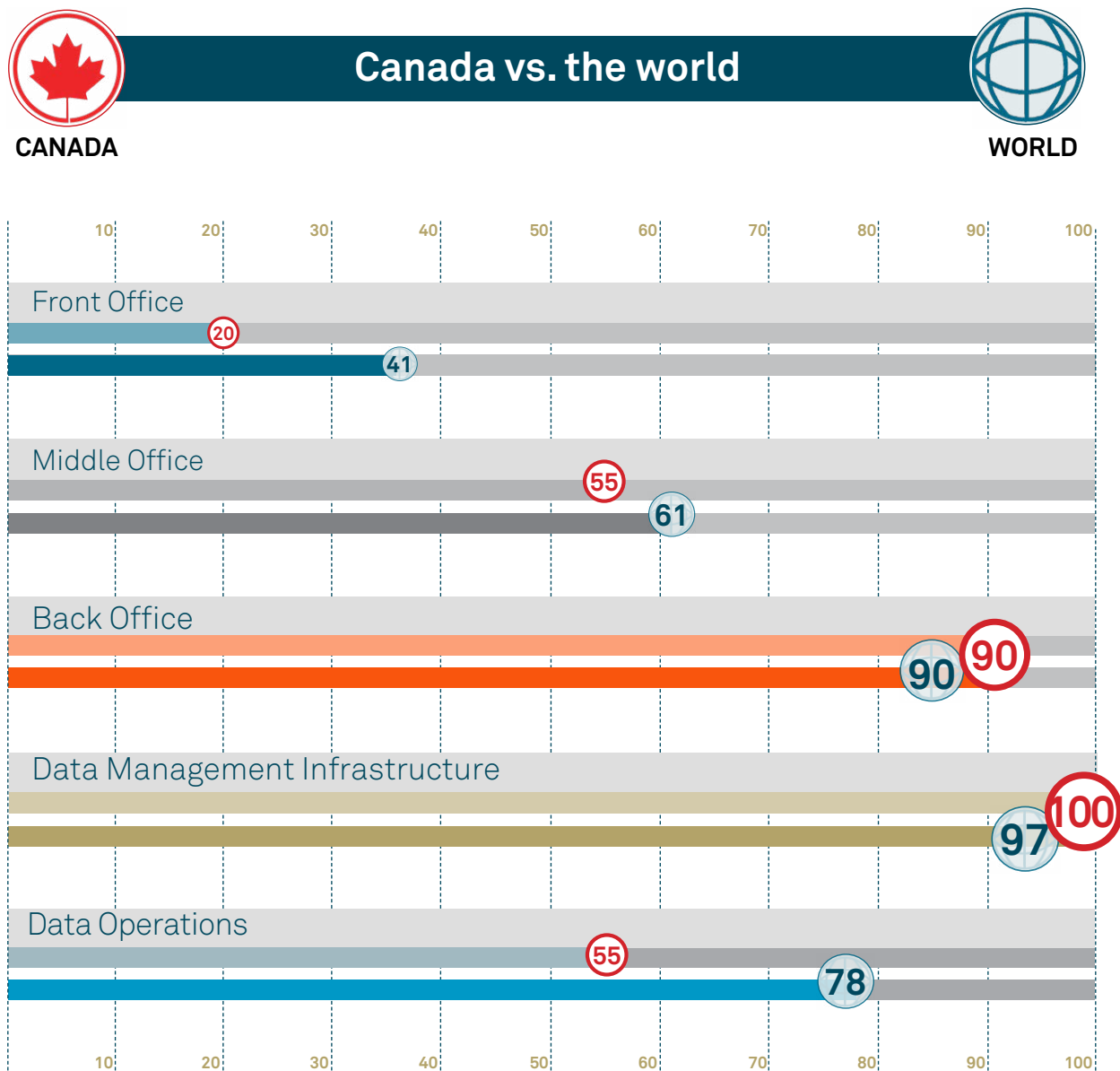
However, Canadian asset managers trail the global consensus when it comes to planning to outsource their data operations functions (i.e., the business processes that use data) with 78% of global survey respondents citing this as a key area where they intend to expand, in comparison with 55% of Canadian asset managers. This could mean that asset managers in Canada believe the business processes already have the data they need, and that the next step is for them to leverage the right infrastructure and technology to manage it - **or perhaps Canadian managers simply trail their peers in recognizing this area.**

As we know, delivering data to internal clients is only a starting point, as firms are facing additional pressures and expectations around modelling unique securities, decomposing 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.

Of the respondents looking to outsource:

100% of Canadian asset manager respondents will consider doing so with data management infrastructure (i.e., the technology used to store, manage and retrieve data) over the next three years.

If you are planning to explore or expand your outsourcing relationships, in which areas of your business would you consider outsourcing in the next three years? (Select all that apply)





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Managers are increasingly looking to outsource what they consider “low value-add activities” – potentially anything after the investment decision so they can focus on what they do best and remain agile.”

Gord Kosokowsky

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



Conclusion

Long-term trends and secular themes represent a continuum in the evolution of the asset management industry.

Product innovation and distribution, for instance, have faced competitive tailwinds for decades. In somewhat more recent history, data and analytics have moved to the forefront as firmly entrenched performance drivers. Yet, the past two years introduced a radical catalyst in the form of COVID-19.

Remote work, together with increasing digitization, has accelerated the impact of technology. There are high expectations for integration through all areas of the front, middle and back office. At the same time, integrating outside the organization by outsourcing non-core functions plays a leading role in shifting priorities toward alpha generating activities. Asset managers are coming to expect and rely on advanced digital tools and capabilities as basic and indispensable elements of their business model.

Watch for future research from CIBC Mellon as we explore topics in collaboration with Canadian asset owners, asset managers, insurance companies and global investors into Canada. To discuss our research efforts and learn more about the themes we are exploring, contact research@cibcmellon.com or reach out to your CIBC Mellon relationship manager.



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Legacy platforms asset managers currently use will be left behind as new digital concepts are introduced to the market. The technology landscape is changing rapidly, and implementation can bring about improvements across the board, from governance to investment returns.”

Darcie James Maxwell
Head of Canadian Operations,
Data and Platform Solutions



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Digitalization, data management and analytics lie at the heart of asset managers' efforts to navigate operational complexity. The practical implication of these imperatives is that many asset managers need to focus on creating resiliency and agility in their organizations.”

Joe Lacopo

Vice President,
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