Asset managers will face fee pressure in 2016: Cerulli

By Editorial Staff *Thu, Jan 14, 2016*

Europe currently accounts for just 18% of the world's ETF market, compared with the U.S.'s 70% slice, according to Cerulli analyst Barbara Wall. But she believes that big change is afoot.

Countering the downward pressure on fees will occupy asset managers across much of the world in 2016, according to the latest issue of *The Cerulli Edge-Global Edition*, from Cerulli Associates, the global analytics firm. In its outlook for the asset management industry in Europe, the U.S., Asia, and Latin America in 2016, Cerulli identified several key threats and opportunities.

In Europe, the migration by insurance companies to unit-linked products represents an opportunity for asset managers, says Cerulli. The growing demand for multi-asset funds should also be exploited. Threats include the emerging trend by institutions to band together to make their own investments, thereby cutting costs by using fewer external managers or even completely dispensing with their services. Exchange-traded funds (ETFs) will continue to be a bugbear for active managers.

"In Europe, as with much of the world, the downward pressure on fees, fuelled by passives, the comparisons platforms enable, and regulators will not let up in 2016. Asset managers are responding–the move by veterans of active management into ETFs is an example. Other examples include, diversification and the acquisition/ creation of platforms and fintech capabilities," said Barbara Wall, managing director of the Europe office of Cerulli Associates.

Europe accounts for just 18% of the world's ETF market, compared with the U.S.'s 70% slice. Wall, however, believes that big change is afoot. "A few years ago, just a small number of Europeans would have known what ETF stood for—that is no longer the case, especially among the ranks of the mass affluent and those aspiring to that status. Prominent direct-to-consumer platforms such as Fidelity are offering ETFs from, for example, Vanguard, HSBC, and the iShare range, owned by BlackRock. Online wealth manager Nutmeg, though not a direct-to-consumer platform, is also helping to raise the profile of ETFs among retail investors."

In the United States, Cerulli foresees fee pressure generating opportunities for managers that offer multi-asset and strategic beta products. Other major challenges cited by U.S. executives include the threat of passive investments, and the increased cost of revenuesharing costs. The latter has U.S. asset managers looking at new pools of global assets to distribute abroad.

In Asia, Cerulli expects the spotlight to fall on passive products as institutions look for cost-effective solutions and regulators take steps to boost the appeal of ETFs for retail investors. Cross-border initiatives are likely to increase in 2016, offering investors diversified investment options and enabling managers to expand in other markets.

In Latin America, global managers will continue to be hampered by the knock-on effects of U.S. regulation, competition from other asset classes, and reduced flows due to unfavorable exchange rates and struggling economies. Global managers in the region are eyeing the private-equity craze sweeping the region, while separately a cottage industry of specialist distributors is promising to leverage their ties to local institutions to help global firms break into Latin pension space.

"In 2016, the clamor for reduced fees, greater transparency, and an end to 'closet tracking' will continue apace; competition will intensify; and institutions will be obliged to follow a road that will be a dead end for some asset managers," said Wall. "All the while, activist investors will not let up; markets will continue to surprise; and rising costs will strain budgets. But there will be opportunities. To seize upon these, foresight, experience, and occasionally courage will be needed."