Key industry findings from the 17th Annual Global CEO Survey

Fit for the future
Asset Management industry summary

97%

of CEOs are confident about revenue growth over three years

52%

of CEOs expect the economy to improve in the next 12 months

58%

of CEOs plan to hire more staff in 2014

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Introduction to the Global CEO Survey

The global economic recovery continues to be fragile, but with immediate pressures easing. CEOs are feeling more optimistic and coming out of survival mode. In PwC's 17th Annual Global CEO Survey we set out to uncover how CEOs are searching for growth in a still-challenging environment. We surveyed 1,344 business leaders across 68 countries around the world, in the last quarter of 2013, and conducted further in-depth interviews with 34 CEOs.

Our survey sees a leap in CEOs' confidence in the global economy – but caution as to whether this will translate into better prospects for their own companies. The search for growth is getting more and more complicated as opportunities in both developed and emerging economies becomes more nuanced, leading CEOs to revise the portfolio of overseas markets they will focus on.

In 'Fit for the future: Capitalising on global trends', we also explore three forces that business leaders think will transform their business in the next five years: technological advances, demographic changes and global economic shifts. We show how these trends, and more importantly the interplay between them, are creating many new – but challenging - opportunities for growth through: creating value in totally new ways; developing tomorrow's workforce; and serving the new consumers. We also show how, in responding to these trends, CEOs have the opportunity to help solve important social problems. In short, the demands being placed on business leaders to adapt to the changing environment are increasing exponentially; CEOs are having to become hybrid leaders who can successfully run the business of today while creating the business of tomorrow.

The report on the following pages is a summary of our findings in the asset management sector, based on interviews with 123 asset management CEOs in 37 countries, as well as an in-depth interview with Stephen A. Schwarzman, Chairman, Chief Executive Officer and Co-Founder, Blackstone. Unless otherwise noted, the term "CEO" refers exclusively to CEOs in the asset management industry. To see the full results of the PwC 17th Annual Global Survey, please visit www.pwc.com/ceosurvey.

"Asset management CEOs are more confident as equity markets have rallied and fundamental shifts in the financial ecosystem increase demands for their investment services," says Barry Benjamin, PwC's Global Asset Management Leader. "What's more, their optimism is taking root as they actively invest to stimulate future growth. Their expansion plans include mergers and acquisitions, investment in technology and hiring more people. They're voting with their pocket books.

"Cost reduction is still important but it's becoming less of a priority as CEOs make plans for growth. It's interesting to note that people see the best opportunities for growth in the United States and Western Europe. But regulation clearly remains a strong headwind."

Introduction

70%

We've invested heavily in technology. They [investors] can get information from us faster than virtually anybody in our field. We've cut the paper flows and time on things by over 70 percent

Stephen A. Schwarzman, Chairman, Chief Executive Officer and Co-Founder, Blackstone

Asset management CEOs are preparing for growth. They're becoming more confident, taking heart from both rising equity markets and the growing demand for their services. While they recognise that Western economies have not overcome all their fiscal difficulties, CEOs are doing far more than saying they're optimistic – they're actively investing in their businesses, seeking to accelerate both organic and inorganic expansion.

That's why 58% of the CEOs we surveyed plan to hire more staff this year. What's more, 53% are already investing in technology or have concrete plans to do so. And 41% intend to change their approach to mergers and acquisitions, joint ventures or strategic alliances in order to capitalise on global trends. Clearly, CEOs think there's an opportunity to significantly improve profits.

Stephen A. Schwarzman, Chairman, Chief Executive Officer and Co-Founder, Blackstone is a strong advocate of investing in technology. "We've invested heavily in technology. They [investors] can get information from us faster than virtually anybody in our field. We've cut the paper flows and time on things by over 70 percent," he says.

After a tough business environment in the five years following the financial crisis, our survey shows asset managers becoming notably more confident. Greater optimism is natural, as rising equity markets boosted their profits in 2013. But we believe the conditions are in place for sustained expansion in assets over the rest of the decade, as our newly released Asset Management 2020[1] paper explains. Far-reaching changes to pension investment, asset managers' movement into spaces left free by shrinking bank lending and the expansion of new investor types such as sovereign wealth funds will drive growth.

We foresee the changes being uncomfortable for some managers but offering opportunity to others. The regulatory landscape will become ever more costly and there will be a revolution in the tax landscape. Industry assets will expand rapidly, especially passive and alternative funds. Social media may well disrupt business models and a small number of global mega-managers will emerge.

This fundamental change in the landscape explains not only CEOs' confidence, but also their intention to invest. Their plans to hire more staff are striking, signalling that CEOs are now in expansion mode. Plans to revamp strategies for mergers and acquisitions, joint ventures and alliances also reflect rising confidence. Finally, increasing technology spending is more important than ever, as big data, social media and digital communications have the power to revolutionise asset management.

Finally, no 2014 survey of asset management CEOs could ignore increasing regulation. New regulations in Europe and the United States – and their associated costs – remain a headwind. Yet many CEOs acknowledge that tougher regulation brings benefits.

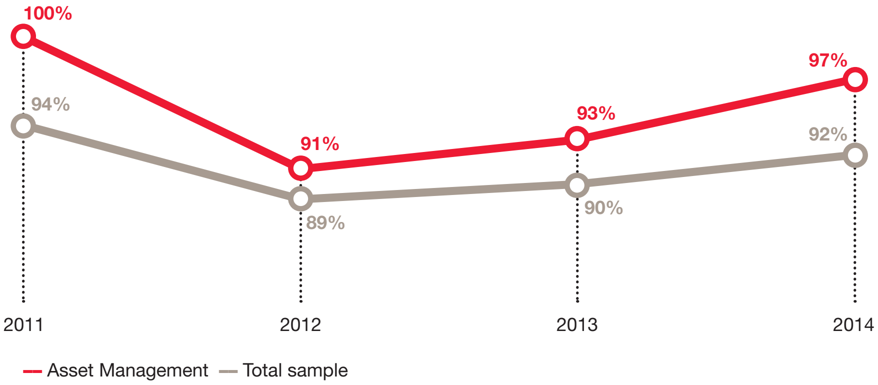
1 Asset Management 2020 (www.pwc.com/AM2020), published by PwC, 2014

97%

CEOs are confident about their prospects and getting more so. Ninety three percent express confidence about their revenue prospects for the next 12 months, rising to 97% over three years.

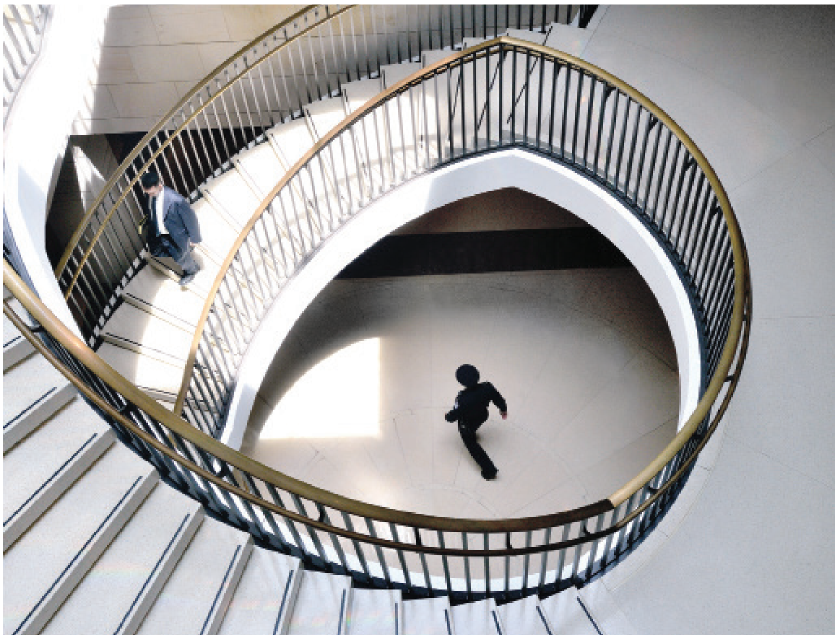
Figure 1 AM CEOs' confidence levels have rebounded

How confident are you about your company's prospects for revenue growth over the next 3 years?



Base: All respondents 2014 (Total sample, 1344, Asset management 123); 2013 (Total sample, 1330, Asset management 108); 2012 (Total Sample, 1258; Asset management, 125); 2011 (Total sample, 1,201; Asset management, 31)

Source: PwC Annual Global CEO Survey, 2011-2014



Looking to the future with growing optimism

CEOs are confident about their prospects and getting more so. Ninety three percent express confidence about their revenue prospects for the next 12 months, rising to 97% over three years. They're notably more confident than they were in 2013, when 85% anticipated growth in the next 12 months, rising to 93% over a three-year horizon. Buoyant equity markets in the advanced economies are boosting revenues, while growing investor demand for asset management offers greater future opportunity.

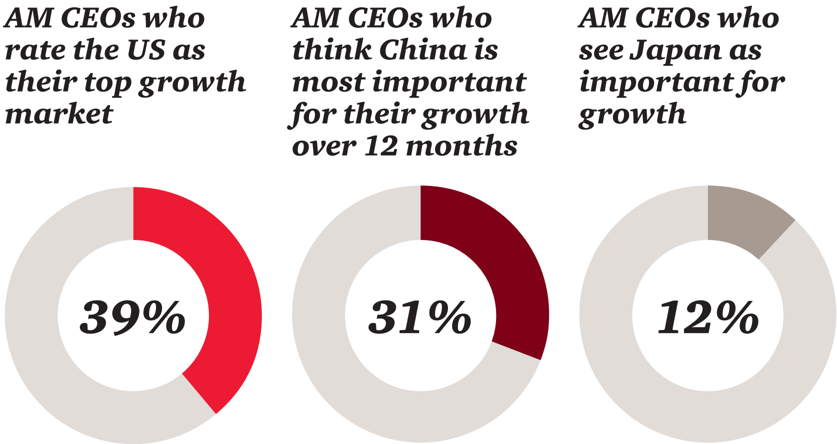
CEOs are also getting more sanguine about the global economy, although some evidently believe recovery will remain slow. Fifty-two percent expect the economy to improve in the next 12 months, with 41% expecting it to remain the same. They're far more hopeful than last year, when just 19% of CEOs expected improvement.

CEOs see over-regulation and the response of governments to fiscal deficits and debt burdens as the greatest policy challenges to their prospects. Eighty percent view over-regulation as a threat to growth and 78% name fiscal austerity programmes.

When looking to the next 12 months, the largest proportion of CEOs, 33%, sees organic growth in their domestic markets as offering greatest potential. And 31% are looking to product and service innovation, at a time when there's demand for new ideas in both exchange-traded funds (ETFs) and retail alternatives.

Figure 2 **Mature markets and China are priorities for growth in 2014**

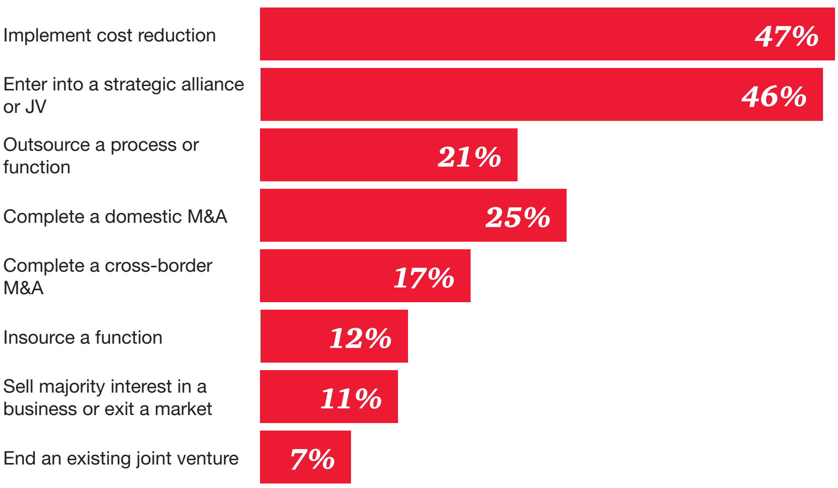
Which countries, excluding the one in which you're based, do you consider most important for your growth prospects over 12 months?



Base: All respondents (Asset Management, 123)
Source: PwC 17th Annual Global CEO Survey

Figure 3 **Plans being made equally for both M&A, alliances and JVs, and cost cutting**

Which, if any of the following restructuring activities do you plan to initiate in the coming 12 months?



Base: All respondents (Asset Management, 123)
Source: PwC 17th Annual Global CEO Survey

Outside the fast-developing BRIC economies, CEOs believe the big developed economies of the United States, Germany and the UK will be most important for their future growth in the next three to five years. They're also beginning to look to Japan, where Prime Minister Shinzō Abe's reflationary economic policies appear to be stoking recovery. In developing countries, CEOs anticipate that China will be most important for their growth. They're also optimistic about Indonesia, which has a large population and fast-growing middle class.

Actively investing for growth

As they plan for the future, CEOs are firmly in expansion mode. They're investing for both organic and inorganic growth – pursuing the former through hiring more people and increasing their technology spend, and the latter through seeking out mergers, acquisitions and joint ventures. Clearly, CEOs are planning for a prolonged upswing.

The destinations for M&A activity, joint ventures and strategic alliances are both developed and emerging markets. Thirty-four percent of CEOs who are planning deals are seeking targets in Western Europe and 30% in North America. In our experience, fast-growing asset managers in Asia and other developing economies are looking to buy rivals in these markets in order to increase the breadth of their portfolio management expertise, allowing them to offer funds investing in international financial markets.

Turning to emerging and developing economies, 25% of CEOs who are planning deals are looking to Southeast Asia, 22% in Central and Eastern Europe/Central Asia and 13% in Latin America. Practically speaking, the only way of entering some of the fast-growing new markets is through acquisition, joint venture or strategic alliance. What's more, suitable opportunities are few and far between.

But asset managers aren't just investing for growth; some are still making internal operating efficiencies. So 47% aim to cut costs in the next 12 months, and 21% are looking to outsource a business process or function.

Preparing for transformative mega trends

Asset management CEOs acknowledge that the dominant mega trends affecting the global economy will affect their sector fundamentally, concurring with the theme of Asset Management 2020.

Acknowledging the need to plan ahead for a period of rapid growth and change, nearly 30% of asset management CEOs believes their ideal planning horizon to be five years. Sector executives foresee technological advances transforming their businesses over five years, with demographic shifts and the transfer of economic power to emerging markets also having substantial effects.

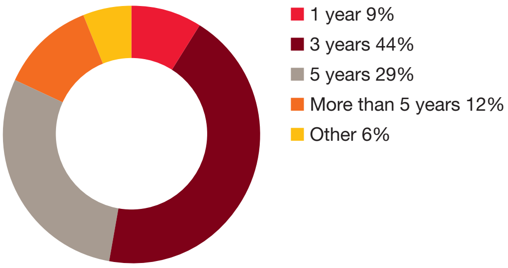
Asset management firms are already preparing themselves for a fast-evolving operating environment, although their level of activity lags other financial services sectors. The main areas in which they're implementing change programmes include: customer growth and retention, organisational structure, technology and talent.

CEOs describe the Board and executive management as being prepared for change. They regard marketing and brand management as least prepared. With digital communications and social media potentially disrupting business models, marketing and brand management departments need to learn new skills quickly.

The challenge of fast technological change is a constant theme. It ranks as one of asset management CEOs' greatest potential business threats to growth. Technology is impacting all areas. Not only is it important for the firm's external brand and communications, but also asset managers will find 'big data' increasingly useful for analytics. In a related finding, more than half of sector CEOs cite cyber and data security as a threat to growth.

Figure 4 Asset management executives believe they need to plan for the future

Where would you like your planning horizon to be? 1, 3, 5, or more than 5 years?



Base: All respondents (Asset Management, 123)
Source: PwC 17th Annual Global CEO Survey

30%

Acknowledging the need to plan ahead for a period of rapid growth and change, nearly 30% of asset management CEOs believes their ideal planning horizon to be five years.

72%

of CEOs simply ask for clear regulations, designed for the long term, that allow them to plan.

Regulation is improving product and service delivery

The cost and intrusion of more regulation are proving a headwind to growth, but CEOs also see benefits. While 83% of CEOs say that regulation has increased operating costs, and 46% believe it has hampered their ability to innovate, 46% also state it has improved product and service delivery standards.

In spite of the passage of time and higher regulatory standards, asset managers haven't rebuilt the trust lost in the financial crisis. Forty-five percent of CEOs think that governments and regulators have less trust in the sector now than they did five years ago. And just 37% say customer trust has improved, suggesting that low levels of customer trust remains a problem.

But clearly the tough regulatory environment is making ethical behaviour a priority. Ninety-four percent of CEOs agree that it's important to promote a culture of ethical behaviour.

Tax policy and administration is an important topic for CEOs. When making decisions about where to operate, 70% of CEOs see the competitiveness of local tax regimes as a key factor.

But most CEOs don't hanker after less regulation. Instead, 72% of CEOs simply ask for clear regulations, designed for the long term, that allow them to plan.

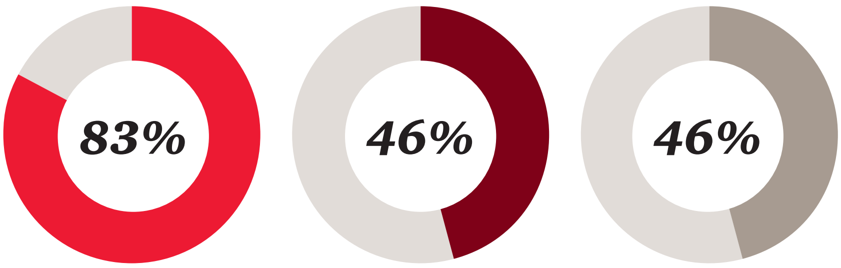
Figure 5 **CEOs say regulation is having a big impact**

Which of the following most accurately described how regulation has impacted your company over the past 12 months?

Percentage who say operating costs are rising

Percentage who are concerned about ability to innovate

Percentage who see product and service delivery standards rising



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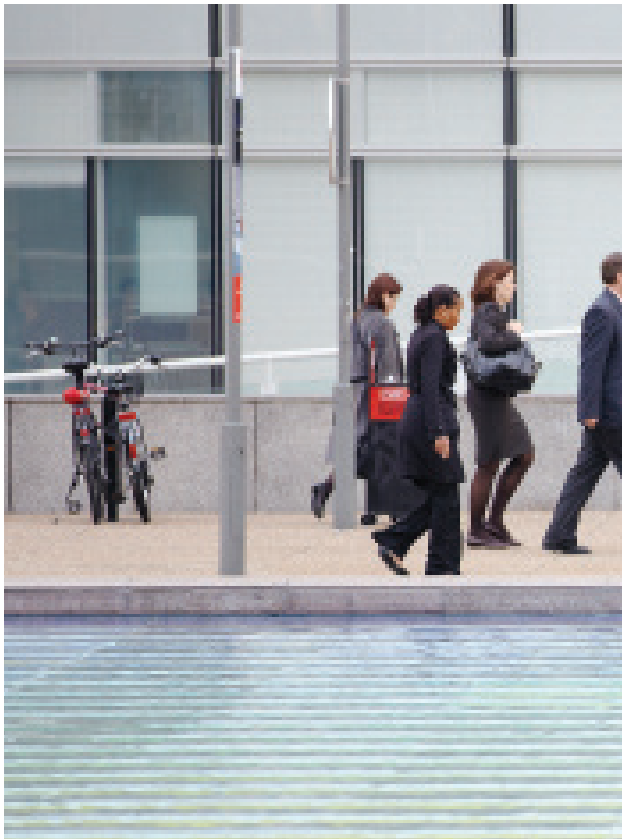

Conclusion – Investing for the future

The results of our 2014 CEO Survey show a change in the weather for asset managers. While traces of the uncertainty that followed the financial crisis remain, asset management CEOs are investing for growth for the first time in five years. Our responses tell us unequivocally that confidence is rising and that firms are planning to invest in both organic and inorganic growth.

Looking to the longer term, CEOs recognise that we're entering a time of rapid change, as our Asset Management 2020 paper portrays. For some this period will spell opportunity; but for others it may be uncomfortable.

Never has it been more important to plan ahead for change. CEOs need to make use of their rising confidence, making sure they understand what the future is likely to bring and investing for growth.

Contacts

If you would like to discuss any of the issues raised in this report in more detail, please get in touch with me or your usual PwC contact.

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