

Investing for Growth

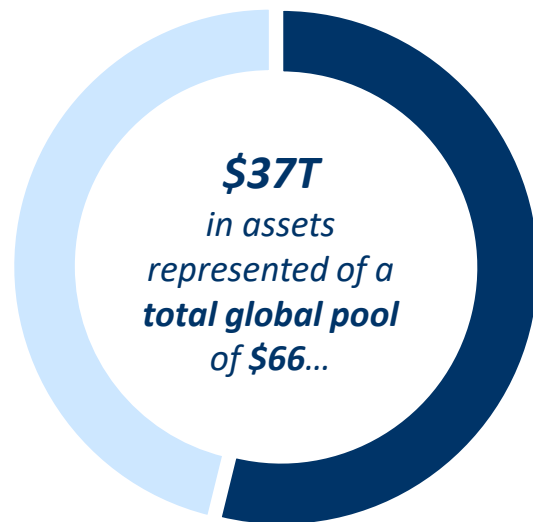
Performance Intelligence 2018

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Performance Intelligence is a strong representative sample of the industry

95 firms are participating in the 2018 study, representing more than half of the world's assets



Participants with >\$150B assets under management

Alliance Bernstein	MFS Investment Management
Allianz	Morgan Stanley Investment Management
BlackRock	Natixis Investment Management
BNY Mellon Investment Management	Neuberger Berman
BrightSphere Investment Group	New York Life Investments
Columbia Threadneedle Investments	Nordea Asset Management
Credit Suisse Asset Management	Northern Trust Asset Management
DWS	Oppenheimer Funds
Eaton Vance	Pictet Asset Management
Fidelity Investments	PIMCO
Franklin Templeton Investments	Principal Global Investors
Invesco	RBC Global Asset Management
Jennison Associates	Russell Investments
Lazard Asset Management	Schroders Investment Management
Legal & General Investment Management	SSGA
Legg Mason	T. Rowe Price
Loomis Sayles	Wells Fargo Asset Management
Manulife Asset Management	Western Asset Management
MetLife Investments	

Today's Discussion

Challenges Persist

- 2017: Markets boost performance
- **Pressures persist:**
 - *Anemic organic growth*
 - *Declining fees*
 - *Rising costs*
 - *Bifurcating flows*

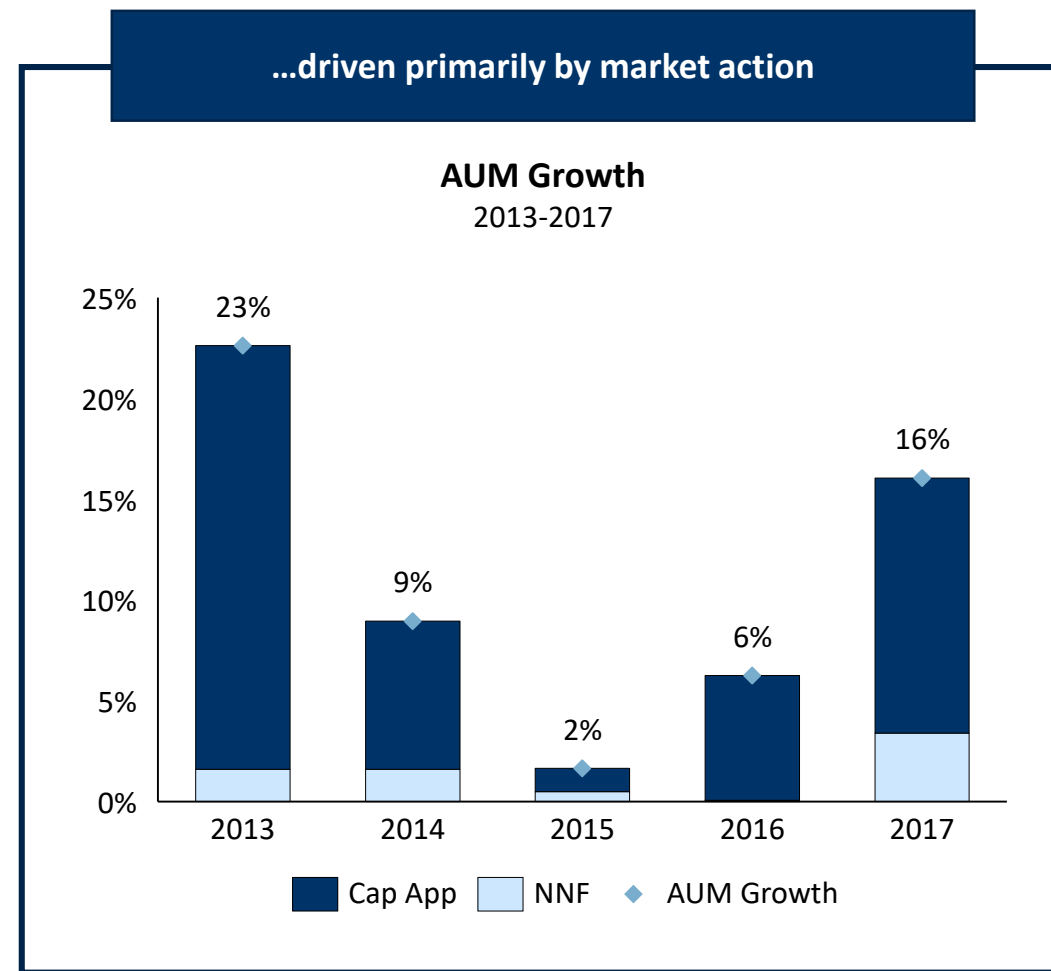
Winners Separate

- Minority of firms exhibiting strong **economic health**
- Winning firms are **reinvesting** and realizing **profitable growth...**
- ... versus non-growers either **cost cutting** or **reinvesting unsuccessfully** (so far)

Investing for Growth

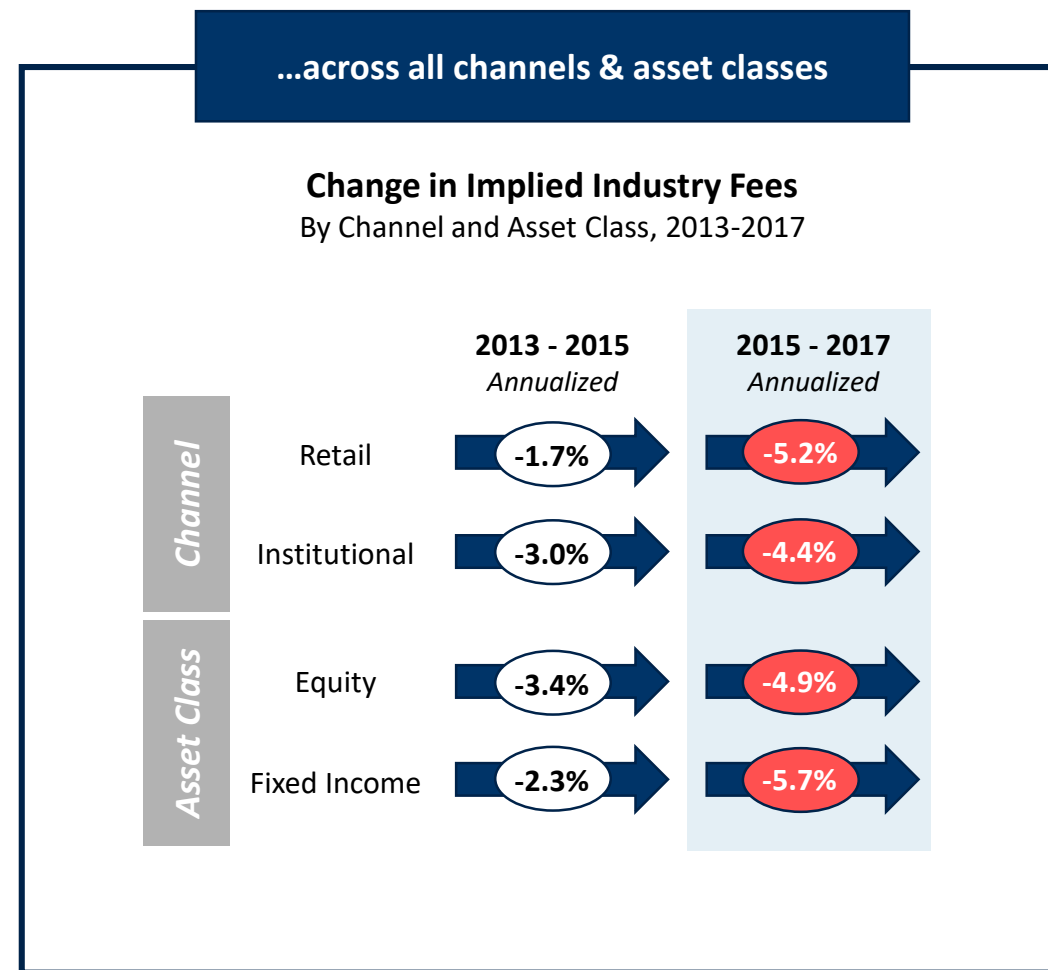
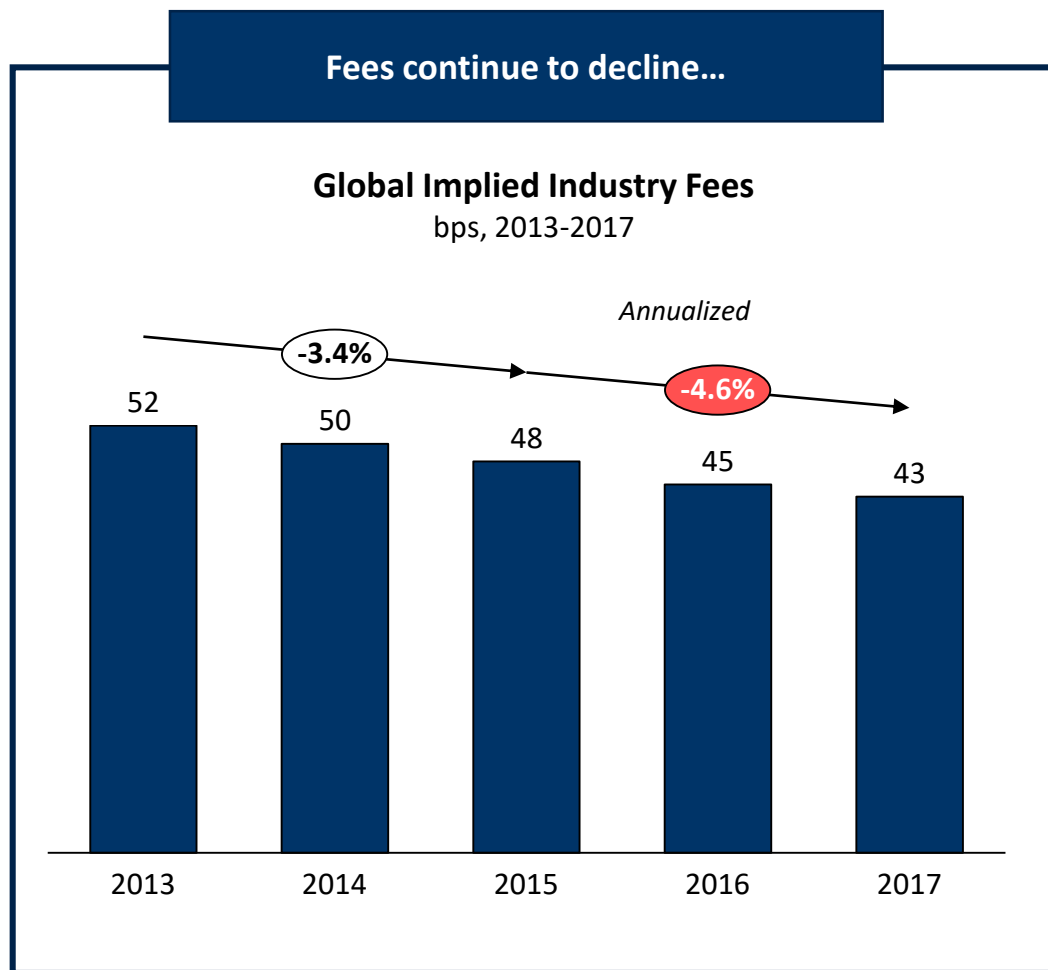
- **Profitable Growth firms share a number of characteristics**
 - *Focus on growth segments*
 - *Superior client engagement*
 - *Higher technology investment*
 - *More aggressive outsourcers*
 - *Embrace changing talent trends*
- **Execution requires coordinated alignment across value chain**
- **What's *your* path to invest for growth?**

Industry margins increase for the first time since 2014



Source: Casey Quirk/McLagan Performance Intelligence 2018 Study, public firm filings

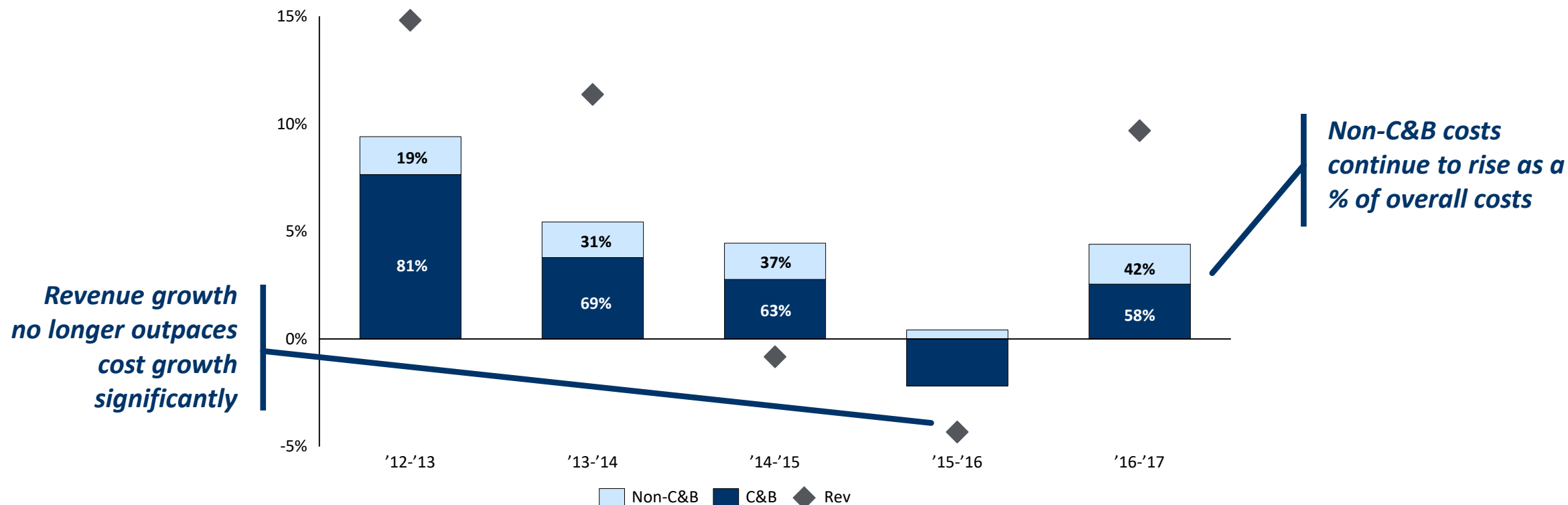
Fees continue to pressure the industry's economics



Source: Casey Quirk/McLagan Performance Intelligence 2018 Study, public firm filings

Costs continue to rise, driven increasingly by non-compensation spend

Cost Growth vs. Revenue Growth
2013-2017, cost change by C&B & non-C&B

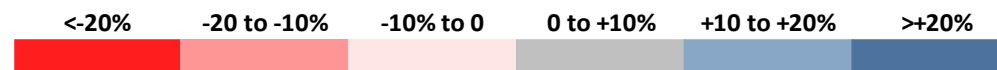


Source: Casey Quirk/McLagan Performance Intelligence 2018 Study, public firm filings

Continued increases in total comp at YE 2017, but not for everyone

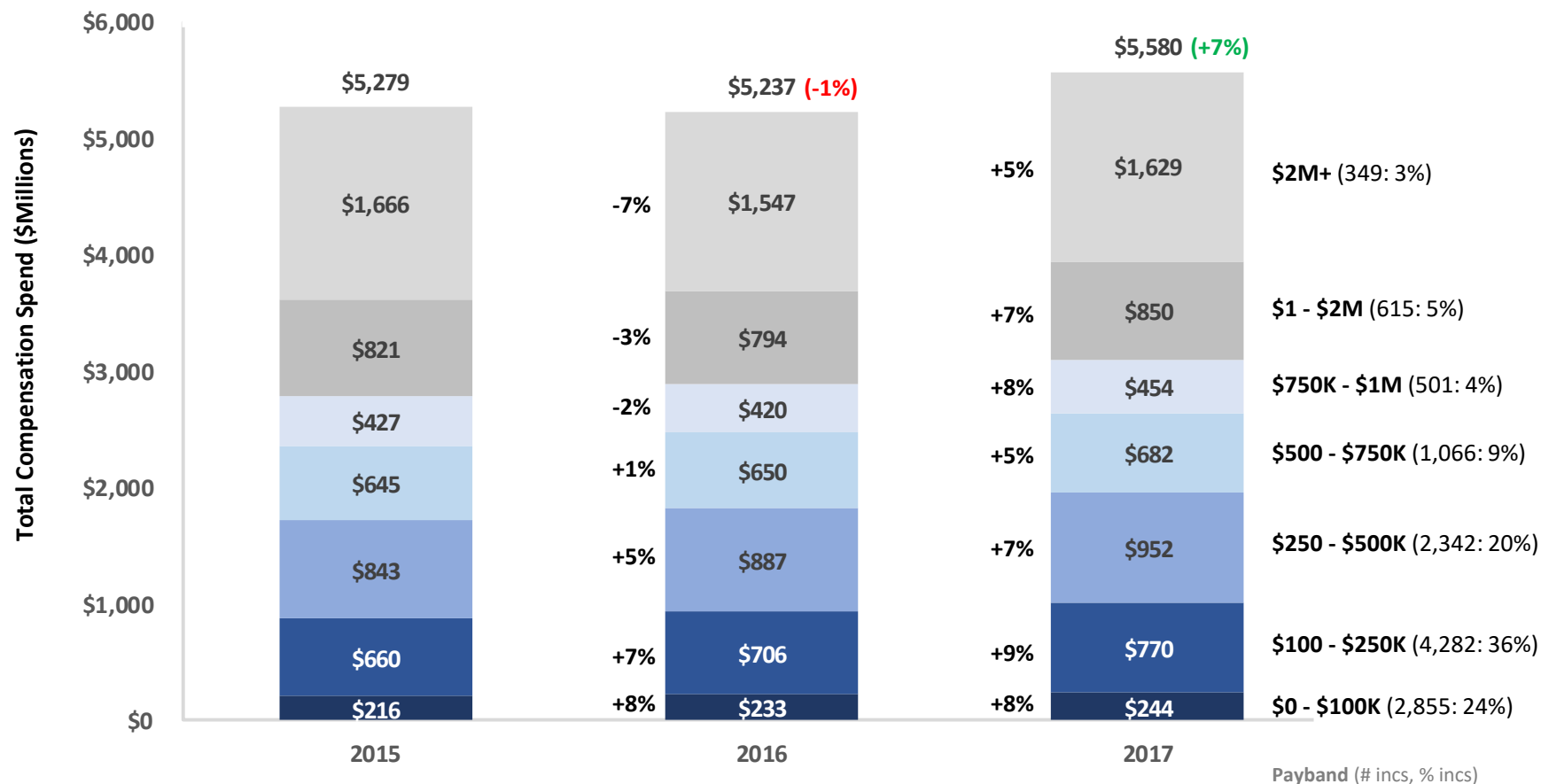
Pay Bands Based on '16 T.Comp

% Change in Total Compensation: 2016 to 2017									
All Functions							By Function (50th)		
	# of Incs	10th	25th	50th	75th	90th	Inv	Sales	Admin
Investments	4,673	-5%	2%	9%	20%	38%	9%		
Sales	5,133	-9%	0%	6%	15%	31%		6%	
Admin	7,694	-1%	2%	5%	10%	17%			5%
\$0 to 100K	4,366	-1%	2%	5%	11%	21%	10%	7%	5%
\$100 to 200K	5,567	-1%	3%	6%	12%	23%	11%	7%	5%
\$200 to 300K	1,868	-1%	3%	7%	17%	33%	12%	7%	5%
\$300 to 400K	1,294	-4%	2%	7%	17%	33%	9%	8%	6%
\$400 to 500K	982	-8%	1%	8%	17%	31%	10%	5%	7%
\$500 to 600K	740	-13%	-1%	5%	15%	33%	7%	2%	6%
\$600 to 700K	552	-13%	-2%	5%	14%	27%	7%	2%	7%
\$700K to 1M	893	-14%	-2%	6%	15%	32%	8%	0%	7%
\$1M to 2M	767	-20%	-3%	6%	16%	36%	6%	3%	8%
\$2M to 4M	290	-19%	-3%	6%	18%	30%	7%	0%	7%
\$4M+	181	-22%	-2%	7%	14%	21%	6%	7%	9%
Total	17,500	-4%	2%	6%	13%	27%	9%	6%	5%



Source: McLagan analysis, leading advisory firms; 17,500 constant incumbents

Pay continues to rise for the less highly paid - Top managers have been (and will continue to be) P&L shock absorbers



Source: McLagan analysis, leading advisory firms; 12,000 constant incumbents

Many, but not all, CEOs hit new total comp high water marks at YE 2017

Chief Executive Officer - Total Compensation										
Firm	Actual (\$000s)					High Water Mark @ 100%				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
1	\$2,775	\$3,000	\$3,100	\$3,850	\$4,100	68%	73%	76%	94%	100%
2	24,000	26,000	26,000	25,500	27,950	86%	93%	93%	91%	100%
3	4,550	7,953	8,359	7,687	8,527	53%	93%	98%	90%	100%
4	3,886	3,297	3,688	4,038	4,688	83%	70%	79%	86%	100%
5	9,975	10,800	9,800	9,250	10,800	92%	100%	91%	86%	100%
6	6,492	7,042	6,400	6,200	7,800	83%	90%	82%	79%	100%
7	7,050	7,427	5,009	5,009	7,900	89%	94%	63%	63%	100%
8	9,746	10,860	9,450	8,560	10,050	90%	100%	87%	79%	93%
9	15,000	16,000	15,085	13,458	13,773	94%	100%	94%	84%	86%
10	14,780	15,780	12,780	10,080	9,980	94%	100%	81%	64%	63%
11	8,428	6,624	6,665	5,333	6,293	100%	79%	79%	63%	75%
12	19,950	17,950	14,750	13,785	12,450	100%	90%	74%	69%	62%
High Q	\$14,835	\$15,835	\$13,273	\$10,925	\$11,213					
Median	9,087	9,377	8,904	8,124	9,254	97%	100%	95%	87%	99%
Low Q	6,006	6,937	6,052	5,252	7,423					
YoY Δ in Median		3%	-5%	-9%	14%		3%	-5%	-9%	14%

Includes 10 constant CEOs of public asset managers

Source: McLagan analysis of public disclosures

Investment management CFOs are optimistic about their own firm's prospects

CFOs say...

“Fee & cost pressures are very substantial”

80% of CFO's report that *their own firm's fees have been declining* in recent years and that **costs will rise by greater than 5%** next year

“Our firm will grow faster than the industry”

70% of CFO's predict *industry organic growth of less than 3%...*

...but **66%** believe *their own firms will grow at greater than 3%*

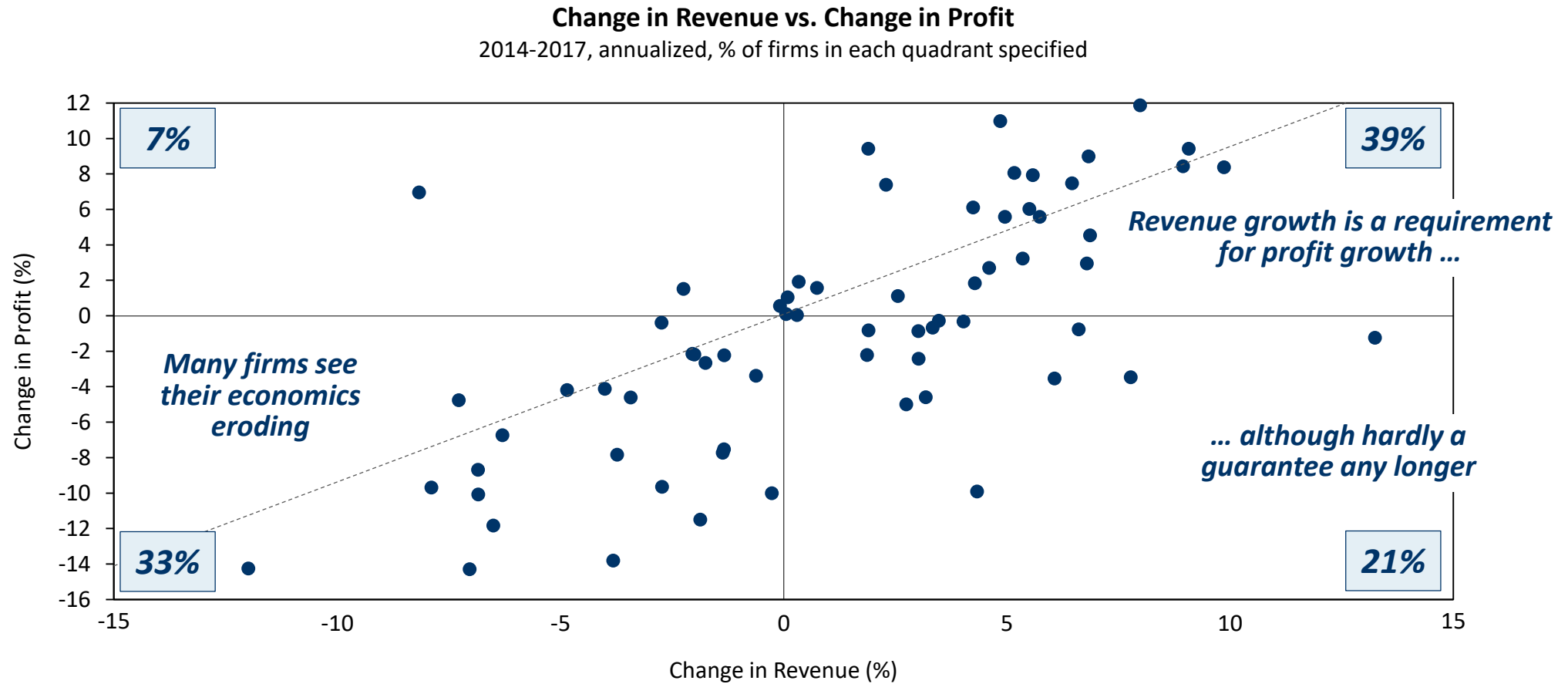
“Our revenues and margins will be strong”

81% believe *their revenues will grow at greater than 5% next year*

91% expect *their margins will be flat or rise next year*

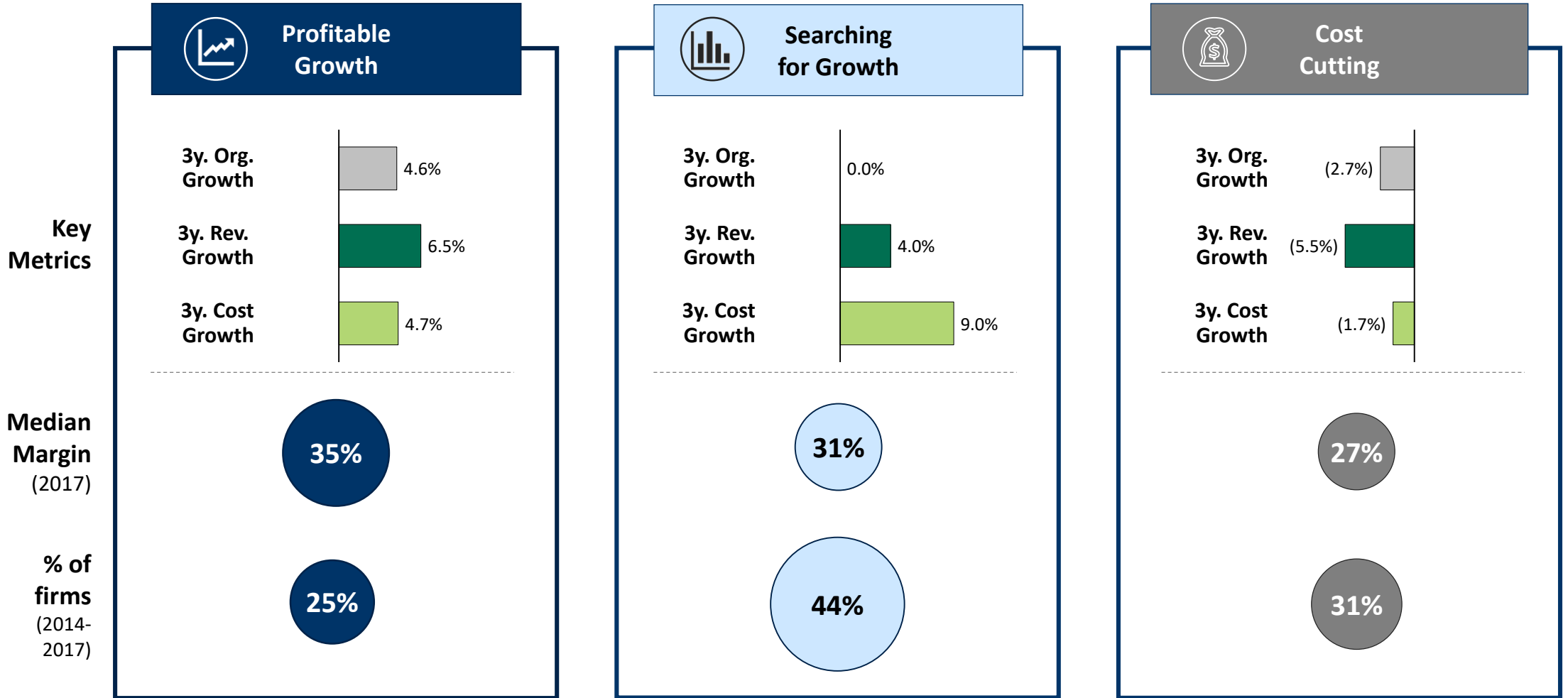
Source: 2018 Institutional Investor Investment Management CFO Polling Survey

Profit growth remains highly correlated to revenue growth



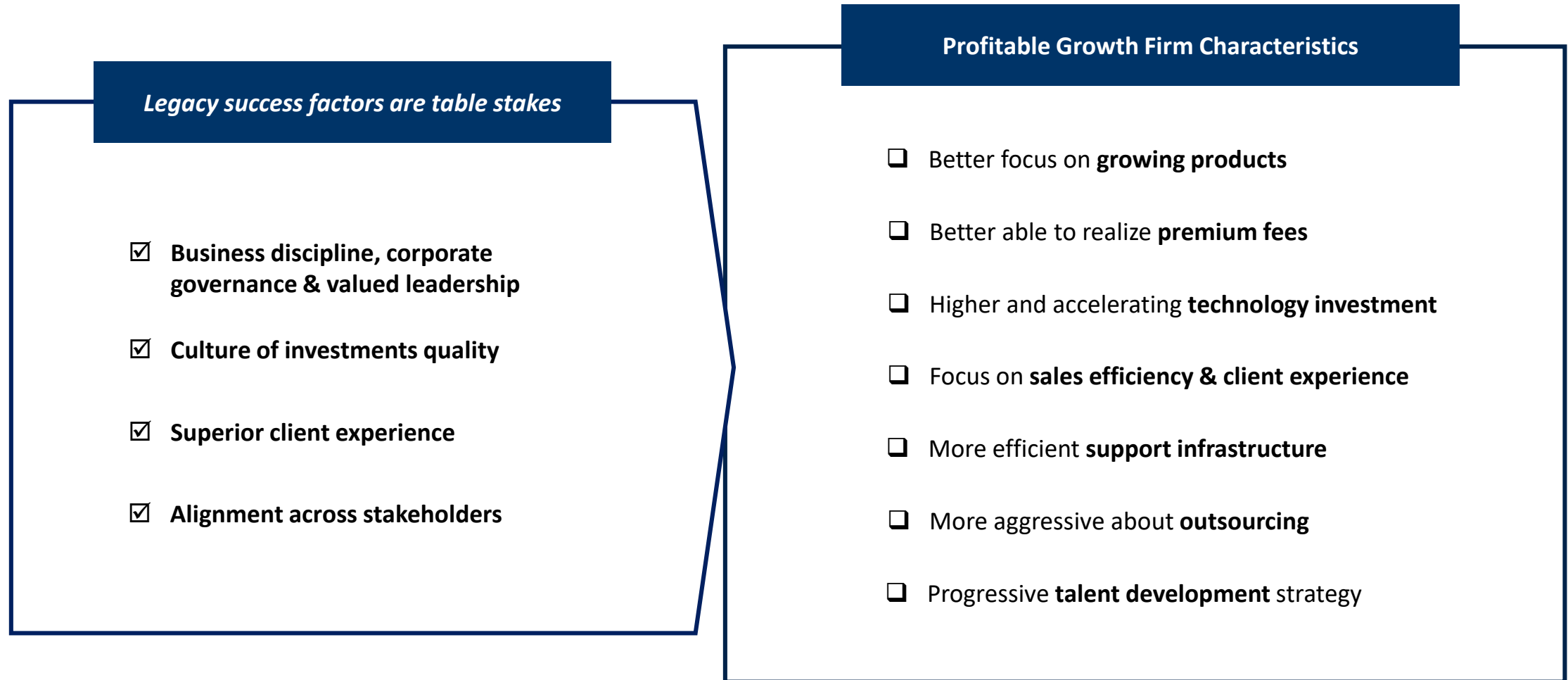
Source: Casey Quirk/McLagan Performance Intelligence 2018 Study, public firm filings

Firms experiencing profitable growth are solidifying their lead



Source: Casey Quirk/McLagan Performance Intelligence 2018 Study, public firm filings

Profitable Growth firms share a number of common characteristics



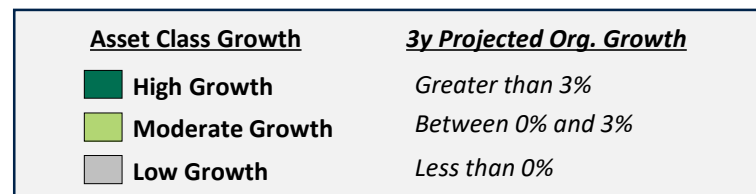
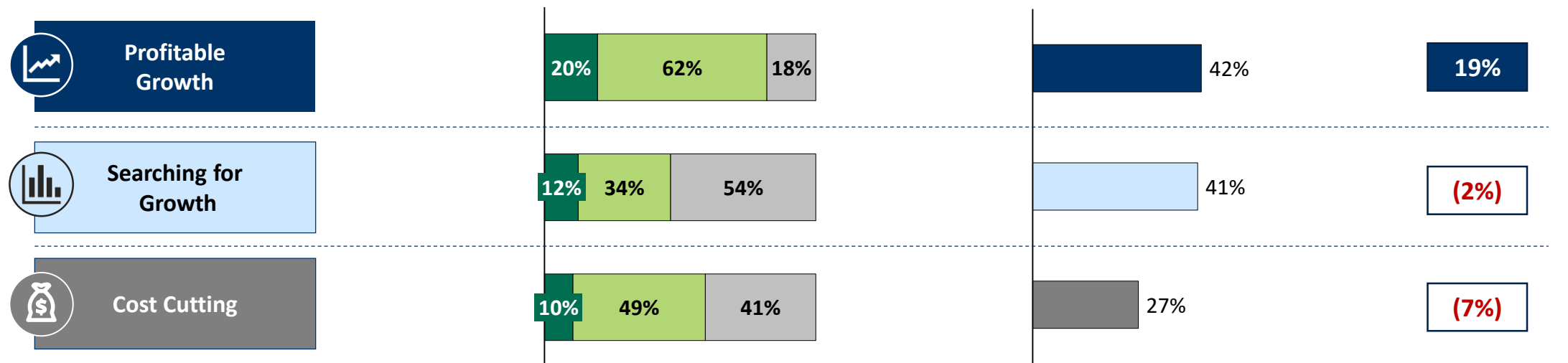
Profitable Growth firms have a higher focus on in-demand investment strategies

Core Investment Strategy

Current AUM by Projected Investment Strategy Growth
2017 Firm AUM, 2018-2021e Organic Growth

Revenue %

% Fee Deviation from Median

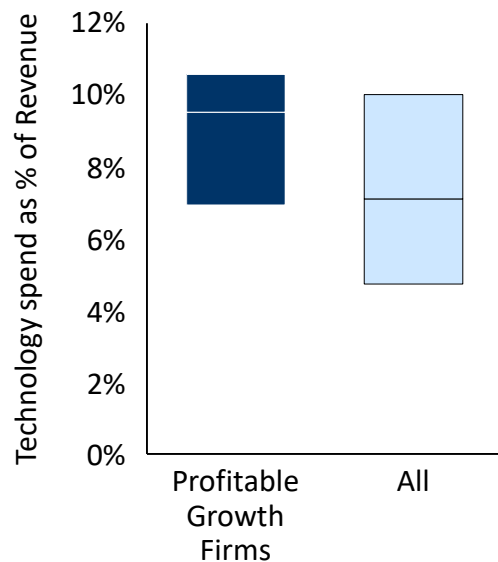


Source: Casey Quirk/McLagan Performance Intelligence 2018 Study, Casey Quirk Global Demand Model

Technology & data spend enables enhancement across all parts of the business

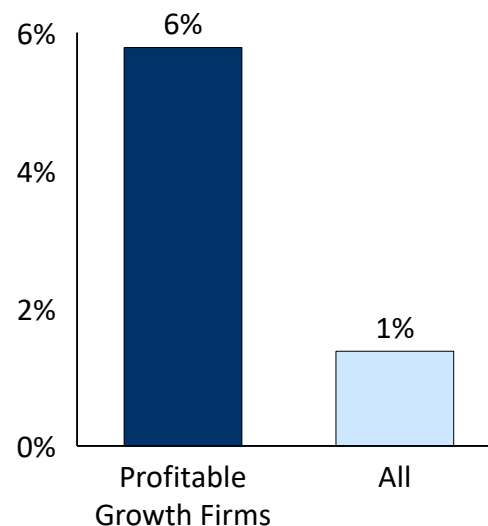
Profitable Growth firms spend more on technology

Technology Spend
Profitable growth firms vs. industry, avg. between 2015-2017, % of total revenue



Technology spend has accelerated

Technology Spend Growth
Profitable growth firms vs industry, % of growth over 2014-2017



Technology investments support multiple functions of the organization

Investments

- Automation to limit manual touchpoints
- Alpha enabled by data and analytics

Distribution

- Client insights driven by new data
- Client-facing personnel highly supplemented by tools & technology
- Enhance service through seamless onboarding & reporting

Infrastructure

- Harmonized full firm data architecture to drive business decisions
- Refinement of rote tasks to limit errors

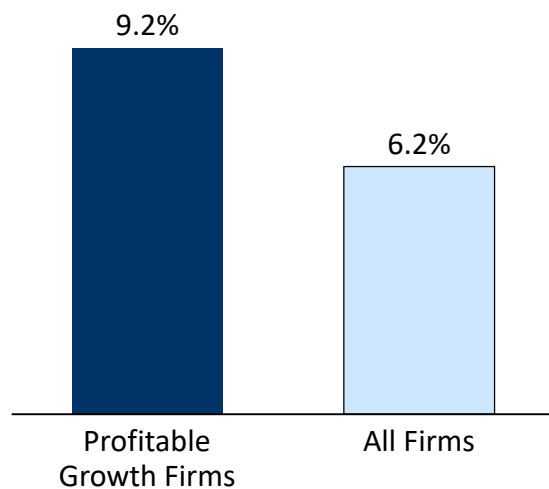
Source: Casey Quirk/McLagan Performance Intelligence 2018 Study

Technology-enabled distribution organizations are more productive

Profitable Growth firms leverage technology...

Distribution-Focused Technology Spend

2015-2017 avg., % of total distribution spend



...across the client lifecycle...



Marketing

- Gather valuable data and develop quant-driven processes
- Improve brand awareness through targeted delivery and insightful content



Sales Support

- Enhance customized delivery
- Thoughtful integration of digital touchpoints across client lifecycle



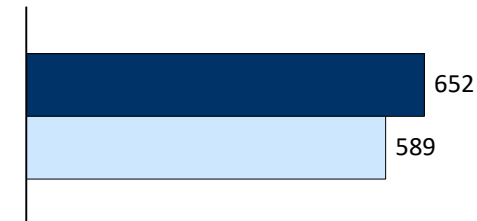
Client Service

- Expand and deepen relationships by providing tailored value-added services
- Real-time responses to client requests

...leading to more productive organizations

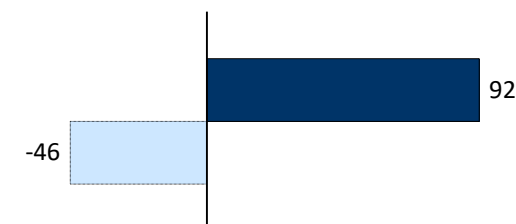
Gross Flows per Sales FTE

3-year median, annualized, \$m



Net Flows per Service FTE

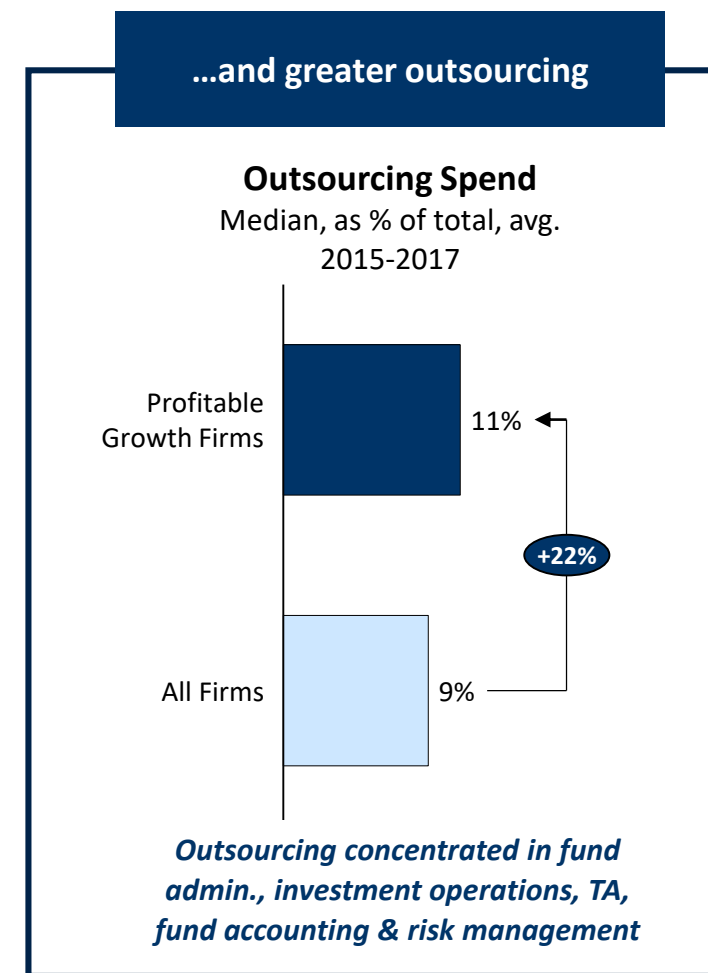
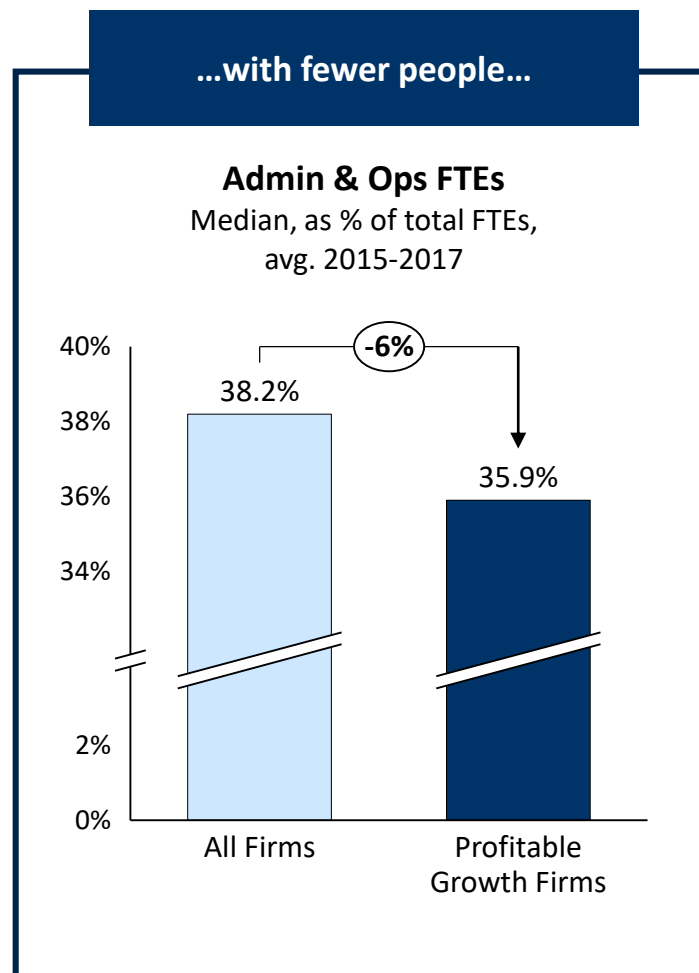
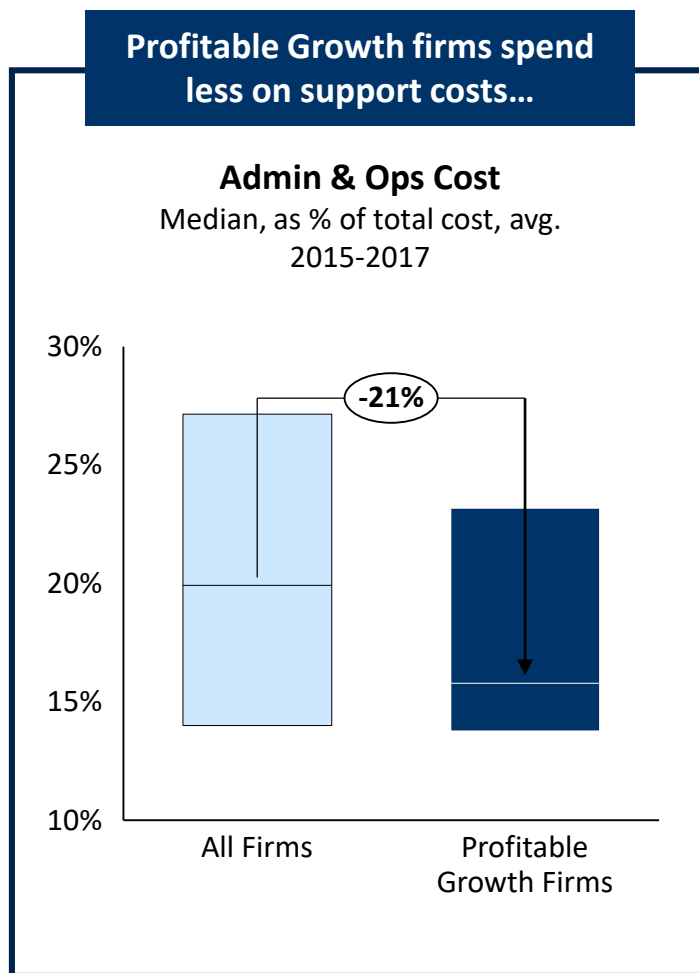
3-year median, annualized, \$m



■ Profitable Growth Firms ■ All Firms

Source: Casey Quirk/McLagan Performance Intelligence 2018 Study, public firm filings

Profitable Growth firms successfully streamline business support functions



Source: Casey Quirk/McLagan Performance Intelligence 2018 Study

Profitable Growth firms have a relentless focus on talent

Profitable Growth firms are highly focused on nurturing and developing talent

- CEOs are actively engaged in nurturing top talent:
 - “My role as CEO: A leader as servant to our high performers” (a \$1T+ firm)
 - “An annual fishing trip helps reinforce my relationship with our top PM” (a \$500M+ firm)
- The Board is intensely involved in talent-related issues:
 - Diversity and inclusion objectives, increasingly included within the CEO’s scorecard
 - Employee engagement survey results and management succession initiatives.
- HR has a prominent role in business decision-making , executive selection, and board relations. HR reports to the CEO.
- People with differences are openly and authentically embraced.
- Work arrangements are increasingly flexible, tailored to individual, functional and/or generational preferences.
- Recruiting is never complete.
- Performance management is robust, rigorous and ongoing:
 - Top performers are recognized, with pay, titles and promotions/mobility.
 - Below-average performers are moved out with grace and respect.

Sustainable growth requires coordination and alignment across the firm

Initiatives		Investments	Distribution	Tech and Data	Mid/Back Office	HR & Talent	Management
Competitive Differentiators	✓ <i>Alpha from new sources of data</i>	■	□	■	■	■	□
	✓ <i>Simple and elegant client experience</i>	■	■	■	■	■	■
	✓ <i>Always on engagement model</i>	□	■	■	□	□	□
	✓ <i>Investment leadership brand</i>	■	■	■	□	□	■
Efficiency & Scalability	✓ <i>Optimize investment value chain</i>	■	□	■	■	□	■
	✓ <i>Drive distribution productivity & efficiency</i>	□	■	■	□	■	■
	✓ <i>Automation across enterprise support functions</i>	□	□	■	■	■	■
	✓ <i>Flexible & scalable approaches to data</i>	■	■	■	■	■	■

**Functional Participation
Essential**

Limited Engagement Needed

A clear long-term growth strategy is critical and can take multiple paths

Growth: Three Basic Options



Enhance

Grow/maintain existing revenue streams, optimize approach to market & costs



Expand

Gain access to new/different investment management revenue streams



Extend

Access revenue streams outside of traditional asset management

Transformation requires a focus on execution across the organization

Transformation will require ...

-  Leadership time and commitment
-  Buy in from the entire executive team
-  Capital investment
-  Organizational disruption and change
-  Openness to change and addressing sacred cows

...as well as new tactics to drive progress

-  Restructuring incentives
-  Closing business lines
-  Assessing talent
-  Outsourcing key functions
-  M&A
-  New pricing models

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