“MACS” are poised to lead an active-management comeback: Citi

By Editorial Staff *Thu, Jun 25, 2015*

Sales of bespoke funds will rebound on the wings of new three-pronged “dynamically managed multi-asset class solutions” (MACS), according to Citi’s just published 6th Annual Industry Evolution Survey.

Maybe active managers are just whistling past the graveyard, but lately they’ve been predicting that the investors will soon outgrow their infatuation with low-cost index funds and ETFs and fall back in love with higher-cost actively managed funds.

Sales of bespoke funds will rebound on the wings of new three-pronged “dynamically managed multi-asset class solutions” (MACS), according to Citi’s just published 6th Annual Industry Evolution Survey. The three elements are: an unconstrained long core, liquid alternatives, and Smart Beta tools that hedge specific risks.

“These offerings will be seen as building blocks to create bespoke solutions for institutions and packaged solutions for retail clientele,” the survey said, citing recent interviews with investment managers, investors and intermediaries representing AUM of about $30 trillion.

The report projects AUM in the publicly traded fund space to expand from $40.8 trillion in 2014 to $56.9 trillion by the end of 2019, based on compounded annual growth rate estimates. Citi predicted that strategies tied to market indices would decline to 76% from 84% of that pool. The financial services giant also predicted that sales of the new three-component active funds will grow to about $15 trillion by 2020.

“The industry is likely to become more active in the next five years as asset managers’ reassert their trading skills away from market indices,” says Sandy Kaul, Global Head of Business Advisory Services within Citi’s Investor Sales unit.

“We see active long-only managers moving to strategies that will run between 80% and 120% net long, with this asset pool projected to grow from an estimated $6.8 trillion in 2014 to $14.9 trillion in the coming five years,” she said.

Unconstrained long strategies will eclipse passive benchmark fund growth to become the second largest asset pool in the publicly traded fund space by 2019, Citi’s survey suggested. Passive benchmark AUM (across separately managed accounts, mutual funds and ETFs) is seen rising from an estimated $6.7 trillion in 2014 to $10.7 trillion by the end of 2019.

Actively managed long-only benchmark funds will continue as the largest asset pool, but is predicted to lose market share.

By the end of 2019, AUM in Smart Beta and actively managed ETF products is projected to nearly quadruple to $1.1 trillion, liquid alternative AUM is seen as more than doubling to $1.7 trillion, and privately offered funds (hedge funds, private debt and financing and private equity products) are expected to grow from $7.1 trillion to $10.0 trillion, according to Citi's projections.

The full report, along with other industry analysis and reporting can be viewed at: **Citi Sixth Annual Industry Evolution Survey June 2015**.