



RBC Investor &
Treasury Services

Managing Change in a Dynamic Market

Australian Asset Manager Poll

AUGUST 2018



Contents

| | |
|----|--|
| 03 | Key findings |
| 04 | Confidence |
| 05 | Challenges |
| 06 | Addressing the challenges |
| 07 | Technology investment priorities |
| 08 | Expected benefits from data |
| 09 | Challenges in managing data |
| 10 | Product priorities |
| 10 | Environmental, social and governance factors |
| 11 | Attributes valued most by clients |
| 12 | About RBC Investor & Treasury Services |
| 12 | Contacts |

All currencies are in Australian dollars

Key findings

RBC Investor & Treasury Services conducted a poll of Australian asset managers during the second quarter of 2018 to obtain their views on the opportunities and challenges facing the asset management industry. This report outlines the aggregate responses from 33 managers.

Confidence

97% of polled asset managers are confident in their ability to adapt to the changing business environment

Challenges

Increased regulation tops the list of challenges for managers (20%) followed by rising costs and falling profit margins (15%)

Firms plan to address these challenges by **enhancing their service offering** (23%) and **improving efficiency** (20%)

Technology

Technology investments will focus on **data analytics** (27%) and **client relationship management** (17%) over the short term

Data

97% of respondents view data analytics as beneficial to their firms

Top benefits from data include the ability to **make more informed investment decisions** (36%) and **better anticipate client needs** (30%)

Quality and accuracy is the biggest challenge in managing data (35%)

Product

More than 60% of managers expect to introduce new products in the coming year

Liquid alternatives are the top priority for those with launch plans (22%)

ESG

85% of managers view environmental, social and governance (ESG) factors as important to their investment strategy

Value

Managers deem **client service** to be most valued by their clients (30%), followed by **high returns** (27%)

Percentages show proportion of choices unless otherwise indicated

Confidence in adapting to the changing business environment

An overwhelming majority of respondents (97%) were confident in their firm's ability to adapt to the changing business environment.

Managers remained bullish about their firms' ability to navigate the business environment despite major headwinds caused by regulatory and technology change. These include Attribution Managed Investment Trusts (AMIT) and Regulatory Guide 97 (RG97) in Australia, the European Union's (EU) Markets in Financial Instruments Directive (MiFID II) and General Data Protection Regulation (GDPR) against a backdrop of wider geopolitical uncertainty. Managers must also contend with technological change such as artificial intelligence (AI) and robotics transforming traditional operating models and the ever-present threat of disruption from Fintechs.

97%
confident their firm can
adapt to changing environment

How confident are you in your firm's ability to adapt to the changing business environment?



Challenges facing asset managers

Poll respondents listed increased regulation and oversight (20%) as the biggest challenge facing their firms in the coming year.

Australian managers are digesting a long tail of regulatory change including AMIT and RG97 while also anticipating further announcements regarding the Asian Regional Funds Passport (ARFP) and Corporate Collective Investment Vehicles (CCIV) in the coming months.

2018 has also seen the implementation of EU regulations such as MIFID II and GDPR. Even if local asset managers are not directly impacted by these offshore regulations, there remains an obligation to understand them and managers may find that their counterparties expect these standards to be upheld by all third parties regardless of domicile. Navigating the differing regulatory approaches between jurisdictions can provide complexity for Australian managers and create challenges for managers wanting to expand offshore.¹

Increased regulatory oversight is being felt across the globe. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry commenced in Australia in March 2018 and has put the industry's banks, financial planners and superannuation providers in the spotlight. In the United Kingdom (UK), the Financial Conduct Authority (FCA) conducted a two-year investigation of the UK's asset management market to ensure the market was functioning well and investment products offered consumers value for money.² In the US, President Trump issued an Executive Order entitled 'Core Principles for Regulating the United States Financial System' in 2017 which directed the Treasury Department to report on the ability of existing regulations to promote the Core Principles and identify any laws and regulations that are inconsistent with the Principles³.

What are the two biggest challenges your firm faces over the next 12 months?



*Including insourcing, technology, focus on short term

¹ Regulatory developments in asset management, ASIC, 2017

² Asset Management Market Study, Financial Conduct Authority, 2017

³ Executive Order entitled "Core Principles for Regulating the United States Financial System" by Capartners, 2017

Strategies to address challenges

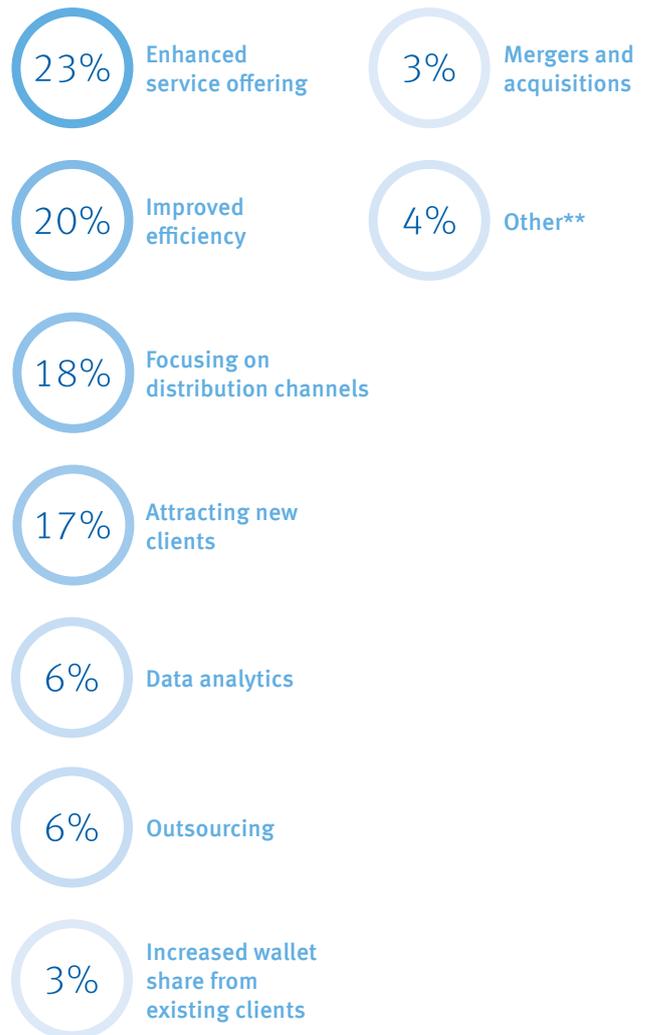
Managers identified enhanced service offering (23%) as the means by which their firms plan to address the challenging business environment over the next 12 months.

Competition within the Australian asset management industry continues to be strong and featured in the top three challenges faced by managers. Managers are competing not only with the traditional industry players and new entrants such as Fintechs as well as asset owners who are insourcing asset management functions. Respondents indicated that their firms plan to enhance their service offering to help differentiate in this challenging environment. More than 60% of managers expect to introduce new products over the next 12 months. By broadening their product range, managers can better service the needs of their existing clients while also attracting new clients to their investment products.

Client service is another option for enhancing a service offering and polled as the second highest priority for manager's technology/investment spend for the next 12 months. Client service can be a significant differentiator for managers, while true competitive advantage lies in creating an engaging customer experience¹, understanding your client and their preferences.

While improving efficiency polled second highest, process automation was not a high priority for their firm's technology spend. Will the planned efficiency improvements be delivered through outsourcing non-core functions, process re-engineering, standardization or offshoring rather than automation?

How are you planning to address these challenges?*



*Based on respondents' top two choices

**Including maintain core long-term message, client education, staff engagement, diversification

¹ Improving Customer Experience Through Customer Data, Daniel Newman, 2017

Technology investment priorities

Data analytics (27%) was identified by respondents as the major focus of their firm's technology investment for the next 12 months. Data is the 'new oil'¹ for financial services. The industry has seen the escalation of roles such as data engineers and data scientists as firms examine how they can competitively utilize the vast amount of data available to them. However, analyzing the data should be just one consideration for respondents. Ensuring you have accurate and timely data, can extract meaningful insights and know what to do with those insights are critical to the success of the data analytics process.

Process automation (12%) polled as a mid-level priority for asset manager's technology resources. This is a relatively low response given the ongoing industry discussion about the potential benefits automation could deliver through robotics or AI. Responses indicated that firms plan to address challenges by improving efficiencies (20%). Given the low ranking of process automation it could be surmised that respondents do not plan to use automation to deliver these efficiencies and instead may plan to use other methodologies such as process re-engineering or standardization.

While respondents identified regulation as a significant challenge for their firms, it does not appear that they plan to use technology to support regulatory compliance with this polling less than 10%.

27%
data analytics is the focus of their
firm's technology investment

Where will you focus your firm's technology investment over the next 12 months?*



*Based on respondents' top two choices

**Including digital marketing, product development, cybersecurity

¹ The Art and Science of Data Analytics in Financial Services, Louise Beaumont, 2018

Expected benefits from data

Respondents indicated that data would provide the greatest benefit to their firm by assisting them make more informed investment decisions (37%) and anticipate client needs (30%).

Data-driven investment models are not a new phenomenon for asset managers. What has changed is the type of data that is now available. Previously, managers used readily available financial information, and market data such as prices, returns, volumes, etc. With the growth and availability of non-traditional data sources, managers are using unconventional data such as internet web traffic, patent filings and satellite imagery¹ to assist investment decisions.

Using the vast amount of data at their disposal to anticipate client needs will also assist managers to deliver the superior client service they believe clients value most from their firms. By collecting and analyzing customer data, firms can learn how to improve the customer experience and the investment experience. By understanding a client's investment history and preferences, managers can proactively suggest new products or different investment strategies to meet their clients' needs. The effective use of data analytics can lead to a greatly improved client experience as well as economic upside².

How can data benefit your firm?*



*Based on respondents' top choice

¹The Role of Big Data in Investing, GSAM, 2016

²Global Wealth Managers Dare to be Different – Oliver Wyman, 2018

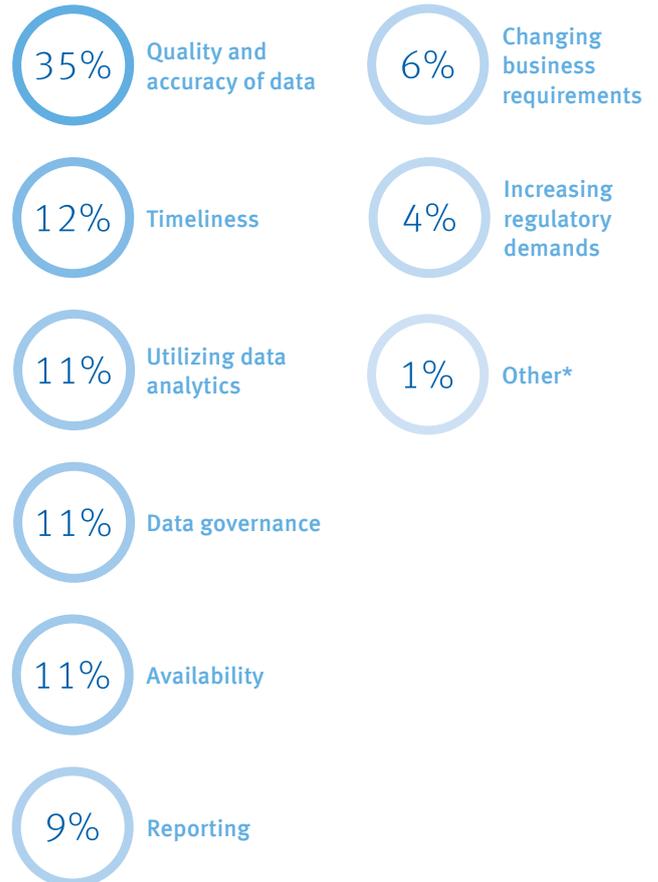
Challenges in managing data

The two major challenges for respondents when managing data was quality and accuracy (35%) and timeliness (12%), ensuring the integrity of the data available was critical for respondents.

There has been a dramatic increase in the volume of data available to managers. As technology has advanced, managers can more easily access traditional data sources and also have access to new forms or non-traditional data sources such as consumer sentiment, forums and influencer blog posts. As a result the pool of available data has grown enormously and the insights that can potentially be drawn from this pool are enticing for managers. The challenge is extracting meaningful insights in a timely manner. A better quality data pool results in less time spent validating the data and more confidence in the analysis and outputs derived from the data. This may lead to more timely and informed decision making and can result in reduced risk and an enhanced customer experience.

35%
quality and accuracy of data the
greatest challenge

What are the two biggest challenges your firm faces in managing data?



*Including staff turnover, loss of institutional memory

Product priorities

The majority of responses (61%) indicated that firms would be introducing some form of new product over the next 12 months. Liquid alternatives (17%) and exchange traded funds (ETFs) (14%) polled as the most popular new products for respondents.

The 2008 financial crisis has caused a shift to liquid alternatives as managers look to ensure their portfolios are sufficiently diversified to be resilient in the event of another liquidity crisis or major market downturn. Managers are attracted to the liquidity, transparency and simple fee structures¹. Of these products, ETFs have continued to gain favour in the Australian market with around 176 listed on the ASX as at 31 March 2018². In a recent industry discussion², panelists identified low costs, simplicity, transparency, liquidity and control as the key benefits driving ETFs' popularity.

Which of the following new products is your firm planning to introduce during the next 12 months?*



Environmental, social and governance factors

Over 80% of respondents believed that ESG factors were important to their investment strategy. ESG covers a broad range of items from climate change, to board diversity and slavery. The popularity of these strategies is increasing as investors become more conscious of their moral/social responsibility/impact and acknowledge that the supporting ESG does not need to come at the expense of higher investment returns.

How important are Environmental, Social and Governance (ESG) factors to your firm's investment strategy?



*Based on multiple choices from each respondent excluding respondents not planning to launch new products

**Including fixed income trust, managed funds, long/short, self managed accounts

¹ Liquid Alternatives Coming of Age, Investment Magazine, 2018

² ETFs are not the cause of market ills: Blackrock, BetaShares, Morningstar, 2018

Attributes valued most by clients

Client service (30%) and high returns (27%) ranked as the top attributes asset managers believe their clients value from their firm.

Client service remains a key differentiator for firms across all industries. Despite the adoption of automated channels to access investment data such as apps or online, investors continue to value excellence in the interactions with their asset manager. Interestingly, none of the respondents felt that online excellence was valued by their clients. Do these results indicate that managers believe simply providing an online option is sufficient if it is supported by superior client service when clients require additional assistance?

The global investment environment has been challenging over the past few years with sluggish growth and low interest rates. The Australian economy has seen strong growth over recent years on the back of the mining boom and more recently buoyed by a strong housing market in capital cities. However, this growth is slowing and has not been reflected in jobs or wage growth which has subsequently resulted in modest household spending. As investors see returns from property and cash investments decline are they looking for asset manager to provide stronger returns in these challenging times?

In an environment where the Royal Commission is shining a light on various participants in the Australian finance industry it is not surprising that transparency ranked as a top three response.

30%
client service most valued

What do clients value most from your firm?*



*Based on respondents' top two choices

**Including consistency, low risk, low volatility of returns, reputation

About RBC Investor & Treasury Services

RBC Investor & Treasury Services is a specialist provider of asset services, custody, payments and treasury services for financial and other institutional investors worldwide, with over 4,000 employees in 17 countries across North America, Europe, Asia and Australia. We deliver services to safeguard client assets, underpinned by client-centric digital solutions which continue to be enhanced and evolved in line with our clients' changing needs. Trusted with CAD 4.4 trillion in client assets under administration,¹ RBC I&TS has been rated by our clients as the #1 global custodian for eight consecutive years² and is a financially strong partner with among the highest credit ratings globally.³

¹ Royal Bank of Canada quarterly results released on May 24, 2018

² Global Custody Survey, Global Investor Group, 2011 to 2017, unweighted

³ Standard & Poor's rating (AA-) of Royal Bank of Canada as at May 23, 2018, compared to the top 10 global custodians by client assets under administration

Contacts

David Travers
Managing Director
RBC Investor & Treasury Services, Australia
david.travers@rbc.com

David Brown
Managing Director
Global Client Coverage, Australia
RBC Investor & Treasury Services
david.brown@rbc.com

©Royal Bank of Canada 2018 RBC Investor & Treasury Services™ is a global brand name and is part of Royal Bank of Canada. RBC Investor & Treasury Services (RBC I&TS) is a specialist provider of asset services, custody, payments and treasury services for financial and other institutional investors worldwide. RBC I&TS operates primarily through the following companies: Royal Bank of Canada, RBC Investor Services Trust and RBC Investor Services Bank S.A. (RBC IS Bank S.A.), and their branches and affiliates. RBC IS Bank S.A. is supervised in Luxembourg by the Commission de Surveillance du Secteur Financier (CSSF) and the European Central Bank. In the UK, RBC I&TS operates through RBC Investor Services Trust, London Branch and Royal Bank of Canada, London Branch, authorized and regulated by the Office of the Superintendent of Financial Institutions of Canada. Authorized by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. RBC I&TS UK also operates through RBC Europe Limited, authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Additionally, RBC I&TS' Trustee and Depositary services are provided through RBC IS Bank S.A., London Branch, authorized by the CSSF and European Central Bank (ECB) and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. In Australia, RBC Investor Services Trust is authorized to carry on financial services business by the Australian Securities and Investments Commission under the AFSL (Australian Financial Services Licence) number 295018. In Singapore, RBC Investor Services Trust Singapore Limited (RISTS) is licensed by the Monetary Authority of Singapore (MAS) as a Licensed Trust Company under the Trust Companies Act and was approved by the MAS to act as a trustee of collective investment schemes authorized under S 286 of the Securities and Futures Act (SFA). RISTS is also a Capital Markets Services Licence Holder issued by the MAS under the SFA in connection with its activities of acting as a custodian. In Guernsey, RBC Offshore Fund Managers Limited is regulated by the Guernsey Financial Services Commission in the conduct of investment business. Registered Office: PO Box 246, Canada Court, St. Peter Port, Guernsey, Channel Islands, GY1 3QE, registered company number 8494. In Jersey, RBC Fund Administration (CI) Limited is regulated by the Jersey Financial Services Commission in the conduct of fund services and trust company business in Jersey. Registered office: Gaspé House, 66-72 Esplanade, St. Helier, Jersey JE2 3QT, Channel Islands. Registered company number 52624. In Hong Kong, RBC IS Bank S.A. is a restricted licence bank and is authorized to carry on certain banking business in Hong Kong by the Hong Kong Monetary Authority. RBC Investor Services Trust Hong Kong Limited is regulated by the Mandatory Provident Fund Schemes Authority as an approved trustee. This material is provided by RBC Investor & Treasury Services for general information only and is intended for use by persons who satisfy the definition of a wholesale client under the Corporations Act 2001. This information should not be regarded as legal, accounting, investment, financial, or any other advice, nor is it intended for such use. RBC Investor & Treasury Services makes no representation or warranties and accepts no responsibility or liability of any kind for the accuracy, reliability or completeness of the information provided, or results obtained, from the use of this information. © / ™ Trademarks of Royal Bank of Canada. Used under licence.