Future trends in asset management: The great performance un-bundling

Ursula Marchioni
Managing Director, Head of BlackRock Portfolio Analysis and Solutions (BPAS), EMEA

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Big forces continue to bring changes ...

- Regulation
- Transparency
- Fee compression
- Bus. transformation

Lower for longer

Technology
... influencing asset and product choices ...

2019 Mutual fund flows per asset class, EMEA (USD mn)

2019 ETP flows per asset class, EMEA (USD mn)

Source: Broadridge FundFile for EMEA, APAC, Canada and Latin America Domestic data; SalesWatch Platform for Cross border data. Latest data as of November 19. Data includes MMFs and excludes FoFs. Fund Investor Type includes retail (and dedicated for UK only).

Source: iShares GBI, as at end December 2019.
... and supporting growth of indexing and ETPs ...

Global ETP Asset Under Management, per year (USD bn)

... which is still in its infancy

**US ETF market size, in the context of the total financial markets (USD)**

- Even within the United States – the largest ETF market – **ETFs are only a fraction** of the total financial market.

- Just **9% of the total assets** invested in U.S. equities are in U.S.-listed equity ETFs. The **fixed income ETF** market is even smaller, at **1.8%** of the total U.S. bond market.

We’re just not going to pay active fees any more unless the manager can deliver consistent alpha. We’re under pressure from clients because of cost, we’re under pressure from regulators because of cost, it’s not sensible to pay for beta at alpha prices”

–European Private Bank

Interviewed in Q4 2018.
The great performance un-bundling
We all know the theory ...

PORTFOLIO CORE PERFORMANCE

Broad Market Exposures

Strategic Factor Tilts

ADDITIONAL SOURCES OF RETURN

Security Selection

Market & Factor Timing

Portfolio Performance
Why now?

• End investors’ – and therefore AMs’ and distributors’ – focus is shifting towards **outcomes**, coupled with ...

• Greater **product choices** leading to...

• **Barbelling** of consumption of **asset allocation**
Active vs Passive is dead. Long live: Blending

**Strategies / vehicles mix: US Wealth portfolios**

- **Active Funds, 60.8%**
- **Index Funds, 20.2%**
- **ETFs, 18.9%**

**Strategies / vehicles mix: EMEA Wealth portfolios**

- **Active Funds, 82.4%**
- **Index Funds, 8.4%**
- **ETFs, 9.2%**

Source: Morningstar, as at April 2019. Note: Fund categories include open-end mutual funds (excluding money market funds and fund of funds) and exchange traded funds (ETFs) domiciled in the U.S., offered to both retail and institutional investors.Obsolete funds are also taken into consideration to calculate historical assets under management.

**NOTE:** McKinsey estimates that 75% of financial assets are managed directly by the asset owner with no external asset manager involved. Source: McKinsey & Company, Performance Lens Global Growth Cube. Data as of 2017.
What the future holds: Habits for success
Actively understand your portfolio

Shifting from traditional fund selection to holistic portfolio construction
Actively identify and combine sources of return

Recognising that 90% of portfolio variance comes from broad market exposures and strategic factor tilts

Actively use the whole investment toolbox

Steering toward greater indexing and a search for true alpha and alternatives
THANK YOU AND LET’S KEEP BUILDING BETTER PORTFOLIOS
Risks

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