

BNY Mellon

Investment Management Landscape Trends

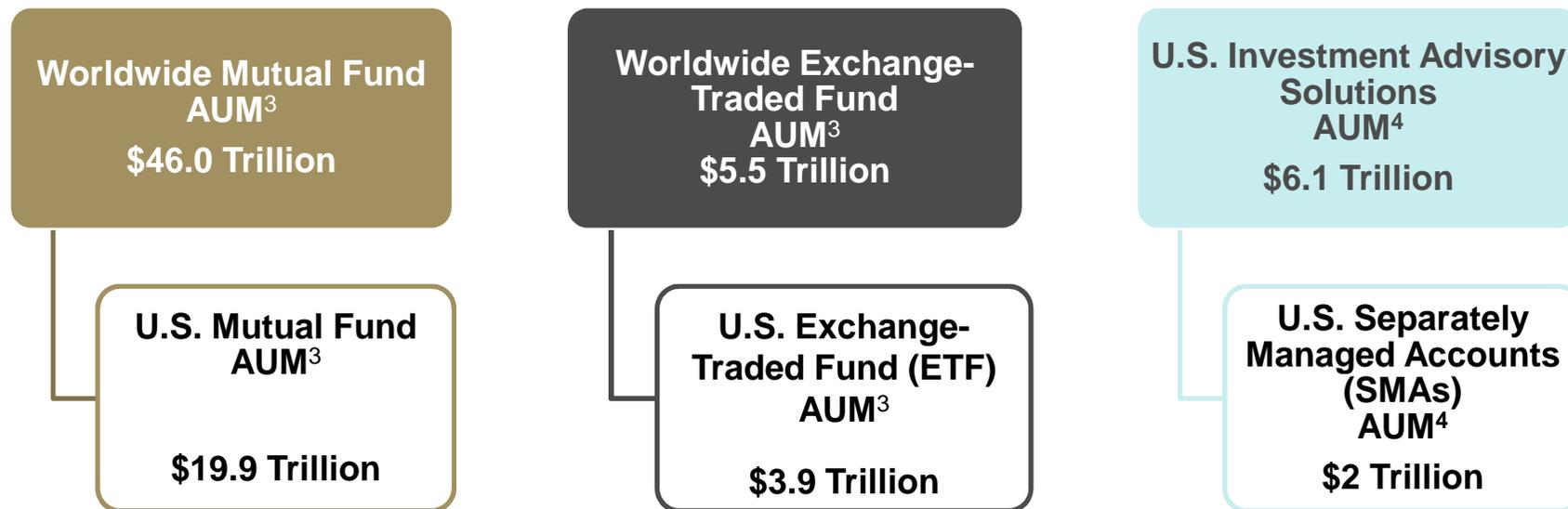
TUYID IR SUMMIT

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BNY MELLON

Size of the Investment Management Industry



Investment Management Landscape Trends

LARGEST TRENDS IN INVESTMENT MANAGEMENT

Active/Passive Flows

Fee Compression

Industry Consolidation

Distribution/Sales Disruption

Product Development

ESG

Regulatory Changes

Asset Owner Internalization

Technology Advancements

Unprecedented pressures
and changes in the \$74
trillion² global asset
management industry

Size of the Investment Management Industry

Top 10 Global Asset Manager AUM⁵ (US\$T)

1. BlackRock	\$6.0
2. Vanguard	\$4.9
3. State Street	\$2.5
4. Fidelity	\$2.4
5. BNY Mellon	\$1.7
6. Capital Group	\$1.7
7. JPMorgan	\$1.7
8. PIMCO	\$1.7
9. Amundi	\$1.6
10. Prudential Financial	\$1.4

Fund Flows

U.S. Fund 12-Month Asset Flows⁶



Source: Morningstar Direct Asset Flows. Data as of Aug. 31, 2019.

Fund Flows

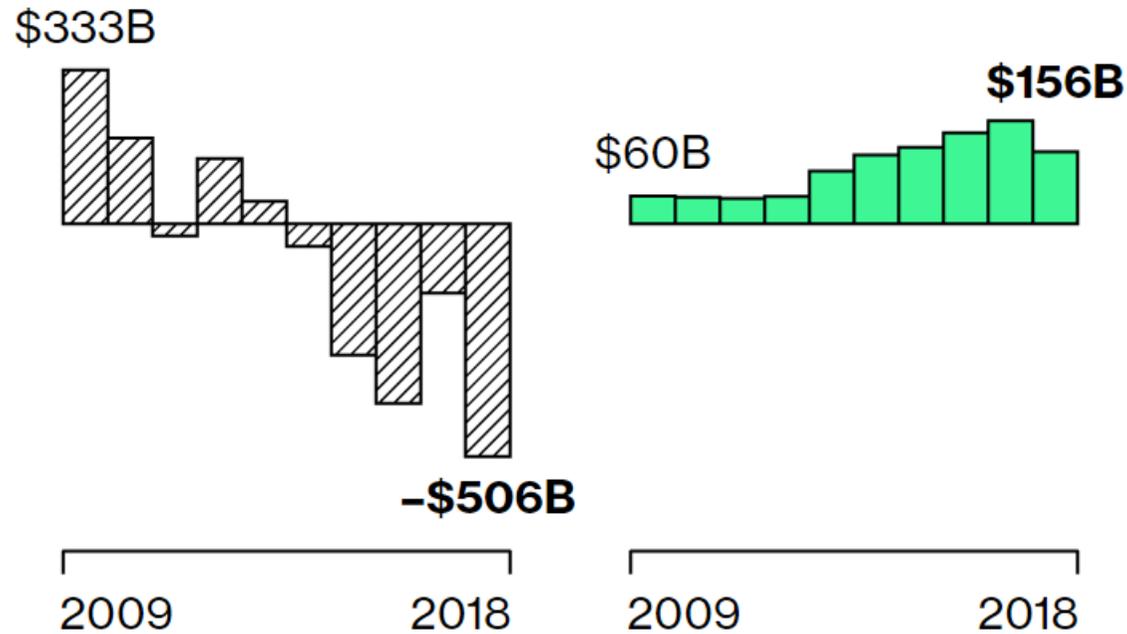
Active/Passive U.S. Estimated Net Fund Flows (US\$M)⁶
by U.S. Category Groups

US Category Group	Active			Passive		
	Aug 2019 (\$Mil)	1 Year (\$Mil)	Assets (\$Bil)	Aug 2019 (\$Mil)	1 Year (\$Mil)	Assets (\$Bil)
US Equity	(18,940)	(201,704)	4,246	(878)	(231,045)	4,271
Sector Equity	(4,790)	(33,346)	402	(5,260)	(27,377)	504
International Equity	(1,747)	(89,486)	1,780	(7,423)	76,613	1,266
Allocation	(2,620)	(68,703)	1,263	322	4,898	77
Taxable Bond	13,273	54,917	2,873	3,056	152,847	1,412
Municipal Bond	7,983	54,374	786	1,125	7,905	42
Alternative	(2,951)	(23,443)	141	(165)	1,877	51
Commodities	(1,464)	(1,076)	29	4,523	9,638	79
All Long Term	(11,256)	(308,466)	11,520	(4,700)	457,443	7,703

Source: Morningstar Direct Asset Flows. Data as of Aug. 31, 2019. Excludes money market funds.

Active/Passive Investment Shift⁷

U.S. Active vs. Passive Fund Net Flows



Fee Compression

Worth Their Fees?⁷

Only a small percentage of actively-managed funds **outperformed** the market.

U.S. large-cap funds



Europe equity funds



Note: Based on five-year returns through Dec. 31, 2018, relative to the S&P 500 and S&P Europe 350.

Source: S&P Dow Jones Indices

Approaching Zero⁷

U.S. expense ratios have been squeezed industry-wide and are lowest for bond ■ index funds

Type	2018 average expense ratio	Change since 2008 (percentage points)	Trend
■ Active equity funds	0.76%	-0.18	
■ Active bond funds	0.55%	-0.10	
■ Index equity ETFs	0.20%	-0.09	
■ Index bond ETFs	0.16%	-0.03	
■ Index equity funds	0.08%	-0.10	
■ Index bond funds	0.07%	-0.09	

Source: Investment Company Institute

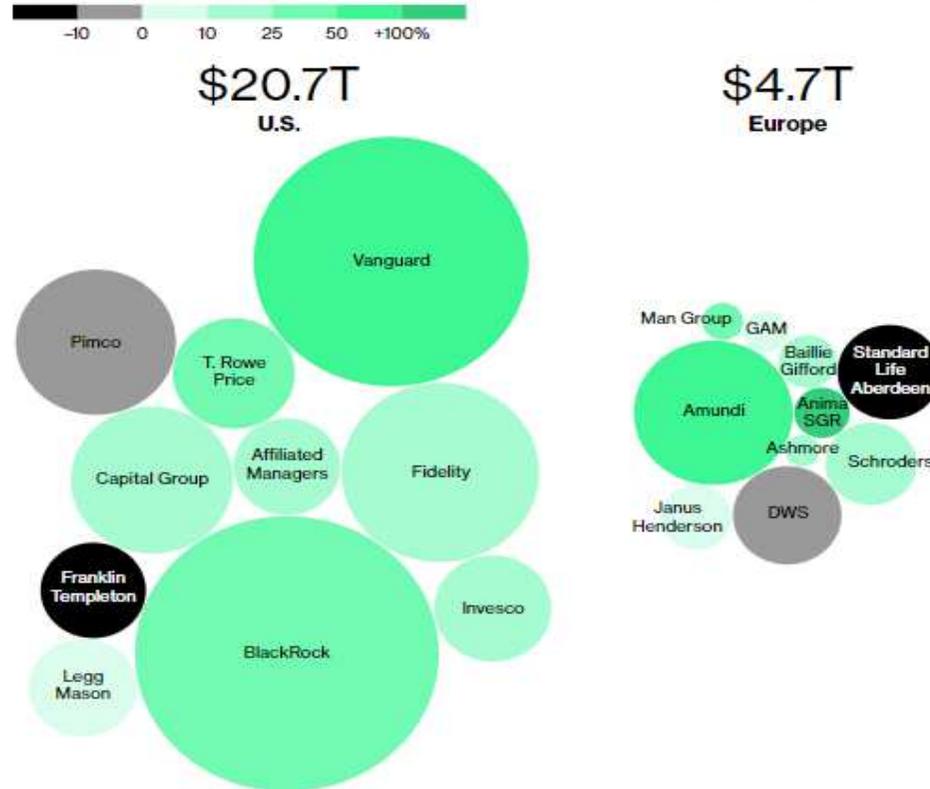
In 2018, U.S. open-end mutual funds and ETFs saw a 6% fee decline, resulting in \$5.5B in savings for investors.⁸

Industry Consolidation

Survival of the Fittest⁷

The largest managers have been able to boost assets in a competitive market.

Companies sized by their 2018 assets under management, colored by change in AUM from 2014–2018:



There were **49** merger and acquisition deals between asset and wealth managers worth **\$1.2B** in the second quarter of 2019.⁹

Product Development: Separately Managed Accounts⁴

The Separately Managed Account Opportunity for ADR Issuers

We strive to keep our clients informed on the latest developments in the investment landscape. In our latest whitepaper, BNY Mellon Depository Receipts explores the opportunity for issuers with ADR programs to access a fast-growing segment of U.S. investment, Separately Managed Accounts (SMAs).

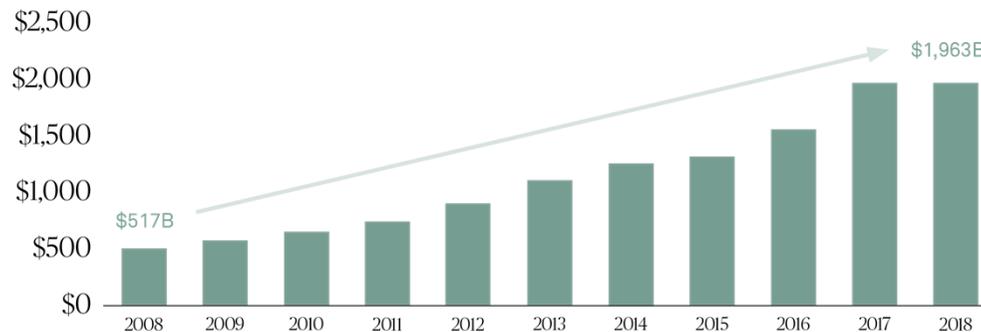
The simplicity and cost efficiency of ADRs allow investment managers to build international SMA portfolios that track their institutional strategies. Highlighting the development and growth of the SMA product from the early days, with such investment managers as Newton and Cambiar contributing comments on their use of ADRs in SMAs, this white paper provides you with useful insights for planning investor targeting.

Newton has made its International and Global Equity capabilities available to the US market in SMA format since 2006. The ability to tailor an individual portfolio to a client's needs, for example by excluding a stock or sector, as well as the tax flexibility on offer, make SMAs an attractive proposition. Furthermore, access to individual stocks through the wrap structure for a relatively low minimum investment has, as we had anticipated, proven popular with US domestic investors. The ADR market has been, and will continue to be, critical in opening up the world of stocks listed outside the US to this retail and 'masstige' investment base without the necessity for local-currency custodial arrangements.

— Paul Markham
Lead Portfolio Manager, International Equities
Newton Investment Management

Investment
Advisory
Solutions assets
have reached
\$6.1 trillion
AUM

Managed Accounts have reached almost \$2 Trillion
Managed Account AUM (\$B)



280%
increase
since 2008

Top SMA Providers⁴

Managed account products are made available to investors on the platforms of wealth management and investment advisory firms. The firms with these platforms are termed Sponsor Firms. The products on the platforms are therefore available to the Sponsor Firms' advisors and their advisory networks, who in turn can use the products with their clients.

TOP 10 SPONSOR FIRMS OFFERING INVESTMENT ADVISOR SOLUTIONS As of December 31, 2018

Sponsor Firm	Managed Account AUM (\$B)
Morgan Stanley Wealth Management	1046.2
Bank of America/Merrill Lynch	839.7
Wells Fargo Advisors	499.2
UBS	434.1
Fidelity Investments	402.9
Edward Jones	329.1
LPL Financial	282.0
Charles Schwab	277.4
Raymond James	277.2
Ameriprise Financial	251.4

TOP 15 ASSET MANAGERS OFFERING MANAGED ACCOUNTS As of December 31, 2018

Asset Manager	Managed Account AUM (\$B)
Eaton Vance	113.4
BlackRock	93.9
Legg Mason	75.3
Wells Fargo	56.1
Nuveen Investments	53.7
Fidelity Investments	24.2
GW&K Investment Managers	24.1
NGAM Advisors*	23.7
Kayne Anderson Rudnick Investment Management	22.8
Federated Investors	21.9
UBS Asset Management	21.9
Lazard Asset Management	21.8
JPMorgan Asset Management	17.3
Macquarie Investment Management	15.3
Raymond James**	15.2

* NGAM Advisors assets includes assets of Loomis, Sayles & Company, McDonnell Investment Management, and remaining asset managers.
 ** Raymond James is the parent company of Eagle Asset Management.

Growth in Use of ESG in Investment Decisions

Snapshot of Global Sustainable Investing Assets 2016-2018¹⁰

Region	2016	2018
Europe	\$ 12,040	\$ 14,075
United States	\$ 8,723	\$ 11,995
Japan	\$ 474	\$ 2,180
Canada	\$ 1,086	\$ 1,699
Australia/New Zealand	\$ 516	\$ 734
TOTAL	\$ 22,838	\$ 30,683

Note: Asset values are expressed in billions of US dollars. All 2016 assets are converted to US dollars at the exchange rates as of year-end 2015. All 2018 assets are converted to US dollars at the exchange rates at the time of reporting.

Proportion of Sustainable Investing Relative to Total Managed Assets¹⁰ 2014-2018



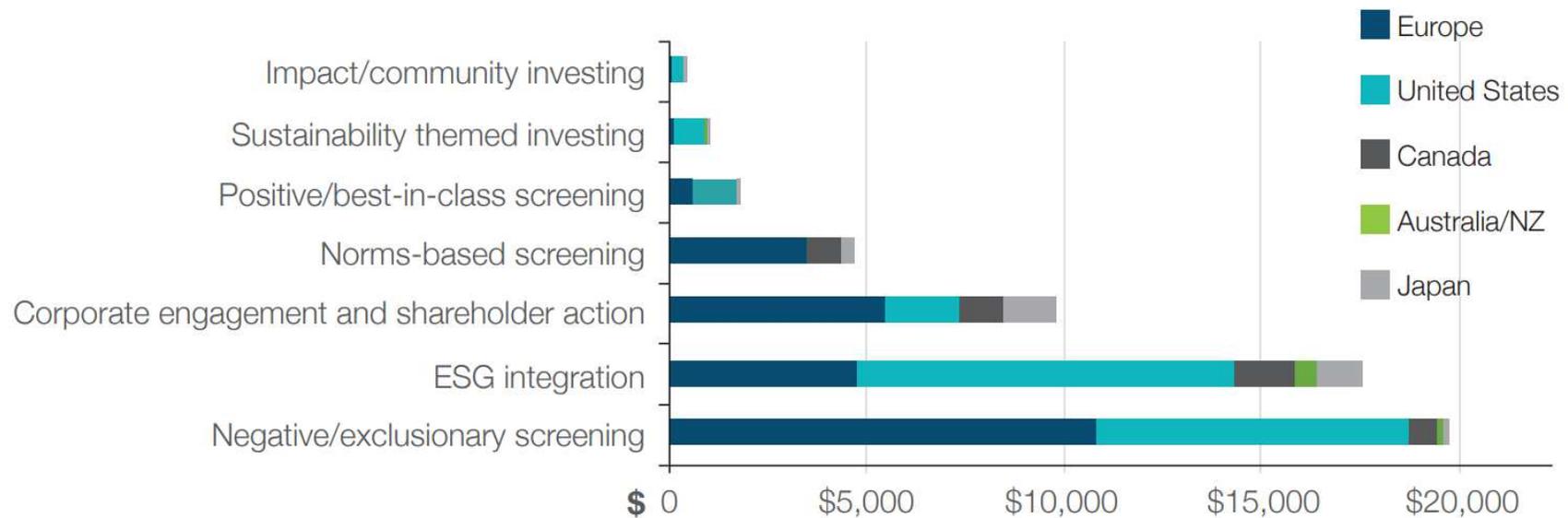
Note: In 2014, data for Japan was combined with the rest of Asia, so this information is not available.

Sustainable investment encompasses the following activities and strategies:¹⁰

- Negative/exclusionary screening
- Positive/best-in-class screening
- Norms-based screening
- ESG integration
- Sustainability themed investing
- Impact/community investing
- Corporate engagement and shareholder action

Sustainable Investing Strategies

Sustainable Investing Assets by Strategy and Region 2018, \$B¹⁰



Stewardship: What Does it Mean?

The Financial Reporting Council's UK Stewardship Code states:

“Stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole.”

It goes on to explain that “for investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.”¹¹

Stewardship

Three Largest Predominantly Passive Asset Managers

BlackRock: Michelle Edkins, Global Head of Investment Stewardship

- Participated in over 2,000 engagements with nearly 1,500 companies from 42 markets, multiple meetings with 25% of the companies they engaged
- Massive Stewardship team expansion recently, with 45 people in 7 offices

Vanguard: Glenn Booraem, Investment Stewardship Officer

- Engaged with almost 900 companies from 25 markets; cast votes on nearly 170,000 individual topics
- Moving responsibility for proxy to external, sub-advisory managers

SSgA: Rakhi Kumar, Head of ESG Investments and Asset Stewardship

- Engaged more than 1,500 companies accounting for 70% of their equity AUM
- 43% of the 1,350 companies identified in their Fearless Girl campaign have added or committed to adding a female director

Endnotes

¹Ipreo, public filings as of August 21, 2019.

²Boston Consulting Group. July 2019. [Global Asset Management 2019: Will These '20s Roar?](#), p. 6 (accessed September 23, 2019).

³Investment Company Institute (ICI). Worldwide Public Table, 2019: Q2, Total Net Assets by Type of Fund, Table 2 (September 25, 2019) <https://www.ici.org/research/stats/worldwide> (accessed September 26, 2019). Used with express written permission.

⁴BNY Mellon. August 2019. [The Separately Managed Account Opportunity for ADR Issuers](#), August 2019, pp. 4, 5 (accessed September 23, 2019).

⁵BNY Mellon Global Client Management, Investment Management Segment, as of 1Q2019.

⁶Morningstar. [Morningstar U.S. Fund Flows: Fed Rate Cut Doesn't Spur Inflows](#), August 2019 (accessed September 23, 2019), graphics used with express written permission.

⁷Waite, Suzy, Massa, Annie, Cannon, Christopher. 2019. [Asset Managers with \\$74 Trillion on the Brink of Historic Shakeout](#). Bloomberg. August 8, 2019 (accessed September 25, 2019). Graphics used with express written permission.

⁸Morningstar. April 30, 2019. [Morningstar's Annual Fee Study Finds That in 2018 Investors Paid Less to Own Funds Than Ever Before](#) (accessed September 23, 2019).

⁹Segal, Julie. [M&A Might Not Fix the Industry's Problems, but Asset Manager Mergers Are Barreling Ahead](#), Institutional Investor, July 25, 2019 (accessed September 23, 2019).

¹⁰Global Sustainable Investment Alliance. [2018 Global Sustainable Investment Review](#), (accessed September 23, 2019). Used with express written permission.

¹¹Financial Reporting Council (UK). [The UK Stewardship Code](#). p 1. September 2012 (accessed September 25, 2019).

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