Investing for Growth
Performance Intelligence 2018
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

$37T in assets represented of a total global pool of $66...

Participants with >$150B assets under management

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

Margins increased in 2017...

Operating Margin
2013-2017e

AUM Growth
2013-2017

Challenges Persist

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

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Fees continue to pressure the industry’s economics

**Global Implied Industry Fees**

<table>
<thead>
<tr>
<th>Year</th>
<th>Fees (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>52</td>
</tr>
<tr>
<td>2014</td>
<td>50</td>
</tr>
<tr>
<td>2015</td>
<td>48</td>
</tr>
<tr>
<td>2016</td>
<td>45</td>
</tr>
<tr>
<td>2017</td>
<td>43</td>
</tr>
</tbody>
</table>

Annualized % change:
- 2013-2014: -3.4%
- 2014-2015: -4.6%

**Change in Implied Industry Fees**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>-1.7%</td>
<td>-5.2%</td>
</tr>
<tr>
<td>Institutional</td>
<td>-3.0%</td>
<td>-4.4%</td>
</tr>
<tr>
<td>Equity</td>
<td>-3.4%</td>
<td>-4.9%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>-2.3%</td>
<td>-5.7%</td>
</tr>
</tbody>
</table>

Source: Casey Quirk/McLagan Performance Intelligence 2018 Study, public firm filings
Costs continue to rise, driven increasingly by non-compensation spend

Revenue growth no longer outpaces cost growth significantly

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

Non-C&B costs continue to rise as a % of overall costs

Source: Casey Quirk/McLagan Performance Intelligence 2018 Study, public firm filings
Continued increases in total comp at YE 2017, but not for everyone

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

<table>
<thead>
<tr>
<th>Pay Bands Based on '16 T.Comp</th>
<th>% Change in Total Compensation: 2016 to 2017</th>
<th>All Functions</th>
<th>By Function (50th)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td># of Incs</td>
<td>10th</td>
<td>25th</td>
</tr>
<tr>
<td>Investments</td>
<td>4,673</td>
<td>-5%</td>
<td>2%</td>
</tr>
<tr>
<td>Sales</td>
<td>5,133</td>
<td>-9%</td>
<td>0%</td>
</tr>
<tr>
<td>Admin</td>
<td>7,694</td>
<td>-1%</td>
<td>2%</td>
</tr>
<tr>
<td>$0 to 100K</td>
<td>4,366</td>
<td>-1%</td>
<td>2%</td>
</tr>
<tr>
<td>$100 to 200K</td>
<td>5,567</td>
<td>-1%</td>
<td>3%</td>
</tr>
<tr>
<td>$200 to 300K</td>
<td>1,868</td>
<td>-1%</td>
<td>3%</td>
</tr>
<tr>
<td>$300 to 400K</td>
<td>1,294</td>
<td>-4%</td>
<td>2%</td>
</tr>
<tr>
<td>$400 to 500K</td>
<td>982</td>
<td>-8%</td>
<td>1%</td>
</tr>
<tr>
<td>$500 to 600K</td>
<td>740</td>
<td>-13%</td>
<td>-1%</td>
</tr>
<tr>
<td>$600 to 700K</td>
<td>552</td>
<td>-13%</td>
<td>-2%</td>
</tr>
<tr>
<td>$700K to 1M</td>
<td>893</td>
<td>-14%</td>
<td>-2%</td>
</tr>
<tr>
<td>$1M to 2M</td>
<td>767</td>
<td>-20%</td>
<td>-3%</td>
</tr>
<tr>
<td>$2M to 4M</td>
<td>290</td>
<td>-19%</td>
<td>-3%</td>
</tr>
<tr>
<td>$4M+</td>
<td>181</td>
<td>-22%</td>
<td>-2%</td>
</tr>
<tr>
<td>Total</td>
<td>17,500</td>
<td>-4%</td>
<td>2%</td>
</tr>
</tbody>
</table>
Pay continues to rise for the less highly paid - Top managers have been (and will continue to be) P&L shock absorbers

Challenges Persist

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

<table>
<thead>
<tr>
<th>Firm</th>
<th>Actual ($000s)</th>
<th>High Water Mark @ 100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$2,775</td>
<td>$3,000</td>
</tr>
<tr>
<td>2</td>
<td>24,000</td>
<td>26,000</td>
</tr>
<tr>
<td>3</td>
<td>4,550</td>
<td>7,953</td>
</tr>
<tr>
<td>4</td>
<td>3,886</td>
<td>3,297</td>
</tr>
<tr>
<td>5</td>
<td>9,975</td>
<td>10,800</td>
</tr>
<tr>
<td>6</td>
<td>6,492</td>
<td>7,042</td>
</tr>
<tr>
<td>7</td>
<td>7,050</td>
<td>7,427</td>
</tr>
<tr>
<td>8</td>
<td>9,746</td>
<td>10,860</td>
</tr>
<tr>
<td>9</td>
<td>15,000</td>
<td>16,000</td>
</tr>
<tr>
<td>10</td>
<td>14,780</td>
<td>15,780</td>
</tr>
<tr>
<td>11</td>
<td>8,428</td>
<td>6,624</td>
</tr>
<tr>
<td>12</td>
<td>19,950</td>
<td>17,950</td>
</tr>
</tbody>
</table>

High Q | $14,835 | $15,835 | $13,273 | $10,925 | $11,213

Median | 9,087 | 9,377 | 8,904 | 8,124 | 9,254 |

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

Includes 10 constant CEOs of public asset managers
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

Change in Revenue vs. Change in Profit
2014-2017, annualized, % of firms in each quadrant specified

Revenue growth is a requirement for profit growth ...

Many firms see their economics eroding

... although hardly a guarantee any longer

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

**Legacy success factors are table stakes**

- Business discipline, corporate governance & valued leadership
- Culture of investments quality
- Superior client experience
- Alignment across stakeholders

**Profitable Growth Firm Characteristics**

- Better focus on growing products
- Better able to realize premium fees
- Higher and accelerating technology investment
- Focus on sales efficiency & client experience
- More efficient support infrastructure
- More aggressive about outsourcing
- Progressive talent development strategy
Profitable Growth firms have a higher focus on in-demand investment strategies.

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

<table>
<thead>
<tr>
<th>Core Investment Strategy</th>
<th>Revenue %</th>
<th>% Fee Deviation from Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable Growth</td>
<td>42%</td>
<td>19%</td>
</tr>
<tr>
<td>Searching for Growth</td>
<td>41%</td>
<td>(2%)</td>
</tr>
<tr>
<td>Cost Cutting</td>
<td>27%</td>
<td>(7%)</td>
</tr>
</tbody>
</table>

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

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

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

Profitable Growth firms leverage technology...

Distribution-Focused Technology Spend
2015-2017 avg., % of total distribution spend

- 9.2% Profitable Growth Firms
- 6.2% All Firms

...across the client lifecycle...

...leading to more productive organizations

Gross Flows per Sales FTE
3-year median, annualized, $m

- 652 Profitable Growth Firms
- 589 All Firms

Net Flows per Service FTE
3-year median, annualized, $m

- 92 Profitable Growth Firms
- -46 All Firms

Investing for Growth
Profitable Growth firms successfully streamline business support functions

Profitable Growth firms spend less on support costs...

Admin & Ops Cost
Median, as % of total cost, avg. 2015-2017

-21%

25%
20%
15%
10%

All Firms
Profitable Growth Firms

...with fewer people...

Admin & Ops FTEs
Median, as % of total FTEs, avg. 2015-2017

-6%

38.2%
35.9%

0%
2%
4%
6%
8%

All Firms
Profitable Growth Firms

...and greater outsourcing

Outsourcing Spend
Median, as % of total, avg. 2015-2017

+22%

11%
9%

Profitable Growth Firms
All Firms

Outsourcing concentrated in fund admin., investment operations, TA, fund accounting & risk management

Source: Casey Quirk/McLagan Performance Intelligence 2018 Study
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

<table>
<thead>
<tr>
<th>Initiatives</th>
<th>Investments</th>
<th>Distribution</th>
<th>Tech and Data</th>
<th>Mid/Back Office</th>
<th>HR &amp; Talent</th>
<th>Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha from new sources of data</td>
<td>✔</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>Simple and elegant client experience</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Always on engagement model</td>
<td></td>
<td></td>
<td>✔</td>
<td></td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>Investment leadership brand</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>Optimize investment value chain</td>
<td>✔</td>
<td></td>
<td></td>
<td></td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Drive distribution productivity &amp; efficiency</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Automation across enterprise support functions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Flexible &amp; scalable approaches to data</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td>✔</td>
<td>✔</td>
</tr>
</tbody>
</table>

- **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