

Fit for the future 17th Annual Global CEO Survey

Key findings in the asset management industry

February 2014



Contents

	<i>Page</i>
Sector snapshot	3
Confidence in growth	7
Preparing for a new world	16
Regulation & trust: A mixed picture	25

Sector snapshot

97%

**CEOs who are confident about
revenues over three years**

Sector snapshot

In this year's CEO Survey, asset management CEOs are increasingly optimistic about future revenue prospects, as their actions show. They're investing in the future, planning to expand their workforces, to make acquisitions and to increase technology spending.

Sector snapshot

Asset management CEOs look to the future with mounting optimism.

CEOs in the asset management sector are more upbeat about their prospects than last year – and they're optimism is increasing. While they've a high level of confidence in their revenue growth over 12 months, they're even more confident over three years. And they're more positive about the economy too. A little more than half of CEOs believe the economy will improve over the next 12 months, indicating growing faith in policy makers.

They're actively investing for growth.

Asset management companies are returning to growth. After keeping tight control over headcount last year, 58% plan to expand their workforce in the next 12 months. In order to prepare for the future, 53% are changing their strategies for investing in technology. And 41% intend to expand through mergers and acquisitions, joint ventures or strategic alliances. Clearly, CEOs are planning for a prolonged upswing in their businesses.

97% of AM CEOs are confident about revenues over 3 years



Sector snapshot

They're preparing for mega trends that will transform their businesses.

Nearly a third of asset management CEOs believe the ideal planning horizon is five years. They acknowledge the need to prepare for a period of rapid growth and change, as described in our *Asset Management 2020* white paper. Sector executives foresee technological advances transforming their businesses over the next five years, with demographic shifts and the transfer of power to emerging markets also having substantial effects.

**Planning to hire
in 2014
58%**

Regulation is improving product and service delivery.

Regulation is a headwind to growth, adding to costs and impeding innovation. But 46% of sector CEOs say it's also improving the quality of products and service delivery. Clearly tougher regulation is bringing some benefits.

**Expanding
through M&A,
JVs and alliances
41%**

Confidence in growth

‘We do have forward momentum in the economy. It’s not what it should be. The reason it hasn’t rebounded in a much more vigorous way is that we’re bearing the burden of too much uncertainty in almost every area, whether it’s in the financial area with banking regulations, Basel III and Volcker rules, uncertainty on tax reform, or healthcare uncertainties with the Affordable Care Act.’

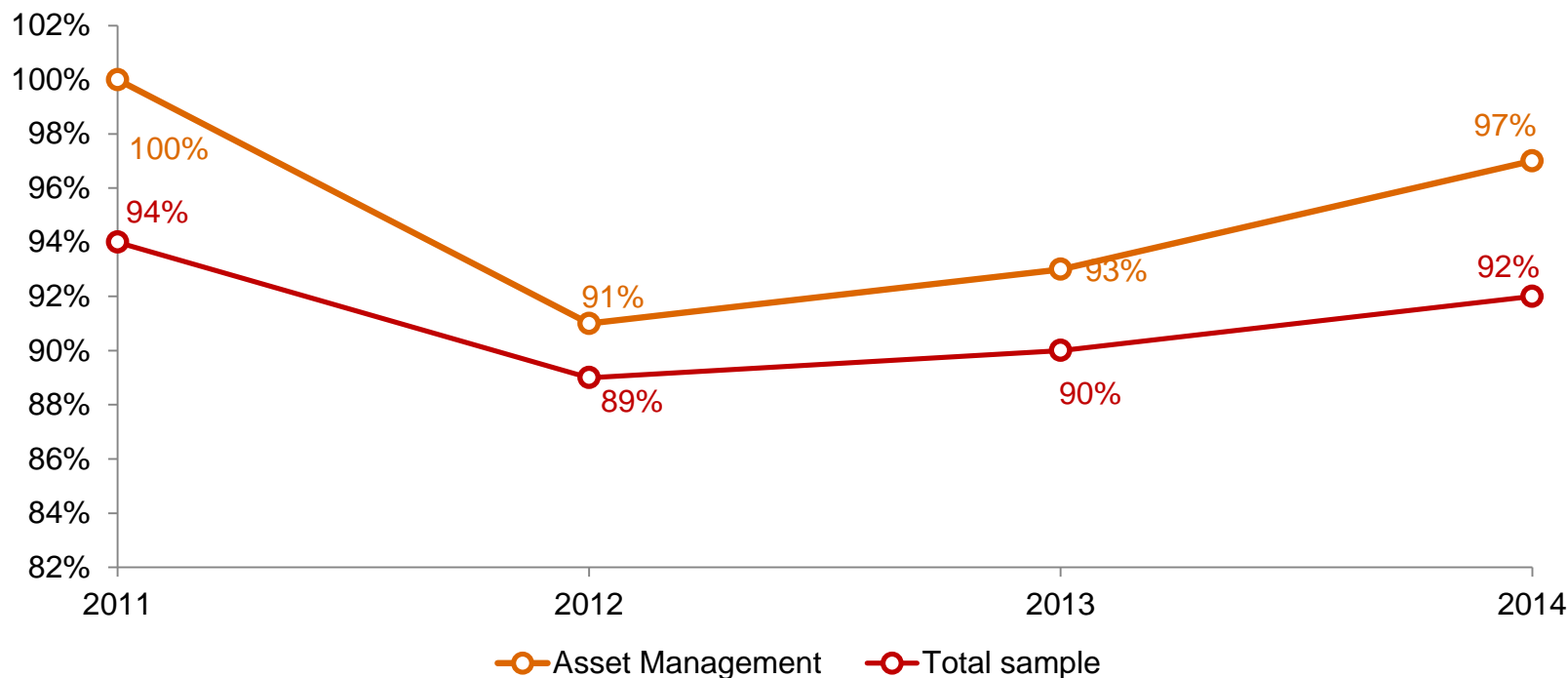
**Stephen A. Schwarzman, Chairman,
Chief Executive Officer and Co-
Founder, Blackstone**

AM CEOs are increasingly optimistic this year

- **97% of AM CEOs are confident about their revenue prospects over 3 years**, while 93% are over 12 months. That's an improvement on last year, when 93% expected to grow revenues over 3 years and 90% did over 12 months.
- Across our total sample confidence has stabilised. That's especially true for AM, an industry which tends to be on the leading edge of swings in sentiment.
- **CEOs are actively investing for growth**, expanding their workforces, investing in technology and looking for acquisitions.
- **But they do have some worries**. Among them are the threats from over-regulation (80%) and fiscal austerity programmes (78%).

AM CEOs' confidence levels have rebounded

In fact, they're somewhat ahead of the other industry sectors.



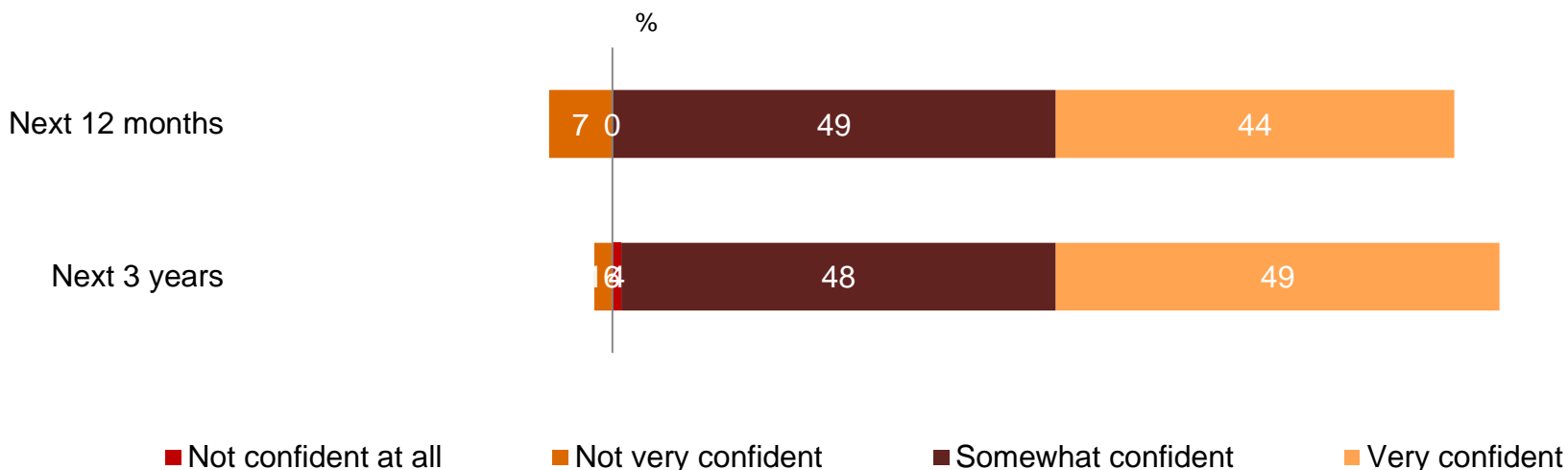
Q: How confident are you about your company's prospects for revenue growth over the next 3 years?

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 17th Annual Global CEO Survey 2014

Sector CEOs are most confident looking further out

CEOs are confident over 12 months, but even more so over 3 years. Clearly, they foresee economic recovery strengthening over time and anticipate global mega trends increasing the appetite for investment services.



Q: How confident are you about your company's prospects for revenue growth over the next 12 months and 3 years?

Base: AM respondents (123)

Source: PwC 17th Annual Global CEO Survey 2014

Mature markets and China are priorities for growth in 2014

Mature markets first for growth

Over a third of AM CEOs eye the US for growth. Germany (21%) and the UK (16%) follow up in mature markets. Other sectors look more to emerging markets.

AM CEOs who rate the US as their top growth market

39%

China leads in emerging economies

In emerging economies, China is the priority for growth over 12 months. But Indonesia (5%) is also popular, with its large population and growing middle class.

AM CEOs who think China is most important for their growth over 12 months

31%

Recovering Japan claims interest

And Japan is stirring interest as 'Abenomics' reflate the economy. By contrast, interest from the rest of the sample isn't so high.

AM CEOs who see Japan as important for growth

12%

But what governments do could have a big impact

That's reflected in many of AM CEOs' top concerns

Over-regulation

AM CEOs, like their peers in banking and insurance, are concerned that regulation could put the brakes on their growth. It's a consistent worry over the past several years.

Percentage who are concerned about over-regulation

80%

Slow growth in developed economies

In spite of their rising optimism, CEOs are wary about economic growth prospects. This is a common worry across the sample, but more so in AM.

Percentage who are concerned about slow or negative growth

80%

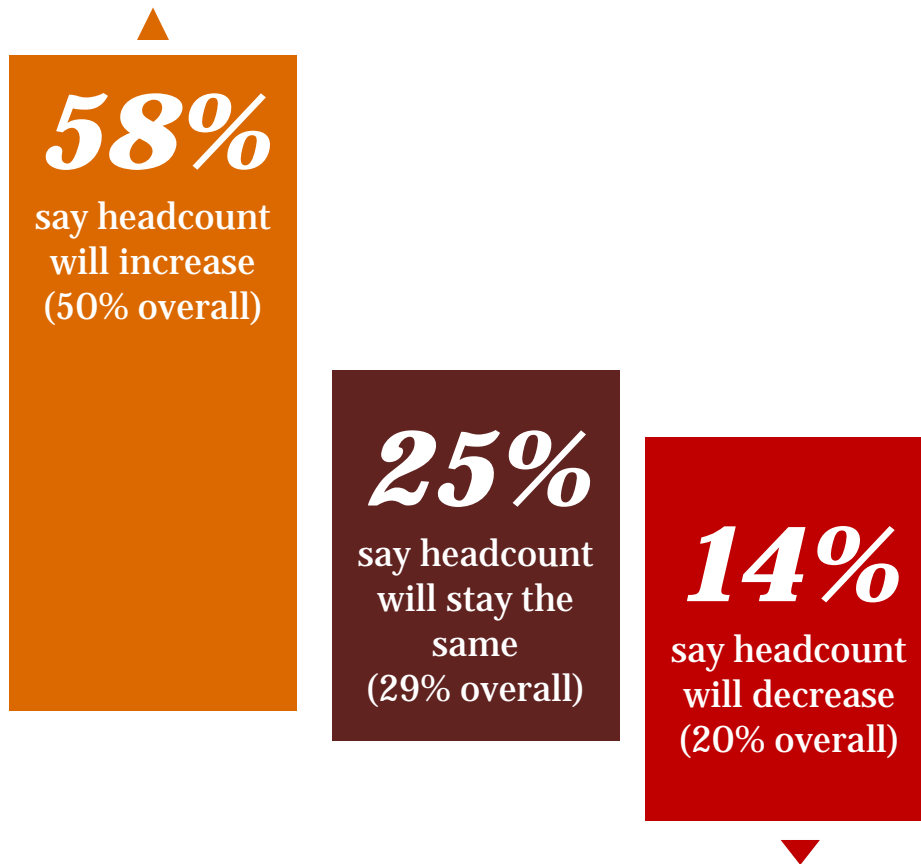
Fiscal austerity

Even more than their peers across the sample, AM CEOs are also concerned that fiscal austerity could postpone or limit recovery.

Percentage who are concerned about government response to debt burden

78%

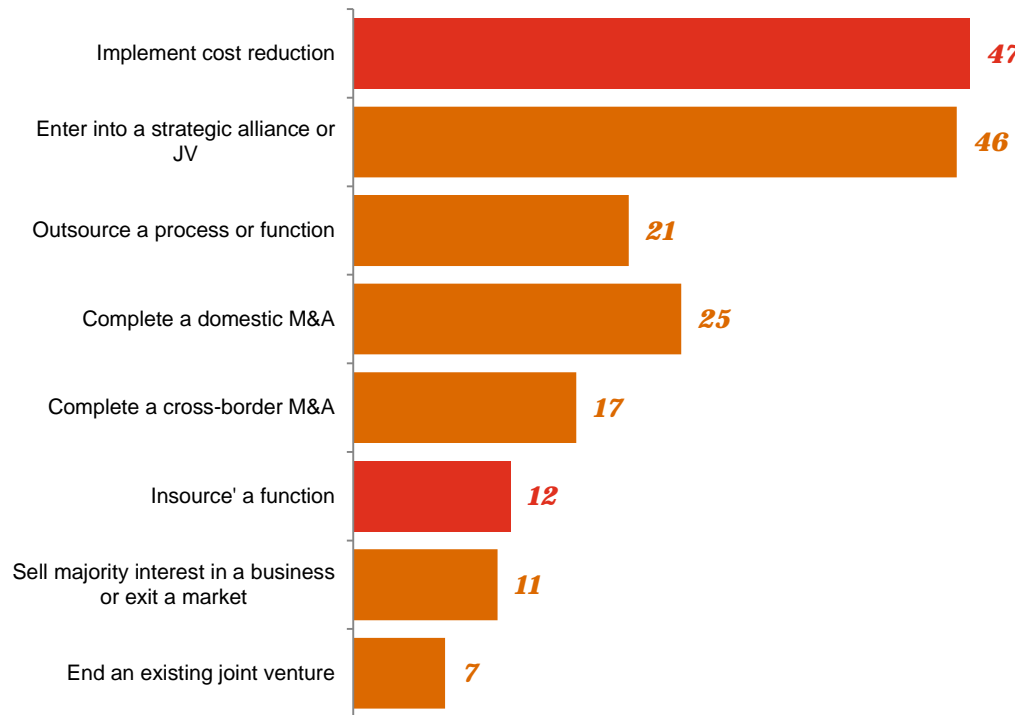
AM CEOs are more likely to be hiring than letting employees go



In fact, AM executives are more confident about headcount than the global sample, with 58% expecting to add staff, compared to 50% across the overall sample.

In 2013, 55% of AM executives planned to add staff.

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



- **46% of AM CEOs** plan to enter a new strategic alliance or joint venture in the next 12 months. **25%** plan to make a domestic acquisition; **17%** a cross-border acquisition.
- **But costs remain an issue. 47%** plan to implement a cost-reduction initiative. What's more, **21% plan to outsource** a process or function.

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

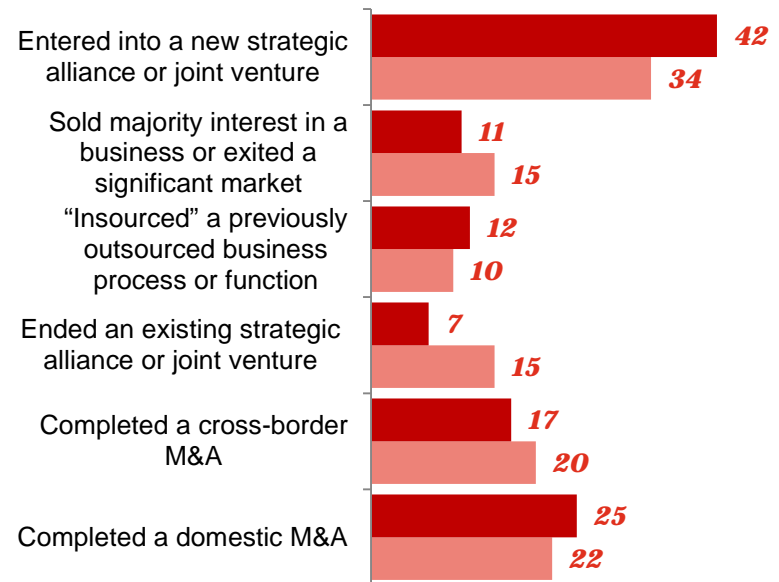
Base: AM respondents (123)

AM CEOs are planning more alliances and JVs than mergers or acquisitions

As CEOs seek to enter fast-growing markets, access distribution or gain product expertise, alliances and joint ventures are easier to execute than full-scale mergers and acquisitions.

In some emerging markets, acquisitions are hard to execute and there are significant obstacles to organic growth. That makes alliances and JVs the only practical option.

Q: Which, if any, of the following restructuring activities do you plan to initiate in the coming twelve months? (not all choices listed)



Base: All respondents (Total sample, 123; Sector, asset management)

Source: PwC 17th Annual Global CEO Survey 2014

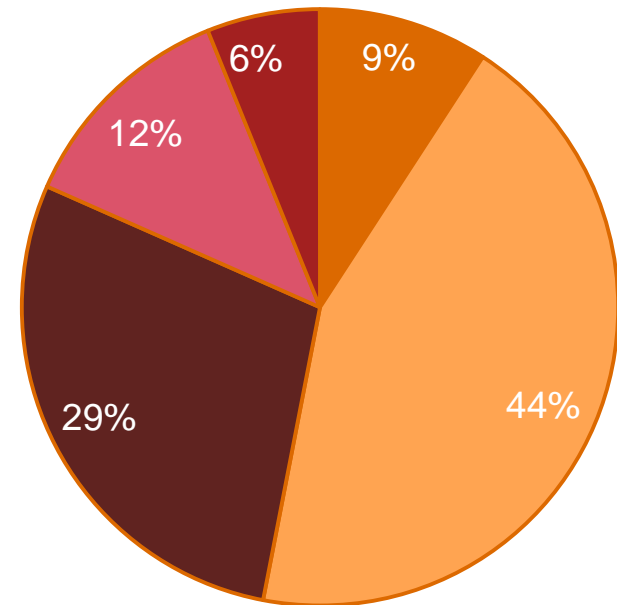
Preparing for a new world

81%

**CEOs who think technology
will transform their business**

Asset management executives believe they need to plan for the future

- Preparing to be fit for the future requires planning further ahead.
- In AM, the sector is set to change fast in the rest of this decade – and almost a third of CEOs believe the ideal planning cycle is 5 years.
- CEOs need the ability to plan simultaneously for the short-, mid- and long-term. In our overall research, we found that many CEOs are dissatisfied with their current planning horizons.



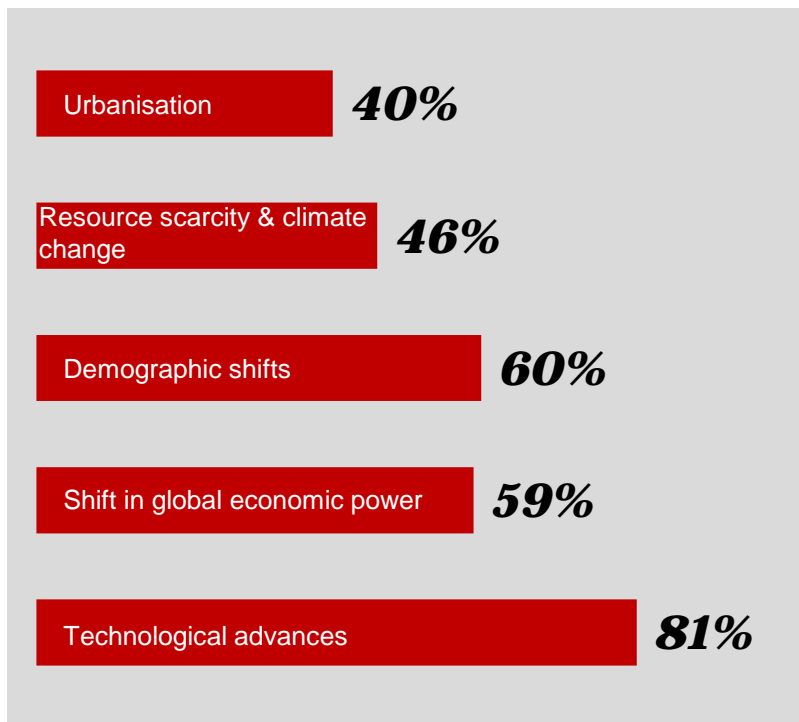
■ 1 year ■ 3 years ■ 5 years ■ More than 5 years ■ Other

Q11b Where would you like your planning horizon to be? 1, 3, 5, or more than 5 years?

Base: AM respondents (123)

Source: PwC 17th Annual Global CEO Survey 2014

Technological advances will transform business the most, but other trends are vital too



AM CEOs told us they think three big trends will transform their businesses more than any others in the coming five years.

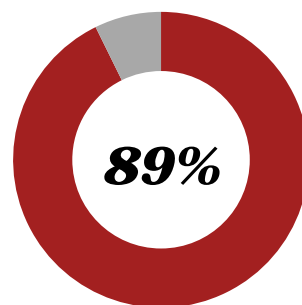
More than four-fifths of them identified technological advances such as the digital economy, social media, mobile devices and big data. More than half also pointed to demographic fluctuations and global shifts in economic power, in line with the global sample.

Different departments have varying degrees of preparation for change

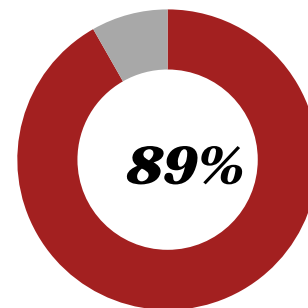
The Customer Service, IT, HR & Marketing departments will all be intimately involved in addressing global trends – a majority of AM CEOs feel their teams are well-prepared for the task.

But Marketing is lagging behind.

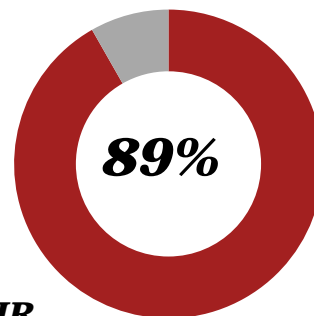
Q: Thinking about the changes you are making to capitalise on transformative global trends, to what degree are the following areas of your organization prepared to make these changes?



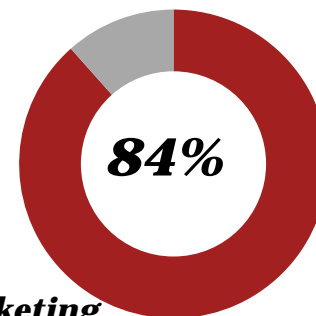
Customer service



IT



HR



Marketing

■ Prepared ■ Not prepared

Base: All respondents (asset management , 123)

Source: PwC 17th Annual Global CEO Survey 2014

To cope with technological advances, asset managers may need to ramp up investment

- 57% of AMCEOs are concerned about the **speed of technological change** – more than across the overall sample
- What's more, **54% see cyber security as a threat** – again more than in other sectors.
- That's why AM CEOs are investing in technology: 53% are changing their technology investments, while 50% are exploring better ways of using and managing **big data**.
- **But that's a lot less than in other financial services sectors.** For example, 70% of Banking & Capital Markets CEOs are changing their technology investments, as are 62% of Insurance CEOs. And 64% of Banking & Capital Markets CEOs are looking into better ways of managing big data, along with 58% of Insurance CEOs.

We think CEOs will need to maintain or increase investment in technology and data management to maximise distribution opportunities or to benefit from new opportunities offered by new technologies and social networks.

What's more, the mounting rigours of regulation and reporting will force them to make technology a priority.

Blackstone is focusing on technology– seeing it as essential for client communication

“We’ve invested heavily in technology. They [clients] 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

CEOs recognise a change in global population composition will impact the workplace

The composition of the global population is changing radically. And that's going to have a big impact.

By 2025, the population will hit 8 billion, and this growth won't be homogeneous with some countries seeing a decline in fertility rates will hit some countries harder than others.

The global middle class is expected to rise by 180% between 2010 and 2040.

The growing number of high-net-worth and mass-affluent people, especially in Asia, is likely to lead to a surge in demand for asset management.

AM CEOs who believe demographic shifts will transform their business over the next five years.

60%

And AM CEOs are concerned about developing a workforce that can cope

- 55% of AM CEOs are worried about the **availability of key skills**.
- 39% of AM CEOs believe that **creating a skilled workforce** should be a government priority, but only 23% believe that the government has been effective. So many are taking actions themselves – 51% say creating a skilled workforce is a priority.

“If you assemble people who are 10s on a scale of 10, they can build some of the greatest businesses in the world, which we’ve been lucky enough to do.”

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

Regulation & trust: A mixed picture

83%

AM CEOs who say regulation has increased operating costs.

CEOs say regulation is having a big impact

It's affecting them in many ways

Operating costs

AM CEOs, like their peers in Banking and Insurance, find regulation is increasing operating costs.

Percentage who say operating costs are rising

83%

Ability to innovate

At a time when there's a need for new investment products, CEOs say regulation is preventing innovation. This is a common worry across the financial services.

Percentage who are concerned about ability to innovate

46%

But delivery quality is rising

CEOs do see some benefits from regulation. Almost half think it's improving the quality of product and service delivery.

Percentage who see product and service delivery standards rising

46%

Trust is still being rebuilt, five years on from the crisis

Governments & regulators have less trust in sector

Five years on from the crisis, almost half of AM CEOs think government and regulators trust them even less.

AM CEOs who see levels of trust declining

45%

Customer trust may be improving

Customer trust appears to be improving slightly. Almost four fifths of CEOs say it's improved, while slightly more (42%) think it's stayed the same and 20% say it's worse.

AM CEOs who think customer trust has improved over 5 years

37%

And ethical behaviour has become a priority

The tough regulatory environment is making ethical behaviour a clear priority for AM CEOs.

AM CEOs who see ethical behaviour as a priority

94%

About PwC's 17th Annual Global CEO Survey



AM respondents

123

In countries across the world

37

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 overall 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.

This sector key findings report takes a closer look at responses from asset management CEOs. It is based on 123 interviews, conducted in 37 countries around the world. We also cite more in-depth conversations with one sector CEO.

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Acknowledgements

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Chairman, Chief Executive Officer and
Co-Founder, Blackstone



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