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EXECUTIVE CONFERENCE SESSION SUMMARIES

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SEI 2017 EXECUTIVE CONFERENCE | MARCH 5-8, SCOTTSDALE, AZ

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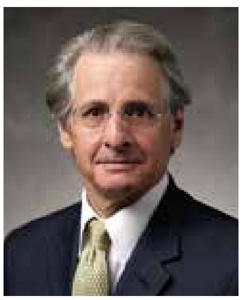
Current State of the Post-Obama, Trump-in-charge Financial, Economic and Political Market

MILTON EZRATI
Author, consultant, former senior economist at Lord, Abbett & Co.



The author of *Thirty Tomorrows* ventures a look at what's ahead.

Although his forecast a year ago was positive on equities, he did not foresee the current rise. Before the election, the market liked Hillary, and as Trump's chances rose, the market retreated. What we see now is a rally based entirely on events in the nation's capital.

If the president follows through on his positive campaign promises, the rally can continue. The market doesn't care about budget-busting if it likes the other things that are happening. If the president disappoints or touches off a trade war, the rally will be over.

Some of the positives in the long-term picture include:

- **A golden opportunity for tax reform** – If the president keeps his campaign promise to sweep away all the breaks, credits and exclusions and lower the statutory rate from 35% to 15%, it would eliminate enormous inequities and alleviate administrative burdens. It would also create efficiencies because businesses would take signals from the economics of what they do, not the politics. There's a good chance these proposals will be enacted. The fly in the ointment is House Speaker Ryan's proposal for a 10% border-adjustment tax, which seems likely to fail.
- **Promised infrastructure spending** – The numbers are big, but we need this investment and business wants it to support greater efficiency and faster growth.
- **A push for regulatory relief** – This could easily be done through executive orders, but may be thwarted by bureaucracy. The rhetoric could matter almost as much as the reality. The Affordable Care Act has made it hard for businesses to know employee health costs; Dodd–Frank has worsened the cost and availability of credit, especially for small business, the engine of the economy. The public has heard little about how reform will occur, and we may or may not get what we want.

The potential negatives include a trade war, which would be an economic and market disaster. It could undo the entire market rally by raising the cost of goods, lowering the U.S. standard of living, and inviting retaliation. It's also not clear that protecting some firms from imports would help U.S. employment and growth, as many high-value firms depend on sourcing from overseas. Notwithstanding Brexit, the situation in Europe also poses dangers. Greece, Spain and Italy all have severe economic problems, and the EU continues to kick the can down the road. Europe's troubles could migrate west as quickly as our 2008 crisis moved eastward.

Overall, in the short term we can't help but be disappointed. Things never go as smoothly as we wish, and there could be severe market corrections—especially after a run based so much on hope. In the long term, the rally can continue if the disappointments aren't too severe.

> "More than at any other time in years, the market's prospects depend on what happens in Washington—and that's never a comfortable situation."

What's In Store for the Asset Management Industry

BRUCE HOLLEY

Senior partner and managing director, The Boston Consulting Group

BCG will soon be releasing its latest benchmarking study covering 140 asset management institutions with a combined AUM of $40 trillion. Here are some takeaways from its preview (based on 2015 data):

Asset growth stalled. The value of global AUM rose just 1% in 2015, well below the 5% average annualized growth rate. But growth patterns show much geographic variability—stronger in Europe and the Asia/Pacific region (except Japan), weaker in North America. China and India are generating substantial new wealth, so the dynamic for targeting clients is different.

Asset managers are now at the mercy of their own asset-gathering. The industry's 2016 AUM growth was driven entirely by net flows, which were tepid at 1.5% (vs. 4% in the 2003-2007 period). Managers that are outside "new wealth" nations can no longer rely on market performance to fuel their growth. They now need business processes enabling them to grow by stealing market share.

> "The big opportunity lies in developing new business capabilities grounded in advanced data and analytics. Thus far, few managers are actually doing this, but many tools are quickly emerging."

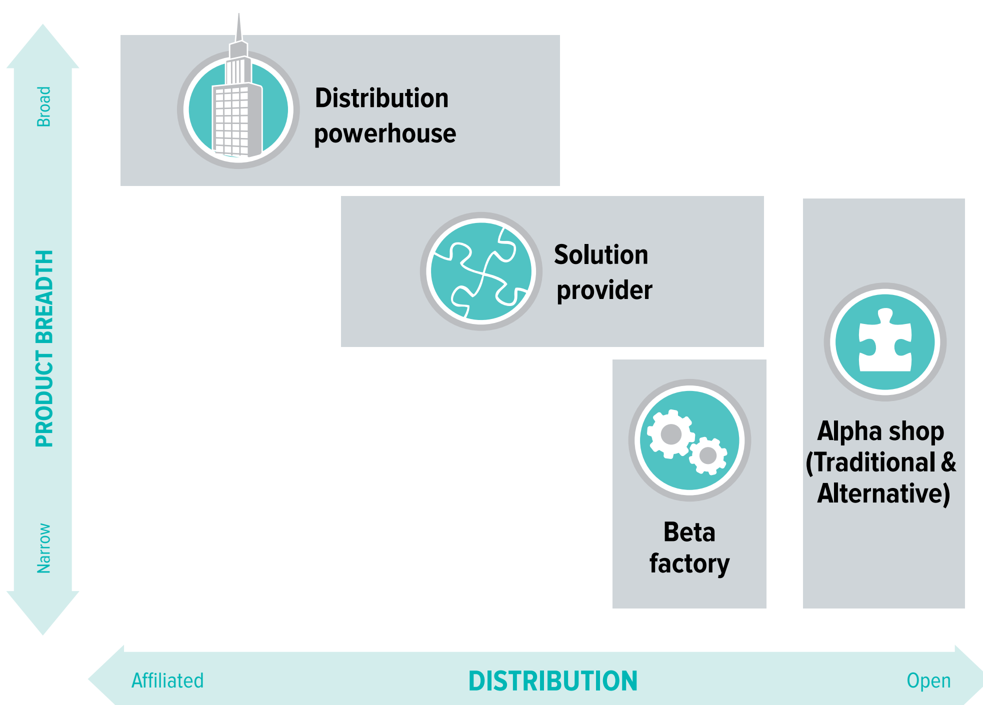
Revenue margins continued to tighten. Margins dropped to 27.7 bps from 28.1 bps. Profits, however, are still attractive. While the industry's global profit pool grew just 1% and reached only the 2007 level, operating margins are still at 37%. The challenge will be achieving sustainable growth in profitability when costs are rising faster than revenues. Asset managers will need profound cost-reduction efforts to adapt to decreasing fee margins.

The range of successful business models is narrowing. Challenging market conditions and sustained headwinds will stymie some business strategies. To win, managers must adapt or reinvent their operating models.

Opportunities can be found across the product spectrum. Passive products are growing strong. Alternatives are still viewed as delivering value, especially real estate and private equity; that is less true of hedge funds, but some strategies are working. Active specialties and solutions, such as LDI and balanced strategies, are growing. Meanwhile, traditional active core products continue to be squeezed, and have dropped from 58% to 39% of global AUM in the last 12 years. But they remain the largest product segment and are growing in absolute terms, having grown from $20 trillion in 2003 to $28 trillion in 2015. Managers will need a distinctive and focused value proposition to compete in that category.

A few areas stand out as needing improvement. Many players still lack a comprehensive holistic risk management framework. Managers often overestimate their go-to-market capabilities. Also underestimated is the importance of understanding their target client segment and how to engage with clients in the way they want. This is common sense and can yield great insights, but few firms do it well.

Winning asset management models of the future



Ignite Change through Speeches, Stories, Ceremonies and Symbols

NANCY DUARTE
CEO, Duarte, Inc.

When a leader proposes a new idea into someone's life, it requires them to change. Great leaders know how to make that change palatable through stories and storytelling.

Stories are repeatable. They also have a familiar format and pattern — a three-act structure that goes back to Aristotle. In the beginning, the protagonist is the likable hero. The hero encounters roadblocks in the middle act, and then emerges transformed at the end.

Stories can transport. Most of us are in an analytical and critical state most of the time. Brain scans show that when we're telling or being told a story, the sensory parts of the brain fire, too, so we are more open because our critical nature is suspended. Stories can also motivate. When you ask people to execute on your change, you are asking them to take an inner journey where a commitment needs to happen for change to take hold.

People don't often think of speeches and presentations as having a beginning, middle and end. But the ones that tell a persuasive, credible story do have a dramatic arc — a building and releasing of tension — as well as a cadence and rhythm. Some years ago, Nancy set out to analyze how this structure works. She looked at 100 of the most renowned speeches of all time, from Martin Luther King's "I Have a Dream" speech to Steve

> "Managers manage what is; leaders create what could be. They create the future by communicating new ideas — but that requires people to change. How do great leaders inspire and motivate that inner journey?"

Jobs' iPhone introduction. What she discovered is that they all share a certain pattern of storytelling.

Great speeches start with *what is*. Then they introduce *what could be*, helping the audience to see the alternative state. Sometimes the rhythm has a tight frequency; sometimes it's looser. The presentation ends with what she calls the "new bliss"— and you want that last thing to be magnificent.

A similar three-act structure applies to ceremonies, which are about endings and beginnings. Ceremonial rituals are found among every culture in human history. You show up, a ceremony happens, and you're married or you come of age. We need ceremonies in business, too, as a way to mark "that thing is old, this thing is new." When Steve Jobs needed millions of people and developers to move to Apple's new OSX, at a time when it wasn't clear the firm would survive, he wrote his commitment to a single-system strategy down as a vow to developers on parchment paper and literally buried the old OS in a coffin, giving it a dramatic eulogy. He never said the words "Mac OS9" in public again. It had ended.

The S-curve of innovation can also be a three-act story. You cast a new dream, and in the gap between the beginning and the ending is a messy middle. Your travelers (co-workers, peers, employees, whomever) fight for your dream, and you need to communicate so they want to come along with you. You can see the climb, the struggle, the soul-searching. At the end you arrive, and usually you win, but sometimes you don't and you need time to reflect.

Analysis shows that many of history's greatest orators used similar patterns of persuasion, alternating "what is" with "what could be."

When you're a business leader, you are creating movement, and you need the right emotional climate for the moments of decision, inspiration, bravery, endurance and reflection that change requires. A plan for communicating authentically and empathetically can help you create moments that fulfill those emotional needs.

Body 3.0

NINA TANDON
CEO and co-founder, EpiBone

We're in the midst of a revolution in how we repair the body.

Body 1.0 was the era of man as mystery. We celebrated the body's form and function, and if something was wrong, we ignored it and hoped for the best.

Body 2.0, man as machine, came from the industrial age. If something was wrong, we went to the body shop and fixed it with an artificial heart or joint replacement.

Now we're moving into the age of Body 3.0 — man as ecosystem. We are made up of trillions of cells that conspire to keep us alive, and most of them aren't even human, they're bacteria. When we want to repair the body, we can think like gardeners rather than mechanics.

EpiBone combines regenerative medicine and digital fabrication to provide living tissue that can serve as skeletal replacements. What's more, this tissue is made from your own stem cells, so there is no risk of rejection. We use a four-step process:

- CT scanning to extract the shape of the bone we need to replace
- 3D design, creating a personalized bone scaffold and bioreactor
- Harvesting of patient cells through liposuction
- Maturation of cells in the scaffold, which takes one to five weeks in our bioreactor

> "Our bodies are filled with intelligent living cells. If we collaborate them, we can generate amazing technologies — and the better we are at copying nature, the better we can do our work. Our cells are the heroes!"

> “I do think science is storytelling. I didn’t tell investors they would get a return. I said, ‘If you’re interested in WhatsApp, walk away. We’re slow and steady, we’re science nerds, and we are aiming to help humanity.’”

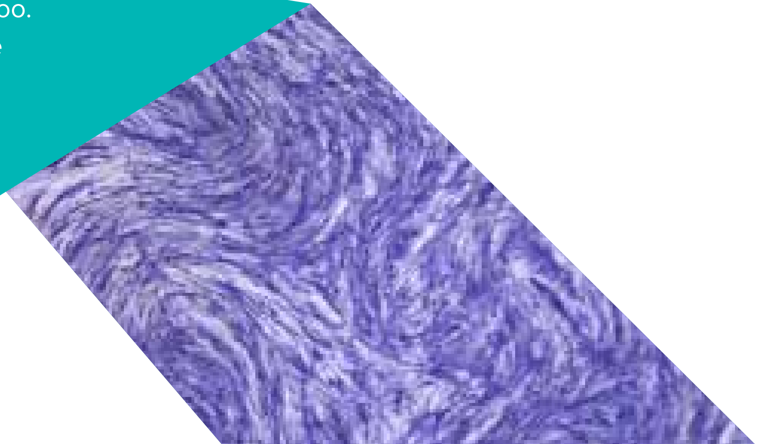
The result is living tissue ready for transplantation. The benefits are a precise fit, with bone grafts that are made from your own cells. The bone is alive, so it connects to what is there, is filled with functioning blood cells, and can continue to grow and remodel. People get hurt younger in age yet live longer. We need implants that last as long as we do. This is personalized medicine at its core.

This technology has application to about 2 million U.S. cases per year. Our process is based on 15-plus years of government-sponsored academic research and animal trials. We have published it in scientific literature, raised seed round funding, and are about a year from clinical trials. A key component is our patented bioreactor, which mimics conditions of the human body, providing oxygen, nutrients and controlled delivery of mechanical stress.

The bigger story here is an industrial revolution about life itself. Our bodies are living factories, and we can do much more with those cells. The heart gives off electrical signals that are one hundred times stronger than the brain’s; imagine plugging into nature rather than the wall!

We can also grow unhealthy tissue to help us understand disease and shortcut the drug develoment and testing process. Why not use biotechnologies to grow leather and steaks directly, to mine minerals from desalination brine, or to extract energy from plants? Biology is merging with traditional data and electronics to transform our industries and our quality of life.

EpiBone has an artistic side, too. Its artists in residence capture memorable images from processes involving human stem cells, cartilage and bone microscopy.



The Rise of Artificial Intelligence in Financial Services

KIM NEUWIRTH
Director of product management, Narrative Science

Between industry consolidation, the declining share of fund flows to active managers, and hedge fund downturns, many asset managers are under pressure. To compete, they need to gain scale, increase operational efficiency and personalize communication.

Artificial intelligence (AI) can help. The data explosion has made AI more effective—and more necessary. It has also become more accessible thanks to faster, cheaper processing power.

AI is a complex landscape of multiple technologies solving diverse problems. The common thread is computers that can do things normally done by people acting intelligently. Examples include machine learning, evidence-based reasoning, natural language generation from structured data, text mining, predictive analytics, recommendation engines and self-driving cars. AI has three core functions: assessing the situation, predicting the future, and advising in the context of a business goal—and it can now do this in natural language, so advice is more useful.

Nearly one-third of financial services firms say they are using AI today, especially for risk management, compliance and trading. About 13% are using it to enhance productivity by, for example, automating data analysis or portfolio commentary. This could help cut costs and lower fees, which surveys show are a key factor in investor satisfaction. Fraud prevention is another rapidly growing use.

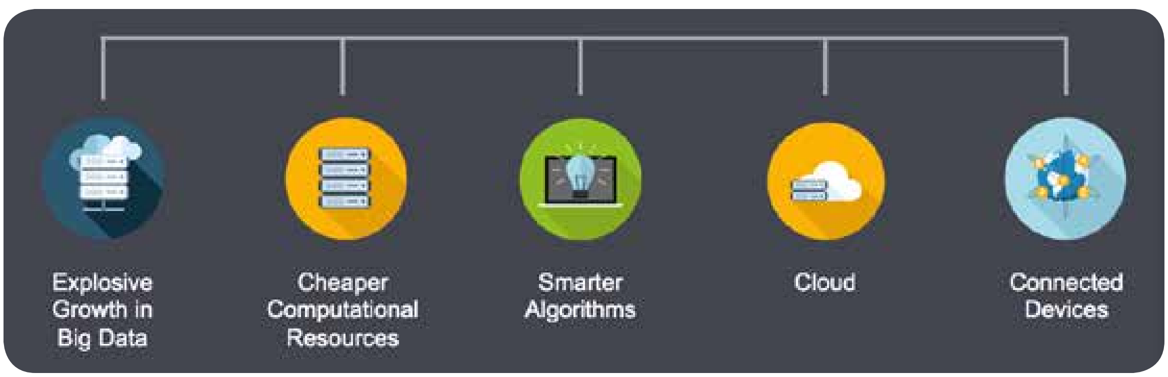
> “AI revenues are forecast to grow from $8 billion in 2016 to $47 billion in 2020, and banking is among the top two industries leading the charge.”

Personalizing the customer experience is one of the most promising applications, and this is an area where investment firms have much work to do. Surveys show consumers spend 80% of their time in three applications, and not a single financial services firm made the top 25. AI can help engage with your clients and meet them where they are. As a firm specializing in natural language generation, Narrative Science believes the future is conversational and interactive. This helps democratize AI, allowing everyone to use it.

There are certainly hurdles along the way. Data is often widely distributed and in silos, requiring a centralized data management strategy. Data science talent is in short supply, and data governance typically isn't well defined. Adoption of AI is also hindered by the lack of clear business goals and a vague understanding of technologies.

To fulfill the promise of AI, businesses need the "lean workflows" mindset that comes with the technologies. Four of the world's five largest companies by market cap are technology firms, and they do think differently. Part of that is the "How do I fail…fast?" mentality embraced by Silicon Valley.

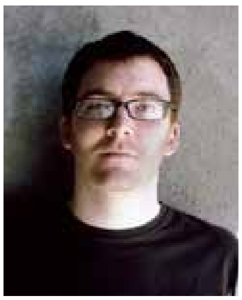
The industry has spent 50 years teaching people to think like computers. Now we're teaching computers to think like people.



Converging trends will drive explosive growth in use of artificial intelligence across industries—and financial services is one of the top two industries leading the charge.

Sex, Lies and Data Mining

LUKE DUBOIS
Composer, artist and performer



Luke DuBois is a kind of artist who couldn't exist until recently—one who doesn't draw, paint or scuplt, but instead uses data to explore and portray our culture. His extensive body of work ranges from musical composition and performance to large-scale public installations, film and computer works.

Luke's approach began taking shape when he was a young musical performer looking for ways to enliven gigs and involve the audience. He became intrigued by ways of visualizing and manipulating sound. An early effort was producing a speeded-up version of Handel's *Messiah*, crunched down to five minutes, for the Christmas mix he gave to his friends.

He began doing projects about lists of things, and saw how they could radically distill historical eras and cultural phenomena. A video that compiled five-second clips from each Academy Award-winning motion picture—75 movies in all—functioned as a condensed history of film editing. A 50-second tour of 50 years of Playboy magazines he describes as "the history of airbrushing."

> "At some point I jumped over the hurdle and realized: This appliance I use to do my taxes can also be used to make art."

He moved into more ambitious projects, such as a three-day performance staged at a traffic island off Union Square in Manhattan. He and a female collaborator set up a boudoir in the island and shot 72 hours of video that was condensed into 72 minutes. The film was manipulated so that traffic and passers-by are speeded up, but the woman in the makeshift room appears to be moving at a normal pace, creating "a symphony of a person and the city."

For the 2008 Democratic Convention, he wanted to do something with words and the presidency. Keying off the word "vision," he borrowed the format of the Snellen eye chart, and stack-ranked the words by their frequency of use in each president's State of the Union address. The piece is titled "Hindsight is Always 20/20."

Wanting to work with a popularly-generated data set, he joined 21 online data services, profiling himself in varying combinations of gay/straight/male/female. He downloaded 19 million profiles, equivalent to about 20% of the nation's single adult population. Linking language to cartography, he then mapped the words people most commonly used to describe themselves in each zipcode. The result was "A More Perfect Union," a series of maps with place names such as "Deeply, California" and "Heartbreak, Washington." Each one offers, perhaps more realistic, glimpses into a region's economy and history, as well as its version of the country's zeitgeist.

"Hindsight is Always 20/20"

"A More Perfect Union," Washington State analysis

Is There a Future for Active Asset Management?

RODGER SMITH
Managing director of Investment Management, Greenwich Associates

The industry is at an inflection point as it enters the mature phase of its lifecycle. Client expectations have shifted permanently and industry dynamics are challenging. Still, many remain optimistic about the outlook for active management. Market share and cost will be key.

The market climate is challenging: macro forces, low interest rates, increased regulation and heightened competition have led to lackluster relative investment performance, especially in liquid, transparent categories. The percentage of actively managed U.S. equity funds outperforming the S&P Composite 1500 dropped from 52.3% in 2003 to 9.8% in 2016. And the shift toward passive management is unmistakable. Between 2012 and 2015, the active share of portfolio allocations fell from 79% to 67%, and active U.S equity allocations went from 62% to 41%.

But there are reasons for optimism. Assets in active strategies are still growing, if more slowly than total assets. Some illiquid and opaque markets are not conducive to passive strategies. Innovators keep delivering new solutions to client challenges. While not as robust as before, margins are still in the high 30s. And active managers can develop new distribution and engagement models.

Active managers who want to succeed will need to change their approach and relationships. It starts with understanding the complex issues institutional

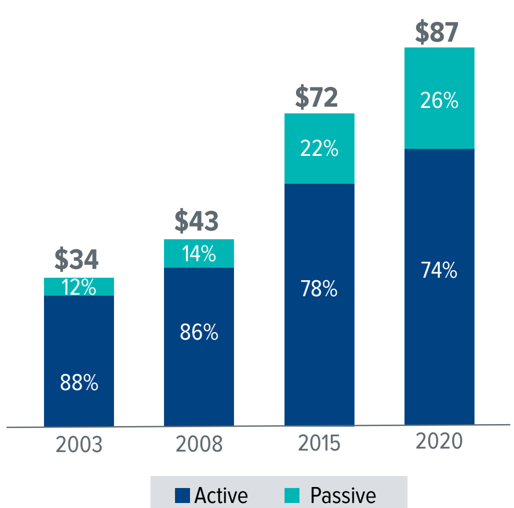
> “The industry has focused on the product side. To succeed in the future, active managers will need to help institutional clients solve their holistic issues.”

investors are facing, including plan funding levels, liabilities, risk and the political environment. Active managers also need to address:

- **The disconnect between their offerings and client needs.** Managers should look beyond alpha, because the focus on relative performance hasn't been good for either side.
- **Investors' needs for better outcomes.** Traditional constructs are breaking down as institutions seek next-generation products and more advice and counseling from managers. They also want more delegation (e.g., outsourced CIO and productized solutions), but with better connections and less reliance on trust.
- **A more demanding sales process.** The sales cycle is longer, and branding, having a differentiated value proposition, and actively managing the pre-sale experience have become key. Surveys show that prospect decisions are 57% complete by the time of the first meeting.
- **A shifting opportunity set.** Investor allocations vary greatly among global regions and are changing markedly in the U.S. Mature product categories are showing a cyclical upturn in hiring, but the majority are replacement hires.

Rankings of industry leaders have changed every decade, but Blackrock and Vanguard are not going away. Fortunately, you don't have to be big to succeed. The winners will be specialists who partner with clients in complex areas and solution providers who add value in a cost-efficient way. Competitive managers must understand their unique competitive advantage, pursue opportunities adjacent to existing business, embrace client-centricity, and prove their differentiated advantage.

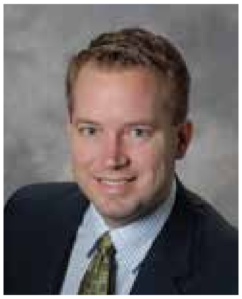
Global AUM ($ trillions), by Product and Allocation



Active management has a shrinking share of the asset pie, but it remains the largest segment and is still growing significantly in absolute terms.

Alternative Investments – Trends, Opportunities and Challenges

KEN HEINZ President, Hedge Fund Research, Inc.
MARK O'HARE Founder & chief executive, Preqin



Hedge Fund Trends, Opportunities and Challenges

KEN HEINZ
President, Hedge Fund Research, Inc.

2016 was a year of fear, greed, surprises and records. Short, volatile intra-year cycles led to a pattern of oscillating performance and underperformance. Many of the trends we're now seeing are cyclical, and due to interest rates and markets trends. Here are some takeaways:

Hedge fund assets are at record highs and hit the $3 trillion mark in 2016. Overall, investors redeemed $70.1 billion, or 2.4% of total assets, in 2016, the largest annual outflow since 2009. The total number of funds leveled off, while funds of hedge funds continued to consolidate.

Hedge funds gained 5.5% for 2016, based on the HFRI Fund Weighted Composite Index. The fact that the HFRI outperformed global equities for the year was widely overlooked amid the disproportionate attention to negative news. While individual managers' results varied, out of 27 hedge fund strategies, 26 had positive returns.

> "The conversation around fees is an opportunity to solidify client relationships: Here's what we see. What's important to you, and how can we help you meet your goals?"

Average management and incentive fees are trending downward for single-manager funds (both established and new). There is tension around investors' reactions to fees, driven by the eight-year bull market for equities. This is a good time for managers to have a healthy discussion of the issue with clients. Remember that the person interacting with the hedge fund manager may have several layers of bureaucracy over him/her, all looking for a number.

Financial markets are normalizing, as interest rates rise and stimulus measures are removed. This creates conditions conducive to hedge fund performance. Some optimism in equities is warranted, and there will be opportunities in thematic and other trades.

Four defining trends shape the 2017 outlook. The unwinding of these trades is presenting opportunities many people are overlooking.

Trend	Catalyst	Opportunity
Trump Trade	Some sell-offs, pullback from broad market rally	Capitalize on intra-year cycles
Yellen Trade	Rising interest rates	Macro, relative value arbitrage
Brexit Trade	Rising interest rates, volatility	Macro
EU Trade	Higher volatility due to major elections, debt issues	Macro

The State of Private Capital Markets

MARK O'HARE
Founder & chief executive, Preqin

Investor portfolios are becoming more diversified, to the point where alternatives are no longer alternative. Some 80% of institutions now hold alternatives, and 50% of them invest in three or more alternative asset classes, up from 42% last year. The most popular asset classes are real estate and private equity, held by 61% and 57% of institutions, respectively.

Alternative AUM reached a record high of $7.7 trillion in 2016, and during the 2005-2016 period, private capital AUM grew from $1.2 trillion to nearly $4.5 trillion (including dry powder, and not including separate accounts and co-invested funds). Strong returns are driving rapid asset growth, especially in private equity, real estate and private debt. Amounts of dry powder are substantial and growing, but are trending downward relative to prior year capital calls.

Spotlight on private equity:

- Investors expect better returns from private equity than public markets. Nearly half expect a performance advantage of at least 400 bps.
- Private capital has outperformed over the long term. Since 2000, returns of a proxy index, the PrEQIn Private Capital Quarterly Index, representative of about 70% of private capital, have been about double those from the S&P 500. Moreover, all private equity strategies outperformed the S&P, including buyouts, venture capital, funds of funds and secondaries.
- Investors report high satisfaction levels with their private equity returns; 71% of those interviewed said returns met their expectations, and 24% said their expectations were surpassed.
- Private equity net cash flows have rebounded dramatically since the financial crisis, when managers called up more money than they returned. Since 2011, there has been a "tsunami of cash" coming back to investors, starting in the U.S. and moving to Europe.

> "Valuations are high, and investors and managers are cautious. But excellent long-term returns continue to drive rapid asset growth."

Key developments and challenges:

- **Private equity** – Investors say they like small- to mid-market buyouts, but are focusing capital on bigger funds, which are viewed as a safer bet. Funds are showing high persistance of performance, and competition for good investments is intensifying. Trends are toward more co-investing and more new structures, including bespoke solutions.
- **Real estate** – The story is positive, but as many investors are scaling back as are increasing allocations. The asset class has had a good run and opportunities are hard to find.
- **Other asset classes** – Infrastructure and private debt are both on the upswing. Private debt is growing quickly, and could grow as large as private equity. Natural resources is a tougher segment.

Institutional Plans for 2017 – Relative to Past 12 Months

Invest Less		Invest More
11%	Private Equity	40%
38%	Hedge Funds	20%
25%	Real Estate	24%
12%	Infrastructure	38%
11%	Private Debt	57%
22%	Natural Resources	26%

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