

GLOBAL ASSET MANAGEMENT 2021

# The \$100 Trillion Machine

July 2021

By Lubasha Heredia, Simon Bartletta, Joe Carrubba,  
Dean Frankle, Chris McIntyre, Edoardo Palmisani,  
Anastasios Panagiotou, Neil Pardasani, Kedra Newsom Reeves,  
Thomas Schulte, Ben Sheridan



BCG

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we work closely with clients to embrace a transformational approach aimed at benefiting all stakeholders—empowering organizations to grow, build sustainable competitive advantage, and drive positive societal impact.

Our diverse, global teams bring deep industry and functional expertise and a range of perspectives that question the status quo and spark change. BCG delivers solutions through leading-edge management consulting, technology and design, and corporate and digital ventures. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, fueled by the goal of helping our clients thrive and enabling them to make the world a better place.

# Contents

**02** | Introduction

**22** | For Further  
Reading

**03** | A Snapshot of  
the Industry

**23** | About the  
Authors

**17** | Private Markets:  
Winning the  
Next Decade

# Introduction

**The asset management industry has emerged from the global pandemic in a position of strength, with assets growing by 11% in 2020 to end the year at \$103 trillion. Retail portfolios, representing 41% of global assets at \$42 trillion, grew by 11% in 2020, while institutional investments grew at a similar pace to reach \$61 trillion, or 59% of the global market. Retail investors were the main driver of net inflow, contributing 4.4% of net new capital in 2020, twice the size of the contribution made by institutional investors (2.2%).**

The world's largest asset management region, North America, delivered another year of double-digit growth in 2020, with assets under management (AuM) increasing by 12% to reach \$49 trillion. Growth was also strong in Europe (10%), Asia-Pacific (11%), and the Middle East and Africa (12%).

Yet across the board, profitability was largely flat in comparison with 2019, as costs and fee compression kept operating profits hovering at around 34% of net revenues.

As the global crisis recedes, it is becoming increasingly clear that asset managers are entering a new era that will require them to adapt to new ways of doing business. On the operations side, remote models for work and customer service have emerged as permanent fixtures. To remain competitive, firms must use advanced data and analytics for every process. On the revenue side, new asset classes, particularly within private markets and alternatives in general, will be crucial to growth during the next several years.

These new realities present challenges but also multiple opportunities for growth. Indeed, the next big task for all industry players will be to carve out a suitable growth strategy as they rethink every aspect of their business, from client engagement to investment products.

In BCG's 19th annual report on the global asset management industry, we look at some of the most promising ways that asset managers can become private market investment leaders. Strategies include developing such products for retail investors, gaining an edge in advanced data and analytics, and moving to the forefront of environmental, social, and governance (ESG) strategies for private market portfolios.

In spotlighting private credit, we discuss the manifold investment opportunities available in a rapidly growing asset class that currently has \$1 trillion in AuM. In addition, we examine the important role that asset managers have to play in steering their insurer clients into alternative strategies, as well as the industry's escalation into next-generation distribution.

**The industry faces a time of unprecedented demands that will produce new winners and losers.**

Asset managers that act as first movers and take advantage of growth opportunities are likely to establish a formidable edge well into the future.



# A Snapshot of the Industry

The year 2020 was a test of resilience for the [asset management industry](#), as it was for all sectors of the business world. The COVID-19 pandemic resulted in economic shocks and an altered state of work/life balance that turned the world upside down. And as we begin to envision the post-pandemic world, we can see that some of those adjustments will permanently reshape the way the asset management industry functions.

The changing environment will offer many opportunities for growth. Indeed, the next big challenge for industry players lies in carving out a growth strategy as they transform their business for the future, rethinking everything from client engagement to investment products. The asset management industry is coming out of the crisis in a position of strength, having proven its ability to weather precarious economic conditions. Now it faces a more fundamental test as new trends accelerate and new winners and losers begin to emerge.

## Global AuM Crosses the \$100 Trillion Mark

The total value of assets under management by the global asset management industry reached \$103 trillion by the end of 2020, an 11% increase from \$93 trillion in 2019. (See Exhibit 1.) Despite the heightened economic uncertainty and the initial shock that the pandemic caused, markets around the globe concluded the year with healthy returns.

### The MSCI World Index posted its second straight year of double-digit returns, gaining nearly 16%.

Although that was only roughly half the percentage it achieved in 2019, it was an impressive outcome under the circumstances. Strong market performance and favorable net flows contributed to the asset management industry's overall AuM growth.

Retail portfolios, representing 41% of global assets at \$42 trillion, grew by 11% in 2020, while institutional investment grew at a similar pace to reach \$61 trillion, or 59% of the global market.

Investor demand was high. Total global net inflows amounted to \$2.8 trillion and accounted for 3.1% of the total AuM at the beginning of the year. The prior decade's historical average has typically ranged between 1% and 2%, but recent net flows continued closer to 3%.

Retail investors were the main driver, contributing net flows of 4.4% in 2020, twice the figure for institutional investors (2.2%). Although different regions showed different investment patterns, the key contributors to aggregate flows globally were fixed-income products—which received additional support from various government stimulus programs—and money market funds.

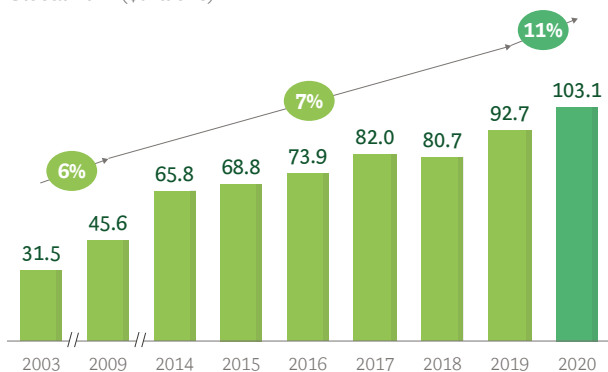
## Double-Digit Growth Continues in Most Regions

The world's largest asset management region, North America, achieved double-digit AuM growth in 2020, increasing by 12% to reach \$49 trillion. (See Exhibit 2.)

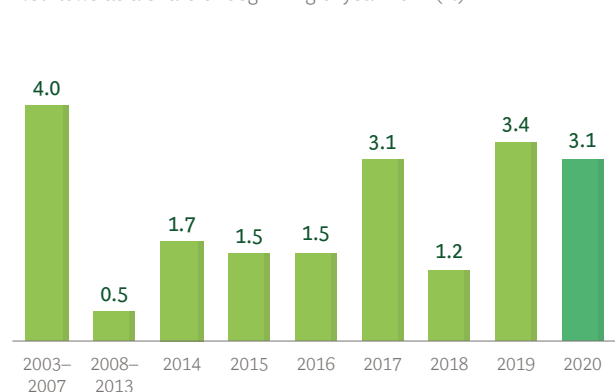
The US market, which accounts for over 90% of the region's AuM, held \$45 trillion in AuM at the end of 2020. Institutional assets in the US market remain slightly larger than retail, at 53% versus 47%. For the year, the institutional segment grew by 14% compared to the retail segment's 11%.

## Exhibit 1 - 2020 Saw Double-Digit AuM Growth and Healthy Net Flows

Global AuM (\$trillions)



Net flows as a share of beginning-of-year AuM (%)

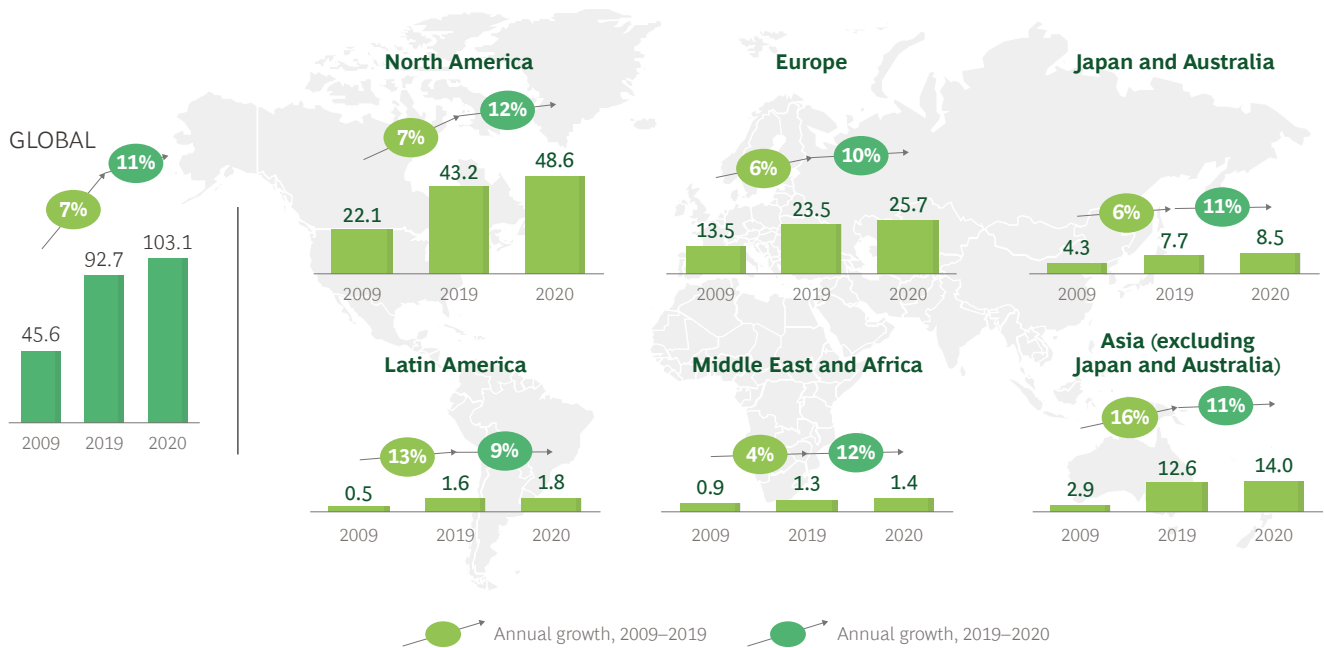


**Sources:** BCG global asset management market-sizing database 2021; BCG global asset management benchmarking database 2021.

**Note:** Market sizing includes assets professionally managed in exchange for management fees. AuM includes captive AuM of insurance groups or pension funds where AuM is delegated to asset management entities with fees paid. A total of 44 markets are covered globally, including offshore AuM. For all markets whose currency is not the US dollar, we applied the end-of-year 2020 exchange rate to all years in order to synchronize current and historic data. Values differ from those in prior studies because of fluctuations in exchange rates, revised methodology, and changes in source data. Flow analysis is based on our global benchmarking, which includes 151 leading asset managers, representing \$67 trillion AuM, or ~65% of global AuM.

# Exhibit 2 - Global AuM Exceeded \$100 Trillion in 2020, with North America as the Main Driver of Growth

AuM (\$trillions)



**Sources:** BCG global asset management market-sizing database 2021; Broadridge GMI; The Economist Intelligence Unit, Strategic Insight; Willis Towers Watson; local organizations, including regulators; press reports; BCG analysis.

**Note:** Market sizing corresponds to assets sourced from each region and professionally managed in exchange for management fees. AuM includes captive AuM of insurance groups or pension funds where AuM is delegated to asset management entities with fees paid. A total of 44 markets are covered globally, including offshore AuM (which is not included in any region). For Canada, France, Germany, Italy, Netherlands, Switzerland, the UK, and the US, AuM data until Q3 2020 is updated on the basis of local sources, and Q4 2020 AuM has been extrapolated on the basis of capital market performance and characteristics of the five-year-average of historic net flow rates. For Brazil and Mainland China, AuM data until Q4 2020 is updated on the basis of local sources. For all other markets, Q4 2020 AuM data has been extrapolated on the basis of Q4 2019 data, using capital market performance and characteristics of the five-year-average of historic net flow rates. North America = Canada and the US; Europe = Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Russia, Spain, Sweden, Switzerland, Turkey, and the UK; Asia-Pacific = Australia, Hong Kong, India, Indonesia, Japan, Mainland China, Malaysia, Singapore, South Korea, Taiwan, and Thailand; Middle East and Africa = selected sovereign wealth funds of the region and mutual funds, plus Morocco and South Africa; Latin America = Argentina, Brazil, Chile, Colombia, and Mexico. For all markets whose currency is not the US dollar, the end-of-year 2020 exchange rate is applied to all years to synchronize current and historical data. Values differ from those in prior studies as a result of exchange rate fluctuations, revised methodology, and changes in source data.

Despite many obstacles—including the drop in capital markets around the globe during the first quarter of 2020, various political and socioeconomic challenges, and increased volatility—the US market recovered to surpass pre-pandemic levels by the end of the year. Driving the recovery was a normalization of trading volumes that tempered volatility, a sharp market recovery in Q2, and growth throughout the remainder of the year.

For its part, the Canadian market reached a record AuM level of \$3.6 trillion in 2020. Unlike in 2019, its growth slightly outpaced that of its southern neighbor, at 14% versus 12%.

Although both segments grew at roughly the same rate throughout 2020, the Canadian market has seen gradual growth of the retail segment. Just over a decade ago, the value of retail assets in Canada was nearly 10% less than the value of institutional assets. While the growth over time has not led to a large shift in AuM magnitude, the rising share of the market and the increasing sophistication of retail investors present asset managers with an opportunity worth monitoring.

Europe, the world's second-largest asset management region, surpassed the \$25 trillion mark and grew by 10% in 2020, outpacing its historical 10-year average. Overall, Europe's growth lagged behind that of most other regions, but the top-performing individual markets—Germany, the UK, and the Netherlands—finished the year well above the European average.

In the UK, Europe's biggest market, total AuM grew by 10% during 2020 to reach more than \$6 trillion, despite the counterweights of Brexit uncertainty and the COVID-19 crisis.

The Asian-Pacific region as a whole experienced double-digit growth in 2020, with Japan and Australia—the most developed markets—capturing an 11% growth rate and reaching a combined AuM level of \$8.5 trillion. Developing Asia-Pacific countries grew at a similar pace of around 11%, which is below the ten-year average, to reach \$14 trillion at the end of the year.

Mainland China, the world's second largest asset management market behind the US, was primarily responsible for the growth in developing Asia-Pacific markets. China's AuM grew by 10% during 2020 to reach an estimated \$9.4 trillion. This growth, which excludes bank wealth management products and trust companies, is due in large part to retail investors, who account for 55% of AuM; these investors expanded their asset base by 18% to pass the \$5 trillion mark. A significant rise in mutual fund assets was a key element in China's retail investor growth.

Latin America was the slowest-growing region, with AuM increasing by 9%—a low rate by historical standards—to \$1.8 trillion. Brazil, the largest asset management market in Latin America, with \$0.9 trillion in assets at the end of 2020, holds 61% of the region's total AuM. Heavy investment in fixed income and strong market results in this asset class helped fuel the nation's AuM growth, which rose by 7%.

AuM in the Middle East and Africa, by contrast, rose by 12% in 2020. The key driver there was an increase in sovereign wealth fund (SWF) assets as global markets rebounded and oil prices gradually recovered from a steep drop in the first half of the year. Many SWFs had high equity exposure in developing and emerging markets, and both of these markets fared well as financial markets bounced back.

## Cost and Fee Pressures Cut into Profitability

The global asset management industry's profitability was largely flat in 2020 when compared to the prior year. Operating profits as a percentage of net revenues hovered at around 34%.

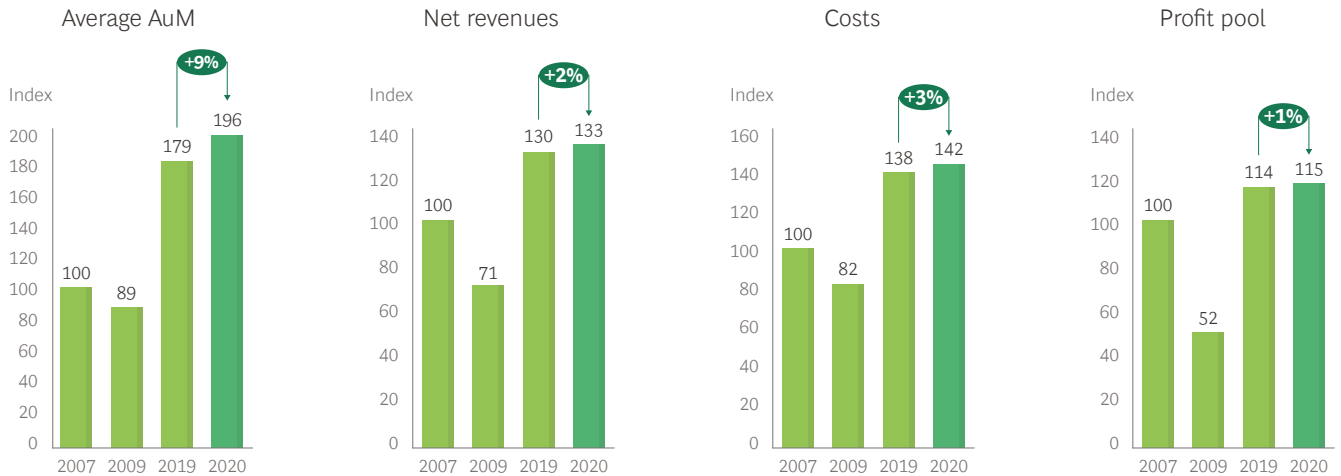
**On the one hand, the strong market recovery after Q1 enabled players to capture positive revenue growth of 2% on average for the year.**

Like other industries, asset managers captured select cost savings from developments related to the pandemic, such as minimized expenses for travel, personnel, and marketing. Even so, aggregate industry costs rose by 3% over 2019. (See Exhibit 3.) Although some of the costs—for example, higher telecommunications costs or additional investments in remote working models—may have been temporary, costs have been rising consistently over time as asset managers continue to invest heavily in new capabilities.

Despite year-over-year growth, the increase in revenues was not strong enough to offset fee compression, which persisted across asset classes but was most pronounced in the active space. Revenues as a share of average AuM decreased from 25.3 basis points (bps) in 2019 to 23.7 bps in 2020. The burden that asset managers face from pricing becomes more evident when considered over the longer term: revenues as a share of AuM have fallen by 4.6 bps over the past five years while costs as a share of AuM, have fallen by only 2.6 bps. (See Exhibit 4.)



## Exhibit 3 - Profits Increased by Only 1% Despite Strong AuM Growth

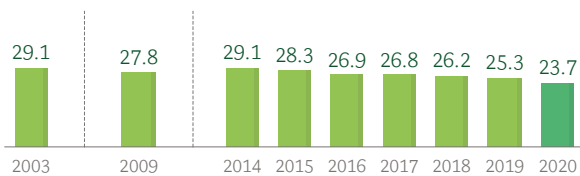


Source: BCG global asset management benchmarking database 2021.

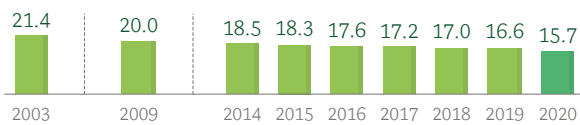
Note: Analysis is based on our global benchmarking, which includes 151 leading asset managers, representing \$67 trillion AuM, or ~65% of global AuM. This sample is weighted toward more traditional players and does not include pure alternative players, so those economics are not comparable with total asset management revenues based on our global product trend analysis. For values with fixed exchange rates, the year-end 2020 US dollar exchange rate has been applied to all past years to synchronize current and historic data. Historic data has been restated to maintain consistency of samples over time. Net revenues are management fees minus distribution costs.

## Exhibit 4 - Cost Measures Have Not Offset Fee Pressure, Leading to Flat Operating Margins

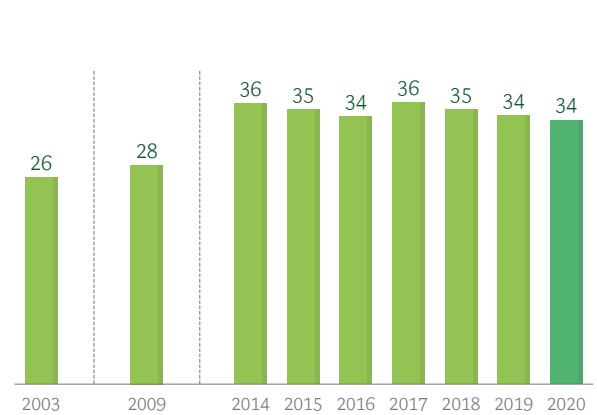
NET REVENUES AS A SHARE OF AUM (BASIS POINTS)



COSTS AS A SHARE OF AUM (BASIS POINTS)



OPERATING PROFITS AS A SHARE OF NET REVENUES (%)



Sources: BCG global asset management market-sizing database 2021; BCG global asset management benchmarking database 2021.

Note: Analysis is based on our global benchmarking, which includes 151 leading asset managers, representing \$67 trillion AuM, or ~65% of global AuM. This sample is weighted toward more traditional players and does not include pure alternative players, so those economics are not comparable with total asset management revenues based on our global product trend analysis. For values with fixed exchange rates, the year-end 2020 US dollar exchange rate has been applied to all past years to synchronize current and historic data. Historic data has been restated to maintain consistency of samples over time. Net revenues are management fees minus distribution costs.

## Passive and Alternative Investments Lead in Market Share

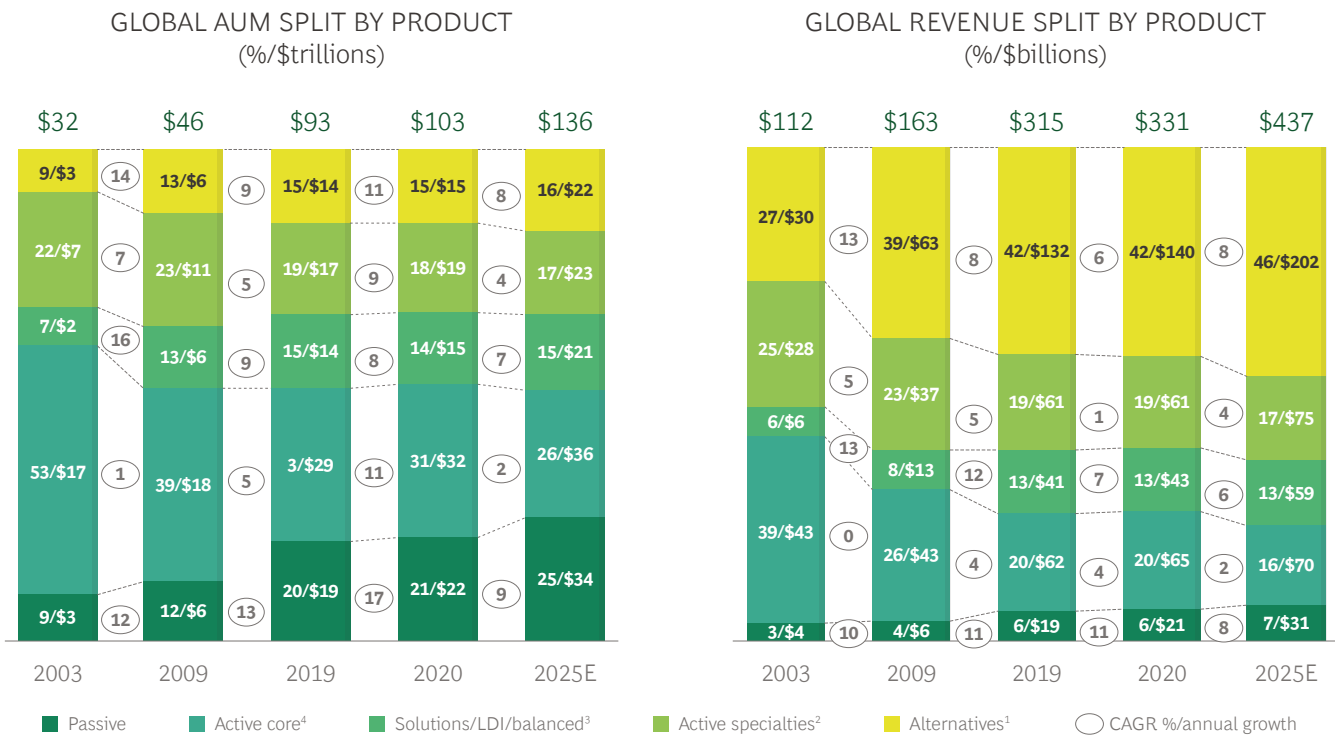
Most traditional asset classes generated double-digit growth in 2020, outpacing their five- and ten-year historical averages.

Among traditional active assets, the AuM for core products such as large-cap equity funds and domestic government-based fixed-income funds grew by 11% over the course of the year, roughly twice the five-year average. Money market funds, another core product, grew by 12%, thanks to their heightened popularity during the pandemic. Specialized active products such as emerging market equity funds and high-yield debt funds outpaced their historical trajectory, too, growing AuM by 9% in 2020, well above the historical five- and ten-year average of 5%.

Nevertheless, these two categories—which together represent nearly 50% of global AuM—produced largely flat revenues, owing to a combination of pricing pressure and the competitive nature of the actively managed space. Many asset managers talk about an active products renaissance, but we expect both active core and specialty products to be the slowest-growing product groups over the next few years in terms of AuM and revenue. As investor skepticism about the value that active managers bring to the table increases, net flows are likely to be weak or negative. As if to accentuate these concerns, many active managers failed to beat their indices in 2020 despite the volatility of the markets.

Passive investments, meanwhile, continue to sweep up assets. (See Exhibit 5.) These index-tracking products grew AuM by 17% globally during 2020 through a combination

## Exhibit 5 - Passive Assets Recorded Their Highest Growth in the Pandemic-Affected Year



**Sources:** BCG global asset management market-sizing database 2021; BCG global asset management benchmarking database 2021; Broadridge GMI; Strategic Insight; P&I; ICI; Preqin; HFR; INREV; BCG analysis.

**Note:** Compared to previous years, an improved methodology for allocating of global AuM across traditional product classes is based on input from Broadridge GMI. Because of rounding, not all bar totals add up to 100% or to the specified sum. LDI = liability-driven investment.

<sup>1</sup> Includes hedge funds, private equity, real estate, infrastructure, commodities, private debt, and liquid alternative mutual funds (such as absolute return, long and short, market-neutral, and trading-oriented); private equity and hedge fund revenues do not include performance fees.

<sup>2</sup> Includes equity specialties (foreign, global, emerging markets, small and mid-cap, and themes) and fixed-income specialties (emerging markets, high-yield, flexible, inflation-linked, and structured finance - asset-backed securities).

<sup>3</sup> Includes target-date, target maturity, liability-driven, OCIO, multi-asset balanced, and multi-asset allocation.

<sup>4</sup> Includes actively managed domestic large-cap equity, domestic government and corporate debt, money market, and structured products.

**Most traditional asset classes generated double-digit growth in 2020, outpacing their five- and ten-year historical averages.**



of strong net inflows and market growth. Exchange-traded funds (ETFs) had a particularly remarkable year. Both equity ETFs and fixed-income ETFs beat their ten-year average growth rates, capturing AuM growth of 21% and 24%, respectively. Non-ETF passive offerings also performed well. The AuM for passive equity and fixed-income products in this category grew in the mid-teens.

Although we expect passive investments to be the fastest-growing assets class over the next five years, expanding by 9% annually, the revenue story is different. Passive revenue as a share of the global asset management industry's total revenue remained largely the same from 2019 through 2020, at around 6%. We expect passive products to maintain a similar revenue share over the next several years, an indication of the already depressed pricing in this low-margin product category.

### **| The AuM for solutions grew by 8% in 2020.**

Although these products reached a peak from 2003 to 2009, when AuM nearly doubled, the solutions arena still presents opportunities for institutionally oriented asset managers, and we expect flows to remain strong. Customized solution products such as liability-driven investment (LDI) are in demand from pension plans and other institutional clients that want to hedge interest rate exposure, reassess portfolio glide paths, and ensure adequate liquidity to meet payments or outflows. Outsourced chief investment officer solutions remain in demand, too, especially from asset owners seeking even more complete solutions to navigating and addressing the uncertain future of the market.

Select alternative asset classes experienced muted growth in 2020, but the alternatives product category as a whole remained robust, growing at 11% for the year. Alternatives represent the largest revenue pool for asset managers globally, capturing more than 40% of all revenues across the industry despite representing only 15% of global AuM. Private equity (PE) had another strong year, with asset growth exceeding 20% after a resounding recovery from the downturn in the first half of 2020. PE can be a springboard for continued economic recovery, bringing investment and growth to some of the sectors that the pandemic hit hardest.

We believe that PE will continue to be the fastest growing alternative asset class over the next five years, as the overall universe of alternatives increases its share of both global AuM and revenue. (See Exhibit 6.) This is happening in response to market realities and regulatory change, presenting asset managers and other asset owners with a prime opportunity to capture growth, along with the challenge of developing the necessary expertise. (See the next chapter, "Private Markets: Winning the Next Decade," and the sidebar "How Asset Managers Can Deliver Alternatives to Insurance Clients.")

## **Finding the Path to Growth in 2021 and Beyond**

The asset management industry is rapidly transforming into a business where virtual and in-person services co-exist at a much larger scale than ever before, with a focus on digital capabilities fueled by strong data and analytics. But who is going to win in this new world?

No two winning asset managers look exactly alike. Effective products, strong distribution arrangements, a best-in-class operating model, and harmonized human capital are key elements, but multiple combinations of these pieces can yield a winning business model.

**Product Manufacturing.** Asset managers that generate a true edge in product performance have a unique advantage. Their business model usually includes strong sales and marketing teams that can readily explain the value proposition to clients. In the institutional space, these asset managers usually offer products designed to meet specific client needs such as liability matching or risk mitigation. Increasingly, however, retail managers are also creating their own customized offerings, especially when it comes to ESG products, thematic ETFs, direct indexing, and separately managed accounts at scale.

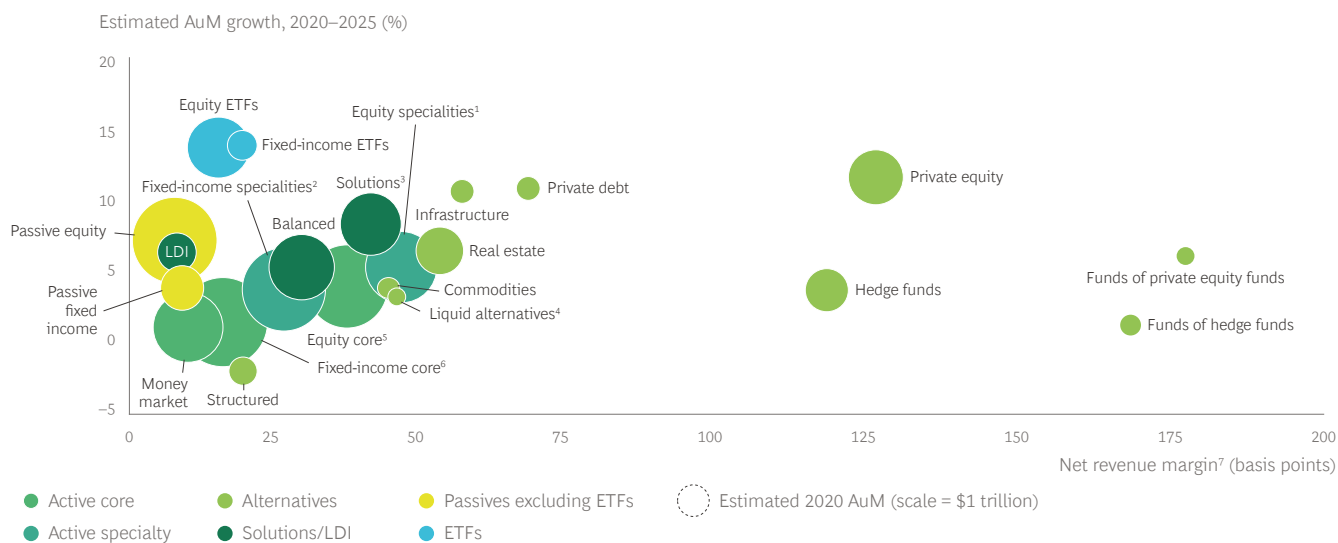
Asset managers seeking to excel at product performance cannot afford to overlook alternative assets as a growth opportunity, given the category's strong performance outlook and likelihood of becoming a feasible option for retail investors. Becoming a player in this category, however, will require a rigorous effort to determine whether the best route forward is to build the team organically, set up a partnership, or gain the capabilities through an acquisition.

**Value for Money.** Another winning combination consists of good performance and good value for the money. Most capital flows go to funds with Morningstar ratings of three stars or more, with at- or below-average pricing. Firms need to offer strong products and then work closely with the investment consultant community, as well as with the home offices of intermediaries, to ensure that their products are available at a time when supply is shrinking.

**Strong Distribution, Powered by Technology.** Distribution is currently undergoing a rapid transformation to digital. (See the sidebar "Next-Generation Distribution: People and Machines.") A number of players have shown their strength in this side of the business, and those in the lead share several key elements.

First, they recognize that retention is critical to continued growth, so they energetically protect their existing book. Second, they put a lot of thought into the issue of where best to apply technology, data, and analytics. Asset managers with an intermediary business recognize that their success may hinge on talent retention and tech-driven advisor enablement. Finally, they invest time and money in building and maintaining brand strength, a quality that becomes particularly important in times of crisis.

# Exhibit 6 - Double-Digit Growth Is Forecasted for ETFs and Select Private Assets



**Sources:** BCG global asset management market-sizing database 2021; BCG global asset management benchmarking 2021; Broadridge GMI; Strategic Insight; P&I; ICI; Preqin; HFR; INREV; BCG analysis.

**Note:** Compared to previous years, an improved methodology for allocating of global AuM across traditional product classes is based on input from Broadridge GMI; ETF = exchange-traded fund; LDI = liability-driven investment.

- <sup>1</sup> Include foreign, global, emerging-market equities, small and mid caps, and themes.
- <sup>2</sup> Include emerging markets, high-yield, flexible, inflation-linked and structured finance – ABS.
- <sup>3</sup> Include target date funds, target maturity and OCIO.
- <sup>4</sup> Include absolute return, long/short, market neutral, & trading-oriented mutual funds.
- <sup>5</sup> Include actively managed domestic large-cap equity.
- <sup>6</sup> Include actively managed domestic government and corporate debt.
- <sup>7</sup> Management fees net of distribution costs.

**A Fit-for-Purpose Operating Model.** In the past, most asset managers looked to their front office to build a successful business. More recently, however, some players have gained significant competitive advantage by redesigning their operating model.

One common strategy has been to build a business that is scalable, cost efficient, and able to respond quickly to changes such as new product launches and new regulations. The operating model emphasizes technological efficiencies, tech-led asset allocation tools, sophisticated data and visualization systems, alternative data sources, and a streamlined back office. Many managers have chosen to operate in an ecosystem of partnerships in which partners provide technology and operations functions at a fraction of what it would cost to do it alone. This approach allows the asset managers to focus on managing money, clients, and risk.

**Win with Talent.** Attracting the best talent has always been critical to attaining the best outcomes. Today, however, the “how” is much more variable than it used to be. COVID-19 has transformed how people work and, more importantly, how people prefer to work. In response, asset managers need to offer flexible ways of working to attract the top-notch, diverse talent they’ll need in an era when much of the work will occur offsite.

The sweet spot will remain a moving target as the asset management industry transforms to meet a future that is full of uncertainties. Firms that combine their strongest existing capabilities with the innovations they’ll need for tomorrow will have the best shot at winning.



## How Asset Managers Can Deliver Alternatives to Insurance Clients

Insurers, like other investors, find themselves under increasing pressure to deliver higher yields. Low interest rates have cut into their product margins, particularly in the case of spread products with long-term guarantees.

As insurers search for desirable investment targets, alternative investments could be an ideal match. Alternatives managers are eager to attract permanent capital, and insurers are accustomed to holding many of their assets to maturity to match their highly stable liabilities, which puts them in a good position to take on the illiquidity premiums.

Nevertheless, it is not always easy for insurers to implement an alternatives strategy. First, the high capital requirements can be daunting: in certain regimes insurers must maintain liquid reserves as high as 50% of portfolio assets. Second, insurers often lack the internal expertise to manage alternatives, so they need to work with third-party managers that are compatible with their statutory requirements.

Asset managers are in a unique position to help their insurance clients overcome these barriers. But asset managers must do much more than source and distribute alternative assets. They must take on an advisory role, proactively developing custom products to meet each client's particular business demands and risk profile, as well as to satisfy the regulatory requirements in their jurisdiction. Yet at a time when new asset classes are the most viable route to attractive returns and positive growth, asset managers who provide this much-needed expertise stand to establish strong long-term relationships with insurance asset owners.

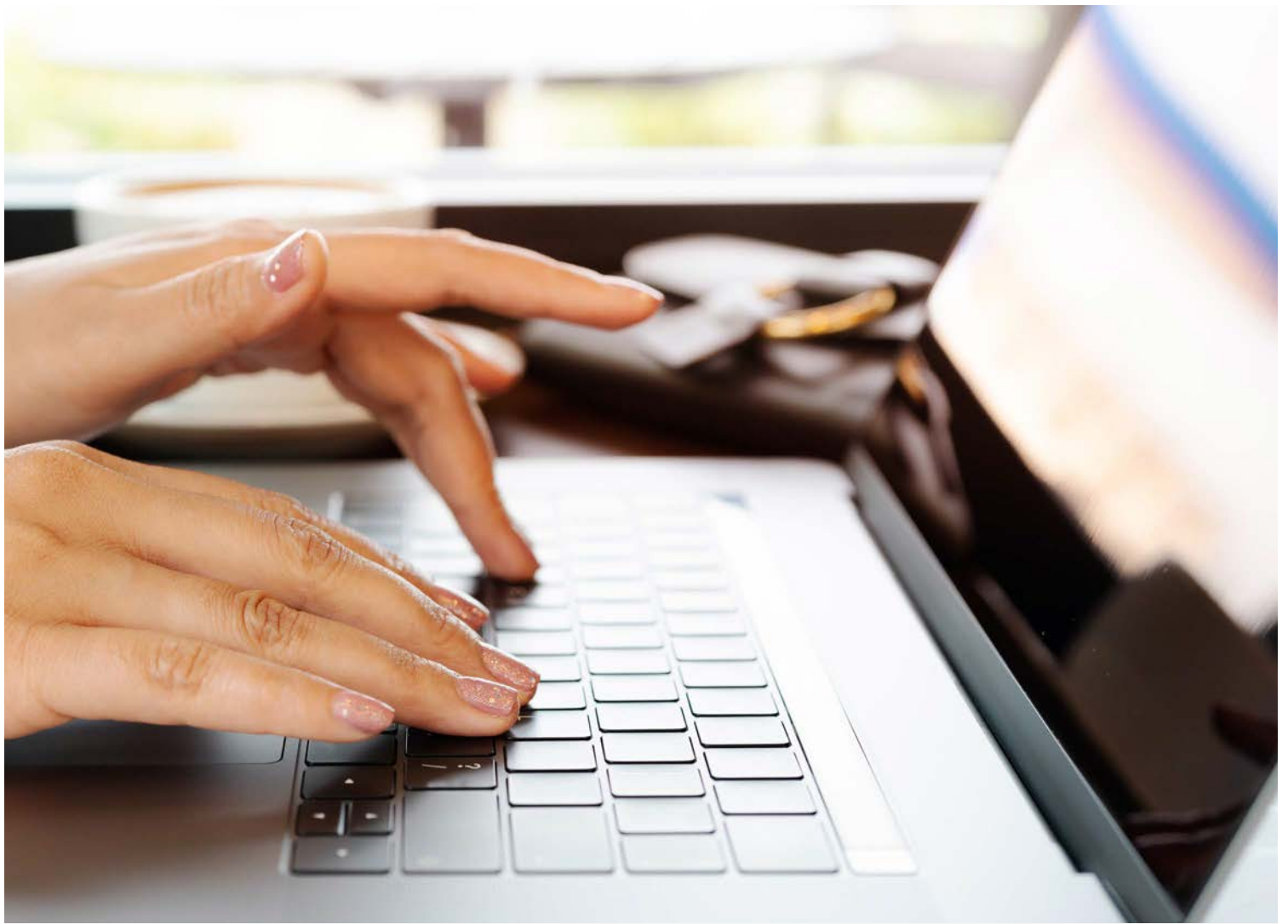
**Insurers are liability-driven investors and often differentiate their investment strategy according to the nature of their business.**

For example, UK annuity providers often prefer to invest directly in individual loans with specific lending features that enable them to precisely match their own liability duration profile. By doing so, they can earn an illiquidity premium without exceeding their particular risk tolerance limits. Continental European life insurers are happy to invest indirectly in certain alternatives—especially private debt or infrastructure—through managed funds, as long as the average credit rating and duration of the funds' assets fulfill the requirements specified by their risk management and investment policies. Asset managers must understand their clients' different market practices and investment philosophies in order to design tailored offerings.

Another key concern involves understanding the accounting and regulatory regimes where the insurer operates. Many jurisdictions—for example, the EU, the UK, and Singapore—have stringent requirements regarding the solvency capital that insurance companies must hold in case of unexpected losses. Regulations often link these requirements to asset rating, duration and sector, as well as to data availability. In the case of more complex transactions, the requirements might impose specific legal terms and conditions.

An asset manager might address such demands by providing a risk-modeling method that local regulators can approve, plus a structure for the assets that makes a high credit rating possible under local laws, so that the insurer doesn't face high regulatory capital requirements. We have also seen some asset managers securitize alternative loan portfolios in tranches designed to fulfill specific rating and cash flow demands. If the insurer doesn't have an internal rating methodology for a particular alternative asset class, the asset manager can develop a methodology in house, share it with the insurer, and help demonstrate its suitability to local regulatory authorities.

Developing an advisory mindset and the skills to go with it requires a long-term commitment to a new investment paradigm, as well as a new approach to the investor relationship. Yet this is where the best opportunities for growth lie—and once insurers take the initial plunge, they are likely to stick with alternative allocations. Asset managers who understand their insurer clients' needs and become leaders in designing customized alternative solutions will be able to ride a growth wave well into the future.



## Next-Generation Distribution

### People and Machines

The 2020 pandemic forced asset managers to accelerate transformation throughout their business, but nowhere has change been more of a priority than in the distribution function. The next generation of distribution will combine advanced digital capabilities with the human touch. (See [Exhibit A.](#)) As one asset management executive told us: “Overnight, everyone became a hybrid.”

The transformation goes well beyond videoconferencing, which has clearly become part of the new normal, to address more fundamental questions about improving distribution outcomes through the use of data, advanced analytics, and technology at scale. For example, an asset manager might use rich data signals to predict with 90% confidence that a financial advisor is likely to request a redemption. The manager can then deploy a sales representative at the right time to redirect the potential outflow into a product that better meets the financial advisor’s needs, based on what products are attractive to other

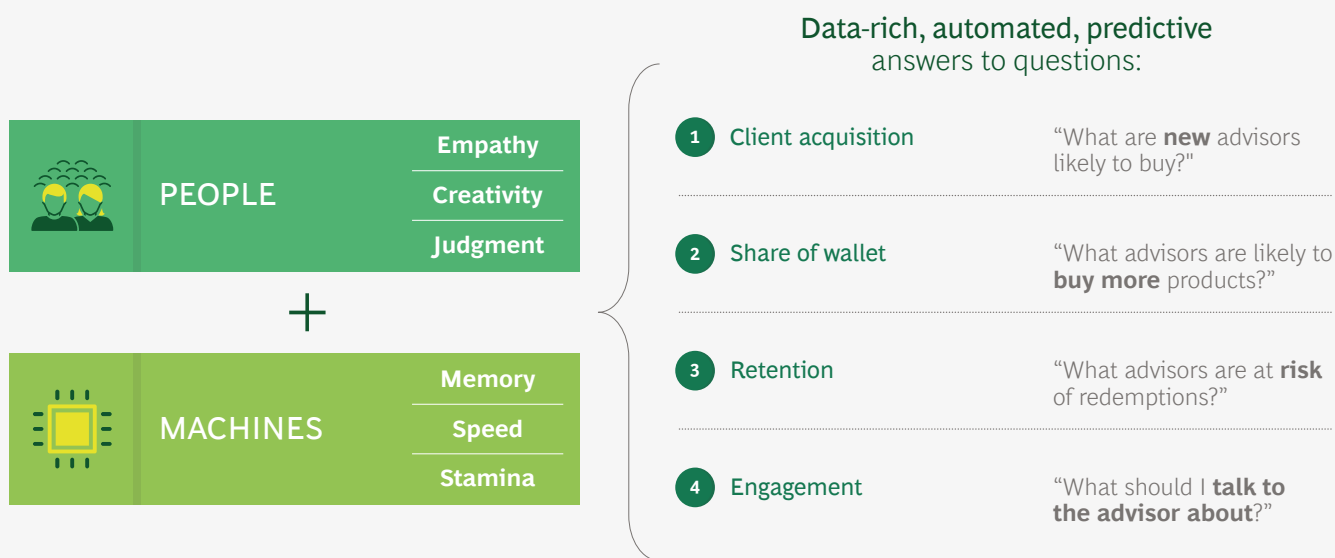
advisors with similar profiles—similar to Amazon product recommendations.

In a survey that BCG conducted in partnership with IMEA in 2021, asset management distribution leaders representing a combined \$10 trillion in AuM confirmed that the events of 2020 had significantly accelerated both the investment and the attention required to achieve next-generation digital distribution capabilities.

Before last year, 75% of firms said that they were using digital distribution capabilities with no more than 25% of their clients. Today, 75% of firms report using digital distribution capabilities with at least 25% of their clients. Fully one-third of firms are using them with 50% to 75% of their clients. In addition, 54% of firms are creating “primarily digital” segments to serve clients with limited in-person interaction.



# Exhibit A - Next-Generation Distribution Combines the Power of People and Machines



Source: BCG analysis.

The digital transition has commanded the attention of C-suite leadership. In our survey, 95% of distribution leaders said that improving digital distribution capabilities is now a “top of house priority.” The value at stake is high. Firms are targeting a revenue lift of up to 10% from their digital initiatives, in addition to cost savings from greater efficiency in resource redeployment.

With recent advances in data quality and analytical capabilities, such as machine learning and natural language processing, the achievements gained from digital distribution have been impressive. Asset managers have been able to reduce redemptions by 5% to 10% through predictive modeling and targeted interventions. Internal sales team cross-selling has increased by 20% through the use of smart targeting product recommendations. By hyper-personalizing content delivery, firms have improved their engagement metrics, tripling their previous email-open rates and doubling their previous click-through rates. (See Exhibit B.)

**Best of all, asset managers can achieve these results in months, not years, by using lightweight data and technology stacks and off-the-shelf components, which reduce the need for multiyear transition programs.**

Ultimately, though, the effectiveness of distribution transformation depends on the willingness of the sales and marketing teams to adopt the program at scale. Conse-

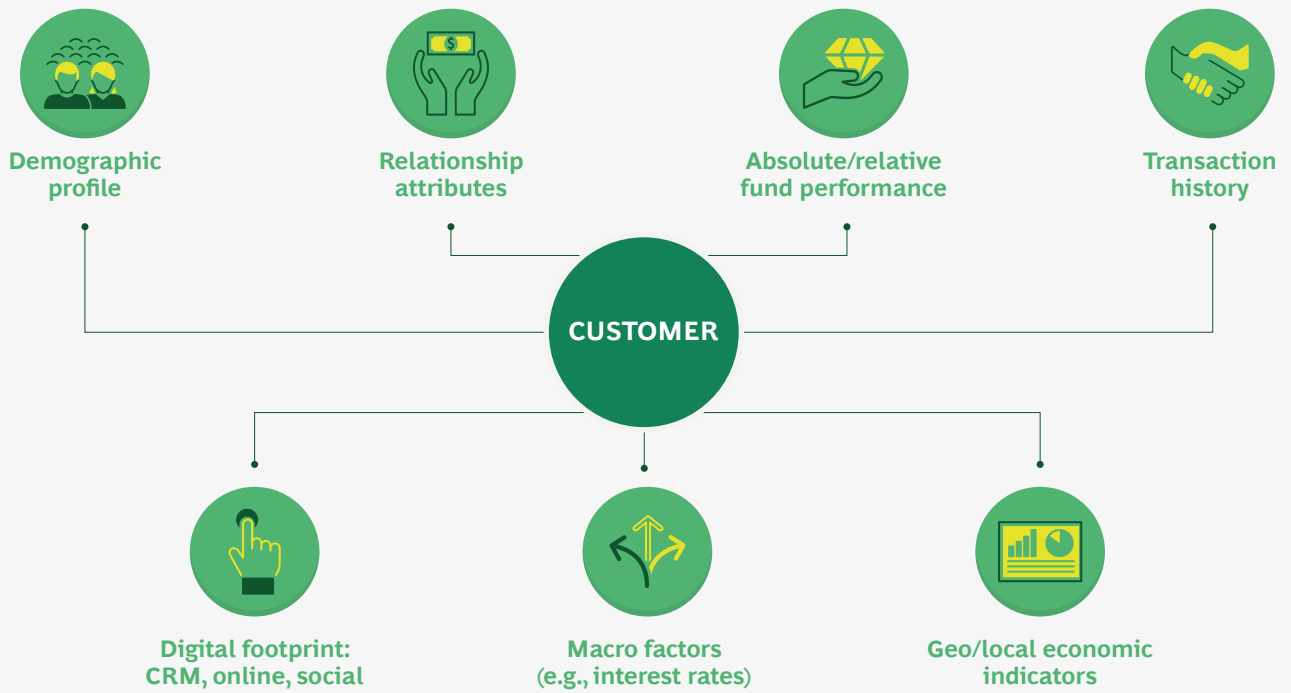
quently, the firm must focus on change management from the start to get it right. Asset managers should consider a range of initiatives, including embedding frontline teams in the design process, providing formal training, rewarding and promoting early adopters, and designing pilot programs to introduce and test the new system.

Next-generation capabilities will have a profound effect on the traditional distribution operating model. Imagine a world in which a client taps into an app that explains, in plain text, which actions to take and why—and then, with the click of a button, deploys a vast array of personalized content or schedules a meeting with a product specialist. All of this is possible today.

These new digital capabilities will force asset managers to address a battery of questions and in many cases to reconsider their existing business model. What kinds of talent do they need in the digital world? How many people? Do traditional regional structures still make sense? What is the difference between sales and marketing?

The transformation must be rapid and all-encompassing. Everyone throughout the organization must be willing to work outside the legacy systems—a requirement that often meets with resistance that slows progress. Firms that move quickly will create a formidable relationship edge with their clients, however, and second movers will find that edge difficult to overcome.

# Exhibit B - Personalized Engagement Is Enabled by Data and Predictive Analytics



Source: BCG analysis.



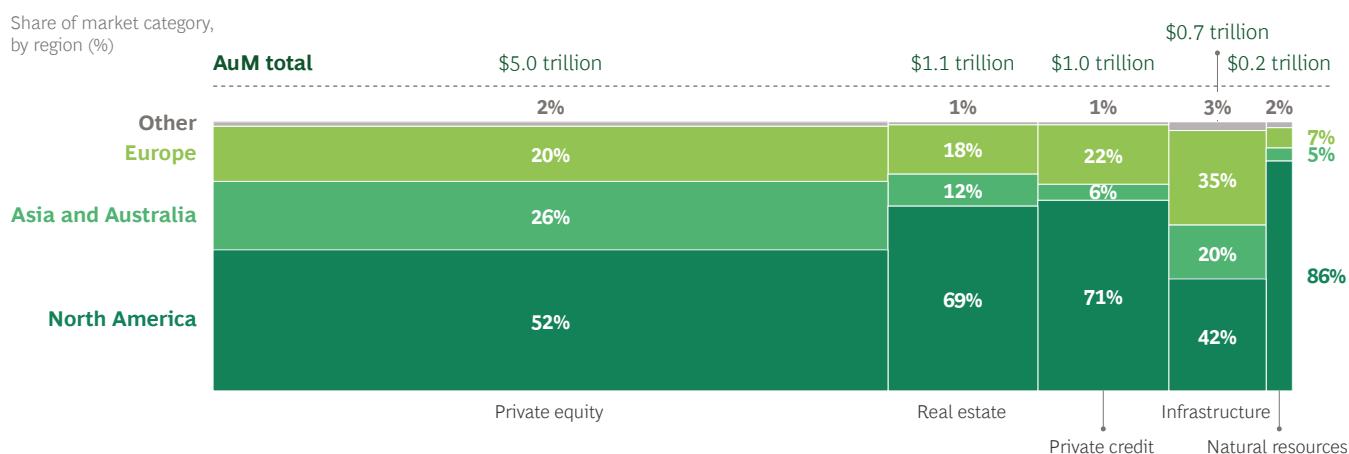
# Private Markets

## Winning the Next Decade

Within the universe of alternatives, private markets have enjoyed a particularly remarkable run over the past decade. AuM has grown by roughly 12% annually to reach nearly \$8 trillion as of September 2020, with global assets concentrated in private equity, real estate, private credit, infrastructure, and natural resources. (See Exhibit 7.) We believe that AuM growth will continue and could accelerate, particularly as retail money increasingly flows into private markets. The effects on the asset management industry will be profound as new competitive dynamics, partnerships, and M&A activity ensue between incumbent private market specialists and traditional asset managers that are the historical gatekeepers of the retail channel.

As these asset classes grow, managers are likely to find that it offers some of the best opportunities for their own growth and transformation over the next decade.

# Exhibit 7 - Private Market AuM Reached Nearly \$8 Trillion Globally in 2020



Sources: Preqin; BCG analysis.

Note: Data is based on Preqin estimates as of September 2020; Preqin data is sourced by fund manager location; excludes fund of funds and secondaries. Because of rounding, not all column totals add up to 100%.

## Three Winning Plays in Private Markets

We see the potential for big wins in private markets, especially for firms that compete most effectively in any of three key areas: serving the retail market, using data and analytics to enhance decision making, or integrating meaningful ESG metrics. Each of these areas deserves close attention.

### CATCHING THE NEXT WAVE IN RETAIL

Historically, private markets have been the purview of institutional investors such as sovereign wealth funds, pension plans, endowments, and foundations. These institutions have consistently increased their allocations to private markets in their search for yield. With interest rates likely to remain low for the foreseeable future, we see no signs of this force slowing down; in fact, many institutional investors report that they are below their target allocation for private assets.

However, we believe the next big wave is likely to come from retail investors, who have largely remained on the sidelines as private markets have expanded. For a sense of the magnitude of this potential investor base, consider that US retail investors hold about 50% of total AuM across all public market asset classes but only 10% of AuM in private market asset classes. On average, retail investors currently have 1% to 5% of their overall portfolio allocation in private markets, whereas institutional investors have 10% to 15% allocated there. Even a small percentage increase in retail investor allocations could have a substantial impact.

Many industry leaders have argued that it's time to democratize private markets for everyday retail investors. In 2020, regulations started to move in that direction, as the US Department of Labor issued an information letter supporting private equity investments in defined contribution (DC) plans. DC plans are often categorized as institutional because of the plan sponsor's influence in setting the menu of investment choices, but in many cases individuals can pick their funds—and in a big step forward, it is now permissible to include private equity as a choice. The Department of Labor's recommendations have prompted several large traditional asset managers to work on making these assets more widely available.

At the same time, investor education must be a top priority. Retail investors and their advisors need to understand that, along with their potential for higher returns, private market assets carry a longer lockup period and a higher risk profile than public market assets. The spread between a top-quartile private market fund manager and a bottom-quartile one can be 1,000 bps or more, compared to around 100 to 300 bps for active equity funds. Our analysis has shown that only 20% to 30% of private market managers can maintain top-quartile performance over ten years, highlighting the importance of fund manager selection.

As efforts to serve the retail base pick up, we anticipate that there will be a race among asset managers to solidify manufacturing and distribution capabilities in the private markets. The challenge in manufacturing is that sourcing

isn't scalable in the way it is for public market products. On the distribution side, traditional asset managers by and large hold sway over financial advisor distribution channels, having spent decades forming relationships and educating wealth advisors on their product offerings. For their part, private market specialists have the product manufacturing skill and track record, but historically they have focused on the institutional channel. We expect players to stake their claims along three different paths in the coming years:

- **Large diversified private market players** will build their own wholesaling teams and try to compete directly with traditional asset managers in their backyards. Private market fund managers generally have the margins, the balance sheet, and the will to make this work, although the journey will take years and require sizable investments in team building, education, new services, and supporting technology.
- **Large diversified traditional asset managers** will acquire the expertise and track records they need to compete in private markets either through M&A or by hiring teams to build full-fledged private market capabilities and push the products through established channels.
- **Middle-tier private markets and traditional players** will seek partnerships to combine manufacturing and distribution. They are likely to focus on segments of the market where distribution networks are already strong or where they see a good product/market fit—for example, a subsegment of registered investment advisors with a high propensity to buy alternatives.

In our view, all three paths are viable and will lead to dynamic competition, partnerships, and M&A activity in the coming years.

#### GAINING AN EDGE THROUGH DATA AND ANALYTICS

Over the next decade, the pace at which asset managers adopt advanced data and analytical capabilities will go a long way toward determining who the industry leaders will be. These capabilities will be critical to sourcing, due diligence, portfolio management, risk controls, and all other components of the value chain.

Advanced research capabilities are particularly valuable in private markets. Unlike public markets, where large amounts of data appear in near-real time and are quickly reflected in share pricing, private markets have a structural information gap that needs to be filled. For firms that make the most of data and analytic capabilities, however, we have found that about 20% of the success comes from data and technology, and about 80% from change management. This is not to say that data and technology are easy—they are not—but the critical challenge involves applying these capabilities at the heart of the investment decision-making process.

To implement the necessary changes, asset managers need to get five things right:

- **Ask better questions.** Data and analytics are uniquely valuable for identifying questions that expose gaps in the investment thesis. Better questions help avoid the trap of interesting but unimpactful analysis and churn.
- **Provide better answers.** Asset managers should present answers to investor questions in readily understandable terms that fit the investor's mental model of the world. Rather than expecting clients to interpret complex data sets, managers should make data presentations relevant to them.
- **Consolidate the investment and data teams.** The best way to ensure that investment teams ask the most probing questions and that data teams provide the most complete answers is to structure the two teams to function as one. If possible, they should be in the same location, to help break down communication barriers, maintain focus, and increase esprit de corps.
- **Centralize for scale, but don't lose ownership.** Professional data teams should source, clean, and store data centrally. At the same time, investors should have a sense of personal ownership of their data and be a key part of governance.
- **Maintain flexibility.** Data sources and tools are changing very quickly, so it's best to keep systems and working models flexible. Asset managers should focus on real use cases, testing, learning, and scaling, and avoid making changes outside the original scope of inquiry. We expect that the top asset management firms ten years from now will be "bionic," combining digital capabilities such as memory, speed, and stamina with human qualities such as empathy, creativity, and intuition.

#### TRULY INTEGRATING SUSTAINABILITY

The winners in private markets will factor sustainability—particularly with regard to climate—into the investment process, and will be skilled at explaining to limited partners (LPs) and regulators how they have integrated sustainability from the investment management process all the way to reporting. Less capable managers are likely to get caught up in the growing revolt against firms that practice "greenwashing" to exaggerate the impact of their ESG benefits. In a [recent BCG study](#), one-third of US asset managers reported that they had lost or were at risk of losing more than 20% of their institutional mandates because of inadequate ESG capabilities.

Private market players, with their longer hold periods and control positions, are particularly well positioned to drive sustainable change—for example, by mandating board diversity, linking lines of capital to sustainability metrics, or crafting an [ESG strategy to transform the business](#). Besides being the right thing to do, integrating sustainability makes financial sense. Our research finds that buyers are increasingly willing to pay a premium for assets that have undergone a sustainability transformation.

On the other hand, firms investing in private markets face a major challenge: whereas an entire industry exists to supply ESG metrics for publicly traded companies, data for privately held companies is almost nonexistent. Leading players are working to overcome this information void by gathering their own meaningful ESG data and in some cases collaborating with competitors to speed up the development of standards. We expect this trend to accelerate quickly, filling the data gaps and supporting for even better engagement on sustainability.

## Spotlight on Private Credit

Asset managers seeking opportunities in alternatives would do well to look at private credit, an area that is growing in both capital flows and deal volume. Over the past ten years, investors have allocated \$1 trillion to the space. Demand has come primarily from institutional investors that want the extra yield premium relative to liquid credit alternatives and can manage the longer-term capital lockup, but the retail segment is gaining momentum.

The US dominates private credit activity, accounting for about 70% of the market. Roughly 70% of US private credit activity is sponsor-backed as a component of a private equity deal, with the remaining 30% coming from more traditional commercial lending directly to private companies. About two-thirds of all US private credit goes into buyout or growth capital, more or less evenly distributed across five core industries: technology, consumer goods, health care, industrials, and business services.

This broad umbrella of activity covers six main subsegments of private credit, which vary by risk and ticket size:

- **The lower end of the middle market** consists largely of players that focus on low-risk senior tranches. In select cases, however, they are beginning to move into the mixed interest rate structure of unitranche debt in competition with the core players.
- **The core middle market** increasingly looks to unitranche deals to fulfill multiple mandates and to access greater deal flow by simplifying the borrowing process for sponsors.

- **The upper middle market** has attracted large, diversified asset managers that compete with both credit managers and the syndicated market for deal volume. Their deals are fewer but generally much larger than those at the core middle or lower middle.
- **Opportunistic specialists** primarily look for stressed or distressed situations where they can realize a material spread pickup, or for situations that offer loan-to-own deals requiring unique workout skills to squeeze out returns.
- **Smaller regional and niche banks** compete for senior secure deals, and generally focus on nonsponsored companies.
- **Global banks** compete at the higher end for sponsored deals to build relationships with marquee sponsors and portfolio companies; they are also pushing further down-market, after missing opportunities when they pulled back over the past decade.

As players search for loan volumes to satisfy growing demand from institutional and retail investors, we expect the lines to blur further. Private credit firms are moving up the credit spectrum and further into traditional banking territory, while lower, middle, and upper market firms are likely to converge mostly through M&A. (See [Exhibit 8](#).)

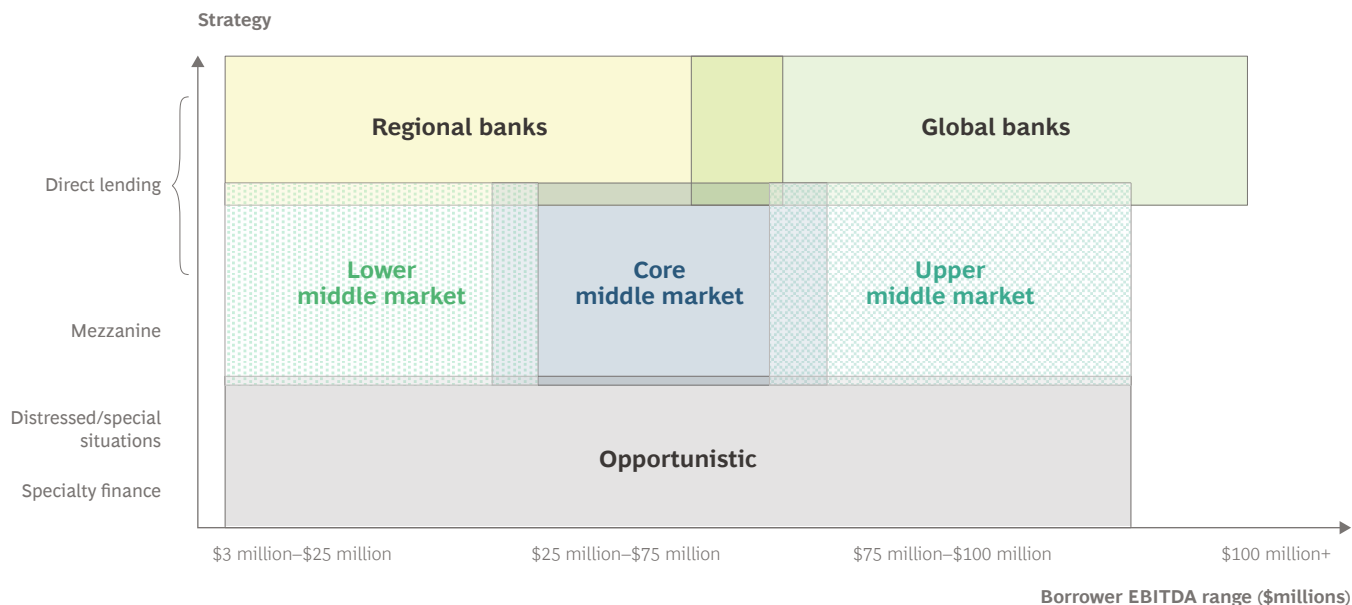
Although private credit investment firms compete in different areas, the basis for competitive advantage is fairly consistent across the industry. All firms compete on loan origination, speed and flexibility of execution, and integrated banking capabilities.

Given the ticket sizes of private debt and the relatively short hold windows—three years on average—maintaining a steady flow of investable loan volume is the lifeblood of private debt firms, especially pure-play direct-lending firms. The largest players will employ 25 to 50 professionals whose sole job is to build relationships with sponsors and to be the first call for deal origination. The coverage models resemble a world-class investor relations function, with tight relationships at multiple levels of the sponsor's decision-making hierarchy. The largest players might look at 2,000 deals a year to identify the 200 that they want to invest in, so keeping the top of the funnel full is critical.

### **Disciplined process and technology play a key role in ensuring speed and flexibility of execution.**

Some players use machine learning tools to evaluate the merits of an opportunity. Following the initial triage, more promising deals receive a closer look, mirroring a private equity-style due diligence process with in-depth research and internal investment committee processes. Increasingly, as the needs of sponsors have evolved, there is a premium on flexible lending practices, with sponsors seeking deals at multiple levels of the credit stack—senior, mezzanine, and unitranche.

## Exhibit 8 - Private Credit Deals Increasingly Overlap



**Sources:** Preqin; LCD; Reuters; expert interviews; BCG analysis.

**Note:** Underlying loans sold into structured credit products (e.g., collateralized loan obligations) are issued via syndicated markets.

LPs are also seeking managers that can give them exposure to different risk profiles, preferring two to three partnerships that can “cover the waterfront.” We expect to see this trend play out across private markets more broadly. Increasingly, private credit managers such as private equity sponsors are asking tougher questions and demanding access to ESG data at the execution stage.

Private equity sponsors are also looking to private credit players to deliver a broader range of traditional banking services to their portfolio companies. Such services may range from foreign exchange hedging to research and IP sharing to risk management services.

Many leading players are leaning heavily into data and technology to monitor the underlying credit health of their portfolio companies, connecting application program interface plug-ins into their general ledger accounting systems, which in turn become a useful source of insight for the private equity sponsor. As these value-added services expand, we expect natural moats to form around private debt providers, making it more and more difficult for traditional commercial lenders to compete with them.

Firms that are winning in private debt have fine-tuned all three of these levers to suit their circumstances. For example, using technology to originate new loans at scale is more important for a lower middle market player than for an upper middle market firm that has relationships with larger private equity general partners. Increasingly, potential clients—both institutional and retail—are looking for differentiated and focused capabilities to give them confidence that their money is in good hands.

Asset managers looking to capture growth opportunities would do well to determine how they can gain an edge in private markets and then build strategies that will enable them to continue to adapt to the demands of these markets.

# For Further Reading

Boston Consulting Group has published other reports and articles that may be of interest to senior financial executives. Recent examples include those listed here.

## [Global Wealth 2021: When Clients Take the Lead](#)

A report by Boston Consulting Group, June 2021

## [Global Risk 2021: Building a Stronger, Healthier Bank](#)

A report by Boston Consulting Group, May 2021

## [Financial Institutions Need to Pursue Their Own Path to the Cloud](#)

An article by Boston Consulting Group, May 2021

## [Can Banks Find the Cost Savings Hiding in Plain Sight?](#)

An article by Boston Consulting Group, May 2021

## [How Financial Institutions Can Find Organizational Advantage in PMI](#)

An article by Boston Consulting Group, May 2021

## [Digital Assets, Distributed Ledger Technology, and the Future of Capital Markets](#)

A report by Boston Consulting Group and the World Economic Forum, May 2021

## [Non-Financial Risks Reshape Banks' Credit Portfolios](#)

A report by Boston Consulting Group, April 2021

## [Racial Equity in Banking Starts with Busting the Myths](#)

An article by Boston Consulting Group, February 2021

## [Beethoven, Schubert, and Bank Technology Modernization](#)

An article by Boston Consulting Group, February 2021

## [Global Retail Banking 2021: The Front-to-Back Digital Retail Bank](#)

A report by Boston Consulting Group, January 2021

## [The Sun is Setting on Traditional Banking](#)

An article by Boston Consulting Group, November 2020

## [How Banks Can Succeed with Cryptocurrency](#)

A Focus by Boston Consulting Group, November 2020

## [Global Payments 2020: Fast Forward into the Future](#)

A report by Boston Consulting Group, October 2020

## [Five Strategies for Mobile-Payment Banking in Africa](#)

A Focus by Boston Consulting Group, August 2020

## [Financial Institutions Can Help Break the Cycle of Racial Inequality](#)

An article by Boston Consulting Group, June 2020



# About the Authors

**Lubasha Heredia** is a managing director and partner in the New York office of Boston Consulting Group. You may contact her by email at [heredia.lubasha@bcg.com](mailto:heredia.lubasha@bcg.com).

**Simon Bartletta** is a managing director and senior partner in the firm's Boston office. You may contact him by email at [bartletta.simon@bcg.com](mailto:bartletta.simon@bcg.com).

**Joe Carrubba** is a managing director and partner in BCG's New York office. You may contact him by email at [carrubba.joseph@bcg.com](mailto:carrubba.joseph@bcg.com).

**Dean Frankle** is a managing director and partner in the firm's London office. You may contact him by email at [frankle.dean@bcg.com](mailto:frankle.dean@bcg.com).

**Chris McIntyre** is a managing director and partner in BCG's New York office. You may contact him by email at [mcintyre.chris@bcg.com](mailto:mcintyre.chris@bcg.com).

**Edoardo Palmisani** is a managing director and partner in the firm's Rome office. You may contact him by email at [palmisani.edoardo@bcg.com](mailto:palmisani.edoardo@bcg.com).

**Anastasios Panagiotou** is a managing director and partner in BCG's Cologne office. You may contact him by email at [panagiotou.anastasios@bcg.com](mailto:panagiotou.anastasios@bcg.com).

**Neil Pardasani** is a managing director and senior partner in the firm's Los Angeles office. You may contact him by email at [pardasani.neil@bcg.com](mailto:pardasani.neil@bcg.com).

**Kedra Newsom Reeves** is a managing director and partner in BCG's Chicago office. You may contact her by email at [newsom.kedra@bcg.com](mailto:newsom.kedra@bcg.com).

**Thomas Schulte** is a managing director and partner in the firm's Düsseldorf office. You may contact him by email at [schulte.thomas@bcg.com](mailto:schulte.thomas@bcg.com).

**Ben Sheridan** is a managing director and partner in BCG's Singapore office. You may contact him by email at [sheridan.benjamin@bcg.com](mailto:sheridan.benjamin@bcg.com).

## Acknowledgments

The authors thank the asset management institutions participating in the research and benchmarking that made this year's report possible, as well as the other organizations whose insights are reflected here.

The authors are also deeply grateful for the contributions of many BCG colleagues. In particular, they thank Sumit Chugh, Anuj Goel, Mark Harris, Anselm Heil, Chad Jennings, Ankit Kapoor, Christian Klingkowski, Bingbing Liu, Mac Macdonald, Sonali Maheshwari, Hanka Moerstedt, Ankit Pagaria, Manish Saxena, Vinay Shandal, Dushyant Sharma, Blaine Slack, GB Taglioni, Akshita Tiwari, Shubham Utsav, Qin Xu, and Andrea Walbaum.

## For Further Contact

If you would like to discuss this report, please contact the authors.



