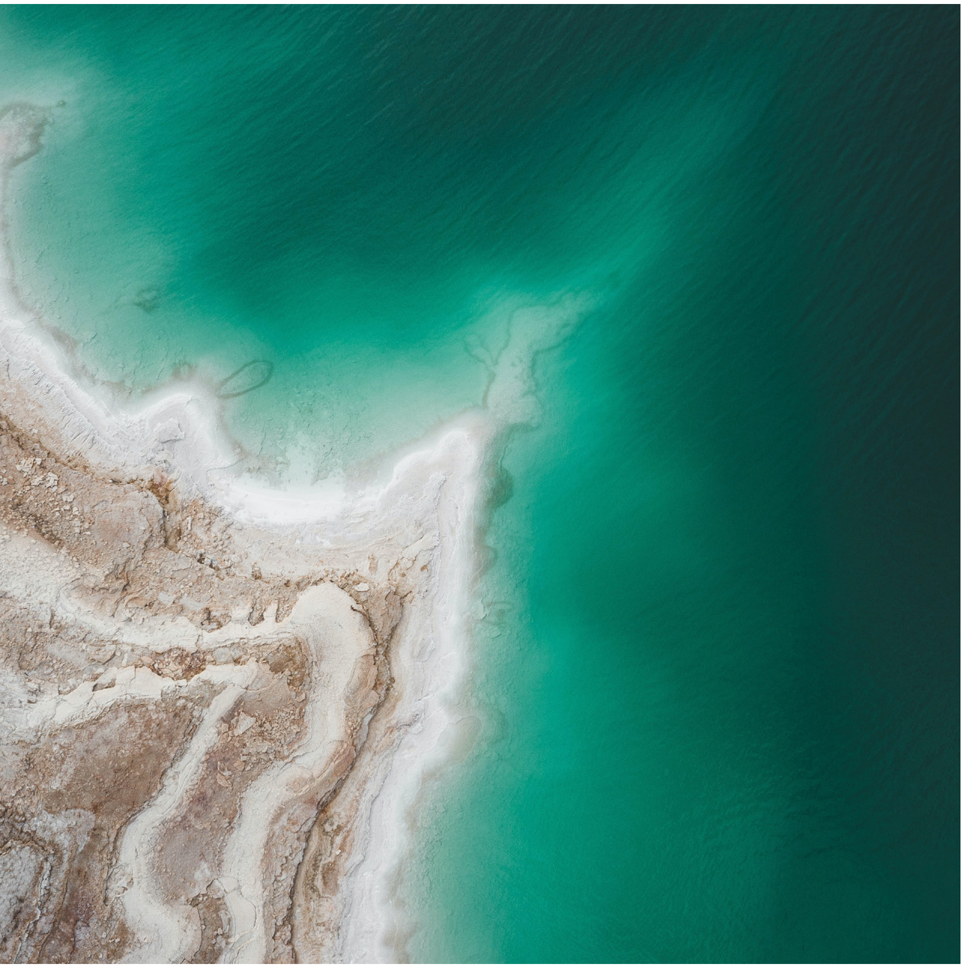
DATA & ANALYTICS

April 2021

Global Market Intelligence: Visualizing a year of change

Broadridge Data and Analytics



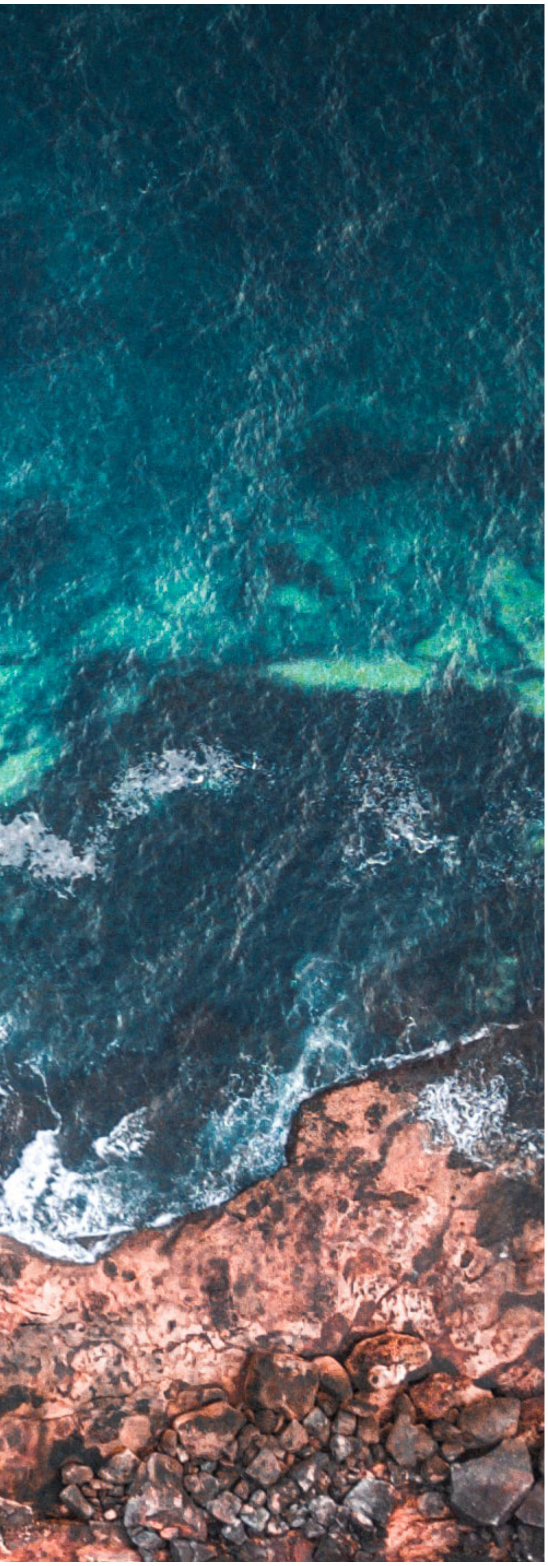
Ready for Next

Change tends to happen slowly – and then all at once. 2020 happened all at once for everyone – but for those of us analyzing the global asset management industry, it felt like all the chips on the table were launched into the air, only to then quickly fall back down to earth, landing somewhere slightly different.

We have built the GMI Market Map to help you visualize this change, integrating $95trn in assets from our GMI Funds and Institutional modules. Each segment represents a product family, which is colored by its net flow over 2020, and then sized by either AUM, net flow or organic growth (ie growth net of investment performance).

This interactive tool can be viewed by following the link at the end of this article. In this paper, we highlight some of the key themes that played out in 2020 and highlight some of the important implications for the asset management industry.

Overall, asset management AUM grew by a tremendous 14% in 2020. However, this growth was driven predominantly by investment performance. If we disregard performance, we are left with a more modest organic growth of 2.3%, which moreover masks the frantic rotations we measured in key segments of the market throughout the year.



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INTRODUCTION

GMI Market Map by AUM

Net Flow Color Scale:

$-407B $1,211B

Sizing our segments by AUM, the landscape is dominated by the core product groups of money market and active and passive North American Equities, although the latter two both saw significant outflows leading to negative growth in 2020 of 1.5% and 6.3% respectively.

GMI Market Map by Organic Growth %

Net Flow Color Scale:

$-407B $1,211B

Sizing our segments by their organic growth in 2020 reveals a very different picture: passive fixed income saw tremendous growth, and, while sometimes from a small base, it was at the centre of the growth story for 2020, alongside thematic equities and commodities.

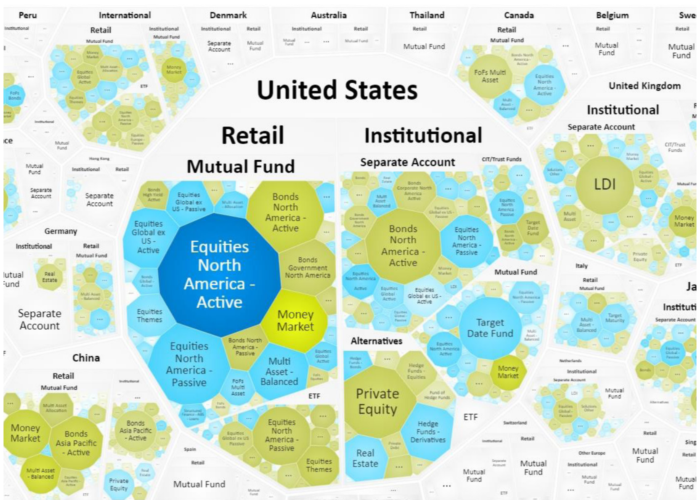
While these very macro trends are important, they often mask the very different ways individual markets and channels responded to the crisis in 2020, and the profoundly diverse opportunities that have emerged as a result.

The picture was particularly varied at regional level, driven by local idiosyncrasies: institutional and retail channels diverged in their demand for investment products and appetite for risk, while we witnessed systemic changes in the vehicles and instruments being used to gain exposure to underlying assets.

By introducing the three segments of country, channel and vehicle, we are able to understand more precisely what happened in 2020, what the drivers were, and, importantly, what this might mean for the future.

USA

GMI Market Map by AUM



Net Flow Color Scale:

$-288B $547B

With this segmentation in place, the USA predictably dominates the map with $49trn in total AUM and records 1.1% organic growth in 2020.

While the institutional segment registered positive organic growth, it's important to note that traditional long-only institutional strategies were negative at -0.3%. Overall positive institutional organic growth was largely driven by alternatives, the main net flow contributor in 2020. As the map shows, within alternatives, quite a few asset classes registered net inflows, with private equity being the largest, posting 2.9% growth.

Defined benefit pensions, endowments and foundations alike, have long straddled traditional and alternative strategies to achieve optimal portfolio allocations, with alternative investments playing a major role in the hunt for returns. Some portfolios even allocated as much as 50% or more of their total assets to these illiquid asset classes.

USA (CONT.)

Thanks to the lower-for-longer yield environment, alternative asset segments are gaining more momentum. In our data we see steady net flows, not just from the larger institutional segments like DB pensions, but also from insurers and family offices as they search beyond the traditional asset classes for alpha.

Target date investments overall have been growing steadily, but the mutual fund structure has been experiencing slower growth than others, and surprisingly suffered large outflows in 2020. This was due to retirees withdrawing money for their retirement and was compounded by the Covid-19-related hardship withdrawals, estimated at over $40bn. There is also evidence of large transfers from mutual funds to CITs as fees continued to be a major factor in product selection, benefiting the target date assets and net flows in CIT vehicles. It will be interesting to see how many managers will follow suit in the conversion trend.

On the retail side, ETFs have enjoyed strong organic growth as the preference for passive over active continues to play out. However, active ETFs did see new signs of interest in 2020. Despite currently accounting for less than 4% of overall ETF assets, actives attracted more than $55bn of net flows in 2020 (or some 14% of total ETF flows), which translates to an organic growth rate of nearly 59%. This asset segment has also seen some aggressive product development in 2020, with more than 170 new product launches, as fund manufacturers further down the ladder try to level the playing field in the ETF space.

Retail investors maintained their preference for using ETFs for broad equity exposure, especially in large caps, and withdrew heavily from active equities, mainly the North American variety. This reflected a continuation of the years-long rotation to passive equity in general.

EUROPE

In Europe, the UK still dominates in terms of assets, mainly due to its large institutional market, but more detail is revealed by switching our segments to be sized by net flow for 2020. While there were certainly pockets of opportunity in the UK market, it was in outflow overall as domestic funds generally continued to suffer redemptions. There was some positive cross-border activity, but much of the retail landscape is hermetically sealed from cross-border providers without onshore ranges. To learn more, we took a look at a couple of the countries where cross-border providers tend to fare better.

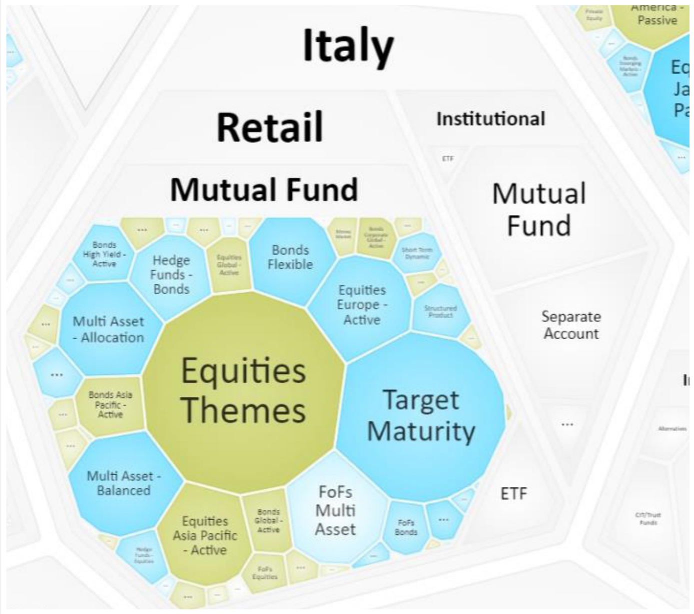
Italy

First on the list – it's one of Europe's largest retail markets, and the largest by AUM in cross-border funds, although it also has a very weighty domestic fund industry.

In any normal year, Italy would be our first candidate for the leading European market by fund flows – but not in 2020. The country was particularly badly hit at the start of the Covid-19 pandemic and March's outflows in Italy were among the largest of any European country. While subsequent months saw a return to net inflows, investors trod cautiously for most of the year, before leaping back into action in the final two months as positive vaccine news sent markets and investor demand haywire. December itself yielded the strongest Italian long-term fund flows in three years.

Italy is a country known for its sense of fashion and this extends to the fund industry too – retail demand is often at the cutting edge of industry trends. We can see this playing out in some of the best-selling sectors, with thematic equities by far and away the most popular. Technology, healthcare and renewable energy were among the best-sellers, and very much driven by investment in cross-border products rather than domestic funds. This story wasn't unique to Italy, but it was particularly acute there, as investors sought out long-term growth stories that they could easily relate to. This also formed an important strand in the general shift back to actively managed funds after March's sales crash, with investors looking to active managers to articulate their view of the world during and following the pandemic. We can also see evidence of this shift in some of the other best-selling sectors on the map, many of which were actively focused, like global and Asian equity.

As for outflows, this was largely a mixed assets story in Italy. A few years ago, this market was at the heart of Europe's boom in mixed asset demand and product launches, and the asset class appears to have transitioned from infancy to the troublesome teenage years. There were a number of drivers behind this slowdown, including complaints of poor performance in some of the more complex absolute return multi asset vehicles, a slowdown in product launches, less of a rollover effect from expiring target maturity funds into new ones, and a drop-off in appetite for mixed asset income products given the reduction or suspension of dividends that many companies announced in 2020.



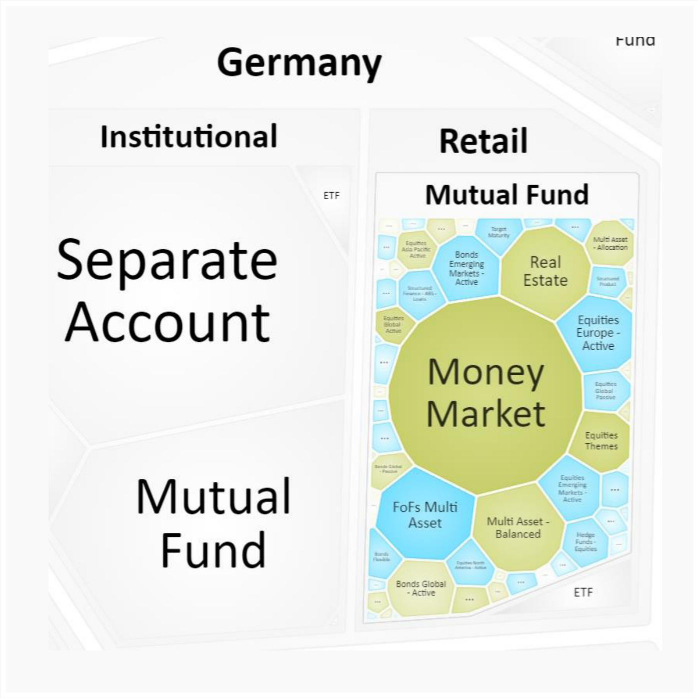
EUROPE

Germany

Turning our attention to Germany, another big retail market, the Teutonic country is typically also a prime hunting ground for cross-border groups, but it diverged notably from Italy in 2020, in that the bulk of net inflows were snapped up by domestic players.

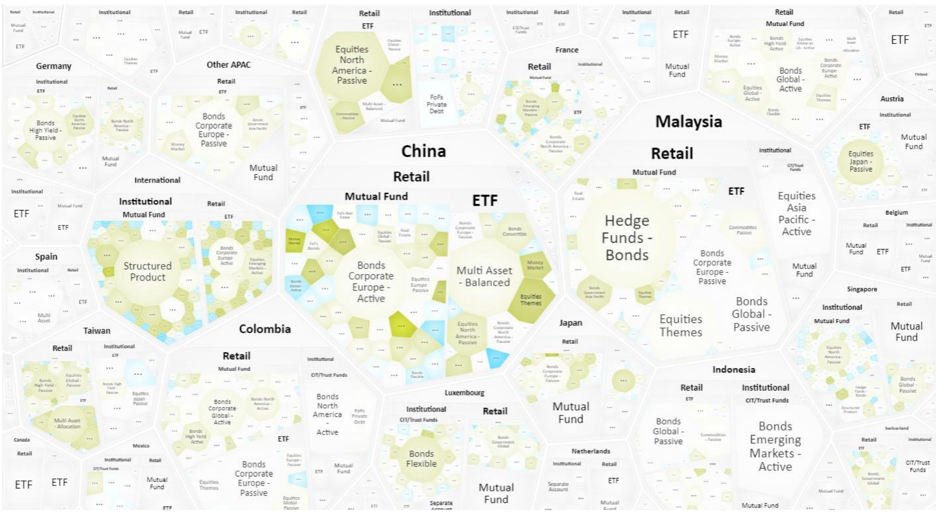
That was in part down to the strength of local offerings, with numerous popular third-party mixed asset funds continuing to bring in new money thanks to robust performance and client servicing, while homegrown global equity and real estate funds also attracted big chunks of new money. That's not to say cross-border groups were ignored – thematic equities and some actively managed bond spaces such as euro corporate investment grade were popular.

The bubble that stands out the most on our map is money market – it was a record year for this asset class in Europe as risk-off attitudes drove cash into this safe haven in numerous markets, much of which we would expect to see heading back into long-term funds over the course of 2021 in the absence of any further market shocks.



ASIA PACIFIC

GMI Market Map by Organic Growth %



Net Flow Color Scale:

$-288B $547B

Switching our segments to be sized by 2020 organic growth, APAC is clearly positioned at the center of the growth story, as Malaysia grew 15%, India 7.6% and Indonesia 7.2%. However, the most significant growth came, if slightly predictably, from China, on 15.1%.

China

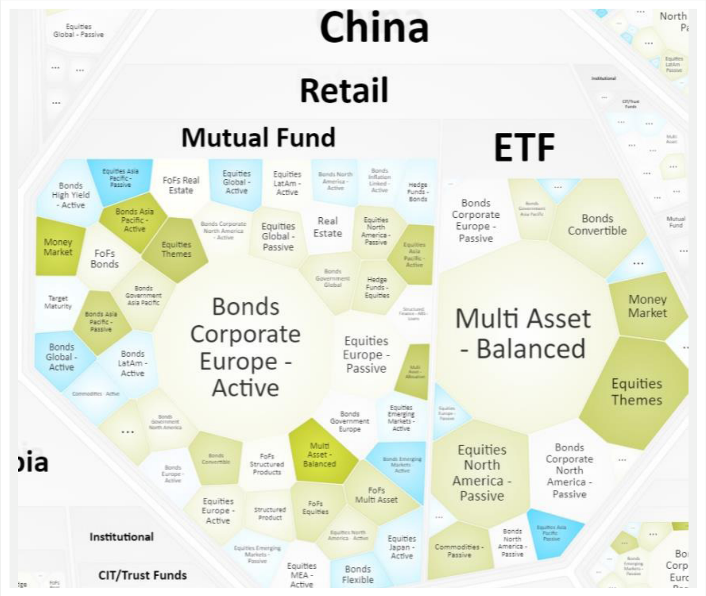
Appetite for retail funds in China was quite astounding in 2020, breaking previous records and remaining extremely high in each quarter – even Q1 when the spread of the pandemic sent global markets into a tailspin.

China's ability to keep a lid on the local spread of Covid-19 helped its economy to revert to a growth trajectory fairly swiftly, while strong market performance and relatively high bond yields kept up demand for a variety of local investments.

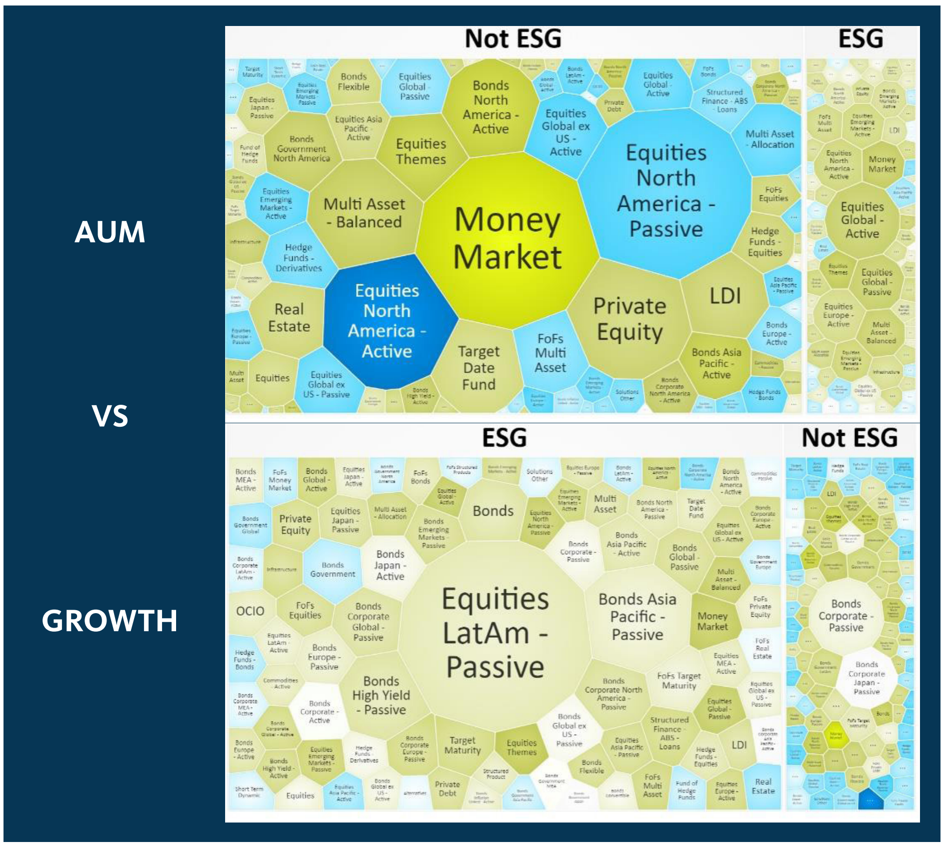
A multitude of retail and ETF sectors saw double-digit organic growth, and much higher in the case of some smaller spaces. One of the biggest contributors in both absolute and relative terms was the mixed asset category. Unlike in the USA and Europe, it was a tearaway year for such funds in China, helped along by a flurry of newly launched products that in numerous cases were several times oversubscribed during their IPO period. Within this, an interesting trend that picked up speed during the year was the launch of mixed funds with minimum holding periods, allowing fund managers greater flexibility to adapt to changing market conditions without the pressure of frequent client churn. The introduction of this product feature clearly hasn't dissuaded investment. At the centre of the Venn diagram of net flows and organic growth was the multi asset balanced space, which welcomed the greatest net flows, and organic growth in excess of 200%.

The thematics story was also crucial to Chinese equity sales in 2020 – of both mutual funds and ETFs, each of which enjoyed organic growth in excess of 100%. We've already touched on some of the drivers of general thematics demand while talking about Europe, but some of the most popular themes differed a little in China. Technology and healthcare appetite formed common ground with other regions, but consumer goods-focused funds were more of an outlier in China, with, for example, one of the market's best-selling thematic funds of the year tracking a liquor index.

We can also see that numerous bond sectors enjoyed robust organic growth in 2020, and while the asset class outsold equities overall, this activity was largely front-loaded in Q1. In fact, of the three core asset classes, this one could face the most turbulence in the near future, following a number of credit defaults by state-owned enterprises with good credit ratings towards the end of 2020. By breaking the implicit guarantee on bonds from state-owned enterprises, this could drive a shift towards more market-driven valuations and healthier industry growth, but as with any transition, it could prove a little bumpy.



GMI Market Map by AUM



Net Flow Color Scale:

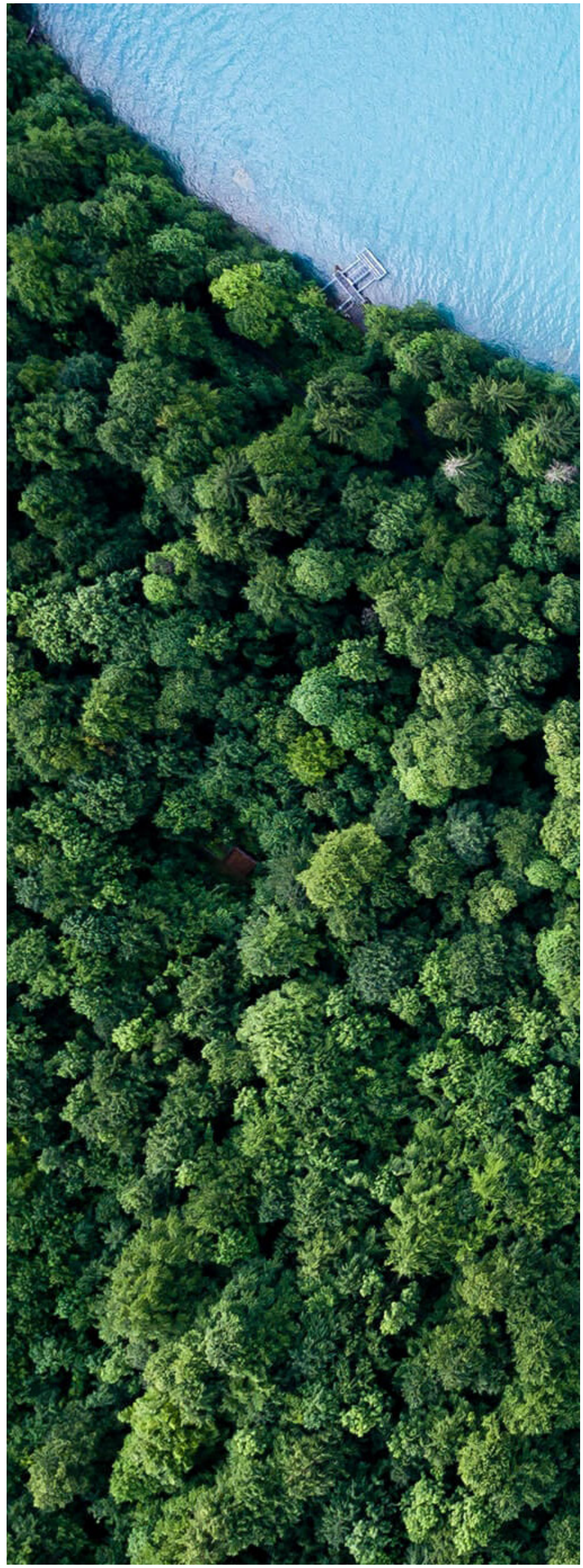
$-419B $1,147B

Finally – and back to a global trend that is important to all of our futures – the growth of ESG. While ESG represented only a small proportion of global assets in 2020, this ratio is almost perfectly inverted when looking at the world by organic growth. ESG has definitely been a hot topic globally and the US has witnessed the fastest growth in 2020, with strong demand from both institutional and retail clients. Asset managers continue to expand their capabilities in this area, driven by investor demand, risk management considerations and responding to long-term forces such as demographics and climate change.

Our data shows that ESG strategies in the USA collected a record $69bn in 2020, with positive net flows in all four quarters of the year, despite the overall industry experiencing a dramatic dip in the first quarter, which translates to an organic growth rate of 17% versus the industry's 1.1% And this net flows total is almost 70% higher than the prior year record of $41bn. We expect to see continued rapid expansion as the new Biden administration is seen as ESG-friendly, which will provide some tailwind in this space.

THANK YOU

We hope you find this vizualisation useful, and that it contributes towards your understanding of this fast-changing opportunity.



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