Global Asset Management 2022—20th Edition

From Tailwinds to Turbulence

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By Chris McIntyre, Simon Bartletta, Ishaan Bhattacharya, Joe Carrubba, Dean Frankle, Marcos Frazao, Lubasha Heredia, Hanka Mörstedt, Kedra Newsom Reeves, Edoardo Palmisani, Neil Pardasani, Martin Reeves, Thomas Schulte, Benjamin Sheridan, Blaine Slack, and Kevin Zhu

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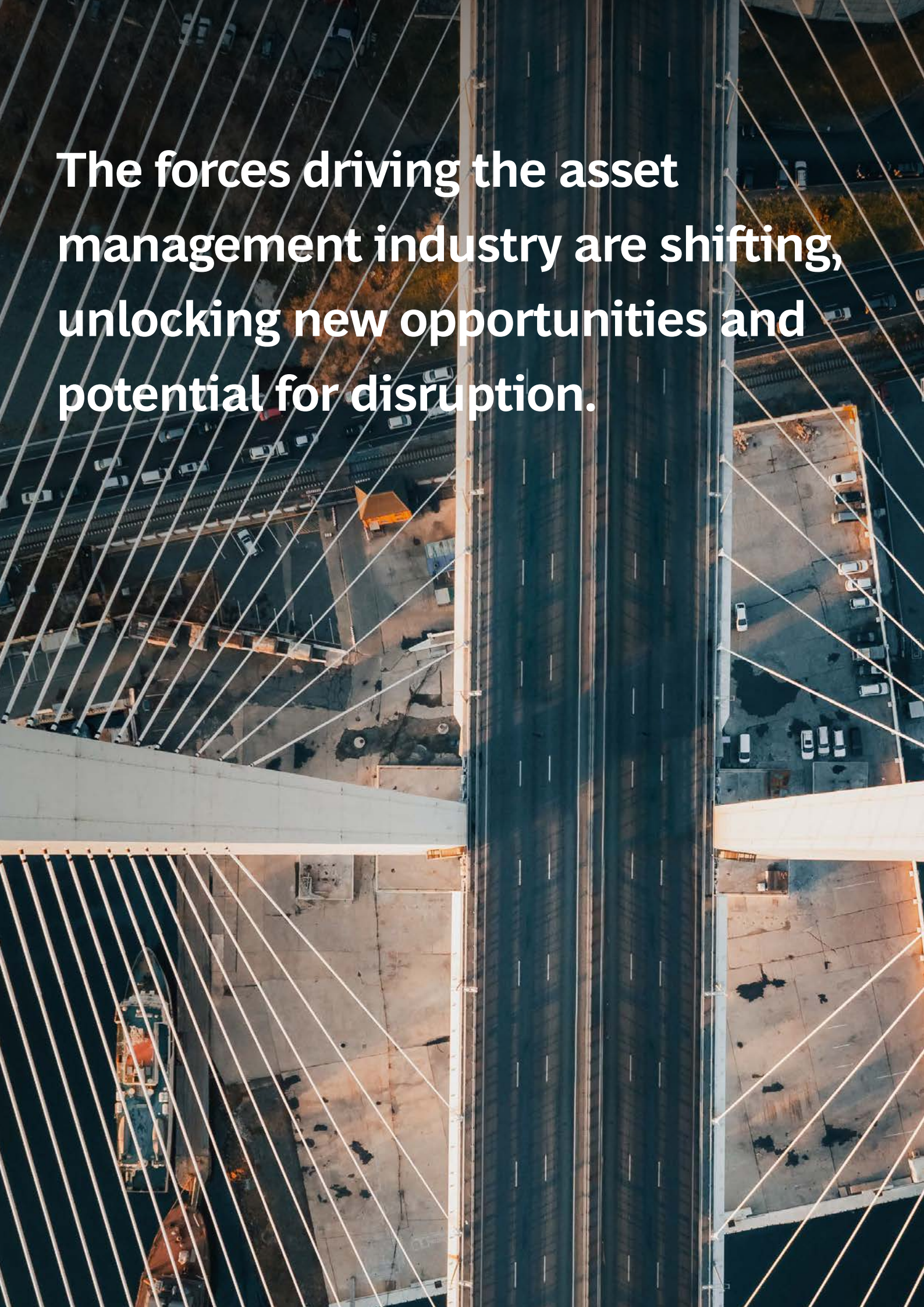
Contents

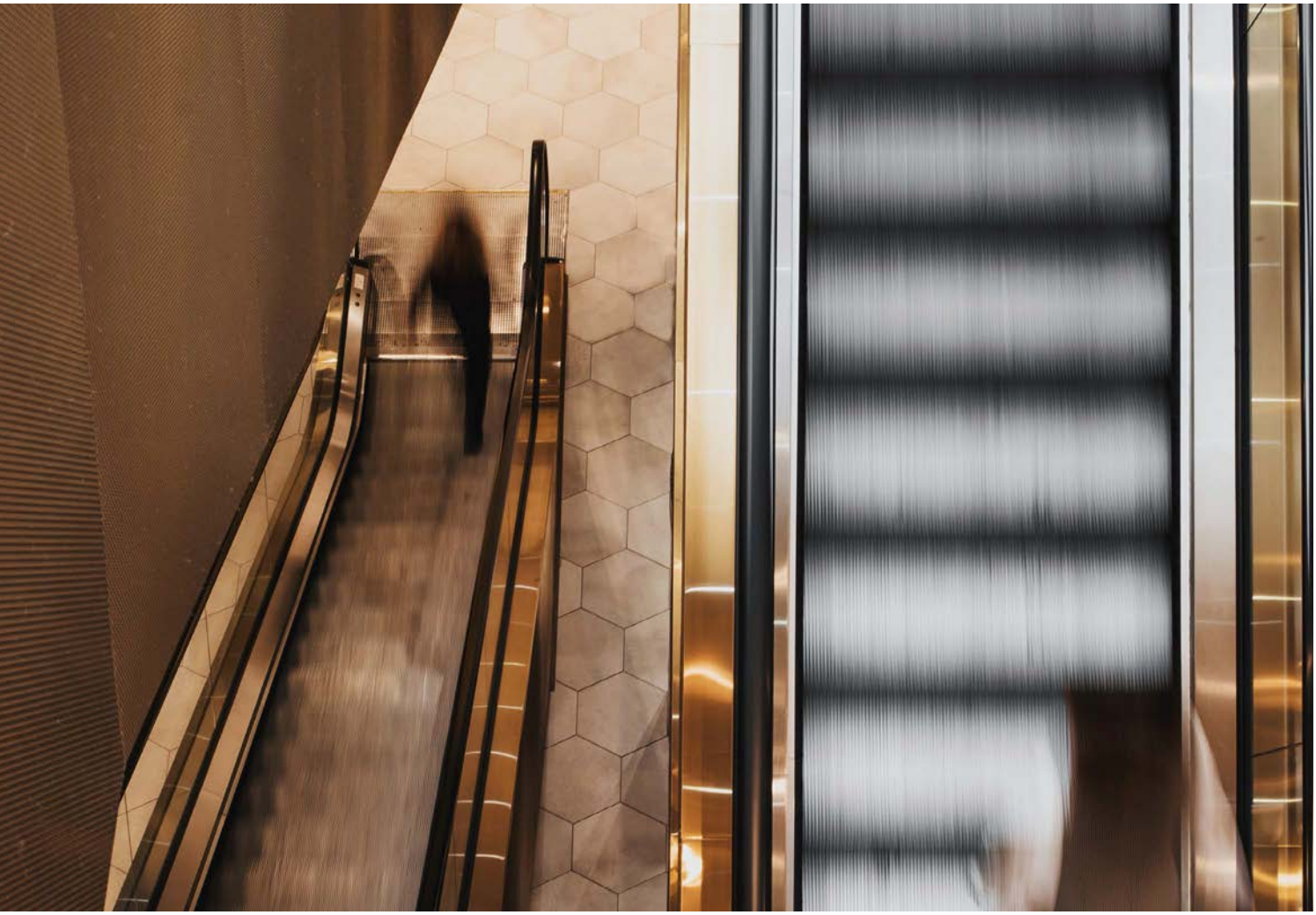
Introduction

The asset management industry has seen unprecedented growth in recent decades, thanks largely to the strength of the world's equity markets. But new forces are taking hold as global markets enter an era of greater uncertainties.

In BCG's 20th annual report on the global asset management industry, we offer a retrospective analysis of the effects of the strong market—along with a look ahead to the expected impact of three important trends. In planning for the years to come, asset managers will need to factor in new technologies, demand for alternative products, and an increasing focus on decarbonization. While the tailwinds that kept the industry in motion through 2021 are shifting to turbulence, the future presents multiple opportunities and a range of ways to win.



The forces driving the asset management industry are shifting, unlocking new opportunities and potential for disruption.

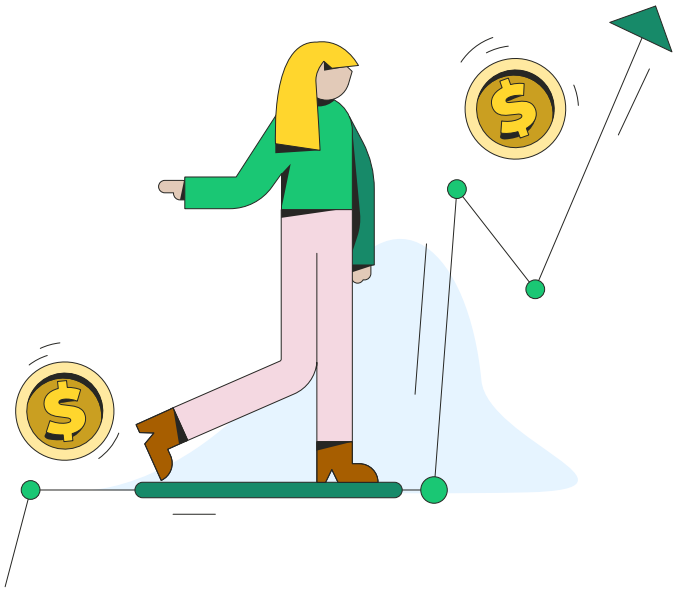


An Era of Outstanding Gains

The past few decades presented an outstanding market environment for the asset management industry. Overall, the period from 2001 to 2021 was a time of prolonged growth. Though the global economy experienced severe downturns due to the 2008 financial crisis and the COVID-19 pandemic, each decline was followed by a recovery that brought the market soaring to new highs. The aggregate result has been one of the strongest market runs in history.

Global assets under management (AuM) rose at a generally steady pace over this period. And 2021 was even stronger: global AuM grew at 12%, to more than $112 trillion, a growth rate that was well above the 2001-2021 average of 7%. Net flow rates were also higher than average in 2021, reaching 4.4% of total AuM at the beginning of the year, or $4.4 trillion. (See Exhibit 1.)

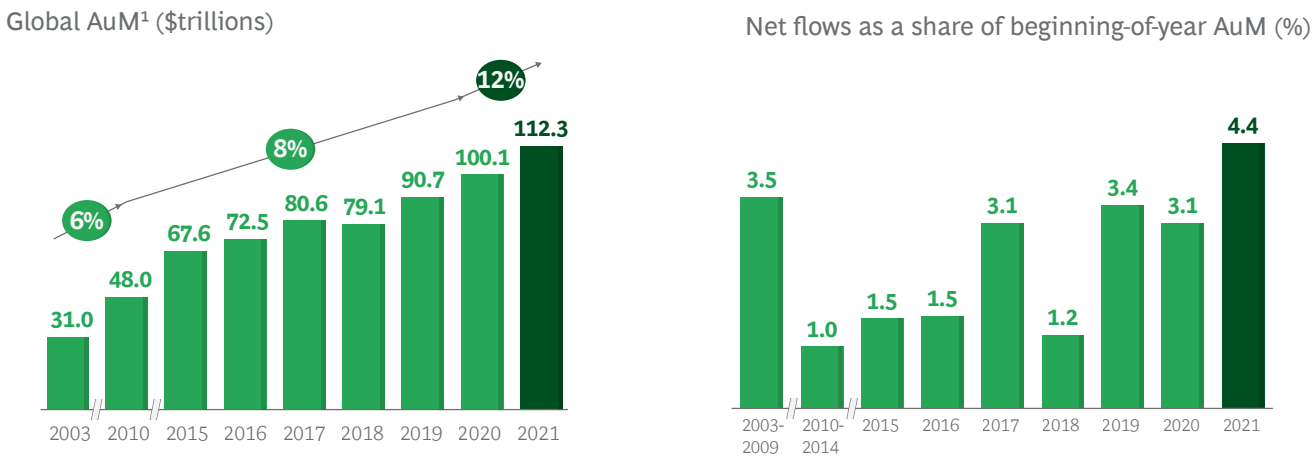
Fueled by expansionary economic policies and low inflation in much of the world, interest rates reached historic lows during the past two decades. As business valuations rose and investors sought higher returns to offset low interest rates, equity markets saw one of the best runs in history. Global equity gains more than doubled between 2012 and 2021, while in the US the S&P 500 index more than tripled during that time. (See Exhibit 2.)



The Physics of Asset Management

The strong market performance has had a profound impact on asset management. The industry is emerging from an era in which establishing a competitive edge has been a more complex task than it might appear on the surface. When markets everywhere are rising, asset managers must differentiate themselves to deliver value—and as the market outlook grows more uncertain, the ability to provide value and achieve alpha is likely to be more important than ever.

Exhibit 1 - 2021 Saw Double-Digit Growth of Assets Under Management and Record Net Flows

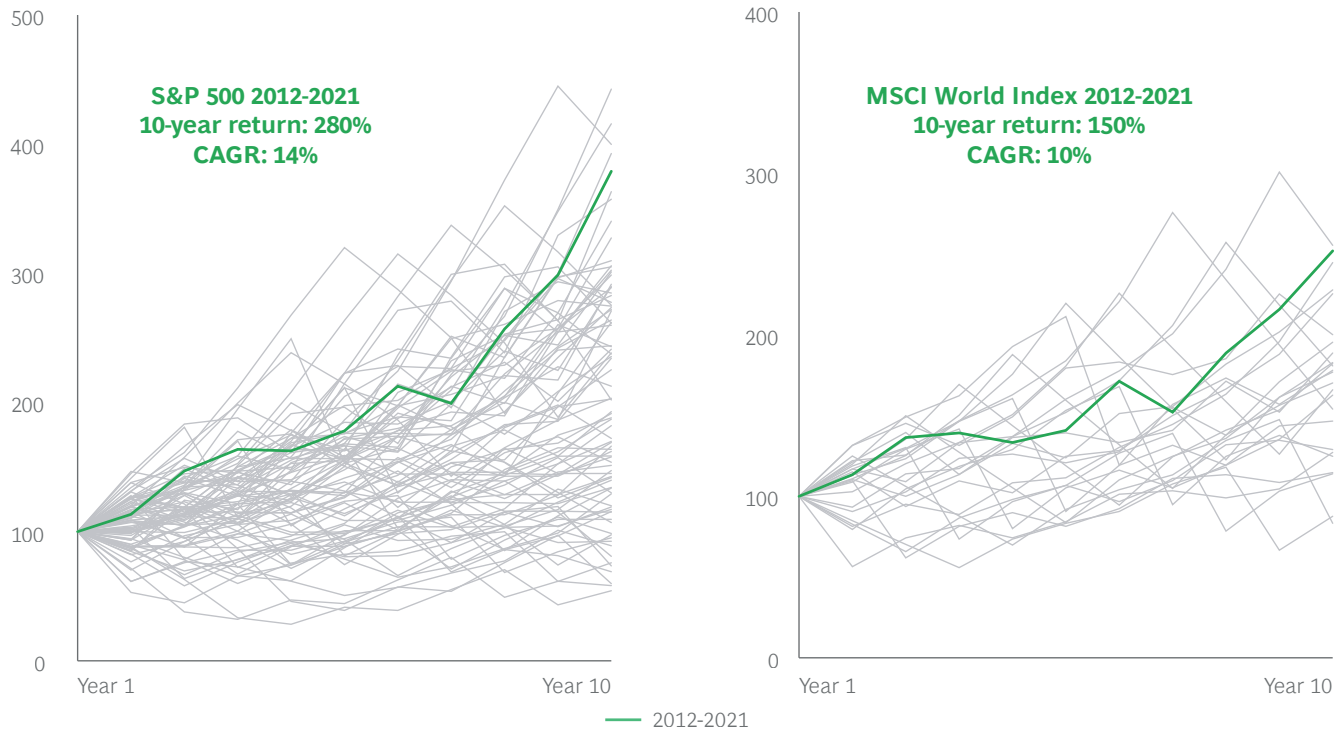


Sources: BCG Global Asset Management Market Sizing 2022; BCG Global Asset Management Benchmarking Database 2022.

Note: Market sizing includes assets professionally managed in exchange for management fees; AuM includes captive AuM of insurance groups or pension funds where AuM is delegated to asset management entities with fees paid; 44 markets are covered globally, including offshore AuM. For all countries where the currency is not the US dollar, we applied the end-of-year 2021 exchange rate to all years in order to synchronize current and historic data; values differ from those in prior studies because of fluctuations in exchange rates, revised methodology, and changes in source data. Flow analysis is based on our global benchmarking, which includes 101 leading asset managers, representing $69 trillion AuM, or ~62% of global AuM.

[1]See Appendix 1 for regional AuM.

Exhibit 2 - 10-Year Rolling Market Returns for the S&P and MSCI World Indexes

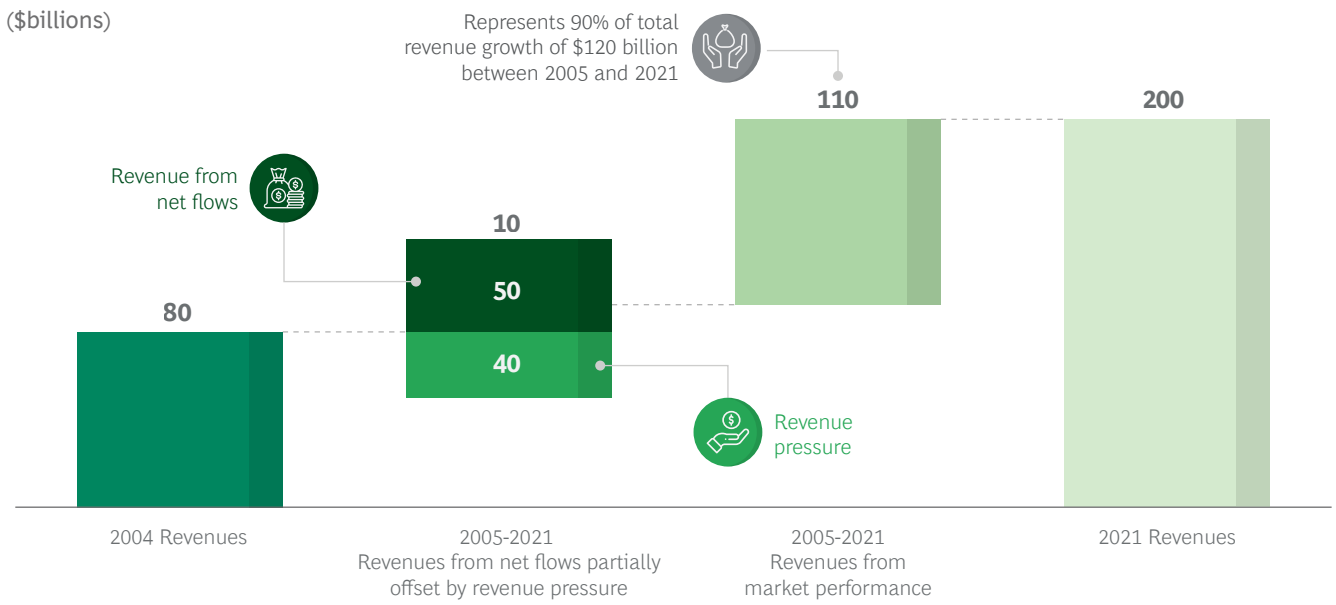


Source: Bloomberg; MSCI; Macrotrends; BCG analysis.

Note: 10-year rolling basis; each line represents a 10-year period and level of index in first year of each period is normalized to 100; timeline is 1927-2021 for S&P 500 and 1987-2021 for MSCI World.

Equity market performance has been a major force driving the industry's fortunes. Although revenue from inflows was positive—$50 billion between 2005 and 2021—it was partly offset by revenue pressures from two sources: shifts in asset mix, as investors increasingly put their money in lower-fee products, and fee reduction. The result was a $40 billion impact from revenue pressures, so that the net effect on revenues was $10 billion. Revenues from market performance, on the other hand, contributed $110 billion over the same period, making it the main driver of revenue growth between 2005 and 2021. (See Exhibit 3.)

Exhibit 3 - Market Performance Has Been the Key Driver of Revenue Growth



Sources: BCG Global Asset Management Market Sizing 2022; BCG Global Asset Management Benchmarking 2022.

Note: Approximated, rounded figures; revenue pressure includes impact of both shift in product mix and change in pricing pressure. Scope of the analysis is active core, active specialties, solutions and passives; it excludes alternatives.

Still, asset management continues to be one of the most profitable industries in the world. While costs have risen over time, the average AuM has increased much more. In 2021, average AuM grew by 17% while costs increased by 11%. Yet fixed and variable costs didn't rise at the same pace, and with a revenue growth of 15%, asset managers were able to draw upon their operating leverage and achieve an increase in operating profits as a share of net revenue. BCG's Global Asset Management Benchmarking study found that operating margin rose well above the industry average, from 36% in 2020 to 38% in 2021. (See Exhibit 4.)

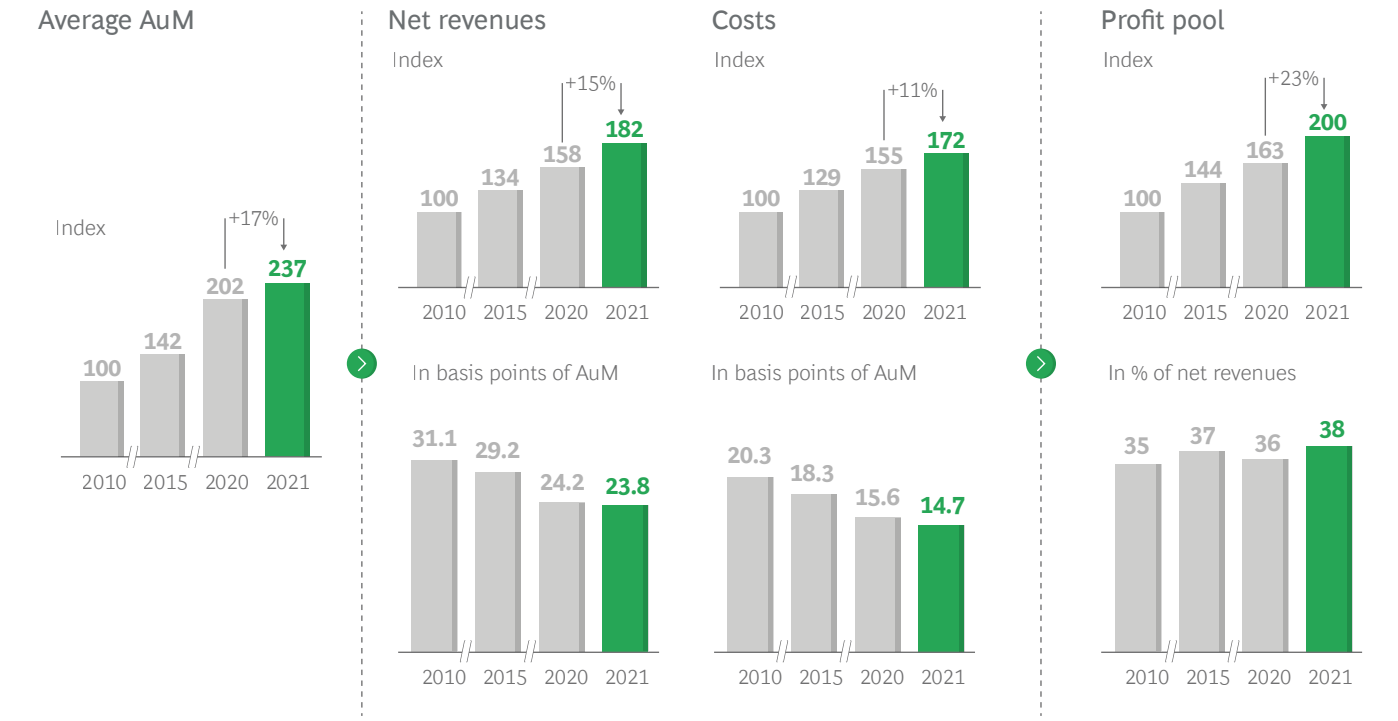
The Dynamics of Product Innovation

The long period of asset appreciation has also affected the products asset managers offer. One of the most conspicuous implications has been on product innovation. We find that the majority of global AuM in mutual funds and ETFs, for example, sits in legacy products. These older products benefit from the historic compounding effect of the returns on the underlying assets, allowing the asset management industry to function as something of a money-making machine fueled by its compound annual growth rates.

More to the point, however, innovation has not always paid off in this environment, as evidenced by the number of new funds that have closed within three years of launching. Almost 80% of all ETFs and about 60% of all mutual funds that launched in 2018 closed by 2021, and that number has climbed steadily over the last decade. (See Exhibit 5.)

It has been very difficult for new funds to stand out against legacy funds that can boast high performance records. For investors, the outlook for such legacy funds has been so positive that there has been no particular reason to take a chance with newer products that lack a long-term track record.

Exhibit 4 - Steady Rises in AuM, Revenues, Costs, and Profits Since 2010



Sources: BCG Global Asset Management Benchmarking Database 2022.

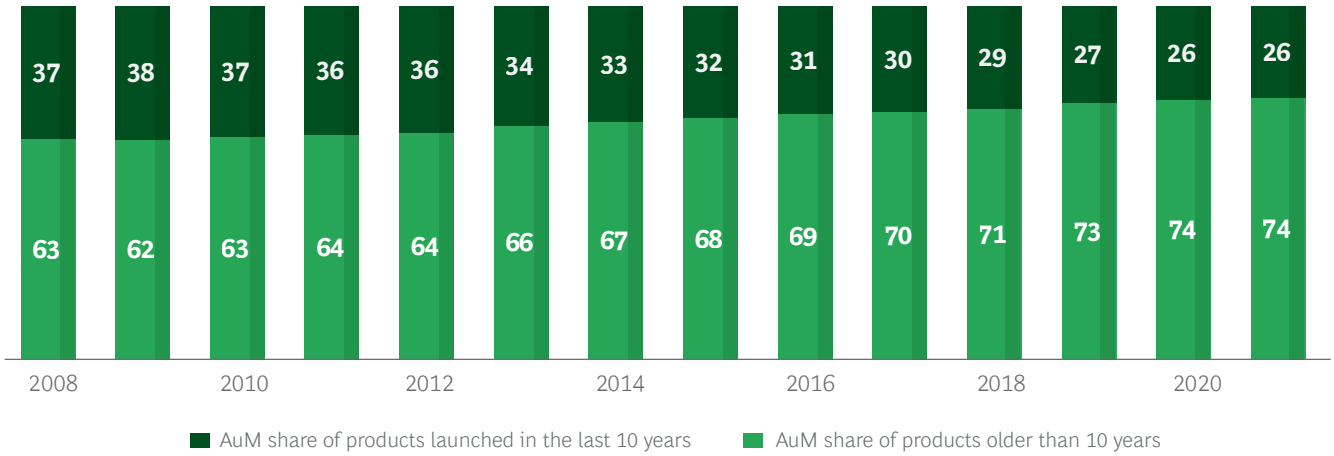
Note: Analysis based on our global benchmarking, which includes 101 leading asset managers, representing $69 trillion AuM, or ~62% of global AuM. This sample is weighted toward more traditional players and does not include pure alternative players, so those economics are not comparable with total asset management revenues based on our global product trend analysis. For values with fixed exchange rates, the year-end 2021 US dollar exchange rate has been applied to all past years to synchronize current and historic data. Historic data has been restated to maintain consistency of samples over time. Net revenues are management fees minus distribution costs.

The rapid appreciation in equity markets has also brought about a shift in which product categories are dominant. Actively managed products as an overall category have been hard pressed to beat overall market performance. As a result, many investors gravitated to passively managed products, recognizing that with these funds they could capture market returns without paying the higher fees that come with active funds. Passive asset growth in particular began to surge after the financial crisis of 2008. By 2021, AuM in in passively managed products such as exchange-traded funds (ETFs) had grown at more than four times the rate of their actively managed counterparts since 2003. (See Exhibit 6.)

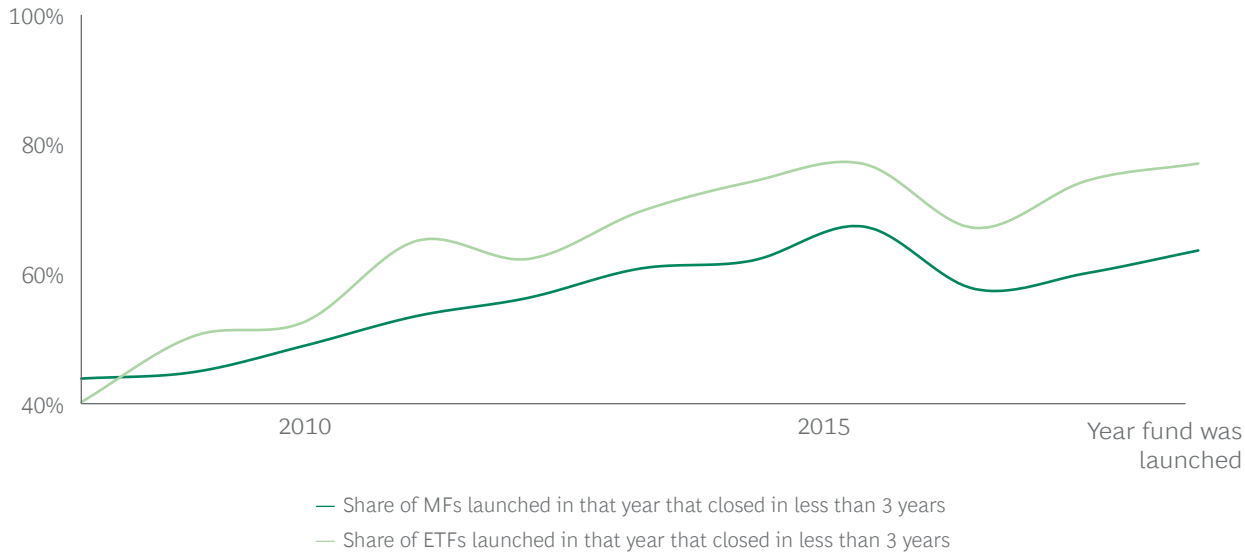
To achieve returns above those of the publicly traded markets, investors began shifting at least part of their portfolios into alternative assets, which offer large illiquidity premiums in return for long lock-in periods and complex deals. Private equity, hedge funds, and real estate assets in particular have begun to experience a boom. We expect to see continued growth in these allocations over the next five years; for example, the AuM in private equity is likely to grow at a much faster rate than investment in traditional assets. (See Exhibit 7.)

Exhibit 5 - The Majority of Assets Under Management Are in Legacy Products

Share of global mutual fund and ETF AuM in legacy products



Prune rate

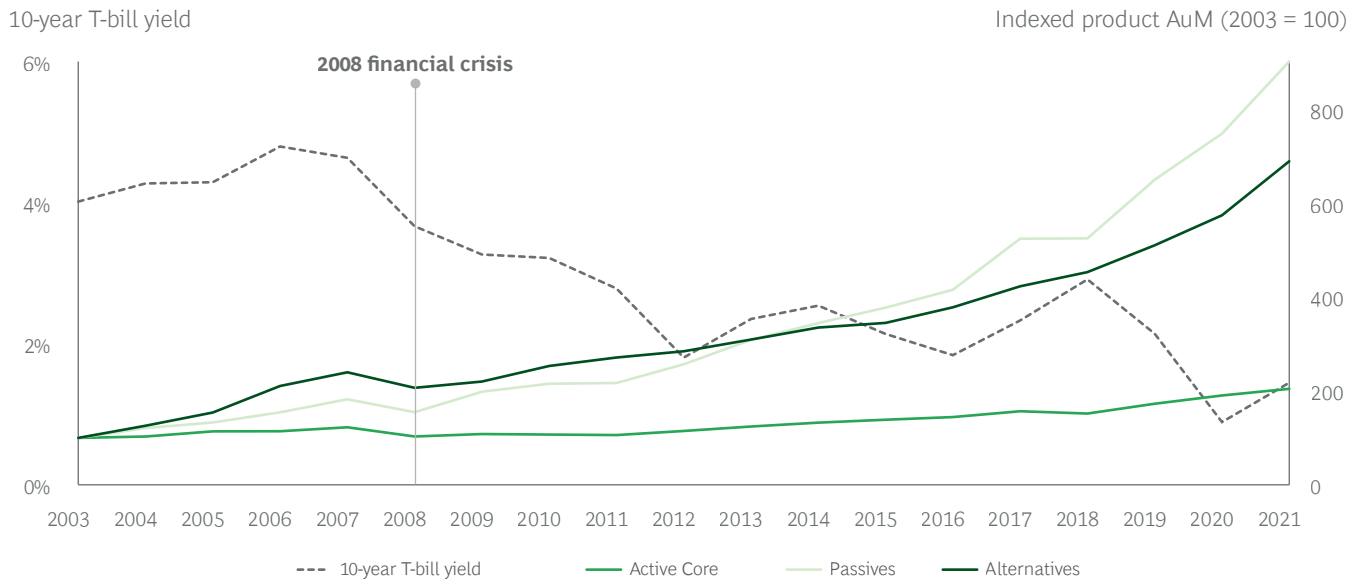


Sources: Simfund Global MFs and ETFs.

Yet the numbers do not tell the full story. It would be short sighted to assume that either passively managed funds or alternatives are likely to overtake the active space as a game plan for the industry.

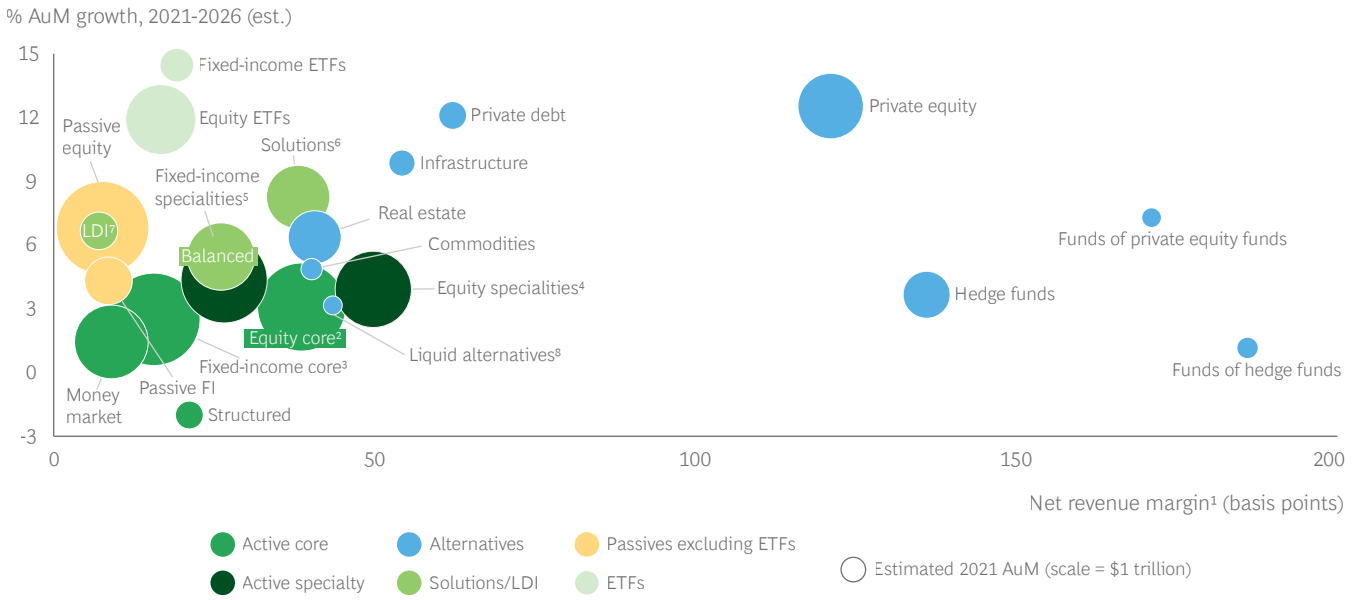
Our research indicates that, while steady market appreciation has made passives attractive to investors, demand has not wavered for the active managers that can deliver top returns over the long term. While it is hard to survive in active investment management without providing value for the fees that investors pay, the best active managers stand to win, especially as market dynamics grow more uncertain.

Exhibit 6 - The 2008 Financial Crisis Was a Turning Point in the Industry



Sources: BCG Global Asset Management Market Sizing 2022; Board of Governors of the Federal Reserve System.

Exhibit 7 - ETFs and Select Alternative Products Are Expected to Lead Growth Through 2026



Sources: BCG Global Asset Management Market Sizing 2022; BCG Global Asset Management Benchmarking Database 2022; Strategic Insight; P&I; ICI; Preqin; HFR; INREV; BCG analysis.

Note: ETF = exchange-traded fund; LDI = liability-driven investment.

[1]Management fees net of distribution costs.

[2]Includes actively managed domestic large-cap equity.

[3]Includes actively managed domestic government and corporate debt.

[4]Includes foreign, global, emerging-market equities, small and mid caps, and themes.

[5]Includes emerging markets, high yield, flexible, inflation linked.

[6]Includes target date funds, target maturity, and OCIO.

[7]LDI = liability-driven investment.

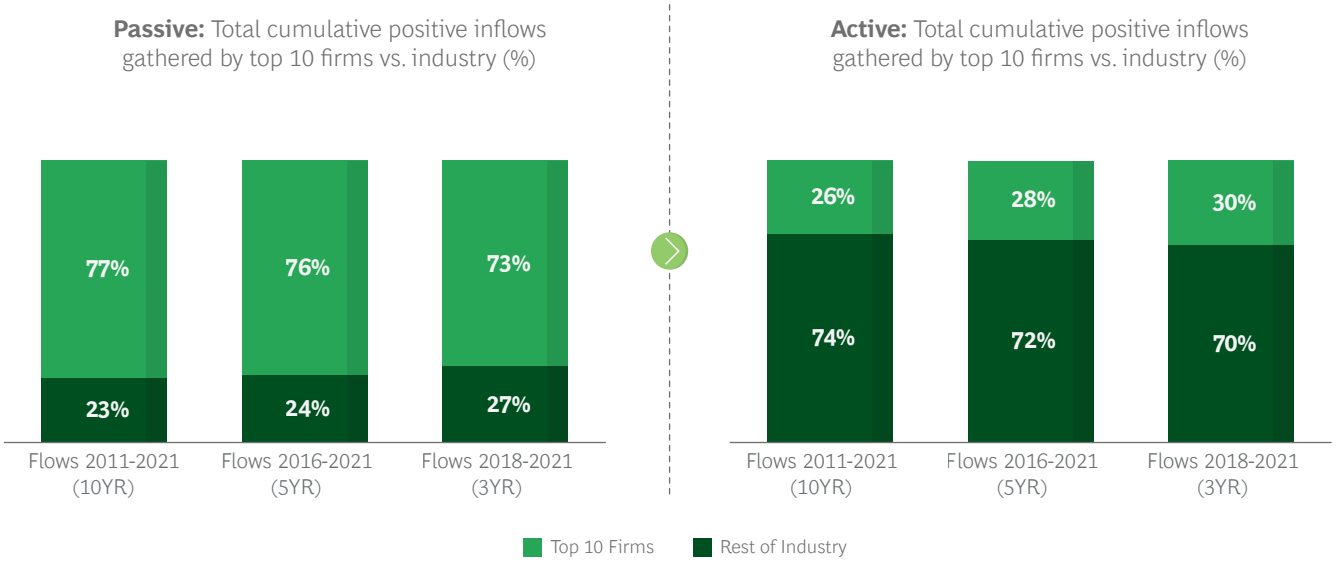
[8]Includes absolute return, long/short, market neutral, and trading-oriented mutual funds.

When we look at net new inflows for passive players, we find that almost 75% of all new capital over the past 5 to 10 years has gone to the top 10 global players. This trend implies that, in an environment that rewards those with the best track records, the passive market has become a heavily concentrated space. The select core of winners in the passive space are characterized by their ability to excel with scale, which translates to operational efficiency and pricing power. (See Exhibit 8.)

The active space, on the other hand, is notably more fragmented. Only about a quarter of the positive net new inflows over the last 5 to 10 years have reached the top 10 players. There is a far greater variety of strategies for asset managers to use in the active space and, as indicated by the untapped potential in capital inflows, much more room to win. In our analysis of AuM and net flows, we have found that the winners in active products provide not just strong performance but also value for money.

Premium performers and affordable alpha products have shown systematically positive flows over time, while lower-performing products have experienced outflows regardless of their price point. In short, when we follow the money, it becomes clear that there is plenty of room in the industry for skill and talent in active management, especially considering that the active space still represents 77% of the asset management market.[1] The flight of investor capital to passively managed products poses a threat only to lower-quality active products; investors simply are not willing to pay higher fees for underperformance. (See the infographic, "Investors Favor Products with Proven Value.")

Exhibit 8 - The Passive Market Is Concentrated, While the Active Space Has More Room for Winners



Source: Strategic Insight - Simfund; BCG analysis.

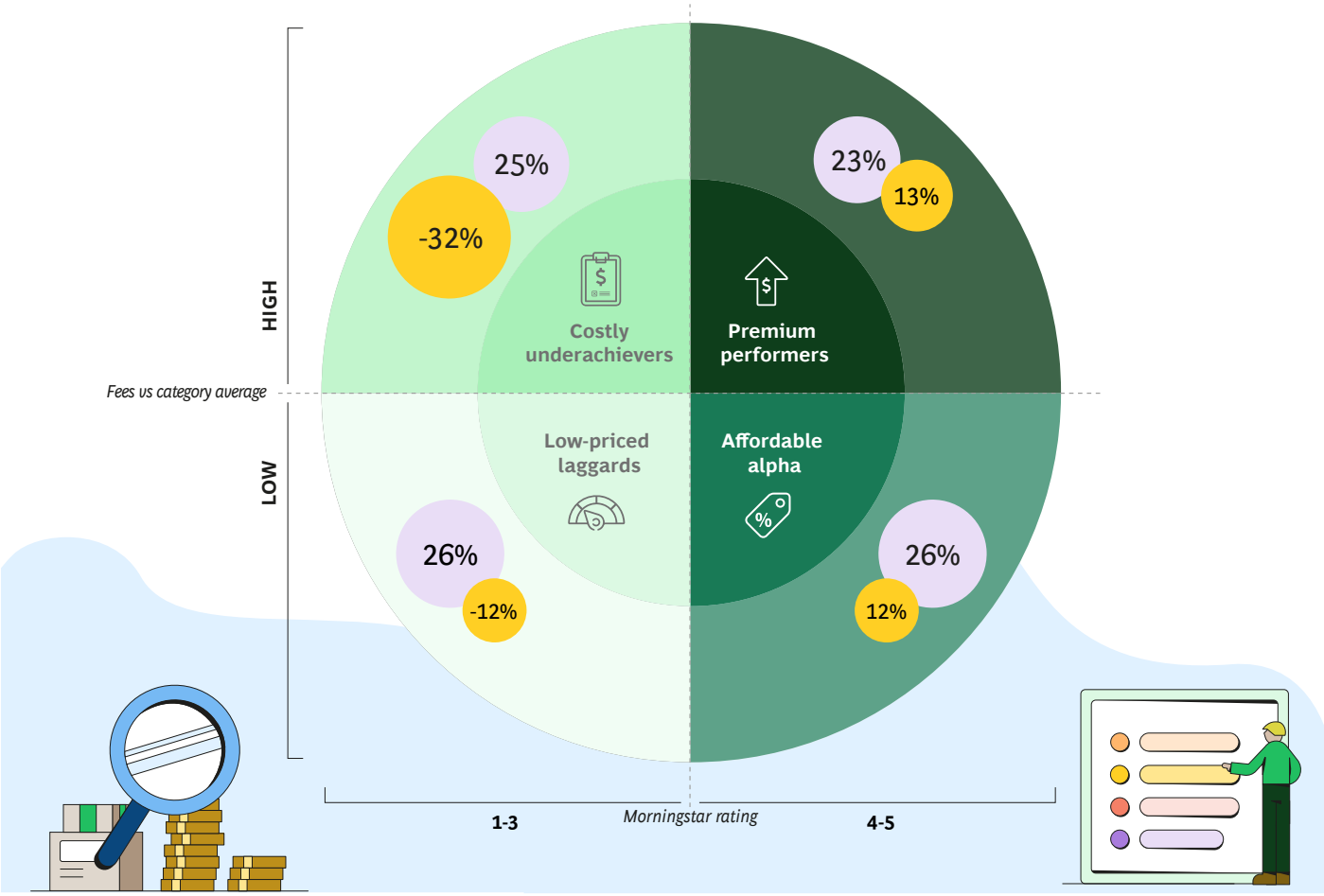
Note: Data represents all mutual funds and ETFs globally.

1. Based on BCG Global Asset Management Market Sizing 2022.

Investors Favor Products with Proven Value

The **product portfolio performance** (**PPP**) matrix defines **four** product categories based on their performance and fee by assessing AuM and net flows. The **premium performers** and **affordable alpha** categories show that investors are still drawn to active products that are well executed.

PPP matrix for active products (2016 -2021)



Product Categories

Costly underachievers
Relatively high priced and underperforming vs. peers, underdelivering on premium

Low-priced laggards
Competitively priced or discounted but underperforming vs. peers

Premium performers
High-priced and above-average performance vs. peers

Affordable alpha
Competitively priced and outperforming peers; "high value for money" products

% total AuM

Flows = 5-year flows/AuM in quadrant

Source: Strategic Insight - Simfund; BCG analysis. **Note:** AuM and flow data above relates to active mutual funds and ETFs only in the North American market. International products not considered due to lack of historical fees and lesser data quality. Not all AUM in market used in analysis as not all funds have a Morningstar rating and reported/consistent fee data. Highly passive-oriented players excluded from analysis.

The Evolving Investor Landscape

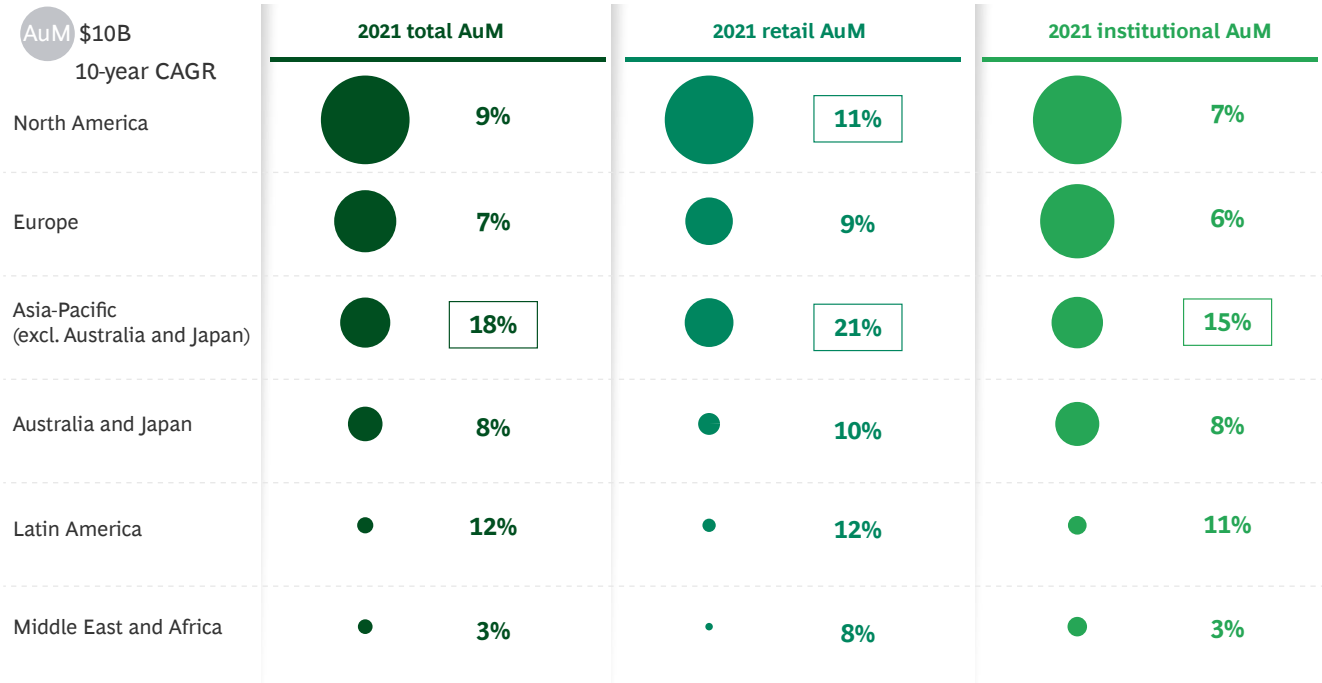
The asset management industry has seen a considerable transformation in the sources of investment capital. When we look at the investor landscape, two notable trends become evident. (See Exhibit 9.)

The first is that retail investors have become one of the most important investor segments, outpacing institutions as a source of capital. In 2021, global net flows from retail were 6.6%, significantly higher than the 2.8% that came from institutional investors. Asset managers have been able to tap deeper into the retail segment as technology has made it economically feasible to serve clients of all sizes. Many large brokerage firms are using digital distribution platforms and robo-advisors to democratize access to increasingly sophisticated investing options. Retail clients now receive data-driven personalization advice, fractional shares, and streamlined interfaces that charge low fees or no fee at all. As new technologies make it possible to expand retail services further still, asset managers should expect to be faced with new opportunities as well as challenges to the way they do business.

The second trend is the massive shift in global wealth toward the Asia-Pacific (APAC) region, which has become one of the most important regions for asset managers. The APAC economy has nearly quadrupled in the past 20 years, and in the next few years the region is expected to achieve a higher gross domestic product based on purchasing power parity than all other parts of the world combined.[2]

There has been significant growth in all investor segments in APAC but especially in retail, with strong penetration of digital distribution channels. Asset managers increasingly need to consider the role these markets play—as both sources of capital and as centers where changes in technology and industry practices are taking place.

Exhibit 9 - Assets Under Management Relative to Growth, by Region



Sources: BCG Global Asset Management Market Sizing 2022; Board of Governors of the Federal Reserve System.

2. IMF World Economic Outlook 2021, Asia-Pacific region.

Three Ways to Prepare for the Future

The tailwinds that were responsible for much of the industry's success in past years have begun to shift, giving way to the turbulence of an inflationary economy, rising interest rates, and major disruptions to global trade. While the strong market performance of the past allowed the asset management industry to maintain most of its traditional ways of doing business, that will no longer be sufficient as new forces begin to propel the industry. The firms likely to be the winners of the future are those that develop strategies to adapt to the changes that lie ahead. (See the infographic, "Technologies Shaping Asset Management, Past and Future.")

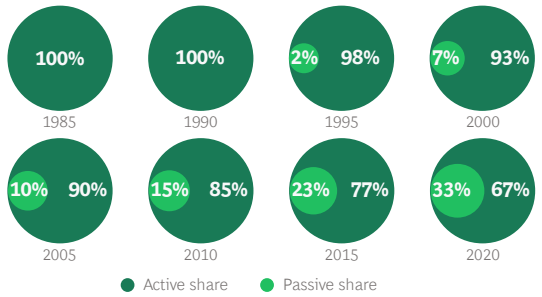
We have observed early signs of three forces playing out over the coming years, with significant implications for the industry. Asset managers should recognize the changes that are already in play when it comes to direct indexing shifting the value proposition, rising investor interest in alternatives, and increasing demand for sustainable investing.

Technologies Shaping Asset Management, Past and Future

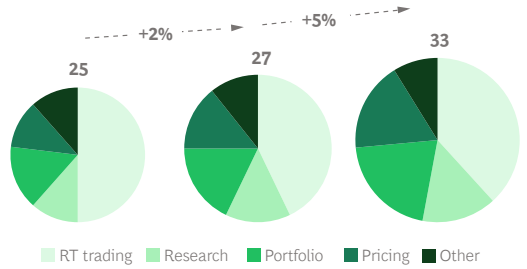
Technological leaps played key roles in the evolution of the asset management industry …

1. **Launch and scaling of index investing** challenged active model and bifurcated industry
2. **Internet age investing and fund supermarkets** began to democratize investing for retail
3. **Big data and alternative data sources** moved industry "beyond the terminal" for new sources for alpha
4. **Automation and decision-making engines** simplified and reduced costs for E2E investing
5. **Rise of fintech and data provider ecosystems** enabled partnerships and outsourcing of noncore

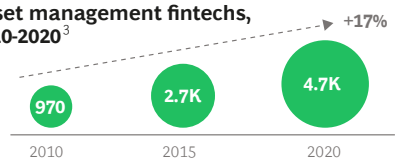
Active vs. passive share of mutual fund and ETF markets, 1985-2020[1]



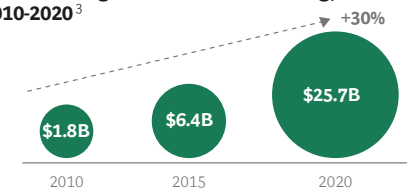
Asset management investment in data capabilities ($B), 2012-2020[2]

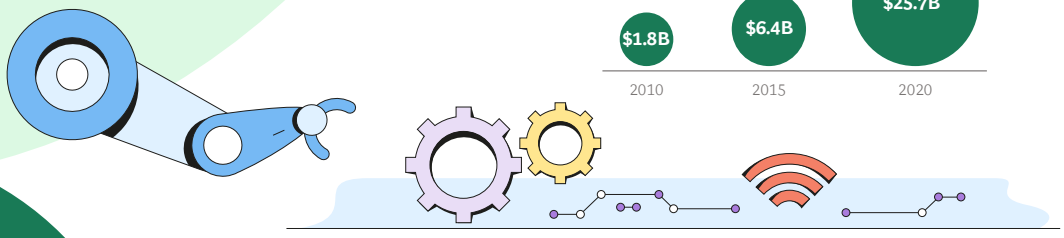


Asset management fintechs, 2010-2020[3]



Asset management fintech funding, 2010-2020[3]





… and **emerging technologies** point to rapid future disruption

Direct indexing
Hyper-customized products with cost economics effectively "democratizing personalization"

Tokenization of assets
Connecting financial and material worlds of real and digital assets in new ways

E2E DLT-enabled value chain
Connecting digital wallets to assets and changing the way of trading, reducing reliance on traditional exchanges

AI and ML

Next-gen real-time access (e.g. 5G/6G)

Metaverse technology and virtual assets

Quantum computing

1. Based upon US market Simfund data (market with longest timeline available); first index fund launched in mid-1970s.
2. Based on Burton Taylor Financial Market Global Data Analysis.
3. BCG Fintech Control Tower.

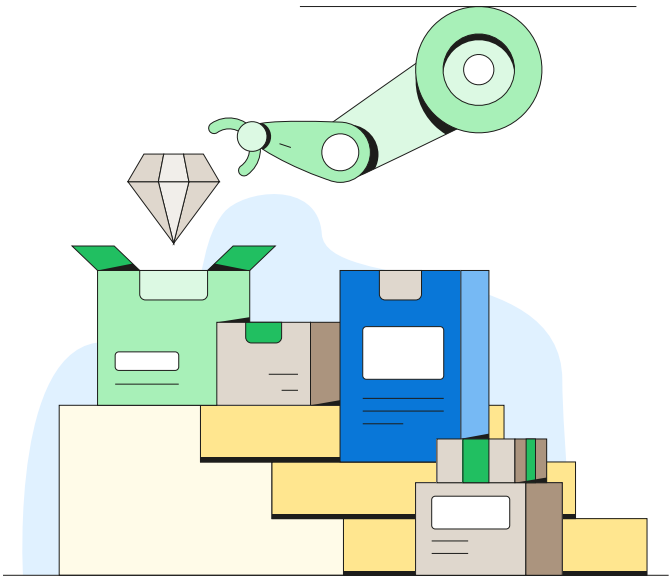
A Shifting Value Proposition: Spotlight on Direct Indexing

Today the core value proposition of asset management, in addition to offering investment solutions, is manufacturing and packaging products for the end investor. However, new technologies are considerably simplifying the process of bundling and packaging products while at the same time effectively democratizing the ability to personalize products for the end investor.

Asset managers are beginning to invest in direct indexing, as are the financial players on the portfolio construction side, such as wealth managers and independent advisors. Direct indexing makes it possible for these competitors to build products easily and inexpensively and then take them directly to their clients. The likely effect will be a commoditization of investment products, which would significantly change the value proposition for the asset management industry. In a world where investment product construction is simplified, competition would be based mostly on who can offer the lowest prices. As a result, wealth managers and other advisors who own the client relationship might have an advantage—meaning asset managers might face a certain degree of disintermediation risk.

Asset managers can meet this challenge head on if they identify new ways to differentiate themselves. One option is to expand their scope by building the relationship side of the business. This is not the easiest strategy, because it isn't where the industry's traditional capabilities lie. The asset managers that succeed in this effort might be positioning themselves much closer to the wealth-management model. In the future, we can expect to see a convergence of the core business models of these two industries.

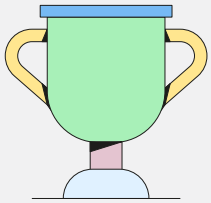
At the same time, if products are increasingly commoditized, asset managers can look to build a unique value proposition through specialization. Those with access to alternative assets such as private equity, real estate, and private debt or credit can carve out their own niches, providing expertise beyond the publicly traded assets that are available to everyone. Others might build on the role that asset managers have always played, using the dedicated expertise, knowledge, and capabilities needed to create investment products. If other financial players are making inroads in this direction, asset managers might find an opportunity to offer those firms their knowledge—their intellectual property and their methodologies, for example—as a potential revenue stream. Similarly, asset managers that decide to build the relationship side of their business could create a unique value proposition out of educating their end customers in sophisticated investment strategies.



Direct indexing is one of several technologies likely to impact the value proposition of asset managers in the coming years. Others are likely to be increasing prevalence of tokenization and distribution ledger technologies. Much like the invention of the index fund, the central theme of these technologies will be to put increasing pressure on asset managers to differentiate or, said differently, to evolve their value propositions—which will require new ways of thinking and new approaches to the competitive marketplace in general. (See the sidebar, "Confronting the Counterfactual Future.")

Confronting the Counterfactual Future

The Changing Vectors of Competition

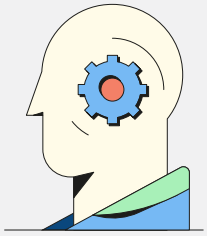


Many asset managers, in their effort to anticipate and preempt the rising threat of competitive disruption, are tracking and analyzing trends in everything from the values of millennials to sustainability technology. The number of potentially relevant trends is intractably large, and the possibilities arising from multiple trends intersecting is virtually limitless. A more focused way of understanding change and its implications is to look at how the nature of competitive advantage itself is changing.

We would highlight seven pervasive trends in the nature of competitive advantage that can inform strategy and innovation in all industries and in asset management in particular:

- **Contingent Advantage.** Adopt the right approach to strategy for each part of the business.
- **Dynamic Advantage.** React and adapt to rapid changing environments and maintain optionality in the face of uncertainty.
- **Contextual Advantage.** Embed strategy into the broader social, cultural, political, and ecological context.
- **Collaborative Advantage.** Combine strengths of multiple partners in connected ecosystems and through open strategy.
- **Creative Advantage.** Harness collective imagination systematically to continually reinvent business models.
- **Algorithmic Advantage.** Adopt AI-based business models and facilitate human and AI collaboration in new forms of hybrid organization.
- **Human Advantage.** Hire, retain, and deploy human capital in more engaging and meaningful ways.

Why You Need to Stretch Your Mind Before You Stretch Your Strategy

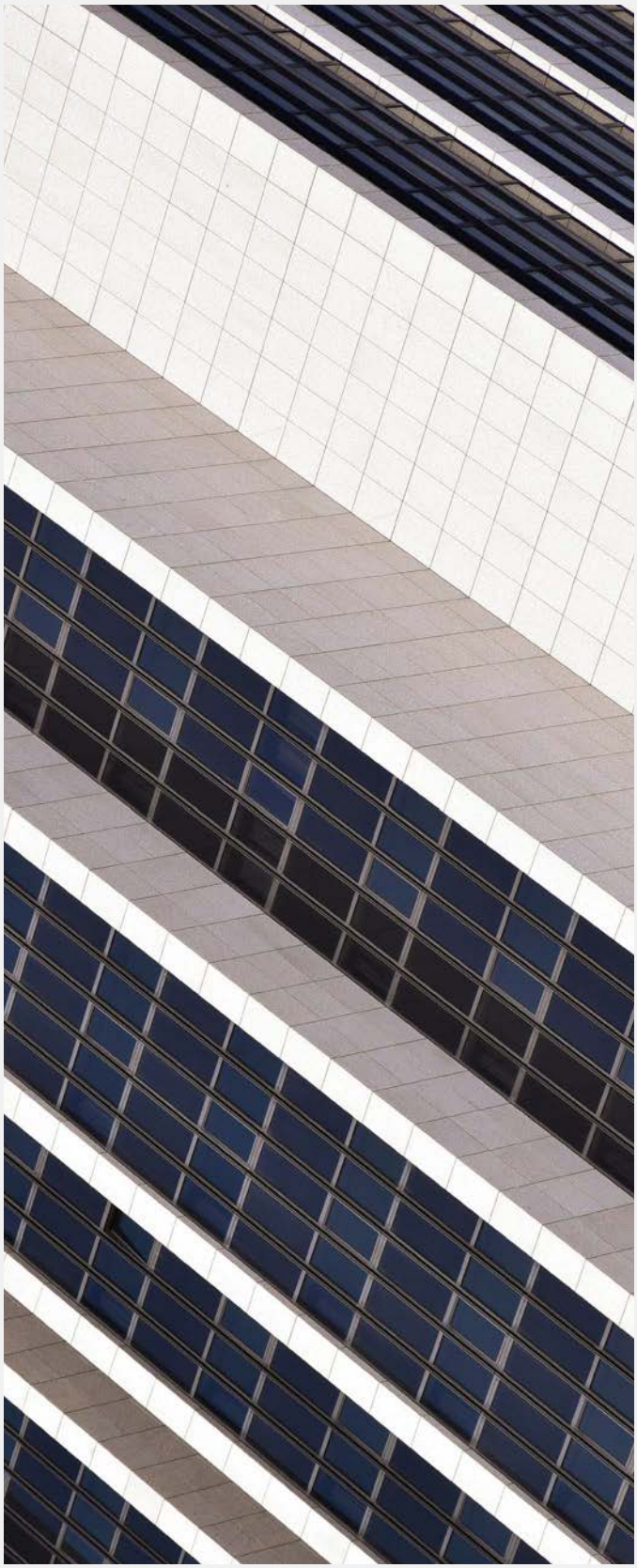


The growth and profitability of the industry is no reason not to actively explore new business models based on these new vectors of competition. In this climate, current profitability is less and less an indicator of future success; indeed, mature businesses often experience high levels of performance before they are disrupted.

Most of the time businesses focus on the here-and-now world of facts. However, it is sometimes vital to get away from what happens to be the case now (the factual) to consider imaginative new possibilities (the counterfactual) that are not the case now but could become reality. The increasing fade rate of competitive advantage makes this more important than ever.

When we lack counterfactual thinking, we become mentally and practically stuck. We focus on further exploiting the prevailing business model instead of asking broader strategic questions: What other products and services could we develop? How could our company transform itself? What scenarios might throw us off course or offer opportunities in future? As BCG founder Bruce Henderson once noted, companies are prone to becoming prisoners of the assumptions that drove their historic success.

Companies need to provoke and cultivate counterfactual strategic thinking in order to reimagine and renew themselves. Asset management, too, is subject to the same shifts in the strategic environment experienced by other industries. The winners of tomorrow will be those managers who think creatively about new ways to renew their lease on the future.[1]



1. See *The Imagination Machine* (Harvard Business Press, 2021) for more on how to reimagine businesses.

Rising Investor Interest in Alternatives

Alternative products represented more than 40% of total asset management revenue in 2021, despite comprising less than 20% of global AuM. Over the next five years we expect the revenue from alternatives to grow to more than half of all global revenues, thanks in large part to the fees that alternative assets command. (See Exhibit 10.)

Traditional large asset managers with strong distribution networks are paying close attention and have made strategic moves to bring these products to their clients. In order to build the right capabilities, a number of large asset managers have acquired smaller asset management firms that specialize in products in the private equity and real estate space. Private market players were the target of almost half of all asset management M&A activity in 2021.[3]

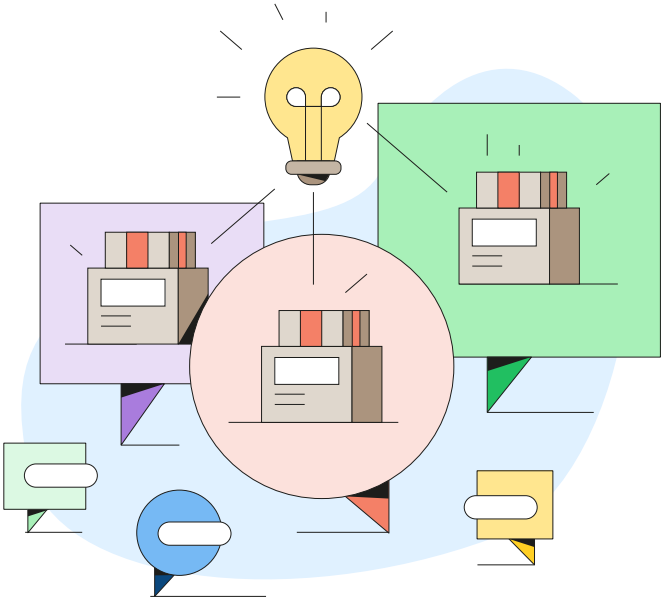
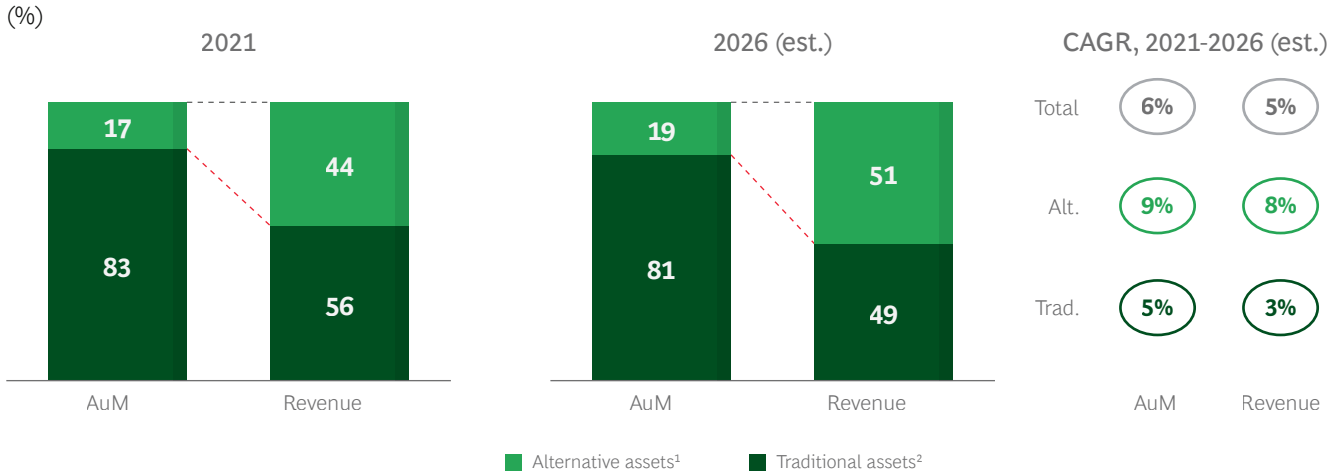


Exhibit 10 - Alternative Assets Will Gain a Greater Share of Global Revenue



Sources: BCG Global Asset Management Market Sizing 2022; BCG Global Asset Management Benchmarking 2022; Strategic Insight; P&I; ICI; Preqin; HFR; INREV; BCG analysis.

[1]Includes hedge funds, private equity, real estate, infrastructure, commodities, private debt, and liquid alternative mutual funds (such as absolute return, long and short, market neutral, and trading oriented); private equity and hedge fund revenues do not include performance fees. See Appendix 2 for details.

[1]Includes active specialties, solutions/liability-driven investment/balanced, active core, passive. See Appendix 2 for details.

2. Pensions and investments data as of 2021. Calculated as number of mergers and acquisitions of "money managers" targeting other money managers in private equity, real estate, infrastructure, and alternatives (sample is largely private market players), divided by the total number of mergers and acquisitions of all money managers acquiring other money managers. Analysis only considers mergers and acquisitions, excludes spinoffs, joint ventures, notable investments, and other forms of entity combination.

At the same time, asset managers that already specialize in alternatives are eyeing the market of retail investors seeking to maximize their returns. This is a large and growing market segment as well as a fragmented one, so it provides asset managers an excellent opportunity to develop a greater range of appropriate alternative products. To access those opportunities, specialized alternative-market players are focusing on distribution. A number of alternative-market firms have improved their access to retail investors by acquiring distribution channels.

These moves by large traditional asset managers that own distribution, and by specialized managers that manufacture investment products, have set the stage for a battle for alternative markets. On the horizon, then, we can expect to see stiff competition to elevate alternatives to mainstream asset status and bring them to retail investors. In addition to competition between firms, there is likely to be an increase in M&A activity and partnerships.

Distributed ledger technology is also likely to play a key role in making illiquid assets liquid and accessible to retail investors. Tokenization, in particular, can transform the alternatives space by disrupting both the definition and the accessibility of the asset. By increasing the fractionalization of holdings such as private equity and real estate, tokenization would make smaller shares of alternative assets available, giving smaller investors the means to play in the alternatives space and making previously illiquid assets available as tradeable tokens.

Tokenization can also expand the universe of private assets, so that—in addition to such familiar markets as private equity, real estate, infrastructure, and private debt—investors might buy into the growing world of intangible assets, which currently ranges from fine-art NFTs to virtual real estate.

Increasing Demand for Sustainable Investing

The global push to achieve net-zero carbon emissions by 2050 is both mission critical for the planet and presents a host of opportunities for asset managers. As business and society increasingly demand that companies meet net-zero standards or risk losing investment capital, the supply of climate-aligned capital from institutional and retail investors is expected to grow rapidly. The growth in investor demand for net-zero compliance has become evident in increased pledges by institutions and increased flow into sustainable mutual funds and ETFs—with additional growth expected from the rise of climate-tech unicorns and the private investment flows into decarbonization that we began to see in 2021.

Over the next 30 years, businesses are expected to seek capital to help deploy more transition strategies aimed at lowering their carbon footprint. Meanwhile, increasing societal awareness is likely to raise demand among investors for portfolios that support sustainable practices. We estimate that the public and private sectors will need approximately $100 to $150 trillion in capital deployment to reach net zero by 2050. For asset managers, the sustainable investing market could translate to $20 to $30 trillion in bond and equity allocations over the next 30 years. (See the infographic, "Net-Zero 2050 Objectives Present Huge Opportunities for Asset Managers.")

Perhaps more significantly, the opportunity is immediate. We expect that a major portion of the capital would need to be frontloaded over the next several years so that it can be invested in long-term climate transition projects.

Asset managers need to build a broad set of muscles to take advantage of these opportunities. There have been a number of external barriers to doing so—for example, the slow pace of regulation and inconsistent data standards. But as the demand for net-zero investment escalates, the regulatory environment and compliance standards will continue to evolve. As that happens, it will be increasingly important for asset managers to keep up with standards and to establish ways to differentiate their expertise in a highly competitive arena.

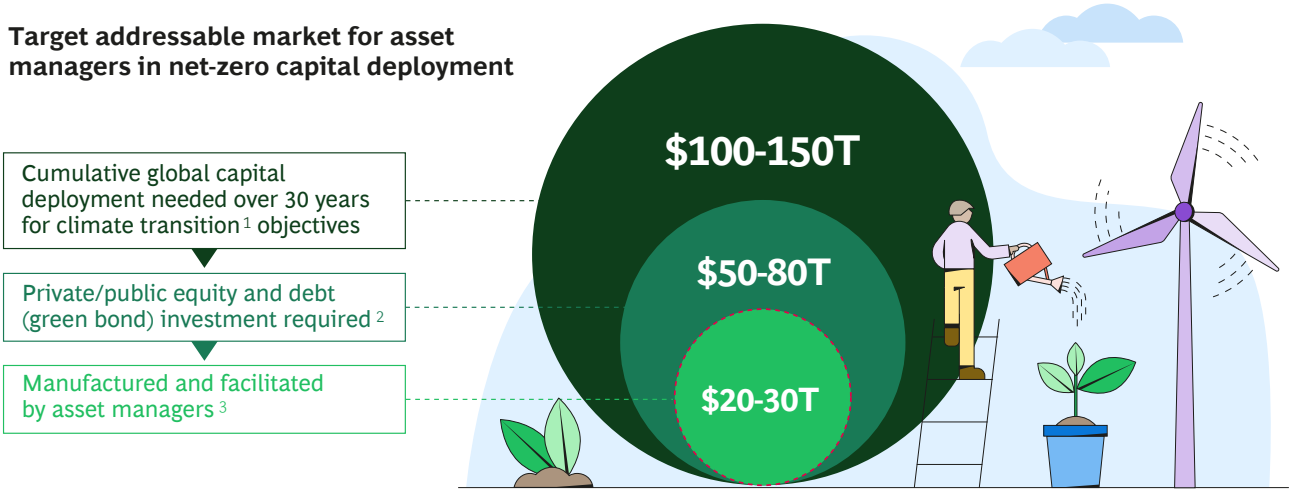
At the C-suite level, asset managers should develop a long-term vision for environmental investing to help them determine the optimal blend of strategies to pursue and assess where they are best positioned to differentiate themselves.

In addition to the large commercial upside to net-zero capital deployment, there is a downside in the form of transition risk. Asset managers should consider what capabilities they need to capture the upside and manage the risks. Measuring emissions within portfolio companies, integrating standards across the value chain, setting targets, and communicating the net-zero narrative are all table-stakes capabilities. But there are many additional possibilities for expanding the potential gains from a net-zero strategy. Asset managers can differentiate themselves by becoming experts in such areas as value creation, product customization, client education, or industry leadership. (See Exhibit 11.)

Net-Zero 2050 Objectives Present Huge Opportunities for Asset Managers

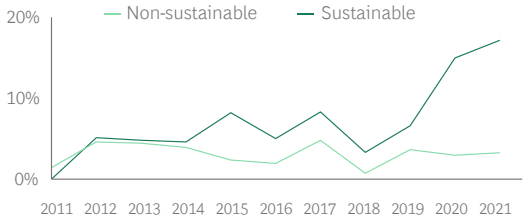
DEMAND FOR CLIMATE TRANSITION CAPITAL DEPLOYMENT WILL BE HIGH OVER THE NEXT 30 YEARS

Target addressable market for asset managers in net-zero capital deployment



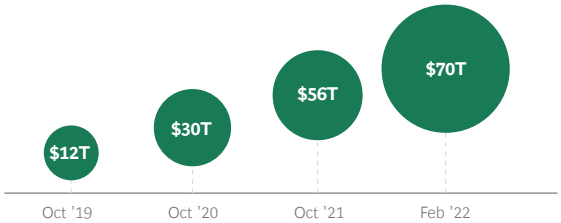
SUPPLY OF CLIMATE-ALIGNED CAPITAL EXPECTED TO GROW STEADILY ACROSS RETAIL AND INSTITUTIONAL INVESTORS

Retail investor demand



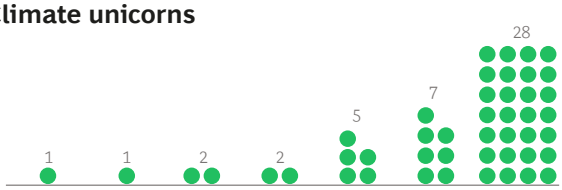
Annual flow rate into sustainable vs. non-sustainable mutual funds/ETFs globally, 2011-2021[4]

Institutional investor demand



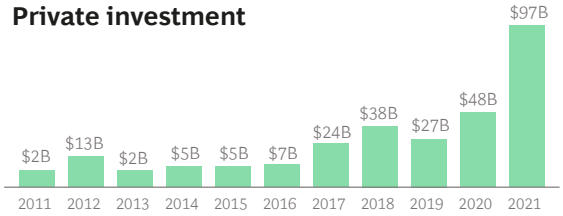
Total AuM of institutional investors in the Net-Zero Asset Owner Alliance, 2019-2022[5]

Climate unicorns



New climate tech entrants into "unicorns" list, 2015-2021[6]

Private investment



Private investment in climate tech globally by funding year, 2011-2021[7]

Source: WFE; BIS; BCG Global Asset Management Market Sizing 2022.
1. GFMA/BCG (Dec 2020).
2. Excludes loans (e.g., bilateral lending, project finance, syndicated lending).
3. Excludes banks and other non-AM intermediaries by using the share of global equities and bonds in AM market as a proxy for the share of climate equities and bonds addressable by AMs.
4. Simfund, excludes unclassified funds.
5. Net-Zero Asset Owner Alliance (founded in Oct '19).
6. HolonIQ.
7. Pitchbook; bottoms-up keyword search to extract deals across PE/VC, infra, real estate, etc.

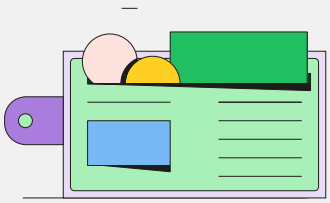
How Insurers Can Be Net-Zero Leaders

Investing with net-zero aims is increasingly important to all of the asset management industry. But for insurers, the strategy presents a particularly compelling opportunity to generate value, establish a differentiating edge, and play an active role in decarbonization.

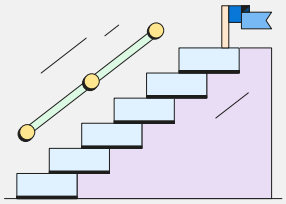
Some insurers have announced very ambitious sustainability targets for their portfolio companies, anticipating net-zero emissions well before 2050. Many have joined the Net Zero Asset Owners Alliance (NZAOA), an international association of institutional investors that has set intermediate targets that call for companies to reduce their 2019 emissions by 2025.

Insurance asset managers are in a good position to support their clients in setting these targets. They can accomplish this goal in numerous ways, including developing analytics to support emission target definitions, designing insurance-specific investment strategies, and building investee-engagement capabilities to promote a culture of climate awareness.

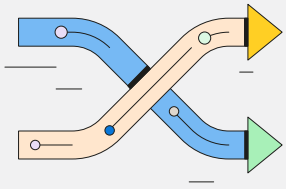
We find that insurance asset managers need to incorporate three particular steps in order to build a credible net zero investment plan:



- **First, they need to measure the emissions baseline** of the asset owner. While equity and corporate bond portfolios are likely to have baselines defined by international standard setters, there may be a greater challenge in the data accessibility of a real estate portfolio, where information is scattered. However, insurance asset managers are in a position to build emissions analytics capabilities of their own. Most advanced players start from public information and develop emissions proxies when data is not available.



- **Second, insurers should define interim targets** to achieve net zero. This effort will require that they embed such factors as sector and geographical benchmarks in their portfolio construction. Doing so will help investors in their decision making as they consider diversifying across many industries to avoid penalizing hard-to-abate sectors such as oil and gas, power, and utilities.



- **Third, insurers should identify the appropriate mix of actions** that will be needed to achieve their designated targets. The asset management arm can use its portfolio analytics capabilities to evaluate the financial impact of the various possible measures such as asset-mix rebalancing, investment in green assets, exclusions, and divestments.

Captive asset managers can also play an important role in engaging investees in the net-zero effort. Most of the advanced players have their underwriting and asset management divisions working together to advance a low-carbon economy among their investees.

Generally, those at the forefront have set up cross-functional teams in which underwriting and sustainability experts suggest potential decarbonization strategies to portfolio companies. Insurers that have instituted this kind of system have found that it not only produces positive results, but it also generates new business for the underwriting team as companies looking to decarbonize their operations address their additional insurance needs.

Exhibit 11 - Climate Strategy Requires New Capabilities

Strategic position

Long-term goals
How can we drive real climate impact while creating value for clients?

Level of ambition
How fast can we move from table stakes to differentiation and leadership?

Managing the journey
How will we manage the transformational journey internally and externally?

New capabilities

Table stakes

- **Measurement of portfolio emissions:** baseline assessment, absolute and relative benchmarks
- **Integration across value chain:** securities selection, risk management
- **Target setting:** interim targets, internal accountability
- **Narrative generation and distribution:** compliance reporting, client comms

Differentiation

- **Value creation:** sector scans, portfolio company work, due diligence
- **Product customization:** net-zero aligned product suite and client customization
- **Client shaping:** education, climate intelligence services and tools
- **Industry leadership:** papers, coalition membership, advocacy

Leadership

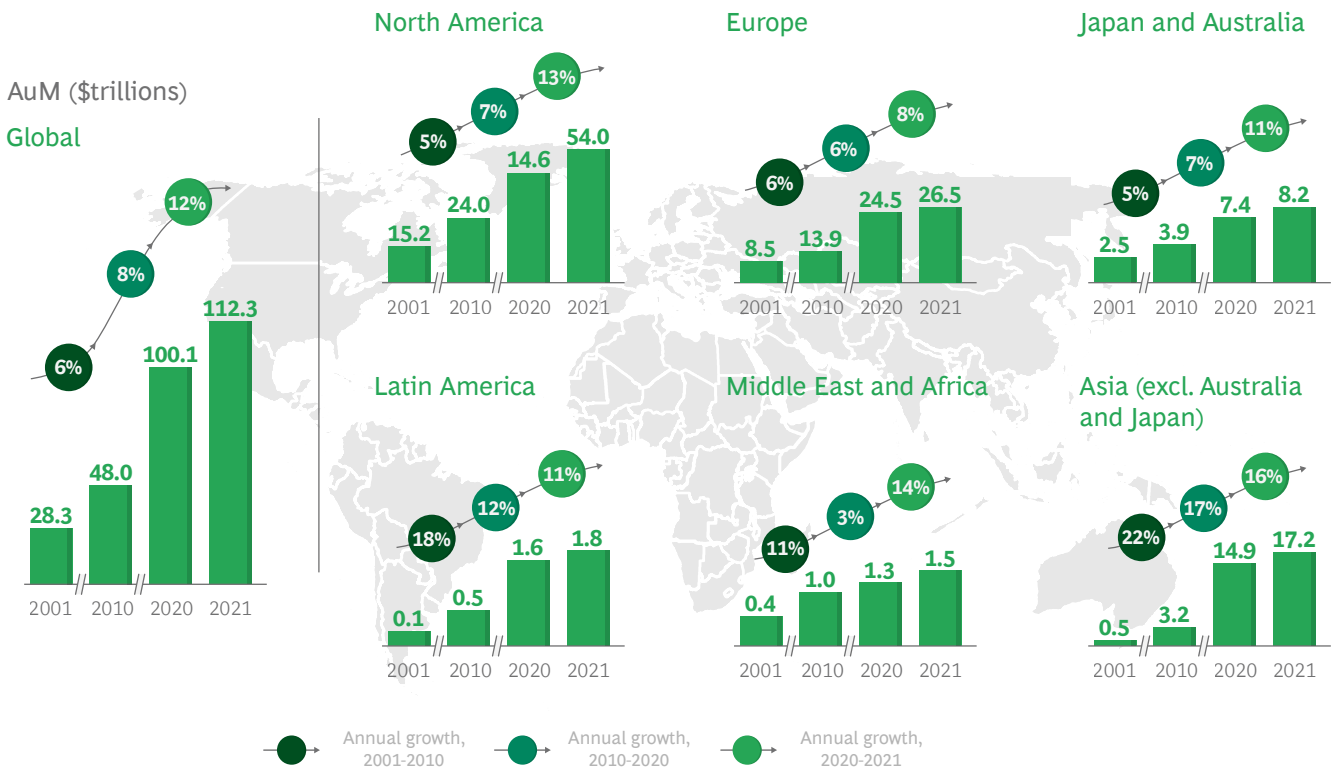
- **Incubation:** venture building to establish companies that would benefit from climate tailwinds
- **Platforms:** deployment into grey-to-green projects
- **Partnerships:** broad collaboration with public and private actors

Source: BCG analysis.

Asset managers can also stand out by taking bold steps that set industry-wide standards. They might lead the way by setting up venture deals in startups geared to sustainable practices, creating investment platforms that specialize in decarbonization projects, or developing partnerships between public and private sector actors.

As the high-flying market enters a new and more turbulent era, asset managers are at a tipping point. We foresee the industry becoming competitive in ways that have to do with changes in technology and society as well as new pressures to achieve market-beating performance. Between the changing investor landscape and new forces affecting the industry, the future presents multiple opportunities and a range of ways to win. Many of the opportunities call for proactive strategic positioning, so the asset managers best placed to win in the future will be those that begin preparing for industry disruption now.

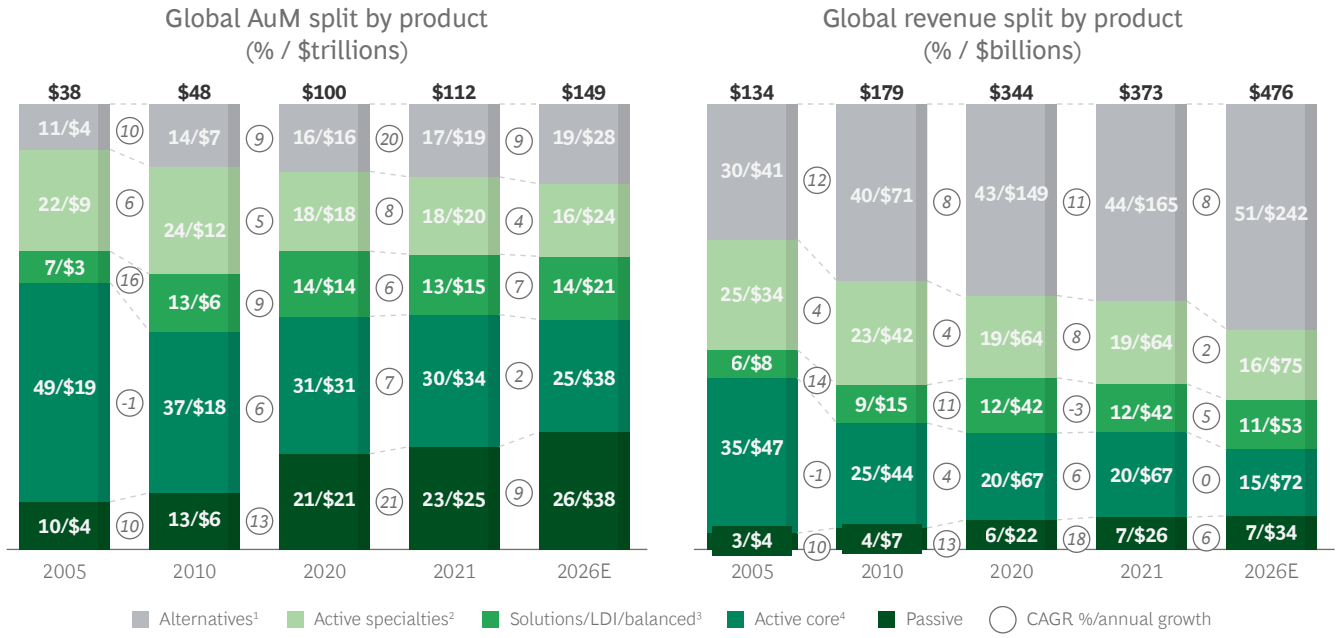
Appendix 1 - North America and APAC Were Major Drivers of Global AuM Growth



Sources: BCG Global Asset Management Market Sizing 2022; The Economist Intelligence Unit; Strategic Insight; Willis Towers Watson; local organizations including regulators; press reports; BCG analysis.

Note: Market sizing corresponds to assets sourced from each region and professionally managed in exchange for management fees; it includes captive AuM of insurance groups or pension funds where AuM is delegated to asset management entities with fees paid. Overall, 44 markets are covered globally, including offshore AuM (which is not included in any region). For 20 countries, AuM data till 2Q21 is updated based on local sources, while 3Q21 and 4Q21 AuM have been extrapolated using capital market performance. For further 21 countries, AuM data till 3Q21 is updated based on local sources, while 4Q21 AuM has been extrapolated using capital market performance. For 3 countries, AuM data till 4Q21 is completely updated based on local sources. For all countries where the currency is not US dollar, end-of-year 2021 exchange rate is applied to all years to synchronize current and historic data.

Appendix 2 - Alternatives and Passives Have Captured a Growing Share of Global AuM and Revenue



Sources: BCG Global Asset Management Market Sizing 2022; BCG Global Asset Management Benchmarking 2022; Strategic Insight; P&I; ICI; Preqin; HFR; INREV; BCG analysis.

Note: Bar chart values may not add up to 100% or to the specified sum because of rounding; LDI = liability-driven investment.

[1]Includes hedge funds, private equity, real estate, infrastructure, commodities, private debt, and liquid alternative mutual funds (such as absolute return, long and short, market neutral, and trading oriented); private equity and hedge fund revenues do not include performance fees.

[2]Includes equity specialties (foreign, global, emerging markets, small and mid-cap, and themes) and fixed-income specialties (emerging markets, high yield, flexible, inflation linked).

[3]Includes target date, target maturity, liability driven, OCIO, multiasset balanced and multiasset allocation.

[4]Includes actively managed domestic large-cap equity, domestic government and corporate debt, money market, and structured products.

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About the Authors

Chris McIntyre is a managing director and partner in the New York office of Boston Consulting Group. You may contact him at mcintyre.christopher@bcg.com.

Simon Bartletta is a managing director and senior partner in the firm's Boston office. You may contact him at bartletta.simon@bcg.com.

Ishaan Bhattacharya is a project leader in the firm's New York office. You may contact him at bhattacharya.ishaan@bcg.com.

Joe Carrubba is a managing director and partner in the firm's New York office. You may contact him at carrubba.joseph@bcg.com.

Dean Frankle is a managing director and partner in the firm's London office. You may contact him at frankle.dean@bcg.com.

Marcos Frazao is a consultant in the firm's New York office. You may contact him at frazao.marcos@bcg.com.

Lubasha Heredia is a managing director and partner in the firm's New York office. You may contact her at heredia.lubasha@bcg.com.

Hanka Mörstedt is a solution lead in the firm's Frankfurt office. You may contact her at moerstedt.hanka@bcg.com.

Kedra Newsom Reeves is a managing director and partner in the firm's Chicago office. You may contact her at newsom.kedra@bcg.com.

Edoardo Palmisani is a managing director and partner in the firm's Rome office. You may contact him at palmisani.edoardo@bcg.com.

Neil Pardasani is a managing director and senior partner in the firm's Los Angeles office. You may contact him at pardasani.neil@bcg.com.

Martin Reeves is a managing director and senior partner in the firm's San Francisco office and the chairman of the BCG Henderson Institute. You may contact him at reeves.martin@bcg.com.

Thomas Schulte is a managing director and partner in the firm's Düsseldorf office. You may contact him at schulte.thomas@bcg.com.

Benjamin Sheridan is a managing director and partner in the firm's Singapore office. You may contact him at sheridan.benjamin@bcg.com.

Blaine Slack is a lead knowledge analyst in the firm's Chicago office. You may contact him at slack.blaine@bcg.com.

Kevin Zhu is an associate in the firm's New York office. You may contact him at zhu.kevin@bcg.com.

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For Further Contact

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