NORTHERN TRUST

DRIVING GROWTH IN ASSET MANAGEMENT

THE NEXT CHAPTER

A WBR Insights & Northern Trust White Paper

Contents

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Key Findings

Increased focus on outsourcing

While outsourcing is not a new phenomenon, since the pandemic started more than 2 years ago, asset managers have continuously reassessed the need to keep many functions in-house. Remote work environments, staffing challenges and turnover, and technology limitations have driven them to consider areas that have not previously been outsourced, such as the front office. They recognize that many functions can be done more efficiently by specialized providers who have expertise and reach.

For **60%** [1] of our respondents, this new working model has increased the likelihood of outsourcing. Reasoning behind this decision is clear: outsourced services can help reduce operational costs, bolster operations in a remote working environment, improve resiliency and enhance efficiency in key areas.

Outsourced providers can also boost technological and governance capabilities; this may be why **technology limitations (38%)** and **cybersecurity concerns (44%)** [2] were important factors driving a potential move to outsourcing. Through careful consideration of their needs and emerging technologies, firms can compete in an increasingly agile and dynamic marketplace.

The need for a holistic approach

Our respondents are looking at outsourcing across a wide range of capabilities. From back office **operations (44%)** to **trading (23%)** [3], asset managers are looking at functions across their whole office for ways to help boost their efficiency and compete in a crowded marketplace.

Outsourcing is a key strategy. Outsourced providers can offer holistic solutions to help maximize a manager's effectiveness and improve their workflows. And today, firms want options to choose the best providers for the services they are seeking. By looking at all solutions, front to back, asset managers can identify partners that tailor solutions to their needs so they can focus on achieving alpha.

The benefits of wide-ranging support

To address the challenges and opportunities of an uncertain landscape in the coming years, half of our respondents plan to employ a component outsourcing strategy that leverages multiple third-party administrators, with a similar number planning to **leverage data tools (49%)**.[7]

Managers want options, rather than relying on a single provider. By leveraging the services of multiple third-party administrators for example, asset managers can gain access to the specialized tools and market knowledge required in an increasingly competitive industry. Additionally, by tapping into advanced tools, such as data science and analytics, firms can gain greater insight into their own performance and behaviors to better tailor their services to meet changing needs.

But front office decision-makers aren't seeking a complicated operating model with multiple third-party interfaces. The optimal outsourcing relationship is one that combines the industry's best technology from providers that put the client first, supporting their needs as they manage their operating environments.

An evolving landscape for the front office

In 2022's competitive investment landscape, successful buy-side asset managers need to constantly stay ahead of the curve, both in terms of their investment strategies and their support systems. Our survey respondents identified the need to **source and identify investment analytics** as their greatest front office challenge **(54%),** followed by the **ability to source environmental, social and governance (ESG)/socially responsible investing (SRI) ratings (51%).**[5] Managers continue to be challenged in managing their data, from accuracy to analysis. Without access to the right data in the right formats, they may struggle to identify investment opportunities, meet reporting requirements, and grow their businesses.

Supporting growth in crypto/digital assets was selected by **11%** [6] of respondents. Given how new this asset class is, this is a significant result. Indeed, it suggests that demand for crypto/digital assets could grow rapidly in the coming years, similar to the growth in alternative asset investing that occurred in the last ten years. Managers will want to work with partners that can support their investment strategies now and into the future.

New technology and operating models

Firms must constantly look for new and innovative ways to achieve their priorities and grow their businesses. This means adopting cutting-edge technologies and refining existing operating models to address emerging challenges and capitalize on new market opportunities.

However, it is noteworthy that **37%** [4] of our respondents are also looking at outsourcing to meet their goals. Outsourcing can help drive growth and success in today's market. It can also help to build efficiencies and lower costs as firms focus on their future.

1. *See Fig. 14, page 19*
2. *See Fig. 14, page 19*
3. *See Fig. 13, page 18*
4. *See Fig. 7, page 10*
5. *See Fig. 18, page 25*
6. *See Fig. 18, page 25*
7. *See Fig. 19, page 26*

Introduction

Make your operating model one for the books

In January 2020, Northern Trust commissioned a global survey of asset management organizations to better understand their two-year strategic plans for driving future growth. Little did we know that everything would change within weeks of the survey launch. And while the asset management industry weathered the pandemic well, quickly pivoting to an online work environment that curtailed in-person meetings, travel, and working from the office, COVID-19 has, perhaps forever, altered the way we work.

This year we decided to launch another survey, updating questions to better reflect how the world has changed but keeping the focus the same. What are the asset management strategies that will continue to drive growth in a more challenging environment? In an economy where interest rates are going up and inflationary and recessionary forces are top of mind, asset managers can no longer count on improving margins by increasing their assets. Resources are at a premium. Hybrid work is now the norm, with many organizations open to fully remote work. People can work from anywhere today, and many often do. There is an even greater emphasis on technology and automation as the best way to optimize workflows and enable innovation.

Investment strategies are also changing. Environmental, social and governance (ESG) investing looms larger today than it did even two years ago. Investors are asking their asset managers to do more, and firms are stepping up, seeking better data and technology solutions to help them meet demand. Digital assets have also moved into the investment lexicon. Managers are increasingly including things like digital currencies in their portfolios and looking for partners that can provide the needed support. And alternative asset allocations continue to grow as managers seek the diversification they need to create alpha.

The next chapter in driving growth will mean anticipating change and evolving for the future. The most successful asset managers will focus their resources on pre- and post-investment decision activities such as data science modelling, research, portfolio management and analysis. These firms may reevaluate their operating models to identify areas where they might be more efficient by outsourcing non-core functions, such as capital markets activity, middle office, data management and data storage, to providers who specialize in these capabilities.

While the challenges are significant, so are the opportunities. Whether it be integrating new technology, leveraging the right outsourcing partners, re-evaluating their operations, or doing all of these, an optimal operating model is crucial for future success.

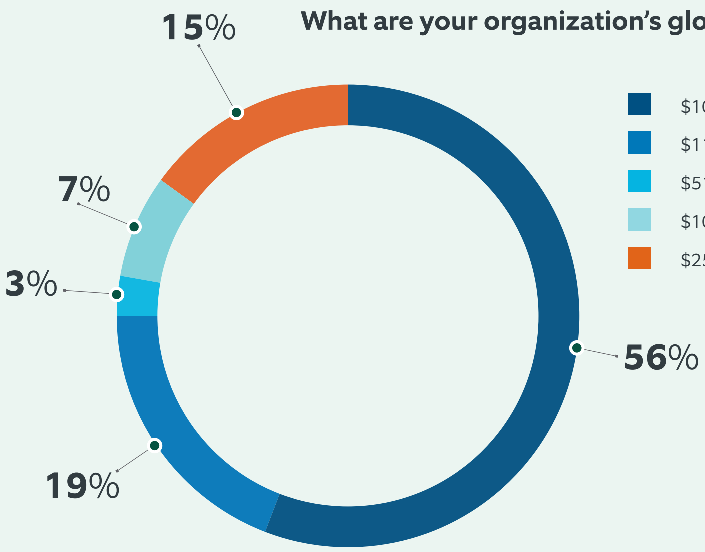
"The next chapter in driving growth will mean anticipating change and evolving for the future."

Methodology

In Q2 of 2022, WBR Insights surveyed 300 CEOs, CIOs, Directors of Operations and similar from across APAC, EMEA and North America regions, from asset management with an AUM of $500bn and below. Our survey seeks to determine how strategies have changed since 2020, given the current ecosystem of market and industry influences, from remote work and staffing challenges to the rise of ESG.

The survey was conducted by appointment over the telephone. The results were compiled and anonymized by WBR Insights and are presented here with analysis and commentary from Northern Trust contributors across APAC, EMEA and North America.

What are your organization's global assets under management in U.S. dollars?



- $10bn or less
- $11bn to $50bn
- $51bn to $100bn
- $101bn to $250bn
- $251bn to $500bn

Fig. 1

In which country is your company headquarters located?

- APAC *(Australia, New Zealand, Hong Kong, India, Japan & Singapore)*
- Europe *(Belgium, Ireland, Luxembourg, Netherlands, Norway, Sweden, Switzerland & Spain)*
- USA
- Canada
- Middle East & Africa *(Abu Dhabi & South Africa)*
- UK

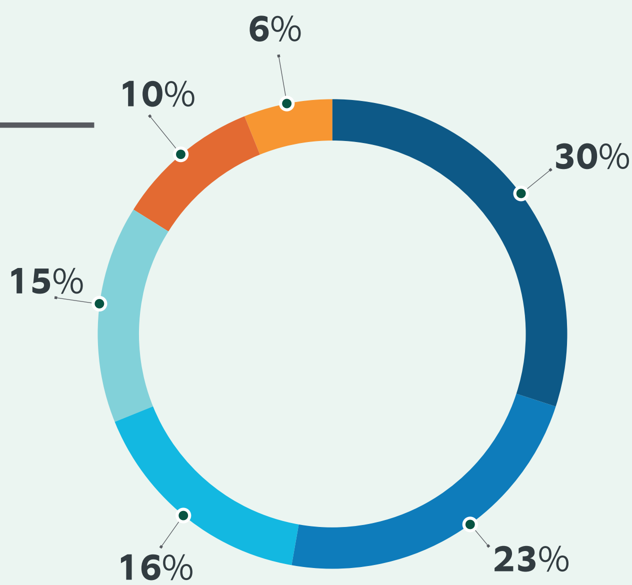


Fig. 2

Which of the following best describes your job title?

- Head of Investment Operations
- Director of Investment Operations
- Director of Middle Office
- Director of Operations
- COO or equivalent
- Board member
- CEO or equivalent
- Head of Institutional Operations
- Director of Securities Operations
- Chief Investment Officer

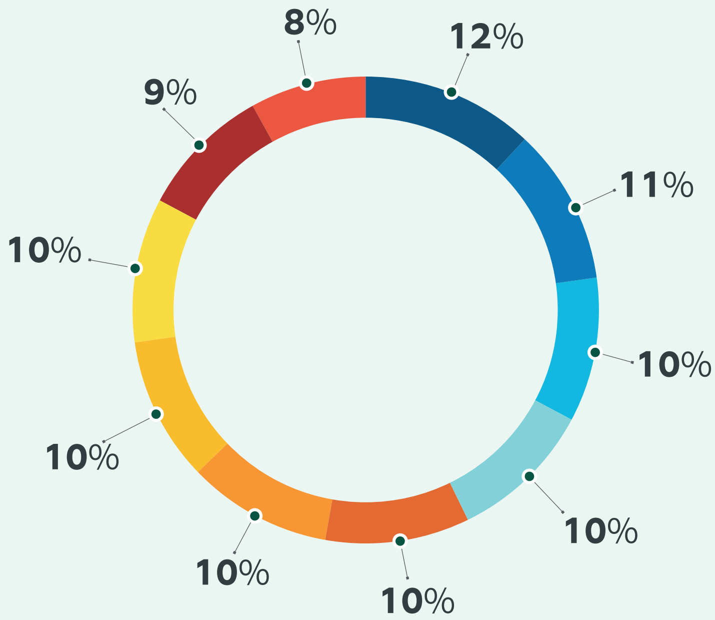


Fig. 3

What asset classes does your firm currently manage?

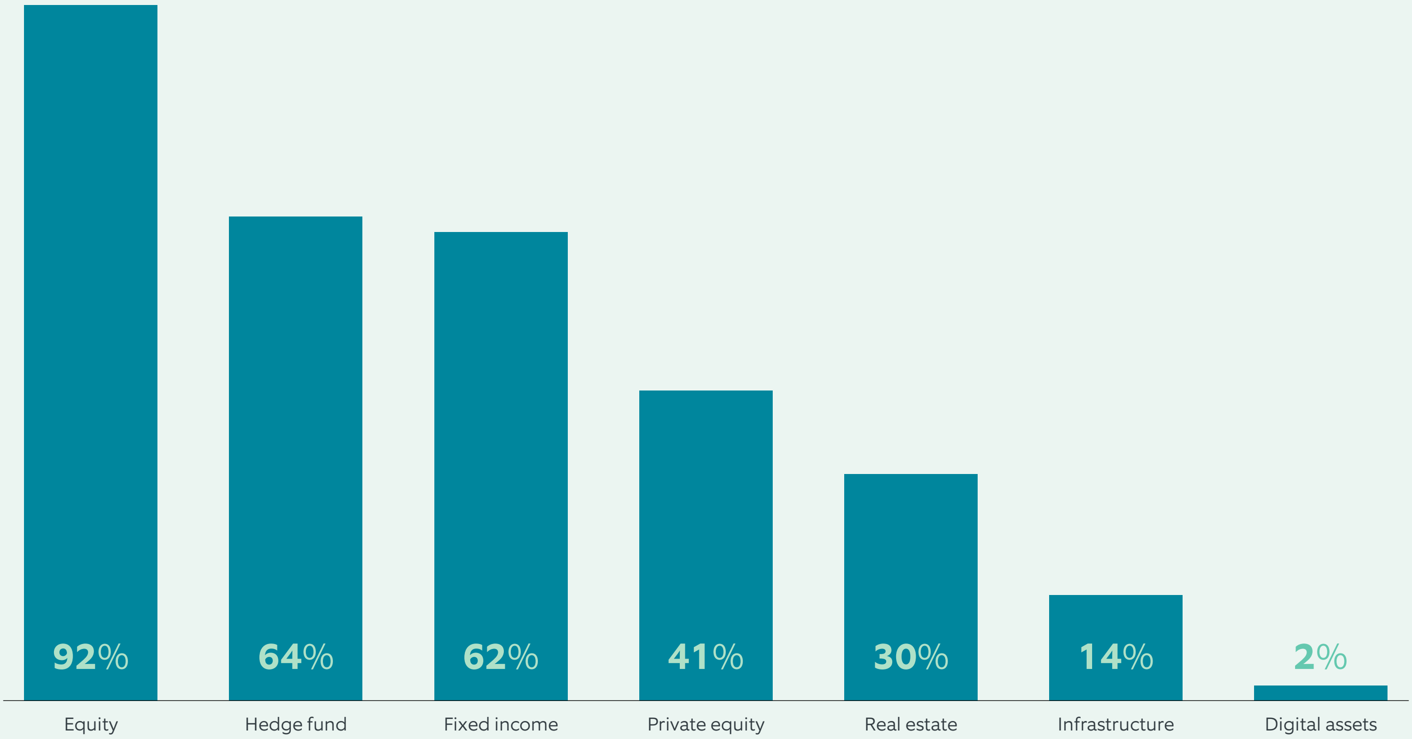


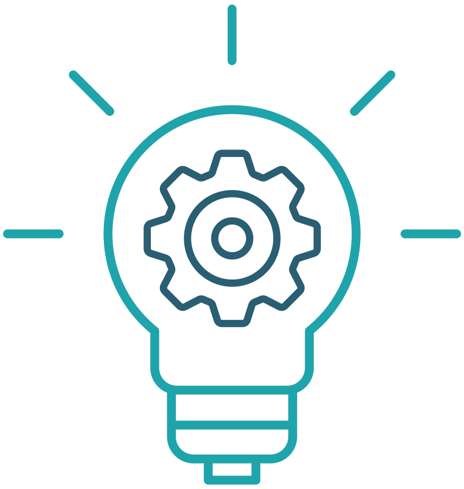
Fig. 4

CHAPTER ONE

STRATEGIC PRIORITIES: LOOKING TOWARD THE FUTURE

As the buy-side industry becomes increasingly competitive, asset managers may be looking for new ways to drive growth and optimize performance. To make these goals a reality, firms have to balance multiple priorities across different areas of their business, from asset allocation to trading operations. By leveraging new technologies and operational approaches, while also seizing the benefits of outsourcing, firms can enable more efficient and effective decision-making.

What are your strategic priorities for operations in the next two years?
Respondents were asked to select all answers that applied.



Creating greater efficiency	50%
Controlling costs	47%
Enhancing quality and accuracy	45%
Focusing on risk/compliance	44%
Focusing on business resiliency	40%
Improving investor experience	37%
Supporting new asset classes	35%
Supporting expansion into new markets	33%
Expanding product set	27%

Fig. 5

Efficiency and cost reduction are linked. By default, efficiency means managing costs better. Perhaps controlling costs used to be all about lowering vendor pricing, among other things. Managers are now recognizing there is not much room for that anymore. As a result, it has to be an efficiency play rather than one solely focused on reducing cost.

Historically, managers have been quite cavalier in launching product and hoping they would translate into decent flows. They are being much more selective these days and this comes back to the cost and efficiency angle. When launching a new product, managers want to ensure there is a need for that product, and that they will be able to raise a decent amount of assets from it.

I welcome the fact that managers are launching fewer products. I would much rather see fewer but significant product launches. I view that as a positive.

Clive Bellows

As we are coming out of a two-year pandemic in which operating models were strained or challenged, there has been a renewed focus from the buy-side on efficiency, and how talent and technology can enable that.

How can managers create greater efficiency? Making investments into the right technology and having optimal talent are going to continue to be how managers can be more efficient. Of course, selecting strategic partners, like Northern Trust is critical because partners can give managers access to expertise, technology and cost savings they can't easily get on their own.

Ryan Burns

We see this is an inflexion point and a focus on the way forward. We are increasingly having discussions with clients on the optimum target operating models for resiliency and navigating post-COVID. These discussions are more around consolidation rather than launching additional products or assessing what new products they need to bring to market.

From a client perspective, the survey highlights the need to have a consultative approach with their service providers to overcome challenges. It is not just about selling a solution to one problem. It is about what that end-to-end model looks like for our clients.

The views around outsourcing have varied throughout APAC, with countries like Australia being early adopters and seeing the value to creating more efficient operating models, with Asia just beginning these discussions. Clients are asking us how Northern Trust can help them move forward and what an optimal target operating model looks like. Given lower returns, investor appetite is shifting from more traditional assets to alternatives and ESG, digital, or crypto. We are seeing a lot of clients in Asia commencing their ESG journeys and considering how to incorporate it into their investment portfolios and strategies.

Caroline Higgins

Asset managers seek increased efficiencies and reduced costs

In our 2020 survey, the majority of managers expressed the view that cost control was their highest priority. While that is still important for managers in 2022, today they are emphasizing the need for greater efficiencies. The last two years has shone a light on new ways of operating, whether it be by reducing reliance on manual processes, leveraging improved technology or focusing a lens on activities that aren't core to their business that can be better handled by outside partners with greater expertise.

Another interesting point is that just 27% of our respondents said expanding their product set is a strategic priority, yet when asked how firms plan to increase distribution, **61%**[8] want to **launch or increase their ESG options**. This raises the spectre of potential 'greenwashing', where companies make exaggerated or unsubstantiated claims about ESG investments or products.

More than a third of respondents either agreed or strongly agreed that in the current market environment, there is no longer a direct correlation between rising assets and increasing margins. This suggests that one of the assumptions that has underpinned asset management, that an increase in assets leads to an increase in margins, is now being questioned, heightening the need for innovation. When the market value of assets does not continue to appreciate, it is no longer enough to simply increase assets; new outlets must be found, technologically and operationally.

Competition among buy-side firms has ramped up and market volatility has continued to rise. To be successful in this rapidly evolving landscape, managers must be willing not only to break new ground, but also adapt strategies to be able to stay ahead of the curve.

To what extent do you agree with the following statement: The current market environment no longer has a direct correlation between rising assets and increasing margins.

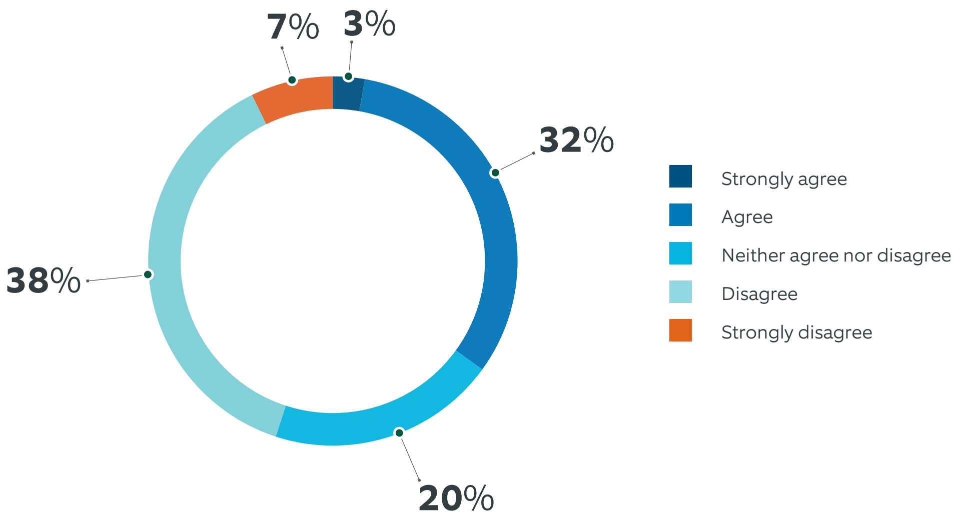


Fig. 6

The market environment is one where assets are unlikely to appreciate in value. Margin pressure is going to be there, and it is not guaranteed that merely because the markets rise, managers will be able to make more money. It all comes back to optimizing efficiency and having a cost-effective operating model.

Clive Bellows

The challenge of fee compression and managing ongoing fixed costs continues to be a key focus for clients. In Asia, we see the trend towards outsourcing and also an investing shift in asset types in search of revenue growth, such as crypto, private equity and more niche strategies.

This is a challenge, not just for asset managers, but also for asset owners, particularly asset owners who are appointing third-party managers to manage their non-fixed income business. They need more certainty in what they are paying for in terms of expenses versus the returns. The value of using data tools to manage expenses in more transparent ways is becoming evident.

Caroline Higgins

8. *See Fig. 8, page 12*

Technology and outsourcing are key resources

Fewer managers today see mergers and acquisitions as the way to achieve their priorities in the coming years. Instead, they believe they can achieve their goals by leveraging new technologies and refining and implementing their target operating models. Crucially, more than a third (37%) see outsourcing as a key tool.

It seems likely that the top three choices are related. To tap into new technologies and optimize an operating model, outsourcing can help provide access to external wells of knowledge, in everything from regulatory demands to the opportunities and challenges of emerging technologies.

New and innovative approaches will be essential if managers are to turn their ambitions into reality in areas like alternatives, ESG and emerging assets. For example, advanced analytics can be used to streamline ESG data, allowing managers to quickly interpret a non-standardized and often confusing world. Data science can help identify where managers are succeeding, and where they are falling short.

How will you achieve your priorities in the next two years?
Respondents were asked to select all answers that applied.

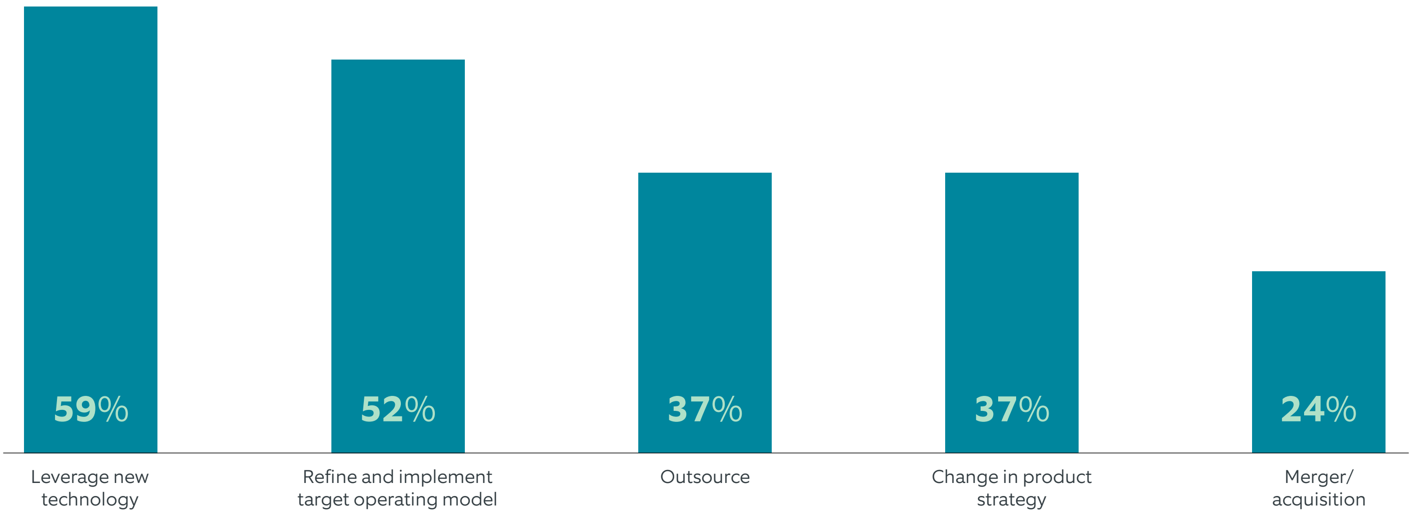


Fig. 7

The majority of managers will not create their own technological solutions. They will seek to outsource, whether it is with vended capabilities that they then implement themselves or simply have someone to do things on their behalf.

The options for managers to embrace new solutions are huge. However, this can also be complicated and challenging. It is important to have a clear strategy in terms of the problem you are trying to solve and then find the right technology.

Managers should be thinking about what is key to their business model, and what their clients are buying from them. If a task is something incidental to that outcome, then they should consider if there is a cheaper, more efficient way of doing it.

For example, something that has changed dramatically over the last few years is the number of managers that have outsourced trade execution to Northern Trust. A lot of managers, who just a few years ago would have said trading is an integral part of their investment process, are now saying it does not add any alpha. It is a purely administrative function. They still do the stock selection but who does the trade execution is somewhat irrelevant.

Clive Bellows

Managers can best leverage new technology by being open to change and identifying those change agents within their firms that can help drive those decisions. There are new technologies, for example, that can make an organization less dependent on manual processes. Of course, implementing new technology can be a costly undertaking.

The focus needs to be on what is core, unique and differentiated. If an activity is not a differentiated one, how might a different operating model work? How might new technology help your firm be less reliant on an inefficient process or greater numbers of staff? How might an outsource model be a better choice?

I think firms really need to break down the constituent parts of their operating model to define what is unique to them. They can then look at their processes, their technology and at partners like Northern Trust to solve challenges in their overall model.

Ryan Burns

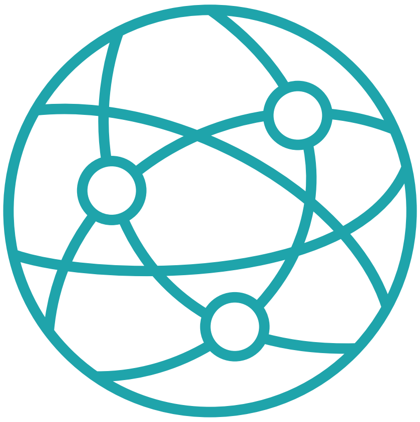
CHAPTER TWO

NEW APPROACHES TO INCREASED DISTRIBUTION

In 2022's investment landscape, it is vital that asset managers increase distribution by targeting new markets, products and clients. However, they cannot simply expand – growth must be pursued with the right approach to avoid wasting time and resource on ill-conceived initiatives that fail to produce meaningful results.

One way to drive growth is targeting underserved or overlooked market segments. By identifying areas that are poised for increased activity but have yet to generate substantial volumes, asset managers can gain a competitive edge. Additionally, expanding into new product categories such as alternative assets or ESG funds is another effective way to help drive growth.

If your firm is considering or planning to increase distribution, how will you achieve this?
Respondents were asked to select all answers that applied.



Launch/increase ESG options	61%
Invest in analytics to support the investment process	52%
Target new client types	40%
Launch new products	37%
Launch/increase alternative asset options	36%
Enter new global countries	32%
Invest in technology to focus distribution channels	29%
Enter new regions in existing markets	29%

Fig. 8

ESG has been a real topic of debate, which in the UK and EMEA has been dominated by climate. However, this definition of ESG needs to be broader. The consistent challenge that all managers are going to have is how they will be demonstrating and justifying they are ESG compliant/majoring in ESG to investors.

With regard to alternatives, we have been a significant provider of private equity fund administration for decades now. I would put the client base into two camps: traditional private equity or private capital specialists. However, we are now seeing traditional asset managers looking to launch private capital products in parallel to their traditional businesses.

Organizations like Northern Trust, that have a track record of supporting asset managers and hedge funds over a long period of time are well-placed to guide managers through their shift towards alternative assets.

Clive Bellows

While there are fewer managers that are planning to support expansion into new markets and products, many are looking at how to maximize their existing distribution channels and products through an ESG lens. They may be considering, for example, how to put a focus on the ESG aspects of existing strategies and distribution channels versus expanding their product set or target markets.

With regard to increasing distribution, Northern Trust adds value for clients by helping make their process more efficient. We effectively put toolkits in their hands that allow them to see a consistent view of their assets or exposures. For example, we made investments into what we call our front office solutions toolkit. This is a tool designed to give asset owners and allocators a consistent view across different asset classes, where alternatives may be one portion of a broader investment strategy. But you need consistency to understand the exposure and what your sensitivities and risks are.

Ryan Burns

The primary driver we are seeing within ESG investing, particularly in Hong Kong and mainland China, is compliance. Asia has lagged behind Europe in its ESG approach and is now looking at these markets to set its own standards. Given its earlier stage of ESG evolution, questions still exist in Asia around the level of reporting and the transparency that is required for these investments. A key consideration is the type of technology needed to achieve an appropriate level of reporting transparency. We do see the need to utilize better technologies, which are opening up conversations with clients around topics like Investment Data Science and optimizing the front office decision-making.

Alternative managers are becoming more complex in their needs and looking for partners with more global coverage and experience. Streamlining the alternative's operating model is challenging, given its high touch, bespoke and low volume nature. This is where the focus on the investor's first experience of the client will be key and in turn their service provider. Creating portals and ensuring that anti-money laundering (AML), know your client (KYC) and the up-front investor experience are simplified is key.

Caroline Higgins

Firms look to alternative assets and ESG options

Firms must ensure they carefully consider the reasons for launching a new product before they release it to the market. For example, 61% of respondents plan to launch or increase their ESG options. However, just 27% plan to expand their product set. It may be that firms plan to convert existing products to ESG offerings – if so, they must ensure this is a genuine transformation, offering substantive value to their investors.

Alternatives such as hedge funds, private equity and real estate also remain high on the list of expansion goals (36%). However, these asset classes remain mostly manual, without standardized valuation or reporting. It could be worth seeking the support of an experienced partner.

Our respondents appear to recognize this need. Those who plan to increase their alternative asset class options are looking to external support, with 53% of respondents planning to partner and 44% keen to outsource. This is another big change from our 2020 survey, where most managers planned to build their capability in-house. This may show that managers know how difficult it can be to access hedge funds, infrastructure, private equity, or real estate without using external expertise.

We also asked those respondents interested in expanding into ESG to outline the biggest challenges. There was a fairly even split between setting standards and goals, data sourcing and consistency, and technology limitations. The emphasis on data and technology also suggests that asset managers could benefit from working with experts who can help them access better information, meet reporting requirements, and make more sense of the data they have.

Follow up question for those that answered *'increasing alternative asset class options'*: how does your firm plan to do this?
Respondents were asked to select all answers that applied.

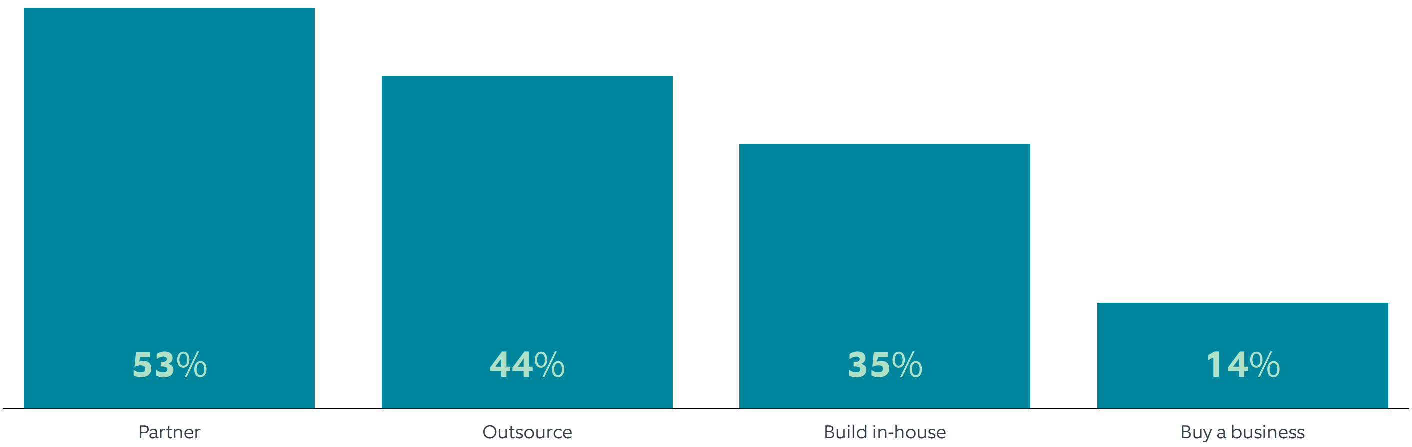


Fig. 9

The decision to partner or outsource versus build in-house comes back to expense and efficiency. Managers have realized this is difficult to insource. Going to an outsource provider which is doing it multiple times for different firms means that managers can leverage their knowledge and expertise. It is about cost and efficiency.

Clive Bellows

Today managers are more focused on consolidating and integrating their capabilities and are looking at partner organizations to help them do that.

The development of new technologies, such as Investment Data Science, and automation via artificial intelligence (AI) and machine learning (ML) allows Northern Trust to provide our clients with more options and solutions for their alternative investing needs. As we collaborate with different fintech organizations, we bring those leading-edge solutions quicker to this segment so managers can leverage the most appropriate solutions for their strategies.

Caroline Higgins

Follow up question for those that answered *'ESG options'*: what are the greatest challenges concerning offering/ expanding ESG products?

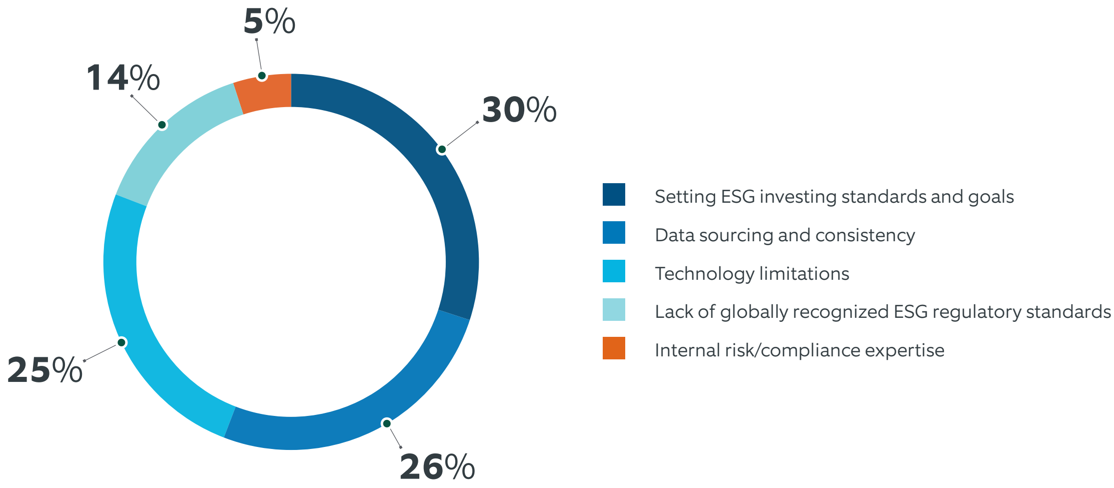


Fig. 10

These are challenges because of the lack of clear, industry-accepted standards for ESG. The key focus for managers is to listen to their investors. Ultimately, they are the ones that are saying they want an ESG-themed product. Rather than telling investors what they think they want, managers need to listen to their investors and deliver what they are really looking for.

Clive Bellows

I think we are seeing a little bit of everything with regard to the challenges around ESG. We have seen some who have had an ESG mindset approach for several years. They are further down the path and have had time to digest how they source and view data. Whereas others are just scratching the surface, and most are at some point in between.

I think several firms are looking at new and emerging technologies, some of which Northern Trust has brought to market, and how those could better help their front offices have the right ESG lens. Managers are trying to solve a unique and global challenge and are doing it through both new and emerging technologies, and with trusted partners.

Getting the right data in-house, identifying what data is valuable to you as a firm, and what is the key component that allows you to assess the ESG standards of both regulators and investors, is a challenge and a journey that most of us are having to take.

Ryan Burns

Distribution challenges require global expertise

Asset managers face a range of challenges when it comes to launching new products, with the regulatory environment, data sourcing and infrastructure limitations looming as particular problems, along with the limitations of outdated technology.

The precise nature of the challenge depends on the region in question. In EMEA, new regulations may mean it takes too long to launch new funds. In APAC, the offshore market competes with the home market when it comes to launching new products. In all of these areas, working with experienced partners can help alleviate concerns.

The regulatory environment is a particularly challenging arena for asset managers. They are concerned about the pace of regulatory change in certain countries, while they also face complex regulatory structures in target markets, among a host of other challenges. To address such concerns, managers must have access to global experts who can stay ahead of evolving regulatory demands around the world.

What are the top challenges you might experience when launching new products?
Respondents were asked to select all answers that applied.

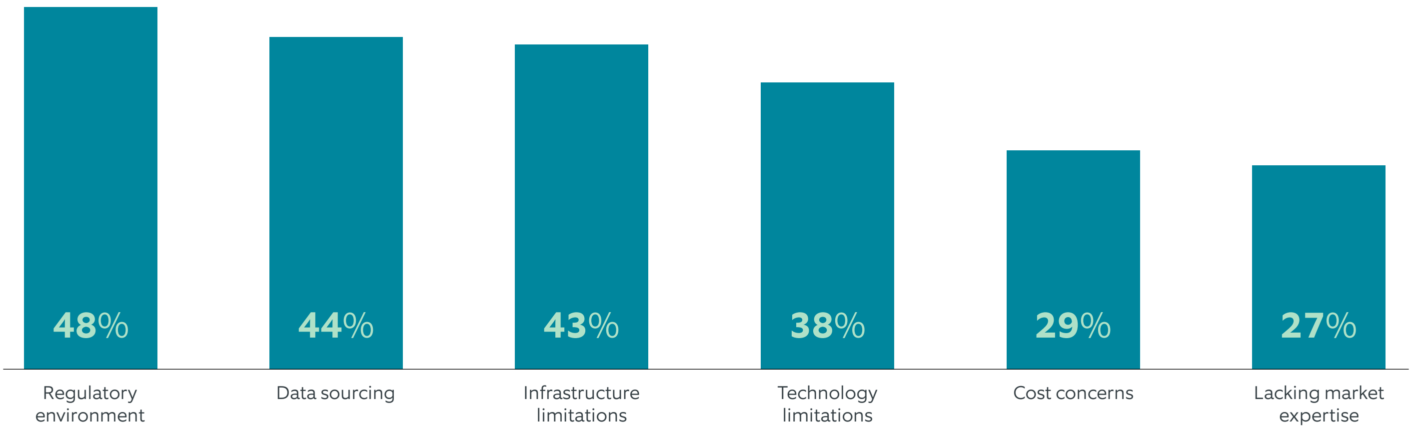


Fig. 11

For UK asset managers, the regulatory environment is becoming increasingly difficult. For example, if a UK product and an offshore product are not aligned, managers may end up having to have different operating models. This can be problematic.

However, the regulatory agenda is not going away. Regulators are going to continue to find ways to make sure that investors are getting the product they think they bought. Managers need to be able to continue to demonstrate that. It comes back to data and how they can leverage data solutions to meet those regulatory requirements without becoming less efficient.

Over the last decade, there has been so much new regulation. Regulators have acknowledged that there is an infrastructure in place, and now it is more about fine-tuning it.

Clive Bellows

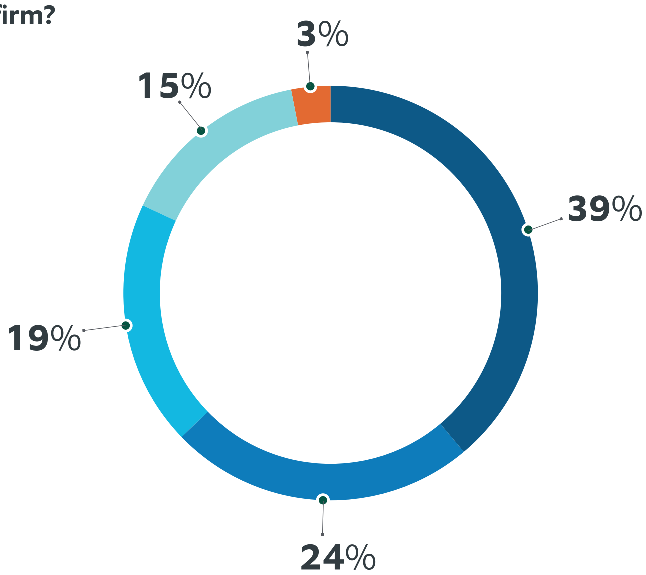
Regulation continues to evolve and be a key focus for managers, from resiliency regulations like the Senior Managers and Certification Regime to those for emerging assets. The pace of change has never been faster in Asia, and we will continue to see new regulations emerge around technology or digital assets like crypto, as well as ESG regulations.

ESG evolution in Asia is being led from a compliance perspective. Many of our clients in Asia are still defining their approach and continue to have questions around key challenges such as data availability.

All jurisdictions continue to face the same rising expectations by their home regulators around accountability, oversight, and governance frameworks. This is where managers can find value by outsourcing to providers that allow them to leverage scale, regulator expertise and the ability to deploy large regulatory programs across many locations in parallel.

Caroline Higgins

Follow up question for those that answered *'regulatory environment'*: which of the following is a key concern for your firm?



- The pace of regulatory change is too fast in a particular country
- The target market has a complex regulatory structure
- Certain countries have tighter regulations that deter us from investing there
- The future of regulation is uncertain
- We have no regulatory expertise/people on the ground to monitor regulatory changes in certain markets

Fig. 12

For managers that find the regulatory environment to be a challenge, it is mostly about data availability. It is being able to have that data when they need it and in the correct formats. At Northern Trust, we are always looking at ways to give clients access to information in a nimble, efficient way.

Clive Bellows

It comes back to scale and having dedicated and specialist teams across the globe who are defining all the elements of regulation. Northern Trust is an active contributing member of many market and industry working groups across the globe. These strong transparent relationships with the regulators help us navigate what is a truly complex environment around regulations.

From a client perspective it is the ability to leverage not just regulatory and market experience, but also experiences from our extensive client base. We have seen this frequently in Asia. For small or niche managers, their compliance and regulatory teams cannot keep up with the amount of change. They benefit the most from our expertise and connection with the market.

Caroline Higgins

CHAPTER THREE

SEIZING THE OUTSOURCING OPPORTUNITY

The growing focus on outsourcing is driven by longstanding concerns, particularly around scale and speed to market. However, the pandemic has served as a catalyst for this trend, and it is likely that outsourcing will play an even bigger role in the asset management industry in the years to come. In particular, smaller and boutique firms that might not be able to access the capabilities of the larger players in the industry have increasingly turned to outsourcing as a way to remain competitive.

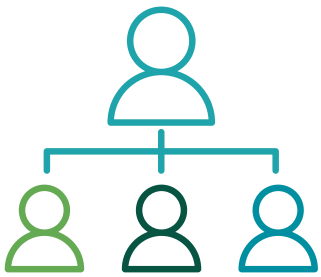
Take cost, for example. Outsourcing can boost cost efficiencies in areas such as data management, which can rack up high expenses for organizations. By working with an external partner that offers such services for a wide range of firms, managers realize the benefits of economies of scale.

Managers consider outsourcing the whole office

Firms appear to view data management as the area with the most potential for outsourcing. Data management is a critical function for asset managers, but it can be complex and time-consuming, leaving little time to focus on core competencies. Outsourcing could help here in significant ways, providing access to such innovations as data warehousing, which can maximize efficiencies and boost cost savings. Likewise, tapping an expert in investment analytics can help improve decision-making in the search for alpha.

Across the board, our survey respondents have shown increasing willingness to outsource functions that are not core to their business. From back office operations to capital markets functions like securities finance, foreign exchange and the trading desk, outsourcing can help firms tap into expertise, economies of scale and cost savings. In addition, outsourcing frees up resources that can be used to help drive growth in other areas of the business.

If you are considering outsourcing in the next two years, what areas have you considered outsourcing?
Respondents were asked to select all answers that applied.



Data management	48%	Investment analytics	28%
Back office operations	44%	Administration accounting	26%
Trade processing	36%	Collateral management	25%
Foreign exchange	35%	Trading	23%
Reconciliation	33%	Depository	15%
Middle office/IBOR	33%	Compliance monitoring	1%
Securities finance	32%		

Fig. 13

Deciding to outsource is not necessarily about what solutions, but how managers are consuming data. The evolving landscape around cloud technology, and the use of database solutions like Snowflake, are giving managers options that did not exist a few years ago. This is going to continue to be a fast-moving area because technology is changing all the time.

We have a lens that goes across multiple clients, so we can help them leverage best practice because we can see what is emerging rather than managers having to do it in complete isolation.

First of all, managers want a provider that is getting the basics right, such as custody, fund accounting, transfer agency, and so on. They also look for a stable organization that is committed to the business, who can help them as they start moving into the more value-added areas.

Clive Bellows

The data management solutions that are the most effective are those that can be additive, to enhance and support the existing tools that managers have. Managers that have successful investment philosophies, distribution and performance are looking to add to that success through enhanced tools. These can be data science tools, for example. Others are searching for products that analyze performance and attribution data, which we provide as part of our Investment Risk and Analytical Services.

When searching for an outsourcing partner, managers will want to find one with the right fit and cultural alignment. In some cases, a manager may outsource a large portion of their daily activity, so they will want to be aligned at a firm level. It is a service, not just a technology. Both firms must understand each other's culture and feel comfortable with each other.

Ryan Burns

Data continues to be a manager's most valuable asset but there are challenges around ensuring consistency and timeliness, with many data sources, manual processes and touch points impacting data integrity. The provision of a single, or golden, source is key and platforms and tools that can enrich data and provide insights as part of the daily flow will result in more timely and accurate information.

When managers are looking for a service provider, a key driver should be the optionality in solutions that are more tailored and are focused on the end state and operating model. The survey validates the need for more holistic dialogue based on end-to-end solutions.

Caroline Higgins

The different drivers of outsourcing

We asked respondents about the influence of various factors that are prevalent today on the likelihood that they will outsource. Without exception, their answers point to the value of outsourcing as a solution.

For example, 88% of respondents said the remote work environment has either increased or not changed their likelihood of outsourcing. 77% said staffing challenges have done the same, and 75% said costs of maintaining in-house capabilities have increased their likelihood to outsource.

Today, asset management firms are challenged like never before with adapting to a rapidly changing world. Those that want to survive and thrive focus on decision-making and alpha generation to retain their clients and grow their businesses, leaving non-core functions to scale providers that specialize in these capabilities.

How have the following factors influenced your likelihood to outsource?

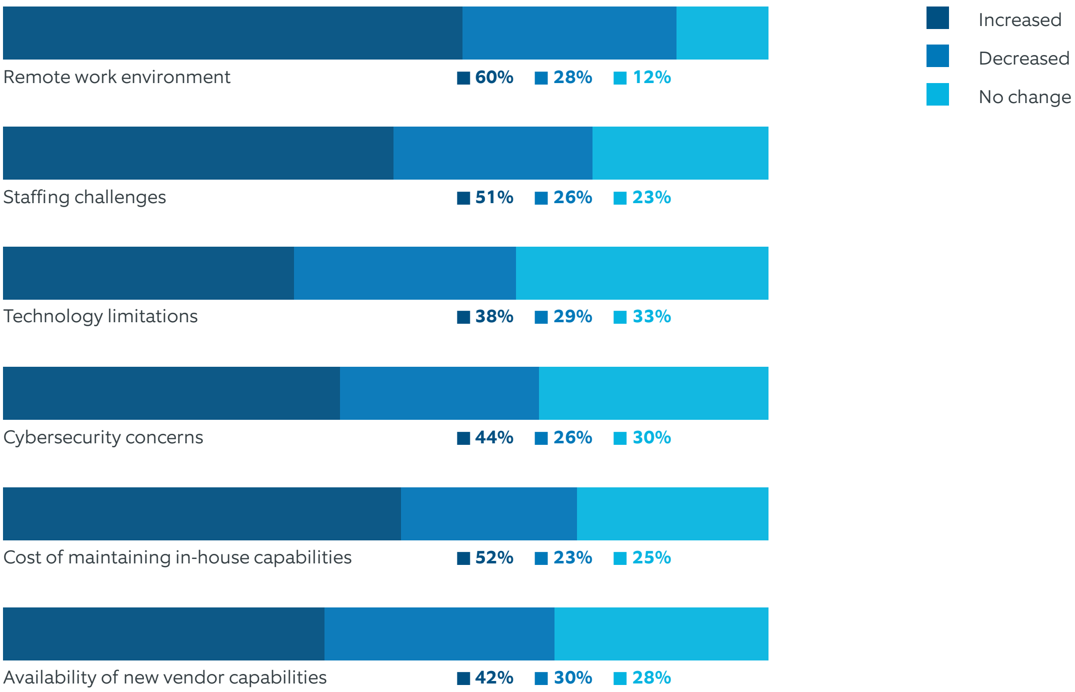


Fig. 14

The increasing costs of systems, data, and capital spend on technology and cyber security to ensure that operating models are secure are not slowing down. At the same time, over the last two years, we have seen a premium on talent and an increase in people's willingness to change jobs. These factors have introduced a whole new set of roadblocks for clients and their operations.

An outsourced service provider who has the ability to invest in technology can reduce the ongoing expenses of maintaining systems. This includes in-house support, licensing, and key staff. These factors make it a very real and attractive opportunity to consider outsourced service providers such as Northern Trust. We not only have the scale but also the history of delivering on those services at a high level of quality.

Ryan Burns

There are many challenges facing managers – employee turnover, staff returning to offices, managing costs. What is the new norm? How do we define the future of work? With so many questions to be answered, the way forward is to look at all these in a holistic manner covering people, technology, services and regulations.

The value of everybody sitting together, working and collaborating has shifted. We have seen this shift in the front office space where trade operations and the portfolio manager historically sat side-by-side. Now with remote work, managers are reassessing some of that value and seeing where they can shift fixed costs to variable by outsourcing.

Caroline Higgins

CHAPTER FOUR

DATA MANAGEMENT

Most firms are well aware that maximizing their data is critical in the hunt for alpha. They are constantly challenged to make the best use of their data to position themselves at the top of the decision-making value chain. And with plans to diversify into ESG, alternatives, and other emerging assets, managers will want to be sure they have the tools they need to make informed decisions.

Woven throughout our survey responses is a plan to increase reliance on technology to solve multiple challenges, including improved access to, and management of, data. But lacking thoughtful, planned development, some firms find themselves with complex standalone technology stacks and siloed data models. These can make it difficult to access the full potential of their information, let alone meet growing demands from investors and regulators for full visibility into their investment processes.

Firms that want to reap the benefits of technology and data may want to consider outsourcing to providers who have invested in and are using advanced tools. They have the expertise and resources to continue to offer the newest technologies such as data science, advanced analytics, AI and ML.

Our survey revealed that the key areas managers are looking to control costs in the next two years are product rationalization (48%) and automation/technology improvements (47%). Product rationalization can help buy-side firms reduce costs by removing duplicate or unsuccessful products from their portfolios. Technology can help them reduce costs and automation can help to streamline processes and reduce headcount.

By adopting cutting-edge technology, firms can increase their operational efficiency, helping them to drive growth in a competitive landscape.

How do you plan to control costs in the next two years?
Respondents were asked to select all answers that applied.

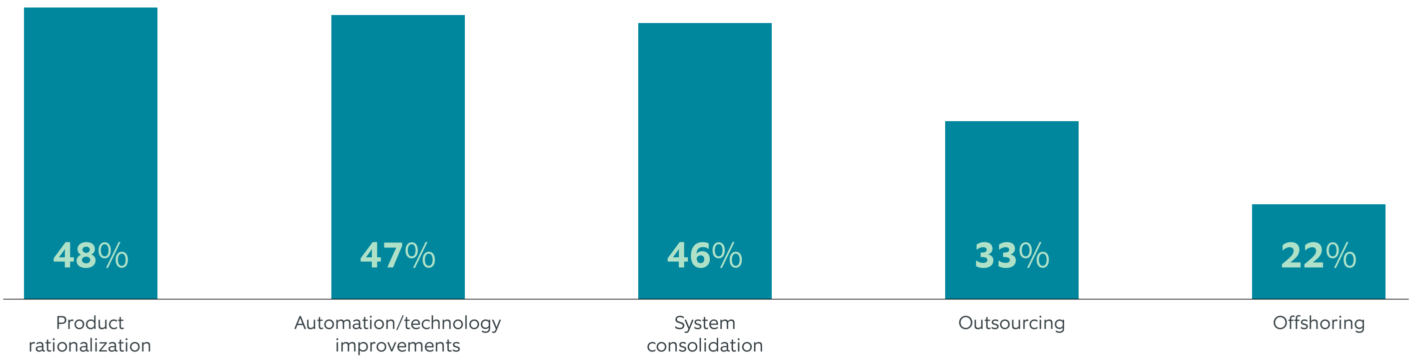


Fig. 15

This is all about efficiency again. I believe that product rationalization has already taken place. Most organizations have probably maxed out their product rationalization potential, in my opinion. It is all down to technology solutions now.

Clive Bellows

Firstly, when looking at their cost structures, firms should be talking to partners like Northern Trust. We want to know when a challenge is unique within a particular asset manager's operating model, and how we can help. We are asking where we can add the most value and how we can find the right solution for the problem being presented. It is a lot about knowledge sharing as partners in this journey.

Increased communication amongst all participants of the financial services ecosystem, be it service providers, asset managers, or investors, is healthy and will help firms understand what might be available to them. As clients increasingly turn to automation, technology can help mitigate the costs of systems and talent. Solutions like the data science collaborations with Equity Data Science and Essentia Analytics, which we announced in 2021, are examples of technology that may help our clients look through a different lens to improve their processes.

Working more closely with our clients to understand the spectrum of challenges across their whole office allows us to offer greater value than solely executing back office services. Learning how they think of their strategic future helps us be a more effective partner to them. And that is exciting for us.

Ryan Burns

Managers will continue to look at how they can automate or streamline to manage costs, risk and client and investor experience. Given many segments and market processes are streamlined and automated, more benefit may be obtained by assessing fixed versus variable costs and deciding what functions are key to an organization and which can be better managed by outsourcing or third-party relationships.

A good example is Northern Trust's approach to the whole office, where we have holistic discussions with clients to really understand some of their unique challenges or pain points. These conversations can lead to large outsourcing deals covering many solutions, or can be more focused on areas such as trade execution. The focus is on optionality for our clients, and truly understanding what the best solution is for them.

Caroline Higgins

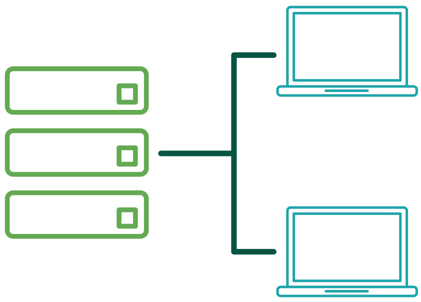
The challenges of data management

Data management presents several challenges for buy-side firms. Managers are dealing with high volumes of data which they need to ensure is accurate when making investment decisions. An additional challenge is data accessibility, as many firms operate within data siloes which presents a further challenge when sharing their data with internal and external stakeholders.

53% of respondents said that their biggest challenge regarding data management was ensuring timely and accurate data was available to all internal and external stakeholders. This was closely followed by 45% who said consolidating data from multiple, disparate internal and external sources was a significant challenge. 38% said they struggle with identifying, adding and managing data sources or providers.

This points to the potential of technological solutions. For example, a data warehouse could offer a solution for many managers, helping them to maximize data efficiency. Cloud solutions and automated programming interfaces (APIs) are other viable choices for asset managers that want to make their data more accessible and easier to manage.

What are your biggest challenges in data management?
Respondents were asked to select two answers that applied.



Ensuring timely and accurate data is available to all internal and external stakeholders	53%
Consolidating data from multiple, disparate internal and external sources	45%
Identifying, adding and managing data sources/providers	38%
Ensuring that the data is easily understandable/consumable and insightful	32%
Responding in a timely manner to data delivery demands	25%
Managing data and cybersecurity costs	7%

Fig. 16

Data continues to be what drives the engine for every decision-maker. It is important to both the investors who have placed their faith and confidence in the asset manager, but also the firm to ensure that they have a consistent, accurate deliverable across all their stakeholders globally.

To have a well-functioning operating model, each organization needs their talent to focus on higher value analytic activities - rather than spending time manipulating or enhancing data. We are seeing this now. There are newer technologies available and solutions like Northern Trust's collaborations with Essentia Analytics and Equity Data Science.

Every firm has its own set of unique challenges. However, at their core, every solution is about enabling them to make good, fundamental investment decisions for their investors as efficiently as possible.

Ryan Burns

As I mentioned before, data continues to be most managers' key challenge and focus. To be able to take a holistic view across an asset manager's organization is key. Clients expect solutions to be agnostic in how and where we ingest data and the format. Clients are increasingly turning to Northern Trust to provide data solutions to address these needs versus building in-house.

Caroline Higgins

How firms will address data challenges

With a strong focus on innovation, more and more financial firms are looking to leverage new technologies to achieve success. Indeed, 52% of respondents are planning to leverage innovations such as AI, ML and the cloud.

While this shift towards technological advancement represents a huge opportunity for those firms that embrace it, it also carries some risks. There is no question that incorporating cutting-edge software and hardware into your operations requires substantial upfront investment and careful planning.

At the same time, there are often unforeseen challenges associated with these types of emerging technologies, ranging from issues related to integration and compatibility right through to security concerns.

Outsourcing again is a strong possibility for many respondents, with 45% expecting to engage a managed data service provider. Data management platforms are a key goal: 44% expect to build one, while 35% think they will buy one.

These responses were similar to our 2020 survey. Back then, new technologies and engaging a managed data service provider were also the top two responses, followed by the responses on data management platforms. The consistency of the results shows that challenges remain largely the same, while pointing to an enduring faith in the potential of technology as solution.

How do you plan to address your data challenges in the next two years?
Respondents were asked to select two answers that applied.

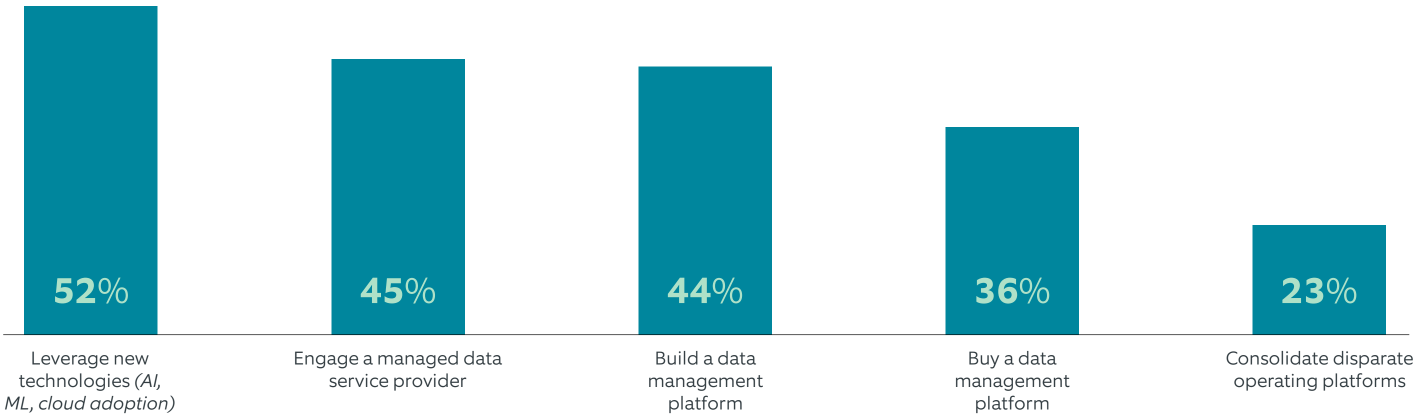


Fig. 17

The last two years have been interesting in that there are data solutions available now that were not available two years ago. It is a space that is going to continue to evolve.

The challenge for managers now is how to stay appraised of new possibilities emerging that will solve problems, that maybe a year ago or two years ago, were potentially problematic. An organization like Northern Trust can help because we have a lens across the whole industry and the resources to continually innovate.

Clive Bellows

While progress in solving challenges has been somewhat slower in the last two years due to the pandemic, the industry and asset management's capacity to react so effectively to unanticipated events and to embrace new technologies have been positive outcomes.

Operating models have been responsive and flexible to a new reality, the new working environment, and working locations. In some ways that has helped jumpstart the use of video calls and file sharing solutions for communication. I think this assisted us in tackling complex data problems.

Having the appropriate tools to get people together for discussions is going to make it easier to manage data challenges. The continued evolution of some of the tools that are out there, such as those developed by Northern Trust, as well as our investments into AI/ML, like Equity Data Science and Essentia Analytics, continue to move the ball forward.

Ryan Burns

Over the past two years, there has been some loss of traction on decision-making and implementation of new technology because business resiliency has occupied a significant amount of time and effort. While discussions have continued, forward progress has stalled somewhat. But technological innovation has advanced and, particularly in Asia, people are very familiar with the potential solutions and evolving technologies, so now is the time to invest in the future.

For example, at Northern Trust last year we launched our Investment Data Science capabilities, bringing a new level of data automation and scrutiny to our clients' front offices.

Caroline Higgins

CHAPTER FIVE

SUPPORTING THE FRONT OFFICE

For asset managers, increasing alpha is the key focus of their front office activities. However, there remain a range of challenges, from sourcing data to improving decision support through analytics.

Overcoming these challenges is not easy. Many firms lack the time, resources and technology to boost efficiencies, which can inhibit their growth and ability to reach new investors and channels of distribution.

Managers who fail to support front office decision-making could fall behind their competitors. By improving their analytics and decision support capabilities, they can boost the speed and accuracy of investment decisions.

The biggest challenges in the front office

The survey results depict an industry that is focused on incorporating new analytics approaches into its day-to-day operations, while also adapting to a changing market. The top three answers – with little difference between them – focused on investment analytics and the need to source complete and accurate ESG/SRI ratings, demonstrating the increasing impact that changing market priorities are having.

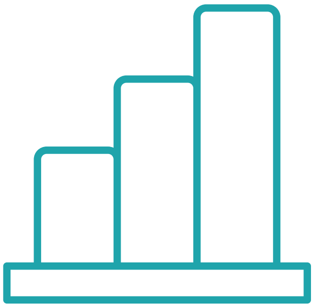
There has been rapid growth of interest in digital and crypto assets in recent years, and the buy-side is watching with interest. Due to the rise in digital asset development, investors are keen to exploit this asset class and some managers are actively exploring how to enter this market.

However, this new frontier also brings with it several significant challenges, particularly with regards to regulatory uncertainty.

Our survey revealed that 11% are challenged by supporting growth in crypto and digital assets. While this may not seem like a large percentage, these assets are still fairly new. Asset managers that plan to increase their exposure to emerging asset types will want to work with partners that can support their needs, from custody to regulatory reporting and investment decision-making.

What are your biggest challenges in supporting your front office?

Respondents were asked to select three answers that applied.



Sourcing and aggregating varied investment analytics	54%
Sourcing complete and accurate ESG/SRI ratings	51%
Providing analytics and attribution at the account, desk and strategy level	50%
Ensuring reconciliation activities are consistently completed to support the start of the trading day	47%
Implementing new products and asset classes in a timely manner	45%
Forecasting consistent and accurate cash positions	42%
Supporting growth in crypto/digital assets	11%

Fig. 18

I believe the most crucial aspect of this is to comprehend what they are aiming to fix and how it will benefit them. Rather than have people tell them what they should do, it is more important to figure out what they are really trying to address and how it will help them.

It is about how those products fit in with their existing operating models. And looking to see if they can source those solutions from as few vendors as possible, that would make them more efficient.

Clive Bellows

Sourcing the analytics, helping clients understand them, and then integrating that information into their operating models is really where we can provide value. We can then align their data into the evolving model they want to use.

It is important to ask if it is the right technology, not just for today, but for the future. Do you have confidence in your partner? Does the partnership help enhance those aspects of your business that are unique and distinct to you?

It is important to be open to new things and be able to embrace change. The pace of what is coming out continues to accelerate and the tools available now are so fascinating and helpful, keeping up may be difficult. Having a partner like Northern Trust can assist with that process.

Ryan Burns

In Asia, alternatives now are highly used and recognized even at the retail investor level. Crypto and digital are following a similar path, with more focus and regulations being developed to support these asset types. Asian hedge fund managers are highly open to digital assets and are leading the way in investment in these innovative opportunities.

Caroline Higgins

How firms will address front office challenges

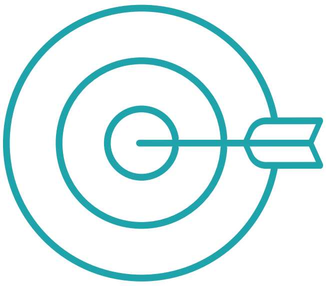
As managers work to address the challenges they face in their front offices, they are turning to external support and technological innovation. The top two priorities were selected in almost equal proportions, with an emphasis on data tools and an outsourcing strategy that leverages multiple third-party providers.

These two themes are in fact closely interwoven. As managers look to embrace the data tools that will transform the front office of the future, they are increasingly considering the role of external expertise, and are looking at multiple providers to provide it, rather than consolidating their operational support with a single provider.

The weight given to the top two factors also points to another key advantage of outsourcing: it allows buy-side firms to level up their technological capabilities in the most efficient ways firms want to build a wide body of expertise and are keen to embrace multiple third-party administrators that provide the best in breed optionality.

How will you address challenges in supporting the front office?

Respondents were asked to select all answers that applied.



Employ a component outsourcing strategy that leverages multiple third-party administrators to support post-trade processing requirements	50%
Leverage data tools to improve decision support and analytics infrastructure	49%
Outsource middle office functions, including trade processing and IBOR, to a single third-party administrator	29%
Consolidate front, middle and back office platforms	22%
We do not have a specific strategy to address these challenges	1%

Fig. 19

Northern Trust is somewhat different from our competitors in that we do not have a one size fits all mentality for our clients. We work with our clients and give them the optionality to select the best provider for their needs. I think that the component approach is a sensible one and one that does resonate with clients.

Clive Bellows

To address challenges in the front office, it is important for each firm to identify the aspects of their service and investment program that set them apart, and then find ways to incorporate those components into the bigger equation without jeopardizing their core value.

This is the approach Northern Trust has with our whole office strategy, where we meet our clients where they are rather than push them into a certain model.

The phrase 'whole office' does not imply that we provide them with every piece of technology and every service. It means being nimble enough to fully support the entirety of an asset manager's office. Whether it is front office staff working on the portfolio side, middle office staff dealing with investors, or back office staff managing the reconciliation and data issues.

We must continue to find ways to partner, recognizing that customers come in all shapes and sizes. We need to engage with them where they are in their outsourcing journey. I think that will be how managers continue to evolve their models over time.

Ryan Burns

The survey continues to note that different markets and segments have similar themes, but different pain points; asset managers are looking for consultative approaches in terms of solutions and input in defining that target operating model. Front office solutions such as Investment Data Science have been of interest to hedge fund managers in Asia, while more asset owner clients are assessing their IBOR and middle office offering across APAC.

Many of the regulators in Asia have issued regulations and guidelines around the use of cloud applications, which has helped to accelerate usage. Our clients are very keen to understand ML and AI, as these technologies are widely understood and used in our daily lives in countries like China/Hong Kong and Singapore.

Many of the APAC regulators have created sandboxes to continually trial, evolve and deploy new technologies to the market – Singapore has been very proactive in this space. We are seeing a strong appetite to outsource or partner with vendors when it comes to adoption of new technologies versus developing internally.

Caroline Higgins

Conclusion

In today's rapidly changing world, it is hard to predict what the future of the asset management industry might look like. One thing is certain however – managers will need to innovate and adapt if they want to stay competitive and capitalize on the opportunities that come their way.

Firms have already been adapting, particularly under the pressure of COVID-19. This came on top of a range of existing challenges, notably surging costs, regulatory pressures, the expenses associated with technology and changing product demands. There is a need for greater cost efficiencies – in essence, doing more with less to satisfy client demands.

Those demands are also shifting. ESG investing has grown from a niche focus to a dominant theme – investors are increasingly knowledgeable, so firms must avoid any hint of greenwashing. Additionally, investors are increasingly interested in alternative investments as a way to diversify portfolios and increase returns. We appear to be at the beginning of a similar story when it comes to cryptocurrencies and digital assets. Managers who do not adapt to such innovations may struggle to compete.

There are also technological challenges to consider. Data is a prime example and is one of the most important resources for managing growth. The ability to capture, analyze, and interpret data enables buy-side managers to better understand market dynamics and make informed decisions about their investing goals.

Data is also a factor in winning and keeping clients who are becoming more sophisticated and leveraging better data tools themselves. Asset managers can maximize their use of structured and unstructured data through improved analytics and exploit hidden opportunities with data science.

While it is not new, the pandemic has led many managers to reconsider the need for keeping functions in-house. In particular, the growth in remote work environments, staffing challenges and technology limitations have led managers to increase outsourcing in new areas, including the front office.

As firms look to the future, they should embrace the widest array of expertise possible, while continuing to put their investors first. Outsourcing can help deliver this expertise in a range of areas: technological to operational to regulatory. To make the most of it, firms must assess which providers can support their needs while helping to ensure their operating models keep the focus on their clients.

NORTHERN TRUST

About Northern Trust

A proven partner to some of the world's most successful and innovative investment managers, Northern Trust has over 30 years' experience administering the full spectrum of investment strategies for clients around the globe. We help facilitate improved speed-to-market, operational efficiency, business focus and distribution for our clients' traditional and alternative funds. Our solutions include fund administration; global custody; investment risk analytics; back-and-middle office investment operations outsourcing; institutional brokerage; and solutions to support regulatory change.

Northern Trust Corporation (Nasdaq: NTRS) is a leading provider of wealth management, asset servicing, asset management and banking to corporations, institutions, affluent families and individuals. Founded in Chicago in 1889, Northern Trust has a global presence with offices in 22 U.S. states and Washington, D.C., and across 23 locations in Canada, Europe, the Middle East and the Asia-Pacific region. As of December 31, 2021, Northern Trust had assets under custody/administration of US$16.2 trillion, and assets under management of US$1.6 trillion. For more than 130 years, Northern Trust has earned distinction as an industry leader for exceptional service, financial expertise, integrity and innovation.

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