

institutionalassetmanager

Institutional Asset Manager Global Outlook

SPECIAL REPORT 2021

In association with

MSCI



Adapt to survive

Adapt to survive: this was the message for the asset management sector in 2020, which turned out to be one of the most extraordinary and unpredictable years in living memory.

In March, the onset of the Covid-19 crisis and national lockdowns caused stock markets to lose a third of their value in one month, and mobilised an immense digital transformation as swathes of the economy adjusted to home-working.

The asset management industry weathered the storm better than most. Assets under management worldwide have risen to exceed USD110 trillion, thanks in part to a remarkable rebound in underlying financial markets, with some indexes recouping their losses in as little as six months.

While vaccine roll-outs indicate the pandemic's end may be on the horizon, many of the changes it has caused are likely to stay – including a 'lower for longer' interest rates landscape and competition from passive investing putting more pressure on fees.

Arguably the biggest shift asset managers have faced has been the pendulum of investor preferences, which has swung decidedly in favour of sustainable investing.

At the start of 2021, a third of all assets under management in the US were held in sustainable strategies, and three quarters of institutional investors in Europe said they plan to stop buying European non-ESG products within the next two years.

The story for asset management in 2021 will be over whether it can keep up with the pace of change and thrive in a post-coronavirus world. We asked our asset manager and investment consultant audience eight questions on their views for the year ahead:

- How has the asset management industry emerged from the market volatility and pandemic of 2020?
- Will global assets under active management rise, level out or fall over 2021?
- Which geographical areas will do the best in terms of asset raising over 2021: UK, Europe, US, Canada, or Asia?
- What fund strategies will dominate over 2021?
- Will there be continued pressure on fees?
- What new trends might we see in ESG and sustainable investing across the global asset management industry over 2021?
- What is your outlook on the yield landscape in 2021?
- What will be the biggest challenge for asset managers to overcome in 2021?

Read their answers and thoughts in the following pages for an indication of what is to come for the asset management industry in 2021.

Madeleine Taylor,
Editor, Institutional Asset Manager

CONTENTS

Chapter 1: State of the market
05 How has the asset management industry emerged from the market volatility and pandemic of 2020?

Chapter 2: Asset growth
08 Will global assets under active management rise, level out or fall over 2021?

Chapter 3: Geographical split
10 Which geographical areas will do the best in terms of asset raising over 2021: UK, Europe, US, Canada, or Asia?

Chapter 4: Trends
12 What fund strategies will dominate over 2021?
14 MSCI: How factor investing is reinventing asset allocation

Chapter 5: Fees
16 Will there be continued pressure on fees?

Chapter 6: Sustainable investing
18 What new trends might we see in ESG/ sustainable investing across the global asset management industry over 2021?

Chapter 7: Hunt for yield
21 What is your outlook on the yield landscape in 2021?

Chapter 8: Challenges ahead
23 What will be the biggest challenge for asset managers to overcome in 2021?

MSCI

A common language for Factor Investing.

MSCI FaCS™



Put factors to work for your portfolio with MSCI FaCS.

Learn more about Factor Investing at **msci.com/factor-investing**

©2021 MSCI Inc. All rights reserved.



Chapter 1

State of the market

> *Everyone in the asset management industry had the chance to stress test its organisation, and overall passed.*
>
> Jan Erik Saugestad, Storebrand Asset Management

How has the asset management industry emerged from the market volatility and pandemic of 2020?



JAN ERIK SAUGESTAD

CEO, Storebrand Asset Management

Given that the financial markets recovered so strongly, the overall business is doing well compared to many other industries. Everyone in the industry had the chance to stress test its organisation and overall passed. The most volatile period during Q1 challenged organisations and processes, particularly within FX and Fixed Income, but since then the liquidity in the market has been strong and resulted in plenty of good opportunities for return generation within several asset classes.

In the area of sustainable investments, the opportunities and risk appetite has been significant, which you can clearly see from the number of IPOs in this space. Returns have also been generated by strategies with preference for green investments.

The pandemic and the volatile markets have shown the strengths in being a "one stop shop", providing clients with different types of funds and asset classes allowing them to quickly reallocate assets when needed.

NICOLAS FALLER

Co-CEO of Asset Management, UBP

Overall, the global asset management industry managed the crisis well. This is reflected by the fact that we saw very few companies experiencing real liquidity problems. It seems that lessons from 2008 were learned. At the same time, and thanks to the strong market rebound in general, the asset management industry is performing effectively. However, in line with the last 10 years, we have seen a huge concentration in flows and some companies are doing much better than others.

ANTHONY CARTER

Fixed Income & Multi-Asset Portfolio Manager, Sarasin & Partners

Many managers will have had a very tough Q1, but thanks to fiscal and above all monetary easing many will have seen in a material recovery in performance, especially in November with the passage of US electoral uncertainty and above all the successful development of Covid-19 vaccines. Consequently, a lot of managers will, after a fairly traumatic start to the year, in fact be able to show pretty good performance after fees for the year, boding well for asset gathering in 2021. The transition to remote working has also been effected without much disruption.



ERIC VANRAES

Fixed Income Portfolio Manager, Eric Sturdza Investments

Stronger but fragile at the same time due to central banks' monetary policies and government stimuli. A huge debt will need to be repaid.

EWOUT VAN SCHAICK & IWAN BROUWER

Head of Multi-Asset; Senior Client Portfolio Manager Multi-Asset, NN Investment Partners

In our view, the asset management industry performed well during the crisis. Asset managers, often seen as laggards with implementing technology and innovation throughout the business, successfully turned digital nearly overnight. Many portfolio managers and traders are working from home since mid-March with very few hiccups. Going forward, based on what we have learned during the pandemic, working from home might, to some extent, remain the general approach. Further, clients may become more soft-touch. Existing trends in the asset management industry, like responsible investing and the use of new alternative data sources, have been enforced by the pandemic because these trends have once again proven to be robust in 2020.



DEB CLARKE

Global Head of Investment Research, Mercer

The asset management industry had already been reinventing itself before the pandemic – recognising the need to provide more outcome-orientated solutions, address a declining fee background and remain relevant in a world that was focusing on broader sustainability factors. This was accelerated by the pandemic and the asset management industry had to adapt to a new way of working, which they have done remarkably well. This should be a pivotal moment in the industry as they look to rebuild better and put sustainability at the heart of that rebuild. Consideration of climate change and diversity and inclusion, both at the firm level and in investment strategies will be key going forward as will building a strong culture focused on all stakeholders.



JAI JACOB

Managing Director & Portfolio Manager in Multi-Asset, Lazard Asset Management

At the core of the industry's conceptualisation between risk and return is a belief that higher volatility accompanies lower returns. I think this holds long term, but it certainly did not hold in 2020. I do believe the pandemic has triggered long-delayed conversations about the industry's relationship to real estate and travel. And I think the industry is coming to grips with the idea that providing traditional beta sources in public markets will need supplementing with alternative factors – be they fundamental or quantitative – as part of the accelerated re-categorisation of assets into more purposed, meaningful buckets.



BELTRÁN PARAGES

CEO, Azvalor

What drives the industry is the long-term trend, and this trend remains very strong for our industry. A world with the highest amount of money ever in history and the lowest yields across a large number of asset classes (most of them at their all-time highs/peak) needs professionals and very specialised managers, more than ever. Specialisation and skills are the two names of the game, together with skin in the game (avoiding the agency risk is crucial).

The pandemic has represented a dent in all of our lives. Still, the virus and its effects will fade, and the industry will again be re-exposed to the long-term trend: low yield world, vast amounts of idle money on one side and monster liabilities/debt on the other.



Chapter 2

Asset growth

> *Active managers may have a smaller percentage of the pie in future.*
>
> Beltrán Parages, Azvalor

Will global assets under active management rise, level out or fall over 2021?



ANTHONY CARTER

Fixed Income & Multi-Asset Portfolio Manager, Sarasin & Partners

Rise due to ongoing massive money creation by central banks, with a lot of this money finding its way into the asset management industry.

DEB CLARKE

Global Head of Investment Research, Mercer

Our crystal ball says they will rise, more so in 2022 than in 2021, mostly driven by markets in general rising, but also as institutional investors bias somewhat towards active management rather than passive management. The driver for this shift will be a recognition that active strategies can play a role in portfolios to more specifically address sustainability factors, including those investors who want to invest for impact. There will always be a place for passive strategies but that passive exposure may change over time and focus on broader factors than just market capitalisation.



JAI JACOB

Managing Director & Portfolio Manager in Multi-Asset, Lazard Asset Management

Rise. Passive is increasingly a way of accessing the world's 10 largest companies. As I expect those companies to make up a smaller percentage of the total assets, I expect active to rise. Another supporting argument is that active management is poised to become more accessible via ETF structures, and more value-added in terms of climate and social alignment.

BELTRÁN PARAGES

CEO, Azvalor

Passivisation and indexation will continue to grow. These are both strong trends and have good reasons to keep on growing. So, I think active managers may have a smaller percentage of the pie in future. However, the increase of total new money in the industry (and in the world!) should compensate for it, and in nominal units, we will see higher AUMs in active management.



MATTHIAS SCHEIBER

Global Head of Portfolio Management for Multi-Asset Solutions, Wells Fargo Asset Management

Global active assets under management are likely to rise next year. There is strong investor demand to put dry powder to work as interest rates are very low. In this environment of higher liquidity and low interest rates, income solutions and risk-managed growth solutions continue to be in demand. ESG awareness has increased across the industry and the latest change in the US administration is likely to positively support further global efforts in this area. The issuance of green bonds in the UK is the latest example of a widening of the investment universe available to asset managers.

ERIC VANRAES

Fixed Income Portfolio Manager, Eric Sturdza Investments

I believe they will rise due to fixed-income inflows. Active management will outperform passive in 2021.



CHITRA BASKAR

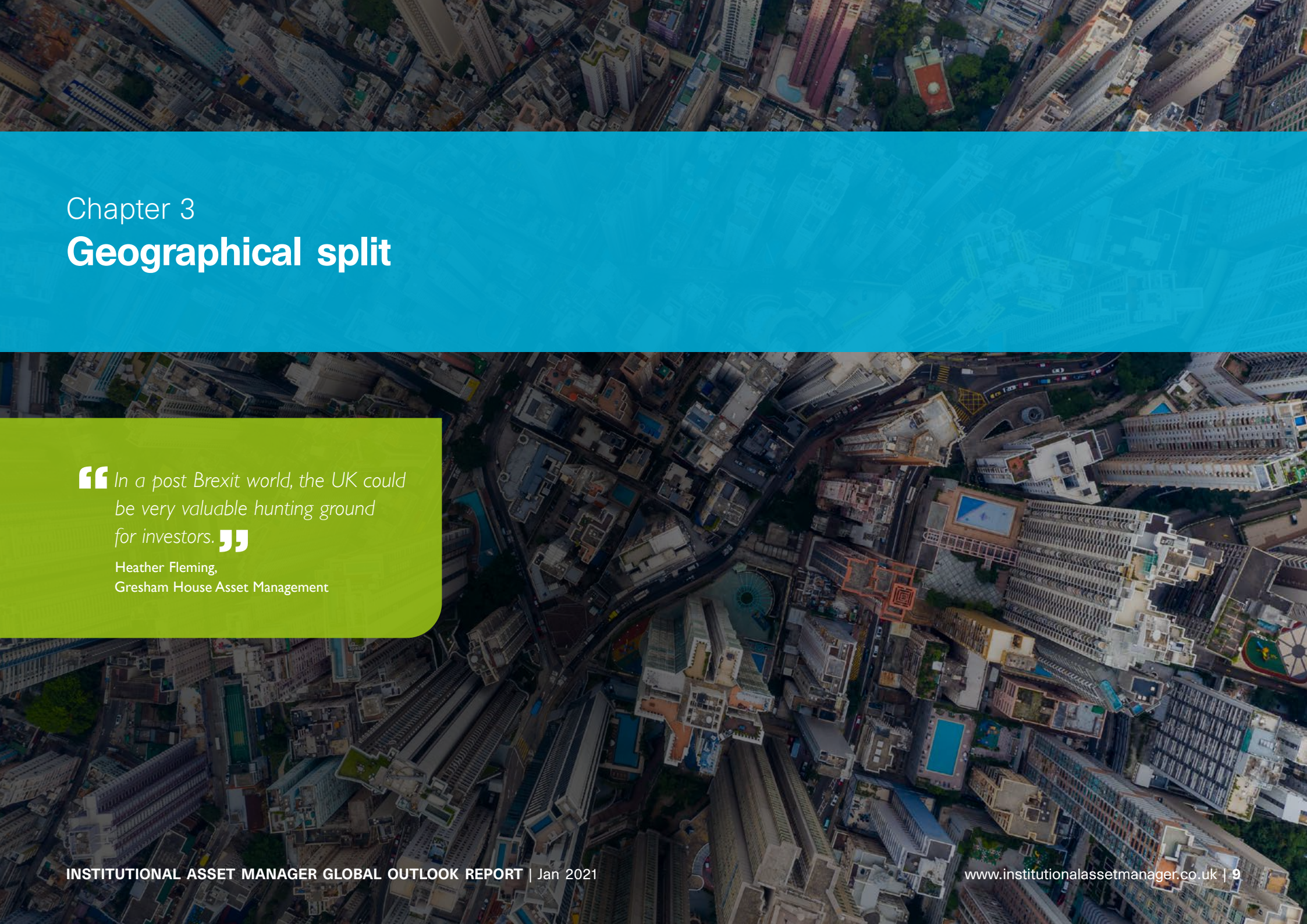
COO & Global Head of Funds & Product, Intertrust Group

As per some surveys, asset managers expect that Covid-19 market volatility will drive a significant interest in active management, with over half of hedge fund managers (52 per cent) surveyed believing that the impact of Covid-19, and the related market volatility, will increase investor interest in active management. 30 per cent of the surveyed investors were of the same view.

Private capital strategies always have preferred active management to achieve above average results. The current pandemic has led to a more distressed situation, requiring an even better management of its investments. Therefore, private equity and private debt will also see a rise in global assets under active management.

Chapter 3

Geographical split



> *In a post Brexit world, the UK could be very valuable hunting ground for investors.*
>
> Heather Fleming,
> Gresham House Asset Management

Which geographical areas will do the best in terms of asset raising over 2021: UK, Europe, US, Canada, or Asia?



EWOUT VAN SCHAICK & IWAN BROUWER

Head of Multi-Asset, NN Investment Partners; Senior Client Portfolio Manager Multi-Asset, NN Investment Partners

For active managers we think Asia has to be the most lucrative option, followed by LatAm. The domination of passives and their manager concentration in the US makes the market less easy to address to most players."

BELTRÁN PARAGES

CEO, Azvalor

Difficult to answer, and even more for a local boutique as we are, based in Madrid. I don't think performance depends on geographical location. It is a matter of price: how much you pay for an asset and what you get in exchange.

It is a bit counterintuitive, but good investments don't always come by the hand of the best assets as the price variable determines the final result as much as the quality of the asset (and sometimes even more). A good asset at a too high price would be worse than an average asset at a very low price.

Opportunities have been, are, and will be all around the world, sometimes right in front of us, sometimes on the other side of the world.

THOMAS NUGENT

Senior Equity Manager, MAPFRE Asset Management

We believe that Europe is in a catch-up stage when compared to the US so we see greatest potential for recovery in European Equities.



JAN ERIK SAUGESTAD

CEO, Storebrand Asset Management

The impact of low interest rates is fuelling investments in all assets. It is not easy to point to a particular region but historically the US has had the largest AuM % growth. However, going forward, one might want to consider Europe after years of the US outperforming. With corona and Brexit behind us in 2021, Europe could see some good results. The pandemic has truly shown the need for diversification.

ERIC VANRAES

Fixed Income Portfolio Manager, Eric Sturdza Investments

Our research indicates that probably Asia followed by the US.

JAI JACOB

Managing Director & Portfolio Manager in Multi-Asset, Lazard Asset Management

US.

HEATHER FLEMING

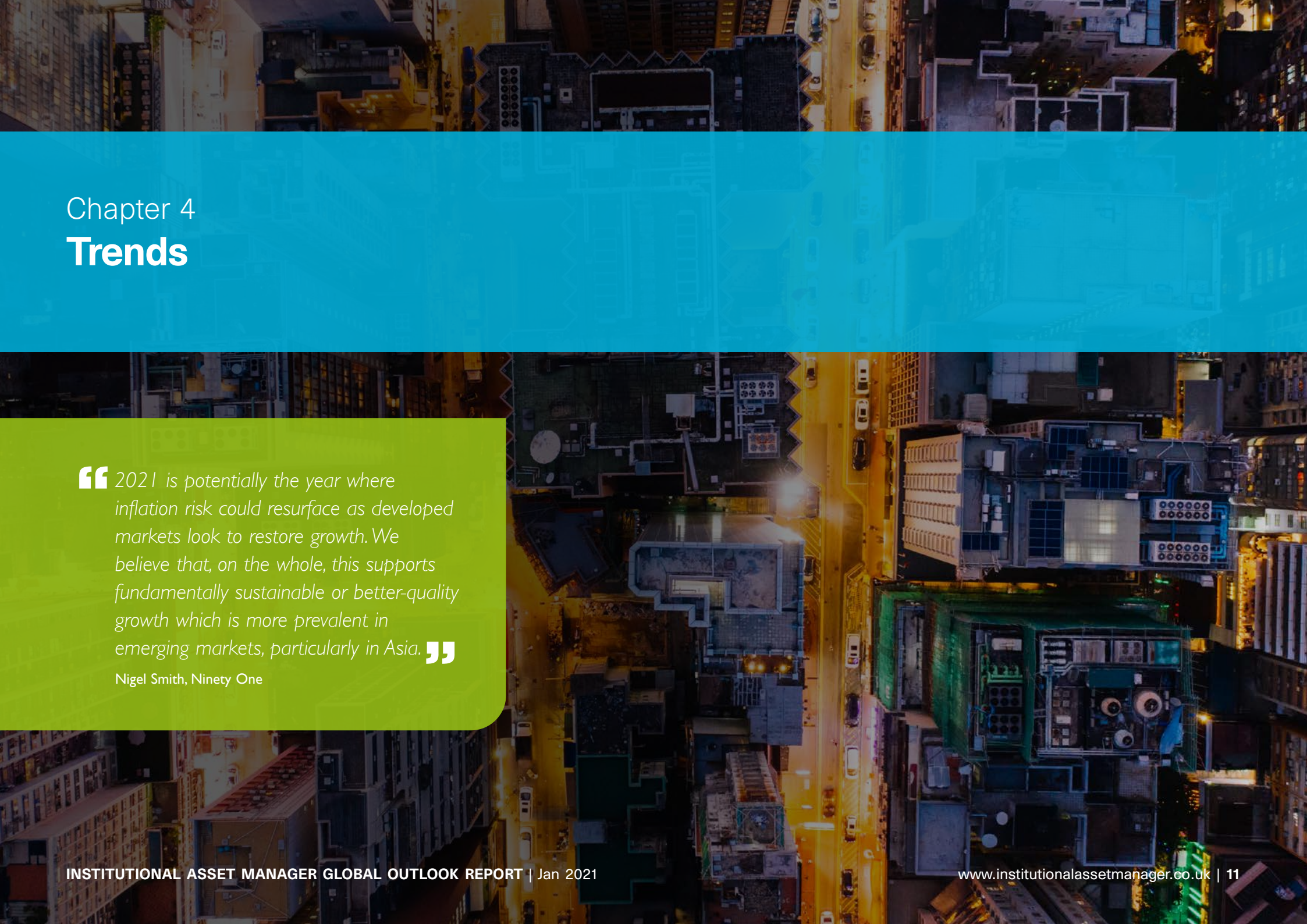
Head of Institutional Business, Gresham House Asset Management

In a post Brexit world, the UK could be very valuable hunting ground for investors having been undervalued through the uncertainty of negotiations, coupled with the financial impact of the pandemic.



Chapter 4

Trends



> *2021 is potentially the year where inflation risk could resurface as developed markets look to restore growth. We believe that, on the whole, this supports fundamentally sustainable or better-quality growth which is more prevalent in emerging markets, particularly in Asia.*
>
> Nigel Smith, Ninety One

What fund strategies will dominate over 2021?

DEB CLARKE

Global Head of Investment Research, Mercer

We believe risk assets will generally do well in 2021 now the vaccine is starting to be rolled out to the masses, with higher efficacy than expected, and the uncertainty of the US election is behind us. That favours areas such as equities, sustainable equities, small cap equities, emerging market equities and growth fixed income such as emerging market debt. We also see a continued interest in private markets – private credit and venture capital offering interesting opportunities.

JAI JACOB

Managing Director & Portfolio Manager in Multi-Asset, Lazard Asset Management

Hybrid quant and fundamental strategies.

HEATHER FLEMING

Head of Institutional Business, Gresham House Asset Management

We envisage that, as with 2020, allocations to real assets will dominate over 2021 as institutional investors continue to diversify away from listed exposures. Those that will be in particular demand are opportunities that embrace the sustainable investment agenda.

THOMAS NUGENT

Senior Equity Manager, MAPFRE Asset Management

The ESG offering – whether that be in equities, debt, or other asset classes – will see huge demand in 2021.

NICOLAS FALLER

Co-CEO of Asset Management, UBP

In our view, it will clearly be equities with a focus on active management and impact investing as well as emerging market bonds, especially frontier and local debt. Private markets will continue to increase in clients' portfolios thanks to illiquidity premium and convex strategies. These strategies will be essentially convertibles and equity long/short.





NIGEL SMITH

MD of UK Client Group, Ninety One (formerly Investec Asset Management)

2020 has been an extreme, abnormal and jolting year, during which investors have experienced a myriad of headwinds and extraordinary uncertainty. It is inevitable in this environment that investors should seek high conviction strategies offering genuine resilience, over the long-term. While 2021 promises to be a year of creeping towards 'normality', we expect the demand for resilient outcomes to continue.

Perhaps underestimated at first, but it feels increasingly clear that Covid-19 is helping fast-track a greater focus on sustainability across the investment industry. Changing consumer habits, growing investor understanding of how sustainability risk factors can impact returns, alongside fast-moving regulation, will continue to drive investors to demand clarity on how these risk factors will impact their long-term investments.

Finally, 2021 is potentially the year where inflation risk could resurface as developed markets look to restore growth. We believe that, on the whole, this supports fundamentally sustainable or better-quality growth which is more prevalent in emerging markets, particularly in Asia. Geo-political pressure is unlikely to abate, but it is difficult to ignore the structural tailwinds clearly more visible in China and more holistically in Asia.



JAN ERIK SAUGESTAD

CEO, Storebrand Asset Management

The sustainability trend is here to say and will escalate going forward within all asset classes. Alternative investments including real-estate and infrastructure, will continue to evolve, allowing for a broader diversification of portfolios.

Within equities, depending on the development of the pandemic, global growth outlook and interest rates, will likely lead to changes in the preference investors have for cyclical-vs-non-cyclicals or value-vs-growth companies.

Following a prolonged period of growth dominance, we are seeing glints of a shift of investor preference. It is notoriously difficult to predict short-term performance of risk-premia, but the market conditions seem favourable for a comeback of value.



ANTHONY CARTER

Fixed Income & Multi-Asset Portfolio Manager, Sarasin & Partners

In terms of fixed income, absolute return strategies will continue to attract significant interest as they have done in recent years. But also ESG, sustainable and dedicated green funds should garner significant interest. The Covid pandemic has massively increased the interest of the asset management industry and its clients in ESG strategies across asset classes. As regards equities, I am less of an expert there but I would expect thematic funds (clean energy, water resources, smart cities, digitalisation, etc) to continue to be extremely popular, especially given how well they have performed in 2021.



MATTHIAS SCHEIBER

Global Head of Portfolio Management for Multi-Asset Solutions, Wells Fargo Asset Management

We see continued demand for solutions that focus on risk-managed returns. (From conservative wealth preservation strategies to risk managed pure equity mandates, we see a lot of client interest in carefully trading off the upside in markets with the downside risks through better diversification, systematic downside risk management strategies, as well as tactical asset allocation.) Ultra-low interest rates make cash and government bonds less attractive longer term, though investors will be careful going out the risk-curve in what could still be a volatile environment and hence total return focused strategies with embedded downside protection remain relevant. Tactical asset allocation and systematic downside protection overlays continue to benefit from investors looking to diversify their equity and bond risk in an environment in which both asset classes don't look particularly cheap.

How factor investing is reinventing asset allocation



For long-term investors, an unpredictable year in financial markets has underlined why it is more important than ever to understand the factors at work in their portfolios.

Factor rotation was rapid in 2020: national lockdowns put pressure on value stocks, while returns on 'momentum' stocks soared thanks to the new era of working from home leaving technology companies largely unscathed.

"Factors often provide answers, and what we found last year is that more and more investors were looking at factors in real time to try to understand the behaviour of markets and make decisions about how they might rebalance portfolios," says Mark Carver, Global Head of Equity Factor Products at MSCI.

This is part of a profound shift that is taking place in asset management towards 'Asset Allocation 3.0', says Carver. Investors are no longer "setting it and forgetting it" by buying generic equity and fixed income portfolios that blindly rebalance to neutral weights.

"At one time, asset allocation was about stocks, bonds, and cash. Then, we moved to an allocation model that was geographic centric, 'Do I want to take an overweight position in certain regions?'. Today, it's 'How do I want to take my exposure in that region?' which is where factors play a greater role," says Carver.

> *"Factors often provide answers, and what we found last year is that more and more investors were looking at factors in real time to try to understand the behaviour of markets and make decisions about how they might rebalance portfolios."*
>
> Mark Carver, MSCI

Precise allocations may now be needed as long-term investors negotiate the pandemic, as economic recovery has occurred at different rates across the globe, with countries like China leading the restart.

"There are certain market periods that are episodic due to the market dynamics, such as the market concentration we saw last year. While this is not necessarily an original idea, we observe heavy concentration in terms of what drove the returns in the US market last year, specifically the MSCI USA Index return in 2020 was around 21 per cent*, and in the broad index of 620+ names only a narrow number, the top ten contributors accounted for 63 per cent of the return while the other 610+ accounted for the rest." Carver explains. "When the market broadens, we may see transition in factor leadership, shown by strengthening stronger performance among the factors that benefit from improved market breadth."

Over the last fifteen years, factor investing has grown from being a niche strategy employed by a few quant investors and academics to a mainstay of modern asset allocation – one that most organisations use to meet their objectives such as reducing risk, generating returns, expressing investment views and increasing diversification. The democratisation of access to factor strategies is taking place through MSCI's leading indexes, which are leveraged in index ETFs, Mutual Funds, and UCITS Funds.

"Today, it's more evident that factors serve as the foundation for portfolio management, investment analysis and for asset allocators as key part of investment due diligence," says Carver.

In November, the approval of a Pfizer and BioNTech vaccination caused stock markets everywhere to surge, with cyclical value stocks outstripping momentum stocks for the first time in the year. MSCI's tools enabled investors to track and assess these movements on a daily basis.

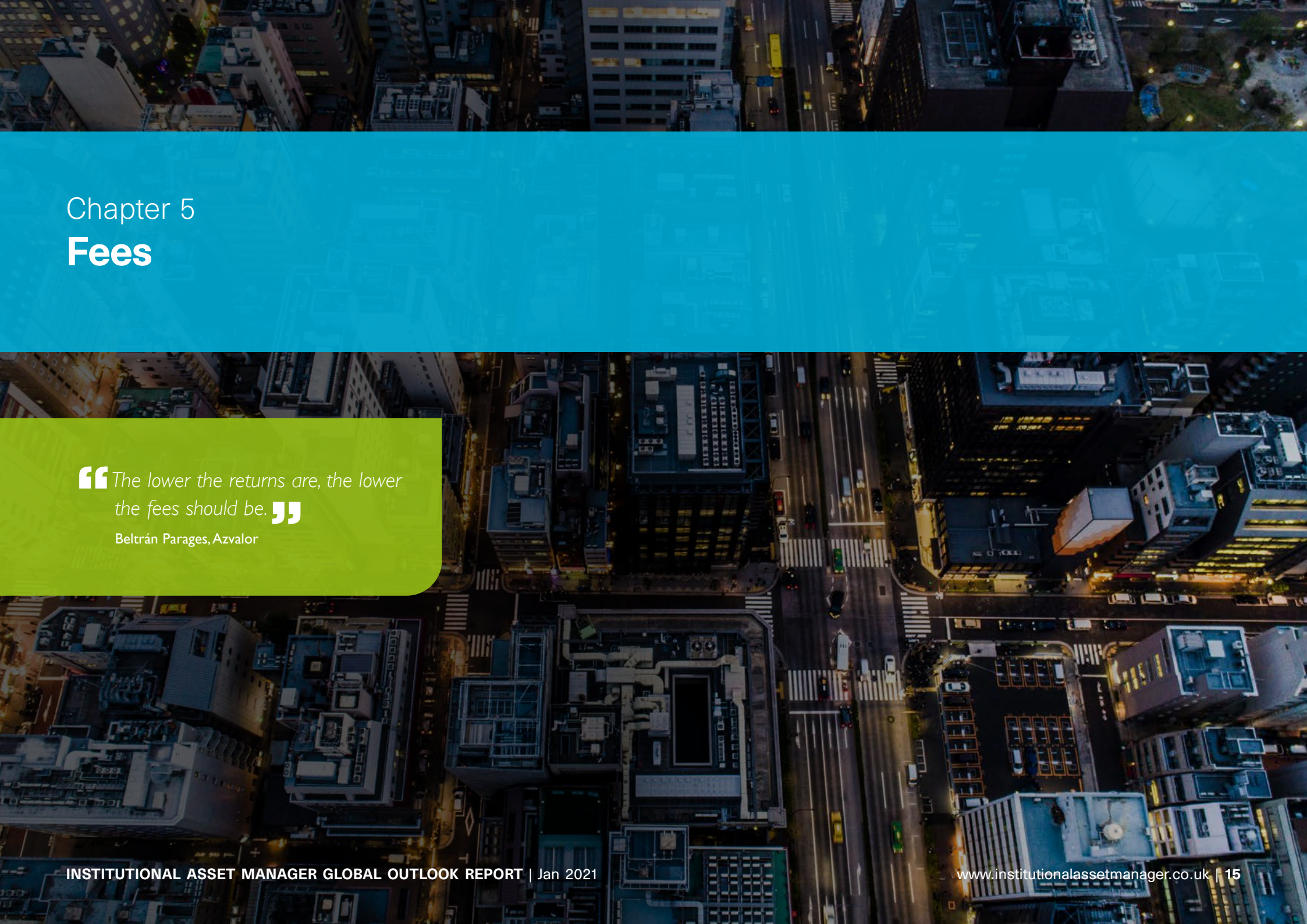
"Among the most common questions we heard from clients last year was around the performance of the value factor and it's notable that we observed strong flows to value at the end of the year. That was a big change from what we saw over the last few years," says Carver.

MSCI has heard many clients wondering whether factors such as value and size, the so-called pro-cyclical factors which rebounded strongly in the fourth quarter will continue to perform well in 2021 as the economic recovery continues.

Looking ahead, another vital theme will be investors examining how Environmental, Social, and Governance (ESG) factors can be combined with existing factor strategies, to quantify and communicate the impact of ESG on portfolio risk and return. Carver believes that ESG and more specifically climate is "in the first inning of a nine-inning game" and will cement itself as one of the biggest trends in 2021.

**MSCI USA Index (USD) Factsheet*

MSCI



Chapter 5

Fees

> *The lower the returns are, the lower the fees should be.*
>
> Beltrán Parages, Azvalor

Will there be continued pressure on fees?

BELTRÁN PARAGES



CEO, Azvalor

Sure. Fees are a variable of the returns. The lower the returns are, the lower the fees should be. And we are in a massive low yield world. However, there is always space for specialisation and high-yield assets, and those who deal with these high-yield assets will be "desired" and will provide excellent performance figures. And they will have a good opportunity even to increase their fees if money returns decently above the average.

THOMAS NUGENT



Senior Equity Manager, MAPFRE Asset Management

Fees will continue to be under pressure, it's a fact of life for the industry. The biggest players continue to gain in scale and given their size in huge business (e.g. ETFs) the global picture will see downward pressure on fees.

JAN ERIK SAUGESTAD



CEO, Storebrand Asset Management

The demand for increased transparency and lower fee-based products will disrupt fee models and put increased pressure on fees. There is also a growing pressure to showcase added value and/or impact. The market will differentiate between managers who outperform over time and those who don't show strong value adding capabilities. The latter will experience strong fee pressures and redemptions.

ERIC VANRAES



Fixed Income Portfolio Manager, Eric Sturdza Investments

I expect there will be, but they are already very low.

HEATHER FLEMING



Head of Institutional Business, Gresham House Asset Management

Institutional investors rightly demand value for money and we expect that all managers will experience pressure on fees. Only managers that can offer truly differentiated strategies or have limited capacity will be able to withstand the pressure.

CHITRA BASKAR

COO & Global Head of Funds & Product, Intertrust Group

The pressure on fees will continue, with constant efforts being put towards developing new fee models and alternative fee structures to provide some relief to investment managers.

JAI JACOB

Managing Director and Portfolio Manager in Multi-Asset, Lazard Asset Management

No.

ANTHONY CARTER

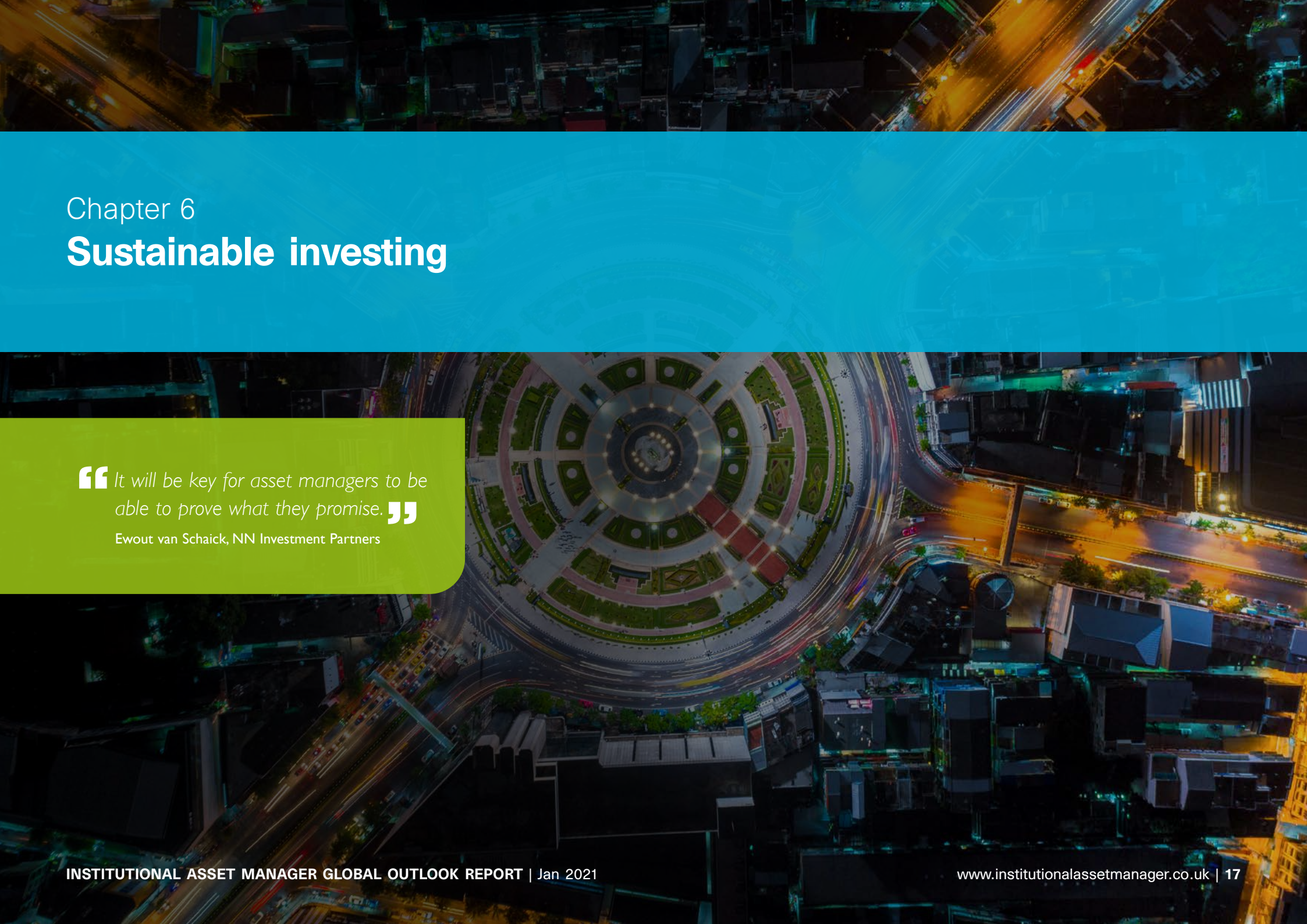


Fixed Income & Multi-Asset Portfolio Manager, Sarasin & Partners

Yes, that trend will remain firmly in place. The passive industry is developing ESG strategies at a rapid pace and so active managers will be under pressure to cut fees here too, i.e., being an "active ESG manager" will become less and less of a differentiator. Economies of scale will hence continue to grow in importance and more and more assets will coalesce with those managers with the scale to absorb lower fees and still remain profitable.

Chapter 6

Sustainable investing



> *It will be key for asset managers to be able to prove what they promise.*
>
> Ewout van Schaick, NN Investment Partners

What new trends might we see in ESG/sustainable investing across the global asset management industry over 2021?



JAI JACOB

Managing Director & Portfolio Manager in Multi-Asset, Lazard Asset Management

Asset managers will need to show that ESG is more than a marketing opportunity. We should see the emergence of KPIs and a separation between unrelated, aligned, and impactful. I would anticipate this will become necessary as companies traditionally considered "value" stage a bit of a comeback. This will mean asset-light companies often labelled ESG by virtue of what sector they operated in would likely underperform. When that happens (might not be 2021), I believe there will be reckoning as near-term returns may not line up with sustainable investment goals.



SUDHIR ROC-SENNETT

Head of Thought Leadership & ESG Quality Growth Boutique, Vontobel

One that stands above the crowd in terms of scale and visibility is China's recent pledge to make massive cuts to greenhouse gas emissions. A second trend for the United States is the number of directors on boards of large corporates from minority backgrounds. These two changes are different not just because one is environmental and the other social/governance–but because one is a problem of the future and the other a problem of the past. As the costs associated with ignoring sustainability become increasingly appreciated, it seems that basic structural problems are finally being addressed. These two positive trends represent serious and ongoing commitment to long term ESG concerns by governments, managements and investors.



BELTRÁN PARAGES

CEO, Azvalor

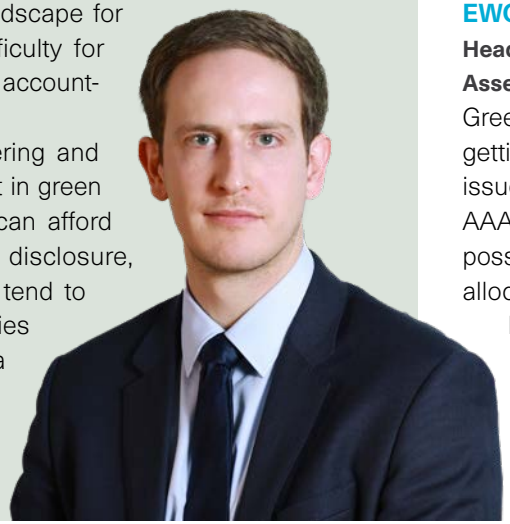
I don't foresee anything new. The ESG trend will continue settling down; over the short term, it will not stop. Over the long term, it has to prove to be sustainable itself. 2021 is the year where regulation will come into force for the asset management industry and surely will force asset managers to better explain to clients what the E, the S and the G means, how do we deal with each of them and what is the impact for them. The regulation may be new, but my experience says that managers, or responsible managers, have been dealing with these issues for years. Can you imagine "responsible" investors not knowing well the corporate governance of a company?

ANTHONY CARTER

Fixed Income & Multi-Asset Portfolio Manager, Sarasin & Partners

Lots of products will be rolled out that claim to target impact or Sustainable Development Goals opportunities. But such claims are not always wholly to be relied upon. The EU's Sustainable Finance Disclosure Regulation (SFDR) which is coming in March and will likely form the basis of a global standard (certainly at Sarasin & Partners we are treating it as such irrespective of Brexit) will help with this as it means asset managers will need to be transparent about their approach to sustainability (including reporting of adverse impacts) and any strategy that claims to be "doing good" will have to be defined and its impact measured and reported explicitly, as well as measured against the EU taxonomy.

The key problem confronting the entire ESG complex is data. It's complicated and expensive to gather accurate data establishing that the issuer is genuinely satisfying the criteria within its green bond framework. This also brings us to a second problem of lack of standardisation, of the green bond framework and in the way that data are reported such that different issuers can easily be compared. Perhaps the EU issuance programme will provide a blueprint which can be adopted as a universal standard. The World Economic Forum has also, in conjunction with Deloitte, EY, KPMG and PwC, identified a set of universal, material ESG metrics and recommended disclosure that could be reflected in the mainstream annual reports of companies. Nevertheless, this problem is likely to remain a feature of the landscape for some years to come. And as well as the difficulty for firms of gathering the data is the complexity for accounting firms of auditing the data.



Related to the expensiveness of data gathering and processing is the well-known style bias inherent in green investing – since only the largest companies can afford the cost involved in providing adequate ESG disclosure, green indices (and the funds that track them) tend to be strongly biased to overweight large companies and underweight small companies relative to a simple market-cap weighted index.

ERIC VANRAES



Fixed Income Portfolio Manager, Eric Sturdza Investments

The two main rating agencies, Moody's and S&P, will eventually unveil ESG ratings alongside their credit ratings and take over the market.



JAN ERIK SAUGESTAD

CEO,

Storebrand Asset Management

EU sustainable finance is putting pressure on all actors, but as the benefits of sustainable investments are becoming more evident, it will become an ever-increasing part of asset managers seeking to be relevant and create value in the future. Clients will demand that their assets are managed sustainably, across all asset classes.

There has been focus on the E in ESG in recent years, which is good, but as an asset manager it is of great importance to apply a holistic approach and understand how the E and the S and the G interact and depend on each other. Covid-19 has shed light on the social dimension which will probably increase as we need to tackle the effects of the pandemic. The importance of biodiversity and water are other issues that are in focus for investors.

EWOUT VAN SCHAICK & IWAN BROUWER



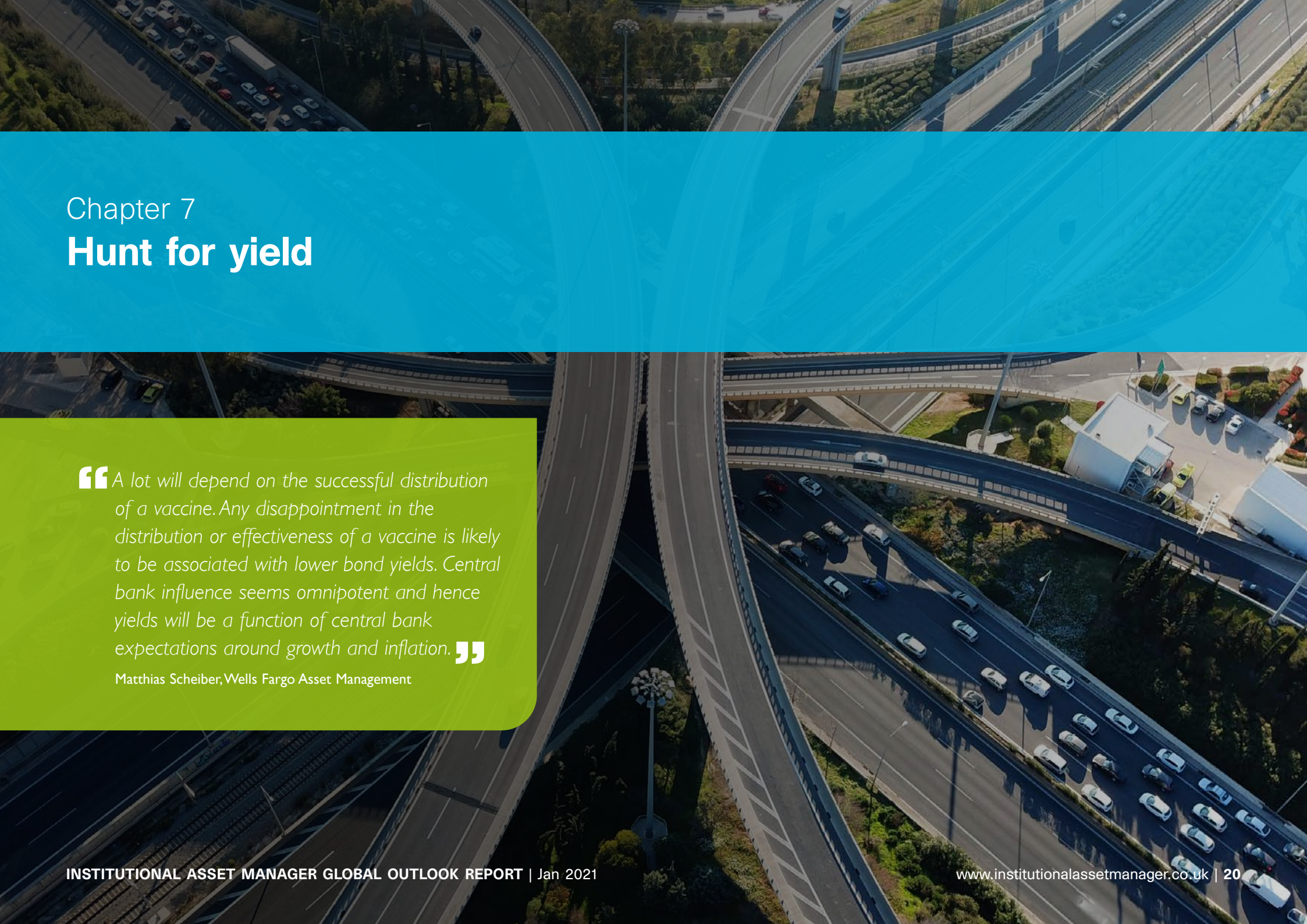
Head of Multi-Asset; Senior Client Portfolio Manager Multi-Asset, NN Investment Partners

Green bonds look like a clear winner as more issuers are getting on board. In September, the German Government issued the first "Green Twin Bonds", and became the third AAA-rated country to issue a green government bond. It is possible that green bonds will take over a proportion of bond allocation in multi-asset. Furthermore, impact investing may be the next step for investors looking to make a measurable impact. Reporting on measurable ESG factors will become a key requirement for ESG integrated and sustainable strategies. It will be key for asset managers to be able to prove what they promise.



Chapter 7

Hunt for yield



> *A lot will depend on the successful distribution of a vaccine. Any disappointment in the distribution or effectiveness of a vaccine is likely to be associated with lower bond yields. Central bank influence seems omnipotent and hence yields will be a function of central bank expectations around growth and inflation.*
>
> Matthias Scheiber, Wells Fargo Asset Management

What is your outlook on the yield landscape in 2021?



MATTHIAS SCHEIBER

Global Head of Portfolio Management for Multi-Asset Solutions, Wells Fargo Asset Management

We believe yields are likely to grind higher though stay low on an absolute basis. Central bank liquidity is likely to keep real yields in negative territory while better growth and inflation expectations result in steeper yield curves. Spreads are likely to remain tight and even get tighter.

A lot will depend on the successful distribution of a vaccine. Any disappointment in the distribution or effectiveness of a vaccine is likely to be associated with lower bond yields. Central bank influence seems omnipotent and hence yields will be a function of central bank expectations around growth and inflation. Given the structural challenges that Covid-19 left the global economy struggling with, it will take a while for those wounds to heal. Low nominal interest rates, negative real rates and continued quantitative easing can be expected to continue next year, supporting a recovery in the labour market and financial conditions.

ANTHONY CARTER

Fixed Income & Multi-Asset Portfolio Manager, Sarasin & Partners

Given the likelihood of an ongoing cyclical recovery in the global economy there is a reasonable likelihood that rates, at least at the long-end of the curve (5 years and out) will rise somewhat from current levels, perhaps on the order of 25-50bp, with shorter rates rising less or barely at all given that central bank policy rates will remain firmly at zero (or below in the case of Europe and Japan). However, they are unlikely to rise much more since central banks will be extremely reluctant to remove stimulus prematurely given the risk that economic scarring resulting from the Covid pandemic later becomes apparent. Indeed, in the euro area and the UK the balance of risk is definitely to more easing, not less, further limiting any cyclical rise in yields.



ERIC VANRAES

Fixed Income Portfolio Manager, Eric Sturdza Investments

US Treasury curve: broadly stable yields, no huge steepening (Yield Curve Control), higher inflation breakevens (TIPS are performing better than Treasuries). Credits: tighter IG spreads, more defaults in HY.



SANDRINE PERRET

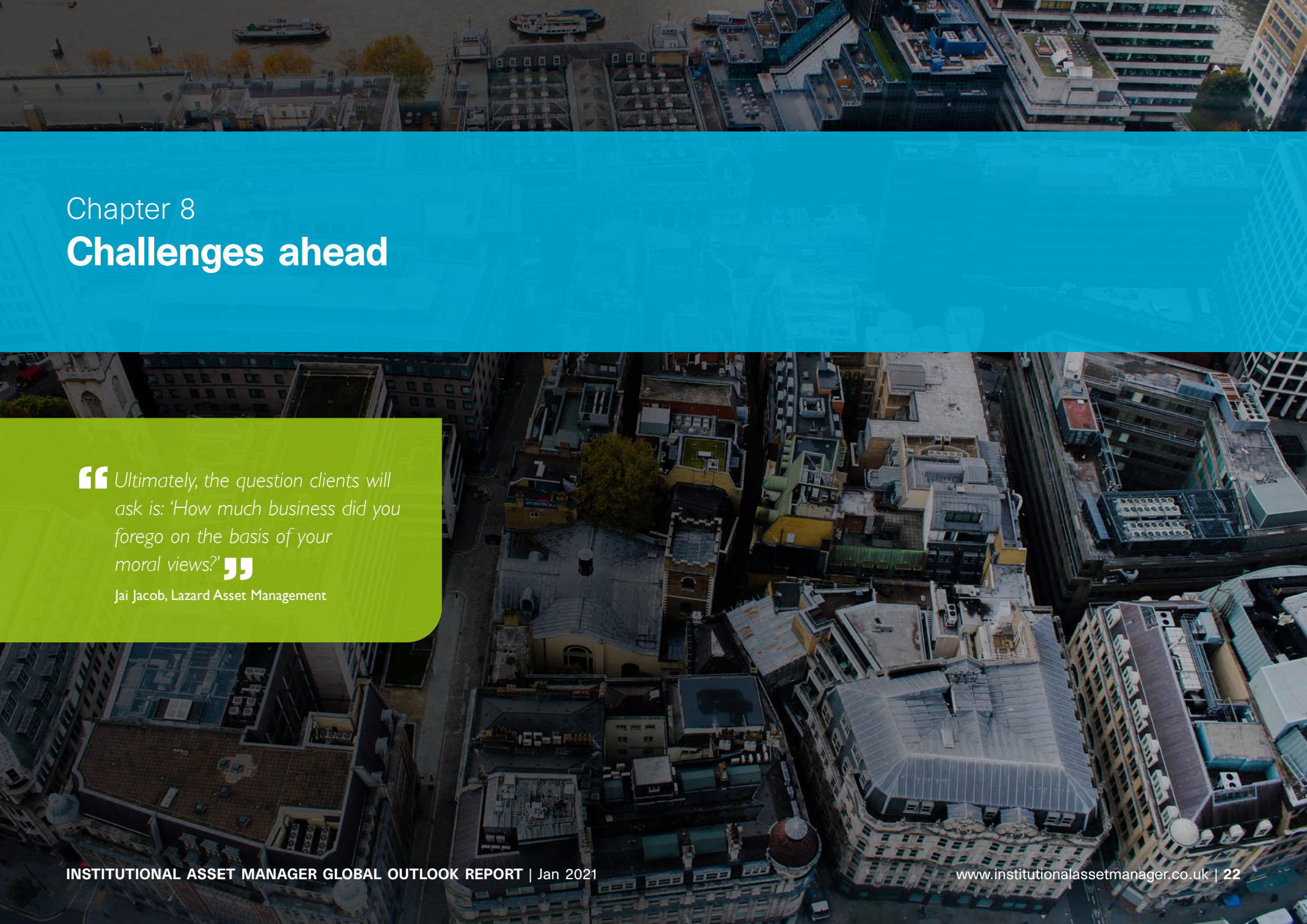
Senior Economist, Fixed Income Strategist, Vontobel

Bond yields are likely to continue trading sideways in the short-term. Growth pick-up to push bond yields higher after the winter. The situation will probably start changing after the first quarter 2021 when we expect growth to resume. Over the second half of the year, we see a slow and gradual rise in most developed-market yields, for instance to 1.20 per cent in the US ten-year government bond yields 12 months from now. This would still be well below the pre-Covid level.

The cyclical recovery and a low-yield environment in most developed economies are favourable factors for emerging market (EM) debt, a bond segment likely to draw investor interest once Covid-19 risks diminish. While spreads should continue to narrow next year, the yield will remain attractive compared to developed markets. We have upgraded the emerging market debt sub-segment to positive from neutral.

Chapter 8

Challenges ahead



> *Ultimately, the question clients will ask is: 'How much business did you forego on the basis of your moral views?'*
>
> Jai Jacob, Lazard Asset Management

What will be the biggest challenge for asset managers to overcome in 2021?

NICOLAS FALLER

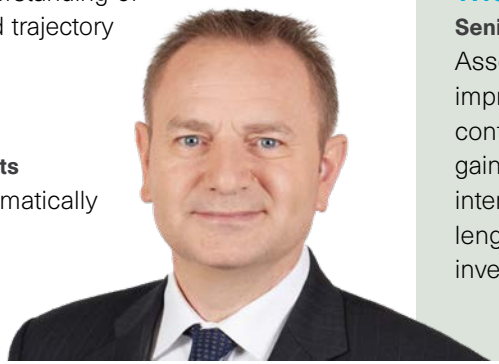
Co-CEO of Asset Management, UBP

Our industry faces key challenges over the coming years as the global economy emerges from the pandemic. This drives a need for a creative and rebuilding process both for companies and asset managers. It is also clear that we will now live in a very low/negative interest rate world for the next 5 to 10 years, which has an impact on asset management profitability as it pushes fees lower. More than ever, active managers will have to focus on their strengths and reassess those parts of their business which lack the capacity to survive.

MATTHIAS SCHEIBER

Global Head of Portfolio Management for Multi-Asset Solutions, Wells Fargo Asset Management

Ultra-low interest rates are posing a challenge not only to returns but also to diversification, on which multi-asset was able to rely for a long time. Because of the current valuation of government bonds, the diversification and hedging effect of bonds versus equities is likely to be dampened going forward. This will require a careful re-consideration on what is the best safe haven asset short term without sacrificing too much return long term. We see effective incorporation of climate and sustainability in portfolios, including managing inherent data issues, as another big challenge for asset managers in 2021. We see an increased demand for these types of solutions and effective incorporation of climate or sustainability objectives in portfolios in a passive manner or by index construction posing big challenges for the asset management industry. Managing climate or sustainability well, in our opinion, requires an active approach that looks beyond high-level quantitative metrics and really seeks an understanding of where companies stand today and what their promised trajectory is in the future.



ERIC VANRAES

Fixed Income Portfolio Manager, Eric Sturdza Investments

Being pragmatic and able to change their strategy dramatically in a very uncertain and volatile environment.

JAI JACOB



Managing Director & Portfolio Manager in Multi-Asset, Lazard Asset Management

Moral centre. Asset managers are going to have to decide which of their prospective clients' social views they are comfortable implementing and whether or not they have value policies of their own. This is an organisation challenge for any established player in the AM field, since ultimately the question clients will ask is: 'How much business did you forego on the basis of your moral views?'.



BELTRÁN PARAGES

CEO, Azvalor

Our biggest challenge is always to remain faithful to our way of doing things, learning every day and keeping up the spirit of improving every day. Staying committed to these ethics requires constant resetting. And the ability to inculcate it in the company culture and to share it with the stakeholders. It is the process, a robust and precise process, which generates the results in the long term. Following the results drives you nowhere, as results are the consequence and not the cause.

THOMAS NUGENT



Senior Equity Manager, MAPFRE Asset Management

Asset managers will have to continue in the effort to improve their efficiency, i.e., reduce costs in order to continue competing. As the largest players continue gaining in size, the pressure on the cost reduction front intensifies. In addition, asset managers face the challenge of implementing sustainability policies in their investment processes as a consequence of the evolving legislation.



DEB CLARKE

Global Head of Investment Research, Mercer

Investors are concerned with where they might get returns and how any returns are generated. Do asset managers have strategies that will help clients achieve their goals and are they being managed in a way that aligns with investors requirements, notably a greater focus on sustainability? The way the industry operates is changing and there is a need to be more inclusive and to navigate what may be a more challenging background as we experience business as unusual. Can asset managers navigate the need to retire strategies that are no longer required and remain relevant to clients in the new world?



ANTHONY CARTER

Fixed Income & Multi-Asset Portfolio Manager, Sarasin & Partners

Asset returns are likely to decline materially from what we have seen in Q2-Q4 of 2020 in anticipation of a slower increase in growth and corporate earnings through the end of 2021 and start of 2022. A lot of performance has been generated from taking exposure to "beta", whereas next year there will need to be greater differentiation and discernment in portfolio management. There is also some risk of bubbles forming in certain areas of the market, for instance some of those ESG "themes" which have performed phenomenally well in 2020. Aside from that, there will be ongoing fee pressure amid the pandemic and uncertainty over timing of office reopening in 2021.



JAN ERIK SAUGESTAD

CEO, Storebrand Asset Management

The biggest challenge is to maintain revenue growth and manage regulatory requirements for example EU Sustainable Finance being the main one. Regulatory demands are both time consuming and costly. Digitalisation and innovation are other challenges or opportunities, to stay relevant and ahead of the game.

The ever-increasing global competitive landscape and cost barriers-to-entry in different markets will favour larger asset managers that can take advantage of economies of scale. Consolidation will accelerate in 2021 for these reasons as well as the aforementioned falling fees.