index INDUSTRY ASSOCIATION

Index Industry Association

2024 Survey of Asset Managers

TABLE OF CONTENTS

ASSET MANAGERS IN 2024
BRAVING THE NEW WORLD

Mounting complexity driving need for new partnerships, new and more specialized information sources, new skills and stronger ecosystems and alliances.

Entering 2024, change was afoot in the asset management industry driven by an anticipated volatile economic environment, an election super cycle, political polarization around ESG investing and unbridled hype around AI. At the mid-point of the year, a clearer picture began to emerge of how managers are navigating 2024 and what it portends for 2025 and beyond.

The 2024 Index Industry Association (IIA) Global Asset Manager Survey offers a unique glimpse into how asset managers view progress against current challenges and opportunities, and the key factors shaping the longer-term evolution of the industry. Now in its fourth year, the IIA survey identifies, tracks and tests key trends in the asset management industry through engagement with 300 Chief Financial Officers (CFOs), Chief Investment Officers (CIOs) and portfolio managers across Europe and the US (see Sidebar One: 2024 Survey Scope). As before, this year's survey was conducted independently by research firm Opinium, with fieldwork taking place in April and May 2024. To ensure individual firms' privacy, Opinium did not share any firm's response with any other and provided only aggregated, anonymized data with the IIA. Our 2024 report shines the spotlight on forces of change and complexity, their drivers and implications.

The industry is grappling with both short-term volatility as well as with more profound, longer-term structural forces. The short-term volatility is perhaps familiar enough, linked largely to the economy and, to a lesser extent, the global election super cycle (see Sidebar Two). The long-term forces of change play out along three distinct but related axes: technology transformation; changing views on environmental, social and governance (ESG) factors in investing; and the growth of new markets and asset types. While each of these forces has its own drivers and momentum, together they add up to an asset management environment of growing complexity and sharply diverging patterns of risk and opportunity.

The first major force relates to digital transformation and in particular the impact of generative AI (artificial intelligence) and related technologies on the asset management industry. While implementation is still in its early stages, the survey evidence around benefits and functional diffusion of AI suggests that the asset management industry is on the cusp of a major AI revolution that will dramatically alter the way the industry operates in the coming years.

The 2024 Index Industry Association (IIA) Global Asset Manager Survey offers a unique glimpse into how asset managers view progress against current challenges and opportunities

AI and related technologies already pepper the strategic discourse of firms we interviewed. A US CIO of a small fund comments that their top strategic goal is to "adopt generative AI into our business by incorporating it into our daily tasks and to create efficiency from a business operations perspective and to improve returns from an investment perspective"; a CIO in Germany says that that their firm wants "to focus more on AI and ML (machine learning) and perform market trend analysis more frequently"; a US portfolio manager for one of the largest firms is prioritizing "technological improvements for our customers, more use of user-friendly dashboards, cyber-security protection and data privacy."

Section 2 of the report sets out in more detail how asset managers currently view generative AI technologies, and their potential benefits and applications in different areas of asset management. Section 3 assesses progress to date in diffusing AI technologies across asset management functional areas, and the potential hurdles that stand in the way of progress.

The second major force of change and complexity relates to the role of ESG factors in asset management portfolios. In comparison with previous years, our 2024 survey reveals some moderation in ESG expectations, as well as some reshuffling of the key factors of importance to asset managers. Despite recent turbulence, ESG stills looms large in asset managers' strategic goals.

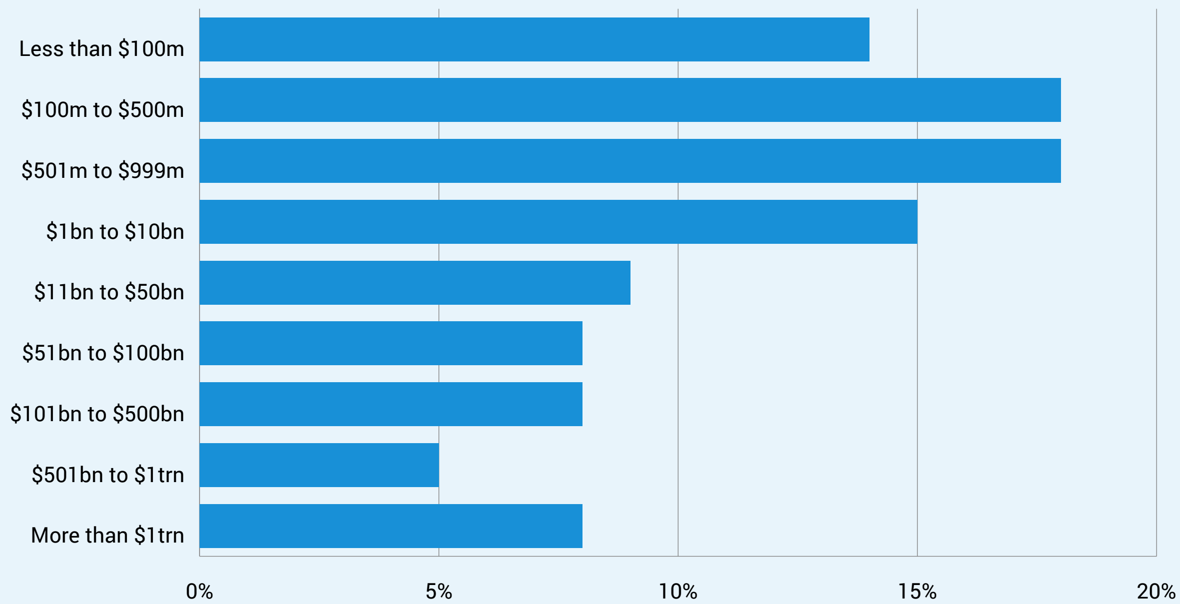
The third major axis of change relates to the emergence of new investment markets and assets. In an environment driven by economic and geopolitical volatility, asset managers seek to pursue asset diversification for both growth and stability. As one asset manager puts it, their strategic goal is based on "broad diversification across different asset classes, with a defensive orientation and anti-cyclical trading." A US portfolio manager of a midsized firm is "looking at private opportunities. They are massive, under the radar, and are often hidden opportunities." Section 5 explores how asset managers are responding to the emergence of new asset classes such as private markets and some of the challenges and opportunities these present.

All told, the findings of our 2024 survey add up to an asset management industry in Europe and America that is in transition, facing mounting levels of complexity and a need for new partnerships, new and more specialized information sources, new skills and stronger ecosystems and alliances. Against this backdrop in section 6 we consider how asset managers see their relationship with index providers and the kinds of innovations they would like to see from index providers in the future.

2024 Survey Scope

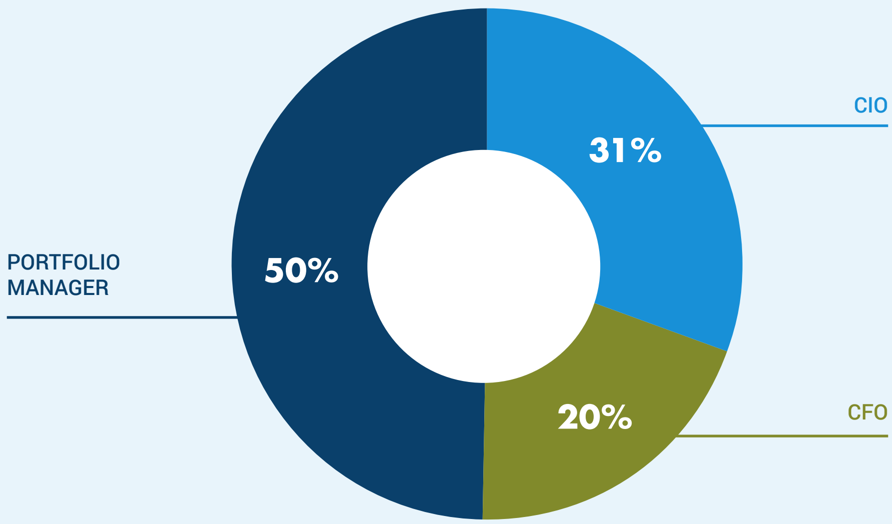
Survey respondents consisted of 80 CFOs, CIOs, and portfolio managers from each of the UK and the US, and 70 from each of Germany and France. The survey covers some of the biggest firms in the industry, with 13% of US firms having an AUM between $101 billion and $1 trillion, and 8% having an AUM above $1 trillion. By role, half of respondents were portfolio managers, with 31% CIOs and 20% CFOs (Figure 2).

Figure 1: Distribution of US companies by size of assets-under-management (AUM), %, 2024



Base: US respondents (80)

Figure 2: Distribution of survey respondents by role, 2024

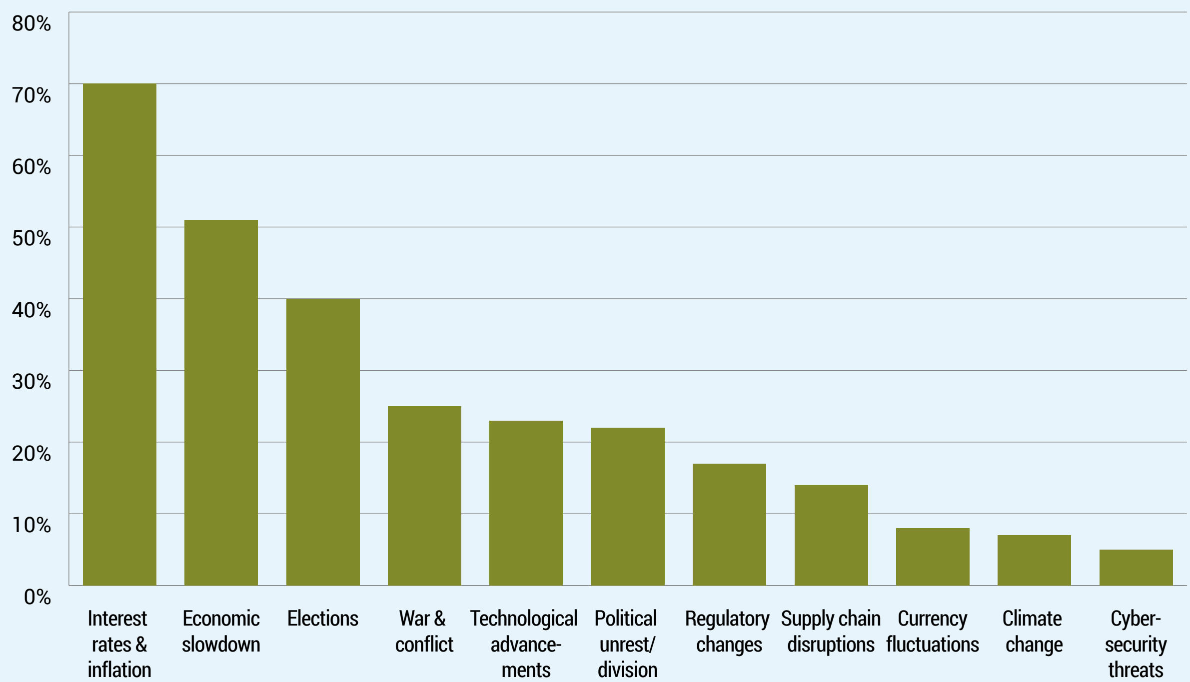


Base: All respondents (300)

Economic volatility dominates the short-term outlook

Asset managers appear to have shrugged off early political uncertainty but remain acutely focused on economic risks. As one US-based CFO puts it, their firm needs to “keep an eye on economic downturn without too much impact to our clients as the market is really volatile these days.” As can be seen from Figure 3, interest rates and inflation and the prospect of an economic slowdown / recession dominate the short-term investment outlook, followed by the election supercycle. Other factors—such as war and conflict, political unrest, and regulatory changes—trail by some distance. For US asset managers, the impact of interest rates / inflation (81%) and economic slowdown (63%) loom particularly large in their short-term investment outlook. Staying one step ahead of inflation is crucial, with a UK portfolio manager commenting that they are “using access to a broad range of investments in the global markets with a view to outperforming inflation and producing positive real returns to our investors.”

Figure 3: Over the next 12 months, which of the following factors do you believe will have the greatest impact on investment performance?



Base: All respondents (300)

GENERATIVE AI:
EARLY GAINS GIVE CAUSE FOR OPTIMISM

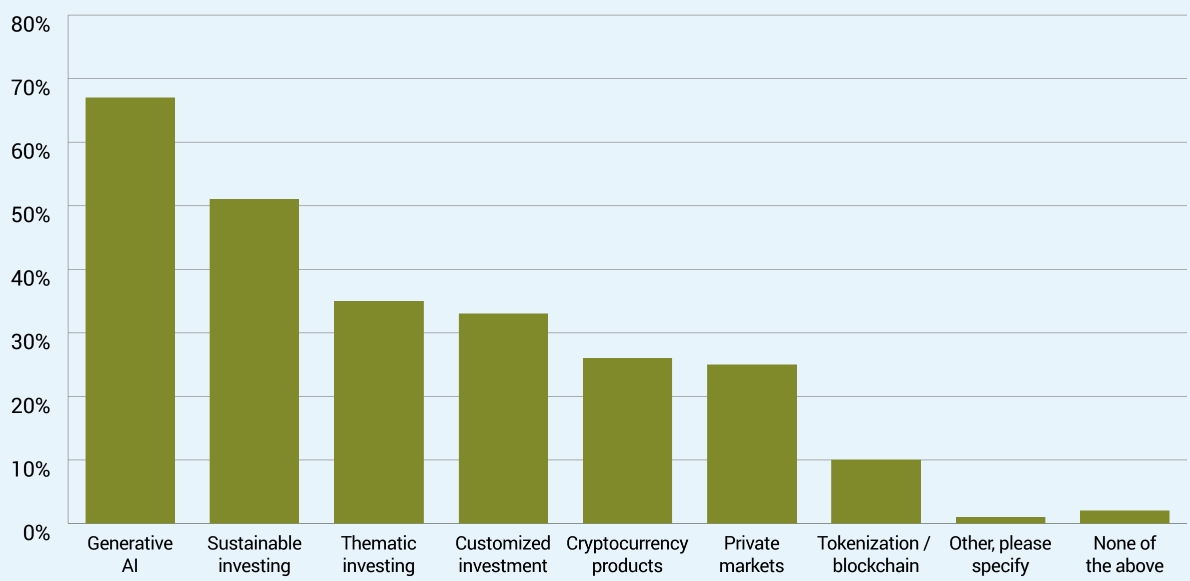
The rise of generative AI has ignited the public imagination like no technology in recent history. While generative AI has existed in various forms for some time, the key recent development has been the emergence of content—text, emails, reports, videos, images, software code. Some of the best-known LLMs include Open AI's ChatGPT 4, Google's Gemini, Meta's Llama 2, and Anthropic's Claude.

AI generates a buzz

Asset managers are similarly enthralled by the possibilities afforded by generative AI for their industry. It is driving industry conversations, with two thirds of asset managers saying that generative AI / machine learning is the topic that has been raised most frequently by their firms and colleagues over the past 12 months, far exceeding sustainable investment (51%) and thematic investment (35%).

Exposure to the technology also drives interest: 71% of firms regularly using generative AI tools frequently talk about AI trends and topics, compared with 45% of firms not regularly using such tools.

Figure 4: Thinking about the past 12 months, which of the following trends and topics have been most raised by your firm/colleagues?



Base: All respondents (300)

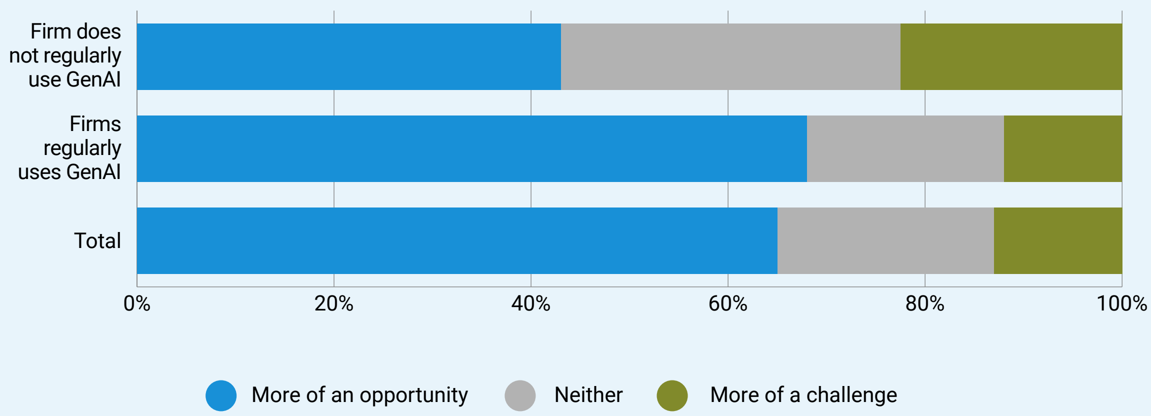
Diverse areas of applications

It is not just talk, however. Generative AI tools are already being used in many areas of asset management, from the commonplace to the esoteric. An asset manager in France notes that their firm "uses AI-based virtual assistants to provide personalized financial advice based on transaction history." Another observes how "AI analyzes the market news and trends to identify investment opportunities." Some are "developing models to build stock portfolios," while others use generative AI for equity research and to determine "the best investment strategies." A German CIO tells how their firm uses generative AI "to optimize portfolios, take returns and risks into account, and assess market risk."

Yet others look to generative AI for "forecasting and predictive modelling." A US CIO comments that "we are using AI to run financial risk simulations," while another is using generative AI "for Monte Carlo simulations to determine potential outcomes in various risk models." Some see generative AI as a potent new tool on the marketing and sales fronts, with a portfolio manager in France noting their use of generative AI "to automate content creation for personalized marketing campaigns and asset product recommendations." Yet for others, generative AI is simply a time-saving tool, with a UK-based portfolio manager observing that "AI is used in our daily tasks, majorly in developing the marketing content."

It is also clear that asset managers overwhelmingly see generative AI as an opportunity (65%) rather than a challenge (14%) for their firms' current business practices, with relatively few (22%) sitting on the fence in this area (Figure 5). Again, exposure to the technology shapes perceptions: asset managers whose firms are already using generative AI are more likely to see it as an opportunity (68% v. 43% for those not using it). Asset managers whose firms are not regularly using the technology are more likely to see it as a challenge (23% v. 12% for those regularly using it).

Figure 5: Do you perceive generative AI to be more of an opportunity or a challenge for your firm's current business practices?



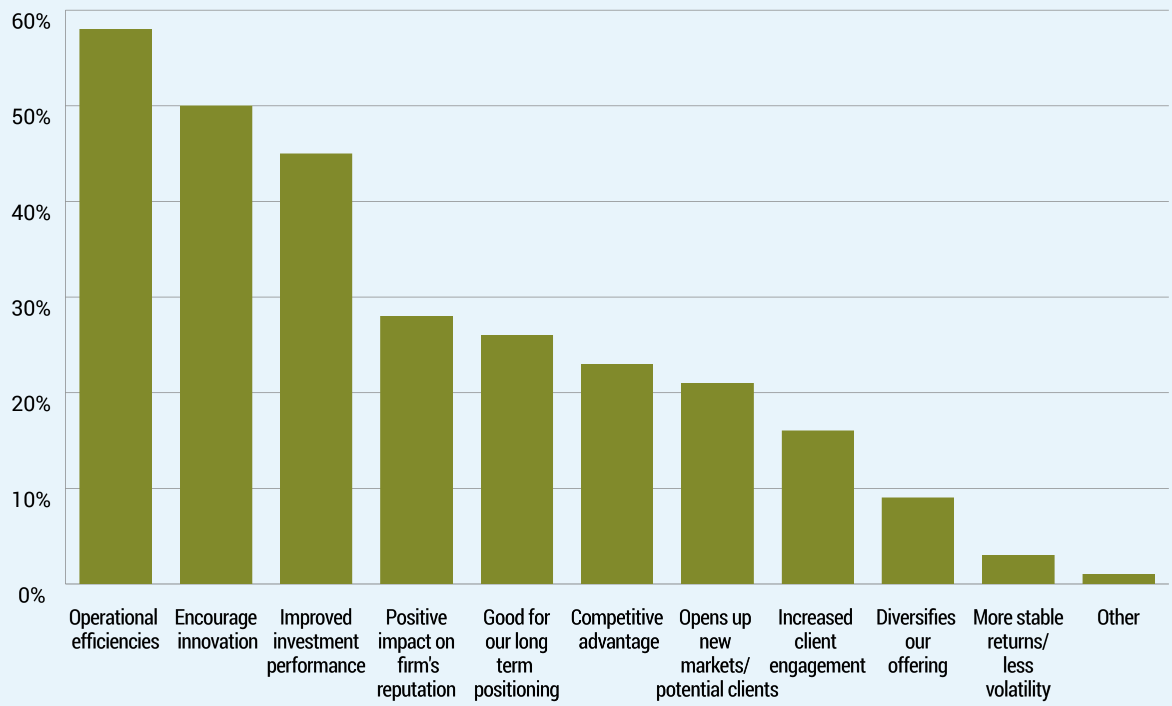
Base: All respondents (300)

Opportunities for top-line growth and efficiency

For those firms who see generative AI as an opportunity, important benefits lie in its potential to turbocharge operational efficiency (58%) and investment performance (45%), which could include the use of generative AI algorithms in stock selection or screening, or the extraction of company performance insights from company reports and regulatory disclosures (Figure 6). Half of asset managers also highlight the role of generative AI in spurring innovation, which could relate to the use of generative AI in designing new products, identifying new markets, or creating new and engaging ways of interacting with clients (through, for example, personalized email campaigns or AI-powered conversational assistants). By contrast, factors such as positive reputational impact (28%) and long-term positioning (26%) are of somewhat less importance.

Some regional differences are evident. US and UK asset managers are more likely to cite generative AI's innovation-boosting capacity (both 60%) compared with those in France (37%) and Germany (39%). French asset managers are apt to point to improved operational efficiencies (67%) and investment performance (65%) as the main opportunities.

Figure 6: Why do you see generative AI/machine learning as an opportunity for your firm's current business practices?

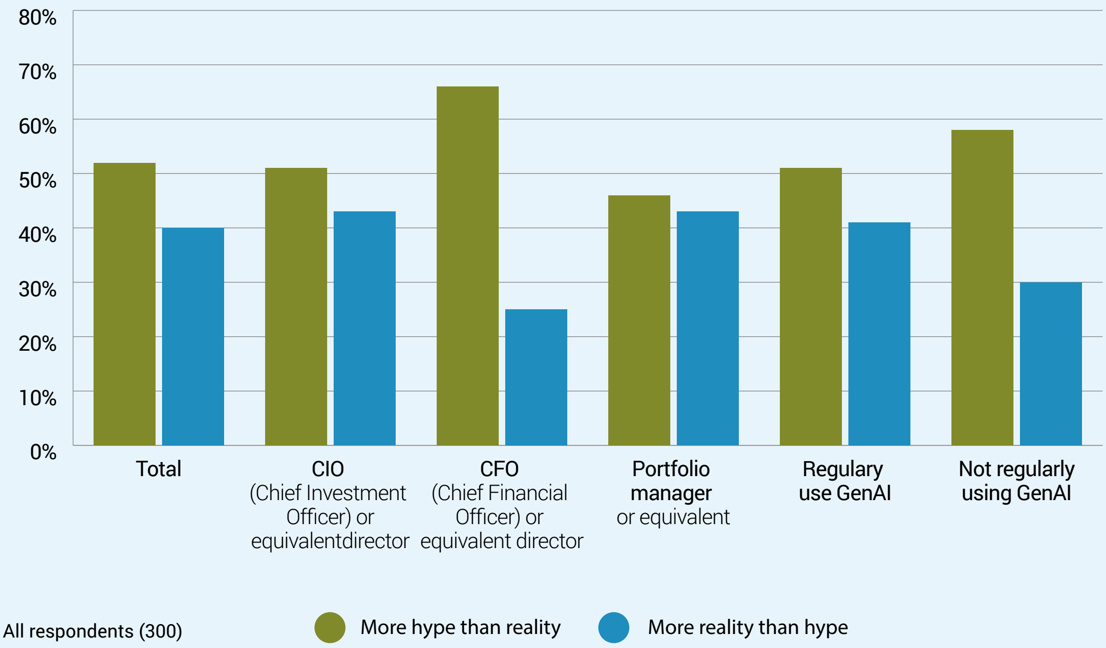


Base: All who experience AI as an opportunity (194)

GENERATIVE AI IN ASSET MANAGEMENT: A MARATHON, NOT A SPRINT

Despite the general optimism around generative AI and the benefits it can deliver, asset managers are divided around the degree to which the technology currently justifies the hype surrounding it. Just over half (52%) consider it to be more hype than reality, whereas 40% say the opposite. Experience with the technology shapes views: firms regularly using generative AI tools are more apt to see it as a reality than their non-AI-using counterparts (41% v. 30%). Portfolio managers are also more likely than their CIO and CFO counterparts to view AI as a reality, a finding that may reflect closer proximity to the use of AI technologies and tools in portfolio management.

Figure 7: Currently, do you think AI tools in the asset management industry are more hype or more reality?



Base: All respondents (300)

Views on the generative AI hype factor are partly about technology maturity and organizational readiness for generative AI. Most industries are still at a relatively nascent stage of generative AI deployment and usage, and this is similarly true for asset management firms. Like most new breakthrough technologies, generative AI is set to undergo a long maturity cycle within organizations, with gains accruing after a certain threshold of workforce adoption and usage is reached. Our 2024 survey shows that most asset management firms are still in the early phases of the adoption and usage cycle.

Early stage of adoption

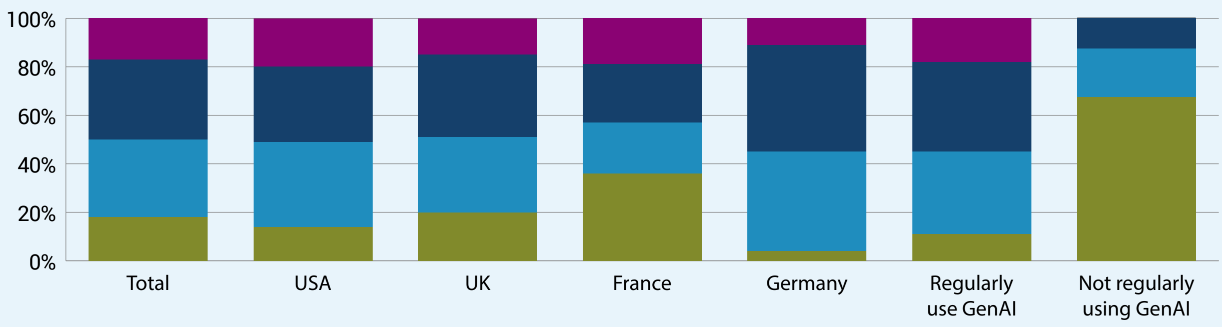
For the majority of firms, the adoption and usage of generative AI for day-to-day operations is still a medium to lowish priority. Half (50%) say that generative AI is a low priority (32%) or not a priority at all (18%). (Figure 8) However, 16% designate it a high priority. Firms that are already regularly using generative AI (55%) are also much more likely than those not regularly using it (13%) to say it is a medium or high priority, suggesting that exposure to and awareness of the benefits of AI technologies plays a big role in driving usage. Regionally, French asset managers were more likely than those in other regions to indicate that generative AI is not a priority (36% v. 14% for US).

This picture of asset management firms at a fairly nascent stage of adoption is borne out by data around workforce diffusion of generative AI technologies (Figure 9). Three quarters of firms report that less than half of their workforce currently uses AI tools on a regular basis. Only 12% of such firms have more than half of their employees using generative AI tools. Thirteen percent have no employees using AI. On average firms have 18.8% of employees currently using AI tools. However, asset managers expect workforce adoption and usage of AI to grow over the next year, by which time the average proportion of employees using generative AI is set to reach 27.7%.

The relatively slow rate of workforce diffusion likely reflects broader organizational challenges beyond simple investment in AI tools: workers have to be trained in AI technologies, IT systems and databases often have to be modernized, and firms usually need to implement organizational guardrails and policies to protect confidential data and ensure responsible use of generative AI tools. All of these take time and resources to implement.

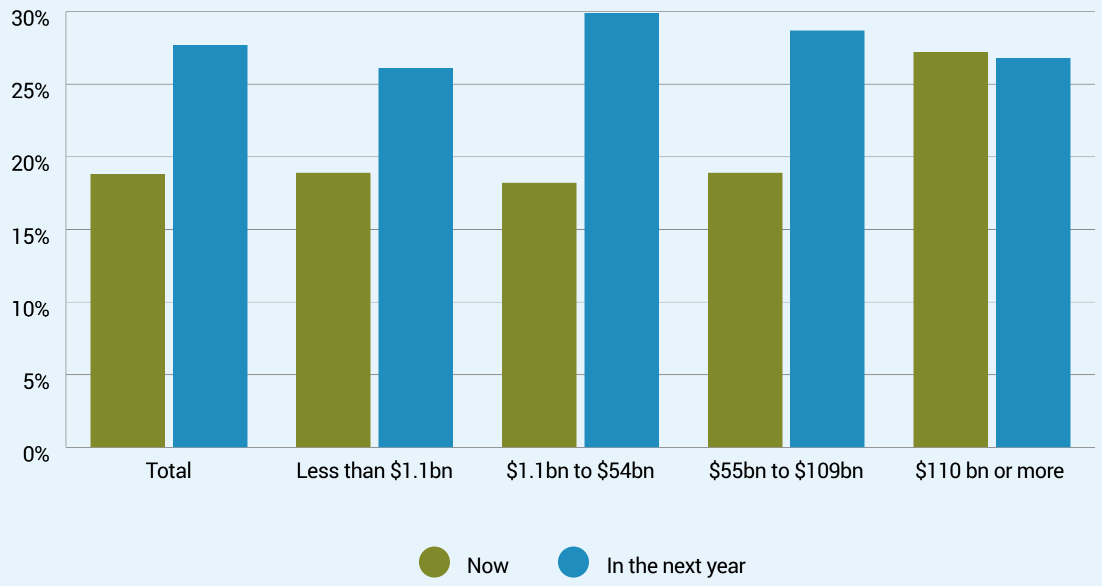
For the majority of firms, the adoption and usage of generative AI for day-to-day operations is still a medium to lowish priority.

Figure 8: Degree to which firms are placing a priority on adopting and implementing generative AI in their day-to-day operations



Base: All respondents (300)

Figure 9: Average proportion of employees using AI tools and services as part of their day-to-day job on a regular basis, now and in one year's time



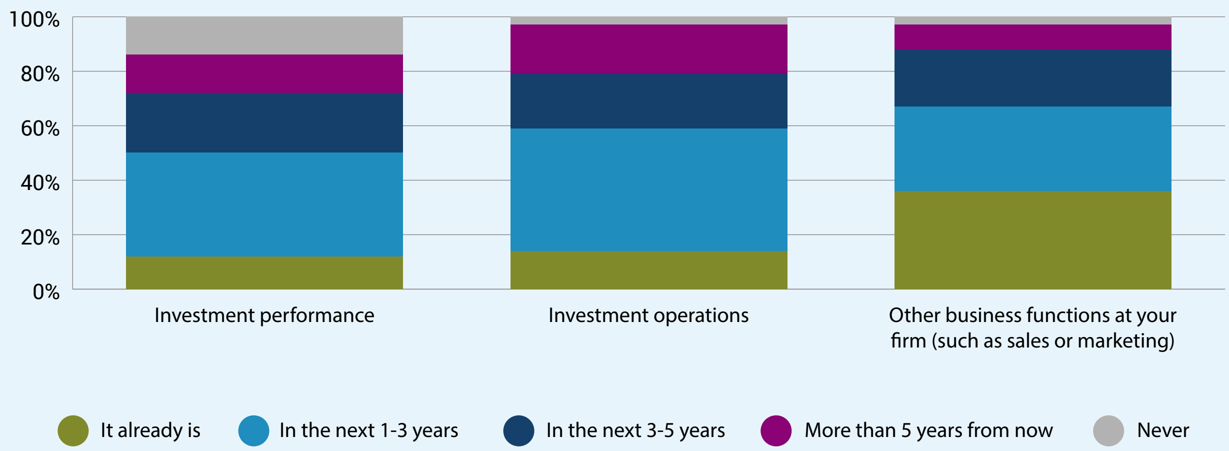
Base: Total: All respondents (300). European asset managers by AUM (140)

Generative AI is a long-term play

For a small cohort of firms, generative AI is already delivering a significant impact to investment operations (14%) and investment performance (12%) (Figure 10). However, for the majority of firms, generative AI is a longer-term play. Just under two thirds expect significant AI-driven improvements to investment operations in the next one to five years, while 61% see significant impacts to investment performance over the same timeframe. Only a relatively small proportion (14%) believe that generative AI will never have a significant impact on investment performance.

Asset managers in Germany are much more likely to expect significant benefits in investment operations over the next one to three years than are asset managers in other regions (64% v. 45% for the full sample). And firms already using AI are also much more likely to see early benefits in investment operations: 61% are already seeing benefits (15%) or anticipate them over the next one to three years (46%), compared with 40% of firms not regularly using AI.

Figure10: When do you believe generative AI will have a significant impact on the following, if ever?



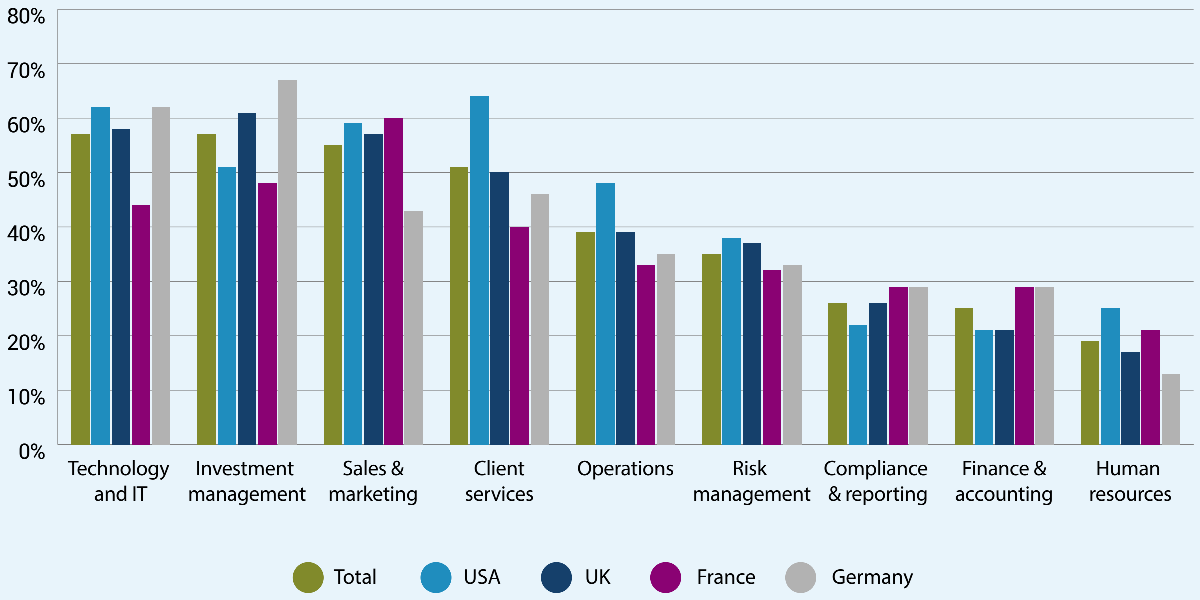
Base: All respondents (300)

Unequally distributed

The diffusion of benefits from implementing AI varies by area of fund operations. As Figure 10 shows, operational and performance benefits are expected to take longer to unfold than those in other business functions (such as sales and marketing), where 36% of firms are already seeing significant impacts from generative AI. This likely reflects the more discrete and domain-specific nature of generative AI functional tools and solutions, which can often be applied quickly without wider IT modernization or large-scale training and organizational change efforts.

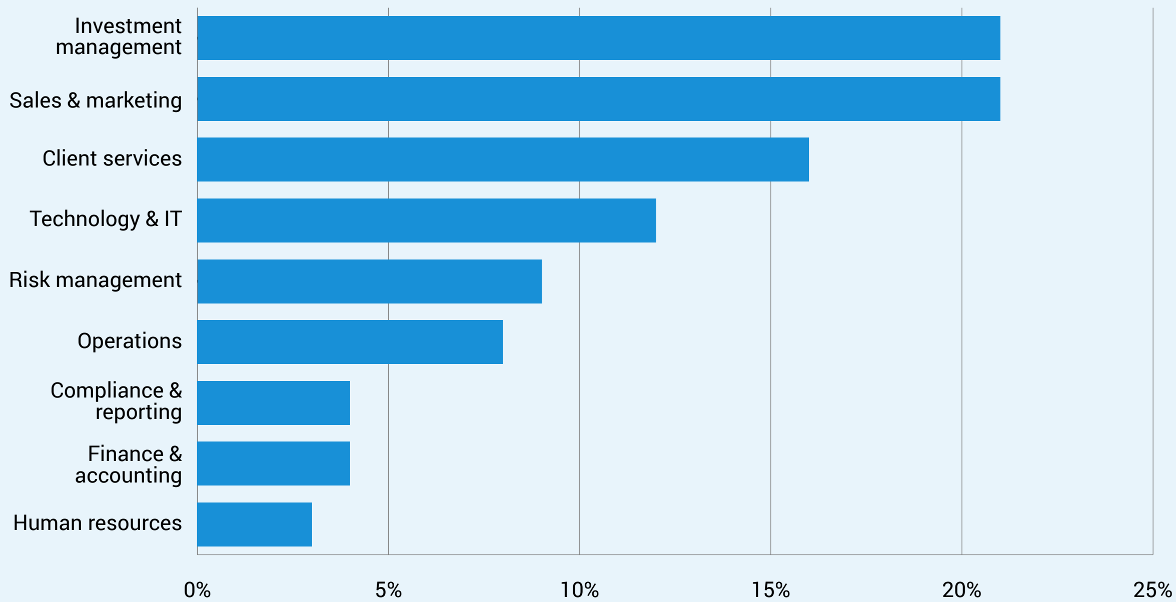
In fact, our survey suggests a possible mismatch between the current and future functional patterns of generative AI usage and the business areas that could benefit most from such tools. AI usage is heavily focused on technology and automation systems (system optimization, cybersecurity, and new technology solutions), highlighted by 57% of asset managers when asked about usage over the next year (Figure 11). However, only 12% of asset managers believe this to be the area that will benefit most from generative AI tools, pointing instead to areas such as investment management and sales and marketing (Figure 12). It is possible that efforts to “democratize” generative AI tools, through use of “no-code” or “low-code” solutions that require little in the way of technical skills, could help quicken the functional diffusion of AI beyond the IT sphere in the years ahead.

Figure 11: In a year's time, what areas of your business do you expect will be using generative AI tools?



Base: All who foresee business will use generative AI in the next year (281)

Figure 12: Overall, what area of your firm do you believe will benefit the most from generative AI tools?



Base: All respondents who currently use generative AI (260)

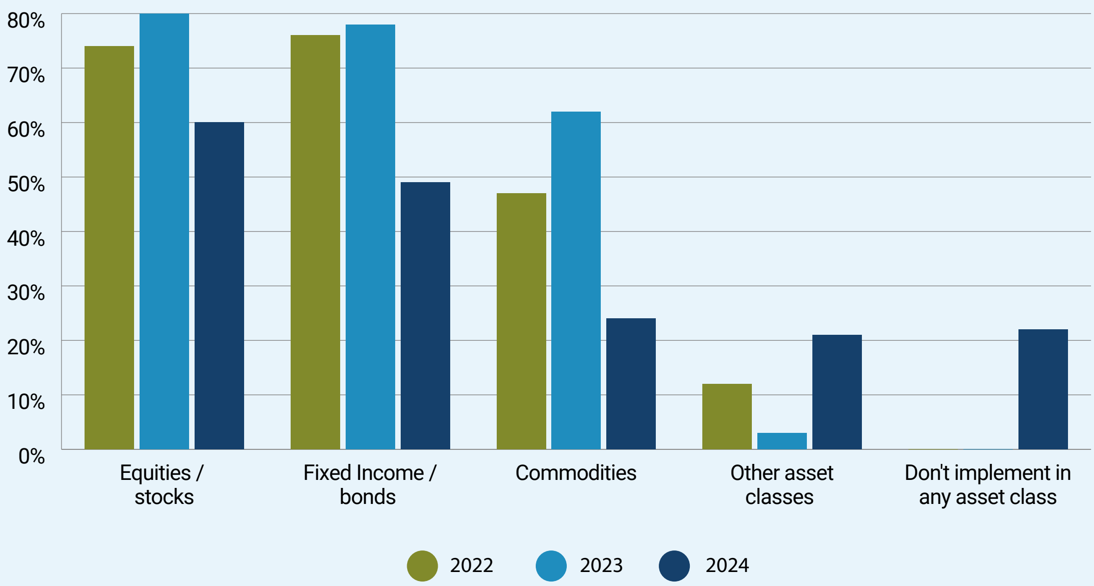
CHANGING ESG DYNAMICS

ESG investing has endured some volatility of late. According to Morningstar data, global sustainable funds saw a small net outflow of US$88 million in the last quarter of 2023, before recovering with a net inflow of $900 million in the first quarter of 2024. However, regional sustainability flows varied dramatically, with a US$10.9 billion inflow in Europe in Q1 almost offset by an US$8.8 billion outflow in the US and a US$1.7 billion outflow in Japan. Global sustainability fund assets, on the other hand, have been much more stable. These edged ahead to just under US$3 trillion in the first quarter of 2024, compared to just under US$2 trillion in the second quarter of 2021.

Our surveys over the past four years shed some light on the complex dynamics driving the volatility in ESG and sustainability flows. This year's results indicated expectations have adjusted, in a manner more consistent with 2021's projections, suggesting asset managers were likely overoptimistic, at least in the one-to-three year horizon, about the future path of ESG investing in the 2022 and 2023 surveys.

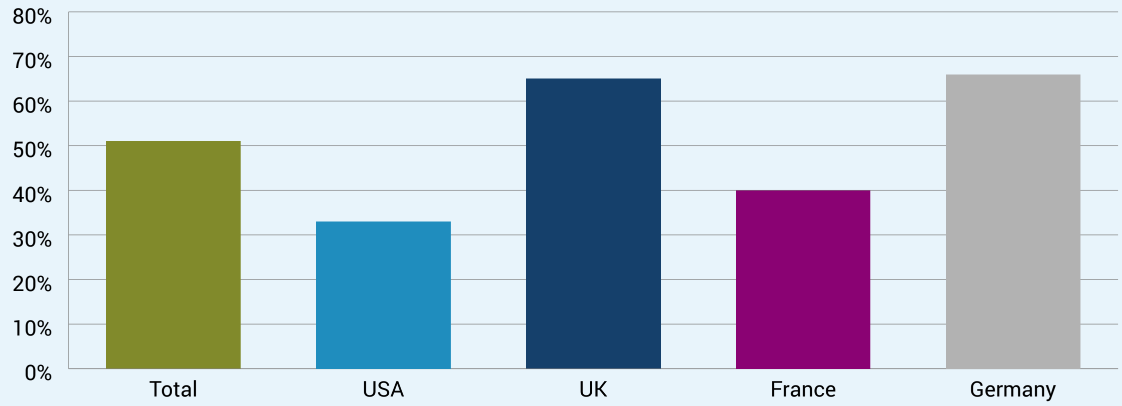
First, ESG criteria continue to be widely implemented across equities and fixed income assets, although dipping slightly from previous years (Figure 13). Sustainable investing remains a hot topic for asset managers, with 51% saying it has been raised frequently by their firm or colleagues, second only to generative AI and machine learning (Figure 14). And 59% indicate that client demand is the top factor driving their ESG / sustainable investing policy and strategy, far ahead of other factors such as the company's leadership (37%), government policy makers (33%) or regulators (32%).

Figure 13: In which asset classes does your company currently implement ESG criteria?



Base: All respondents (300). 'Doesn't implement in any asset class' option only shown to 2024 respondents.

Figure 14: Proportion of respondents saying sustainable investing has been raised frequently by firm or colleagues

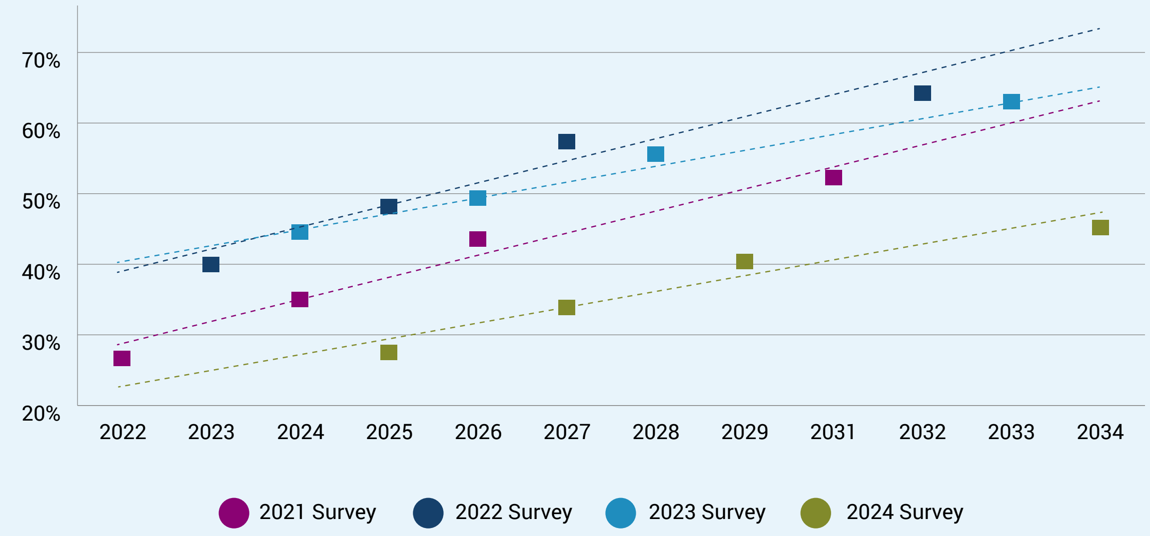


Base: All respondents (300)

Second, asset manager expectations of ESG growth are themselves volatile and prone to spikes and periods of adjustment. This can be seen from the ESG expectations line shown in Figure 15. For each of the past four years, our survey asked asset managers to forecast what proportion of their asset portfolios they expect to contain ESG elements "one year from now," "2-3 years from now," "five years from now," and "ten years from now." By looking at the shift in trend lines we can trace the evolution of ESG forecasts by asset managers across the four years of the survey.

When surveyed in 2021, asset managers were forecasting that ESG would account for about 35% of portfolios by the end of the three-year time horizon. In our 2022 and 2023 surveys, forecasts of ESG investing spiked up. However, in 2024 expectations have adjusted again, in a manner that is more consistent with the profile of future ESG investing that was expected in 2021. This suggests that asset managers were likely overoptimistic, at least in the one-to-three-year horizon, about the future path of ESG investing in the 2022 and 2023 surveys. Whether the longer-term projections (five and ten years out) from this year's survey represent a temporary dip in ESG expectations, or a return to a more realistic, steady state of ESG growth as envisaged in 2021, is a question that will only become clear from future surveys of asset managers.

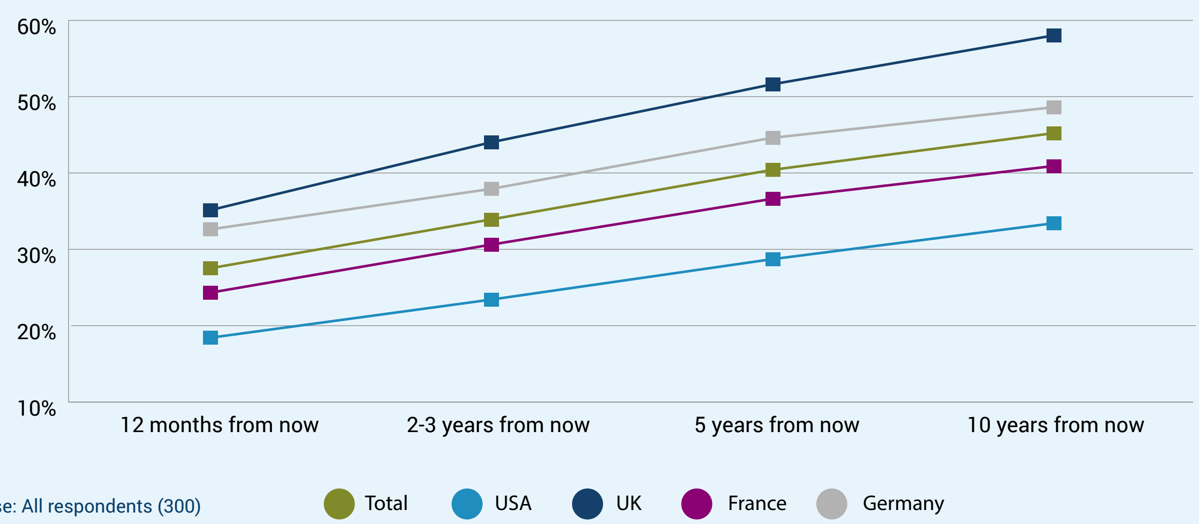
Figure 15: ESG Expectations Trend Line: Average future share of asset portfolios that will contain ESG elements, as forecast in 2021-2024 surveys (%)



Base: All respondents from previous IIA Asset Manager surveys, 2021-2024 (1200)

Third, the regional dynamics of ESG investing are important. The overall revision in ESG expectations stems in large part from differences between US and European asset managers. As Figure 16 shows, US asset managers report significantly lower future expectations for ESG investing compared with their counterparts in Europe. Twelve months from now, US asset managers expect that 18% of their portfolios will contain ESG elements, whereas UK asset managers forecast that ESG elements will account for about 35% of their portfolios. Ten years from now, US assets managers forecast ESG to be around 33% of portfolios, whereas UK managers expect it to be 58%. These regional differences in ESG expectations are consistent with the recent data on sustainability fund inflows, as discussed above.

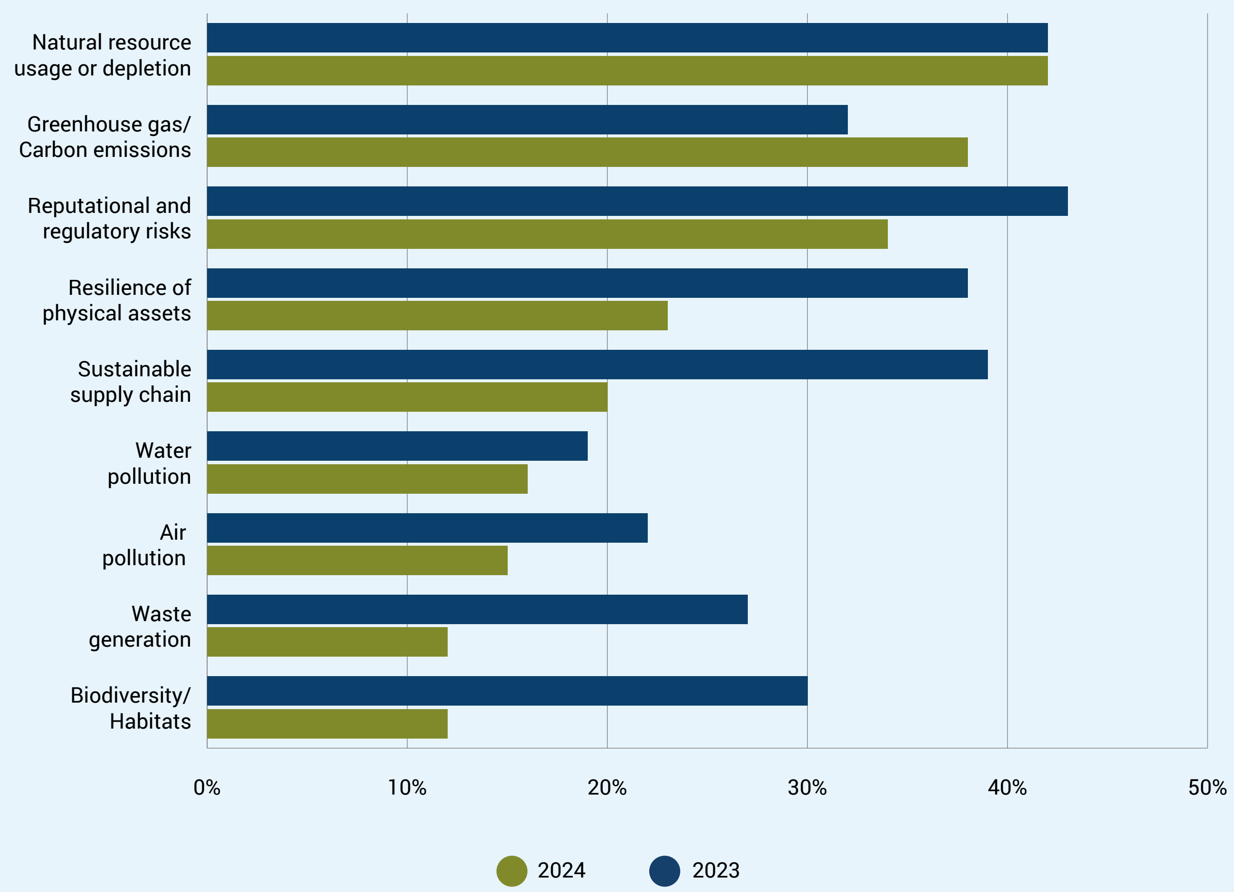
Figure 16: Approximately what percentage of your asset management portfolios in your firm do you expect will contain ESG elements in future years—regional view (%)



Base: All respondents (300)

Within this changing picture of ESG portfolio shares, asset managers are reprioritizing to some degree the factors driving their investment decisions. The top factor in 2023 was "reputational and regulatory risk to companies from environmental impacts," followed closely by natural resource usage or depletion (e.g., the use of water, energy and other resources in operations) (Figure 17). This year natural resource usage or depletion is the top factor, with reputational risks falling in importance. To some extent asset managers are concentrating on a core set of environmental factors such as natural resources and greenhouse gas / carbon emissions, with the set of wider and perhaps harder to evaluate risk factors such as sustainable supply chains and biodiversity risks contracting in importance.

Figure 17: Most important factors driving firms' ESG / sustainable investing policy and strategy (%)

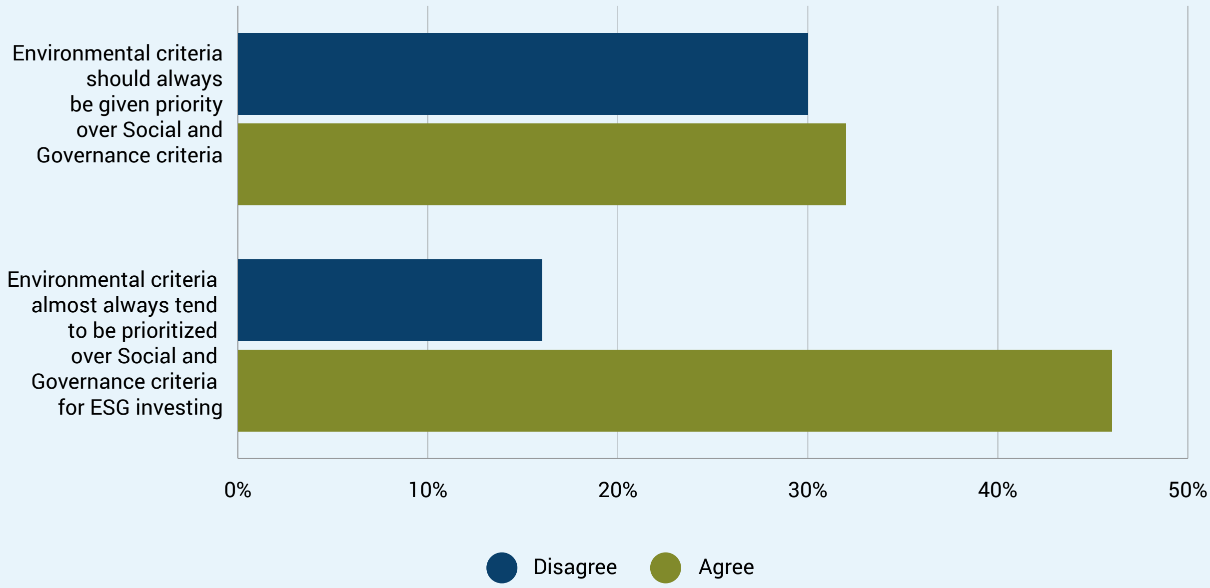


Base: 2024 survey—all respondents (300); 2023 survey—all respondents implementing environmental criteria in portfolios (270)

A disconnect exists around the role of environmental criteria in ESG investing, relative to social and governance factors. Almost half (46%) of asset managers say that environmental criteria almost always tend to be prioritized over social and governance criteria for ESG investing. Yet only 32% agree that environmental criteria should always be given priority. This disconnect is even wider in the US, where only 18% of asset managers agree that environmental criteria should have precedence. This likely points to further reconfiguration of asset portfolio compositions in the period ahead.

Almost half (46%) of asset managers say that environmental criteria almost always tend to be prioritized over social and governance criteria for ESG investing

Figure18: Attitudes to precedence of environmental criteria over social and governance criteria (%)

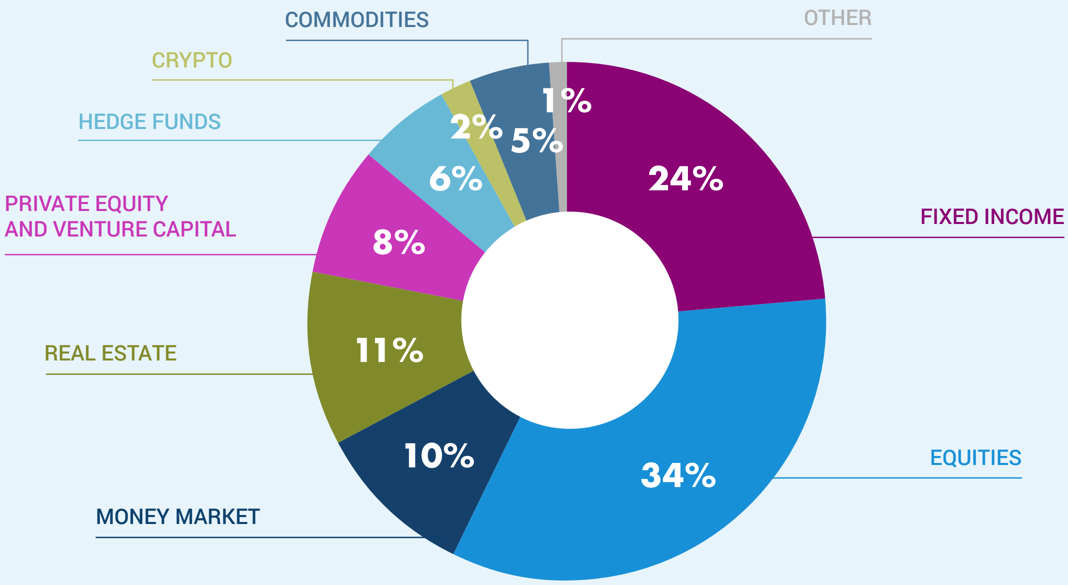


Base: All respondents (300)

FORECASTING SHIFTS IN ASSET ALLOCATIONS AND NEW MARKETS

Our 2024 survey also reveals several surprise trends, from shifts in asset allocations to the growth of private markets to a tilt toward active management strategies and offerings.

Figure 19: Distribution of firms' total AUM by asset class (%)



Base: All respondents (300)

Portfolio shifts

As Figure 19 shows, equities (34% average) and fixed income (24%) dominate firms' investment portfolios, with other assets—such as real estate, money market funds, and private equity—trailing far behind.

While roughly half of asset managers expect to keep asset allocations unchanged over the next 12 months, there are nevertheless significant net movements across asset classes (Figure 20). Both equities and fixed income seem set for significant boosts, in terms of the proportion of asset managers increasing allocations and the expected percentage point increase in investments (Figure 21).

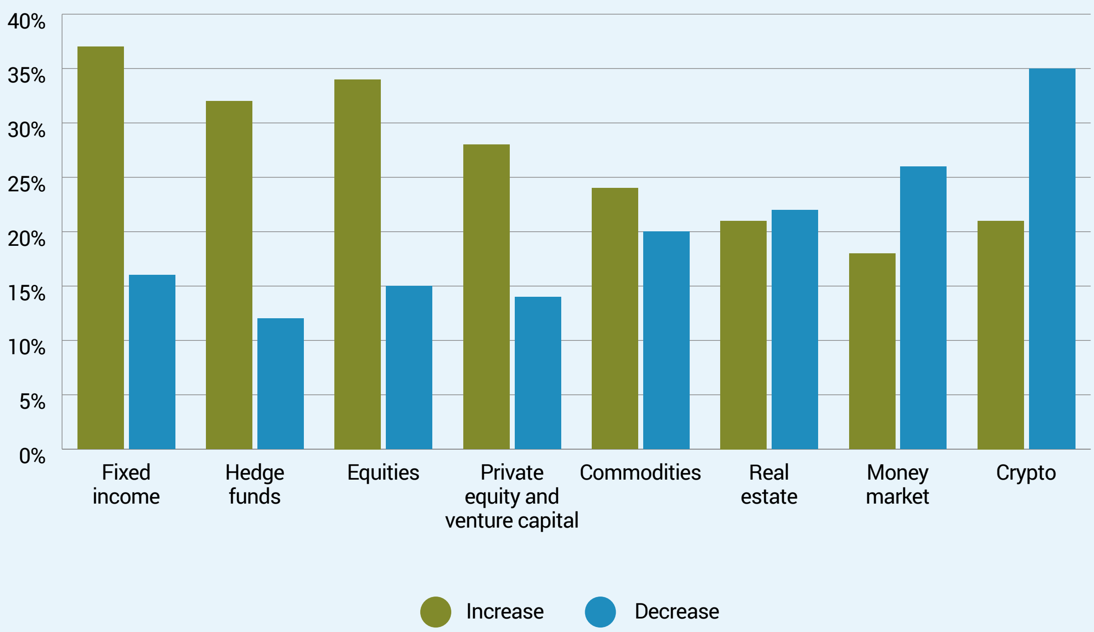
Yet there is also significant evidence of a widening and rejigging along the asset spectrum. Hedge funds are finding favor, with 32% of asset managers increasing allocations. This shift is more pronounced for asset managers in France (48% increasing v. 4% decreasing). But those worried about political unrest are less keen on hedge fund investments (21% increase v. 15% decrease). A UK-based portfolio manager comments that they "would like to increase our hedge fund offerings by collaborating with top hedge fund managers."

Private equity and venture capital assets are also in vogue, with 28% of asset managers increasing fund allocations to these assets. This effect is more pronounced for US and UK asset management firms. A US-based portfolio manager says that they are "increasing our investments into private equity and venture capital, the investment performance is better in this than public equities, [and we] continue to make more commitments."

Real estate investment is also getting attention from some fund managers, with one UK-based CFO commenting that they "desire to have more stable real estate offerings as they provide good returns... we are thinking of promoting and communicating the importance of real estate to our client."

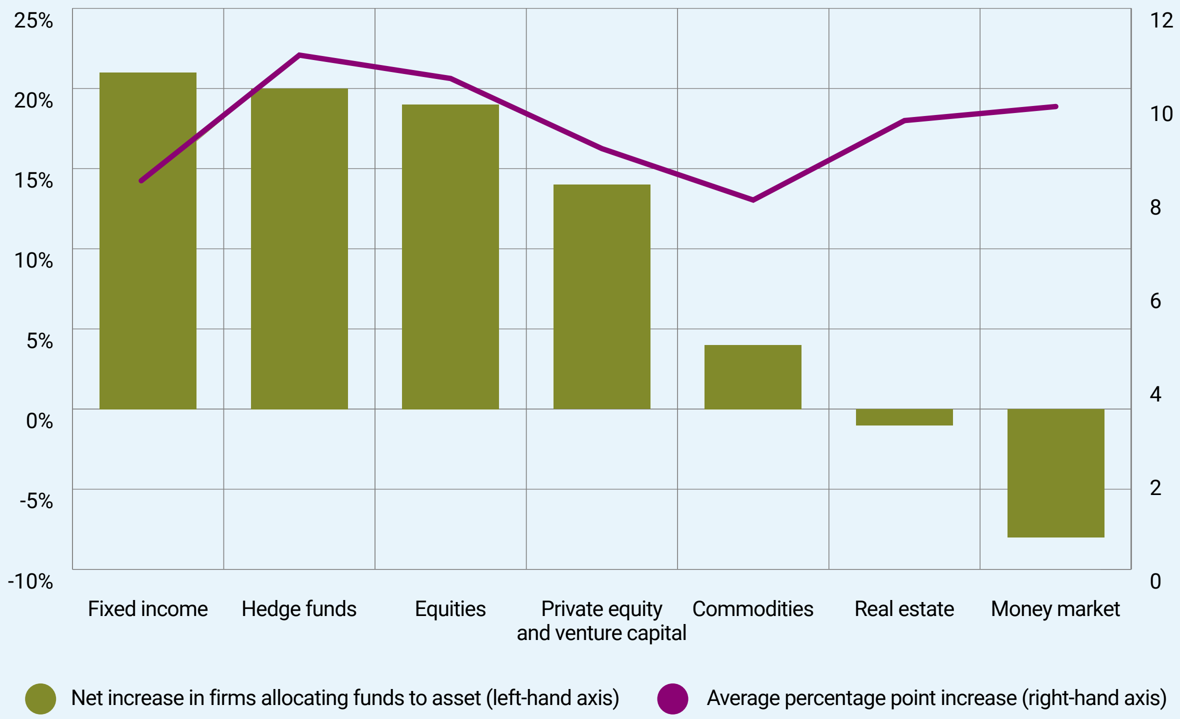
However, money market funds are somewhat out of favor, with a net eight percent of asset managers switching out of such funds, possibly reflecting expected reductions in interest rates as inflationary pressures begin to subside in the major economies.

Figure 20: In the next 12 months, do you believe your firm will increase or decrease the proportion of your funds allocated to the following asset classes?



Base: Offers the following asset classes. Fixed Income (264); Hedge Funds (132); Equities (282); Private Equity and Venture Capital (145); Commodities (127); Real Estate (178); Money Market (202); Crypto (34)

Figure 21: Net change in firms allocating assets (%) and percentage point increase in proportion of funds allocated



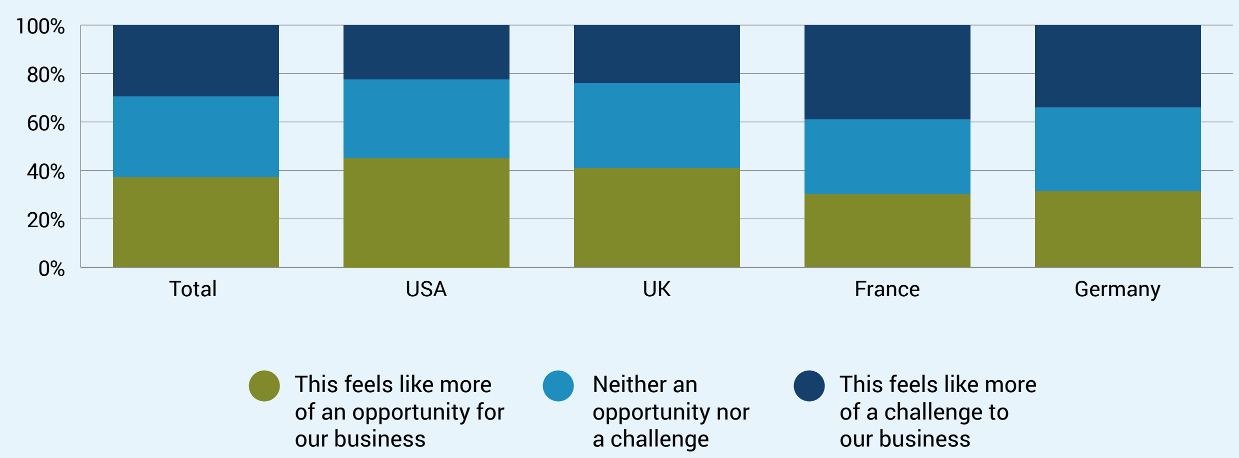
Base: Left-hand axis—all respondents (300); right-hand axis: shows the average percentage point increase in investment for those respondents who will increase the proportion of their funds in the specific asset class. Crypto has been excluded due to a small sample size.

Private markets both an opportunity and challenge

Private markets—investments in privately held companies that can encompass everything from equity to bonds to real estate and natural resources—are on the march. According to McKinsey, global private-market assets under management tipped $13.1 trillion in 2023, recording annual growth of 20% since 2018.

Despite the growing prominence of private markets, asset managers are polarized in their views around whether private markets are an opportunity or a challenge for their current business practices. Just over one third (37%) say that private markets are more of an opportunity to their current business practices, while 29% consider them to be a challenge. US asset managers are notably more positive, however, with 45% considering private markets to be an opportunity. Chief Investment Officers are also significantly more positive, with 46% viewing private markets as an opportunity (29% challenge).

Figure 22: Do you perceive private markets to be more of an opportunity or a challenge to your firm's current business practices?

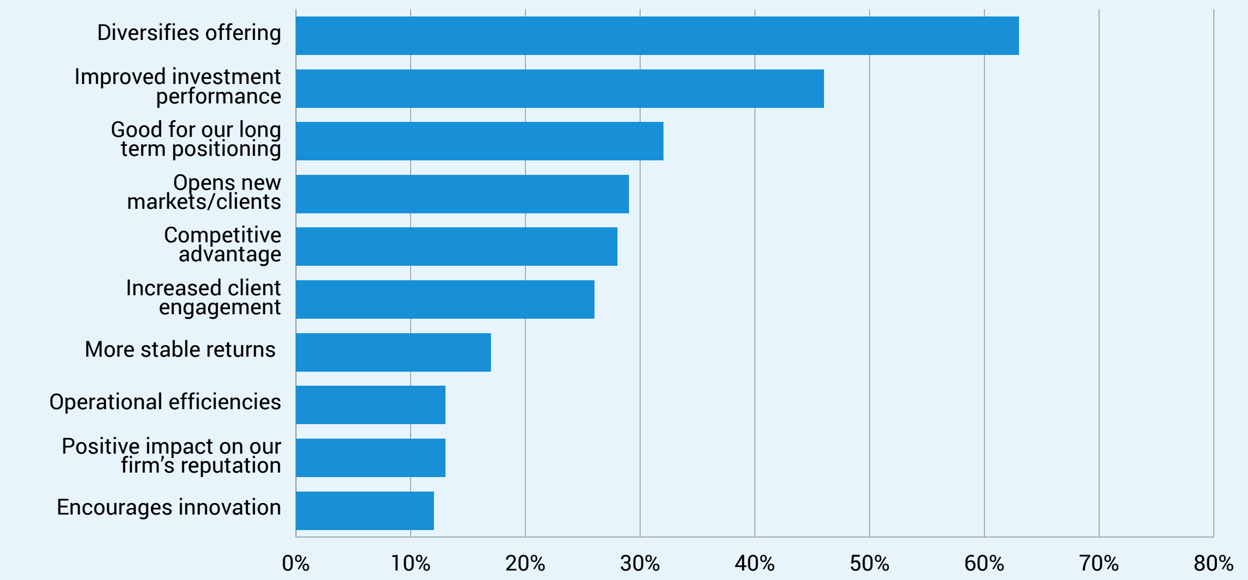


Base: All respondents (300)

For those seeing private markets as an opportunity, the top reasons were diversification of offerings (63%), improved investment performance (46%) and positive impact on long-term positioning (32%). Diversification underpins several important strategic goals for asset managers: A UK-based CIO notes that "we increased our exposure to private markets to stabilize returns" while a German-based CFO observes that "investment portfolio diversification in different asset classes…..is crucial for profit maximization."

Privately owned companies account for a very large swathe of the economy, a fact that helps investors to diversify their portfolios and gain access to opportunities across a much broader range of sectors than would be possible through investments in public markets alone. Moreover, privately-owned companies, often family-owned, are relatively immune to short-term market pressures, enabling them to take a longer-term view of strategic investments which can help offset short-term market volatility for investors. US asset managers were especially drawn to the diversification benefits that private markets provide, with 72% rating these benefits as the top factor (Figure 23).

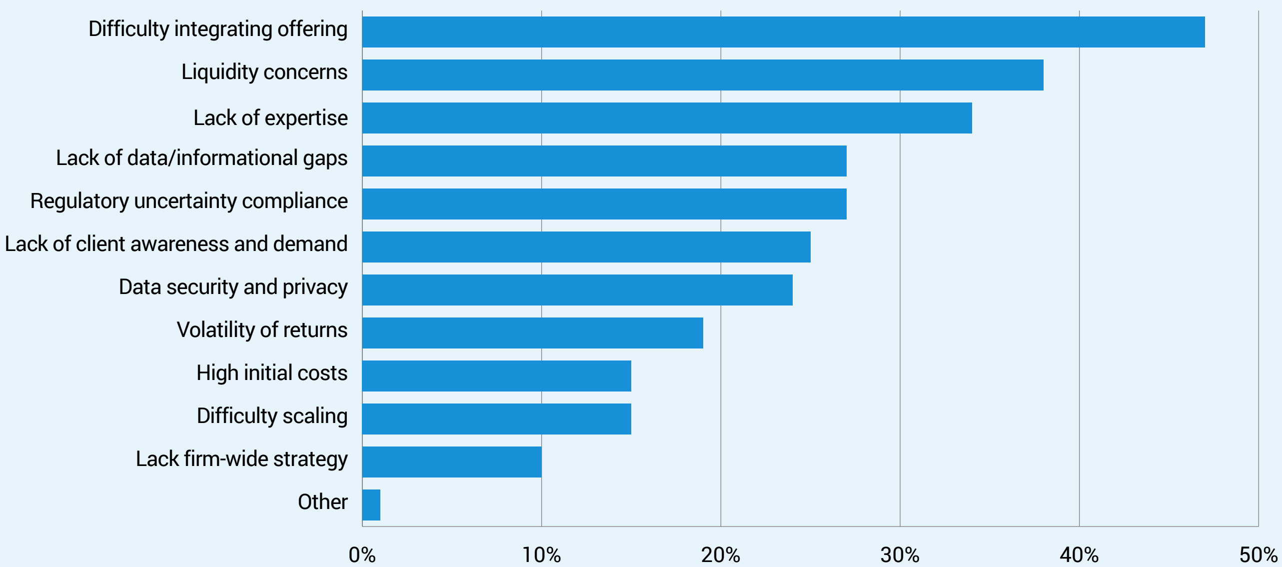
Figure 23: Opportunities presented by private markets (%)



Base: All respondents who experience private markets as an opportunity for their current investment practices (112)

Nevertheless, private markets also bring several well-known issues, such as opacity around performance and governance, limited fungibility of investments, and informational gaps. Given these issues, asset managers who perceive private markets as challenging were apt to point to difficulties in integrating private markets into their offerings, as well as liquidity concerns (Figure 24). These difficulties are compounded by a lack of expertise in these assets. Illiquidity concerns do not trouble everyone, however, with one German-based portfolio manager commenting that their firm "is currently focused on illiquid assets in general…we see a bright future and that's why we focus on them."

Figure 24: Challenges presented by private markets (%)



Base: All respondents who experience private markets as a challenge (88)

More active management fund offerings coming

Regulatory changes allow for active funds to be used in ETFs and the data shows asset managers are embracing the change. A net 39% of asset managers expect to increase their firms' active management offerings over the next year, compared with a net 25% who expect to increase their passive management offerings.

By product type, asset managers report that mutual funds account for one quarter of their products, with almost one fifth in ETFs (exchange-traded funds). Traditionally, mutual funds have been considered to be more active products and ETFs to be passive, although there is considerable cross-over between the categories. UCITs (Undertakings for Collective Investments in Transferable Securities) are investment products that meet European Union regulatory standards with a specific focus on protecting small, retail investors. According to our survey, UCITs account for 11% of products offered by asset management firms.

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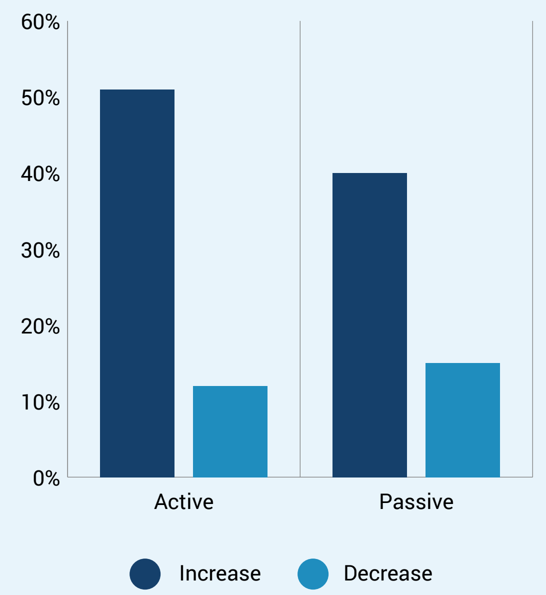
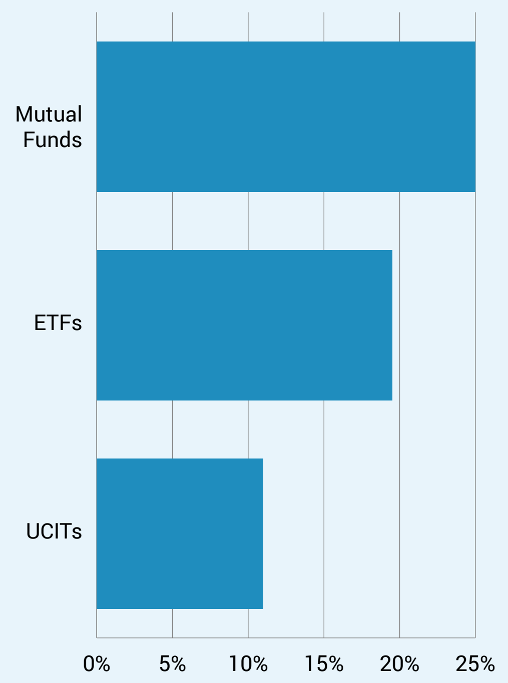
Figure 25: In the next year, do you expect your firm's offerings in active and passive investment management to increase or decrease?



Base: All respondents (300)

Figure 26: Average percentage of products: Mutual funds, ETFs, UCITs



Base: All respondents (300)

THE ASSET MANAGERS AND INDEX PROVIDER RELATIONSHIP

Mounting complexity requires strategic pivots

Asset managers are acutely aware that meeting the three long-term structural changes identified in our 2024 survey—AI and technology disruption, the resetting of ESG investing, and the growth of new asset types and markets—by necessity involves significant changes in their strategic orientation, external relationships, and ways of doing things. Our analysis reveals five broad strategic pivots they are looking to make.

First, in a more complex environment rife with both opportunities and challenges, “diversification” has become the watchword for numerous asset managers we surveyed. As a US portfolio manager of a midsized fund puts it, their “goal is always to protect more of my clients through diversification into new strategies that become available. [We have] already begun to reposition some assets into buffered products.” A UK CIO says that their firm “will focus on finding new concepts with strong growth potential before they become mainstream and simultaneously increase or maintain our current allocation to various asset classes.”

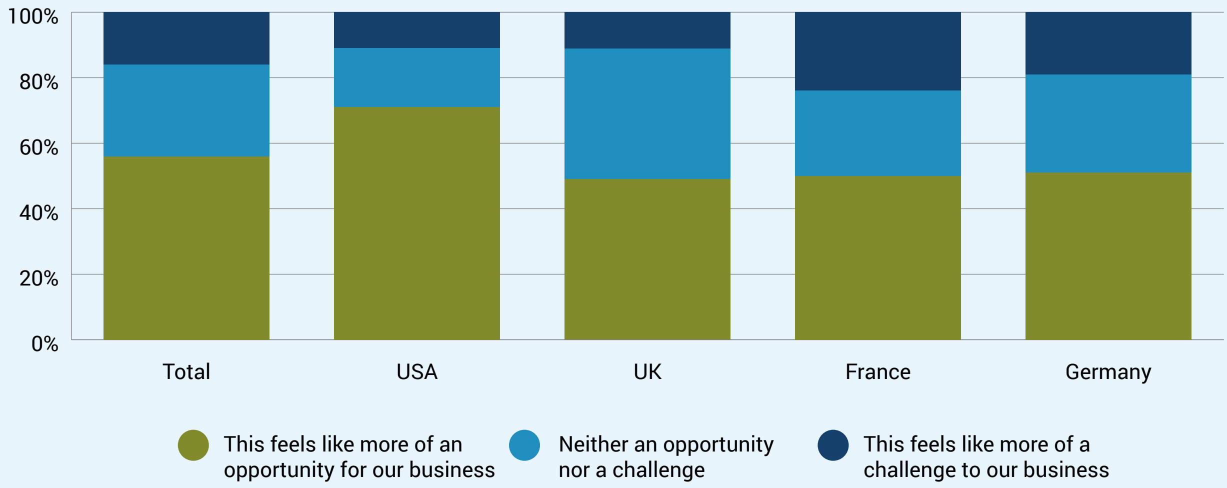
But diversification is more than just adding new assets or markets: it is also about tailoring and finding the right balance. A UK CIO of a smaller fund describes it thus: “[We want to] diversify across sectors, we want to deliver client-centric solutions by tailoring hedge fund offerings to meet the specific investment objectives as per the risk appetite of our clients.” A UK portfolio manager observes that they “would want to have customized asset allocation solutions that blend multiple asset classes as per the requirements.” For a German CIO of a large fund, the goal is “simplifying complex options for clients to reach their goals by having a balanced mix of different asset classes.” A UK CFO notes that they are considering a blended approach using “preferred stocks which combine traits of both stocks and bonds.”

Second, innovation of all varieties—product, process and business model—is also a clear strategic goal for many asset managers. A US CIO wants “to create innovative products that offer competitive edge while adhering to client values.” A German portfolio manager is focused on “creating new products and making processes more efficient.” A US CIO wants to “generate revenue by creating creative structures that make investments more accessible to our clients.”

A third pivot is the focus on specialization, customization and thematic and sectoral investing. As shown in Figure 27, 56% of asset managers consider that customized investment products represent more of an opportunity (than a challenge) for their business, a figure that rises to 71% for US asset managers. Thematic investing is also viewed favorably, with 41% of asset managers seeing it as more of an opportunity for their business (Figure 28). Thematic investing is defined by Morningstar as funds that attempt to harness “macroeconomic or structural trends that transcend the business cycle,” such as technology advancements or demographic shifts.

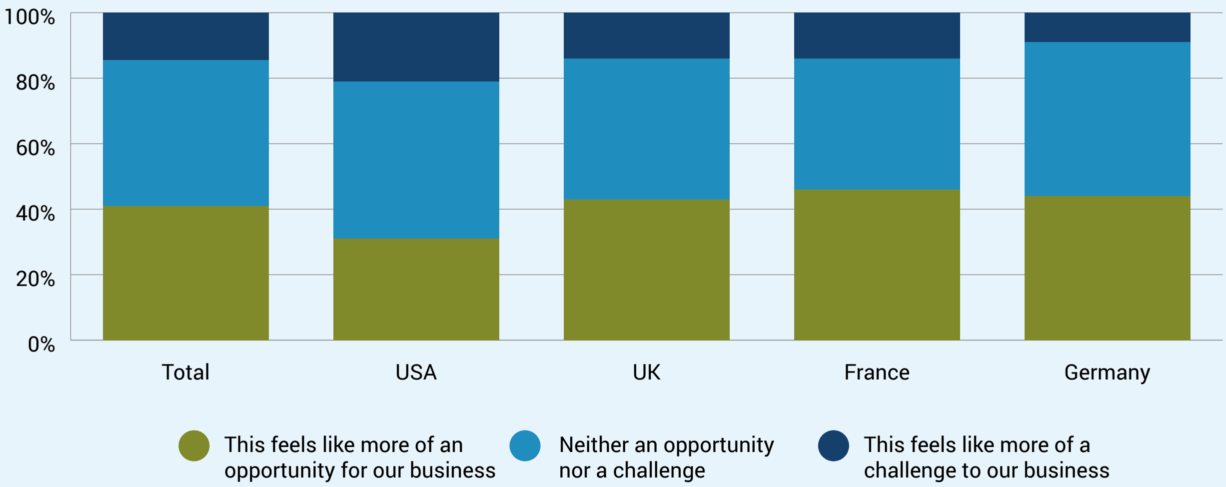
For some, the strategic focus is turning to sectoral investing. A UK portfolio manager observes that “we would like to enhance our equity offerings by launching several funds on the basis of sectors;” a US CIO notes that “we would want to enhance our sector-specific equity funds mainly.”

Figure 27: Do you perceive customized investment products to be more of an opportunity or challenge to your firm’s current business practices?



Base: All respondents (300)

Figure 28: Do you perceive thematic investing to be more of an opportunity or a challenge to your firm’s current business practices?



Base: All respondents (300)

A fourth pivot relates to strategic means, an overarching need for more research and expertise. A US portfolio manager highlights a need "to carry out in-depth investigation and analysis in order to make wise investment choices…" A UK CIO says that their firm is focused "on conducting market analysis and research in order to stay updated with the latest market trends and optimize our services according to the customer and client needs." Several asset managers advert to the need for a trends-driven approach, with a German CIO observing that "to maximize profits and reduce risk we try to be constantly in touch with market trends [and] make changes in asset allocations accordingly." Another German CIO is "establishing a strong team of analysts, investment experts to stay competitive and get better outcomes, figuring out how to hire smart people."

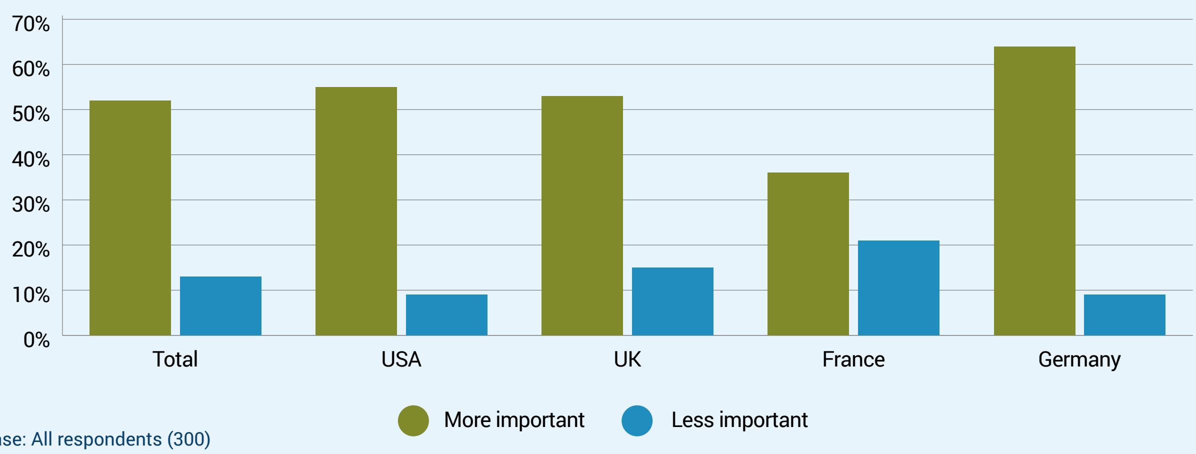
Finally, asset managers know that they cannot go it alone. Partnerships are vital. As one French CIO comments, "We are hoping to have more partnerships or business collaboration which would open unique business opportunities." Another puts it more prosaically: "We are looking to grab every opportunity that we get from our partnerships." A French portfolio manager wants to "have better partnerships and knowledge sharing." A UK portfolio manager highlights the need for "specialized expertise in specific asset classes such as real estate, equities, or fixed income." A German CFO puts their top strategic goal simply as: "Strengthening partnerships."

The Index provider relationship

Index providers represent an important constituent of the wider asset management ecosystem in both the US and Europe. The use of indexes by asset managers is widespread, with almost nine out of ten asset managers (87%) using index providers. And a substantial proportion of asset managers, 39%, use five or more index providers. On average asset managers have around four index providers that they use.

Asset managers increasingly see index providers as an important cornerstone of their success. More than half (52%) of asset managers say that index providers and the services they offer will become more important to their firm's success over the next 12 months. German asset managers are even more positive, with 64% saying that index providers will play an important role in their firms' success over the next 12 months (Figure 29).

Figure 29: Do you think index providers and the services they offer will become more or less important to your firm's success in the next 12 months?



Base: All respondents (300)

Within this context, demand for index providers and their services seems set to climb appreciably, with 20% of asset managers expecting to increase their index providers over the next 12 months, against only 6% expecting a decrease (Figure 30).

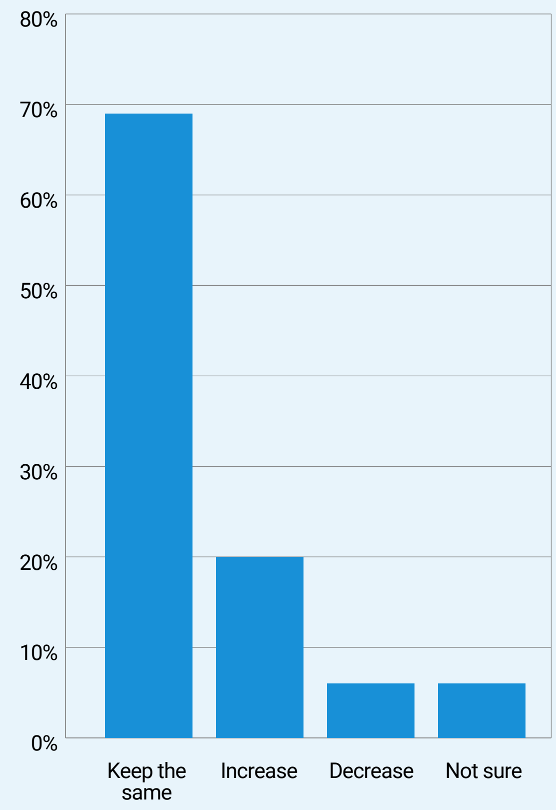
Assessing usage and performance

How do asset managers view the evolving relationship with index providers? The analysis in the previous section provides, beyond the pre-eminent task of gauging benchmark performance, several additional and important yardsticks for assessment: diversification, innovation, information and specialization.

As Figure 31 shows, asset managers widely use index providers to help achieve their diversification goals, and this applies largely across different fund sizes. It is the second most frequently mentioned area of support. Asset managers also highlight the role that index providers play in market research and analytics, the third most frequently mentioned area of support, as well as the access index providers give to more specialized indexes.

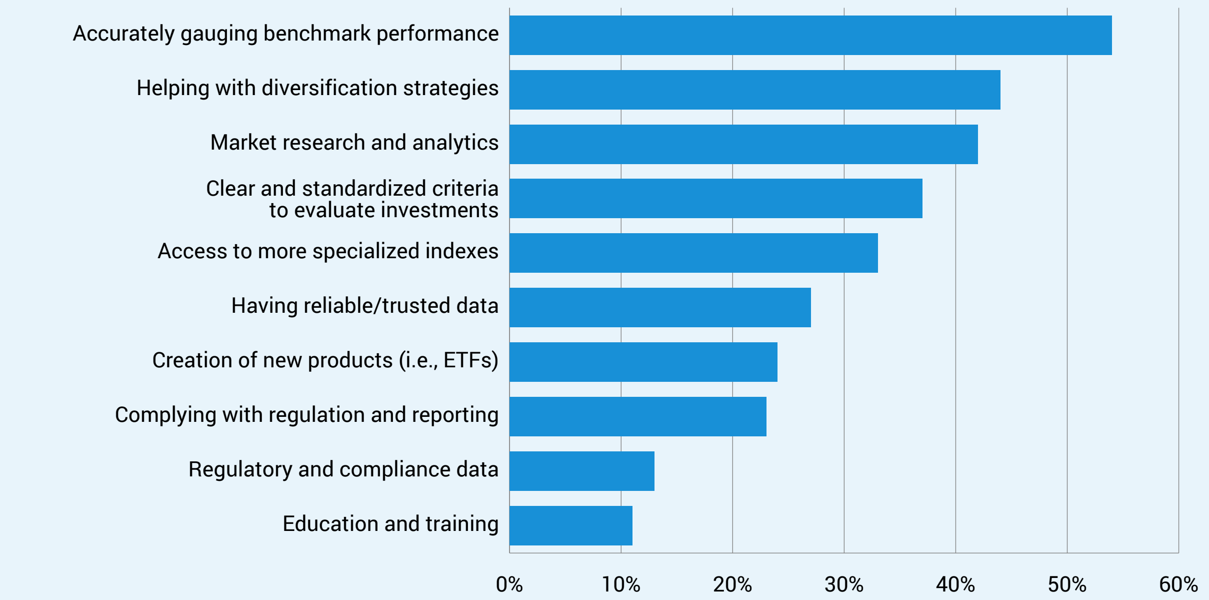
And, overall, asset managers appear highly satisfied with the performance of index managers, with two thirds rating index providers as "good, very good, or excellent" in terms of overall value (Figure 32). Particular areas of strength are the reliability of data, the scope of indexes, and the provision of standardized reporting. The relatively weakest area, although still highly rated overall, is in "innovativeness and development of new products," which foreshadows some of the areas where asset managers would like to see more from index providers (to be discussed in the next section).

Figure 30: Over the next 12 months, do you expect your firm to increase, decrease or keep the same the number of index providers you use?



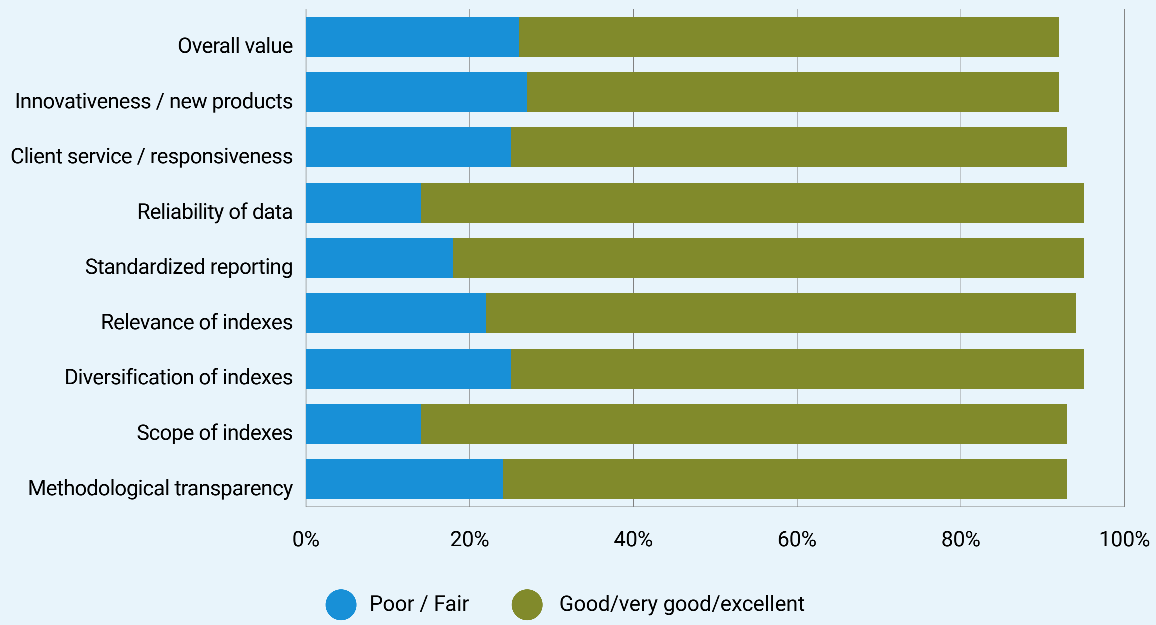
Base: All respondents (300)

Figure 31: For which of the following does your firm currently use index providers?



Base: Currently use index providers (262)

Figure 32: How would you rate the performance of index providers on the following criteria?

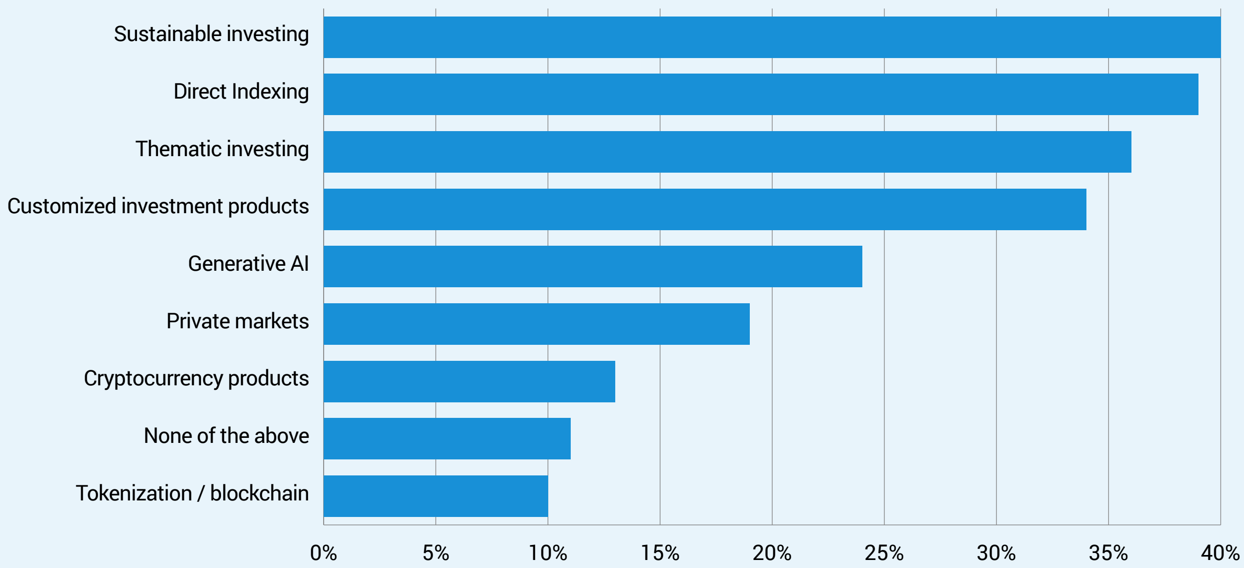


Base: All respondents (300)

Managers interested in more complex services

Alongside the growing usage and importance of indexes, asset managers would like to see some additional help in a few more complex areas for the services indexes provide. Index providers already help significantly in areas such as sustainable investing, direct indexing, thematic investment and customized investment products (Figure 33). US asset managers diverged somewhat, highlighting direct indexing (49%) and customized investment products (42%) as the top two areas of current help from index providers. However, index providers are less widely used for generative AI and private markets, two areas that our report has identified as long-term drivers of change.

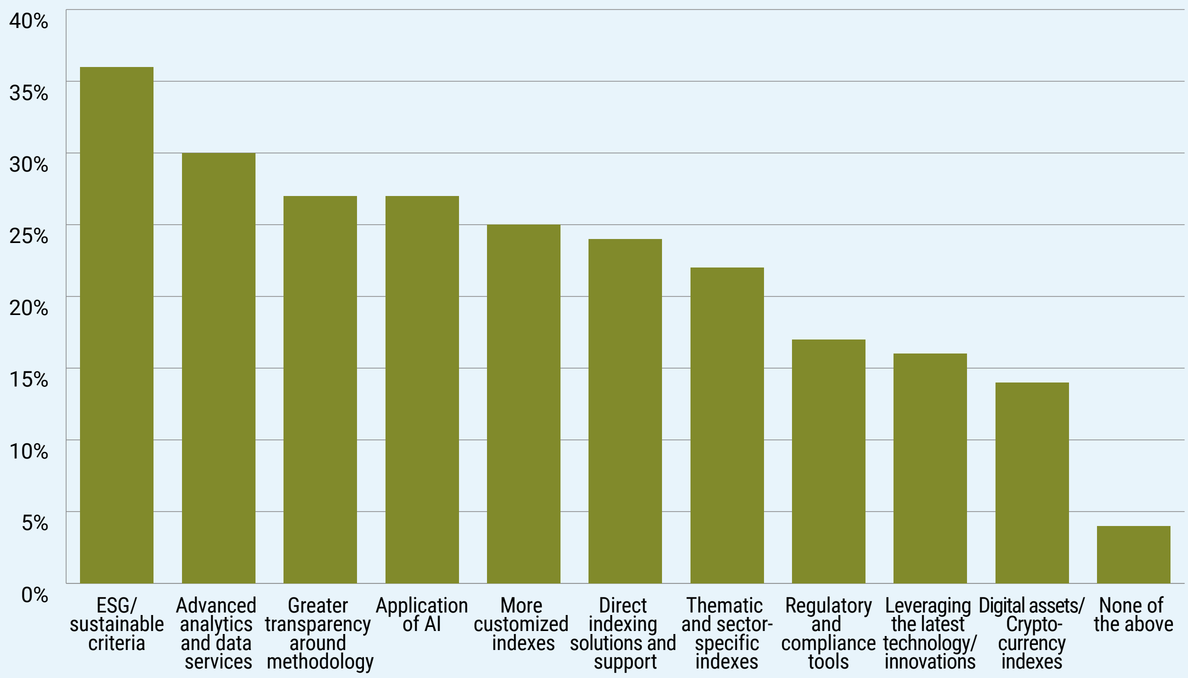
Figure 33: Are the services that index providers offer helping your firm implement or advance your offering or capabilities in any of the following areas?



Base: Use index providers (262)

Asked about which areas they would like index providers to focus on over the next 12 months, asset managers reiterate the importance of ESG and sustainability criteria (Figure 34). Advanced analytics and data services represent the second most frequently mentioned need, consistent with the importance asset managers ascribe to better data and insights in their articulation of strategic goals. Reflecting the rise of disruptive technologies, asset managers would like to see more application of AI and more use of technology innovations in general. Asset managers also want greater specialization. Notably, one quarter of asset managers would like to see index providers offer more customized indexes, while direct indexing solutions and thematic and sector-specific indexes are also in demand. This prioritization again chimes with the strategic pivots articulated by asset managers in their verbatim responses.

Figure 34: What would you most like to see index providers focus on over the next 12 months?



Base: All respondents (300)

CONCLUDING COMMENTS

Our 2024 survey comes at a pivotal moment in the asset management industry across Europe and the United States. Short-term economic uncertainty persists—and remains an ever-present danger—yet asset managers are resolutely focusing on the longer-term drivers of change affecting their industry: the impact of disruptive innovations in the form of machine learning and AI, the adjustment of ESG expectations and priorities, and the emergence of new markets and assets. Asset managers must confront the organizational and workforce challenges posed by new technologies, while also navigating the terra incognita of new asset classes with radically different risk and reward profiles. This more complex operating environment in turn requires asset managers to make several strategic pivots, especially around information needs, skills and expertise, and the development of external partnerships.

The IIA's annual survey will continue to explore how these forces unfold over the coming years, and the complex agenda of industry change they have already set in motion.

Asset managers must confront the organizational and workforce challenges posed by new technologies, while also navigating the terra incognita of new asset classes with radically different risk and reward profiles.

ABOUT THE IIA

The Index Industry Association (IIA) is the global trade association for the index industry.

A not-for-profit organization serving the global community of independent index providers, IIA membership is open to independent index businesses worldwide. For more information about membership, please contact CEO Rick Redding.

28 Liberty Street, 58th Floor
New York, NY 10005

media@indexindustry.org
r.redding@indexindustry.org

OUR PURPOSE

The purpose of the Index Industry Association (IIA) is to represent the global index industry by working with market participants, regulators, and other representative bodies to promote sound practices in the index industry that strengthen markets and serve the needs of investors.

ABOUT THE AUTHOR

Mark Purdy is managing director of Purdy & Associates, an independent advisory and thought leadership firm focused on issues at the intersection of economics, technology and business. He has over 25 years' experience as an economist in business and government. His recent work has focused on ESG and the economic and business impact of next-wave technologies such as AI. He has published widely in tier-1 media and business publications such as Harvard Business Review and Sloan Management Review. He speaks on economics and technology issues at conferences, client workshops and seminars around the world.

www.purdyassociates.com

METHODOLOGY

The IIA commissioned Opinium, an independent strategic insight agency, to survey 300 Chief Investment Officers, Chief Financial Officers, and portfolio managers across four markets: the United States, United Kingdom, France, and Germany. There were 80 respondents from the US, 80 from the UK, 70 from France, and 70 from Germany. Fieldwork was conducted from April 18th to May 9th, 2024.

Opinium is an award-winning, independent strategic insight firm built on the belief that in a world of uncertainty and complexity, success depends on the ability to stay on pulse of what people think, feel and do.

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