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It’s no exaggeration to say that a number of major trends are relentlessly reshaping asset and wealth management. Every area of firms’ activities is arguably affected – from product design, to portfolio management, marketing and operations. So significant is the magnitude of change that firms have no choice but to review and re-engineer their strategies.

In this September 2016 edition of Asset & Wealth Management Insights, we showcase PwC research into some of the more critical strategic challenges facing asset managers. ETFs are now an important part of most traditional asset managers’ product line up; we identify the themes that will mark their continued growth. Turning to wealth management, we explain why firms can’t afford to miss the digital wave. We also report how asset management is embracing social media. In Asia’s fast-growing market, we show how Hong Kong is positioning itself as the centre for accessing China. And, we also highlight the communication gap between company CEOs and the investors in their firms.

Finally, our research shows how this period of change is driving high levels of M&A. Firms are looking to gain expertise and reposition themselves, especially in high-growth areas such as ETFs and robo-advice.

Please read more in the selection of articles. Do get in touch if you would like to learn more.

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Sink or swim: why wealth management can’t afford to miss the digital wave

Digital technology will differentiate between those firms that thrive and those that lose market share.

The world is living through one of the most transformative times in human history. The rise of technology has altered how we live and the speed with which we engage with one another. But how does this impact wealth management – a proposition predicated on personal service, where clients pay for solutions and advice tailored to their individual investment goals, day-to-day financial needs and attitudes to risk?

Time to move beyond human capital

Until now, wealth management’s personalised response has relied on human effort. But digital and algorithmic innovation is creating the possibility of more and more of the wealth manager’s role being delegated to technology and, in turn, is potentially opening up the sector to new FinTech players with very different ways of doing things.

Wealth management firms cannot assume that length of experience, brand prestige or even the quality of their client relationships will insulate them from this possibility. Current levels of satisfaction and advocacy among wealth management clients are modest at best.

Plus, a younger cohort of high-net-worth individuals (HNWIs) is emerging, whether through their own enterprise or wealth transfer. As millennials grow in economic power, firms will be courting a tech-immersed generation that has grown up in a world of economic instability and who are, as a result, highly adaptable, restless and fickle in their choice of brands and service providers.

Keeping ahead of digital disruption

Today, 83% of business leaders surveyed in a PwC global survey of the financial services sector believe they are at risk of losing business to standalone FinTech companies, and wealth management is seen to be one of the sectors most vulnerable to disruption, with more than a fifth of such businesses believed to be at risk. To survive in a digital world that is evolving at breakneck speed, wealth management firms urgently need to take action to demonstrate their value to existing and future clients – and to keep pace with the new waves of digital opportunity that are emerging.

In our report, ‘Sink or swim: why wealth management can’t afford to miss the digital wave,’ we drew on quantitative research with more than 1,000 high net worth individuals throughout Europe, North America and Asia, plus qualitative interviews with 100 relationship managers and a number of CEOs of wealth management firms and FinTech innovators. This unparalleled access allowed us to assess the appetite and expectations among the world’s wealthy for digitally driven solutions and, by contrast, the lack of readiness among wealth managers to meet this appetite.

We also examined how front, middle and back office technology applications could help to advance the role of wealth management firms, deliver efficiencies and allow their proposition to remain compelling and distinctive in the face of competition from tech-driven newcomers.

Wealth managers currently rank among the slowest adopters of digital technology in the global financial services sector. Now is the time to start making up lost ground. Below are five of the report’s key findings:

• **HNWIs enthusiastically adopt technology**

Ambitious but troubled by concerns and anxieties, HNWIs strongly believe in paying for expert advice to help them reach their financial and non-financial goals – an attitude that the wealth management industry is ideally positioned to leverage and scale up through skilful use of digital technology to improve efficiency and responsiveness.

• **The wealthy and technology: digital expectations are growing**

The world’s wealthy are integrating digital technology into their day-to-day lives as rapidly as everyone else. Although they may have reservations about technology that draws on their personal data, ceding information is seen as a necessary price for enjoying the convenience that personalised digital services can bring.

• **Traditional wealth managers are vulnerable to FinTech newcomers**

Resistance to digital adoption among wealth managers, combined with a client base that does not feel a particularly strong affiliation to its current providers, is creating a sector that is acutely vulnerable to digital innovation from potential FinTech incomers.

• **There is an option to combine the best of human and technological capital**

Wealth management is dangerously behind the curve in its adoption of digital technology compared both to other financial services such as banking, and other consumer sectors. But there are emerging opportunities that the industry is powerfully positioned to exploit to advance its position. These include using technology to improve the services offered by relationship managers and becoming data custodians – trusted recipients of client data that allows them to respond to a broad range of client needs.

• **Firms that resist technological innovation will become less competitive**

Realising the possibilities of digital will require wealth management firms not simply to have a digital strategy but a business strategy that genuinely embeds technology into their whole culture and value proposition. Rather than just an add-on, digital has the potential to completely transform every stage of the wealth management journey, from how existing clients are advised and serviced to how prospective clients are identified and marketed to.

**Conclusion: Making digital personal by making the personal digital**

The wealth management industry now needs to provide both its current and future clients with a substantially evolved service model or risk losing market share. Faced with low levels of client advocacy and a rising appetite among its target audience for digitally-enabled living, CEOs of traditional wealth management firms need to accelerate their efforts to integrate technology into their business. By overestimating their current technology offering, firms are now critically vulnerable to FinTech innovators who can present the world’s wealthy with slick and highly personalised ways to manage and coordinate their assets, and leverage their real-time personal data continuously to make better financial decisions.

This article is an extract from ‘Sink or swim: why wealth management can’t afford to miss the digital wave.’ The full report is accessible here.
ETFs are dominating flows in asset management, reaching a record US$351 billion globally in 2015. Record regional ETF flows were achieved in Europe and Canada, while the US and Asian regions approached near record flows in 2015. Based on a variety of factors, participants surveyed for our ‘ETFs: A roadmap to growth’ paper anticipate even more ETF growth across North America, Europe and Asia, with global ETF assets expected to exceed US$7 trillion by 2021 (up from US$3 trillion at the end of 2015). The calculations of our Global ETF Growth Model corroborate survey participants’ expectations.

In our paper, we identify six themes that will characterise this period of growth for ETFs.

**Growth** – The ETF industry has achieved tremendous growth since its inception in 1993. We expect accelerated growth over the next five years, with a focus on new markets, expanding distribution channels and asset classes.

**Distribution** – The ETF market has become increasingly crowded, particularly in North America and Europe. Successful firms will likely need to invest in investor education, establish strong distribution channels to gather assets, and differentiate their products in these congested markets.

**Products** – Today, the majority of global ETF assets are in passively managed investment products. However, over the past few years, there has been an increased focus on smart beta investment products, which are structured around factors other than market capitalisation, such as dividends, earnings, value, momentum, quality and size. Many of the firms that we have spoken with are also evaluating opportunities to launch fixed income and actively managed ETFs.

**Regulation** – Given the significant growth and innovation of ETFs, regulators across the globe continue to focus on investor protection, which may slow some of the growth and innovation of ETFs. However, there are also some regulations that may help to foster more ETF growth.

**Technology** – Advances in technology and data analytics with respect to product creation, markets and distribution have significantly contributed to the growth and innovation of ETFs. The continued digital evolution of the ETF industry will likely transform client relationships and expand distribution capabilities in terms of communications, sales and customisation.

**Globalisation** – Many ETF sponsors are seeking to expand their global footprint, which presents both opportunities and challenges. Firms will need to navigate complex regulations and tax laws, as well as establish strong working relationships with local capital markets to expand their ETF product offerings globally.

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3 Ibid
Conclusion

The market for ETFs is likely to grow at a healthy rate over the coming years. New firms are expected to enter the ETF space, either organically or through acquisitions. More investor segments are likely to continue to find new and different ways to use ETFs as part of their investment strategy.

Over the next five years, we expect that there will be increasing competition in ETF markets across the globe, and firms will likely need to continue to seek ways to differentiate themselves in these crowded markets. Continued focus on investor education, adapting product offerings to evolving regulations, navigating complex global markets, and establishing strong distribution partners will be some of the keys to success.

Further advances in the use of big data, digital technology and social media will help to improve decision-making processes, provide opportunities for ETF sponsors to streamline costs, and transform client relationships in terms of communications, sales and distribution.

This article is an extract from our paper “ETFS: A roadmap to growth.”

About the survey

PwC surveyed executives from approximately 60 firms around the world in 2015 using a combination of structured questionnaires and in-depth interviews. More than 70% of the participants were ETF managers or sponsors, with the remaining participants divided between asset managers not currently offering ETFs and service providers. Participating firms account for more than 80% of global ETF assets.

Figure 1: Prediction for Global ETF AUM over the next five years

Note: Due to rounding, the percentages may not add up to 100%.
The proliferation of the digital economy is giving birth to new internet-based business models in a vast array of industries. It has drastically changed the way companies deliver services to their customer base, how they interact with clients and the vehicles they use to market their products.

We are living in a social era where business-to-customer (B2C), business-to-business (B2B) and peer-to-peer (P2P) communications are rapidly evolving, driven by the growing ubiquity of new digital technologies, such as mobile devices and applications. Moreover, the rise of social media at the global level has drastically changed the way people interact and communicate with each other and with companies.

Social media has altered the basic rules of interaction, making one-way communication old fashioned. People are now able to communicate with their peers all over the world on a 24/7 basis in the digital space, where a plethora of new tools enable real-time and multi-user communications.

At the same time, social media has enabled new communication channels for companies that allow them to reach their current and potential customers, distribute their content, promote their products, monitor their brands and reputation as well as improve client retention and acquisition practices.

Social media is now playing a considerable role in purchasing decisions, as television did in the past. A survey conducted by Badgeville\(^4\) in 2014 showed that 63% of millennials\(^5\) the next cohort of investors, stay updated on brands through social networks and a majority says social opinions have influenced their purchasing decisions. Another study by Social Business Engine and Dell\(^6\) showed that 75% of B2B buyers were also influenced by information they found on social media.

Despite the growing importance of social media in our daily lives, the level of engagement in social networks varies substantially from one industry to the next in light of the nature of the services provided and, hence, regulatory constraints.

Sectors like consumer products and technology have already embedded social media in their DNA and business models. They use social channels as cost-effective marketing tools to test new products and target specific customer segments or to achieve efficacious customer service, among other things.

This article is an extract from our ‘Asset management in the social era’ report, published jointly with Caceis Investor Services, which provided an update on the state of asset management’s use of social media and the leading players in this arena. To do this, we conducted in-depth interviews with leading asset managers in order to assess the importance of social media channels in their digital strategies, the risks they face related to social platforms and their visions of the future.

We also established a set of metrics used to assess the performance of asset managers on Facebook, LinkedIn, Twitter and YouTube. Further, desktop research identified specific insights on current trends, regulations and new business models in the social media space.

Below are the report’s four key findings:

1. **Social media networks become an integral part of asset managers’ marketing mix**
   - The share of asset managers present on social media today stands at 89% (73% excluding LinkedIn), up from 60% in 2013.
   - Of the 89% of asset managers with at least one active account dedicated to asset management, 21% are interactive.

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\(^5\) The demographic cohort born between 1980 and 2000, which follows Generation X.
2. Europe is taking a step forward

- In 2016, there are three European firms in the top ten users of social media, while in 2013 there was just one. In addition, ten European players are now in the top 25, while in 2013 there were seven.
- Regulators are participating in this trend by issuing new guidelines at the country level.

3. Two-way communication is a must

- The share of asset managers with interactive accounts jumped from 9% in 2013 to 21% in 2016. The share of affiliated asset managers that have interactive accounts also increased from 11% in 2013 to 41% in 2016.
- Asset managers are focusing their efforts on recruitment and educational content for investors to engage with their audience.

4. Leveraging best practices from other industries offers new opportunities

- While banks are starting to provide account management and payments via social media, distributing funds through social media networks is an untapped option.
- Creating channels solely dedicated to customer services-related requests could enhance the customer experience of asset managers’ clients.
- Social media has the potential to provide vital insights about investment trends and customers’ preferences and to enhance client profiling practices.

Conclusion

In light of the growing ubiquity of social media in people’s daily lives, business environments and investment spaces, asset managers will keep betting on this arena. Our interviews confirmed that budgets and human resources dedicated to social media management are increasing in the asset management industry and this trend will maintain momentum going forward.

Social media channels are not just additional channels to deliver corporate messages to a diverse global audience, they are also a pool of valuable information and insights. Social media is among the favourite ways to discover opinions on products, services and companies, particularly among millennials, who will soon represent the new wave of investors. So mining social channels, with the use of sophisticated analytics tools brought to life by technological advancements, could be a valuable option for asset managers. The adoption of “social listening” tools could help them to streamline their product development practices according to customers’ changing needs.

Social media could also represent a new distribution channel for asset managers looking at reaching retail investors and facilitating the subscriptions to funds. This could unlock new fund-related revenues and broaden asset managers’ potential customer bases. In addition, as investors are becoming accustomed to expecting from financial services providers the same level of speed, personalisation and simplicity offered by technology firms like Google and Amazon, creating social media accounts dedicated solely to customer services issues could enhance the customer experience. At the same time, the creation of corporate accounts on social media networks for investment firm employees that deal with client portfolios on a daily basis could also better meet clients’ needs, as is the case for other industries such as technology and consumer goods.

Some challenges still remain. The evolving regulatory framework and uncertainty in the legal domain with regards to financial promotion on social media channels is forcing asset managers to look carefully at what they say on social networks, aiming to respect privacy issues while maintaining effective communication practices. In addition, operational challenges such as content creation which is, according to our interviews, a very time-consuming practice coming with high reputational risks are at the top of the asset management industry agenda concerning social media.

That said, social media is opening up opportunities for the asset management industry, as is happening in other sectors. It is essential for asset managers to embed social media in their strategies in order to better address communication with audiences and, most importantly, to carefully listen to and be part of the shifting investor sentiment in almost real-time.

This article is an extract from our ‘Asset management in the social era’ report, published jointly with Caceis Investor Services.
Merger and acquisition activity among US asset and wealth managers has recently reached levels matching previous peaks. There are sound strategic reasons for this upsurge. Firms are seeking to reposition themselves and protect profitability in the face of shifting customer demands, rising regulation and the need to embrace technology.

The number of deals in 2015 rose by 65% to 142 compared with the previous year, although total deal value fell short of the previous year. The themes below show the strategic rationale for mergers continues. But much will depend on market volatility.

- **Record year for independent manager deals:** After sitting on the side lines for over five years after the financial crisis, independent asset managers finally returned to the deal markets in 2015. Following in the footsteps of the private equity (PE) firms which sold a large number of firms the year before, this was the year they came back to the deal tables. The 142 deals announced was the largest number in the sector for 10 years. It compared to 86 deals in 2014 and 105 deals in 2007, which was the second highest level of deal activity over the last 10 years. Whether or not this trend continues depends on how buyers and sellers react to market volatility as well as regulatory uncertainties. We expect eager buyers and sellers with strategic rationale will press ahead, maybe using contingent purchase price mechanisms. But less certain buyers and sellers may wait for a more stable environment.

- **Valuations have come down slightly:** Deal valuations took a beating due to the volatility in global equity markets and higher level of uncertainty in many of the industry’s sub-sectors. As we reported in 2014, deal valuations stabilised but varied from transaction to transaction, depending on the acquisition candidate’s characteristics (growth prospects, profitability, size, synergies, etc.) and the deal’s potential risk factors. Price dispersion remained high in 2015 while valuations moved lower to between four and 15 times EBITDA (after elimination of some outliers, particularly the robo-advisor and small ETF deals). Also, the level of uncertainty in transactions caused buyers to push for more earn-out arrangements.

- **Continued consolidation across all sub-sectors:** Asset management margins are being threatened by fee pressures from clients and overall expense control and transparency demands from clients, fund boards and regulators. What’s more, increased spending on regulatory compliance and reporting, as well as technology, is putting further pressures on margins. Consolidation has achieved cost synergies, as well as fulfilling other strategic or growth objectives. The two key strategic reasons driving consolidation have been expansion of product offerings and development of multi-asset capabilities to serve client needs. Additionally, managers that have struggled to differentiate themselves are looking to merge with others, hoping the combined firm’s resources will do so. These trends have affected smaller independent managers most of all, which is why there are so many mergers.
Changing investor demands: Shifting investor demands are significantly affecting assets under management. While US equity mutual funds lost $170 billion of assets in 2015, exchange-traded funds (ETFs) attracted $231 billion of net new cash flows during the 11-month period to December 2015. We expect ETF assets to reach $7 trillion by 2020. In addition, there are a growing number of investors looking for solution-based multi-asset class managers, which can produce goal oriented returns vs. absolute returns against a benchmark. It is possible that medium-to-large managers may want to diversify and build out multi-asset capabilities through M&A.

Minority interest deals: Minority interest deals continue to remain popular among both buyers and sellers. Specialist platforms have raised several billions of dollars in recent years and have been acquiring minority equity interests in successful alternative managers. Such deals benefit buyers by providing access to fast-growing managers and diversification of investment; sellers benefit from liquidity without losing control, as well as access to a strategic partner that can accelerate growth through distribution strength and product development expertise. We expect minority deal activity to continue to be robust – both as new players enter the minority investment market and existing players deploy the significant capital already raised.

Private equity firms were busy as the buyers and the sellers of asset managers: In 2015, PE firms were active buyers and sellers, executing a large number of mega deals. Three out of the top five disclosed deals involved PE firms. The level of deal activity demonstrates this savvy group of buyers’ belief in the opportunities presented within the asset and wealth management sector.

New technology: There was an increased number of M&A deals to acquire technology targets, particularly in the robo-advisor space. As noted in PwC’s Asset Management 2020 publication, entitled ‘A Brave New World,’ the demand for a seamless, integrated and tailored customer solutions, as well as the need to obtain operational efficiency, is leading to greater interest in technology. Smaller firms which lack the resources to deploy cutting-edge technology have reason to merge with larger players to remain competitive and relevant to investors. We expect this trend to continue.

Product innovation: The growing pace of product development has disrupted and dislocated existing investor-manager, manager-distributor and advisor-investor relationships, while also creating significant opportunities for nimbler firms. For example, the number of ETFs has continued to grow, increasing from 923 in 2010 to over 1,500 in 2015 as new strategies are invented. New launches range from 100% passive index funds to smart beta and hybrid passive/active funds. Smart beta strategies gained tremendous popularity in 2015, accounting for over one-fifth of ETF products and about one-third of asset flows for the first six months of 2015, according to a recent report. New solution-oriented products are also being marketed.

2016 and beyond
So what’s the outlook for the rest of 2016? Although deal activity is likely to remain strong, we’re less certain that deal volumes will match 2015’s peak performance. In our view, deal activity is likely to be focused on growth areas such as ETFs and robo advisers, as well as the fragmented sector of wealth management.

This article is an extract from our paper ‘US asset and wealth management M&A insights: reaching new heights’.
In brief

The Financial Services Development Council (FSDC)8 issued three research reports on 7 December 2015 outlining its recommendations to the Hong Kong Special Administrative Region government, regulators and the industry to substantially strengthen Hong Kong’s role as a leading international asset and fund management centre, as well as a fund domicile hub. While each of the three reports has a different focus, all three draw from the experience and expertise of industry players and specialists, with the overarching goal of setting out a clear road map for the development of Hong Kong’s financial services industry, and in particular, its asset management industry.

In this article, we summarise the key points and recommendations from each of the three reports.

In detail

The FSDC’s three research reports (available from its website9) address different aspects of Hong Kong’s financial industry and map out clear opportunities and recommendations for stakeholders to consider in order to strengthen Hong Kong’s role as an asset management centre.

The key points from the reports and their recommendations are set out below.

1. The Retail Fund Paper

The Retail Fund Paper identifies and outlines specific objectives to make Hong Kong a leading regional fund distribution centre in the medium term, and a leading international fund distribution centre in the longer term.

The FSDC notes that Asia’s fund market is changing, in part due to the growth of its middle class, an ageing population and the move away from traditional distribution channels. The industry is actively seeking different alternatives for fund distribution while minimising costs to the end investor. The introduction of fund passporting regimes and new distribution platforms are clear responses to such changes.

Against the current climate, the FSDC believes that certain challenges would need to be addressed before opportunities, especially those surrounding fund distribution, can be reaped.

Recommendations:

With that in mind, the FSDC makes four specific recommendations:

a. Support the diversification of fund distribution and innovation
b. Provide additional guidance on suitability requirements
c. Use FinTech and enhance the KYC process
d. Continue to engage with and develop cross-border initiatives.

2. The Tax Paper

The Tax Paper is a follow on from the FSDC’s proposals published on 18 November 2013 on the legal and regulatory framework for open-ended investment companies in Hong Kong and, separately, on tax exemptions and anti-avoidance measures in private equity (PE) funds.

The FSDC sets out its recommendations on these two topics in turn.

Recommendations:

The open-ended fund companies (OFCs) tax framework in Hong Kong

The FSDC recommends that:

a. there should not be any restriction or stipulation on the residency of directors on the board of any private OFC, thus allowing a private OFC to be centrally managed and controlled in Hong Kong to be eligible for the profits tax exemption if the relevant exemption conditions are satisfied.

b. both public and private OFCs should be exempt from stamp duty.
The profits tax exemption for offshore PE funds

The FSDC recommends that:

a. In determining whether or not a PE fund is “bona fide widely held”, the criteria should be relaxed. A PE fund will be regarded as “bona fide widely held” if one of the two conditions below are satisfied:
   - No person holds a participation interest of 20% or more in the non-resident fund; or
   - There are no five or fewer persons with a combined participation interest of at least 50% in the non-resident fund.

b. The “bona fide widely held” concession should be extended to the following specified types of entities, which are genuinely widely held entities:
   i. Sovereign wealth funds
   ii. Pension funds that comply with the requirements /regulations of certain stipulated jurisdictions
   iii. Central banks
   iv. Government agencies; and
   v. The special purpose vehicles for investments set up and controlled by (i) to (iv) above.

Other than the above two recommendations, the FSDC also suggests other issues the Inland Revenue Department (IRD) should address and/or clarify in its revised Departmental and Interpretation Practice note No. 43 (DIPN 43) and/or elsewhere.

3. The Limited Partnership Paper

In the Limited Partnership Paper, the FSDC sets out its recommendations to create an up-to-date legal structure for PE funds in the form of a new limited partnership law, with a view to further developing Hong Kong’s status as a PE hub in Asia. The FSDC emphasises the importance of the unification of the location of fund domiciliation with its management centre to attract and retain the talent pool in Hong Kong.

In making its recommendations, the FSDC draws on the OFCs regime, which is being created for onshore mutual funds and hedge funds, and its first recommendation (below, on fund taxation) aligns the proposed PE limited partnership structure with the proposed OFC tax treatment being introduced for other offshore fund investors.

Recommendations:
The FSDC acknowledges that the standalone act of creating a “modern” legal framework for onshore private equity funds to flourish in Hong Kong would be insufficient. To ensure that Hong Kong will continue to be the preferred choice for PE operations, other changes would be required by the tax and regulatory authorities to the following:

a. Fund taxation – the fund should be profits tax neutral and transfers of partnership interests should not be subject to stamp duty.

b. Regulation of PE activities – once PE funds become domiciled in Hong Kong, an upgrade to the current licensing and/or registration requirements would be required to tailor it to the specifics of the PE sector.

c. Double tax agreements – Hong Kong will need to continue expanding its existing range of treaties (currently 33) to cover other major markets such as Australia and India.

Looking to the future

PwC welcomes the in-depth discussions contained within each of the three reports and agrees with the FSDC that there are ample opportunities to help asset managers and stakeholders overcome challenges and resolve issues identified in the reports.

Such changes are necessary for Hong Kong to remain competitive with comparable jurisdictions. Should the developments put forward by the FSDC be successfully implemented, the benefits to Hong Kong, asset managers and investors would be substantial. There would be greater fund flows and growth in assets under management, a boost to economic activity, a substantial increase in the fund management workforce and broader access for investors. PwC believes that these benefits, both immediate and longer-term, are there for the taking if Hong Kong seizes the opportunity.

This article first appeared in PwC Hong Kong’s Financial Services Tax Newsflash, December 2015.
CEOs and investment professionals often have different perceptions of the same issues. This can lead to poor communication between companies and their investors. In particular, investors may not receive the long-term information about companies’ value drivers that they want.

In our report ‘Redefining business success in a changing world,’ we asked 400 investment professionals the same questions we had posed to over 1,400 CEOs in our 19th Annual Global CEO Survey. These questions explored attitudes towards growth prospects, threats and opportunities, stakeholder expectations and the purpose of a company. The results, highlighted briefly below, offer insights to help strengthen engagement between companies and their investors.

In brief, the results were:

- 77% of CEOs and investors see technological advances as a top-three trend affecting businesses over the next five years.
- 72% of CEOs see availability of skills as a key threat to business growth, compared to 48% of investment professionals.
- 35% of CEOs expressed extreme confidence about revenue growth over the next three years, compared to 13% of investors.
- 41% of CEOs said providers of capital have a ‘high’ or ‘very high’ impact on strategy. 62% of investment professionals thought they should have this level of impact.
- 72% of CEOs see availability of skills as a key threat to business growth, compared to 48% of investment professionals.
- 35% of CEOs expressed extreme confidence about revenue growth over the next three years, compared to 13% of investors.
- 41% of CEOs said providers of capital have a ‘high’ or ‘very high’ impact on strategy. 62% of investment professionals thought they should have this level of impact.

Barriers to responding to stakeholder expectations
- Just 33% of CEOs saw a conflict between stakeholder interests and financial performance expectations, against 54% of investment professionals.
- Just 17% of CEOs viewed performance incentives as misaligned, against 49% of investment professionals.

Areas of agreement and disagreement
We found many areas of agreement. For example, both CEOs and investment professionals are under no illusions about the challenges that businesses face when it comes to technology. Both know that tomorrow’s innovation could spell the beginning of the end for today’s global giant. CEOs and investment professionals also share major concerns about the threat posed by geopolitical uncertainty.

But we also found that CEOs and investment professionals don’t always see the world in the same way. These differences of viewpoint highlight the areas where CEOs might want to look again at their strategic priorities and how they communicate these to investors and analysts. For example, investment professionals appear more pessimistic than CEOs about global economic growth prospects and company revenue growth potential. If CEOs’ greater optimism is justified, why aren’t they getting the message across more clearly?

There may be some bigger surprises, particularly over the strength of the investment community’s interest in drivers of long-term business performance beyond those covered in traditional financial statements. Issues of trust, company purpose and values are on some investment professionals’ radar. For some investment professionals, metrics related to environmental impacts now appear fundamental to their assessment of a company’s future value-creation potential, as well as their assessment of risks. Investment professionals want CEOs to ‘walk the walk’, not just ‘talk the talk’, when it comes to running long-term sustainable businesses.

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Better communication could address differences of opinion between company CEOs and the investors that back them.

Redefining business success in a changing world
Although CEOs may see a case for a long-term focus, it seems that many also see barriers to its implementation. For example, many CEOs seem to think that markets will punish companies if they incur additional short-term costs by adopting new practices that take account of wider stakeholder interests, even if they believe they could enhance future performance. Based on our research, we encourage CEOs to think again – they may find a more receptive audience than they think.

So what’s going wrong? Why do CEOs and investment professionals sometimes fail to see eye to eye? There could be a number of reasons, but one which we think is really important, relates to the quality of company communications and the extent to which they enable investor and analyst understanding of the business and the challenges and opportunities it faces.

Differences in CEOs’ and investment professionals’ opinions could be attributed to three causes:

- **A reporting gap** – companies may not be telling investors everything they need to know – in the way they need to know it – in order to form accurate opinions.
- **An understanding gap** – investment professionals have the same facts as CEOs, but draw different conclusions.
- **A perception gap** – investment professionals have the facts, but do not place the same importance on them.

**Building effective communication**

As our previous investor research suggests, investment professionals tend to be naturally sceptical of management ‘spin’. This natural scepticism may dampen their expectations for the future. However, our findings suggest that companies could do a better job of explaining why their prospects are good and why their strategy makes sense. It’s also important that companies explain how they are addressing current risks and challenges. If corporate communication contains only good news, investment professionals may approach it with caution. But CEOs might have sound reasons for their confidence.
that are not being communicated clearly to their investors. If they can find a way to do this more effectively, and if their strategies are justified, they may be able to align investors’ expectations more closely with their own.

At the same time, investment professionals may need to be more vocal in asking for the information they require, in the form they value. If they want data on a broader range of value drivers and if they want this data clearly linked to business strategies and risks, they need to make this clear. If they value particular key performance indicators, they must say so. If they want CEOs to give a long-term perspective in their annual reports, then they must call for it through ongoing engagement.

Building effective communication is a two-sided activity. Investment professionals have a vital role to play in questioning and challenging the information they are given. CEOs need to take up the challenge by looking hard at what their companies say and how they say it. Corporate reporting has come a long way in recent years, but there’s still plenty of opportunity to make it better. It’s probably unrealistic to expect CEOs, investors and analysts to always share the same priorities or interpret information in the same way, but meaningful engagement could help to increase mutual understanding.

This article is an extract from our report, ‘Redefining business success in a changing world’.

Global Investor Survey / April 2016
"Redefining business success in a changing world: Global survey of investor and CEO views"

PwC
77% of CEOs and investors see technological advances as a top-three trend affecting businesses over next five years.

72% of CEOs see availability of key skills as a threat to business growth compared to 48% of investment professionals.

41% of CEOs and 62% of investment professionals answer high or very high to the question of what impact do providers of capital have on strategy?

33% of CEOs and 54% of investment professionals believe there is a conflict between stakeholder interests and financial performance expectations.

17% of CEOs and 49% of investment professionals believe there is a misalignment in performance incentives.
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