Over the Horizon: Trends Reshaping the Business

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PwC's Asset Growth Forecasts
(in trillions US$)

	Now	2020
Total investable assets	$ 72	$ 102
Sovereign wealth funds	$ 6	$ 9 - $ 13
ETFs	$ 3	$ 5 - $ 7
Alternatives	$ 6.5	$ 13

PwC's Asset Management 2020 report paints a picture of the "brave new world" in which the industry will be operating by the end of the decade. Key growth areas will include Asia (ex-Japan), South America, and, beyond 2020, the frontier markets of Africa. The report identifies six game-changing trends:

Asset management moves to center stage

As a result of legislation since the financial crisis, the industry has taken over functions from banks and insurers. The impacts will be increased public and regulatory scrutiny as the line between asset management and other financial institutions diminishes.

Distribution is redrawn

The dynamics of growth are different now, to the benefit of global players. Flexibility once gave boutiques and mid-sized managers an edge, but now scale matters. However, there will still be subadvisor and partnering opportunities for agile small to mid-sized firms.

Fee models are transformed

U.K. legislation in 2012 separated sales charges from asset management fees and required justification of 12b-1-type fees, causing firms to back away from the lower end of the market. Similar legislation is being enacted elsewhere. More transparency will bring down fees in competitive markets and chase away sales loads; the U.S. will not be insulated from this trend. If the Department of Labor succeeds in pushing fiduciary standards, brokers will avoid liability by pushing away smaller investors, which affects 401(k) participation.

Alts become more mainstream

Last year retail alts fell short of expected growth, partly because of the decline of commodities funds due to poor returns. From mid-2013 through today, the growth has been in long/short funds, business development corporations, and middle-market lending. Most assets are going to top firms with scale, presence, and reputation. They will challenge assumptions around long-only business, as managers continue to diversify into high-fee products that augment a passive core.

New breed of global managers emerge

Hong Kong law now lets you own 100% of your company there and passport to China. Passporting in Asia means a big change in distribution. UCITS won't go away, but may be under pressure if more funds are locally generated and distributed. Many developments are still to come from Luxembourg, Dublin, and China, where the emerging middle class is becoming the investing and saving class. Central and South America also present opportunities; countries there have high growth rates, mandatory programs, and expanding product menus.

Asset management enters 21st century

Technology now allows firms to be fully engaged with clients online. New models will emerge around millennials; on average they have 50% of assets in cash and only 1% have an advisor. Some will want advice, but will use technology and avoid human interaction. The big disruptor ahead won't be that Google buys State Street; it's someone will develop a portal to link clients and asset management firms. For example, Google could be a matchmaker based on predictive analytics. That's a more likely scenario than seeing tech firms get into money management.

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